

SECRET

CONFIDENTIAL FILING.

Sale of BAE 748 to Leeward Islands Air Transport (LIAT).

OVERSEAS AID.

DECEMBER 1984.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.12.84							
17.11.85							
20.11.87							
24.11.87							
PREM 19/2375							

SUBJECT *α* MASTER
OPS.

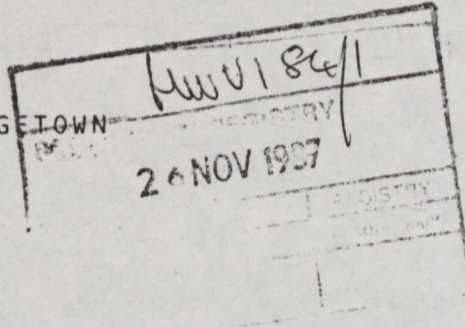
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T2214/87

CONFIDENTIAL

177133
MDHOAN 3721

CONFIDENTIAL
FM FCO
TO DESKBY 261300Z BRIDGE TOWN
TELNO 395
OF 261000Z NOVEMBER 87



BAE/LIAT

1. PLEASE DELIVER THE FOLLOWING MESSAGE FROM THE PRIME
MINISTER TO MR SANDIFORD AT THE EARLIEST OPPORTUNITY:
BEGINS

I AM GLAD THAT WE HAD THE OPPORTUNITY TO MEET AND HAVE A FRANK
EXCHANGE OF VIEWS,
DURING YOUR RECENT VISIT TO LONDON. AS YOU KNOW WE CONTINUE
TO ATTACH GREAT IMPORTANCE TO OUR RELATIONS WITH THE COMMONWEALTH
CARIBBEAN, AND IN PARTICULAR WE SHARE YOUR DESIRE TO
STRENGTHEN OUR BILATERAL TRADE LINKS. WE ARE WORKING HARD
ON THIS AND THE DECISION OVER THE BRITISH AEROSPACE ADVANCED
TURBOPROP (BAE ATP) REPLACEMENT FOR LIAT WILL PROVIDE AN EARLY
OPPORTUNITY TO DEMONSTRATE WHETHER OUR HOPES ARE SOLIDLY BASED.

I MENTIONED TO YOU MY DISMAY AT REPORTS RECEIVED JUST
BEFORE OUR MEETING THAT THE LIAT BOARD'S RECOMMENDATION IN
FAVOUR OF BAE ATP WAS IN DANGER OF BEING OVERTURNED BY SHAREHOLDER
GOVERNMENTS FOR EXTRANEIOUS POLITICAL REASONS. THE RECOMMENDATION
WAS TAKEN BY A SUBSTANTIAL MAJORITY, IN RECOGNITION OF THE
FACT THAT IT IS THE ONLY AIRCRAFT WHICH FULLY SATISFIES ALL LIAT
OPERATIONAL AND TECHNICAL REQUIREMENTS. WERE IT NOW TO BE OVER-
TURNED, IT WOULD BE A SEVERE BLOW TO UK BUSINESS CONFIDENCE IN
THE CARIBBEAN MARKET. I THEREFORE HOPE THAT THERE IS NO TRUTH
IN THESE REPORTS AND THAT SHAREHOLDER GOVERNMENTS WILL GIVE
FULL WEIGHT TO COMMERCIAL AND OPERATIONAL CONSIDERATIONS IN
REACHING THEIR DECISION.

I HOPE WE CAN COUNT ON BARBADOS TO MAKE THE
RIGHT DECISION FOR THE RIGHT REASONS.
ENDS

HOWE

YYYY

CONFIDENTIAL

177133
MDHOAN 3721

DISTRIBUTION 38

MAIN 35

LIMITED
WIAD
TRED
MAED
PS
PS/MRS CHALKER

PS/MR EGGAR
PS/PUS
MR GILLMORE
MR FEARN
MR MAUD

ADDITIONAL 3

OT4/DTI
AIR DIV DTI

PS/NO (10)

NNNN

RESTRICTED



WJ2 B02
cup

10 DOWNING STREET
LONDON SW1A 2AA

25 November 1987

From the Private Secretary

UK/COMMONWEALTH CARIBBEAN RELATIONS: BAe/LIAT

Thank you for your letter of 25 February enclosing a draft message from the Prime Minister to the Prime Minister of Barbados about LIAT's decision on replacement aircraft. The message is in line with that to other Caribbean Commonwealth Heads of Government and I think the Prime Minister would be content for it to be despatched but I would be grateful if you could make the following minor amendments:-

VBF

- delete in the second line the phrase "such as is possible only between old friends". The Prime Minister has met Mr Sandiford once before for two minutes.
- for "reciprocate" in line 5 please substitute "share".
- in the first line of the final paragraph omit the words "at least".
- it seems to me the last paragraph would be more powerful if it ended at "the right reasons".

