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Presentation on Aerospace  
to the Prime Minister and  
Other Ministers, 16 NOVEMBER 1983

AEROSPACE

September 1983

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<del>21.9.83</del>							
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10 DOWNING STREET

*From the Private Secretary*

22 November 1983

*Dear Roger,*

Although in the event the Foreign Secretary was unable to attend the presentations by British Aerospace and Rolls Royce on 16 November, you may like to have the enclosed copy of the DTI record of this.

I am sending copies of this letter and of the meeting record to those on the attached list. Annexes C and D to the record are available on request from Mr. A.J. Pryor of Air Division 2 at the Department of Trade and Industry.

*Yours ever,  
David*

David Barclay

R.B. Bone, Esq.,  
Foreign and Commonwealth Office.

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*da*

Prime Minister  
Secretary of State for Trade and Industry\*  
Secretary of State for Employment  
Secretary of State for Wales  
Chief Secretary  
Mr. Hayhoe  
Mr. Lamont\*  
Mr. Pattie  
Mr. Stradling Thomas\*

Sir Brian Hayes (DTI)\*  
Dr. R.B. Nicholson (Chief Scientist, Cabinet  
Office)  
Mr. R. Young (No.10 Policy Unit)  
Mr. W.J. Adams (FCO)\*  
Mr. A.J. Pryor (DTI)\*

\* Without enclosure



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21 November 1983

David Barclay Esq  
 10 Downing Street  
 LONDON SW1

*Dear David*

*die RB (FW)  
 order and  
 copies to those on the  
 attached list.  
 Annexes C & D of the  
 report are available  
 for DTE*

I enclose my record of the BAe and Rolls-Royce presentations at No 10 on 16 November, including the question and answer sessions and the informal discussions among Ministers. I have done this in a standard Private Office format, attributing remarks to individuals: I did not think the discussion lent itself to the traditional Cabinet Office type of report.

2 In order to keep the report within manageable proportions, I would suggest that you circulate it without Annexes C and D. These are the brochures including copies of the slides used by BAe and R-R. One copy of each is attached for your own records. But I would suggest that any recipient of my note interested in seeing these Annexes should simply be referred to me. We will keep a number of spares which can be sent out on demand.

*Yours sincerely  
 Andrew Rose*

A J PRYOR



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Subject cc Master

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PRESENTATIONS BY BRITISH AEROSPACE AND ROLLS-ROYCE TO THE PRIME MINISTER AND OTHER MINISTERS: 10 DOWNING STREET: 16 NOVEMBER 1983

Present throughout:

Ministers

Prime Minister  
Secretary of State for Trade and Industry  
Secretary of State for Employment  
Chief Secretary  
Mr Hayhoe  
Mr Lamont  
Mr Pattie  
Mr Stradling Thomas

Mr M Alison, MP

No 10 Policy Unit

Dr R B Nicholson (Chief Scientist)  
Mr R Young

Officials

Sir Brian Hayes	Department of Trade and Industry
Mr W J Adams	Foreign and Commonwealth Office
Mr A J Pryor	Department of Trade and Industry

Attending for British Aerospace presentation:

Sir Austin Pearce, Chairman  
Admiral Sir Raymond Lygo, Managing Director  
Mr B E Friend, Director of Finance  
Mr I R Yates, Chief Executive, Aircraft Group

Attending for the Rolls-Royce presentation:

Sir William Duncan, Chairman  
Mr J A Rigg, Finance Director  
Mr R H Robins, Director, Civil Engine Group (CEG)  
Mr A Warrington, Company Secretary  
Mr D A Marshall, Head of Business Planning, CEG

BRITISH AEROSPACE PRESENTATION

A full record of this presentation is at Annex A. The slides are reproduced at Annex C.

2 Thanking the BAe Chairman for his presentation, the Prime Minister stressed that the UK did not want another Concorde. She personally wished BAe to succeed with the A320. But much of the BAe case seemed to rely on an act of faith rather than an act of calculation. The prospect of vast profits in the future was a theme

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heard from so many businesses. The Prime Minister wondered whether a better assessment could not be done based on launch orders. She asked how long it would be before enough orders were secured conclusively to demonstrate the viability of the project. She agreed that it would be regrettable to leave Boeing with a virtual monopoly in the narrow-bodied market. She also felt the aircraft must have a Rolls-Royce engine and that British Aerospace might aim to do rather more than the wings.

3 In reply, Sir Austin Pearce emphasised that BAe would have to be satisfied with the wing work. The A320 could not be compared with Concorde. The economics of Concorde had been falsified by the massive increase in fuel prices: and the aircraft had in practice been operated by only two airlines. In contrast, Airbus aircraft were designed to meet the needs of a wide international market and Airbus Industrie had secured a very broad customer base. BAe's A320 market assessment had been checked against the assessments made independently by Airbus Industrie and other manufacturers. It was not over-optimistic.

4 Sir Austin Pearce added that BAe had pressed AI to secure more launch orders for A320. But, just like British Airways, a number of airlines were not ready to order a "paper aircraft". Matters were made more difficult by the fact that the current profitability record of airlines was so poor. But BAe were confident that, when the market upturn came, airlines would want the A320. Initially, BAe had sought one large launch order from a US airline and another from a major non-US carrier (besides Air France). Because of the flatness of the market, it had been necessary to relax these conditions and the requirement for a US launch customer had been abandoned. BAe could not yet claim massive launch orders and, though the market projections were based on scientific analysis, they did perhaps represent an act of faith. BAe were nonetheless convinced that, once the programme was launched, numerous orders would be secured (preponderantly in the 1985-86 period). But in order to have an aircraft ready to meet airlines' needs from 1988, the programme had to be launched at the beginning of 1984. The Prime Minister remarked that the opposite danger was that the aircraft could be built and that the orders would then not materialise.

5 Admiral Sir Raymond Lygo stressed that, in addition to the 26% work-share which BAe aimed to secure on A320, British equipment manufacturers could benefit from the programme. Sir Austin Pearce added that one of the conditions upon which BAe had insisted was that 20% of the equipment on A320 should be British (thus corresponding to BAe's 20% partnership share in Airbus Industrie). The Prime Minister asked whether this proportion would be achieved in practice. Sir Austin Pearce was confident that it could - provided the equipment suppliers played their part. The Secretary of State for Trade and Industry noted that the equipment suppliers might also want assistance with their development costs.

6 The Prime Minister congratulated British Aerospace for their success in winning a contract for 20 146 aircraft to be supplied to Pacific Southwest Airlines of California.

7 In conclusion, Sir Austin Pearce indicated that he would be pressing the Secretary of State for Trade and Industry for a decision on launch aid. The Prime Minister felt that, for his part, Mr Tebbit

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might have some more questions to put to BAe.

