PREM 19/1416

SECRET NEW FILE COVER

7

CONFIDENTIAL FILIN

WESTLAND HELICOPTERS

AEROSPACE

PART ONG

APRIL 1985

IN FOLDER ATTACHED PRESS CUTTINGS, DRAFTS, PRESS RELEASES

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~22.10.85~~							
~~14.11.85~~							
~~29.11.85~~							
~~5.12.85~~							
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17.12.85.							
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PREM 19/1416

Dd 8398366 2M 11/83 JET

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 36th Meeting, item 4	12/12/1985
CC(85) 37th Meeting, item 1	19/12/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 15/11/2013

PREM Records Team

Copied as requested
27.12.85.

Please copy this minute (SS.DTI to PM of 27.12)
to the Duty Officer at
D.T.I. & to
the SOS (DTI) at Admiralty
House.

J.T. Logg.
27/12/85

1. Mujasced to Chequers 27.12.85. AR
2. Copies sent as per minute 27.12.85. AR

6

PRIME MINISTER

WESTLAND PLC

I have seen Michael Heseltine's minute of 23 December. I know that you will wish to examine whether there are any new factors that might lead you to decide that colleagues should collectively consider whether change to the present and declared Government policy is necessary.

Michael expresses concern that decisions might be taken by Westland, perhaps over the holiday period, which would cause grave embarrassment to the national interest and to the Government. I cannot identify what urgent developments he has in mind given that the company's shareholders will take no decision before the Extraordinary General Meeting which the Board has proposed for 14 January 1986.

Michael's minute notes that two new developments have occurred since we last discussed this issue. These are, first, the publicity associated with Libyan involvement in the Sikorsky/Fiat proposals; and secondly, the emergence of more details about the formal offer from the European Consortium.

It was certainly right to consider any possible security implications of a Libyan involvement in Fiat and in Westland. I know, however, that the JIC have already given their immediate assessment which does not seem to me to provide grounds for us to rule out the Sikorsky/Fiat proposal.

As for the second development noted by Michael, fuller information on the European proposals - including GEC's

belated commitment to them - is now available and I know that the Westland Board is in the process of seeking further urgent clarification from Lloyd's Merchant Bank in order properly to advise their shareholders. In this connection I should add that I am by no means convinced that the comparison of the two proposals set out in the annex to Michael's minute represents the complete picture nor one which the company itself could accept.

I am firmly of the view that neither of the two developments identified above nor the pace of decision-taking by Westland warrant any change in the Government's policy towards the company. That policy was agreed in E(A) on 9 December and announced in my statement to the House on 16 December. The Cabinet meeting of 19 December did not lead to any change in that policy and it has been clearly expressed in your own answers to Parliamentary Questions on 17 and 19 December.

I cannot therefore agree with Michael that we should indicate, however "informally" or conditionally, that we prefer the European solution. Such an indication would be calculated to exert a direct influence on shareholders at a most sensitive time and would be regarded as an unwarranted intervention on the part of a Government which had hitherto unequivocally and publicly at the highest level set its face against any such intervention.

Like Michael I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.

John Mogg.

pp. L.B.
(Dicated by the Secretary of State for Trade and Industry and signed in his absence)

Department of Trade and Industry
27 December 1985

LETTER FROM THE RT HON JOHN SMITH QC MP, TO THE PRIME MINISTER

WESTLAND HELICOPTERS

I write to you as Head of the Government on the subject of Westland Helicopters as there seems to be confusion among your ministers as to where responsibility lies.

It is surely wrong that the future of the strategically vital British company should rest on the result of a contest between rival American and European bids in which the only interest to be allowed the power of decision is that of the shareholders. May I remind you that at least £25 million of taxpayers' money was committed to the company, that it is Britain's only helicopter manufacturer, and that thousands of highly skilled British jobs are at stake?

I propose that it is time for the Government to act to secure the British national interest by acquiring a substantial holding in the company so that the future of the company is not left to chance. It may of course be desirable thereafter for collaboration to be arranged on a European basis but such an arrangement would be a partnership of equals in which the British Government would be able to have an important influence.

I hope that in considering this proposal you will not be misled by a dogmatic prejudice against a public sector initiative. It is capable of securing the British national interest in a way which has so far eluded yur Government. The Westland story so far is a saga of confusion, squabbling, and dithering on the part of your Government. This proposal would permit Britain to regain the initiative.

26 December 1985

5

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John Mogg.

pp. L.B.

(Dicated by the Secretary of State for Trade and Industry and signed in his absence)

Department of Trade and Industry
27 December 1985

NI3482 5 KXX 273

WESTLAND: NEW MOVE TO BEAT US RIVAL

THE EUROPEAN CONSORTIUM BIDDING TO RESCUE THE WESTLAND HELICOPTER COMPANY TONIGHT MADE A NEW MOVE TO BEAT OFF ITS AMERICAN-BACKED RIVAL.

THE CONSORTIUM GUARANTEED THE WEST COUNTRY COMPANY MORE THAN 1.8 MILLION MAN HOURS OF WORK IN THE NEXT THREE YEARS IF IT ACCEPTED A £73 MILLION DEAL.

THIS COMPARES WITH ONE MILLION MAN HOURS OVER THE SAME PERIOD OFFERED BY THE AMERICAN/ITALIAN PARTNERS OF SIKORSKY AND FIAT.

A SPOKESMAN FOR THE EUROPEAN CAMP TONIGHT DENIED THAT THE NEW MOVE WAS AN IMPROVED OFFER.

''IT MERELY CLARIFIES THE BID WE HAVE ALREADY MADE,'' HE SAID. ''WE HAVE DONE THIS IN RESPONSE TO A LETTER FROM WESTLAND LAST WEEK ASKING WHAT SORT OF WORK WE WOULD BE PROVIDING.''

THE DETAILS WERE SPELT OUT IN A LETTER SENT TO THE WESTLAND DIRECTORS TONIGHT IN TIME FOR A CRUCIAL MEETING OF THE COMPANY'S BOARD, EXPECTED NEXT WEEK.

''THE CONSORTIUM ASSURES WESTLAND THAT IN THE THREE YEARS FROM 1987 TO 1989 THEY ARE GUARANTEEING OVER 1.5 MILLION DIRECT MAN HOURS OF WORK SUBJECT ONLY TO AGREEMENT ON PRICE AND TIMING,'' SAID THE SPOKESMAN.

''IN ADDITION, THERE IS AN EXTRA 300,000 DIRECT MAN HOURS OF WORK ON THE SIX SEA KINGS MAKING A TOTAL OF OVER 1.8 MILLION MAN HOURS.''

THE ORDER FOR SIX SEA KINGS HAS BEEN PROMISED BY DEFENCE SECRETARY MICHAEL HESELTINE IF THE FIRM ACCEPTS THE EUROPEAN OFFER.

MR HESELTINE SAID THE EUROPEAN PROPOSALS ''INCLUDED AN AGREEMENT BY FOUR EUROPEAN MINISTERS OF DEFENCE TO MERGE TWO COMPETING BATTLEFIELD HELICOPTER PROJECTS - THE A129 FAVOURED BY ITALY AND UNITED KINGDOM AND THE PAH2 FAVOURED BY FRANCE AND WEST GERMANY.

--

271959 DEC 85

RACING: 2.40 KEMPTON (13 RAN)
1 TUGBOAT 5-1 JT FAV
2 DORAH HENRY 20-1
3 SUPER EXPRESS 5-1 JT FAV (NEWSWIRE TIP)
--

271512 DEC 85

NI3442 5 XXX 293

WESTLAND 'BRIBERY' CLAIM
BY CHRIS MONCRIEFF, PA CHIEF POLITICAL CORRESPONDENT
THE WESTLAND STORM GREW TODAY WITH ALLEGATIONS BY A SENIOR TORY BACKBENCHER THAT THE DEFENCE MINISTRY APPEARED TO BE BRIBING OR BLACKMAILING THE COMPANY INTO ACCEPTING AN ALL-EUROPEAN RESCUE DEAL BY OFFERING AN ORDER FOR EXTRA HELICOPTERS.
MR TEDDY TAYLOR, SOUTHEND EAST MP, HAS WRITTEN TO THE PRIME MINISTER CALLING ON HER TO DISSOCIATE THE GOVERNMENT FROM ''PROMISES'' THAT THE MINISTRY WOULD ORDER SIX EXTRA SEA KING HELICOPTERS FROM WESTLANDS IF IT ACCEPTS THE EUROPEAN PACKAGE AND NOT THE RIVAL US-ITALIAN BID.
DEFENCE SECRETARY MICHAEL HESELTINE, CAMPAIGNING IN FAVOUR OF THE EUROPEAN PACKAGE, HAS CANCELLED A FAMILY HOLIDAY TO NEPAL, DUE TOSTART TOMORROW BECAUSE OF THE WESTLAND CRISIS.
TODAY MR TAYLOR SAID: ''I AM VERY GLAD HE HAS DECIDED TO STAY BEHIND BECAUSE THERE ARE MANY QUESTIONS TO BE ANSWERED.
MR TAYLOR CLAIMED THAT MR HESELTINE HAD MADE IT CLEAR THAT IF WESTLAND WENT FOR THE EUROPEAN SOLUTION HE WOULD ORDER SIX EXTRA SEA KINGS, BUT NOT IF IT ACCEPTED THE US DEAL.
''THIS SEEMS TO BE THE MOST DREADFUL KIND OF BLACKMAIL,'' MR TAYLOR SAID. HE HAD WRITTEN TO MRS THATCHER URGING ''THAT SHE WILL MAKE IT ABUNDANTLY CLEAR THAT THEY WILL NOT ALLOW THIS TO HAPPEN. I ALSO WANT MR HESELTINE TO SAY THAT IT WILL NOT HAPPEN.
MR RICHARD SHEPHERD, TORY MP FOR ALDRIDGE BROWNHILLS, SAID: ''WE MUST SEE FAIR PLAY IN THIS. ONLY THE PRIME MINISTER CAN CLEAR UP WHAT APPEARS TO BE A TOTAL MIX UP IN GOVERNMENT POLICY.'
MEANWHILE, MR JOHN SMITH, SHADOW TRADE AND INDUSTRY SECRETARY, HAS CALLED FOR PART NATIONALISATION OF WESTLANDS IN ORDER TO GIVE THE BRITISH TAXPAYER A SAY IN THE FUTURE OF ''A STRATEGICALLY VITAL BRITISH COMPANY.''
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271518 DEC 85

NI3476 5 XXX 227

HESELTINE ANSWERS 'BRIBE' CLAIM

DEFENCE SECRETARY MICHAEL HESELTINE TONIGHT RESPONDED TO CLAIMS B YTORY BACKBENCHER MP TEDDY TAYLOR THAT THE DEFENCE MINISTRY APPEARED TO BE BRIBING WESTLAND HELICOPTERS TO ACCEPT AN ALL EUROPEAN RESCUE BID RATHER THAN A US PACKAGE.

COMMENTING ON MR TAYLOR'S REMARKS, MR HESELTINE REPLIED: ''ON MONDAY DECEMBER 9, I WAS AUTHORISED BY MY COLLEAGUES TO DISCUSS THE NATURE OF A POTENTIAL BRITISH/EUROPEAN SOLUTION FOR WESTLAND AND TO PUT FORWARD PROPOSALS.

''ON FRIDAY, DECEMBER 13, THE BRITISH/EUROPEAN CONSORTIUM SUBMITTED A SET OF PROPOSALS TO WESTLAND RESULTING FROM THESE DISCUSSIONS.

''THESE PROPOSALS INCLUDED AN AGREEMENT BY FOUR EUROPEAN MINISTERS OF DEFENCE TO MERGE TWO COMPETING BATTLEFIELD HELICOPTER PROJECTS - THE A129 FAVOURED BY ITALY AND UNITED KINGDOM AND THE PAH2 FAVOURED BY FRANCE AND WEST GERMANY.

''THE SAVINGS TO THE BRITISH DEFENCE BUDGET ARISING FROM THE SPREADING OF OVERHEADS ON THIS PROJECT BETWEN FOUR COUNTRIES AS OPPOSED TO TWO WAS CALCULATED TO BE OF THE ORDER OF £25 MILLION.

''I OFFERED TO SPEND THIS MONEY WITH WESTLAND ON THE PURCHASE OF SIX SEA KING HELICOPTERS.''

HE ADDED THAT FULL DETAILS OF THIS PROPOSAL WERE MADE AVAILABLE TO HIS COLLEAGUES ON DECEMBER 13.

MR HESELTINE SAID: ''I HAVE CONFIRMED AND RECONFIRMED THIS SEVERAL TIMES SINCE THEN.''

271811 DEC 85

NI3280 3 XXX 100

URGENT - WESTLAND

MR MICHAEL HESELTINE, THE DEFENCE SECRETARY, HAS CANCELLED A FAMILY HOLIDAY TO NEPAL - DUE TO START NEXT SATURDAY - BECAUSE OF THE WESTLAND HEICOPTER CRISIS, THE MINISTRY OF DEFENCE ANNOUNCED TODAY.

A SPOKESMAN SAID MR HESELTINE DID NOT THINK IT RIGHT TO GO ON HOLIDAY AT THIS STAGE BECAUSE OF THE RESPONSIBILITIES PLACED UPON HIM BY THE CABINET OVER THE AFFAIR.

MR HESELTINE BELIEVES THAT THE EUROPEAN CONSORTIUM RESCUE OPERATION FOR WESTLANDS, WHICH HE FAVOURS, MIGHT BE JEOPARDISED IF HE WERE ABSENT FROM THE COUNTRY OVER THE NEXT TWO WEEKS.

--

261257 DEC 85

c/c DTI for draft reply. MOD for inf. Mufasced to Chequers.

LETTER FROM THE RT HON JOHN SMITH QC MP, TO THE PRIME MINISTER

WESTLAND HELICOPTERS

I write to you as Head of the Government on the subject of Westland Helicopters as there seems to be confusion among your ministers as to where responsibility lies.

It is surely wrong that the future of the strategically vital British company should rest on the result of a contest between rival American and European bids in which the only interest to be allowed the power of decision is that of the shareholders. May I remind you that at least £25 million of taxpayers' money was committed to the company, that it is Britain's only helicopter manufacturer, and that thousands of highly skilled British jobs are at stake?

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26 December 1985

With the compliments of

FOREIGN AND COMMONWEALTH OFFICE

LONDON, SW1A 2AH

DD 250830Z OTTER
FM NEDEL TO FCOLN
250730Z DEC
DS 100

RESTRICTED
FM NEW DELHI
TO DESKBY 250830Z FCO
TELNO 1495
OF 250730Z DECEMBER 85
AND TO DESKBY 250830Z DTI

Prime Minister.
You asked about whether we had received confirmation of the Indian order. These telexes give the most up to date information available to FCO. They indicate that the deal is not yet signed and sealed. MCA 27/12

FOLLOWING FOR RESIDENT CLERK FCO, DUTY OFFICER DTI

MY TELNO 1494 AND DTI TELNO OTTER 533 : WESTLANDS

1. BACKGROUND TO THESE STORIES IS IN MY TUR.

2. ON THE RECORD, PRESS OFFICERS COULD SAY THAT THE GOI HAVE CONFIRMED TO US THAT A TENTATIVE DECISION HAS BEEN TAKEN TO PURCHASE WESTLANDS HELICOPTERS AND THAT WE NATURALLY WELCOME THIS.

38 UNATTRIBUTABLY IT COULD BE ADDED THAT NEGOTIATIONS BETWEEN WESTLANDS AND THE GOI ON A CONTRACT HAVE NOT YET BEEN CONCLUDED BUT THAT WE HOPE THIS WILL HAPPENE THIN THE NEXT FEW WEEKS.

4. WE SHALL TAKE THIS LINE WITH CORRESPONDENTS IN DELHI.

WADE-GERY

YYYY

NDHPAN 4641

NNNN

GRS 350

RESTRICTED

RESTRICTED
FM NEW DELHI
TO DESKBY 241500Z FCO
TELNO 1494
OF 241300Z DECEMBER 85
INFO DESKBY 241500Z DTI OTTER
INFO DESKBY 241500Z ODA

WESTLANDS

1. ACCORDING TO INDIAN JOURNALISTS WHO WERE PRESENT, TYTLER (MINISTER OF STATE FOR CIVIL AVIATION) AT AN INFORMAL MEETING WITH THE PRESS TODAY WENT A LONG WAY TOWARDS CONFIRMING THAT THE INDIAN GOVERNMENT HAD DECIDED TO PURCHASE 21 HELICOPTERS FROM WESTLANDS, AS WELL AS A SIMILAR NUMBER FROM FRANCE. A STORY TO THIS EFFECT IS LIKELY TO APPEAR IN THE TIMES OF INDIA 25 DECEMBER.

2. ACCORDING TO HIS PUBLIC RELATIONS OFFICE, TYTLER SIMPLY SAID THAT THE HELICOPTER CORPORATION WOULD BEGIN OPERATIONS NEXT OCTOBER, AND WOULD USE 42 FRENCH AND BRITISH HELICOPTERS. THE TIMES OF INDIA, HOWEVER, INTEND ON THE BASIS OF TYTLER'S REMARKS TO RUN A STORY OF WHICH THE MAIN ELEMENTS ARE:

- INDIA HAS OFFICIALLY DECIDED TO BUY 21 WESTLAND HELICOPTERS

- CONTRACT TO BE CONCLUDED IN FEBRUARY

- VALUE POUNDS STERLING 86 MILLION

- WESTLAND TO GIVE 3 FREE HELICOPTERS IN ASSITION TO THE 21.

(WE HAVE NO IDEA WHERE THESE LAST TWO MISLEADING PIECES OF INFORMATION EMERGED FROM.)

3. I HAVE SPOKEN TO SIDHU, SECRETARY CIVIL AVIATION, WHO WAS PRESENT AT THE MEETING. HE CONFIRMED THAT TYTLER HAD SAID THAT THE HELICOPTER CORPORATION WOULD BE OPERATIONAL FROM 1 OCTOBER AND WOULD TAKE ON MUCH OF THE WORK OF THE OIL SECTOR. TYTLER ALSO CONFIRMED THAT INDIA HAD REACHED A DECISION ON THE FLEET MIX OF THE CORPORATION WHICH WOULD BE 21 DAUPHIN AND 21 W30'S. SIDHU VOLUNTEERED THAT NO AKWARD QUESTIONS HAD BEEN RAISED BY JOURNALISTS BUT SOME HAD REFERRED TO THE DIVISIONS IN THE UK CABINET OVER THE RECONSTRUCTION FO WESTLANDS. TYTLER HAD REPLIED THAT HE WAS CONFIDENT THAT THE INDIAN DEAL WAS NOT IN DANGER - WHICH EVER ROUTE WESTLANDS CHOSE TO FOLLOW, HE WAS SURE THE COMPANY WOULD EMERGE IN A STRONGER POSITION. SIDHU SAID THEY WOULD CONFIRM THEIR DECISION OF ASKED.

RESTRICTED

14.

4. THE BBC AND REUTERS WERE NOT SATISFIED WITH THE TIMES OF INDIA STORY AND HAVE CONTACTED TYTLER DIRECTLY. TULLY HAS TOLD US THAT IN ANSWER TO HIS QUESTION TYTLER SAID ''YES, INDIA IS GOING TO BUY THE HELICOPTER''.

WADE-GERY

WESTLANDS HELICOPTERS FOR INDIA

LIMITED

SAD	SIR W HARDING
ODA	MR BRAITHWAITE
MAED	MR WILSON
TRED	
NEWS D	
PS	
PS/LADY YOUNG	
PS/MR EGGAR	
PS/PUS	

WESTLAND

The overt arguments in the Heseltine minute of 23 December are:

(i) there is now a European bid on the table which offers more to the banks, the company and the shareholders than the Sikorsky bid (para. 2)

(ii) this is partly because MOD would then be able to buy six more Sea King helicopters (3c)

(iii) there will be political criticism both at home and in Europe if the Government were to express no preference between a British/European bid and a US bid (3a on page 4)

(iv) the Fiat connection raises security problems.

Points (i) and (ii) are for the company, banks and shareholders to consider. We knew about the possibility of a European bid and took that into account: without it there would have been no choice for the company to consider, and the Government's public position could have made no sense.

Point (iii) is weak.

(a) Fiat would have 14.9% of Westland, and Libya holds 14% of Fiat. There is no question of Libya "effectively controlling a significant British defence company".

(b) Fiat already supplies many important components for British defence equipment, including gearboxes for Westlands.

(c) The Americans are even more sensitive about both security and Libya than we are. They seem to be content for Fiat to be involved with Sikorsky.

The key is therefore the argument of political criticism in point (iii). Mr. Heseltine's covert argument is relevant here, as described in his manuscript minute: Mr. Brittan earlier emphasised the importance of a European minority shareholding; why has he changed his mind?

There is some slight validity in this: Mr. Brittan does seem to be standing further back than he was. But Mr. Heseltine has changed his position even more than Mr. Brittan. The real question is whether the possible decisions could be said to be likely to cause "grave embarrassment to the Government and to the national interest".

As argued above, the national interest is not at stake - as Mr. Heseltine himself argued in April. And to change its position would cause grave embarrassment to the Government.

DAVID NORGROVE

24 December 1985

LO3ARU

From: D R Marsh, Director of Procurement Policy

PROCUREMENT EXECUTIVE, MINISTRY OF DEFENCE

Main Building, Whitehall, London SW1A 2HB

Telephone (Direct Dialling) 01-218

(Switchboard) 01-218 9000

D/DPP/6/6/4

24th December 1985

Lloyds Merchant Bank Ltd
40-66 Queen Victoria Street
London EC4P 4EL

For the attention of David Horne Esq, Managing Director

Dear Mr Horne

In Westland plc's letter to you of 23rd December two questions were asked concerning the Ministry of Defence. You requested our advice.

The answers are as follows:

Question 1.

As made clear in the Secretary of State's letter of 13th December to Sir John Cuckney, the Ministry of Defence wishes to procure the collaborative helicopters described in the attachments to that letter. It hopes that Westland plc will remain in partnership with the companies in the consortium so as to be in a position to take responsibility for the British share of these projects. We would not wish to see work on the projects jeopardised by Westland putting itself outside the framework of that cooperation in order to manufacture the Black Hawk helicopter for which the Ministry of Defence has neither the requirement nor the funds. In this connection, the European governments have informed the Ministryof Defence that, in the event of Westland's accepting the UTC/Fiat proposals, they would wish to review Westland's participation in the joint programmes.

Question 2.

The Ministry of Defence naturally hopes that the engine in which a British company is collaborating - the RTM 322 (Rolls

Royce - Turbomecca engine) - will be fitted to the Super Puma helicopter. It recognises, of course, that this is a commercial decision for the companies concerned.

I am sending a copy of this letter to Westland plc, to Lazard Brothers and Co Ltd, and to County Bank Ltd.

Yours sincerely

Patrick Rowe

for Dr Mates

Secretary of State for Trade and Industry

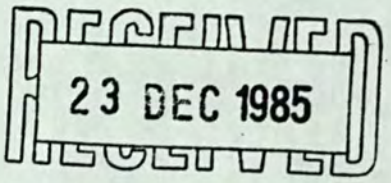
With compliments.

The Times article today (back page) is also helpful on this.

C Bradley
24/12/85

V5787

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE



To:
PS/Secretary of State

CC PS/Mr Pattie
PS/Sir Brian Hayes
Mr Macdonald
Mr Michell
Miss Bowe
Mrs Williams

From:
M K O'Shea
Air 1
Room 5/3
20 Victoria Street
215 4213

23 December 1985

LIBYAN INVOLVEMENT WITH FIAT

The following contains background information for the Secretary of State which I suggest you should also pass on to No. 10.

a) Libyan shareholding in Fiat

1 A Libyan bank (believed to be called Southern Bank of Libya) has a shareholding of just under 13% in Fiat S.P.A.. The bank first acquired shares in Fiat in 1976.

2 The Libyan bank has two nominees on the Board of Fiat:

- One Executive, Mr Mahomet T H Siala, who is also a member of Fiat's five-member executive committee.

- One Non-Executive, Mr Ali Mahomet Elgheriani.

b) Proposed Fiat shareholding in Westland

3 Under the United Technologies/Fiat proposal, Internazionale Holding Fiat S.A. would take a maximum 14.9% holding in Westland. Internazionale is a wholly-owned subsidiary of Fiat S.P.A, registered in Switzerland, through which Fiat holds all its overseas interests.

4 Under the arrangements between UT and Fiat, UT would always have majority control of their joint shareholding. Unlike UT, Fiat will not take an option to acquire any more shares in Westland.

c) Fiat's existing involvement in military collaboration

5 Fiat Aviazone, a wholly owned subsidiary of Fiat S.P.A., is extensively involved in military projects with the UK, other European countries and the United States. Fiat's involvements include:

- 20% share in Turbo-Union, which makes the RB199 engine for the Tornado.

- It is agreed that Fiat will have a substantial share in the engine for the European Fighter Aircraft.

999-80

- Design and manufacture of the gearbox for the EH101.

- Work on the Puma, Dauphin and Super Frelon military helicopters for Aerospatiale.

d) Possible Libyan or other overseas involvements in other companies

6 We know that overseas interests hold close to 15% of the shares in British Aerospace, and there are no restrictions on foreign ownership of shares in GEC. Holdings of less than 5% are not required to be disclosed publicly, so it is not impossible that Libyan or other "undesirable" interests have small stakes in those companies.

7 We also know that Fiat has been contemplating a bid for control of Agusta, which is of course a member of the European consortium.

M.K. O'Shea

M K O'SHEA

(2)

Tel (0483) 274674

Meadowfield,
Cranleigh,
Surrey GU6 7DJ

23 December 1985

Prime Minister

CDP
30/12

Mr C Powell
Private Secretary to The Prime Minister
10 Downing Street
London SW1

Dear Mr. Powell,

Please thank the Prime Minister for the message contained in your letter dated 17 December 1985.

I would be most grateful if you could let her know that since sending my telex on 16 December I have come to share her view that it is the responsibility of the Westland Board and its shareholders to resolve the situation now that there are two serious bidders. Consequently, I have decided not to pursue the matter any further with the Government.

Yours sincerely

ALAN E BRISTOW

AEB/LJW/01.11

AM85

CC NLW
cc Ch Whip

SECRETARY OF STATE

December 23 '85

Dear Prime Minister,

I know that the last sentence of my note to you of todays date will not be an easy one for you.

I know also that you will understand the depth of my convictions in this matter.

I ask you to read again paragraphs 9 and 19 of Leon's note to colleagues of October 4th and then to read paragraph 4

SECRETARY OF STATE

of a letter from Leon's private secretary to mine and circulated to colleagues. This letter is dated October 18th.

I am not copying this letter to colleagues. I have discussed its contents only with the Chief Whip.

Yours ever

Michael

cc Ch. WL/P
cc NKW
cc DNS
cc Spare

MO 26/16/1

PRIME MINISTER

WESTLAND PLC

Since colleagues last discussed the substance of the Government's approach to the reconstruction of Westland plc at the E(A) meeting on 9th December, there has been a number of developments. I should, I think, report on the defence aspects updating my minute to you of 13th December. As I explained to the Cabinet last Thursday events were likely to move in a way which demanded our attention.

2. The most significant development, which we anticipated in our discussion, is the British/European consortium's offer to Westland on Friday of their counter-proposals to the Sikorsky/Fiat scheme. The consortium now embraces GEC as well as British Aerospace. The two British companies have put in a combined stake of £13M, which exceeds that of any of their European partners. I attach for information at Annex a brief comparison between the two offers. The British/European consortium appears to offer more in terms of the benefits to shareholders (I understand some 60% of the shares may be in the

hands of individuals rather than institutions), the Banks, and the company itself in terms of workload in the short to medium term and product range.

