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10 DOWNING STREET

From the Private Secretary

9 November 1979

Your Secretary of State came to see the Prime Minister last night to report to her on the day's developments over Rolls Royce. The Chancellor of the Exchequer and the Secretary of State for Employment were also present. Sir Keith Joseph said that, following his discussion with Sir Kenneth Keith (reported in your letter of 6 November), he had seen Sir Leslie Murphy, who was strongly opposed to the proposal to take Rolls Royce out of the NEB when the Industry Bill came into force. Sir Leslie appeared to have misrepresented Sir Keith's position when reporting it to his NEB colleagues. Sir Keith had corrected this when seven members of the NEB Board came to see him. They strongly supported Sir Leslie Murphy, however. All declared their intention to resign with Sir Leslie. Sir Keith had said that he would consider their representations to him, and then see Sir Leslie again.

The Chancellor of the Exchequer reported that Sir John Methven had been to see him, following a conversation between Sir John and Mr. Len Murray. Mr. Murray was anxious to find a way of making it possible for the union members of NEB to avoid resignation. Sir John was of the view that Mr. Murray would value the opening up of contacts to allow a search for a compromise. The Chancellor said that his personal impression was that Mr. Murray might be able to persuade his union colleagues to accept a sensible arrangement on Rolls Royce which would not set a precedent leading to the removal of British Leyland from NEB. The Secretary of State for Employment said that he had had a number of conversations with Mr. Murray in the course of the day. Mr. David Basnett was reported to be extremely concerned about the NEB situation. Mr. Murray foresaw a risk of union withdrawal from many national forums if the Rolls Royce/NEB situation led to resignations. Mr. Murray had pointed to the positive contribution of the unions to the work of the NEB and also to Lord Scanlon's efforts over the British Leyland ballot. Mr. Murray needed help, and also needed time to work for a compromise.

/The Prime Minister



The Prime Minister recognised that the current problems were essentially personality issues. Now Sir Frank McFadzean had made it clear that he would not take over the Rolls Royce Chairmanship whilst links with NEB under Sir Leslie Murphy's Chairmanship remained, there were still several options. Rolls Royce could be taken out of the NEB, as proposed, or ways might be found of persuading the present NEB Chairman to leave the organisation, which might make it possible for Rolls Royce and NEB to continue to work together. Precipitate decisions should be avoided. It would obviously be helpful to keep in touch with Mr. Murray. It was important to find the approach which would avoid the risk of union withdrawal from the NEB and possibly from other organisations. Mr. Prior should speak to Mr. Murray early today paving the way for a meeting of the Chancellor of the Exchequer and the Secretary of State for Industry with Mr. Murray. It would be preferable to make this one with Mr. Murray alone. Ministers should also pursue contacts with individual members of the NEB to seek ways of avoiding mass resignation. It would be necessary for Ministers to be in touch again before final decisions were reached.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), the Private Secretaries to members of MISC 22 and to Martin Vile (Cabinet Office).

M. A. PATTISON

Ian Ellison, Esq.,  
Department of Industry

KRB



PRIME MINISTER / *PM see*

Rolls Royce and the NEB

Sir Keith Joseph would like to see you about this tonight.

As you know, Sir Keith saw the NEB Board yesterday and told them of the Government's intention to take Rolls Royce out of the NEB's responsibility. They said they would resign if this decision was not reconsidered. They pressed Sir Keith to consider a compromise solution: this would be that two NEB Board members would join the Rolls Royce Board, Frank McFadzean would join the NEB Board, and Leslie Murphy would undertake to stand back from overseeing the company.

Sir Keith's Permanent Secretary saw Frank McFadzean today, and it seems that the "compromise solution" is a non-starter. McFadzean is not prepared to go along with it and says that Murphy should be allowed to resign. He has suggested that he himself should become Chairman of the NEB until the Industry Bill is passed and Rolls Royce can be taken out of the NEB's responsibility, and that Sir Kenneth Keith should stay on until that time - i.e. March next year. During this time, McFadzean would familiarise himself with the Rolls Royce operation and recruit a management team. He also has in mind a possible consultancy arrangement with Boeing as a substitute for the GEC consultancy which we were thinking of. He would then take over the Chairmanship of Rolls Royce from Kenneth Keith, and relinquish the Chairmanship of the NEB.

An alternative would be for Leslie Murphy to resign along with his Board, and for Frank McFadzean to take over Rolls Royce on 1 January as suggested earlier. A new Chairman (someone other than McFadzean) would be appointed simultaneously to the NEB. However, I understand that McFadzean and Keith have talked and would regard this solution as unacceptable - because, in these circumstances, Keith's retirement would look like a victory for the NEB.

I understand that Sir Keith Joseph wants your agreement to this approach. However, Mr. Prior is worried. Len Murray has been in touch with ~~me~~<sup>him</sup> today and has said that if Rolls Royce is taken out of the NEB, the trade unions will cause trouble - and, in particular, they will retaliate by withdrawing their membership of such things as the NEDC. However, it is clear that McFadzean will not work under the NEB and therefore I cannot see how we can meet Murray's objections. Mr. Prior will just have to mollify Murray somehow - it would be very damaging if the trade unions did pull out of NEDC in my opinion.

Mr. Prior has asked if he can join your meeting with Sir Keith Joseph.

8 November 1979