

Written evidence submitted by Rolls Royce plc (AAS0022)

About Rolls-Royce

Rolls-Royce pioneers cutting-edge technologies that deliver clean, safe and competitive solutions to meet our planet's vital power needs. We are a significant contributor to the UK economy, with our activities prior to COVID-19 representing 0.6% of UK GDP, or £12.1bn across our Civil Aerospace, Defence and Power Systems businesses. We support a global network of 28 University Technology Centres, which position Rolls-Royce engineers at the forefront of scientific research. We are the UK's largest Civil Aerospace company and one of only two global companies able to design and manufacture aerospace engines for wide bodied aircraft and so remain a beacon for UK engineering capability. Rolls-Royce is important to the UK and the UK is incredibly important in our global operations with more than 20,000 employees here and over 90% of our UK people employed outside of London and the South East.

Our business model in Civil Aerospace is intrinsically linked to the fortunes of our airline customers and partners across the aviation industry. Our revenues are derived through charging customers for our large engine flying hours and for services for our installed engines, and engine sales. Rolls-Royce therefore welcomes the opportunity to contribute to this important inquiry and this submission underscores the critical importance of the recovery of UK and international aviation activity to Rolls-Royce's Civil Aerospace business.

The effects of the coronavirus pandemic on Rolls-Royce and UK aerospace

The impact of COVID-19 on Rolls-Royce and the aerospace and aviation industry is unprecedented. Driven in large part by a significant revenue impact within our Civil Aerospace business, we reported an underlying loss before tax of £4.0bn at our full-year 2020 financial results. The impact of COVID-19 on international travel significantly altered the near and medium-term outlook for our business, particularly in Civil Aerospace. This led to the largest restructuring in the history of Rolls-Royce, including the removal of at least 9,000 roles globally.

Our Civil Aerospace revenues decreased by 37% in 2020 and a further 13% in H1 2021. Production cuts from airframer customers resulted in substantially

fewer large engine deliveries in 2020, and maintenance revenues were also significantly impacted. COVID has therefore resulted in a lasting revenue impact in almost every area of our Civil Aerospace business, which can only be addressed through a meaningful recovery of the aviation sector.

Longer term, the aerospace sector is anticipated to suffer a 'long-covid' effect with recovery forecasted to take 4-5 years which will make aerospace one of the last sectors to fully recover from this pandemic. The UK Government's Aviation Growth Plan is therefore of vital importance to both aviation and aerospace to map out the longer term strategy to enable aviation to fully recover on a global scale and the support mechanisms that will be put in place to ensure our sector prevails. We look forward to contributing to it and its publication later this year.

Whilst near-term recovery will be linked to government policy and consumer confidence, longer term recovery is linked to global economic recovery/GDP and the open borders of countries seen pre-COVID-19. The UK's continued support to the UN COVAX programme is also a vital element to aid the roll-out of vaccines to slower to vaccinate countries and to enable global economic recovery and in turn the recovery of the aerospace sector.

How Governments support the aviation sector

Aviation recovery in the near-term will be enabled through a combination of the following in all countries:

1. **Vaccination** of the domestic population
2. **Rapid Testing** which is cost-effective and easily accessible for travel purposes
3. **International Standards and Reciprocity** for Covid entry requirements
4. **Public Confidence** that aviation is a Covid-secure means of travel and travel plans are stable

These pillars for recovery will be made possible by government policy in the UK and across the world and therefore government support to enable international travel is the single most influential factor in the recovery of our civil aerospace business.

Currently no international standards exist for Covid entry requirements such as testing or vaccine recognition, which slows the pace of recovery and requires political leadership to reverse. There is an opportunity for the UK Government to fill the global political leadership vacuum on aviation recovery. The UK is in a unique place to lead the world on this topic given the status of the UK's accelerated vaccine roll-out programme; global strength of our aviation and aerospace industries; and the UK's focus on international engagement and forging new trading relationships.

Re-establishing global connectivity to support the Government's Global Britain agenda

Rolls-Royce is part of Global Britain, with over 80% of what we produce in the UK for the export market and as we are responsible for 2% of the UK's goods exports (3 year average), we are critical to the UK's overseas trade. Recovery of aviation and ergo our aerospace sector is therefore a key element to support the Global Britain agenda.

Re-establishing global connectivity is also a vital for Rolls-Royce and a number of our UK airline customers. Long haul travel is of most importance to our recovery but is also forecast to lag short haul recovery by approximately 1 year, with recovery to 2019 flying not expected before 2024.

We are encouraged and welcome the recent announcements to re-open transatlantic travel, and for the recent removal of numerous countries from the UK 'red list'. However, for a meaningful recovery of the long-haul market reciprocity of entry requirements is required with other nations. Thus, to further aid recovery of the long haul travel market, our recommendation is that the UK government focus on international engagement with the following nations as a priority to negotiate reciprocity of travel entry requirements in lieu of international standards being agreed:

- USA
- UAE
- Singapore
- China (China mainland and Hong Kong)
- South Africa
- Canada
- South Korea

- India
- Malaysia

The role of Rolls-Royce in realising the UK Government's Net Zero Ambition

Rolls-Royce has a wide and deep strategic partnership with UK Government, working together to help the UK develop new low-carbon technologies, improve manufacturing production, support supply chain development, and partner with the UK's world class universities to generate wealth and prosperity for the country across our civil aerospace, defence and power systems businesses. Annual underlying revenue was £11.76 billion in 2020 and £1.25 billion was invested in research and development, a substantial proportion of which is in the UK. Facilitation of a rapid aviation and aerospace recovery is therefore directly linked to the realisation of the UK's net zero ambition.

We have pledged to achieve net zero greenhouse gas emissions in our operations by 2030. We joined the UN Race to Zero campaign last year and in our June 2021 pathway to net zero by 2050 report, committed to ensuring our new products will be compatible with net zero operation by 2030, and that all products will be compatible with net zero by 2050.

We are at the forefront of cutting-edge technological innovations which have been driving sustainability and efficiency improvements across the aviation sector for many decades. We have over 12,000 in-service civil engines currently powering aircraft across the globe and we continue to improve engine efficiency and environmental performance, as well as pioneering new low and zero carbon technologies and sustainable solutions such as electrical and hybrid electric propulsion systems. Also, for all the commercial aero engines we produce, we have pledged to demonstrate compatibility with sustainable fuels by 2023.

Rolls-Royce sits at the centre of the UK's aviation and aerospace ecosystem and is at the centre of the Jet Zero and innovation landscape. The sustained recovery of the aviation and aerospace sectors is a fundamental prerequisite to continuing to pioneer the vital solutions we need to create a net zero future.

Summary

There is an opportunity for the UK Government to fill the global political leadership vacuum on aviation recovery. The UK is in a unique place to lead the world on this topic given the status of the UK's accelerated vaccine roll-out programme; global strength of our aviation and aerospace industries; and the UK's focus on international engagement and forging new trading relationships. We are a global business underpinned by economic roots in the UK, we therefore need a globally coordinated aviation recovery.

We hope the Government grasps the opportunity for global leadership on this issue and that the Aviation Growth Plan takes into account the intrinsic link to aerospace recovery and ergo realisation of the Government's Net Zero ambition. The Aviation Growth Plan needs to include aerospace sector and not just the UK's aviation sector – our fortunes are tied.

We are happy to provide any additional information about the commercial, industrial and people impacts and our recovery forecasts.

October 2021