

CONFIDENTIAL



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originated on: Ind AD:
The National Enterprise
Board: May 1979.

PRIME MINISTER

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This is to report on action I have taken since we discussed the NEB and Rolls Royce in the MISC 22 Committee on 15 November.

The Chairmanship of Rolls Royce

Sir Frank McFadzean is now firmly ready to take the Chairmanship of RR and is content that this should be announced as soon as we choose.

We have urged him now that this is firmly settled to arrange to see our suggested candidate for the post of Chief Executive, Mr Morgan of GEC. While I agree with David Wolfson that it would be ideal if we could announce a new Chairman and Chief Executive together, and I will see that all possible haste is made, there can be no guarantee that Morgan and McFadzean will wish to team up, and I believe it essential now to end the speculation by making an announcement on Wednesday or Thursday.

The Future of the NEB

Sir Frank McFadzean remains firmly opposed to any link between RR and the NEB, even cross-directorship. Our further efforts on Friday to identify possible compromise solutions did not persuade him.

His view is that there is an organisational nonsense in making the board of a company as important as RR subordinate



to another board of businessmen, especially when the issues are so large that inescapably they have to be settled by Government. (I see that David Wolfson shares this view.) He attaches great weight to this board organisational issue. Thus there is no compromise I can offer the NEB which will prevent them resigning en masse.

The Board of BL, at a meeting I had with them last week, made much the same arguments for taking them out of the NEB. The Board would, though grudgingly, be willing to stay under the NEB, but only if the NEB's role was limited to that of shareholder rather than holding company.

Our interest is to have an undistracted BL Board plus access to all the information we require. To announce that, once we have the power, we shall take Rolls Royce out but leave BL in an NEB with a reduced role would distract the BL Board, be no service to us and stir up more trouble later. The only case for such an announcement or for undertaking to seek to persuade the BL Board to accept some such relationship would be to help Mr Murray with any TUC reaction to the Rolls Royce decision. *I think the right course is to be decisive and do what is both organisationally and conceptually right.*

A New NEB Board

I am glad to say that Sir Arthur Knight, who will retire as the Chairman of Courtaulds on 1 January, is ready to become the part-time Chairman of an NEB that excludes RR and



BL. He supports my view that the NEB should not have RR or BL under its control, and he can speak from the experience at an earlier stage of having been a part-time member of the RR Board. He would be prepared to accept immediate appointment. Sir John King, the Chairman of Babcock & Wilcox, is willing to serve immediately as part-time Deputy Chairman.

I would underpin the Chairman with a Chief Executive and for this post I have identified Mr Ian Halliday who could secure his release from his present employers - Leslie & Godwin (Holdings) Ltd - by mid-January. But of course before a final decision were taken on this he would need to be seen by the new Chairman. Pending the arrival of the Chief Executive the necessary full-time assistance to the Chairman could be provided by the present Secretary of the NEB, an Under-Secretary from the Department of Trade, who has now been with the NEB for 28 months and who would be appointed Deputy Chief Executive.

Trades Union Reactions

Our decision to accept the resignations of the present NEB Board will be unwelcome to the trades union movement. I do not anticipate problems with Lord Scanlon or John Lyons, who are the only unionists actually on the board, but David Basnett, whose term of office expires at midnight tonight, can be expected to cause difficulties. I am in touch separately with Jim Prior to determine the best way to limit adverse trades

/union ...



union reactions. I shall of course hold open the prospect of appointing trades unionists to the reconstituted Board.

The Next Steps

The Department of Industry is in the process of identifying new NEB members and I see no difficulty in securing a strong Board with several names being announced at the same time as the new Chairman. I take it that in these special circumstances colleagues will agree that the normal consultative arrangements can be cut short.

I shall be seeing the NEB to tell them my decision on Rolls Royce on Tuesday evening at 6 pm, and if my colleagues agree, I will also tell them my views on British Leyland.

... I enclose curriculum vitae on Mr Halliday and brief notes on Sir Arthur Knight and Sir John King who are, of course, well known industrialists.

... I also enclose a draft Parliamentary Statement.

I am sending copies of this minute to members of MISC 22 and to Sir Robert Armstrong.