8 At this point, the BAe party left the meeting.

Informal discussion among Ministers

9 Ministers briefly considered the BAe presentation. The Secretary of State for Trade and Industry commented that BAe's advantage over companies like British Leyland was that Airbus Industrie had secured a wide overseas customer base. He personally felt that BAe's analysis of the market was correct. Clearly the quality and price of the product must be right - and that to some extent was a question of faith. But it had to be remembered that, from an unlikely start, Airbus Industrie had succeeded with the A300. BAe's problem was quite simply that their profits over the coming years would be inadequate to generate the necessary investment. The Secretary of State for Employment felt that, over the 20 years of the A320 project, the competition would be bound to counter-attack: this could undermine BAe's projections for future profits.

10 The Prime Minister felt that the Government was being driven into the position of saying that BAe would have to be given financial assistance if it were to stay in business at all. At least the Government got a positive product from its investment in military programmes. Mr Pattie pointed to the international environment within which BAe operated, including the substantial "subsidisation" of the US aerospace industry. The Secretary of State for Employment also felt that the UK would not be alone in wishing to avoid a Boeing monopoly in the narrow-bodied market.

11 The Prime Minister commented that what was emerging was a "diplomatic aerospace industry". The Chief Secretary stressed that the exit terms must be right: the UK must be able to withdraw from the project if things went wrong. He also felt that BAe must be tied down on the question of securing a greater proportion of British equipment. The Prime Minister agreed with this latter point and recalled the wider benefits which French industry had derived from the Concorde project.

12 The Prime Minister wondered why Lord King did not want the A320 for British Airways. Mr Lamont explained that British Airways were keeping their options open: they might have a requirement for A320 at a later stage. Mr Pattie noted that the past purchasing record of British Airways (BOAC, BEA) did not suggest that their choice of aircraft guaranteed a wider success for the manufacturers.

13 Reverting to the A320 project, Mr Lamont noted that the financial return postulated by BAe was still marginal. The Prime Minister was reconciled that the fact that Government assistance would be a straight subsidy to maintain technology and to keep people in work. While not dissenting, the Chief Secretary felt that the arrangements for the levy on sales must be fully explored to offer the best chance of a return to the Government. On the basis of a straight financial calculation BAe would, in the short-term, be better off without A320. The Prime Minister countered that, in the longer run, BAe would have no future without the project. She accepted that the aircraft industry would require Government funding.



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She was troubled by the prospect of a loss of intellectual quality in work available in the UK if the US was left with a monopoly. The Secretary of State for Trade and Industry felt that there could be wider benefits from BAe's work in robotics etc. But the Prime Minister had found BAe's accounting methods to be "antique". The practices of one site did not match up with those of another: there was considerable scope for improvement.

14 The Prime Minister further commented that she would not expect the Government to recover its launch aid. The Chief Secretary stressed that the Government must keep up the pressure on BAe. Mr Lamont was sceptical about BAe's need for 100% launch aid. He wished to explore ideas put forward in the City which would mobilise private financing for the development costs on the strength of the Government's shareholding. The Chief Secretary felt that the case could not be as black and white as BAe had presented it. The Prime Minister nonetheless felt that the Government had to be realistic. BAe needed another aircraft to survive (they also needed the ACA). This was a classic British Leyland situation - only more so. In four or five years time, new projects would be needed.

15 The Secretary of State for Trade and Industry commented that the Government also had the option of raising finance by simply selling part of its existing shareholding. The Prime Minister felt that this might have the effect of undermining confidence in the company. The Secretary of State for Employment wondered how one could genuinely "privatise" a company which was dependent upon Government.

16 At this point, the Rolls-Royce representatives joined the meeting.

The Rolls-Royce Presentation

17 The presentation as given by Sir William Duncan and Mr Robins is at Annex B. Copies of the slides used to accompany the presentation are in Annex D.

18 In questions after the presentation, Mr Pattie queried Rolls-Royce's projection of market penetration for the V2500 engine. The presentation had appeared to imply that Rolls would secure greater penetration if A320 did not proceed. Mr Robins explained that Rolls-Royce were assuming a 60% market penetration for the 150-seat aircraft class as a whole, including A320. This implied engine sales of 3000 units out of a total market of 5000 units. If the A320 did not proceed, the total market would be smaller: Rolls-Royce would nonetheless expect 2200 sales of the V2500. Sir William Duncan stressed that Rolls-Royce wanted the A320 project to proceed. Beside the direct benefits to R-R, the project might stimulate Boeing and McDonnell Douglas to develop new products rather more quickly than would otherwise be the case.

19 The Prime Minister queried the Chairman's statement that all Rolls-Royce borrowing required a Government guarantee. Sir William Duncan commented that some of the US financial institutions were

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uneasy about the prospective return of Rolls-Royce to the private sector. R-R's longer term loans might have to be re-negotiated nearer the time of privatisation.

20 The Secretary of State for Employment asked about the various joint ventures. How would marketing be handled? Did GE and/or Pratt & Whitney have Federal funding for development on the civil side and was HMG financial support a pre-condition for the acceptance of collaboration? What employment would arise from the joint ventures?

21 On marketing, Sir William Duncan and Mr Robins explained that the V2500 engine would be handled by staff working for the joint company: it had to be remembered that Pratt & Whitney and Rolls-Royce would remain competitors in other sectors. As for the big engines, Rolls-Royce and GE would initially respect "spheres of influence". Over the next 5 to 6 years, Rolls-Royce were bound to promote the RB211-535E4 and the RB211-524D4A against US competition. GE would simultaneously be promoting the CF6-80C. But collaboration with GE was essentially seen as a means of meeting the needs of the 1990s. It was hoped that GE and R-R would gradually evolve a pattern of cross-selling which would be the prelude to full collaboration.

22 The Prime Minister asked why collaboration with GE was envisaged. Was there not a risk that GE would use collaboration as a means of squeezing Rolls-Royce out? Sir William Duncan commented that collaboration offered both R-R and GE the chance to reduce costs - and to compete more effectively with the Pratt & Whitney 4000.

23 As regards employment, Sir William Duncan observed that some 3000 jobs in Rolls-Royce were directly affected by participation in the V2500. In addition, some 4000 jobs would be similarly affected outside Rolls-Royce. Mr Rigg stressed that the project would be sustaining jobs rather than creating new ones.

24 Mr Young asked why Rolls-Royce were pursuing collaboration on the larger engines with GE rather than Pratt & Whitney. Sir William Duncan replied that Pratt & Whitney had a dominant share: there were thus anti-trust implications. Unlike Pratt & Whitney, GE were not competing directly with the RB211-535: R-R saw some chance of a deal which could be genuinely reciprocal. Such a deal would be unattainable with Pratt & Whitney. The Chief Secretary, noting the previously-expressed view that privatisation of R-R as a whole would not be feasible in the near future, wondered whether it would still be possible to privatise the industrial marine division. Sir William Duncan replied that R-R engines were designed for aerospace applications. It would make no sense to hive-off the marine division which would continue to rely on aerospace technology. R-R wished to be able to develop collaboration with GEC on the basis of the breadth of its experience.