Charles Powell

DA

Robert Culshaw, Esq., MVO,
Foreign and Commonwealth Office.

RESTRICTED

1cc PC



Foreign and Commonwealth Office

London SW1A 2AH

25 November 1987

Dear Charles

UK/Commonwealth Caribbean Relations: BAe/LIAT

Thank you for your letter of 24 November.

Since the BAe/LIAT question was raised during Prime Minister Sandiford's call on the Prime Minister on 17 November we will need to send him a rather different message. I enclose a draft.

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

OUT TELEGRAM

	Classification CONFIDENTIAL	Caveat	Precedence DESKBY
ZCZC TC CAVEAT FM TO TELNO OF AND TO	1 ZCZC 2 CONFIDENTIAL 3 4 FM FCO 5 TO DESKBY BRIDGETOWN 6 TELNO 7 OF 8 9 10 OUR TELNO : BAE/LIAT 11 12 1. Please deliver the following message from the Prime 13 Minister to Mr Sandiford at the earliest opportunity: 14 BEGINS 15 I am glad that we had the opportunity to meet and have a frank 16 exchange of views, such as is possible only between old friends, 17 during your recent visit to London. As you know we continue 18 to attach great importance to our relations with the Commonwealth 19 Caribbean, and in particular we reciprocate your desire to 20 strengthen our bilateral trade links. We are working hard 21 on this and the decision over the British Aerospace Advanced 22 Turboprop (BAe ATP) replacement for LIAT will provide an early 23 opportunity to demonstrate whether our hopes are solidly based. 24 I mentioned to you my dismay at reports received just 25 before our meeting that the LIAT Board's recommendation in /// 26 favour of BAe ATP was in danger of being overturned by shareholder // 27 governments for extraneous political reasons. The recommendation / 28 was taken by a substantial majority, in recognition of the 29 fact that it is the only aircraft which fully satisfies all LIAT		

YYYY MAIN ADDITIONAL NNNN	Catchword: operational		
	File number	Dept PO	Drafted by (Block capitals) R N CULSHAW
	Authorised for Initials Date/time despatch by:		Telephone no 270 2070
	For COD use only	Comcen reference	Telegram number Processed by

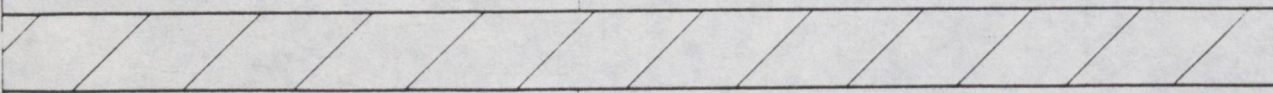
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2	operational and technical requirements. Were it now to be over-
3	turned, it would be a severe blow to UK business confidence in
4	the Caribbean market. I therefore hope that there is no truth
5	in these reports and that shareholder governments will give
6	full weight to commercial and operational considerations in
7	reaching their decision.
8	ENDS
9	I hope we can count on Barbados at least to make the
10	right decision for the right reasons, and not to be swayed
11	by irrelevant factors.
12	ENDS
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SECRET



*File MB
cc Sir C*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 November 1987

UK/COMMONWEALTH CARIBBEAN RELATIONS:
BaE/LIAT

Thank you for your letter of 23 November proposing that the Prime Minister should send a message to Commonwealth Caribbean Heads of Government about the purchase of replacement aircraft for LIAT. The Prime Minister is content for the message to issue.

CHARLES POWELL

Robert Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

SECRET



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

23 November 1987

Agree to send
 a message to the
 Commonwealth Caribbean
 governments about the BAE 146?
 (we are BAE supporter)
 CDP.

Dear Charles

UK/Commonwealth Caribbean Relations: BAE/LIAT

It was most helpful that the Prime Minister should have intervened so forcefully with Mr Sandiford over replacement aircraft for LIAT. We are considering how best to follow this up in Bridgetown, so that the crucial Barbados vote goes the right way.

