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CONFIDENTIAL FILM

WESTLAND HELICOPTERS

AEROSPACE

PART ONE

APRIL 1985

INFOLDER ATTACHED: PRESS CUTTINGS, DRAFTS, PRESS RELEASES

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MO 26/16/1

10th December 1985

Prime Minister
NOTE of Defence Secretary's meeting with Sir J. Cuckney
CDP 11/12

Dear John,

WESTLAND HELICOPTERS

Further to my Secretary of State's letter to yours earlier today, Sir John Cuckney called on the Defence Secretary at 1800 this evening. He was accompanied by Sir John Treacher and by Mr Agius of Lazards. Mr Lamont, Mr MacDonald of your Department, Mr Bourn and I were also present.

att.
DTI representative

The Defence Secretary referred to the views expressed at the E(A) meeting yesterday. Ministers had set a clear deadline in which the European consortium had the opportunity to put forward proposals on the same basis as Sikorsky/Fiat. He was anxious to assist this process in the way which was most constructive from Westland's point of view. It seemed that British Aerospace had now decided to join the European consortium which he was delighted about since this brought in a large and successful British contractor. There might be one or two others who wished to be associated with the European consortium offer. Its momentum seemed to be gathering. We were pursuing with the National Armaments Directors of our European partners ideas which could assist Westland and he hoped that it would be possible to produce an offer which provided more work, a better project range and avoided US control. His aim was to persuade Sir John Cuckney that this was the better route to follow.

Sir John Cuckney said that, at the time of the Bristow bid, Agusta and Aerospatiale had been given full details of the company's position. The summary of the Price Waterhouse report had been made available to the three European companies, as well as to Sikorsky. Sikorsky's response had been to send an initial team of 12 people, subsequently 16, to work through the detail of what would be an immensely complicated deal. He believed that all of the detailed information should be made available only if a recipient could demonstrate that an association with him would benefit Westland commercially in terms of their future

John Mogg Esq
Department of Trade and Industry



product range. A number of meetings had been held with Aerospatiale/MBB at which Aerospatiale had said bluntly that their interest was to block the Sikorsky bid. Westland were in fierce competition with Aerospatiale in a number of export markets and he could not accept that he should disclose to them information which could be commercially damaging, for example, financial information on the Indian W30 order and information on the problem which had arisen over the avionics for the Indian Sea King. If he could have demonstrated that there were commercial benefits which might accrue, he would make information available. But he was not in a bid situation and there was no obligation to make information available.

The Defence Secretary said that he of course accepted that commercially sensitive information must be protected. It was, however, difficult to know how the company might be helped if their position was not clearly understood. The European consortium were not, for example, fully in the picture on Westland's future workload. In discussion of this point, Sir John Cuckney confirmed that the projection of the future workload set out in the summary of the Price Waterhouse report had not been subject to any material changes. Sir John Treacher added that it was not simply a matter of production loading. Westland needed a product which was tried and tested in the market place and had a clear future, and they believed that product was the Blackhawk helicopter. The Defence Secretary said that he could only repeat that the Ministry of Defence had no plans to purchase the Blackhawk helicopter and, given that overseas sales of military products depended upon a successful sale to the home market, he did not understand how Westland hoped to sell the Blackhawk elsewhere. Sir John Treacher repeated that the Westland strategy was based on achieving sales of Blackhawk over the next 15 years. The Defence Secretary commented that this was a matter for Westland, not for him. The important point was that there were workload assumptions on which the European consortium could develop their proposals.

The Defence Secretary then asked about the financial position of the company. Sir John Cuckney said that he was content to make available the following day to Mr Horne of Lloyds Bank International the latest version of Westland's draft 1985 accounts, and to answer questions on them. The Defence Secretary thanked him for this. He said that a further question which needed to be resolved was Westland's calculations about redundancy payments. Sir John Cuckney said that he knew that this was an issue in which British Aerospace took a close interest. He did not himself believe that a big bang approach was the right answer. He saw a progressive and steady rundown as being the better course. Redundancy provisions were covered in the 1985 accounts.

Sir John Cuckney then said that he wished to draw attention to the limited staff resources available to Westland and their advisers to deal with these issues. He was advised that they



would already be hard pressed to complete the documentation on the Sikorsky deal and there could be no question of stopping work on that while the European alternative was to be considered. The Defence Secretary said that there was no requirement to get into a minutia with the European consortium at this stage. The aim was to produce by Friday a deal which Westland themselves would find attractive.

Sir John Cuckney said that finance was not the crucial consideration for Westland. The important point was to have proposals on future products which were attractive to the shareholders. His impression was that the European consortium proposal had yet to produce anything which would meet this requirement for an attractive prospectus. Mr Agius confirmed this. He argued that the shareholders were the key to success since the offer had to be sufficiently attractive to sustain a rights issue. The Defence Secretary suggested that the European consortium might put up sufficient finance for a rights issue to be unnecessary. Mr Agius argued that this would not meet Westland's requirement: they had to carry their shareholders with them and the shareholders would not accept that they should be denied the chance to take a further stake in the company. When pressed on this argument, however, he was less than convincing.

Mr Bourn asked how the Europeans might tailor their approach best to meet the company's needs. Sir John Cuckney asked whether it was the intention that the British Government would make available to the European companies, as well as their Governments, information which would not be made available to Sikorsky. When it was confirmed that there was such information which was relevant only to the European bid, Sir John Cuckney said that this was a matter which he might wish to raise with the Takeover Panel. He also asked whether British Aerospace would be given this information. The Defence Secretary confirmed that they would be given information relevant to the European bid.

The meeting ended at 1840. *mt*

I am copying this letter to Charles Powell (No 10), and to Michael Stark (Cabinet Office).

Yours ever,
Richard Mottram

(R C MOTTRAM)





CB/af.

MO 26/16/1

PRIME MINISTER

WESTLAND

1. I know my colleagues will share my sense of relief that the pressure for an immediate decision has now been greatly eased by the Westland decision (about which we did not know on Friday) that their detailed arrangements did not need to be in place until 18th December.

2. Officials have circulated a paper to E(A) setting out the facts on the various options on the way forward. I thought it would be helpful if I set out my own views on the two possible ways forward for the future of Westland that have been identified to date.

The Sikorsky/Fiat Proposals

3. Sikorsky/Fiat would take a 29.9% holding for an initial investment of £20M, and enjoy an option to raise their holding to 35-40% for another £10M. This gives them effective control of the Company - and this would essentially mean American rather



than joint control because the agreement provides that Sikorsky exercise all the votes of the partnership. This amounts to American control of the only company in the United Kingdom capable of maintaining the helicopter fleet of the Armed Forces and the design, development and production of further helicopter requirements.

4. Furthermore, this would give the Americans access to all Ministry of Defence and Westland technology now available to the Company, and to the European technology embodied in collaborative projects. The United States are precluded by law from giving us similar rights; British controlled defence companies in the United States do not enjoy access to American defence technology on the same basis as American companies. And the European governments and companies would certainly object to their technology being available to the United States in this way; collaborative projects would be at risk and Westland's workload reduce. The technology we would get would be at Sikorsky's and the US's discretion ('black boxes' to be built into their designs).

5. The Sikorsky/Fiat proposals do not mean extra work for Westland now; the licence to make the Blackhawk that Westland would buy from Sikorsky (with money loaned from Sikorsky!) would only yield work if Westland could actually sell Blackhawk helicopters in Europe, India and other countries. As Sikorsky have not been able to sell the Blackhawk in these markets



themselves since the first prototype flew eleven years ago, Westland will certainly face an uphill task. Also, if they do sell any, the purchasers will want offset; so this means there will be less work for Westland and for UK equipment suppliers especially on the electronics and avionics side. Even before such offset, the maximum UK content would only be 60-70%.

6. It is therefore clear that the central plank of the Sikorsky/Fiat proposal is that the British government should buy the Blackhawk; Westland have so far refused to explain what assumptions they are making about Blackhawk sales to HMG. Their unwillingness to do this is its own most eloquent marker as in reality of course a Sikorsky controlled Westland would rapidly use all its political muscle in the West Country to try to force the MOD to provide additional workload.

7. The central thrust of the Sikorsky/Fiat proposal is therefore that in exchange for only £20M;

- British banks and shareholders should put up £50M through converting debt to equity and by a Rights Issue;

- British and European technology would be available to the United States; and collaborative projects would be at risk as European partners seek to preserve their own technology from crossing the Atlantic;



- Britain would be pressurised to buy Blackhawk helicopters for which there is no operational requirement or money in the Defence Programme and which were not accepted by my Department when Sikorsky first put up the proposal in conjunction with Shorts over a year ago;

- There is no demonstrable extra workload for Westland and indeed European resentment might actually reduce the workload.

8. Nor can the effect on the British avionics industry be ignored. The Sikorsky offer suggests that 60-70% of the Blackhawks which might be sold would be built here. On the classic division of airframe 33%, engine 33% and avionics 33%, it is clear that the Westland airframe and the Rolls Royce engine leave nothing for the avionics industry. In each helicopter sold, this would be a potential loss of the order of £2 million workload for British companies compared with a European project which would attract a full juste retour.

The European Proposal

9. The European proposal was communicated in writing to Westland by Lloyds Bank International on December 9th. It provides:



- up to £40M of cash from the three European companies. This would reduce the amount of 'rescue' money required from British banks and shareholders;

- no controlling interest, and the European companies have indicated a willingness to dispose of a substantial part of the holding to UK residents in the future if this would be helpful;

- limited extra work not dependent on future orders;

- continued work on existing collaborative projects - the NH90 (the future troop-carrying helicopter now being studied by the United Kingdom, France, Germany and Italy) and EH101, the Anglo/Italian project for a new large helicopter (with which Germany would now wish to become associated). Of particular interest is the German and French offer to join a quadripartite battlefield helicopter project by merging the Anglo/Italian Al29 project with the Franco/German PAH2 project.

Westlands Immediate Workload.

10. Although there is now greater confidence of an Indian order for W30-160s, Westland attach great importance to additional work to see them through the gap until EH101 production begins. Westland claim that a Sikorsky license to manufacture Blackhawk



holds out the possibility of sales in Europe and they estimate that the potential market - including the UK - over the next 15 years at 750. MOD officials assess the potential market for all helicopters in that class to be much smaller - nearer half this figure - but whatever the size of the market the prospect for actual sales of Blackhawk cannot be good. The MOD has neither the money nor a currently endorsed requirement for Blackhawk helicopters and it seems unlikely that other European countries would buy from Westland preferring their own European helicopters or, if they did indeed require Blackhawk, to build themselves or acquire directly from the US. The Sikorsky proposal does not therefore hold out a realistic prospect of significant work. It is well established that successful exports of military equipment need firm domestic orders. None is in prospect.

11. The European proposal on the other hand, contains several features that indicate small but extra firm work. First, Aerospatiale have proposed to place extra sub-contract work at Westland amounting to about £3M a year, which should amount to an extra 90 jobs. Secondly, if the recommendations of the National Armaments Directors are accepted by Ministers and the two European battlefield helicopters projects - the Anglo-Italian Al29 Mk II and the Franco-German PAH2 are rationalised, as all four NADs have confirmed in writing they can be, there would be the prospect of some savings in development costs. For the UK, these might amount to £25M over



the next 5 years which would become available for extra work at Westland. This would enable additional helicopter orders to be placed - say half a dozen Sea Kings or Lynx - to help fill the gap in production work. Finally on Friday evening the new French Minister of Defence phoned me personally to tell me that the French Army are about to place an order for more Super Pumas. Work on this order would be made available to Westland, but he could not in all fairness take a decision until he knew which way the negotiations were going.

12. The net result of the European solution would be a flow of work to Westland comprising orders already placed; further orders in my Department's programme of 9 Sea King Mk VI (mid 1986); 5 Sea King Mk IV (late 1986), which I would intend to place in any case, together with a new and further order for (say) another 6 Sea King/Lynx which will take up the £25 million of funds available to me in the case of the European (but not the Sikorsky) offer. Taken with additional work from the European partners this constitutes a firm contribution to filling the gap in production at Westland. Further sales of W30-160 might possibly be achieved once the Indian order is secured. There seems no reason therefore, from the point of view of workload, why Westland should prefer the uncertain prospect of Blackhawk sales and the lost opportunity of European co-operation to the firm work in the European proposals.



The European Dimension.

13. My European Defence colleagues have expressed their concern about a Sikorsky stake in Westland. The Ministers of Defence of France and Germany have already endorsed the National Armaments Directors' proposals, and the attached telegram dated 5th December from HM Ambassador in Rome sets out the views of Dr Teti, the Chairman of Agusta. These views are important, since Dr Teti is already in collaboration with Westland over the existing Anglo-Italian projects, the Al29 and EH101. Dr Teti says that he is very unhappy about the proposed link with Sikorsky; he sees it based on short term financial considerations rather than the long term industrial interests of both companies. In particular he argues that the result of the Sikorsky link 'Would be that Westland would be turned into a manufacturer of parts for Sikorsky and the prospect for Westland in 3 or 4 years time would be grim. ... If the deal with Sikorsky went through, he "would be left an orphan and would have to seek other partners"'. In brief, As Dr Woerner, the Federal Republic's Defence Minister, has said, Europe sees the Sikorsky link as spelling the end of an independent European helicopter industry within 10 to 20 years.

14. These European concerns cannot be ignored, especially those of Germany, our central partner in the EFA project, and Italy, our existing partner in helicopter collaboration. As I made clear in my minute of 4th December to you what the National



Armaments Directors propose is in line with existing plans and, indeed, in the round, the proposal offers scope for achieving our plans at a lower cost than we could otherwise obtain. It would certainly reduce competition with Europe on the battlefield helicopter, but I had already sought earlier a rationalisation of requirements at this level in line with our policy of European harmonisation. The truth is that 4 European companies acting separately could never compete with the US giants whose development costs are almost completely funded by the massive American Department of Defense Procurement Programme. As we have recognised for many years, they must come together to compete on a worldwide basis. From our national point of view the end result will be no different to that we already face in the aerospace industry and, for example, in the EFA programme itself.

15. Acceptance of the collaborative arrangements proposed by the National Armaments Directors would therefore be in the technical, military and financial interests of the United Kingdom. The precise wording of the National Armaments Directors recommendation - its thought that European countries should only buy helicopters of the three types under consideration which are designed and built in Europe - would not require positive acceptance if we endorsed European collaboration at the three levels proposed, and if the proposals of the European Consortium are accepted by Westland.



Conclusions and Recommendations.

16. It is clear from the above that the European proposals have substantial advantages over those proposed by Sikorsky/Fiat; specifically:

- in maintaining ultimate United Kingdom control over a significant supplier of critical defence equipment;
- in providing immediately twice as much new money for Westland;
- in facilitating an increase in Westland's workload;
- in securing and extending our policy of European helicopter collaboration;
- in protecting British technology from a one-way flow to the United States;
- in avoiding the necessity for HMG to purchase Blackhawk helicopters which it does not require and for which there is no money in the Defence Programme;
- in maintaining relations with European governments, without any offence to the United States government who have not expressed any views on the Sikorsky proposal.



17. It is therefore my view that Westland should be informed of the proposed pattern of ordering that arises from this analysis; that is: no Blackhawk orders and concentration on the proposed range of existing and new collaborative projects that it is the policy of the Ministry of Defence, their principal customer, to pursue. They should be invited to consider most seriously the advantages of the European offer which, from the Government's standpoint, represents the defence procurement policies it is publicly committed to pursue.

18. I am sending copies of this minute to other Members of E(A), the Foreign and Commonwealth Secretary, the Chief Whip, and to Sir Robert Armstrong.

Ministry of Defence
9th December 1985

FOLLOWING IS TEXT OF TETI'S TELEX TO SIR J CUCKNEY OF MUWESTLANDS:-

IN MOST DELICATE MOMENT OF OUR EFFORT TO FIND A NEGOTIATED SOLUTION

PAGE 2 RBDWC 5013 UNCLAS

OF THE WESTLAND PROBLEM WHICH TENDS TO RESOLVE THE TEMPORARY DIFFICULTIES THAT THE COMPANY IS FACING I WOULD DRAW YOUR ATTENTION TO THE FACT THAT WHILE WE ACKNOWLEDGE YOUR RIGHT TO AUTONOMOUS DECISION. WE MUST ASK YOU TO FULLY RESPECT THE PROGRAM THAT AGUSTA DEVELOPS INDEPENDENTLY WITH WESTLAND OR WHICH HAVE BEEN INITIATED WITH THE OTHERS EUROPEAN PARTNERS STOP I REFER IN PARTICULAR TO EH101 PROGRAM WHICH HAS NOW REACHED THE ADVANCED PHASE AND TO ANGLO-ITALIAN-DUTCH PROGRAM FOR THE DEVELOPMENT OF A MULTIROLE LIGHT HELICOPTER BORN OUT OF MANGUSTA 129 AS WELL AS NH90 HELICOPTER TO BE DEVELOPED BY THE NATO !!PARTNERS!!. THESE ARE PROGRAMS. ESPECIALLY EH101 AND THE MULTIROLE HELICOPTER. ON WHICH WE WORKED INTENSIVELY WITH YOUR BREDECESSOR. THE SPIRIT WAS ONE OF FULL COOPERATION WHICH COULD RIGHTLY BE TAKEN AS AN EXAMPLE OF THE FIRST INSTANCE OF JOINT WORKING ACTIVITY BETWEEN OUR TECNICIANS AND ALL OUR OTHERS EMPLOYEES IN THE EUROPEAN COMMUNITY. I DO NOT WANT TO INTERFERE WITH THE DIFFICULT DECISION THAT YOU MUST MAKE. YOU ARE ALSO AWARE OF THE GOOD RELATIONS WE ENJOY WITH SIKORSKY. THE FACT IS THAT THIS COMPANY MANUFACTURES SOME MACHINES AND HAS PROGRAMS WHICH ARE VERY SIMILAR TO THOSE THAT

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OUR COMPANIES HAVE. THEIR PARTICIPATION IN WESTLAND AND ON THE EUORPEAN MARKET COULD HAVE NEGATIVE REPERCUSSIONS AND WORSEN OUR MANUFACTURING DIFFICULTIES. IT WOULD ALSO ENDANGER THE PROGRAMS ILLUSTRATED ABOVE.

LASTLY I MUST REMIND YOU THAT THE AGREEMENT SIGNED IN PARIS 28. MARCH 1985 WOULD ALSO SERIOUSLY SUFFER BY THE PARTICIPATION IN WESTLAND OF NON EUROPEAN THIRD PARTIES. SINCE THIS WAS THE SPIRIT WITH WHICH AGUSTA DECIDED TO COLLABORATE WITH AEROSPATIALE AND MBB IN PRESENTING THE OFFER. THEREFORE I MUST ASK YOU TO CAREFULLY CONSIDER THESE PROBLEMS AND TO ASSESS THEM OBJECTIVELY BEFORE MAKING ANY DECISION. I WOULD ASK YOU TO DO YOUR UTMOST TO RESPECT THE FUNDAMENTAL MOTIVE UNDERLYING OUR AGREEMENT BETWEEN AGUSTA AND WESTLAND SINCE IT HAS PROVED TO BE VERY FRUITFULL IN THE PAST AND COULD STILL BE EXTREZELY POSITIVE FOR THE FUTURE.

WITH BEST REGARDS.

RAFFAELLO TETI

CHAIRMAN AND C.E.O. AGUSTA GROUP.

CCB/UP



CH

COMMERCIAL IN CONFIDENCE
CONFIDENTIAL
MARKET SENSITIVE

PRIME MINISTER

WESTLANDS

At Friday's meeting we agreed that a jointly agreed paper by officials should be circulated to EA for discussion today. I regret that Michael Heseltine felt it necessary to claw back the original paper agreed between my officials and those at MOD. I also greatly regret that Michael found it necessary to circulate a minute - which I have only just received - to colleagues this morning. This goes against the agreement reached last Friday.

2 Despite its complexity the issue at Westlands is at heart very simple. Westlands have reached an advance stage in their negotiations with Sikorsky. Above all, they need a secure, long term relationship which will safeguard their company into the next century. I have serious reservations about the Government seeking to impose, by using its power as a purchaser, its own judgement against that of the Board of a publicly quoted company risking its future survival. Sir John Cuckney has made clear that any delay in the Sikorsky deal would precipitate Westlands being put into receivership unless the European consortium negotiations were concluded by 19 December.

3 I have copied this minute to all EA colleagues.

L.B.

L B

9 December 1985

JF1AOL

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

9/12/85

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FINANCIAL

Monday December

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Ministers split on Westland rescue

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT

DIFFERENCES between Mr Michael Heseltine, the Defence Secretary, and Mr Leon Brittan, the Trade and Industry Secretary, over the best way to secure the future of Westland, the financially troubled helicopter company, remain unresolved in spite of meetings on the issue in a Cabinet committee last week.

The disagreement is over whether Westland should be rescued solely by European companies or through links with a US conglomerate. This is now seen as the principal obstacle to the speedy resolution of Westland's immediate problem.

Preliminary results from the company, for the year ending September 30, due this week, look like being delayed at least until next week while the board seeks clarification of government intentions.

The Government apparently remains adamant that there is no question of direct government aid for Westland. While Mr Heseltine favours a solution involving the buy-out of a minority shareholding by three European helicopter companies, Mr Brittan believes strongly that Westland should be left free to pursue the solution it favours—links with the US manufacturer Sikorsky, subsidiary of United Technologies.

Mr Heseltine feels the Westland dilemma presents a unique opportunity for rationalisation of over-capacity in the European helicopter industry. Aerospatiale of France, Messerschmitt-Bölkow-Blohm of Germany and Agusta of Italy, have made a formal proposal to Westland with Mr Heseltine's encouragement. Representatives of the companies and Westland discussed the plan last week.

The European proposal is backed by a memorandum of understanding which was drawn up by the armaments directors of Britain, France, West Germany and Italy, 10 days ago. In this, the four governments agree that in future they will buy only European helicopters and would streamline the range of helicopters produced.

In a statement last week Sir John Cuckney, who since June has been charged with Westland's rescue, said he believed the document still needed Government ratification.

He indicated that negotiations were already far advanced with Sikorsky which it is believed would also involve capital from Fiat of Italy.

Few details of the rival offers are known other than the fact that both the European and the Sikorsky proposals involve the foreign companies taking a 29.9

per cent share of Westland.

Westland officials have privately shown preference for the Sikorsky solution, since they feel that the strength of the US company could offer the work — or at least the biggest cash injection — which Westland needs at once as well as longer-term stability.

The Westland board is sceptical of the European solution, not only because the state-controlled Agusta in particular is in a weak financial position and is a long-term rival of the state-owned Aerospatiale, but also because of the Government's refusal to step in even with guaranteed orders for a reconstructed Westland.

It is suggested that, by refusing aid of any sort, the UK Government is in effect asking taxpayers of its European partners to bail out the British private sector company.

Fabius to stay in office

By David Marsh in Paris

MR LAURENT FABIUS, the French Prime Minister, has confirmed he will remain in office until general elections next March, putting at least a temporary end to rumours that he was about to step down.

Both Mr Fabius and President Francois Mitterrand, who fell out over the visit to Paris last week of General Wojciech Jaruzelski, the Polish leader, made clear over the weekend that they wanted to bury the hatchet.

Signs of open disagreement between the President and Prime Minister—a rarity under the Fifth Republic—emerged last week when Mr Fabius told the National Assembly that he was "personally troubled" by the Polish leader's visit, widely considered to have been used by Warsaw to show that the Polish military regime had won acceptability in the West.

It was rumoured that Mr Fabius had offered his resignation to President Mitterrand during the latter's visit to the French Antilles last week but

Individual investors expected to provide half privatisation cash

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT believes individual investors will contribute at least half the £14.1bn it expects to raise from its privatisation programme over the next three years—and is likely to aim for an even higher proportion.

It is therefore assuming that about £2.1bn a year of individuals' savings may be absorbed by asset sales, which is expected to intensify competition among building societies and banks to attract personal savings.

The idea that individual wealth can be tapped to this extent partly explains the Government's confidence that financial markets will be able to cope with the rapid acceleration of privatisation plans.

At the same time, the cash position of the leading institutions is expected to improve

because of the ending of official "overfunding" in the gilt-edged market, lower inflation, and a much-reduced level of overseas investment.

The increased emphasis on aiming sales at private investors is reflected in the terms of this week's sale of the Government's remaining 23 per cent share in Cable & Wireless.

Only a third of the shares have been firmly pre-placed with institutions, against 61 per cent reserved for institutional or overseas buyers when British Telecom was floated last year.

This technique, which allows shares to be clawed back from institutional underwriters if an offer is heavily oversubscribed by the public, is expected to feature in future flotations.

The key to a successful sale to individual investors is to create the belief that shares

will be in short supply, while ensuring that applicants are not disappointed if there is heavy demand.

It is acknowledged, however, that not all sales will be marketed aggressively to private investors. Heavy television advertising, for example, will be restricted to flotations of companies which are regarded as safe, with predictable profit growth.

