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Foreign and Commonwealth Office

London SW1A 2AH

10 August 1982

Ind. Pol.

From The Minister of State

Rt Hon Douglas Hurd CBE MP

cc
Mr WJ
with J. Polks
The Secretary of State

ROLLS-ROYCE

I have seen the letter dated 2 August from No 10 to your Private Secretary giving the Prime Minister's approval to your proposals for Mr Duncan's conditions of service. In general we, too, are happy with the proposals in your minute of 29 July to the Prime Minister. But there is one point on which, in Francis Pym's absence, I would like to comment.

We all want Rolls-Royce to be a successful and profitable competitor in the international market, capable of being returned to the private sector in the not too distant future. To do that, Rolls-Royce must be prepared, on occasion, to collaborate with its main American competitors. But Rolls-Royce must not, I suggest, allow itself to get into a relationship in which it is the permanent junior partner of one of those competitors, with no substantial commercial contacts with the second main American aeroengine company, or with other manufacturers in Europe or Japan. There is a risk that the dominance of the American partner would quickly reduce Rolls-Royce's freedom of manoeuvre over decisions vital for its own future, including its ability to maintain independent military and marine engine production; and at the same time increasingly limit Rolls-Royce's attractiveness as a collaborative partner to other manufacturers. Today's junior partner might rapidly become tomorrow's tied sub-contractor.

Such a development would not go unnoticed in Europe and Japan, where significant efforts are being made to build up aeroengine industries and where Rolls-Royce is seen as a potential leading partner in such efforts. You will recall that, at last year's Anglo/French Summit, President Mitterrand expressed interest in great collaboration between Rolls-Royce and the French company SNECMA (the French would probably like to see such collaboration result in a Franco-British engine for the new Airbus, though co-operation in the military field might, in our view, be more productive). And Rolls-Royce have for some time been working with a Japanese consortium on a new civil aeroengine - something which has stood them in good stead in their current negotiations with Pratt and Whitney for collaboration in the same field.

/The

Rt Hon Patrick Jenkin MP
Secretary of State for Industry

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The implications of Rolls-Royce's willingness and ability to contribute to the development of a major and viable aeroengine industry outside the United States are not confined to the aviation world. Rolls-Royce's attitudes, with those of one or two other major British companies (ICL and ICI, for instance), are seen as a touchstone of the UK's good intentions over industrial collaboration generally. This point was made quite forcibly by the Japanese to our Embassy in Tokyo earlier in the year when Rolls-Royce seemed inclined to ignore Japanese interests in their search for an American partner.

I hope, therefore, that the policy of collaboration with the United States competition set out in the Objectives paper will not adversely affect Rolls-Royce's independence or its ability to collaborate with non-American interests.

I am copying this letter to the Prime Minister and to Geoffrey Howe, John Nott, John Sparrow and Sir Robert Armstrong.

Yours sincerely
Stephen Langford

Approved by Mr Hurd
and signed for him in
his absence by his
Private Secretary

10 AUG 1962



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Prime Minister (4) JRV

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From the
Minister of State
Norman Lamont MP

The Rt Hon Douglas Hurd CBE MP
Minister of State
Foreign and Commonwealth Office
London
SW1A 2AH

/ September 1982

Dear Douglas

ROLLS-ROYCE

Thank you for your letter of 10 August about the possible effect of the draft objectives we are setting the company on its future independence. I trust that they will not be interpreted by the new chairman in a way which will lead to the situation described in the second paragraph of your letter. Given what I know of Rolls' normal determination to be independent I would be surprised if that proved to be the case.

I nonetheless take your points about the possible political implications of too close collaboration by Rolls-Royce with one or other of the American companies. But it is also important to recognise that Rolls is unlikely to return to a permanent position of profitability unless it ceases to meet competition in the civil engine field, head-on. The company must, rather, try to collaborate and share the costs and risks involved of new engine projects, with others. The American companies are mentioned in the draft objectives because they are the dominant competitors and because they probably offer the best prospects for successful collaboration. But, having said that, there would be nothing to prevent Rolls-Royce collaborating with European and/or Japanese companies over a particular project if it were concluded that it was a commercially sensible thing to do. The RJ500 project, for example, began as an Anglo-Japanese project and there could well be others in the future.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Nott, John Sparrow and Sir Robert Armstrong.

*Yours
Norman*

NORMAN LAMONT

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10 DOWNING STREET

From the Private Secretary

2 August 1982

The Prime Minister has seen your Secretary of State's minute of 29 July about the Chairmanship of Rolls Royce and has agreed to his proposal that Mr. Bill Duncan should take on the role of non-executive Director on the Board of Rolls Royce with a view to becoming Chairman next year. She has commented that the offer by Mr. Frank McFadzean to remain until any significant redundancies are announced is a generous one. The Prime Minister has also approved your Secretary of State's proposals for Mr. Duncan's conditions of service.

I am copying this letter to John Kerr (H.M. Treasury), Brian Fall (Foreign and Commonwealth Office), David Omand (Ministry of Defence), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

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Jonathan Spencer, Esq.,
Department of Industry.

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Prime Minister (2)

Ms 14/5

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cf JV
ind PD

Secretary of State for Industry

12 May 1982

Lord Belstead
Minister of State
Foreign and Commonwealth Office
London SW1

Dear John,

ROLLS ROYCE COLLABORATION

- will request if required

Thank you for your letter of 30 April concerning the state of negotiations between RR, their Japanese partners and prospective US partners on the RJ500. I saw Frank McFadzean on Friday 30 April and expressed some concern at the reports which we have been receiving and the apparent danger that RR would find itself without a partner at all. Subsequently, the company had further talks with GE and then discussed the situation at their Executive Committee meeting on 4 May. The upshot of these deliberations is that Rolls Royce have now informed Pratt & Whitney that they will continue the negotiations with them for collaboration on the RJ500 along with their existing Japanese partners. Rolls' Japanese partners have been told of their decision as have GE. The Embassy in Tokyo has also been notified. Although we cannot be certain of the outcome of the negotiations, it does appear that RR have a firm objective and we will not have damaged our position with the Japanese.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Nott, Norman Tebbit, Arthur Cockfield and Sir Robert Armstrong.

Your ever
Patrice



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INDUSTRY AND TRADE COMMITTEE

Information for the Press

Representatives of Rolls-Royce Limited, led by their Chairman, Lord McFadzean of Kelvininside, will give evidence to the Industry and Trade Committee on Wednesday 28 April at 10.45 a.m. in Committee Room 16 as part of the Committee's inquiry into the current state and future prospects of the Company.

G. Cubie,
R. Lloyd Thomas,

Clerks to the Committee.

26 April 1982