PREM 19/1667

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PART 2.

CONFIDENTIAL FILING

AEROSPACE

7

WESTLAND HELICOPTERS

PART ONE APRIL 1985

PART TWO DECEMBER 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.1.86~~ 10.1.86							

Part 2 Ends

PART 2 ends:-

RTA to DTI 10.1.86

PART 3 begins:-

CDP to PM 12.1.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(86) 1st Conclusions, item 2	09/01/1986
CC(85) 36th Conclusions, Most Confidential Record	12/12/1985

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 _____ Date 2/10/2014

PREM Records Team

CONFIDENTIAL
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MARKET SENSITIVE

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A086/104 10 January 1986

CDP 11/1

Dear Mogg,

/ with copy?

You sent Michael Stark with your letter of 10 January a copy of your note of your Secretary of State's meeting with Sir Raymond Lygo on 8 January.

I do not think that your Secretary of State would be well advised to release your note to the press. I do not wish to dispute its accuracy, but it is clear from all that I have heard that Sir Raymond Lygo took away from the meeting a rather different impression from that which is given by your note. If your note were published, it could well be that British Aerospace would feel obliged to give equal publicity to Sir Raymond Lygo's account of the meeting, which I am assured exists. Public revelation and discussion of these matters in the next few days could affect the proceedings at the meeting of Westland shareholders on 14 January. I therefore have to counsel strongly against any releases to the press. Indeed, the less said to the press at this stage, the better.

We had a word about this on the telephone, and I indicated to you the gist of this reply. You subsequently telephoned to say that, in responding to press inquiries, you would limit yourselves to points 1-3 of the line to take enclosed with your letter, and that if asked to comment on the question in point 4, you would refuse to give further details; but that it could become necessary to review this if press pressure became intense. I am content with that; no doubt you will consult again before going further.

I am sending copies of this letter to Charles Powell and Clive Whitmore.

Yours ever
Robert Armstrong

J F Mogg Esq

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Aerospace; Westlands,

DRAFT LETTER FROM SIR ROBERT ARMSTRONG TO THE RT HON MICHAEL HESELTINE MP

I should like to respond to what you said in your statement of 9 January about the record of the discussion when you raised the subject of Westland in Cabinet on 12 December.

I made the usual full minute of the discussion. I thought, however, that in view of its sensitive nature it would be better to do as is done from time to time in the case of especially sensitive records: not to include the full minute in the Cabinet minutes as generally circulated, but to prepare for inclusion in the circulated minutes a brief summary record. I extracted the first two and the last paragraphs of the full minute to serve as a summary record in which I recorded your view that it was necessary that there should be further discussion by Ministers for which you could circulate a paper and the Prime Minister's summing up that the Cabinet could not consider the matter at that meeting without notice and without papers or time for preparation, and that nothing had happened to invalidate ~~and~~ or give grounds for

reconsideration of the decisions taken at the meeting of the Ministerial Committee on Economic Affairs on 9 December.

I gave instructions for this summary record to be included in the minutes as circulated. Because of a misunderstanding in my office, for which of course I accept responsibility and which I much regret, this was not done and the minutes were circulated without any reference to the discussion of Westland. I did not discover this omission until a week later.

In 10 Downing Street before Cabinet on Thursday 19 December you mentioned to me that you wanted to have a word about the record of the previous week's discussion. At the time I assumed that you were referring to the summary record which I thought had been circulated. When I came later that day to prepare the minute of the discussion that morning, I discovered the omission of the summary record of the Westland discussion from the circulated minutes of the previous meeting, and I immediatedly arranged for it to be circulated as an addendum to those minutes.

On the afternoon of 19 December I sent your office an advance copy of the minute of the discussion of Westland that morning. You wrote to me on 24 December to thank me for that, and to say that you would still like to discuss the record of the discussion on 12 December. I sent a message to your office on 2 Janaury saying that I was at your disposal to come across to the Ministry of Defence for such a discussion when you wished. I was not summoned; but in 10 Downing Street just before Cabinet on 9 January you told me that you still wanted to have such a discussion; I said that I was very ready to come across for the purpose. That was of course overtaken by subsequent events.

You have seen the circulated minute of the discussion on 12 December. I have the full minute on file here, and should be very ready to show it to you, if you would like to see it, when you can spare the time. You would see that it covered the three points which you specifically said at the meeting you would like to be recorded.

(AS released)

DE-CLASSIFIED Keep

TO:
PS/MR PATTIE

FROM:
J F MOGG
PS/Secretary of State
for Trade & Industry

10 January 1986

MEETING WITH SIR RAYMOND LYGO : 8 JANUARY 1986

On 8 January the Secretary of State took the opportunity of Sir Raymond Lygo's meeting with your Minister to have a few words with Sir Raymond. Your Minister, Mr Macdonald and Mr Michell were present.

2 The Secretary of State began by saying that there had been one aspect of the Westland issue that had been of particular concern to him as the sponsoring Minister. This concerned the impact on potential sales to the US of the A320. The Secretary of State said that whilst the Government's position was that it was a matter for the company to decide what course to follow, he himself had no view on the merits of the two offers. However, the nature of the campaigning and the overtones of anti-American sentiment were, in the Secretary of State's view, particularly damaging and potentially could fuel protectionist sentiment in the US. Had such views been expressed earlier they would undoubtedly have hindered the Secretary of State's efforts in the difficult and complex negotiations with the United States Trade Representative concerning semi-finished steel products.

3 Sir Raymond understood the Secretary of State's concern. British Aerospace's interest was to ensure that Westland remained a potential purchaser of material from his company. In response to Sir Raymond's comment that the NAD recommendation remained on the table the Secretary of State said that the Government's decision was clear. Unless the European offer had been acceptable to the Westland Board by 13 December the Government was not bound by the NAD recommendation. This was now the position and had been made perfectly clear in the Secretary of State's statement to the House.

4 The Secretary of State said that it might have been helpful if British Aerospace had spoken to him initially. However having not done so and, British Aerospace having taken a commercial decision to participate in the European Consortium, the Secretary of State took no view on that position. Nonetheless he hoped the way in which the negotiations were conducted would not damage British Aerospace's wider commercial interest especially in the US. For example any challenge which implied that acceptance of the Sikorsky/Fiat proposal would result in a loss of independent design capability at Westland raised the profile of the discussions and implied an anti-US attitude.

5 Sir Raymond said that he hoped that discussions with Westland that evening would be on a true commercial basis. An attempt would be made by both sides to lower the temperature at this meeting. Indeed Sir Brian Hayes had himself congratulated Sir Raymond on his success in lowering the temperature at previous meetings. At the discussion later that evening British Aerospace would probably make a further improvement in the European offer. In order to resolve a shortage of engineering capability at British Aerospace some 100 engineers work per annum could be made available to Westland. Such an offer from British Aerospace would only be made if Westland had the capability to undertake the high quality work involved.

6 Sir Raymond returned to the question of anti-American sentiment. British Aerospace Inc. (their US subsiduary) had expressed great concern about their US business being harmed. The Secretary of State responded by saying that he was ready to act immediately in defending British Aerospace's interest. He repeated, however, that, in his view, it was much more effective if the current round of discussions was not interpreted as being anti-American in sentiment.

7 Sir Raymond commented that MOD was British Aerospace's biggest single customer. He also emphasised that British Aerospace was considerably committed to collaborative ventures with MBB and Aerospatiale. Someone had needed to take the lead in establishing the European Consortium and British Aerospace would have been regarded as letting down their European collaborators if they had not done so. Sir Raymond was fully aware of the dangers and hoped that he was capable of managing this delicate balancing act.

8 The Secretary of State commented that customers could not dictate the extent of the enthusiasm with which any particular case might be put. British Aerospace had relations with this Department also. Sir Raymond took this point.

9 The Secretary of State said that it was not in the national interest that the present uncertainty involving Westland should drag on. Sir Raymond said that he had heard the same message elsewhere but questioned what was the national interest. Shareholders needed to have full information on which to base their decisions.

10 The meeting concluded with Sir Raymond observing that notes had been taken of the discussion.

John Mogg

J F MOGG

010

CC CJP

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MARKET SENSITIVE

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

10 January 1986

Michael Stark Esq
Private Secretary to
Sir Robert Armstrong GCB, CVO
Cabinet Office
70 Whitehall
LONDON
SW1

Prime Minister

Dear Michael,

WESTLAND

You asked for a copy of my internal note of the meeting with Sir
... Raymond Lygo on 8 January. This I enclose.

2 The note has been cleared this morning with all those present at the meeting although not, of course, with Sir Raymond Lygo. My Secretary of State has also suggested that consideration should be given whether the note might be released to the Press. He feels that it accurately reflects the discussion and in no way damages the Government's position.

... 3 I also enclose a second note which records Sir Raymond's comments made to me on his walk to the lift. These would not, of course, be released.

4 I have now agreed with my Secretary of State the line which
... should be taken in response to press enquiries. This is attached.

5 Copies of this letter and its attachments go to Charles Powell (No.10) and to Sir Clive Whitmore (MoD).

Yours sincerely,

John Mogg

JOHN MOGG
Private Secretary

JF5AUI

Encls

999-1

Reference.....

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

TO:
PS/MR PATTIE

FROM:
J F MOGG
PS/Secretary of State
for Trade & Industry
Room 803
1 Victoria Street
215 5422

cc
PS/Sir Brian Hayes
Mr Macdonald
Mr Michell
Mr O'Shea

10 January 1986

MEETING WITH SIR RAYMOND LYGO : 8 JANUARY 1986

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DW5AFT

CODE 18-77

4 The Secretary of State said that it might have been helpful if British Aerospace had spoken to him initially. However having not done so and, British Aerospace having taken a commercial decision to participate in the European Consortium, the Secretary of State took no view on that position. Nonetheless he hoped the way in which the negotiations were conducted would not damage British Aerospace's wider commercial interest especially in the US. For example any challenge which implied that acceptance of the Sikorsky/Fiat proposal would result in a loss of independent design capability at Westland raised the profile of the discussions and implied an anti-US attitude.

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DW5AFT

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8 The Secretary of State commented that customers could not dictate the extent of the enthusiasm with which any particular case might be put. British Aerospace had relations with this Department also. Sir Raymond took this point.

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10 The meeting concluded with Sir Raymond observing that notes had been taken of the discussion.

John Mogg

J F MOGG

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DW5AFT

SIR RAYMOND LYGO MEETING : PRESS LINE TO TAKE (ATTRIBUTABLE) IN RESPONSE TO QUESTIONS

i Confirm that meeting took place on 8 January. Sir Raymond was in the building for another meeting with Mr Pattie.

ii The Secretary of State reaffirmed the Government's position on Westland.

iii The Secretary of State, as sponsoring Minister, told Sir Raymond that it was entirely a matter for British Aerospace whether they took part in the European Consortium. What concerned the Secretary of State was the nature of the statements made which could have the appearance of anti-Americanism and damage British Aerospace's sales prospects in the US.

iv Correct that "national interest" was referred to. This was in the context of the concerns expressed about and specifically related to his view that it was not in the national interest that present uncertainty about Westland should continue.

DW5AGA

Reference.....

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MARKET SENSITIVE

TO:
PS/MR PATTIE

FROM:
J F MOGG
PS/Secretary of State
for Trade & Industry
Room 803
1 Victoria Street
215 5422

cc
PS/Sir Brian Hayes
Mr Macdonald
Mr Michell
Mr O'Shea

10 January 1986

MEETING WITH SIR RAYMOND LYGO : 8 JANUARY 1986

I have recorded separately the meeting with Sir Raymond Lygo on 8 January. I should also record that in his walk to the lift Sir Raymond also commented that the affair was extremely unfortunate and complex. What had particularly irritated the European consortium was that Sir John Cuckney had declined to put the two offers to shareholders. They would be quite content if the EGM were deferred to allow both offers to be circulated to shareholders whilst accepting that the Board would make a recommendation in favour of the Sikorsky/Fiat deal.

John Mogg

J F MOGG

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DW5AGC

CODE 18-77

overtaken
Charles - for you to deal with please. JB 10-1-86

Mutaxed @ 3.55 10/1

PO0305

MR POWELL - No 10

Westlands

1. You have a copy of the letter from Sir John Cuckney to Sir Brian Hayes enquiring about the Government's policy towards the National Armaments Directors' proposal on helicopter procurement.

2. The Department of Trade and Industry propose to reply today, in the following terms:

> "The Government's policy remains as set out in my Secretary of State's statement to the House of Commons of 16 December. The Government are not bound by the recommendation of the National Armament 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, and have not entered into a commitment to accept it in any hypothetical circumstances in future."

3. All except the final phrase follows the Secretary of State's statement. The last phrase follows the text of your letter of 8 January to Richard Mottram, but this point has so far not been made public.

J E Roberts

Cabinet Office
10 January 1986

CONFIDENTIAL

Procurement Executive, Ministry of Defence
Main Building Whitehall London SW1A 2HB
Telephone Direct Line 01 218
Switchboard 01 218 9000

J B BOURN
DEPUTY UNDER SECRETARY OF STATE
(DEFENCE PROCUREMENT)

DUS(DP)12/2/2/4

10th January 1986

John Wiggins Esq
Cabinet Office
70 Whitehall
London SW1A 2AS

Dear John,

WESTLAND

As requested in Sir Robert Armstrong's letter of 9th January to Sir Brian Hayes, I attach the first draft of a reference document on the main relevant developments on Westland so far. I also attach a list of events on Westland from the Autumn of 1984 until 16th October 1985 as an aide memoire for our common use.

All the material can be used publicly, except perhaps the references to:

a. Ministers judging that the prospects of an Indian order were good after Mr Gandhi's visit in October 1985;

b. The details of the rescue proposals and HMG's decision not to underwrite the Indian order.

These documents have been prepared by John Michell and myself. I am sending a copy of this letter to John Michell.

Yours sincerely,

John Bourn

CONFIDENTIAL

WESTLAND

The Problem

As a relatively small aerospace company, Westland has always been particularly subject to the uncertainties characteristic of the industry. But in the autumn of 1984 it became clear to DTI, during regular review meetings, that Westland were facing more than usually difficult prospects. The burden on the company of financing W30 was growing while at the same time:

i. There were delays on the prospective Indian order for 21 W30s.

ii. There was some uncertainty about the MOD's procurement plans.

The management of Westland appeared unable to take the necessary remedial action in face of these problems.

Ministry of Defence Orders

The Ministry of Defence spends about £60M with Westlands each year on spares and support for the existing fleet of about 700 helicopters.

It also has orders placed and in prospect for delivery as follows:

	1986/7	1987/8	1988/9	1989/90
Orders already placed				
Lynx	7	11	-	-
Sea King	12	2	-	-
Orders likely to be placed				
Sea King	2	7	5	-
Order to be placed if 4 Nation battlefield helicopter proceeds	-	-	-	6

The Anglo/Italian EH101 programme is also under development. Current plans provide for the development and production of 50 EH101s for the Royal Navy and 35 for Italy, though further orders are likely to be placed in due course.

Feasibility studies have been commissioned with Westlands for the UK interest in the NH90 helicopter and the Anglo/Italian A129 battlefield helicopter. (This is the helicopter that would be superseded by the proposed 4 nation battlefield helicopter - see section on European collaboration below.)

The MOD will in due course require a replacement for Wessex and Puma helicopters in the support role. An Air Staff Target

(AST 404) was prepared and, as part of normal procedure, was made available to industry. The candidates to meet it were Westlands WG30-404 (a hypothetical design based on their WG30), the French Super Puma, and the Sikorsky Black Hawk to be made by Shorts in Northern Ireland.

However, in March 1985 the Minister(DP) announced (in a PQ on 26 March 1985) that the Staff Target was in abeyance as the need for a helicopter of this kind was being reviewed in the light of experience in Exercise Lionheart. This has been repeated several times.

At the end of 1985, in the context of the Westland debate, Mr Heseltine said several times that the MOD would not replace the Wessex and Puma fleet until the 1990s, when the NH90 would become available. Meanwhile it had no money or requirement for the Black Hawk.

Indian Order

In 1984 Westland received a letter of intent from the Indians for purchase of 21 W30s for the Oil and Natural Gas Corporation.

The Government agreed that this purchase could be financed from the aid programme, and £65M has been allocated. Westland started to manufacture the aircraft.

However, there were substantial delays which appeared at least in part to be associated with anti-British feeling in India following Mrs Gandhi's assassination.

During late Summer 1985, Mr Gandhi visited UK on 15/16 October and as a result of discussions with him Ministers judged that the prospects of an order were good.

Mr Pattie visited India from 7-16 November and received further encouraging indications from Indian Ministers. On 24th December the Indian Minister of Civil Aviation announced that a decision had been taken to place an order with Westland. Contract discussions are now going on.

Bristow Bid

Bristow Rotorcraft made an offer for Westland on 29th April 1985. The offer was allowed to lapse on 20th June 1985.

Sir John Cuckney

Sir Basil Blackwell resigned as Chairman of Westland on 26th June and Sir John Cuckney was appointed.

Rescue Proposals

Sir John Cuckney asked Price Waterhouse and Lazards to advise him on Westland's future. Their reports were made available to the Government on 18th September 1985. On the basis of these reports, Westland requested Government underwriting of sales of 45 W30/160s as part of a rescue package, comprising also:

i. the injection of new capital into Westland by means of a rights issue and bringing in a new minority shareholder;

ii. conversion of bank debt into equity.

Westland informed the DTI that, in relation to (i) above, they were having discussions with Sikorsky, MBB and Agusta. They had approached BAe and received a negative response.

The Government informed Westland on 17th October that it considered the prospects of the Indian order were good and that it saw no immediate necessity for underwriting. Westland were also encouraged to pursue discussions with European companies as a possible alternative to Sikorsky.

European Co-operation

At the request of the Defence Ministers of the UK, France, Germany and Italy, the National Armament Directors of the four countries met on 29th November. They noted the substantial history of European collaboration in helicopters, in particular the signature in 1978 of a Declaration of Principles expressing the intention to work together to produce new helicopters. They recommended to Ministers that:

- the needs of their forces for three classes of helicopters (13 tonne; 8-9 tonne; and battlefield) should be met in future solely by helicopters designed and produced in Europe;

- the existing collaborative projects for 13 tonne (the EH101) and 8-9 tonne (NH90) helicopters should go ahead;

- a joint battlefield helicopters programme should be commissioned now (in place of two separate projects - Anglo/Italian and Franco/German) and that operational requirements and procurement arrangements should be harmonised forthwith.

The Defence Ministers of France, Germany and Italy told Mr Heseltine that they would accept these recommendations.

Following further discussions, the four Defence Ministers provisionally agreed a note on existing European helicopter co-operation in the 13 tonne and 8-9 tonne class and a resolution on a collaborative battlefield helicopter programme (to which the Netherlands was also party). The basis of the provisional agreement was described as follows in Mr Heseltine's letter of 13th December to Sir John Cuckney:

> '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.'

HMG's position on the NAD's recommendation and the provisional agreement of the Governments was set out by the Secretary of State for Trade and Industry in the House of Commons on 16th December.

The Proposals

On 13 December the Westland Board announced they had reached agreement in principle with UT/Fiat, after considering proposals made to them by UT/Fiat and by the European consortium.

On 20 December the European consortium put revised proposals to the Westland Board.

On 21 December Westland put proposals to their shareholders to effect a capital reconstruction involving UT/Fiat. An EGM was called for 14 January.

On 27 December the European consortium put further revised proposals to the Westland Board.

On 31 December the European consortium put consolidated proposals to the Westland Board.

On 2 January Westland sent to shareholders a copy of these consolidated proposals.

On 6 January Westland sent to shareholders improved proposals from UT/Fiat and recommended shareholders to accept them.

On 7 January the European consortium announced revised proposals. On 8 January the Board of Westland announced that it still strongly and unanimously recommended shareholders to accept the UT/Fiat proposals.

On 8 January the European consortium circulated their proposals to shareholders.

Government Statements

Mr Heseltine's letter of 13 December to Sir John Cuckney.

The Secretary of State for Trade and Industry's statement of 16th December.

Prime Minister's Questions 17 and 19 December.

Prime Minister's letter to Sir John Cuckney of 1 January

Mr Heseltine's letter to Lloyds Merchant Bank of 3 January.

Mr Heseltine's letter to Lloyds Merchant Bank of 6 January.

Secretary of State for Trade and Industry's statement of 6 January.

WESTLAND

The DTI became aware during autumn 1984 that Westland faced a potentially difficult situation. The position was reviewed with Westland. DTI Ministers informed MOD Ministers that Westland was "giving us real cause for concern" on 20 November 1984. Mr Heseltine held a meeting with Westland on 27 November 1984. Consultation continued between DTI and MOD and with Westland.

2. The Secretary of State for Trade and Industry reviewed the situation at an internal meeting within DTI on 7 January 1985. The DTI continued to keep in close touch with Westland.

3. In early February stories appeared in the Press suggesting the MOD was preparing to "rescue" Westland. The MOD issued a statement on 4 February 1985 stating that it was considering its requirements but no decisions to place orders had yet been made.

4. On 14 February Mr Alan Bristow informed the DTI he was considering putting together a consortium to attempt to gain control of Westland.

5. On 21 February MOD Ministers announced that the UK would participate in the feasibility study of the NH90 project.

6. MOD and DTI Ministers met on 25 March to review the position. It was agreed that officials of both Departments would jointly consider whether the Government could do anything to help Westland.

7. Both MOD and DTI Ministers continued to review the position regularly with Westland.

8. On 3 April it was suggested in the Press that the MOD had "serious reservations" about the Westland 30 as a potential replacement for Puma and Wessex.

9. On 29 April Bristow Rotorcraft announced an offer for Westland. The Secretary of State for Defence minuted the Prime Minister on 30 April. The Secretary of State for Trade and Industry minuted the Prime Minister on 16 May.

10. On 18 June the Secretary of State for Trade and Industry wrote to the then Chairman of Westland setting out the Government's position in relation to the possible takeover of Westland by Bristow Rotorcraft.

11. The Prime Minister held a meeting with other Ministers on 19 June to review the position.

12. On 20 June Bristow Rotorcraft withdrew its bid.

13. Sir Basil Blackwell resigned as Chairman of Westland on 26 June and Sir John Cuckney was appointed.

14. Price Waterhouse were asked by Westland to prepare a detailed report on the company's position and Lazards were engaged to advise the company on its future.

15. On 26 June United Technologies informed MOD Ministers that they were interested in acquiring an equity stake in Westland.

16. Sir John Cuckney met Sir Clive Whitmore on 2 July and was given information on the MOD's procurement plans. Sir John met Sir Brian Hayes on 4 July, MOD Ministers on 8 July, and DTI Ministers on 8 August.

17. The reports by Lazards and Price Waterhouse were shown to the Government by Westland on 18 September. On the basis of these, Westland requested the Government to underwrite the sale of 45 W.30/160 aircraft as part of a rescue package comprising also:

i) the injection of new capital into Westland by means of a rights issue and bringing in a new minority shareholder;

ii) conversion of bank debt into equity.

Westland informed the DTI that, in relation to (i) above, they were having discussions with Sikorsky, MBB and Agusta. They had approached BAe and received a negative response.

18. On 4 October the Secretary of State for Trade and Industry minuted the Prime Minister recommending that Westland should be encouraged to pursue their discussions with possible European partners, as an alternative to Sikorsky, before the Government responded to the underwriting proposal.

19. Mr Gandhi visited the UK on 15/16 October. During this visit, Ministers had encouraging discussions about the prospects of an Indian order for W.30.

20. On 16 October a number of Ministers met under the Secretary of State for Trade and Industry's chairmanship. It was agreed that Westland should be told that the Government judged the Indian prospects were good; and that Mr Heseltine should pursue the possibility of an alternative European solution with his colleagues in Europe.

Sir Brian Hayes KCB
Permanent Secretary

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 3972
(Switchboard) 01-215 7877

10 January 1986

Michael Stark Esq
Private Secretary to
Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
LONDON SW1

Dear Michael,

.... I am enclosing a copy of a letter which Sir Brian has today received from Sir John Cuckney, together with a draft reply. Although my Secretary of State has not yet seen the draft, I am sure he will be content with it.

The third sentence of the draft repeats the wording used by Mr Brittan in his statement on 16 December. The wording of the fourth sentence is taken from the letter of 8 January from Charles Powell to Richard Mottram. Although this sentence did not form part of Mr Brittan's earlier statement, it represents Government policy and we consider it should be included in order to make the position clear.

It is clearly essential that the letter should issue in the course of Monday 13 January, in advance of Westland's EGM the following day. I should therefore be grateful for comments on the draft by 11.00am on Monday morning.

ELFAAV

I am sending copies of this letter to John Pitt-Brooke (MOD), Charles Powell (No 10) and John Wiggins (Cabinet Office).

Yours

J L STARTUP
Private Secretary

ELFAAV

WESTLAND plc

From
Sir John Cuckney

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

DEPARTMENT OF TRADE & INDUSTRY
REC'D
10 JAN 1986
PERMANENT SECRETARY

10th January, 1986

Sir Brian Hayes, KCB,
Permanent Secretary,
Department of Trade & Industry,
1 Victoria Street,
London SW1H 0ET.

Dear Brian,

2.

I would be grateful if I could have an early reply to the following question. Does the Government's policy remain unchanged with regard to the proposals by the National Armaments Directors on future European Helicopter procurement?

I am sending a copy of this letter to Clive Whitmore at the Ministry of Defence and to Charles Powell at 10 Downing Street.

Yours ever,

John

also copied to Sir Robert Armstrong & Mr John Wiggins.

DRAFT

File No.

Addressed to:

Sir John Cuckney
Chairman
Westland plc
4 Carlton Gardens
Pall Mall
London SW1

Copies to:
PS/Secretary of State
PS/Mr Pattie
Sir Jeffrey Sterling
Mr Macdonald
Mr Michell
Miss Bowe
Mr O Shea

Enclosures:

Originated by:
(Initials and date)

Seen by:
(Initials and date)

Type for signature of

.....
(Initials and date)

DEPARTMENT OF TRADE AND INDUSTRY

Thank you for your letter of today's date.

The Government's policy remains as set out in my Secretary of State's statement to the House of Commons on 16 December. The Government are not 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. [The Government ~~and~~ have not entered into a commitment to accept it in any hypothetical circumstances in future.]

I am sending copies of this letter to Robert Armstrong, Clive Whitmore ~~and~~ Charles Powell, and John Wiggins.

MR POWELL

cc Mr Flesher
Professor Griffiths
Mr Alison

BRIEFING FOR THE PRIME MINISTER AFTER MR HESELTINE'S RESIGNATION

I list below the difficult questions which the Prime Minister can expect to get in the House where she will need an appropriate line to take. As some of these questions are likely to fall into the area of work being undertaken by yourself or the Policy Unit, I thought I would list them so that they do not get missed: no doubt answers on these are being prepared by officials, and I have not therefore provided draft replies.

Will the Prime Minister order an official enquiry into the leaked letter from the Solicitor General?

Will Mr Heseltine's press conference statement be sent to the DPP for possible breach of the Official Secrets Act?

Does the Prime Minister have a view on the fact that a Ministry of Defence official (Mr Ponting) was prosecuted under the Official Secrets Act, whereas the former Defence Secretary is likely to escape scot free despite his divulging classified information about Cabinet minutes?

Is there any precedent for a Departmental Minister having to clear any statement he makes on his own Department's policy through the Cabinet Office?

../..

Does the Prime Minister approve of the way the former Secretary of State used the facilities of the Ministry of Defence to launch a major attack against her and the Government even though he had already announced his resignation as Defence Secretary?

On questions relating to the Official Secrets Act, no doubt there will be official replies provided for the Prime Minister. It would seem to me preferable for the Prime Minister not to get drawn on any particular instance of any alleged breach of the Act and to have an all-purpose statement for use, perhaps along the lines "... I have set in hand enquiries into allegations of leaked documents and classified information and it will be up to the appropriate authorities to decide what further action should be taken...".

The Prime Minister will also get questions on her so-called "style of government" e.g.

Has not the former Defence Secretary confirmed that the Prime Minister suppresses debate in the Cabinet in order to steamroller through her own policies?

Suggested draft reply:

There has been no departure from constitutional practice in Cabinet and Cabinet committees. I am afraid that the resignation took place because my Rt Hon. friend could not accept the otherwise unanimous decision of the Cabinet.

At some stage, the Prime Minister should also try and nail Mr Heseltine to the policies of the Government which he supported as a Cabinet Minister. She could say something along the following lines:

../..

"I am most grateful to my Rt Hon. friend for all he has done in Government and I especially value the loyalty he has shown on those issues where difficult decisions had to be taken".

SS.