3. As I suggested in my minute of 13th December, with two competing offers on the table I have been pressed on the defence procurement aspects of the issue. In answering these questions I have followed strictly the line which we agreed at Cabinet last Thursday and, although my views are well known, I have not since then expressed any personal preference between the two offers. I have made it clear that:

a. the agreements reached with my European colleagues are provisional and will come into effect for the United Kingdom (as for them) only in the event that Westland plc decide to accept the offer of the British/European consortium. I recognise that these agreements raise important issues about competition policy, on which the Treasury have commented to you and a small number of colleagues. The issue was raised publicly in the Financial Times today. I welcome the attempt to air these issues which are, I believe, at the heart of our future as an advanced country in the defence and other high technology fields. In my public response I have rested on the Government's position as set out in the 1985 Statement on the Defence Estimates. There is no question of a blank cheque to the companies involved in European collaboration

as the draft Ministerial agreement makes explicitly clear: paragraph 10, at the suggestion of Dr Woerner with my full support, emphasises the need for a cost effective approach. This said, it is worth bearing in mind that there is absolutely no possibility of the US Government procuring a European designed helicopter to meet the requirement of its forces. The Europeans have to come together if there is to be a genuine two-way street. The American defence base is protected by law and the Pentagon's overseas purchases are permitted only if the product cannot be made in the United States. We are not dealing with an open market economy.

b. Our position on the purchase of the Black Hawk helicopter by the Ministry of Defence remains exactly as it was when Sikorsky first offered it to meet AST 404 to be manufactured under licence by Short Brothers. That staff target is now under further study and, in any case, there are no funds in the forward defence programme for a Black Hawk purchase. The realistic option in this class of helicopter now lies in a later timeframe during the 1990s and involves NH90.

c. The Ministry of Defence order for 6 additional Sea King helicopters arises only in the context of the offer from the British/European consortium, for the reason set out in paragraph 7 of my minute to you of 13th December.

3. While this approach is adequate to deal with the narrow defence procurement issues, I have to record my concern that there are wider policy issues which, in my view, would warrant further collective discussion, taking account of developments since 9th December. In particular:

a. at that time, there was only one firm offer clearly on the table and the alternative had only the prospect of a British element. This is no longer the case. In national political and industrial terms, we shall face increasing criticism for apparently having no preference between a British-led offer and a US-led one. Moreover, our European partners may also wonder why we are not supporting our stated approach to collaboration with them, which, of course, involves a number of other projects of crucial importance to us;

b. we now have the added dimension in the case of the Sikorsky/Fiat offer of possible Libyan involvement about which colleagues knew nothing. There are two aspects to this. First, I believe we must establish the facts and I have asked my Permanent Secretary to arrange for a JIC assessment. If the facts are as stated in the newspapers, namely that Fiat is run by a five man executive team one of whom is Libyan and that two Libyans sit on the main Fiat Board, then there is a security dimension which we shall need to address on the basis of the JIC's assessment.

Tornado ETPA ?

Secondly, there is a wider political dimension on which you and other colleagues may well have views; but certainly I do not regard the present assessment of Libya's role in terrorism on the world stage, including on the streets of London, to be compatible with political acceptability in our industrial community. There is no comparison between the role of Fiat as a component manufacturer in defence products and acting as a joint partner effectively controlling a significant British defence company.

4. In drawing these issues to your attention, I am conscious that we are about to enter the holiday period. But I am also aware that decisions could be taken which would cause grave embarrassment to the Government and to the national interest. To avoid this, I believe that the Government should indicate, at least informally, that, subject to the commercial interests of the parties being protected, it would prefer a British/European solution.

5. I am copying this minute to the other members of the Cabinet and to Sir Robert Armstrong.

Ministry of Defence

23rd December 1985

COMPARISON OF UTC/FIAT AND BAe/GEC/AEROSPATIALE/AGUSTA/MBB PROPOSALS

There are now two offers before Westland. Both require a substantial financial reconstruction of the Company involving the injection of new cash in return for equity by the bidding partners and existing shareholders and the conversion of debt to equity by the banks. The details are:

	Sikorsky/Fiat	British/European Consortium
Bidding partners	30.0M	37.1M
Existing shareholders	14.2M (pay 60p a share)	13.0M (pay 55p a share)
Company's Banks (conversion of debt)	28.0M	23.0M
TOTAL £M	72.2M	73.1M

In both cases there are options to take more shares. For UTC/Fiat this is an option for them to acquire more shares; under the Consortium proposal the option would be given to the existing shareholders by free warrants with value on the Stock Exchange.

2. On additional workload the proposals are as follows:

	Sikorsky/Fiat	British/European Consortium
Engineering man hours	650,000 over 3 years	(1,250,000 additional (over 5 years, on top (of existing 1,750,000
Direct (manufacturing) man hours (not dependent on helicopter purchases by MOD)	350,000 over 3 years 1987-1989	(which Aerospatiale (are providing under (existing arrangements
Timing	From 1987	Now and increasing from 1987
Net gain/loss of man hours	Net loss to 1990 (because Aerospatiale existing work withdrawn from 1987 onwards)	1,250,000 over 5 years to 1990
Further firm helicopter orders	-	6 extra Sea Kings

3. On product range the comparison is as follows:

	UTC/Fiat	British/European Consortium
EH101	Yes	Yes
NH90	Not mentioned in proposals as published by Lazard Brothers	Yes
Black Hawk	Yes	No
Collaborative battlefield helicopter (A129 Mk II/PAH 2)	Not mentioned	Yes

(The background to these programmes is:

EH101 - 85 for RN and Italian Navy; civil sales; military utility sales

NH90 - Participating nations (UK, Germany, France, Italy and Netherlands) have identified total requirement for 700 plus helicopters 1994-2000

Black Hawk - Sikorsky are currently building large numbers for the US forces. According to the offer document "UTC will license Westland to develop, market and manufacture the Black Hawk for sale to a significant number of territories throughout the world". HMG has made clear that there is no requirement for this helicopter for the British Forces and no financial provision for its purchase in the forward defence programme.

European Battlefield Helicopter - Participating nations (UK, Germany, France, Italy and Netherlands) have identified total requirement for more than 600 battlefield helicopters in 1990s.)

23/12

2

PRIME MINISTER

WESTLAND

Michael Alison telephoned me to report his latest conversation with Lord Fanshawe.

Lord Fanshawe said that he had recently discussed the position with Mr. Heseltine. Mr. Heseltine had given him the impression (but perhaps had not actually said) that he would resign if the company did not adopt the European option. He then went on about his "humiliation" in Cabinet!

Lord Fanshawe said that the Westland Board's preliminary consideration of the two rival bids led them to favour still UT's, especially since they thought that its terms would be improved. The Westland Technical Directors' impression is that the European offer "is not as good as it might seem". The Westland Board will meet again next Monday to come to a final decision on the merits of the bids.

Lord Fanshawe asked whether the Government might give the company a steer on which bid to back. Michael, very rightly in my view, said that he did not think that the Government would do that.

It won't. They must make their own judgment on the facts and the two propositions ref.

N.L.W.

23 December 1985

VC3AJJ

Nigel.

David,

Kenneth Warren MP phoned ref Westlands. He has had a number of phonecalls from the 'Industry' over the weekend: the 'Industry' being all those companies who make up 2/3 by value of Westlands. They are fed up with being used as a shuttlecock. This includes RR, Racal, GEC Avionics, Lucas etc. They feel that nobody seems to have thought of their contracts with Westland. They feel that any decision should

be left entirely to
Westlands, and so does
Kenneth Warren.

GRE
23/12

Lloyds Merchant Bank

Managing Director

Lloyds Merchant Bank Limited
40-66 Queen Victoria Street
London EC4P 4EL
Telephone 01-248 2244
Telex 888421/2

20th December 1985.

The Directors,
Westland plc,
4 Carlton Gardens,
London, S.W.1.

Dear Sirs,

We refer to our letters of 2nd, 9th and 13th December 1985 in connection with our outline proposals on behalf of Aerospatiale, Agusta, British Aerospace and MBB ("the Consortium") to participate in the refinancing and restructuring of Westland plc ("Westland"). British Aerospace has now been joined by The General Electric Company, p.l.c. ("GEC") to constitute the U.K. side of the Consortium.

We have considered the Press Announcement released by Lazard Brothers & Co., Limited, dated 19th December 1985 ("the Press Announcement"), giving further information on Westland and the proposals put forward by United Technologies Corporation ("UTC") and Internazionale Holding Fiat S.A. ("Fiat"). As a result, we are now in a position to put forward to you the specific proposals of the Consortium, which we believe are very acceptable and beneficial to shareholders, employees and creditors of Westland and which recognise the importance of Westland in the European helicopter industry. In view of the urgency of this matter, we have adjusted our proposals to the share capital structure incorporated in the reconstruction proposals set out in the Press Announcement.

The Consortium is prepared, subject to the conditions set out below, to participate in a reconstruction on the following terms:

1. Westland making a rights issue to existing shareholders of 2 'A' Ordinary shares for every 5 Ordinary shares held, at 55p per share to raise approximately £13.05 million before expenses. This rights issue will be underwritten by Lloyds Merchant Bank Limited.

2. At the same time as the rights issue, Westland issuing shareholders who take up their rights with warrants to subscribe at 85p per share for 2 new 'A' Ordinary shares for every 5 presently held at any time until December 1996.

3. The Consortium subscribing for 35.5 million Preferred Ordinary shares at 65p per share at a total cost of £23.08 million.

4. The Consortium subscribing for 9 million 8 per cent. Cumulative Redeemable Preference shares of £1 each, at par.

5. In addition, British Aerospace and GEC each subscribing for 2.5 million 8 per cent. Cumulative Redeemable Preference shares of £1 each at par, the proceeds to be used by Westland specifically to reduce bank borrowings.

6. Westland's bankers converting £23 million of Westland's current debt into 7.5 per cent. Convertible Cumulative Redeemable Preference Shares at par.

7. A reduction of capital so as to eliminate the deficit on Westland's profit and loss account.

The Consortium's proposals are subject to the following conditions:-

1. Each member of the Consortium being entitled to appoint one Director to the Board of Westland, and for this purpose British Aerospace and GEC jointly are regarded as one member.

2. Such Governmental approvals and consents as may be required being obtained.

3. Satisfactory arrangements being made with the Debenture stock holders in the event that Westland is in default under any of its Debenture trust deeds.

4. Westland's bankers agreeing to participate in the reconstruction on the above terms.

The above terms, when effected, but before the exercise of the warrants, will increase Westland's share capital by £73.1 million, of which the Consortium is contributing £37.1 million.

In our letter of 13th December 1985 we enclosed letters from Aerospatiale, Agusta and the Ministry of Defence setting out in detail the work to be given to Westland over the next five years. It appears that there may have been some misunderstanding about the position of the Consortium on this matter, and it would therefore like to make the following points:-

(i) Should Westland conclude an agreement with UTC, then the current sub-contracting work provided by Aerospatiale to Westland, amounting to some 350,000 manufacturing man

hours per annum, will be withdrawn. This is equivalent in one year to the whole of the manufacturing work offered by UTC over three years.

(ii) Aerospatiale and Agusta will commit additional manufacturing work amounting to approximately 570,000 man hours over the three years 1987, 1988 and 1989.

(iii) We have been informed by the Ministry of Defence that, subject to the proposals from the Consortium being implemented, there will also be additional work as a consequence of the Ministry of Defence ordering a further six Sea King helicopters for delivery in 1990.

(iv) In the Press Announcement it was stated that the Directors of Westland could not view the above offers of work with confidence, 'given the level of over-capacity which exists generally within the European helicopter industry'. As has been made clear to you, these offers of work are not dependent on capacity but are a clear commitment of work based on calculations of future sales.

As an indication of the strength of this commitment, when the initial forecast of 1,250 helicopters was made in 1967 between Westland and Aerospatiale, it was assumed that a net balance in favour of Westland of approximately 1 million man hours of work would be made by Aerospatiale. In fact, since 1967 approximately 2,500 helicopters have been manufactured and Westland has received a net balance of around 5.4 million man hours, including the additional work in respect of the Super Puma programme which was not anticipated in 1967.

This emphasises the commitment of Aerospatiale to the 1975 Memorandum of Understanding which was entered into by all four European helicopter companies.

(v) Agusta was prepared to commit 120,000 engineering man hours over the three years 1987-89 but will increase this to 300,000, having now noted Westland's interest in this subject.

(vi) As has already been stated, Aerospatiale, Agusta and MBB consider that, should Westland accept the UTC/Fiat proposals, the participation of Westland in the NH90 programme would not be compatible with their involvement in the Black Hawk project. This means that Westland will lose a substantial amount of engineering work involved in this project.

(vii) Furthermore, if the RTM 322 (Rolls Royce-Turbomeca engine) is fitted to the Super Puma (i.e. the Mark II version), this will bring around 500,000 hours of additional engineering work to Westland during the period 1986-89.

In summary, the proposals of the Consortium can be compared with the UTC/Fiat proposals as follows:-

Financial

		Consortium	UTC/Fiat
1.	New share capital subscribed by potential partners	£37.1m	£30.0m
2.	Conversion of bank debt into Preference capital	£23.0m	£28.0m
3.	New share capital subscribed by existing shareholders	£13.0m	£14.2m
4.	Total reconstruction package	£73.1m	£72.2m
5.	Total cost of subscribing for 29.9 per cent. (before dilution) of Ordinary Share capital	£23.1m	£21.3m

Under the UTC/Fiat proposal UTC/Fiat are granted an option to subscribe for 22.5 million Preferred or 'A' Ordinary shares which could, if exercised, in certain circumstances, give UTC/Fiat voting rights over 39.9 per cent. of Westland. Under the Consortium's proposals, options are granted by issuing warrants to existing shareholders. Under the UTC/Fiat proposals the new partners will receive the benefit of options.

In addition and in contrast to UTC/Fiat's desire to increase its shareholding in Westland, the Consortium is prepared in due course to reduce its shareholding by sales to U.K. residents if it is agreed that this will be beneficial to all parties and has given existing shareholders the opportunity to benefit further in the future prosperity of Westland by the grant of the warrants to them rather than to UTC/Fiat.

Commercial

Under the UTC/Fiat proposal, it would appear that Westland will have considerably less work than at present, unless substantial sales

of the licenced Black Hawk helicopter are achieved, which appears highly improbable due to the weakness of existing sales and the possible export restrictions from the U.S. Government.

Under the Consortium proposal, Westland will have considerably more work than at present in view of the significant amounts of work to be provided by Aerospatiale, Agusta and the Ministry of Defence. This is shown clearly on the table below.

	Over 5 years Man hours '000
1. Consortium	
Aerospatiale/Agusta (additional work)	1,250
Ministry of Defence (6 extra Sea King)	300
Net Gain	1,550
2. UTC/Fiat	
UTC/Fiat (commitment only for 3 years)	1,000
Less: Aerospatiale withdrawal	(1,750)
Net Loss	(750)

N.B. Excludes any additional work on the NH90 programme.

Furthermore, under the Consortium proposal, Westland will be able to participate in the 1990's in the New Battlefield Helicopter and the New Naval and Tactical Transport Helicopter (NH90) with an anticipated requirement of over 1,300 helicopters from France, Germany, Holland, Italy and the United Kingdom.

These proposals are significantly better in all material respects than those being put forward by UTC/Fiat and should be recommended to shareholders. Naturally, we are as concerned as you are to ensure a rapid resolution of this situation so that Westland can proceed to contribute its full part in a European helicopter industry. We believe that a meeting should now take place in order to enable these proposals to be put before Westland shareholders as soon as possible.

Lloyds
Merchant
Bank

We shall be sending copies of this letter to The Stock Exchange, so that the market is fully informed about our proposals, and to the Press.

Yours faithfully,

For LLOYDS MERCHANT BANK LIMITED
on behalf of Aerospatiale, British Aerospace, GEC and MBB

Managing Director

For CREDITO ITALIANO INTERNATIONAL LIMITED
on behalf of Agusta

DOH/GTM

SW2AAO

PRIME MINISTER

MT.

WESTLAND

I gather that the European consortium finally made their offer at 5 pm this afternoon. The main elements are:

(i) a rights issue at 55 pence (as against 60 pence by Sikorsky);

(ii) a proposal to issue tradeable warrants to shareholders who take up their rights entitling them to two new shares for every five they hold, at 85 pence at any time over the next two years;

(iii) a capital injection of £32 million (as against £30 million by Sikorsky);

(iv) an additional subscription by British Aerospace of £5 million to reduce bank borrowing. This makes the total capital subscription appear to be £37 million;

(v) additional workload for Westland as set out on 13 December, ie, 1.25 million man-hours over five years;

(vi) each partner to have one board member.

The offer came too late for any market reaction. Lazards will probably put out a statement saying that the Westland board will consider the offer. The question now is whether Sikorsky will increase their offer.

My impression is that the offer has quite a lot both for the bankers and the shareholders.

Duty Clerk

pp. (C. D. POWELL)
20 December 1985

(2)

Mr Prime Minister You asked to see this. Its pretty inoffensive, though a technical breach of the cease-fire.

CDP 20/12

THE NINE O'CLOCK NEWS : BBC TV 1 : 2100 : 19.12.85 :

JOHN HUMPHRYS:

The row over the future of Westland helicopters went to the Cabinet today and it ended with a snub for the Defence Secretary, Michael Heseltine. Tonight our correspondent says his political future is in the balance.

Mr Heseltine had been arguing for a European rescue deal to save the company rather than an Amerian one, but Mrs Thatcher made it clear the Government won't be intervening. The company's shareholders alone will choose.

Today the deal with the Americans was being strongly backed by Westland's Chairman.

SIR JOHN CUCKNEY:

In the case of the United Technologies Fiat deal, we are guaranteed work of the type we want, irrespective entirely of market developments, not dependent on the sale of some particular product or product range or on the decision of some Government. So we have a much more secure workload.

NOEL LEWIS:

Michael Heseltine's politicial future is in the balance tonight; he's been given a final warning by the Prime Minister: stop arguing against the Government's decision that Westland should be allowed to make its own choice of partners.
Mrs Thatcher took the trouble to get the approval of the full Cabinet for her line today. Mr Heseltine had his say, arguing that it isn't a good deal for Britain, but the Cabinet's collective decision against him was confirmed. Some Ministers are hoping that the Defence Secretary continues to defy his colleagues; it's accepted now that they and Mrs Thatcher would like to get rid of him. One graphic explanation today was that he's hanging on the end of a branch with most of his Cabinet colleagues hoping he falls off. But the Prime Minister doesn't want to sack him, with all the trouble that would cause, and Mr Heseltine, independently wealthy, is only interested in being a

Cabinet Minister. Leon Brittan, his main rival, had no doubt about the Cabinet's decision.

RT HON LEON BRITTAN:

I am talking about what the position of the Government is, and I have said what it is. It is what I said on Monday; it is what the Prime Minister said on Tuesday; it is what the Cabinet reaffirmed this morning; it is what the Prime Minister restated this afternoon, and it is that it is for the company to make its mind up and not to be fettered or to have a pistol pointed at its head by anybody.

N.L:

In the Commons the Labour Leader, Neil Kinnock, argued that the Government should be backing a European rescue. Later he accepted that Mr Heseltine was in trouble.

INTERVIEWER:

...Mr Heseltine's in trouble?

NEIL KINNOCK:

I think he must be; he's made his view so obvious, invested so much credibility, very publicly in the course of this week, in following what's called the European option; that to be rebuffed or delayed or inhibited in any way is bound to put his future position in jeopardy. If he allows himself to be over-ruled in this fashion and set aside, then he is going to have to turn his coat for the rest of his political career, so far as I can see.

N.L:

Mr Heseltine now faces a difficult decision: accept the Sikorsky Fiat option, as ordered by the Cabinet, or carry on fighting for the European consortium and risk the wrath of Mrs Thatcher.

*** ***

TELLEX REPORT

THE BROADCAST REPORTING SERVICE

WESTLAND ROW :

RUSH

For : DEPT OF TRADE AND INDUSTRY GEOFF MOORE

Prog: THE NINE O'CLOCK NEWS Service : BBC TV 1 Serial: 128242/RR

Date: 19.12.85 Time: 2100 Duration: 3mins.

TELLEX Monitors Limited 47 Gray's Inn Road, London WC1X 8PR Telephone: 01-405 7151 TELEX 27688

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TELLEX REPORT

THE BROADCAST REPORTING SERVICE

ALASTAIR BURNET:

Here the City of London's ideas on how people who invest or have life assurance can be protected from fraud under the Financial Services Bill came out today. It'll make it harder to qualify to take money from people in the City; enforcements will be tougher, the investigators are going up from 15 to 24; there's controls on share tipping except in reputable newspapers, and when firms go bankrupt, investors can claim up to £30,000.

Critics said they did too little and excluded too much:

JOHN SMITH MP: (Opposition Spokesman)

I think it's inadequate for the major task of clearing out the City frauds which exist. Some of the framework of law is all right but it's the enforcement that's very doubtful and in pariticular the exclusion of Lloyds is quite astonishing.

PADDY ASHDOWN MP: (Liberal Spokesman)

The enforcement mechanisms within the bill are not strong enough because the statutory element of the bill is not clear-cut enough and because I think it doesn't tackle the magnitude of the problem with sufficient instruments to be able to cope with it.

LEON BRITTAN MP:

The City's a complicated place, you have to have people doing the job who are close to it. It's a fast moving place, you have to have people doing the job who are in touch with the movements as they go on. That's why we've gone for this route rather than a statutory straitjacket. This is tougher. It's tougher because the people who'll be chasing anyone who attempted to do anything wrong will be people who know exactly what it's all about.

*** *** **RUSH**

For :	DEPARTMENT OF TRADE AND INDUSTRY	ROWENA EARLE	
Prog:	NEWS AT TEN	Service ITN	Serial: 128194/IB
Date:	19.12.85	Time: 2200	Duration: 1min20secs

FOR CHRISTINE WALL

PRESS OFFICE

Client D.T.I. for No.10

Fax No. 930 4433
EXT 3161

TELLEX
Monitors Limited

THE BROADCAST REPORTING SERVICE
47 Gray's Inn Road London WC1X 8PR
Telephone 01-405 7151 Telex 27688

The following 2 pages are for
the URGENT attention of CHRISTINE. WALL
Please phone 01-405 7151 Ext 11 with any enquiries.

Final version to be delivered tomorrow morning. Embargoed until advised by Lazard Brothers.

DRAFT 3

FOR IMMEDIATE RELEASE

WESTLAND plc

Proposals for an association of Westland, UTC and Fiat and to effect a capital reconstruction of Westland and preliminary results of Westland for the year ended 30th September, 1985.

Westland plc ("Westland" or "the Company"), United Technologies Corporation ("UTC") and Fiat S.p.A ("Fiat") announce that agreement has been reached for an association between the three companies and a capital reconstruction of Westland. [The descriptions contained in this announcement are made on the basis that the arrangements with Fiat, which are expected to be finalised very shortly, have been completed]. The Directors of Westland also announce preliminary results for the Company for the financial year ended 30th September, 1985.

It is proposed that UTC and Fiat will between them acquire a 29.9 per cent. stake in Westland as a key part of a package of measures for the capital reconstruction of Westland which will increase its share capital, and consequently reduce its dependence upon bank borrowings, by at least £72.2 million before expenses. The reconstruction involves the shareholders of Westland, its bankers (the "Banks"), UTC and Fiat.

UTC and Fiat together will invest £30 million in Westland and UTC will have an option to invest a further £19.1 million. The Banks have agreed to convert £28 million of current debt into preference and ordinary share capital. Ordinary shareholders of Westland are being invited to subscribe for new shares to raise a total of £14.2 million by way of a rights issue which has been underwritten by Lazard Brothers.

./....

The Directors of Westland also announce a loss after taxation and exceptional items for the year ended 30th September, 1985 amounting to £95.6 million (1984 - profit of £3.5 million). Before taxation and exceptional items, Westland and its subsidiaries (the "Group") made a profit for the year of £11.3 million (1984 - profit £16.8 million). The loss attributable to shareholders for the year amounted to £98.7 million (1984 - loss £4.6 million).

The Directors announce that they will not be recommending payment of a final dividend.

The consolidated historical cost profit and loss account and balance sheet of the Group are attached to this announcement at Appendix 1 and 2 respectively. These statements are abridged from the Group's full accounts on which Westland's auditors, Ernst & Whinney, have given a qualified report and which will be delivered to the Registrar of Companies following the Annual General Meeting. The only qualification made by Ernst & Whinney is that the going concern basis on which the accounts were prepared is dependent upon the capital reconstruction described below being approved by shareholders and coming into full effect.

The Directors of Westland believe that substantial benefits will accrue from the proposed association with UTC and Fiat, particularly those deriving from a licence agreement under which Westland will acquire from UTC the right to develop, manufacture and sell the Black Hawk helicopter. Accordingly the Directors decided to reject an alternative proposal which was received from a group of European industrial companies (the "European proposal"). Details of the proposed association with UTC and Fiat, of the proposed capital reconstruction of Westland, and of the European proposal are set out below.

./....

The Directors of Westland, who have been advised by Lazard Brothers, are unanimously of the view that the proposed association with UTC and Fiat is in the best interests of the Company, its shareholders and its employees. Accordingly, they will be recommending, in a letter to be despatched shortly, that shareholders vote in favour of the necessary enabling resolutions to be proposed at an Extraordinary General Meeting of the Company which it is expected will be held on Tuesday, 14th January, 1986.

Commenting on the proposed capital reconstruction, Westland Chairman Sir John Cuckney said, "The level of provisions which the Directors have made in the accounts illustrates the Company's extremely difficult financial situation. In these circumstances, the Board is very glad indeed to be able to recommend to shareholders a package of measures which will not only restore the Company's finances but, by virtue of the association with UTC and Fiat, will also ensure the medium and long term viability of Westland. It will be evident that the Company has, in recent weeks, been perilously close to receivership and therefore was in urgent need of bringing about a firm resolution of its problems. This is why the Board chose to prefer the offer made to it by UTC and Fiat, based as it is on the strength of UTC's existing world class helicopter, the Black Hawk, rather than an offer from the European partners which, whatever its long term political attractions, was distinctly deficient of commercial appeal. Westland is too small a company to prosper alone in international helicopter markets and it is for this reason that the Board is attracted by the prospect of a long term association with such major international businesses as UTC and Fiat."

./....

1. Background

Over recent years the market conditions for Westland's helicopter business have become increasingly difficult, due to a slackening in worldwide demand and the excess production capacity which exists in the helicopter industry. These conditions have created a very competitive market, which is intensified by the presence in that market of a number of state-owned helicopter manufacturers.

Conditions in the civil helicopter market worsened considerably after the Company's decision to enter that market with the Westland 30 helicopter. This decision, which was made in the late 1970's, was taken in order to broaden the Company's product base and to reduce its dependence on military orders, particularly orders from HM Government which were then expected to decline as a result of proposals to reduce defence expenditure.

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2. Association with Sikorsky and Fiat

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In addition to the provision of new capital by UTC and Fiat, it is agreed, subject to the usual approval by the United States Department of State, that UTC will license Westland to develop, market and manufacture the Black Hawk for sale to a significant number of territories throughout the world. The 10 tonne Black Hawk would fill the gap in the Company's military product range between the 15 tonne EH101 helicopter, which will replace the Sea King and is currently being jointly developed by Westland and Agusta S.p.A., and the Lynx, or its replacement, in the 5 tonne battlefield helicopter class.

The Black Hawk has the significant advantage of being of a proven design and sales of over 750 such helicopters have already been made to the US armed forces and export customers. In the view of the Directors, it is the outstanding helicopter in its class in the world today and the right to manufacture and sell the Black Hawk, together with the technological and engineering work required to develop the helicopter for customers' specific requirements, will strengthen the Company's Helicopters Division and help to achieve an improved balance between the performance of the Company's helicopter activities and the business of its successful Technologies Division. To this end,

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The relationship with Sikorsky brings with it three further advantages. Firstly, UTC has formally committed to provide not less than 1,000,000 man hours of work for Westland over a three year period commencing as soon as practicable but not later than the first quarter of 1987. Specifically, this work will include approximately 650,000 engineering man hours and approximately 350,000 manufacturing man hours which will be tailored so as to maximise jobs and the Company's long term growth through participation in emerging programmes and other high technology manufacturing opportunities. This is a firm commitment which does not depend on the vagaries of the market. Secondly,

there is a clear commitment for close technical liason between Westland and Sikorsky. Thirdly, the association with Sikorsky will open up opportunities for the marketing of Westland's products within the United States. This could be of material long term benefit to the Company once the Anglo-Italian EH101 helicopter, which is in a weight class not currently covered by any Sikorsky product, enters the market in the 1990's.

