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To:
PS/SECRETARY OF STATE

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

From:
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15 January 1986

WESTLAND

I enclose a commentary on the two records of the meeting between the Secretary of State and Sir Raymond Lygo on 8 January.

2. The commentary compares the accounts in Sir Austin Pearce's letter and your note. The passages in square brackets are comments by me, which might also be useful in doing speech notes tonight.

M J MICHELL



NOTES ON THE ACCOUNTS OF THE MEETING BETWEEN THE SECRETARY OF
STATE FOR TRADE AND INDUSTRY AND SIR RAYMOND LYGO ON
8 JANUARY 1986 CONTAINED IN SIR AUSTIN PEARCE'S LETTER
TO THE PRIME MINISTER OF 13 JANUARY 1986 AND MR J F MOGG'S
MINUTE OF 10 JANUARY 1986

Genesis of the Meeting

Both accounts note that Sir Raymond Lygo's visit to the DTI was principally to see Mr Geoffrey Pattie. [Note: this meeting had been arranged some time previously and, as Sir Austin's letter notes, was mainly concerned with Airbus matters.] Sir Austin's letter describes the meeting with the Secretary of State as "impromptu". Mr Mogg's minute notes that the Secretary of State "took the opportunity" of Sir Raymond's meeting with Mr Pattie to speak to Sir Raymond.



Those Present

Sir Austin's letter correctly records that, apart from the Secretary of State and Sir Raymond, those present were Mr Pattie, Mr Macdonald and Mr Mogg. [Note: Since Mr Pattie and Mr Macdonald had been discussing Airbus matters with Sir Raymond immediately prior to the meeting, it was natural that they should accompany Sir Raymond to the Secretary of State's office. Mr Macdonald is Deputy Secretary in charge of aerospace and other matters. Mr Michell is Head of the DTI Air Division. It is normal for either or both these officials, who are well known to Sir Raymond, to attend discussions between him and Ministers. It is also normal for the Private Secretary (Mr Mogg) to attend the Secretary of State's meetings and to take a note when visitors and officials are present.]



Consultation with DTI

Sir Austin's letter says that Sir Raymond reported the Secretary of State as having expressed the view that as the DTI were BAe's sponsoring Department, BAe should have consulted the Department before entering the Consortium.

Mr Mogg's minute notes that the Secretary of State said that it might have been helpful if BAe had spoken to him initially. However the minute goes on to say: "However, having not done so and, BAe having taken a commercial decision to participate in the European Consortium, the Secretary of State took no view on that position". [Note: these were the exact words used by the Secretary of State. They are not recorded in Sir Austin's letter. The comment was a natural one for the Secretary of State to make. The future of Westland was already attracting public attention and, although there was no question of any obligation or requirement on BAe to consult, it would have been consistent with normal practice for BAe, or any other aerospace company, to inform the DTI of a move which was bound to attract public attention and to have implications for the future of the aerospace industry.]



Effect on US Business: A.320

Sir Austin's letter says that Sir Raymond reported that the Secretary of State "enquired" whether BAe had fully considered the effect of their actions on their American business, in particular the A.320, and on Anglo-American business generally. Mr Mogg's minute notes that the Secretary of State expressed concern about the impact on potential sales to the US of the A.320; and that he hoped the way in which negotiations were conducted would not damage BAe's wider commercial interest, especially in the US. Mr Mogg's minute notes that the Secretary of State said he was ready to act immediately to protect BAe's interest (this point does not appear in Sir Raymond's reported account). [Note: The Secretary of State's comments were made against the background of recent successes by BAe and its European partners in selling the A.320 and other Airbus products in the US. The Secretary of State has been concerned recently by reports of opposition to Airbus in the US on grounds that Airbus is "subsidised". He has recently made representations to the US Trade Representative (USTR) arguing that such views are unjustified and setting out the case that Airbus is an important element in US/UK trading relations. The recent talks with the USTR on steel (mentioned in Mr Mogg's minute but not specifically in Sir Austin's letter) were also fresh in the Secretary of State's mind.]



Tone of Discussions/Nature of Campaign

Both documents record the Secretary of State and Sir Raymond as agreeing that the anti-American tone of some of the discussions and the nature of parts of the campaign for the European Consortium were undesirable and damaging. [Note: Sir Austin's letter does not record that, as recorded in Mr Mogg's minute, BAe's US subsidiary had expressed great concern about their US business being harmed.]