STEPHEN SHERBOURNE
10.1.86

COVERING CONFIDENTIAL

OVERSEAS DEVELOPMENT ADMINISTRATION
Eland House Stag Place London SW1E 5DH

Telephone 01-213: 7639
or Switchboard 01-213:3000

Your reference

Our reference SAS 149/320/01

Date 10 January 1985

MJ Michell Esq
DTI
20 Victoria Street
London SW1H ONF

Dear John

WESTLAND

1. Please refer to Sir Robert Armstrong's letter of 9 January to Sir Brian Hayes.

2. I enclose a contribution on the Indian helicopter deal, for which £65 million aid has been offered, for the basic fact sheet.

3. I am copying this letter and enclosure to John Wiggins as you have requested. We have separately advised the Cabinet Office that David Turner (213 6519) is the ODA contact on this issue.

Yours ever
David

D L Stanton
Southern Asia Department

cc: J Wiggins Esq Cabinet Office, 70 Whitehall, London SW1A 2AS
TC Wood Esq SAD/FCO

COVERING CONFIDENTIAL

URN

COUNTDOWN TO RESIGNATION

1985

June : Westland brings in Sir John Cuckney as chairman to rescue firm with Heseltine's ' full support and encouragement.'
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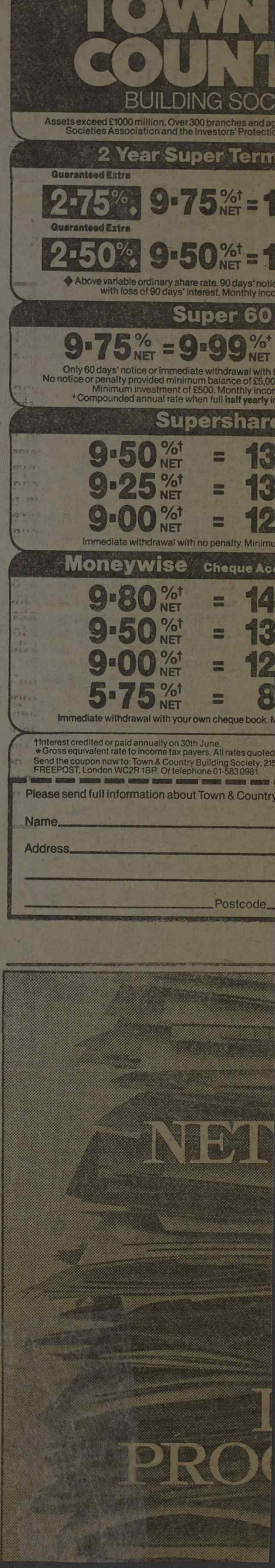
8 January : Sir Raymond Lygo of British Aerospace warned by Brittan of consequences of Euro-bid's tactics.
9 January : Heseltine walks out of cabinet. Resigns office.



WESTLAND: AID FOR HELICOPTERS FOR INDIA

For public use

In November 1983, the Government of India requested aid for the purchase of 21 helicopters for their Oil and Natural Gas Commission. An offer of £65 million of grant aid was made in March 1984 to finance the provision of 21 Westland W-30 helicopters. In December 1985 the Indian Minister of Civil Aviation said that the Indians would purchase the helicopters. It is expected that the contract between Westland and the Indian Helicopter Corporation will be signed soon.

Confidential background

After the aid offer was made, the Indians stalled on pursuing the contract largely for political reasons, although the ostensible reasons were technical and financial. In October 1985 Mr Gandhi told British Ministers that India would purchase the helicopters. Ministers will wish to be reassured about Westland's viability and ability to complete the contract before the grant agreement for £65 million is signed.

Southern Asia Department
ODA

10 January 1986

SECRET

Mr Wicks 6

PRIME MINISTER

10 January 1986

WESTLAND

There are three interlocking issues:

1. The protection of the nation's strategic defence interests.

2. The application of general government policy to the Westland case.

3. The operation of Cabinet government.

All three issues will clearly come up at Questions on Tuesday. We thought you might like to see this preliminary brief if you are reading through the files over the weekend.

Defence Interests

Michael Heseltine has argued that:

i. **Britain needs its own helicopter industry.** ["I do not find the prospect of foreign ownership of Westland welcome" (MH to NT 4 July)).

ii. **The Sikorski deal would amount to an American takeover.** [MH to PM 4 December; numerous Press reports].

SECRET

iii. **An American partnership would mean** the transfer of technological secrets and research capability to the US, **leaving Westland as a mere metal basher** [MH to NT 4 July; MH Statement 9 January].

iv. The only hope of effective British competition with the US manufacturers lies in **European cooperation. This would be utterly prejudiced by American partnership with Westland** [MH to PM 4 April].

The response to these arguments is that:

i. **The Government did seek a purely British solution;** it encouraged the British Consortium bid. But this failed to materialise. Michael Heseltine himself agreed explicitly that, in the absence of a feasible private sector British proposal, our defence interests did not justify a public sector rescue of Westlands, which would have flown in the face of our industrial policy. ["I would favour a market solution to Westland's difficulties....certainly, we should not wish to give it extra orders for which there was no defence need" (MH to PM 30 April)].

ii. **The Sikorski/Fiat offer does not amount to an American takeover.** The proposal would give Sikorski/Fiat less than 30% of the shares in the first instance, and would give them under 40% even if they exercised their further options.

iii. The Sikorsky/Fiat offer would not leave Westland as a mere metal-basher. Of the 2 million man-hours guaranteed by Sikorski/Fiat, only 0.8 million would be manufacturing work; the remaining 1.2 million would be 'engineering' (ie research, design and development). By contrast, only 0.3 million out of the 1.8 million man-hours promised by the European consortium is designated as engineering work.

[? employment consequences]

iv. True, European cooperation is important as a means of promoting competition with US defence suppliers. That is why DTI encouraged Westland to seek European partners [Mtg. between LB & Sir J Cuckney 17 October]. It is also one of the reasons why the government is happy to see Westland shareholders being given an opportunity to choose a European solution [LB in HoC 16 December] .

The recommendation of the National Armaments Directors of the United Kingdom, France, Italy and Germany has been cited by Michael Heseltine as an example of such European co-operation. But this, alas, was not the case. The National Armaments Directors were not promoting European co-operation as a means of increasing our access to competitive markets; instead, they recommended that the Government should never consider purchasing any helicopters other than those which had been designed and built in Europe. In effect, the NADs were recommending that, if Westlands sought Sikorsky's help, their helicopters should not be available to the

Ministries of Defence in Britain, France, Germany and Italy.

If, however, the NADs' recommendations were not accepted, there should have been no reason, in principle, for the exclusion of a Westlands/Sikorsky partnership from European collaboration.

Michael Heseltine has himself stressed that the overriding defence need is for a ready supply of effective helicopters at an affordable price:

> "The Ministry of Defence needs to have the continuing unfettered ability to procure and operate technologically advanced helicopters of the right type to meet Service requirements, and to get the best value for money in doing so" [MH to NT 4 July].

The Government's concern, throughout, has been to ensure the maximum possible fulfilment of these demands.

The Application of Government Policy to Westland

Early concern. The Government became aware early in 1985 of mounting problems within Westland . This was the subject of correspondence and collective discussion. Vigorous efforts were made to help Westland's exports of helicopters to India

(which were already the subject of a large export credit); and the terms of DTI's launch aid for Westland's new helicopters were modified. However, in line with its general economic policy, the government was not willing to mount a full-scale public sector rescue of the company: this was left to the private sector. Michael Heseltine was content with this approach.

Attempts to find a European solution. Following the collapse of the Bristow Consortium bid for Westland , it became increasingly evident that no purely British solution to Westland problems was possible. Sir John Cuckney started to look for partners both in Europe and in America. His initial discussions with the European companies did not lead to any firm proposals. But Sikorsky, a United Technology subsidiary, expressed firm interest. Sir John reported this to Leon Brittan at a meeting on 17 October. Leon Brittan urged him to try again with the Europeans, and Sir John undertook to do this.

Urgent need for support. But time was running out for Westland. Their 1984-85 results had to be announced before Christmas. These would show that the company had made a heavy loss and was, in fact, insolvent. Unless Westland had a deal in place before they announced their results, they would have been legally obliged to go into receivership. To avoid this, two separate agreements had to be reached. First, with the banks to convert existing borrowings (which the company were unable to repay) into equity; second, with a new industrial partner.

The European companies expressed interest and a willingness to be involved, but did not come forward with any proposals sufficiently concrete to prevent receivership. Against the Christmas deadline, Westland had increasingly to concentrate its efforts on finalising the Sikorsky deal, whilst remaining as open-minded as possible on any European proposals. The position was highly delicate - - negotiating a deal with the banks and Sikorsky against a tight deadline.

The NADs' recommendation. At the end of November, Michael Heseltine suddenly announced the NADs' recommendation (which he had not discussed with his colleagues). This dramatically altered the situation. Whatever the intrinsic merits of the NADs' recommendation, its stipulation that all future helicopters should be European in both design and manufacture seriously jeopardised Sikorsky's continued interest in Westland, since such a stipulation would in effect have excluded a Sikorsky/Westland partnership from receiving European orders. Westland was therefore faced not merely with a choice between the European and American solutions, but with a threat that the Board and shareholders would have their choice preempted. This naturally worried the DTI.

Moreover, at the time that Michael Heseltine backed the NADs' recommendation, the Europeans had still to come forward with any concrete offer. If the recommendation had been ratified or even left on the table, scaring off Sikorsky, Westland could have been left without any firm offer of support before the Christmas deadline. The company could have been forced into receivership.

Ministers were therefore understandably reluctant to accept the NADs' recommendation. Unfortunately, Michael Heseltine chose to interpret this reluctance not as a symptom of the desire to keep Westland out of receivership but as a symptom of opposition to any European solution. This was almost exactly the opposite of the true position. As the record shows, DTI Ministers and other colleagues have always preferred a European solution if one could be found that was acceptable to Westland.

A Coherent Government approach. The Government's attitude, throughout, has been to give Westland all possible help, consistent with industrial policy and defence needs; but, above all, to allow the Westlands Board and the Westland shareholders to decide what was best for the company. We always sought to avoid any action by Government that would either have precipitated Westland into receivership, or have closed off options for Westland shareholders.

Operation of Cabinet Government

As Michael Heseltine has said, the relationship between the Prime Minister and the Cabinet is one of primus inter pares. The Prime Minister is not a President, elected individually by the people; he or she is, rather, a prime Minister - asked by The Queen to form a government out of other Members of Parliament, so that the government as a whole is capable of commanding a majority in Parliament.

Under this constitution, Ministers are responsible not to the Prime Minister, but, collectively, to Parliament.

In theory, therefore, each Minister shares in the responsibility for the actions and undertakings of all other Ministers. As in a partnership, this collective responsibility depends upon mutual trust and agreed methods of working if it is to be at all effective in practice.

It is not possible for all Ministers to take part in the discussion of all policies: in a modern state, time does not allow. That is why senior Ministers are brought together in a Cabinet to ratify the most important decisions. And, because even the Cabinet has not sufficient time to discuss every major issue in detail, it is divided into committees, sub-committees and ad hoc groups to discuss individual items, which are then referred back to the full Cabinet for ratification.

This method of proceeding places the Prime Minister in a minority of one, and makes it impossible for her to arrive at decisions independently of the judgment of her colleagues. A Prime Minister who attempted to do so would ultimately face the resignation not just of one colleague, but of all, and would no longer be able to form a government that commanded a majority in Parliament.

But collective responsibility is not merely a matter of discussions and decisions. The statements of individual Ministers in public are also the responsibility of their colleagues. Clearly, such statements cannot all be the subject of Cabinet discussion. Many have to be cleared in writing, because of time constraints. Such inter-Ministerial clearance by correspondence is therefore a regular feature of British Cabinet Government.

The methods of government employed in the Westland affair have exactly corresponded to this picture. The financial arrangements of Westland have been the subject of repeated discussion over many months in Cabinet, in its Committee on Economic Affairs, and in ad hoc groups of relevant Ministers. Hundreds of pages of correspondence have been exchanged; and statements to be made by individual Ministers have been cleared with other Ministers. Throughout, the Prime Minister has sought - and obtained - the agreement of her colleagues for the line being taken by the Government. Meetings chaired by the Prime Minister took place on 18 June, 19 June, 4 December, 5 December and 9 December, and there was a further meeting on 16 October when the Prime Minister was not present. The issue was also raised in Cabinet on 12 December, 19 December and 9 January. That is an unprecedented amount of time to give an issue of this scale. There can be no doubt whatever that Michael Heseltine was provided with ample opportunity to air his views and to seek to persuade his colleagues.

OLIVER LETWIN

PETER WARRY

A NOTE FROM LOPEX POLITICAL UNIT (Rebecca Bale)

FRIDAY 10th JANUARY 1986

11.30am - 12.20pm

PRESS CONFERENCE - HESELTINE/EURO CONSORTIUM - CONNAUGHT ROOMS

Mr Michael Heseltine and Mr David Horn from Lloyds Bank were due to be hosting the press conference this morning, but David Horn did not attend apparently because of activity in the market' . Mr Christopher Morgan (C Morgan Marketing) spoke on his behalf.

Morgan opened the conference saying that it was purely about commercial aspects of the Westland issue. No 'political' questions would be answered.

He then read out a brief statement which had been prepared for Mr Horn. He said the purpose of today's conference was to try to explain to shareholders of Westland what this is really all about. It has been a highly confusing time with confusion of political issues.

We believe that the Euro proposal is better and shareholders should vote against the US deal, he said, for three reasons.

1. Their employees could gain more work.

2. The shareholder benefits are better

3. In the future, 1990's, there would be a new generation of helicopters for Europe and world markets.

Shareholders should vote against Resolutions 2 and 3. This in our opinion is sound commercial judgement.

Michael Heseltine then took over the conference, repeating that he would not answer any questions on the political controversy, only the industrial and commercial aspects of this issue.

This is an important day, he went on, since it is likely to be the last day for shareholders to send their proxy's . Proxy forms are easy to get, they have been sent out and advertised in the press.

If shareholders have come to the view that they want to support the British/European offer, they should support Resolution 1 and vote against 2 and 3 on their proxies.

If any shareholder wants to change their minds, obtain a new proxy form, date it today and send it in. This would be accepted as their final vote.

He then went on to speak about the relationship of Westland with other companies. He said they were producing products of great importance in the defence field and in Nato.

The experience of Westland, he said, is about partnership. They have partnership with Sikorsky through licencing, and with various European companies. These relationships are very important.

He then went on to refer to the EH101, A129 and NH90 as demonstrating the long record of partnership Westland had had with France and Italy.

Looking to the longer term, he said there was a need for a coherent long term capacity. A sharing of frontiers of work to be done.

He went on, the helicopter of tomorrow likely to be required by Britain and Europe was fairly clearly indicated. There is the EH101, mentioning Augusta, the NH90 currently at feasibility study stage and the merged A129 and PAH2 project. Westland could play a full role in these helicopters. Calculations show that the market for these helicopters is of well over 1000.

He said there was another problem for shareholders to address. That is whether taking licences from the US - and possibly preduducing chances for European work - was right. He said this would not allow inclusion and design aspects and exclusion from the technology trust.

The Black Hawk, he said was already designed.

Most industrialists, he went on, trying to sell in the US faced difficult laws and regulations about export of high technology. Share holders should ensure that if there is to be involvement with Sikorsky, the US Government would set aside these bans and regulations.

He explained that it would be up to the Congress to allow such a lifting, which therefore meant it was Congress who decided what is purchansed by the US. They do it protect American companies. The US want more sales of their helicopters and more work in their factories. Heseltine had no complaint about that, that was their duty.

He said he admired the Sikorsky company for wanting to break into the European market but that they haven't discerned the requirement for the Black Hawk.

He then referred to the Shorts deal saying that Sikorsky was moving from company to company to where their interests lay.

Sales of the Black Hawk were not exciting, he said. Most of them had been in the US to US forces. Only 40 had been sold on the world market in the last 10 years.

He said shareholders should ask another question. Are the British Government likely to change their mind now and let Westland sell them the Black Hawk after not buying from Sikorsky? It is difficult to see where this market for Black Hawk is.

He went on to say there is another issue. When you are licencing helicopters through a large multinational and a smaller British company there are the terms of the licence to be considered.

The US must get the best deal they can, so they want to get a good price and a maximum workshare for their own forces. He referred back again to the Shorts deal saying that the provisions there were for 40% of work to be done in the US and 60% in Ireland/Britain.

It is possible, he said, that this had slightly improved in the Westland offer. 20% in the US and the rest in the UK. That meant, he said that £1½ million British jobs would be done in the US. If the European deal does not happen, all those jobs would go from this country. It would not just be the people from Westland who would get the work.

In the context of a whole helicopter, 1/3rd of the work would be on the frame, a 1/3 on the engine and 1/3 on the electronics etc. If you work on the licence arrangement of Westland and Sikorsky this would most likely mean that Rolls Royce would get the engine work, Westland would want the assembly and frame work and the other 40% would be left.

That is why, he said, the Defence Manufacturers Association have said so clearly that they hope the shareholders will support the European deal and not the US one. That, he added, was the whole reason for gathering the Euro consortium in the first place.

He said the Sikorsky deal would let the US have effective control of Westland. In negotiating the licence, they may get a good deal the first tme round, but what sort of options would you have the 2nd, 3rd and 4th time round.

Licencing, yes, he said, but always at arms length where you can negotiate from a firm base.

If I were a shareholder of Westland, he finished, I would vote for Resolution 1 and against 2 and 3 and take the European consortium offer.

The conference then moved on to questions from the floor.

A journalist from the City Office of the Daily Mail asked if there was any sign of a split in the Westland Board. Mr Heseltine said he had no idea, but the sooner this was all resolved the better.

Another journalist asked about the speculation that Sir John Cuckney would resign if the vote went against him. Mr Heseltine said he did not think that would happen. That would be terrible because he has carried appauling strains. Everybody ould like to see Sir John bring a successful solution to Westland but he must decide what to do. He is a man of many interests .

Another journalist raised the possibility of Mr Bristow taking over in the event of Sir John going, saying that Bristow had designs. Mr Heseltine said he simply did not know.

A reporter from the BBC asked if Mr Heseltine were not disconcerted by the lack of support for the Euro deal from the workforce of Westland and not hurt by some of the personal comments carried on the TV last night. Mr Heseltine said he did not make judgements on interviews on television or arguments on the shopfloor. He added that the workforce may have heard only one side of the case. But we must remember the reality of the situation, that is shareholders will make the decision.

He said he had no intention of trying to 'hike up' the temperature it is up to the shareholders.

He was asked if he would buy shares in Westland. He laughed and said not but that it was an ingenius thought.

Another questioner asked about taxpayers money in these deals. Mr Heseltine said that if the British Government bought helicopters under the Euro deal, all the British taxpayers money would go in to British factories providing British jobs.

Someone said that a high level representative of Augusta was in London today, did Mr Heseltine have any plans to meet him. Mr Heseltine said he had no plans to do so.

Another said that surely the Sikorsky deal would be cheaper for British taxpayers. Mr Heseltine said he had not seen any calculations that would indicate that.

Someone asked why no British Aerospace or GEC representatives were at the Conference today. Heseltine said that Lloyds Bank had been very largely responsible for articulating the case to-day. There was no reason why that should change.

The next journalist said that shareholders must be worried that Mr Heseltine was using their company to further his own political ends. Mr Heseltine refused to answer this question since it was of a political nature.

The next asked if he had had any contact with Mr Bristow. After initially refusing to comment, he did reply under pressure. He said Mr Bristow had informed him of what he was going to do yesterday. When asked whether this was before the Cabinet meeting, Heseltine paused then said he really did not know, it thought it was not but Mr Bristow may have left a message. In any case, it was up to Mr Bristow as to what he does.

He was then asked if he had any formal role with the European consortium. Heseltine replied that he had no formal or informal relationship. Since he had been so involved int he formation of the consortium he was retaining his interest on this basis.

The conference finished at 12.20. No papers were available at the time but may be issued later.

URN

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PRIME MINISTER

WESTLAND: MR. HESELTINE'S STATEMENT

I attach some "knocking copy" on Mr. Heseltine's statement. It is deliberately cast in rather polemical terms though I have cleared the facts with the Cabinet Office, DTI and Ministry of Defence. But in many cases it is not so much a matter of fact as of interpretation.

I have given a copy to Bernard to draw on with caution at the Sunday Lobby. Mr. Heseltine is of course very familiar with all the details of Westland, since he has thought about nothing else for the past month. He will not hesitate to challenge our account if we were to put it out as a formal rebuttal of his statement - and there is nothing to be gained from extended argument on the details.

I hope it may nonetheless be of use also for points to make in the House if necessary.

C.D.P.

MT

(C.D. Powell)

10 January 1986

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to Cheques

1. A deliberate attempt has been made to avoid addressing the issues.

Absurd to say that no attempt has been made to address the issues when the Government has been discussing Westland's future for very nearly a year. Ministers discussed it collectively on 18 June, 19 June, 16 October, 4 December, 5 December, 9 December, 12 December, 19 December and 9 January. Since 30 April there have been innumerable written exchanges examining every aspect of the question.

2. It would have been wrong for me (Mr. Heseltine) to take the lead.

"Not for me to try to take a leading role" is a considerable under-statement. At no time in the early stages did Mr. Heseltine seek to promote any discussion of Westland, nor did he identify wider issues associated with it. Indeed he rather obviously hung back from intervening in its future, and advocated a "market solution". It fell to the then Trade and Industry Secretary to argue that the retention of a fully adequate helicopter capability in this country was an essential defence interest. Indeed the whole early part of Mr. Heseltine's statement, which skates over events up until October last year, is an apologia for his failure to act, or to respond constructively to the efforts of the then Trade and Industry Secretary to find a solution.

3. It was recognised that a link with European countries would fit better into the developing pattern of European collaboration.

Mr. Heseltine's own statement shows that, far from suppressing a European option, the Government was from an early date eager to stimulate one, so that Westland would have a choice. Interestingly the first initiative came not from Mr. Heseltine but from the Trade and Industry Department. The accent also shows that Mr. Heseltine had the encouragement of the government in devising a European option so that Westland had

a choice. The parting of the ways came because Mr. Heseltine didn't want it to be their choice: he wanted to ram his choice down Westland's throat.

4. The National Armaments Directors reached provisional agreement.

The background to the National Armaments Directors recommendation is rather murky. Two things seem certain: first, it was an initiative by Mr. Heseltine to block the Sikorsky bid, by saying that the United Kingdom and other European governments would only ever buy European designed and built helicopters. (So much for competition and value for money.) Second, Mr. Heseltine at no stage consulted his Ministerial colleagues about the NAD's recommendation which constituted a sharp change in government policy. He faced them with a fait accompli (and was then vexed when they did not meekly go along with it). Far from ensuring that Westland would have a choice, the NAD's recommendation would have eliminated a choice.

5. The Prime Minister attempted at all three meetings to remove the recommendation of NADs and overcome the refusal of colleagues to close off the European option.

The records simply do not bear out the allegation that at the three meetings in early December the Prime Minister tried to "overcome the refusal of some colleagues to close off the European option". At all these meetings the concern of the majority of colleagues was to prevent Mr. Heseltine from closing off any but the European option. It is interesting that the record of the 5 December meeting says: "Summing up the discussion, the Prime Minister said that it was clear that a majority of those present were ready to decide there and then that the Government should reject the recommendation from the National Armaments Directors, thus leaving Westland to reach their decision whether to accept the Sikorsky offer on straightforward commercial grounds. However, it was evident that this was opposed by a minority. It would therefore be

necessary to reach a decision in formal Cabinet Committee." The Prime Minister thus leaned over backwards to ensure that discussion could continue, even though Mr. Heseltine was in a minority.

6. Virtually every colleague who attended E(A) on 9 December supported Mr. Heseltine.

The idea that virtually everyone who attended the 9 December meeting of E(A) supported Mr. Heseltine is frankly laughable. Let's remember first that there was supposed to be an agreed paper by the Ministry of Defence and Department of Trade and Industry. A paper was agreed between officials of both departments, but then vetoed by Mr. Heseltine who thought it didn't go far enough his way, and put in his own paper. The minutes of that meeting - never challenged by Mr. Heseltine - simply do not sustain the claim that he had majority support. They show (a) that "a number of Ministers" would have a clear preference for the European alternative if it could be developed into a form which the Westland Board would regard as preferable; but (b) if a viable European package was not in place by 4.00 p.m. on 13 December, then the UK would not be bound by the NAD's recommendation. This was agreed as the conclusion of the meeting, and must therefore have represented the views of the majority, to which all (except Mr. Heseltine) faithfully subscribed.

7. The Prime Minister clearly stated that Ministers would meet again on Friday.

It is true that the Prime Minister mentioned at one stage that a meeting later in the week might be necessary. But there is no mention whatsoever in the minutes to a commitment to a further meeting on 13 December and none was arranged.

8. The Cabinet Office subsequently began arrangements for that meeting.

The Cabinet Office did not arrange a meeting. They checked on

the availability of Ministers if a meeting were to be necessary. It is simply untrue that the Prime Minister cancelled a meeting since one was never arranged (and she had no knowledge until well after the event of the Cabinet Office's contingency telephoning).

9. The Prime Minister refused to allow a discussion in Cabinet that day (12 December).

The memory of others present at 12 December Cabinet was that there was a discussion in Cabinet. The absence of minutes is a matter for the Cabinet Secretary. The Prime Minister was unaware that there were no minutes until Mr. Heseltine stated this publicly on 9 January.

10. The Secretary of State for Trade and Industry's statement of 16 December "left the way clear for the Sikorsky/Fiat bid".

Mr. Brittan's stsatement of 16 December far from "leaving the way clear for the Sikorsky bid" ensured that both sets of proposals - Sikorsky and the European consortium - could go forward on an equal footing.

11. The European Consortium's offer was "widely described as superior in every way".

It is not relevant that the European Consortium's proposals were "widely described as superior". The judgement is not for the newspapers or Mr. Heseltine; it's for the Westland Board and shareholders.

12. My request for a meeting was refused by the Prime Minister.

As a matter of record, Mr. Heseltine's only reason for seeking a meeting was to seek to deny Westland a choice and insist on the European alternative.

13. The reply to Sir John Cuckney's letter.

This is absurd. DTI are the lead department for Westland and it is natural to send letters about the company to them to draft replies in the first instance, consulting the MOD as necessary. This happened with an earlier letter from Sir John Cuckney before Christmas and evinced no complaint from Mr. Heseltine. Anyway the main question in Sir John Cuckney's letter was evidently for the DTI: would the Government continue to regard Westland as a European company if it were to accept the UTC/Fiat bid? And far from Mr. Heseltine having to ask the Law Officers to clear it, the Prime Minister's Private Secretary's letter specifically asked for Law Officers' clearance.

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Since Mr. Heseltine had agreed the Prime Minister's letter to Sir John Cuckney the night before, one is entitled to ask why he found it necessary to write a separate and different letter the next day.

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This is an extraordinary assertion for which no evidence is adduced. The only person trying to change Government policy was Mr. Heseltine, through the NAD's recommendation.

16. Cabinet on 6 January.

The truth of the matter is that Mr. Heseltine wanted to retain the right to speak in favour of the European Consortium while allegedly subscribing to the Government's position of not supporting either side. When it was clear that he had no support, and that none of his colleagues was prepared to tolerate continued disloyalty to the Government's position, he resigned.

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MO 26/16/1E

I HAVE TODAY TENDERED MY RESIGNATION FROM THE GOVERNMENT. NOT BECAUSE OF THE DISCUSSION AT TODAY'S CABINET BUT BECAUSE OF THE WAY IN WHICH THE RECONSTRUCTION OF WESTLAND PLC HAS BEEN HANDLED OVER A PERIOD OF MONTHS. THIS HAS RAISED PROFOUND ISSUES ABOUT DEFENCE PROCUREMENT AND BRITAIN'S FUTURE AS A TECHNOLOGICALLY ADVANCED COUNTRY, ISSUES THAT HOWEVER HAVE NEVER BEEN PROPERLY ADDRESSED BY THE GOVERNMENT. INDEED, AS I SHALL SHOW, A DELIBERATE ATTEMPT HAS BEEN MADE TO AVOID ADDRESSING THEM. THIS IS NOT A PROPER WAY TO CARRY ON GOVERNMENT AND ULTIMATELY NOT AN APPROACH FOR WHICH I CAN SHARE RESPONSIBILITY. (1)

THE BACKGROUND TO THE GOVERNMENT'S POLICY ON HELICOPTER PROCUREMENT IS THE 1978 DECLARATION OF PRINCIPLES AGREED BY FRANCE, GERMANY, ITALY AND THE UNITED KINGDOM. THIS PROVIDED THAT EACH COUNTRY WOULD MAKE EVERY EFFORT TO MEET THEIR NEEDS WITH HELICOPTERS DEVELOPED JOINTLY IN EUROPE. THAT POLICY HAS THUS FAR BEEN FOLLOWED THROUGH IN OUR FUTURE PLANNING. IT IS ENTIRELY CONSISTENT WITH THE WIDER APPROACH TO DEFENCE PROCUREMENT SET OUT IN THE 1985 STATEMENT ON THE DEFENCE ESTIMATES WHICH EMPHASISED THE IMPORTANCE OF EUROPE COMING TOGETHER IN AN EQUAL PARTNERSHIP WITH THE UNITED STATES WITHIN THE NORTH ATLANTIC ALLIANCE. MY OWN COMMITMENT TO THAT ALLIANCE AND TO THE STRONGEST AND MOST FRIENDLY RELATIONS WITH THE UNITED STATES ON A BASIS OF EQUALITY COULD NOT BE CLEARER.

