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SUMMARY OF MINISTERIAL DISCUSSION AT MISC 22(79)2nd MEETING

The Ministerial discussion <sup>on 18 October</sup> ~~yesterday~~ may be summarised as follows:

Objective

To improve the management of Rolls Royce as a matter of urgency.

Constraints

- 1 Maintain consumer confidence and avoid financial costs of a crisis of confidence.
- 2 Retain Sir Kenneth Keith in a role which does not involve him in day to day management.

Method

If possible by making the expertise of Sir Arnold Weinstock and the GEC management team available to Rolls Royce; including the provision of a chief executive.

Constraints on Method

- 1 To seek to secure GEC assistance without preconditions about sales to GEC of the Rolls IMD and nuclear interests.
- 2 To avoid prejudicing decisions on the future of the nuclear industry and overburdening GEC senior management.

Process

- 1 Prime Minister and two Secretaries of State to see Sir Arnold Weinstock.
- 2 Secretary of State for Industry subsequently to see Sir Kenneth Keith.







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Role of GEC - Beyond providing Mr Morgan

- Alternatives
- 1 No role.
  - 2 Employed immediately after Mr Morgan's appointment to provide a consultancy service to Rolls Royce.
  - 3 Agree with GEC that they would be ready to provide such a service to Rolls Royce (or to the Government) at some later stage if asked, but a decision on this to be deferred until Rolls severs formal connection with the NEB after legislation.

Comment

The DoI advise that one man cannot come to grips with the problems of Rolls Royce as quickly or effectively as a chief executive with the backing of the GEC's top management team at Stanhope Gate. The employment of GEC would be a good public justification for the removal of Rolls Royce from the control of the NEB: Parliament would have no reason to think that the DoI unaided would be more effective than the NEB in controlling Rolls Royce. A justification to Parliament of the removal of the NEB in terms of the breakdown in relations between Sir Leslie Murphy and Sir Kenneth Keith and as being the only way of retaining two distinguished public servants while true, is likely to lead to the same treatment being sought by British Leyland.

On the other hand, the employment of GEC could well be seen by the board of Rolls Royce as an expression of no confidence by the Government and if they accept GEC at all, it may be only after the chief executive has established himself and convinced his colleagues of the need.

Conclusion

Given that a determined effort should be made to persuade the Rolls Royce board that the use of GEC is in the best interests



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of the company, but recognising that it may be impossible without unacceptable resignations from the Rolls Royce board,

- (i) seek to secure Sir Arnold Weinstock's co-operation in all of the three possibilities but with 2 and 3, in that order, being preferred;
- (ii) seek Weinstock's help with Sir Kenneth Keith in getting 2 or, as a fallback, 3, noting that GEC's role is consultancy, not management.



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Disposals to GEC

Options

- 1 In accordance with anxieties expressed in the MISC 22 Committee, a firm decision against sales to GEC of Rolls Royce interests.
- 2 No negotiation now, and no commitment to future negotiations, but statement of intention to return Rolls or parts of it to the private sector in due course and recognition of GEC's potential interest in IMD and nuclear by provision in any consultancy contract that it will not extend to these two businesses so as to avoid future difficulties over conflict of interest.
- 3 Subject to the willingness of the MISC 22 Committee, explore with Sir Arnold Weinstock the possibility of a jointly owned RR/GEC company for industrial and marine engines, under GEC management.

Comment

GEC very much want IMD and previously made this a condition which, subject to Ministerial decisions, DoI officials had indicated should be acceptable, and which they considered had industrial logic from the UK point of view.

Disposal has so far been resisted by Sir Kenneth Keith and could be an obstacle to his concurrence.

Conclusion

In view of the strong Ministerial anxieties on this point, to seek to secure GEC co-operation to course 2 above, plus the nuclear decision, and an assurance that their role in RR will not weigh against them in any future acquisition they may envisage. (The last of these is crucial to GEC, but they should not be given any commitment on BAe where there are strong arguments against: Cable and Wireless is a possibility, but no more than that.)

The possibility of course 3 is to be put to the MISC 22 Committee as a compromise.



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Other Possibilities for Sir Kenneth Keith

Options

- 1 Public recognition.
- 2 Vice-chairmanship of GEC.
- 3 Chairmanship of Cable and Wireless.
- 4 A wider aerospace role.

Comment

Keith wants public recognition: he will want it even more if he is not to be seen as having failed at Rolls Royce.

Other appointments could be part of that public recognition.

The Vice-chairmanship of GEC has been offered to us by Sir Arnold Weinstock, but this probably falls if the IMD possibility is not for negotiation. Other Ministers may have been anxious about it.

The Chairmanship of Cable and Wireless is a much smaller job, but extremely important and difficult for the next two years. The new Chairman has the task of swinging a hostile board round to a changed view on disposals, to conduct very difficult but crucial negotiations with overseas Governments about concessions, and manage a sale of shares in Hong Kong and the UK. Keith has many of the qualities for a job of this kind.

Keith could be one of the two proposed Government nominees on the privatised BAe board, but the DoT are against Government direction in British Airways. The potential for a wider role in aerospace is therefore limited.

Conclusion

- 1 Keith could be useful with Cable and Wireless and the job is important. It does not match his aspirations but the offer could help to reassure him even if he did not accept it.
- 2 Tell Sir Arnold Weinstock that a Vice-chairmanship for Keith on his board is not wanted.