25 The Prime Minister was somewhat disturbed to find that there was no possibility of privatising R-R for five years. Sir William Duncan explained that the next two years would be difficult. Up to 1986/87, R-R would have a poor record of profitability. There must be doubt as to whether the company could then achieve a balance sheet which would be credible against the requirements of privatisation. But he

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did not totally discount the prospect of privatisation within five years. The Prime Minister noted that R-R would remain dependent on Government both directly for orders and for funding of the research needed for new engines. Sir William Duncan confirmed that the military side of the business would need continued Government support for orders and on the research side. The Chief Secretary wondered what would need to be done to the R-R balance sheet after two years to make privatisation possible. Sir William Duncan commented that years of good profits would be needed - not manipulation of the balance sheet.

26 The Secretary of State for Trade and Industry recalled that one of R-R's great successes since the War had been the turbo-prop Dart engine: this had had no major competitor to erode its margins or enforce costly interim developments. The position of the V2500 might be not dissimilar. It ought to be able to see off the CFM56-4 engine and achieve long-term dominance with the market. He felt that Rolls-Royce were very wise to change policy and to pursue a policy of collaboration on the big engines. The Secretary of State for Employment wondered whether the collaborative engines would have the R-R label - or whether R-R would be aligned with GE and Pratt & Whitney. Sir William Duncan commented that, in the case of the V2500, R-R would be aligned with its partners in a consortium. The R-R name would certainly be preserved on a marketing level. The Secretary of State for Employment wondered whether R-R engineers would not start to look upon the product as foreign engines. Would they need re-training on this account? Sir William Duncan recognised that the CF6-80C would be a GE engine. But, in the long-term, R-R could be identified technically with it and its successors. Mr Robins made the point that R-R were not simply a demandeur: GE wanted some of R-R's technology. The important thing for R-R was to spread the R&D base. Sir William Duncan stressed his view that the civil aero-engine market would not support three direct competitors.

27 Mr Robins also stressed that the whole of the compressor system on the V2500 engine would be provided by R-R. R-R would not lose control of this technology and would be able to use the compressor in other projects, eg to drive a prop fan in the 1990s. The advantage of the V2500 would be to keep R-R in the front line of the business. Something similar had to be worked out with GE for the bigger engines: and R-R were confident they had the technology to do this. Sir William Duncan noted that the alternative to collaboration with GE would be to stick with the RB211-524D4A until such time as R-R were pushed out of the 50,000 lbs plus market altogether. Mr Pattie confirmed that the withdrawal of R-R from "own name" participation in the bigger engines would have no military affect. MOD had certain decisions to take, but collaboration was already firmly established on the military side.

28 Sir William Duncan emphasised that R-R would not enter into collaboration with GE unless it was clear that this course would be more profitable than staying independent or getting out of the large engine market altogether.

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29 The Secretary of State for Employment recalled that he had asked whether an agreement with GE would be conditional upon HMG launch aid for further development of the CF6-80C. Sir William Duncan replied that this was not the case. The Prime Minister recalled, nonetheless, that all R-R's borrowing was subject to a Government guarantee. Was this not Government support? Mr Rigg agreed that banks would continue to rely on the comfort letters. But R-R were confident of their ability to repay - and predicted the necessary cash surpluses.

30 The Secretary of State for Trade and Industry felt that the Government should avoid displaying any lack of confidence in R-R's ability to participate, in their own right, in the large engine market. We needed to let GE think that R-R could go it alone as a means of securing the best collaborative deal.

31 At this point the Rolls-Royce party left the meeting.

Informal discussion among Ministers

32 The Prime Minister felt that R-R had sung the same song as BAe: perfect days were always in the future. Mr Lamont nonetheless commended R-R for moving towards collaboration. The Prime Minister wondered whether there was a real future for Rolls-Royce, even when they had done everything right. She felt the Government must expect to prop up the company in order to keep the technology going.

33 The Secretary of State for Trade and Industry felt that the position on launch aid and levies had been somewhat less black than might have been feared. The Secretary of State for Employment nonetheless feared that the next recovery would inevitably be followed by further slippage, making continued HMG support inevitable. The Prime Minister noted that the US industry received considerable support in the form of Defence contracts.

34 Mr Lamont felt that the Government should keep up the pressure on the company about privatisation. He was sure that Sir William Duncan wished to privatise the company and to do without further Government support. The Prime Minister felt that the Government should not lose too much sleep if it was unable to privatise R-R. The purpose of Government support to the company was to preserve a necessary technology, partly because of a political commitment and partly because of the employment implications. We had to keep R-R alive because we would otherwise lose contact with the appropriate technology base.

35 Dr Nicholson, asked by the Prime Minister for his views, observed that both BAe and R-R were operating in the area of leading edge technology with potential spin-off benefits. He personally had been impressed by Rolls-Royce's R&D effort at Derby. R-R had stated in their presentation that they were reducing their R&D spend by 25%: but they were significantly increasing their productivity. He had not had the opportunity to visit BAe. But his impression was that BAe were less competitive vis-a-vis Boeing than Rolls-Royce were vis-a-vis Pratt & Whitney. BAe seemed to be lagging behind in manufacturing and metals technology. Boeing were now saying that they could build an aircraft with only 11% by weight in aluminium - the rest would be new materials. He doubted whether BAe could achieve the same.

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36 The Prime Minister asked about the next steps in the consideration of launch aid. The Secretary of State for Trade and Industry felt that, since the Prime Minister appeared to be sympathetic towards the concept of launch aid, he would now wish to talk to British Aerospace in an attempt to reduce their bid (both as an absolute amount and as a proportion of the development costs). The Prime Minister observed that BAe's current bid appeared to be little more than a guesstimate. The Chief Secretary also felt it would be important to follow up Mr Lamont's ideas for innovative mechanisms to mobilise private sector financing.

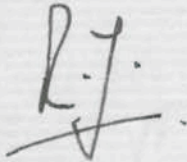
Department of Trade and Industry  
22 November 1983

MR. TURNBULL

AEROSPACE PRESENTATIONS - 16 NOVEMBER

I attach a brief brief which I hope is helpful. Although I am due out of the office today (Tuesday) I can come back in a hurry if you would like it redrafted.

Some weeks ago, Ferdy Mount mentioned to the Prime Minister that he would like me to represent the Policy Unit at the presentation, and I believe she agreed. Could I please ask you to confirm that this is still so?