WHEN WESTLAND PLC RAN INTO FINANCIAL DIFFICULTIES, PARTIALLY BECAUSE OF THEIR FAILURE ON THE CIVIL MARKET, THIS WAS NOT MY IMMEDIATE MINISTERIAL RESPONSIBILITY. I AM NOT THE SPONSORING MINISTER FOR THE HELICOPTER INDUSTRY. IT WOULD HAVE BEEN QUITE WRONG FOR ME TO TRY TO TAKE THE LEAD ROLE IN WHAT WAS A DTI RESPONSIBILITY. IT WOULD HAVE BEEN WRONG ALSO FOR THE MINISTRY OF DEFENCE ALONE TO BAIL OUT THE COMPANY WITH ORDERS FOR WHICH THERE WAS NOT AN APPROVED MILITARY REQUIREMENT. I DID, HOWEVER, MAKE CLEAR THROUGHOUT THAT THE HELICOPTER CAPABILITY PROVIDED BY WESTLAND WAS ESSENTIAL IN SOME FORM TO OUR DEFENCE NEEDS.

2

WHEN SIR JOHN CUCKNEY, WHO HAD BECOME THE CHAIRMAN OF WESTLAND WITH MY FULL SUPPORT AND ENCOURAGEMENT, FIRST APPROACHED THE GOVERNMENT ABOUT ITS ATTITUDE TO POTENTIAL PARTNERS FOR WESTLAND, THERE WAS A CLOSE IDENTITY OF VIEW BETWEEN THE MINISTRY OF DEFENCE AND THE DEPARTMENT OF TRADE AND INDUSTRY. IN VIEW OF THIS IDENTITY OF VIEW, IT WAS STILL UNNECESSARY FOR ME TO TAKE ANY DIRECT INITIATIVE. IT WAS RECOGNISED THAT WITH A SIKORSKY SHAREHOLDING WESTLAND MIGHT TEND TO BECOME LITTLE MORE THAN A PRODUCTION FACILITY FOR SIKORSKY AND TO LOSE ITS OWN HELICOPTER DESIGN AND DEVELOPMENT CAPACITY, THAT A LINK WITH EUROPEAN COMPANIES WOULD FIT BETTER INTO THE DEVELOPING PATTERN OF EUROPEAN COLLABORATION AND THAT, IN MANY WAYS, BRITISH AEROSPACE WOULD BE THE MOST WELCOME PARTNER. THE NEED TO EXPLORE URGENTLY THE EUROPEAN OPTION WAS RECOMMENDED BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY ON 4TH OCTOBER. WHEN, ON 17TH OCTOBER, SIR JOHN CUCKNEY MET THE SECRETARY OF

3

STATE FOR TRADE AND INDUSTRY HE SAID THAT HE WAS WELL AWARE OF THE GOVERNMENT'S PREFERENCE FOR A EUROPEAN MINORITY SHAREHOLDER IN WESTLAND AND ATTACHED WEIGHT TO THAT PREFERENCE. THE PROBLEM WAS HOW TO BRING THIS ABOUT IN A TIMELY WAY.

OVER THE FOLLOWING WEEKS THERE WERE A NUMBER OF DISCUSSIONS INVOLVING BOTH THE EUROPEAN COMPANIES AND WESTLAND AND CONTACTS BETWEEN EUROPEAN MINISTERS. I KEPT IN CLOSE TOUCH WITH THESE AND WITH THE FINANCIAL POSITION OF THE COMPANY. AT ONE STAGE I INTERVENED TO DIRECT THAT THE MOD'S ACCOUNTING OFFICER SHOULD MAKE A PAYMENT OF £6 MILLION TO WESTLAND THAT WAS CORRECTLY BEING WITHHELD FROM THEM ON GROUNDS OF PRUDENT GOVERNMENT ACCOUNTING BUT THAT I WAS SATISFIED SHOULD BE MADE BECAUSE OF THE WIDER ISSUES INVOLVED. AS TIME WENT ON I BECAME INCREASINGLY CONCERNED ABOUT PROGRESS IN THE DISCUSSIONS PARTICULARLY AT A COMPANY LEVEL. ON 26TH NOVEMBER, I MET SIR JOHN CUCKNEY AND DISCUSSED WITH HIM WHERE MATTERS STOOD. HE EXPLAINED THE NEED FOR URGENT ACTION AND THE ATTRACTIONS OF PARTICIPATION BY SIKORSKY. HOWEVER, HE DID NOT RULE OUT OTHER OPTIONS PROVIDED THAT THEY HAD AS MUCH TO OFFER AS THE SIKOSRKY ALTERNATIVE. HIS PROBLEM WAS THAT HE LACKED THE MANAGEMENT RESOURCES HIMSELF TO EXPLORE THEM. I ASKED IF I COULD HELP, HAVING ALREADY AGREED WITH THE SECRETARY OF STATE FOR TRADE AND INDUSTRY AND THAT THIS WAS ACCEPTABLE. HE WELCOMED MY PROPOSAL THAT I SHOULD ASSIST IN THIS PROCESS. THE LESSONS OF THE NEGOTIATIONS OVER THE EUROPEAN FIGHTER AIRCRAFT WERE IN MY VIEW CLEAR: WITHOUT MINISTERIAL INVOLVEMENT, IT WOULD BE VERY

DIFFICULT TO ACHIEVE TIMELY SUCCESS. I WAS NOT PREPARED TO SEEK THE SUPPORT OF MY EUROPEAN MINISTERIAL COLLEAGUES, UNLESS THEIR EFFORTS WOULD BE FAIRLY AND PROPERLY TREATED.

SINCE SIR JOHN CUCKNEY HAD IN NO WAY RULED OUT THE EUROPEAN ALTERNATIVE AND WELCOMED MY OFFER TO EXPLORE IT, I DISCUSSED IT WITH DR WOERNER THE FOLLOWING DAY AND ARRANGED THAT NATIONAL ARMAMENTS DIRECTORS OF THE UNITED KINGDOM, GERMANY, ITALY AND FRANCE SHOULD MEET ON 29TH NOVEMBER, AND THAT THE COMPANIES INVOLVED SHOULD ALSO COME TOGETHER THAT DAY. THE NATIONAL ARMAMENTS DIRECTORS REACHED PROVISIONAL AGREEMENT ON THE WAY FORWARD INCLUDING A RECOMMENDATION THAT, IN AN EXTENSION OF THE 1978 AGREEMENT THEIR NEEDS WITHIN THE MAIN HELICOPTER CLASSES SHOULD BE COVERED SOLELY IN THE FUTURE BY HELICOPTERS DESIGNED AND BUILT IN EUROPE. THEY ALSO AGREED TO COMPLETE THE RATIONALISATION OF THEIR REQUIREMENT FOR HELICOPTERS, CARRYING FORWARD THE OBJECTIVES SET OUT N 1978. AS SOON AS THIS AGREEMENT HAD BEEN REACHED I PERSONALLY GAVE A COPY TO SIR JOHN CUCKNEY.

4

SIR JOHN CUCKNEY'S RESPONSE WAS THAT THE AGREEMENT THAT HAD NOW BEEN REACHED WOULD EFFECTIVELY PRECLUDE WESTLAND FROM PROCEEDING WITH A TIE-UP WITH SIKORSKY. THE SUBSEQUENT MINISTERIAL DISCUSSIONS TOOK PLACE ONLY IN THE CONTEXT OF THIS ISSUE, RATHER THAN THE WIDER DIMENSION OF THE GOVERNMENT'S APPROACH TO THE OWNERSHIP OF A MAJOR DEFENCE CAPABILITY. THERE WERE THREE MINISTERIAL MEETINGS CHAIRED BY THE PRIME

MINISTER AT THE BEGINNING OF DECEMBER, TWO OF THEM AD-HOC GROUPS ON DECEMBER 4TH AND 5TH AND FINALLY A DISCUSSION IN THE MINISTERIAL SUB-COMMITTEE ON ECONOMIC STRATEGY ON DECEMBER 9TH. THE PRIME MINISTER ATTEMPTED AT ALL THREE MEETINGS TO REMOVE THE RECOMMENDATION OF THE NATIONAL ARMAMENTS DIRECTORS AND THUS LEAVE THE WAY CLEAR FOR THE SIKORSKY DEAL. (5)

THE AD-HOC MEETINGS WERE BOTH ILL-TEMPERED ATTEMPTS TO OVERCOME THE REFUSAL OF SOME COLLEAGUES TO THUS CLOSE OFF THE EUROPEAN OPTION.

THE PRIME MINISTER, FAILING TO SECURE THAT PREFERENCE, CALLED A MEETING OF THE SUB-COMMITTEE ON ECONOMIC STRATEGY ON MONDAY DECEMBER 9TH. I PROPOSED DELAY UNTIL THE FOLLOWING FRIDAY TO GIVE THE EUROPEANS TIME TO COME FORWARD WITH A PROPER PROPOSAL. IF THEY FAILED, I SAID THAT I WOULD BACK SIKORSKY.

VIRTUALLY EVERY COLLEAGUE WHO ATTENDED THE ENLARGED MEETING AND THUS CAME FRESH TO THE ARGUMENTS SUPPORTED ME, DESPITE THE FACT THAT SIR JOHN CUCKNEY HAD BEEN INVITED TO PUT HIS VIEWS TO THE MEETING. (6)

THAT MEETING CONCLUDED THAT THE SUB-COMMITTEE WERE NOT YET READY TO REJECT THE NADS RECOMMENDATION AND A NUMBER OF MINISTERS WOULD HAVE A CLEAR PREFERENCE FOR THE EUROPEAN ALTERNATIVE TO A SIKORSKY DEAL, IF IT COULD BE DEVELOPED INTO A FORM WHICH THE WESTLAND WOULD REGARD AS PREFERABLE TO THE

SIKORSKY ARRANGEMENT. TIME WAS LIMITED AND, AS I HAVE SAID, I WAS GIVEN TO THE FOLLOWING FRIDAY TO COME UP WITH SUCH A PROPOSAL. THE PRIME MINISTER CLEARLY STATED ON THAT MONDAY THAT MINISTERS WOULD MEET AGAIN TO CONSIDER THE RESULT ON FRIDAY AT 3 PM AFTER THE STOCK EXCHANGE HAD CLOSED. THERE WOULD THUS BE A FURTHER OPPORTUNITY FOR COLLEAGUES TO CONSIDER THE OUTCOME AND TO INFORM THE BOARD OF THEIR VIEWS IF THEY WISHED. I WAS CONTENT. THERE WAS TIME. THERE WOULD BE FURTHER COLLECTIVE DISCUSSIONS.

7

THE CABINET OFFICE SUBSEQUENTLY BEGAN ARRANGEMENTS FOR THAT MEETING AND A NUMBER OF WHITEHALL DEPARTMENTS WERE CONTACTED ABOUT THE AVAILABILITY OF THEIR MINISTER. THESE ARRANGEMENTS WERE, HOWEVER, CANCELLED ON THE INSTRUCTIONS OF THE PRIME MINISTER. HAVING LOST THREE TIMES, THERE WAS TO BE NO QUESTION OF RISKING A FOURTH DISCUSSION. AS A RESULT THE MEETING ON 9TH DECEMBER REPRESENTS THE ONLY OCCASION ON WHICH THERE WAS A COLLECTIVE DISCUSSION OF THE ISSUES INVOLVED, AS OPPOSED SIMPLY TO THE QUESTION OF THEIR PUBLIC HANDLING BY THE GOVERNMENT. BY 13TH DECEMBER I PRODUCED PROPOSALS FOR MINISTERIAL AGREEMENTS. A COMPLEMENTARY OFFER BY THE COMPANIES CONCERNED TO PARTICIPATE IN THE RECONSTRUCTION OF WESTLAND WAS ALSO MADE THAT DAY. THEY WERE NOT ADDRESSED COLLECTIVELY, BUT I CIRCULATED THEM TO COLLEAGUES.

8

FOLLOWING THE DECISION NOT TO PROCEED WITH THE MEETING ON 13TH DECEMBER, I SOUGHT ON A NUMBER OF OCCASIONS TO HAVE THE ISSUES PROPERLY ADDRESSED. THE FIRST ATTEMPT HAD BEEN AT THE CABINET ON THURSDAY 12TH DECEMBER. THE PRIME MINISTER REFUSED TO ALLOW A DISCUSSION IN CABINET THAT DAY. I INSISTED THAT THE CABINET SECRETARY SHOULD RECORD MY PROTEST IN THE CABINET MINUTES. WHEN THE MINUTES WERE CIRCULATED THERE WAS NO REFERENCE TO ANY DISCUSSION ABOUT WESTLAND AND CONSEQUENTLY NO RECORD OF MY PROTEST. BEFORE THE NEXT CABINET MEETING I COMPLAINED TO THE SECRETARY OF THE CABINET. HE EXPLAINED THAT THE ITEM HAD BEEN OMITTED FROM THE MINUTES AS THE RESULT OF AN ERROR AND HE SUBSEQUENTLY CIRCULATED AN ADDENDUM IN THE FORM OF A BRIEF NOTE OF THE DISCUSSION. SUCH AN ERROR AND CORRECTION WAS UNPRECEDENTED IN MY EXPERIENCE. THE MINUTES, AS FINALLY ISSUED, STILL DID NOT RECORD MY PROTEST AND I HAVE SINCE INFORMED THE SECRETARY OF THE CABINET THAT I AM STILL NOT CONTENT WITH THE WAY IN WHICH THIS DISCUSSION WAS RECORDED.

9

THE WORLD IS AWARE THAT ON DECEMBER 13TH THE BOARD OF WESTLAND REJECTED, AFTER THE BRIEFEST DISCUSSION, THE PROPOSALS PUT FORWARD BY A CONSORTIUM WHICH NOW INCLUDED BRITAIN'S LEADING AEROSPACE COMPANY, BRITISH AEROSPACE PLC.

ON 16TH DECEMBER THE SECRETARY OF STATE FOR TRADE AND INDUSTRY MADE A STATEMENT TO THE HOUSE THAT, SINCE THE WESTLAND BOARD HAD REJECTED THE BRITISH/EUROPEAN CONSORTIUM PROPOSALS, THE GOVERNMENT WAS NOT BOUND BY THE NADS RECOMMENDATION.

10

EFFECTIVELY HE THEREBY LEFT THE WAY CLEAR FOR THE SIKORSKY/FIAT BID.

THERE FOLLOWED INCREASING CONCERN OVER THE DEFENCE IMPLICATIONS OF THIS DECISION. THE OFFICERS OF THE BACK BENCH DEFENCE COMMITTEE OF THE CONSERVATIVE PARTY PUT OUT A STATEMENT IN SUPPORT OF THE APPROACH I WAS TAKING. I DID NOT SOLICIT THAT STATEMENT. SUBSEQUENTLY ON 18TH DECEMBER THE HOUSE OF COMMONS DEFENCE COMMITTEE, FOLLOWING A PRIVATE MEETING WITH ME, ALSO DREW ATTENTION TO THE DEFENCE IMPLICATIONS. AT THE CABINET DISCUSSION ON 19TH DECEMBER, THERE WAS AGAIN NO ATTEMPT TO ADDRESS THESE FUNDAMENTAL ISSUES. IT WAS LAID DOWN THAT IT WAS 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; THAT NO MINISTER WAS ENTITLED TO LOBBY IN FAVOUR OF ONE PROPOSAL RATHER THAN ANOTHER; AND THAT MAJOR ISSUES OF DEFENCE PROCUREMENT WERE FOR COLLECTIVE DECISION. INFORMATION ABOUT THE IMPLICATIONS OF DEFENCE PROCUREMENT FOR WESTLANDS WORKLOAD SHOULD BE MADE EQUALLY AVAILABLE TO BOTH GROUPS AS WELL AS TO WESTLAND. I EXPLICITLY EXPLAINED AT THAT MEETING THAT, AS THE MINISTRY OF DEFENCE WAS THE MAJOR CUSTOMER OF WESTLAND I WAS BOUND TO ANSWER QUESTIONS WHETHER FROM UT/FIAT OR FROM THE EUROPEAN CONSORTIUM ABOUT DEFENCE PROCUREMENT ASPECTS. I ALSO DREW ATTENTION TO THE FACT THAT I BELIEVED THAT ON THE FOLLOWING DAY EVENTS WOULD UNFOLD THAT DEMANDED COLLECTIVE JUDGEMENT. I KNEW AT THE TIME, BUT COULD NOT PROVE, THAT THE BRITISH/EUROPEAN PROPOSALS WOULD

APPEAR NEXT DAY. I THEREFORE TOLD THE CABINET THAT WHILE IT WAS ACCEPTABLE THAT THURSDAY FOR THE GOVERNMENT TO ADOPT AN APPARENTLY NEUTRAL APPROACH, EVENTS WOULD SHORTLY UNFOLD WHICH WOULD DEMAND COLLECTIVE JUDGEMENT.

EVENTS DID SO UNFOLD. THE FOLLOWING DAY 20TH DECEMBER THE BRITISH EUROPEAN CONSORTIUM PUT FORWARD AN OFFER TO WESTLAND THAT WAS WIDELY DESCRIBED AS SUPERIOR IN EVERY WAY TO THE SIKORSKY/FIAT ALTERNATIVE. IT WAS REJECTED OUT OF HAND BY THE WESTLAND BOARD. 11

I WROTE ON 23RD DECEMBER TO MY COLLEAGUES SETTING OUT MY VIEWS ON THE IMPLICATIONS OF BOTH OFFERS AND THEIR COMPARATIVE MERITS AND ASKING THAT THE GOVERNMENT SHOULD EXERCISE ITS PROPER RESPONSIBILITY ON SO IMPORTANT A MATTER OF DEFENCE INDUSTRIAL POLICY. I EXPLICITLY RECOGNISED THAT THE HOLIDAY PERIOD WAS A DIFFICULT TIME FOR SUCH A JUDGEMENT. BUT BEFORE THE DIRECTORS CAME OUT WITH A FINAL RECOMMENDATION LAST SUNDAY, IT WOULD STILL HAVE BEEN POSSIBLE FOR THE GOVERNMENT TO MEET AND TO RESTATE THE PREFERENCES SO CLEARLY EXPRESSED AT THE OUTSET. MY REQUEST FOR A MEETING WAS REFUSED BY THE PRIME MINISTER. 12

TWO FURTHER EVENTS MUST BE RECORDED. SIR JOHN CUCKNEY WROTE ON 30TH DECEMBER TO THE PRIME MINISTER SEEKING ASSURANCES ABOUT THE POSITION OF THE COMPANY SHOULD THEY PROCEED WITH A SIKORSKY/FIAT LINK. THESE ASSURANCES WERE SOUGHT DIRECTLY IN RELATION TO A LETTER SENT BY THE MINISTRY OF DEFENCE AT MY DIRECTION TO THE COMPANY. THE FUNDAMENTAL ISSUE RAISED BY SIR JOHN CUCKNEY RELATED TO DEFENCE PROCUREMENT ISSUES FOR WHICH I WAS THE SECRETARY OF STATE WITH THE INDIVIDUAL MINISTERIAL RESPONSIBILITY. IN THE PROPER CONDUCT OF GOVERNMENT BUSINESS SIR JOHN'S LETTER WOULD HAVE BEEN REFERRED TO MY DEPARTMENT FOR 13

ADVICE AND A DRAFT REPLY. IN THIS CASE THE PRIME MINISTER'S PRIVATE SECRETARY SENT THE LETTER TO THE DEPARTMENT OF TRADE AND INDUSTRY AND ASKED FOR A DRAFT REPLY, CLEARED AS APPROPRIATE WITH OTHER DEPARTMENTS AND THE LAW OFFICERS. HE ASKED FOR IT TO BE SUBMITTED BY 4 PM THE FOLLOWING DAY. THE LETTER FROM 10 DOWNING STREET SET OUT THE LINE WHICH THE PRIME MINISTER PROPOSED TO TAKE.

WHEN I RECEIVED MY COPY OF THE LETTER THE FOLLOWING MORNING, I POINTED OUT THAT THESE WERE MATTERS WITHIN MY MINISTERIAL RESPONSIBILITY BUT THE LETTER WAS NOT TRANSFERRED TO MY DEPARTMENT FOR ANSWER. I ALSO POINTED OUT THAT THE LINE WHICH THE PRIME MINISTER PROPOSED TO TAKE WAS MATERIALLY MISLEADING. THE DEPARTMENT OF TRADE AND INDUSTRY PREPARED A DRAFT REPLY WHICH WAS REFERRED TO THE LAW OFFICERS ONLY AT MY EXPRESS REQUEST. A REPLY WITH WHICH ALL CONCERNED COULD LIVE WAS EVENTUALLY HAMMERED OUT AT ABOUT 10 PM ON NEW YEAR'S EVE.

I SUBSEQUENTLY AMPLIFIED THOSE PARTS OF THE REPLY THAT SOUGHT TO HIDE THE REALITY OF WESTLAND'S POSITION IN RELATION TO POTENTIAL EUROPEAN PARTNERS AND PROSPECTS FOR ORDERS FROM THE MINISTRY OF DEFENCE IN THE MEDIUM TERM, IN A LETTER OF 3RD JANUARY TO LLOYDS MERCHANT BANK, WHICH I COPIED TO SIR JOHN CUCKNEY.

I WAS INFORMED THE FOLLOWING DAY BY THE SOLICITOR-GENERAL THAT ON THE BASIS OF THE EVIDENCE WHICH HE HAD THUS FAR SEEN MY LETTER CONTAINED MATERIAL INACCURACIES. HE WROTE TO ME IN THIS SENSE ON MONDAY 6TH JANUARY. WITHIN 2 HOURS OF MY RECEIVING HIS LETTER DAMAGING SELECTIVE PASSAGES HAD BEEN LEAKED TO THE PRESS ASSOCIATION. I CANNOT COMMENT ON THE SOURCE OF THESE LEAKS ON WHICH THERE WILL NO DOUBT BE A FULL ENQUIRY IN THE NORMAL WAY. NO ONE CAN DOUBT THEIR PURPOSE. I SUBSEQUENTLY ON 6TH JANUARY SET OUT TO THE SOLICITOR-GENERAL SOME OF THE FURTHER EVIDENCE AT MY DISPOSAL ABOUT THE ATTITUDE OF OTHER GOVERNMENTS AND OTHER COMPANIES AND INFORMED LLOYDS MERCHANT BANK BY LETTER ON THAT DAY THAT MY ANSWER NEEDED NO CORRECTION.

THE GOVERNMENT, IN ITS OFFICIAL POSITION, HAS SOUGHT TO SUGGEST THAT IT HAS ADOPTED AN EVEN-HANDED APPROACH BETWEEN THE VIABLE OFFERS. IN PRACTICE THROUGHOUT THE ATTEMPT HAS BEEN MADE TO REMOVE ANY OBSTACLES TO THE OFFER BY SIKORSKY/FIAT EVEN TO THE EXTENT TO CHANGING EXISTING GOVERNMENT POLICY. ALTHOUGH, AS I EXPLAINED EARLIER, AT THE OUTSET THERE WAS A CLEAR RECOGNITION OF THE ATTRACTIONS OF INVOLVEMENT BY BRITISH AEROSPACE, I UNDERSTAND THAT LAST NIGHT THE SECRETARY FOR TRADE AND INDUSTRY, IN THE PRESENCE OF ANOTHER MINISTER IN HIS DEPARTMENT AND HIS OFFICIALS, TOLD SIR RAYMOND LYGO OF BRITISH AEROSPACE THAT THE ROLE WHICH BRITISH AEROSPACE WERE TAKING IN THE EUROPEAN CONSORTIUM WAS AGAINST THE NATIONAL INTEREST AND THAT BRITISH AEROSPACE SHOULD WITHDRAW. SO MUCH FOR THE WISH OF THE SPONSORING DEPARTMENT TO LEAVE THE MATTER TO THE SHAREHOLDERS ON

15

THE BASIS OF THE MOST ATTRACTIVE CHOICE AVAILABLE TO THEM.

FINALLY WE COME TO TODAY'S CABINET. IT WAS SUGGESTED THAT ANY QUESTIONS IN CONNECTION WITH THE COMPETING OFFERS FOR WESTLAND SHOULD BE REFERRED BY ALL MINISTERS TO THE CABINET OFFICE TO BE HANDLED BY THEM IN THE FIRST INSTANCE. TO HAVE DONE SO WOULD HAVE BEEN TO IMPLY DOUBT AND DELAY IN ANY AND EVERY PART OF THE ASSURANCES I HAD PUBLICLY GIVEN ON BEHALF OF MY MINISTRY AND OF MY EUROPEAN COLLEAGUES. SUCH A PROCEDURE WOULD HAVE ALLOWED THE ADVOCATES OF THE SIKORSKY PROPOSALS TO MAKE MAYHEM OVER WHAT IS NOW THE SUPERIOR BRITISH/EUROPEAN OFFER. WHILE I AGREED THAT ALL NEW POLICY ISSUES COULD BE REFERRED TO THE CABINET OFFICE, I REFUSED TO ABANDON OR QUALIFY IN ANY WAY ASSURANCES I HAVE GIVEN OR MY RIGHT AS THE RESPONSIBLE MINISTER TO ANSWER QUESTIONS ON DEFENCE PROCUREMENT ISSUES IN LINE WITH POLICIES MY COLLEAGUES HAVE NOT CONTRADICTED.

16

THE PRIME MINISTER PROPERLY SUMMED UP THE VIEW OF CABINET THAT ALL ANSWERS SHOULD BE REFERRED FOR COLLECTIVE CLEARANCE. I COULD NOT ACCEPT THAT CONSTRAINT IN THE CRITICAL FEW DAYS BEFORE THE WESTLAND SHAREHOLDERS DECIDE. I HAD NO CHOICE BUT TO ACCEPT OR TO RESIGN. I LEFT THE CABINET.

TO BE SECRETARY OF STATE FOR DEFENCE IN A TORY GOVERNMENT IS ONE OF THE HIGHEST DISTINCTIONS ONE CAN ACHIEVE.

TO SERVE AS A MEMBER OF A TORY CABINET WITHIN THE CONSTITUTIONAL UNDERSTANDINGS AND PRACTICES OF A SYSTEM UNDER WHICH THE PRIME MINISTER IS PRIMUS INTER PARES IS A MEMORY I WILL ALWAYS TREASURE.

BUT IF THE BASIS OF TRUST BETWEEN THE PRIME MINISTER AND HER DEFENCE SECRETARY NO LONGER EXISTS, THERE IS NO PLACE FOR ME WITH HONOUR IN SUCH A CABINET.

Prime Minister to note N.L.W 10.1

N Powell to see NW F

Ref. A085/93

MR WICKS

Since Mr Heseltine is suggesting that there has been a deliberate attempt to suppress the record of the discussion of Westland at Cabinet on 12 December and, in particular, that his own "protests" were not recorded, despite his request that they should be, I should like to give you an account of the matter.

2. As you will remember, the subject of Westland was raised by the Secretary of State for Defence; and the way in which it was raised led to a good deal of tension.

3. The secretariat made a full minute of the discussion (copy attached). I took the view that, in order to minimise the risk of embarrassing leaks, the full record should not be circulated, and I gave instructions that the circulated minutes should include only the first and last paragraphs of the record. Unfortunately, as a result of a misunderstanding, it was thought that I had instructed that there should be no record of the Westland discussion whatever in the circulated minutes, and no record appeared in the minutes as circulated late on the evening of 12 December.

4. Nobody (not even Mr Heseltine) drew my attention to this omission, until I discovered it myself a week later when I was preparing the minutes of the meeting on 19 December. I immediately gave instructions for the brief two-paragraph record to be circulated as an addendum to the minutes of the meeting of 12 December (copy attached), and that was duly done.

