

MR. POWELL

*Copied to Cabinet Office
H. put on Westland file.
CDP 11/12.*

TELEPHONE CONVERSATION BETWEEN SIR BRIAN HAYES AND SIR RAYMOND
LYGO

1. The following records a telephone conversation which I had with Sir Raymond Lygo at 4.15 pm today. Sir Raymond had come out of a Board meeting of British Aerospace at my request.

2. Sir Raymond told me that British Aerospace were responding to an approach by the Secretary of State for Defence, who had expressed his concern that there should be a British component in the European consortium which was offering to invest in Westland. British Aerospace would be prepared to invest "a limited amount", which when I questioned him Sir Raymond defined as £5m or perhaps a little more. The conditions for such an investment were as follows:
 - a) The arrangements should result in Westland having a production load sufficient to make the company viable after the proposed financial restructuring.

 - b) The agreement reached with other European governments on the development and procurement of new types of helicopter should be completely firm. British Aerospace were looking for arrangements similar to Concorde, not to Lynx.

 - c) British Aerospace's investment would have to be underwritten by HMG. The company was not prepared to risk a loss on this investment.

 - d) British Aerospace would need to have a member on the Westland Board, with the power of veto over decisions adverse to British Aerospace's own interests. Some means would have to be found of resolving the potential conflict of interest which could arise in areas where the two companies competed, eg air conditioning.

e) The necessary redundancies should be provided for as part of the restructuring, and not represent a burden on the restructured company.

f) The Government should agree not to seek recovery of the launch aid given on the W30 helicopter.

3. Sir Raymond said that the Board were establishing a committee consisting of Sir Austin Pearce, himself, Mr. Friend and Mr. Hitchcock who would be able to respond in detail to the Government's approach, without seeking fresh authority from the Board.

4. Sir Raymond said that he had given this information to Sir Clive Whitmore at about 2.15 pm.

5. In order that there should be no uncertainty I repeated the substance of the above to Sir Raymond to ensure that I had understood him correctly.

6. Sir Raymond said that this information should not be given to Westland but was of course available to Ministers.

Brian Hayes

9 December 1985