BAe are still in with a chance, and if the Barbadian Government should vote in favour of the Board decision to begin negotiations with BAe, they should carry the vote. However, an intensive lobbying campaign is developing, organised principally by Prime Ministers Mitchell of St Vincent and Compton of St Lucia, in favour of BAe's main rival, the Canadian De Havilland Dash 8. They have apparently succeeded in persuading St Kitts and Nevis to come out against BAe. We understand that Trinidad, Guyana and Grenada are likely to abstain. With Barbados undecided, this leaves Antigua, Dominica, Jamaica and Montserrat (a dependent territory) alone expected to vote for ATP. If the Barbadians should vote for the Dash 8 this would give De Havilland the majority in percentage shareholder voting terms.

Given the importance of this contract for BAe and for our relations with the Commonwealth Caribbean generally, in particular for the future of our commercial standing in the region, we believe that it would be to our advantage if the Prime Minister would agree to intervene personally with her Commonwealth Caribbean colleagues on behalf of BAe. LIAT's decision in favour of BAe is unquestionably right on commercial and technical grounds, since only the ATP meets all LIAT's operational criteria. Moreover, the financial package offered by BAe is more generous than the one offered by De Havilland. If shareholder governments reject the LIAT Board's recommendations it will be for political reasons

//

I enclose draft telegrams.

Sours now

(Signature)

(R N Culshaw)
Private Secretary

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OF THE PUBLIC RECORDS ACT

C D Powell Esq
10 Downing Street

OUT TELEGRAM

		Classification SECRET	Caveat	Precedence IMMEDIATE	
ZCZC TC CAVEAT FM TO TELNO OF AND TO	↓ 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 /// 26 // 27 / 28 29	ZCZC SECRET FM FCO TO IMMEDIATE KINGSTON TELNO OF NOVEMBER 87 AND TO IMMEDIATE GEORGETOWN, PORT OF SPAIN, KINGSTOWN AND TO IMMEDIATE ST GEORGES, CASTRIES, ST JOHN'S AND TO IMMEDIATE MONTSERRAT (PERSONAL FOR GOVERNOR) INFO PRIORITY OTTAWA, WASHINGTON, BRIDGETOWN BAE/LIAT 1. Ministers are increasingly concerned by reports that lobbying, principally by Mitchell of St Vincent and Compton of St Lucia, may have succeeded in persuading other LIAT member governments to vote against the LIAT Board decision in favour of commencing negotiations with BAe for the purchase of four Advanced Turboprop (ATP) aircraft taken on 9 November. Our current information is that St Vincent, St Lucia, St Kitts and Nevis will probably vote for Dash 8, Trinidad, Grenada and Guyana are likely to abstain leaving Antigua, Dominica, Montserrat and Jamaica to vote for ATP. The Barbadian attitude is clearly crucial. 2. If Sandiford instructs the Barbadian representative to vote in favour of the Board's decision this would be a satisfactory outcome. But we cannot count on the Barbadians doing the right thing (especially after their performance in the UNGA Falklands			
		Catchword: debate			
YYYY MAIN ADDITIONAL NNNN	File number	Dept WIAD	Drafted by (Block capitals) A J H RAMSAY	Telephone no 270 2691	
Authorised for despatch by:		Initials	Date/time		
For COD use only	Comcen reference		Telegram number	Processed by	

OUT TELEGRAM (CONT)

		Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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2 debate. The Prime Minister has therefore agreed to send a
 3 personal message to her Commonwealth Caribbean colleagues
 4 reminding them of the importance we attach to the LIAT contract
 5 and of the harmful consequences that could follow in the event of
 6 the Board's decision being overturned by shareholder governments.
 7 Our determination to fight hard for BAe is strengthened by the
 8 evidence that anti-BAe lobbying is politically based.

9 3. Text of Prime Minister's message is in MIFT. Action posts
 10 (except Montserrat) should arrange for it to be delivered
 11 personally to addressees as soon as possible. You should make it
 12 clear that recipients should not (not) underrate the importance
 13 we attach to a favourable outcome from the shareholders vote. We
 14 mean what we say in our determination to build up UK- Anglophone
 15 Caribbean relations and in the importance we attach to the
 16 development of a solid relationship. There is ample evidence of
 17 this (aid, Lomé, military assistance, education etc). The
 18 present issue provides an opportunity for the Caribbean
 19 governments concerned to demonstrate that they are committed to
 20 the same objective.

21 4. Governor Montserrat should not (not) take any action beyond
 22 urging Chief Minister Osborne to continue to give his support to
 23 BAe.

