

PREM 19 / 2259

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The future of Rolls Royce

INDUSTRIAL POLICY

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Part 1: July 1979

153 British Car Industry

Part 4: July 1987.

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3-10-88 ^{TPM}							
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*NBAM
RCC6*

Treasury Chambers, Parliament Street, SW1P 3AG *13/12*

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

12th December 1988

Dear David,

ROLLS-ROYCE: LAUNCH AID APPLICATION

- attach

I was most pleased to receive your letter of 1 December in which you conveyed your decision to reject the Rolls-Royce launch aid application. This is good news indeed. Not only does it remove a source of unwelcome pressure on expenditure totals over the Survey period but it also serves to undermine the presumption amongst major aerospace companies that launch aid is an automatic entitlement for all significant investments. It is therefore an important step in moving these companies away from their all too evident tendency to look to Government to solve their problems.

On the request for modification in the levy arrangements for other Rolls-Royce engines our officials will be jointly considering the formal arguments which the company have now submitted to your department. As you say, we would need to bear in mind the read across with the British Aerospace situation. We would clearly not want to do anything which would seriously prejudice our position viz-a-viz BAe's request for further assistance for Airbus, particularly given the beneficial impact on the company of the Royal Ordnance Factories and Rover Group acquisitions.

I am copying this letter to the Prime Minister and to George Younger.

*Yours Ever,
John*

JOHN MAJOR

dti

cc PLU

the department for Enterprise

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE - MARKET SENSITIVE

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

BA

Department of
Trade and Industry

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Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422

Our ref PS3BRZ

Your ref

Date 1 December 1988

Pine Minister

You will wish to note.

PLU 6

1/12 Noted
ms

John

ROLLS-ROYCE : LAUNCH AID APPLICATION

I last wrote to you on this subject on 1 November when I agreed that my officials would do an early assessment of the financial case that Francis Tombs had presented to me in his letter of 12 October. Your officials have now had a copy of this assessment. In short, this concluded that Rolls-Royce had failed to make out an additionality case.

When Sir Francis came to see me on 18 November to discuss their application I put it to him that the company would be able to fund the RB211 524J and 524L projects from their own resources and from contributions from risk-sharing partners and that the company would go ahead with the projects without launch aid. He did not seriously dispute this and has therefore accepted that launch aid will not be forthcoming.

I agreed with Sir Francis that we would consider with the company how best to present the decision so as to minimise any damage to the company and to the commercial prospects for the engines, in particular the discussions the company are currently having with additional risk-sharing partners and launch customers. He will discuss the situation with his Board on 15 December after which he and I will have a further meeting to agree how we should proceed. This points to an announcement around the turn of the year. One possibility is

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that his Board will decide to withdraw its application. That may well be the best approach. I shall let you know the outcome of my further discussions with Sir Francis.

Sir Francis asked me whether in the absence of launch aid the Government might be able to help by looking favourably on concessions the company wanted on levy payments on existing engines. There are three separate requests involved, namely, termination of levy payments on certain engines for which launch aid was given before 1971 (the Dart, Avon, Conway, Tyne and Spey), suspension of levies on the large American Airlines order the company won this summer for the RB211-535E4 and waiver of levy payments (or a low levy rate) on the RB211 524G and 524H engines which will go into service soon on the Boeing 747 and 767 respectively. (We have not given launch aid to these last two engines but they are derivatives of engines previously supported).

I told Sir Francis that I would look at their requests, but without commitment. We have yet to see their formal arguments in support of these requests. My officials will be in touch with yours once they have been received. One point we shall need to bear in mind is any read across to the British Aerospace situation (and vice versa).

I am copying this letter to the Prime Minister and to George Younger.



IND POL: Rulls

Royce Pt 4





ccfu.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 26/16/1E

4th November 1988

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

*EDD
8/11*

Dear John.

ROLLS ROYCE HELICOPTER ENGINES

Thank you for your further letter of 19 October *Ap.* about the competition for an uprated engine for the EH101 helicopter.

I agree, entirely that, if the expected requirement for those engines is confirmed, Treasury approval will have to be sought. This has always been our position. However we have not yet reached that stage.

