

6 May 1982

CABINET

DEFENCE AND OVERSEAS POLICY (OFFICIAL) COMMITTEE
SUB COMMITTEE ON THE SOUTH ATLANTIC AND THE FALKLAND ISLANDS

ROLLS ROYCE AND EXPORTS TO SOUTH AMERICA

Note by the Department of Industry

The Department has had a number of recent contacts with Rolls Royce Ltd, which included discussions between the Secretary of State for Industry and Lord McFadzean, Chairman of Rolls Royce, on 15 April, about problems which could arise over the Company's trade with Argentina.

There are 2 main problems facing Rolls Royce:-

- (i) The position of their Brazilian subsidiary, Motores Rolls Royce; and
- (ii) Sales of spares (both military and civil) to third countries in South America.

(i) Motores Rolls Royce (MRR)

MRR serves the whole South American market for civil engine spares and overhauls. Spares are consigned to Brazil in bulk and placed in bond, not earmarked for particular South American customers. MRR draw on those supplies as necessary. Rolls Royce have been asked to do all they can to avoid MRR from trading with Argentina, including not returning engines now completing overhaul, but they have pointed out that such action could be challenged in the Brazilian Courts or by the Brazilian authorities.

Our advice to Rolls Royce, which has been agreed inter-Departmentally, is that they should take all possible steps legally open to them to safeguard the integrity of the Government's ban on exports to Argentina. We have however made it clear that this is not to be regarded as an instruction to take action in

Brazil which, in the judgement of their lawyers, would be likely to be deemed illegal there. We have told Rolls Royce that we are confident that they will readily appreciate the national interest in not assisting Argentine military capabilities and that their personnel will use all possible means to defer difficult decisions and avoid legal issues coming to the surface.

A further consideration is the possibility that the Brazilian Authorities might attempt to exercise control over the contents of Rolls Royce's bonded warehouse. The only further action that could be taken in that respect would be to prohibit the Company from delivering any more spares to Brazil. However this would risk grounding the airlines of other South American countries and is therefore not recommended.

(ii) Sales to Third Countries in South America

We have told Rolls Royce that we are content with the way in which they propose to handle sales of spares to third countries in so far as civil spares are concerned. However, in the case of all orders from third countries in South America for spares for types of military aircraft operated by Argentina, we have asked Rolls Royce to obtain a declaration that the spares are for the customers' own use.

Rolls Royce have been asked to let us know immediately of any developments which seem likely to give rise to difficulty.