BAe Leadership

Sir Austin's letter says Sir Raymond reported the Secretary of State's concern at the Consortium leadership role BAe appeared to be adopting. Mr Mogg's minute records Sir Raymond himself as introducing a discussion of BAe's leadership role. No comment by the Secretary of State is recorded, although Sir Raymond is recorded as saying he was fully aware of the dangers, and that he hoped he was capable of "managing this delicate balancing act". [Note: this confirms that Sir Raymond's views of the potential risks to BAe's world-wide interests were similar to those of the Secretary of State.]



Decision to be left to Shareholders

Both records clearly show that the Secretary of State and Sir Raymond agreed that the final decision was for the shareholders. Mr Mogg's minute alone records the Secretary of State as saying that he himself had no view on the merits of the two offers. [Note: this recorded comment is entirely consistent with the Secretary of State's public and private comments of recent weeks. Indeed, having only relatively recently taken up his post, it would be surprising if the Secretary of State felt able to express a personal preference in such a complex industrial matter.]



National Armaments Directors

Both records show that the Secretary of State made clear that the NAD's recommendation was not binding on the Government. Mr Mogg's minute records the Secretary of State as describing the exact position as agreed by Ministers on 9 December (although he did not give this date) and announced by him on 16 December).

Sir Austin's note also says that Sir Raymond reported that the Secretary of State said he could prove his account by showing Sir Raymond the minutes of the Meetings that discussed it. [Note: the Secretary of State did indeed indicate to Sir Raymond that his account could be substantiated from such minutes. He at no time indicated that he would be prepared to show Sir Raymond the documents concerned.]

Sir Austin's letter goes on to state that "since one of the conditions precedent set before we joined the Consortium was being questioned ie the agreement of the National Armaments Directors, [it was considered important] that the Department of Defense through the Permanent Under Secretary should be approached to learn whether what we had been given to understand was correct". [Note: the result of this action is not recorded in Sir Austin's letter. The letter in fact shows that BAe had a completely false appreciation of the position and one which could not be substantiated from any authoritative documents available to them. The NAD's document was expressly no more than a recommendation until approved by Ministers. Although indications of approval were reported from other Defence Ministers, it was absolutely clear that HMG had not approved it at the time when BAe formally joined the European Consortium on 13 December. In fact HMG had decided on 9 December that it would not be bound by the recommendation from 4.00pm on 13 December if certain circumstances arose, although this decision was not



announced until 16 December. Nevertheless BAe had no authoritative justification at any time (whatever they might have been "given to understand") that the NAD's recommendation was agreed by HMG.



National Interest

Sir Austin's letter says Sir Raymond reported the Secretary of State as saying that what BAe were doing was not in the national interest. Mr Mogg's note is completely at variance on this point. It says the Secretary of State said that it was not in the national interest that the present uncertainty involving Westland should drag on. [Note: Sir Raymond's allegation is completely at variance with the line taken by the Secretary of State not only in public statements but also in confidential memoranda which were subsequently reported widely in the Press. The Secretary of State has consistently said that he encouraged the development of a European solution as an option for the Westland Board to consider. He was widely reported as having written, in a confidential minute of 4 October that "No solution by a British company is on the cards" clearly implying that he wished such a solution were available for the Board to consider.

If the Secretary of State considered BAe involvement was against the national interest, why did he not say so to Sir Austin Pearce at the meeting on 13 December to which Sir Austin refers? Or why did he not take any other opportunity to say it, as he could easily have done.

Such an attitude towards BAe, if true, would have been wholly at variance with the Secretary of State's strong support for the maintenance of efficient and competitive aircraft industries in both Europe and the US in the mutual interest of both countries, recently expressed [19 December] to the US Trade Representative.

It is simply absurd to suggest that any Secretary of State for Trade and Industry could believe the involvement of a major British aerospace company in a Consortium making proposals to Westland was "against the national interest".



By contrast, the comment that it was "not in the national interest that the present uncertainty involving Westland should drag on" is manifestly true, and is a sentiment that has been widely expressed in Parliament and the country. Mr Heseltine himself is reported to have said at a Press Conference on 10 January that "the sooner all this was resolved the better."



Withdraw

Sir Austin's letter says Sir Raymond reported that the Secretary of State said BAe should withdraw. Mr Mogg's note contains no reference whatever to this alleged remark. [Note: All those present except Sir Raymond confirm that the Secretary of State did not say that BAe should withdraw. The Secretary of State said that he "took no view" on BAe's position.

