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① MAP to see

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NOTE OF A MEETING AT BRITISH AEROSPACE, BITTESWELL, ON FRIDAY 27

JUNE 1980

Present: Prime Minister  
Mr. Nigel Lawson  
Mr. Ian Gow, M.P.  
Mr. Derek Howe  
Mr. Neville Gaffin  
Mr. N.J. Sanders

Mr. Greenwood (Deputy Chairman,  
British Aerospace)  
Senior managers from  
Bitteswell

\* \* \* \* \*

The Prime Minister said she understood that Mr. Greenwood might want to raise the question of the purchase of Jetstream aircraft. She said that she thought she might say a few things herself before he did. She said that she had personally taken the decision in favour of Jetstream, overriding advise she had received from both the Ministry of Defence and the Treasury. She was appalled that the details had not yet been settled. She said that the Government was going to spend £10 million on Jetstream, which was money it therefore could not spend on special schools, the disabled or hospitals.

She said that she had been disturbed to learn that wage costs had risen by 50% at the factory concerned in the last 18 months and that there might be some slippage in the delivery dates of the aircraft. She said that she had also been worried by reports that had reached her that the Corporation might not want to proceed with the project. She said that she looked to them to make it clear that they did want the work, and that it was essential that firms who benefited from public purchasing decisions such as this one should not become soft as a result. She said that everyone had to co-operate, and in particular excessive pay claims had to be resisted. She said that she had received a message, which seemed to her to be irrelevant, that people wanted to go ahead with buying two 1-11 aircraft for The Queen's Flight. She added that she would watch the progress of the contract every day.

In reply Mr. Greenwood said that the British Aerospace board had decided the previous Tuesday to go ahead with the Jetstream project despite a lot of doubts from some members of the board. He

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said that they were determined not to be soft. He said that weekly labour rates at the Scottish factory had indeed risen by something like 50%, but that the factory had been loss-making and British Aerospace had taken the decision to keep it open. He said that they did want the programme of Jetstream aircraft. They hoped to sell 220 aircraft in 10-12 years and that the programme would be profitable.

The Prime Minister said that she recognised that it was not easy to hold wages down but that it had to be done.

The local representatives said that the RAF was considering paying £60-90 million extra to buy Sea Harriers from America rather than Britain and that there was a delay over the decision on buying 10 more Harriers in addition to the original order. The Prime Minister said that she had mentioned the Harrier issue to Harold Brown while he had been in London and that she would look further into it.

The British Aerospace representatives said that the Navy needed another 10 aircraft and that the decision appeared to be stuck at the political level in the Ministry of Defence. The Prime Minister said that the decision-making process in the Ministry of Defence was not of the best. The Chiefs of Staff appeared to want everything, and did not realise that life was an either/or business. She said that it was difficult to decide these big issues, but that she was dissatisfied with the way that decisions were being reached at present.

MS

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30 June 1980

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*no B  
reference*

10 DOWNING STREET

From the Private Secretary

1 July 1980

RAF Communications Aircraft

I am writing to put on record a conversation between the Prime Minister and the Deputy Chairman of British Aerospace, Mr. Alan Greenwood, at the British Aerospace Bitteswell Works on 27 June.

The Prime Minister told Mr. Greenwood that she had personally taken the decision that the Jetstream should be purchased, overriding the advice she had received from the Ministry of Defence and the Treasury. She was appalled that it had taken so long to settle the details. She said that she was disturbed to hear that British Aerospace might not want to give the project their full backing, and also worried by reports that there might be some slippage in the delivery dates for the aircraft. She said that she wanted to make it clear that the Government was spending money on this project which could not be devoted to desirable ends such as special school or hospitals, and that in consequence she expected the company to resist excessive pay claims and not to become soft. She said that she had been surprised to receive information that the question of aircraft for The Queen's Flight was being raised in this context; although important, it seemed to her to be irrelevant to the Jetstream issue. She added that she intended to watch the progress of the contract every day.

In reply, Mr. Greenwood said that the British Aerospace Board had decided to go ahead with the Jetstream project, despite doubts by some members of the Board. He said that they did want the programme of Jetstream aircraft, and that they were confident that 220 aircraft could be sold in 10-12 years. He said that the Scottish factory had been loss-making and that British Aerospace had decided to keep it open. It was true that weekly pay rates had risen by something like the figure the Prime Minister had mentioned, but British Aerospace had no intention of becoming soft.