5. By agreement with you, I sent Mr Heseltine an advance copy of the minute of the discussion on Westland on 19 December. There were no comments at the time but Mr Heseltine acknowledged

so that he would know quickly the injunction in the minutes about partisan briefing

RTAAAT

receipt in a letter which he sent me on Christmas Eve (copy attached), which also referred to the addendum to the minutes of the meeting of 12 December. He said he would welcome a word with me about this after the holiday period. I sent a message to his office on 2 January to say that I was at his disposal if he wanted me to come across and talk.

6. Mr Heseltine mentioned the matter again to me before the meeting of the Cabinet on 9 January. He indicated that he was not satisfied with the brief record circulated of the discussion on 12 December, because it did not record his "protest". I said that I should like to come and talk to him about that: I indicated that the discussion had been fully recorded, but the full record had not been circulated. He agreed that I should go and see him. That was, of course, overtaken by his resignation.

7. The manuscript notes which Mr Mallaby and I made at the time of the discussion on 12 December suggest that Mr Heseltine did not at any time use the word "protest": at any rate neither of us noted it, and I think it would have been sufficiently unusual for us to have noted it if he had. At the very end of the discussion he said that he wanted to record three things:

a. that the meeting of E(A) on 9 December had envisaged that there would be a European offer;

b. that it had been envisaged that there would be a further meeting of E(A) on Friday 13 December before the expiry of the deadline for withdrawal from the National Armaments Directors' recommendation;

c. that he had stated in the Cabinet discussion that in order that the preparation of a European offer could go forward he had had talks with his European colleagues, as a result of which he needed the collective agreement of

RTAAAT

Ministers in a further discussion before he made certain statements to the European consortium.

8. There is no doubt about the first and third of these points and (as you will see) the full record of the discussion incorporated them. Even the brief record records Mr Heseltine's demand for a further meeting of Ministers.

9. His second point, that E(A) envisaged a further meeting on Friday 13 December, was not agreed. It was clear that the possibility that such a meeting might be required was envisaged in some form. As you will know from my minute of 16 December (A085/3271), the secretariat came away with the impression that the Prime Minister had indicated that the timetable would permit a further meeting of E(A) on Friday 13 December if necessary, and arranged for Private Offices to be rung round to find out whether Ministers would be available for a further meeting on that date. But this was always seen as a bit of contingency planning, and Ministers were told on 11 December not to alter any other plans they had already made for 13 December. At the Cabinet discussion on 12 December Mr Heseltine made a good deal of play of the Cabinet Office ring-round as an indication that the Cabinet Office thought that there was to be a meeting and set about arranging a meeting but had been instructed to cancel the arrangements.

10. So the full record of the Cabinet discussion on 12 December recorded Mr Heseltine's three points to the extent that the secretariat believed was consistent with the course of the discussion to do so. His main point, that he thought a further meeting of Ministers necessary, was included in the brief minute which was circulated (albeit belatedly).

RTA

10 January 1986

ROBERT ARMSTRONG

RTAAAT

DEPARTMENT OF TRADE AND INDUSTRY
20 VICTORIA STREET
LONDON SW1H 0NF

Telephone (Direct dialling) 01 - 215)
GTN 215)
(Switchboard) 01 - 215 7877

10/1/86

Dear Charles,

You might like to see the attached record of Mr. Heseltine's press conference. It repeats many of the old misleading statements :- no design work for Westland on Blackhawk, no work for British aviation companies, Blackhawk unsaleable etc.

This is really why I want to include the final sentence in Sir B. Hayes' reply to Sir John Cuckney (you have the draft). We believe stories are still being put about that if the European Consortium gets the vote, the Government will automatically follow the NAD's recommendation and they will gain a protected market. I think we should make clear this is not

Government policy.

Yours sincerely,

John Mitchell

Charles Powell, Esq

With Compliments CDM.

Sir John Cuckney

Westland plc
4 Carlton Gardens
Pall Mall
London SW1Y 5AB *01-839 4061*

WESTLAND plc

From
Sir John Cuckney

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

10th January, 1986

Sir Brian Hayes, KCB,
Permanent Secretary,
Department of Trade & Industry,
1 Victoria Street,
London SW1H 0ET.

Dear Brian,

I would be grateful if I could have an early reply to the following question. Does the Government's policy remain unchanged with regard to the proposals by the National Armaments Directors on future European Helicopter procurement?

I am sending a copy of this letter to Clive Whitmore at the Ministry of Defence and to Charles Powell at 10 Downing Street.

Yours ever,

John

Charles Powell, Esq.

With Compliments e 130

Sir John Cuckney

Westland plc
4 Carlton Gardens
Pall Mall
London SW1Y 5AB *01-839 4061*

WESTLAND plc

From
Sir John Cuckney

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

10th January, 1986

Sir Clive Whitmore, KCB, CVO,
Permanent Under-Secretary of State,
Ministry of Defence,
Main Building,
Whitehall,
London SW1A 2HB.

Dear Clive.

I should be grateful if I could have an early answer to the following three questions.

In view of recent events my Board wishes to know whether Lloyds Merchant Bank are formally acting for the Ministry of Defence in a professional capacity.

Does the Ministry of Defence guarantee the order for six Sea Kings referred to in the Consortium's proposals? Is this a follow-on order to the orders for fourteen Sea Kings under discussion between the Ministry of Defence and Westland?

Do earlier Ministry of Defence letters provided to Lloyds Merchant Bank in support of the Consortium's proposal continue to represent Ministry of Defence policy?

I am sending copies of this letter to Brian Hayes at the Department of Trade and Industry and to Charles Powell at 10 Downing Street.

Yours ever.

John

LOBBY BRIEFING

time: 5.30 pm date: 9/1/86

RESIGNATION OF MR HESELTINE

When asked for an indication of the Prime Minister's reaction to Mr Heseltine's statement, we said that the Prime Minister and colleagues had different recollections of events to that which Mr Heseltine had outlined in his statement. We would not be drawn on specifics such as the allegation of the alteration of Cabinet minutes. We could not help concerning the meeting between Mr Brittan and Admiral Lygoe and suggested that the Lobby talk to DTI although, of course, we did not generally comment on confidential meetings.

We corrected the earlier impression that we had given suggesting that 8 or 9 Cabinet Ministers took part in the discussion. In fact we thought the number was more likely to be two-thirds of the Cabinet. Mr Heseltine had clearly felt isolated. We said the Prime Minister did not watch his statement on television: she was at a meeting on something else. We strongly refuted the suggestion that she had been partisan.

The letter she had sent to Sir John Cuckney had been cleared in the normal way and sent to the Department of Trade and Industry for advice since it was the appropriate Department. What Mr Heseltine was obviously saying was that if he had drafted the reply it would have been very different.

We confirmed that the Prime Minister had not actually been speaking at the time of Mr Heseltine's departure.

When asked if we felt these events were unprecedented, we recalled that George Brown had resigned nearly every week and the same sort of Cabinet squabbles occurred then.

We said that if a leak inquiry were to be formally called for this would be considered.

In conclusion we repeated that the Prime Minister had expressed regret and disappointment at these events and considered Mr Heseltine to have resigned on a very narrow point of procedure.

RATES

We drew on the attached guidance. We would not go into any details on the contents of the Green Paper but repeated that the objective remained to phase out rates and seek a practical alteration to a widely discredited system. We were sure the Government knew what it wanted. The objective of the consultation period following the publication of the Green Paper would be to seek views on what the Government wanted. We said it was too early to give any useful steer on when legislation might be on the Statute Books but acknowledged that the pressure on Scotland for swift reform was greater.

CHANNEL FIXED LINK

We said this subject had not been raised in Cabinet and the Transport Secretary would be having more meetings.

CW

CHANCELLOR OF THE DUCHY OF LANCASTER

BBC 'News At One' would like to interview either yourself or, if you are not available, Mr Jeffrey Archer.

Andrew Lansley advises you to keep your powder dry for 'Question Time' this evening and suggests that it might be best for Mr Archer not to give an interview either at this point in time.

Nicolas Towers.

NICOLAS TOWERS
PRESS OFFICE
8 January 1986

Not Mr Archer.
Someone should speak for Government at 1.00. ∴ perhaps it should be me?

3 copies pse.

MO 26/16/1E

I HAVE TODAY TENDERED MY RESIGNATION FROM THE GOVERNMENT. NOT BECAUSE OF THE DISCUSSION AT TODAY'S CABINET BUT BECAUSE OF THE WAY IN WHICH THE RECONSTRUCTION OF WESTLAND PLC HAS BEEN HANDLED OVER A PERIOD OF MONTHS. THIS HAS RAISED PROFOUND ISSUES ABOUT DEFENCE PROCUREMENT AND BRITAIN'S FUTURE AS A TECHNOLOGICALLY ADVANCED COUNTRY, ISSUES THAT HOWEVER HAVE NEVER BEEN PROPERLY ADDRESSED BY THE GOVERNMENT. INDEED, AS I SHALL SHOW, A DELIBERATE ATTEMPT HAS BEEN MADE TO AVOID ADDRESSING THEM. THIS IS NOT A PROPER WAY TO CARRY ON GOVERNMENT AND ULTIMATELY NOT AN APPROACH FOR WHICH I CAN SHARE RESPONSIBILITY.

THE BACKGROUND TO THE GOVERNMENT'S POLICY ON HELICOPTER PROCUREMENT IS THE 1978 DECLARATION OF PRINCIPLES AGREED BY FRANCE, GERMANY, ITALY AND THE UNITED KINGDOM. THIS PROVIDED THAT EACH COUNTRY WOULD MAKE EVERY EFFORT TO MEET THEIR NEEDS WITH HELICOPTERS DEVELOPED JOINTLY IN EUROPE. THAT POLICY HAS THUS FAR BEEN FOLLOWED THROUGH IN OUR FUTURE PLANNING. IT IS ENTIRELY CONSISTENT WITH THE WIDER APPROACH TO DEFENCE PROCUREMENT SET OUT IN THE 1985 STATEMENT ON THE DEFENCE ESTIMATES WHICH EMPHASISED THE IMPORTANCE OF EUROPE COMING TOGETHER IN AN EQUAL PARTNERSHIP WITH THE UNITED STATES WITHIN THE NORTH ATLANTIC ALLIANCE. MY OWN COMMITMENT TO THAT ALLIANCE AND TO THE STRONGEST AND MOST FRIENDLY RELATIONS WITH THE UNITED STATES ON A BASIS OF EQUALITY COULD NOT BE CLEARER.

WHEN WESTLAND PLC RAN INTO FINANCIAL DIFFICULTIES, PARTIALLY BECAUSE OF THEIR FAILURE ON THE CIVIL MARKET, THIS WAS NOT MY IMMEDIATE MINISTERIAL RESPONSIBILITY. I AM NOT THE SPONSORING MINISTER FOR THE HELICOPTER INDUSTRY. IT WOULD HAVE BEEN QUITE WRONG FOR ME TO TRY TO TAKE THE LEAD ROLE IN WHAT WAS A DTI RESPONSIBILITY. IT WOULD HAVE BEEN WRONG ALSO FOR THE MINISTRY OF DEFENCE ALONE TO BAIL OUT THE COMPANY WITH ORDERS FOR WHICH THERE WAS NOT AN APPROVED MILITARY REQUIREMENT. I DID, HOWEVER, MAKE CLEAR THROUGHOUT THAT THE HELICOPTER CAPABILITY PROVIDED BY WESTLAND WAS ESSENTIAL IN SOME FORM TO OUR DEFENCE NEEDS.

WHEN SIR JOHN CUCKNEY, WHO HAD BECOME THE CHAIRMAN OF WESTLAND WITH MY FULL SUPPORT AND ENCOURAGEMENT, FIRST APPROACHED THE GOVERNMENT ABOUT ITS ATTITUDE TO POTENTIAL PARTNERS FOR WESTLAND, THERE WAS A CLOSE IDENTITY OF VIEW BETWEEN THE MINISTRY OF DEFENCE AND THE DEPARTMENT OF TRADE AND INDUSTRY. IN VIEW OF THIS IDENTITY OF VIEW, IT WAS STILL UNNECESSARY FOR ME TO TAKE ANY DIRECT INITIATIVE. IT WAS RECOGNISED THAT WITH A SIKORSKY SHAREHOLDING WESTLAND MIGHT TEND TO BECOME LITTLE MORE THAN A PRODUCTION FACILITY FOR SIKORSKY AND TO LOSE ITS OWN HELICOPTER DESIGN AND DEVELOPMENT CAPACITY, THAT A LINK WITH EUROPEAN COMPANIES WOULD FIT BETTER INTO THE DEVELOPING PATTERN OF EUROPEAN COLLABORATION AND THAT, IN MANY WAYS, BRITISH AEROSPACE WOULD BE THE MOST WELCOME PARTNER. THE NEED TO EXPLORE URGENTLY THE EUROPEAN OPTION WAS RECOMMENDED BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY ON 4TH OCTOBER. WHEN, ON 17TH OCTOBER, SIR JOHN CUCKNEY MET THE SECRETARY OF

STATE FOR TRADE AND INDUSTRY HE SAID THAT HE WAS WELL AWARE OF THE GOVERNMENT'S PREFERENCE FOR A EUROPEAN MINORITY SHAREHOLDER IN WESTLAND AND ATTACHED WEIGHT TO THAT PREFERENCE. THE PROBLEM WAS HOW TO BRING THIS ABOUT IN A TIMELY WAY.

OVER THE FOLLOWING WEEKS THERE WERE A NUMBER OF DISCUSSIONS INVOLVING BOTH THE EUROPEAN COMPANIES AND WESTLAND AND CONTACTS BETWEEN EUROPEAN MINISTERS. I KEPT IN CLOSE TOUCH WITH THESE AND WITH THE FINANCIAL POSITION OF THE COMPANY. AT ONE STAGE I INTERVENED TO DIRECT THAT THE MOD'S ACCOUNTING OFFICER SHOULD MAKE A PAYMENT OF £6 MILLION TO WESTLAND THAT WAS CORRECTLY BEING WITHHELD FROM THEM ON GROUNDS OF PRUDENT GOVERNMENT ACCOUNTING BUT THAT I WAS SATISFIED SHOULD BE MADE BECAUSE OF THE WIDER ISSUES INVOLVED. AS TIME WENT ON I BECAME INCREASINGLY CONCERNED ABOUT PROGRESS IN THE DISCUSSIONS PARTICULARLY AT A COMPANY LEVEL. ON 26TH NOVEMBER, I MET SIR JOHN CUCKNEY AND DISCUSSED WITH HIM WHERE MATTERS STOOD. HE EXPLAINED THE NEED FOR URGENT ACTION AND THE ATTRACTIONS OF PARTICIPATION BY SIKORSKY. HOWEVER, HE DID NOT RULE OUT OTHER OPTIONS PROVIDED THAT THEY HAD AS MUCH TO OFFER AS THE SIKOSRKY ALTERNATIVE. HIS PROBLEM WAS THAT HE LACKED THE MANAGEMENT RESOURCES HIMSELF TO EXPLORE THEM. I ASKED IF I COULD HELP, HAVING ALREADY AGREED WITH THE SECRETARY OF STATE FOR TRADE AND INDUSTRY AND THAT THIS WAS ACCEPTABLE. HE WELCOMED MY PROPOSAL THAT I SHOULD ASSIST IN THIS PROCESS. THE LESSONS OF THE NEGOTIATIONS OVER THE EUROPEAN FIGHTER AIRCRAFT WERE IN MY VIEW CLEAR: WITHOUT MINISTERIAL INVOLVEMENT, IT WOULD BE VERY

DIFFICULT TO ACHIEVE TIMELY SUCCESS. I WAS NOT PREPARED TO SEEK THE SUPPORT OF MY EUROPEAN MINISTERIAL COLLEAGUES, UNLESS THEIR EFFORTS WOULD BE FAIRLY AND PROPERLY TREATED.

SINCE SIR JOHN CUCKNEY HAD IN NO WAY RULED OUT THE EUROPEAN ALTERNATIVE AND WELCOMED MY OFFER TO EXPLORE IT, I DISCUSSED IT WITH DR WOERNER THE FOLLOWING DAY AND ARRANGED THAT NATIONAL ARMAMENTS DIRECTORS OF THE UNITED KINGDOM, GERMANY, ITALY AND FRANCE SHOULD MEET ON 29TH NOVEMBER, AND THAT THE COMPANIES INVOLVED SHOULD ALSO COME TOGETHER THAT DAY. THE NATIONAL ARMAMENTS DIRECTORS REACHED PROVISIONAL AGREEMENT ON THE WAY FORWARD INCLUDING A RECOMMENDATION THAT, IN AN EXTENSION OF THE 1978 AGREEMENT THEIR NEEDS WITHIN THE MAIN HELICOPTER CLASSES SHOULD BE COVERED SOLELY IN THE FUTURE BY HELICOPTERS DESIGNED AND BUILT IN EUROPE. THEY ALSO AGREED TO COMPLETE THE RATIONALISATION OF THEIR REQUIREMENT FOR HELICOPTERS, CARRYING FORWARD THE OBJECTIVES SET OUT N 1978. AS SOON AS THIS AGREEMENT HAD BEEN REACHED I PERSONALLY GAVE A COPY TO SIR JOHN CUCKNEY.

SIR JOHN CUCKNEY'S RESPONSE WAS THAT THE AGREEMENT THAT HAD NOW BEEN REACHED WOULD EFFECTIVELY PRECLUDE WESTLAND FROM PROCEEDING WITH A TIE-UP WITH SIKORSKY. THE SUBSEQUENT MINISTERIAL DISCUSSIONS TOOK PLACE ONLY IN THE CONTEXT OF THIS ISSUE, RATHER THAN THE WIDER DIMENSION OF THE GOVERNMENT'S APPROACH TO THE OWNERSHIP OF A MAJOR DEFENCE CAPABILITY. THERE WERE THREE MINISTERIAL MEETINGS CHAIRED BY THE PRIME

MINISTER AT THE BEGINNING OF DECEMBER, TWO OF THEM AD-HOC GROUPS ON DECEMBER 4TH AND 5TH AND FINALLY A DISCUSSION IN THE MINISTERIAL SUB-COMMITTEE ON ECONOMIC STRATEGY ON DECEMBER 9TH. THE PRIME MINISTER ATTEMPTED AT ALL THREE MEETINGS TO REMOVE THE RECOMMENDATION OF THE NATIONAL ARMAMENTS DIRECTORS AND THUS LEAVE THE WAY CLEAR FOR THE SIKORSKY DEAL.

THE AD-HOC MEETINGS WERE BOTH ILL-TEMPERED ATTEMPTS TO OVERCOME THE REFUSAL OF SOME COLLEAGUES TO THUS CLOSE OFF THE EUROPEAN OPTION.

THE PRIME MINISTER, FAILING TO SECURE THAT PREFERENCE, CALLED A MEETING OF THE SUB-COMMITTEE ON ECONOMIC STRATEGY ON MONDAY DECEMBER 9TH. I PROPOSED DELAY UNTIL THE FOLLOWING FRIDAY TO GIVE THE EUROPEANS TIME TO COME FORWARD WITH A PROPER PROPOSAL. IF THEY FAILED, I SAID THAT I WOULD BACK SIKORSKY.

VIRTUALLY EVERY COLLEAGUE WHO ATTENDED THE ENLARGED MEETING AND THUS CAME FRESH TO THE ARGUMENTS SUPPORTED ME, DESPITE THE FACT THAT SIR JOHN CUCKNEY HAD BEEN INVITED TO PUT HIS VIEWS TO THE MEETING.

THAT MEETING CONCLUDED THAT THE SUB-COMMITTEE WERE NOT YET READY TO REJECT THE NADS RECOMMENDATION AND A NUMBER OF MINISTERS WOULD HAVE A CLEAR PREFERENCE FOR THE EUROPEAN ALTERNATIVE TO A SIKORSKY DEAL, IF IT COULD BE DEVELOPED INTO A FORM WHICH THE WESTLAND WOULD REGARD AS PREFERABLE TO THE

SIKORSKY ARRANGEMENT. TIME WAS LIMITED AND, AS I HAVE SAID, I WAS GIVEN TO THE FOLLOWING FRIDAY TO COME UP WITH SUCH A PROPOSAL. THE PRIME MINISTER CLEARLY STATED ON THAT MONDAY THAT MINISTERS WOULD MEET AGAIN TO CONSIDER THE RESULT ON FRIDAY AT 3 PM AFTER THE STOCK EXCHANGE HAD CLOSED. THERE WOULD THUS BE A FURTHER OPPORTUNITY FOR COLLEAGUES TO CONSIDER THE OUTCOME AND TO INFORM THE BOARD OF THEIR VIEWS IF THEY WISHED. I WAS CONTENT. THERE WAS TIME. THERE WOULD BE FURTHER COLLECTIVE DISCUSSIONS.

THE CABINET OFFICE SUBSEQUENTLY BEGAN ARRANGEMENTS FOR THAT MEETING AND A NUMBER OF WHITEHALL DEPARTMENTS WERE CONTACTED ABOUT THE AVAILABILITY OF THEIR MINISTER. THESE ARRANGEMENTS WERE, HOWEVER, CANCELLED ON THE INSTRUCTIONS OF THE PRIME MINISTER. HAVING LOST THREE TIMES, THERE WAS TO BE NO QUESTION OF RISKING A FOURTH DISCUSSION. AS A RESULT THE MEETING ON 9TH DECEMBER REPRESENTS THE ONLY OCCASION ON WHICH THERE WAS A COLLECTIVE DISCUSSION OF THE ISSUES INVOLVED, AS OPPOSED SIMPLY TO THE QUESTION OF THEIR PUBLIC HANDLING BY THE GOVERNMENT. BY 13TH DECEMBER I PRODUCED PROPOSALS FOR MINISTERIAL AGREEMENTS. A COMPLEMENTARY OFFER BY THE COMPANIES CONCERNED TO PARTICIPATE IN THE RECONSTRUCTION OF WESTLAND WAS ALSO MADE THAT DAY. THEY WERE NOT ADDRESSED COLLECTIVELY, BUT I CIRCULATED THEM TO COLLEAGUES.

FOLLOWING THE DECISION NOT TO PROCEED WITH THE MEETING ON 13TH DECEMBER, I SOUGHT ON A NUMBER OF OCCASIONS TO HAVE THE ISSUES PROPERLY ADDRESSED. THE FIRST ATTEMPT HAD BEEN AT THE CABINET ON THURSDAY 12TH DECEMBER. THE PRIME MINISTER REFUSED TO ALLOW A DISCUSSION IN CABINET THAT DAY. I INSISTED THAT THE CABINET SECRETARY SHOULD RECORD MY PROTEST IN THE CABINET MINUTES. WHEN THE MINUTES WERE CIRCULATED THERE WAS NO REFERENCE TO ANY DISCUSSION ABOUT WESTLAND AND CONSEQUENTLY NO RECORD OF MY PROTEST. BEFORE THE NEXT CABINET MEETING I COMPLAINED TO THE SECRETARY OF THE CABINET. HE EXPLAINED THAT THE ITEM HAD BEEN OMITTED FROM THE MINUTES AS THE RESULT OF AN ERROR AND HE SUBSEQUENTLY CIRCULATED AN ADDENDUM IN THE FORM OF A BRIEF NOTE OF THE DISCUSSION. SUCH AN ERROR AND CORRECTION WAS UNPRECEDENTED IN MY EXPERIENCE. THE MINUTES, AS FINALLY ISSUED, STILL DID NOT RECORD MY PROTEST AND I HAVE SINCE INFORMED THE SECRETARY OF THE CABINET THAT I AM STILL NOT CONTENT WITH THE WAY IN WHICH THIS DISCUSSION WAS RECORDED.

THE WORLD IS AWARE THAT ON DECEMBER 13TH THE BOARD OF WESTLAND REJECTED, AFTER THE BRIEFEST DISCUSSION, THE PROPOSALS PUT FORWARD BY A CONSORTIUM WHICH NOW INCLUDED BRITAIN'S LEADING AEROSPACE COMPANY, BRITISH AEROSPACE PLC.

ON 16TH DECEMBER THE SECRETARY OF STATE FOR TRADE AND INDUSTRY MADE A STATEMENT TO THE HOUSE THAT, SINCE THE WESTLAND BOARD HAD REJECTED THE BRITISH/EUROPEAN CONSORTIUM PROPOSALS, THE GOVERNMENT WAS NOT BOUND BY THE NADS RECOMMENDATION.

EFFECTIVELY HE THEREBY LEFT THE WAY CLEAR FOR THE SIKORSKY/FIAT BID.

THERE FOLLOWED INCREASING CONCERN OVER THE DEFENCE IMPLICATIONS OF THIS DECISION. THE OFFICERS OF THE BACK BENCH DEFENCE COMMITTEE OF THE CONSERVATIVE PARTY PUT OUT A STATEMENT IN SUPPORT OF THE APPROACH I WAS TAKING. I DID NOT SOLICIT THAT STATEMENT. SUBSEQUENTLY ON 18TH DECEMBER THE HOUSE OF COMMONS DEFENCE COMMITTEE, FOLLOWING A PRIVATE MEETING WITH ME, ALSO DREW ATTENTION TO THE DEFENCE IMPLICATIONS. AT THE CABINET DISCUSSION ON 19TH DECEMBER, THERE WAS AGAIN NO ATTEMPT TO ADDRESS THESE FUNDAMENTAL ISSUES. IT WAS LAID DOWN THAT IT WAS 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; THAT NO MINISTER WAS ENTITLED TO LOBBY IN FAVOUR OF ONE PROPOSAL RATHER THAN ANOTHER; AND THAT MAJOR ISSUES OF DEFENCE PROCUREMENT WERE FOR COLLECTIVE DECISION. INFORMATION ABOUT THE IMPLICATIONS OF DEFENCE PROCUREMENT FOR WESTLANDS WORKLOAD SHOULD BE MADE EQUALLY AVAILABLE TO BOTH GROUPS AS WELL AS TO WESTLAND. I EXPLICITLY EXPLAINED AT THAT MEETING THAT, AS THE MINISTRY OF DEFENCE WAS THE MAJOR CUSTOMER OF WESTLAND I WAS BOUND TO ANSWER QUESTIONS WHETHER FROM UT/FIAT OR FROM THE EUROPEAN CONSORTIUM ABOUT DEFENCE PROCUREMENT ASPECTS. I ALSO DREW ATTENTION TO THE FACT THAT I BELIEVED THAT ON THE FOLLOWING DAY EVENTS WOULD UNFOLD THAT DEMANDED COLLECTIVE JUDGEMENT. I KNEW AT THE TIME, BUT COULD NOT PROVE, THAT THE BRITISH/EUROPEAN PROPOSALS WOULD

APPEAR NEXT DAY. I THEREFORE TOLD THE CABINET THAT WHILE IT WAS ACCEPTABLE THAT THURSDAY FOR THE GOVERNMENT TO ADOPT AN APPARENTLY NEUTRAL APPROACH, EVENTS WOULD SHORTLY UNFOLD WHICH WOULD DEMAND COLLECTIVE JUDGEMENT.

EVENTS DID SO UNFOLD. THE FOLLOWING DAY 20TH DECEMBER THE BRITISH EUROPEAN CONSORTIUM PUT FORWARD AN OFFER TO WESTLAND THAT WAS WIDELY DESCRIBED AS SUPERIOR IN EVERY WAY TO THE SIKORSKY/FIAT ALTERNATIVE. IT WAS REJECTED OUT OF HAND BY THE WESTLAND BOARD.

I WROTE ON 23RD DECEMBER TO MY COLLEAGUES SETTING OUT MY VIEWS ON THE IMPLICATIONS OF BOTH OFFERS AND THEIR COMPARATIVE MERITS AND ASKING THAT THE GOVERNMENT SHOULD EXERCISE ITS PROPER RESPONSIBILITY ON SO IMPORTANT A MATTER OF DEFENCE INDUSTRIAL POLICY. I EXPLICITLY RECOGNISED THAT THE HOLIDAY PERIOD WAS A DIFFICULT TIME FOR SUCH A JUDGEMENT. BUT BEFORE THE DIRECTORS CAME OUT WITH A FINAL RECOMMENDATION LAST SUNDAY, IT WOULD STILL HAVE BEEN POSSIBLE FOR THE GOVERNMENT TO MEET AND TO RESTATE THE PREFERENCES SO CLEARLY EXPRESSED AT THE OUTSET. MY REQUEST FOR A MEETING WAS REFUSED BY THE PRIME MINISTER.