ROBERT YOUNG  
15 November 1983

cc Mr. Mount  
Mr. Redwood

MR. TURNBULL

AEROSPACE PRESENTATIONS - 16 NOVEMBER 1983

Rolls Royce and British Aerospace (in that order) are to give presentations. Both companies will emphasise that Government has acquired an ineluctable role in aerospace:

- as owner, financier and guarantor of Rolls Royce
- as largest single shareholder, and potentially largest financier of BAe
- as customer, through MoD purchases, in the case of both companies
- as sponsor of high technology industry within and beyond these two companies.

Rolls and BAe will see their presentations as an important opportunity of seeking the Prime Minister's backing, however informally, for their project proposals ahead of formal scrutiny by departments, MISC 25 and, if necessary, Cabinet.

In partial defence against a narrow-based hard sell, two ground rules have been established:

1. Both companies are to concentrate on strategy issues. Without an understanding of the two companies' strategies, Government is much too easily picked off to approve or reject specific project proposals. At least four will be advanced on 16 November, with a total claim on the Exchequer in excess of £700 million.

2. Both companies are to deal primarily with civil projects. MoD and export military business is important to both, but their key problems and claims upon Government turn principally upon success in civil programmes.

Our recommendation for 16 November is that the Prime Minister and Cabinet colleagues remain interested but uncommitted. Soundly based decisions are not feasible before January/February 1984.

Attached are brief notes and questions on aerospace generally, and on Rolls and BAe particularly.

  
ROBERT YOUNG

15 November 1983

AEROSPACE BACKGROUND

1. UK Companies in Aerospace

The two largest UK aerospace companies are British Aerospace (sales £2billion, employees 77,000) and Rolls Royce (sales £1½billion, employees 40,000). Other major contributors include Westlands (helicopters), Shorts (general aviation, aircraft components and missiles), together with component and electronics suppliers - Dunlop Dowty, Fairey, Plessey, RACAL, Smiths, and Thorn-EMI.

Since the Second World War, the UK has been steadily driven out of wholly indigenous civil and military aircraft projects, principally by US companies who enjoy natural advantages of a large domestic market and huge defence programmes.

In shrinking, the UK aerospace industry has had to resort to serving market niches, or to acting as sub-contractors, or to collaborating, or all three. Only Rolls Royce has maintained a wide product range in defiance of its main US competitors, but in so doing it went bust in 1971 and has since absorbed more than £1 billion of taxpayer subvention.

A moderated European response to the US dominance of the civil airframe market emerged with the formation of Airbus Industrie, in which British Aerospace has a 20% share. AI is a French "groupement d'Interet Economique" (a sort of partnership). It publishes no accounts, but can only have lost heavily since inception.

The principal lessons about aerospace which can be learned from UK history and current industry structure are:

- the business, especially the civil business, takes too much risk for the money it makes
- product specialisation and internationalisation are increasingly the order of the day. This makes it less justifiable to support national "leading" airframe contractors because of their pull-through effect on national component suppliers
- UK defence expenditure on aerospace (some £2billion per annum on R and D and production purchases) is now the dominant influence on UK aerospace effort. Mod procurement



practice and export prices obtainable for military aerospace equipment, are very often used to sustain break-even or loss making civil aerospace work.

2. Aerospace Employment and Output

Because of classification difficulties, an aerospace component of the UK economy is difficult to isolate. The Society of British Aerospace Constructors (SBAC) estimate around 230,000 jobs and an output of £5 billion per annum, of which between 40% and 50% is exported. If these figures are even broadly correct, the two companies presenting on 16 November account for about half the employment of the UK aerospace industry and some 70% of its output by value.

The notes in Annexes B and C make clear how decisively important defence is to Rolls Royce and British Aerospace. The influence of defence on the aerospace industry as a whole is thus visible both in the aggregate and in the particular.

3. Civil Support - Launch Aid

Government financial support for the civil aircraft industry was given formal shape in the 1949 Civil Aviation Act, which enabled Launch Aid to be paid against civil aerospace projects approved by the Government. Launch aid is recoverable by means of a levy which Government negotiates with the company concerned. There is no fixed percentage of launch costs which should be provided by means of launch aid, although 50% is the usual maximum. (Against such a background, British Aerospace's claim for 100% launch aid on the A320 wing and the Advanced Turboprop Aircraft are surprising.) Launch aid is available to public sector and private sector companies alike. Government does not usually seek recourse if forecast sales and levies are not achieved.

Since 1949 some 40 aerospace projects have received launch aid, and only two (the Rolls Royce Dart engine and the Vickers Viscount aircraft) have repaid it in real terms.

In the current year, there is provision in the DTI budget for £52 million for aircraft and aeroengine projects. This is an uncharacteristically low figure, which has been as high as £220 million when Rolls Royce's needs have been greater.

/The aggregate bids

The aggregate bids of the two companies for four aerospace projects amount to over £700 million and thus represent a sustained and substantial thrust into civil aviation projects. It must be doubtful whether, given the Government's intention to reduce the burden of public expenditure, it can contemplate support for major new civil projects as well as continuing its aerospace defence expenditure.

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ROLLS ROYCE1 Corporate Vignette

In 1982 Rolls had sales of £1493 million and capital employed of £724 million, on which it lost £129 million after interest. Currently, military (MoD and export) sales account for 45% of turnover; civil engine sales for 34%; and all other activities for 21%. Broadly speaking, military sales are profitable, "other" (principally industrial and marine) applications break even, and civil sales cause losses. Rolls is not expected to return to profit until 1986, and on present forecasts is a poor candidate for privatisation before 1988.

The company has a wide product range, from small helicopter engines to large fanjets for the Boeing 747. But in volume terms, Rolls is far smaller than its major US competitors, Pratt and Whitney (PW) and General Electric (GE).

Rolls is rapidly reducing its work force. It stood at 57,000 in 1980, 44,000 in 1982, and should be down to 35,000 by end 1984. A new Chairman, Sir William Duncan (ex ICI) took over in April 1983.

2. The Strategic Issues2.1 The civil/military mix

Rolls' plans envisage a major shift from military to civil sales during the rest of the 1980s. Their MoD business is bound to contract (because of the shape of the aircraft procurement programme) but Rolls' share of the civil business is not bound to rise (because of competitive pressures). So, how feasible is Rolls' planned shift? What are the other major strategy options? (Prime Minister - you may care to try Rolls out on, for instance, a smaller engine range, or a gradual withdrawal from some civil engine sectors).

2.1 Rolls versus Competitors

What do Rolls see as their current and prospective strengths and weaknesses against competitors? Is their relatively small scale a decisive disadvantage?

2.3 Rolls and Collaboration

So far, Rolls have worked collaboratively on certain specific engines. The proposed V.2500 collaboration with PW and others is the latest example. Is it now necessary to contemplate collaboration on all new engines or derivative developments? Is a merger with another company

or consortium desirable or inevitable? (Prime Minister - you may care to note that Rolls' large engine family, the RB.211, has absorbed nearly £1 billion to date.)

