

CONFIDENTIAL



PRIME MINISTER

PM said -  
no to BL  
yes to anything else.

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The future of Rolls Royce.

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

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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

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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  
K J  
pp  
19 November 1979

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)

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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 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.



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