

Not long after I came to No. 10, Pol put on
a presentation about aid to R-R. May 1 2
See again the graphs & charts notes about
that presentation. I keen to remember if-

PRIME MINISTER

RB211 - 535 ENGINE PROGRAMME

I attach

future if only more grants present-
in the m.b.

Advice from
Lord Wolfson
Please mb

i) A minute from Cecil Parkinson arguing for launch aid for
the E4 improved version of this engine - Flag D.

ii) Flag E. A note from David Wolfson with his worry about
the way in which the paper for EA has been written - and, by
implication with a warning about how the conclusion of the
meeting should be phrased if it is decided to go ahead.

iii) Flag C. A note to me, on a personal basis, by Mr. Young,
who is about to join the Policy Unit. (currently CPRS)

iv) Flag F Mr. Parkinson's EA paper itself.

May I put an alternative view to those expressed in this paper?

The RB211 project has had a disastrous record. The original
development led to bankruptcy in 1971. Since then several versions
have been developed with over £1b worth of Government money. None
have been commercially successful. The E4 project is designed to
bail out the earlier 'C' version which has cost over £35m and which
will have to be completely written off.

E4 is the engine for only one aircraft - the Boeing 757. Sales
prospects are uncertain, and the E4 will be in competition with the
Pratt and Witney 2037.

Why can Rolls not finance the project within existing resources
and delete items of lower priority? This is what any company in the
private sector would have to do if its banker and shareholder refused
to finance a doubtful project.

/ There are

There are doubts about Rolls' bid being pitched at £120m.
£10m is a backdated claim for money spent in 1982. Rolls are
forecasting cash surpluses in 1983 and 1984 even if they receive only
half their launch aid money.

Privatisation is unlikely before 1987. By ^{then} ~~even~~ 1983/84 results
will be academic.

There is no public expenditure provision for this, so
agreement to it will mean deeper cuts elsewhere.

MCS

22 July 1983:



22nd July 1983

To: MR SCHOLAR

From: R YOUNG

cc: Mr Mount

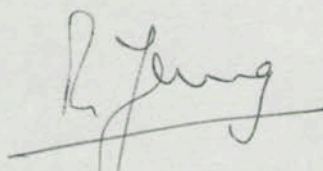
Rolls Royce RB 211 - 535 E4 Engine

Decisions are sought on whether Rolls Royce should be authorized to complete the development of the E4 engine and, if so, whether launch aid support should be provided.

Ideally, neither decision should be taken until the new Chairman of Rolls Royce delivers his strategy proposals in the Autumn. But the Chairman had already indicated to Patrick Jenkin before the Election that he regards the E4 engine as indispensable to Rolls' future and obtained an undertaking that Government decisions would be sought ahead of the strategy review. Although Rolls might chafe at a non-decision next week, they can continue the development programme piecemeal, and it is therefore open to Cabinet to insist on the strategy presentation before reaching decisions on E4.

Between now and the end of the century, a high proportion (between 60% and 80%) of demand for engines for civil aircraft above 'feeder lines' level is expected to be in the sector covered by the RB 211. If Rolls do not compete in that sector, the loss of scale which they will eventually suffer will undermine the rest of their business. If they compete successfully in it, they will recoup at least some of the losses accumulated on the RB 211 programme as a whole. Profitability of the E4 project will be a long term affair and cannot be guaranteed, but the Secretary of State for Trade and Industry is right to suggest that Rolls without the E4 engine will be difficult to privatise.

Launch aid is a separate matter, and one which will require hard negotiation between DTI and the company. DTI must be careful not to pitch launch aid support at a level which enables the company to take a relaxed view of its other financial targets.


R YOUNG

10 DOWNING STREET

Michael Scholar.

From David Wolfson.

I have outlined in red the statements which, taken separately or together, suggest to me that Launch Aid is being given for the wrong reason. The facilitisation of Privatisation is a bad reason for it. Launch Aid should stand or fall on the investment arguments, and the paper had plenty of those. I believe that decisions will be made on those arguments, but the contnets of this paper are potentially damaging.

Prime Minister

David is worried that, if leaked later, this would be used to argue that the government was privatising RR on a false prospectus: because we have "window-dressed" RR's accounts by giving launch aid just to make it an attractive prospect to buy.

I find this hard to understand. Why shouldn't we write off RR's debts, or give it aid, publicly, to help sell it?

It is the alternative - even with launch aid.

MS 22/7

Not typed
min. tel
box



Michael

We spoke. This is
better than nothing

ie (a) it won't sell

but (b) they don't need the
money even if they go
ahead.

& (c) any cost here will
squeeze out something
else if we LSTJ to
our PES plans

J.

1. RB 211 project has a disastrous record. The original development led to RR's 1971 bankruptcy. Since then several versions have been developed with over £1 billion of Government money. None have been commercially successful. The E4 project is designed to bail out the earlier 'C' version which has cost over £350m and which will have to be completely written off.

2. The E4 is the engine for only one aircraft - Boeing 757. Sales prospects are uncertain. The E4 will be in competition with the Pratt and Whitney 2037. Pratts are likely to respond to the E4 and if Pratts improve their engine then Rolls will have to spend even more money.

3. Rolls claim that they are too far on with the project to cancel now. If so, they should finance it within existing resources and delete items of lower priority. This is what any company in the private sector would have to do if its banker and shareholder refused to finance a doubtful project. DTI's argument that Rolls are cash constrained amounts to saying that they should be given some cash to stay within their cash targets.

4. RR's bid for £102m is ridiculous. £10m is a backdated claim for money spent in 1982 - the development work has already been financed. Rolls are forecasting cash surpluses in 1983 and 1984 even if they only receive half their launch aid bid. They could breakeven in cash in 1983 and 1984 with about £40m launch aid in the 2 years.

5. DTI argue that failure to give launch aid will add to losses in 1983 and 1984 and make privatisation move difficult. Privatisation is unlikely before 1987. By then 1983-4 results will be academic.

6. PES provision for this - zero

see ^{also} paras 30, 47, 48 ^{of} note by officials