24 5. Separate instructions for Bridgetown will follow.

26 HOWE

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30 MAIN

/// 31 MINIMAL

// 32 WIAD

/ 33 TRED

34 MAED

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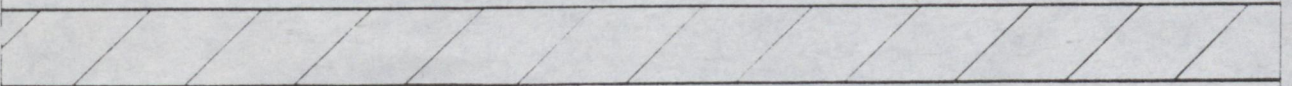
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5 MR GILLMORE
6 MR FEARN
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YYYY MAIN ADDITIONAL NNNN			Catchword:		
	File number	Dept WIAD	Drafted by (Block capitals) A J H RAMSAY	Telephone no 270 2691	
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2 in order to assist the process of economic development.

3 I am sure you will appreciate the importance I attach to
 4 Shareholder Governments acting on this question in a manner which
 5 will demonstrate beyond doubt that our efforts to build up a
 6 fruitful relationship are fully reciprocated not only in aid but
 7 also through the important EC/ACP link. Ends.

8

9 HOWE

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19 PS/MR EGGAR

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23 MR MAUD

24 OT4/DTI

25 Additional:

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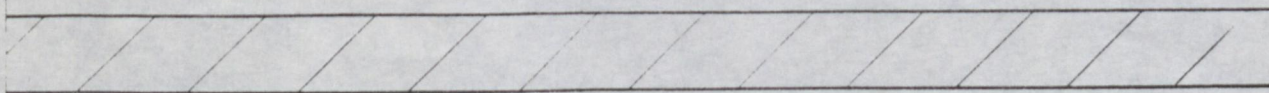
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External Copy 1 of 2
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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877



PS/ Secretary of State for Trade and Industry

SECRET

20 November 1987

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1A 2AA

CND -

Dear Charles

UK-COMMONWEALTH CARIBBEAN RELATIONS : BAe-LIAT

I understand Robert Culshaw is writing to you requesting that the Prime Minister should send a message to the Heads of Governments of countries which are shareholders of LIAT urging them to endorse the LIAT board's choice of the BAe ATP as the successor to the 748.

Lord Young supports the view that we have every right to point out how much we do for Caribbean countries and to leave them in no doubt how we would view action to overturn a decision reached as the result of an open contest. The Prime Minister has already spoken firmly on the subject of Mr Sandiford of Barbados and Lord Young hopes she will agree to send a similar unequivocal message to the other shareholders.

I am copying this to Robert Culshaw.
Yours

Jeremy Godfrey
JEREMY GODFREY
Private Secretary

DW5CFD



*As promised -
ref. du Shannon's
letter of 4 December to
di Geoffrey Howe -*

With the Compliments of
Private Secretary
to the
Minister for Overseas Development

Bill Fuller

Eland House, Stag Place
London SW1E 5DH
Tel: 01-213 5409



WBP
BB
17/1
NO

COMMUNITY SUPPORT FOR LEEWARD ISLANDS AIR TRANSPORT (LIAT)

1. Leeward Islands Air Transport, LIAT, is jointly owned by eleven Caribbean governments. It currently has four British Aerospace (BAe) 748s in its fleet, three of which are coming to the end of their useful lives. In February 1984 the European Community agreed to provide a 26 mecu EDF/EIB loan to LIAT through the Caribbean Development Bank (CDB) to purchase four new aircraft. BAe, Fokker and Aerospatiale/Aeritalia offered to supply aircraft, LIAT favoured the Super 748 which could be delivered before the end of 1984 and would thus meet the airline's urgent requirement.
2. Following a Lufthansa consultant's report the EC Commission told LIAT in September that it regarded interim lease (probably of Super 748s) and eventual purchase of the French/Italian ATR 42 when these became available in 1986 as the economically most advantageous offer which it was bound to accept under the terms of the Lomé Convention. Following the Commission's decision LIAT produced a detailed economic analysis showing that a revised offer by BAe's was preferable. BAe offered to supply Super 748s now and unconditionally to buy them back until 1988 when the ATR 42 would have a proven record and both BAe and Fokkers new technology aircraft would also be available. This was supported by the CDB. Following a further high level meeting the Commission wrote to CDB on 22 November saying that they continued to favour the ATR 42 providing certain assurances could be given by the manufacturer. However the Caribbean authorities decided that the immediate need for aircraft during the present tourist season meant that there was no time for negotiations with Aerospatiale. The CDB agreed on 13 December to provide funds from its own resources for two Super 748s. LIAT is now considering how to meet its further requirements and the British Government has offered aid towards the purchase of another two Super 748s. This offer was made in the light of a concessional package proposed by the Canadians for Dash aircraft. In detail our offer is for grant aid of up to £3.83 million in association with an offer in principle of ECGD supported export credit for that part of the contract price not covered by aid. This represents a subsidy element of 40 per cent of the commercial cost. We understand that the LIAT Management are preparing a counter-proposal which will seek improved terms. The next LIAT Board meeting will be towards the end of January and the shareholders will meet a few weeks later to take a final decision.
3. There can be little doubt that a contributing factor to the breakdown of negotiations between the Commission and the Caribbean authorities was the latter's exasperation at what they regarded as the Commission's failure to give any convincing explanation for