No doubt you will take these comments into account.

I am copying this letter to Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), Mike Hopkins (Northern Ireland Office) and David Wright (Cabinet Office).

N. J. SANDERS

J.D.S. Dawson, Esq.,  
Ministry of Defence,

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From the  
Minister of State  
ADAM BUTLER

26 June 1980

Nick Sanders Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

Dear Nick,

... I attach as requested brief background notes for the Prime Minister's visit to Bitteswell tomorrow.

I understand that Mr Alan Greenwood, the Deputy Chairman, is meeting the Prime Minister there and that the subject of the BAe bid to meet the RAF requirement for 14 communications aircraft with their own Jetstream aircraft may arise.

[at y] The Prime Minister will already have seen the Secretary of State's report (dated 24 June) of the last E(EA) meeting on this matter. The meeting referred to has now been held by Mr Butler and there are indications that it will be possible to resolve the financial difficulties involved in meeting British Aerospace's request for an additional £6.5 million assistance over the £16.2 purchase price. Mr Butler will be reporting the outcome to the Secretary of State and other members of E(EA) today, and a copy is being sent direct to the Prime Minister.

[at x]

In brief BAe have offered to absorb almost £300,000 (£700,000 including increased interest charges needed because the finance will be spread over three years, and not received before March 1981 as they had originally requested). The Scottish Office have been able to increase their offer of regional assistance in the light of changed circumstances at Prestwick where the aircraft is built, and the other Departments involved expect to provide the remainder.

If Mr Greenwood raises this subject and asks whether a decision has yet been reached, the Prime Minister may wish to tell him that:

A final decision has yet to be reached but the position seems a good deal more promising, not least because of British Aerospace's co-operation. I very much hope that a UK solution can be achieved in the next few days.

Yours sincerely,  
Jonathan Hudson

JONATHAN HUDSON



BRIEF FOR THE PRIME MINISTER'S VISIT TO BAE, BITTESWELL ON FRIDAY 27 JUNE 1980

1 BRITISH AEROSPACE: BITTESWELL

British Aerospace's site at Bitteswell is part of the Kingston-Borough Division. It is among BAe's smallest sites, employing just over 1000 people, a level that has been more or less constant over the last ten years. The site carries out overhaul and conversion work on a range of military aircraft - a "spares and repairs site". It is also engaged on small-scale manufacture of components, and is used for "overflow" production work from other BAe sites. It now has no design staff, and has not produced a new aircraft since 1958 (the Argosy). In addition to modification work and servicing on the following planes (Vulcan, Gnat, Buccaneer, Harrier), Bitteswell is also partially responsible for final assembly of the Hawk ground attack trainer. Some 90% of the site's work comes from MoD contracts, and it is held in high regard by MoD for the quality of its work and for achieving promised delivery times. Although the RAF recently announced an order for a further 18 Hawks, there have been fears for some time among the workforce that Bitteswell might be particularly vulnerable to closure under any BAe plans for rationalisation. However, the DoI know of no such plans. The Prime Minister might ask BAe about the future loading of the site, and in particular about the export potential of the Hawk to the USA. [The US Navy may have a requirement for 300 plus new trainers, and is considering purchase of the Hawk, to be jointly constructed with McDonnell Douglas.]

2 BRITISH AEROSPACE FLOTATION

Background Note

The British Aerospace Act, which enables the business of British Aerospace to be transferred to a successor company, British Aerospace Ltd, received the Royal Assent on 1 May. The Government's position has been, and remains, that a flotation will take place at the earliest appropriate opportunity after Royal Assent; and no figures for British Aerospace for 1980-81 were included in the public expenditure White Paper on the assumption of a sale of shares in the present financial year. However, it is now clear that a flotation will not be possible this Summer; and there are major uncertainties - the possibility of changes in defence programmes affecting BAe, and the financial position of the corporation - about a flotation later in the year. (Because of the Stock Exchange requirement that an offer for sale must be based on results for a period ending not more than six months previously, the only potential "window" in 1980-81 is the period end-October to end-1980).

Speaking Note

A sale of shares will take place at the earliest appropriate opportunity. There are many factors to be taken into account, including for example the state of the market, and there is a great deal of preparatory work still to be done. It would be wrong to speculate on the exact timing, which will be settled in the light of all these factors, and which has to be right to ensure the success of the flotation.

