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of Ind Pdr, Rolls Royce

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RECORD OF A MEETING IN THE PRIME MINISTER'S ROOM AT THE HOUSE OF COMMONS AT 2130 ON TUESDAY 23 OCTOBER 1979

Present:

Prime Minister	Sir Arnold Weinstock
Secretary of State for Industry	Sir Kenneth Bond
Secretary of State for Trade	Mr. Lewis
Mr. T. P. Lankester	

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The Nuclear Industry

The Prime Minister said that the Government had decided that there must be a major nuclear programme in the 1980s. Otherwise the country would be short of electricity in the 1990s. The Government had in mind a basic ordering programme of 1.5 gw a year from 1982. In addition, Ministers intended that the programme would go ahead using the PWR system; but this would depend upon the necessary safety clearances. The Three-Mile Island accident had caused doubt in some people's minds about the safety of the PWR; but she was sure that the public inquiry on the accident would demonstrate that the system as such was safe. The Government hoped that it would soon be possible to activate the Westinghouse licence so that the inquiry into the first PWR station could be got under way. But it would be unwise to move until the report on Three-Mile Island was completed. Even then, it would be difficult for the Government to make an announcement of a firm commitment to the PWR through the 1980s - since this would be seen as pre-judging the results of the inquiry. What she had said about the Government's intentions on the PWR should therefore be regarded as confidential. But she hoped that it would give GEC a greater feeling of assurance that the PWR would be the mainstream system in future.

The Prime Minister went on to say that the present set-up in the nuclear industry was clearly unsatisfactory, and this was reflected in its poor performance. She understood that GEC would like to relinquish its supervisory role. But she hoped that the company would be willing to play a full part in strengthening the

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management of NNC. If the nuclear programme was to be a success, the NNC must be put in a position so that it could take on full management responsibility for the programme - in contrast to the present position where the CEGB were playing the major role.

Sir Arnold Weinstock said that he welcomed the Prime Minister's remarks. He understood that a forthright commitment to the PWR was not possible until the Three-Mile Island report had been studied and until the inquiry on the first UK PWR station had been completed. But the Prime Minister's statement of the Government's general intention was nonetheless helpful. What was important to GEC was a commitment to the PWR system; they were less concerned about the precise rate of ordering. Only with such a commitment could they undertake the investment that was needed to create the industrial capability to build the PWR. In 1973 GEC planned on a new factory for building the PWR at a cost of only £12 million: the necessary investment now would be of the order of £30 million. The earlier plan had been based on collaboration with the French; the collaboration possibilities would have to be looked at again, taking into account the fact that GEC would probably need to look to the Japanese for the technology for building the pressure vessels.

Sir Arnold went on to say that the Government ought to be moving towards a commitment to a fast reactor as well. This was needed as a complement to the PWR thermal stations. The fast reactor would make use of the plutonium and depleted uranium from thermal reactors, and thereby do much to meet the objections of the environmentalists to the nuclear programme. International collaboration was also needed on nuclear policy in order to ensure that the problem of nuclear waste was satisfactorily dealt with. It was crucial that the safety aspects of nuclear policy should be properly presented: there were too many groups, many of them politically motivated, who were trying to undermine the system.

Against the background outlined by the Prime Minister, GEC would be very glad to do their best to improve the performance of NNC. Changing the share-holding structure and the Board of NNC was less important, in his view, than changing the relationship of the CEGB to NNC. The NNC, and GEC, would not be able to improve

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on the current situation unless a proper arms-length relationship were established between CEEB and NNC. GEC would use its best endeavours to provide management to NNC so that it could fulfil its proper function; once NNC's competence had been built up, GEC would like to give up their supervisory role.

Rolls Royce

Sir Keith Joseph said that Sir Arnold was familiar with the current problems which Rolls Royce were facing. In brief, the RB2-11 engine had had to be sold at a low price in order to break into the American market; this price had been denominated in dollars and the exchange rate assumptions had proved false; and this problem had been exacerbated by poor productivity and inadequate cost control by management. Sir Kenneth Keith had made an important contribution to the company as a salesman, but his performance as a manager - and he admitted this himself - had been far less successful. The Government were hoping that GEC would be willing to let Mr. Morgan become Chief Executive of Rolls Royce, with the possibility of GEC providing management assistance on a consultancy basis as well. The Government thought it would be best not to impose a GEC consultancy upon Rolls Royce immediately since this might lead to a mass resignation of the Rolls Royce Board. It would be better for Mr. Morgan to assess the company's needs first, and then persuade the Board that GEC management assistance would be helpful. The position of Sir Kenneth Keith would in any case cause problems, since it seemed unlikely that he and Mr. Morgan would be compatible. It might be possible to promote Sir Kenneth to the Presidency of the company after a few months; but again it would be necessary to move delicately if a confrontation with the Board, and with Sir Kenneth himself, was to be avoided. Such a confrontation would be bad for customer confidence. There was also the question of Rolls Royce's relationship with the NEB: the Government had it in mind to make the Department of Industry directly responsible for the company again.