2.4 Is Aerospace a Special Case?

Do Rolls believe that Government should take other than a commercial view of the UK aerospace sector?

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BRITISH AEROSPACE1. Corporate Vignette

In 1982 BAe had sales of £2053 million and a trading profit of £113 million, although launch costs and £100 million of exceptional items produced a final net loss of £23 million. Military aircraft represented 49% of total sales; missiles were 25%; space 6%; leaving civil aircraft and aircraft structures at 20%. BAe's civil aircraft work is loss making, and the company is sustained by profits on MoD purchases of missiles and aircraft, together with the exports which these make possible.

BAe employs 77,000 people, a figure which is only slowly reducing. Some 20,000 are engaged on civil aircraft work.

The Government owns 48.4% of the BAe equity, and is committed to keeping a stake of 25% "for the foreseeable future". At the current share price, HMG could raise about £85 million by selling 23.4% of the BAe equity, but DTI and BAe are worried about the market's interpretation of such a sale.

BAe have submitted to DTI their case for launch aid for wings for the Airbus Industrie A320, a new 150 seat aircraft scheduled for production in 1988. They are seeking 100% aid, equivalent to £461 million. They will also explain their case for 100% launch aid (£150 million) for the Advanced Turboprop Aircraft, which is intended as a replacement for the present BAe 748 Turboprop.

2. Strategic Issues2.1 BAe versus Competitors

What unique strengths does BAe have which enable it to take on larger competitors overseas? Beyond collaboration on specific aircraft, are there realistic merger opportunities for BAe in what is, after all, a truly international business?

2.2 The Civil Sector

What are the underlying requirements for commercial success in the civil aircraft field? Do BAe's new civil projects (participation in A320, plus the BAe 146, plus the Advanced Turboprop Aircraft) make up a profitable package of additional civil business?

2.3 The Civil/Military Mix

Do BAe need a major new military aircraft programme as well as the civil programme? What would BAe's priorities be if HMG could not afford/did not wish, to support both?

2.4 Is aerospace a special case? Should HMG take other than a commercial view of the UK aerospace sector? (Prime Minister -BAe will almost certainly lay stress on the "strategic industry", ie non commercial view of Airbus Industrie which the French and Germans appear to take.)

-----

CONQUEROR

PRIME MINISTER

Aerospace Presentation

Tomorrow's presentation is intended to set out the background to major investment decisions which have to be taken soon (especially the Aerobus A320 and the Rolls Royce V2500 engine).

Briefing is attached as follows:

Flag A DTI brief  
Flag B Supplementary brief by Policy Unit, including  
  
Flag C Rolls Royce  
Flag D British Aerospace  
Flag E Background note on the aerospace industry.

A list of those attending the presentation is opposite.

The proposed timetable is as follows:

<del>1600</del> 1535	Preliminary meeting of Ministers
<del>1605</del> 1540	British Aerospace presentation
<del>1650</del> 1640	Break for Ministerial discussion, and tea
<del>1700</del> 1650	Rolls Royce presentation
<del>1745</del> 1750	Rolls Royce depart
	Ministerial discussion until 1800, if required.

*David Barclay*

David Barclay

15 November 1983

AEROSPACE BACKGROUND1. UK Companies in Aerospace

The two largest UK aerospace companies are British Aerospace (sales £2 billion, employees 77,000) and Rolls Royce (sales £1½ billion, employees 40,000). Other major contributors include Westlands (helicopters), Shorts (general aviation, aircraft components and missiles), together with component and electronics suppliers - Dunlop Dowty, Fairey, Plessey, RACAL, Smiths, and Thorn-EMI.

Since the Second World War, the UK has been steadily driven out of wholly indigenous civil and military aircraft projects, principally by US companies who enjoy natural advantages of a large domestic market and huge defence programmes.

In shrinking, the UK aerospace industry has had to resort to serving market niches, or to acting as sub-contractors, or to collaboration, or all three. Only Rolls Royce has maintained a wide product range in defiance of its main US competitors, but in so doing it went bust in 1971 and has since absorbed more than £1 billion of taxpayer subvention.

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The principal lessons about aerospace which can be learned from UK history and current industry structure are:

- The business, especially the civil business, takes too much risk for the money it makes.
- Product specialisation and internationalisation are increasingly the order of the day. This makes it less justifiable to support national "leading" airframe contractors because of their pull-through effect on national component suppliers.
- UK defence expenditure on aerospace (some £2 billion per annum on R&D and production purchases) is now the dominant influence on UK aerospace effort. MOD procurement practice and export prices obtainable for military aerospace equipment are very often used to sustain break-even or loss-making civil aerospace work.



### Aerospace Employment and Output

The Society of British Aerospace Constructors (SBAC) estimate around 230,000 jobs and an output of £5 billion per annum, of which between 40 per cent and 50 per cent is exported. Rolls Royce and British Aerospace account for about half the employment of the UK aerospace industry and some 70 per cent of its output by value.

### 3. Civil Support - Launch Aid

The 1949 Civil Aviation Act enabled Launch Aid to be paid against civil aerospace projects approved by the Government. Launch aid is recoverable by means of a levy which Government negotiates with the company concerned (which may be either public or private sector). There is no fixed percentage of launch costs which should be provided by means of launch aid, although 50 per cent is the usual maximum. Against such a background, British Aerospace's claim for 100 per cent launch aid on the A320 wing and the Advanced Turboprop Aircraft are surprising.

Since 1949, some 40 aerospace projects have received launch aid, and only two (the Rolls Royce Dart engine and the Vickers Viscount aircraft) have repaid it in real terms.

In the current year, the DTI budget includes £52 million for aircraft and aeroengine projects. This is an uncharacteristically low figure. The total has been as high as £220 million when Rolls Royce's needs have been greater.

Given the Government's intention to reduce the burden of public expenditure, we doubt whether it can contemplate support for major new civil projects as well as continuing its aerospace defence expenditure.

ROLLS ROYCE1. Corporate Vignette

In 1982, Rolls had sales of £1,493 million and capital employed of £724 million, on which it lost £129 million after interest. Currently, military (MOD and export) sales account for 45 per cent of turnover; civil engine sales for 34 per cent; and all other activities for 21 per cent. Broadly speaking, military sales are profitable, "other" (principally industrial and marine) applications break even, and civil sales cause losses. Rolls is not expected to return to profit until 1986, and on present forecasts is a poor candidate for privatisation before 1988.

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Rolls is rapidly reducing its work force. It stood at 57,000 in 1980, 44,000 in 1982, and should be down to 35,000 by end 1984. A new Chairman, Sir William Duncan (ex-ICI) took over in April 1983.

