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Ind Pol.

PRIME MINISTERRolls-Royce
(MISC 22(79) 1 and 2)

BACKGROUND

The Group had its first discussion of the Rolls-Royce situation on 8th October without reaching any conclusions. Since then you have had the Department of Industry/CPRS presentation - the material for which has now been circulated to colleagues as MISC 22(79) 2. The conclusion you drew from the presentation was, I think, that the only real option is for Rolls-Royce to carry on with its existing strategy but for the Government to seek to bring about major improvements in its performance. With Sir Keith Joseph apparently sharing this view there is little likelihood of other colleagues dissenting from it. The main questions for the meeting therefore are of procedure and tactics as discussed in Sir Keith Joseph's original paper (MISC 22(79) 1).

2. There is however an additional point. You and your colleagues have already touched on the question of whether even GEC can effectively take on all of the work which events seem to be pushing in their direction. The Department of Energy have today brought to our attention the possible conflict between a heavy involvement of GEC in Rolls-Royce and their ambitions to engage GEC more closely in the new and large nuclear programme they will be bringing to E shortly (and which will involve sharply cutting back the role of the CEGB). There is no real way for Ministers to guess independently whether GEC can handle both tasks. The simplest solution might be for Sir Keith Joseph to ask Sir Arnold Weinstock whether he is satisfied that taking on Rolls-Royce will not diminish his interest, and the part his Company might play, in any expanded nuclear programme which the Government may decide upon. His answer would set the scene for Ministers further discussions on Rolls-Royce and the nuclear programme over the next week or so.

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HANDLING

3. You might care to open the discussion by telling those colleagues who were not present of the conclusions you have drawn from Tuesday's factual presentation and to see whether any of them disagree. If not, you might then revert to the recommendations in Sir Keith Joseph's original MISC 22(79) 1 and take colleagues through them seriatim. They were -

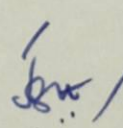
- A. "Informing the Company that resources on the scale they have estimated will not be available and of my management proposals":
It is for consideration whether the Company should also be told that, subject to greatly improved efficiency of operation, the Government is prepared to back their strategy.
- B. "Parallel action with the NEB who would also be told of my intention to return Rolls-Royce to Government ownership":
- C. "Subject to the outcome of A and B above, immediate installation of a more effective management by harnessing the skills of GEC, who would provide a Chief Executive for Rolls-Royce and put the resources of their top management group, under Sir Arnold Weinstock, behind him":
This is the key immediate issue. Provided the Group are prepared to agree in principle Sir Keith Joseph might be authorised to consult Rolls-Royce, the NEB and Sir Arnold Weinstock. The Group will no doubt prefer to reserve a final decision until the outcome of these consultations is known.
- D. "With the help of GEC, not only to secure more effective day-to-day management of the Company but also to make the earliest possible assessment of the extent to which the Company's cash requirement can be reduced, to settle the Company's future strategy and determine whether, and if so how, it will be possible over a measurable period to put the Company in a posture for return to private ownership":
The point to stress here is that future strategy is for the Government and the Company. The role of GEC is to provide information relevant to the production of the strategy, not to determine the strategy as such.

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- E. "Immediately arrange for a small group of officials to advise Ministers on the interim guidance that should be given to GEC and subsequently to report to Ministers a long term strategy":
A Group, under Sir Kenneth Berrill, is ready to start work as soon as Ministers give them the green light.
- F. "Confirm to GEC that their involvement in Rolls at our request would not of itself tell against them in Government consideration of acquisitions they may wish to make":
Sir Keith Joseph's talks with Sir Arnold Weinstock will show whether this formula is enough to obtain his co-operation. If not, the Group will face a difficult decision at a later meeting because the higher the GEC price for co-operation the less easy will the arrangement be to defend in public.
- G. "Authorise negotiations with GEC over the sale of Rolls industrial and marine business, and its nuclear activities subject to the Ministry of Defence being satisfied about the safeguarding of their interests":
There are two issues - the timing of any sale to GEC of IMD where last time some of your colleagues thought there would be advantage in making any sales before GEC were given a management role; and the separate question of the sale of Rolls-Royce's nuclear activities.

CONCLUSIONS

4. Subject to discussion you will want to record conclusions - including, where appropriate, conclusions to defer a decision - on each of Sir Keith Joseph's seven recommendations. You will also want to ask the Committee to meet again as soon as Sir Keith Joseph has completed the necessary round of consultations.


John Hunt

17th October 1979