26.6.80

PRIME MINISTER



BAE may lobby  
you about this  
when you visit

MS

10 DOWNING STREET

Bitterwell on

Prime Minister

Friday

MS  
25/6

The real message of this  
report is that the package  
is falling apart. And BAE  
do not seem to be falling  
over themselves to get  
this order.

In view of your decision  
that Bepko should fund £8.8m  
for Plessey, perhaps you will  
be prepared to reconsider  
the options on communications  
aircraft.

MPF 25/VI

Prime Minister Y 2



PRIME MINISTER

RAF COMMUNICATIONS AIRCRAFT

A progress report:  
 Sir Keith will report  
 back after further  
 discussions with British  
 Aerospace.

R 24/6

This minute reports the outcome of E(EA)'s discussion on 19 June on the progress of negotiations on the RAF's order of fourteen new aircraft to replace their existing fleet of communications aircraft.

You will recall that on 27 March E(EA) considered whether the RAF should buy the American Beech Super King Air 200 or British Aerospace's Jetstream 31. In the light of our discussion you decided that:-

- (i) the RAF should buy the Jetstream;
- (ii) the capital costs, of £16.2 million, should be met from the Defence Budget; and
- (iii) the additional £6.5 million financial assistance, which British Aerospace have said they require if they are to take the order, should be provided by the other Departments concerned.

Pending further discussion of the financing, British Aerospace have extended their tender deadline to the end of June. If the order were placed they would deliver the aircraft between September 1982 and March 1983. They have told MOD they will not be prepared to extend their offer beyond the end of June on its present terms.



On 28 May, the Chairman of Eagle Aircraft Services Limited, the United Kingdom distributor for the Beech Corporation, wrote to you to suggest that if negotiations were reopened soon, it was possible they could hold to their original tender price of £11.5 million for the King Air 200 and to complete delivery by March 1981. Beech have also offered British Aerospace the opportunity for Prestwick to supply parts of any Beech aircraft "where it would be competitive with current sources of supply". They have also informed the DOI in general terms of their wish to increase purchases from United Kingdom equipment firms, and indicated that their attitude would be favourably influenced if they were to secure the MOD order.

The outcome of the further discussions of the additional assistance of £6.5 m for British Aerospace is that the maximum which Departments can offer is £4.5m, all from the Scottish Office. (The reasons for this are set out in more detail in paragraphs 7-11 of E(EA)80 29).

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In this situation E(EA) consider that there are now three possibilities.

First, we must consult further with British Aerospace to see whether they would be willing to go ahead on the basis of the maximum assistance which the Scottish Office can offer and with no increase in the capital cost of £16.2m which the Ministry of Defence would find. Adam Butler, in consultation with Ministers from the Scottish Office, the Ministry of Defence and





the Department of Employment will now arrange an urgent meeting with British Aerospace to discuss this.

Secondly, if British Aerospace were not willing to move - and my own Department doubts whether they are - we could place the order with Beech. But before concluding any contract with them the Ministry of Defence would aim to secure firm commitments to orders which would help British Aerospace, Prestwick, and increased purchases from other UK equipment firms.

Thirdly, if we were to pursue the second option the Secretary of State for Defence has said that this would affect his consideration of a possible order of two BAe 1-11 aircraft for The Queen's Flight. This order would be a helpful gesture to British Aerospace in that it would help their cash flow. But since the aircraft had already been built the employment benefits would be confined largely to fitting out work. Provision had not been made in the defence budget for the purchase of the two aircraft but the purchase of Beech aircraft instead of Jetstream would release some funds which could be put toward the purchase of new aircraft for The Queen's Flight. Since this raises wider considerations relating to VIP flying, Francis Pym will be bringing forward proposals very soon.

I will report further to you following the meeting with British Aerospace.

I am sending copies of this minute to members of E(EA), to

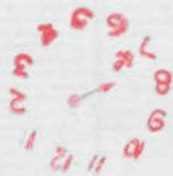


the Secretaries of State for Defence and for Northern Ireland  
and to Sir Robert Armstrong.

KJ.

24<sup>K J</sup> June 1980

Department of Industry  
Ashdown House  
123 Victoria Street



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