

PRIME MINISTER

cc Mr. Powell
Mr. Norgrove
Mr Flesher
Mr. Alison

A first cock-shy at a reply to Sir Austin Pearce's letter (flag A), which draws heavily on Mr. Brittan's Statement to the House yesterday (flag B). Its text needs clearance with the DTI.

Also attached is the DTI record of the famous meeting (flag C).

N.L.W.

N.L. WICKS

13 January 1986

or intended at the meeting, he very much regretted it. I would wish to give you that same assurance. Let me emphasise too that it is, of course, no part of the Government's policy to intervene on the merits of the two offers. ^{- Planned that there is a choice -} Nor would we

want to bring any pressure to bear on either UTC/Fiat or on ^{and that} the members of the European consortium, which of course ^{for whatever} includes British Aerospace, to withdraw their offers. ^{looks with}

Finally, let me say that I fully accept that Sir Raymond ^{hope} Lygo is one of the last people who could be accused of being ^{decision} anti-American. Sir Raymond had the most distinguished career ^{soon} in the Royal Navy when, as you say in your letter, he had the closest involvement with the United States.

We have agreed that although your letter was classified "Private and Strictly Confidential", it should now be published as would my reply.

Sir Austin Pearce, C.B.E.

British Aerospace

PUBLIC LIMITED COMPANY

From the Chairman,
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Private and Strictly Confidential

The Rt. Hon. Margaret Thatcher, FRS, MP,
The Prime Minister,
10 Downing Street,
London SW1

13th January 1986

Dear Prime Minister,

You should be aware that while visiting Mr. Pattie to discuss Airbus business on Wednesday the 8th January, preparatory to a meeting in Munich on January 9th, Sir Raymond Lygo, my Chief Executive, had an impromptu meeting with Mr. Leon Brittan in the Department of Trade and Industry at 1700 hrs. The meeting was at the Secretary of State's request, in the presence of Mr. Geoffrey Pattie, Mr. Macdonald and Mr. Michell all of his Department, as well as his Private Secretary.

Sir Raymond returned directly to a special Board Meeting of British Aerospace which was in progress and made a full report of his conversation to the Board. He also wrote down all the salient points that had been made to him. His report stated that the following points were specifically covered by the Secretary of State:

1. expressed a view that as the DTI were our sponsoring Department we should have consulted with his Department before we entered the Consortium
2. to enquire whether we had fully considered the effect our actions might have on our American business and in particular on the A320 and his concern about the effect on Anglo-American business that our actions might be having
3. his concern at the Consortium leadership role we appeared to be adopting
4. that the decision should be left to the shareholders alone
5. that the agreement of the National Armaments Directors had never been endorsed by Government and that he could prove this by showing Sir Raymond the Minutes of the meetings which discussed it
6. that what we were doing was not in the National Interest
7. that we should withdraw.

A full transcript of Sir Raymond's account of the proceedings is available if you would wish to see it. At the end of his Board Statement, Sir Raymond asked that he be accorded the protection of the Board since the matter in which he had been nominated as the spokesman was becoming personalised and he was most unhappy with the situation. You should be aware that in his verbal reply to the Secretary of State, Sir Raymond made the following points:

1. that the Board had considered fully the implications of the effects on our American trade; that we had actually suggested that some of the words originally used in the National Armament Directors' Agreement be amended to avoid implying that the action was protectionist
2. that Sir Raymond had gone out of his way at the Consortium's Press Conference to make a lengthy statement to one of the American correspondents there to the effect that he wished that the debate would not be trivialised to the extent of portraying the European Consortium as being anti-American because it was not in the interests of the United States to have a weak defence industry in Europe; quite the reverse, and to be pro-European did not mean that one had to be anti-American. In fact, the reverse was true
3. that in his own case he was married to an American, had spent many happy years in the United States and served in the United States Navy which he suspects was a greater involvement in the United States than anybody present at that meeting, and the last person that could be accused of being anti-American, in his view, was himself
4. that he found the reference to the National Interest confusing, since we had been told by another great Department of State that what British Aerospace were doing was in the National Interest
5. that our European partners had a natural expectation that British Aerospace, the most experienced, should lead their Consortium in the attempt to persuade the shareholders of Westlands that their proposals were genuine and better
6. that British Aerospace and the Consortium were very content to let the shareholders decide, so long as they were given the facts
7. that the Ministry of Defence was British Aerospace's largest customer and that the partners involved in the Consortium were the same partners in our most important programmes, Airbus, the European Fighter programme, the Trigat programme and Tornado

In view of the serious nature of the complaints that had been made against the attitude of British Aerospace, it was considered important that our British partner GEC should be informed of what had taken place. Also, since one of the conditions precedent set before we joined the Consortium was being questioned, i.e. the agreement of the National Armaments Directors, that the Department of Defence, through the Permanent Under-Secretary should be approached to learn whether, what we had been given to understand was correct. At no time was any discussion about the meeting held with Mr. Michael Heseltine.

You should also be aware that on December 11th, I was approached by Mr. Macdonald of the Department of Trade and Industry who expressed the Department's concern that British Aerospace had not consulted the sponsoring Department, the DTI, before getting involved with the European Consortium. I reminded him of the meetings with Sir Basil Blackwell on May 15th and Sir John Cuckney on July 15th when British Aerospace had stated its interest in ensuring the survival of Westlands and that these conversations had been reported to Mr. Tebbit, Mr. Pattie and Sir Brian Hayes. It was indicated to me that Mr. Brittan was very concerned at the developments and I therefore requested a meeting with him which was held on December 13th at which I stated that British Aerospace as a fully privatised company had considered the Consortium proposal on a commercial basis and since the DTI had not responded in any way to British Aerospace's expressed interest in the Westland survival, that British Aerospace should proceed on the basis of its commercial interests and these took into account the U.S. relationships for both British Aerospace and Airbus Industrie.

This discussion covered some of the facts as mentioned above but not as pointedly as were made to Sir Raymond. We were thus aware of the arguments being made by the DTI, but believed that the shareholders of Westlands should decide. That is still our position.

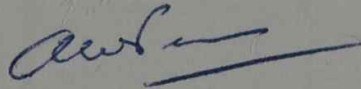
I have no doubt that Sir Raymond's account of the events so fresh in his memory and recounted to the Board so soon after the event with the assistance of notes made immediately after that meeting was substantially correct, and are borne out by much other information that is coming to light. So far we have refused to make any public comment.

The meeting took place immediately following a discussion Sir Raymond was having with Mr. Pattie on Airbus Industrie's proposals for a new programme. The connection is worrying to say the least. Whatever the words used were meant to convey, the message was perfectly clear. I would therefore ask you to take this letter into account in any further exchanges that might take place, or in any further statements that might be made by the Government, in order to avoid further embarrassment.

Please be assured that we have absolutely no desire to embarrass you, and much regret that you have become involved in what should have been a purely commercial discussion and decision-making process. Nevertheless, I think it is important that you should understand the position of British Aerospace.

This letter is addressed to you and is not being copied to any other party.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'A. W. ...', followed by a horizontal line.