2. The Strategic Issues

- i. Rolls' plans envisage a major shift from military to civil sales during the rest of the 1980s. Their MOD business is bound to contract (because of the shape of the aircraft procurement programme) but Rolls' share of the civil business is not bound to rise (because of competitive pressures). So, how feasible is Rolls' planned shift? Could they try a smaller engine range instead? Or gradually withdraw from some civil engine sectors?
- ii. What do Rolls see as their current and prospective strengths and weaknesses against competitors? Is their relatively small scale a decisive disadvantage?
- iii. So far, Rolls have worked collaboratively on certain specific engines, such as the proposed V.2500 collaboration with PW and others. Should they now collaborate on all new engines or derivative developments? Is a merger with another company or consortium desirable or inevitable? Rolls' large engine family, the RB.211, has absorbed nearly £1 billion of public money to date.
- iv. Is Aerospace a Special Case? Do Rolls believe that Government should take other than a commercial view of the UK aerospace sector?

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BAe employs 77,000 people, a figure which is only slowly reducing. Some 20,000 are engaged on civil aircraft work.

The Government owns 48.4 per cent of the BAe equity, and is committed to keeping a stake of 25 per cent "for the foreseeable future". At the current share price, HMG could raise about £85 million by selling 23.4 per cent of the BAe equity, but DTI and BAe are worried about the market's interpretation of such a sale.

BAe have submitted to DTI their case for launch aid for wings for the Airbus Industrie A320, a new 150-seat aircraft scheduled for production in 1988. They are seeking 100 per cent aid, equivalent to £461 million. They will also explain their case for 100 per cent launch aid (£150 million) for the Advanced Turboprop Aircraft, which is intended as a replacement for the present BAe 748 Turboprop.

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AEROSPACE PRESENTATION: 16 NOVEMBER, 1983

Those attending:

H.M. Government

The Prime Minister

Dept. of Trade and Industry

Secretary of State  
Minister of State  
Mr. Pryor

Foreign and Commonwealth Office

Foreign Secretary  
Mr. Adams

H.M. Treasury

Chancellor  
Chief Secretary  
Minister of State

Dept. of Employment

Secretary of State

Ministry of Defence

Mr. Pattie

No. 10

Mr. Young  
Mr. Barclay

British Aerospace

Sir Austin Pearce (Chairman)  
Sir Raymond Ligo (Corporate  
Managing Director)

Mr. Bernard Friend  
(Corporate Finance Director)  
Mr. Ivan Yates (Chief Executive,  
Aircraft Group)

Rolls Royce

Sir William Duncan (Chairman)  
Mr. J. A. Rigg (Finance Director)  
Mr. R. H. Robins (Director Civil  
Engine Group)  
Mr. A. Warrington (Company Secretary)  
Mr. D. A. Marshall (Head of Business  
Planning)

Welsh Office

Mr Studdling - Thomas

Mr Studdling - Thomas

MR TURNBULL

AEROSPACE PRESENTATIONS - 16 NOVEMBER 1983

British Aerospace and Rolls Royce (in that order) are to give presentations. They will see their presentations as an important opportunity of seeking the Prime Minister's backing, however informally, for their project proposals ahead of formal scrutiny by departments, MISC 25 and, if necessary, Cabinet.

In partial defence against a narrow-based hard sell, two ground rules have been established:

1. Both companies are to concentrate on strategy issues. Without an understanding of the two companies' strategies, Government is much too easily picked off to approve or reject specific project proposals. At least four will be advanced on 16 November, with a total claim on the Exchequer in excess of £700 million.

Project	Company	Launch Aid Wanted	Government Percentage
V2500 engine	Rolls Royce	£113m	50
RTM 322 helicopter engine	Rolls Royce	£18m	50
A320 wings	British Aerospace	£454m	100
Advanced Turboprop Aircraft	British Aerospace	£150m	100

2. Both companies are to deal primarily with civil projects. MOD and export military business is important to both, but their key problems and claims upon Government turn principally upon success in civil programmes.

Our recommendation for 16 November is that the Prime Minister and Cabinet colleagues remain interested but uncommitted. Soundly based decisions are not feasible before January/February 1984/

Attached are brief notes and questions on aerospace generally, and on Rolls and BAe particularly.



ROBERT YOUNG

15 November 1983

MR TURNBULL

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
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(1)



10 DOWNING STREET

PRIME MINISTER

Aerospace Presentation

Bob Young would like to represent the Policy Unit at the Aerospace presentation tomorrow. Ferdie supports this. Agree?

*DMB*

*Yes* *ml*

DAVID BARCLAY

15 November, 1983



JF4830

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

PS/ Secretary of State for Trade and Industry

14 November 1983

David Barclay Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear David*

PRIME MINISTER'S PRESENTATION ON AEROSPACE : 16 NOVEMBER 1983

... Attached is a brief for the Prime Minister for this presentation which has been cleared with my Secretary of State.

2 We discussed the batting order for Rolls Royce and British Aerospace and as we agreed, I have told the companies that Rolls Royce should arrive at about 3.20pm at No 10 and British Aerospace at about 4.30pm.

*now revised because of late amendment.*

3 I am sending copies of this brief to John Gieve (Chief Secretary's Office), Adam Peat (Secretary of State for Wales' Office) and to Alan Kemp (Mr Geoffrey Pattie's Office).

*Yours ever*  
*Steve*

STEPHEN NICKLEN  
Private Secretary

Encl



*I think this must be the presentation on aerospace*

**ROLLS-ROYCE LIMITED**

*C. M. Taylor*

PO Box 31, Derby DE2 8BJ, England  
Telegrams: ROYCAR DERBY, Telex: 37645  
Telephone: Derby (0332) 42424 Ext.

11th November 1983

Mr. S. Nicklen,  
Private Secretary,  
Secretary of State for Trade & Industry,  
Room 803,  
1 Victoria Street,  
London SW1H 0ET.

*DMB  
15/11*

*Dear Stephen,*

In order to remove any points of doubt which may exist and because I understand that No.10 will be looking to you for guidance on the arrangements for the meeting on 16th November, I am confirming:

- i) That the Rolls-Royce party is planned to be  
Sir William Duncan, Chairman  
Mr. J.A. Rigg, Finance Director  
Mr. R.H. Robins, Director Civil Engine Group (CEG)  
Mr. A. Warrington, Company Secretary  
Mr. D.A. Marshall, Head of Business Planning CEG
- ii) That Mr. Taylor, the Office Manager at No.10 has made arrangements for a screen to be in position and we will be delivering a vugraph projector for back screen projection. Mr. Marshall is arranging this and, as agreed by Mr. Taylor, will arrive at 2.15 pm.
- iii) That Mr. Taylor has said he would arrange to have a lectern with a light in position for use at the presentation.
- iv) That as we understand Sir William's presentation will be first on the agenda, which he welcomes, our party will arrive at approximately 3.20, ready for 3.30.

I am copying this letter to Andrew Turnbull at No.10.