The privatisation programme for next year has been unaffected by the delay in floating the Trustee Savings Bank. The Treasury cannot slot in another issue in the early months of the year because the prospectus for any direct sale by the Government would have to include details of possible Budget measures which could affect the value of the shares.

Shake-up at Stanley Gibbons

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COMMERCIAL IN CONFIDENCE - MARKET SENSITIVE

PRIME MINISTER

WESTLAND

The struggle has continued over the weekend. MOD and DTI officials agreed a draft paper for E(A) at about 7.00 pm on Friday night. But Mr. Heseltine put a block on it, summoned the officials to his office and had it redrafted. The result is attached. Mr. Brittan, although furious at Mr. Heseltine's intervention, has agreed the paper. However, I understand that Mr. Heseltine may put in a separate paper early tomorrow in the form of a minute to you.

Mr. Heseltine has also conjured up another couple of new ideas over the weekend.

- (i) the French Defence Minister is said to have telephoned to offer to place unspecified sub-contract work on Super Puma with Westland provided it is not sold to Sikorsky; and
- (ii) Mr. Heseltine has recalled that earlier this year DTI wanted to use Ariane rather than the space shuttle to launch the European space package. This was turned down on the grounds that it was some £6 million or so more expensive than the space shuttle. Mr. Heseltine now suggests that we agree after all to use Ariane provided that the French then use the £6 million to place yet more orders for Super Puma.

In the face of all this figure skating, DTI look positively flat-footed. It now turns out that next Wednesday's deadline for Westland is not quite so dead as was alleged and they may in fact have a little more time in hand, perhaps until just before Christmas. This will weaken Mr. Brittan's hand in pressing for an early decision.

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- 2 -

I have advised DTI to speak to Sir John Cuckney tomorrow and make sure that all the facts are on the table at tomorrow afternoon's discussion. I have tried to explore exactly why he is so averse to the European option. I understand this is because he believes Westland need a serious long term partner so that it can start up a sensible research and development programme. He feels that Sikorsky offer this while the European option is just a bridging operation for a brief period after which the same problems will emerge again.

Mr. Heseltine is, I think, likely to press hard for a further postponement of a decision and possibly to suggest that the matter be referred to Cabinet on Thursday (though I have no hard evidence for this last point).

C.D.P.

(CHARLES POWELL)

8 December 1985

WESTLAND

NOTE BY DTI AND MOD OFFICIALS

Background

Westland Helicopters provide an indigenous design, development and manufacturing capability producing helicopters for both the military and the civil markets. The British Ministry of Defence is much their largest customer.

2. Westland has had a long association with the Sikorsky company of the United States and has developed and built a number of helicopters under licence from Sikorsky including the Wessex and Sea King. In recent years, however, the company has embarked on a strategy of developing its own designs for both the civil and military markets.

3. On the military side, the company has substantial long-term prospects built around the development and production of the Anglo/Italian EH101 helicopter and possible participation in a collaborative Anglo/Italian battlefield helicopter. The company is also participating in a five-nation feasibility study into a tactical transport helicopter for the 1990s (NH90). This collaborative approach reflects a Memorandum of Understanding signed in 1978 by the United Kingdom, France, Germany and Italy

under which each of the Governments agreed to make every effort to meet their needs with helicopters developed jointly in Europe.

4. Production loading for military helicopters over the next few years is limited however, although there is continuing Ministry of Defence design and development business and support for their existing fleet.

5. On the civil side, Westland have put their hopes in the civil version of the EH101 and the W30 series developed with DTI launch aid. However, the W30 has not fulfilled its market expectations, although it is now expected that a long awaited order from India will be confirmed in early 1986.

6. Westland are in serious financial difficulties. It is essential that they announce a reconstruction package at the same time as they announce their annual results. Otherwise the company would be in breach of its borrowing limits and would be forced into receivership. Westland had planned to announce their results on 11th December. They have now put this back to 19th December implying that all elements of the reconstruction package need to be in place on 18th December. There is no legal or Stock Exchange requirement to publish on 19th December, but the company and its advisers believe any further delay would involve a severe risk of a fall in the share price to a level below that at which the reconstruction can be effected.

The Alternative Proposals

7. In order to secure the company's future, Westland has sought a financial injection by the purchase of its shares by an outsider; a rights issue; the conversion by the banks of loans to equity; and co-operation which would bring new products to assist over production loading and over the Company's longer term viability. There are two proposals on offer: one from Sikorsky/Fiat on which the detailed financial negotiations are far advanced; the other a more recent proposal from a consortium of the companies associated with Westland in their collaborative ventures (Aerospatiale, MBB and Agusta). The European consortium have told the Ministry of Defence that they feel Westland have been reluctant to pursue detailed financial discussions with the consortium, although initial discussions have been held. The Board of British Aerospace are considering the possibility of associating themselves with the proposal from the European consortium.

8. Sikorsky/Fiat have offered:

a. an initial investment of the order of £20 million to take a 29.9% stake, coupled with an option to acquire further shares to bring their holding up to 35-40%. The arrangements between Sikorsky and Fiat are such that Sikorsky could always control a majority of their joint holding.

b. on the product side Westland would be granted a licence to manufacture the Sikorsky Black Hawk helicopter in the United Kingdom. The licence would be paid for by the issue of loan stock to Sikorsky. The Black Hawk is a light transport helicopter developed in the 1970s. Marketing would be divided geographically between Sikorsky and Westland, with Westland given the European market and certain other countries. There is no provision for purchase of Black Hawk in the British defence budget and no other requirements are foreseen by the Ministry of Defence in other major European countries.

c. joint working parties aimed at improving productivity in Westland. Westland foresees substantial improvements coming from their ability to draw upon Sikorsky's management expertise.

9. The European companies have offered:

a. to subscribe, if necessary, up to £40 million of new equity.

b. an intention to place additional work in Westland factories in the short term; specifically a possible increase from Aerospatiale of some £3 million a year on their sub-contract work creating an extra 90 jobs (from 350-400) has been mentioned.

c. possible participation by Westland in the Super Puma programme and in the manufacture under licence of the existing Al29 battlefield helicopter (manufactured by Agusta), if new orders could be won on either aircraft. There is no provision for the purchase of Super Puma in the British defence budget.

d. a re-affirmation of their commitment to the collaborative programmes at the battlefield level (see below), NH90 and EH101.

Report of the National Armaments Directors

10. Given that the proposals for European co-operation rest upon the commitment of European Governments, the four National Armaments Directors (NADs) of the countries concerned met on 29th November. They confirmed the commitment to the NH90 and EH101 programmes (with the German Government expressing for the first time an interest in purchases of EH101 helicopters) and at the battlefield level agreed to seek to rationalise existing requirements into a single common four-nation requirement (which for the United Kingdom could yield savings of £25 million on the development programme which would be used to fund production work to help tide Westland over). They recommended that helicopter requirements in the three specified classes should be covered solely in the future by helicopters designed and built in Europe.

this might be perceived by European Governments as a move to aid the Sikorsky proposal. In the Ministry of Defence's view, there is not only a direct risk that European companies would withdraw their work from Westland but there must also be an unquantifiable risk of consequences for other European co-operation, notably on the European Fighter Aircraft where France is currently seeking to redress the defeat she suffered when Germany joined the United Kingdom, Italy and Spain in proceeding to project definition on a four-nation project. In the DTI's view, such consequences are a matter for speculation at this stage.

DTI Launch Aid for W30-300

13. It seems likely that, following an arrangement with either Sikorsky/Fiat or a European consortium, Westland would wish, for commercial and financial reasons, to terminate the W30-300 programme. If the company is in default of its obligations under the contract, it is liable to repay the launch aid it has received (nearly £40 million). Westland's auditors have said that they will qualify the 1985 accounts because of this contingent liability, and Lazards have represented that such a qualification will prevent the implementation of a reconstruction package.

Westland's Position

11. The Westland Board appear to favour the Sikorsky option because they are attracted to the opportunity to manufacture the Black Hawk and believe association with a major US manufacturer offers them better long term prospects of viability. They are concerned about the implications of the recommendation described at paragraph 10 above by the National Armaments Directors since, if accepted by HMG, they believe this would prevent the Sikorsky/Fiat arrangement going through because it would rule out future European purchases of Sikorsky helicopters. They therefore wish the British Government to reject the recommendation (although this would not, of course, stop the other European Governments accepting the recommendation.)

The possibility of taking no action on the recommendation would be acceptable to Westland only if the Government made clear that the recommendation was not under active consideration.

International Considerations

12. Both the German and French Governments see the Sikorsky stake as a thin end of a wedge under which Sikorsky would seek over the next 15-20 years to eliminate a European helicopter industry capable of competing with them on world markets. The Sikorsky bid could according to the German Defence Minister, Dr Woerner, spell the end of the European helicopter industry. If Her Majesty's Government fail to accept the NADs' recommendation

14. DTI and Treasury officials recommend that, in the event of termination of the launch aid contract by mutual agreement for technical, financial or managerial reasons or because the contractor does not perform his obligations under the contract, the Government should not enforce any right it may have to repayment of launch aid. An undertaking to this effect should be given as part of the implementation of a reconstruction package and is a necessary step before either negotiation can be concluded. The Government would retain its right to repayment in the event of the company going into receivership or being wound up before termination of the programme. (The precise terms will need to be agreed with the company and legal advisers). This recommendation will involve no increase in public expenditure.

Government Decisions

15. Ministers need to decide:

- a. whether a significant defence contractor should come under the effective control of overseas companies.
- b. whether to accept or reject the NADS recommendation.
- c. whether to agree not to enforce HMG's right to recover launch aid on the W30-300.

16. Before Ministers reach a decision on these issues, it would seem sensible for them to establish more clearly the reasons why Sir John Cuckney and his colleagues prefer the Sikorsky/Fiat bid, looking at:

- the financial implications.
- the management implications - where the attraction of bringing in Sikorsky's expertise needs to be set against the risk that Westland could be cut off from her European partners because of their fear that all technology developed by them would be transferred to the parent Company by the Sikorsky management bedded out at Westland.
- production loading in the medium term. What marketing surveys have been conducted to support Westland's forecasts for the Black Hawk? How do they face the fact that the Ministry of Defence has no intention of purchasing the Black Hawk or the Super Puma (the two existing contenders in this class)? Should they go the Sikorsky route, what are the implications for the work put their way by the European companies at present?

- looking to the longer term, their present plans include co-operation on the NH90 and the EH101 with the European companies. How do the Board think these companies will react to a Sikorsky/Fiat tie-up?

7th December 1985

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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

MO 26/16/1

7th December 1985

Dear Charles

CJP
J/m

WESTLAND HELICOPTERS

// In your letter of 6th December, you asked DTI and MOD to produce a joint paper which could be circulated to E(A). This has been prepared on the lines you and I discussed on the telephone. Two copies are attached.*

I am copying this letter and the attachment to John Mogg (DTI) and Michael Stark (Cabinet Office).

Yours etc.
Richard Mottram

(R C MOTTRAM)

* I am assuming the Cabinet Office will put it round under a suitable covering note by the

Charles Powell Esq
10 Downing Street

Secretary

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WESTLAND

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7th December 1985



ce B/uf

PRIME MINISTER

WESTLAND HELICOPTERS

I think you know that I shall not be able to be present on Monday for the further discussion on Westlands. But I thought it might be helpful if I were to record that I cannot envisage any points being made in the discussion which would sway me from my present view. As I made clear, this is that if the Westlands Board think they should accept the Sikorsky/Fiat offer, I am in favour of them doing so and of the Government making all the arrangements necessary to facilitate this, including, if necessary, disavowing the NAD's recommendations.

hs/b

Privy Council Office
6 December 1985



Handwritten text in blue ink, appearing to be 'GODFREY' or similar, written upside down.

FILE

DA

SUBJECT
cc Master.



PC

10 DOWNING STREET

From the Private Secretary

6 December 1985

Dear John,

WESTLAND

The Prime Minister held a further meeting this morning to continue yesterday's discussion about the future of Westland. The Lord President, the Trade and Industry Secretary, the Defence Secretary, the Chancellor of the Duchy of Lancaster, the Chief Secretary, the Minister of State, Foreign and Commonwealth Office and Sir Robert Armstrong were present.

The Trade and Industry Secretary spoke to the paper prepared jointly by DTI and MOD officials enclosed with your letter of 5 December. This recorded clearly that Westland did not believe that the project proposals made by the European consortium were satisfactory. The company wished to proceed with the Sikorsky offer. The only obstacle to this was the existence of the recommendation from the National Armaments Directors. The Sikorsky bid was not entirely an American one since Fiat were also involved with it. He very much hoped that colleagues would now agree that the NAD's recommendation should be rejected so that Westland could reach an untrammelled decision.

The Defence Secretary said that the issues went wider than the Trade and Industry Secretary suggested. The question was whether it was right to allow a significant British defence contractor to come under foreign control. There was an important difference between the Sikorsky and the European offers in this respect. The European consortium were ready to return control to United Kingdom hands at any time in the future. If the Sikorsky bid were allowed to succeed, there was no guarantee that Westland could preserve an independent design capability. Moreover the fact that any Westland-developed technology would be available to the United States would be a major inhibition to future co-operation in joint European projects.

dg

Sikorsky's bid was based on the assumption that it would be able to sell its Blackhawk helicopter through Westland. He wished to make absolutely clear that there was no question of the Ministry of Defence buying Blackhawk or pulling out of the European NH90 project.

A number of points were made in discussion:

(i) a decision by the Government was needed on whether to write off launch aid to Westland for the W30 helicopter project. Neither Sikorsky nor the European consortium would finalise their offer until this point had been clarified;

(ii) the most pressing problem facing Westland was lack of orders over the next few years. Westland themselves clearly believed that the Sikorsky offer held out the best prospect of filling that gap. This was the case even though Sikorsky had been given no ground to think that the Government would purchase Blackhawk;

(iii) it was the considered view of Sir John Cuckney that Westland would have to go into liquidation unless two conditions could be met: it was absolved from having to repay the £40 million launch aid, and it was possible to say that there was a bid on the table which the Board was minded to accept. The recommendation from the National Armaments Directors was an inhibition to fulfilment of the second condition;

(iv) doubts remained about how firm the European offer really was;

(v) the Government would be severely blamed, not least by its own supporters if it prevented Westland from reaching what the company regarded as the solution which was best for its own interests.

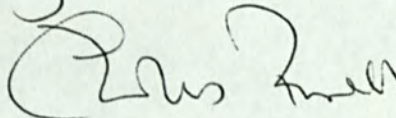
Summing up the discussion, the Prime Minister said that it was clear that a majority of those present were ready to decide there and then that the Government should reject the recommendation from the National Armaments Directors thus leaving Westland to reach their decision whether to accept the Sikorsky offer or that from the European consortium on straightforward commercial grounds. However it was evident that this was strongly opposed by a minority. It would be necessary to reach a decision in a formal Cabinet Committee. There would therefore be a meeting of E(A) enlarged as appropriate on 9 December. Sir John Cuckney and his professional advisers should be invited to make themselves available to explain their views. A new paper should be prepared for the meeting dealing both with

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- 3 -

the question of launch aid and the Government's response to the recommendation of the National Armaments Directors. The paper should be made available to the Cabinet Office this evening but because of the sensitivity of the subject should not be circulated until the morning of 9 December.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Richard Mottram (Ministry of Defence), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Richard Broadbent (Chief Secretary's Office), Len Appleyard (FCO) and Michael Stark (Cabinet Office).

Yours sincerely,


(C.D. Powell)

John Mogg, Esq.,
Department of Trade and Industry.

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INFO SAVING MILAN

WESTLAND

1. TETI, THE CHAIRMAN OF AGUSTA TELEPHONED ME THIS EVENING TO SAY THAT HE HAD JUST PUT ON THE TELEX A MESSAGE TO SIR J CUCKNEY EXPLAINING HIS COMPANY'S POSITION (TEXT IN MIFT). BUT, TETI SAID, HE WAS VERY UNHAPPY ABOUT THE PRESENT SITUATION. HE COMPLAINED THAT CUCKNEY DID NOT UNDERSTAND THE AEROSPACE BUSINESS, OF WHICH HE HAD NO EXPERIENCE, AND THAT HE WAS ONLY INTERESTED IN THE FINANCIAL SIDE. NO DOUBT A DEAL WITH SIKORSKY/FIAT HAD ITS ATTRACTIONS FOR WESTLAND IN THE IMMEDIATE FUTURE, BUT THE RESULT WOULD BE THAT WESTLAND WOULD BE TURNED INTO A MANUFACTURER OF PARTS FOR SIKORSKY AND THE PROSPECT FOR WESTLAND IN THREE OR FOUR YEARS TIME WOULD BE GRIM. HE WAS SAD THAT HIS PARTNERSHIP WITH THE WESTLAND COMPANY SHOULD COME TO THIS, BUT HE HAD TO ACCEPT REALITIES. IF THE DEAL WITH SIKORSKY WENT THROUGH, HE WOULD BE LEFT AN ORPHAN AND WOULD HAVE TO SEEK OTHER PARTNERS. HE APPEALED TO ME TO DO WHAT I COULD, EVEN AT THIS LATE HOUR TO HELP HIM.

2. I REPLIED THAT THIS EMBASSY WAS NATURALLY MUCH CONCERNED TO MAINTAIN THE RELATIONSHIP BETWEEN WESTLAND AND AGUSTA. AND THAT TETI'S FEARS ABOUT THE EFFECT OF A DEAL WITH SIKORSKY DID NOT SURPRISE ME. AS AMBASSADOR TO ITALY I WOULD NOT HIDE FROM HIM MY PREFERENCE FOR A MORE EUROPEAN SOLUTION. BUT WESTLAND WAS A PRIVATE COMPANY AND SIR J CUCKNEY WAS THE PERSON RESPONSIBLE FOR FINDING A SOLUTION TO ITS PROBLEMS. I WOULD CERTAINLY DRAW THESE REMARKS TO THE ATTENTION OF THE BRITISH GOVERNMENT, BUT I HAD THE IMPRESSION THAT TIME WAS NOW RUNNING OUT AND THAT A DECISION ABOUT THE COMPANY'S FUTURE WOULD HAVE TO BE TAKEN VERY SOON. TETI SAID HE QUITE UNDERSTOOD THAT

C O N F I D E N T I A L

PAGE 2

C O N F I D E N T I A L

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CUCKNEY'S JOB WAS TO SAVE THE COMPANY, BUT HE HOPED HMG WOULD NOT OVERLOOK THE ULTIMATE COST, NOR THE FACTS THAT IT MANUFACTURED STRATEGIC GOODS, AND HAD AN IMPORTANT CONTRACTUAL RELATIONSHIP WITH US.

BRIDGES
BT

H DIES M. TAYLOR
AP5 H022 293

DUS (DA)

U.K. COMMS ONLY

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TO DESKBY 060830Z FCO

TELNO 1083

OF 051800Z DECEMBER 85

INFO DESKBY 060830Z MODUK. DESKBY 060830Z DTI

INFO SAVING MILAN.

MIPT: WESTLANDS.

FOLLOWING IS TEXT OF TETI'S TELEX TO SIR J CUCKNEY OF MUWESTLANDS:-

IN MOST DELICATE MOMENT OF OUR EFFORT TO FIND A NEGOTIATED SOLUTION

PAGE 2 RBDWC 5013 UNCLAS

OF THE WESTLAND PROBLEM WHICH TENDS TO RESOLVE THE TEMPORARY DIFFICULTIES THAT THE COMPANY IS FACING I WOULD DRAW YOUR ATTENTION TO THE FACT THAT WHILE WE ACKNOWLEDGE YOUR RIGHT TO AUTONOMOUS DECISION. WE MUST ASK YOU TO FULLY RESPECT THE PROGRAM THAT AGUSTA DEVELOPS INDEPENDENTLY WITH WESTLAND OR WHICH HAVE BEEN INITIATED WITH THE OTHERS EUROPEAN PARTNERS STOP I REFER IN PARTICULAR TO EH101 PROGRAM WHICH HAS NOW REACHED THE ADVANCED PHASE AND TO ANGLO-ITALIAN-DUTCH PROGRAM FOR THE DEVELOPMENT OF A MULTIROLE LIGHT HELICOPTER BORN OUT OF MANGUSTA 129 AS WELL AS NH90 HELICOPTER TO BE DEVELOPED BY THE NATO !!PARTNERS!!. THESE ARE PROGRAMS. ESPECIALLY EH101 AND THE MULTIROLE HELICOPTER. ON WHICH WE WORKED INTENSIVELY WITH YOUR BREDECESSOR. THE SPIRIT WAS ONE OF FULL COOPERATION WHICH COULD RIGHTLY BE TAKEN AS AN EXAMPLE OF THE FIRST INSTANCE OF JOINT WORKING ACTIVITY BETWEEN OUR TECNICIANS AND ALL OUR OTHERS EMPLOYEES IN THE EUROPEAN COMMUNITY.

I DO NOT WANT TO INTERFERE WITH THE DIFFICULT DECISION THAT YOU MUST MAKE. YOU ARE ALSO AWARE OF THE GOOD RELATIONS WE ENJOY WITH SIKORSKY. THE FACT IS THAT THIS COMPANY MANUFACTURES SOME MACHINES AND HAS PROGRAMS WHICH ARE VERY SIMILAR TO THOSE THAT

PAGE 3 RBDWC 5013 UNCLAS

OUR COMPANIES HAVE. THEIR PARTICIPATION IN WESTLAND AND ON THE EUROPEAN MARKET COULD HAVE NEGATIVE REPERCUSSIONS AND WORSEN OUR MANUFACTURING DIFFICULTIES. IT WOULD ALSO ENDANGER THE PROGRAMS ILLUSTRATED ABOVE.

LASTLY I MUST REMIND YOU THAT THE AGREEMENT SIGNED IN PARIS 28. MARCH 1985 WOULD ALSO SERIOUSLY SUFFER BY THE PARTICIPATION IN WESTLAND OF NON EUROPEAN THIRD PARTIES. SINCE THIS WAS THE SPIRIT WITH WHICH AGUSTA DECIDED TO COLLABORATE WITH AEROSPATIALE AND MBB IN PRESENTING THE OFFER. THEREFORE I MUST ASK YOU TO CAREFULLY CONSIDER THESE PROBLEMS AND TO ASSESS THEM OBJECTIVELY BEFORE MAKING ANY DECISION. I WOULD ASK YOU TO DO YOUR UTMOST TO RESPECT THE FUNDAMENTAL MOTIVE UNDERLYING OUR AGREEMENT BETWEEN AGUSTA AND WESTLAND SINCE IT HAS PROVED TO BE VERY FRUITFULL IN THE PAST AND COULD STILL BE EXTREZELY POSITIVE FOR THE FUTURE.

WITH BEST REGARDS.

RAFFAELLO TETI

CHAIRMAN AND C.E.O. AGUSTA GROUP."

BRIDGES

PAGE 4 RBDWC 5013 UNCLAS

BT

SUBJECT
cc MASTER



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10 DOWNING STREET

5 December 1985

From the Private Secretary

WESTLAND

The Prime Minister held a meeting this morning with the Lord President, the Foreign Secretary, the Trade and Industry Secretary, the Chancellor and the Chancellor of the Duchy of Lancaster to consider the future of Westland. Sir Robert Armstrong was also present. My letter of earlier today recorded the conclusions requiring immediate action.

The Trade and Industry Secretary spoke to his minute of 3 December. The choice between accepting the Sikorsky/Fiat offer or one from a European consortium should be left to Westland itself, and the Government should not try to load the dice in favour of the European bid (which was the effect of the recommendation of National Armaments' Directors to give exclusive preference to European designed and built helicopters). It was far from certain whether a viable European offer would in fact materialise. If Sikorsky were to withdraw their offer because of the NADs' recommendations, the Government might find itself with no option but to bail Westland out.

The Defence Secretary spoke to his minute of 4 December. Whichever offer was accepted Westland would look to the Ministry of Defence to acquire the helicopters which they produced. He had obtained details of the offer to be made by the European consortium, which appeared to involve a more substantial injection of cash and less strings than Sikorsky's bid. It would be difficult to explain to other European governments why we preferred an option which would support US manufacturers at the expense of a joint European project. He was not suggesting that the Government should endorse the NADs' recommendation: but nor should it be disavowed, since to do so would give Sikorsky carte blanche.

In discussion the following points were made:

(i) Sir J. Cuckney was meeting the European consortium today and would be able to report to his board on the nature and viability of their offer;

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(ii) time was short. Westland's accounts had to be finalised by 11 December. There was a risk that the Sikorsky offer would be withdrawn and that Westland would not survive long enough for a European offer to take effect;

(iii) it was disingenuous to argue that by not endorsing the NADs' recommendation, the Government would be leaving Westland to decide untrammelled between the two bids. As long as the recommendation was on the table, it was quite enough to block the Sikorsky offer and at the same time gave an unfair advantage to the European consortium. It would also have the unfortunate implication that the European offer needed to be backed by an arrangement in restraint of trade in order to have a chance of success;

(iv) whatever the Government now did would affect the outcome. There would be no European deal if the Government rejected the NADs' recommendation, and no Sikorsky deal if it accepted the recommendation. If both solutions were to fail and Westland were to go into receivership, the Government would be blamed for the consequent loss of jobs;

(v) fuller information was therefore required on the details and status of the rival offers for Westland, together with an assessment of their wider implications, to enable the Government to take a decision.

