

Prime Minister

To see X

cc Mr. Mount O/R

PLS 26/7

MR. SCHOLAR

ROLLS ROYCE RB.211 535 ENGINE DEVELOPMENT

It will be difficult for Ministers not to approve the continuation of the RB.211 programme to complete the E4 version, in view of the sums already spent, commitments to customers and the implications for privatisation. But support ought not to be provided on the scale or on the terms which Rolls Royce request. Rolls Royce are asking for launch aid of £102 million, almost as much as the cost of completing the E4 version - £120 million. This is surely an unacceptable basis for supporting any activity.

Some alternative options are:

1. Letting Rolls Royce finance the E4 itself, at the expense of less promising projects (if such there be).
2. To offer Rolls Royce just sufficient launch aid to cover the projected loss in 1984 (£40 million).
3. Negotiating with Rolls Royce in much the same way in which DTI negotiates selective financial assistance with other companies, ie offering launch aid which is judged to be just sufficient to persuade Rolls Royce to complete the development work. In selective assistance cases, the level of grant invariably turns out to be around 10% of project costs. An upper limit of 15% or 20% might be used in the present case; this would imply additional launch aid of £10-20 million.

The Chancellor will probably press for (1) in E(A) with (2) as a fall-back. I would suggest option (3) since it would treat Rolls Royce on all fours with the rest of manufacturing industry, rather than as an expensive 'pet', and puts the onus of risk where it belongs, on management. If this option were adopted Mr. Parkinson might be asked to negotiate within an upper limit of, say, £20 million.

N.O.
NICHOLAS OWEN
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