UTC have made it clear to the Company's management that it wishes Westland to retain its own helicopter research design and development Capability.

Overall, the significant benefits to Westland of the relationship with UTC and Fiat can be summarised as follows:-

Better product range
Access to wider markets
Improving employment prospects
Retention of helicopter design and development capability
Access to new technology and management techniques
Wider application of Westland's specialised skills
Improved financial stability.

The Company, in welcoming UTC and Fiat as substantial shareholders, recognised that, apart from the close working relationship with Sikorsky mentioned above, the participation by those companies in Westland will essentially be as minority shareholders: and the Company does not envisage that, except for a £5 million loan from UTC to fund the initial payment for the Black Hawk Licence fee, either UTC or Fiat will provide loan capital or other financial facilities to the Westland Group.

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3. The European Proposal

For some weeks prior to the announcement on the 13th December, 1985, the Directors of Westland had been negotiating with both UTC and Fiat and a group of European industrial companies with a view to securing the best proposal for the Company. Initially, the European companies included only Aerospatiale of France, Agusta. of Italy and Messerschmitt-Boelkow-Blohm of West Germany, although at the last minute these companies were joined by British Aerospace. Collectively, these companies (the "European partners") made the European proposal to the Board of Westland on Friday, 13th December. It is now understood that GEC is also in some way associated with the European partners, but the precise nature of this association is unclear.

The European proposal represented only a minor modification to earlier unsatisfactory proposals and, after further careful consideration, the Board decided to reject it. In essence, the European proposal had three principal components. The first was an offer to invest at least £30 million in the Company by way of new equity: as you will see below, the proposal from UTC and Fiat involves an investment of an equivalent amount in new equity. Secondly, the European partners offered participation in two helicopter projects, the Mark II version of Aerospatiale's Super Puma helicopter and the Augusta A129 helicopter: both of these projects involved, in the opinion of the Directors, versions of helicopters which, unlike the Black Hawk, are of unproven marketability. Thirdly, the European partners indicated that they would seek to increase the amount of sub-contract work which they already place with Westland. Although an increase of some 1¼ million man hours of work was indicated, it was made clear that this work load would be spread over a five year period and could not in any way be guaranteed. Instead, it would be subject to market circumstances and, in part, to Westland agreeing to a

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programme of labour reduction. Given the level of over-capacity which exists generally within the European helicopter industry, your Directors could view this part of the offer with no confidence, particularly when the alternative proposal from UTC contained a firm committment of work.

In some press reports, the offer from UTC and Fiat has been criticised on the grounds that it would turn Westland into a "metal bashing subsidiary" of Sikorsky. This is a complete reversal of the truth. By contrast with the European proposal, the offer from UTC and Fiat not only holds out a firm and guaranteed proposal of work but also, and most importantly, involves a license to manufacture and sell the Black Hawk which, as stated above, the Directors of Westland believe is the outstanding helicopter in its class in the world today and is of proven marketability.

4. Financial Effects of the Proposals on Westland

The recapitalisation will reduce Westland's dependence on bank borrowings by at least £72.2 million before expenses and, on the basis of Westland's indebtedness as at 22nd November, 1985 and shareholders' funds as at 30th September, 1985, the adjusted proforma percentage of debt to shareholders' funds will fall from approximately 390 per cent. to 19 per cent. This will provide Westland with a much improved financial base.

5. Board of Westland

Two nominees of UTC and one nominee of Fiat will be invited to join Westland's Board on implementation of the proposals.

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6. The Proposals

The proposals, which are subject, inter alia, to the approval of shareholders in general meeting and to obtaining a listing on The Stock Exchange for the new A ordinary shares, comprise the following elements:-

a) Rights Issue

Existing shareholders are being invited to subscribe for 23,718,986 million new A Ordinary Shares at a price of 60p per share by means of a right issue underwritten by Lazard Brothers on the basis of 2 new A Ordinary Shares for every 5 Existing Ordinary Shares. The brokers to the issue are Rowe & Pitman.

The rights issue will raise approximately £14.2 million before expenses.

b) Subscription by UTC and Fiat

It is proposed that UTC and Fiat together will subscribe, either directly or indirectly, for 35,500,000 million Preferred Ordinary Shares in Westland at 60p per share, together with £8.7 million of Preference Shares redeemable in 1998 in a combined amount totalling £30 million. These Preferred Ordinary Shares will represent 29.9 per cent. of the immediately enlarged ordinary share capital and 21.4 per cent. of the fully diluted ordinary share capital.

UTC will also have an option to subscribe for a further 22.5 million shares which may, at its election, be either Preferred Ordinary

Shares or A Ordinary Shares or a combination of these classes, at a price of 85p per share. UTC has undertaken to limit the exercise of these options so that it, together with Fiat, would at no time control more than 39.9 per cent. of Westland's enlarged ordinary share capital. On full exercise of the options and full conversion of the Bank's Convertible Preference Shares (see below), UTC and Fiat would control 35.0 per cent. of Westland's ordinary share capital.

[Panel sentence]

c) Conversion of Bank Debt into Preference Shares

It is proposed that the Banks convert £28 million of outstanding bank debt into 7 million of 10 per cent. Cumulative Redeemable Preference Shares redeemable between 1994-96 and 21 million of 7½ per cent. Convertible Cumulative Preference Shares redeemable in 1998. The Convertible Preference Shares will be Convertible at any time prior to 31st January, 2001 at a rate equivalent to a subscription price of 85p per A Ordinary Share. On full conversion of the Convertible Preference Shares the banks would hold an aggregate of 14.9 per cent. of the fully diluted ordinary share capital.

Applications will be made to the Council of The Stock Exchange for the A Ordinary Shares to be admitted to the Official List. No application will be made to any stock exchange for the Preference Shares to be listed.

d) Reduction of Capital

As a result of the accumulated losses and write-offs sustained by Westland in the past, Westland has a substantial deficit on its profit

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and loss account. The Board is therefore proposing a reduction of capital which will entail the elimination of this deficit. This will enable dividends to be paid out of future profits. The reduction of capital is not only subject to the approval of shareholders by Special Resolution in general meeting but also to subsequent confirmation by the Court.

7. Details of the Rights Issue

Shareholders of Westland on the register at the close of business on 7th January, 1986 are to be offered by way of rights 2 A Ordinary Shares for every 5 Existing Ordinary Shares then held. Fractions of the A Ordinary Shares will not be allotted to shareholders but will be aggregated and sold in the market for the benefit of Westland. The A Ordinary Shares will rank pari passu, when fully paid, with the Existing Ordinary Shares.

8. Summary

The effects of the above proposals are summarised in the following table:-

	Number	Pre conversion and option exercise	Fully diluted	Addition to equity (before expenses)	
	m	%	%	£m	£m
Ordinary, A Ordinary and Preferred ordinary Shares					
Existing shareholders	59.3	50.1	35.8		
Rights issue	23.7	20.0	14.3	14.2	
	83.0	70.1	50.1		
UTC and Fiat	35.5	29.9	21.4	21.3	
	118.5				
UTC option	22.5		13.6		19.1
	141.0				
	Nominal (£m)				
Preference Shares					
Banks: Convertible	21.0		14.9	21.0	
Non-Convertible	7.0			7.0	
UTC and Fiat Non-Convertible	8.7			8.7	
	36.7	100.0	100.0	72.2	19.1
Addition to equity, before UTC option					72.2
					91.3

Appendix 3 contains a proforma statement of the consolidated net tangible assets of the Westland Group following the capital reconstruction.

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Timing

Documents will be posted to Westland's shareholders as soon as possible. They will include a notice of Extraordinary General Meeting to approve the proposals which is expected to be held on 14th January, 1986. Immediately thereafter, provisional allotment letters will be posted to shareholders.

Advisers

The advisers to Westland is Lazard Brothers and to UTC and Fiat is Morgan Grenfell Limited.

19th December, 1985

END

Enquiries to:

Westland plc

Sir John Cuckney, Chairman 01-583 1394*
Sir John Treacher, Vice-Chairman
Hugh Stewart, Group Chief Executive

Lazard Brothers & Co., Limited

Michael Baughan 01-588 2721
Marcus Agius 01-588 2721

UTC 01-588 4545

Colin Green
Weldon Miller

Morgan Grenfell 01-588 4545

Peter Cadbury

* After December 20th: 01-839 4061

Appendix 1

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30th September	1985 £m	1984 £m
Turnover	308.4	296.3
Cost of sales	(262.1)	(244.8)
Gross profit	46.3	51.5
Research, development and launching costs-net of launch aid	(15.6)	(19.4)
General expenses not included in stock valuation	(11.2)	(9.4)
Other income	3.3	0.6
Operating profit before interest	22.8	23.3
Interest	(11.5)	(6.5)
Profit on ordinary activities before exceptional provisional and taxation	11.3	16.8
Exceptional provisions	(106.6)	(14.0)
Profit/(loss) on ordinary activities before taxation	(95.3)	2.8
Taxation	(0.3)	0.7
Profit/(loss) on ordinary activities after taxation	(95.6)	3.5
Minority interest	(3.1)	(2.4)
Profit/(loss) before extraordinary items	(98.7)	1.1
Extraordinary items	-	(5.7)
Loss for the financial year attributable to shareholders	(98.7)	(4.6)
Transfer from development reserve	-	11.0
Amount available for dividends	(98.7)	6.4
Dividends	(1.8)	(4.9)
Movement on unappropriated profit	(100.5)	1.5
Earnings/(loss) per share before extraordinary items	(166.4p)	1.9p
Earnings per share before exceptional provisions and after taxation	8.6p	14.4p
Dividends per share:		
Interim paid	3.0p	3.0p
Final paid	-	5.25p
	3.0p	8.25p

Appendix 2

CONSOLIDATED BALANCE SHEET

As at 30th September	1985 £m	1984 £m
Fixed assets:		
Tangible assets	95.7	105.8
Investment	1.4	1.1
	97.1	106.9
Current assets:		
Stocks	114.8	138.2
Debtors	72.5	78.1
Cash at bank and in hand	1.9	2.4
	189.2	218.7
Creditors amounts falling due within one year	132.1	127.3
Net current assets	57.1	91.4
Total assets less current liabilities	154.2	198.3
Representing:		
Creditors-amounts falling due after more than one year	49.6	46.2
Provisions for liabilities and charges	68.4	15.9
Minority interest	13.9	11.7
Capital and reserves:		
Called-up share capital	14.8	14.8
Share premium account	1.1	1.1
Revaluation reserve	23.1	24.0
Other reserves	3.3	5.0
Profit and loss account	(20.0)	79.6
Shareholders' funds	22.3	124.5
Total funds employed	154.2	198.3

PRO-FORMA CONSOLIDATED NET TANGIBLE ASSETS FOLLOWING THE CAPITAL RECONSTRUCTION

The following pro-forma statement of the consolidated net tangible assets of the Westland Group is based upon the audited consolidated balance sheet of the Westland Group at 30th September, 1985, adjusted to reflect the implementation of the Reconstruction, after payment of estimated expenses of £2.5 million..

	£m	£m
Fixed assets		97.1
Current assets:		
Stocks	114.8	
Debtors	72.5	
Cash at bank and in hand	38.8	
	226.1	
Current liabilities	99.3	
Net current assets		126.8
Total assets less current liabilities		223.9
Long term liabilities:		
Borrowings	42.2	
Other liabilities and provisions	75.8	
		(118.0)
Minority interest		(13.9)
Net tangible assets		92.0

The above has been prepared on the basis that those term loans and overdrafts repayable within one year as at 30th September, 1985 (£32.8 million) have been eliminated. The balance of the monies received from the capital reconstruction (£36.9m) have been included in cash at bank and in hand.

Final version to be delivered tomorrow morning. Embargoed until advised by Lazard Brothers.

DRAFT 3

FOR IMMEDIATE RELEASE

WESTLAND plc

Proposals for an association of Westland, UTC and Fiat and to effect a capital reconstruction of Westland and preliminary results of Westland for the year ended 30th September, 1985.

Westland plc ("Westland" or "the Company"), United Technologies Corporation ("UTC") and Fiat S.p.A ("Fiat") announce that agreement has been reached for an association between the three companies and a capital reconstruction of Westland. [The descriptions contained in this announcement are made on the basis that the arrangements with Fiat, which are expected to be finalised very shortly, have been completed]. The Directors of Westland also announce preliminary results for the Company for the financial year ended 30th September, 1985.

It is proposed that UTC and Fiat will between them acquire a 29.9 per cent. stake in Westland as a key part of a package of measures for the capital reconstruction of Westland which will increase its share capital, and consequently reduce its dependence upon bank borrowings, by at least £72.2 million before expenses. The reconstruction involves the shareholders of Westland, its bankers (the "Banks"), UTC and Fiat.

UTC and Fiat together will invest £30 million in Westland and UTC will have an option to invest a further £19.1 million. The Banks have agreed to convert £28 million of current debt into preference and ordinary share capital. Ordinary shareholders of Westland are being invited to subscribe for new shares to raise a total of £14.2 million by way of a rights issue which has been underwritten by Lazard Brothers.

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The Directors of Westland also announce a loss after taxation and exceptional items for the year ended 30th September, 1985 amounting to £95.6 million (1984 - profit of £3.5 million). Before taxation and exceptional items, Westland and its subsidiaries (the "Group") made a profit for the year of £11.3 million (1984 - profit £16.8 million). The loss attributable to shareholders for the year amounted to £98.7 million (1984 - loss £4.6 million).

The Directors announce that they will not be recommending payment of a final dividend.

The consolidated historical cost profit and loss account and balance sheet of the Group are attached to this announcement at Appendix 1 and 2 respectively. These statements are abridged from the Group's full accounts on which Westland's auditors, Ernst & Whinney, have given a qualified report and which will be delivered to the Registrar of Companies following the Annual General Meeting. The only qualification made by Ernst & Whinney is that the going concern basis on which the accounts were prepared is dependent upon the capital reconstruction described below being approved by shareholders and coming into full effect.

The Directors of Westland believe that substantial benefits will accrue from the proposed association with UTC and Fiat, particularly those deriving from a licence agreement under which Westland will acquire from UTC the right to develop, manufacture and sell the Black Hawk helicopter. Accordingly the Directors decided to reject an alternative proposal which was received from a group of European industrial companies (the "European proposal"). Details of the proposed association with UTC and Fiat, of the proposed capital reconstruction of Westland, and of the European proposal are set out below.

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The Directors of Westland, who have been advised by Lazard Brothers, are unanimously of the view that the proposed association with UTC and Fiat is in the best interests of the Company, its shareholders and its employees. Accordingly, they will be recommending, in a letter to be despatched shortly, that shareholders vote in favour of the necessary enabling resolutions to be proposed at an Extraordinary General Meeting of the Company which it is expected will be held on Tuesday, 14th January, 1986.

Commenting on the proposed capital reconstruction, Westland Chairman Sir John Cuckney said, "The level of provisions which the Directors have made in the accounts illustrates the Company's extremely difficult financial situation. In these circumstances, the Board is very glad indeed to be able to recommend to shareholders a package of measures which will not only restore the Company's finances but, by virtue of the association with UTC and Fiat, will also ensure the medium and long term viability of Westland. It will be evident that the Company has, in recent weeks, been perilously close to receivership and therefore was in urgent need of bringing about a firm resolution of its problems. This is why the Board chose to prefer the offer made to it by UTC and Fiat, based as it is on the strength of UTC's existing world class helicopter, the Black Hawk, rather than an offer from the European partners which, whatever its long term political attractions, was distinctly deficient of commercial appeal. Westland is too small a company to prosper alone in international helicopter markets and it is for this reason that the Board is attracted by the prospect of a long term association with such major international businesses as UTC and Fiat."

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1. Background

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it is understood between Westland and UTC that adequate funds will be made available by the Company for the helicopter business to the extent justified by available business opportunities.

While the future world market for helicopters is extremely difficult to predict with any precision, the Directors believe that the Black Hawk has considerable potential for export to world markets over the next 15 years and, given Westland's experience of profitable association with UTC through four previous licences, the Board is confident that the full export potential of the Black Hawk licence can be realised. In addition, although there is currently no Ministry of Defence requirement to order the Black Hawk for the armed forces of the United Kingdom, in the opinion of the Directors a need for replacement of helicopters in the 10 tonne range is likely to emerge in due course. Accordingly, Westland will be making every effort to secure such orders as may become available. In this regard, they have noted the announcement made earlier this week by HM Government that it is not bound by a recent decision of the National Arnaments Directors of the United Kingdom, France, Germany and Italy, that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe.

The relationship with Sikorsky brings with it three further advantages. Firstly, UTC has formally committed to provide not less than 1,000,000 man hours of work for Westland over a three year period commencing as soon as practicable but not later than the first quarter of 1987. Specifically, this work will include approximately 650,000 engineering man hours and approximately 350,000 manufacturing man hours which will be tailored so as to maximise jobs and the Company's long term growth through participation in emerging programmes and other high technology manufacturing opportunities. This is a firm commitment which does not depend on the vagaries of the market. Secondly,

there is a clear commitment for close technical liason between Westland and Sikorsky. Thirdly, the association with Sikorsky will open up opportunities for the marketing of Westland's products within the United States. This could be of material long term benefit to the Company once the Anglo-Italian EH101 helicopter, which is in a weight class not currently covered by any Sikorsky product, enters the market in the 1990's.

UTC have made it clear to the Company's management that it wishes Westland to retain its own helicopter research design and development Capability.

Overall, the significant benefits to Westland of the relationship with UTC and Fiat can be summarised as follows:-

Better product range
Access to wider markets
Improving employment prospects
Retention of helicopter design and development capability
Access to new technology and management techniques
Wider application of Westland's specialised skills
Improved financial stability.

The Company, in welcoming UTC and Fiat as substantial shareholders, recognised that, apart from the close working relationship with Sikorsky mentioned above, the participation by those companies in Westland will essentially be as minority shareholders: and the Company does not envisage that, except for a £5 million loan from UTC to fund the initial payment for the Black Hawk Licence fee, either UTC or Fiat will provide loan capital or other financial facilities to the Westland Group.

3. The European Proposal

For some weeks prior to the announcement on the 13th December, 1985, the Directors of Westland had been negotiating with both UTC and Fiat and a group of European industrial companies with a view to securing the best proposal for the Company. Initially, the European companies included only Aerospatiale of France, Agusta. of Italy and Messerschmitt-Boelkow-Blohm of West Germany, although at the last minute these companies were joined by British Aerospace. Collectively, these companies (the "European partners") made the European proposal to the Board of Westland on Friday, 13th December. It is now understood that GEC is also in some way associated with the European partners, but the precise nature of this association is unclear.

The European proposal represented only a minor modification to earlier unsatisfactory proposals and, after further careful consideration, the Board decided to reject it. In essence, the European proposal had three principal components. The first was an offer to invest at least £30 million in the Company by way of new equity: as you will see below, the proposal from UTC and Fiat involves an investment of an equivalent amount in new equity. Secondly, the European partners offered participation in two helicopter projects, the Mark II version of Aerospatiale's Super Puma helicopter and the Augusta A129 helicopter: both of these projects involved, in the opinion of the Directors, versions of helicopters which, unlike the Black Hawk, are of unproven marketability. Thirdly, the European partners indicated that they would seek to increase the amount of sub-contract work which they already place with Westland. Although an increase of some 1¼ million man hours of work was indicated, it was made clear that this work load would be spread over a five year period and could not in any way be guaranteed. Instead, it would be subject to market circumstances and, in part, to Westland agreeing to a

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programme of labour reduction. Given the level of over-capacity which exists generally within the European helicopter industry, your Directors could view this part of the offer with no confidence, particularly when the alternative proposal from UTC contained a firm committment of work.

In some press reports, the offer from UTC and Fiat has been criticised on the grounds that it would turn Westland into a "metal bashing subsidiary" of Sikorsky. This is a complete reversal of the truth. By contrast with the European proposal, the offer from UTC and Fiat not only holds out a firm and guaranteed proposal of work but also, and most importantly, involves a license to manufacture and sell the Black Hawk which, as stated above, the Directors of Westland believe is the outstanding helicopter in its class in the world today and is of proven marketability.

4. Financial Effects of the Proposals on Westland

The recapitalisation will reduce Westland's dependence on bank borrowings by at least £72.2 million before expenses and, on the basis of Westland's indebtedness as at 22nd November, 1985 and shareholders' funds as at 30th September, 1985, the adjusted proforma percentage of debt to shareholders' funds will fall from approximately 390 per cent. to 19 per cent. This will provide Westland with a much improved financial base.

5. Board of Westland

Two nominees of UTC and one nominee of Fiat will be invited to join Westland's Board on implementation of the proposals.

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6. The Proposals

The proposals, which are subject, inter alia, to the approval of shareholders in general meeting and to obtaining a listing on The Stock Exchange for the new A ordinary shares, comprise the following elements:-

a) Rights Issue

Existing shareholders are being invited to subscribe for 23,718,986 million new A Ordinary Shares at a price of 60p per share by means of a right issue underwritten by Lazard Brothers on the basis of 2 new A Ordinary Shares for every 5 Existing Ordinary Shares. The brokers to the issue are Rowe & Pitman.

The rights issue will raise approximately £14.2 million before expenses.

b) Subscription by UTC and Fiat

It is proposed that UTC and Fiat together will subscribe, either directly or indirectly, for 35,500,000 million Preferred Ordinary Shares in Westland at 60p per share, together with £8.7 million of Preference Shares redeemable in 1998 in a combined amount totalling £30 million. These Preferred Ordinary Shares will represent 29.9 per cent. of the immediately enlarged ordinary share capital and 21.4 per cent. of the fully diluted ordinary share capital.

UTC will also have an option to subscribe for a further 22.5 million shares which may, at its election, be either Preferred Ordinary

Shares or A Ordinary Shares or a combination of these classes, at a price of 85p per share. UTC has undertaken to limit the exercise of these options so that it, together with Fiat, would at no time control more than 39.9 per cent. of Westland's enlarged ordinary share capital. On full exercise of the options and full conversion of the Bank's Convertible Preference Shares (see below), UTC and Fiat would control 35.0 per cent. of Westland's ordinary share capital.

[Panel sentence]

c) Conversion of Bank Debt into Preference Shares

It is proposed that the Banks convert £28 million of outstanding bank debt into 7 million of 10 per cent. Cumulative Redeemable Preference Shares redeemable between 1994-96 and 21 million of 7½ per cent. Convertible Cumulative Preference Shares redeemable in 1998. The Convertible Preference Shares will be Convertible at any time prior to 31st January, 2001 at a rate equivalent to a subscription price of 85p per A Ordinary Share. On full conversion of the Convertible Preference Shares the banks would hold an aggregate of 14.9 per cent. of the fully diluted ordinary share capital.

Applications will be made to the Council of The Stock Exchange for the A Ordinary Shares to be admitted to the Official List. No application will be made to any stock exchange for the Preference Shares to be listed.

d) Reduction of Capital

As a result of the accumulated losses and write-offs sustained by Westland in the past, Westland has a substantial deficit on its profit

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and loss account. The Board is therefore proposing a reduction of capital which will entail the elimination of this deficit. This will enable dividends to be paid out of future profits. The reduction of capital is not only subject to the approval of shareholders by Special Resolution in general meeting but also to subsequent confirmation by the Court.

7. Details of the Rights Issue

Shareholders of Westland on the register at the close of business on 7th January, 1986 are to be offered by way of rights 2 A Ordinary Shares for every 5 Existing Ordinary Shares then held. Fractions of the A Ordinary Shares will not be allotted to shareholders but will be aggregated and sold in the market for the benefit of Westland. The A Ordinary Shares will rank pari passu, when fully paid, with the Existing Ordinary Shares.

8. Summary

The effects of the above proposals are summarised in the following table:-

	Number	Pre conversion and option exercise	Fully diluted	Addition to equity (before expenses)	
	m	%	%	£m	£m
Ordinary, A Ordinary and Preferred ordinary Shares					
Existing shareholders	59.3	50.1	35.8		
Rights issue	23.7	20.0	14.3	14.2	
	83.0	70.1	50.1		
UTC and Fiat	35.5	29.9	21.4	21.3	
	118.5				
UTC option	22.5		13.6		19.1
	141.0				
	Nominal (£m)				
Preference Shares					
Banks: Convertible	21.0		14.9	21.0	
Non-Convertible	7.0			7.0	
UTC and Fiat Non-Convertible	8.7			8.7	
	36.7	100.0	100.0	72.2	19.1
Addition to equity, before UTC option					72.2
					91.3

Appendix 3 contains a proforma statement of the consolidated net tangible assets of the Westland Group following the capital reconstruction.

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Timing

Documents will be posted to Westland's shareholders as soon as possible. They will include a notice of Extraordinary General Meeting to approve the proposals which is expected to be held on 14th January, 1986. Immediately thereafter, provisional allotment letters will be posted to shareholders.

Advisers

The advisers to Westland is Lazard Brothers and to UTC and Fiat is Morgan Grenfell Limited.

19th December, 1985

END

Enquiries to:

Westland plc

Sir John Cuckney, Chairman 01-583 1394*
Sir John Treacher, Vice-Chairman
Hugh Stewart, Group Chief Executive

Lazard Brothers & Co., Limited

Michael Baughan 01-588 2721
Marcus Agius 01-588 2721

UTC 01-588 4545

Colin Green
Weldon Miller

Morgan Grenfell 01-588 4545

Peter Cadbury

* After December 20th: 01-839 4061

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30th September	1985 £m	1984 £m
Turnover	308.4	296.3
Cost of sales	(262.1)	(244.8)
Gross profit	46.3	51.5
Research, development and launching costs-net of launch aid	(15.6)	(19.4)
General expenses not included in stock valuation	(11.2)	(9.4)
Other income	3.3	0.6
Operating profit before interest	22.8	23.3
Interest	(11.5)	(6.5)
Profit on ordinary activities before exceptional provisional and taxation	11.3	16.8
Exceptional provisions	(106.6)	(14.0)
Profit/(loss) on ordinary activities before taxation	(95.3)	2.8
Taxation	(0.3)	0.7
Profit/(loss) on ordinary activities after taxation	(95.6)	3.5
Minority interest	(3.1)	(2.4)
Profit/(loss) before extraordinary items	(98.7)	1.1
Extraordinary items	-	(5.7)
Loss for the financial year attributable to shareholders	(98.7)	(4.6)
Transfer from development reserve	-	11.0
Amount available for dividends	(98.7)	6.4
Dividends	(1.8)	(4.9)
Movement on unappropriated profit	(100.5)	1.5
Earnings/(loss) per share before extraordinary items	(166.4p)	1.9p
Earnings per share before exceptional provisions and after taxation	8.6p	14.4p
Dividends per share:		
Interim paid	3.0p	3.0p
Final paid	-	5.25p
	3.0p	8.25p

CONSOLIDATED BALANCE SHEET

As at 30th September	1985 £m	1984 £m
Fixed assets:		
Tangible assets	95.7	105.8
Investment	1.4	1.1
	97.1	106.9
Current assets:		
Stocks	114.8	138.2
Debtors	72.5	78.1
Cash at bank and in hand	1.9	2.4
	189.2	218.7
Creditors amounts falling due within one year	132.1	127.3
Net current assets	57.1	91.4
Total assets less current liabilities	154.2	198.3
Representing:		
Creditors-amounts falling due after more than one year	49.6	46.2
Provisions for liabilities and charges	68.4	15.9
Minority interest	13.9	11.7
Capital and reserves:		
Called-up share capital	14.8	14.8
Share premium account	1.1	1.1
Revaluation reserve	23.1	24.0
Other reserves	3.3	5.0
Profit and loss account	(20.0)	79.6
Shareholders' funds	22.3	124.5
Total funds employed	154.2	198.3

PRO-FORMA CONSOLIDATED NET TANGIBLE ASSETS FOLLOWING THE CAPITAL RECONSTRUCTION

The following pro-forma statement of the consolidated net tangible assets of the Westland Group is based upon the audited consolidated balance sheet of the Westland Group at 30th September, 1985, adjusted to reflect the implementation of the Reconstruction, after payment of estimated expenses of £2.5 million..

