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 Mr. Hoffman
 Mr. Hollings

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Prime Minister
 Paper for Misc 22
 on Thursday morning.

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 The future of Rolls Royce.

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PRIME MINISTER

FUTURE OF THE NATIONAL ENTERPRISE BOARD

1 We are discussing the future of the National Enterprise Board in MISC 22 on 15 November. I attach the paper summarizing the position but this is necessarily incomplete because we do not yet know what will happen at the meeting of the TUC Economic Committee on Wednesday morning. Jim Prior and I met David Bassett earlier today and he is unlikely to act precipitately tomorrow.

2 The present position is that we have secured the agreement of Sir Kenneth Keith to leave the Chairmanship of Rolls Royce early in the New Year and we have secured the agreement of Sir Frank McFadzean to replace him. We have not found a way of achieving our preferred solution for GEC to assist in sorting out Rolls Royce's production and finance problems. I have told the NEB Board that we intend to remove Rolls Royce from their jurisdiction as soon as we obtain the powers to arrange this. Our intention in this respect has now become public knowledge as has the intention of the NEB to resign en masse if we go ahead with our plan.

3 What is at issue in the present situation is, on the one hand, the possible repercussion on the NEDC of our going ahead with our proposals and, on the other, the certainty that we shall do considerable damage to our credibility over a range of issues if we are seen to back down in the face of the threat of the NEB to resign.

I am copying this minute to the other members of MISC 22, to Sir Robert Armstrong and to Sir Kenneth Berrill.

PEM

PP^{KJ}
 13 November 1979

Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

(approved by the Secretary of State and signed in his absence)

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THE FUTURE OF THE NATIONAL ENTERPRISE BOARD (NEB)

NOTE BY THE SECRETARY OF STATE FOR INDUSTRY

1 I referred in my paper (MISC(79)1) to the risk of resignations from the Board of the NEB in dealing with the Rolls Royce (RR) issue. The Board of the NEB have now made clear their intention to resign if the Government proceed with their proposal to remove RR from NEB ownership.

2 The Chairman of the NEB has been active in seeking support for his position and the General Secretary of the TUC has advised us that there is pressure from present and past trade union members of the NEB for the TUC to withdraw from cooperation in the National Economic Development Council and the various Economic Development Committees.

Evaluation of the NEB Position

3 The NEB recognise that, if RR is withdrawn from its ownership, the Board of the British Leyland (BL) will press very hard for the same treatment. They may also recognise that, if a choice has to be made between the loss of the BL Board and that of the NEB on this issue, I would have to choose in favour of the BL Board.

4 While some of the industrial members of the NEB Board appear ready to exert a restraining influence on Sir Leslie Murphy in his public criticisms of RR and complaints about lack of Government support over the last year, they will feel an obligation to resign with him.

The Position of British Leyland

5 In logic BL should not be part of the NEB; a company of its size needs a board of the highest calibre and such a board will not accept the supervision of another external board of businessmen. We are fortunate in the case of BL in having a board of the necessary calibre and I am advised that there had been strong pressure from within its membership for a direct relationship with the Department

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well before we took our decision on RR.

6 I shall nevertheless seek, in the interests of compromise, to persuade the board of BL when I meet them later today to accept continuation of the NEB shareholding on the grounds that the special considerations for a direct Government shareholding in RR do not apply in their case. It must be expected, however, that they will press their case hard and I consider it essential to retain the services of this board.

A New Chairman for Rolls Royce

7 Sir Frank McFadzean remains willing to accept the Chairmanship of Rolls Royce but is strongly resistant to any compromise with the NEB. He had independently, as a member of the board of RR during recent weeks, reached the conclusion that the relationship with the NEB was wrong, and he shares Sir Kenneth Keith's appraisal of the Chairmanship of the NEB.

Possible Compromises

8 I have reviewed several possible compromises:-

- a. arrangements for the NEB to retain a shareholding in RR carrying special rights;
- b. leaving RR in the NEB but with Sir Frank McFadzean taking the chairmanship of the NEB when Sir Leslie Murphy retires as well as the chairmanship of RR;
- c. a range of possible devices for deferring a decision pending a review and in the meantime insulating the present Chairman of the NEB as far as possible from the affairs of RR and BL.

9 It is hard to see how the first of these could be formulated in a way that would be acceptable both to the NEB and to Sir Frank McFadzean. The second would overload Sir Frank McFadzean; the problems of RR are so great they need his undivided attention. While at an earlier stage he himself raised the possibility of the dual role, this was on the assumption that Sir Leslie Murphy would

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leave the NEB quickly, a possibility we must discount. The third range of possibilities all suffer from the disadvantages of continuing a running sore and of distracting the top managements of RR and BL from their central task of improving the performance of their companies.

10 Moreover, face-saving compromises of this kind would be seen as a surrender by the Government to the pressures that the NEB had been able to bring to bear on them and there would be no offsetting benefit to public funds through improved management of RR or BL.

The Costs of Proceeding as Proposed

11 If we proceed and in consequence the NEB board resign, the risks we run are:

- a attacks by the ex-Chairman of the NEB on RR management and on the previous and present holders of my office for not dismissing Sir Kenneth Keith;
- b the possible loss of TUC involvement in the NEDC and its Committees;
- c conceivably, some worker reaction in RR or BL.

12 The first could be damaging to the business of RR and could be pursued with bitterness. The personality element in the criticisms would make the issues of particular interest to the press and the PAC (or some other Parliamentary Committee) might mount a detailed investigation extending over a considerable period. But part of the damage has already been done. Moreover Sir Leslie Murphy will bring upon himself much criticism too.

13 We can help the General Secretary of the TUC by deferring a decision until after the meeting of the TUC Economic Committee on 14 November, by making clear that any arrangements for the management of RR and BL shareholding have no relevance to the issue of returning the companies to the private sector, and by making clear that our

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decision is not based upon judgements on the competence of the NEB. Withdrawal of the TUC from NEDC activity would be seen as disproportionate to the magnitude of the issue.

14 While the NEB has made warning noises about worker ~~reaction~~ in RR and BL, the managements of both companies discount the likelihood of any significant worker opposition to the removal of their companies from the NEB. If the trades union movement were, however, to make this a major issue, the risk of strong worker opposition is obviously increased. Even so RR do not foresee significant strike action and I shall be taking further soundings of BL.

Conclusion

15 I am myself strongly opposed to conceding to the pressures being placed upon us by the NEB Board but I suggest we take a final decision at our meeting following a final assessment of the TUC implications of a decision to proceed.

KJ

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