

Prime Minister²

MS 17/3

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ROLLS ROYCE: COLLABORATION

You may well have seen recent press reports covering collaborative discussions between Rolls Royce (RR), Pratt and Whitney (P&W) and companies in Japan, Germany and Italy about developing a new family of engines. It might be helpful therefore if I summarise the present position.

2 Negotiations between the companies have been under way for some time, and in recent weeks have made encouraging progress, leading to the signature of an inter-company agreement in Derby last Friday. This agreement to develop new powerplants for 150 seat aircraft is, however, subject to ratification by all the company Boards and thereafter by the Governments involved. A deadline of 30 June has been set for this.

3 This is encouraging news, since, as you will know, it has long been our view that any major new engine development for the airline market is unlikely to be commercially viable without the involvement of one of the major US engine firms. We have stressed this view, in confidence, to RR many times, and it is to their credit that they have been able to persuade P&W to accept a balanced partnership arrangement.



4 However, I am having to make it clear to RR that the Government cannot consider making any commitment to the project until we are presented with a full business case to evaluate. This will need to cover the technical definition of the engine, the markets to which it is tailored, and its commercial prospects. We have not yet received such a case, nor any request for launch aid.

5 You should also be aware that there are several other major hurdles to clear. These include the acceptability of the proposed arrangements to the Japanese Government, the US Administration's attitudes towards third country sales and technology transfers, and, possibly most seriously, US anti-trust challenges. My officials will be in touch with those concerned in other Departments about various aspects of the collaborative arrangements in due course. But it appears to me that the deadline of 30 June, which the companies have put forward, is highly optimistic given all the issues still ahead of us.

6 Copies go to Geoffrey Howe, Francis Pym, Michael Heseltine, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

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17 March 1983