The Prime Minister summed up in the sense of my letter of earlier today.

I am copying this letter to Miss Joan MacNaughton (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Richard Broadbent (Chief Secretary's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), and Michael Stark (Cabinet Office).

C D POWELL

John Mogg, Esq.,
Department of Trade and Industry



MO 26/16/1

PRIME MINISTER

WESTLAND HELICOPTERS

1. We are due to resume our discussion on Westland helicopters tomorrow morning at 9.00 am. There is a further development which I feel I should report to you straightaway.

2. Sir Austin Pearce of British Aerospace was in contact with my Permanent Secretary this afternoon on a matter which need not concern us and in the course of his conversation asked about where matters stood on Westlands. He was concerned at the possible implications of the Sikorsky bid for British Aerospace's European co-operative ventures. When this conversation was reported to me, I myself made contact as soon as I could with Sir Austin and spoke to him on the telephone at 8.00 pm this evening.

3. He explained that he had been in contact at an early stage with the DTI and with Sir John Cuckney about possible British Aerospace involvement but had not taken this further because he



had no wish to take a controlling interest in the company. He had, however, to address the implications for British Aerospace of a Westland link with Sikorsky and the opportunity provided by the interest now being expressed by the European consortium. A Sikorsky takeover would inevitably have impact in Europe in those countries which were British Aerospace's partners on EFA and the Airbus. There were therefore attractions for the company in the alternative approach of the European consortium. He believed that the risk to his industrial interests were sufficient to justify putting to his Board of Directors a proposal that British Aerospace should join the offer being made by the consortium of European companies. Since he had no direct interest in the helicopter business, he would wish to take only a limited stake. I told him that the European consortium were talking in terms of providing around £30M. He said that he believed British Aerospace might themselves participate by offering an additional £5-10M. He would intend to pursue this further at his next Board meeting on Monday.

4. I explained that Ministerial discussions were taking place as a matter of urgency and asked whether he was content that I should report this conversation to you and our colleagues. He said that he would be quite happy for me to do so and would be available tomorrow morning (but not tomorrow afternoon as it happens) if the government wished to make further contact with him.



5. The evidence of concern at an industrial level in our major Aerospace company of the implications of an American stake in Westland is clearly a factor we will wish to address. Equally importantly, British Aerospace participation in the suggested European consortium would I believe change its character in a financial and political way, both domestically and internationally, out of all proportion to the particular sum of money invested.

6. It is of course entirely a matter for you whether to proceed with our meeting at 9.00 am or whether to invite the Secretary of State for Trade and Industry and I to evaluate the implications of this development before there is a collective discussion.

7. I am copying this minute to Lord President of the Council, the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury, and the Secretary of the Cabinet.

Ministry of Defence

5th December 1985

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PRIME MINISTER

MS

WESTLANDS

I attach a joint paper by DTI and MOD officials. It assembles all the information, but doesn't actually take us much further forward.

Hard on the heels of the paper has come a note from Mr. Heseltine, revealing that he has just (?) discovered that BAe would be ready to join a European consortium, thus making it less 'foreign'.

Westland's own assessment of the European offer is in paragraphs 12 and 13. While the financial arrangements are as good, if not better, than the Sikorsky offer, the promises of additional work are pretty hypothetical. The only decision actually required by Ministers is whether:

- a) to accept the National Armaments' Directors' recommendation (thus ditching the Sikorsky bid);
- b) to reject it (opening the way for Westland to do what they want, ie accept Sikorsky's offer); or
- c) let it lie on the table. This would have the same effect as a), ie it would block the Sikorsky bid.

It is hard to find anything in this analysis which justifies overriding Westland's commercial judgement in favour of the Sikorsky offer. I think you ought to push through b) above, that is rejection of the NADs' recommendation.

C.D.P.

C.D. Powell
5 December 1985

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PS/ Secretary of State for Trade and Industry

5 December 1985

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Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister
CD
5/11

Dear Charles,

WESTLANDS

In your letter to me earlier today you reported the outcome of the Ministerial meeting convened this morning to discuss Westlands. It was decided that a paper should be produced to serve as a basis for a further discussion tomorrow morning.

I attach this paper which has been prepared jointly by officials here and at the Ministry of Defence. It has been seen by neither the Secretary of State for Defence nor my own Secretary of State.

I am copying this letter and attachment to Richard Mottram (Ministry of Defence), Joan MacNaughton, (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Richard Broadbent, (Chief Secretary's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Michael Stark (Cabinet Office).

Yours sincerely,

John Mogg

J F MOGG
Private Secretary

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WESTLANDS: POSSIBLE RECONSTRUCTION PACKAGES

Note by DTI and MoD officials

SIKORSKY/FIAT PROPOSALS

Financial arrangements

1 Sikorsky/Fiat would take 29.9% of the issued shares following a rights issue and conversion of bank debt. Their initial investment would be of the order of £20 million. They would also have an option to acquire a limited number of further shares, at a substantially higher price, which could bring their holding up to 35-40%. This subsequent investment might be something over £10 million. The arrangements between Sikorsky and Fiat would be such that Sikorsky could always control a majority of their joint holding.

2 Westland will also issue loan stock to Sikorsky as part of its payment for the licence to manufacture Blackhawk (see paragraph 6 below).

3 Sikorsky/Fiat would have the following special rights as shareholders:

- to nominate directors in proportion to their shareholding.
- to veto increases in share capital, changes to Memorandum and Articles of Association and alterations in the company's borrowing limits.

4 The consent of Sikorsky, as holder of the loan stock, would be required for major acquisitions or significant changes in the activities of the Westland group.

5 There would be a letter of understanding between Sikorsky and Westland to the effect that Westland's helicopter business would be adequately funded to Sikorsky's satisfaction before resources were made available for the establishment or development of non-helicopter activities.

Products

6 Westland would take a licence to manufacture Blackhawk helicopters in the UK. Such helicopters would have a 60-70% UK content, taking into account the Rolls-Royce engine and avionic systems. The scale of manufacture would depend on orders. Marketing would be divided geographically - Sikorsky taking e.g. United States, China, Japan, Korea, Saudi Arabia; Westland taking e.g. Europe, India, elsewhere in the Far East. Both Westland and Sikorsky see a potential market for this category of helicopter of 750 aircraft in Europe alone over the next 15 years, excluding France. (MoD officials' assessment is that the market is somewhat smaller.)



Management

7 Joint working parties would be established aimed at improving productivity in Westland. Sikorsky's sales per employee are five times better than Westland, due partly but not entirely to greater volume of production. Westland foresee substantial improvements coming from Sikorsky's management expertise.

EUROPEAN CONSORTIUM PROPOSALS

8 We understand these proposals have been put forward on behalf of Aerospatiale and MBB, with the knowledge but not formal approval of Agusta.

Financial proposals

All 3 are state owned

9 The European partners have offered to subscribe up to £25 million of new equity in Westland and have indicated that they could increase that amount if necessary, perhaps to £40 million. They have said they are flexible on the exact form such an investment might take. They would, for example, consider the subsequent disposal of a substantial part of their holdings in the United Kingdom. Each partner would wish to be entitled to nominate a director to the Board.

10 Westland have not pursued more detailed financial discussions with the European companies, principally because they do not believe the product proposals put forward by the European consortium provide an adequate basis for such discussions.

Products

11 The European companies have given the following indications of possible provision of workload for Westland and participation in future collaborative projects:

- a) Strong support for the NH90
- b) Possible participation by Aerospatiale and MBB in the EH101, and possible procurement of that aircraft by the German Government after 1996.
- c) The intention to place additional work in Westland factories in the short term, including a possible increase in subcontract work from Aerospatiale of up to 25% (representing a maximum of £3 million per annum and an extra 90 jobs). However the European companies would not be prepared to allow any substantial information on the point to be included in a public document putting the proposals to shareholders.
- d) Possible participation by Westland in international government competitions for which Super Puma is a contender.



e) The possibility has been floated, without commitment, that a licence might be negotiated for manufacture of the A129 Mark I by Westland. However there is no prospect of completing such negotiations before a reconstruction package needs to be announced.

WESTLAND'S ASSESSMENT OF THE RELATIVE MERITS OF THE PROPOSALS

12 Westland believe the Sikorsky/Fiat proposal provides a combination of financial strength, product reinforcement in the coming few years when their existing programmes will not provide adequate work, and management strengthening. They emphasise in particular that the capital injection would come from large and successful private sector companies; and that through the Blackhawk licence they would have substantial opportunities for sales of a proven product with majority UK content.

13 It appears that the European companies would be able at least to match the financial terms of the Sikorsky/Fiat proposals, but Westland are concerned at the implications of this financial injection coming from companies which are state-owned or state-supported. They consider all the suggested areas of product collaboration and additional work to be uncertain and believe that even if a licence for manufacture of the A129 Mark I could be negotiated it would offer less good prospects than the Blackhawk. Nor do they see comparable management benefits to those accruing from a Sikorsky link.

INDUSTRIAL IMPLICATIONS

14 DTI officials consider that Westland would derive considerable financial and commercial strength from a link through Sikorsky with United Technologies, which would not be paralleled in a link with the European helicopter manufacturers. They also attach weight to the fact that Westland have negotiated firm arrangements through the Blackhawk licence, for potentially filling the gap in their workload before EH101 production begins, whereas the only concrete suggestion from the European companies at this stage is the offer to increase the amount of subcontract work placed by Aerospatiale in Westland. They believe that the arrangements negotiated by Sikorsky for control over extensions to Westland's business, and the proposed letter of understanding requiring adequate funding of Westland's helicopter business, indicate Sikorsky's intention that a substantial helicopter business should be maintained in the UK.

15 They note, however, that the Sikorsky/Fiat proposals involve the possibility of a more extensive overseas shareholding (up to 40%) than has so far been envisaged in discussions with the European companies; and that the



principal immediate motive of Sikorsky appears to be to obtain a substantial place in the European market for its Blackhawk helicopter.

16 Rolls-Royce have indicated to the Department that they believe a link between Westland and Sikorsky would strengthen their position in the small engine market. The RR/Turbomeca RTM 322 engine is being specified by Sikorsky for the growth Blackhawk and is also suitable for the basic Blackhawk. (The RTM 322 is also being bid for the EH101 and is seen by Rolls-Royce as having good opportunities for the NH90 and a single-engined version of the A129.) Rolls-Royce believe a link between Westland and Sikorsky/Fiat offers more advantage to them than the alternatives that have been suggested.

DEFENCE IMPLICATIONS

17 MoD officials believe the defence interest lies in the maintenance of a UK capacity to design, develop, manufacture and support helicopters to meet the requirements of the Armed Forces. More specifically this involves the start shortly of the feasibility study into the Anglo-Italian battlefield helicopter (A129 Mark II), the feasibility study into the five-nation NATO tactical transport helicopter for the 1990s (NH90) the development and manufacture of the Anglo/Italian maritime and logistic transport helicopter (EH101), current and prospective production orders for Sea King and Lynx helicopters and support - post design services, servicing and spares - for the MoD's fleet of approximately 800 helicopters.

18 In addition, the defence interest lies in rationalising the European capacity to develop and produce helicopters to enable it better to supply the European Armed Forces and compete in the world market. Rationalisation of requirements is an important element in achieving the economic benefits of shared development, longer production runs and commonality on the battlefield. The three collaborative projects described above are designed to meet the three likely future major requirements, subject to the outcome of the current review of requirements in the medium and light support categories.

19 The Sikorsky proposal appears to offer the survival of the UK helicopter industry and indeed they have said that this is their intention, but it gives Sikorsky a position of considerable influence over the future of Westland. Their proposal with its essential element of Westland building Blackhawk under licence could well lead to the MoD coming under intense pressure to order the Blackhawk helicopter in the short term, for which there is no financial provision. This could have harmful consequences for the defence budget and would spell the end of the NH90 and hence collaboration and an independent European helicopter industry. MoD officials believe that in the longer term a Sikorsky takeover, or dominance of the company could lead to Westland being



slowly eased out of those activities that compete with Sikorsky or duplicate their activities eg design and development, with the company ending up solely manufacturing and supporting Sikorsky products for those markets where Westland has a better entree than Sikorsky. Westland, and /could in due course the European industry, become little more than a manufacturing subsidiary of American helicopter companies with all the implications that has for the UK and European technological and industrial base and ability to compete in world markets. The short term benefits to Westland of potential Blackhawk work could be more than offset by long term loss of capability in the UK and increased vulnerability of the European industry and market to US penetration. These concerns are shared by our Allies.

20 The European proposal, on the other hand, states clearly that it is the partners wish that Westland should remain a strong and independent UK company participating fully with the partners in helicopter design, development production and sales. The European partners also wish to support the efforts of the national armament directors to achieve a joint battlefield helicopter programme for the period 1993/95 and its consequent economic and industrial benefits.

21 While Westland's interests may be served in the short term by co-operation with Sikorsky, it has to be recognised that both offers have long term implications for the UK and European industrial bases and the way that the requirements of the Armed Forces are met. While to Westland the Sikorsky proposal seems to offer a better deal in the short term, in the long term it would threaten the survival of the UK helicopter and European industry and undermine European attempts to achieve rationalisation of requirements and effective competition with the US in world markets. If Westland can survive commercially with either offer then the defence interest is better fostered by the European proposals.

DIPLOMATIC CONSEQUENCES

22 A decision by Westland to opt for an agreement with Sikorsky can be expected to attract critical comment from the French, German and Italian Governments that HMG, by allowing Westland to reject a competing offer from the three European manufacturers had turned its back on European cooperation in a vital field of high technology. Such criticism would, however, smack of self-interested special pleading and it would be open to Ministers to reject any such criticism on the grounds that a) strenuous efforts had been made to encourage European manufacturers to present proposals and these were only rejected when found to be inadequate and b) Westland, notably through the EH101 and the A129 Mark II projects remain firmly committed to European collaboration where this is viable.



If it was believed that HMG had forced Westland into a European solution it could be seen by the US Administration, as another example of unjustified trade protectionism.

IMPLICATIONS FOR W30

Sale of W30-160 - India

- 23 The Indian authorities have indicated that final agreement for the sale will be given in January. We believe Indian intention to proceed with the purchase is now firm and see no reasons why Westland collaborating with Sikorsky or the European partners should be more or less likely to put the contract in jeopardy.

DTI Launch Aid for the W30-300

24 It seems likely that under either proposal Westland would wish, for commercial and financial reasons, to terminate the W30-300 programme. If the company is in default of its obligations under the contract, it is liable to repay the launch aid it has received (nearly £40 million). Westland's auditors have said that they will qualify the 1985 accounts because of this contingent liability, and Lazards have represented that such a qualification will prevent the implementation of a reconstruction package. It seems likely that Ministers will ultimately need to decide either:

- a) to undertake that the right to recover launch aid will not be enforced; or
- b) to risk the consequences of the accounts being qualified.

NADS RECOMMENDATIONS

- 25 The National Armaments Directors of France, Germany, Italy and the United Kingdom recommended to their Defence Ministers on 29 November that helicopter requirements in three specified classes should be covered solely in the future by helicopters designed and built in Europe. Acceptance of this recommendation would give comfort to the Aerospatiale/MBB/Agusta offer to Westlands by reassuring them that the UK MoD, like its European counterparts, would adopt helicopters of European origin to meet its requirements for Medium ASW and transport, light transport and light attack machines. It would also give wider credibility to the UK support for the objectives of the Independent European Programmes Group in terms of strengthening Europe's indigenous defence technology base.

26 Conversely acceptance of the recommendations is likely to prevent the Sikorsky/Fiat arrangement going through, because it would appear to rule out future European purchases of Sikorsky designed helicopters. If Westland were then unable to negotiate an arrangement with the European companies, receivership would probably result.



27 In general terms the effects of rejection by the UK of the NADs' recommendation would naturally be the reverse of those described about Sikorsky and Fiat would be encouraged to believe that at the very least the UK MoD would be open to persuasion to purchase Blackhawk helicopters (and that other European countries might follow suit) and to participate via Sikorsky in the LHX project.

28 By the same token the European consortium would be very seriously discouraged. France in particular would see rejection of the NADs' recommendations as a clear abandonment by the UK of the Declaration of Principles on European Helicopter collaboration signed by Defence Ministers in 1978 (and amplified in a Memorandum of Understanding signed earlier this year). MoD officials believe that Germany would take the same serious view which could affect our relations with them on EFA; and that under French pressure it is quite likely that the European consortium would withdraw its offer for Westland. MoD officials also believe that France and Germany would be likely to seek to force an early decision by the UK on whether we intended to continue our participation in the 5 nation collaborative NH90 light transport helicopter project or to purchase Blackhawk.

29 Italian reaction to rejection of the NAD's recommendations would be less clear cut Italy being in the position of backing both horses. Italy's main concern would be to secure an assurance that the EH101 would continue - which would depend heavily upon the readiness of Sikorsky and Fiat to continue with the commercial elements of the EH101 programme, since the project is unlikely to be viable as a purely military programme. Whilst Italy would also undoubtedly prefer to continue with the proposed Anglo-Italian project to develop the A129 Mark 2 light attack helicopter she would certainly not be adverse to Fiat having a stake in the American LHX project if that were to materialise through a Fiat/Sikorsky holding in Westland. The Italian Government might also wish to encourage Fiat and Sikorsky to take a similar stake in Agusta (which is currently also losing money), although this is less certain at this stage.

30 To allow the NADs' recommendation, that helicopter requirements should be met solely from aircraft designed and built in Europe, simply to lie on the table would be likely to be interpreted by the European companies as being tantamount to its rejection. However this course would not remove the obstacle to implementation of an arrangement between Westland and Sikorsky. The existence of the recommendation would still need to be disclosed in any public document unless HMG had made it clear that they were not under active consideration.

VC



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10 DOWNING STREET

From the Private Secretary

5 December 1985

Dear John,

WESTLANDS

BR | The upshot of the Ministerial meeting which the Prime Minister convened this morning to discuss Westlands is that a further paper is to be produced by this evening to enable a fuller and more informed discussion to take place between Ministers tomorrow. The paper should provide more information on the competing Sikorsky/Fiat and European offers; assess their relative merits; and examine the implications of them for HMG's interests. The paper should also analyse the implications of endorsing, rejecting or simply taking no action on the recommendations of the national armaments directors about future procurement of helicopters by European Governments.

I suggest that this paper be produced jointly by the Department of Trade and Industry and the Ministry of Defence.

I am copying this letter to Richard Mottram (Ministry of Defence), Joan MacNaughton (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Richard Broadbent (Chief Secretary's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Michael Stark (Cabinet Office).

Yours sincerely,

C.D. POWELL

John Mogg, Esq.,
Department of Trade and Industry.

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Mr C Powell
No 10
CEPC
BUP
COPY

Reference No E 0132

MR JAGO

cc Mr Unwin
Dr Walker

WESTLANDS

The Prime Minister's Office intend to hold a small meeting between OD and Cabinet tomorrow to consider the future of Westlands.

2. Westlands' accounts for the year ending 30 September 1985 are due to be published on 11 December. Although some postponement is now inevitable, the delay cannot be long; and because of the extent of write-offs, it will be necessary at the same time to announce a financial reconstruction package in order to avoid a breach of debenture conditions and thus enforced receivership.

3. Westlands have been in discussion with Sikorsky, with a view to Sikorsky and Fiat taking between them a 29.9 per cent share in the company. (The discussions have all been with Sikorsky, who in turn have been talking to Fiat.) In addition to this injection of equity, the proposed reconstruction would provide for the banks to convert some of their loans into equity, and for a rights issue. The total amount involved is thought by DTI (who have not seen financial details) to amount to about £60 million.

4. Meanwhile the Defence Secretary seems to have been associated with an attempt to arrange a European 'rescue' for Westlands. Under this proposal a 29.9 per cent stake

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in Westlands would be taken jointly by Aerospatiale (France), MBB (Germany) and Agusta (Italy). The cash injection would apparently be of the order of £25 million. The French and German companies were in a position to commit themselves, but Agusta (which is financially weak, and which is owned by the Italian Government) has not yet secured approval for its participation. As part of the deal, the Armaments Directors of the four countries (in the case of the UK, this means Mr Perry, Chief of Defence Equipment Collaboration) have agreed to recommend to their Governments that all their requirements for the three types of helicopter currently in prospect should be satisfied from European sources, on the basis of European designs. The effect of this would be to rule out Westland helicopters produced on the basis of Sikorsky designs, and effectively to eliminate competition in the European military helicopter market.

5. Westlands consider that the European rescue package is financially inadequate, and would not save them from receivership. But acceptance by the UK Government of the Armaments Directors' recommendation would preclude them from recommending the Sikorsky deal to shareholders, since much of the market would have been put beyond their reach. DTI officials see the European solution as in effect converting Westlands into an assembly plant for Aerospatiale - which is certainly how Aerospatiale see it.

6. The attitude of the Italian Government remains uncertain. Agusta and Westlands are working together on a military helicopter which is very important to Agusta's future, so Agusta would be distinctly embarrassed if Westland were forced into receivership. DTI also understand that Fiat have offered to take a stake in Agusta, although they know nothing about the financial details. The effect of such an arrangement, if it went ahead, would presumably be to

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strengthen the existing association between Westlands and Agusta, in partnership with Sikorsky, so creating a credible alternative supplier to Aerospatiale/MBB.

7. Formally, the Armaments Directors' proposal to their Governments has the status only of a recommendation, which Ministers need now to consider. (It would be surprising, however, if Mr Perry had not received some encouragement from the Defence Secretary.) The Secretary of State for Trade and Industry is now seeking a Government decision to reject the recommendation, and has minuted the Prime Minister accordingly.

JW

A J WIGGINS
Economic Secretariat.
4 December, 1985

CONFIDENTIALPRIME MINISTER

WESTLAND

I have fixed a meeting for 10.00 a.m. tomorrow to consider the future of Westlands. The following have been invited: Trade and Industry Secretary, Defence Secretary, Chief Secretary, Foreign Secretary, and Chancellor of the Duchy.

Notes have been put in by:

- a. Trade and Industry Secretary
- b. Defence Secretary
- c. Chief Secretary
- d. Policy Unit

Simply put, the problem is as follows. Westlands are fairly far down the road in negotiations for Sikorsky to take a substantial minority stake.

The Defence Secretary is very keen to encourage European collaboration in defence equipment. He has persuaded the main French, German and Italian helicopter companies to make a rival offer. To achieve his aim, he got the National Armaments' Directors of the UK, France, Germany and Italy to recommend to their governments that they should procure only helicopters designed and built in Europe.

If accepted by Governments, the effect would be to exclude the Sikorsky bid for Westlands. Sir John Cuckney has already said that he could not recommend the Sikorsky bid to his shareholders with this threat hanging over him.

The options now are:

(i) to make clear that HMG will not accept the recommendation from the National Armaments' Directors, thus opening the way for Sikorsky's bid to go ahead. This appears to be Westland's strongly preferred option.

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(ii) to go the European route favoured by the Defence Secretary, which perhaps has a better chance of preserving a European design and manufacture capability.

The danger is that Sikorsky will be lost, but the European bid will not materialise. In that case Westland would probably look to the Government to bail them out.

The Trade and Industry Secretary, Chief Secretary and Mr Tebbit will favour the Sikorsky option. The Foreign Secretary may side with Mr Heseltine.

C.D.P.

C D POWELL

4 December 1985

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MO 26/16/1

PRIME MINISTER

WESTLAND

Leon Brittan minuted you yesterday on this subject, and John MacGregor also wrote to me. It may be helpful for me to explain to you and colleagues the background on the defence side.

2. When Ministers met under Leon Brittan's chairmanship on 16th October (Hosker's letter of 17th October copied to Powell refers), I expressed my concern about the implications of a Sikorsky bid for Westland's future capabilities. Leon Brittan explained Westland's reservations about a European alternative but said that he had already asked them to explore the prospects for a European shareholder as thoroughly as possible. My own efforts since then have been similarly directed to helping to clarify what the European companies might offer and how their Governments might assist this process by rationalising their requirements for military helicopters.



3. I have throughout kept in close touch with Sir John Cuckney who told me last week that he did not himself have the management resources to clarify the European option and that he welcomed any assistance that we and the DTI together could provide in this direction. He said that if the European companies came up with a comparable offer to that from Sikorsky and Fiat he would of course wish to look at it objectively alongside the Sikorsky bid. In practice, it may be that ever since October he has been committed to Sikorsky as the bird in the hand and that he had hoped that the Europeans would never achieve a competing bid: there is some evidence that Westland have sought to frustrate such a bid by not providing information on a comparable basis to that made available to Sikorsky.

