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From the Minister of State for Industry

NORMAN LAMONT MP

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

Prime Minister^②
To note that V2500
launch aid has been
agreed at £60 million
and announced

AT 17/5.

17 May 1984

Dear Peter

ROLLS-ROYCE: V2500 LAUNCH AID

This is to note for the record the basis of the decision on launch aid for the V2500.

At the meeting of E(A) on 2 February 1984, Norman Tebbit was authorised to negotiate launch aid for the V2500 project with the Chairman of Rolls-Royce, in consultation with the Treasury and up to a maximum of £60 million. Following a number of meetings, culminating in one on 1 May between the Prime Minister and Sir William Duncan, agreement was reached on a basis which was, I understand, acceptable to you for launch aid of £60 million (cash), spread as follows:

| | | |
|------------|------------|------------|
| FY 1984/85 | FY 1985/86 | FY 1986/87 |
| £10M | £25M | £25M |

This aid, representing approximately $\frac{1}{4}$ of the company's development costs, will be repayable by a 3% levy on both engines and spares. On the basis of the Rolls-Royce market forecast of 3000 engines sold over the period to 2009 (with spares sales continuing to 2018), this will yield a 5% real rate of return. Since our own estimates indicate a significantly higher number of sales than the company's forecast, HMG actually stands to achieve a rate of return well in excess of 5%.



I attach a copy of the written answer announcing the launch aid. It does not include details of the arrangements, which will remain commercially confidential.

The question of PES treatment will be pursued separately.

I am copying this letter to the Prime Minister, the other members of E(A), and Sir Robert Armstrong.

*Yours
Norman*

NORMAN LAMONT