

cc Con Pol. Engring Pay  
July 79

CONFIDENTIAL

2, LDP.

From: Minister.

Ref. A0275

PRIME MINISTER

Ans.

Jul.  
2/ix.

Two quite separate points relevant to your luncheon guests on Sunday.

Mr. Anthony Frodsham

Clearly you will want to give him moral support. There is no credible alternative to the line which the Federation are taking: and if they were to cave in it would be a very damaging precedent for pay claims this winter. On the other hand I have had some rather disturbing information this morning about the extent to which the cessation of work will hit some companies, including some big ones.

I think therefore there are two crucial questions to be put to Mr. Frodsham. Assuming there is no early settlement:-

- (i) What is the risk of some companies breaking ranks, or is he confident that a solid front will be maintained?
- (ii) Assuming a solid front is maintained, can he give any estimate of the possible consequences in terms of closures, bankruptcies, etc.?

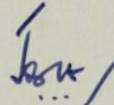
Sir Keith Joseph (but not for mentioning in front of Mr. Frodsham!)

✓ Sir Keith Joseph minuted you on 13th July about Rolls-Royce. I gather he is very nearly ready to minute you again and may take this opportunity for a private word. Briefly:-

- (a) The situation is nasty and deteriorating fast; some slimming down of Rolls-Royce, including plant closures, is inevitable irrespective of the present industrial dispute.
- (b) The transfer from NEB to direct ownership of the Department of Industry is sensible.
- (c) Considerable management restructuring is needed which will involve a new Chief Executive. The best course is probably to give GEC a contract to manage Rolls-Royce in which case Arnold Weinstock would probably put Mr. Morgan in as Chief Executive. Kenneth Keith would be given some honorary or part-time role connected with overseas marketing. The attraction for GEC in this is their interest in the gas turbine business of Rolls.

# CONFIDENTIAL

Sir Keith Joseph will probably minute you and a few other colleagues directly concerned next week with a view to a decision before the Party Conference. I attach at Annex copies of the two options which the Department of Industry have been considering. It will be seen from the above that they are inclining towards option 1.



JOHN HUNT

21st September, 1979



OPTION 1

- 1 GEC employed to manage Rolls Royce. In addition to services of Stanhope Gate, GEC provide a Chief Executive, plus any small supporting team in the company, all of whom, including the Chief Executive, become employees of Rolls Royce.
- 2 GEC paid a fixed fee for services initially, but a performance related reward to be negotiated for the longer term.
- 3 Negotiation to take place on sale of industrial and marine business.
- 4 Sir Kenneth Keith to be on GEC main board plus ? honorary role in Rolls Royce and to discharge high level overseas marketing and customer relations job.



### OPTION 3

#### The Minimum

- 1 Sir Kenneth Keith goes part-time with a selling/marketing representational function. Ideally he is not Chairman but President, with a seat on the board, but failing that he is part-time non-executive Chairman.
- 2 A new Chief Executive is appointed - say (Mr Morgan) from GEC - and the new man brings with him, if he wishes, two or three others.
- 3 GEC employed to provide such consultancy services as (Mr Morgan) decides he needs - in practice Stanhope Gate monitors performance and advises on all strategic issues.
- 4 The Rolls Royce board is strengthened by two or three heavyweight outsiders.
- 5 The possibility of a management contract for GEC is kept open when the shareholding is transferred to the Department.
- 6 Negotiations with GEC about the sale of the industrial and marine business.