its continued preference for the ATR 42. In his telex of 22 November to the CDB Dr Frisch (Director General for Development in the Commission) stated that after taking independent advice from three consultants the Commission continued to take the view that the ATR 42 was economically more advantageous than the Super 748 or other alternatives including foreseeable new technology aircraft. No detailed rebuttal was given of LIAT's economic analysis.

4. We have no evidence that the Commission's decision was swayed by anything other than their assessment of the economic case. However, we share the Caribbean authorities' disquiet that the Commission has not made public the reasons for its decision. We have worked hard throughout this affair to maintain good relations between the Caribbean and the Community and we believe that a public statement is essential if ACP confidence in the Commission is not to be eroded. Sir Michael Butler wrote to Dr Frisch on 20 December asking for a public statement on the basis of the Commission's decision in order to clear the air and we await a response.

Overseas Development Administration
17 January 1985

Overseas Aid: LIAT DEC 84





010
BIP with Rev HMT
responses NT 2/12 CCAO

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)

GTN 215)

(Switchboard) 215 7877

From the Minister for Trade

4 December 1984

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

LEEWARD ISLANDS AIR TRANSPORT - SALE OF BAe 748

You will be aware of the EC Commission's recent ruling that EDF/EIB funds for the purchase of four new aircraft by the Leeward Islands Air Transport (LIAT) should be applied to the French ATR 42 rather than BAe's Super 748. Both LIAT and the Caribbean Development Bank (CDB) have rejected the Commission's decision and continue to favour the British aircraft, earlier versions of which have long been in service with LIAT. I understand that discussions are continuing between LIAT/CDB and the Commission but that the chances of an outcome satisfactory to LIAT are fairly remote.

This development has come at an awkward time. I shall be in Miami later this week where I shall be addressing a conference of Caribbean Basin countries. The conference will be attended by many Heads of Government, including the owners of LIAT. The main thrust of my speech will be that Britain continues to take the region seriously and that we are committed to playing our part in sustaining the region's economic well-being and security. I am certain to be asked about UK aid for the purchase of 748s and can give a temporising response so long as LIAT/CDB are still talking to the Commission. However, if by then the talks are finally broken off I shall have to take a more positive line, while stopping short of any sort of commitment. A wholly negative response would not be understood and would undermine our current endeavours in the region and our credibility at the conference.

As LIAT want to take delivery of at least one aircraft by Christmas, it is probable that we shall have to give urgent consideration to an ATP case. Under the circumstances I thought it advisable to let you and Peter Rees know in advance. The amount

JH3BEV



involved would be of the order of £5 million. While I recognise that the proposal may cause difficulty, the political grounds for agreeing to ATP support would, I believe, be very strong; and there will be the added factor that we should, in effect, be matching the Canadians who are offering their Dash 8 aircraft on very generous terms.

It seems to me quite intolerable that we should allow the French to get a toehold in the aircraft field in the Caribbean, which traditionally has always been British. Failure to help will be hard to explain, both to the Caribbean islands and to our own industry. Of course, much the best solution would be for the EC to change its mind. But this seems hardly likely and in my view it would be right to use ATP to clinch the deal. I hope you and Peter Rees agree.

I am copying this to the Prime Minister and to Peter Rees.

A handwritten signature in dark ink, appearing to be 'Paul Channon', written over a diagonal line.

PAUL CHANNON

A handwritten signature in dark ink, appearing to be 'Pal', written vertically.

Grey Scale #13



A

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Inches 1 2 3

Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue

Cyan

Green

Yellow