PEM
PP K J
19 November 1979

Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

CURRICULUM VITAE

IAN FRANCIS HALLIDAY, MA, FCA

Address: (home) Little Thorpe
Finthorpe Lane
Huddersfield HD5 8TU Tel: (0484) 30311
(London) Flat 7
63 Haverstock Hill
London SW3 Tel: 01-722 3842

Date of birth: 16 November, 1927

Family: Married (1952)
two daughters (1955 and 1956)
one son (1963)

1946-49: Lincoln College, Oxford (Mathematics)

1949-51: National Service; Captain, REME;
Territorial Army from 1951 to 1956

1951-69: ARMITAGE & NORTON, Chartered Accountants
1954 - Qualified as Chartered Accountant
1957 - Became Partner. Major direct
responsibilities including Massey-
Ferguson UK Companies, Carrington
& Dewhurst Group (now Carrington
Viyella) and Allied Textile Co Ltd.

1970-74: ALLIED TEXTILE CO LTD
Finance Director on main Board.

1974-77: DEPARTMENT OF INDUSTRY
On secondment as Deputy Director of Industrial
Development Unit, responsible for the appraisal
of applications under the Industry Acts 1972
and 1975. This involved the assessment of
expenditure and investment projects over a
wide range of industries.

1977 to date: LESLIE & GODWIN (HOLDINGS) LTD
Finance Director on main Board of this public
Group of international insurance and reinsurance
Lloyd's brokers.

Sir Arthur Knight 62
Chairman, Courtaulds, since 1975 (retires 31.11.79)
Joined Courtaulds 1939 and entire career with them.

Sir John King 61
Chairman, Babcock and Wilcox
Director, American Chain
Chairman, British Nuclear Associates
Chairman, Dick Corporation
Director, S G Warburg International Holdings
Director, SKF(UK)



DRAFT PARLIAMENTARY STATEMENT

NEB, ROLLS ROYCE AND BL

I informed the House of 19 July of my intention that the National Enterprise Board should have a continuing role in relation to companies such as Rolls Royce Ltd so long as no solution based on the private sector is available. Since then I have considered further the relationship between the NEB and Rolls Royce in the light of the evidence that the relationship has been strained, not only in recent months, but over a number of years. I have concluded that these strains are not a passing problem of personalities or of differences of view on a particular topic, but are inherent in the relationship. Rolls Royce is a company of a scale and importance such that the supervision of its Board by another board of businessmen, however eminent and accomplished, is bound to give rise to strain. I am impressed by the fact that very similar problems arise over BL for exactly the same reason.

I have therefore decided that it would not be right to paper over the cracks caused by the strains which this relationship causes but rather to plan to remove the source of the difficulty. Clause 2 of the Industry Bill now before the House will give the power to direct the NEB to transfer its shareholdings in Rolls Royce and BL to the Secretary of State, and I intend to make such an order as soon as the Bill becomes law. This decision is in no

/sense ...



sense a reflection on the members of the NEB or their staff. Rather, it is a judgement that the role they had been given in relation to these two giant companies was in the last analysis not an appropriate one.

I must inform the House that as a consequence of my decision the Chairman, Sir Leslie Murphy, and all the members of the NEB have [today] resigned from their posts. I have accepted their resignations with regret. The Board has distinguished businessmen and trade unionists who have cooperated together and serve the country with skill and dedication. I hope this form of cooperation will be possible in the new Board.

Sir Arthur Knight has accepted my invitation to take over the Chairmanship - on a part-time basis - of the NEB with immediate effect, and [Sir John King, (list of others)] have accepted my invitation to become members.

It is my belief that the ending of the NEB's responsibility for these two giant companies will enable it to focus decisively on the new role which this Government sees for it.

The NEB has direct interests in about 70 companies. Some companies in the portfolio are ready now to depend wholly on the private sector and I expect the NEB will dispose of these holdings shortly, but for other, longer will be needed before they are ready to depend fully on the market and in the meantime



the NEB's role will be to encourage their development on sound commercial principles. In addition, as I announced on 19 July, the NEB will continue to have a catalytic investment role, in particular with the private sector, in advanced technologies, where the market has been reluctant to invest because of the adverse policies of our predecessors. Finally, they will maintain their regional and small firms roles particularly in areas of high unemployment.

For this purpose we shall need a strong NEB Board and I have every confidence in the ability of Sir Arthur Knight, his colleagues and the staff of the NEB to carry out these important functions.

Blund ~~cc~~ Mr. Wilson
 Mr. Keogh
 Mr. Ingham

on
 Original Ind. Bd.:

The National Enterprise
 Board: May 1979



10 DOWNING STREET

cc FCO
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From the Private Secretary

19 November, 1979.

Dear Ian,

The Prime Minister has considered your Secretary of State's minute of 19 November about Rolls Royce and the future of the NEB. She has also seen the minute of today's date from the Secretary of State for Employment.