Both Rolls Royce/Turbomeca (RRTM) and General Electric (GE) are aware of the provisional nature of the selection that has been made. The commercial pressures between RRTM and GE will be maintained as they compete for other international contracts for engines in this power range.

If the requirement is confirmed, I recognise that your department will wish to examine all the options and all the information you will need for this will of course be provided.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

*Yours sincerely,
George*

George Younger

The Rt Hon John Major MP

IND POL: Rous Royce ATU.



dti

the department for Enterprise

CGP

CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon John Major MP
Chief Secretary
HM Treasury
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01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS1BSJ
Your ref
Date 1 November 1988

MBan to his store.

New job.

*Rec'd
2/11*

ROLLS-ROYCE LAUNCH AID APPLICATION

Thank you for your letter of 24 October.

I agree with you that the financial case that Francis Tombs has now presented in support of his launch aid application does look weak. I am asking my officials to do an early assessment of this aspect, following which we can come to a view on additionality.

Despite your clear views on this point, I do not think we can properly decide to turn down Rolls-Royce's application without advice from officials.

I am copying this letter to the Prime Minister and to George Younger.

Y. C. Younger

IND POL: Rows Rowa PT4.



CONFIDENTIAL



ce/pt
Prime Minister ²

RRc6

2/10

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1H 0ET

Note

NA made at below

DTI contact

RRc6

2/10

24 October 1988

Dear Secretary of State

ROLLS ROYCE LAUNCH AID APPLICATION

My officials have reported to me on the latest state of play on Rolls Royce's (RR) launch aid application, following receipt of some of the outstanding company financial information/forecasts for which we had set a deadline of 14 October.

Despite the shortcomings of the financial data which Sir Francis Tombs has provided, it does seem to me that the overall picture which now emerges from the existing technical and financial information points clearly to a quick Government decision to reject the launch aid application. Though there appears to be a rather marginal business case in financial terms there is no doubt that RR do intend to proceed with the RB211-524J/L programme. Not only did the company announce their intention to do so at the Farnborough Air Show but it has also now successfully negotiated the risk sharing involvement of a number of Japanese companies. Moreover, Rolls Royce admit that if they want to stay in the large civil aircraft engine market they really will have to invest in this programme.

At the company level RR's financial forecasts show a steady stream of profit with only a relatively small dip next year. More importantly, the forecast balance sheet shows a nil net borrowing and a rapidly growing pool of cash, increasing to £775 million by 1993. On top of this the group have also secured borrowing facilities of some £250 million. On their own forecasts, therefore, there really is no cash constraint on the company financing the project themselves.

The company's expressed unwillingness to finance the whole programme from private sector sources is, in essence, based on the possible impact on their share price, a position worsened by their accounting policy of writing off all R&D expenditure against

CONFIDENTIAL

This is a very good thing to do. Had that policy been followed in the early 1970's - money could have avoided bankruptcy

profits immediately. I am sure you will agree that it is not the Government's job to underwrite RR's share price. And the choice of accounting policy is entirely a matter for RR - though that should not affect the commercial decision on whether or not to proceed with the programme. It would, I understand, be more normal practice to carry development expenditure forward in the balance sheet and then write it off in future accounting periods when the project is generating profits (a policy followed, for example, by BAe). This would ameliorate the immediate impact on profit (and therefore the share price) though it would not affect the overall profitability of the programme.

Finally, there do not appear to be any special or exceptional wider economic benefits from this engine programme (eg technology transfer) which are not reflected in the prices charged by RR's suppliers. And there is no strong strategic argument for supporting the programme. UK airlines would still benefit from fierce competition between the two major US engine manufacturers.

Against this background there does seem to me to be a very strong case for moving now to reject the company's application. The company have been given a very fair chance to make their case and have singularly failed to do so. I do not believe the continued interchange and elaboration between the company and officials is justified. After all it is not the Government's job to make the company's case for them. I would therefore propose that MoD and DTI officials finalise a technical and financial appraisal immediately on the basis of the existing information in order to underpin a decision to reject the application. I would hope you can agree to this approach so that we can tell Sir Francis Tombs very quickly that the company will not be receiving any financial assistance from Government for the RB211-524J/L programme.