TWO FURTHER EVENTS MUST BE RECORDED. SIR JOHN CUCKNEY WROTE ON 30TH DECEMBER TO THE PRIME MINISTER SEEKING ASSURANCES ABOUT THE POSITION OF THE COMPANY SHOULD THEY PROCEED WITH A SIKORSKY/FIAT LINK. THESE ASSURANCES WERE SOUGHT DIRECTLY IN RELATION TO A LETTER SENT BY THE MINISTRY OF DEFENCE AT MY DIRECTION TO THE COMPANY. THE FUNDAMENTAL ISSUE RAISED BY SIR JOHN CUCKNEY RELATED TO DEFENCE PROCUREMENT ISSUES FOR WHICH I WAS THE SECRETARY OF STATE WITH THE INDIVIDUAL MINISTERIAL RESPONSIBILITY. IN THE PROPER CONDUCT OF GOVERNMENT BUSINESS SIR JOHN'S LETTER WOULD HAVE BEEN REFERRED TO MY DEPARTMENT FOR

ADVICE AND A DRAFT REPLY. IN THIS CASE THE PRIME MINISTER'S PRIVATE SECRETARY SENT THE LETTER TO THE DEPARTMENT OF TRADE AND INDUSTRY AND ASKED FOR A DRAFT REPLY, CLEARED AS APPROPRIATE WITH OTHER DEPARTMENTS AND THE LAW OFFICERS. HE ASKED FOR IT TO BE SUBMITTED BY 4 PM THE FOLLOWING DAY. THE LETTER FROM 10 DOWNING STREET SET OUT THE LINE WHICH THE PRIME MINISTER PROPOSED TO TAKE.

WHEN I RECEIVED MY COPY OF THE LETTER THE FOLLOWING MORNING, I POINTED OUT THAT THESE WERE MATTERS WITHIN MY MINISTERIAL RESPONSIBILITY BUT THE LETTER WAS NOT TRANSFERRED TO MY DEPARTMENT FOR ANSWER. I ALSO POINTED OUT THAT THE LINE WHICH THE PRIME MINISTER PROPOSED TO TAKE WAS MATERIALLY MISLEADING. THE DEPARTMENT OF TRADE AND INDUSTRY PREPARED A DRAFT REPLY WHICH WAS REFERRED TO THE LAW OFFICERS ONLY AT MY EXPRESS REQUEST. A REPLY WITH WHICH ALL CONCERNED COULD LIVE WAS EVENTUALLY HAMMERED OUT AT ABOUT 10 PM ON NEW YEAR'S EVE.

I SUBSEQUENTLY AMPLIFIED THOSE PARTS OF THE REPLY THAT SOUGHT TO HIDE THE REALITY OF WESTLAND'S POSITION IN RELATION TO POTENTIAL EUROPEAN PARTNERS AND PROSPECTS FOR ORDERS FROM THE MINISTRY OF DEFENCE IN THE MEDIUM TERM, IN A LETTER OF 3RD JANUARY TO LLOYDS MERCHANT BANK, WHICH I COPIED TO SIR JOHN CUCKNEY.

I WAS INFORMED THE FOLLOWING DAY BY THE SOLICITOR-GENERAL THAT ON THE BASIS OF THE EVIDENCE WHICH HE HAD THUS FAR SEEN MY LETTER CONTAINED MATERIAL INACCURACIES. HE WROTE TO ME IN THIS SENSE ON MONDAY 6TH JANUARY. WITHIN 2 HOURS OF MY RECEIVING HIS LETTER DAMAGING SELECTIVE PASSAGES HAD BEEN LEAKED TO THE PRESS ASSOCIATION. I CANNOT COMMENT ON THE SOURCE OF THESE LEAKS ON WHICH THERE WILL NO DOUBT BE A FULL ENQUIRY IN THE NORMAL WAY. NO ONE CAN DOUBT THEIR PURPOSE. I SUBSEQUENTLY ON 6TH JANUARY SET OUT TO THE SOLICITOR-GENERAL SOME OF THE FURTHER EVIDENCE AT MY DISPOSAL ABOUT THE ATTITUDE OF OTHER GOVERNMENTS AND OTHER COMPANIES AND INFORMED LLOYDS MERCHANT BANK BY LETTER ON THAT DAY THAT MY ANSWER NEEDED NO CORRECTION.

THE GOVERNMENT, IN ITS OFFICIAL POSITION, HAS SOUGHT TO SUGGEST THAT IT HAS ADOPTED AN EVEN-HANDED APPROACH BETWEEN THE VIABLE OFFERS. IN PRACTICE THROUGHOUT THE ATTEMPT HAS BEEN MADE TO REMOVE ANY OBSTACLES TO THE OFFER BY SIKORSKY/FIAT EVEN TO THE EXTENT TO CHANGING EXISTING GOVERNMENT POLICY. ALTHOUGH, AS I EXPLAINED EARLIER, AT THE OUTSET THERE WAS A CLEAR RECOGNITION OF THE ATTRACTIONS OF INVOLVEMENT BY BRITISH AEROSPACE, I UNDERSTAND THAT LAST NIGHT THE SECRETARY FOR TRADE AND INDUSTRY, IN THE PRESENCE OF ANOTHER MINISTER IN HIS DEPARTMENT AND HIS OFFICIALS, TOLD SIR RAYMOND LYGO OF BRITISH AEROSPACE THAT THE ROLE WHICH BRITISH AEROSPACE WERE TAKING IN THE EUROPEAN CONSORTIUM WAS AGAINST THE NATIONAL INTEREST AND THAT BRITISH AEROSPACE SHOULD WITHDRAW. SO MUCH FOR THE WISH OF THE SPONSORING DEPARTMENT TO LEAVE THE MATTER TO THE SHAREHOLDERS ON

THE BASIS OF THE MOST ATTRACTIVE CHOICE AVAILABLE TO THEM.

FINALLY WE COME TO TODAY'S CABINET. IT WAS SUGGESTED THAT ANY QUESTIONS IN CONNECTION WITH THE COMPETING OFFERS FOR WESTLAND SHOULD BE REFERRED BY ALL MINISTERS TO THE CABINET OFFICE TO BE HANDLED BY THEM IN THE FIRST INSTANCE. TO HAVE DONE SO WOULD HAVE BEEN TO IMPLY DOUBT AND DELAY IN ANY AND EVERY PART OF THE ASSURANCES I HAD PUBLICLY GIVEN ON BEHALF OF MY MINISTRY AND OF MY EUROPEAN COLLEAGUES. SUCH A PROCEDURE WOULD HAVE ALLOWED THE ADVOCATES OF THE SIKORSKY PROPOSALS TO MAKE MAYHEM OVER WHAT IS NOW THE SUPERIOR BRITISH/EUROPEAN OFFER. WHILE I AGREED THAT ALL NEW POLICY ISSUES COULD BE REFERRED TO THE CABINET OFFICE, I REFUSED TO ABANDON OR QUALIFY IN ANY WAY ASSURANCES I HAVE GIVEN OR MY RIGHT AS THE RESPONSIBLE MINISTER TO ANSWER QUESTIONS ON DEFENCE PROCUREMENT ISSUES IN LINE WITH POLICIES MY COLLEAGUES HAVE NOT CONTRADICTED.

THE PRIME MINISTER PROPERLY SUMMED UP THE VIEW OF CABINET THAT ALL ANSWERS SHOULD BE REFERRED FOR COLLECTIVE CLEARANCE. I COULD NOT ACCEPT THAT CONSTRAINT IN THE CRITICAL FEW DAYS BEFORE THE WESTLAND SHAREHOLDERS DECIDE. I HAD NO CHOICE BUT TO ACCEPT OR TO RESIGN. I LEFT THE CABINET.

TO BE SECRETARY OF STATE FOR DEFENCE IN A TORY GOVERNMENT IS ONE OF THE HIGHEST DISTINCTIONS ONE CAN ACHIEVE.

TO SERVE AS A MEMBER OF A TORY CABINET WITHIN THE CONSTITUTIONAL UNDERSTANDINGS AND PRACTICES OF A SYSTEM UNDER WHICH THE PRIME MINISTER IS PRIMUS INTER PARES IS A MEMORY I WILL ALWAYS TREASURE.

BUT IF THE BASIS OF TRUST BETWEEN THE PRIME MINISTER AND HER DEFENCE SECRETARY NO LONGER EXISTS, THERE IS NO PLACE FOR ME WITH HONOUR IN SUCH A CABINET.

file MC
cc Sir P Cradock

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

WESTLANDS

The Prime Minister has a long-standing engagement to speak to American correspondents in London tomorrow. If asked about Westlands, she proposes to refer to her statements in the House on 17 and 19 December setting out the Government's policy as regards Westland itself; and to the statement issued after Cabinet in dealing with any questions about Mr. Heseltine's resignation. May I assume that this is acceptable to Departments concerned?

I am copying this minute to the Private Secretaries to the Secretaries of State for Trade and Industry and Defence, and to the Legal Secretary to the Law Officers.

CHARLES POWELL

9 January 1986

a week, who are to lose £5 a week? What does she say to a 24-year-old single worker taking home £55 a week, who is to lose £12? How does she excuse the malice and immorality of that act of robbery against the people who are already poor?

The Prime Minister: What the right hon. Gentleman wants to do is to accept all the increases that my right hon. Friend the Secretary of State for Social Services announced yesterday, and to forget that there might have to be some losers—*[Interruption.]* There might have to be some losers—*[Interruption.]*

Mr. Speaker: Order. The Prime Minister.

The Prime Minister: The right hon. Gentleman wants to forget that there might have to be some losers. However, if he looks at the total expenditure, which is set out in the autumn statement, he will see that this year the total planned expenditure on social security was £40 billion, but by the year 1988-89, it is planned to be £46 billion. That is an increase in expenditure—which will have to be found out of taxation and contributions by the ordinary people of £6 billion.

Mr. Kinnock: Is it not about time that the Prime Minister honestly admitted to the country that more money is spent on benefits for the poor because her policies have made many more people poor? Is it not time for her to say to those whom she glibly dismisses as "some losers" that she could not live on £75 a week and could not tolerate a further loss of £5 a week? How can she defend taking money away from people who are already desperately poor, when she knows that her objective is to give more to those who are already very rich?

The Prime Minister: As my right hon. Friend the Secretary of State said yesterday, the point of the proposals is to direct resources to the areas of greatest need. The new family credit will go to 200,000 more families with children than now have the family income supplement. The right hon. Gentleman wants to take the benefits and all the increases and accept none of the consequences of redistribution. My right hon. Friend wants improved incentives to work and he wants to ensure that commitments entered into can be afforded. With that in mind, he has put forward his proposals, and they will require an increase in expenditure over planned expenditure this year and expenditure in 1988 of some £6 billion, which will have to be found by the taxpayer. Perhaps the right hon. Gentleman will think that that is reasonable. If not, how much more would his plan cost?

Mr. Kinnock: Will the Prime Minister now tell us when it is right to increase the money given to the near destitute in this country? What on earth is the moral or economic justification for finding that money by stealing from the very poor?

The Prime Minister: Once again, the right hon. Gentleman has gone over the top—*[Interruption.]* I take it that he does not want any of the increases that are to go to families, that he does not want improved incentives to work and does not want to ensure that commitments entered into can be afforded. He wants to promise the earth and not say how it is to be paid for.

Mr. Hill: Does not my right hon. Friend agree that although elderly people are interested in pensions and housing benefit, they are mainly concerned about the protection of their environment, law and order on their council estates, and the fear that they cannot safely open their doors in the evening? Will my right hon. Friend continue to reinforce the police and help the chief constables in the regions to have discussions with the communities on the neighbourhood watch schemes?

The Prime Minister: I agree with my hon. Friend that elderly folk, along with others, are very much concerned with law and order, especially on the council estates. I think that he will also agree that under this Government old-age pensions have gone up by more than the cost of living and under this Government old-age pensioners have had their Christmas bonus every year, which was not the case under the Labour Government.

Q3. **Mr. Terry Lewis** asked the Prime Minister if she will list her official engagements for Tuesday 17 December.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Lewis: In the dispute between the Secretary of State for Trade and Industry and the Secretary of State for Defence, whose side is the right hon. Lady on?

The Prime Minister: I am on the side of a company that is hoping to keep business going for its considerable work force; that has responsibilities to its shareholders and moral responsibilities to its work force; that must deal with its obligations to its bankers and that also has to consider the legal obligations of auditors. In the very sensitive situation that we now have, I suggest that it is left to the company to decide its future.

Dr. Hampson: Will my right hon. Friend go further and take this opportunity to correct the impression that emerged from yesterday's statement on Westland that the Government are backing the Sikorsky deal and confirm that for a long time the Government have sought greater collaboration among European armament manufacturers, which is particularly long overdue with helicopters?

The Prime Minister: Westland is a public limited company. It must take its own decisions. The Government saw that it had a choice. The board has legal obligations to the shareholders; it has moral obligations to the work force; the banks have their obligations and the auditors have their legal obligations. The people on the board are the only ones in a position to know all the facts. They must make their assessment and present that to the company.

Mr. Steel: Reverting to the first question to the Prime Minister this afternoon, since the deputy chairman of the Conservative party is reported to be acting as a character reference for the return of Mr. Postgate to Lloyd's, will she remind him and everybody else that the Government, like her predecessor's, stand against the unacceptable face of capitalism?

The Prime Minister: I have said that the Government have probably done more than any other to try to tackle fraud wherever it occurs. That will continue to be our policy. As I said, Lord Roskill's report has reached the Government. We are publishing today the White Paper on banking supervision and the Financial Services Bill will be introduced later this week. We have done and shall continue to do everything possible. I suggest that the right hon. Gentleman does the City a great disservice in forgetting the number of jobs and the amount of income

at it provides for Britain. He is trying to suggest that because some things may be wrong somewhere that applies to the whole City. That is not correct.

Mr. Robert Atkins: While we are on the subject of aerospace, has my right hon. Friend noticed today that the figures for the British aerospace industry are £1 billion up on this time last year, representing a 23 per cent. increase, and of that some 60 per cent. are exports to the world? Does not she think that that is the jewel in the crown of British manufacturing industry?

The Prime Minister: I congratulate the aerospace industry on its excellent export record and would like to point out that other parts of manufacturing industry have done very well. Indeed, exports by manufacturing industry were a record last year.

Q4. **Mr. Sean Hughes** asked the Prime Minister if she will list her official engagements for Tuesday 17 December.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Hughes: Does the fact that the under-25 age group appears to be another group targeted for cuts in welfare benefits mean that the Prime Minister now accepts the point of view of the vice-chairman of the Tory party that too many young people will not get off their backsides and find work?

The Prime Minister: As I said earlier, no one has done more for youth training than this Government. The one millionth youth trainee has now entered the scheme. *[Interruption.]* I am sorry that the Labour party treats these matters with such levity.

Q5. **Mr. Freeman** asked the Prime Minister if she will list her official engagements for Tuesday 17 December.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Freeman: Is my right hon. Friend aware of the excellent reception on the Conservative Benches to yesterday's White Paper, especially for the proposal for a broader spread of personal pensions? Will she continue to preach the principles of thrift and the broader spread of financial assets?

The Prime Minister: I am glad that my hon. Friend welcomes the White Paper. It is meant, among other things, to give wider choice to those who wish to save through a personal pension scheme and build up a capital fund on their own account. It is also directed to help more effectively those in greatest need, such as young families, through the new family credit scheme, and to give improved incentives to work.

It means that the commitment that we enter into can be afforded. That is a matter to which the Opposition have given no attention since the last election. Indeed, since then they have already promised an additional £10 billion without specifying from where that will come.

Mr. Adley: On a point of order, Mr. Speaker. You will have noticed that, during Question Time, once again the tactics of the Labour party were to shout down my right hon. Friend the Prime Minister at every opportunity—*[Interruption.]*—as they are trying to do to me now. Will you please use your influence to protect this House from the barbaric tactics of the Opposition?

Mr. Speaker: Order. The noise during Question Time today was rather greater than usual, so I agree with the hon. Gentleman on that point.

within the 200-mile limit of the Falklands? When do the Government propose to do something about the report by Dr. Beddington of Imperial College?

Mr. Gummer: The general response to the Beddington report is based on advice given by the Minstry of Agriculture, Fisheries and Food to the Foreign Office, in whose hands this matter continues to be. As to the first question, I am not aware of any British fishing interest that has been prevented from fishing around the Falklands. If it wishes so to do, it can.

Mr. Randall: Does the right hon. Gentleman agree that an early agreement on the best way to exploit and manage this rich fishery is important to Britain and the fishing industry, especially if one takes into account the rumoured cuts in quotas about which we expect to hear later this afternoon?

Mr. Gummer: The hon. Gentleman need not be too concerned about that. We are pleased that the Food and Agriculture Organisation has launched its study. When we have the details, we shall be able to make a sensible basis for the future fishery potential in this area.

Salmon

27. **Sir Hector Monro** asked the Minister of Agriculture, Fisheries and Food what is his estimate of the probable increase in salmon entering British rivers following his announcement on drift netting off the English coast.

Mr. Gummer: The measures which I announced on 7 November will tighten the rules under which the English north-east coast salmon drift net fishery operates. They should produce a significant reduction in the catch of that fishery. Because various natural causes influence the level from season to season, I cannot give a specific forecast of the extent of the increase in salmon entering British rivers.

Sir Hector Monro: Does my right hon. Friend accept that the resolution of the problem of drift netting off the north-east coast of England is crucial to the survival of salmon in the United Kingdom? Will he watch the matter closely and take further action if there are no significant improvements in salmon stocks in Scotland?

Mr. Gummer: I undertake to do that, but I remind my hon. Friend that the arrangements which we have made this year will restrict fishing there in that there will be no weekend fishing, no night fishing, and licences will not be transferable. Major steps have been taken, but we shall continue to examine the matter.

PRIME MINISTER

Engagements

Mr. Spencer asked the Prime Minister if she will list her official engagements for Thursday 19 December.

The Prime Minister (Mrs. Margaret Thatcher): This morning I presided at a meeting of the Cabinet and had meetings with ministerial colleagues and others. In addition to my duties in the House, I shall be having further meetings later today.

Mr. Spencer: In view of the announcement by the Board of Westland Helicopters that it intends to enter into an agreement with Sikorsky-Fiat, will my right hon. Friend confirm that the position of the Government is as set out in the statement of my right hon. and learned Friend the Secretary of State for Trade and Industry on Monday?

The Prime Minister: Yes, Sir. The future of Westland is a matter for the company to decide. The company's decision is a matter of commercial judgment for its directors and shareholders. That was the position set out by my right hon. and learned Friend, and that was the position reaffirmed by the Cabinet this morning.

Mr. Kinnock: It is something of a change for this matter to go before the Cabinet, or so it appears. Given the patently obvious views stated publicly by the Secretary of State for Defence and the Select Committee on Defence, does the Prime Minister really believe that the subjective preferences of a company are an adequate basis on which to determine important national defence interests?

The Prime Minister: Westland is a private sector public limited company. Its future is a matter for the company to decide, and the company's decision is a matter of commercial judgment for its directors and, ultimately, its shareholders. That was the position, and it was reaffirmed by the Cabinet this morning.

Mr. Kinnock: The Prime Minister said that the company is responsible to its shareholders. Is not she, as Prime Minister, responsible to the nation and for the proper welfare of the nation? Why is she not taking that into proper account, as the Secretary of State for Defence clearly believes she should? When the strategic considered judgment of the Secretary of State for Defence is contrary to the view of a private company, why is she backing the company, not him?

The Prime Minister: I have informed the House of the position of the Cabinet this morning. The position of the Cabinet is the position of the whole Government.

Mr. Churchill: Has my right hon. Friend heard of a farce that is playing on the South Bank entitled "Robin Ratepayer and his Merry Ratepayers"? Does my right hon. Friend not agree that it is entirely appropriate that the leader of the Greater London council should play the star role in this production, for he and the other Marxist city henchmen of the Leader of the Opposition have been robbing ratepayers for years? Will she accept that the ratepayers of the metropolitan counties will be delighted when she rings down the curtain upon this over-expensive production next March?

The Prime Minister: I am grateful to my hon. Friend. I agree with his broad analysis. I believe that the GLC has taken in far more rates than it needs. There should therefore be a goodly amount to be returned to the district councils when the GLC is extinguished.

Mr. Tony Banks: At least there is still a sense of humour on the South Bank. Does the Prime Minister care that the Christmas present to 6,000 loyal GLC staff this Christmas will be their redundancy notices? In view of the misery and unhappiness that the right hon. Lady is causing to these people and to the 3.5 million people who are on the dole, does she think that she deserves a happy Christmas this year?

The Prime Minister: The decision to abolish the GLC was taken by Parliament. I did not hear the hon. Gentleman mention whether or not Labour councils will

be prepared to take on those extra people. The hon. Gentleman ought to remember that there were two years under a Labour Government when all pensioners received no Christmas bonus.

Sir Fergus Montgomery: During her busy day will my right hon. Friend find time to consult the relevant Ministers about the disgraceful way in which the chief constable of Greater Manchester is being treated? Is she aware that yesterday the Labour party used its built-in majority on the police committee to censure this man for merely telling the truth? Is not this yet another example of the Fascist Left in this country pillorying decent public servants who refuse to kowtow to them?

The Prime Minister: My hon. Friend makes his point very cogently. I am sure that he will understand that I cannot comment while that investigation is in progress.

Q4. **Mr. Madden:** asked the Prime Minister if she will list her official engagements for Thursday 19 December.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Madden: Will the Prime Minister confirm that the city of Bradford has been earmarked to receive extra resources for urban renewal? Will she also confirm that the key to urban renewal lies with more money for new council housing and more money for home improvement grants? Finally, will she confirm that any new money will be given to the local councils concerned and not to a new range of unelected and unaccountable quangos?

The Prime Minister: I do not agree with the hon. Gentleman that the key to urban renewal lies solely with urban housing. The amount of money that has been spent on urban housing and the way in which it has been spent are two of the factors that have led to many of the problems.

Sir John Biggs-Davison: When Ulster is told that it may be rid of the Intergovernmental Conference when it accepts devolution, is legislative devolution and devolved government meant by devolution, or what is meant? Why do a Unionist Government pursue policies that tend to detach Northern Ireland from Great Britain?

The Prime Minister: I cannot accept the latter part of my hon. Friend's question. As he knows, I believe that Union will certainly continue under the Agreement, so long as there is a majority and the majority expresses that wish. Devolved government has to be in accordance with the agreement, which is one that is acceptable to the two traditions in Northern Ireland. As my hon. Friend is aware, there was, in legislation about the Assembly, a possible means of securing much more decision-taking through the Assembly, through the two communities, than is at present the case.

Dr. Owen: In view of the widespread disquiet in the country and in the City about the situation affecting Lloyd's and in the light of what has happened to its chief executive, how do the Government justify not placing Lloyd's under the new market investing board? Will the Prime Minister not consider this issue again and also the need for a full time chairman of considerable independence and stature to supervise this aspect of the City's behaviour, which many people feel that the present legislation is inadequate to cover?

The Prime Minister: I should have thought that the right hon. Gentleman would have been aware that Lloyd's had its own regulatory system and Act of Parliament, the Lloyd's Act 1982. It is too early to pass judgment on the effectiveness of the new regime. We believe that events at Lloyd's on which publicity had been given originated before the Act was passed, but we are keeping a close watch on events there and if it becomes necessary to take action or to legislate, we would not hesitate to do so.

Sir Peter Hordern (Horsham): Will my right hon. Friend make it clear to the chairman of ICI and others who are calling for a lower exchange rate that if industry insists on raising wages so that its products become uncompetitive, the Government will not bail them out by reducing the exchange rate?

The Prime Minister: Yes, I shall make that very clear. That way does not lie increased and improved competitiveness. The only way is to have efficiency in the company, in costs, in design and in quality. No company should look to the exchange rate to secure competitiveness which it cannot itself produce.

Q5. **Mr. Dobson** asked the Prime Minister if she will list her official engagements for Thursday 19 December.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Dobson: The Prime Minister told the House on Tuesday that there had to be losers in the social security review. Will she now say how many there will be, who they will be and how much they will lose?

The Prime Minister: If we were to bring in what the Labour party has plans for—*[Interruption.]*—the burden on the working population would be colossal. We reckon that national insurance contributions for people on average earnings would rise by £9 a week, so that about 20 million people would lose under Labour's plans.

Q6. **Mr. Teddy Taylor** asked the Prime Minister if she will list her official engagements for Thursday 19 December.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Taylor: If the Sikorsky deal goes through, as I hope it does, will the Prime Minister ensure that there will be no question of my right hon. Friend the Secretary of State for Defence discriminating against the Westland company or any of its excellent products?

Will she convey to my right hon. Friend the Secretaryof State for the Environment the thanks of Southend borough council for the most favourable rate support grant settlement — *[Interruption.]* — that its efficiency deserves?

The Prime Minister: In respect of both parts of my hon. Friend's supplementary question I indicated the Cabinet's decision this morning, and I wish to make it clear that major procurement decisions are a matter for the collective decision of the Government as a whole. I thank my hon. Friend for what he said about the rate support grant. Any authority that spends efficiently and keeps its budget in line with assessed need gets its full grant, and its ratepayers may be very grateful.

Q7. **Mr. Gould** asked the Prime Minister if she will list her official engagements for Thursday 19 December.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Gould: Will the Prime Minister now answer the question that was put by my hon. Friend the Member for Holborn and St. Pancras (Mr. Dobson)? How many losers will there be under the social security review, who will they be and how much will they lose?

The Prime Minister: This Government have protected those most in need—[HON. MEMBERS: "Answer."]—and have increased, over and above prices, the retirement pension, supplementary benefit rates and benefits for the sick and the disabled—*[Interruption.]* They have all risen by considerably more than prices. The social security review must be taken as a whole. It is fair both to beneficiaries and the working population. As I said earlier, under arrangements that have been proposed by the Opposition, about 20 million of the working population would stand to lose through national insurance contribution increases.

Sir Geoffrey Finsberg: Will my right hon. Friend agree that whatever decision may ultimately be taken by the shareholders of Westland, it has at least flushed out the Labour party Front Bench into appearing to support the defence of this country?

The Prime Minister: The Labour party are supporting NATO and the defence of Britain. That is worthwhile and a change of policy for some.

Mr. John Morris: In view of the recent track record of the Department of Health and Social Security and the Department of Transport in the courts, will the Prime Minister confirm whether the Attorney-General's Department was consulted? To save taxpayers' money in future will she co-ordinate the activities of the legal officers of those Departments and the Attorney-General's office?

The Prime Minister: The right hon. and learned Gentleman is correct. Yes, the Government have been before the courts and have abided by the decisions of the courts. That is what the rule of law is all about.

Mr. Kinnock: On a point of order, Mr. Speaker. I wish to raise this matter while the Prime Minister is still present. During Prime Minister's Question Time we heard that the Cabinet had taken a decision regarding Westlands. Since that is a vital matter, may we have a further statement from the Government? Can the Prime Minister tell us whether such a statement would be made by the Secretary of State for Trade and Industry or by the Secretary of State for Defence?

Mr. Speaker: I cannot answer that.

Mr. Dykes: On a point of order, Mr. Speaker. My point arises directly from Question Time, when you called hon. Members for agriculture questions, shortly before the change of subject. The old custom was that you would be notified if hon. Members were not to be present. I know that it is just before Christmas, but, in one go, an unprecedented list of 10 hon. Members were not present. Do you have any observations on that?

Mr. Speaker: Only that that is the present custom also.

Mr. Madden: On a point of order Mr. Speaker. You will have heard, with the rest of us, the Prime Minister's dismissive view of the importance of housing. Does that attitude explain why the Secretary of State is today issuing by written answer the details of the housing investment programme rather than coming to the Dispatch Box to make a statement?

Mr. Speaker: That is a continuation of Question Time. It is not a matter for me.

Nigel Wicks

With the compliments of

Colin Budd

THE PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

The Cabinet have reaffirmed that it is the policy of the Government that it is for the company to decide what course to follow in the best interest of Westlands and its employees. Cabinet discussed how this decision should apply in practice to ensure that collective responsibility was upheld. It was agreed that during this period when sensitive commercial negotiations were in process, all statements by Government Ministers should be cleared inter-departmentally through the Cabinet Office to ensure that all answers given by the Government were consistent with the policy decided by Cabinet.

Mr. Heseltine found himself unable to accept this procedure and left the Cabinet. The Prime Minister expressed her regret at his decision.

VC3AJX

ATO

10 DOWNING STREET

9/1/86

Lord Appleyard

says:—

(1) Initiating, he did this after resigning.

(2) Unhelpful, and implies anti-Europeanism.