Yours sincerely,

*A. Warrington*

A. Warrington



PRESENTATION BY ROLLS-ROYCE AND BRITISH AEROSPACE TO THE  
PRIME MINISTER: 16 NOVEMBER 1983

This presentation was originally sought to enable the new Chairman of Rolls-Royce to present to Ministers collectively his strategy for the Company's future, following his initial internal review. The recently-announced proposal for the collaborative V2500 engine forms part of this strategy review. To give the Prime Minister a better overall picture of the aerospace industry, the Chairman of British Aerospace will also give a presentation on his own Company's corporate strategy and on the place within this of the launch aid application to enable BAe to participate in the Airbus A320.

The Civil Aerospace Market

2 Both Rolls-Royce and BAe have their sights firmly fixed on the market for narrow-bodied short and medium-haul jet aircraft of between 135 and 225 seats. A substantial proportion of existing narrow-bodied fleets will have to be phased-out in the latter half of the 1980s because of (a) more onerous noise restrictions, (b) the need for greater fuel efficiency and (c) increasing obsolescence. DTI's own market analysts estimate that, in the 20 year period 1988-2007, sales of narrow-bodied aircraft will be approx 2400-3000 (USA 45%, Europe 24%, other developed countries 9% and Third World 22%). This is by far the most promising sector of the civil aircraft market for the rest of the century (as a largely replacement market, it is subject to less uncertainty than the - largely growth-determined - market for wide-bodied aircraft).

3 Airbus and BAe see a particular market slot for the 150-seat new technology A320. This would be in competition with existing or future derivative aircraft (currently the McDonnell Douglas MD-80 range and the Boeing 737-300: potentially the Boeing 737-400/500). Alternatively, in response to A320, Boeing may at some stage launch a new technology aircraft of their own, the 7-7. DTI's own market analysts suggest that, in the period 1988-2007, A320 sales could be in the range 750-1000 (50% in Europe, 15% in USA, 10% in other developed countries, and 25% in the third world). Estimated sales for the Boeing 7-7 over the same



period are in the range 1300-1700.

4 The V2500 engine would provide the necessary new technology power plant for A320 (and for the Boeing 7-7 and some of the derivative aircraft): as matters currently stand, no other new technology engine is likely to emerge in this category. DTI's estimate is that V2500 sales over 20 years would be in the range 2600-5500. The figures towards the low end of this range assume that A320 and Boeing 7-7 are not launched: those towards the top end assume the vigorous development of new 150-seat types.

5 Airbus aim to bring the A320 into airline service by the Spring of 1988 (initially using a derivative Franco-US engine, the CFM56-4). Aeroengines generally take longer to develop than airframes: the V2500 is nonetheless expected to be available before the end of 1988. The A320 timescale reflects airlines' replacement needs. Unless a new technology product is available during 1988, a greater proportion of the replacement market will be taken by derivative aircraft.

#### The Future for Rolls-Royce and BAe

6 Major civil aircraft and aeroengine programmes are inevitably becoming fewer in number and larger in scale. The necessary level of investment has made international collaboration inevitable: Rolls-Royce with the V2500 engine are following the path already trodden by BAe in joining Airbus. Profitability will be dependent upon the achievement of long production runs: the Americans have had the better of us in the past because they could amortise their costs over a greater number of units and achieve significant learning curve benefits. We have to begin to match US economies of scale.

7 The Government's decisions on support for A320 and also for the 2500 will amount to a strategic judgement on the future orientation of UK civil aerospace policy. Neither firm can



undertake its share of the respective projects without launch aid. Although the V2500 would have potential applications to any 150-seat aircraft the A320 would provide a positive trigger for its development and production. In face of the V2500 challenge GE and SNCMA would face a difficult decision on the CFM56-4. Neither this engine nor further derivatives of it would be likely to match the performance of the newer V2500 and the choice would be to abandon it or to spend large sums on an engine which might still be uncompetitive. For Rolls-Royce and BAe there are no readily available alternative projects in this market: particularly for BAe non-participation would imply significant contraction.

8 Further information is given in the attached annexes.

AIR DIVISION

10 November 1983



## SYNOPSIS OF V2500 LAUNCH AID APPLICATION BY ROLLS-ROYCE

£m:1983 Economic Conditions

- 1) Total V2500 launch costs : £753
- 2) Rolls-Royce's 30% share of 1) : £226
- 3) 50% launch aid request : £113
- 4) This requirement for 50% aid will have to be considered in the context of the Corporate Strategic Plan (1983-1992) to be submitted shortly by the new Chairman, as will the appropriate repayment schedule.
- 5) The 50% launch aid requested is spread as follows:-
- |      |       |
|------|-------|
| 1984 | 6.8   |
| 1985 | 18.4  |
| 1986 | 24.7  |
| 1987 | 20.7  |
| 1988 | 17.5  |
| 1989 | 13.2  |
| 1990 | 8.4   |
| 1991 | 3.3   |
|      | <hr/> |
|      | 113.0 |
- 6) Rolls-Royce calculate that the return on investment (DCF yield) from their 30% share in the V2500 would be 9.5%. This assumes an exchange rate of £1=\$1.62, and the sale over 20 years of 3000 engines on two airframe applications - the A320 and a Boeing aircraft. With 2½ engines sold for each aircraft, this would involve sales over 20 years of 1200 aircraft powered by the V2500, 60% of the market assessed by Rolls-Royce to be available for aircraft of up to 160 seats powered by either the V2500 or CFM56.

## SYNOPSIS OF BAe A320 LAUNCH AID APPLICATION

- a) Total A320 project development costs: £1,004m (January 1982 economic conditions).
- b) BAe's share of these development costs: 26% or £261m (Jan 1982 e.c.)
- c) plus BAe education costs: £58m (Jan 1982 e.c.)
- d) BAe's launch aid request is for 100% of b) + c): £319m (Jan 1982 e.c.)
- e) At January 1983 economic conditions (as used in Rolls-Royce V2500 case), this represents: £345m
- f) BAe justify 100% government financing on the grounds that they have borne, without launch aid from HMG, the development costs of other civil programmes (146, Jetstream 31, Airbus A310 and Airbus A300-600).
- g) Assuming 8% inflation, BAe translate their launch aid bid into the following schedule of expenditure in outturn or cash terms:

	£m
1983	7
1984	55
1985	73
1986	86
1987	95
1988	84
1989	46
1990	11
1991	4
	<u>461</u>

From 1989, these HMG payments would be offset by levy receipts so that the peak HMG "outflow" would be £439m by the end of 1989.

- h) BAe calculate that, on their own central assumptions (including an exchange rate of £1 = \$1.60 and sales of 700 A320s up to 2002), the real rate of return on the project (without launch aid) would be 4.2%.

Biospace  
Sept 83  
Presentation

5  
8  
17  
1

14 NOV 1983



10 DOWNING STREET

CF: I've agreed  
to add Ms Edwards  
to the list.