4. The second dimension which has developed in recent weeks is the concern of other European Defence Ministers about the implications if Westland were to take an American partner. The fear is that, if Sikorsky take even a minority stake in Westland, they will use their position to put pressure on the Ministry of Defence to order American designed Blackhawk helicopters (for which there is no financial provision in my programme). If we were to accede to this pressure, it would spell the end of the five-nation NH90 collaborative helicopter project now in feasibility study, because we would not be able to afford to buy both Blackhawk helicopters over the next few years and NH90 helicopters in the future. With scope for collaboration diminished in this way, the European helicopter



manufacturers would one by one go out of business or be taken over by American companies (probably Sikorsky). The Americans would, over a period of time, establish a monopoly on design and development work with the Europeans left with licenced production work. It is not self-evidently the case that this would be in the long-term economic interest of this country any more than that of other European countries or that letting Sikorsky in now preserves competition: it could do the exact opposite.

5. These concerns are particularly strongly felt by the German Defence Minister, Dr Woerner. As Dr Woerner put it to me when he came to London with Helmut Kohl last week, a Sikorsky stake would mean: 'The end of a viable European helicopter industry within 20 years'. He has also made the point that Sikorsky's approach to Westland was merely part of their continued attempt to buy into a European helicopter company. They had made an earlier approach to MBB but, although it was a private company, the German Government had resisted this in the wider interest of European co-operation. Given the pivotal position of the German Government in the European Fighter Aircraft programme, these German concerns are not ones which we could simply ignore. I therefore agreed with Dr Woerner that the National Armaments Directors of the 4 key European countries should meet immediately to consider the scope for further European collaboration in helicopters.



6. There are already two European collaborative projects in existence which are open to European countries - the feasibility study for the NH90 tactical transport helicopter and the EH101 maritime and logistic transport helicopter now in development. The National Armaments Directors recommended that a third project should be introduced and, instead of Britain and Italy on the one hand, and France and Germany on the other, both developing battlefield helicopters, there should be a common project for all four countries, thus enabling development costs to be shared by four partners instead of by two sets of two, and offering the possibility of lower production costs and wider sales potential. In addition, the Germans indicated that they might well wish to order some EH101 helicopters for their Navy, and Aerospatiale offered to take a stake in the EH101.

7. The National Armaments Directors also recommended that European nations should only buy helicopters of the three kinds mentioned above which are designed and built in Europe. Clearly this would have the effect of protecting the European technological base; but in the case of the United Kingdom, we are already taking part in European projects in these three categories. So what is proposed is in line with existing plans and, indeed, in the round, the proposal offers scope for achieving our plans at a lower cost than we could otherwise attain. It would certainly reduce competition within Europe on the Battlefield Helicopter, but I had already sought earlier a rationalisation of requirements at this level in line with our



policy of European harmonisation. The truth is that 4 European companies acting separately could never compete with the US giants whose development costs are almost completely funded by the massive American Department of Defense procurement programme. As we have recognised for many years, they must come together to compete on a worldwide basis. From our national point of view the end result would be no different to that we already face in the Aerospace industry and, for example, in the EFA programme itself. I can quite see the concern of the Westland management over the implications for the Sikorsky bid, but we should not dress this concern up in any wider competition context. The simple truth is that we are asked to tailor the policies of Her Majesty's Government to suit a particular choice on its future made by the Westland Board.

8. I find myself in a good deal of difficulty in reaching a view on the proposals of Sir John Cuckney since, as far as I am aware, the Government has no information on the precise terms of the Sikorsky bid to set alongside the information that has been provided on the European alternative. (I understand incidentally that there is to be a meeting tomorrow between Lazards (who act for Westland), Lloyds Bank International (who act for the European companies), Westland and the European companies which suggests that all is not cut and dried in favour of Sikorsky). Until we have information on the Sikorsky bid, I do not see how we could reach a responsible and informed decision on the way forward, particularly having regard for the



substantial international ramifications of that decision and the possibility that it might spill across into other programmes of equally crucial importance for other British companies.

9. I therefore believe that before there is any meeting of Ministers, DTI and MOD officials should, as a matter of urgency, explore with the Company the nature of the bid which they say they prefer.

10. I am copying this minute to the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury and the Secretary of the Cabinet.

A handwritten signature in blue ink, appearing to be "W. J. H." or similar.

Ministry of Defence

4th December 1985



COMPTON

LONDON

Pine ^{D.} Minister
CDD

MR POWELL

4 December 1985

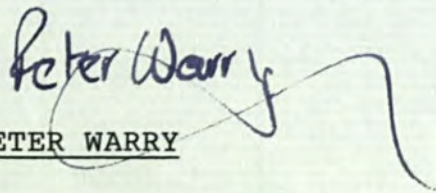
WESTLANDS

Michael Heseltine's shotgun marriage of the European helicopter industry echoes Harold Wilson's reconstruction of the motor industry in the 1960s. This created BL; it failed not least because the constituent companies jealously guarded their products and autonomy, such that the losses were merely aggregated and no scale economies achieved. All the European helicopter companies are losing money, and each country is sure jealously to guard its national interest.

For Westlands it may be worse, because whilst the European partners will appoint a Director to its Board, Westlands will have no reciprocal right. Promises of more work are likely to remain just promises. All the European companies are short of work; Aerospatiale is unlikely to increase the amount of work it is already contractually committed to giving Westlands.

The American threat is not new. Most of Westlands and Agusta's existing helicopter designs are of American origin. Cutting these links, as proposed by the National Armaments Directors, will not only weaken European defence capacity and increase its costs, but will kill Sikorsky's involvement in Westlands.

At its crudest, Michael Heseltine is proposing that a Conservative Government should intervene to kill a private sector rescue of Westlands - which amazingly costs the Government nothing - in order to promote a European deal which will reduce competition and result in the stripping of Westlands, such that it will only survive long term with state subsidy. This surely isn't on.


PETER WARRY

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MARKET SENSITIVE

CPC
SLUP



Mr 90 - *Identify study*

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU827

Secretary of State for Trade and Industry

4 December 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*Prime Minister
The basic details
of the financial
arrangements with Sikorsky
and the Europeans. CDP
4/11*

Dear Charles

WESTLAND

I enclose a note by DTI officials summarising our understanding of the reconstruction package being negotiated by Sikorsky/Fiat with Westland, and the counter-proposal which has been tabled by a European consortium. This is circulated as background for the Ministerial meeting tomorrow morning.

I should emphasise that neither proposal is in final form. All the main points are agreed between Westland and Sikorsky/Fiat, but there are still important details to be negotiated with Westland's bankers and these could have consequential effects on the financial arrangements with the new shareholders. Discussions with the European companies are still at a very early stage, and the available information is accordingly sketchy.

I should also emphasise the extreme market sensitivity of the contents of this note.

Copies go to Private Secretaries to the Foreign Secretary, the Secretary of State for Defence, the Chancellor of the Duchy of Lancaster, the Chief Secretary and the Secretary of the Cabinet.

*Yours truly
Edmund Hosker*

EDMUND HOSKER
Private Secretary



JU824

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MARKET SENSITIVE

WESTLANDS: POSSIBLE RECONSTRUCTION PACKAGES

Note by DTI officials

SIKORSKY/FIAT PROPOSALS

Financial arrangements

1 Sikorsky/Fiat would take 29.9% of the issued shares following a rights issue and conversion of bank debt. Their initial investment would be of the order of £20million. They would also have an option to acquire a limited number of further shares, at a substantially higher price, which could bring their holding up to 35-40%. This subsequent investment might be something over £10million. The arrangements between Sikorsky and Fiat would be such that Sikorsky could always control a majority of their joint holding.

2 Westland will also issue loan stock to Sikorsky as part of its payment for the licence to manufacture Blackhawk (see paragraph 6 below).

3 Sikorsky/Fiat would have the following special rights as shareholders:

- to nominate directors in proportion to their shareholding.
- to veto increases in share capital, changes to Memorandum and Articles of Association and alterations in the company's borrowing limits.

4 The consent of Sikorsky, as holder of the loan stock, would be required for major acquisitions or significant changes in the activities of the Westland group.

5 There would be a letter of understanding between Sikorsky and Westland to the effect that Westland's helicopter business would be adequately funded to Sikorsky's satisfaction before resources were made available for the establishment or development of non-helicopter activities.



Products

6 Westland would take a licence to manufacture Blackhawk helicopters in the UK. Such helicopters would have a 60-70% UK content, taking into account the Rolls-Royce engine and avionic systems. The scale of manufacture would depend on orders. Marketing would be divided geographically - Sikorsky taking e.g. United States, China, Japan, Korea, Saudi Arabia; Westland taking e.g. Europe, India, elsewhere in the Far East. Both Westland and Sikorsky see a potential market for this category of helicopter of 750 aircraft in Europe alone over the next 15 years.

Management

7 Joint working parties would be established aimed at improving productivity in Westland. Sikorsky's sales per employee are five times better than Westland, due partly but not entirely to greater volume of production. Westland foresees substantial improvements coming from Sikorsky's management expertise.

EUROPEAN CONSORTIUM PROPOSALS

8 We understand these proposals have been put forward on behalf of Aerospatiale and MBB, with the knowledge but not formal approval of Agusta.

Financial proposals

9 The European partners have offered to subscribe up to £25million of new equity in Westland. They have said they are flexible on the exact form such an investment might take. They would, for example, consider the subsequent disposal of a substantial part of their holdings in the United Kingdom. Each partner would wish to be entitled to nominate a director to the Board.

Products

10 The partners have said they would consider placing additional sub-contract work with Westland to increase its workload over the next few years. This would depend, however, on such additional work being available to the European companies. They would invite Westland to participate in studies for a joint battlefield helicopter, and would seek to co-operate generally with Westland in future European helicopter developments.

11 Such co-operation might, on the basis of the Aerospatiale memorandum submitted to Westland at the end of October, involve Westland participation in development of the Super Puma, and Aerospatiale seeking a stake in the EH101. No details of such new collaborative arrangements have, however, been worked out.



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PRIME MINISTER

WESTLAND

... I received yesterday the attached letter from Sir John Cuckney and I have seen a copy of the Chief Secretary's letter of 3 December to the Defence Secretary. I hope it will be possible to discuss urgently with you and colleagues what the Government's response to Sir John should be. Westland stress the extreme tightness of this timescale, and had hoped to conclude an agreement with Sikorsky early this week.

2 My main concern is to avoid the risk that both the competing proposals for participation in a reconstruction of Westland might fail, and that the Government could be blamed for the consequences. Indeed there would be strong and probably irresistible pressure on the Government to accept financial responsibility for those consequences. This could happen if the Government were to accept in full the recommendations of the National Armaments Directors last Friday.

JF2ANP

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3 I do not think the Government should express, still less seek to impose, a preference for a particular solution although we must, of course, take into account not only the Ministry of Defence's interest as a customer but also my own Department's through its launch aid to Westlands. We must also have regard to the importance of current and prospective European collaborative projects. But these considerations should not in my view lead the Government to seek to prevent any particular solution. It must be for the company to decide what solution it should recommend to shareholders.

4 Sir John says in his letter that Westland are far advanced in their negotiations with Sikorsky and Fiat; that he does not believe the proposals from the European consortium in their present form provide a viable alternative; but that the effect of the recommendations of the National Armaments Directors last Friday, if accepted, would be that the Board would not be able to recommend the Sikorsky/Fiat proposals to shareholders.

5 I suggest it would be right for us to decide now not to accept the NADs recommendation that the needs of the four countries' forces in three specified classes of helicopter

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(13 tonne, 8-9 tonne and light Attack Helicopter) "should be covered solely in the future by helicopters designed and built in Europe". Clearly to endorse this recommendation would have implications for the attractiveness of a Sikorsky participation to Westland shareholders, since one feature of the proposals will no doubt be the prospect of Westland obtaining work on orders for Sikorsky-designed helicopters to be built in the UK. But quite apart from this I believe that to accept such a rigid recommendation would involve an unnecessary restriction on the opportunities for competition in future procurement decisions.

6 I believe our response to the NADs recommendations should be to reaffirm our commitment to the 1978 Declaration of Principles (the key part of which is an agreement by the Governments to make every effort to meet their needs with helicopters developed jointly in Europe); and to say that we think it would be wrong to go, any further than those Principles. I do not at present believe we need go further by way of specific rejection of the NADs recommendations in order to preserve Westland's commercial freedom, but this is subject to further discussion with the company in the course of the week.

JF2ANP



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7 I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer and the Chief Secretary, the Secretary of State for Defence and the Chancellor of the Duchy of Lancaster.

John Major

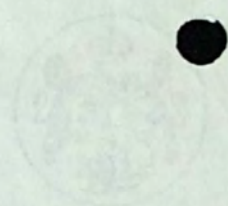
pp L B

[Approved by the Secretary of State
and signed in his absence]

3 December 1985

DEPARTMENT OF TRADE AND INDUSTRY

JF2ANP



McCaff

*SofS - we speak. See attached too.
To see - advice has been sought from Sir John Cuckney urgently on this.
NP.*

WESTLAND plc

TO: <i>Mr O'Shea</i>	COPIES TO:
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	<i>AIR</i>
PLEASE BY: <i>ASAP</i>	<i>PSIGA</i>
DEADLINE:	<i>PSISii BH</i>
CANNOT BE MET	<i>Sir J. Sterling</i>
	<i>Mr MacDonalld</i>
	<i>Mr Michell</i>
	<i>Mr Fairweather</i>

4, CARLTON GARDENS,
PALL MALL,
LONDON, SW1Y 5AB.

TEL: 01-838 4081

COMMERCIAL IN CONFIDENCE

2nd December, 1985

Mr Mullinich SAs

The Rt. Hon. Leon Brittan, QC, MP,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
1 Victoria Street,
London SW1H 0ET.

Dear Secretary of State,

I am writing to express the concern of the Board of Westland about recent developments which have occurred whilst we are attempting to produce a recovery plan for this Company.

We are far advanced in negotiations with Sikorsky and Fiat to take between them, in roughly equal proportions, a substantial minority stake in our equity, as enlarged by a capital reconstruction scheme which will also involve Westland's bankers and shareholders. An important objective of any proposed association with Sikorsky and Fiat will be the provision of continuity of workload in our factories. To this end we are proposing to enter into a licence to manufacture and sell the Black Hawk helicopter which, we believe, will provide the best commercial means of achieving this objective.

We have today received a letter, written on behalf of Aerospatiale and Messerschmitt-Bolkow-Blohm, and with the knowledge, but not the formal approval of Agusta, containing proposals for those companies to take a minority stake in Westland. These proposals, as they stand, represent no commercial advance over proposals previously discussed with the same parties. In particular they do not, in our opinion, secure the necessary continuity of workload already mentioned. Accordingly these proposals in their present form do not, we believe, provide a viable alternative to our current reconstruction proposals.

We are, however, gravely concerned about the implications of the Note from the National Armaments Directors of France, Germany, Italy and the United Kingdom handed to me by the Secretary of State for Defence last Friday evening. It is the opinion of the Board of Westland and its advisers that the substance of this Note, if approved by the Governments concerned, is information which would

/be material ...

be material for disclosure to shareholders in their assessment of the reconstruction proposals. In these circumstances the Board do not see how they would be able to recommend to the Company's shareholders and its Banks reconstruction proposals involving Sikorsky and Fiat.

I need hardly add that I and my Board colleagues are very conscious of our duties and responsibilities as Directors. Our concern, therefore, is that there is a danger of our falling between two stools and having no effective reconstruction proposals to put forward within the urgent timescale to which we have to adhere. In order to avoid this, we urgently request, at the least, confirmation that H.M. Government will not agree to the recommendations of the National Armaments Directors and thereby not inhibit the freedom of this Board to act in the best commercial interests of its shareholders and employees.

I am sending a copy of this letter to the Secretary of State for Defence.

Yours sincerely,
H. C. [unclear]

1978 - no
guarantee to
purchasers

Small handwritten mark or signature at the top right corner.



COMMERCIAL IN CONFIDENCE



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1

3 December 1985

Dear Secretary of State,

WESTLAND

I was disturbed to learn from my officials of the latest state of play as reported to them orally yesterday afternoon.

I understand that in pursuit of a European solution for Westland you have encouraged the drafting of a document under which the UK government, along with the French, Italian and Germans, would refrain from the purchase of helicopters other than those produced in collaboration between the four countries. This document, which I understand is ad referendum to the four governments' defence Ministers, is in support of a deal whereby Aerospatiale, MBB and perhaps Augusta would support Westland. The effect of such a document is of course to exclude the possibility of our buying third country - in practice American - helicopters, and to lock us into European collaboration.

Such a departure from our policy of competition would be questionable in any circumstances. But my information is that the existence of this document has placed Westland in an impossible position. At your request, the Westland board has considered the European plan but rejected it as commercially unattractive. But they cannot now conclude a deal with Sikorski which they had been pursuing separately and which they regard as commercially attractive because the existence of the document you have been discussing - and which will need to be disclosed in any prospectus - will lead all concerned to suppose that Westland, with a Sikorski stake, will be excluded from all further orders from the four governments, including the UK.

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I understand that Sir John Cuckney has requested the urgent withdrawal of the document since in the circumstances he could not recommend the Sikorski deal to his shareholders.

We will of course have to establish to what extent the current Sikorski deal preferred by Westland differs from the package described in Leon Brittan's minute to the Prime Minister of 4 October. But in my view, our starting point must be that Westland should have the freedom to choose the best commercial deal. If my information is correct and the document you have been discussing does indeed jeopardise a worthwhile and commercial deal with Sikorski I think we must act quickly - if necessary by withdrawing the document if that is the only option which allows Westland to proceed. If necessary, I am sure we should meet to discuss this. There is a danger that we shall be held financially responsible for the company if its preferred and commercially viable course of action is blocked.

I am copying this letter to the Prime Minister, Geoffrey Howe and Leon Brittan.

Yours Sincerely,
Paul Legg

JP JOHN MacGREGOR

(approved by the Chief Secretary
and signed in his absence)



PRIME MINISTER

ms

WESTLANDS

You may find it helpful to have an update of where we are on Westlands.

Sikorsky have made an offer for a substantial share of Westlands.
The Westlands board are inclined to accept but have postponed
a formal decision until after the weekend.

Meanwhile there has been a meeting in London today of the principal European helicopter manufacturers and a separate meeting of the National Armaments Directors. This was assembled on Mr. Heseltine's initiative. His fear is that Sikorsky want Westlands only as a vehicle for selling their own Black Hawk medium helicopters in Europe: and the result of allowing them to buy into Westlands will be to weaken the European helicopter manufacturing base. As a result of the meeting the European companies will be putting a rival offer to Westlands on Monday, and the National Armaments Directors are offering to collaborate on future helicopter projects in a way which should help Westlands over the next few years.

Sir John Cukney has been in close contact with Mr. Heseltine and appears content with the way matters are going forward: though there must be some risk that Sikorsky will take umbrage and withdraw their bid, while the European offer goes the way of the Cheshire cat's smile.

CDP

(C. D. POWELL)

29 November 1985

CDP
1/xii

Aerospace; Westland

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FOR GAF

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27 Nov

FROM MODUK
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INFO BRITISH EMBASSY PARIS
BRITISH EMBASSY ROME
FCO LONDON

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SIC ACA/A2P

FROM: PS/DEFENCE SECRETARY

SUBJECT: ANGLO/GERMAN SUMMIT-BILATERAL MEETING OF DEFENCE MINISTERS

1. IN DISCUSSION OF THE FUTURE OF THE EUROPEAN HELICOPTER INDUSTRY, THE DEFENCE SECRETARY SAID THAT HIS POSITION WAS A COMPLEX ONE. HE WAS NOT THE SPONSORING MINISTER FOR THE HELICOPTER INDUSTRY AND HIS ROLE WAS LIMITED TO THAT OF CUSTOMER FOR ITS DEFENCE PRODUCTS. WHEN WESTLANDS HAD FIRST RUN INTO FINANCIAL DIFFICULTIES, HE HAD TO TAKE A VERY TOUGH LINE BECAUSE IT WAS CLEAR THAT, OTHERWISE, OTHER MINISTERS WOULD LOOK TO HIM TO BAIL THE COMPANY OUT. THE COMPANY HAD HAD THEMSELVES TO EXPLORE THE SCOPE FOR A CASH INJECTION AND HAD RECEIVED AN OFFER FROM UNITED TECHNOLOGIES/ SIKORSKY WHICH, WHILE NOT YET FINALISED, HAD OBVIOUS ATTRACTIONS FOR THEM. IT HAD SOME SUPPORT WITHIN THE BRITISH GOVERNMENT. HE WAS HIMSELF CONCERNED AT THE LONGER TERM IMPLICATIONS FOR EUROPEAN CO-OPERATION AND HAD THEREFORE RAISED THE MATTER WITH HIS DEFENCE MINISTER COLLEAGUES. IT WAS IMPORTANT TO EMPHASISE THE EXTENT OF THE FINANCIAL DIFFICULTIES FACING THE BOARD OF WESTLANDS. THEY WERE ON A KNIFE-EDGE BETWEEN RECEIVERSHIP AND TRADING FRAUDULENTLY. ANY EUROPEAN APPROACH WOULD HAVE TO BE PUT FORWARD QUICKLY. EVEN THEN WESTLANDS MIGHT THEMSELVES PREFER A US STAKE AND HE COULD NOT GUARANTEE THE APPROACH WHICH WOULD BE ADOPTED BY THE BRITISH GOVERNMENT

2. DR WOERNER THANKED MR HESELTINE FOR SPEAKING SO FRANKLY. FOLLOWING THEIR TELEPHONE CONVERSATION, HE HAD BEEN IN TOUCH WITH MBB AND WITH M QUILES. THE GERMAN INTEREST WAS IN A VIABLE EUROPEAN HELICOPTER INDUSTRY. HIS OWN COMPANY FACED SERIOUS PROBLEMS. THE PAH2 WAS NOT ENOUGH TO SECURE THEIR LONG TERM FUTURE. THAT DEPENDED UPON THE NH90 PROCEEDING AS A CO-OPERATIVE PROGRAMME BETWEEN THE FOUR PARTNERS. HE FELT THAT, IF SIKORSKY TEAMED UP WITH WESTLANDS, BRITAIN WOULD BE FORCED TO DROP OUT OF THE NH90 PROGRAMME. A EUROPEAN SOLUTION, WHICH EVEN NOW WAS ONLY A POSSIBILITY, WOULD THEN BE FINISHED. THE BLACK HAWK WOULD DOMINATE THE EUROPEAN MARKET AND THE RESULT WOULD BE LIKELY TO BE THE END OF A EUROPEAN HELICOPTER INDUSTRY. THAT WAS THE OUTCOME WHICH FRANCE FORESAW AS WELL AS GERMANY. HE WAS GLAD THAT IT WAS ALSO RECOGNISED BY MR HESELTINE. THAT WAS WHY HE AND M QUILES WERE PREPARED TO DO THEIR UTMOST TO PREVENT IT HAPPENING. WHILE MBB WERE A PRIVATE COMPANY, HE COULD INFLUENCE THEM AS THEIR MAIN

CUSTOMER. HE BELIEVED THAT THERE SHOULD BE AN URGENT MEETING OF THE HELICOPTER INDUSTRIES OF THE COUNTRIES AFFECTED INCLUDING ITALY AND OF THEIR NADS. THEY WOULD NEED TO ADDRESS FUTURE REQUIREMENTS FOR THREE TYPES OF HELICOPTER; THE PAH2/A129 ATTACK HELICOPTER, THE NH 90 AND THE EH101. AN AGREEMENT WOULD HAVE TO INCLUDE AN UNDERSTANDING ON CO-OPERATION ON THE PAH2/A129 AND A EUROPEAN SOLUTION AT THE NH90 LEVEL. GERMANY HAD NO REQUIREMENT FOR THE EH101. HE RECOGNISED THAT THERE COULD BE A PROBLEM OVER PROVIDING PRODUCTION WORK IN THE SHORT TERM FOR WESTLANDS. HE HAD ASKED MBB TO LOOK AT THIS BUT IT SEEMED LIKELY THAT SIKORSKY COULD MAKE A MORE ATTRACTIVE OFFER.

3. THE DEFENCE SECRETARY AGREED WITH THE IMPORTANCE OF BRINGING IN THE ITALIANS. HE POINTED OUT THAT THERE WAS ALSO AN ITALIAN DIMENSION TO THE UNITED TECHNOLOGIES BID SINCE FIAT WERE ALSO INVOLVED AND ENVISAGED A TAKEOVER OF AGUSTA. DR WOERNER DID NOT SEEM TO BE AWARE OF THIS. HE COMMENTED THAT THIS WOULD REPRESENT A DECISIVE BREAK THROUGH BY THE AMERICANS INTO THE EUROPEAN MARKET AND, ONCE IT HAD OCCURRED, IT WOULD ONLY BE A MATTER OF TIME BEFORE MBB WERE ALSO DRAWN IN.