(3) ~~Dig~~ Stupid & FCO are v. cross, but could not stop it — it went out on MOD's own

network.

Martin.

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SIC ACA/A2P

FROM PS/DEFENCE SECRETARY

1. PLEASE PASS AS SOON AS POSSIBLE THE FOLLOWING MESSAGE FROM MR HESELTINE TO DR WOERNER, MONSIEUR QUILES, SENATORE SPADOLINI AND PROFESSOR DE REUTER.

QUOTE: I HAVE TO TELL YOU WITH THE GREATEST REGRET THAT I HAVE TODAY RESIGNED FROM THE BRITISH GOVERNMENT OVER ISSUES SURROUNDING THE RECONSTRUCTION OF WESTLAND PLC.

I BELIEVE THAT THE ISSUES FOR WHICH WE HAVE JOINTLY WORKED ARE OF PARAMOUNT IMPORTANCE FOR THE FUTURE OF BRITAIN AND OF EUROPE. I SHALL CONTINUE TO GIVE EVERY SUPPORT I KNOW TO THE PURSUIT OF THESE ISSUES IN THE WIDER INTERESTS OF THE NORTH ATLANTIC ALLIANCE. THE FUNDAMENTAL STRENGTH OF THAT ALLIANCE DEPENDS UPON A PARTNERSHIP OF EQUALS ACROSS THE ATLANTIC.

I SHALL BE WORKING TO ASSIST IN EVERY WAY I CAN THE SUCCESS OF THE OFFER BY THE BRITISH EUROPEAN CONSORTIUM FOR WESTLAND PLC.

I SHALL ALWAYS MUCH TREASURE THE RELATIONSHIP WE HAVE DEVELOPED IN THE PURSUIT OF OUR COMMON AIM OF EUROPEAN CO-OPERATION.

UNQUOTE

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PS/PUS

Mr BRAITHWAITE

Mr O'NEILL

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10 DOWNING STREET

THE PRIME MINISTER

9 January, 1986.

Dear Michael.

It was with great regret that I accepted your decision to leave the Cabinet and the Government.

I was very glad that you supported this morning our decision to reaffirm the policy that it is for the Westland company to decide the course to follow in the best interest of the company and its employees. It was therefore a matter for regret that you were alone in being unable to accept the Cabinet's decision on how to give practical effect to that policy by interdepartmental clearance of all answers to questions addressed to Ministers during this period of sensitive commercial negotiations and decisions.

I want to thank you for your contribution to the work of Conservative Governments over the years. Your career in Government has been one of distinction from the time when you joined the Ministry of Transport in 1970 and subsequently became a Minister for Aerospace and Shipping. While you were Secretary of State for the Environment between 1979 and 1983, you pioneered radical changes in the effective management of departmental business. You carried through our policy on the Right to Buy local authority housing which has greatly expanded home ownership. You launched the Development Corporations in Merseyside and

London Docklands. As Secretary of State for Defence you have presided over an historic reorganisation of the Ministry itself. You have set us on the path to achieve better value for money from defence procurement, and in the Dockyard Services Bill you have shaped the policy for the radical reform of the naval dockyards.

I am therefore very sorry about the decision that you took this morning.

Yours ever

Margaret

The Rt. Hon. Michael Heseltine, M.P.

As the responsible Minister from 1972-74 you made a substantial contribution to aerospace and shipping policy [including the establishment of the European Space Agency and the development of the Airbus programme].

During your period as Defence Secretary, the standing of the United Kingdom and of its Armed Forces in the western Alliance has continued to grow; good progress has been made in the plans to modernise the United Kingdom's independant nuclear deterrent; and the decisions of the Alliance on the stationing of intermediate-range nuclear weapons in Europe were sucessfully put into effect.

Nigel
Cabinet Office proposal -
but none were
his authorities
COY

While you were Secretary of State for the Environment between 1979 and 1983, you pioneered radical changes in the effective management of departmental business.

You were the architect of our policy on the Right To Buy which has greatly expanded home ownership.

You developed new initiatives for bringing private enterprise into the renewal of the inner cities and launched the Development Corporations in Merseyside and London Docklands.

You reshaped our policies for the conservation of our historical buildings and the countryside.

DCAAYB

DRAFT LETTER FROM THE PRIME MINISTER TO THE RT. HON. MICHAEL HESELTINE, MP

It was with great regret that I accepted your decision this morning to leave the Cabinet and the Government.

As you know from this morning's discussion in Cabinet, Cabinet have reaffirmed that it is the policy of the Government that it is for the Westland company to decide what course to follow in the best interests of the company and its employees. Cabinet then went on to agree how this decision should apply in practice to ensure that collective responsibility was upheld. It was agreed that during this period when sensitive commercial negotiations were in process, all statements by Government Ministers should be cleared interdepartmentally through the Cabinet Office to ensure that all answers given by the Government were consistent with the policy decided by Cabinet. Every colleague could accept this procedure for upholding the principle of collective responsibility. You felt unable to do so, and you therefore took the only course open to you.

The Government's consideration of Westland has been in accordance with the normal principles of collective responsibility. The matter was discussed on three occasions with colleagues including a discussion, at my insistence, in the full economic strategy committee of the Government last month. The matter was then raised at Cabinet on 12 December and again on 19 December when Cabinet reaffirmed the decision of the reached earlier in the month. There was a further discussion of the matter today.

Let me thank you for all your notable contributions to the work of Conservative Governments over the years. Your career in Government has been one of great distinction from the time when you joined the Ministry of Transport in 1970.

You were an active Minister for Aerospace and Shipping.

While you were Secretary of State for the Environment between 1979 and 1983, you pioneered radical changes in the effective management of departmental business. You were the architect of our policy on the Right to Buy which has greatly expanded home ownership. You developed new initiatives for bringing private enterprise into the renewal of the inner cities and launched the Development Corporations in Merseyside and London Docklands. You reshaped our policies for the conservation of our historical buildings and the countryside.

As Secretary of State for Defence you have improved the efficiency of our fighting forces and presided over an historic reorganisation of the Ministry itself. You have made great advances there in getting better value for money for defence procurement and have taken a leading role in strengthening European collaboration in the defence field within the NATO Alliance.

I am sorry to see you go.

1 + b

DCAAYB

DRAFT LETTER FROM THE PRIME MINISTER TO THE RT. HON. MICHAEL HESELTINE, MP

It was with great regret that I accepted your decision this morning to leave the Cabinet and the Government.

As you know from this morning's discussion in Cabinet, Cabinet have reaffirmed that it is the policy of the Government that it is for the Westlands company to decide what course to follow in the best interests of the company and its employees. Cabinet then went on to agree how this decision should apply in practice to ensure that collective responsibility was upheld. It was agreed that during this period when sensitive commercial negotiations were in process, all statements by Government Ministers should be cleared interdepartmentally through the Cabinet Office to ensure that all answers given by the Government were consistent with the policy decided by Cabinet. Every colleague could accept this procedure for upholding the principle of collective responsibility. You felt unable to do so and you ∴ took the only course open to you.

~~I do not agree that~~ The Government's consideration of Westlands has ~~not~~ been quite in accordance with the normal principles of collective responsibility. The matter was discussed on three occasions with colleagues including a discussion, at my insistence, in the full economic strategy committee of the Government last month. The matter was then ~~referred to the~~ raised at Cabinet on 12 December and again on 19 December when Cabinet reaffirmed the decision of the ~~economic strategy committee~~ reached earlier in the month. There was a further discussion of the matter today.

~~Finally~~, Let me thank you for all your notable contributions to the work of Conservative Governments over the years. Your career in Government has been one of great

distinction ~~right~~ from ~~your~~ the time when you joined the Ministry of Transport in 1970. You were an active Minister for Aerospace and Shipping ~~and you made a notable contribution as Secretary of State for the Environment, especially to the Government's inner city policy where your drive and flair were put to very good use.~~ As Secretary of State for Defence you have improved the efficiency of our fighting forces and presided over an historic reorganisation of the Ministry itself. You have made great advances there ~~for~~ in getting better value for money for defence procurement and ~~you yourself~~ have taken a leading role in ~~providing~~ strengthening European collaboration in the defence field within the NATO Alliance.

I am sorry to tell you.

~~Please give Anne best regards from Denis and myself.~~

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10 JAN 1986

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YOUR TELNO 10 (NOT TO UKREP BRUSSELS): WESTLAND

1. PLEASE TELL THE PRIME MINISTER'S OFFICE THAT HMG'S POSITION ON WESTLAND'S PROSPECTS FOR EUROPEAN COLLABORATION IS SET OUT IN THE PRIME MINISTER'S LETTER OF 1 JANUARY TO SIR J CUCKNEY. THIS HAS BEEN PUBLISHED BUT A COPY IS IN MIFT FOR CONVENIENCE. YOU SHOULD EMPHASISE THAT WESTLAND IS A PRIVATE COMPANY AND THAT IT IS FOR THE BOARD OF WESTLAND AND THE SHAREHOLDERS TO DECIDE ON HE RELATIVE MERITS OF THE PROPOSALS MADE BY SIKORSKY/FIAT AND BY THE EUROPEAN CONSORTIUM. IT IS NOT HELPFUL FOR GOVERNMENTS TO MAKE PUBLIC STATEMENTS ABOUT MATTERS OF THIS KIND WHICH ARE INTERNAL TO HE UNITED KINGDOM AND THE CONCERN OF THE PRIVATE SECTOR.

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MR BRAITHWAITE
MR O'NEILL

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PRIME MINISTER

HANDLING OF HESELTINE RESIGNATION

Judging from all I hear - and would expect - the media will do their best over the next few days and the weekend to make life difficult for the Government, and yourself especially.

First, I have turned down requests for interviews with you today from everyone from Alastair Burnet to the humbler reaches of IRN. While such interviews would give you an opportunity to rally the Government, you would inevitably be on the defensive and possibly be seen to be running after Mr Heseltine.

Second, the Chancellor of the Duchy gave four radio and television interviews, covering all the networks, at lunchtime. He has clearly explained the Government's policy on the lines of the statement prepared after Cabinet and expressing sadness.

So far so good.

But the media will not let it rest there. Their main objective will be to present the Government as being in disarray; to set Conservative politician against politician; and to crawl over all allegations made against you and your style of Government.

We need to coordinate the Government (and party's) response with the aim of:

- presenting the Government as united and rallying support for it (and here the Home Secretary and Kenneth Baker may be particularly useful and soothing spokesmen)

- rallying senior Backbench forces (eg Cranley Onslow, Humphrey Atkins)

- ensuring supportive Backbenchers rally to the Government's cause (we probably need a speaking note).

It is probably not possible to prevent Conservative Backbenchers from arguing one with another but we ought perhaps to try to avoid Ministers of the Government doing so with other prominent Conservatives - eg Jim Prior, Francis Pym.

John Biffen is inclined to take part in LWT's 'Weekend World' on which Messrs Prior and Pym may be ranged against him.

BERNARD INGHAM
8 January 1986

(2)

Foreign and Commonwealth Office

London SW1A 2AH

8 January 1986

Prime Minister

CDP 8/1

Dear Charles,

Westlands

The French Ambassador called on 7 January on Sir Antony Acland on instructions. He said that the French Government were most anxious not to seem to interfere in a domestic British matter involving a private British company. But a nationalised French concern, Aerospatiale, was a member of the European consortium bidding for Westlands. The French Government had a natural interest in the future of the European helicopter industry, on which European governments had reached understandings in the past. The French Government hoped that the European consortium's proposals would be put to the shareholders equally with those of the Sikorsky/Fiat group.

Sir Antony Acland noted the French assurance about not wishing to interfere in a domestic British matter involving a private British company, and said that he would convey the Ambassador's remarks to those concerned. He reaffirmed that this was very much a domestic matter. It was not for HMG to intervene in the decision of the shareholders of a private company. HMG's position on the issue of European collaboration was set out in the Prime Minister's letter of 1 January to Sir John Cuckney. We are instructing Sir John Fretwell to make these points if the French raise the issue with him in Paris.

Meanwhile, the Italian President's office have released a statement this morning on the same subject. The text is in Rome telegram No 10 (copy attached for ease of reference). Our Embassy in Rome have been instructed to tell Mr Craxi's office that it is unhelpful to have governments making public statements of this sort on matters which are internal to the United Kingdom and the concern of the private sector.

I am copying this letter to Catherine Bradley (DTI), Richard Mottram (MOD), Michael Stark (Cabinet Office) and Michael Saunders (Law Officers' Department)

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

GRS 400

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AND TO IMMEDIATE MODUK, DTI,
INFO PRIORITY PARIS, BONN, WASHINGTON

WESTLAND.

1. ON CRAXI'S INSTRUCTIONS, HIS DIPLOMATIC ADVISER, BADINI, HAS ASKED ME TO DRAW THE ATTENTION OF HMG TO THE STATEMENT RELEASED BY CRAXI'S OFFICE THIS MORNING. IT IS COUCHED IN THE FORM OF A PRESS RELEASE: OUR TRANSLATION IS AS FOLLOWS:

PALAZZO CHIGI (THE PRIME MINISTER'S OFFICE) IS FOLLOWING WITH THE CLOSEST ATTENTION THE EVENTS LINKED TO THE CHOICE THAT THE BRITISH COMPANY, WESTLAND, IS PREPARING TO MAKE, WHICH HAS IMPLICATIONS OF GREAT RELEVANCE TO THE PROGRESS OF EUROPEAN COLLABORATION.

IT IS NOTED AT PALAZZO CHIGI THAT THE ITALIAN GOVERNMENT HAS ALWAYS TAKEN COHERENT, CLEAR POSITIONS IN FAVOUR OF THE STRENGTHENING OF EUROPEAN COLLABORATION IN RESEARCH AND TECHNICAL INNOVATION, WITH OPERATIONAL PRIORITY FOR THOSE AGREEMENTS THAT CAN BEST FAVOUR THE AUTONOMOUS DEVELOPMENT OF INDUSTRIAL INNOVATION. THE STRENGTHENING OF THE EUROPEAN POLE - AND EUREKA FEATURES IN THIS CONTEXT - IS JUSTIFIED BY THE NEED TO IMPROVE THE WORLD COMPETITIVENESS OF COMMUNITY INDUSTRIES. GIVEN THE INCREASING INTEGRATION OF MARKETS, IT SEEMS IMPORTANT TO PUT TOGETHER EUROPE DESIGN CAPACITY AND TECHNICAL-FINANCIAL RESOURCES TO STRENGTHEN COMMUNITY INDUSTRY ESPECIALLY IN THE WAKE OF THE CREATION OF THE COMMON MARKET. THE HELICOPTER SECTOR IS CERTAINLY ONE OF THE MORE SIGNIFICANT AND PROMISING.

IN THIS SPECIFIC CASE THE QUESTION ALSO ARISES OF MAINTAINING AND DEVELOPING THE COLLABORATIVE PROGRAMMES ALREADY IN PLACE BETWEEN AGUSTA AND WESTLAND, WHICH ARE YIELDING GOOD RESULTS. ONE OF THESE PROGRAMMES, BASED ON THE DESIGN OF A NEW MODEL OF THE A129 FAMILY, COULD IN FACT TO BE MERGED WITH A SIMILAR FRANCO/GERMAN INITIATIVE TO PRODUCE A HELICOPTER CAPABLE OF SAFEGUARDING (THE

THE PROSPECTS FOR A SUCCESSFUL EUROPEAN INDUSTRY. THIS HAS THE ADVANTAGE THAT THE FIVE-PARTY CONSORTIUM, WHICH AS IS KNOWN REPRESENTS THE EUROPEAN OPTION OPEN TO WESTLAND, REPRESENTS ALL THOSE COMPANIES, INCLUDING AGUSTA, INVOLVED IN DESIGNING NEW MULTI-ROLE EUROPEAN HELICOPTERS.

THE ITALIAN GOVERNMENT HOPES THAT IT IS STILL POSSIBLE TO CHOOSE THE OPTION WHICH FAVOURS EUROPEAN INTERESTS IN THE IMPORTANT HELICOPTER SECTOR.

2. THE PRESIDENT OF AGUSTA, TETI, HAS ALSO THANKED ME FOR MY LETTER TO HIM OF 23 DECEMBER, STRESSING THE IMPORTANCE HE ATTACHES TO ANGLO/ITALIAN COLLABORATION ON THE EH101 AND A129 AND REPEATING THAT IN AGUSTA'S VIEW THE EUROPEAN SOLUTION OFFERS THE BEST INDUSTRIAL AND POLITICAL PROSPECTS.

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PS/MR EGGAR.
PS/PUS
MR BRAITHWAITE
MR O'NEILL.

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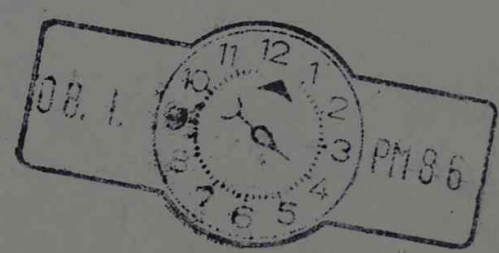
DTI ASHDOWN HSE.



Prime Minister
CDP 5
8/i

SPEAKING NOTE FOR CABINET

We must have a word about Westland.

(1) We decided long ago that the Government should not put public money into Westland, apart from writing off the launch aid, but leave the company to find its owns solution to its problems through the market. That decision imposed an obligation on us not subsequently to create difficulties for the Company's board.

When Cabinet discussed the matter on 19 December we noted that there were two proposals on the table for a financial reconstruction of Westland: not a take-over but a reconstruction involving either the UTC/Fiat or the European consortium taking a minority shareholding. Cabinet on that (2) day unanimously reaffirmed that it remained the policy of the government that it was for Westland to decide what was the best course to follow in the interests of the company and its employees; and agreed that, given that that was the Goverment's policy, no Minister was entitled to lobby in favour of one proposal rather than another and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another.

(3) You have all seen what has happened since then. We have had headlines in the papers, including those more friendly to us, talking of "Great Cabinet Shambles - open war between Ministers": "A major political mess" and comment which has been no less damaging. There's probably no paper which has been a more loyal supporter of this government than the Sunday Telegraph and its spoke last Sunday of a "National

Scandal .... not since the chaos which preceded George Brown's resignation from Harold Wilson's Cabinet has a British Government looked so pitifully disunited...". The affair has "brought ridicule on the government at home and abroad".

The result of all this is that the Government has been made to appear completely at odds within itself and has entered the New Year in a way damaging to our public esteem after a good recovery in our political fortunes during the autumn. If this situation continues, we shall have no credibility left. I have never seen a clearer demonstration of the damaging consequences that ensue for the coherence and standing of a government when the principle of collective responsibility is not respected.

(4)

We cannot go on like this. We must restore the Government's standing.

Nothing has happened since 19 December to modify or qualify the conclusions of Cabinet on 19 December. I suggest to my colleagues that the time has now come for the company and its bankers to be left to deal with representatives of the two groups, and come to their decisions, without any further intervention, direct or indirect, by Ministers or by other people acting on their behalf.

I ask Cabinet to agree with that conclusion, which of course reaffirms that conclusion of 19 December. It must be accepted and observed by everyone, and there must be no lobbying or briefing directly or indirectly. Because of the risks of misrepresentation, even questions of fact should not be answered without being cleared through the Cabinet Office. Anyone who does not feel able to accept this conclusion and act in accordance with it and who continues to campaign on behalf of one or other proposal, cannot do so as a Minister.

PRIME MINISTER

CABINET

I mentioned to you in the car today that there will be considerable interest in the Cabinet tomorrow from two points of view:

i. Westland (on which Charles Powell is suggesting a line);

ii. Rates (where we might usefully say we are on target for publishing a Green Paper shortly containing proposals for reform in Britain).

It will be important to move quickly on Westland. On the last occasion, the Lord President came out of Cabinet to brief me. I will be in touch with Lord Whitelaw early tomorrow morning on this.

BERNARD INGHAM
8 January 1986

10 DOWNING STREET

From the Private Secretary

Nigel.

An improved European offer will be announced at 1600 this afternoon. Don't yet know how much improved.

C.

69

10 DOWNING STREET

From the Private Secretary

Mr. Stark

Mr. Austin Mitchell, M.P., has put down a large number of Questions on Westland for answer by the Prime Minister. Exceptionally, I think it would be helpful if the Cabinet Office could coordinate the answers to these sub-contracting specific Questions to DTI and MOD as appropriate in drafting answers for those dealing with constitutional issues. It is self-evident from each Question, I think, to which Department it should be directed for a draft. But, given the political sensitivity which the issue has assumed, it is important that the reply should be carefully co-ordinated. You may like to discuss this with our Parliamentary Clerk.

I am sending copies of this minute and enclosures to John Mogg (Department of Trade and Industry) and Richard Mottram (Ministry of Defence).

C.D. POWELL

8 January, 1986.

NR.

PARLIAMENTARY QUESTION

For answer on: 13 Jan
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER)

Further to her letter dated 1 January 1986 to Sir John Cuckney concerning the future of Westland helicopters, whether any of the Governments and companies belonging to the European Consortium have collaborated with the United States Government and/or United States firms on defence projects in the aircraft field, and whether she will publish particulars in the Official Report.

Signed

4209 0815937 30M 11/79 XLY 890

PARLIAMENTARY QUESTION

For answer on: 13 Jan
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

~~Further to her letter dated 1 January to Sir John Cuckney concerning the future of Westland helicopters~~, whether she will publish in the Official Report a list of the existing and future European collaborative projects together with the stage which each has reached, the role and actual or prospective workload assigned to Westland, the number of helicopters ordered by each of the countries concerned or for which a requirement has been indicated: and what is the Government's estimate of the resultant minimum and maximum annual work-load for Westland in terms of (i) design and development and (ii) production.

Signed

4209 0815937 30M 11/79 XLY 890

TO PARLY CLERK EXP. DO

PARLIAMENTARY QUESTION

For answer on: ..... 13 Jan
(DAY) (DATE)

If ORAL insert X

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If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Further to her letter dated 1 January 1986 to Sir John Cuckney concerning the future of Westland helicopters, whether she will list in the Official Report the considerations which will be taken into account in deciding which helicopter comes from the most cost effective source: what weight will be given to the reduction in public revenue and the increase in public expenditure which would result from a loss of jobs in the UK: and whether contracts for the supply of military helicopters will be open to tender on a specification which will admit competition from United States as well as European firms?

Signed .....

4209 0815937 30M 11/79 XLY 890

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Whether the Government intends to make it a condition for placing an order for helicopters with a European Consortium that no shares in any of the companies concerned will be bought by an American Company.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister,
(TITLE OF MINISTER)

Whether the Governments which made the threats against Westland communicated these threats to Her Majesty's Government, whether this was done before the threats were made public, what was the reaction of HMG to these threats; and if she will publish the terms of any communication she has sent to the Governments concerned expressing the Government's views on the matter.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

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If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

What is the policy of HMG towards the future survival of Westland helictopers.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister,
(TITLE OF MINISTER)

What is the policy of HMG towards dependence on supplies of arms and war material from the United States.

Signed.....

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 Jan.
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER)

Whether she will publish in the Official Report particulars of the initiatives taken by the Government over the past 12 months to save Westland Helicopters together with the representations made to foreign Governments and foreign firms, showing the relevant dates.

Signed [signature]

519247 50M 1/84 StS

08/01/86 11:43 TABLE OFFICE NO. 002 01 219 5568

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Whether Her Majesty's Government is satisfied that the Governments and companies which have threatened to discriminate against Westland will not use their position in the Consortium to transfer output and employment from the UK to the continent in the event that the European consortium offer to Westlands is accepted; and what safeguards have been agreed to seek to ensure that this will not happen.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

What is the Government's policy regarding discimination against US suppliers of defence materials.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 Jan
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER)

Whether the disclosures made by the Secretary of State for Defence concerning Cabinet and other discussions concerning the future of the British helicopter industry are to be referred to the Director of Public Prosecutions under Section 2 of the Official Secrets Act.

Signed

519247 50M 1/84 StS

08/01/86 11:44 TABLE OFFICE NO.002 01 219 5568 P.01

PARLIAMENTARY QUESTION

For answer on: 13 Jan (DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister,

(TITLE OF MINISTER)

Further to her letter dated 1 January 1986 to Sir John Cuckney concerning the future of Westland Helicopters, whether she will publish in the Official Report particulars of the contributions which would be expected from Her Majesty's Government in the case of each of the existing and prospective future European collaborative projects to which she refers, whether and to what extent Letters of Intent would be signed within the lifetime of this Government, and what would be the extent of the commitment in terms of money and numbers of helicopters.

Signed

PARLIAMENTARY QUESTION

For answer on: 13 Jan.
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask ~~The Prime Minister~~ ~~Energy Sec~~ P.M.

(TITLE OF MINISTER),

What representations have been made by the Italian Government concerning the Sikorsky-Fiat proposals; what part would Fiat play in these proposals; and have the threats to Westland been extended to Fiat by the Governments and Companies referred to in ~~her~~ letter to Sir John Cuckney dated 1 January 1986.

~~The Prime M~~

Signed

4209 0815937 30M 11/79 XLY 890

08/01/86 11:33 TABLE OFFICE NO. 002 01 219 5568

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER)

Whether her letted dated 1 January 1986 to Sir John Cuckney conerning the future of Westland was written in the knowledge that the Secretary of State for Defence would be writing to Lloyds Bank International on the samematter.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister,
(TITLE OF MINISTER)

Whether the Government was aware before 29 November that an agreement was to be signed in London on that date between Lloyds International Bank and two companies owned by foreign governments to form a consortium to seek a major shareholding in Westlands.

Signed.....

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Further to her letter dated 1 January to Sir John Cuckney concerning the future of Westland helicopters, whether, in the event of Westland agreeing to collaborate with the Consortium on joint projects, the Company will be given access to finance on the same scale and on no less favourable terms than the other participants; and whether the Government will make it its policy to protect Westland from unfair competition from foreign state-controlled and state-supported companies.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Which European Governments and companies have indicated that a number of projects in which Westland are expecting to participate with other European companies may be lost to Westland if the United Technologies/Fiat proposals are accepted; to whom have the indications been given and in what form; and if the Government will make it its policy to institute proceedings before the European Court of Justice in respect of any action by any of the Governments or companies concerned which would discriminate against Westland on the grounds that it had accepted help from a non-European firm.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Whether the letter sent by the Secretary of State for Defence to Lloyds Bank International regarding investment in Westlands represents Government policy.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

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If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Further to her letter dated 1 January 1986 to Sir John Cuckney concerning the future of Westland helicopters, whether she will make it her policy that no orders will be placed for production models unless and until it can be shown that the military requirement can be met at an acceptable cost and that the European consortium is also the most cost-effective source of supply, in the event that Westland accept the European consortium proposal.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

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If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime MInister

(TITLE OF MINISTER),

What is the policy of HMG towards maintenance of a complete helictoper manufacturing facility in this country which would not be dependent on supplies from the continent in time of war; and to what extent this will be realised in the case of the proposals put forward by the European consortium and by Sikorski-Fiat respectively.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

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If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Whether, if the Westland Shareholders reject the European consortium proposals for investment in the company, she will make it her policy to dismiss the Secretary of State for Defence.

Signed.....

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

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W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

When did the Government first learn that Westlands were in financial difficulties; and when did they first intervene in the process of finding a solution to the difficulties?

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Whether she will publish in the Of ficial Report details of the United States trade deficit in manufactures with France, Italy and West Germany for the most recent period of 12 months for which figures are available: how this compares with the United States surplus with each of the countries on defence equipment.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

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If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Pirme Minister

(TITLE OF MINISTER),

What is the policy towards the intervention of the European Commission in the Westalnd case; under what authority the Commission acted when threatening Westland with loss of contracts in the event of their establishing a link with Sikorski and Fiat; and it she will make a statement.

Signed

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

W

If for WRITTEN ANSWER leave blank

If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister

(TITLE OF MINISTER),

Whether she will clarify the terms of the Memorandum sent by the Head of the Civil Service to Departments after the Ponting Case on the relationship between civil servants and Ministers to cover the kind of briefing of the press which has taken and is taking place in the Westland affair.

Signed.....

30366 Dd 08209412 30M 10/81 StS

PARLIAMENTARY QUESTION

For answer on: 13 January 1986
(DAY) (DATE)

If ORAL insert X

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If for PRIORITY WRITTEN insert W and give date for answer

Name Austin Mitchell

Constituency (Great Grimsby):

To ask The Prime Minister,
(TITLE OF MINISTER)

If she will amend the Armstrong memoradum of guidance on conduct for civil servants to cover the situation where there is a conflict of opinion between the head of the Civil Servants' department and the Prime Minister; and if she will make a statement.

