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Mr Whitmore
Mr Wolfson
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10 DOWNING STREET

From the Private Secretary

7 November 1979

Rolls Royce

Sir Kenneth Keith called on the Prime Minister, along with your Secretary of State, at 1745 hours yesterday.

Sir Kenneth said that he had met the Secretary of State that morning to discuss the future chairmanship of Rolls Royce. He himself had come to the conclusion that it was time to retire from the chairmanship. He had successfully built up the company so that it now had a strong order book and an impressive reputation throughout the world. But major problems remained to be solved concerning production and cost control. He had never claimed to be strong on production management, and the problems of the company had been exacerbated by the failure to recruit a strong production executive. Various attempts to attract a top man with an engineering background had failed. There was no doubt, in his view, that the first priority for a new chairman was to find a suitable candidate for chief executive. As regards his own successor, he was very content with the proposal that Sir Frank McFadzean should become chairman; he envisaged handing over on 1 January 1980. It would be important to explain to Rolls Royce's customers in the USA, particularly Boeing, the circumstances of the hand-over; but he had no doubt that they would be impressed with the choice of Sir Frank. Sir Kenneth then voiced his criticisms of the NEB, and welcomed the proposal that Rolls Royce should be removed from their responsibility and made responsible directly to the Secretary of State. He was most anxious that his departure from the company should not appear as a victory for the NEB.

/ Sir Kenneth

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Sir Kenneth went on to make two further points. Firstly, he hoped that Rolls Royce would be allowed to sign an agreement with the Japanese to collaborate with the development of the RB432 engine. With this agreement, Rolls Royce should be able to secure a good position in the Far Eastern market; if the agreement did not go ahead, the Japanese would almost certainly enter into talks with General Electric. The cost of the development programme to Rolls Royce should not be great, and the commitment would be subject to review each year. Secondly, he hoped that the Government would make efforts to persuade the US Government to buy the Advanced Harrier. He had called on the US Deputy Secretary of Defence and the Secretary of the Navy when he had visited Washington recently, and they seemed keen to buy this aircraft. But the Administration would need pushing further, and he hoped that the Prime Minister would mention the matter to President Carter when she visited Washington in December.

The Prime Minister said that the Government were very grateful for all that Sir Kenneth had achieved as chairman. They accepted that, if Sir Kenneth wished to retire at the end of the year, he should do so. Out of recognition for his services, she intended to give a dinner for Sir Kenneth some time in the New Year. She noted the points which Sir Kenneth had made about the 432 engine and the Advanced Harrier, which he would no doubt discuss further with the Secretary of State, and also the point about the NEB.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Tony Battishill (H.M. Treasury), Brian Norbury (Ministry of Defence), Bill Burroughs (Department of Energy), Ian Fair (Department of Employment) and Martin Vile (Cabinet Office).

T. P. LANKESTER

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