



10 DOWNING STREET

Prime Minister

Bae have just

published Dr Ray

Lygo's notes - at

2300 this evening.

CDP

15/i



M J Powell

CDD 16/1

To:

1. MR MACDONALD
2. PS/SECRETARY OF STATE

cc. PS/Mr Pattie
 PS/Mr Morrison
 Sir Brian Hayes
 Sir Jeffrey Sterling
 Mr Whittingdale
 Mr Macdonald
 Miss Bowe
 Mr O'Shea
 Mr Wicks - No.10
 Mr Wiggins - Cabinet Office

From:

M J MICHELL
 US/AIR
 VA 7/2
 215 4377

16 January 1986

WESTLAND: SIR RAYMOND LYGO'S NOTE

Sir Raymond Lygo has now published his own record of his meeting with the Secretary of State on 8 January on which Sir Austin Pearce's letter was based.

2. In several respects the note differs from Sir Austin's letter. Indeed, I believe it gives an account of the meeting nearer to your own record (now published).

3. Note particularly:

- i) The order of the discussion is much closer to that in your own note and makes clear that the Secretary of State opened by expressing his concern about possible risks to BAe's business in the US.
- ii) It clearly emerges that the Secretary of State's concern was not that BAe was a participant in the consortium, but that, having originally taken a "low profile" the company had now "become more vocal and up-front".
- iii) Sir Raymond's note confirms the accuracy of your record of his remark about the views of BAe's US subsidiary. This was not in Sir Austin Pearce's letter.



- iv) Sir Raymond's account of the conversation on the NADs recommendation confirms yours. Interestingly his note records his view that the NADs recommendation, as originally worded, was not conducive to free trade.
- v) On the point about relations with MOD and DTI Sir Raymond's note has the Secretary of State saying 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 DTI before we had proceeded to join the Consortium." Later, Sir Raymond's note says "we parted on this note and with a final reminder, looking at me fixedly, that the DTI was our sponsoring Department."

None of this appears to substantiate the innuendo in Sir Austin's letter (bottom of p.3) relating to an alleged connection between the Secretary of State's remarks and a possible Airbus proposal. The Secretary of State's remarks about BAe's long term interests, as recorded by Sir Raymond, are entirely proper remarks for a sponsoring Minister to make.

- vi) Sir Raymond's note suggests the Secretary of State said BAe should have discussed the matter with the DTI before joining the Consortium. This is different from Sir Austin's letter which says consult. Sir Raymond's account is near to yours which says "it might have been helpful if BAe had spoken to him initially".



vii) On the national interest, Sir Raymond's account tends to confirm your record that it was the continuing uncertainty that was said by the Secretary of State to be against the national interest, not BAe's actions, as stated in Sir Austin's letter. Sir Raymond's note says "He [the Secretary of State] said he thought this continuing campaign was against the national interest".

viii) On withdrawal, Sir Raymond's account again tends to confirm yours. Sir Raymond's account suggests that the word "withdraw" was used not in the sense of BAe withdrawing from the consortium, but of withdrawing their public position from one of dominant leadership to one of lower profile within the consortium. In Sir Raymond's account, this passage immediately follows (quite correctly in my view) the discussion about the risks to BAe's US business of BAe adopting a leading role.

ix) As to "looking at me fixedly", if I may be forgiven a personal comment, it is in my experience a habit of the Secretary of State to look at people quite directly or "fixedly" (whatever that means) when making a point.

4. The following other points might be made on Sir Raymond's note:

a) It corroborates that the Secretary of State took the opportunity of Sir Raymond already being in the building to see him.



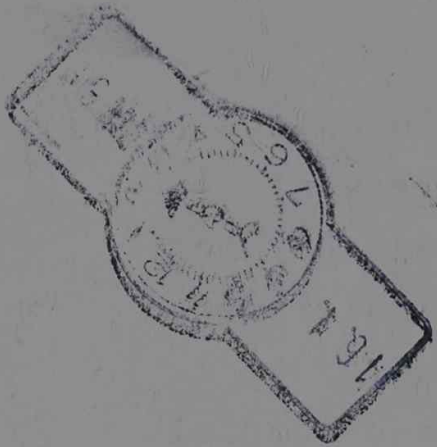
- b) Sir Raymond's "surprise" at finding the Secretary of State accompanied by Mr Pattie and Mr Macdonald is odd since they had all come upstairs together. (Mr Michell had in fact intended to go to Mr Pattie's earlier meeting, but urgent work had intervened and, knowing that Mr Macdonald would be there, he had decided to give that work priority.)
- c) Sir Raymond did not take notes at the meeting. According to Sir Austin's letter, Sir Raymond made his notes "immediately after the meeting". Sir Raymond's own note suggests that he "jotted down" the points made during the Board meeting which he refers to as starting at 5.30pm. The implication is that his note was prepared at some time after the Board meeting ie some hours after the meeting with the Secretary of State.
- d) The recollection of Mr Macdonald and myself corroborates your account that the remark drawing attention to your note-taking was made at the very end of the meeting, not during it as Sir Raymond suggests.
- e) As to "unpleasant atmosphere", opinions can legitimately differ, but I would personally not corroborate such a description. I recall laughter at least twice during the meeting (and again at the remark about note-taking, which in my recollection was made in a jocular vein). I recall personally greeting Sir Raymond by his christian name, as I usually do. He appeared, as usual, relaxed, although clearly listening with attention to the points made.



It appeared to me that a friendly atmosphere was in fact created by the close agreement between the Secretary of State and Sir Raymond on the risks of arousing US protectionist sentiment. Generally, the meeting appeared to me to be typical of the sort of frank and cordial exchange we normally have with the top management of BAe, whom we know well and see regularly.

A handwritten signature in cursive script, appearing to read 'M J Michell'.

M J MICHELL



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.

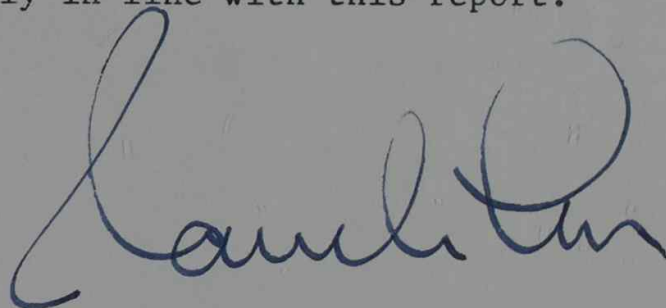
I said that he had to realise that not only was our major customer the Ministry of Defence, but also that we had very important contracts, Airbus, Tornado, European Fighter Aircraft, Trigat, etc., which all involved the same partners that we were dealing with in the Consortium. He said that he understood 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.

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

SIR RAYMOND LYGO