

SECRET

Incl. P.D.

12

Extract

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

ENERGY

* * * * *

SECRET

- 3 -

on the current situation unless a proper arms-length relationship were established between CEGB 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

SECRET

/ Commercially

SECRET

- 4 -

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

SECRET

/example

SECRET

- 5 -

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

SECRET

/ Government's

SECRET

- 6 -

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.

R
..

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
The Secretary of State for Defence
The Secretary of State for Energy
The Secretary of State for Employment
Sir John Hunt

SECRET