	£m	£m
Fixed assets		97.1
Current assets:		
Stocks	114.8	
Debtors	72.5	
Cash at bank and in hand	38.8	
	226.1	
Current liabilities	99.3	
Net current assets		126.8
Total assets less current liabilities		223.9
Long term liabilities:		
Borrowings	42.2	
Other liabilities and provisions	75.8	
		(118.0)
Minority interest		(13.9)
Net tangible assets		92.0

The above has been prepared on the basis that those term loans and overdrafts repayable within one year as at 30th September, 1985 (£32.8 million) have been eliminated. The balance of the monies received from the capital reconstruction (£36.9m) have been included in cash at bank and in hand.

Mr Wicks

DRAFT CABINET MINUTES

Westland plc

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that at the meeting of the Ministerial Sub-Committee on Economic Affairs on Monday 9 December (E(A)(85) 24th Meeting) the Secretary of State for Defence had been authorised to explore the possibility of an acceptable proposition by a consortium of European companies to rescue Westland, as an alternative to the proposition put forward by United Technologies (UT) and Fiat. The meeting had decided that the Government would not regard itself as bound by the recommendation of the National Armaments Directors (NAD) of the United Kingdom, France, the Federal Republic of Germany and Italy (that certain helicopter requirements should be met solely from aircraft designed and built in Europe) if Westland had not by 4.00 pm on Friday 13 December received an acceptable European proposal. In the event a European proposition had been made to Westland shortly before that time, but the directors of Westland had not regarded it as sufficiently firm or attractive and had accordingly announced that they would be recommending the

UT-Fiat proposal to their shareholders. He had accordingly announced in his statement in the House of Commons on Monday 16 December that the Government was not bound by the NAD's recommendation, that the directors of Westland were recommending the UT-Fiat proposal, that the Government had ensured that Westland had an alternative European proposition to consider, and that it was for Westland as a private sector company to decide the best route to follow in order to serve its future and that of its employees. In answer to Parliamentary Questions the following day the Prime Minister had confirmed that Westland was a public liability company and must make its own decisions. Details of the UT-Fiat proposal had now been announced, and further details of the alternative European proposal would be announced very shortly. There would be an extraordinary general meeting of the company on 13 January 1986, at which the shareholders could decide which proposal to accept. In the meantime the Government should continue to say that the decision was one for the company to take, and that the Government was not advocating one solution in preference to

another. Ministers should not be drawn into public comment on the comparative merits of the two proposals.

THE SECRETARY OF STATE FOR DEFENCE said that the directors of Westland were recommending the UT-Fiat proposal, and that proposal had the conditional acceptance of the company's bankers, subject the there being no better offer. Details of the proposal by the European consortium, which included British Aerospace plc and General Electric Company plc as well as three European firms, would be announced very shortly. He had been authorised by the Sub-Committee on Economic Affairs to help to establish the genuineness of the European proposal: this could only have been done by a Minister, since it involved discussion with and ensuring the support of other European Ministers of Defence: the Prime Minister's answers in the House of Commons on 17 December had been clear and helpful. Because of his role in the matter and his responsibilities for defence procurement, he was inevitably asked many questions about the matter. As the Ministry of Defence was a major customer of Westland, he was bound to answer questions whether from the UT-Fiat groups or from the European consortium about the

implications of defence procurement for the workload on Westland, and to ensure that information on this matter was equally available to both the UT-Fiat group and the Eruopean consortium group as well as to Westland and its bankers.

THE PRIME MINISTER, summing up the discussion, said that, in view of the continuing public interest in this matter, she would certainly face further questions in Parliament that afternoon, and it was important that she should have the agreement of the Cabinet to what she proposed to say. She would confirm that the statement made by the Secretary of State for Trade and Industry on 16 December (based on the decisions of a Cabinet Committee on 9 December) and her own answers to questions on 17 December represented the policy of Her Majesty's Government; that it remained the policy of the Government that it was for Westland to decide what was the best course to follow in the best interests of the company and its employees; and that, given that that was the Government's policy, no Minister was entitled to lobby in favour of one proposal rather than another. She would make it clear that major issues of defence procurement were for collective decision, and questions about the

implications of defence procurement for Westland's workload should be answered in a way which did not favour one group or proposal rather than another.

The Cabinet -

Took note with unanimous approval of the Prime Minister's summing up of the discussion, as a basis for her answers to Parliamentary Questions later in the day.

Westland

10 DOWNING STREET

From the Private Secretary

Prime Minister

Enquiries of my friend in the MoD confirm:

① that Mr. Heseltine did lunch with Bevins;

② that the MoD line in that Mr. Brittan did mislead the House.

③ that the European consortium will unveil an improved offer on Friday. In particular it will have extra cash from GEC;

(4) that Mr. Heseltine expects the Banks to jump at this offer; and

(5) that if the matter is not resolved by 27 December in ~~favour~~ favour of the European consortium, Mr. Heseltine will postpone his holiday in Nepal.

CDP

10 DOWNING STREET

MR WICKS

I need a line on Westlands/Cabinet - by 11am.

1 Will the issue be raised by Defence Secy or Leon Brittan?

2 Is it on the agenda?

3 Will it be discussed on report?

4 I can continue to play resignation/sacking away (unless you advise caution).

5 What is next move? Answer: lies with Westlands Board.

6. Is M. Heseltine isolated in Cabinet? Answer: ?

[illegible] 19/12

Answers

Qus 1, 2 3

1. PM asked L.B. to report. He did briefly and a few words added by P.M. PMs and Govt position was announced last Monday in H of C. – For Govt Co to decide. Ministers not take sides." Quite low key discussion.

Question 4.

Play resignation away.

Question 5.

Up to the Company.

Question 6.

Cabinet upheld, with no one disputing. Monday's statement

From: JOHN WILKINSON, M.P.
(Ruislip - Northwood)

(2)

HOUSE OF COMMONS
LONDON SWIA OAA

Prime Minister
Some useful points are beginning to come out.
CDP 18/xii

18 December 1985

Dear Prime Minister,

WESTLAND HELICOPTERS

I just want to let you know, as someone who has been very closely following the fortunes of the Westland Company, literally for years, but particularly closely in the last eighteen months, that the board of Westland PLC deserves the full support of Her Majesty's Government in the reconstruction of the finances of the Company.

I thought that the statement that Leon Brittan made to the House on Monday, 16 December was entirely sound and I appreciated your own remarks at Question-Time yesterday. I am deeply concerned that the antics - and they have to be described as such - of the Ministry of Defence in the last few days can only undermine the authority of the board of Westland PLC, which is extremely regrettable. Sir John Cuckney, in particular, is most impressive and has an admirable record in rescuing companies in trouble.

While I share the objective of concerting a European helicopter strategy and have actually got my Science, Technology and Aerospace Committee of Western European Union to do a paper on this subject, my own experience, having worked on the Jaguar and indirectly on the Tornado, makes me realise that the necessary harmonisation of operational requirements and re-equipment timescales between potential partner nations takes time and much patient negotiation. It cannot be achieved overnight in a crisis.

Since the Aviation Committee, of which I was then Chairman, visited Westlands in November 1984, I have been making consistent representations to the Ministry of Defence, both in writing and face to face with Ministers, almost monthly about the impending problems of Westlands and there was virtually total disinterest.

There were a number of measures which in the short term could have been taken to alleviate Westland's difficulties. The Royal Marines could have procured 19 Commando helicopters to replace their Wessex aircraft. The Royal Air Force could have bought more Sea Kings to replace the remaining Wessex helicopters for air/sea rescue. Wessex helicopters could have been deployed for light transport in the Royal Auxiliary Air Force. There could have been a clear go ahead from the MOD on the EH101 for anti-submarine warfare and on the jointly produced Agusta 129 helicopter for light attack. There could have been the procurement of some hovercraft by the MOD, even if only in the trials role for amphibious and minesweeping operations.

HOUSE OF COMMONS
LONDON SWIA OAA

A Westland aeroplane could have been procured to meet Air Staff Target 404 for the Royal Air Force. The Westland 30/300 could have been developed for the purpose or the Blackhawk deployed under licence from Sikorski, preferably with the RTM322 engine.

All these opportunities were missed. Indeed the MOD is now allegedly ruling out procurement of the Blackhawk altogether, even if built by Westlands and there is talk about an additional 6 Sea Kings (the penny packet strategy again) based on notional savings which might be obtained by harmonising the light attack helicopter procurement between the Agusta 129 and the MBB/Aerospatiale PAH2.

In all these circumstances I believe that Sir John Cuckney and his board are entirely right to propose the acceptance of the United Technologies/Fiat rescue bid which provides the assurance of design, work and construction of Blackhawk aeroplanes under licence in Britain. After all Westlands did become more prosperous from its licence manufacture of Sikorski aircraft in the past. The Anglo-French helicopter cooperation was not so profitable because, whereas the British armed forces procured the Puma and the Gazelle, on which Westlands did not have project leadership, the French armed forces failed to buy the Lynx on which Westland actually led.

To be candid I would not trust the French offer and I think the board of Westlands is right not to do so either. Furthermore the UT/Fiat package has the support of Rolls-Royce, which is a very important strategic interest in this country, and as for the intervention of GEC I do not see why this should find favour with the MOD, seeing that the Marconi failure to meet the specification of the Nimrod Mark III has been one of the biggest procurement failures since World War II.

With best wishes for Christmas and the New Year.

Yours ever

John

JOHN WILKINSON

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

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17.12

WESTLAND

1. THE NETHERLANDS STATE SECRETARY FOR DEFENCE EQUIPMENT, MR VAN HOUWLINGEN, HAS REACTED TO THE NEWS OF WESTLAND IS ACCEPTANCE OF THE UNITED TECHNOLOGIES, OFFER BY ANNOUNCING AT THE WEEKEND THAT THE NETHERLANDS WAS WITHDRAWING FOR THE TIME BEING FROM BILATERAL TALKS WITH THE UK OVER EUROPEAN COLLABORATION ON HELICOPTER DEVELOPMENT. HE SAID HE REGRETTED THE WESTLAND DECISION WHICH WOULD MAKE EUROPEAN COOPERATION IN THE HELICOPTER FIELD VERY DIFFICULT IF NOT IMPOSSIBLE. HE ADDED THAT HE HOPED THE DUTCH MOVE WOULD CONTRIBUTE TO THE PRESSURE ON WESTLAND TO CHANGE THEIR MIND.

MARGETSON

BT

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UNCLASSIFIED

Prime Minister
usefl
CDP

(2)

FROM: CHIEF SECRETARY

DATE: 17 December 1985

PRIME MINISTER

WESTLAND

Now that the Government's position on the NAD's recommendation has been clarified, Westland's shareholders have to decide whether or not to accept the Sikorsky solution recommended by the Board. It is important that they are allowed to make a fair choice. While alternatives could be made to look attractive I think I must draw attention to the repercussions for public expenditure we might have to face if the shareholders pursued the European solution.

2 First, the European solution would mean less competition and therefore increased costs. Acceptance of the NADs recommendation will require future procurement to be from the European participants. This would mean we could not even seek tenders from four out of the seven major helicopter companies in the world. The value of international competitive tenders is becoming increasingly apparent. There have been recent examples of competitive tenders saving a third or more of MOD's originally estimated costs (for example, the RAF trainer).

3 Second, it remains unclear whether if, under a European solution, all four nations would in the event jointly agree to abandon their collaborative ventures on the light attack helicopter (respectively PAH2 and A129) in favour of a different 4 nation collaboration, this will give rise to savings. I understand the German Minister of Defence has had reservations on this. The £25 million saving which Michael has referred to, is therefore far from reliable. Indeed, on this scenario Michael is effectively committing

us to development and production of the NH90 to which we are not currently committed. In my view, therefore continuing several collaborative projects will impose a cost.

4 Finally, the US have a vast development programme underway to develop a new light attack helicopter. The enormous resources they are able to bring to bear on the development make it likely that over the next decade we will see helicopter technology making rapid advances. The Europeans will require a vast development project to try to catch up. The risk is that if we were exclusively committed to the European alternative we may find that this could involve the government underwriting and ultimately contributing to the financing of a relatively larger programme of research and development.

5 It is of course primarily for Michael Heseltine to decide how to allocate his Defence Budget. But he has already said that this year's Survey settlement is a difficult one for him, and there are many competing pressures on defence expenditure in the medium to long term. I am particularly concerned that in these circumstances we should get maximum value for money from defence expenditure and that there should be no increased demands in future years as a result of decisions we take now.

6 I am copying this minute to Geoffrey Howe, Michael Heseltine and Leon Brittan.

JM

JOHN MacGREGOR

file

DSG

CC MOD
DTI

10 DOWNING STREET

THE PRIME MINISTER

17 December 1985

Dear Sir John,

Thank you for your letter of 13 December. I am grateful to you for letting me know of the Board's decision.

As regards the National Armaments Directors' recommendation of 29 November 1985, the position was made clear by the Secretary of State for Trade and Industry in his statement to Parliament yesterday.

It is obviously important that there should be co-operation between key defence contractors and the Ministry of Defence, and I hope that will continue to be the case with Westland. So far as Blackhawk is concerned, as United Technologies are aware there is currently no Ministry of Defence requirement for these and no provision in the defence budget to buy Blackhawk or any comparable helicopter.

Yours sincerely

Margaret Thatcher

Sir John Cuckney

9/f file Rb
cc Sir Crooke
DTI

10 DOWNING STREET

From the Private Secretary

17 December 1985

The Prime Minister has asked me to thank you for your telegram to her of yesterday and to reply on her behalf.

The Prime Minister was grateful to you for letting her know your views, but feels that it is not really appropriate for her to meet those involved in bid situations. You will no doubt be in touch with the Trade and Industry Secretary if there are matters which you wish to pursue further with the Government.

CHARLES POWELL

Alan Edgar Bristow, Esq., O.B.E.

Westland

4.28 pm

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Leon Brittan): With permission, Mr. Speaker. I should like to make a statement. For some months now Westland plc has been in serious financial difficulties and has been seeking an association with an external partner or partners. Negotiations with United Technologies commenced in September 1985 and led to a proposal from Fiat and United Technologies.

At the suggestion of my right hon. Friend the Secretary of State for Defence, the Government agreed that my right hon. Friend should explore the possibility of an alternative association with Aerospatiale, MBB and Agusta becoming available to Westland. An initial proposal emerged and, while it was being produced, the National armaments directors of the United Kingdom, France, Germany and Italy made a recommendation that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe. For the United Kingdom, this recommendation represented a substantial extension to the Government's policy agreed with our European allies in 1978 and of our general approach to defence procurement as set out in the "Statement on the Defence Estimates 1985".

The existence of the national armaments directors' recommendation was regarded by Westland as a major obstacle to the United Technologies-Fiat option, which it at all times preferred. In view of the urgent necessity for a deal to be concluded quickly, the Government decided that from 13 December they would not be bound by the national armaments directors' recommendation unless Westland had by then received a firm offer from the three European companies, which the board would recommend to its shareholders. The Government's intention was to give time for the completion of a firm offer by the European companies to Westland, but to remove any politically imposed obstacle facing Westland if such an offer were not made in time or was unacceptable to Westland.

At the end of last week British Aerospace announced that it was prepared to provide a quarter of the funds offered by the European consortium. The Governments of the United Kingdom, France, Germany and Italy also agreed, but on an entirely provisional basis, that if the European offer were accepted they would meet their requirements in each of the three main helicopter classes by a single collaborative solution.

Westland plc announced on Friday evening that agreement had been reached in principle whereby United Technologies and Fiat will between them take a minority shareholding in Westland. The view of the board of Westland was that the European offer which was finally received was neither firm enough nor attractive enough for the board to be able to recommend it to its shareholders. Accordingly, Her Majesty's Government are not bound by the national armaments directors' recommendation. Full details of the United Technologies-Fiat agreement and of a capital reorganisation of Westland will be announced by the company shortly. As part of the proposed arrangements, Westland will take a licence from the Sikorsky division of United Technologies to manufacture, develop and sell the Blackhawk helicopter.

United Technologies was at all times fully aware that there was currently no Ministry of Defence requirements and no provision in the defence budget to buy the Blackhawk helicopter or any other comparable helicopter. Westland has welcomed the agreement as a private sector solution to its present financial difficulties which offers firm prospects of long-term viability and continues the close co-operation between Westland and Sikorsky, which has existed for several decades, and which led to the production under licence of the successful Wessex, Whirlwind and Sea King helicopters. Westland intends to continue with the Anglo-Italian EH101 programme, and to continue to take part in feasibility studies on a developed version of the A129 and on the NH90. United Technologies has assured Westland that it will continue to maintain a helicopter design and development capability in the United Kingdom.

The Government have ensured that Westland had an alternative European-based offer to consider, but, as a private sector company, it is for Westland to decide the best route to follow to secure its future and that of its employees.

Mr. Speaker: Mr. John Smith.

Mr. John Smith (Monklands, East) *rose*——

Mr. Dennis Skinner (Bolsover): On a point of order, Mr. Speaker.

Mr. Speaker: Afterwards.

Mr. Skinner: It is very important.

Mr. Speaker: I am sure that it is.

Mr. Skinner: Will the Secretary of State for Defence make his statment, because there are two conflicting views?

Mr. Speaker: Order. Mr. John Smith.

Mr. John Smith: Surely the Secretary of State is not seeking to pretend that there have not been fundamental disagreements, going right to the heart of Government policy, between himself and the Secretary of State for Defence, which have been advertised in the extraordinary public wrangling in recent days? Is there still any concept of collective responsibility in the Government?

Why did the Government refuse to help Westland many months ago when it asked for help? Would it not have been wise to support Britain's only helicopter manufacturer to keep a vital stake in the markets for our industry? Is the right hon. and learned Gentleman telling the House that Britain accepted a recommendation by the national armaments directors only a short time ago, only to have that undertaking unilaterally withdrawn today, apparently only because Westland's board wants to accept the United States' offer? Should our defence policy be decided by the interests of a private sector company?

Is it not revealing that the Secretary of State for Defence —perhaps belatedly, but certainly vigorously—has been fighting for the concept of national interest, while the Secretary of State for Trade and Industry has been defending the ideologically motivated non-interventionist stance of his party? Is it not the case that, as usually happens when the Prime Minister intervenes, party ideology has one again triumphed over the national interest?

Can the Secretary of State say why we should not believe the Secretary of State for Defence when he tells

introduced that the legislation is comprehensive and that many of the fears that have been whipped up about it are unfounded.

Mrs. Virginia Bottomley (Surrey, South-West): Does my right hon. Friend agree that all those who genuinely seek to meet real need effectively with resources will welcome his announcement that maternity and death grants will be made available at realistic levels to those in need, whether in or out of work?

Mr. Fowler: That is right. The maternity grant and the death grant have been unchanged for between 15 and 20 years. That position cannot remotely be defended. We are trying to give realistic and proper help to those who need it for funeral expenses and maternity expenses.

Mr. Charles Kennedy (Ross, Cromarty and Skye): Will the Secretary of State concede that the sort of social security system that will result from his announcement will not be essentially fairer but will be essentially meaner? Does he accept that that will happen because he is trying to redistribute income in our society within definitions of income bands that have been drawn tightly between what he regards as the deserving and the undeserving poor? Do his illustrative figures not show that 2 million pensioners will lose at least £1 a week and that more than 10 per cent. of them will lose more than £5 a week?

Mr. Fowler: The hon. Gentleman is probably quoting from the second set of tables. The basis for those tables is the position before the reform has any effect. It requires a little imagination to understand that there will be an impact on single pensioners. I do not agree with the hon. Gentleman that the system will be less fair. When he has had more time to study the White Paper, he will accept that it will direct help more effectively to those people, notably low-income families, who by any definition are most in need.

Mr. Peter Thurnham (Bolton, North-East): In welcoming extra help for the disabled, may I ask my right hon. Friend to clarify when families with more than one disabled child can expect to benefit from the proposals?

Mr. Fowler: That part of the proposals will come into effect in April 1988, with the majority of the proposals that we shall introduce and with the new pension arrangements.

Mr. Peter Pike (Burnley): Does the Secretary of State accept that the changes that he has proposed for SERPS and the guaranteed occupational pension schemes will mean a turning back of the clock for manual workers and a reduction in pension rights? Is not his estimate of a 27·5 per cent. contribution rate blatant scaremongering?

Mr. Fowler: I do not accept that it is blatant scaremongering. I have tried to quote the estimate put forward by the Government Actuary, as the hon. Member for Oldham, West did on the radio this morning. I have not simply pulled the figure out of the air. Does the hon. Gentleman share the aspirations of the Government to extend pensions for individuals through occupational schemes and through personal pensions? The inquiry showed clearly that the majority of people want their own pensions, and that is what we shall try to provide.

Mr. Nicholas Winterton (Macclesfield): Will my right hon. Friend and my hon. Friend the Minister of State accept that the Select Committee on Social Services, of which I am the longest-serving Conservative Member, is grateful for the fact that he has listened to the views expressed by the thousands of people who communicated with him and to the views of the Select Committee? Will he also accept that his views on SERPS are welcome and the fact that he has amended his original views is widely appreciated? Although I do not wish to be controversial in what I say now, will he tell the House whether he is intending to be a Scrooge or a Father Christmas in his announcement? I believe that he intends to be a Father Christmas.

Mr. Fowler: I cannot win with a comparison of that sort. I am trying to be fair, I pay tribute to the work of the Select Committee on Social Services, which we took fully into account.

Mr. Max Madden (Bradford, West): However hard the chairman of the Conservative party tries to dress up the White Paper, will not the British people soon come to see it for what it is: a charter for more cuts, more means testing and more misery? Does the Secretary of State understand that the absence of the Prime Minister and most of his cabinet colleagues this afternoon shows that they do not regard the White Paper as a new Beveridge plan, but are ashamed of it and do not wish to be associated with it publicly?

Mr. Fowler: I do not see many prominent figures on the Opposition Front Bench. For example, I have no idea who the man with the beard is. The hon. Gentleman had better be a little more cautious in his statements. I am content to allow the public to judge the proposals. They will judge them side by side with the proposals put forward by the hon. Member for Oldham, West on the abolition of mortgage tax relief. We look forward to the further development of those proposals.

Mrs. Edwina Currie (Derbyshire, South): Will my right hon. Friend remind us of who is paying for all this? In contrast to the comments made by the Opposition about losers, does he agree that since everyone is a taxpayer —whether through income tax, tax on savings, or VAT — we shall all gain from an improved, streamlined social security system?

Mr. Fowler: My hon. Friend is right. It is also worth remembering that we are talking about a budget of more than £41 billion a year. That is an increase of about 30 per cent. in real terms since 1979. More than half of the increase represents a real increase in benefits.

us that the United States deal will lead to a high-tech British company being reduced to metal bashing, and when he tells us that the deal may prejudice future European defence co-operation, especially on major helicopter projects? Is it not clear that United Technologies wants to find a way into the European market and that, instead of fighting for European industry, the Government are helping to open up American access to it? Does the research and design independence of Westland rest only on the assurance given by United Technologies? Is it not sad that the Government should assist Westland's chairman to find—I quote his recent statement—

"a private sector solution to a private sector problem"

when what is desperately needed is a national solution to a national problem?

Will the Secretary of State intervene to defer a decision for at least a few weeks so that the future of a vital British industry is decided in an atmosphere of calm deliberation, with all the relevant information available, and with proper attention being paid to the national defence and manufacturing interests? Surely, when a great deal of Government money has already been invested in this company, and when thousands of jobs are possibly at stake — let alone the independence of a major British industrial interest—it is not enough for the Government to wash their hands of responsibility and leave a matter of such national consequence to a shareholders' meeting next Thursday, which will take place in the shadow of the threat of liquidation.

Mr. Brittan: On the right hon. Gentleman's first point, I assure him that my statement was made on behalf of the Government as a whole—[HON. MEMBERS: "Oh."]

Mr. Speaker: Order.

Mr. Brittan: The right hon. and learned Member for Monklands, East (Mr. Smith) alleged that the Government had refused help for Westland. The Government have taken the view that it would be far preferable for Westland to be able to find a solution to the problems that it faces without recourse to the taxpayer. That seems to be a reasonable position to take. It is clear that Westland has been able to do so.

The right hon. Gentleman is misinformed on the question of the joint recommendation of the national armaments directors, and I am glad to be able to correct him. He was wrong in saying that Britain had accepted the recommendation. The recommendation was placed on the table and was never agreed to by the United Kingdom Government. The fact that it was on the table was, in effect, a pistol at the head of Sikorsky and Westland, preventing them from pursuing their preferred solution. None the less, the Government believed that the inquiries which my right hon. Friend the Secretary of State for Defence was pursuing with a view to obtaining an offer from European countries were such that they should be pursued to the point at which a decision could be taken freely by the company.

The right hon. and learned Member for Monklands, East is wholly misconceived in his suggestion that ideology is involved. It is not. There is concern for the welfare of Westland and the jobs of the people employed there. The right hon. Gentleman is also wholly misconceived and is picking up a cheap cliché in suggesting that the role of Westland, if the proposed deal goes through, is as he says. United Technologies has assured Westland that it will continue to maintain a helicopter design and development capability in the United Kingdom. What is more, Westland, which has responsibility in difficult circumstances and is under extreme pressure of time, for which the right hon. Gentleman does not allow at all, believes that the maintenance of such a capability would have been less certain if it had accepted the European consortium's proposals.

Mr. Kenneth Warren (Hastings and Rye): Does my right hon. and learned Friend accept that there is a need to convey to the armaments directors of Europe an understanding that Westland is a European helicopter company? Does he also accept that nobody in Europe, particularly the chairman of Aerospatiale, has a right to say that such a company would stop Westland getting contracts in NATO? Will my right hon. and learned Friend make it clear to everybody in Europe that with Sikorsky in the arrangement, it will be the same as it has always been, and that the content of Westland helicopters will remain 90 per cent. European?

Mr. Brittan: My hon. Friend is absolutely right. It is a gross over-simplification to present the choice as being between Europe and the United States. Westland is deeply involved, and will continue to be involved, with Europe. That has been made abundantly clear. The United States companies are also involved with Europe. As for Aerospatiale, the House will understand why Westland views the remark that has been quoted from the head of that company as having all the objectivity of a remark made by someone who had been doing his best to undermine and supplant the Westland Indian deal.

Mr. Paddy Ashdown (Yeovil): The right hon. and learned Gentleman's statement will be welcomed. Bearing in mind that the Government's indecision has been at the heart of many of Westland's long-term problems, what steps is the right hon. and learned Gentleman taking to make sure that the Cabinet is together on the issue and that Westland is not being treated as a ministerial plaything? Will he confirm that Westland's relationship with Sikorsky is not new, but stretches back over 40 years of fruitful co-operation? Will he also confirm that the EH101 participative deal is not threatened by the statement, but is perhaps enhanced by it? Will he give a clear undertaking to the House that Westland will not be penalised over the deal because it has put some individual Cabinet Ministers' noses out of joint?

Mr. Brittan: Of course the Government would not behave in the irresponsible way that the hon. Gentleman suggests. It would be the duty of all members of the Government to ensure that orders were placed for helicopters that were needed, in the right way, irrespective of any such unworthy considerations. The Government are committed to the EH101. Westland is also committed to it, and United Technologies has said that it will not interfere in any way and will assist in its promotion in North America. The president of Agusta, with which EH101 is being developed, confirmed on Saturday that his company will continue to co-operate with Westland on the programme.

