

Yes - but has anyone
seen Frank DeFazio
I would be amused
to discuss these
matters with him.
ref.

Prudential

Mr Ibbs and the Chairman
(at Play A) suggest that
we should accept the
recommendations
proposed at Play B
and the proposals
for further work.

Qa 05103

To: MR LANKESTER
From: J R IBBS

Rolls-Royce

Content ?

1. I have read the minute from the Secretary of State for Industry dated 6 August. As Chairman of the Committee of Officials which examined the plan I should like to comment briefly as follows.
2. The purpose of the plan is to indicate the Company's broad strategy for the next ten years and to provide a framework within which actual results, operating plans, and requests for funding can be viewed. The main features are approximately constant business on military engines and rapid build-up in the next few years on civil engines, most of which is covered already by firm orders. Continuing technical development of the main RB211 range of engines is envisaged, particularly on fuel economy and reliability, but the only major new move proposed is the development and introduction of a new middle range civil engine, the RJ500, on which feasibility studies are at present being carried out jointly with the Japanese. The plan also covers some relatively peripheral matters notably the future of the Company's industrial and marine division, its helicopter and small engine business, and its nuclear activities.
3. It is regrettable that although asked by the Secretary of State to provide information on alternative policies, and subsequently pressed again by the Committee of Officials about this, the Company has put forward information on only one strategy. However, I think it is reasonable to deduce from the available facts that the only significantly different alternative that might deserve consideration would be curtailment of development of the civil business. I believe that would mean giving up aspirations to be a world-scale producer of aero engines and would imply a subsequent reduction in engineering skills, as well as meaning that much of the effort since 1971 would prove fruitless. Such curtailment needs

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to be borne in mind as a real possibility but it would be premature to decide on it now, particularly when a new Chairman is prepared to nail his colours to the proposed strategy and to an ambitious target of improvement in immediate performance.

4. As usual the central question is financial and as with some other ten year plans a familiar feature is cash absorption in the immediate future but attractive returns in the latter part of the period. However, these later figures are highly speculative and cannot really be regarded as adequate justification for the ten year strategy. Another familiar feature is that the short term projection shows a sharp improvement compared with the track record. I believe that the sensible course of action will be to monitor the trend of figures for the next one or two years to see whether short term improvement is achieved and whether the trend supports the credibility of the long term target. In this the Company's objective of being cash positive in 1983 is obviously a key marker. (At present this assumes that levies on past launching aid would be waived which the Government has not agreed.)

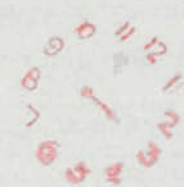
5. The report by officials points out the risks that surround the strategy and disappointingly the plan includes no assessment of the likelihood of these difficulties occurring, although it does indicate for the main ones what the effects might be. The existence of these risks underlines the need for very close monitoring. My own view is that there must be very considerable doubt about whether the Company will achieve the 1983 cash target and that there is a strong possibility that they will continue to need external support well into the decade.

6. Overall my conclusion is that the Prime Minister should respond to the plan in the terms recommended by officials as summarised in paragraph 13 of their report. In particular general support in principle for the broad strategy proposed by the Company should be qualified in that unless the short term figures for the next year or two display a trend in line with that projected in the plan, a radically less ambitious strategy will have to be examined. The first test will be the two year operating plan due in the Autumn.

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

8 August 1980

- 8 AUG 1980



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BKT



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MSD
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TRADE
BNS
6

10 DOWNING STREET

From the Private Secretary

11 August 1980

Rolls Royce

The Prime Minister has seen your Secretary of State's minute of 6 August and the Chancellor of the Exchequer's minute of 8 August. She is content with the proposals set out in your Secretary of State's minute.

As I told your office this morning, she has also commented that it would seem to her to be sensible for one or more Ministers to discuss these matters with Sir Frank McFadzean personally at this stage. I am not clear whether this has already happened, but I should be glad if the Prime Minister's suggestion could be considered.

I am copying this letter to the Private Secretaries to the other members of MISC 22 and to David Wright and Gerry Spence (Cabinet Office)

N. J. SANDERS

Ian Ellison, Esq.,
Department of Industry

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HT

PRIME MINISTER



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

11 August 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

To see. It would

be sensible to notify RR
officially at this stage
and meet Sir F McFadzean
later. Contact?

Dear Nick,

Yes Mr

We spoke about the Prime Minister's suggestion that Sir Keith Joseph should invite Sir Frank McFadzean to call on him for a discussion about his Company's Corporate Plan rather than formally to write to him giving the Government's initial thoughts on it. I will of course put the Prime Minister's suggestion to the Secretary of State as soon as possible.

MS
11/8

2 Officials here nonetheless believe that it is desirable to formally record the Government's immediate reaction to the Plan. It will, in any event, be three or four weeks before a meeting could be arranged and meanwhile Rolls Royce itself will wish to begin work on its two year operating plan - details of which we require by the early Autumn if decisions about funding in 1981 and 1982 are to be taken in time to meet estimates timetables. In drawing up that operating plan it is desirable that the Company should have our comments on the long term Corporate Plan especially as it affects cash flow and profitability objectives.

3 Such a letter would, moreover, provide a useful basis for a discussion of the Corporate Plan when Sir Keith and Sir Frank meet.

Yours sincerely,
Cecily

CECILY MORGAN
Private Secretary

COUONING

11 AUG 1980

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12 August 1980

ROLLS ROYCE

The Prime Minister has seen Cecily Morgan's letter to me of 11 August. She is content that Rolls Royce should be notified officially of the Government's reactions to their Corporate Plan at this stage, and is glad to see that arrangements will be made for an early meeting with Sir Frank McFadzean.

NJS

Peter Stredder, Esq.,
Department of Industry.

SP