The Prime Minister is content for Sir Keith to inform the NEB this evening that Rolls Royce are to be taken out of their responsibility, and that this should be announced in the House tomorrow along with the naming of Sir Arthur Knight as the new Chairman of the NEB and other new board members if Sir Leslie Murphy and the present NEB Board members resign.

But she does not wish the NEB to be told that they are to lose British Leyland as well; nor should this be included in the statement in the House. She feels that it would be a mistake to remove British Leyland from the NEB's responsibility at the present time. This would, in her view, provoke a further row between British Leyland management and the trade unions, which British Leyland can ill afford at the moment; it would remove a "buffer" between Government and British Leyland which in present circumstances may be quite helpful; and it would make the NEB Board's position appear rather less unreasonable if they do decide to resign. But in any case, the Prime Minister considers that, before a decision is taken on the future relationship between British Leyland and the NEB, the matter will have to be discussed collectively.

I understand that Sir Keith proposes to announce the appointment of Sir Frank McFadzean in his statement. The Prime Minister has no objection to this, though she hopes that it may be possible to announce the appointment of Mr. Morgan as chief executive at the same time. While

she understands that it may not be possible to settle Mr. Morgan's appointment in time for the statement, she believes that the overall package would have greater credibility if the two appointments could be announced together.

I am sending copies of this letter to the Private Secretaries to the members of MISC 22, and to Martin Vile (Cabinet Office).

For en.

Tin Laker.

Ian Ellison, Esq.,
Department of Industry.

Sl.

PRIME MINISTER

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MS

WEDNESDAY'S BUSINESS: STATEMENT ON ROLLS ROYCE

Sir Keith Joseph has made a bid for a Statement in the House about Rolls Royce. The timing of events, as you well know, means that he could not make such a Statement on Tuesday and that Thursday would probably be too late, since the news will break on Wednesday morning.

Are you content that your speech at the opening of the Security Debate should be preceded by a Statement about Rolls Royce? I am sure that under normal circumstances such a Statement would be very desirable and that the House would resent being given the news in a Written Answer, but in the slightly peculiar circumstances of Wednesday I should be glad to have your own view before anyone goes ahead with preparations. Are you content for Sir Keith Joseph to make such a Statement?

MS

*Returned by les.
aw*

19 November 1979

Ind Pol

*Original on: Ind Pol:
The National Enterprise
Board: May 1979.*

In sum



R. ...

PRIME MINISTER

NEB

Keith Joseph sent me a copy of his minute to you of 19 November. I see from this that he proposes to tell the NEB this evening that he intends to remove from it as soon as possible both Rolls Royce and BL.

You will recall that at MISC 22 on 15 November I expressed considerable misgivings about the proposal (as it then was) to announce that Rolls Royce would be removed from the NEB. The enhanced proposal including BL now before us strikes me as one with very far-reaching implications for the Government's relationship with the TUC. As Len Murray made clear to me last week (when we discussed RR alone) these would probably not be confined to the question of trade union representation on a reconstituted NEB. In view of this, I think it would be advisable for Keith to bring the matter to Cabinet before he goes any further, particularly at this critical stage in the BL saga.

If it were decided to go ahead this evening, I should need to speak at once to David Lea (in Len Murray's absence abroad), so that I can arrange for Keith to warn the TUC of what is afoot.

I am sending copies of this minute to members of MISC 22 and Sir Robert Armstrong and Sir Kenneth Berrill.

JP

20 November 1979

*Ind B. cc 1nd PSL
NEB - May 79*



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/*Secretary of State for Industry*

21 November 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

*the 1st
in context.
R
2/11*

Dear Tim

NEB AND ROLLS ROYCE

As promised, I enclose a copy of the statement which my Secretary of State intends to make to Parliament this afternoon. In addition, you will wish to be aware that my Secretary of State is speaking personally to each member of the resigning Board in order to maintain personal contacts. He also intends to write to Mr Murray at the TUC emphasising his hope that the repercussions on relations between the Government and the trade union movement will not be too adversely affected by today's decisions.

I am copying this letter and enclosures to the Private Secretaries of MISC 22, John Wilson (in view of his Secretary of State's First Order PQs this afternoon), Petra Laidlaw, Charles Cumming-Bruce and Martin Vile.

*Yours ever
Peter*

PETER MASON
Private Secretary



TEXT OF A STATEMENT BY THE RT HON SIR KEITH JOSEPH BT MP,
SECRETARY OF STATE FOR INDUSTRY, WEDNESDAY 21 NOVEMBER 1979.

With permission Mr Speaker, I should like to make a statement on the relationship between the National Enterprise Board and Rolls Royce.

