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PERSONAL
AND CONFIDENTIAL

Prime Minister

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PRIME MINISTER

ROLLS ROYCE RB 211 - 535 ENGINE PROGRAMME

In my paper for E(A) I seek colleagues' approval to negotiate launch aid with Rolls Royce for the E4 improved version of the RB211 engine.

2 Rolls Royce approached the Government for launch aid in a proper and timely manner in February 1982. There were numerous delays within Government in deciding the matter, and Rolls Royce pressed ahead with development, bearing the costs itself. It had to respond quickly and competitively to the improvements being offered by American engine manufacturers. As a result, it has today what promises to be a thoroughly competitive engine due for certification by the end of this year. It should go into service on the Boeing 757 by late next year.

3 As you will know that aircraft has much the brightest sales prospects amongst the new generation of jet airliners, which is why Pratt & Whitney has tried to oust RR as the provider of the engines, and why RR is having to improve the version of this engine which Boeing is already using.

4 My first reaction to the request for Government aid for the E4 was to think that since the engine is now in an advanced stage of development, there was no need for us to pay RR launch aid. That



first reaction was wrong for a number of reasons.

5 First, RR had every reason to believe that it would receive launch aid, or at least be told that it would not, long before now.

6 Second, in its profit, cash flow and balance sheet projections, RR has included an amount of launch aid.

On whose authority?

7 Third, if we are, as I am determined, to privatise RR during this Parliament, RR will have to have this engine which is expected to account for almost 20% of its sales. Its own cash flow will not sustain the further £175m which it needs to complete the engine.

8 It is a vicious circle. Without the launch aid RR cannot complete the engine. Without the engine, RR has little prospect of viability. Without viability, we have no prospect of selling RR. Therefore, RR remains with us, and I and my successors continue to have annual arguments with the Treasury.

We shall get them after privatisation if there is no alternative.

9 I am convinced that it would now be politically impossible to cancel this project, as I understand Treasury officials believe we could. The engine is an excellent one, it is near to certification and the Government's inability to give a decision over a prolonged period would be bound to be the cause of much unfavourable comment.

no-one will buy RR.



10 Obviously, I regret that only days after the Cabinet discussion I have to put forward this proposal. I spoke to the Chancellor about it on Wednesday and explained the position.

11 The problem is not new. In the past it has just been deferred, and must now be cleared up.

C.P.

CP

22 July 1983