D  
8/11

David:

British Aerospace  
Presentation, 16 Nov.

Re. attendance,  
Welsh Office think  
that they should  
make an input! (could  
you please <sup>ing</sup>  
Karen Stephens.

Fed. 2223.  
In Nicolas Edwards Office.

Susan.  
T.U.

PRIME MINISTER

→ cc Mr Taylor

File please

BRITISH AEROSPACE/ROLLS ROYCE PRESENTATION

British Aerospace and Rolls Royce will be making a combined presentation to you on the aerospace industry on the afternoon of Wednesday, 16 November.

Since you will be giving lunch for the Prime Minister of Yugoslavia that day, and there is also a reception in the evening for Area Chairmen and National Union Officers, plus wives, it might be most convenient, if you agree, for the presentation to take place in the Cabinet Room.

Content for me to arrange this?

DMB

Yes mb

4 November, 1983



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Tim Flesher Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

30 September 1983

*Dear Tim,*

Thank you for your letter of 12 September, confirming arrangements for a presentation on aerospace from 3.30 pm on 16 November. My Secretary of State would like to attend.

I am copying this letter to Steve Nicklen (DTI), Judith Simpson (Treasury), Roger Bone (FCO) and Simon Lowe (Defence).

*Yours sincerely,*

*Peter Smith*

PETER SMITH  
Private Secretary

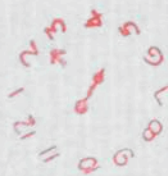
Aerospace Presentation

Sept 03



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30 SEP 1983



Note for file.

Attendance for Presentation on  
Aerospace 16/11/83 15.30 - 16.00 hrs.

(see TF to DTI 12/9/83)

- Margaret O'Mara confirmed that Ch/Ex will attend.
- FCS (see FCO to TF 26/9)
- S/S Defence has nominated M/S Defence Procurement (Pattie)  
(see MOD to TF 21/9)
- Di Modjesan confirmed S/S Employment will attend.

Maud  
27/9.



cc FM



Foreign and Commonwealth Office

London SW1A 2AH

26 September 1983

*Jaw Tim. In diary LHM 28/9*

Presentation on Aerospace

Thank you for your letter of 12 September confirming that the Prime Minister has set aside the afternoon of 16 November for the presentation by British Aerospace and Rolls Royce. The Foreign and Commonwealth Secretary would like to attend.

I am sending a copy of this letter to Stephen Nicklen (DTI), Judith Simpson (Treasury), Simon Lowe (MOD) and Barnaby Shaw (Department of Employment).

*See in  
R B Bone*

(R B Bone)  
Private Secretary

Tim Flesher Esq  
10 Downing Street

AEROSPACE : Presentation Sept. 83

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26 Sept 1983

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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

MO 17/3

21st September 1983

*Dear Tim, Wm 21/9*

Thank you for sending Simon Lowe a copy of your letter to Steve Nicklen of 12th September about the proposed presentation by British Aerospace and Rolls Royce. The Secretary of State has nominated the Minister of State for Defence Procurement, Mr Geoffrey Pattie, as the Defence Minister he wishes to attend the presentation.

*Yours ever  
Wendy*

(W ANDERTON) (MISS)  
Private Secretary

T Flesher Esq

AEROSPACE; Presentation on Aerospace

Sept 83





10 DOWNING STREET

Mr Mount

We spoke. Less satisfactory  
than I thought.

MLS 15/9

Loze

We should return this  
for now, but will need to  
refer again in a few  
days' time.

Ry 20/9.

CF.



file 10

10 DOWNING STREET

From the Private Secretary

12 September 1983

B/F

Thank you for your letter of 6 September about the proposed presentation of aerospace by British Aerospace and Rolls Royce. The Prime Minister has agreed to set aside a time for such a presentation and I can now confirm that we have allocated 1530 to 1800 hours on 16 November for this purpose. I have drawn the timing of the presentation to the attention of the offices of the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Defence and the Secretary of State for Employment, with the request that they consider the possibility of attendance of their Ministers. I should be grateful if they could let me know details of attendance in due course.

I am sending a copy of this letter to Judith Simpson (H.M. Treasury), John Holmes (Foreign and Commonwealth Office), Simon Lowe (Ministry of Defence) and Barnaby Shaw (Department of Employment).

TIMOTHY FLESHER

Steve Nicklen, Esq.,  
Department of Trade and Industry.

- see O/C to DB 7/4



DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET  
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 SWITCHBOARD 01-215 7877

JU347  
 Secretary of State for Trade and Industry

6 September 1983

Tim Flesher Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 London SW1

- 1) Mr <sup>M/S</sup> Scholier  
 2) Prime Minister:

*Dear Tim*

*Yes  
mb*

I understand that Mr Parkinson has in mind a presentation lasting 2 1/2 hours. Do you wish us to average one, as proposed?

PRESENTATION ON AEROSPACE

There are a number of important funding issues in the aerospace field which are likely to require consideration by Ministers collectively over the coming months. On the civil side the proposed development programmes are mostly international and include the A320 (Airbus Industrie's 150 seat aircraft projects), the BAe Advance Turboprop (a development of their existing small 748 airliner), the RTM 322 helicopter engine (a Rolls-Royce/Turbomeca (Fr) project, with civil as well as military applications), and the 2500 aero-engine designed to power the A320 and similar aircraft (a Rolls-Royce/Pratt and Whitney project also involving the Japanese, Germans and Italians).

2 My Secretary of State therefore believes that the Prime Minister would find helpful early presentations by BAe and Rolls-Royce which would give a broad overview of the aerospace industry and thus provide the context in which to consider particular projects. On the Rolls-Royce side, Sir William Duncan will be able to present to the Prime Minister the results of his fundamental review of strategy.

3 In order to keep the two presentations to manageable proportions we would suggest they concentrate on the civil side of the industry, although the importance of several defence projects to both companies is such that it would be misleading if the defence side were to be completely excluded. We therefore propose that BAe and then Rolls-Royce should each provide an overview of its business prospects and its product strategy and then highlight the main civil funding issues foreseen over the coming months.

4 My Secretary of State is clear that such presentations would between them require a full afternoon if there is to be adequate time for questions. I understand that you have provisionally set aside time on 16 November for this purpose. We have checked that Sir William Duncan and Sir Austin Pearce could be available on that date.

*DT  
8/9*



5 I should be grateful to know whether the Prime Minister would wish to receive presentations of this kind. If so, my Secretary of State suggests that the Chancellor (or the Chief Secretary), the Secretary of State for Foreign and Commonwealth Affairs and the Minister for Defence Procurement might also be invited, together with an Employment Minister if wished.

*Yours ever*  
*Stephen Nicklen*

STEPHEN NICKLEN  
Private Secretary



8 SEP 1983

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