It is clear from both notes that the Secretary of State and Sir Raymond were agreed on the main point the Secretary of State had sought to convey at the meeting viz the potential risk to BAe arising from the anti-American tone of some of the campaigning. Since the Secretary of State and Sir Raymond were agreed on this point, it is wholly inconsistent that the Secretary of State should suddenly - and apparently as a final point in the discussion - have suggested that BAe should withdraw. If he had wished to make such a suggestion, the Secretary of State would surely have opened the meeting with it. He would certainly not have concluded from the substantial measure of agreement reached in discussion that he needed to make such a suggestion at the end of the meeting.

If the Secretary of State had wished to ask BAe to withdraw, why did he not do so at the 13 December meeting, or on any other occasion?

To have suggested to BAe that they should withdraw would have been wholly inconsistent with all the Secretary of State's public and private statements.

It is possible that Sir Raymond mistook the Secretary of State's meaning. Mr Mogg's pencil notes record that the word "withdrawal" was used in a discussion of whether it would be advisable, in the light of the agreed international risks to



BAe, especially in the US, for the company to withdraw from the highly prominent position it had taken up in the European Consortium to a position on a more equal footing with other members of the Consortium. Although the Secretary of State did not say BAe ought to adopt such a course, he suggested it as a possibility to consider, as one way of lessening the risks which both he and Sir Raymond agreed upon.

Sir Raymond himself is recorded in Mr Mogg's original notes as saying that "absolute withdrawal" would evoke a strong reaction from BAe partners. But it is clear that the Secretary of State himself never referred to the possibility of "absolute withdrawal"]



Views of Other Departments

Both notes record that Sir Raymond said the MOD was BAe's largest customer. [Note: Sir Raymond's implication was clearly that BAe had to have regard to the views and policies of the MOD, which was at that time under Mr Heseltine's leadership. The remark was made in response to the Secretary of State voicing his concerns about the anti-American sentiments of some of the campaigning. It was then that Sir Raymond referred to a "delicate balancing act". In response the Secretary of State is recorded in Mr Mogg's note as commenting "that customers could not dictate the extent of enthusiasm with which any particular case might be put". In other words, the Secretary of State recognised the general validity of Sir Raymond's comment about the MOD, but suggested that for BAe, following the MOD's wishes should be balanced against the international risks to themselves of adopting too forward a position.]

The Secretary of State added, as recorded in Mr Mogg's note, that BAe had relations with the DTI also. This refers to the DTI's general sponsorship responsibility, and specifically to the Department's contractual commitment to advance launch aid for the A.320 and to assist BAe's efforts elsewhere eg in space and aeronautical research.]



Meetings in DTI

Mr Macdonald called on Sir Austin Pearce on 11 December, on his own initiative, because the DTI had been embarrassed over the previous few days by British Aerospace's intentions in relation to Westland being made known to the Ministry of Defence before they were made known to the DTI. Mr Macdonald suggested that if British Aerospace wished to tell Government of its intentions in such a commercial matter, it might be proper and in accordance with normal good relations for the sponsoring department to be told at least as soon as the customer department. He certainly did not suggest that the Department should have been consulted.

We can confirm that British Aerospace told the Department of meetings it had held with Sir Basil Blackwell and Sir John Cuckney along the lines of Sir Austin Pearce's letter. However both Sir Basil and Sir John indicated that British Aerospace's attitude to the future of Westland was significantly more negative than Sir Austin's letter suggests.



Airbus

Sir Austin's letter contains an innuendo (bottom of p.3) that the juxtaposition of the discussion with the Secretary of State and the meeting with Mr Pattie on "Airbus Industrie's proposals for a new programme" was "worrying to say the least" and that "the message was perfectly clear". [Note: It is not clear what this means. If it is intended to suggest that the Secretary of State meant to threaten BAe, the allegation is totally without foundation. BAe know that they have a statutory right to apply for launch aid for new projects if they wish, under the Civil Aviation Act. This was confirmed in the BAe Prospectus in May 1985. The Department will consider any application on its merits. In fact there are no applications for launch aid from BAe before the Department. Nor are there before the partner Governments any "Airbus Industrie proposals" for new projects. The launch aid for the A.320 is contractually committed; the project is going well and normal review meetings are taking place between BAe and the Department.