The hon. Member for Yeovil (Mr. Ashdown) is right in the general points that he made. Four of Westland's

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most successful projects since the war have been developments of original Sikorsky designs—Dragonfly, Wessex, Whirlwind, Sea King and its Army version, the Commando. Westland has sold over 1,200 of those aircraft. Its association with Sikorsky goes back to 1947. The three collaborative projects undertaken with Aerospatiale have been less successful.

Sir Antony Buck (Colchester, North): Is my right hon. and learned Friend aware that there is great admiration on both sides of the House for Sir John Cuckney, the head of the firm that is now Westland? Does my right hon. and learned Friend accept that to many of us a more European-oriented solution might have been preferable? Will he assure us that, whether or not that be so, the best helicopters, for both maritime and land use, will be available to our armed forces?

Mr. Brittan: I am sure that the latter is the case. The Government thought it right that the possibility of a European offer should be explored. That is why, at a meeting in my Department with my right hon. Friend the Secretary of State for Defence, I readily agreed that he should explore that possibility. It was explored and put forward. The company took the view that it was not sufficiently firm or attractive for it to abandon its previously preferred option. It is worth pointing out that the European possibility arose late in the day, at a time when the company was under great financial pressure.

Mr. Merlyn Rees (Morley and Leeds, South): Is it not a strange constitutional position when on Sunday we hear the Secretary of State for Defence giving one view on the radio, and the Secretary of State for Trade and Industry giving a different view in the House the following day? As someone who has served in the Royal Air Force, I believe that the Secretary of State for Defence was speaking on behalf of the RAF and not on behalf of monetary or ideological considerations.

Mr. Brittan: The House will have heard what the right hon. Gentleman has said and his constitutional analysis. The statement that I am making is on behalf of the Government.

Mr. John Wilkinson (Ruislip-Northwood): Does my right hon. and learned Friend recall that for months many of us have been trying to remind Her Majesty's Government of the imminent problems of Westland, and in particular of the necessity of meeting air staff target 404 of the Royal Air Force for medium-lift helicopters with a Westland aeroplane? Was it not unrealistic of the Ministry of Defence to imagine that at the 11th hour it could impose a shotgun European marriage on Westland, when a European long-term helicopter strategy, though necessary, is bound to take a long time to concert?

Mr. Brittan: I shall draw my hon. Friend's remarks to the attention of my right hon. Friend the Secretary of State for Defence.

Mr. Doug Hoyle (Warrington, North): Is the Secretary of State aware that while he is saying that he is speaking for the Government, the faces on the Government Front Bench show a different view? That shows the disunity of the Government on the subject. The right hon. and learned Gentleman talks about what the chairman of Westland has said, but how far have the employees and the trade unions been consulted? If that is done, I think he will find that they have a different opinion and that they would support the Secretary of State for Defence for a European solution, because that offers a better long-term future than the American proposal. Is he not aware — perhaps it is because of his lack of knowledge of industry—that the Government are once more selling out for short-term proposals, rather than guaranteeing a long-term future for the British helicopter industry?

Mr. Brittan: I do not think that the hon. Gentleman is right. I would hesitate to arbitrate between him and the hon. Member for Yeovil (Mr. Ashdown), but I suspect that when it comes to what the people of Yeovil who work for the firm would prefer, the hon. Member for Yeovil may know more about it.

Mr. Jerry Wiggin (Weston-super-Mare): Is my right hon. and learned Friend aware that the thousands of people who work for Westland in and around the west country are much less interested in a solution than in the fact that the company has been saved from receivership? Will he use his influence to ensure that the otherwise friendly relations between Westland and its biggest customer, the Ministry of Defence, are restored and perpetuated?

Mr. Brittan: I agree with everything that my hon. Friend has said and wish to use my influence in that direction.

Mr. Lewis Carter-Jones (Eccles): Is the right hon. and learned Gentleman aware that his hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) is right? For 18 months Government and Opposition Back Benchers, the all-party group, the hon. Member for Yeovil (Mr. Ashdown) and the hon. Member for Isle of Wight (Mr. Ross) have been pleading that action should be taken on the matter. If, for once, the Ministers had listened to the Back Benchers, they would not have been embarrassed, as they are today. Aviation is far too important to the economy of the country for it to be the subject of bickering and delay by Front-Bench spokesmen.

Mr. Brittan: The attempt to make a party issue of the matter by the Opposition Front Bench is also perhaps a reflection of real concern. The question of proper defence procurement is not easy, and it is unfair to my right hon. Friend the Secretary of State for Defence for the hon. Gentleman to castigate him in that way, when he has made major efforts and been extremely successful in securing value for money for the armed forces over an emormous range of activities. The House and the country owe him a great debt of gratitude.

Mr. Michael Mates (Hampshire, East): In the light of the new situation, what is the position on the licence arrangements to build the Blackhawk helicopter already entered into with Shorts? Does that arrangement still exist, and if so, what will be the effect on any arrangements made with Westland in the future?

Mr. Brittan: The arrangement envisaged with Shorts was entirely dependent upon the possibility of the Blackhawk being selected by the Ministry of Defence for ASTY404. That has not happened, and therefore that arrangement does not stand.

Mr. Tam Dalyell (Linlithgow): On 19 November I was taken round Westland at Yeovil, as many of my colleagues have been. Those of us from other parts of the country will

recognise the seriousness and size of the problem. May I repeat the question asked by my right hon. and learned Friend the member for Monklands, East (Mr. Smith)? What assurance is there that Sikorsky will keep the high technology and research in Britain? May we have a factual answer?

Mr. Brittan: I have already given the assurance that the hon. Gentleman has asked for, and stated clearly what United Technologies has said. That is absolutely clear. All I can say to the hon. Gentleman is that if he is talking about alternatives, he might like to ask what assurances he thinks the French, Germans and Italians, all of whom have been regarded as competitors to Westland, would give in the same direction.

Mr. Richard Page (Hertfordshire, South-West): Does my right hon. and learned Friend agree that the American connection with Westland would be a way for the Rolls-Royce turbo meca 322 helicopter engine, currently being developed on the borders of my constituency, to gain access to the large and profitable north American market?

Mr. Brittan: I agree that that is a most attractive prospect.

Dr. M. S. Miller (East Kilbride): Is the right hon. and learned Gentleman not ashamed of himself? How can he conclude that the British technology will remain in this country? Does he not realise that Sikorsky could eat Westland for breakfast? That would not be the case with the other Europeans, because none of them is big enough. Surely the Government should have been pushing ahead with our European partners? An example is Agusta, with the EH101, which has been on the go for some time. Who are the patriots in this country? Do they sit on the Government side, or on the Opposition side of the House?

Mr. Brittan: I think that the hon. Gentleman must have overlooked the answer that I gave to the question on the EH101, in which I made it clear that that was going ahead, and that the president of Agusta had said that it was. The NH90 development is still at an early stage. There is no doubt that it will continue to go ahead with United Technologies.

Mr. Jim Spicer (Dorset, West): Does my right hon. and learned Friend accept that the facts about Westland were known months ago? If, at that time, the Europeans, who are now bidding so furiously to get in on the act, had been in, we might have seen a viable alternative. My constituents and Westland have a bird in the hand, and it is worth two in the bush.

Mr. Brittan: I can well understand how my hon. Friend and his constituents feel about the bird in the hand. It is difficult to speculate about what might have happened in other circumstances some months ago, but the plain fact is that the European consortium did not exist, showed no signs of existing and had no interest in the matter until a few weeks ago.

Mr. Robin Corbett (Birmingham, Erdington): Will the Secretary of State join in the congratulations of most of us on the Opposition Benches to his right hon. Friend the Secretary of State for Defence for trying to get the European option?

Mr. Brittan: I very happily join in the congratulations that the hon. Gentleman, with motives that one might suspect, invites me to confirm. As I said earlier, it was I who readily agreed that my right hon. Friend the Secretary of State for Defence should see whether a European solution was possible. In a short time my right hon. Friend succeeded in bringing together to a remarkable extent an offer which, in the end, the company did not feel was sufficiently firm or attractive. The Government's desire that it should be pursued is evidenced by the fact that it was the Government's decision that my right hon. Friend should pursue it. He achieved a considerable success in a short time, in making it possible for Westland to consider that option.

Mr. Michael Marshall (Arundel): I understand the complexity of the issue and want to consider carefully what my right hon. and learned Friend has said, but does he accept that GEC, as well as British Aerospace, made an offer to bring forward the European proposal? That matter causes some of us concern, as the offer was apparently rejected within 24 hours. Does my right hon. and learned Friend think that the matter should be looked at with care?

Mr. Brittan: With regard to the speed with which the matter was considered, the broad outline of the proposals being put forward by the Europeans was clear long before last Friday, so it is not entirely accurate to regard the proposal as having been rejected within 24 hours. The proposals put forward on behalf of the European consortium last Friday did not include any participation whatsoever by GEC. The interest on the part of GEC has emerged since then. It is fair to say that although GEC is entitled, even at this late hour, to say what it wishes, at no stage during the well known and well publicised difficulties of Westland did GEC lift a finger to help.

Mr. D. N. Campbell-Savours (Workington): Why does the Department of Trade and Industry assume responsibility for the company when it is so reliant on defence procurement? Most of the order book is supplied by the Secretary of State for Defence, in orders that his Department gives to the company. Surely the Ministry of Defence should have been the lead Department in taking decisions, if necessary, on the future of the company. Why did the right hon. and learned Gentleman not recognise that his was the junior role?

Mr. Brittan: The decisions that I have announced were taken collectively. As the hon. Gentleman is interested in responsibility, he will know perfectly well that whereas the Ministry of Defence is a major customer, the Department of Trade and Industry is the sponsoring Department for the aerospace industry. There is nothing new in that.

Mr. Cyril D. Townsend (Bexleyheath): Is my right hon. and learned Friend aware that many with an interest in defence will feel that, for whatever reason, we have ended up with the third best solution? Is it not pretty obvious that the European defence and aviation industries must work out their common aims and co-operate to try to achieve them? I fear that my right hon. and learned Friend's statement is steaming slowly in the wrong direction.

Mr. Brittan: I share my hon. Friend's enthusiasm for European co-operation. A British company with European competitors was faced with the prospect of extinction, and it had an imperative duty to prevent that. It is because of

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the shared concern about the merits of European co-operation that my right hon. Friend the Secretary of State examined whether an alternative was available in the time. The company has taken the view that it was not.

Mr. Ian Wrigglesworth (Stockton, South): Why was it left to the Secretary of State for Defence to make the suggestion and then pursue it on behalf of the Government if the right hon. and learned Gentleman's Department is the sponsoring Department not only for the aerospace industry but for British industry as a whole? Why did his Department not come in earlier and explore the possibilities of an alternative to the present solution? What did his Department do during the months when the firm was known to be in difficulties?

Mr. Brittan: The short answer to the hon. Gentleman is that there was on the table, at an advanced stage of negotiation a deal that would rescue the company. My Department was intimately involved in removing some of the obstacles that stood in the way of such a rescue. That is the correct role of the Department of Trade and Industry.

Mr. Gerald Howarth (Cannock and Burntwood): While the European approach undoubtedly offers the best political solution to the problem, does my right hon. and learned Friend agree that the plight of Westland has been known for many months and, that there have been negotiations since June this year to find a partner? The company can hardly be blamed if it has picked up a real offer from the table. It ill-behoves the managing director of the company in the United Kingdom that is richest in cash to say now that the deal is not in the interests of the United Kingdom when, with all the cash at its disposal, it could have come in much earlier. At the moment, the plan is for United Technologies and Fiat to take over a 30 per cent. shareholding. What would be Her Majesty's Government's view if that shareholding were to be increased to a majority shareholding?

Mr. Brittan: That is a hypothetical question, which I cannot be expected to answer. I can well understand my hon. Friend's comments about the other matters, although I would not wish to join in them.

Mr. Ken Eastham (Manchester, Blackley): Great confusion has been caused today by the Secretary of State's statement and by many of the reports that we have been reading about his colleague, the Secretary of State for Defence. May I remind the right hon. and learned Gentleman that several months ago a deputation met the then Minister of State for Defence Procurement to talk about the serious situation in the industry. He said that there were difficulties sorting out the type of aircraft that was required, yet we learnt this weekend that the Ministry of Defence was thinking about placing an order for six helicopters. Will the Secretary of State explain why the Ministry can now place an order for six helicopters? If he cannot, will he ask his colleague the Secretary of State for Defence to make a statement? What guarantees can be given to the work force, which has had little say in all the paper transactions? Will the Minister go to the trade unions and give them some assurances?

Mr. Brittan: The hon. Gentleman will know that his last points are matters for the company. He mentioned the proposal that six extra Sea Kings should be purchased by the United Kingdom Government. That order would have been financed out of savings obtained by merging the A129 mark II and PAH2 light attack helicopters. Such a rationalisation may not be achieved, but, if it can be, Westland's link with Sikorsky and Fiat would not prevent it.

Sir Peter Emery (Honiton): Thank you, Mr. Speaker, for at last calling a Member who has many constituents working at Westlands. Does my right hon. and learned Friend realise that what matters most is the future of Westlands and the jobs that will be kept there? One of the factors in favour of the Sikorsky deal is the future production of the Blackhawk helicopter. There are rumours in my constituency that Blackhawk production at Yeovil will be below 50 per cent. of total production. Will my right hon. and learned Friend confirm this rumour?

Mr. Brittan: I cannot confirm that. I can confirm, however, that it is the intention of United Technologies that there should be substantial manufacture of Blackhawk in the United Kingdom. One reason for Westland preferring the Sikorsky deal is that the company compared that firm commitment by United Technologies with an interim provision from the European companies simply for extended subcontracting work in the United Kingdom. There would be more substantial production work with Blackhawk. The possibility of a European helicopter being built in the United Kingdom in the more distant future is very doubtful.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): If there has been a great national interest at stake for the last few months, Westland is the victim, not the villain of the piece, as it has been seeking calm. Indeed, Westland was told by the Government and by other companies in this country to do what happens to turkeys at Christmas. It would have been better if two distinguished members of the Government, one involved in defence and the other in trade and industry, had got together beforehand to discover what was best for Westland. Would it not have been better to launch Westland on the free market, which I believe is an important aspect of the Government's policy?

Mr. Brittan: The matter is being left to the free market. The solution being put forward by Westland involves the private sector rescue of a private sector company, at no cost to the Exchequer. It is perfectly reasonable for the Government to explore the possibility of another offer being put to Westland and to allow the company to choose which is best. That is what the Government have done, and that is in line with the view of my hon. Friend the Member for Birmingham, Selly Oak (Mr. Beaumont-Dark).

Mr. Robert Jackson (Wantage): Is my right hon. and learned Friend worried about the knock-on effects of the decision, and the way in which it has been presented, on any future European defence collaboration?

Mr. Brittan: That is a matter which the Government must consider. The statement made by the president of Agusta about continued collaboration on the EH101 gives one reason to believe that some things said in the heat of the moment by certain of our European competitors might perhaps assume different proportions when matters continue in a more leisurely way.

Mr. David Heathcoat-Amory (Wells): Can my right hon. and learned Friend say whether United Technologies

has agreed to limit its stake in Westlands to 29·9 per cent., or whether that might be a prelude to a full bid in due course? Does he think that it is important that Britain's only helicopter manufacturer should not come under foreign control, with a consequential loss of business in avionics and associated weapons systems?

Mr. Brittan: I am advised that the proposals of Sikorsky and Fiat—and one must not forget that two companies are involved, not one—is for an initial 29·9 per cent. stake, with an option to acquire further shares to bring the holding up to 35 or 40 per cent., but not to exceed that figure. The full details for which the Opposition are thirsting will be made public by the company in a few days.

My hon. Friend will be aware that a vast amount of avionics is currently produced by United Kingdom manufacturers for American concerns, and avionics will not be put at risk in the way that my hon. Friend fears.

Mr. Tony Marlow (Northampton, North): Further to the point raised by my hon. Friend the Member for Wells (Mr. Heathcoat-Amory), will my right hon. and learned Friend confirm that the control of Westland will remain in the United Kingdom and that there have been no discussions to suggest that if should move elsewhere at a later stage?

Mr. Brittan: That is correct.

Mr. David Winnick (Walsall, North): Is the right hon. and learned Gentleman aware that during all the exchanges that have taken place, it has been perfectly clear that the Secretary of State for Defence has disagreed with practically everything that he has been telling us? The Secretary of State for Defence has been more concerned with national issues than has the Secretary of State for Trade and Industry, who has been willing to see British interests given over to the United States.

Mr. Brittan: I do not agree with the hon. Gentleman. I have made it clear that it is Westland's view that the proposals which it is now commending to its shareholders are in the company's best interests.

Mr. Nicholas Winterton (Macclesfield): Can my right hon. and learned Friend tell the House why the Government rejected approaches from Westland earlier this year? He has not answered the question from my hon. Friend the Member for Birmingham, Selly Oak (Mr. Beaumont-Dark). Why must the Government have a public debate between the Secretary of State for Defence and the Secretary of State for Trade and Industry? When a foreign power takes an interest in a vital, strategic industry in this country the opportunity for exports are reduced, and that must be against the national interests.

Mr. Brittan: I do not agree with my hon. Friend on his general proposition. Westland's view that its prospects for exports are enhanced is a reasonable one, but the House will have to wait to see what happens.

The answer to my hon. Friend's first point is perfectly clear. The Government did not favour a solution to Westland's problem which involved the taxpayer paying for the company.

Mr. John Smith: Why has the Secretary of State waited until almost the last question of the term to reveal the important information that US Technologies has an option to increase its holding to 40 per cent.?

Mr. Brittan: United Technologies.

Mr. Smith: If the Secretary of State is going to make a fuss about getting the tiny details right, perhaps he could have helped us by supplying the information at the outset. The Secretary of State tried to tell the House that there was a small minority interest being taken, but hon. Members have now extracted from him, as one would take a bad tooth from a bad mouth, the fact that the holding could increase to 40 per cent. That is a shocking disclosure, because the Secretary of State knows that 40 per cent. equals control of the company.

Mr. Brittan: The right hon. and learned Gentleman could not have made a worse point, as I did not mention any figures at all until I was asked to do so. I made it clear at that stage that there are many other details in relation to the proposal which will be disclosed by the company in a matter of days. That is an entirely reasonable course of action.

Mr. Dennis Skinner (Bolsover): On a point of order, Mr. Speaker. You will have noticed that throughout the whole series of questions and answers the Secretary of State for Trade and Industry did not even consult the Secretary of State for Defence——

Mr. Speaker: Order. Even if that is true it is nothing to do with me.

Mr. Skinner: I know that, Mr. Speaker.

Mr. Speaker: What is the point of order for me?

Mr. Skinner: I was just giving a little background, Mr. Speaker. The point of order is quite clear. It is very rare that Ministers come along giving opposite points of view, but in this case it is clear that they do not even speak to each other. As there are clearly two points of view, should not the Secretary of State for Defence have the chance to put the alternative point of view?

Mr. Speaker: Order.

Private Notice Questions

5.11 pm

Mr. Paddy Ashdown (Yeovil): On a point of order, Mr. Speaker. I should be grateful for your advice. I had understood that a private notice question was a private matter and not for public dissemination. Was it in order for the Labour Front Bench spokesman to make it known in the press last Saturday that he intended to put down a private notice question, and for the fact and perhaps some of the text of the question to be revealed in the Press Association tapes this morning?

Mr. Dennis Skinner (Bolsover): He is still wet behind the ears.

Mr. Speaker: Order. The point of order is for me, not for the hon. Member for Bolsover (Mr. Skinner).

I frequently read in the press at weekends that a question is to be asked about a particular matter in Parliament the following week. I think that that is perfectly in order, but it is not in order to refer to a private notice question which may or may not have been sent in.

Ministerial Statements

5.12 pm

Mr. Alan Williams (Swansea, West): On a point of order, Mr. Speaker. May we have your advice on what seems to be a genuine constitutional predicament?

With regard to today's statement, there are two Departments with clear responsibilities. Until now, all statements on the subject in question have been made by the Secretary of State for Defence. Today, however, the Secretary of State for Trade and Industry has told the House that he has taken over responsibility at the Dispatch Box as the head of the sponsoring Department, but that any questions related to defence arising from his statement have to be referred to the Secretary of State for Defence. As the Secretary of State for Defence, who has dismissed the agreement as "metal-bashing", has had to sit beside his colleague in silence and humiliation and listen to an announcement that an agreement by national armaments directors——

Mr. Speaker: Order. Is this a point of order for me?

Mr. Williams: Yes, Mr. Speaker. We have been told that national armaments directors of the United Kingdom, France, Germany and Italy have agreed that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe. The Secretary of State for Trade and Industry said that that agreement

"represented a substantial extension to the Government's policy . . . and of our general approach to defence procurement as set out in the 1985 Statement on the Defence Estimates".

As that agreement has apparently been set aside purely at the request of the Westland board, would it not be appropriate now to have a statement from the Secretary of State for Defence on the defence aspects of the matter?

Mr. Speaker: It might have been more appropriate if the right hon. Member for Swansea, West (Mr. Williams) had been called last from the Front Bench. None of that is a matter for me.

Questions to Ministers

5.14 pm

Mr. D. N. Campbell-Savours (Workington): On a point of order, Mr. Speaker. The matter that I wish to raise is not a matter of Members' interests, although it may at first seem to be so. It relates to the rights of Members to table questions. As a member of the Public Accounts Committee, I have an interest in defence contracts, and particularly in excess profits by defence contractors. Accordingly, I attempted to table a series of questions this morning. One of them was—

Mr. Speaker: Order. The hon. Gentleman knows that if he goes to the Table Office and seeks advice it is not in order for him to raise in the Chamber with me the questions that he raised there.

Mr. Campbell-Savours: As I understand it, Mr. Speaker—I have also taken advice on this—you have ultimate responsibility for the decisions of the Table Office.

Mr. Speaker: I do not answer for these matters in the Chamber. If the hon. Gentleman wishes to raise matters of this kind with me, he should do so in the normal way. I was not present at the discussions and I cannot possibly say what went on. As the hon. Gentleman has raised the matter, I can tell him that I now know that he spent some time in the Table Office this morning discussing whether he could put down certain questions, but that is all that I know.

Mr. Campbell-Savours: There are many precedents in the House of Members coming to the Chamber to press the case for questions which they were refused the right to table, by the Table Office. I wish to ask you, Mr. Speaker, to consider the implications of certain questions that I was not allowed to table. My point of order is not long. I wonder whether you might care——

Mr. Speaker: Order. The hon. Gentleman is becoming increasingly expert in procedural matters. He should know that the matter that he raises is firmly pointed to in "Erskine May" as follows:

"When a question has been refused and the Member concerned wishes to make representations to the Speaker on the matter, the practice is for these to be made privately to the Speaker and not raised by way of a point of order in the House."

SCOTTISH AFFAIRS

Ordered,

That the matter of the recommendations of the Scottish Tertiary Education Advisory Council concerning higher education in Scotland, being a matter relating exclusively to Scotland, be referred to the Scottish Grand Committee for its consideration.—*[Mr. Peter Lloyd.]*

STATUTORY INSTRUMENTS, &c.

Ordered,

That the Representation of the People (Scotland) Amendment Regulations 1985 be referred to a Standing Committee on Statutory Instruments, &c.—*[Mr. Peter Lloyd.]*

Prime Minister

Ref. A085/3271

MR WICKS

CF Fwd Cabinet Back Up
for Cabs
NLW

Westlands

I undertook to investigate the "ring round" for a possible further meeting of E(A) on Friday 13 December, to which the Secretary of State for Defence referred in Cabinet on Thursday 12 December.

2. The sequence of events seems to have been as follows:

1. E(A) at its meeting on 9 December took the decision recorded in the minutes.

2. Shortly before the end of the meeting the Prime Minister said (according to my notes) that we might need to review the position on Friday, before the expiry of the 4.00 pm deadline. — We then agreed the wording of which put the decision as in the final minutes

3. This was taken as an indication that it might prove to be necessary for E(A) to meet again on Friday 13 December. Accordingly a member of the Secretariat asked the Committee Section to ring round the Private Office of members of E(A) to see whether they would be available for a meeting on Friday 13 December, if it proved necessary to summon such a meeting. LB communicated to Sir Robert

4. About an hour after the end of the meeting you spoke to my Private Secretary to say that no arrangements whatever should be made for a further meeting of E(A) on this subject.

5. On the morning of Tuesday 10 December this instruction was repeated by Mr Powell to Mr Wiggins.

6. The Committee Section were accordingly instructed to ring round again to make it clear that they were not seeking to fix a meeting and that Ministers were not required to cancel or refuse other engagements. This ring round was not completed until the morning of Wednesday 11 December.

3. As the Lord President said, it is normal for the Cabinet Office to ring round Private Offices, if it is thought that a meeting may be going to be required, particularly on a Friday (when a number of Ministers can be expected to be out of town), to find out who will be available and when, and such a ring round does not imply a definite decision to call the meeting. To that extent what was done was a normal and appropriate precaution, in case a meeting might be needed. It was not a summons to attend a meeting, but I am afraid that the Secretary of State for Defence gave Cabinet on Thursday 12 December the impression that it was, and I am very sorry that the Prime Minister was embarrassed by it.

RA

ROBERT ARMSTRONG

16 December 1985

CONFIDENTIAL

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

PS/ *Secretary of State for Trade and Industry*

16 December 1985

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

Dear Charles,

WESTLAND

I attach a draft letter for the Prime Minister to respond to Sir John Cuckney's letter of 13 December.

2 I am copying this letter and attachment to Richard Mottram at MOD. I suggest that, if he has any comments, he will advise you directly sending me a copy here.

Yours sincerely,

John Mogg

J F MOGG
Private Secretary

-Encl

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JU951

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO SIR JOHN CUCKNEY

Thank you for your letter of 13 December. I am grateful to you for letting me know of the Board's decision.

I confirm that, as a result of your Board's decision, the Government will not be bound by the recommendation of the National Armaments Directors of the UK, France, Germany and Italy that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe. Leon Brittan will make this clear in a statement to Parliament this afternoon. The Government will of course continue, in accordance with the Memorandum of Understanding signed in 1978, to make every effort to meet its needs with helicopters developed jointly in Europe.

It is obviously important that there should be good relations between key defence contractors and the Ministry of Defence, and I hope that will be the case with Westland in future. So far as Blackhawk is concerned, the MOD is reviewing its requirements for support helicopters. It does not at present have a requirement for Blackhawk or for any other helicopter in the same range. We will make that clear publicly, but will go no further till the outcome of the review is known.

CC CDP.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~XXXXXX~~ 218 2111/3

MO 26/16/1L

16th December 1985

Dear John,

WESTLAND: STATEMENT TO THE HOUSE

Thank you for your letter of today's date enclosing the draft of your Secretary of State's statement to the House on Westland.

My Secretary of State has had only limited time to look at your draft before having to depart for another engagement and has not been able to have a word with Mr Brittan about it. Since time is very limited, he would wish to propose only the minimum number of changes required to take some account of the defence procurement aspects of the issue. These are as follows:

a. Page 1, Line 10 - delete "tentative" insert "initial".

b. Page 1, Line 14 - amend to read "... in Europe. For the United Kingdom this recommendation represented an extension of the Government's policy agreed with our European allies in 1978 and of our general approach to defence procurement as set out in the 1985 Statement on the Defence Estimates. The existence of the National Armaments Directors recommendation ....."

c. Page 2, after Line 7 insert a new paragraph as follows: "During last week British Aerospace announced that they were joining the European consortium as a full member. Also the Governments of France, Germany and Italy agreed with the United Kingdom that they would meet their requirements in each of the three main military helicopter classes by a single collaborative solution, including bringing together for the first time their requirements at the battlefield level into a five nation solution also involving the Netherlands Government. A detailed proposal was submitted by the European consortium including British Aerospace on Friday afternoon, which took account of these proposals at the Government level."

d. Page 2, Line 20 - Add after "Black Hawk helicopter." a new sentence as follows: "My Rt Hon Friend the Secretary of State for Defence has made clear that there is no Ministry of Defence requirement and no provision in the Defence budget to fund the purchase of the Black Hawk helicopter for the British Armed Forces. This position was clearly set out to Sikorsky when they first approached the Ministry of Defence on the purchase of Black Hawk many months ago."