Sir Keith went on to say that he understood that GEC were interested in purchasing Rolls' Industrial and Marine Division and also perhaps its nuclear interests. But Ministers had concluded that it would not be wise politically, nor would it be

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commercially beneficial to either company, if either of these acquisitions were to go ahead at a time when GEC were taking on management responsibilities for Rolls Royce. However, assuming GEC went along with the Government's proposals, the option of acquiring these two parts of the Rolls Royce business would remain open for some later stage.

The Prime Minister reiterated that it was important to maintain an arms-length relationship between GEC and Rolls Royce. She would also like to be sure that GEC were able to take on the proposed responsibility for Rolls Royce, as well as playing a bigger role in the nuclear industry.

Sir Arnold Weinstock replied that the Government were absolutely right to rule out the option of taking Rolls Royce out of the aero-engine business; although the company's performance had been very poor in terms of profitability, nonetheless it would be very unwise to throw away this technology. The question was: how to improve Rolls Royce's performance? He had no doubt that, with better management, its performance could be improved. GEC would be prepared to assist on the lines suggested by Sir Keith Joseph, and he did not foresee any difficulty in doing this as well as providing a greater management input to NNC. But he was sure that Mr. Morgan would not get on with Sir Kenneth Keith, and it was therefore essential to find an early exit for him - at least from management responsibilities. He had heard that Sir Kenneth had been offered the chairmanship of STC, and wondered whether this would not provide a satisfactory alternative to his remaining with Rolls Royce. Also, Morgan would not be able to achieve success on his own: he would need help from Stanhope Gate, though he (Sir Arnold) understood that it should be for Morgan to ask for this support rather than having it imposed by the Government.

He accepted that there would be a presentational problem if GEC were now to acquire any of Rolls' interests, and that an arms-length relationship between the two companies was needed. However, this difficulty might not have arisen if GEC had been able to proceed with its ideas for splitting its own business. For some time, he had been considering splitting GEC into smaller companies. For

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example, he would have liked to hive-off Schreiber/Hotpoint so as to make it stand on its own feet. Similarly, he had considered the idea of hiving-off GEC's power engineering business and merging it with Rolls Royce's power engineering sections. If this latter plan had been viable, the presentational difficulty of GEC acquiring parts of Rolls Royce - while also providing management - might not have arisen. However, the plans for splitting GEC were made impossible by current tax legislation, which meant that shareholders in the newly formed companies would be liable to capital gains and income tax when they exchanged GEC shares for shares in the new companies.

Sir Arnold made the following further points:

- (i) GEC were interested in other acquisitions from the public sector - particularly Cable and Wireless and British Aerospace.
- (ii) If GEC were to help Rolls Royce, they would not be prepared to tolerate the unfair competition which Rolls Royce were engaged in on the gas turbine side. They had set up a joint company with a US company, Coopers, and were tendering on a loss-making basis at GEC's expense. Similarly, GEC/Marconi were having difficulties with unfair competition on the electronics side from British Aerospace. He hoped that the Government would make sure that these unfair practices were stopped. (Sir Keith asked Sir Arnold to send him further information on them.)
- (iii) He begged the Government not to give unnecessary publicity to credit and other arrangements provided to GEC by departments. The French Government was much less public in the assistance with which it provided companies: he hoped their practice could be followed in the UK. The previous Government had too often caused problems for GEC by publicising the assistance which they had provided.

The Prime Minister said that she was very grateful to Sir Arnold and his colleagues for coming and for agreeing in essence with the

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Government's proposals in relation to both the nuclear industry and Rolls Royce. She noted the points which Sir Arnold had raised and asked that he should not take any action on Rolls Royce before either she or Sir Keith had first seen Sir Kenneth Keith. Sir Arnold readily agreed to this.

The meeting finished at 11.15 p.m.

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24 October 1979

Distribution: Private Secretaries to:

The Foreign and Commonwealth Secretary
The Secretary of State for Industry
The Secretary of State for Trade
The Chancellor of the Exchequer
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From the Private Secretary

24 October 1979

I attach a record of the Prime Minister's meeting last night with Sir Arnold Weinstock.

As you will see from page 5 of the record, Sir Arnold at one point explained that GEC had been thinking of splitting up the company into smaller companies, but had been hampered by existing tax legislation. I would be grateful for comments from the Treasury on this point which I could show the Prime Minister.

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

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

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Energy

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From the Private Secretary

25 October 1979

Prime Minister's Meeting with Sir Arnold Weinstock:
Corrigendum

My record of the Prime Minister's meeting with Sir Arnold Weinstock on 23 October recorded that the Secretary of State for Trade was present. He was not. The record should, of course, have read that the Secretary of State for Energy was present. I apologise for this error.

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

J. P. LANKESTER

SP

Ian Ellison, Esq.,
Department of Industry.