I am copying this letter to the Prime Minister and to George Younger.

Yours sincerely

John Major

JOHN MAJOR

*(approved by the Chief Secretary
and signed in his absence)*



cc PA



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

19th October 1988

Dear George,

*COO
14/K*

ROLLS ROYCE HELICOPTER ENGINES

Thank you for your letter of 7 October.

I hope it has been made clear to General Electric, as well as to Rolls Royce, that you are not irrevocably committed to the Rolls Royce/Turbomeca engine. If the competitive pressures are to be maintained, General Electric need to know they still have a real chance of securing any eventual contract.

It was entirely appropriate to seek Treasury approval for the announcement. If a requirement for these engines does emerge, the expenditure involved (some £450 million) is of a size which requires Treasury approval. In such cases the Treasury must be in a position to examine the full range of options. In the context of Chieftain replacement, the Prime Minister has sought to avoid the foreclosure of options ahead of inter-departmental discussions.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

*Yours Ever,
John*

JOHN MAJOR

IND POC: Rodus Royce pt 4.





cc/PC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 26/16/1L

TELEPHONE 01-218 9000

DIRECT DIALING 01-218 2111/3

7th October 1988

*CD?
10/12.*

Dear John,

ROLLS-ROYCE HELICOPTER ENGINES

Thank you for your letter of 28th ^{*with CD?*} September.

As David Trefgarne explained in his letter to you of 9th September, we have entered into no commitment to buy an uprated engine for the EH101 helicopter, nor are we committed irrevocably to Rolls-Royce/Turbomeca should there be a requirement for a more powerful engine. This was made clear in our press release, and as there was no financial commitment involved, there was no case for seeking your approval to the announcement being made; we told your officials about it beforehand as a courtesy.

The fact that there had been a competition for an uprated engine for the EH101 helicopter was widely known in industry, and it was important to Rolls-Royce that the outcome be revealed if their prospects of success in a very competitive international market were not to be damaged. Our announcement was designed to help this reasonable national interest without making any commitment on our part to buy.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

Yours ver.

George

George Younger

The Rt Hon John Major MP

PRIME MINISTER

file from
NO FLOAT

ROLLS ROYCE HELICOPTER ENGINES

The Policy Unit (note attached) want you to intervene in a dispute between the Treasury and the MOD about helicopter engines. Their note sets out the Treasury case.

There are many issues on which the MOD need to be bashed. But I advise against your leaping into this one. There were in fact good reasons for the MOD's press release, namely to help Rolls-Royce in a crucial export battle against their American General Electric rivals. But the MOD have explicitly acknowledged that they do not themselves have a requirement at this stage for the particular engines, that there are no contractual obligations and no commitment of funds. For you to weigh in on this issue would be interpreted as a slap in the face for our defence sales drive overseas.

C. D. POWELL

3 October 1988

PM3ACG

dti

the department for Enterprise

ccpu

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon J Major MP
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MBM

REC

16/9

Direct line 215 5422
Our ref LQ4AJB
Your ref
Date 15 September 1988

[Handwritten signature]

below

ROLLS-ROYCE: APPLICATION FOR LAUNCH AID

Thank you for your letter of 8 September in which you suggest that I should turn down Rolls-Royce's launch aid application after recent press reports that they intend to go ahead with the development of the RB211 524L engine regardless of whether they receive launch aid from the Government.

I know that you have serious doubts about Rolls-Royce being able to demonstrate an additionality case and certainly the material they have presented so far has been deficient on this point. However the assessment by officials of their application has some way to go yet and the company may still put forward cogent arguments for us to consider. I agree that the remark that Sir Ralph Robins made at the Farnborough Air Show appeared pretty damaging to their case, but I am prepared to accept the company's explanation that Sir Ralph had little alternative but to give an upbeat answer to a direct question about their commitment to the launch of the 524L engine. One of their main competitors, General Electric, had just announced the launch of their equivalent large engine. I do not believe we can reasonably turn down a major application such as this on the basis of a single remark to the press.