4. THE DEFENCE SECRETARY EMPHASISED THE URGENCY OF TAKING ACTION. THE EFFORT OF INDUSTRY, NADS, MINISTERS, AND BANKERS, HAD TO BE BROUGHT TOGETHER IN A MATTER OF DAYS NOT THE MONTHS WHICH

WOULD NORMALLY BE DEVOTED TO A PROBLEM OF THIS KIND. HE HAD JUST BEEN INFORMED THAT TOP REPRESENTATIVES OF AEROSPATIALE AND MBB WISHED TO SEE HIM ON FRIDAY AND HE VERY MUCH HOPED THAT URGENT ACTION COULD BE TAKEN ALSO TO BRING IN AGUSTA TO SUCH A MEETING. THREE ISSUES WOULD HAVE TO BE ADDRESSED SUCCESSFULLY; A CASH INJECTION INTO WESTLANDS THE RATIONALISATION OF PRODUCTS INCLUDING A JOINT SOLUTION TO THE A129/PAH2 REQUIREMENTS, AND CLEAR FACTUALLY BASED PROPOSALS FOR THE WORKLOAD TO BE PLACED WITH WESTLANDS. DR WOERNER TOOK NOTE.

5. AFTER THE MEETING, IT WAS AGREED THAT URGENT EFFORTS SHOULD BE MADE TO INVOLVE AGUSTA IN THE MEETING WITH THE DEFENCE SECRETARY ON FRIDAY AND THAT THE NADS MEETING PLANNED FOR THAT DATE TO DISCUSS SP70 SHOULD BE RE-LOCATED IN LONDON.
ET

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OF 140800Z NOVEMBER 85

INFO IMMEDIATE DTI (FOR BENJAMIN, PEP, AND O'SHEA AIR), ODA

WESTLANDS

1. DURING INFORMAL CONVERSATION AT THE HIGH COMMISSION ON EVENING OF 8 NOVEMBER, SIDHU (SECRETARY, CIVIL AVIATION) TOLD ME THAT THE W 30 WOULD NEED TO BE SUBJECTED TO CERTAIN 'FINAL TRIALS' BEFORE BEING CONSIDERED BY THE PUBLIC INVESTMENT BOARD AND THE CABINET COMMITTEE FOR POLITICAL AFFAIRS. THE TRIALS, HE THOUGHT, WOULD TAKE ONLY ONE WEEK AND WERE 'POLITICALLY NECESSARY'. IF ALL WENT WELL, CONTRACT SIGNATURE COULD BE EXPECTED IN JANUARY 1986.
2. MR PATTIE HAD A MORE FORMAL MEETING ON 11 NOVEMBER WITH TYTLER (MINISTER OF CIVIL AVIATION) WHO HIMSELF INITIATED DISCUSSION ON W 30. HE SAID HE WAS ANXIOUS TO MAKE EARLY PROGRESS. HE THEN SENT FOR SAINI (MD OF HELICOPTER CORPORATION) AND ASKED HIM TO EXPLAIN THE SITUATION IN FRONT OF MR PATTIE. SAINI SAID THERE WAS ONLY ONE FURTHER TEST HE WISHED TO DO. THIS WAS TO FLY A FULL 10 PASSENGER LOAD ON THE 100 MILE (APPROX) THERE AND BACK MISSION WHICH HE CLAIMED HAD NOT PREVIOUSLY BEEN DONE. HE WOULD NEED ONLY ONE DAY TO DO THIS. HOWEVER, WESTLAND HAD TOLD HIM THE W 30 NOW IN DELHI COULD NOT BE AVAILABLE UNTIL AFTER 28 NOVEMBER. AGAIN, IN FRONT OF MR PATTIE, TYTLER INSTRUCTED SAINI TO PRESS WESTLANDS TO MAKE THE W 30 AVAILABLE THIS WEEK FOR THE FURTHER TEST SO THAT HE (TYTLER) COULD ENDORSE THE PROPOSED PURCHASE BY THE END OF THE WEEK.
3. THIS WAS A HELPFUL INTERVENTION BY TYTLER WHO APPEARS KEEN TO GET THE W 30 ISSUE OUT OF THE WAY AS SOON AS POSSIBLE. HE DID NOT DISCUSS THE TIMETABLE AFTER HIS ENDORSEMENT OF THE PROPOSED PURCHASE SO HIS REMARKS ARE NOT NECESSARILY INCONSISTENT WITH SIDHU'S FORECAST OF CONTRACT SIGNATURE BY JANUARY. HOWEVER, TYTLER CLEARLY ASSUMED THE OUTCOME WOULD BE FAVOURABLE TO WESTLANDS.

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4. WE HAVE CONTACTED THE LOCAL WESTLANDS REPRESENTATIVE AND URGED THAT HE COOPERATE FULLY WITH SAINI. THERE ARE LOGISTICAL PROBLEMS IN THAT THE HELICOPTER IS LOCATED AT THE TRADE FAIR SITE IN DELHI AND WESTLANDS HAVE CONTRACTUAL OBLIGATIONS TO THE TRADE FAIR AUTHORITY. HOWEVER WESTLANDS HAVE ASKED SAINI TO HELP OVERCOME THESE PROBLEMS WITH A VIEW TO FLYING THE HELICOPTER THIS WEEKEND. THIS FLIGHT MIGHT HAVE TO TAKE PLACE IN BOMBAY.

5. COMMENT TO FOLLOW.

WADE-GERY

WESTLANDS HELICOPTERS FOR INDIA
LIMITED

SAD
ODA
MAED
TRED
NEWS D
PS
PS/LADY YOUNG
PS/MR RENTON
PS/PUS

SIR W HARDING
MR BRAITHWAITE
MR WILSON

ADDITIONAL DISTRIBUTION
SUB CONTINENT

COPY TO :-
BENJAMIN PEP DTI VIC ST .
MR O'SHEA AIR DTP .

-2-
CONFIDENTIAL

CC 20



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-930 7022

MO 26/16/1

22nd October 1985

EW/SV

EDP or

Dear Edmund,

WESTLAND

In your letter to Richard Mottram of 18th October you asked for this Department's views on the £6 million which Sir John Cuckney said was owed to the Company by the Ministry of Defence.

We do not owe the Company this money; if we did we should pay it. The £6 million is for progress payments on spares contracts. It is our practice - not our obligation - to make such payments to companies in the aerospace field where a contractor's cost accounting system allows and where the sums involved have warranted the administrative effort.

In the absence of legal liability to pay this money, you will, I am sure, understand that the responsible Accounting Officer, Mr Levene, has decided not to make the payment at the present time. If the Company were to go under in the coming weeks, it would be wrong for the Ministry of Defence to have taken the positive step of putting a further sum of £6 million of public money at risk.

This decision was conveyed to Sir John Cuckney by Sir Clive Whitmore on 24th September. Sir Clive told Sir John that if the banks' intention, on hearing this news, was to take action that would precipitate receivership, then he should let us know immediately so that we could consider the position at once.

So far, while Sir John has continued to press for the £6 million, he has not put the matter to us in these terms. The Accounting Officer has therefore maintained his position.

From your letter, the next step on the financial side would appear to be for Sir John Cuckney to grant to the banks the security for which they have asked and which he told your Secretary of State that he has decided to give them.

Edmund Hosker Esq
Department of Trade and Industry



We shall, of course, keep the position under very careful review.

I am sending copies of this letter to Charles Powell (No 10), Peter Ricketts (Foreign Secretary's Office), Andrew Lansley (Chancellor of the Duchy's Office) and Richard Broadbent (Chief Secretary's Office).

*Yours sincerely,
Dennis Brennan*

(D BRENNAN)

AEROSPACE
WESTLAND APR 85



D/R.
MR. POWELL

Following my Westlands telegram of yesterday, Mr. Brittan's meetings envisaged in that telegram have now taken place and nothing of great significance transpired as a result. The information as agreed was passed on by Mr. Brittan.

Tim Flesher

18 October 1985

2

M. Flesher, N^o 10 D. St.

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OF 181442Z OCTOBER 85

FOLLOWING FOR FLESHER, 10 DOWNING STREET, FROM POWELL, PRIME MINISTER'S PARTY.

THANK YOU FOR YOUR TELEGRAM ABOUT THE NEXT STEPS ON WESTLANDS. THE PRIME MINISTER IS CONTENT WITH THE ACTION PROPOSED. THE MATTER HAS NOT COME UP FURTHER IN HER VARIOUS CONVERSATIONS WITH MR. GANDHI HERE.

HOWE

YYYY

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NNNN



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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

18 October 1985

R C Mottram Esq
Principal Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

TRP
21/10

Dear Richard

WESTLAND

My Secretary of State met Sir John Cuckney yesterday to talk about Westland.

2 Mr Brittan told Sir John that, although Mr Gandhi had not given a categorical assurance that the order for 21 W30s would go ahead, Ministers' collective view was that it would. Mr Brittan added that he proposed to ring Lord Boardman later that afternoon to give him the same message. Sir John asked whether the Secretary of State would be prepared to put this in a letter, without prejudice: he explained that this might help with the company's auditors, who were due to commence work on the company's books in about a fortnights time. The Secretary of State said that he was hesitant about writing a letter, as Sir John suggested: if its existence became know, it might well jeopardize the Indian order. However he was perfectly prepared for officials to tell the auditors what the Government view was, if Sir John thought that would be helpful. Sir John said that it might well be, and that he might well wish to take up Mr Brittan's offer at a slightly later stage.

3 Sir John also asked whether the Government would consider underwriting the Indian order. Mr Brittan replied that he was not now authorized to make any underwriting offer. Sir John also asked whether the Ministry of Defence would now pay Westland the £6m which they owed the company. Mr Brittan replied that that was a matter for MoD: however, he did undertake to pass on to Mr

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Heseltine Sir John's concern. Sir John also said that Westland had reached break-point with the banks and would now have to give them security: the banks would, of course, take the maximum amount of security they could get. Mr Brittan noted what he said.

4 Sir John said that he was well aware of the Government's preference for a European minority shareholder in Westland, and attached weight to that preference. He had now held talks with MBB, Aerospeciale and Agusta, invited them all to participate, and made it clear that Westland would consider any reasonable proposition. The interest of all three companies was totally negative: they were only interested in blocking Sikorsky. All three were also Government owned, loss-making, and suffering from excess capacity. Agusta appeared to be the most positive of the three, and had expressed interest in the possibility of coming in with United Technologies - i.e taking some part of a 29.9 per cent shareholding with them. But progress was slow and Agusta had yet to come forward with any definite proposals. To persuade the banks to convert debt into equity, it would be necessary to produce as positive and forward looking a prospectus as possible; and to bring about a deal in time, Westland needed a relatively quick decision. On both these counts, a deal with Sikorsky looked the best option, if not the only one.

5 The Secretary of State noted what Sir John said. He said that a European minority shareholder was in both the commercial and political interests of the Government. The Government therefore wished to be certain that a deal with Sikorsky was the best, or the only, option. The idea of Agusta coming in with Sikorsky was attractive, and he would be grateful if this could be pursued further. Sir John replied that he believed that he had fully discharged his responsibility to pursue the possibility of a European minority shareholder. He could not press the European companies further without importuning. In view of what Mr Brittan said, however, he would contact Agusta once more as a matter of urgency. But he believed that the only practicable solution in the end would be a deal with Sikorsky.

6 Immediately after this meeting, Mr Brittan spoke to Lord Boardman on the phone. He told him that he had just met Sir John, and repeated what he had said to Sir John about the prospects for the Indian order. Lord Boardman asked about the timing of the Indian order. Mr Brittan said that Ministers' judgement was that it could well be resolved in a matter of weeks. Lord Boardman said that NatWest was already heavily involved with Westland. Regardless of the Indian order, however, the company would require further investment: obviously if the company was going to go under, NatWest would prefer to cut their losses sooner rather than later. He asked whether the Government would stand behind Westland. Mr Brittan said that he was not authorized to do more than convey the message which he had already passed on.

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7 Lord Boardman repeated that, even if the Indian order was won, a financial reconstruction of Westland would be necessary. The central issue was to what extent NatWest - and others - would be prepared to provide more cash for Westland. He therefore asked whether Mr Brittan could give him more reassurance at this stage about the Government's position. Mr Brittan replied that he could not now say more than he had already said. In concluding the conversation, Lord Boardman then thanked Mr Brittan for his information but said that he rather suspected that he and Mr Brittan might be in touch again about Westland soon.

8 I should be grateful if you would let me have as soon as possible your views on the £6m debt referred to in paragraph 3 above.

9 I am copying this letter to Charles Powell (No 10), Peter Ricketts (Foreign Secretary's Office), Andrew Lansley (Chancellor of the Duchy's Office), Richard Broadbent (Chief Secretary's Office), Michael McCulloch (Overseas Development) and Mr Wood (FCO).

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

JF4AJD

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TELNO 35

OF 171940Z OCT

FOLLOWING RECEIVED FROM CABINET OFFICE

TELNO. MISC 403 OF 171840Z

FOLLOWING FOR POWELL, PRIME MINISTER'S PARTY, FROM FLESHER, NO. 10

1. YOU ASKED FOR A REPORT ON MINISTERIAL DISCUSSION OF THE
NEXT STEPS ON WESTLAND. MR BRITTAN AND MR HESELTINE HAVE NOW MET.
THERE WAS GENERAL AGREEMENT THAT AN ORDER FOR 21
W30S WAS LIKELY, ON THE BASIS OF DISCUSSIONS DURING
MR GANDHI'S VISIT. YOU MAY LIKE TO KNOW THAT THIS SUPPOSITION
IS SUPPORTED BY A REPORT FROM NEW DELHI IN TODAY'S FINANCIAL
TIMES WHICH REFERS TO THE ESTABLISHMENT OF A NEW HELICOPTER
CORPORATION BY INDIA WHICH IS EXPECTED TO BUY BOTH BRITISH AND
FRENCH HELICOPTERS INCLUDING AN ADDITIONAL 6 WESTLANDS ON TOP
OF THE ANTICIPATED 21, FOR VIP USE.

MINISTERS AGREED IN THEIR MEETING THAT THEIR STRATEGY SHOULD BE TO KEEP WESTLAND AND NATWEST AT BAY UNTIL AFTER CHOGM WHEN THE POSITION SHOULD BE CLEARER. IT WAS AGREED THAT MR BRITTAN SHOULD SEE SIR JOHN CUCKNEY AS SOON AS POSSIBLE TO TELL HIM THAT THE ORDER HAD BEEN DISCUSSED DURING MR GANDHI'S VISIT AND THAT ALTHOUGH MR GANDHI HAD NOT GIVEN A CATEGORICAL ASSURANCE THAT THE ORDER WOULD GO AHEAD THE GOVERNMENT'S JUDGEEMENT WAS THAT IT WOULD. MR BRITTAN WOULD ALSO SPEAK TO LORD BOARDMAN ALONG SIMILAR LINES. IF ASKED THE TIME SCALE MR BRITTAN SHOULD SAY THAT THE GOVERNMENT'S JUDGMENT WAS THAT THE MATTER COULD WELL BE RESOLVED IN A MATTER OF WEEKS. MR BRITTAN AND MR HESELTINE TOOK THE VIEW THAT WE SHOULD START PRESSING THE INDIANS FOR A DECISION A FORTNIGHT AFTER MR GANDHI'S RETURN TO INDIA SINCE THIS WAS THE TIME SCALE FOR A DECISION SUGGESTED BY MR GANDHI IN DISCUSSION WITH MR HESELTINE. SINCE MR PATTIE WAS VISITING INDIA BEGINNING ON 7 NOVEMBER IT WAS AGREED THAT HE SHOULD IF POSSIBLE SEE MR GANDHI.

2. THE PRIME MINISTER MAY WISH TO BE AWARE OF THE DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET. STERLING CLOSED FRACTIONALLY UP AGAINST THE DOLLAR AT 1.4163: 4 PFENNINGS DOWN AGAINST THE DM AT 3.74 AND .5 DOWN ON THE STERLING INDEX AT 83.1. THE DOLLAR ALSO CLOSED ALMOST 4 PFENNINGS DOWN ON ITS OPENING LEVELS AFTER CONCERTED CENTRAL BANK INTERVENTION AND DISAPPOINTING US GNP DATA (3.3. PER CENT GNP GROWTH AND A FALL IN HOUSING STARTS). INTERVENTION WAS MORE AGGRESSIVE TODAY WITH THE FED SELLING US DOLLARS 200M. IN EARLY US TRADING AFTER YESTERDAY'S TOTAL SALES OF US DOLLARS 800M.

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

PS/

Secretary of State for Trade and Industry

17 October 1985

R C Mottram Esq
Principal Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Buidling
Whitehall
LONDON
SW1

W
1/11/85

Dear Richard

WESTLAND

My Secretary of State chaired a meeting yesterday on Westland with your Secretary of State, the Chancellor of the Duchy of Lancaster, the Chief Secretary and the Minister for Overseas Development. Also present were Sir Brian Hayes, Sir Jeffrey Sterling, Mr Michell and Mr Mallinson (DTI), Sir Clive Whitmore (MoD), Sir Robert Wade-Gery and Mr Cole (FCO) and Mr Burgner (Treasury).

2 There was a short discussion of the various reports on the Indian position. There had been some confusion about the implications of an order for 27 French helicopters for the Westland's order. However, Mr Heseltine said that he was 100 per cent sure that the Indians would order 21 W30s, provided that everything went smoothly at the Commonwealth Heads of Government meeting. Sir Robert Wade-Gery said that, despite what had been said about an order for 27 French helicopters, he had been told that the Indians still intended to order 21 W30s. Mr Brittan summed up this part of the discussion by saying that it looked as though the Indians would order 21 W30s, although the position was not entirely free from doubt.

3 There followed a discussion on how the Government should proceed. There was agreement that it would be wrong either to reject Westland's proposition for underwriting altogether, or to accept Westland's proposition to underwrite 45 W30s sales. A third option was to tell Westland that the Government could not respond until a clear Indian decision had been communicated. Mr Brittan said that he thought this was unsatisfactory because it would not satisfy either Westland or their bankers for very long.

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Mr Heseltine said that he thought the only real danger to the order was the possibility of tensions between the UK and India rising to the surface at the Commonwealth Heads of Government meeting: the position should therefore be clearer in the middle of the following week, and it would be sensible to try and keep Westland and NatWest at bay until then.

4 It was agreed that Mr Brittan should see Sir John Cuckney as soon as possible. He should tell him that the Westland's order had been discussed during Mr Gandhi's visit with UK Ministers and that, although Mr Gandhi had not given a categorical assurance that the order for 21 W30s would go ahead, the Government's judgement was that it would. It was also agreed that Mr Brittan should then speak to Lord Boardman and tell him what he had said to Sir John Cuckney. If Sir John or Lord Boardman asked for an indication on timing, Mr Brittan might say that the Government's judgement was that the matter could well be resolved in a matter of weeks. Sir Jeffrey Sterling said that, with this encouragement from the Government, it was, in his view, inconceivable that NatWest would immediately pull the plug on Westland. Mr Heseltine added that, if the Commonwealth Heads of Government meeting went reasonably well, it would be sensible to start pressing the Indians for a decision a fortnight after Mr Gandhi's return to India, since this was the timescale for a decision which Mr Gandhi had indicated to him. It was noted in this context that Mr Pattie would be arriving in India for a visit on 7 November, and it was agreed that he should, if possible, see Mr Gandhi.

5 Sir Brian Hayes said that it was impossible to tell how either Westland or NatWest would react to this approach. It was quite likely that Sir John Cuckney would be very unhappy with what was proposed, and demand a more formal assurance from the Government. He might also argue that, if the Government was sufficiently certain of the Indian order to back it, they should be prepared to give a formal guarantee to Westland; if the Government were not sufficiently certain to do this, he and his Directors would have to consider carefully whether they could lawfully continue trading. But the only way to find out was to put it to Sir John. Mr Heseltine observed that Westland needed to have a sizeable package in place before the finalization of their annual account at end-November. Given the likelihood of the Indian order, he did not think that the final crisis was likely to come yet. If the situation was no different in a few weeks time, and the deadline of end-November was fast approaching, there might be a case for considering further action. For the moment, he did not believe that the Government should even hint at the possibility of such action.

6 Mr Heseltine also said that he was anxious about the prospect of Sikorsky buying their way into Westland at a bargain basement price. He thought that, whatever they might promise, Sikorsky would turn Westland into merely a metal bashing operation. He did

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not wish to go so far as to oppose Sikorsky taking a 29.9 per cent stake in any circumstances, but he did think it important to make every effort to find an acceptable European shareholder instead. He did not think that Sir John Cuckney was the right person to deal with negotiations with the European companies: those companies all looked to their Governments for guidance in such matters, and approaches needed to be made at the political level by the Ministry of Defence. He feared that, if Sikorsky turned Westland into a metal bashing operation, it would galvanize the European helicopter companies into working together, and the UK would then have lost out twice.

7 Mr Brittan said that Westland did not believe that they would be able to reach a satisfactory agreement with a European company. However, he had already asked Westland to explore the prospects for a European shareholder as thoroughly as possible. Sir Jeffrey Sterling said that, if Mr Heseltine was correct about Sikorsky's intentions and if he saw Westland's current capabilities as strategically important to MOD, then MOD would have to buy more helicopters from Westland. Sir Clive Whitmore added that there was a danger that approaches at the political level about Westland would lead other Governments to think that the Government would in the last resort save Westland. Mr Tebbit also pointed out that it would be important not to give France any pretext for telling the Indians that Westland was facing collapse. Mr Heseltine said that he proposed merely to say to the Italians and the Germans that the Government would be interested to know whether their helicopter companies had any interest in Westland, and ask them to consider the possibilities.

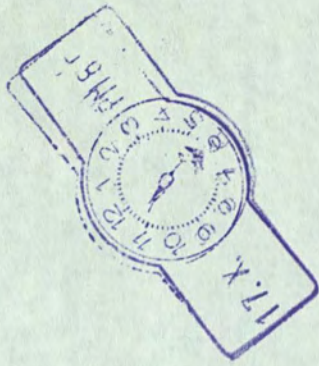
8 There was also a brief discussion about the ODA position. Mr Raison said that the ODA could not be expected to take on any underwriting. In any case, ODA monies had to be spent on aid projects, and use of those monies for underwriting would therefore be illegal. Mr Brittan said that he could not see that use of ODA funds for underwriting in this way would be anything other than aid, and Mr Heseltine agreed. Sir Clive Whitmore added that he thought that any technical problems over the use of ODA funds in this way could be overcome, for instance by a PES transfer from ODA to DTI for the guarantee. It was agreed, however, that there was no need to pursue this question further for the moment.

9 I am copying this letter to Charles Powell (No 10), Peter Ricketts (Foreign Secretary's Office), Andrew Lansley (Chancellor of the Duchy's office), Richard Broadbent (Chief Secretary's office), Michael McCulloch (Overseas Development) and Mr Wood (FCO).

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

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CC PC



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CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel: 233 3299
7471

7 October 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and
Industry
1 Victoria Street
LONDON SW1

CGO
ll/x-

Dear Secretary of State,
WESTLAND

Thank you for the copy of your minute of 4 October to the Prime Minister. I have also seen Charles Powell's letter of 7 October to John Mogg.

I await hearing further on the line which is proposed to be taken with Mr Gandhi next week. But I should offer some comments on your minute as it stands.

I understand that a European solution needs to be assessed urgently, but I think it may well owe more to an effort to keep Westland out of Sikorsky's hands than to offer a lifeline to Westland; it is not, on the face of it, apparent what the European companies have to gain which would compensate them for the possible risk, other than to make less likely a partnership between Westland and Sikorsky. Nevertheless, it can do Westland little harm now to appear the object of attention of more than one suitor.

It is not clear whether we will have definite statements of the Indian Government's intentions during Mr Gandhi's visit. Should Mr Gandhi not confirm the Indian Government's intention to place the order, then the questions you address in your minute would, of course, need to be answered quickly by Government.

A receivership would be a bad outcome; Westland's already battered position in the marketplace would be severely damaged. It is by no means likely that all those parts of the business which have

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potential would survive to see that potential realised. A rump spares and service business would likely result.

But we must judge carefully what position we are in if we underwrite the sale of even 21 W30 - 160s. Supporting the sale of the helicopters to India with aid funds is one thing, but voluntarily taking the stock off the hands of an ailing company is quite another; and especially where the liability to do so crystallises in the event of the India deal falling through.

I should be glad to join in any discussions.

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Michael Heseltine, David Young, Timothy Raison, and to Sir Robert Armstrong.

Yours Sincerely,
A. Ashworthy

pp NORMAN TEBBIT
(Approved by the Chancellor and
signed in his absence)

AEROSPACE

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WESTLAND

APR 95

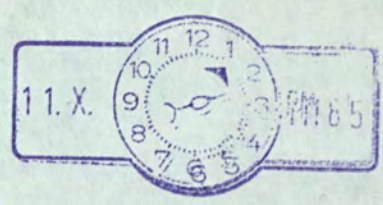


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10 DOWNING STREET

From the Private Secretary

7 October, 1985

Dear John,

WESTLAND

The Prime Minister has considered the Trade and Industry Secretary's minute of 4 October about the situation facing Westland and possible Government responses to it.