J Mogg Esq

If there were to be any difficulty over any of these amendments, you will no doubt be in touch with me by telephone.

I am copying this letter to the other recipients of yours.

Yours ever,

Richard Mottram

(R C MOTTRAM)

PM 8.5

cc Questions
TE
PTRS
DC.
CDP.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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SWITCHBOARD 01-215 7877

JU952

Secretary of State for Trade and Industry

16 December 1985

CONFIDENTIAL

Richard Mottram Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

Dear Richard,

WESTLAND: STATEMENT TO THE HOUSE

My Secretary of State intends to make a statement to the House this afternoon. A similar statement will be made in the House of Lords.

I am copying this letter and its attachments to Charles Powell (No 10), Joan Naughton (Lord President's Office), Alison Smith (Lord Privy Seal's Office), Len Appleyard (FCO), Rachel Lomax and Richard Broadbent (Treasury), Andrew Lansley (Chancellor of the Duchy's office), Murdo Maclean (Chief Whip Office), Michael Stark (Sir Robert Armstrong's office) and to the private secretaries of other EA colleagues.

Yours sincerely,

John Mogg

J F MOGG
Private Secretary

Encs

999-1

JU948

STATEMENT

WESTLAND

For some months now Westland plc has been in serious financial difficulties and has been seeking an association with an external partner or partners. Negotiations with United Technologies commenced in September 1985 and led to a proposal from Fiat and United Technologies.

On learning of this, at the suggestion of my Rt Hon Friend the Secretary of State for Defence, the Government agreed that my Rt Hon Friend should explore the possibility of an alternative association with Aerospatiale, MMB and Agusta becoming available to Westland. A tentative proposal emerged, and during the course of producing it the National Armaments Directors of the UK, France, Germany and Italy made a recommendation that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe. The existence of this recommendation was regarded by Westland as a major obstacle to the United Technologies/Fiat option which they at all times preferred. In view of the urgent necessity for a deal to be concluded quickly the Government decided that from 13 December they would not be bound by the National Armaments Directors'

recommendation unless Westland had by then received a firm offer from the three European companies which the Board would recommend to its shareholders. The Government's intention was to give a limited time for the conclusion of a firm offer by the European companies to Westland, but to remove any politically imposed obstacle facing Westland if such an offer were not made in time or was unacceptable to Westland.

Westland plc announced on Friday evening that agreement had been reached in principle whereby United Technologies and Fiat will between them take a minority shareholding in Westland. The view of the Board of Westland was that the European offer which was finally received was neither firm enough nor attractive enough for them to be able to recommend it to their shareholders. Accordingly the UK Government is not bound by the National Armaments Directors' recommendation. Full details of the United Technologies/Fiat agreement and of a capital reorganisation of Westland will be announced by the company shortly. As part of the proposed arrangements Westland will take a licence from the Sikorsky division of United Technologies to manufacture, develop and sell the Blackhawk helicopter.

Westland have welcomed the agreement as a private sector solution to their present financial difficulties which offers firm prospects of long-term viability, and continues the close co-operation between Westland and Sikorsky which has existed for several decades and which has included the successful Wessex, Whirlwind and Sea King helicopters.

Westland intend to continue with the Anglo-Italian EH101 programme, and to continue to take part in feasibility studies on a developed version of the A129 and on the NH90. United Technologies have assured Westland that they will continue to maintain a helicopter design and development capability in the UK.

The Government have been successful in ensuring that Westland had an alternative European-based offer to consider. But as a private sector company it is for Westland to decide the best route to follow in order to secure its future and that of its employees.

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

PS/
Secretary of State for Trade and Industry

16 December 1985

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

CDP
16/xii

Dear Charles,

... I attach a copy of the revised version of this afternoon's Statement following telephone contact (subsequently confirmed by letter) with Richard Mottram, Rachel Lomax and yourself.

2 Copies of my note and this attachment go to those to whom I sent my earlier letter today.

Yours ever,

John Mogg

J F MOGG
Private Secretary

Encl

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Final Version

WESTLAND

For some months now Westland PLC have been in serious financial difficulties and has been seeking an association with an external partner or partners. Negotiations with United Technologies commenced in September 1985 and led to a proposal from Fiat and United Technologies.

At the suggestion of my Rt Hon Friend the Secretary of State for Defence, the Government agreed that my Rt Hon Friend should explore the possibility of an alternative association with Aerospatiale, MBB and Agusta becoming available to Westland. An initial proposal emerged and while it was being produced, the National Armaments Directors of the UK, France, Germany and Italy made a recommendation that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe. For the UK, this recommendation represented a substantial extension to the Government's policy agreed with our European allies in 1978 and of our general approach to defence procurement as set out in the 1985 Statement on the Defence Estimates. The existence of the National Armaments Directors' recommendation was regarded by Westland as a major obstacle to the United Technolg ies/Fiat option which they at all times preferred. In view of the urgent necessity for a deal to be concluded quickly the Government decided that from 13 December they would not be bound by the National Armaments Directors' recommendation unless Westland had by then received a firm offer from the three European companies which the Board would recommend to

its shareholders. The Government's intention was to give time for the completion of a firm offer by the European companies to Westland, but to remove any politically imposed obstacle facing Westland if such an offer were not made in time or was unacceptable to Westland.

At the end of last week British Aerospace announced that they were prepared to provide a quarter of the funds offered by the European Consortium. Also the Governments of the United Kingdom, France, Germany and Italy agreed, but on an entirely provisional basis, that if the European offer was accepted they would meet their requirements in each of the three main helicopter classes by a single collaborative solution.

Westland plc announced on Friday evening that agreement had been reached in principle whereby United Technologies and Fiat will between them take a minority shareholding in Westland. The view of the Board of Westland was that the European offer which was finally received was neither firm enough nor attractive enough for them to be able to recommend it to their shareholders. Accordingly Her Majesty's Government is not bound by the National Armaments Directors' recommendation. Full details of the United Technologies/ Fiat agreement and of a capital reorganisation of Westland will be announced by the company shortly. As part of the proposed arrangements Westland will take a licence from the Sikorsky division of United Technologies to manufacture, develop and sell the Blackhawk helicopter.

United Technologies were at all times fully aware that there was currently no MoD requirement and no provision in the defence budget to buy the Blackhawk helicopter or any other comparable helicopter.

Westland have welcomed the agreement as a private sector solution to their pressent financial difficulties which offers firm prospects of long-term viability, and continues the close co-operation between Westland and Sikorsky which has existed for several decades and led to the production under licence of the successful Wessex, Whirlwind and Sea King helicopters.

Westland intend to continue with the Anglo-Italian EH101 programme, and to continue to take part in feasibility studies on a developed version of the A129 and on the NH90. United Technologies have assured Westland that they will continue to maintain a helicopter design and development capability in the UK.

The Government have ensured that Westland had an alternative European-based offer to consider. But as a private sector company it is for Westland to decide the best route to follow in order to secure its future and that of its employees.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

CDP
18/12

JU949

PRIME MINISTER

WESTLAND

with CDP?

I have seen Michael Heseltine's minute to you of 13 December.

The proposals of the European consortium were not accepted by the Westland Board, who announced on Friday evening that agreement had been reached in principle for United Technologies and Fiat to take a minority shareholding in Westland. We agreed at E(A) on 9 December that in those circumstances the Government would make clear that it was not bound by the recommendation of the National Armaments Directors that the UK, France, Germany and Italy should meet all their helicopter requirements in three specified classes by equipment designed and built in Europe. That is the only decision that we have as a Government taken with regard to the whole matter.

As you know, however, I do not share Michael Heseltine's view on the balance of national industrial interest. I will not set out all the detailed arguments here. The only point I would make at this stage is that the documents attached to Michael Heseltine's minute are, as his covering letter to Sir John Cuckney makes clear, only "provisionally approved" by Defence Ministers. In

particular, I understand that the German Defence Minister has pointed out that all procurement decisions require the consent of the Bundestag, and has argued that the burden of competitiveness should not be removed from the European companies.

I believe it is essential that the Government should now be seen to stand aside from the decision Westland's shareholders will have to make on the Board's recommendation. That decision is not a matter for the Government, and it would be intolerable if the Government were thought now to be fostering a counter-proposal in opposition to that formally commended by the Board.

Against this background I propose to make the attached statement in the House this afternoon, and I suggest you reply to Sir John Cuckney's letter of 13 December in the terms of the attached draft.

L B

L. B

16 December 1985

Department of Trade & Industry

Enc

JU948

STATEMENT

WESTLAND

For some months now Westland plc has been in serious financial difficulties and has been seeking an association with an external partner or partners. Negotiations with United Technologies commenced in September 1985 and led to a proposal from Fiat and United Technologies.

On learning of this, at the suggestion of my Rt Hon Friend the Secretary of State for Defence, the Government agreed that my Rt Hon Friend should explore the possibility of an alternative association with Aerospatiale, MMB and Agusta becoming available to Westland. A tentative proposal emerged, and during the course of producing it the National Armaments Directors of the UK, France, Germany and Italy made a recommendation that certain helicopter requirements should in future be met solely from aircraft designed and built in Europe. The existence of this recommendation was regarded by Westland as a major obstacle to the United Technologies/Fiat option which they at all times preferred. In view of the urgent necessity for a deal to be concluded quickly the Government decided that from 13 December they would not be bound by the National Armaments Directors'

recommendation unless Westland had by then received a firm offer from the three European companies which the Board would recommend to its shareholders. The Government's intention was to give a limited time for the conclusion of a firm offer by the European companies to Westland, but to remove any politically imposed obstacle facing Westland if such an offer were not made in time or was unacceptable to Westland.

Westland plc announced on Friday evening that agreement had been reached in principle whereby United Technologies and Fiat will between them take a minority shareholding in Westland. The view of the Board of Westland was that the European offer which was finally received was neither firm enough nor attractive enough for them to be able to recommend it to their shareholders. Accordingly the UK Government is not bound by the National Armaments Directors' recommendation. Full details of the United Technologies/Fiat agreement and of a capital reorganisation of Westland will be announced by the company shortly. As part of the proposed arrangements Westland will take a licence from the Sikorsky division of United Technologies to manufacture, develop and sell the Blackhawk helicopter.

Westland have welcomed the agreement as a private sector solution to their present financial difficulties which offers firm prospects of long-term viability, and continues the close co-operation between Westland and Sikorsky which has existed for several decades and which has included the successful Wessex, Whirlwind and Sea King helicopters.

Westland intend to continue with the Anglo-Italian EH101 programme, and to continue to take part in feasibility studies on a developed version of the A129 and on the NH90. United Technologies have assured Westland that they will continue to maintain a helicopter design and development capability in the UK.

The Government have been successful in ensuring that Westland had an alternative European-based offer to consider. But as a private sector company it is for Westland to decide the best route to follow in order to secure its future and that of its employees.

Yes.

CDP 16/12

10 DOWNING STREET

From the Private Secretary

Prime Minister

May I assume you are content for Mr. Brittan to make a statement on Westland this afternoon? It has been widely canvassed in the press.

CDP 16/12

MR O'SHEA

CONFIDENTIAL

To:
PS/Secretary of State

From:
M K O'Shea
Air 1
Room 5/3
20 Victoria Street
215 4213

13 December 1985

CC PS/Mr Pattie
PS/Sir Brian Hayes
Mr Macdonald
Mr Michell Air
Mr Mallinson Sols
Mr Fairweather IDU
Mr Russell FRM
Mr Higgins Sols
Mrs Williams Air 1
Mrs Salisbury Inf
Mr Perry HM Treasury
Mr Thomlinson
D of C Air 4, MoD

WESTLAND W30 LAUNCH AID CONTRACT

I am circulating for information the letter I have sent to Westland implementing the decision of E(A) that we should not require repayment of launch aid for the W30 unless the company went into receivership.

2 The effect of the letter is to remove any liability the company might otherwise have had to repay launch aid in the event of termination of the contract by mutual agreement, for technical, financial or managerial reasons, or unilaterally by either party; except that the liability is retained if the contract is terminated after the company has gone into receivership or has been wound up (except for the purpose of a reconstruction).

3 The removal of liability is conditional on acceptance by the company's shareholders of a financial reconstruction recommended by the directors at the time the annual results are announced, or of some other reconstruction which enables the company to continue trading without contravening the Companies Acts.

M K O'Shea

M K O'SHEA

999-80

DEPARTMENT OF TRADE AND INDUSTRY
20 VICTORIA STREET
LONDON SW1H 0NF
Telephone (Direct dialling) 01-215) 4213
GTN 215)
(Switchboard) 01-215 7877

12 December 1985

The Directors
Westland plc
4 Carlton Gardens
London SW1

Dear Sirs

I refer to contract A26A/24 relating to the WG30 Series 200 and Series 300 aircraft.

I am authorised to say that in the event of termination of the contract under clause 16,17,18.1.1, 18.2 or 19, the Contractor will not be under any liability it would otherwise have under the contract to repay all or part of the sums previously paid to the Contractor by the Authority under the contract. No sums will be repayable by the Contractor in the event of termination under any of the provisions mentioned in this paragraph.

The purpose of this undertaking is to enable Westland plc to enter into a financial reconstruction. It is conditional upon, and is given in consideration of:

(a) The Directors of Westland plc recommending such financial reconstruction to shareholders at the time it announces its results for the year ended 30th September 1985; and

(b) The shareholders accepting such reconstruction or some other reconstruction not contravening in any respect the provisions of the Companies Acts.

This undertaking shall be effective upon the making of the recommendation referred to in (a), but shall cease to have effect in the event of condition (b) not being satisfied.

Yours faithfully

M K O'SHEA
For and on behalf of the
Secretary of State for Trade and Industry

999—66

M650

file

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10 DOWNING STREET

From the Private Secretary

13 December 1985

Your Secretary of State will have received a copy of Sir John Cuckney's letter of this evening to the Prime Minister.

I should be grateful for a draft reply by lunchtime on 16 December, cleared as appropriate with MOD.

I am copying this letter to Richard Mottram (Ministry of Defence).

C D POWELL

John Mogg, Esq.,
Department of Trade and Industry

SRW

(2)

WESTLAND plc

From
Sir John Cuckney

Prime Minister
CDP
13/12.

4, CARLTON GARDENS,
PALL MALL,
LONDON, SW1Y 5AB.
TEL: 01-839 4061

13th December, 1985

MT

The Rt. Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Prime Minister,

As you have taken a direct interest in the fortunes of Westland, I am writing to tell you that my Board has this evening decided to try as soon as possible to conclude negotiations with United Technologies and Fiat whereby they will become minority shareholders in Westland plc.

Our understanding is that in this event HMG will now make it clear that the United Kingdom is not bound by the National Armaments Directors' recommendation of 29th November, 1985.

We are pleased to have been able to decide on a totally private sector solution to our problems. The Board trust that they will receive help and assistance from the Ministry of Defence in the future following several attempts by that department to block a solution to Westland's problems. I would also ask that no UK Government statement is made to the effect that HMG will never purchase the Black Hawk. To do so would hardly be consistant with the Government's and, in particular, the Ministry of Defence's stated policies of full and fair competition.

Yours sincerely,

John Cuckney

A. J. WIGGINS

cc Mr Powell No 10

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

MR UNWIN

cc Mr Mallaby
Dr Walker

CDP
16/xii

WESTLANDS

Here is today's instalment of the continuing story.

(i) The Defence Secretary is sending today to Westlands the latest version of the European Consortium proposal, together with an indication of the six additional Sea King helicopters which MOD would order if the European deal went through.

(ii) The Defence Secretary is expected to minute the Prime Minister this afternoon, copying the minute to E(A) colleagues, attaching the documents relevant to the European approach and indicating how last Monday's E(A) decision is to be implemented.

(iii) Westlands are expected to announce some time this evening that they are in detailed negotiations with Sikorsky and Fiat on a financial reconstruction package, and that a full announcement would be made shortly. (Westlands would not specifically mention the NADs' recommendation, but if asked would confirm their understanding that the UK Government did not consider itself bound by that recommendation.)

(iv) BAe have confirmed their readiness to take a 25 per cent stake in the European Consortium, but have toughened up their condition about the need to be satisfied with Westlands' short and medium-term production loading, and have specified that they should be free to sell their share in Westlands to another UK company. (It was not clear

whether, in specifying these conditions, BAe had withdrawn their earlier demand for a Government guarantee on their investment; nor was it clear whether the 'other company' was GEC, which has separately indicated willingness to take part in the European Consortium.)

2. The position remains that Mr Brittan and Mr Heseltine are pursuing essentially different policies. Mr Brittan is seeking to leave Westlands to make their own decision on the Company's financial reconstruction, and on the product range at which they would be aiming. The awkwardness of this approach is that the future commercial fortunes of the Company will depend substantially on decisions taken by the Ministry of Defence, with the Secretary of State for Defence seeking vigorously to exploit his market power in pursuit of the European option. It is far from clear, however, whether the European option has produced a sufficient work-load for Westlands and it is not at all clear what technical basis MOD have for their vehement rejection of the possibility of buying Black Hawk. The impression received by the civil departments is that the UK armed forces would be quite content to have Black Hawk rather than wait until the mid-1990s for the collaborative European NH 90 - and it is hard to believe that it will be cheaper and more efficient in the long run for the UK to commit itself to an unknown European machine in preference to a version of Black Hawk whose development costs will already have been largely recovered in the US. The Board of Westlands may well feel they have been treated less than fairly by MOD and the course of action pursued by MOD appears to owe more to their ambitions for European collaboration than to the operational requirements of UK forces or the need to minimise equipment procurement costs.

3. These arguments are likely to be well ventilated in public when - as must now be expected - competing reconstruction proposals are put before Westlands' shareholders for consideration at an early Extraordinary General Meeting.

A J WIGGINS
Economic Secretariat.

13 December, 1985

(2)

Prime Minister
You should see generally rather windy document.
Mr. Heseltine's new trick is to say - in effect - that we would accept the NADs' recommendation if Westland accepted the European bid. We can't object to this, since it leaves the decision in the company's hands.
CDP
13/12.

MO 26/16/1

PRIME MINISTER

WESTLAND PLC

At the meeting of E(A) on Monday, it was concluded that the European consortium should be told that they had until 4 pm today to put forward a package which the Westland Board could recommend after which time the Government would make clear that this country would not be bound by the NADs recommendation. This decision reflected the urgency of the financial situation facing Westland and the view of colleagues that the Europeans should have a proper chance to present a convincing alternative to Sikorsky. The European offer was submitted to the Board of Westland earlier this afternoon and I now report the position to colleagues.

2. Perhaps the most significant development is the decision of the Board of British Aerospace plc to join the European companies as a full member of the consortium. A similar decision has now been taken by GEC in principle but is not yet quantified. The new consortium has I understand submitted its proposals to Westland comprising:

- an offer to subscribe up to a total of £30 million, and more if necessary, for new capital;

* This is a new way of describing the European Consortium.

- additional firm sub-contract work from Aerospatiale and Agusta (bringing the total amount of work to be brought to Westland by Aerospatiale and Agusta over the next five years to 3,000,000 direct man hours with a value of £130 million)

Linked with a decision by the Company to proceed with the * British Aerospace consortium, the Ministry of Defence has indicated its willingness to order an additional 6 Sea King helicopters (see below).

3. On the financial side, I understand that the European bid is still subject to certain conditions. When I saw Sir John Cuckney on Tuesday evening to follow up the E(A) discussion, I explained to him the importance of providing this information in a timely fashion. He gave me an assurance that the Company would both provide the 1985 draft accounts and answer questions on them. I am told by Lloyds Merchant Bank Limited that they have not received the full information that they need. I am myself in no position to judge this but, if the Westland Board were set on proceeding with Sikorsky, they may well have seen little reason to be as forthcoming with the European consortium as they have been with Sikorsky.

4. On the second key issue of the workload at Westland, at the request of Lloyds Merchant Bank Limited, the Ministry of Defence has carried out some calculations on the effects of the European proposals which have been made available to Westland plc. I

attach for information a copy of a graph which shows the significant additional firm workload generated by the British Aerospace consortium. I am advised that this offers a certain level of workload that - even with no further orders - goes a considerable way to providing the Company with work on the shopfloor that would carry them through into the build up of work on the EH101.

5. We have now on offer then the involvement of our two largest British defence contractors together with the three present European partners of Westland set against a bid by a US company (with Fiat as very much the junior partner). The balance of national industrial interest seems clear.

6. Turning to the inter-Governmental position, I have reached agreement with my Defence Minister colleagues in Germany, France and Italy on our policy towards the development and procurement of helicopters over the next fifteen years or so. In accordance with the remit of E(A) I have made it explicitly clear that these arrangements would come into effect for the United Kingdom only in the event that Westland plc decide to accept the offer of the British Aerospace consortium. This condition also of course applies in the case of our European allies since, if Westland join with Sikorsky, they will obviously wish to review their existing links with the Company and plans based on future co-operation with them.

7. The general agreement on future procurement policy is complemented by a resolution by the four Ministers together with the Minister of Defence of the Netherlands on our intention to initiate a programme for a single European battlefield helicopter for the 1990s (copies are attached together with the covering letter under which I forwarded them to Sir John Cuckney). To reach agreement on this document in a matter of days is I believe a major achievement and shows the will of my European colleagues to produce a solution which meets Westlands requirements. The value of this document is two-fold. First, in terms of our general approach to defence procurement, a single European battlefield helicopter will be a significant step towards standardisation of equipment on the European battlefield. Secondly, in the particular context of the Westland reconstruction, the British Ministry of Defence will now be involved in a development programme with five countries rather than an Anglo-Italian programme as currently at the feasibility stage. I am advised that this will generate savings of around £25 million on my budget and in order to assist the Company I would intend to use this money to order 6 additional Sea King helicopters for which there is a clear operational requirement but for which at present funds are not available. You will appreciate that, since a five-nation programme is contingent upon the success of the European offer, these savings and this order will not arise in the event of a Westland tie-up with Sikorsky.

8. I have no information on how and when the Board of Westland plc will respond to these proposals. There are three possible outcomes:

a. The Board will conclude that they wish to proceed with a Sikorsky bid and the offer from the British Aerospace consortium might then be withdrawn. In these circumstances the agreements now reached with my European Ministerial colleagues will clearly fall and I would intend to make that clear publicly in line with the decision reached at E(A). I confirm also my original commitment to give full support in that event to the Sikorsky offer;

or

b. The Board will conclude that they wish to proceed with the British Aerospace consortium offer and Sikorsky will decide not proceed with their offer. In that case I will then put into effect the agreements now reached including the additional order for Sea King helicopters.

or

c. The Board decide in favour of one of the two offers but their decision is taken to the shareholders by the other group involved. The Government will then inevitably be asked certain questions.

9. In the event that these questions are raised, I will have to comment on the Ministry of Defence's procurement policies and would intend to say:

a. Our general approach to procurement in the helicopter area is to seek to satisfy our requirements by collaboration with our European partners in accordance with 1978 Declaration. The further proposals which have now been developed within that framework take this process further and provide for the procurement of helicopters in three classes on a collaborative basis over the next fifteen years. This programme, if entered into, would represent a major workload for Westland enabling them to maintain both development and production capabilities.

b. In the event that the Company decided to proceed with the tie-up with Sikorsky, we would need to consider the consequences with our European partners who have informed me that they would wish to review Westlands participation in these joint programmes.

c. That, whatever happens, the Ministry of Defence has neither the requirement nor the funds for the purchase of the Black Hawk helicopter. We are not in a position to comment upon the prospects of the helicopter in other markets.

10. I am copying this minute and the enclosures to the other members of the Cabinet and to Sir Robert Armstrong.

Ministry of Defence

13th December 1985

File

10 DOWNING STREET

From the Private Secretary

16 December 1985

I am writing on behalf of the Prime Minister to thank you for your telegram of 16 December.

This is receiving attention and you will be sent a reply as soon as possible.

CHARLES POWELL

Alan Edgar Bristow, Esq., O.B.E.

fl VC3AW

bc Sir Pc

10 DOWNING STREET

From the Private Secretary

16 December 1985

WESTLAND

I enclose a copy of a telegram to the Prime Minister from Mr. Alan Bristow. He asks for a meeting with the Prime Minister.

We intend to reply that the Prime Minister does not think it appropriate for her to meet those engaged in bid situations, and to suggest that he should turn his attention to your Secretary of State. Please let me know by 0900 tomorrow if you disagree.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence).

C.D. POWELL

TS

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

3 - DUTY CLERK
1 - FILE

27582 CABOFF G
859068 AEBRIS G
NO: 0036 16.12.85 10:48

TELEX NO: 2/027

TO: THE PRIME MINISTER'S OFFICE
FROM: ALAN E BRISTOW

DEAR PRIME MINISTER

FOLLOWING WESTLAND BOARD STATEMENT LAST FRIDAY AND ENSUING PRESS AND TV COMMENT OVER THE WEEKEND, I HAVE DECIDED TO MAKE MY POSITION CLEAR BY ADVISING YOU THAT AYE AM STILL PREPARED TO CONTRIBUTE OWN CASH AND TO PARTICIPATE PERSONALLY IN PREDOMINANTLY BRITISH SOLUTION OF WESTLAND DIFFICULTIES.

SECONDLY HAVE GOOD REASON TO BELIEVE MY INVOLVEMENT WOULD HELP WIN THE DAY FOR BEST INTERESTS OF GREAT BRITAIN.

THIRDLY PLEASE CAN YOU SPARE TIME FOR PRIVATE MEETING, MEANWHILE HOLDING MYSELF AVAILABLE FOR YOUR CALL.

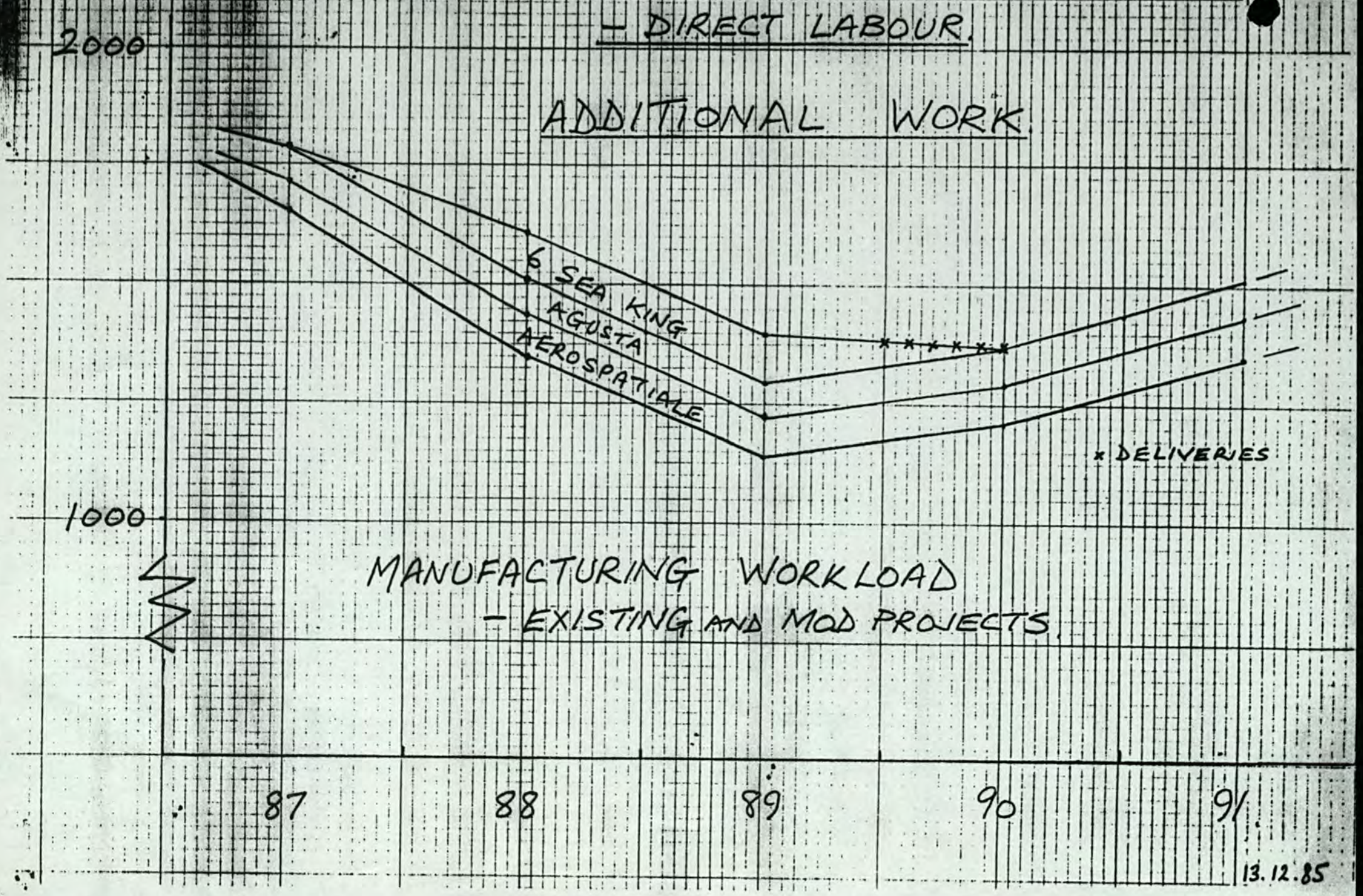
YOURS SINCERELY

ALAN E BRISTOW

27582 CABOFF G
859068 AEBRIS G

E.R.