The question of additionality is one of the central issues that officials will be addressing. We have left the company in no doubt that unless they can come forward with something

dti

the department for Enterprise

more than generalised arguments about the unattractiveness of alternatives to launch aid we shall have no proper case to consider.

I am copying this letter to the Prime Minister and George Younger.

*Y. L.
New*



cc PA

Prime Minister

RCO
9/9

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

RA

8 September 1988

mb

Dear Secretary of State,

ROLLS-ROYCE: APPLICATION FOR LAUNCH AID

I note from recent press reports that Rolls-Royce have said that they intend to go ahead with development of the RB-211 524 J and L engines whether or not the company receives launch aid from the Government. Like you no doubt, I do not find this very surprising given the advantageous gearing terms on which Rolls-Royce were privatised.

When I wrote to Kenneth Clarke on 25 July on this matter, I emphasised my doubts about this form of support for Rolls-Royce as well as my hopes that the issue would be resolved within this year's Survey. Your reply dated 3 August suggested that a quick resolution was probably not feasible.

However, this has now changed with the recent announcement by the company that they will go ahead without launch aid. This means that the projects have nil additionality for HMG and is, of course, a very strong prima facie reason for refusing launch aid and the announcement provides an ideal opportunity to dispose of the application quickly. It seems prudent therefore, to write to the Chairman of Rolls-Royce, Sir Francis Tombs, saying that since Rolls-Royce intend the projects to go ahead without launch aid there can be no case for Government funding so you are minded to turn down the application. This will ensure that the projects are funded by the company, in accordance with Government policy on near market, single company R&D programmes.

I am sending copies of this letter to the Prime Minister and to George Younger.

Yours sincerely,
P. Warless

PP JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]



ROLLS-ROYCE plc
65 Buckingham Gate, London SW1E 6AT
Telephone: 01-222 9020, Telex: 918091

Chairman's Office

30th October 1987

The Rt. Hon. Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW1A 2AA

Dear Prime Minister,

Thank you for your letter of 27th October and for your support in writing to Mr. Nakasone.

We were naturally very disappointed not to win the JAL contract. Our information is that we came first on all economic and technical evaluations and that we lost the contract on Japanese/political grounds.

Nevertheless, as you say, there is no doubt that we made a significant impression and I hope that this may bear fruit during the coming months.

Yours sincerely,

Francis Tombs

Sir Francis Tombs

CF

~~C.C. DIT
FCO~~

CDP
2/X.

RQ

PPS.

Ind Policy

Rolls Royce



QF: for you



de UP

C. P. Co
CR

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 October 1987

Dear Sir Francis,

Thank you for your letter of 9 October in which you asked if I would write to Mr. Nakasone along the lines of the draft that you provided. I was very pleased to do so and the message was duly delivered to Mr. Nakasone by the Embassy in Tokyo.

I was very disappointed to hear subsequently that JAL had awarded the contract to General Electric. I understand however that your effort and commitment was such that it greatly impressed not only JAL but wider aerospace circles and also MITI. I do hope that the favourable impression that you created will put you in a good position to secure future JAL orders which I believe are likely in 1988/89.

Yours sincerely

Rajiv Gandhi

Sir Francis Tombs.

R



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

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(Switchboard) 01-215 7877

*From the Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry*

THE RT HON KENNETH CLARKE QC MP

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

26 October 1987

Dear Charles

Thank you for your letter of 9 October to Timothy Walker enclosing one from Sir Francis Tombs about the purchase by JAL of Rolls-Royce aero-engines.

You are probably aware that the Prime Minister agreed to send the message proposed by Sir Francis, and this was delivered by the Embassy in Tokyo to Mr Nakasone the week before last. We have subsequently learnt however that JAL has awarded the contract to General Electric. A copy of the reporting telegram from Tokyo is enclosed. I also enclose a draft reply for the Prime Minister to send to Sir Francis Tombs.

A copy of this letter and attachments goes to Robert Culshaw (Foreign and Commonwealth Office).

