

TO:
PS/MR PATTIE

FROM:
J F MOGG
PS/Secretary of State
for Trade & Industry

10 January 1986

MEETING WITH SIR RAYMOND LYGO : 8 JANUARY 1986

On 8 January the Secretary of State took the opportunity of Sir Raymond Lygo's meeting with your Minister to have a few words with Sir Raymond. Your Minister, Mr Macdonald and Mr Michell were present.

2 The Secretary of State began by saying that there had been one aspect of the Westland issue that had been of particular concern to him as the sponsoring Minister. This concerned the impact on potential sales to the US of the A320. The Secretary of State said that whilst the Government's position was that it was a matter for the company to decide what course to follow, he himself had no view on the merits of the two offers. However, the nature of the campaigning and the overtones of anti-American sentiment were, in the Secretary of State's view, particularly damaging and potentially could fuel protectionist sentiment in the US. Had such views been expressed earlier they would undoubtedly have hindered the Secretary of State's efforts in the difficult and complex negotiations with the United States Trade Representative concerning semi-finished steel products.

3 Sir Raymond understood the Secretary of State's concern. British Aerospace's interest was to ensure that Westland remained a potential purchaser of material from his company. In response to Sir Raymond's comment that the NAD recommendation remained on the table the Secretary of State said that the Government's decision was clear. Unless the European offer had been acceptable to the Westland Board by 13 December the Government was not bound by the NAD recommendation. This was now the position and had been made perfectly clear in the Secretary of State's statement to the House.

4 The Secretary of State said that it might have been helpful if British Aerospace had spoken to him initially. However having not done so and, British Aerospace having taken a commercial decision to participate in the European Consortium, the Secretary of State took no view on that position. Nonetheless he hoped the way in which the negotiations were conducted would not damage British Aerospace's wider commercial interest especially in the US. For example any challenge which implied that acceptance of the Sikorsky/Fiat proposal would result in a loss of independent design capability at Westland raised the profile of the discussions and implied an anti-US attitude.

5 Sir Raymond said that he hoped that discussions with Westland that evening would be on a true commercial basis. An attempt would be made by both sides to lower the temperature at this meeting. Indeed Sir Brian Hayes had himself congratulated Sir Raymond on his success in lowering the temperature at previous meetings. At the discussion later that evening British Aerospace would probably make a further improvement in the European offer. In order to resolve a shortage of engineering capability at British Aerospace some 100 engineers work per annum could be made available to Westland. Such an offer from British Aerospace would only be made if Westland had the capability to undertake the high quality work involved.

6 Sir Raymond returned to the question of anti-American sentiment. British Aerospace Inc. (their US subsidiary) had expressed great concern about their US business being harmed. The Secretary of State responded by saying that he was ready to act immediately in defending British Aerospace's interest. He repeated, however, that, in his view, it was much more effective if the current round of discussions was not interpreted as being anti-American in sentiment.

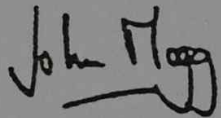
7 Sir Raymond commented that MOD was British Aerospace's biggest single customer. He also emphasised that British Aerospace was considerably committed to collaborative ventures with MBB and Aerospatiale. Someone had needed to take the lead in establishing the European Consortium and British Aerospace would have been regarded as letting down their European collaborators if they had not done so. Sir Raymond was fully aware of the dangers and hoped that he was capable of managing this delicate balancing act.

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8 The Secretary of State commented that customers could not dictate the extent of the enthusiasm with which any particular case might be put. British Aerospace had relations with this Department also. Sir Raymond took this point.

9 The Secretary of State said that it was not in the national interest that the present uncertainty involving Westland should drag on. Sir Raymond said that he had heard the same message elsewhere but questioned what was the national interest. Shareholders needed to have full information on which to base their decisions.