The Prime Minister agrees that the balance of arguments for Government participation in a reconstruction package is a fine one. If it became clear in the course of Mr. Gandhi's visit next week that the Indian Government were definitely not going ahead with the purchase of W30-160's or were very unlikely to do so, it would not necessarily be a bad thing to allow the company to go into receivership. A great deal therefore depends on what is said by Mr. Gandhi. For what it is worth, Sir Eldon Griffiths told the Prime Minister this morning (on the basis of briefing from Mr. Swraj Paul) that Mr. Gandhi would not be ready to say anything definitive about Westland.

I understand that there is to be an interdepartmental meeting later today to consider the line to be taken with Mr. Gandhi. Depending on the outcome of this discussion, it may be necessary for the Prime Minister to chair a further meeting to discuss the reconstruction package as envisaged in the Trade and Industry Secretary's minute. In that case, the meeting would need to be at 1000 hrs on Saturday, 12 October at Chequers. It would be helpful to know in due course whether the Trade and Industry Secretary thinks a further meeting at that stage is needed.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Leigh Lewis (Department of Employment), Martin Dinham (Overseas Development Administration) and Michael Stark (Cabinet Office).

C.D. Powell
(C.D. Powell)

J. Mogg, Esq.,
Department of Trade and Industry.

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12.00

PRIME MINISTER

WESTLAND

Once again we face the possibility of Westland having to go into receivership.

The Trade and Industry Secretary recommends Government participation in a reconstruction package in which the Government would underwrite the sale of 21 W30-160s (those for India). The Defence Secretary and Foreign Secretary are likely to support this. But no-one wants to underwrite the risk from his departmental budget if the Indians don't take the 21 helicopters: or the less definable risk where the Indians do take the 21 helicopters but the company subsequently get into difficulty, with the Government feeling obliged to bale them out. The Chancellor will probably therefore be opposed.

The immediate problem is what to say to Mr. Gandhi. There is no chance of a reconstruction package being in place before he comes. You will therefore be in a difficult position if he seeks assurances about the company's viability as a condition for taking the 21 helicopters. If you are non-committal, he may feel justified in finally withdrawing from the sale.

Mr. Brittan seeks an early meeting to discuss the problem. You simply can't do this. Agree to ask the Chancellor (since the Lord President has not hitherto been involved at all) to chair a meeting on your behalf with the purpose of agreeing:

We may have to have a meeting on Sat or Sunday morning. 12 or 13 Oct. I should prefer not to be there.

(a) the best possible line for the discussions with Mr. Gandhi; and

(b) that Westlands be urged to look for possible European partners, so that the Government can

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- 2 -

make up its mind later in the month whether
a viable reconstruction package is available?

C.D.P.

(Charles Powell)

If you agree that the
Chancellor should chair a
meeting, can I say
that you would not be
averse to Government participation
in a reconstruction package
if there is agreement on this
among allies?

C.D.P.

4 October 1985

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PRIME MINISTER

WESTLAND

This minute sets out the situation facing Westland and discusses how the Government might respond to it. The company will almost certainly go into receivership if a solution cannot be found before the end of November, although I believe the Government will need to indicate its position before that date. More immediately, the situation may affect what you can say to Mr Gandhi when he comes on 14 October about the prospective Indian order for W30-160 helicopters.

BACKGROUND

2 Following the Price Waterhouse review of the company's position, Sir John Cuckney put to my Department and to the Ministry of Defence proposals for a financial reconstruction which he believed was an essential first step in a strategy for the company's future viability. The main features of this package were:

- (i) New capital to be raised ^{from} ~~for~~ existing shareholders and a new large minority shareholder, possibly Sikorsky or a European company, with whom Westland are in discussion.
- (ii) Westland's banks to convert a substantial portion of overdraft into equity.
- (iii) The Government to underwrite 45 sales of the W30-160 helicopter in order to avoid a crippling write-off of inventory against shareholders' funds for the financial year ending 30 September 1985.



3 Officials have reviewed these proposals and the underlying financial position with Westland's staff and advisers. They have concluded:

- a) The proposed package would indeed provide a reasonable prospect of securing the company's viability in the medium term.
- b) At the other extreme, if no action is taken, receivership is likely to be unavoidable.
- c) It might be possible to construct an adequate package on the same basis as that proposed by the company, but involving a smaller number of W30-160 sales - perhaps only the 21 aircraft for the Indian Oil and Natural Gas Corporation (ONGC). This could only be substantiated, however, by discussion with the company's bankers. Annex A gives a summary of the company's financial position and the impact of a reconstruction package.

4 I do not believe that an underwriting of sales on the scale proposed by Westland would be justified. However I believe there may be a case, for the reasons set out below, for underwriting the sale of 21 helicopters if there remain good prospects of concluding the Indian order. If we decided to adopt this approach, I would envisage asking Westland to negotiate with their banks and potential partners on the assumption of firm sales of 21 W30-160s. I would say that if a reconstruction package could be put together on that basis, and if by the end of November discussions with the Indians were still in the Government's judgement active though unconcluded, the Government would be prepared to consider underwriting the sale of the 21 aircraft. However a final decision would only be made at the time in the light of an up-to-date assessment of the prospects of obtaining the ONGC order.



5 I believe Government participation in a reconstruction package should be conditional on the following assurances from Westland:

- that they would continue to participate in the EH101 programme.
- that the W30-300 programme would continue at least until the MOD's procurement timetable becomes clear in 1986.
- that they would continue to provide spares and support for the existing MOD helicopter fleet.
- that in the event of Government underwriting the company would continue to use its best endeavours to sell the aircraft.

POSSIBLE BENEFITS OF GOVERNMENT UNDERWRITING

6 I would not argue that supporting Westland should be a priority use of resources from a purely industrial point of view. Although Westland is the only UK helicopter manufacturer it is not central to the aerospace industry. Moreover, while other UK companies (notably Rolls Royce) have important business with Westland, my Department is not aware of any which is financially dependent on Westland's continued existence.

7 Nor is there a strong argument that the proposed package will improve the chances of my Department's launch aid being recovered. It would not of itself guarantee continuation of the W30-300 programme (on which £38m of the agreed £41m launch aid has been paid). That would still critically depend, I believe, on an MOD launch order. If the programme were terminated, even after a capital reconstruction, it seems unlikely that much of



the launch aid could be recovered without serious financial damage to the company. The package should secure the continuation of the EH101 programme, but only £5m of the agreed £60m launch aid for this project has so far been paid.

8 I believe the remaining arguments are:

- i) Military: that it is essential to secure support for the existing helicopter fleet and desirable to preserve an indigenous source of design, development and supply. It is of course for Michael Heseltine to advise on the strength of this argument.
- ii) International: that it will be damaging to the UK's relations with India if, after the diplomatic efforts of the last year, Westland cannot now conclude the contract for the ONGC.
- iii) Political: that if the Government does not help it will be blamed for allowing the company to go into receivership.



FOREIGN OWNERSHIP

9 At present the company most likely to be willing to take a large minority shareholding appears to be Sikorsky. No solution involving a British company is on the cards. Westland are in contact with MBB, Aerospatial and Agusta and I believe they should be encouraged to pursue the possibility of a European solution. The prospects of a European solution being developed within the timescale do not seem to be good, but I should like to get a better assessment of those prospects before responding formally to Westland's proposals. However, if it emerged that a solution involving Sikorsky was the only realistic option I do not believe we should reject the package solely on that ground, provided we obtained the assurances from the company outlined in paragraph 5 above.

FINANCE

10 It is an important feature of the approach I have outlined that the Government would only agree to underwrite W30-160 sales if it assessed the prospects of concluding the Indian order as good - in other words, if the risk of the Government incurring expenditure as a result of the underwriting was acceptable. Nonetheless, I have reluctantly concluded that I could not use any of my Department's agreed PES allocation to meet any expenditure that might result : the industrial argument for giving Westland further assistance do not justify the use of my Department's very scarce and indeed decreasing financial resources.

RECEIVERSHIP

11 If the Government decided not to participate in a package of the sort I have discussed, the company would probably go into receivership. It is by no means certain that such an outcome would be damaging to essential national interests, or more costly to the Government than participation in a reconstruction package.



The difficulty is that receivership would create an uncontrolled situation whose outcome was unpredictable.

12 Much would depend on whether a purchaser could be found for key parts of the business - continuing Lynx and Sea King production, the EH101 programme and the provision of spares and support. If so, the Government's essential procurement interests would be safeguarded. Such an outcome appears possible in view of the interest British Aerospace have expressed in acquiring certain parts of the business in the event of receivership.

13 However there would be potential costs to the Government. The Receiver might demand Government funding of his operations in order to keep the helicopter business going while a purchaser was sought. There would be indirect costs, for example, associated with ECGD exposure and redundancies. (The company is planning up to 2,700 redundancies, with possible closure of its factories at Weston and Cowes, even after a reconstruction package. The number of jobs lost would be much greater in the event of receivership). And if no purchaser could be found, receivership might result in the UK's participation in the EH101 and production of Lynx and Sea King being ended and the provision of spares and support for the current MOD helicopter fleet being jeopardised.

14 I believe it is a fairly fine judgement whether the risks involved in receivership are worth taking. On balance, I believe it would be preferable to agree to participate in a reconstruction package if the conditions I have outlined were met.



MR GANDHI'S VISIT

15 The situation clearly poses difficulties for the discussion of the ONGC order you will wish to have with Mr Gandhi during his visit. On the one hand, we must continue to do everything possible to obtain the contract. On the other hand, you are likely to be constrained in what you can say to Mr Gandhi about the future of the company, and this may make him reluctant to commit himself to the order.

16 Ideally a reconstruction package would be in place before the visit, enabling you to give firm assurances about the future of the company and to press for conclusion of the contract. However I think this is most unlikely to be achieved even if we gave Westland a clear indication of the Government's position early next week; and it could clearly only be achieved with Sikorsky as the minority partner. As I have said, I think it would be preferable to delay giving a definitive response to Westland until their discussions with possible European partners have progressed further.

17 You will therefore need careful briefing for a variety of difficult situations, which I suggest officials should put in hand. You will need to say that Westland is under new management who are considering plans for strengthening the company financially. If Mr Gandhi says he intends to purchase, you could say that the Government hopes the company's plans will be successfully implemented, and that the order will be a significant help to the company. If Mr Gandhi should press for an assurance on viability you might say that it was not for the Government to comment but note that the company has a solid base of MOD business and that we are confident in the ability of the new Chairman.



18 I believe it should be possible to deal satisfactorily with the talks on these lines. There must be a risk, however, that a non-committal response on viability will cause the prospects for the order to recede, or even disappear.

CONCLUSION

19 I recommend that our initial response to Westland should be to urge them to pursue discussions with possible European partners urgently. We should decide in the light of those discussions whether to indicate to Westland, on the lines set out in paragraphs 4 and 5 of this minute, the Government's possible willingness to participate in a reconstruction package. It will, in any event, be desirable to indicate our position to the company reasonably promptly - and certainly well in advance of the November deadline - both so that the company knows where it stands and to ensure that no question arises of a breach of Companies Act obligations.

20 You may wish to call an early meeting to discuss the situation generally, and in particular the handling of Westland during Mr Gandhi's visit.

21 I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Minister for Overseas Development and to Sir Robert Armstrong.

L. B.

L B
4 October 1985



Summary of Westland's financial position

In the absence of firm orders for W30-160 helicopters, Westland will need to make provisions of over £90m for inventory and commitments on the W30 and total provisions of over £110m. The impact of such provisions on the balance sheet would be as follows:

	£m
Net operating assets	123.1
Tax	(5.2)
Net borrowings	(90.6)
Minority Interest	(13.9)
Shareholders' funds	<u>13.4</u>
Net borrowings after deducting cash	<u>90.0</u>
Gearing $b \div a$	672%

2 Clearly such a gearing ratio would be insupportable. In such circumstances receivership would be precipitated by the banks refusing to provide higher facilities or by the gearing restrictions of the company's debenture stocks being breached. In practice the directors might ask the debenture holders to appoint a receiver before such a breach occurred.

Possible reconstruction package

3 A satisfactory gearing position might be achieved by the following package:

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE



	Addition to shareholders' funds	£m
Sale of 21 W30-160s resulting in reduced provisions	20.8	
Conversion of bank overdraft into equity	22.5	
1 for 4 rights issue	8.6	
29.9% minority shareholder	26.9	
	<u>78.8</u>	
giving the following gearing ratio:		
Shareholders' funds	a 92.2	
Net borrowings after deducting cash	b <u>32.0</u>	
Gearing b + a	34.7%	



YOUR TV MESSAGE
FOR KING HUSSEIN
IS DUE FOR
RECORDING.

CONFIDENTIAL

CFC 2



Foreign and Commonwealth Office

London SW1A 2AH

9 August, 1985

Paul Marks

Dear Tim,

JF
9/8

ms

Zambia: Westland Helicopters

22?

The Prime Minister wrote to President Kaunda on 27 July to explain that we could not accede to his request for Westland helicopters. You may wish to know that our High Commissioner in Lusaka has since learned that the idea germinated during a visit to Zambia by Mr "Tiny" Rowland of Lonrho. He certainly discussed it with the President and was probably its originator. We know that he also prompted the Mozambican Foreign Minister, Sr Chissano, to make a similar inquiry (even more impracticable given Mozambique's economic plight) during his recent visit to London.

Lonrho have substantial interests in Zambia and, to a lesser extent, Mozambique, and Mr Rowland has good relations with both Presidents. There would appear to be no obvious direct benefit to Lonrho in such a deal. Mr Rowland's motives are often difficult to discern, but presumably he saw an opportunity to enhance his standing with both governments.

You will also wish to know that the thorough study we are undertaking of potential customers for the Westland helicopters mentioned in Colin Budd's letter to you of 17 July, is well underway.

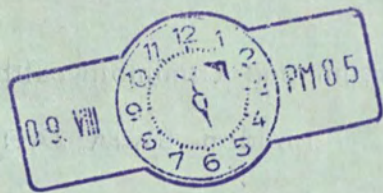
I am copying this letter to Mike McCulloch (ODA), Richard Mottram (MOD) and John Mogg (DTI).

Yr ever
Peter Ricketts

(P F Ricketts)
Private Secretary

Tim Flesher Esq
10 Downing Street

CONFIDENTIAL



Aerospace: Westland Helicopters

4685



AGRAKJ

cc: Fco
MoD
ODA
DTI

10 DOWNING STREET

THE PRIME MINISTER

22 July 1985

**PRIME MINISTER'S
PERSONAL MESSAGE**
SERIAL No. T 140/85

2 MASTER
OPS

Dear Mr President,

Since receiving your letter of 8 June, I have carefully considered whether there is any way we could help under our aid programme to meet your need for 12 helicopters for anti-poaching operations. I well understand your commitment to combating commercial poachers and to protecting your endangered wildlife.

I find that there are considerable difficulties in the way of doing what you ask. The most serious is that we would not be able to find the necessary funds from within our aid programme. As you know this is concentrated on supporting the restructuring and rehabilitation programme which your Government is undertaking in association with the World Bank and the IMF. More widely we are having to devote as much as we can to relief of famine from which so many countries in Africa are suffering. This leaves no scope, I fear, for support for additional activities which, while desirable, are not a matter of life or death.

May I take this opportunity to say that we continue to watch with great sympathy the efforts which you are making with this programme. I was very glad that at the recent Consultative Group meeting in Paris we were able to announce a pledge of £10 million untied grant to Zambia, as the very first allocation under our Special Joint Financing arrangement in association with the World Bank's new African Special Facility, as well as a further £4 million grant of

DSG

fast-spending programme aid. Our commitment to helping Zambia during this period of acute economic difficulty remains as strong as ever.

I look forward to seeing you again at CHOGM later in the year. In the meantime I send you my best wishes and warm regards.

Yours sincerely
Raymond Shute

His Excellency Dr. Kenneth D. Kaunda

PRIME MINISTER

I have tried to make this more graphic. But we cannot use the main argument - that the W30 is not really suitable for the task and anyway far too expensive - because Norman Tebbit does not want to ruin Westlands' commercial prospects in Zambia.

EDP.

18 July 1985

This is a very
weak reply.

Dear Mr. Reider

I replace version which
you signed earlier:
withdrawn because of
belated objections from
Norman T. Webb.

GR 420

RESTRICTED

RESTRICTED

FM NEW DELHI 170602Z JUL 85

TO PRIORITY DTI

TELEGRAM NUMBER OTTER 259 OF 17 JULY

INFO ROUTINE FCO, ODA

FOR BAKER PEP.

WESTLANDS

1. SIR JOHN TREACHER HAS HAD SEVERAL MEETINGS WITH US IN THE LAST TWO DAYS. IN THE FIRST SESSION ON 15 JULY, WE TOLD TREACHER OF THE REPORTS WE HAVE HAD FROM THREE DIFFERENT SOURCES THAT THE WESTLANDS DEAL WOULD BE WORKED OUT IN DUE COURSE. HE NATURALLY WAS PLEASED TO HEAR THIS BUT REALISED THAT IT WAS STILL NOT THE TIME TO COUNT HIS CHICKENS. HE ASSURED THE HIGH COMMISSIONER THAT HE WAS CONSCIOUS OF THE REQUIREMENT TO REFER ANY DEAL PUT TO HIM BY THE INDIANS BACK TO LONDON BEFORE ANY AGREEMENT WAS REACHED. HE DID NOT THINK THAT, IN THE CIRCUMSTANCES, THIS WAS UNREASONABLE. TREACHER DESCRIBED THE DETAILS OF THE PROPOSAL HE INTENDED TO PUT, TO BHATNAGAR, THE DEFENCE SECRETARY.

2. HE SAW BHATNAGAR LATE ON 15 JULY AND DEBRIEFED ON 16 JULY. APPARENTLY, BHATNAGAR WAS VERY RECEPTIVE TO THE CONCEPT DESCRIBED BY TREACHER AND ASKED HIM TO MEET GOI FINANCIAL PEOPLE ON 16 JULY. AT THIS MEETING, THREE POINTS WERE PUT TO TREACHER:-

- A) WHY WAS HE ADDRESSING 21 HELICOPTERS WHEN THE DEAL WAS FOR 27.
- B) THE HELICOPTER IN BOMBAY SHOULD BE BROUGHT TO DELHI FOR FURTHER TRIALS.
- C) COULD THE MONEY TREACHER WAS PREPARED TO INVEST BE INVESTED IN INDIA AND DRAWN IN RUPEES.

3. ON A) TREACHER EXPLAINED THAT THE AID PACKAGE APPLIED TO THE 21 AND THE 6 VIPS WOULD NEED TO BE THE SUBJECT OF A SECOND CONTRACT. HE AGREED TO B) BUT SAID IT MIGHT TAKE SOME TIME TO SET UP. ON C) HE EXPLAINED THAT INVESTMENT IN HARD CURRENCY GAVE ONE THE FLEXIBILITY TO FOLLOW INTEREST RATES AND OBTAIN THE BEST RETURN. INVESTMENT IN RUPEES WOULD NOT ALLOW THIS. BUT HE AGREED TO GET HIS FINANCIAL ADVISERS TO DISCUSS THIS QUESTION WITH THE INDIAN FINANCIAL PEOPLE.

4. ALL THIS SEEMS TO INDICATE THAT THE INDIANS ARE TREATING THE WESTLANDS PROPOSAL VERY SERIOUSLY. THE REQUEST TO CONDUCT FURTHER FLIGHT TRIALS IN DELHI IS PROBABLY PART OF A FACE SAVING EXERCISE TO GET THE PRIME MINISTER OFF THE HOOK OF HIS STATEMENT IN THE RAJYA SABHA. THE INQUIRY ABOUT INVESTMENT IN RUPEES IS PROBABLY A PRELUDE TO ASKING FOR A LUMP SUM UP FRONT PAYMENT. THIS LUMP SUM COULD BE BASED ON A THEORETICAL INVESTMENT OVER THE PERIOD IN QUESTION AND WOULD SIMPLIFY THE TRANSACTION ENORMOUSLY.

RESTRICTED

15.

RESTRICTED

5. EVERYTHING IS FAIRLY SATISFACTORY BUT THE INDIANS WILL PROBABLY PRODUCE MORE HURDLES BEFORE WE REACH THE STAGE OF DISCUSSING THE CONTRACT AGAIN.

WADE-GERY

WESTLANDS HELICOPTERS FOR INDIA

LIMITED

SAD
ODA
MAED
TRED
NEWS D
PS
PS/LADY YOUNG
PS/MR RENTON
PS/PUS

SIR W HARDING
MR BRAITHWAITE
MR WILSON

ADDITIONAL DISTRIBUTION

SUB CONTINENT

⁻²⁻
RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

17 July 1985

*Dear Charles,*Zambia: Westland Helicopters

In your letter of 10 July you asked for a revised draft reply to President Kaunda, cleared with the Ministers concerned. I now attach one.

Sir Geoffrey Howe has carefully considered Mr Tebbit's comments. He quite understands Mr Tebbit's concern to help Westlands in every way in their present difficult position, but he considers it essential that our aid money should only be used in support of Westlands where a reasonably respectable case on developmental grounds can be made. For the reasons set out in my letter of 1 July, this is palpably not so with regard to Zambia. Indeed President Kaunda's request verges on the ludicrous and we would almost certainly have a major aid scandal on our hands were we to accede to it.

The Foreign Secretary is convinced that Zambia does not provide a realistic option for the disposal of W30 helicopters under the aid programme, and that we should send President Kaunda a clear negative response. However, he accepts Mr Tebbit's objections to using the arguments that the helicopters are still the object of negotiations with the Indian Government and that the W30 is too large and too expensive. The attached draft excludes these points.

Sir Geoffrey Howe agrees that every effort must be made to identify other potential customers for these aircraft. He has instructed that a thorough study should be made and FCO officials are pursuing this with DTI and ODA. I understand that the Ministry of Defence are currently undertaking a similar study.

I am copying this letter to Richard Mottram (MOD), Mike McCulloch (ODA) and John Mogg (DTI)

*Yours ever,
Colin Budd*

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

DSP 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

His Excellency
 Dr Kenneth D Kaunda
 President of the Republic
 of Zambia

Copies to:

OG27/KJ

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Since receiving your letter of 8 June, I have carefully considered whether there is any way we could help under our aid programme to meet your need for 12 helicopters for anti-poaching operations. I well understand your commitment to combatting commercial poachers and to protecting your endangered wildlife.

Unfortunately I find that there are difficulties in the way of doing what you ask. In particular

.....

there would be problems over finding funds from within our aid programme which is, as you know, concentrated on supporting the restructuring and rehabilitation programme which your Government is undertaking in association with the World Bank and the IMF.

Enclosures—flag(s).....

May I take this opportunity to say that we continue to watch with great sympathy the efforts which you are making with this programme. I was very glad that at the recent Consultative Group meeting in

/ Paris

CONFIDENTIAL

AEROSPACE : Westlands : April 1985

Paris we were able to announce a pledge of £10 million untied grant to Zambia, as the very first allocation under our Special Joint Financing arrangement in association with the World Bank's new African Special Facility, as well as a further £4 million grant of fast-spending programme aid. Our commitment to helping Zambia during this period of acute economic difficulty remains as strong as ever.

I look forward to seeing you again at CHOGM later in the year. In the meantime I send you my best wishes and warm regards.

CSJ.



SL3

apc

10 DOWNING STREET

10 July 1985

From the Private Secretary

Dear Colin,

ZAMBIA: WESTLAND HELICOPTERS

John Mogg's letter of 8 July to me conveying the Trade and Industry Secretary's views on the draft message to President Kaunda about Westland Helicopters came as something of a surprise. The Prime Minister approved and signed the message on 5 July. I understand that action was taken in the nick of time with our High Commission to prevent its delivery.

I have two comments:

- (i) it was fair to suppose that a message on an issue which had been the subject of considerable discussion between Ministers would have been fully cleared interdepartmentally before being sent to No. 10. I gather that the draft was in fact cleared at departmental level, but obviously not at Ministerial.
- (ii) DTI should have registered their objections, or at least the fact that their Ministers had reservations, more promptly.

bf // I should now be grateful for a revised draft reply, properly cleared with Ministers concerned, as soon as possible.

I am copying this letter to John Mogg (Department of Trade and Industry), Richard Mottram (Ministry of Defence), and Mike McCulloch (Overseas Development Administration).

John Mogg
Richard Mottram
Mike McCulloch
C D POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

16

CCPC



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW180

Secretary of State for Trade and Industry

8 July 1985

C D Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

Dear Charles,

ZAMBIA : WESTLAND HELICOPTERS

Colin Budd's letter of ³ July enclosed a draft letter from the Prime Minister in response to President Kaunda's letter of ~~8~~ June proposing that twelve helicopters be made available to Zambia on a 100 per cent grant basis for anti-poaching operations.

2. My Secretary of State recalls the agreement at a meeting chaired by the Prime Minister on 18 June that, if the Indian order fell through, the Indian aid budget for 1985/86 should be reduced and the aid released used to place the Westland helicopters elsewhere. It is not correct to say that while the ONGC order remains alive there are therefore no helicopters immediately available for Zambia or elsewhere. Westland could make a fair number available rapidly. In view of the uncertain prospect of securing helicopter sales to India, there may be commercial merit for Westlands in keeping the Zambia order in play.