Signed

30366 Dd 08209412 30M 10/81 StS

SECRET

8/1

4

Ref. A086/68

Charles

Comments on speaking note:

Para. 2 Leave out "interfere and" in line 5.
I would leave out last sentence, as being needlessly provocative: Heseltine is particularly enraged by Lindsay, and ink rise to this sentence.

Para. 3 Last sentence not true: what she said was that it was for the company to decide, and that was for the policy of the whole Government; she said nothing about no Minister lobbying.

Para. 7 Second sentence: perhaps —
I suggest to my colleagues that the time has now come for the company and its bankers to be left to deal with representatives of the two groups and come to their decisions, without any further intervention, direct or indirect, by Ministers or by other people acting on their behalf.

Robert

SPEAKING NOTE FOR CABINET

We must have a word about Westland.

We decided long ago that the Government should not put public money into Westland, apart from writing off the launch aid, but leave the company to find its owns solution to its problems through the market. That decision imposed an obligation on us not subsequently to interfere and create difficulties for the Company's board. In particular it does not fall to any of us to criticise the way in which Sir John Cuckney has carried out his very difficult task.

When Cabinet discussed the matter on 19 December we noted that there were two proposals on the table for a financial reconstruction of Westland: not a take-over but a reconstruction involving either the UTC/Fiat or the European consortium taking a minority shareholding. Cabinet on that day unanimously reaffirmed that it remained the policy of the government that it was for Westland to decide what was the best course to follow in the interests of the company and its employees; and agreed that, given that that was the Goverment's policy, no Minister was entitled to lobby in favour of one proposal rather than another and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another. I subsequently made this clear in the House.

You have all seen what has happened since then. We have had headlines in the papers, including those more friendly to us, talking of "Great Cabinet Shambles - open war between Ministers": "A major political mess" and comment which

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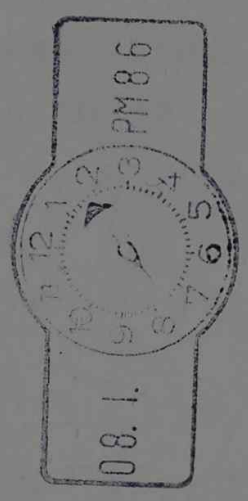
I ask Cabinet to agree with that conclusion, which of course reaffirms that conclusion of 19 December. t must be accepted and observed by everyone, and there must be no lobbying or briefing directly or indirectly. Because of the risks of misrepresentation, even questions of fact should not be answered without being cleared through the Cabinet Office. Anyone who does not feel able to accept this conclusion and act in accordance with it and who continues to campaign on behalf of one or other proposal, cannot do so as a Minister.


PM 8 6
08. 1. '80

CONFIDENTIAL

(1)

(COVERING SECRET)

PRIME MINISTER

cc Mr Wicks

3

WESTLAND: CABINET DISCUSSION

I enclose a draft speaking note for Cabinet on the lines we discussed last night.

CDP

Charles Powell

8 January 1986

CONFIDENTIAL

SPEAKING NOTE FOR CABINET

We must have a word about Westland.

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CONFIDENTIAL

PRIME MINISTER

cc Mr Wicks

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Charles Powell

8 January 1986

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When Cabinet discussed the matter on 19 December we noted that there were two proposals on the table for a financial reconstruction of Westland: not a take-over but a reconstruction involving either the UTC/Fiat or the European consortium taking a minority shareholding. Cabinet on that day unanimously reaffirmed that it remained the policy of the government that it was for Westland to decide what was the best course to follow in the interests of the company and its employees; and agreed that, given that that was the Goverment's policy, no Minister was entitled to lobby in favour of one proposal rather than another and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another. I subsequently made this clear in the House.

You have all seen what has happened since then. We have had headlines in the papers, including those more friendly to us, talking of "Great Cabinet Shambles - open war between Ministers": "A major political mess" and comment which

has been no less damaging. There's probably no paper which has been a more loyal supporter of this government than the Sunday Telegraph and its spoke last Sunday of a "National Scandal .... not since the chaos which preceded George Brown's resignation from Harold Wilson's Cabinet has a British Government looked so pitifully disunited...". The affair has "brought ridicule on the government at home and abroad".

The result of all this is that the Government has been made to appear completely at odds within itself and has entered the New Year in a way damaging to our public esteem after a good recovery in our political fortunes during the autumn. If this situation continues, we shall have no credibility left. I have never seen a clearer demonstration of the damaging consequences that ensue for the coherence and standing of a government when the principle of collective responsibility is not respected.

We cannot go on like this. We must restore the Government's standing.

Nothing has happened since 19 December to modify or qualify the conclusions of Cabinet on 19 December. I suggest to my colleagues that the time has now come for the company and its bankers to be left to clarify these matters with the representatives of the groups, and without any further intervention, direct or indirect, by Ministers or by any other persons acting on his behalf.

I ask Cabinet to agree with that conclusion, which of course reaffirms that conclusion of 19 December. t must be accepted and observed by everyone, and there must be no lobbying or briefing directly or indirectly. Because of the risks of misrepresentation, even questions of fact should not be answered without being cleared through the Cabinet Office. Anyone who does not feel able to accept this conclusion and act in accordance with it and who continues to campaign on behalf of one or other proposal, cannot do so as a Minister.

file
LPO
LOSAPE
cc J. Wiggins - CO
Sir P Cradock

10 DOWNING STREET

8 January 1986

From the Private Secretary

WESTLAND

Thank you for your letter of 6 January replying to my earlier one about the Government's approach to Westland.

The Prime Minister thinks that the present situation is a good deal more straightforward than your letter suggests.

Ministers decided that the Government would not be bound by the NADs recommendation. This means that we have not accepted it now, and have not entered into a commitment to accept it in any hypothetical circumstances in the future.

The Prime Minister is concerned that other European Governments appear nonetheless to have been encouraged, in the course of discussion among European Defence Ministers, to adopt the position that Westlands should only be allowed in future to take part in European collaboration projects if they accepted the European package. This would be against UK interests and would run counter to the assurance she gave Sir John Cuckney that the Government would support Westland's participation in such projects irrespective of whether the company accepted the UTC/Fiat or the European proposals.

The Prime Minister does not understand the logic of the case put forward in your letter for a change in the Government's policy. Cabinet was aware on 19 December of the existence of two offers but the Government's policy has always been not to take a view between them, leaving it to the Board of Westland to decide what proposals and advice they wished to put to shareholders and for the shareholders to take the final decision. Although the terms of both offers have changed somewhat since then, the basic fact that the Westland Board have had a choice has not altered. To argue that some "commentators" regard the European proposals as superior is surely neither here nor there. The Prime Minister does not believe, therefore, that either of the two arguments you have advanced justify re-opening the decision which the Government has taken and which she set out in the House on 17 and 19 December.

/I am copying

AB

I am copying this letter to the Private Secretaries to other members of the Cabinet, to the Legal Secretary to the Law Officers and to the Private Secretary to the Secretary of the Cabinet.

CHARLES POWELL

Richard Mottram, Esq.,
Ministry of Defence.

1

PRIME MINISTER

WESTLAND

I attach a first draft of a possible reply to Mr. Heseltine's minute. Subject to your views, I would need to clear it tomorrow with the Cabinet Office and, privately, with the Department of Trade and Industry leaving you to have another look at it in the afternoon. I have tried to deal with the main points without going into great detail. You may like to see the draft prepared by Mr. Brittan which seemed to me a bit turgid and long-winded.

CDP

(CHARLES POWELL)

7 January 1986

Excellent briefing - single point - which I doubt the Cabinet will not

DRAFT LETTER TO RICHARD MOTTRAM

WESTLAND

Thank you for your letter of 6 January replying to my earlier one about the Government's approach to Westland.

The Prime Minister thinks that the situation is a good deal more ~~simple~~ straightforward than your letter suggests.

First, Ministers decided that the Government would not be bound by the NADs recommendation. This means that we have not accepted it now, and have not entered into a commitment to accept it in any hypothetical circumstances in the future. To suggest otherwise is open to objection on three grounds:

(i) to imply that European collaboration projects would come into effect for the United Kingdom only if Westland decided to accept the European package runs counter to the assurance which the Prime Minister gave Sir John Cuckney that the Government would support Westland's participation in such projects irrespective of whether the company accepted the UTC/Fiat or the European proposals.

(ii) It would be incompatible with the Government's policy of competition and value for money in defence procurement, since it is evident that this can best be achieved if we are able to consider procurement both of helicopters developed under the European collaborative arrangements and of American designed helicopters.

(iii) The NADs recommendation is a measure in restraint of trade and would carry the risk of retaliation by others. ~~notably the United States. It is not just a matter of defence procurement policy. There are wider issues to be considered~~.

do not they already discriminate?

The Prime Minister does not understand the logic of the case put forward in your letter for a change in the Government's policy. Cabinet was aware on 19 December of the existance of two offers but decided not to take a view between them, leaving it to the Board of Westland to decide what proposals and advice they wished to put to shareholders and for the shareholders to take the final decision. Although the terms of both offers have changed somewhat since then the basic fact that Westland have a choice has not altered. To argue that some "commentators" regard the European proposals as superior is surely neither here nor there: it is for Westland's shareholders to decide whether or not they prefer them. The Prime Minister cannot find any new arguments in your letter which were not available to Ministers when they took their decision on 19 December and can see no grounds for re-opening that.

I am copying this letter to the Private Secretaries to other members of the Cabinet, to the Legal Secretary to the Law Officers and to the Private Secretary to the Secretary of the Cabinet.

DRAFT SPEAKING NOTE ON WESTLAND

It has for some time been clear that, if Westland is to continue in business as a British company designing, developing and manufacturing helicopters, it needs a financial reconstruction, an injection of new capital, and assurances of a continuing and adequate workload.

2. The Government have throughout made it clear to Westland, and Westland have accepted, that Westland cannot look to the Government for financial support.

3. The directors of Westland, which has a long history of association with Sikorsky, sought an arrangement with United Technologies (Sikorsky's parent company) and with Fiat which would meet its needs.

4. Towards the end of last year there began to emerge the possibility of an alternative arrangement with a number of European companies with whom Westland are in partnership on various helicopter development projects. The discussions of this possibility led to a recommendation by the

National Armaments Directors of Britain, France, the Federal Republic of Germany and Italy that the four countries should meet all their defence helicopter requirements by equipment designed and built in Europe.

5. These matters were considered by the Ministerial Sub-Committee on Economic Affairs (E(A)) on 9 December last. At that stage Westland needed to have a firm proposal in position in time for publication of its interim results on 17 December: otherwise it would be obliged to go into receivership. Some Ministers had a clear preference for a European alternative to the Sikorsky deal, if it could be developed into a form which the Westland Board could recommend to its shareholders. It seemed unlikely that a European alternative could be in position in the time available. It was accordingly agreed that:

1. It was for the company - in the last resort the shareholders - to take decisions about the company's future, and specifically to choose whether to accept the United Technologies/Fiat proposal or a European alternative, if one could be agreed in time.

2. Westland should be told that the Government would not require repayment of £40 million launch aid on the Westland 30-300 unless the company went into receivership.

3. The Secretary of State for Defence should explore the possibility of developing an alternative European option which Westland would prefer.

4. The Chairman of Westland should be told that, if a European alternative which the Westland Board could recommend to its shareholders was not in place by 4.00 pm on Friday 13 December, the British Government would not thereafter be bound by the National Armaments Directors' recommendation, which would otherwise have been a major obstacle to the United Technologies/Fiat option.

6. On 16 December the Secretary of State for Trade and Industry made a statement in the House of Commons, in which he informed the House that an alternative association with a group of European companies, which by then included British Aerospace, had been provisionally offered; that the

Directors of Westland did not consider that offer firm or attractive enough for them to be able to recommend it to their shareholders; and that accordingly the Government was not bound by the National Armaments Directors' recommendation.

7. At Cabinet on 19 December the Secretaries of State for Trade and Industry and for Defence reported developments since the meeting of E(A) on 9 December. It was noted that a detailed proposal from the European group, which by then included GEC as well as British Aerospace, was about to be given to Westland and announced. The Cabinet unanimously reaffirmed that it remained the policy of the Government that it was for Westland to decide what was the best course to follow in the interests of the company and its employees; and agreed that, given that that was the Government's policy, no Minister was entitled to lobby in favour of one proposal rather than another, and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another.

8. In the House of Commons that afternoon, following that discussion in Cabinet, I made it clear that Westland was a private sector public limited company; that its future was a matter for the company to decide; and that the company's decision was a matter of commercial judgment for its directors and, ultimately, it shareholders. I made it clear that that was the position of the Cabinet, reaffirmed that morning, and the position of the whole Government.

9. What has happened since then is, I am sorry to say, a matter of public record. Despite what was agreed in Cabinet on 19 December, there has been an almost continuous campaign of press briefing, lobbying and leaking, clearly from within the Cabinet, in support of the European alternative, aimed at influencing the judgment of shareholders in Westland and others concerned in favour of the European proposal. This has put the company itself into an extremely difficult position, and the Government itself has been made to appear completely at odds within itself. I have never seen a clearer demonstration of the damaging consequences that ensue for the coherence and standing of a Government when the principle of

collective responsibility for Cabinet decisions is not respected.

10. We cannot go on like this.

11. The shareholders of the company are due to meet on 14 January to take their decision. It is a decision for them to take, and for no one else. It is a decision which must be taken in the light of the fullest possible information which they can get from the groups responsible for the proposals as to the nature and implications of those proposals. Nothing has happened since 19 December to modify or qualify the decisions which the Cabinet took on 19 December. I suggest to my colleagues that the time has now come for the company and its bankers to be left to clarify these matters with the representatives of the groups, and without any further intervention, direct or indirect, by Ministers ~~or by any other persons, save to the extent to which the company itself may find it necessary to call for further information~~. I ask the Cabinet to agree with that conclusion, which of course reaffirms its conclusion on 19 December. I should make it absolutely clear that, once that conclusion is agreed, any one who does not feel

It must be observed by everyone in spirit & the letter

This is what we are trying in some Cab.

able to accept it and act in accordance with it, and who continues to campaign on behalf of one or other proposal, cannot do so as a Minister, and should do so from outside the Government.

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THE SUNDAY TIMES.

Heseltine pressures Thatcher on Westland

by George Jones, John Witherow and Philip Beresford

THE defence secretary, Michael Heseltine, has called on the prime minister to reopen the cabinet debate on the future of the Westland helicopter company. In a memorandum to cabinet colleagues he is urging the government to indicate a preference for the European rescue package.

His attempt to get direct government involvement in the future of Westland will be seen by many MPs as a direct challenge to the prime minister's authority. Mrs Thatcher has publicly insisted that the company must decide whether to opt for the American-Italian package put forward by Sikorsky-Fiat or go for the deal offered by a European consortium, including some of Britain's key defence industries.

Heseltine is understood to have circulated to cabinet colleagues on Christmas Eve his request for the Westland issue to be discussed when the cabinet next meets on January 9 – just five days before an extraordinary general meeting of the Westland shareholders.

Meanwhile, this weekend, there are counter-claims that the Ministry of Defence originally encouraged Sikorsky to become involved in the rescue. In recent weeks, Heseltine has been championing the European offer, and provoked a bitter internal cabinet battle with Leon Brittan, the trade and industry secretary, over his insistence that Westland should seek a European solution.

But supporters of the Sikorsky-Fiat rescue plan said that Peter Levene, the head of the defence ministry's procurement executive, had discussed the issue in July in Washington with Sikorsky executives and had welcomed American interest. Levene said yesterday that he had merely expressed interest in the Sikorsky offer and had remained "reasonably neutral".

However, according to a Conservative MP, Heseltine had at first welcomed Sikorsky's involvement. Bill Walker, MP for Tayside North, was present at a meeting on September 23 between Heseltine and Bill Paul, the head of Sikorsky, when the minister said he was "happy provided no money had to come out of the defence budget". It was only a month later that Heseltine started to lobby for a European alternative.

Heseltine's attempts to reopen the issue will also infuriate several of his cabinet colleagues. They believe that he has broken both the spirit and the letter of an agreement at the last cabinet meeting that neither side should campaign publicly for either rescue package.

The defence secretary, however, is insisting that the cabinet expresses a view on whether Europe maintains a high-technology capability in helicopter design and manufacture free from American domination. While accepting that the government cannot instruct Westland, he believes it can indicate a preference that would influence shareholders.

He also wants cabinet consideration of reports that Libya holds a 14% stake in Fiat. Leon Brittan has described that as a "red herring" but Heseltine is arguing that as Fiat would have a seat on the Westland board, with access to confidential decisions, it does have strategic implications.

There is anger in Whitehall at the way Heseltine has encouraged his supporters to question the Sikorski-Fiat deal, particularly work-sharing provisions between Westland and the American firm. It was being emphasised within government last night that Sikorski had every intention of maintaining Westland as a design and engineering capability in Europe and keeping it "perceptibly British".

The Westland directors are still sceptical of the European bid, but small shareholders contacted by The Sunday Times are showing a greater sympathy for the European offer. Dunbar Unit Trust, which holds 2%, said the European offer was "slightly better for shareholders in the shorter term".

Inquiry into Brittan memo leak

by George Jones
Political Correspondent

THE cabinet secretary, Sir Robert Armstrong, has authorised an inquiry into the leak of a confidential government document in which Leon Brittan, the trade and industry secretary, gave his backing to efforts to draw up a European rescue package for Westland helicopters.

The leak caused a political row last week when it was claimed that the document indicated that Brittan had originally favoured a European rescue rather than the American-Italian package of Sikorsky-Fiat.

Inquiries by The Sunday Times have established that Brittan was correct in denying a report in The Observer last week that the document showed "he expressed the view that a European-backed rescue of Westland would be 'preferable' to a bid by the American Sikorsky consortium".

The document, a minute to the prime minister October 4, was written as government concern mounted that Westland was near bankruptcy. At that stage, Sikorsky was offering to take a stake in the company but as part of a reconstruction package it wanted the British government to underwrite financially a £65m Indian order for 21 Westland 30 helicopters.

In the eight-page minute, Brittan argued that before Westland and the government were drawn into a rescue package, they should see what other options were available. Although Brittan gave his encouragement to exploring the European option, he did not express a preference for an American or European-led solution. Brittan's arguments are in four sections of the minute. They are:

● "At present the company most likely to be willing to take a large minority shareholding appears to be Sikorsky. No solution involving a British company is on the cards. Westlands are in contact with MBB, Aerospatiale and Augusta and I believe that they should be encouraged to pursue the possibility of a European solution. The prospects of the European solution being developed within the timescale do not appear to be good but I should like to get a better assessment of the prospects before responding to Westland's proposals."

Brittan: showed no bias

● "On balance it would be preferable to to participate in a reconstruction package if the conditions I have outlined were met" (This refers to Britain's view that the company should not be allowed to go into receivership. But the conditions should include guarantees on continuing with various collaborative helicopter projects and continuing to provide support for the defence ministry's operational fleet of helicopters).

● "However, if it emerged that a solution involving Sikorsky was the only realistic option I do not believe we should reject a package solely on those grounds . . . It would be preferable to delay giving a response to Westland until their discussions with possible European partners have progressed further."

● In conclusion, Brittan argued: "I recommend that our initial response to Westland should be to urge them to pursue discussions with possible European partners urgently. We should decide in the light of these discussions whether to indicate to Westlands the government's possible willingness to participate in a reconstruction package."

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Heseltine camp scents victory

by ADAM RAPHAEL and IAN MATHER

BACKERS of the Defence Secretary, Mr Michael Heseltine, were confident last night that he is about to succeed in his bid to secure a European-backed rescue for Westland, the ailing helicopter manufacturer.

The decision of Westland's chairman, Sir John Cuckney, to write to Mrs Thatcher seeking clarification of British defence procurement policy is regarded as a sign that the company recognises that it will not be able to proceed with its preferred American Sikorsky rescue unless it gets Government assurances that it will not be discriminated against in future defence orders.

The Prime Minister is in no position to give such assurances, short of dismissing her Defence Secretary.

Even if she did so she could not answer for the European consortium of helicopter manufacturers, who have warned that future co-operative projects with Westland will be jeopardised if the company attaches itself to Sikorsky.

Westland has engaged the services of Mrs Thatcher's former media adviser and director of publicity at Conservative central office, Mr Gordon Reece, to help in the presentation of the Sikorsky-Fiat deal to the company's shareholders. This appointment, made a few weeks ago, suggests that the Prime Minister is sympathetic to the American option and not the counter-proposal from the Enropean consortium.

Sir John will be writing to Mrs Thatcher to ask whether a 1978 agreement among western European defence ministries to rationalise their helicopter manufacturing and to 'buy European' is still Government policy, or whether that agreement has been nullified.

He also wants to know to what extent threats to withhold work from Westland if it goes for the Sikorsky solution have government endorsement.

The Ministry of Defence has made clear that an order for six Sea King helicopters worth £25 million is dependent on Westland's choosing the European solution, because the money would come from savings resulting from the rationalisation of the European helicopter industry.

The Ministry has also said it will not order the Sikorsky Black Hawk helicopter, which Westland expects to manufacture, if the Sikorsky-Fiat offer is accepted.

Westland's board is due to meet within the next few days to consider the latest clarifications of the European offer, said to 'guarantee' more work instead of providing a 'commitment.'

But the board is unlikely to arrive at a final decision until it hears from Mrs Thatcher. A meeting of Ministers on Westland's future is now certain.

The Prime Minister is also under pressure from the European-Heseltine camp to declare what the Government's policy is.

Sir John is known to be unsure whether the Europeans can deliver what they have promised.

So far only the Sikorsky-Fiat offer has been circulated to Westland shareholders, who are due to meet on 14 January.

The clarified European offer was delivered over Christmas, and will also be presented to shareholders, together with the Westland board's recommendation.

The European consortium was strengthened by backing yesterday from national leaders of the confederation of engineering unions.

But Mr Malcolm Gilham, the leading shop steward in Westland, last night voiced doubts about the feasibility of the European offer. 'With overcapacity in the other European helicopter firms, I don't see where this work promised for Westland is to come from.' He would, however, be won over to the European deal if work guarantees were made convincing.

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Harry : In the futures market ?

THE OBSERVER.

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SIR RAYMOND LIGO - INTERVIEW ON WESTLAND DEAL

Transcript from: BBC Radio 4, Today, 7 January 1986

INTERVIEWER: (Peter Hobday) ... Sir Raymond, Sir John when we talked to him over the weekend said he was more than happy to meet you, the Defence Secretary says that such a meeting has been turned down; what's the truth of the situation?

LIGO: Well I think the truth first of all is that it's many years since I've been hopping mad and we're appraising this in the cool collected light of a commercial decision. That's the first thing. The second thing is I think that everyone who has had anything to say on this subject, and there hasn't been a shortage of those people, has been saying that this is a matter that should be left to shareholders. And we absolutely agreew ith that. Now that implies, or it should mean, that they should be given the facts. Opinion is something for the board to express, the Westlands board. The Westlands shareholders now have two offers whether they know it or not. They should both be examined without emotion. On Christmas Eve my chairman rang Sir John Cuckney telling him that the proposals that were then before him by the Euroepan consorium were genuine and in the opinion of British Aearospace they were better than the Sikorsky offer as we understood it to be. He accepted I assume this assurance, he asked a few questions and it was made clear that we were ready to discuss the matter at any time. NOthing happened. And then I saw some television interviews and I believe that our offer subsequently was described as only superficially more attractive. And yet hasty meetings werer immediately apparently called with Sikorsky to improve their offer. Now it would appear that an improved offer is forthcoming, we don't yet know the details. And if ours was only superficially more attractive why was it necessary for Sikorsky to improve thier

offer or to be asked to improve their offer? So quite clearly our offer was better but wasn't being seriously considered. And on Tuesday last, that's just before the New Year, I phoned Sir John, he wasn't available and I spoke to Sir John Creacher and said I was becoming very concerned that this was becoming too high a profile debate, that people would be getting emotionally involved in the subject and the contest was taking place on tv. And that wasn't the way to conduct commercial negotiations. And if they had any problems with our offer or any suspicions or any misunderstandings would they please ask us to come in and discuss them with them so that we could make our positon absolutely clear. Because it was a genuine offer and we didn't wish to be dragged into a tv debate.

INTERVIEWER: Did they have any reservations during that telphone converstation?

LIGO: Yes, the major reservation they expressed at the time was that what would happen if the Sikorsky deal went away and would the Euroepans themselvesthen wlak away? The view was expressed that that 5 of te companies involved, our of the 5 4 would have been happy to have seen Westlands going into receivership so how could the Westland board trust them.

INTERVIEWER: It's a fair comment?

LIGO: It's a fair point and I said of course that they're not dealing in the case of British Aerosapce with a Balls Pond Road pen factory that might be here today and gone tomorrow. They're dealing with a company of immense reputation and resources and so is GEC. And it was unthinkable that we would put our hands to a document that was false. And furthermore I told him that the dcocument that he was about to receive would have a paragraph in it in which the companies severally would undertake solemnlyto discharge their obligations in the

event that this combined offer was accepted. And then of course, having had all this conversation with him I was aksed whether we'd be around on Thursday. I said we would be and I expected a call, we didn't get one. But we saw again on televison the Sikorsky people arriving for these hastily arranged discussions to improve their offer. Now I think that if we don't get the opportunity to put our views clearly to the Westlands shareholders they deserve no less, otherwise the extrordinary general meeting that's being held next Monday really will be extrordinary because only one side's views will be put by the board.

INTERVIEWER: But on the other hand in a sense the shareholders are aware of the second offer, the Defence Secretary has been - how shall I put it - prosthelatising pretty hard on your behalf, the Euroepan bid; the papers have been full of the details of your bid; so you can't say that necessarily that the shareholders are uninformed. How would a face to face meeting between yourelves and Sir John and his colleagues change tht situation?

LIGO: Well I hope it would serve to convince the Westland board that the offer is genuine. I mean it must - I mean I cannot imagine why they're taking the line they're taking. It would appear to be entirely one sided. So that if it is a question of explaining our poistion or making it more clear then I hope thatwe will be able to do this and then the offer would be able to be put to the shareholders quite clearly. Now we are circulating the shareholders today with a comparison of our offer with the original Sikorsky offer and pointing out that ours is better. NOw of course we don't know the details of the new Sikorsky offer so that's left us a bit one sided. But we're asking the shareholders and enclosing proxy forms for them to be able to vote for a postponent of this extrordinary general meeting

genral meeting so that they ;the shreholders and we, one of the contenders, - after all Westtlands is selling we're buying, it's not the other way round, they should be coming after us to get the best deal for their sharehoders.

INTERVIEWER: But at the present moment it's a sellers market isn't it?

LIGO: It is a sellers market to the extent that they've got two contenders. But I mean let's not believe that this can be a Dutch auction that is driven up to some ridiculous price. We're in it to look after our own shareholders.

INTERVIEWER: So does that mean that last phrase then that you will not be thinking about improving your offer after we learn from Sikorsky and Fiat what their offer is round about 3 o'clock this afternoon?

LIGO: We would look at what their offer is and if there are some marginal improvements that can be made then of course we will consider them. But the most important thing is that our offer in our view - after all, the people concerned havemore experience of the aerospace industry combined than anybody else in Europe - our offer is the most secure future for the shareholders of Westlands and for the people who work there.

INTERVIEWER: But at the same time you would be prepared to look at your offer again after you find out what those meetings on Thursday on Thursday and Friday between Sikorsky and Sir John brought about?

LIGO: Yes we would certainly be prepared to do that, but only on the understanding that that would then be considered as a genuine offer. Up to now all the debate has been one sided and we really can't go on being treated like this.

Prime Minister
Please see page 2
CDP

Mr checked

MICHAEL MATES - INTERVIEW ON WESTLAND SICORSKY DEAL

Transcript from: BBC Radio 4, Today, 7 January 1986

INTERVIEWER: (Peter HObday) ... do you see this as a set back or even possibly a defeat for Mr Heseltine this move by Sir John Cuckney late last night?

MATES: No I don't. I think this extrordinary turn of events is going to bring the issues in this case even furtherout into the open. Because it almost beggars beleif that Westland's should have turned their back on a letter they only received yesterday from 3 of the top industrialists in this country in the defence world, running 2 of the most successful companies, British Aerospace and GEC, asking if they could come and talk. It's quite extrordinary and for reasons we don't yet know the Westlands board mind has been completely closed since the start of this whole saga in favour of the Sicorsky bid. And now over the next few days it is inevitable that the issues and thecomparisons between the Sicorsky bid and the European bid, the opportunities that there are abailable will become much more clear. And I believe that the debate will become more informed and farfrombeing a setback I think it's a positive advantage.

