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*to Mr. Dymally
Mr. Walker*



*Prime Minister
Report on today's
mtg with Murray.*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

*Sir Keith to
consider further
compromise
options.*

9th November 1979

amb

*(Today's FT editorial
at Page A is worth
glancing at)*

*TL
9/11*

Dear Sir,

ROLLS ROYCE AND THE NEB

Following the meeting which the Prime Minister held last night, the Chancellor, with the Secretaries of State for Industry and Employment, saw the General Secretary of the TUC at the Treasury this morning to talk about Rolls Royce and the NEB.

The Chancellor began by assuring Mr. Murray that Ministers were anxious to find an acceptable solution which would avoid unfortunate wider repercussions. The Secretary of State for Industry said that he had written to Sir Leslie Murphy assuring him that he had intended no discourtesy to the NEB Board in the necessarily short notice they received about the proposals for Rolls Royce; nor in reaching that decision had he intended any implied criticism of their prior management of that company. The source of the problem lay in the history of constant conflict between the NEB Board and the Board of Rolls Royce. He had no wish to dismiss Sir Kenneth Keith or Sir Leslie Murphy, even if he had the power to do so. In view of the clash of personalities, and the apparent intractability of the two sides, he had reached the conclusion that the route of separation was the only viable one. He had made it clear that he wanted to keep the NEB in existence, though with diminished powers. He had certainly not intended a chance remark about the lengthy involvement of the NEB in Rolls Royce's affairs to be taken as criticism of Sir Leslie Murphy, or of the other members of his Board. He had told them of his plans for Rolls Royce as soon as he had been able to do so. He hoped he had removed any misunderstanding on the part of Sir Leslie Murphy or Mr. Basnett. He faced the prospect of a similar situation developing over British Leyland, but he hoped to avoid having to take that company out of the NEB as well.

Mr. Murray said that he had not gained the impression that Mr. Basnett and the other NEB Directors were complaining

/of different

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of perfunctory treatment; but they felt very strongly that removal of Rolls Royce from the NEB when the Industry Act became law would be seen as a vote of no confidence in their management and, in effect, a slap in the face. Mr. Murray was personally not in a position to judge the internal management issues. His major preoccupation was to prevent the matter escalating in such a way that TUC involvement in the NEDC was threatened. Mr. Basnett had been very angry. He had wanted to propose, at a meeting of the TUC Economic Committee on Wednesday, 14th November, that the TUC should withdraw from the Sector Working Parties and the little Neddies. Mr. Murray had been very worried about this, both because he had been dealing with similar rumblings from certain other members of the TUC General Council and because of trouble with Mr. Harry Urwin over the threatened end to the Hotel and Catering EDC. The latter difficulty had been, he thought, successfully deflected by discussion at Wednesday's full NEDC meeting, but Mr. Murray was obviously fearful of an alliance of hostility towards NEDC formed by Mr. Urwin and Mr. Basnett, which others might seek to foster. If the matter got out of hand, it would not only threaten sensible tripartite discussion with the Government and the CBI, but also risk infecting developing contacts between the CBI and the TUC. Mr. Murray said he had also spoken about the Rolls Royce issue with Sir Leslie Murphy; whilst Mr. Murray retained an affection for the NEB he was more concerned to find a way of averting the wider repercussions he had described. He had tried to persuade Mr. Basnett to hold his hand and not to raise the issue at the meeting of the Economic Committee. He hoped he had succeeded.

Ministers endorsed Mr. Murray's wish to find a way of cooling the present situation, and of at least avoiding precipitate action before the Economic Committee met the following week. The Secretary of State for Industry said that he was desperately anxious to avoid any action which could affect the good name of Rolls Royce. Nor did he wish to lose Sir Leslie Murphy or the rest of the NEB Board. But Rolls Royce had to have the reinforcement of new management which the NEB Board itself had wanted for some time. If the only solution involved resignation of the NEB Board, he stood ready to invite the individual members to re-consider, or to invite new members to take their place. Mr. Murray said that he was certain that no trades union representative would accept such an invitation in those circumstances.

/Mr. Murray



Mr. Murray said he understood the Industry Secretary's position. He knew about the problem of personalities. Nevertheless he felt there must exist some formula which would enable resolution of the conflicting considerations. The Chancellor wondered whether a solution might lie in some kind of arrangement under which Rolls Royce became an associated company of the NEB, with representation on the Board for NEB directors, or, if this was too direct a relationship, for directors recommended by NEB. There might also be some continuing shareholding presence. The Secretary of State for Industry said that the idea of part-time directors on the Rolls Royce Board recommended by the NEB could be looked at; but he was clear that Sir Frank McFadzean would not accept an arrangement under which he was directly accountable in any way to the NEB. Sir Frank required to be explicitly assured that the situation would be satisfactory once the Industry Act came into force, even though Sir Leslie Murphy would be leaving the NEB in eight months time.

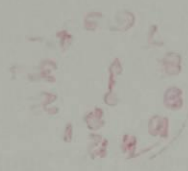
After further discussion on these lines, the Secretary of State for Industry undertook to consider further whether, despite the exhaustive examination already given to the problem, a compromise basis could be found which would allow the main parties concerned to co-exist in a new relationship. He was under no illusions about the magnitude of the task, and he did not wish to raise false expectations that such an outcome was possible. Mr. Murray said he would be glad to help in whatever way he could as an intermediary. With Ministers' agreement, he would report their conversation to Mr. Basnett, urging him to reflect further on the wisdom of escalating the matter at the TUC Economic Committee Meeting. He would also urge him with his fellow NEB Directors to address themselves to the search for a formula which might form the basis for a solution. If Mr. Basnett wished to talk to Ministers direct himself, he should be asked to contact the Secretary of State for Employment, who would then arrange for a meeting with the Secretary of State for Industry and himself or the Chancellor. It was crucially important to buy further time and to ensure that no-one acted precipitately.

The Chancellor thanked Mr. Murray for giving up his time and for his offer of further help.

I am sending a copy of this letter to Ian Ellison (Department of Industry), and to Ian Fair (Department of Employment).

*Yours etc,
A.M.W. Battishill*

(A.M.W. BATTISHILL)



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