3. My Secretary of State would not therefore want to see the argument used with the Zambians that "the Westland W30 is far too large for use in the role you have in mind, and would necessarily involve quite disproportionate running costs." If Westland were to choose to pursue commercial prospects in Zambia it would be very unhelpful to have paragraph 2 of the Foreign and Commonwealth Office's draft on the record.



4. The main reason advanced therefore to turn down President Kaunda's request is at (c) in Colin Budd's letter. My Secretary of State does not believe that it is sensible to rebuff President Kaunda in this way until it is clear whether bilateral aid funds can be redirected to Zambia. He hopes it might be possible to keep our options open while expressing difficulties over the proposal, particularly in finding new aid support in view of HMG's commitment of aid to the Zambian programme undertaken under IMF and IBRD guidance. Technical discussions with Westland to clarify the Zambian requirement and the W30's suitability could be suggested for the present.

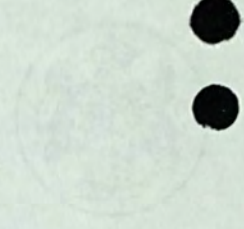
5. Regardless of the outcome in this case or the Indian order my Secretary of State hopes that every effort can be made to identify other potential customers for W30's who might also be eligible for aid.

6. I am copying this letter to Colin Budd (FCO), Richard Mottrem (MOD) and to Mike McCulloch (ODA).

Your Sincerely,
Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Agrospace: Westland Helicopters
April 85



The main reason I visited Toronto is to meet with
President Kunda's representative in Toronto. It is
possible to meet and discuss some other projects
over the weekend. I am particularly interested in
the possibility of a joint venture in the
development of a new aircraft. I am particularly
interested in the possibility of a joint venture
in the development of a new aircraft. I am particularly
interested in the possibility of a joint venture
in the development of a new aircraft.

My objective of the outcome in this case is the
possibility of a joint venture in the development
of a new aircraft. I am particularly interested
in the possibility of a joint venture in the
development of a new aircraft. I am particularly
interested in the possibility of a joint venture
in the development of a new aircraft.

I am copying this letter to John and (CC) Richard
and to the other members of the team.

John G. JAWLEY
Director, Agrospace

bc. *ls*
N. Owea



10 DOWNING STREET

From the Private Secretary

8 July, 1985.

The Prime Minister has seen your Secretary of State's letter of 1 July to the Secretary of State for Defence, and the latter's reply of 4 July. She has noted that both the Secretary of State for Defence and the new Management of Westlands oppose a takeover by Marmon. While she has noted the general arguments against an American takeover, she believes that a different American offer would have to be judged on its merits.

I am sending copies of this letter to Peter Ricketts (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

John Mogg, Esq.,
Department of Trade and Industry.

ls

cc MASTER OPS.

HLK

HL

5



cc: fco

**PRIME MINISTER'S
PERSONAL MESSAGE**

SERIAL No. T129/85 10 DOWNING STREET

THE PRIME MINISTER

5 July, 1985

Dear Mr. President,

Since receiving your letter of 8 June, I have carefully considered whether there is any way we could help under our aid programme to meet your need for 12 helicopters for anti-poaching operations. I well understand your commitment to combatting commercial poachers and to protecting your endangered wildlife. I know how important this is for your country.

Unfortunately I find that there are difficulties in the way of doing what you ask. The helicopters to which you refer are still the object of negotiations with the Indian Government. But even more to the point, the helicopter involved, the Westland W30, is far too large for use in the role you have in mind, and would necessarily involve quite disproportionate running costs. I am afraid that in this case we are not in a position to meet your need.

May I take this opportunity to say that we continue to watch with great sympathy the restructuring and rehabilitation programme which your Government is undertaking in association with the World Bank and the IMF. I was very glad that at the recent Consultative Group meeting in Paris we were able to announce a pledge of £10 million untied grant to Zambia, as the very first allocation under our Special Joint Financing arrangement in association with the World Bank's new African Special Facility, as well as a further £4 million grant of fast-spending programme aid. Our commitment to helping Zambia during this period of acute economic difficulty remains as strong as ever.

RM

I look forward to seeing you again at CHOGM later in the year. In the meantime I send you my best wishes and warm regards.

Yours sincerely
Margaret Thatcher

His Excellency Dr. Kenneth D. Kaunda

PRIME MINISTER

5 July 1985

WESTLANDS

Norman Tebbit's response to the Marmon Group is rather like a traditional father quizzing a prospective son-in-law. There is no need for any Government involvement in this bid for Westlands. Westlands intend to reject it. They would only accept the bid as a last resort, to avoid receivership. This is also the Government's last resort, so there is no need to intervene.

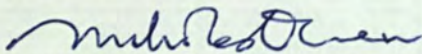
More generally, why should we be concerned if Westlands moved into foreign ownership? MOD's supply would not be threatened, because Westlands would only be acquired for its helicopter expertise and as a manufacturing base for them. The extra territoriality issue seems to be marginal. Westlands machines already incorporate American technology and components (indeed, the Lynx is the only Westlands machine which is based wholly on their own technology). Although Westlands are not legally debarred from exporting to markets disapproved of by the US Department of State, they would be commercially imprudent to disregard US views if they want continued access to US technology and components.

If Westlands did become a US subsidiary, and answerable to US jurisdiction under the US Foreign Assets Act, it might make little difference in practice to its exports. Our views are similar to those of the Americans on markets unsuitable

for military exports. But in any case, provided the bidder takes full account of the extent to which we do differ, and is still prepared to back his judgment with shareholders' money - to the benefit of Westlands' shareholders - why discourage? Norman himself has declared that, other than in exceptional circumstances, his approach to takeovers would be determined by considerations of competition - wholly absent in this case.

There are bids for Westlands which we might prefer to Marmon (even though Marmon's management competence has not been questioned). It would be politically easier if Bristow decided, and could obtain permission from the Takeover Panel, to bid again at a more realistic price. From a defence and industrial point of view, a bid from Sikorsky might be far better (Sikorsky expressed interest, but were rebuffed by Basil Blackwell).

We recommend that you comment that this seems to be predominantly a commercial issue, in which the Government need not become involved.


NICHOLAS OWEN



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/16/1

4th July 1985

Prime Minister ②

To note that Mr Heseltine and Sir John Cuckrey are against the Marmon bid, though this leaves unresolved the question of whether a different American bid would be acceptable. Policy Unit advise against being too choosy about potential bidders - see attached note. AT 5/2

WESTLANDS

Thank you for your letter of 1st July about the possibility of the United States Company Marmon Group Inc making a bid for Westland.

Like you I do not find the prospect of foreign ownership of Westland welcome, particularly by a Company like Marmon with no existing interests in helicopters and the related technology. In general terms, the Ministry of Defence needs to have the continuing unfettered ability to procure and operate technologically advanced helicopters of the right type to meet Service requirements, and to get best value for money in doing so. More immediately, we require support for our existing fleet and the continuation of the EH101 programme. In these circumstances, the Marmon position that they could not give

The Rt Hon Norman Tebbit MP



undertakings on the future of particular projects or the helicopter business in general until they were in a position to assess Westland's commercial prospects in detail, presumably after any takeover was completed, is a matter of particular concern on which the Company would need to be pressed. You have also rightly flagged the issue of extra-territorial controls on Marmon and we would be interested to see how they respond to this point as well.

Our view of Westland's present prospects suggests, however, that we are some way from facing a choice between on the one hand, a Marmon takeover and, on the other, receivership with no alternative prospective purchaser in the wings. I understand that Sir John Cuckney has indicated through Lazards, his new financial advisers, that the Company is opposed to a Marmon takeover. Certainly Sir John has been impressive in the way he has handled the banks and financial institutions, and there appears to be at least some prospect for placing the Indian W30s in Zimbabwe and Zambia, if not in India itself. Moreover, Mr Bristow advised my Department recently that he and his backers were still very interested in taking over Westland and a further bid by a group similar to Bristow Rotocraft might be made once the results of the Price Waterhouse audit were known. Should you have any information which casts a less encouraging light on the Company's prospects, I would of course be grateful to receive it.



To sum up, on present information, I would be against a Marmon takeover. But if you obtain further information about their intentions, I will, of course, look at any specific proposition that is put forward.

I am sending copies of this letter to the Prime Minister, the Foreign Secretary and the Chancellor of the Exchequer, and to Sir Robert Armstrong.

For ew
MH

Michael Heseltine

AEROSPACE: Westland

4/85



CONFIDENTIAL

celc



Foreign and Commonwealth Office

London SW1A 2AH

3 July 1985

Dear Charles,

Zambia: Westland Helicopters

With my letter of 14 June I forwarded one from President Kaunda to the Prime Minister of 8 June in which he asked for 12 Westland helicopters under our aid programme for anti-poaching operations. As you know the reply has been delayed while the question of Bristow's bid for Westlands was under consideration. Now that the Bristow's bid has been withdrawn the Foreign Secretary considers that, even though the possibility of using aid funds in the future for Westland helicopters has not been ruled out, we should for the following reasons decide now on a negative response to President Kaunda's request:

- (a) As you will know negotiations with the Indians are still underway and Westlands have not lost all hope of success. There are therefore no helicopters immediately available;
- (b) the Westlands W30 is in any case too large to be suitable for anti-poaching operations;
- (c) more importantly, to use our aid in this way would be economic folly and would expose us to severe criticism in Britain and elsewhere. Zambia has a desperate shortage of foreign exchange and cannot afford even the basic minimum of imports needed to keep her industry going. We have therefore concentrated our aid over the last two years on fast-spending assistance, tied to British goods, in support of the restructuring and rehabilitation programme which Zambia has been undertaking under IMF and IBRD guidance. Despite that programme, the Zambians face a continued decline in their economy and a need for 100 per cent debt relief for at least another 5 years;

CONFIDENTIAL

/(d)



- (d) Zambia would in any case be unlikely to have the financial or manpower resources to operate a helicopter fleet properly. Moreover it would be a poor advertisement for Westlands if the helicopters were seen to be grounded or operated inefficiently.

It is unlikely that President Kaunda will be surprised or offended by a negative response; indeed his officials seem somewhat embarrassed by the request, and we understand privately that he is not aware of the large size of the aircraft and their heavy operating costs. In addition, any disappointment will be offset by our announcement at the IBRD Consultative Group on Zambia on 24-26 June of substantial new aid pledges. A reference to this new aid can be included in the reply.

/ I enclose a draft message. If the Prime Minister approves it we shall transmit the text to Lusaka by telegram.

I am copying this letter to Richard Mottram (MOD), Mike McCulloch (ODA) and John Mogg (DTI).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:
His Excellency
Dr Kenneth D Kaunda
President of the Republic of Zambia

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Since receiving your letter of 8 June, I have carefully considered whether there is any way we could help under our aid programme to meet your need for 12 helicopters for anti-poaching operations. I well understand your commitment to combatting commercial poachers and to protecting your endangered wildlife. I know how important this is for your country.

CAVEAT.....

Unfortunately I find that there are difficulties in the way of doing what you ask. The helicopters to which you refer are still the object of negotiations with the Indian Government. But even more to the point, the helicopter involved, the Westland W30, is far too large for use in the role you have in mind, and would necessarily involve quite disproportionate running costs. I am afraid that in this case we are not in a position to meet your need.

Enclosures—flag(s).....

May I take this opportunity to say that we continue to watch with great sympathy the restructuring and rehabilitation programme which your Government is undertaking in association with the World Bank and the IMF. I was very glad that at the recent Consultative Group meeting in Paris we were able to announce a /pledge

pl of £10 million untied grant to Zambia, as the very first allocation under our Special Joint Financing arrangement in association with the World Bank's new African Special Facility, as well as a further £4 million grant of fast-spending programme aid. Our commitment to helping Zambia during this period of acute economic difficulty remains as strong as ever.

I look forward to seeing you again at CHOGM later in the year. In the meantime I send you my best wishes and warm regards.

Ch

Westland Helicopters: Aerospace April 85

Clones

verfiers

!!

WESTLANDS
FILING

As I explained this morning,
the letter from FCO with the draft
to Dr Kuanda on Westlands
has been returned to them.

Shall I destroy the attached letter
now or hold onto it till redraft
comes over?

Margo

2/7/85



10 DOWNING STREET

My dear Kenneth,



DRAFT

10 DOWNING STREET

THE PRIME MINISTER

Since receiving your letter of 8 June, I have carefully considered whether there is any way we could help under our aid programme to meet your need for 12 helicopters for anti-poaching operations. I well understand your commitment to combatting commercial poachers and to protecting your endangered wildlife. I know how important this is for your country.

Unfortunately I find that there are difficulties in the way of doing what you ask. The helicopters to which you refer are still the object of negotiations with the Indian Government. But even more to the point, the helicopter involved, the Westland W30, is far too large for use in the role you have in mind, and would necessarily involve quite disproportionate running costs. I am afraid that in this case we are not in a position to meet your need.

May I take this opportunity to say that we continue to watch with great sympathy the restructuring and rehabilitation programme which your Government is undertaking in association with the World Bank and the IMF. I was very glad that at the recent Consultative Group meeting in Paris we were able to announce a pledge of £10 million untied grant to Zambia, as the very first allocation under our Special Joint Financing arrangement in association with the World Bank's new African Special Facility, as well as a further £4 million grant of fast-spending programme aid. Our commitment

to helping Zambia during this period of acute economic difficulty remains as strong as ever.

I look forward to seeing you again at CHOGM later in the year. In the meantime I send you my best wishes and warm regards.

His Excellency Dr. Kenneth D. Kaunda



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MARKET SENSITIVE

2CNO

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

1 July 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

Prime Minister³
To note and await
advice from colleagues AT '17

ms

D Michael,

WESTLAND

I was approached yesterday by the Marmon Group Inc a United States company which is considering making a bid for Westland. Marmon is a large family-owned group, not publicly quoted, with turnover of nearly \$2.8 billion, engaged in a wide range of manufacturing operations, international metals trading and mining. It has eight UK subsidiaries engaged in a variety of activities with combined turnover of £55 million. The group has some involvement in the manufacture of aircraft components and in areas related to those covered by Westland's Technologies group, but none in the manufacture of helicopters or other types of aircraft.

2 Marmon told me that if they gained control of Westland they would certainly maintain spares and support for existing helicopters and would hope to continue present and future projects including the W30 and the EH101. However they could not give undertakings on the future of particular projects, or the helicopter business in general, until they were in a position to assess the commercial prospects in detail.

3 Marmon asked whether American ownership of Westland would be unacceptable to the Government. I said that was not solely a matter for me and that I would need to consult colleagues. I also said that one important factor would be what assurances Marmon could obtain from the US Government that they would

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not seek to apply extra-territorial controls in this case. Marmon will pursue this point with the US authorities. Marmon also asked about the position on Government support for sales of W30-160 helicopters if the ONGC order falls through, and about the possibility of the Government seeking recovery of launch aid already paid. I said they should in the first instance discuss these matters with Westland. I expect to receive a renewed approach following these discussions.

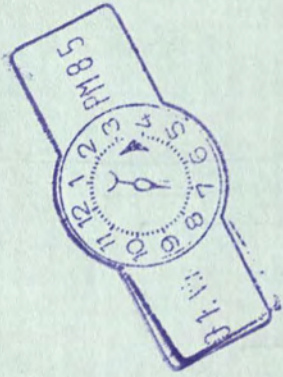
4 It could be that the W30 position will cause Marmon to abandon their interest. They are likely to press the Government to guarantee the sale of the 29 aircraft, whereas we could only repeat what was said to Bristow last week. However that position may be resolved by the Indian order going through after all. I believe we must therefore be in a position to respond to Marmon on the principle of American ownership if they should return to us in circumstances where, in the absence of Government objection, they were ready to proceed with their bid.

5 I do not find the prospect of American ownership welcome. I doubt whether we could obtain in advance wholly satisfactory assurances from Marmon about their intentions in relation to the helicopter business, and I would in some ways be happier if the potential bidder was a company with existing helicopter interests rather than one new to the business. Nonetheless, we have to recognise that we could be faced with a choice between an American takeover on the one hand, and, on the other, receivership with no alternative prospective purchaser in the wings. In those circumstances I might well conclude that the national industrial interest, and my Department's interest in respect of the launch aid it has given to Westland, lay in allowing the Americans to take control. I should be grateful to know what view you would take of the defence interest, and whether you would wish to propose that the Government seek to prevent the American bid going through, in those circumstances. If we did wish to prevent the takeover, we would need to contemplate using the powers to prohibit changes of control in the 1975 Industry Act.

6 I am sending copies of this letter to the Prime Minister, the Foreign Secretary and the Chancellor of the Exchequer, and to Sir Robert Armstrong.

NORMAN TEBBIT

JH3BXD



file

WESTLAND

Background

The Guardian carried a report this morning that Bristow Rotorcraft were likely to withdraw their bid for Westland today and suggested that this would give rise to doubts about Westland's ability to survive. This report was consistent with information given to us by Bristow's advisers last night. The Westland share price had fallen to 75p by 11.00 on this news, from 120p overnight.

Bristow told the Secretary of State for Trade and Industry this morning that he intended to extend his bid by 14 days. We understand that one factor in this change of mind may have been increased optimism about the prospective Indian order for W30-160 helicopters. However there is considerable doubt whether the other members of Bristow's consortium will agree to extend the bid. No further announcement is expected until this evening.

Bristow has pressed the Government for an undertaking that they would procure W30-160 aircraft if they cannot be sold elsewhere. He has been told that no such assurance can be given.

Line to Take

It would be inappropriate for me to comment on press speculation about the Bristow bid, or on the financial situation of a private sector company.



WESTLAND

Background

Bristow Rotorcraft withdrew their bid for Westland on the evening of Thursday 20 June. This gave rise to some press speculation about the future of the company and a number of Private Notice Questions, none of which were allowed.

2 The company expressed confidence in its ability to withstand its present problems, and there is no immediate worsening of its financial situation. Discussions have been continuing, involving Westland's bankers and the Bank of England, about the possibility of strengthening the company's management. We also understand that Westland are in contact with other potential bidders, and there are rumours of an imminent American bid. Westland shares stood at 70 pence early this afternoon (Monday 24 June) having opened at 78 pence.

3 The Sunday Times carried a story on 23 June purporting to describe a series of Ministerial meetings last week and a "package" which was allegedly suggested to Bristow but rejected.

Line to Take

It would be inappropriate for the Government to comment on the outcome of the Bristow bid or on the financial situation of a private sector company. The Government is however continuing to follow the situation closely.

[IF PRESSED: The Government maintained informal contact with both Westland management and Bristow during the period of the bid, but it is wrong to suggest that any "package" was offered to Bristow. It is not for the Government to take sides on the future management of the company.]

P. L.



WESTLANDS

Line to Take

It would be inappropriate for the Government to comment on the lapsing of the Bristow bid or the financial ~~condition~~^{part} of a private sector company.

I note the action which the Company has taken to invite Price Waterhouse to review their operations and the decision to appoint Sir John Cuckney as Chairman in place of Sir Basil Blackwell.

These are matters which are entirely for Westland, their shareholders and their bankers.

IF PRESSED: The Government is of course following the situation at Westland very closely. While it is a major defence contractor it is a private sector company. While we would all wish to see it operating commercially and successfully its future is in its own hands.

I would not wish to speculate on the possibility of other bids for Westland. Such matters are, again, for the Company and its shareholders.



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WESTLAND

Background

Since the lapse of the Bristow merger proposal Westland (no doubt under pressure from their bankers) have appointed Price Waterhouse to make an independent assessment of their business including a review of their operations. The review is expected to take between 3 and 6 weeks.

Westland have also announced the appointment of Sir John Cuckney (of John Brown Engineering) as Chairman in place of Sir Basil Blackwell who has resigned. There is press speculation (Daily Mail today) that this is at the behest of the banks including the Bank of England. The Mail also suggests that the Bank of England has a rescue package in mind involving HMG picking up part of the 'lost' Indian order. What the banks may be doing to support the Company financially is their affair. There is no truth whatever in the idea that HMG is preparing to salvage the Indian order. It is not yet lost!

[CONFIDENTIAL - MARKET SENSITIVE] The Prime Minister will know that the American Marmon group are considering a bid for Westlands. They are having talks with the Company and are expected to make up their minds in the next few days on whether or not to bid.

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Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

19 June 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

JAT
2) Prime Minister

CDP
19/6

Dear Charles,

WESTLANDS

Following the meeting this afternoon under the Prime Minister's chairmanship, my Secretary of State asked an official of this Department to convey to Bristow Rotorcraft and Westlands the conclusion of Ministers that the Government could not go beyond the terms of the letter sent by my Secretary of State to Sir Basil Blackwell on 18 June.

After a short interval for consideration, Bristow Rotorcraft informed the Department that in the light of this response from the Government they would withdraw their offer for Westlands. They had formed the view that a commitment to order the W.30 from the Ministry of Defence was an essential condition for them to proceed, and in the absence of any such commitment they had "no alternative" but withdrawal.

Bristow Rotorcraft have made an announcement this evening in the terms attached. They have informed this Department that their intention is to make a further announcement tomorrow afternoon after the offer deadline has passed. The intention is that this announcement will say the offer is being withdrawn because the level of acceptances received has been unsatisfactory. Bristow's intention is to confine their public explanation of their action to this point and to avoid being drawn into statements which could be unhelpful to Westlands. This Department accepts that this is no doubt Bristow's bona fide intention, but in practice we believe he may find it difficult to avoid being drawn into making further comments.

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As agreed by Ministers, this Department has also spoken to the Bank of England and has asked the Bank, should a crisis develop in Westlands' affairs, to attempt to guide events in the direction of restoring the company through the introduction of new management, possibly under a respected industrial figure such as Sir Arnold Hall, rather than through receivership. However, the course of events following Bristow's withdrawal is inevitably unpredictable at this stage.

I am copying this letter to Peter Rickets (PS/Foreign Secretary), Margaret O'Mara (PS/Chancellor), Richard Mottram (PS/SoS Defence), Henry Steel (Law Officers), Michael McCulloch (ODA) and to Richard Hatfield (Cabinet Office).

Your ever,

A. Lansley

ANDREW LANSLEY
Private Secretary

Enc



Terms of Announcement by Bristow Rotorcraft on 19 June 1985

" Bristow Rotorcraft Offer for Westland

The Board of Bristow Rotorcraft announces that it is considering whether or not the conditions of its offer can be met. A further announcement will be made as soon as practicable. "

CONQUEROR

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Bemagl

cc MASTER SET

10 DOWNING STREET

19 June 1985

From the Private Secretary

WESTLAND

The Prime Minister held a meeting today to discuss the position on Westland. Present were the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Defence, the Minister for Overseas Development and the Minister for Defence Procurement.

The Secretary of State for Defence said that following the brief meeting in the House the previous evening his Department had considered whether some of the W30 helicopters could be purchased for the Armed Forces. He had concluded, however, that the helicopters did not meet defence needs and requirements. He had considered an alternative approach which would avoid allowing Westland to go into receivership.

He believed that Mr. Bristow could validly argue that there were factors which reduced the value of the company by about £30m which he could not have known about at the time he made his bid. £15m was owed to sub-contractors; there was a liability of £9m in the United States; and £5m was owed in the first year of a disadvantageous leasing contract. (It could also be argued that if the remaining five years of the leasing contract were taken into account, the adjustment to the value of the company would approach £60m). The Secretary of State for Defence said he had considered ways in which an extra £30m could be made available to the company. Westland could be told that they would retain all the W30 helicopters, 27 likely to be finished and 14 in kit form, whose sale value was around £100m. It would be for Westland to find markets for these helicopters but Government would offer to underwrite 30% of the value if they were not sold. Government's liability would therefore be a maximum of £30m but could be less. The Government would make available whatever sum was determined in this way by deducting it from the £48m which Westland was required to put up as production investment for the EH101. Legal advice was that this was within the Department's powers. The Secretary of State for Defence suggested that the cost should be divided equally between the defence

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budget and the Treasury.

The Secretary of State for Industry said he had reservations about the arrangements proposed. He was concerned about the propriety of injecting assistance for the company in the middle of a takeover bid. The management of Westland might argue, for example, that if they had known that this support was available it would have responded differently to the Bristow offer. As the Secretary of State responsible for companies' legislation, he could not follow a course of action which might be improper under the Takeover Code.

The Secretary of State for Trade and Industry shared the view of the Secretary of State for Defence that it was desirable to avoid Westland going into receivership. Although Government had a strong position as Westland's principal customer and as the provider of launch aid, it would not be able to control the actions of the receiver. He thought it would be better to explore the possibility of putting in new management to prepare a recovery strategy for the company. The Bank of England would be able to co-ordinate an exercise of this kind with the creditors. He suggested that Sir Arnold Hall might be a suitable chairman.

The Prime Minister expressed concern about the impact that Westlands going into receivership would have on its ability to service earlier sales of helicopters, about the effect this might have on the order currently being considered by India, and about the damage that might be done generally to Britain's reputation as a defence supplier. It was noted, however, that a receiver would want to continue the supply of spares to existing helicopters.

