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Prime Minister

MUS 26/7

To: PRIME MINISTER

From: JOHN SPARROW

26 July 1983

Rolls-Royce RB211-535E4 Engine

1. On 26 May I chaired a meeting of the official committee MISC 25 on this subject. With the exception of the Treasury, which reserved its position, the meeting supported completion of the development of the E4 engine and the negotiation of launch aid between DTI and Rolls-Royce. This minute gives you my own view, having listened to the arguments at MISC 25.
2. I very much doubt whether it will make sense for Rolls-Royce to "go it alone" with a completely new venture in the large aero-engine business. But this cannot be settled until the new Chairman has made his long-term strategy presentation in September. In any event no convincing case has been made for instructing Rolls-Royce to pull out of the 535-E4 programme now, with certification less than 6 months away; that would be tantamount to taking the company out of the big aero-engine business for good (even as a partner with another leading manufacturer). It would make privatisation impossible for the foreseeable future and might even call into question the Company's ability to survive at all. Besides I am satisfied that there are good prospects for the commercial and technical success of the E4 variant of the 535 engine.
3. Launch aid needs to be strictly on the commercial merits of the case put forward. Rolls' claim for launch aid is reasonable. Obviously from the public expenditure point of view the smaller the sum the better but we should not overlook the contribution which a reasonably generous decision could make to the objective of privatising the company.
4. It is worth bearing in mind that, so long as the Government remains the owner of and banker to Rolls-Royce, actual expenditure on the E4 engine

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will be a Government liability. Thus it is not worth spending too much time arguing whether other methods of financing the programme are preferable to launch aid.

5. I am sending a copy of this minute only to Sir Robert Armstrong.

JS.