HELICOPTER WORKLOAD AT WESTLAND – DIRECT LABOUR.



13.12.85

MF

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/16/1

13th December 1985

Dear Sir John

The attached note has been provisionally approved by the Ministers of Defence of the French Republic, the Federal Republic of Germany, the Republic of Italy and the United Kingdom. If the proposals put forward by the European companies are accepted by the shareholders of Westland plc, the document in its present form will be formally approved and signed by the four Ministers. Also enclosed is a resolution between the Defence Ministers of these countries and the Netherlands concerning a collaborative European battlefield helicopter; the status of this document is the same as the one mentioned above.

I should like to make two points. First, as far as the United Kingdom is concerned, the approval of plans for a four nation battlefield helicopter will release funds previously earmarked for the development of a two nation project. This will enable us to place an order for 6 extra Sea King helicopters beyond the present and intended orders. The orders will be placed so that the helicopters expected delivery date will be early 1990.

Second, I draw your attention to paragraph 10 of the note, which says that requirements for helicopters in three classes - which includes helicopters in the 8-9 tonne class - will be covered solely in the future by helicopters designed and built in Europe.

Sir John Cuckney

I am sending a copy of this letter to Mr Agius of Lazard Brothers and Company Limited and to Mr Horne of Lloyds Merchant Bank Limited.

Yours sincerely

NOTE BY THE DEFENCE MINISTERS OF FRANCE, GERMANY, ITALY AND THE UNITED KINGDOM

1. Ministers noted the substantial history of European collaboration of helicopters. In 1967 a bilateral programme of collaboration between France and the United Kingdom resulted in the development and production of three types of helicopter: the Gazelle, Lynx and Puma, which are in current use by their armed forces and which have been successfully exported. This collaboration has already resulted in the joint production of over 2000 helicopters.

2. Ministers also noted that, following the signature in June 1975 of a Memorandum of Understanding by Aerospatiale, Agusta, MBB and Westland an intergovernmental 4 Nation Helicopter Steering Committee was set up at official level to promote collaboration between the Governments. This Committee continues to meet regularly.

3. Ministers recalled that in 1978 the Defence Ministers of France, Germany , Italy and the United Kingdom signed a Declaration of Principles in which they expressed the intention of their Governments to work together to develop and produce new

helicopters, including their engines and their equipment, with a view to:

a. increasing standardisation and interoperability by rationalising and reducing the types used within the Alliance;

b. reducing costs by increasing the market for each type produced;

c. maintaining a strong and healthy helicopter industry within Europe.

4. At that time the Ministers also agreed that they would:

a. make every effort to reconcile their future requirements by agreeing common technical definitions and timescales so that their requirements can be met on a collaborative basis;

b. seek to develop by this method a family of products suitable for sale to other countries;

c. pursue a common policy with industry to promote

closer industrial collaboration, in particular by encouraging the creation of a working group composed of delegates from Aerospatiale, MBB, Agusta and WHL;

d. inform each other and consult together before selecting new equipment and to make every effort to meet their needs with helicopters developed jointly in Europe;

5. Ministers noted that since the establishment of these arrangements substantial progress has been made in European helicopter collaboration:-

a. In the 13 tonne class a bilateral programme has been set up between Italy and the United Kingdom. Known as EH101, this helicopter will be produced in Anti-Submarine Warfare, utility and commercial passenger versions. Full development was launched in 1984, first flight is planned for late 1986, and initial production versions will be available by about 1990.

b. In the 8-9 tonne class feasibility studies have commenced of a helicopter known as NH90 under a

Memorandum of Understanding signed by the 4 National Armament Directors, together with their Netherlands colleagues. Tactical transport and naval versions of NH90 are planned, with an in-service date of about 1993/4.

c. In the Light Attack Helicopter class there are currently two European programmes. In 1984 France and Germany signed a Memorandum of Understanding and placed contracts for the development of the PAH2/HAP/HAC 3G battlefield helicopter having a design mission weight of 5-6 tonnes. In Italy the A129 anti-tank helicopter with a mission weight of 4 tonnes is undergoing flight testing and an initial production order has been placed. Discussions are currently taking place between Italy, the United Kingdom, the Netherlands and Spain concerning the development of a further version of the A129 to meet their future battlefield helicopter needs.

d. In parallel a range of helicopter engines is under development which will provide Europe with a family of new products across a broad power spectrum. In France the TM333 will have an output of some 900shp; the

MTM385, being developed collaboratively by France and Germany will have an output of some 1200 shp; while the RTM322, under collaborative development by France and the United kingdom and in which Italian participation is under discussion, will have an output of some 2100shp. In 1985 MTU, Rolls Royce and Turbomeca signed an inter-company agreement in which they undertook not to develop competitors to these engines and to grant each other licence production facilities to meet the engine requirements of their Governments.

6. Ministers recognised the very substantial degree of progress which has been achieved in the helicopter and engine field towards meeting the objectives of the 1978 Declaration of Principles. They noted that that the projects described will provide the European industry with a competitive range of products for the 1990s employing the latest technologies.

7. However they now recognised the need to make further progress, especially in recognition that, following a period of substantial ordering of military helicopters during the 1970s the production requirements of their own armed forces have reduced and were likely to continue at a modest level during the remainder of the 1980s, before increasing again in the 1990s.

It had been hoped that military export and commercial orders for existing helicopters would sustain industrial capacity until the expected up-turn in 1990, but the depressed state of the world helicopter market has resulted in difficulties for all the European manufacturers (and especially for Westlands).

8. Ministers therefore decided that it was important to consolidate national requirements and to provide further for a strong and viable European helicopter industry. Accordingly they agreed to build on their success in harmonizing the requirements in the 13 and 8-9 tonne classes, and noted that it would be greatly preferable to achieve a single battlefield helicopter to meet the requirements of their Armies in the period 1993-5 onwards, thus maximising both the operational benefits of standardization and the economic and industrial benefits of a larger production run. Ministers agreed that a joint battlefield helicopter programme is practicable and desirable within the constraints of differing timescales and priorities. and have accordingly directed that requirements, detailed characteristics and procurement arrangements should be harmonised accordingly. Programmes currently in production would be unaffected but know-how and technology developed on programmes such as the A129, AS332, etc, could be adopted.

9. Ministers agreed that the economies resulting from the development and production of a single European helicopter in the battlefield class could make funds available for the enhanced procurement of programmes currently in production thereby alleviating the loading problems referred to in paragraph 7.

10. Finally, Ministers agreed that the European helicopter industry will be strengthened if a clear European preference is restated. They therefore agreed in reaffirming their commitment to the 1978 Declaration of Principles that the needs of their forces within the 3 classes set out in paragraph 5 should be covered solely in the future by helicopters designed and built in a cost-effective way in Europe.

RESOLUTION

BETWEEN

THE MINISTER OF DEFENCE OF THE FRENCH REPUBLIC,

THE FEDERAL MINISTER OF DEFENCE OF THE

FEDERAL REPUBLIC OF GERMANY

THE MINISTER OF DEFENCE OF THE REPUBLIC OF ITALY

THE MINISTER OF DEFENCE OF THE KINGDOM OF THE

NETHERLANDS AND THE SECRETARY OF STATE FOR

DEFENCE OF THE UNITED KINGDOM OF GREAT BRITAIN

AND NORTHERN IRELAND

concerning

THEIR INTENTION TO INITIATE A PROGRAMME FOR

THE DEFINITION, DEVELOPMENT, PRODUCTION AND

SUPPORT OF A EUROPEAN BATTLEFIELD

HELICOPTER FOR THE 1990s

The Minister of Defence of the French Republic, the Federal Minister of Defence of the Federal Republic of Germany, the Minister of Defence of the Republic of Italy, the Minister of Defence of the Kingdom of the Netherlands and the Secretary of State for Defence of the United Kingdom of Great Britain and Northern Ireland, hereinafter referred to individually as "France", "Germany", "Italy", "The Netherlands" and the "United Kingdom" respectively, and "the nations" collectively:

HAVING NOTED THAT

- each nation has a requirement for battlefield helicopters to enter service in the 1990s, amounting to a total requirement of more than 600;

- there are two collaborative battlefield helicopter projects -HAP/PAH2/HAC3G and A129 LAH - under consideration by the nations;

- there would be a saving of effort and resources should the two projects be combined, which would be in accordance with the principles set out in the 1978 Declaration of Principles which, interalia, expressed the desire of associated nations to foster co-operation

between their industries to develop and produce new helicopters; and allow savings in costs which might be used to further strengthen the European helicopter industry;

- Ministers have signed a Statement of Intent to pursue a single European solution for the battlefield helicopter;

- there is a high degree of commonality between the nations' needs for the basic battlefield helicopter;

INTEND

- to implement a joint programme to meet these requirements by a single joint European development of the basic battlefield helicopter to enter service in the 1990s. Such a helicopter is envisaged as including the following characteristics;

- a Mission Take-off Mass of around the 5 tonne class,depending on application;

- carrying up to 8 collaboratively developed anti-tank guided missiles, currently assumed to be LR TRIGAT;

- an advanced night vision and sighting system including optical,TV AND IR components;

- an engine from the European family of helicopter engines,(for example MTM 385 and RTM 322), whilst allowing installation of other engines;

- advanced helicopter technologies, including advanced rotor designs, active control systems, autonomous navigation system multi-function cockpit displays and composite structures.

- survivability with particular attention paid to agility and signature reduction.

- the more detailed characteristics are listed in the annexes attached to this resolution and will form the basis of the joint helicopter.

AND INSTRUCT

- their Chiefs of Staff and National Armament Directors to make joint detailed proposals for such a programme by the end of February 1986.

SIGNED IN THE [ENGLISH AND FRENCH] LANGUAGES BY:

IN .....ON 1986

Minister of Defence of the French Republic _____

Federal Minister of Defence of the Federal Republic of Germany _____

Minister of Defence for the Republic of Italy _____

Minister of Defence for the Kingdom of the Netherlands _____

The Secretary of State for Defence for the United Kingdom of Great Britain and Northern Ireland _____

PRIME MINISTER

WESTLAND

Sir J. Cuckney telephoned at 1630 to say:

(a) the Westland Board had received the European offer at approximately 1500;

(b) most of the particulars of it were familiar. The Board had decided that the offer was not acceptable;

(c) their understanding was that in the circumstances, HMG would not be bound by the National Armaments Directors' recommendation. He asked me to confirm that this was my understanding also. I did so.

C.D.P.

MT

(C. D. POWELL)
13 December 1985

10

COMMERCIAL IN CONFIDENCE

CDP 16/xii

Treasury Chambers, Parliament Street, SW1P 3AG

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

13 December 1985

Dear Richard

WESTLAND

I understand that Mr Heseltine intends to offer, as part of the European deal, additional orders of Seaking helicopters, as proposed in his minute of 9 December to the Prime Minister.

The Chief Secretary has asked me to confirm with you the understanding already reached between Treasury and MOD officials that any expenditure on such orders would be accommodated within the existing Defence Budget.

I am copying this letter to Charles Powell (No 10) and to John Mogg (DTI).

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

COMMERCIAL IN CONFIDENCE

JA1AFY

has seen
CDP
13/12

PRIME MINISTER

WESTLANDS

Sir John Cuckney telephoned me shortly after 1pm this afternoon.

Sir John said that he had this morning cleared with the Trade and Industry Secretary his interpretation of the Government's decision last Monday. It was not that the European consortium had to make an offer by 4pm today, but that the Westlands Board had to decide whether or not to recommend it by that time. His Board would be meeting at 2.30pm and would reach their decision at 4.

Sir John said that he would subsequently write to you. Assuming that the Board did not find the European offer the more attractive, the letter would say that they had decided to conclude an agreement with Sikorsky; that they understood that HMG would in this event not consider itself bound by the recommendation of the National Armament Directors; that Westlands regretted the hostile and harmful actions taken against them by the Ministry of Defence; and that Westlands hoped that the MOD would not say publicly that they would never purchase Blackhawks because this would be against the rules of free competition.

I said that I took note of Sir John's intention. Speaking personally I thought it would be a pity to write a letter suggesting conflict between HMG and the company, particularly if the outcome of the affair was the one which Westlands themselves wanted. I also thought it would be better not to address such a letter to you. Sir John said that he had detailed evidence of disgraceful behaviour by the Ministry of Defence against Westlands over the past few days including

delayed payments, cancelled or postponed orders and instructions to contracts staff at the Ministry of Defence to treat Westlands as a company about to go into receivership. He felt bound to put these matters on public record.

I have subsequently spoken to Mr Brittan's Private Office and urged that he should have a further word with Sir John Cuckney this afternoon to encourage him to write a more moderate letter and to address it to the Department of Trade and Industry rather than to you.

I said that I would be in touch with Sir John in the course of the afternoon if I had anything further to communicate.

CDP

CHARLES POWELL
13 December 1985

PRIME MINISTER has seen CDP 13/2

WESTLAND

The Ministry of Defence's game-plan today is broadly as follows:

(i) They will be informing Westlands of the outcome of discussions among European Defence Ministers. These are to the effect that if a European bid went ahead, this would allow rationalisation of helicopter production in Europe. This would generate savings for the Ministry of Defence of the order of £25 million. It would in those circumstances invest the money in purchasing six more Seakings from Westland. Together with extra sub-contracting work placed by Aerospatiale and Augusta, this should tide Westland over until production of the EH101 starts.

(ii) Lloyds Bank International will present a financial offer on behalf of the European companies. This offer will be conditional on their having been given a full statement of Westland's liabilities. (They claim that Westlands are refusing to give them full information).

(iii) The MOD expect Westlands to turn down the European offer. Lloyds Bank International will make clear that they do not accept that the offer has been given full and fair consideration; they may appeal to Westland's shareholders and bankers to give them further consideration. This will be a matter for the judgement of the private sector.

If this scenario is played out, there seem to me two consequences:

(i) after 1600 hours we say to Westland that the Government is not accepting the NAD's recommendation, thus removing the obstacle to the Sikorsky bid if that is what Westland decide to pursue. But

(ii) the MOD will confirm that if the European bid were accepted, and if it led to a rationalisation of European helicopter production, then MOD would devote savings to extra purchases from Westland. This would be saying in effect that we would in practice adopt the NAD's recommendations if the private sector opted for the European bid - but the choice remains in their hands. MOD would probably also say that they had no plans to buy Blackhawk.

This seems to me to offer a potential way through the minefield, though the Government's position would be slightly curious. The present obstacle to Westland's Board reaching whatever decision it wants would be removed. But the Government would be giving an indication of the implications of the decision which will be material to shareholders' decisions.

CDP

CDP

13 December, 1985.

Mr. Powell

WESTLANDS

Sir Robert Armstrong has reported to me the following information obtained from a conversation with Sir Clive Whitmore.

The European consortium would submit an offer before the deadline. The offer figured would be higher than Sikorsky's. The four European Defence Ministers would indicate that orders and subcontracting would be available for Westlands if the European deal went ahead. That would effectively supersede the National Armaments Directors recommendation which would be overtaken by events. British Aerospace would be part of the European consortium. Bristows would not, at least formally.

Whitmore's expectation was that Westlands would still go ahead with the Sikorsky deal. The Europeans would then fight and lobby the bankers hard. An increase in the Sikorsky bid was expected.

Whitmore did not expect his Secretary of State to request a Ministerial meeting. The ball was in Westlands' court. Mr Heseltine would likely circulate a minute giving this factual background.

N.L.W

N. L. WICKS
13 December 1985

(2)

Prime Minister
It is clear that GEC's interest is stimulated by some lobbying. I am not aware that they've ever shown interest in helicopters before.
CDP
12/12.

MO 26/16/1

PRIME MINISTER

WESTLAND plc

Following the discussion at Cabinet this morning, I received on my return to the office the attached letter dated today from the Chairman of GEC. It is a further example of the concern within British industry about the implications of one part of our Defence industrial base passing into effective American control.

2. I am copying this minute and the enclosure to the other members of the Cabinet and to Sir Robert Armstrong.

Ministry of Defence
12th December 1985

THE GENERAL ELECTRIC COMPANY, p.l.c.
1 STANHOPE GATE · LONDON W1A 1EH
01-493 8484

FROM THE CHAIRMAN
THE RT. HON. JAMES PRIOR, MP

The Rt. Hon. Michael Heseltine, MP,
Secretary of State for Defence,
Ministry of Defence,
Main Building,
Whitehall,
LONDON SW1A 2HB.

12th December 1985

Dear Michael

WESTLAND plc

We had a word about this in the Lobby last evening and I have had a discussion with Arnold about it this morning. This is to let you know that GEC would give full support and be prepared to take a financial interest in the proposed European Consortium, if this would be helpful to you. Furthermore, we could advance alternative proposals if the Consortium fails to materialise.

We know that your time is short, but as there is a very strong national interest involved we are ready to give such backing as would be necessary to retain a European capability.

Yours ever

Jim

10 DOWNING STREET

Prime Minister

Although not strictly for your eyes, you might like to glance at this helpful account of the lengths to which MOD are going.

Agree that we should have no inhibition about going public on our rejection of the NAD's recommendation after 4 p.m. on Friday?

CDP 12/12

~~Agreed~~ to see everyone

I think the decision

hinges on whether

the European deal

is acceptable

to Wednesday

MT

b.c. Mr Powell
No 10

COPY

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

MR UNWIN

cc Mr Mallaby
Dr Walker

WESTLANDS

I understand that Mr Heseltine sought at this morning's Cabinet to re-open the decision taken by E(A) on Monday evening 9 December. In pressing for this he adduced the fact that the Cabinet Office had rung round to arrange a meeting on Friday afternoon - which implied that they thought such a meeting should be held - and then rang round again subsequently to cancel the proposed meeting. I told Mr Powell that the Committee Section had indeed rung round on Tuesday morning (10 December) to see whether Ministers would be available for a meeting on Friday afternoon, if one proved necessary; there was no suggestion that such a meeting was actually being fixed. Subsequently, following a conversation with the Prime Minister's Private Office, I asked Committee Section to ring round again to make clear that we were not seeking to fix such a meeting, and that Ministers should not feel inhibited from accepting other engagements. Unfortunately, it appears that this second ring round was not completed until around mid-day on Wednesday 11 December, following a further request by us to the Committee Section.

2. I should also record the following further developments.

(i) Mr Heseltine sent a personal message to his European colleagues yesterday seeking their cooperation with his proposed European solution for Westlands, and making clear that commitments were needed by 3.00pm tomorrow, 13 December. This message, which was not copied to the Secretary of State for Trade and Industry, invited the French and Germans to

join in the joint Anglo-Italian EH101 large helicopter project, and to devote the savings they would make thereby to placing additional work with Westlands at Yeovil. (It is not clear whether this invitation reflected any consultation with the Italians.)

(ii) The Ministry of Defence have sent to BAE a full schedule of their expected future helicopter orders from Westlands. The DTI are now urging MOD to make the same information available to Westlands themselves.

(iii) Although Westlands had given Lloyds Merchant Bank a copy of their 1984/85 draft Accounts, LMB and the European companies were still dissatisfied with Westlands' disclosure of information. DTI were seeking to establish urgently what further questions LMB wish to have answered, with a view to removing this source of irritation.

(iv) LMB were said to be contemplating publishing their proposals for a European solution in the course of tomorrow. (MOD would presumably publish at the same time their supporting statement of the orders they would place with Westlands in the event of the European solution going through.)

(v) On the mechanics of a possible counter-bid, it would presumably be necessary for LMB to circulate to Westlands' shareholders the terms of their proposed alternative reconstruction, at the same time inviting shareholders to reject their own Board's recommendation of the Sikorsky deal at the scheduled Extraordinary General Meeting. In order to do this, they would in principle need the agreement of Westlands' banks, which seems unlikely to be readily forthcoming; however, if the European alternative could be made substantially more attractive to the banks than the Sikorsky deal, the banks would presumably have in the end to consider it seriously.

(vi) Mr Perry is due to report back at 9:30pm this evening on the progress of his European tour. It should emerge from this whether the French and Germans are interested in joining the EH101, and how far they would be willing to devote the consequential savings, and also any savings from rationalisation of the battlefield helicopter projects, to providing further work for Westlands at Yeovil.

3. According to Monday's E(A) decision, UK rejection of the NADs' recommendation takes effect automatically at 4.00pm on 13 December. Thereafter it would presumably be open to Westlands to make public reference to the decision in discussions with shareholders and others. The Defence Secretary may need to consider what he should say to his European colleagues about this decision; it would be awkward if contrary impressions were given by Westlands and MOD about the stance of UK Government policy.

AW

A J WIGGINS
12 December, 1985

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

MR UNWIN

cc Dr Walker

WESTLANDS

This is to record a few gleanings from the DTI.

(i) MOD (Mr Bourn, Deputy Secretary) have had a meeting with Sikorsky. Mr Perry is said to be touring Europe today to see his fellow NADs, apparently with the intention of securing commitments that the money saved by rationalising the competing battlefield helicopter projects will be spent at Yeovil.

(ii) It is apparently MOD's intention that when the European consortium proposal is announced, it will be accompanied by an MOD statement about additional helicopter orders in the event of its going through. Westlands understandably dislike this.

(iii) The banks concerned have now agreed the Sikorsky reconstruction package, and only the underwriting of the rights issue remains to be set in place. Westlands are said to have refused to authorise their banks to discuss the situation with representatives of the European consortium. The Bank of England apparently think that the banks would be most reluctant in any event to start a completely new set of negotiations with the European consortium, now agreement has been reached on the Sikorsky package.

(iv) Despite the Defence Secretary's assertion that a rights issue would not be needed if the European consortium approach prevailed, Lloyds Merchant Bank have now told

DTI that the shape of the reconstruction package would be the same in either case - both a rights issue, and some conversion of bank loans into equity.

(v) MOD envisage that United Scientific Holdings and Bristow (which hold respectively 5 per cent and 3 per cent of Westlands'shares) would join the European consortium alongside BAE and the three continental companies. It is clear that MOD are seeking to mobilise shareholders' support for their preferred alternative, but in practice Westlands' shares are said to be very widely distributed among small holders, so that it would be extremely difficult to mobilise a majority to resist a recommendation from the Westlands' Board.

(vi) DTI expect Westlands to reject the European approach in whatever form it is put to them tomorrow (following Mr Perry's excursion today), and to confirm their recommendation of the Sikorsky deal. In principle this would trigger the UK Government's rejection of the NAD's recommendation. The way would then be open for the proposed reconstruction to be announced on 19 December, subject to ratification by an Extraordinary General Meeting of Westlands' shareholders three weeks later. It seems unlikely that Mr Heseltine will admit defeat, and DTI therefore expect some sort of announcement of the European counter-proposal (supported by the MOD statement indicated above). I have asked DTI to consider when an announcement of the counter-proposal might be made, what its legal implications would be, and what form it would have to take; if it had the effect of causing the banks to withdraw from the Sikorsky deal, but was not itself supported by the banks as an alternative, would this have the effect of forcing Westlands into receivership? Alternatively, would the announcement be made after the publication of Westlands'

accounts and the proposed Sikorsky deal, with the objective of securing rejection of the Sikorsky approach at the EGM? How and when would bank support for the European alternative be put in place? Would it be in order for the European alternative to involve a bid for only 29.9 per cent of Westlands' shares, or would the proposed consortium find itself in a position of having to make a full bid for 100 per cent of Westlands? (It would appear that all Westlands' Directors supporting the Sikorsky approach would have to resign if the alternative were to prevail.)

JW

A J WIGGINS
12 December, 1985

GPS500 CONFIDENTIAL

Mr O'Shea - do you have your own copy?

O P 121200Z DEC
FM MODUK
TO BRITISH EMBASSY BONN
BRITISH EMBASSY ROME
INFO BRITISH EMBASSY PARIS
FCO LONDON
BT
C O N F I D E N T I A L
SIC ACA/A2P
SUBJECT: RATIONALISATION OF THE EUROPEAN HELICOPTER INDUSTRY
FROM PS/DEFENCE SECRETARY

CDP 13/12 MFD 13/12/85

1. WE SPOKE ON THE TELEPHONE (CHAMBERS/MOTRAM) ABOUT DR WOERNERS TELEPHONE CALL TO THE DEFENCE SECRETARY THIS MORNING FOLLOWING THE PERSONAL MESSAGE IN OUR TEL NO 110930Z. DR WOERNER MADE THE FOLLOWING POINTS:

A. HE FULLY SUPPORTED, AND WAS GRATEFUL FOR, THE DEFENCE SECRETARYS EFFORTS TO ACHIEVE A EUROPEAN SOLUTION.

B. HE HAD, HOWEVER, TO TAKE ACCOUNT OF THE CONSTITUTIONAL POSITION IN GERMANY. HE WAS NOT ALLOWED TO PROCURE ANY WEAPON SYSTEM WITHOUT THE APPROVAL OF THE BUNDERSTAG AND SUCH PROPOSALS HAD TO GO TO THE BUDGET AND DEFENCE COMMITTEES. THE PAH2 BATTEFIELD HELICOPTER HAD BEEN APPROVED BY THESE COMMITTEES. A CHANGE IN THE GERMAN POSITION WOULD HAVE TO GO BACK TO THE BUNDESTAG FOR APPROVAL. HE COULD DO THIS AND WAS SURE THAT HE WOULD SUCCEED PROVIDED THAT HE WAS ABLE TO OFFER A REASONABLE COMPROMISE.

C. GERMANY HAD A GENERAL REQUIREMENT FOR REPLACEMENTS FOR THE CH53 AND UH1D HELICOPTERS IN HER INVENTORY BUT THIS WOULD NOT ARISE BEFORE 1999. THERE WAS NO REQUIREMENT IN EXISTENCE AND NO PARLIAMENTARY DECISIONS SINCE THE ISSUE HAD YET TO ARISE. HE COULD NOT THEREFORE SAY AT PRESENT THAT HE WOULD PROCURE THE EH101 TO MEET THIS REQUIREMENT, BUT IT WOULD CERTAINLY BE A STRONG CONTENDER.

D. SINCE HE DID NOT KNOW HOW MUCH MONEY WOULD BE SAVED BY BRINGING TOGETHER THE PAH2 AND A129 PROJECTS, HE COULD NOT DECIDE HOW HE WOULD SPEND ANY SAVINGS. THERE WAS NO FIGURE HE COULD RE-INVEST AND NO APPROVAL FOR SUCH ACTION.

E. THE EVIDENCE WAS THAT EVEN IF EUROPE CAME TOGETHER ON A BATTLEFIELD HELICOPTER, NH90 AND EH101, THERE WOULD STILL BE OVER-CAPACITY. THIS HAD TO BE TACKLED.