I have had in recent months to consider the relationship between the NEB and Rolls Royce in the light of evidence of some friction over a considerable period. I have concluded that the friction is not a passing problem of personalities or a difference of opinion on the management of the Company but is inherent in the relationship and would tend to survive a change of management.

in all probability

Rolls Royce is a company of a scale and importance such that the supervision of its Board by another board, however eminent and accomplished, is bound to give rise to strain.

Moreover it is a company with which inescapably Government has exceptionally close connections and where important decisions lie directly with Government.

I therefore decided that in view of these two considerations, from which there is no escape, it would not be right to paper over the cracks but rather to plan to remove the source of the difficulty. Clause 2 of the Industry Bill now before the House will give me power to direct the NEB to transfer its shareholdings in Rolls Royce to the Secretary of State, and I told the NEB of my intention to make such an order as soon as the Bill becomes law. This decision was in no sense whatsoever a reflection on the members of the NEB or their staff. Rather, it is a judgement that the role they had been given in relation to this major company was in the last analysis not an appropriate one.

/When I expressed ...



When I expressed to the NEB my intention I was told categorically that were I to adhere to my proposal all the members of the Board would resign. I was asked to re-consider. This I did.

Yesterday I told the Board that I did adhere to my proposal. The House knows that the Chairman, Sir Leslie Murphy, and all the members of the NEB have resigned from their posts. I have accepted their resignations with regret. The Board was composed of distinguished people from business and trades unions who co-operated together to serve the country with dedication. I hope this form of co-operation will become possible in the new Board.

The NEB has as the House knows important disposals to arrange and other continuing tasks to perform. It will have a catalytic investment role especially in connection with advanced technology and increasingly in partnership with the private sector; as well as its regional and small firms roles.

I am glad to tell the House that Sir Arthur Knight, Chairman of Courtaulds Ltd, has accepted my invitation to take over the Chairmanship of the NEB with immediate effect. Sir John King, Chairman of Babcock International Ltd, has accepted my invitation to become Deputy Chairman and five other persons have similarly indicated their willingness to serve:

Mr Robert Clayton - Technical Director of GEC

Mr Alec Dibbs - Deputy Chairman of National
Westminster Bank

Mr George Jefferson - Chairman and Chief
Executive of British
Aerospace, Dynamics Division

Mr Dennis Stevenson - Chairman of Peterlee and
Newton Aycliffe New Towns

Mr John Caines - Secretary to the NEB

I am deliberately leaving some places vacant. I have today written to the TUC about this.



3.

The House will wish to know that following the recent announcement that Sir Kenneth Keith wishes to retire from the chairmanship of Rolls Royce after 7 years service Sir Frank McFadzean has indicated his willingness to accept appointment as chairman.

CONFIDENTIAL



Ind PD
Original: Ind PD:
Copy: Ind PD:
National Enterprise Board:
May 1979

Caxton House Tothill Street London SW1H 9NA

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Switchboard 01-213 3000

Ian Ellison Esq
Private Secretary to the
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

IL
2/7

21 November 1979

Dear Ian

NEB

Now that it has been decided to leave BL with NEB the draft announcement attached to your Secretary of State's minute to the Prime Minister of 19 November will need to be amended.

I expect you will agree that this is not simply a matter of taking out the words "and BL" wherever they occur, since some of what is said in the draft about how inappropriate it would be to leave Rolls Royce with the NEB might well be held by critics to apply with almost equal force to BL. We therefore suggest that Sir Keith Joseph may also wish to leave out the last 6 lines of paragraph 1, the last two sentences of paragraph 2 and paragraph 5. I attach a revised version of the draft incorporating these amendments, though we recognise you may also be redrafting to take account of other developments such as the meeting last night with the NEB.

I am copying this letter to Tim Lankester at no 10, to the Private Secretaries to the other members of MSC 22 and to Sir Robert Armstrong.

Yours sincerely
Ian Fair

I A W FAIR
Private Secretary

DRAFT PARLIAMENTARY STATEMENT

NEB, ROLLS ROYCE AND BL

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I must inform the House that as a consequence of my decision the Chairman, Sir Leslie Murphy, and all the members of the NEB have [today] resigned from their posts. I have accepted their resignations with regret. The Board has distinguished businessmen and trade unionists who have cooperated together and served the country with skill and dedication. I hope this form of cooperation will be possible in the new Board.

Sir Arthur Knight has accepted my invitation to take over the Chairmanship - on a part-time basis - of the NEB with immediate effect, and [Sir John King, (list of others)] have accepted my invitation to become members.