Yours sincerely

Julian Farrel

JULIAN FARREL
PRIVATE SECRETARY

OC7AAZ

DRAFT REPLY FOR THE PRIME MINISTER'S SIGNATURE TO:

Sir Francis Tombs
Chairman
Rolls-Royce plc
65 Buckingham Gate
LONDON
SW1E 6AT

LD5 AJ4

Thank you for your letter of 9 October in which you asked if I would write to Mr Nakasone along the lines of the draft that you provided. I was very pleased to do so and the message was duly delivered to Mr Nakasone by the Embassy in Tokyo.

I was very disappointed to hear subsequently that JAL had awarded the contract to General Electric. I understand however that your effort and commitment was such that it greatly impressed not only JAL but wider aerospace circles and also MITI. I do hope that the favourable impression that you created will put you in a good position to secure future JAL orders which I believe are likely in 1988/89.

com.

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ADVANCE COPY

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and Faint
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RESTRICTED
FM TOKYO
TO IMMEDIATE FCO
TELNO 830
OF 220857Z OCT 87
AND TO AIR DIVISION DTI

ROLLS-ROYCE/JAL

1. JAL INFORMED ROLLS-ROYCE OFFICIALLY YESTERDAY THAT THE CONTRACT FOR THE ENGINES FOR THE 747-400 HAD GONE TO GENERAL ELECTRIC (THE CFB-80C2). MITI HAVE EXPRESSED THEIR REGRET TO ROLLS-ROYCE AND HAVE ENCOURAGED THEM TO MAINTAIN THEIR EFFORT HERE. BEETHAM, MAED, IS AWARE THAT THE MFA OFFICIALLY INFORMED US OF THE NEWS LATE YESTERDAY EVENING.

2. ROLLS-ROYCE GO CLOSE TO WINNING THIS ORDER. THE LEVEL OF THEIR COMMITMENT TO THE CAMPAIGN HAS GREATLY IMPRESSED NOT ONLY JAL BUT AEROSPACE CIRCLES HERE GENERALLY, AND ALSO MITI. IT IS, MOREOVER, ENCOURAGING THAT ROLLS-ROYCE HERE, DESPITE THEIR DEEP DISAPPOINTMENT, REALISE THAT THEY HAVE CREATED A STRONGLY FAVOURABLE IMPRESSION AND MAY HAVE PUT THEMSELVES IN A GOOD POSITION TO WIN FUTURE ORDERS (E.G. FOR MD11S WHICH ARE LIKELY TO BE ORDERED BY JAL IN 1988/89 I HOPE THAT THE ROLLS-ROYCE BOARD WILL TAKE A LONG TERM VIEW OF THE PROSPECTS IN THIS MARKET.

3. THE ACTUAL REASONS LYING BEHIND JAL'S FINAL DECISION WILL DOUBTLESS BE DEBATED FOR A LONG TIME. THE GE ENGINE HAS BEEN IN SERVICE WITH ANA FOR SOME TIME NOW AND HAS AN EXCELLENT RECORD. ALTHOUGH ROLLS ROYCE BELIEVE THAT GE'S FINAL OFFER WAS NOT AS COMPETITIVE ON PRICE AND FUEL EFFICIENCY AS THEIRS, JAL MAY HAVE BEEN ATTRACTED BY THE GE ENGINE BECAUSE IT IS TECHNICALLY TWO-SHAFT AND THEREFORE NEARER IN CONCEPT TO THE PRATT ENGINES ALREADY IN USE BY THE AIRLINE. ROLLS ROYCE WERE UNFORTUNATE THAT THE JAL CHIEF ENGINEER, WHO MIGHT HAVE SUPPORTED THEIR CASE IN THE CRUCIAL FINAL EVALUATION MEETINGS, WAS HOSPITALISED OVER THIS PERIOD.

4. ROLLS-ROYCE DO NOT BELIEVE THAT THE CURRENT PROBLEMS THEY ARE FACING WITH THE V2500 DID ANY SUBSTANTIAL DAMAGE TO THEIR CHANCES. IT APPARENTLY DID NOT EMERGE AS AN ISSUE.

WHITEHEAD

.....
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1 w/o

+ 15 w



Sir Francis Tombs

23/10



OSR

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

A/ 9 October 1987

I enclose a copy of a letter to the Prime Minister from Sir Francis Tombs inviting her to write to Mr. Nakasone about the purchase by JAL of Rolls Royce engines, and suggesting a draft. I should be grateful for advice on whether it would be appropriate for the Prime Minister to write in the terms of Sir Francis' draft.