10 The meeting concluded with Sir Raymond observing that notes had been taken of the discussion.



J F MOGG

As requested



With the Compliments of

Sir Raymond Lygo

Chief Executive

British Aerospace

Public Limited Company

100 Pall Mall

London, SW1Y 5HR

14.1.86

Record of events pertaining to Westlands which occurred
on the 8th January 1986

Copy 1.
cc J. Michell
J. Wiggins

Copy 2 DN
3 TF

I had arranged to meet with Mr. Geoffrey Pattie at 4 p.m. on the 8th for the purpose of briefing him prior to my attending the Presidents Meeting of Airbus Industrie. I was slightly late, about 5 minutes, and we settled down to talk about the problems of the replacement for management in Airbus Industrie and also the impending developments on TA9 and 11 and how we might handle them. I have included separate notes on these issues. We continued by discussing the launch of HOTOL and some of the problems we were having with funding of various programmes within the Ministry of Defence of which he had already been made aware. At about 4.50 pm, he said 'By the way the Secretary of State is aware that you are in the building and would like to have a word with you'; I said 'Certainly, but I did have a Board Meeting starting at 5.30 pm and therefore I was a bit short for time'. The Minister said that in that case he would get his Private Secretary to phone to see if the Secretary of State could see me now. This proved possible and Geoffrey Pattie accompanied me upstairs to the Secretary of State's office. The meeting with Mr. Pattie had been attended by Mr. Macdonald.

When we entered the Secretary of State's room, I was surprised to see that he was accompanied by Mr. Macdonald, Mr. Michell, the Secretary of State's Private Secretary, and of course now, Geoffrey Pattie. I had expected a private chat but this was clearly something more formal.

Mr. Brittan started by thanking me for coming in to see him and telling me that he wanted to take this opportunity to express his concern at the way events were turning in the Westland saga, that up to quite recently British Aerospace had been taking a low profile within the Consortium arrangements but it had now become more vocal and up-front and he wanted to express to me his concern of the effect our campaign might have on UK business with the United States. He said that it placed him in a difficult position in that, when he was required to negotiate, as he had recently, increased steel quotas, it was imperative that there were no implications of discriminating against the U.S. or actions that could be construed as anti-American. Part of his job was to defend British Industry. He wondered whether we had given consideration of the effects that our action might have on Airbus A320 sales in North America for example.

I said that we were very conscious of the difficulties that he was talking about through British Aerospace Inc. I had also had a discussion with Mr. Bob Danielle of United Technologies soon after we had decided to join the Consortium. In fact I had raised the subject with Mr. Pattie immediately after we had first decided to join the Consortium, and that furthermore I had suggested to the Ministry of Defence that the original way in which the National Armaments Directors' Agreement had been worded, was not conducive to free trade. It implied that they would only buy their helicopters from Europe. He interrupted me at this point to say that the National Armaments Directors' Agreement had never been ratified, never been ratified, and that I was quite wrong to believe that it had been ratified. It had never been made Government policy. I in turn

said I understood this to be so, but was I not correct in saying that the Armament Directors had in fact signed such a document since I'd seen it. 'No, No' he said, 'I could show you the Cabinet Minutes, it has never been agreed, it has never been agreed'. I passed on, since there didn't seem to be much relevance in this conversation.

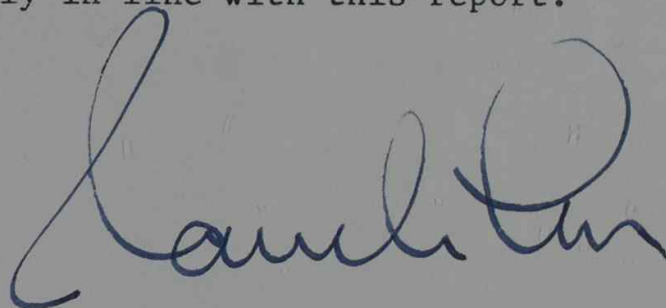
I said that he had to realise that not only was our major customer the Ministry of Defence, but also that we had very important contracts, Airbus, Tornado, European Fighter Aircraft, Trigat, etc., which all involved the same partners that we were dealing with in the Consortium. He said that he understood this but that sometimes one had to disagree with one's major customer if it was in the long term interest of the company, and he reminded me that the DTI was our sponsoring Department and that he thought we should have discussed the matter with him and with the Department of Trade and Industry before we had proceeded to join the Consortium. I made no comment.