In discussion the following points were noted:-

- i) What was important to the Defence programme was not the existing Westland company but the capability to service existing helicopters and to develop the EH101 project.
- ii) If Bristow's offer were withdrawn, the result would be a major fall in Westland's share price though this might not immediately lead to the collapse of the company. A new bidder might emerge at the lower level of the share price.
- iii) It was wrong to go on looking for ways to bridge the gap between the over-valued share price on which the original offer had been made and the new value which was justified by the later information.
- iv) Government should take care to ensure that any action on its part did not incur liabilities under S.332 of the Companies Act.
- v) If Bristows did withdraw they should be encouraged to explain this by reference to the financial difficulties of the company and not by denigrating the

technical merits of the company's products.

Summing up the discussion, the Prime Minister said the Secretary of State for Trade and Industry should tell Westland and Bristow's that the Government would not make any offer of assistance beyond that set out in her letter of 18 June to Sir Basil Blackwell. It was recognised that this might lead Bristows to withdraw the offer, leading to a sharp fall in the Westland share price. The Secretary of State for Trade and Industry should encourage the Bank of England to bring together the main creditors with the object of putting in new management and developing a recovery strategy as an alternative to receivership.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), Michael McCulloch (Overseas Development Administration), Henry Steel (Law Officers' Department) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

John Mogg, Esq.,
Department of Trade and Industry

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COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877



PS/
Secretary of State for Trade and Industry

18 June 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

James Charles,

WESTLAND

*Prime Minister
I have asked the
MoD to consider over-
night whether they can
take any W30-160 & let
me know by 0900 tomorrow.
This would leave time for you
to intervene if necessary before
midday
- att
CDP.*

Thank you for your letter of earlier today. I hope that you and other recipients will by now have received a copy of my Secretary of State's letter of today's date to Sir Basil Blackwell of Westland plc. You will see from this that, by means of this letter, my Secretary of State has disclosed a position based on the four points set out in paragraph 5 of my letter to you of 17 June, and which were endorsed by the Prime Minister's meeting early this morning.

2 There are a number of further developments on which you and others should be informed.

3 Mr Bristow left our meeting this morning prepared to consider the position, and to put his conclusions to the other members of his consortium this afternoon. He had sought the assistance of HMG in defining further the scope of the possible sale of the W30-160 series helicopters elsewhere during the course of the next fourteen days, implying a willingness to consider an extension of the Bristow Rotorcraft offer.

4 In response to questions, my Secretary of State gave no positive indication to Mr Bristow that the MoD would take a favourable view of the W30-300 for the AST404 requirement, nor the prospect of an RAF order for the -160 series. In order to pursue these points, Mr Bristow met Mr Levene, Chief of Defence Procurement.

5 I understand that Mr Levene re-iterated the view that the MoD have no operational requirement nor provision to support an order for the W30-160 series aircraft. But, I understand, he added that, of course, Ministers could decide that such a procurement

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should be made, on the basis of extra provision. Mr Bristow asked for an indication of whether such a changed view could be forthcoming and Mr Levene noted that a response was specifically sought by Mr Bristow on this point by noon tomorrow, 19 June.

6 Following this, Mr Bristow will, I understand, be seeking to delay his meeting of investors until after noon, tomorrow, with a view to an announcement on Thursday morning.

7 I am copying this letter to Peter Ricketts (PS/Foreign Secretary), Margaret O'Mara (PS/Chancellor), Richard Mottram (PS/SoS Defence), Henry Steel (Law Officers), Michael McCullogh (ODA) and to Richard Hatfield (Cabinet Office)

Yours etc.
A. Lansley

ANDREW D LANSLEY
Private Secretary

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MARKET SENSITIVE



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file ce MASTER SET

10 DOWNING STREET

From the Private Secretary

18 June 1985

Dear Andrew,

WESTLAND

Thank you for your letter of 17 June setting out the position on Westland following your Secretary of State's meeting with Alan Bristow and others yesterday evening. This was considered at a meeting which the Prime Minister held shortly after midnight attended by the Chancellor, the Trade and Industry Secretary, Minister of State for Defence Procurement, Minister of State for Information Technology and the Parliamentary Under Secretary of State, Foreign and Commonwealth Office.

It was agreed that, if the Bristow's bid were withdrawn, it was inevitable that Westlands would shortly go into receivership. The consequences of such an outcome for the United Kingdom's reputation as a major defence contractor were sufficiently serious to justify an effort to avoid it.

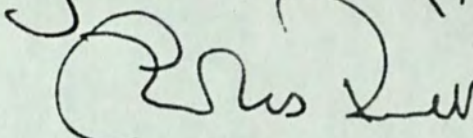
In relation to the specific proposals made by the Trade and Industry Secretary it was noted that the £35 million launch aid was to all intents and purposes lost anyway.

A decision in principle had already been taken to reduce aid to India if the sale of the ONG Series 160 aircraft fell through. Since the original purpose of providing aid for the sale of the helicopters to India had been to help Westland, it made sense to continue to attach the aid to disposal of the helicopters elsewhere if India did not take them. A fresh possibility for disposing of some of them was offered by a letter dated 8 June from President Kaunda asking for 12 helicopters to be covered by 100 per cent grant aid.

Summing up the discussion, the Prime Minister said that the Trade and Industry Secretary had authority to make use of the four points in paragraph 5 of his letter, though it would be important to do so correctly and according to the proprieties (this might mean putting them to the present Westland Board). This might at least persuade Mr Bristow to extend his offer for a further period, which would give time to look for alternative solutions. In making the proposals,

it must be made clear to Mr Bristow and/or Westlands that an undertaking by them not to seek payment of the further £6 million launch aid was an essential part of the understanding. No encouragement should be given to them to believe that the Government would be prepared to go beyond the terms of the proposed understanding. The £30 million to be used for disposing of the ONG Series 160 aircraft would have to be found from within existing aid and/or defence programmes.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office), Margaret O'Mara (HM Treasury), Richard Mottram (Ministry of Defence), Henry Steel (Law Officers' Department), Michael McCulloch (Overseas Development Administration) and to Richard Hatfield (Cabinet Office).

Yours sincerely,


Charles Powell

Andrew Lansley Esq
Department of Trade and Industry



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

cc: Mr O'Shea/Air

18 June 1985

PS/GP
PS/Sir BH
PS/Sir J Sterling
Mr Macdonald
Mr Mitchell
Mr Fairweather
Mr Vile/GP
Mr Higgins
Mr Collingbourne
Mr Mann
Mr Anderson
Mr Leigh.

Sir Basil Blackwell
Chairman
Westland plc
Westland Works
YEOVIL
Somerset
BA20 2YB

Please put with
Westlands papers.
CDP 12/6.

D. Basil,

I have been following closely the current developments involving Westlands and at Mr Alan Bristow's request I have had certain discussions with him about his intentions should his company succeed in gaining control of Westland.

Mr Bristow has indicated to me that if he succeeded in gaining control of Westland his intention would be to freeze development of the Westland 30 200 and 300 until after the outcome of the Ministry of Defence's review of AST 404 is known. In the meantime he would make no further request for launch aid beyond the sums already paid to Westland under the launch aid contract.

Mr Bristow has asked that in return the Government should give him an undertaking not to require repayment of the £35m launch aid already advanced in the event that he should decide unilaterally to terminate the W30 series 200 and 300 development programmes once the outcome of the MoD's review is known. Clearly I am not able to give such an undertaking within the terms of the launch aid contract. However, as you are aware it would be open to Westland, in the event of an adverse decision by the MoD, to seek a review of the project with the Government and, should it be mutually agreed that further expenditure under the contract is not justified, the contract may be terminated without liability for repayment of launch aid already paid. I understand Mr Bristow is aware of the terms of the contract.

Mr Bristow has also asked for an undertaking that the Government would procure up to 25 Westland 30 series 160 aircraft should they prove unsaleable elsewhere. I have informed him that the Government cannot give such an assurance. However, I have

JH2AVP



indicated to him that the prospective contract with the Indian ONGC was to be financed by aid and that in the event of the arrangements with India not proceeding a substantial part of these aid monies might be diverted to assist the sale of the helicopters elsewhere.

I believe it is right that you should know of these discussions between Mr Bristow and the Department.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', written in a cursive style.

NORMAN TEBBIT

*OMO
10/6*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

18 June 1985

J Mogg Esq
Private Secretary to the
Secretary of State for Trade and Industry

Dear John,

WESTLANDS

The Chancellor is most disturbed that neither this office nor the Chief Secretary's received any advance warning of last night's meeting on Westlands despite the fact that our officials had asked to be kept in touch with developments. We heard nothing until 12.20 am when I was rung at home by the No.10 Duty Clerk. By that time of course the meeting was already in session at the House.

You have explained to me that the situation changed very rapidly during the course of the evening and that the idea of the meeting developed at a very late hour. Nevertheless this office was open until 11.30 pm and thereafter I was available at home. We could have taken delivery of our copy of Andrew Lansley's letter to Charles Powell at the time at which it was delivered to No.10; and even half an hour's notice that there were decisions pending would have prevented the Chancellor going into the meeting completely unbriefed.

I am copying this letter to Charles Powell (No.10).

*Yours ever
Rachel*

RACHEL LOMAX
Principal Private Secretary



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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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DW48

Secretary of State for Trade and Industry

17 June 1985

Charles Powell
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1

Dear Charles,

WESTLAND

My Secretary of State wishes the Prime Minister to be aware of the position, following his meeting this evening with Alan Bristow, accompanied by Kleinwort Benson Ltd, concerning their offer to acquire Westland Plc. Following my Secretary of State's letter of 13 June to the Secretary of State for Defence, my Secretary of State handed to Mr Bristow the attached letter, setting out responses in relation to the points raised by Mr Bristow on 13 June.

2. Following further discussion which concluded at 8.30 pm this evening, Mr Bristow made it clear that the financial position of Westlands is far worse than he could reasonably have known at the time of his bid and unless HMG could give him the assurances set out in my Secretary of State's letter of 13 June he would inform the Take Over Panel tomorrow that he must allow his bid to lapse.

3. My Secretary of State has no doubt that such an announcement would have the most serious effect on Westlands which would probably lead to receivership. Mr Bristow intimated that given reasonable hope that HMG would be able to offer the assurances he sought he would be willing to risk extending his bid by a further 14 days.

4. My Secretary of State does not believe there is an overwhelming industrial case to maintain an independent UK helicopter manufacturing facility, but defence, political and foreign policy considerations (particularly the collaborative programme entered into with Agusta of Italy in respect of the EH101 programme) may dictate that action should be taken to avoid collapse of the company.



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MARKET SENSITIVE

5. Although my Secretary of State has not put such a proposition to Mr Bristow he believes that the latter might be induced to carry through his bid by the following understanding:

1. We should stand ready to assist the sale of the ONG Series 160 aircraft by use of ATP of up to £30 million if that contract is lost.
2. Bristow on gaining control of Westlands would freeze work on the W30 series 200 and 300 (which are the subject of the launch aid contract) until MoD takes its decision on AST404.
3. In the event that the AST404 decision is adverse Bristow and HMG would conduct a review of the prospects of the Series 200 and 300 and we would be sympathetic to writing off the £35 million launch aid by agreeing to cancellation, unless clear sales prospects could be seen, as the contract provides.
4. Bristow would not seek payment of the further £6 million launch aid shortly due unless the project was carried through.

6. The fact is that unless Westlands and the W30 200-300 project survive we will probably lose our £35 million. If the above plan was agreed we would save the last £6 million of launch aid if the project was cancelled. We have already concluded that if the ONG contract is lost we should use ATP to seek to dispose of the aircraft. The P/Ex consequences of such an arrangement are therefore favourable.

7. I seek the most urgent agreement (by Tuesday 9.00 am) to seek to induce Bristow not to withdraw his bid.

8. I am copying this letter to Peter Ricketts (PS/Foreign Secretary), Margaret O'Mara (PS/Chancellor), Richard Mottram (PS/Secretary of State for Defence), Henry Steel (Law Officers), Michael McCulloch (ODA) and to Richard Hatfield (Cabinet Office).

Yours ever,

ANDREW D LANSLEY
Private Secretary



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
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Secretary of State for Trade and Industry

17 June 1985

A Bristow Esq
c/o Kleinwort, Benson Limited
P.O.Box 560
20 Fenchurch Street
LONDON
EC3P 3DB

WESTLAND

As promised when we met on 13 June I have considered with colleagues your request for assurances that HMG would:-

- (i) procure up to 25 W30-160 aircraft were those currently in Westland's hands to be unsaleable elsewhere; and would agree either:-
- (ii) to waive repayment of launch aid were you to unilaterally cancel the W30 programme; or
- (iii) to procure the W30-300 aircraft to meet AST 404.

The Secretary of State for Defence has made it quite clear to me that he has no immediate operational requirement for the W30-160 and, because it is currently under review, he is not in a position to say what aircraft would meet the Air Staff Target to replace the existing Puma and Wessex fleets.

I regret that I, too, am unable to give any assurance or prior commitment to waive the obligation to repay launch aid already provided for the W30 development programme were you, on assuming control of the company, to terminate the programme unilaterally.

Signed by the Secretary of State and
handed to Mr. Bristow on 17 June.

NORMAN TEBBIT

JH1CLX

PS/SOS 17/6/85

620



Foreign and Commonwealth Office

London SW1A 2AH

14 June, 1985

I hope this can be done very quickly - it may help Westlands not

Prime Minister

*CDP
17/6*

Dear Charles,

I attach a letter dated 8 June from President Kaunda of Zambia to the Prime Minister, asking us to supply 12 Westland helicopters for use on anti-poaching missions.

We will supply a draft reply to President Kaunda shortly after consultation with other Departments concerned.

I am copying this letter to Richard Mottram (MOD) and Mike McCulloch (ODA).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

COP

file



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Secretary of State for Trade and Industry

13 June 1985

The Rt Hon M R D Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehal SW1

D Michael.

WESTLANDS

Alan Bristow came to see me on 13 June, together with Kleinwort Benson, his advisers. He believes that his offer for Westland will succeed, and this is confirmed by the news later on 13 June that the Westland Board have now decided to recommend shareholders to accept the bid.

However, Alan Bristow's purpose in coming to see me was to say that in the light of what he claims to be new information becoming available to him on Westlands' position he is now uncertain whether to proceed. He claims, for example, that he now has information that the value of work in progress on the W.30, including commitments to suppliers, is considerably greater than he had previously been led to believe; that Westlands' commitments to leasing arrangements are much greater than he had previously understood; and that he had not been told by Westlands that the terms of the W.30 launch aid contract with the Government provide for repayment of launch aid in certain circumstances.

Although the Bristow offer is currently open until 20 June, and could legally be extended for a further seven days, Bristow believes that he must publicly announce his intention to proceed or to let the offer lapse by 18 June. His present feeling is that in the light of the information now available to him he will announce that his offer is withdrawn unless:



(i) the Government gives an undertaking to procure 25 of the W.30/160s currently in production if these aircraft prove unsaleable elsewhere. He considered these aircraft might have a useful role in Northern Ireland;

and either

(ii) the Government waives its right to repayment of launch aid if he decides unilaterally to cancel the W.30/200 and /300 (£35m of the agreed £41m launch aid has been paid); or

(iii) there is a firm commitment by the MOD to a purchase of the W.30 to meet AST 404. Bristow says he is looking for firm prospects of around 150 sales for the W.30/300 as a base for continuing the programme, including an MOD order, which he regards as crucial to export sales.

The second of these requests falls to me to consider, the other two to you, and I am uncertain that I could properly give such an undertaking (even if I was prepared on the merits of the case to do so) until Bristow legally took over the contract. However, it must now be the case that a withdrawal of Bristow's bid risks giving rise to a crisis in Westlands' affairs and possibly to the banks or trade creditors of the company taking action which would precipitate a collapse.

Against this background I should be grateful if you would give urgent consideration to Bristow's first and third requests. I shall similarly consider his second request. Westlands themselves, and my own advisers so far as the civil market is concerned, continue to believe that the market is still there on which the decision to give launch aid for the W.30/200 and /300 are based though I have my doubts. I should be grateful to know whether on the military side your own advisers still consider the market identified in 1982 is there, and in particular the prospects which it provided, in MOD's view, to replace the Puma.

I have undertaken to give a reply to Alan Bristow by the afternoon of 17 June and I should be grateful for your response by the morning of that day.

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Peter Rees and to Sir Robert Armstrong.

NORMAN TEBBIT



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No: T 1088/85

u MASTER
OPS

*State House
Lusaka, Republic of Zambia*

8th June, 1985.

My Dear Prime Minister,

I am given to understand that there are between 20 and 25 Westland helicopters available which are for immediate sale.

We have great need for this type of helicopter for civilian use. We have immense problems with commercial poachers who are laying waste our much valued wild life. The country is vast and these valuable assets are spread in many parts of it. This is a battle we have been fighting for some time now and unless we have this assistance we are likely to continue losing it.

For example, the Luangwa Valley into which my Government organised a visit by the Royal Family in 1979, had on record about 100,000 elephants. Sadly this number has been reduced to just about 50,000. At this rate this devastation will continue. I have given only one example but the rhino, the eland, the leopard, cheetah and the black lechwe are all going the same way.

It is with this background, Prime Minister, that I come to you for this assistance. It is a desperate situation but one which can be turned into victory if your Government helped us in this case as you have done in many others before.

/.....

The Rt. Hon. Margaret Thatcher,
Prime Minister,
10 Downing Street,
LONDON.



2.

The number of helicopters that we would need is 12. I would like to assure you at this juncture that the use of the helicopters would be solely civilian. My Government is going through some very difficult times economically and I would therefore like to apply for a one hundred per cent grant under the Overseas Development Aid Plan (ODA).

I sincerely hope and pray that my request will be favourably considered by you and your Government, Prime Minister.

God's blessings.

Yours sincerely,

16

Kenneth D. Kaunda
PRESIDENT OF THE REPUBLIC OF ZAMBIA

020

NBPM AT 2415

CEPC



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1-19 VICTORIA STREET
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JF8156

PS Secretary of State for Trade and Industry

23 May 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

*noted
on original
minutes
27/5*

Dear Andrew,

WESTLAND HELICOPTERS

In PM's Box.

My Secretary of State's minute to the Prime Minister of 16 May contained two references to a possible Ministry of Defence requirement for a new helicopter as a "Lynx-Puma replacement". This was the result of a transcription error for which I must apologize. The references should have been to a "Wessex-Puma replacement" (i.e. AST 404). I should be grateful if you and the other Private Secretaries to whom I am copying this letter could ensure that the necessary corrections are made.

2 I am copying this letter to the Private Secretaries of OD members and Sir Robert Armstrong.

*Yours,
A. Lansley*

ANDREW D LANSLEY
Private Secretary

24 MAY 1985



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10 2
9 3
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DEPARTMENT OF TRADE AND INDUSTRY
UNITED KINGDOM
LONDON

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA
(H)

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WESTWARD AIRCRAFT

The Secretary of State's office is in receipt of a letter from the Westward Aircraft Company dated 15th May 1985. The letter is headed 'Request for information' and contains a request for information regarding the company's activities in the United Kingdom. The letter also contains a request for information regarding the company's financial position and its relationship with other companies in the industry. The letter is being processed as a matter of internal security.

A copy of this letter is being sent to the relevant departments for their information. The letter is being processed as a matter of internal security.

Private Secretary

From:
Sir Basil Blackwell
WESTLAND plc

"FCO
ATI

②

Chairman's Office

Yeovil BA20 2YB
Telephone 0935 70 2003

C/BDB/GY/7193

16th May 1985

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Prime Minister
CDP
24/5

Dear Prime Minister,

Thank you for your letter of 13th May 1985.
As you say your officials have kept the Company
closely informed.

We had to reach a judgement in April on how to
retain a credible position in support of your
continuing pressure for this intent to purchase to
be honoured while not going over the top on financial
risk. This we have done. Your continuing vigorous
support for this important export order is much
appreciated.

Yours Sincerely
Basil Blackwell



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1. ✓
 2. Prime Minister (2)

AT
 17/5

PRIME MINISTER

WESTLAND HELICOPTERS

I am grateful to the Secretary of State for Defence for sending me a copy of his minute to you of 30 April in which he explained his Department's position on Westland Helicopters in the light of the Bristow Rotorcraft bid.

2 I confirm that the bid will fall to be considered under the merger provisions of the Fair Trading Act and, at least until I have received the advice of the Director General of Fair Trading, it is essential that we should maintain a strictly neutral stance in all public statements.

3 I agree with Michael Heseltine that whether or not the Bristow bid succeeds we are likely to face some difficult decisions on Westlands in coming months. I am not so sanguine as Michael is, however, that Westlands, even under more vigorous management, would be able to overcome their impending shortage of production work by securing new civil or overseas military orders. The world helicopter market is currently very depressed and it may be another year or two before it picks up at all strongly. That is why we took such



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exceptional measures to try to secure the Indian order for the W30. The loss of that order, in circumstances which are bound to be damaging to the W30's commercial prospects elsewhere, combined with the unexpected setback on the military side of the Army's belated decision to reassess the requirement for their Lynx/Puma replacement for which the W30 had appeared to be very well suited, may well oblige Westlands, within the next few months, to consider some quite drastic cutbacks in their production facilities and labour force simply in order to conserve cashflow. It must then be questionable whether the company would be able to expand again its production capacity and product range to meet our defence requirements in the early 1990s and the attractive civil opportunities we foresee developing at that time. I doubt whether a successful takeover by Bristow Rotorcraft would alter in any fundamental way the company's difficult underlying situation.

4 I understand that the company will shortly be completing a new corporate plan and in any case it would clearly not be appropriate for us to consider the company's overall future until the outcome of the Bristow bid is know. I fully share Michael Heseltine's view that there should be no question of giving Westland extra orders for which there was no defence need. But equally I hope we would not dispute that the retention of a fully adequate helicopter capability in this



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country is an essential defence interest. For that reason I
hope that the reassessment of the ~~Lynx/Puma~~^{Wessex} ~~re~~^{ie. AST 404} replacement
requirement can be completed very soon, so that we could
consider it, along with any other possibilities that could be
identified, if the need for an urgent reappraisal of
Westland's position should arise.

5 I am copying this to colleagues on OD and to Sir Robert
Armstrong.

NT

N T

16 May 1985

Department of Trade and Industry

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COMMERCIAL IN CONFIDENCE

MO 26/16/1



COPIES
Prime Minister:

You will
be aware of last
week's developments

PRIME MINISTER

WESTLAND HELICOPTERS

Dr 3/5

I thought that it would be useful for you and our colleagues to have a note about the Ministry of Defence position concerning Westland Helicopters in the light of yesterday's bid by Mr Bristow and his colleagues.

2. As you know, Westlands are in some difficulty because there is now considerable doubt whether they will obtain the Indian order for W30 helicopters which they had been hoping to secure. They had also been hoping to secure an order from the Ministry of Defence for a developed version of this helicopter to meet Army requirements for helicopter support. But my officials are currently reassessing our requirements in this area and I cannot guarantee that it will be possible at this stage to find room for the purchase of such an aircraft in my programme.

3. The situation confronting Westlands is therefore as follows:

- at the present time and for the next two years they have a reasonable amount of production work; thereafter there will be a considerable gap until production work builds up again from 1990/91 for the Anglo-Italian EH101 military helicopter and, hopefully, for civilian sales;

- if Westlands cannot secure orders to fill this production gap, they may well have to reduce production staffs though it is not yet clear by how many; and the unemployment created in the Yeovil area will be a matter of public debate and concern;

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- Westlands must also find £50 million during 1986/87 for their share of the costs of military production of EH101;

- at the same time, and in spite of this production gap, Westlands will still be receiving a substantial volume of work from the Ministry of Defence, particularly for spares and component repair for existing helicopters; for development work on possible collaborative projects and, especially towards the end of the decade, for the planned initial production tooling and preparation for the manufacture of the EH101. Currently the Ministry of Defence are spending some £170 million per annum with Westlands; this is due to go down to about £120 million by 1994/95. Westlands also have a technologies group, including Normalair-Garratt, which makes a substantial contribution to their cash flow and profit.

4. I would favour a market solution to Westlands' difficulties whereby a new management set about invigorating the company, improving its performance, and selling more helicopters. With a management of good calibre, the company should be able to weather its immediate difficulties. Certainly, we should not wish to give it extra orders for which there was no defence need.

5. Mr Bristow may fit the bill if he mounts his bid and is successful. He is a vigorous entrepreneur; he has built up a successful business of helicopter operations, the control of which he is just about to relinquish. Certainly his declared intention to put £60 million into the Company if his bid succeeds will be very useful.

6. For the future, we do face continuing difficulties in the helicopter field. Even with the best will in the world, it is difficult to see a single British specialist helicopter company



competing in worldwide markets in the longer term. But this is a separate if complementary problem and will have to be faced whether this bid is successful or not.

7. The Secretary of State for Trade and Industry does, of course, have responsibilities under the monopolies and mergers legislation, and may wish to comment.

8. I am sending copies of this minute to colleagues on OD and to Sir Robert Armstrong.

Wright

Ministry of Defence
30th April 1985

7