I am copying this letter and its enclosure to Robert Culshaw (Foreign and Commonwealth Office).

Charles Powell

Tim Walker, Esq.,
Department of Trade and Industry

OSR



R9.10

ROLLS-ROYCE plc
65 Buckingham Gate, London SW1E 6AT
Telephone: 01-222 9020, Telex: 918091

Chairman's Office

The Rt. Hon. Margaret Thatcher, MP.,
The Prime Minister,
10, Downing Street,
London, SW1A 2AA.

9th October, 1987

Dear Prime Minister,

I would be grateful if you could agree to send a letter along the lines of the attached draft to Mr Nakasone.

The opportunity presented by the present JAL situation is an exciting one which will have a tremendously beneficial effect on our world situation.

At the present Pratt & Whitney are the exclusive suppliers to JAL and provide powerful opposition, so that our chance of success is probably somewhat below 50%.

However, we know that we have made a favourable impact at the technological and commercial levels.

I am sure that a personal letter from you to Mr Nakasone would be of the greatest help and I hope that, among all your current pressures, you could manage to do so.

The assessment committee of the airline is to meet next Wednesday, 14th October, and so an early approach would be necessary.

Yours sincerely,

Sir Francis Tombs

Sir Francis Tombs

Attachment.

DRAFT LETTER TO MR NAKASONE - JAL

You may know that RR have offered their RB211-524G engine already ordered by Cathay Pacific, British Airways and Qantas for their Boeing 747-400 fleets, to JAL for their current requirement for that airplane.

Rolls-Royce was privatised in May of this year after a steady improvement in profitability over the past few years. The share issue was heavily oversubscribed and evoked a great deal of interest from overseas investors, especially in Japan.

I know that JAL are carrying out a careful and exhaustive evaluation of the competing engine bids and it would be tremendously good news for the UK if RR are successful.

MR. POWELL *COB 10/7x*

Mr. David Mitchell of Rolls Royce wished to feed in the thought that whereas until a few days ago Rolls Royce were a firm number 3 in attempting to get a contract for providing engines for MAS, he felt that they had now progressed to joint first.

I hereby feed this thought in.

A

P. A. Bearpark

9 October 1987



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

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

Secretary of State for Trade and Industry

PS/

10 July 1987

Charles Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1A 2AA

*Prime Minister
To be aware*

*CDP
12/7*

Dear Charles

My Secretary of State has received a letter from Sir David Plastow, Chairman and Chief Executive of Vickers, about Rolls-Royce Motors liability to the US gas guzzler tax as a result of an amendment made in last year's US Tax Reform Act. The tax (\$3,850 per car) will apply retrospectively and the company estimates that the total bill for retroactive taxation will be of the order of £6m and likely future tax payments will amount to about £4.2m per annum. US producers of stretched limousines and luxury station wagons have secured exemption from the provisions of the new legislation. Sir David has asked if the Prime Minister will raise the issue on her visit to Washington.

The company, the British Ambassador in Washington, and Lord Young's predecessor have all made representations. Secretary Baker has acknowledged that there is an element of unfairness about the retroactive impact of the legislation and promised Treasury support if Rolls-Royce will find a Congressman to table an amendment. He is not however ready to exempt Rolls-Royce from future tax payments by acceding to the company's request that it should be designated a small manufacturer.

Lord Young does not wish to recommend that the Prime Minister raises the matter formally with the US authorities. He would however like the Prime Minister to be aware of Secretary Baker's involvement in the case and that he will personally be taking a close interest in the efforts being made to secure relief for Rolls-Royce from the full effects of the current legislation.

I am copying this letter to Alex Allen in the Chancellor of the Exchequer's office.

*Yours
Paul*

JF4AYH

PAUL STEEPLES
Private Secretary

PART 3 ends:-

DTi to Ch Ex : Rolls Royce Privatisation
7 May 87

PART 4 begins:-

DTi to Ch Ex 10 July 87



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