He went on to say that, when we had first become members of the Consortium, we had kept a fairly low profile, but now we appeared to be coming up-front and taking the lead, and he thought that this was not in our best interest. At this point I said that his own Permanent Under-Secretary, to whom I had reported all our actions on Monday, had congratulated me on the way in which I was attempting to cool the debate and keep it on commercial grounds. He made no comment.

I said that the Europeans naturally expected the British company which was most experienced in aerospace business, to take the lead and it was not surprising that they asked us. The decision that we should take the lead, was taken after we had had our final meeting with Sir John Cuckney and our offers had been disregarded and we had no alternative but to take a higher profile. Because of my concern in this matter, I had made a specific issue, at our Press Conference, of replying fully to a question by one of the American newspaper men there, that I did wish that we could avoid this debate being trivialised to the extent of bringing it down to a simple question of being pro-European or pro-American. It was our view that a strong and united Western Europe with a strong defence industry was of great importance to the United States and it was very much in the interests of the United States that this should be so, so that Europe could make a greater contribution to it's own defence. I said also that the reverse was true, so that therefore it was quite wrong to suggest that because in this instance we were being European, this was anti-American. It certainly was not in the interests of Europe to see America being discriminated against by its European partners. I went on to say that anyone who suggested that I was anti-American could not have understood the facts; I was married to an American; I had spent more time in the United States, including serving in the United States Navy, than anyone I suspect present in that room, and that no-one could logically accuse me of being anti-American - the truth was quite the reverse.

He said that he thought this continuing campaign was against the national interest, he believed we should have stayed in the background and he would like us to withdraw. I was so stunned by this that I turned to the assembled company and said 'Are you writing all this down?' to which the Secretary of State replied 'They understand what I am saying better than I do probably'. I said that I was now confused because only that morning I had been told by another great Department of State that what we were doing was in the national interest. He replied 'Yes, I can understand, I can imagine which Department that was, but I have to tell you that in my opinion what you are doing could be extremely damaging to you and your business'. He said he fully supported the attempt to put together a European solution but that the decision should be left to shareholders. I said we were fully in agreement with that provided they were in possession of all the facts. I said that we realised that we were on a tightrope between two Departments of State and between trusted friends and collaborators on both sides of the Atlantic. Nevertheless, we firmly believed that the way ahead for the aerospace industry of the UK was primarily through collaborative arrangements with the Europeans. We parted on this note and with a final reminder, looking at me fixedly, that the DTI was our sponsoring Department. The whole meeting was conducted in what I can only describe as an unpleasant atmosphere.

I left the DTI and came straight back to the Board Meeting. It had not been a pleasant experience. The Chairman was making his preliminary statement to the Board when I arrived and, since I was familiar with this, I jotted down immediately the points that had been made to me so that I would not forget them when I came to give my account to the Board. I did this and reported fully in line with this report.



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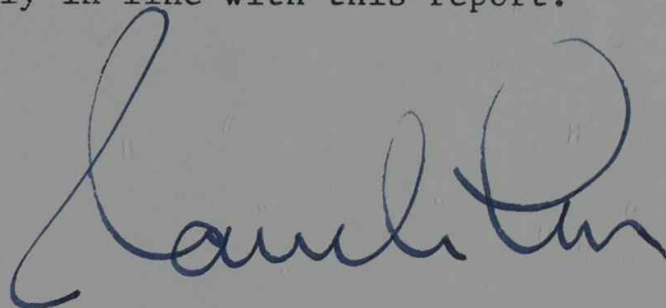
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A handwritten signature in blue ink, appearing to read 'Raymond Lygo', written in a cursive style.

SIR RAYMOND LYGO