F. ON THE DOCUMENTS CIRCULATED TO NADS, HE WAS CONCERNED ABOUT THE PROPOSED SPECIFICATION AT THE BATTLEFIELD LEVEL. THIS WAS NOT PRECISE ENOUGH. EITHER WE MADE IT VERY PRECISE OR LEFT OUT THE DETAILED SPECIFICATION.

2. THE DEFENCE SECRETARY TOOK NOTE. HE SAID THAT IT WAS IMPORTANT THAT THEY DID AGREE THAT THERE WOULD BE NO COMPETITION WITHIN EUROPE IN THE THREE CLASSES ON WHICH THEY WERE SEEKING

TO CO-OPERATE. DR WOERNER SAID THAT THERE WOULD BE NO COMPETITION FROM HIS INDUSTRY. HE WAS CONCERNED, HOWEVER, THAT THE BURDEN OF COMPETITIVENESS SHOULD NOT BE REMOVED FROM THE EUROPEAN COMPANIES SINCE OTHERWISE THEY WOULD NOT PRODUCE HELICOPTERS ON TIME OR TO COST. THE DEFENCE SECRETARY AGREED THAT THIS HAD TO BE TAKEN INTO ACCOUNT.

3 . IT WAS AGREED THAT THEY WOULD BE IN TOUCH IF NECESSARY FOLLOWING THE NADS MEETING.

4. FOR ROME: PLEASE PASS A COPY TO PERRY

BT

LIMITED

MAED
WED
DEFENCE D
TRED
PS
PS/LADY YOUNG
PS/MR EGGAR
PS/PUS
MR DEREK THOMAS
MR BRAITHWAITE
MR GOODALL
MR O'NEILL
MR SAMUEL

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

JU908
Secretary of State for Trade and Industry

CDP 13/12

12 December 1985

IN CONFIDENCE

Sir John Cuckney
Chairman
Westland plc
4 Carlton Gardens
London SW1

cc Mr O'Shea AHR
PS/CP
PS/SH BI.
Sir Jeffrey Sterling
Mr Michell
Mr Fairweather
Mr Mallinson

Dear Sir John,

As you requested, I am writing to record the conclusion of the meeting of Ministers on Monday. You will, I am sure, appreciate the need for this information to be treated in the strictest confidence.

It was agreed that, in consultation with me, the Secretary of State for Defence will explore urgently the possibility of developing the alternative European option into a package which Westlands would regard as preferable to the Sikorsky arrangement. If a viable European package which the Westland Board could recommend is not in place by 4.00 pm on Friday 13 December, HMG will then make clear that the United Kingdom is not bound by the National Armaments Directors' recommendation of 29 November.

The meeting also agreed that the Government would not require repayment of launch aid for the Westland W30-300 unless the company went into receivership. I understand that my officials are in touch with your staff about the implementation of this decision.

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

Yours sincerely

LEON BRITTAN

Leon Brittan

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

P 01821

PRIME MINISTER

WESTLANDS

(E(A)(85) 72)

BACKGROUND

1. Westlands current turnover is £300 million a year, and the company employs 12,000 people (7,500 of them at Yeovil). By far its most important customer is the Ministry of Defence; the most significant civil application of helicopters is the servicing of offshore oil and gas installations. There are 4 major European helicopter manufacturers; Westlands, Agusta (Italy), Aerospatiale (France) and MBB (Germany); it seems unlikely that the market will prove sufficient to support the maintenance of the full range of design, development and production capacity at all of them.

2. There are three basic types of helicopter - large, medium and small:

(a) Large - Westlands are jointly developing with Agusta the EH 101, for both civil and military applications. Production is due to start about 1990.

(b) Medium - the 4 European countries are conducting a feasibility study for the collaborative development of the NH 90. The Sikorsky Blackhawk is in the same range, as is the Aerospatiale Super Puma and the improved version of the Westland W 30 (for which Westlands have received £40 million DTI launch aid). The Ministery of Defence position is that they do not propose to buy Blackhawk, Super Puma or W 30, but will instead make do with existing Wessexes and Sea Kings until the NH 90 is available some

time after 1990. Helicopters in this range have some civil as well as military potential.

(c) Small - at present there are two competing European approaches to the development of a new battlefield helicopter: one involving Aerospatiale and MBB, and the other Westlands and Augusta (on the basis of a new version of the Agusta A 129).

3. Westlands have been losing money, and unless a financial reconstruction is in place by the time the company's accounts for the year to 30 September 1985 are published on 19 December, the company will go into receivership. There have already been major management changes, with the appointment of Sir John Cuckney as Chairman. New equity money is needed, as well as the conversion of some bank borrowing into equity, and a rights issue. Two proposals have been made:

(i) Sikorsky, in association with Fiat, would put in up to £30 million, and would take a stake of up to 35-40 per cent in the company. Westlands would be given a licence to manufacture the Sikorsky Blackhawk for sale in European and certain other markets;

(ii) Aerospatiale, MBB and Agusta would put in at least £25 million and possibly up to £40 million in return for a 30 per cent stake. (The offer is firm from Aerospatiale and MBB, but the participation of Agusta is conditional on the Italian Government who have not yet taken a clear position.) British Aerospace may also offer to take some share in a European support operation; their Board are discussing the issue this morning, and a report may be made to the meeting.

4. Meanwhile the National Armaments Directors (NADs) of the four countries have recommended to their Governments that all their requirements for helicopters in the three categories

above should be satisfied by equipment designed and built in Europe. The implication of this would be that the NH 90 would go ahead; the two competing battlefield projects would be amalgamated; and Aerospatiale and MBB would take a stake in the EH 101. If the Government endorsed this recommendation, it would rule out the purchase by MOD of any Sikorsky - designed helicopter built by Westlands; the company accordingly take the view that they cannot go ahead with a Sikorsky - backed financial reconstruction unless the Government make clear that they do not intend to endorse the NADs' recommendation.

Advantage and disadvantages of the two proposals

5. The Secretary of State for Trade and Industry considers that it is essentially for Westlands to make a commercial decision between the alternative reconstruction arrangements. Westlands (whose Wessex and Sea King are basically Sikorsky designs) believe that the Sikorsky option gives them better prospects of getting through the next few years when UK military orders will be scarce, essentially through export sales of Blackhawk. They also consider that they can gain more from Sikorsky in terms of management strength and design capability, as well as long-term stability for the business. Meanwhile the European option offers relatively little in assured new work - some subcontract assembly work for Aerospatiale, the possibility of manufacturing the A 129 under licence if additional orders can be secured, and the possibility of participation in the development of further versions of the Super Puma. (There is some suggestion that Westlands might also secure some further subcontract work on the Super Puma, of the order of £10 million or so, in return for UK use of Ariane rather than the US Shuttle, but there would be some cost to MOD, again of the order of £10 million. But the main beneficiary of further Super Puma orders would, of course, be Aerospatiale.)

6. The Secretary of State for Defence strongly prefers the European option. He argues that the Sikorsky option would mean

(i) exclusion of the UK from European collaborative projects;

(ii) leakage of UK/European technology to the US;

(iii) because of the adverse German reaction, risks to EFA;

(iv) the progressive weakening of the European helicopter industry, with a major element falling under US control.

On the other hand the European option would promise better prospects in the long run, because of the wide market promised (from the mid-1990s) for the products of the collaborative developments now under way or in prospect. Meanwhile MOD argue that that that the greater economy of developing the new battlefield helicopter on a quadripartile basis would save £25 million which could be spent on addition orders for presently available Westland helicopters (although no explanation is offered why it would be right to purchase these aircraft which, on present plans MOD were intending to do without).

MAIN ISSUES

7. The joint paper by MOD and DTI officials identifies three issues on which Ministers need to reach views:

(i) is it acceptable for a major defence contractor to come under effective foreign (i.e. US) control?

(ii) What position should the Government take on the recommendation of the NADs?

(iii) What should be done about the £40 million launch aid already given to the Westlands W 30-300?

Sir John Cuckney will be in attendance at the meeting of the Sub-Committee; in order to inform Ministers decisions on those issues which are a matter for Government, he might be asked to comment on:

(a) the financial implications of the alternative courses for Westlands in the immediate future;

(b) the impact of the alternative courses for Westlands' management and design/development capability;

(c) Westlands' view of the implications of the alternatives for the future of the EH 101 and NH 90 projects, and also the future rationalisation of the competing battlefield helicopter projects;

(d) the prospective loading on Westlands' manufacturing facilities of the alternative arrangements, given that MOD will not buy either Blackhawk or any version of the Super Puma.

An independent UK capability

8. As already noted, Westlands have had a long-standing relationship with Sikorsky on helicopter design and development. As is now apparent, the management of the company have not been successful in establishing a UK operation which can stand on its own in the world market. Either option appears to involve some reduction in the extent of the UK independent capability; in the case of Sikorsky, there would be significant dependence on US design capability and management expertise, while in the European case Westlands would be dependent in the short run on sub-contract work for Aerospatiale (or Agusta), and in the medium term would be wholly dependent on the collaborative development projects. It is not clear that an independent UK capability to develop helicopters is fundamental to this country's security; if it is considered acceptable for Westlands to become partially dependent on foreign companies, whether US or European, there can only be a choice if it is clear that neither course poses fundamental risks to Westlands' survival. The first question then would be whether the uncertain prospect of sub-contract work, etc in the case of the European option would be sufficient, with the

[Defence Secretary did not think so earlier this year, after the RAF were asked to chip in to help Westland afloat].

proposed cash injection, to keep Westlands going until the collaborative projects come to fruition after 1990. If not, the further questions become academic.

The NADs' recommendation

9. From the standpoint of European collaboration, the recommendation has obvious advantages. But it would mean the elimination of any element of competition from the European military helicopter market. On the other hand rejection of the recommendation is argued to prejudice the prospect of the UK participating on the NH 90 and the battlefield helicopter projects (and perhaps also to put at risk the EH 101). It is argued in particular that the Sikorsky link means the transfer of UK technology to the US, and that the other European manufacturers would be unwilling to have Westlands as their partner on this account: but it is doubtful whether the technological capability of the UK and European industries is of great interest to the US. So far as Agusta is concerned, Westlands' participation in the EH 101 is essential to the future of the company; this suggests that Agusta's support for the European option might not be maintained if it appeared that this would not be sufficient to save Westlands from receivership. In practice, on the information available, it does not appear that the Sikorsky link necessarily means the failure of the EH 101 project; and the European option undoubtedly involves some dilution of Westlands' interest in it. Nor is it clear that the battlefield helicopter could not go ahead as a 4-country collaboration in the event of the Sikorsky link, although clear arrangements would no doubt be needed to safeguard the ownership of the technology. UK participation in the NH 90 would be more at risk because of competition with the Blackhawk; but the question then arises whether there is any real need to develop a European rival to this type of aircraft.

Launch aid

10. DTI and the Treasury are agreed that, whichever option is followed, the Government should make clear that no attempt will be made, in the event of the W 30-300 being discontinued, to

recover the £40 million launch aid given to the project except in the event of liquidation of the company. It would seem sensible for Ministers to endorse this collectively, thus avoiding the need for damaging qualification of Westlands' accounts.

Westland's own views

11. It will be necessary to establish Westlands' views on the alternative possibilities, and in particular on the questions set out in paragraph 7 above.

HANDLING

12. I suggest that you handle the meeting in the following stages:-

(i) explore first the prior question of the importance to be attached to the maintenance of an independent UK design and development capability for helicopters, and the prospects of securing this on the basis of either option for the future of Westlands. The Secretary of State for Trade and Industry and the Secretary of State for Defence will wish to state their positions. The Chief Secretary, Treasury will wish to comment on the public expenditure implications which could be very substantial if the Sikorsky link were ruled out and the European option proved insufficient by itself to avoid receivership (keeping Westlands alive could then involve large continuing Government subsidies). Other Minsiters may wish to comment on the employment and political implications;

(ii) then invite Sir John Cuckney to join the discussion, so that he can make clear the company's view point, and answer any questions, in particular on the financial implications of the options and the other main points suggested in paragraph 7 above;

(iii) finally, after Sir John Cuckney has left the meeting, the Sub-Committee will need to reach conclusions on the outstanding matters for the Government listed in paragraph 13 below. It may be suggested that decisions should be delayed to give time to secure further participation in (ie by British Aerospace) and further advantages from (ie Super Puma sub-contract work) the European option. Two more days delay might just be tolerable; but you would need to be satisfied that there was a real prospect of securing additional long-term advantages from such proposals rather than simply minor palliatives.

CONCLUSIONS

13. You will wish to reach conclusions on:

(i) The importance of maintaining a UK helicopter design and development capability independent of the US, and the additional public expenditure costs it would be right to incur in order to achieve this (the key question is which option offers the better prospect for Westlands' immediate survival and longer term success);

(ii) the Government's response to the recommendation of the NADs: acceptance of the recommendation would preclude the Sikorsky option;

(iii) the question of the repayment of the W 30-300 launch aid.

J B UNWIN

Cabinet Office
11 December 1985

10 DOWNING STREET

Charles

message from John Mogg, DTI.
At 0930 this morning Westlands suspended the share quotation. The shares will remain suspended until the announcement of a deal.

Could you phone Mr Mogg for a brief word?

JB
10.12.85.

CONFIDENTIAL

Z O 110930Z DEC

FM MODUK

TO BRITISH EMBASSY PARIS

BRITISH EMBASSY BONN

BRITISH EMBASSY ROME

INFO BRITISH EMBASSY THE HAGUE

FCO LONDON

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

SIC ACA/A2P

SUBJECT: FUTURE OF THE EUROPEAN HELICOPTER INDUSTRY.

FROM. PS/DEFENCE SECRETARY

1. PLEASE DELIVER AS SOON AS POSSIBLE TODAY THE MESSAGE BELOW FROM THE DEFENCE SECRETARY TO M. QUILES. DR WOERNER AND SENATORE SPADOLINI. THE MESSAGE IS ALSO BEING MADE AVAILABLE TO EMBASSIES IN LONDON. THE DEFENCE SECRETARY WILL BE IN TOUCH BY TELEPHONE WITH HIS COLLEAGUES AND WE WILL REPORT THE OUTCOME.

2. MESSAGE IS AS FOLLOWS:

OUR STAFFS ARE IN TOUCH ABOUT THE RATIONALISATION OF OUR FUTURE REQUIREMENTS FOR HELICOPTERS AS PART OF OUR EFFORT TO MAINTAIN A VIABLEE HELICOPTER INDUSTRY UNDER EUROPEAN CONTROL. I THOUGHT I SHOULD WRITE TO YOU PERSONALLY TO LET YOU KNOW WHERE MATTERS STAND AND TO PUT FORWARD SOME FURTHER SUGGESTIONS WHICH NEED TO BE CONSIDERED IN THE LIMITED REMAINING TIME WE HAVE AVAILABLE. THE BOARD OF WESTLAND HELICOPTERS HAVE TO HAVE A RECONSTRUCTION PACKAGE IN PLACE BY 18TH DECEMBER TO BE ANNOUNCED WITH THEIR RESULTS FOR THE LAST FINANCIAL YEAR THE FOLLOWING DAY. GIVEN THE TIME TAKEN TO COMPLETE ALL THE DETAILED PAPERWORK WE ARE ALREADY AT THE POINT WHEN THEY MUST TAKE FINAL DECISIONS. I HAVE AGREED WITH MY COLLEAGUES IN THE BRITISH GOVERNMENT THAT I WILL MAKE A LAST PERSONAL EFFORT TO HELP TO CLARIFY THE EUROPEAN BID BY THIS FRIDAY 13TH DECEMBER. THIS IS THE ABSOLUTE DEADLINE. THE APPROPRIATE COMMITTEE OF THE CABINET MEETS AT 3PM THAT DAY.

I WAS ABLE AT MY HELPFUL MEETING WITH YOUR NATIONAL ARMAMENTS DIRECTOR ON 25TH NOVEMBER AND IN OUR SUBSEQUENT DISCUSSIONS TO SET OUT THE PROBLEMS WESTLAND FACE AND THE WAY IN WHICH WE WORKING TOGETHER MIGHT FIND A SOLUTION. THERE ARE TWO ESSENTIAL REQUIREMENTS. FIRST WE NEED TO ESTABLISH A CLEAR AND AGREED PLAN FOR HELICOPTER PROCUREMENT OVER THE NEXT 15 YEARS OR SO IN WHICH WESTLAND AND EQUALLY THEIR EUROPEAN PARTNERS CAN SEE A VIABLE FUTURE IN TERMS OF PRODUCT RANGE. IN THE PARTICULAR CASE OF WESTLAND I NEED A PRODUCT RANGE DEMONSTRABLY MORE ATTRACTIVE THAN THE ALTERNATIVE PROVIDED BYA LINK WITH SIKORKSY AND I NEED TO BE ABLE TO SHOW AS PART OF THE EUROPEAN BID THAT WE ARE ALL COMMITTED TO A SINGLE FAMILY OF HELICOPTERS AT THE BATTLEFIELD LEVEL. NH90 AND EH101. THERE IS ANXIETY THAT THESE HELICOPTERS MIGHT IN THE EVENT FACE COMPETITION FROM WITHIN EUROPE WHICH WOULD AFFECT THEIR VIABILITY. I BELIEVE WE NEED TO ADDRESS AND REJECT THIS EXPLICITLY.

/SECONDLY

SECONDLY, THERE IS THE PROBLEM OF THE PRODUCTION LOADING AT WESTLAND IN THE PERIOD UNTIL THE EH101 MOVES INTO THE PRODUCTION PHASE. THIS IS PARTLY A QUESTION FOR OUR COMPANIES TO ADDRESS IN TERMS OF SUB-CONTRACT WORK TO BE PLACED BY THEM AT WESTLAND. M. QUILES HAS MADE TO ME A MOST HELPFUL OFFER IN RELATION TO WORK ON THE SUPER-PUMA TO BE ORDERED BY THE FRENCH ARMY. I HOPE WE CAN CLARIFY URGENTLY WHAT THIS WOULD MEAN IN PRECISE TERMS. THERE IS ANOTHER WAY IN WHICH BY WORKING TOGETHER I MIGHT BE ABLE TO PLACE AT WESTLAND FURTHER PRODUCTION WORK FUNDED BYY THE BRITISH GOVERNMENT WHICH ARISES AS A POSSIBILITY IF MY PROPOSALS BELOW YIELD ME THE ECONOMIES TO FINANCE IT. THE KEY LIES IN MAKING OUR RATIONALISATION EFFORT EFFECTIVE AT THE BATTLEFIELD LEVEL AND WIDENING THE SCOPE OF PARTICIPATION IN THE EH101. IF WE CAN SHOW THAT WE ARE DEFINITELY MOVING AHEAD ON A JOINT 4 OR 5 NATION SOLUTION TO THE BATTLEFIELD REQUIREMENT THIS SHOULD GENERATE SAVINGS FOR EACH OF US COMPARED WITH THE DEVELOPMENT PROGRAMME WE WOULD OTHERWISE REQUIRE FOR A MORE LIMITED FORM OF COLLABORATION. A FOUR NATION DEVELOPMENT SHOULD DEFINITELY BE CHEAPER THAN TWO TWO NATION PROGRAMMES. I WOULD INTEND TO SWITCH MY SAVINGS INTO PRODUCTION OF EXISTING HELICOPTER TYPES AT WESTLAND. I WOULD HOPE THAT THE SAVINGS WHICH WLL BE GENERATED ON YOUR PROGRAMMES MIGHT ALSO BE REINVESTED IN OUR CO-OPERATION IN A WAY WHICH IN TURN ENABLED ME TO GENERATE FURTHER WORK FOR WESTLAND. I WOULD HOPE THAT FRANCE AND GERMANY WHO HAVE BOTH EXPRESSED AN INTEREST IN PARTICIPATION IN THE EH101 PROGRAMME WOULD BE WILLING TO JOIN THE EH101 DEVELOPMENT PROGRAMME IN A WAY WHICH REDUCED THE BRITISH GOVERNMENTS SHARE OF THE COSTS. I WOULD THEN INVEST ALL THE MONEY SAVED IN FURTHER HELICOPTER PRODUCTION. IN THE CASE OF ITALY I WOULD HOPE THAT THE SAVINGS GENERATED COULD ALSO BE RE-INVESTED IN A WAY WHICH PRODUCED AT LEAST SOME SUB-CONTRACT WORK AT WESTLAND.

THIS IS I APPRECIATE A COMPLEX PROPOSAL WHICH IN THE NORMAL PACE OF EUROPEAN ACTIVITY WOULD BE ADDRESSED OVER MANY MONTHS IF IT IS TO BE RELEVANT TO THE FUTURE OF WESTLAND WE NEED INSTEAD TO CONSIDER IT IN A MATTER OF DAYS. I PUT IT FORWARD BECAUSE IT IS THE ONE WAY IN WHICH I COULD GENERATE ADDITIONAL WORK AT WESTLAND PAID FOR FROM MY BUDGET WHICH WOULD BE UNIQUE TO A EUROPEAN APPROACH - IT IS THEREFORE THE ONLY CARD I HAVE AGAINST WESTLANDS VIEW THAT AN AMERICAN LINK WOULD GENERATE MORE PRODUCTION WORK.

/I HAD.

I HAD HOPED THAT WE MIGHT MEET COLLECTIVELY TODISCUSS THESE ISSUES FURTHER BUT THIS IS UNREALISTIC AT SUCH SHORT NOTICE IN VIEW OF ALL OUR EXISTING COMMITMENTS . I THEREFORE THOUGHT I WOULD SEND THIS MESSAGE AND FOLLOW IT UP INDIVIDUALLY BY TELEPHONE. MY PEOPLE WILL SEPARATELY BE IN TOUCH WITH YOUR NAD AND WITH THE REPRESENTATIVES OF YOUR COMPANIES WHO ARE I BELIEVE COMING TO LONDON. I HOPE TO TALK TO YOU THIS LUNCHTIME. I CAN FRANKLY IMAGINE YOUR REACTION OTO SO COMPLEX A SETT OF INTERLOCKING PROPOSALS AGAINST SO TIGHT A DEADLINE BUT I ASK YOU VERY PERSONALLY TO ADDRESS THE ISSUES IN THIS LETTER AND THE DISCUSSIONS YOUR COMPANIES ARE HAVING IN LONDON. I DO NOT KNOW WHICH WAY THE OUTCOME OF THIS WILL GO BUT I DO KNOW THAT SIKORSKY ARE ABLE TO NEGOTIATE AS ONE COMPANY WITH ONE VOICE WITH ALL THE DRIVE AND IMMEDIACY THAT PROVIDES. CAN WE LET IT BE SAID THAT IN SO FUNDAMENTAL A MATTER WE ARE UNABLE TO MATCH SUCH RESOLVE.

I ASSURE YOU I WILL DO ALL I PERSONALLY CAN TO ACHIEVE THE PURPOSES TO WHICH WE ALL SUBSCRIBE. I CANNOT DO IT WITHOUT YOU SUPPORT.

BT

LIMITED
MAED
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ECD(E)
DEFENCE.D
MR. BRAITHWAITE
MR O'NEILL

Nigel

You might like to tell the PM that Michael Heseltine asked me late last to try and persuade her to hold a meeting on Friday. I said that I could not do that. I said he must either do it himself or if as he said it was a "Constitutional Necessity" under Cabinet Govt. I suggested he spoke to Chris Whitmore who could if necessary speak to Robert Armstrong.

[signature]

(2)

Prime Minister
CDP
10/12

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/16/1

10th December 1985

Dear Leon

WESTLAND HELICOPTERS

We spoke on the telephone about the further steps needed if the European consortium (acting in all probability with British Aerospace) are to be in a position to put forward final proposals by the Committee's deadline of Friday. We agreed that our officials would work closely together.

I understand from their merchant bank adviser that the European consortium are at present hampered in putting forward a firm bid by the unwillingness of the Westland Board to reveal to them financial and workload information. Clearly, within the spirit of the E(A) discussion last night it would be right to ask the Westland Board now to make available this information on the same basis as it is being made available to Sikorsky/Fiat. Moreover, it would seem to be in Westland's own interest and that of their shareholders and their banks that this information should be disclosed in order properly to establish the alternatives on offer. You suggested that there might be difficulties over making available certain commercially

The Rt Hon Leon Brittan QC MP

sensitive information but I am sure this is not an insuperable problem. Our officials could, together with Westland, look at any problem areas.

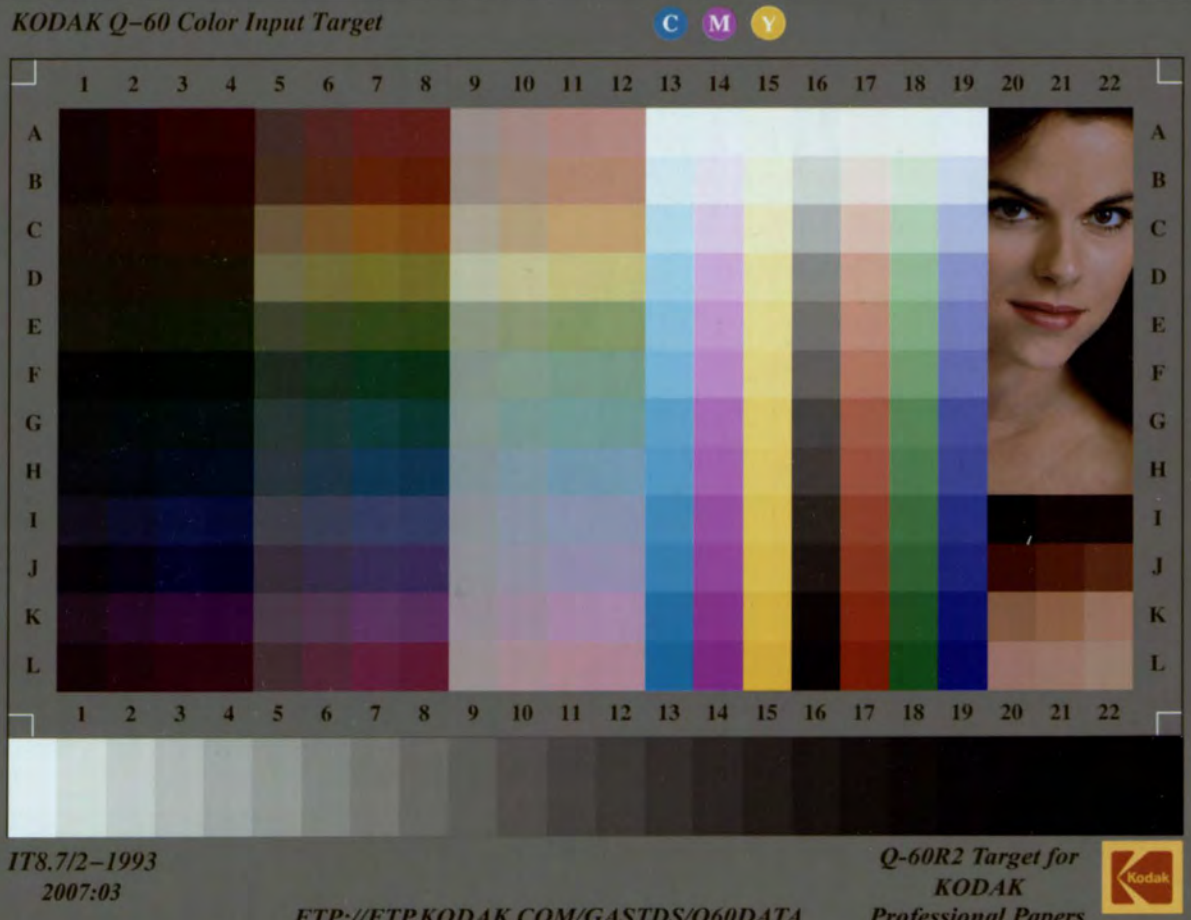
I am hoping to see Sir John Cuckney later today for a general discussion and will raise this problem with him then, as we agreed. Anything you and your people can do to encourage Westland to provide this information would also, of course, be most helpful.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever

Michael

Michael Heseltine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