Quite apart from its continuing responsibilities in respect of BL, the NEB has direct interests in about 70 companies. Some of the latter are ready now to depend wholly on the private sector and I expect the NEB will dispose of these holdings shortly, but for ^{the} others, longer will be needed before they are ready to depend fully on the market and in the meantime the NEB's role will be to encourage their development on sound commercial principles. In addition, as I announced on 19 July, the NEB will continue to have a catalytic investment role, in particular with the private sector, in advanced technologies, where the market has been reluctant to invest because of the adverse policies of our predecessors. Finally, they will maintain their regional and small firms roles particularly in areas of high unemployment.

For this purpose we shall need a strong NEB Board and I have every confidence in the ability of Sir Arthur Knight, his colleagues and the staff of the NEB to carry out these important functions.

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Copy on Ind Pd :
 R National Enterprise Board
 May 1979.

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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Ind Pol.
copy on: Ind Pol!
National Enterprise Board
May 1979.
3
1 2111

Ian Ellison Esq
Private Secretary to the
Secretary of State for Industry
Department of Industry
Ashdown House
LONDON SW1

20 November 1979

Dear Ian

As you know, my Secretary of State spoke to David Lea at the TUC (in Len Murray's absence) to tell him in confidence of the Government's intention to remove Rolls-Royce from the NEB. He suggested a meeting between your Secretary of State and Messrs Lea and Basnett tomorrow before there was any public announcement. Lea undertook to consult Basnett.

Mr Prior has now had a return call from Lea to say that when the story broke the TUC would be expressing its anger at the decision and saying that there could be "wider consequences." Particularly since David Basnett was going to Brussels tomorrow he did not think that a meeting tomorrow would be useful.

I am sending copies of this letter to Tim Lankester at No 10, to the Private Secretaries to the other members of MISC 22 and to Sir Robert Armstrong and Sir Kenneth Berrill.

Yours sincerely
Ian Fair

I A W FAIR

20 NOV 1979

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Original on: Ind fol:
The National Enterprise
Board: May 1976.

10 DOWNING STREET

From the Private Secretary

MR. CHURCHILL
CIVIL SERVICE DEPARTMENT

I enclose a copy of a minute which Sir Keith Joseph has sent the Prime Minister about the Chairmanship of Rolls Royce and the future of the NEB.

I believe you are aware of the proposal, which the Prime Minister supports, to appoint Sir Frank McFadzean to the Chairmanship of Rolls Royce but you do not appear to have been consulted on the proposed appointments to the NEB. I would be grateful for any reactions by 1700 hours today.

I have arranged for a copy of the minutes of the latest Ministerial meeting on Rolls Royce to be sent to you by the Cabinet Office.

T. P. LANKESTER

This has kept a copy

CSD - no comments
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20 November 1979

WESTERN UNION INTER



WESTERN UNION INTERNATIONAL INC.

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pls send
copy to

Dof with

my comps. ~

R.
copy

Prime Minister

Copy of
telegram sent from
Lockheed chairman
to Sir K. Keith.

R
19/12

THE RIGHT HONORABLE MRS. MARGARET THATCHER PRIME MINISTER
OF THE UNITED KINGDOM 10 DOWNING STREET LONDON

/ORIG SENT TO SIR KENNETH KEITH/

BT

116/79

I LEARNED OF YOUR FORTHCOMING RESIGNATION FROM ROLLS-ROYCE
WHILE IN CAIRO. NOW THAT I HAVE RETURNED TO BURBANK, I HASTEN
TO TELEX YOU MY DEEPEST SENTIMENTS EXPRESSED AS FOLLOWS:


ROLLS-ROYCE'S LOSS IS EQUALLY OUR LOSS. YOUR LEADERSHIP
HAS BEEN BOLD, VISIONARY, FORTHRIGHT,

[Handwritten signature]

COLL 10 116/79

NOV 17 1979

01:00



LDT5846 THE PAGE02/48


AND ESSENTIAL. THE UNITED
KINGDOM SHOULD BE EXTREMELY PROUD OF YOUR ACCOMPLISHMENTS. IN
TURN, LOCKHEED IS VERY GRATEFUL FOR THAT LEADERSHIP, YOUR SUPPORT,
AND, MOST OF ALL, YOUR FRIENDSHIP.

MOST SINCERELY,

ROY A. ANDERSON
CHAIRMAN OF THE BOARD
LOCKHEED CORPORATION
BURBANK, CALIFORNIA

1115A AM

RELAYED 1 310P AM



COLL 1115A 1 310P

WESTERN UNION INTERNATIONAL INC.