

CONFIDENTIAL
APPOINTMENTS IN CONFIDENCE

Prime Minister



PRIME MINISTER

Keith

ROLLS ROYCE

*✓ Inhibition
Mr Hoskins*

*✓ If you had a
Chairman, you have
to take his advice!
should not miss the*

*It worries me that the
use of SEC in support
of Morgan is fading away.
Would you like a quick
meeting of MISC 22, or
are you content with
Sir Keith's proposals as
they stand? My own feeling
is that another
meeting is
desirable.*

This is to report progress since we last discussed the Rolls Royce problem.

*Best solution too hard.
You might like Frank
out*

R.

I saw Sir Kenneth Keith yesterday, and I am glad to tell you that he is ready to step down if we can find a suitable Chairman.

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He would like to have some continued association with the Company, possibly as a part-time consultant for say two years, making perhaps two tours of clients a year.

He did, however, express a strong wish to have thirty minutes with you to discuss the Company's problems and its relationship with the NEB and also to explain to you why the Company and the UK would benefit from a partnership with the Japanese over a possible new engine.

*Will
see
me*

I recommend that you should see him out of courtesy to the service he has given over the last seven years - admittedly using for recent sales exchange rate assumptions which he shared with the Bank and ICI - and in so doing to settle in principle his departure from the Chairmanship. I would like to see him move completely out beyond the power to intervene.

Since we last spoke I have also had a further talk with Sir Frank McFadzean, who has recently, on Sir Kenneth's invitation, joined

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the Rolls Royce Board. He is now willing to accept the Chairmanship of Rolls Royce without also having the Chairmanship of the NEB. Sir Frank made only two conditions. First, either I announce that Rolls Royce is to be withdrawn from the NEB or that the NEB Chairman ceases to be Sir Leslie Murphy; second that his appointment can be managed without acrimony with Sir Kenneth Keith. From what I have said above, the second point should not be a problem.

I have given Sir Frank the name of Mr Morgan as my recommended candidate for the post of Chief Executive and he has agreed to consider him. But, to my disappointment, he came down against the appointment of GEC as consultants in support of Mr Morgan.

I would still have very much preferred - in the light of the huge losses that Rolls Royce may face - my original proposal to harness GEC. Anything short of this is very much a second best and could cost us dearly. As you know sums of hundreds of millions may be at stake. I therefore propose to see Sir Frank McFadzean again early next week to explain to him the position I have reached with Sir Kenneth Keith, and to press him to reconsider his view on the employment of GEC in the consultancy role. As a fall-back position I propose to urge on him that he should be willing to accept the use of GEC if he has not been able to get together a satisfactory management team within three months of his appointment. I will report the outcome to you. I will also keep Sir Armond Weinstock informed,

/since ...

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since he has been so helpful and, of course, employs Morgan.

Turning to the NEB; it is not only Rolls Royce that wishes to get out. The Board of British Leyland, though not Sir Michael Edwardes himself, strongly desires to work to the Department direct and to be free of the NEB. If I take Rolls Royce out of the NEB, the pressures for the same treatment for British Leyland ^{- so long as it survives -} will be extremely strong.

I shall need to have a further talk with Sir Michael Edwardes and Sir Frank McFadzean as well as speak to Sir Leslie Murphy himself before I form a final view. I would, therefore, welcome your agreement to my resolving this issue either by securing the resignation of Sir Leslie Murphy - I have no power to dismiss him - or by removing Rolls Royce from the NEB, or removing both Rolls Royce and British Leyland from the NEB.

Agreed
out

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

KJ

K J

1 November 1979

Department of Industry
123 Victoria Street
London SW1



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