[Not received by 11 pm yesterday]

INTERVIEWER: So are you suggesting that Mr Heseltine is quite pleased by this turn of events in that it sees his position vindicated?

MATES: I don't know whether he's pleased or not. I'm sure he's astonished that the board could behave in such a cavalier fashion towards Lord Weinstock and Sir Austin Pearce and Admiral Ligo and Jim Prior, who all who all signed the letter saying can we come and talk, we'd like to see how this offer can be improved from your point of view, how we can get together closer and how we could make plainer the advantages of the British led offer.

INTERVIEWER: I remind you that Sir John Cuckney has told us that he is prepared to talk to them, as he put it, a principal to principal meeting is perfectly possible, they only have to call and I shallset up such a meeting. So he hasn't exactly turned his back on them?

MATES: Well it's an extrordinary thing isn't it when you've just received a letter like that to then make a public announcement, whatever you feel privately, that youaren't going to consider the European offer, that you aren't going to recommend it to the shareholders And this is what's gone contrary to Government policy, because one of the few things that had been agreed about right across the board in Government is that the Westland shareholders must be given a full and fair choice between the two sides. And that's why Mr Heseltine was pressing ahead explaining the European offer, not in defiance of any policy. He was authorised by; his Cabinet colleagues to do so and now just at the point when one was coming to see that both sides have got a certain amount that they want to argue about and discuss and possibly improve we find the Westlands board saying no, we're not going to give our shareholders a choice we're just going nap on the Sicosky bid. There must be reasons for that which haven't yet been made public.

No

INTERVIEWER: Well could those reason be that in a sense hedistrusts the Europeans? I mean he hasn't had a particularly goodrelationship for example with the French in the past, they've been deadly rivals. He hasn't had much help, for example, in the past when Westland got into trouble and actually needed help. And the Europeans, particularly the Briitish companies, didn't come on thescene until after the Americans had madetheir move and had actually made a formal offer?

MATES: All of those would be very good reasons for looking extremely closely at the Euroepan offer but no reason at all for ignoring it. And it's the ignoring what it is and going broke for the Sicorsky

offer to the shareholders that I would see as a tactical error on Westlands part because the public aren't going to understand it and I doubt if the shareholders are either.

Secretary of State for Trade and Industry

Charles

I will need to explain this by telephone.

John.

V5787

WESTLAND

Thank you for your letter of 6 January replying to my earlier one about the Government's approach to Westland.

2 The Prime Minister thinks that the situation is a good deal more simple than your letter suggests.

3 First, Ministers decided that the Government would not be bound by the NADs recommendation. This means that we have not accepted it now, and have not entered into a commitment to accept it in any hypothetical circumstances in the future.

4 The Prime Minister considers that the implication in your fifth paragraph that European collaboration projects would come into effect for the United Kingdom only if Westland decided to accept the European package runs counter to the assurance which she gave Sir John Cuckney that the Government would support Westland's participation in such projects irrespective of whether the company accepted the UTC/Fiat or the European proposals.

5 The Prime Minister does not understand the logic of the case put forward in your letter for a change in the Government's policy. Cabinet was aware on 19 December of the existence of two offers but the Government's policy has always been not to take a view between them, leaving it to the Board of Westland to decide what proposals and advice they wished to put to shareholders and for the shareholders to take the final decision. Although the terms of both offers have changed somewhat since then the basic fact that the Westland Board have had a choice has not altered. To argue that some "commentators" regard the European proposals as superior is surely neither here nor there. The Prime Minister does not believe that developments since Cabinet reviewed the matter on 19 December justify re-opening the decision the Government has taken.

6 I am copying this letter to the Private Secretaries to other members of the Cabinet, to the Legal Secretary, to the Law Officers and to the Private Secretary to the Secretary of the Cabinet.

J F MOGG
Private Secretary

*

Should the issue come up in future for ministerial consideration, the Prime Minister believes that for the Government to accept the NADs recommendation would be open to objection on the following grounds:

(i) it would be incompatible with the Government's policy of competition and value for money in defence procurement since it is evident that this can best be achieved if we are able to consider procurement both of helicopters developed under the European collaborative arrangements and of American designed helicopters.

(ii) the NADs recommendation is a measure in restraint of trade and would carry the risk of retaliation by others, notably the United States. It is not just a matter of defence procurement policy. There are wider issues to be considered.

The Prime Minister notes the view that if the European consortium were to fail to produce proposals that were cost-effective the position of Ministers would be reserved, but does not consider this is likely to prove an adequate safeguard against the risks involved.

JH3CNR

Prime Minister

per see CM

CDP 7/1

7 January 1986

Dear Michael,

Thank you for your letter of today's date. I confirm what I told you on the telephone that in my view as Attorney General there can be no objection to you initiating proceedings for libel against the Sun newspaper in respect of their front page of today.

I have had a very helpful letter from your solicitors on this subject.

I am copying this letter to the Prime Minister and to the Secretary to the Cabinet.

Yours ever.

Mike.

The Rt. Hon. Michael Heseltine, MP

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/16/1

7th January 1986

Dear Michael

I write to seek your formal permission to take proceedings against The Sun newspaper for their front page today (attached).

My solicitor, Charles Corman of Titmuss Sainer and Webb, is writing to you coincidentally with details of counsel's opinion.

I am copying this letter to the Prime Minister and to the Secretary of the Cabinet.

Yours ever

Michael Heseltine

The Rt Hon Sir Michael Havers QC MP

THE Sun

Tuesday, January 7, 1986 18p TODAY'S TV: PAGE 12

DYNASTY CHOP!

Michael Praed . . . he is being chopped

From JOHN HISCOCK in Los Angeles

HANDSOME British actor Michael Praed is being chopped from Dynasty, because his role is "boring."

Praed has been told his part of Prince Michael of Moldavia will be written out.

His screen father King Galen — actor Joel Fabiani—and Krystle Carrington lookalike Rita, played by Linda Evans, are also being axed.

The producers say viewers are bored with the characters.

But Britain's Christopher Casenove is joining the show as Blake Carrington's brother Ben—and will cause trouble by claiming he was robbed of his rightful inheritance.

YOU LIAR!

YOU LIAR!

Tarzan gets rocket from top law man

DEFENCE Secretary Michael Heseltine was fighting for survival last night after virtually being branded a liar.

Mr Heseltine was accused by Solicitor-General Sir Patrick Mayhew of "a material inaccuracy" in a letter to Lloyds merchant bank last week about the Westland helicopter rescue battle.

By TREVOR KAVANAGH, Political Editor

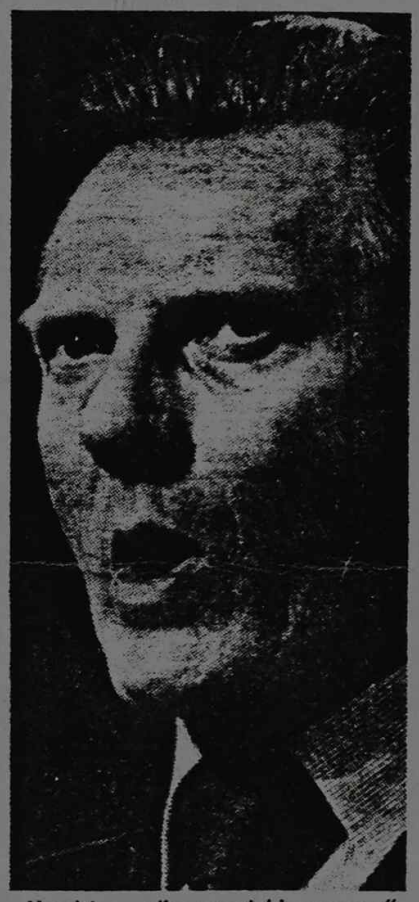
But last night angry Mr Heseltine fired off a note to the bank refusing to retract his earlier statement.

He said: "I am writing to assure you that my answer needs no correction."

The row began when Mr Heseltine, nicknamed Tarzan, claimed in a letter that a link between Westland and the U.S. helicopter giant Sikorsky could jeopardise valuable defence contracts.

He suggested contracts worth one billion pounds would be "in-

Continued on Page Four



Heseltine . . . "a material inaccuracy"

Higgins . . . whopper over shiner

Higgins got his shiner in punch-up

FIERY snooker star Alex Higgins got his shiner in a punch-up with a pal, The Sun can reveal.

Hurricane lied to millions of TV viewers by saying his left eye was blacked when he was kicked by a horse.

By SIMON HUGHES and JOHN SCOTT

But the truth is he was potted by fellow snooker pro and long-time friend Paul Medati.

And last night, faced with The Sun's revelations, Higgins finally came clean.

He said: "I had a disagreement which was settled privately behind closed doors. I regret that it happened.

"I did go horse riding but that wasn't where I got the black eye.

"I made up the story to take the pressure off before an important game."

Higgins and Medati clashed during a private match for money in a back room at Medati's snooker club in Stockport, Greater Manchester.

Two bouncers inter-

Continued on Page Two

£40,000 TWINGO BINGO! Today's lucky numbers: See Page 16

Ref. A086/55

MR WICKS

I attach three copies of a draft speaking note on Westland, on the lines we discussed this morning.

RA

ROBERT ARMSTRONG

7 January 1986

DRAFT SPEAKING NOTE ON WESTLAND

It has for some time been clear that, if Westland is to continue in business as a British company designing, developing and manufacturing helicopters, it needs a financial reconstruction, an injection of new capital, and assurances of a continuing and adequate workload.

2. The Government have throughout made it clear to Westland, and Westland have accepted, that Westland cannot look to the Government for financial support.

3. The directors of Westland, which has a long history of association with Sikorsky, sought an arrangement with United Technologies (Sikorsky's parent company) and with Fiat which would meet its needs.

4. Towards the end of last year there began to emerge the possibility of an alternative arrangement with a number of European companies with whom Westland are in partnership on various helicopter development projects. The discussions of this possibility led to a recommendation by the

National Armaments Directors of Britain, France, the Federal Republic of Germany and Italy that the four countries should meet all their defence helicopter requirements by equipment designed and built in Europe.

5. These matters were considered by the Ministerial Sub-Committee on Economic Affairs (E(A)) on 9 December last. At that stage Westland needed to have a firm proposal in position in time for publication of its interim results on 17 December: otherwise it would be obliged to go into receivership. Some Ministers had a clear preference for a European alternative to the Sikorsky deal, if it could be developed into a form which the Westland Board could recommend to its shareholders. It seemed unlikely that a European alternative could be in position in the time available. It was accordingly agreed that:

1. It was for the company - in the last resort the shareholders - to take decisions about the company's future, and specifically to choose whether to accept the United Technologies/Fiat proposal or a European alternative, if one could be agreed in time.

2. Westland should be told that the Government would not require repayment of £40 million launch aid on the Westland 30-300 unless the company went into receivership.

3. The Secretary of State for Defence should explore the possibility of developing an alternative European option which Westland would prefer.

4. The Chairman of Westland should be told that, if a European alternative which the Westland Board could recommend to its shareholders was not in place by 4.00 pm on Friday 13 December, the British Government would not thereafter be bound by the National Armaments Directors' recommendation, which would otherwise have been a major obstacle to the United Technologies/Fiat option.

6. On 16 December the Secretary of State for Trade and Industry made a statement in the House of Commons, in which he informed the House that an alternative association with a group of European companies, which by then included British Aerospace, had been provisionally offered; that the

Directors of Westland did not consider that offer firm or attractive enough for them to be able to recommend it to their shareholders; and that accordingly the Government was not bound by the National Armaments Directors' recommendation.

7. At Cabinet on 19 December the Secretaries of State for Trade and Industry and for Defence reported developments since the meeting of E(A) on 9 December. It was noted that a detailed proposal from the European group, which by then included GEC as well as British Aerospace, was about to be given to Westland and announced. The Cabinet unanimously reaffirmed that it remained the policy of the Government that it was for Westland to decide what was the best course to follow in the interests of the company and its employees; and agreed that, given that that was the Government's policy, no Minister was entitled to lobby in favour of one proposal rather than another, and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another.

8. In the House of Commons that afternoon, following that discussion in Cabinet, I made it clear that Westland was a private sector public limited company; that its future was a matter for the company to decide; and that the company's decision was a matter of commercial judgment for its directors and, ultimately, it shareholders. I made it clear that that was the position of the Cabinet, reaffirmed that morning, and the position of the whole Government.

9. What has happened since then is, I am sorry to say, a matter of public record. Despite what was agreed in Cabinet on 19 December, there has been an almost continuous campaign of press briefing, lobbying and leaking, clearly from within the Cabinet, in support of the European alternative, aimed at influencing the judgment of shareholders in Westland and others concerned in favour of the European proposal. This has put the company itself into an extremely difficult position, and the Government itself has been made to appear completely at odds within itself. I have never seen a clearer demonstration of the damaging consequences that ensue for the coherence and standing of a Government when the principle of

Steady the troops.

Issues that will shareholders

for — particularly [illegible]

[illegible] anyone out [illegible]

[illegible] [illegible] [illegible]

[illegible] [illegible]

[illegible]

John Wilson — Bailey

— Bilkin

— Joplin —

D. Wood

Myatt

P.S.

Gt.

Norman Tebbit.

Willie — G. Yorer

Nick Elliott.

Tom Knight.

collective responsibility for Cabinet decisions is not respected.

10. We cannot go on like this.

11. The shareholders of the company are due to meet on 14 January to take their decision. It is a decision for them to take, and for no one else. It is a decision which must be taken in the light of the fullest possible information which they can get from the groups responsible for the proposals as to the nature and implications of those proposals. Nothing has happened since 19 December to modify or qualify the decisions which the Cabinet took on 19 December. I suggest to my colleagues that the time has now come for the company and its bankers to be left to clarify these matters with the representatives of the groups, and without any further intervention, direct or indirect, by Ministers or by any other persons, save to the extent to which the company itself may find it necessary to call for further information. I ask the Cabinet to agree with that conclusion, which of course reaffirms its conclusion on 19 December. I should make it absolutely clear that, once that conclusion is agreed, any one who does not feel

able to accept it and act in accordance with it, and who continues to campaign on behalf of one or other proposal, cannot do so as a Minister, and should do so from outside the Government.

MR WIDDS

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

LETTER TO MR. PADDY ASHDOWN, M.P.

I am inclined to think that a somewhat shorter reply will be better and attach a possible draft as a contribution.

CHARLES POWELL

7 January 1986

10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letters of 3 and 6 January, which arrived simultaneously, about Westland.

I am grateful for what you say about my recent letter to Sir John Cuckney. Like you, the Government want to see Westland continue in business as a successful company designing, developing and manufacturing helicopters. Clearly this needed a financial re-construction, an injection of new capital and assurances of a continuing and adequate workload. The company have received two sets of proposals addressing these needs and their Board have recommended acceptance of one of them. It is now for the shareholders to decide whether to follow their Board's advice.

The Government's role has been limited to ensuring that the company has a choice and to providing information about our own procurement policy and about European collaborative projects. We cannot, of course, determine the attitude of foreign governments and companies towards future collaboration with Westland. I can only say that the Government want Westland to continue to take part in such projects, whatever decision they reach about their future, and will resist to the best of its ability any attempts -

/which I

L03A5D

which I profoundly hope will not be made - to discriminate against Westland.

You will not expect me to take altogether seriously some of the more extravagant comments in your letter. But I am glad that we share the objective of a secure future for Westland and its employees.

Paddy Ashdown, Esq., M.P.

DRAFT LETTER FROM SIR ROBERT ARMSTRONG TO PADDY ASHDOWN ESQ MP

Thank you for your letter of 3 and 6 January about Westlands.

The Government would like to see Westland continue in business as a British company designing, developing and manufacturing helicopters. It accepts that, if this is to happen, Westland needs a financial reconstruction, an injection of new capital, and assurances of a continuing and adequate workload. There are now two firm proposals, one from United Technologies and Fiat and the other from a group comprising GEC, British Aerospace, Aerospatiale, MBB and Agusta. It appears that both proposals would in their different ways meet these needs. The Government has made it clear that it is for the company and bankers, presented with these two proposals to decide what course to follow, taking account of the recommendation so the board of directors of Westland and of all relevant information.

In reaching that decision the company already needs and is entitled to seek and be given the

fullest possible information both as to the procurement plans and interests of the British Government, as its major customer, and as to the implications of its decision for collaborative agreements and projects in which it is engaged. It has, I udnerstand, a long-standing relationship with Sikorsky; and it is the British partner in a number of European collaborative projects. The company has to consider how whatever decision it may take will bear upon the future of these relationships.

In the letter which I sent to Sir John Cuckney on 1 January, I made it clear to Westland that there have been indications from European governments and companies that they currently take the view that a number of projects in which Westland are expecting to co-operate with other European companies may be lost to Westland if the United Technologies/Fiat proposals are accepted. In the letter which the Secretary of State for Defence sent to Mr David Home on 3 January, he set out some of these indications in greater detail. The British Government is not responsible and cannot answer for the views of the governments and companies concerned or for the indications that

have been given; but in so far as they have been made known to the Government, the Government is bound to ensure that they are made known to the directors and shareholders of Westland and to their bankers, as matters potentially relevant to the decision which they have to make for Westland to assess the significance of these indications, together with all the other information available to them, before coming to their decision.

Clearly British participation - which means so long as Westland is a compny registered and carrying on business in Britain means Westland's participation - is an important element in the viability of the European collaborative helicopter projects to which Britain is a party. However the company decides, the British Government will suppport its wish to continue in these projhects, will seek to make or encourage arrangements which make it possible for it to do so, and will be guided accordingly in its dealings with the other governments concerned. It will be for the other governments and companies concerned to decide in the light of the company's decision and of all the other circumstances what course of action is in their best interests as they see them and in the

RTAAAT

interests of European collaboration. It is likely that there would no doubt be a period of discussion and negotation, the outcome of which no one could wish to predict at this stage; but I can assure you that in that discussion and negotation it would be among the British Governments objectives to maintain European collaboration and to work with its European partners for the continuing viability of collaborative projects which could be a cost-effective source for the future helicopted ies concerned.

The company's shareholders and bankers now have, as you say, a very diffcult and important decision to take. It is a decision which must be taken in the light of the fullest possible information which they can get from the groups making proposals to them as to the nature and implications of these proposals. The Cabinet has decided that the company and its bankers should now be left to clarify these matters with the representatives of the two gropus and without further intervention from other parties, including th eGovernment, some to the extent to which the company itself or its bankers find it necessary to call for further information from other parties for

the purpose of making their decision. All members of the Cabinet have agreed to be bound by that decision.

CONFIDENTIAL. From:- BILL WALKER M.P. PRIVATE.

T/C in ~~Box~~ GR's

The Rt. Hon. M. Thatcher M.P.
Prime Minister.

HOUSE OF COMMONS
LONDON SW1A 0AA

7th Jan. 1986.

Dear Prime Minister,

Westlands.

As an officer of the Parliamentary Aviation Committee I was involved in efforts to mount a rescue of the above firm. Following the pull-out of Bristow the message received from U.K. and European firms was clear - "They were happy to let Westlands go into the hands of receiver."

On Monday 23rd September 1985 I arranged for a meeting at M.O.D. between Bill Paul, President of United Technologies Sikorsky Aircraft, Columbus B. Zoelin, Vice President European Operations, U.T.S.A. and Michael Heseltine. I was present throughout the meeting.

At the meeting the Secy. of State made it quite clear that M.O.D. had no funds to purchase Black Hawk Helicopters or to put into a rescue package.

It was after being advised of the M.O.D. position and attitude that Bill Paul declared that his company were prepared to be part of a rescue plan and were willing to take a minority share in Westlands.

The meeting ended with the Sikorsky directors and I believing, that, provided M.O.D. were not required to find funds from the M.O.D. budget, the Secy. of State was happy to see Sikorsky participate in a rescue package.

I trust this information is of help to you.

Yours ever,

Bill.

P 01860

MR POWELL - No 10

cc Sir Robert Armstrong
Mr Wiggins - o/r

WESTLAND

FILE WITH CDP

We spoke about the letter of 6 January to you from the Defence Secretary's Private Secretary and I undertook to let you have any points that I thought might be helpful in reply, particularly in relation to the interpretation of the E(A) minutes of 9 December (E(A)(85)24th Meeting).

2. The Defence Secretary's references to the summing up and conclusions of that meeting seem to be correct, but there are two inferences which can, I think, be challenged.

3. First, the Defence Secretary argues (second paragraph of Mr Mottram's letter) that there is no suggestion in the Minutes that the recommendations of the NADs were being objected to on grounds of defence procurement or competition policy. This is correct. The key concern of the Sub-Committee at the time was that the Sikorsky deal should not be jeopardised by the NADs recommendations remaining on the table if no more attractive European deal was quickly forthcoming. But equally, the Minutes do not prove that the anti-competitive nature of the NADs recommendations was not also in the minds of the Prime Minister and other colleagues at the same time. Indeed, my brief of 9 December to the Prime Minister for the meeting (paragraph 9) explicitly pointed out that the NADs recommendation "would mean the elimination of any element of competition from the European military helicopter market". I think, therefore, that the Prime Minister can justifiably challenge the Defence Secretary's inference.

4. Second, the Defence Secretary argues (third paragraph of Mr Mottram's letter) that the provisional agreements reached with other Defence Ministers was a "necessary part" of the remit to him from the E(A) meeting. His minute to the Prime Minister of 13 December (paragraph 6) also described the reaching of this agreement as "in accordance with the remit of E(A)". I see nothing, however, in the E(A) minutes to oblige the Secretary of State to reach such a discriminatory agreement. Indeed, in so far as it appears in effect to have been a substitute for the NADs recommendations,

it could be argued that the Secretary of State's action was in conflict with the spirit of the Minutes.

5. You will wish to consider whether it would be appropriate to the general tone of the Prime Minister's reply to pick these points up. If so, I attach two short passages for consideration.

6. I might perhaps also add that it seems to me that this particular saga, other considerations apart, is an example of the kind of difficulties we get into by not having a clear strategy from the Ministry of Defence on international collaboration in the defence procurement field. It is not at all clear that an independent UK capability to develop helicopters is fundamental to this country's security or that allocating resources in this direction (necessarily at the expense of others elsewhere) is in the best intersts of UK industry. However, this is one of the unsatisfactory aspects of defence R & D procurement that I hope will soon emerge in the final report of MISC 119 for consideration in E(A).

J B UNWIN

7 January 1986
Cabinet Office

SECRET

COMMERCIAL IN CONFIDENCE

POSSIBLE PARAGRAPHS FOR INCLUSION IN PRIME MINISTER'S REPLY TO MINISTRY OF DEFENCE LETTER OF 6 JANUARY

1. The Prime Minister notes the Secretary of State's reference to the conclusions of the E(A) meeting on 9 December on the NADs recommendations. She agrees that, in their contingent decision to reject the NADs recommendations, the Sub-Committee were primarily concerned that the Sikorsky/Fiat deal should not be jeopardised if the European Consortium had not produced a package which the Westlands Board could recommend by 4 pm on Friday, 13 December. But she is quite sure that in reaching this conclusion both she and other members of the Sub-Committee also had in mind the undesirable restriction on competition that the NADs recommendation entailed; and she continues to attach importance to the relevant points on this in the Chief Secretary's minute to her of 17 December.

2. The Prime Minister is also not at all clear that it was "a necessary part" of the E(A) remit to the Defence Secretary that any agreement should be reached between European Defence Ministers under which collaborative arrangements would only come into effect for the United Kingdom if Westlands decided to accept the European package. Indeed, the Prime Minister believes that this could in fact serve to vitiate the rejection of the NADs recommendations by itself placing significant and undesirable restrictions on competitive tendering. As she has already made clear, the Prime Minister does not believe that the Government should say or do anything that would lead Westlands or its shareholders to believe that if they accepted the Sikorsky/Fiat proposals they would lose the Government's support for participating in future in European collaborative projects. She is particularly concerned that we should not, by pursuing such a course, give our European partners any excuse for discrimination against British companies in the defence procurement field on the grounds that they were only doing what the British Government itself had sought from them.

AEROSPACE
WESTRAND
APR 85

(2)

MT

10 DOWNING STREET

Prime Minister

This is the "Fact Sheet" though Mr. Heseltine would certainly challenge several of the statements in it. The material has been given to Sir John Cuckney & of course DTI have it. For the PSR, it needs to be used with some discretion so that it is not regarded as a No. 10 document. It contains some useful points to be made in Cabinet. And Bernard has a copy.

CDP 6/1

WESTLAND

The Companies

Westland employs some 11,000 people, mainly at Yeovil. Since the war it has principally built military helicopters under licence from Sikorsky. To a lesser extent it has associated on collaborative projects with Aerospatiale. The company is highly dependent on the MOD for orders. In the 1980s Westland have attempted to break into the civil market with the W.30. However, this has to date proved unsuccessful, mainly because:

- the civil market went into recession
- early versions had technical shortcomings
- the MOD put into abeyance a requirement which Westland hoped to meet with an advanced military version of W.30.

Westland's financial difficulties were intensified by delay in obtaining a contract from India

UT/Fiat

Sikorsky is a member of the United Technologies (UT) group which also includes Pratt and Whitney. It is one of the major US helicopter companies. Sikorsky has been associated with Westland since 1947, and has licensed Westland to develop, manufacture and sell a number of successful helicopters, including Wessex and Sea King (which Westland has exported in larger numbers than the Sikorsky original). Sikorsky has said they have a high regard for Westland's design and engineering capability. They have given assurances of their intention to maintain a design and development capability at Westland.

Fiat is the leading Italian motor and aero-engine manufacturer.

The European Consortium

Aerospatiale is the principal nationalised French aerospace company. Its helicopter division is the biggest helicopter business outside the US. It has been associated with Westland since 1967 on the Puma, Lynx and Gazelle helicopters. But Aerospatiale is also Westland's main commercial rival.

Agusta is an Italian state-controlled helicopter company of comparable size to Westland. Agusta and Westland are collaborating on the EH101 project. Agusta have licences from Sikorsky for the S61 (the basis for Lynx) & the SH3. They also have extensive licences from the Bell Helicopter Company.

MBB (Messerschmitt-Boelkow-Blohm) is the leading German aerospace company. However, the helicopter division employs only some 1500, and has built only small helicopters. Technologically, MBB has little to offer Westland. MBB is privately controlled (though with a minority public shareholding) but substantially financed by the German Government.

Neither British Aerospace nor GEC have previously been involved in helicopter manufacture. GEC Avionics, however, are currently causing serious problems to Westland because of delay and technical deficiencies in supplying equipment for an Indian Government order for Sea Kings.

There is over-capacity in the European helicopter industry. Financially, Aerospatiale, Agusta and MBB are all weak. BAe and GEC are both financially strong.

The Offers

Both offers are intended to give Westland design and development, as well as production work. The guaranteed work offered by UT/Fiat appears to be better quality than the European offer: it has a higher engineering content. But each offer also contains substantial unguaranteed work on helicopter projects. The value of this depends on the market prospects of the projects concerned. The Westland Board considers the UT/Fiat offer superior. It offers Westland the opportunity to build and market a complete aircraft (Black Hawk) from Yeovil. Moreover the Board considers association with Sikorsky will provide a sound basis for longer-term viability. The Board considers both these features are lacking in the European proposals.

Black Hawk Licence

MOD Ministers consider the Black Hawk's sales prospects are poor, especially in Europe. UT, however, consider world prospects are good: they have not to date concentrated their efforts on export sales, since they have on-going contracts to supply some 130 Black Hawks p.a. to the US forces. Westland would have exclusive sales rights in large areas of the world. MOD Ministers say that Westland will not get a "domestic" UK order for Black Hawk and this will hinder export efforts (as with W.30). But Black Hawk has "domestic" orders and commitments of 1100+ in the US.

A number of countries have expressed interest in Black Hawk with the new Rolls Royce/Turbomeca RTM 322 engine, now under development. Rolls Royce favour a link between Sikorsky and Westland for this reason.

The European Projects

In addition to increased sub-contract work on Super Puma aircraft, potential work is offered to Westland on:

- EH101: already under development by Westland and Agusta against firm requirements of UK and Italian forces.

- NH90: currently in feasibility study phase only. Future development and production dependent on decisions of partner Governments. Claimed "requirement" of 700+ by these Governments is in fact a "rough planning figure" only. UK Defence staff in 1985 advised that NH90 was "too late, too costly and lacking in the necessary capability" for British forces.

- New "Battlefield Helicopter", amalgamating existing PAH2 and A.129: this project exists only as a "statement of intent" between Defence Ministers. There have been no detailed discussions on:

  - harmonising requirements
  - workshare
  - export rights

  Experience (eg European Fighter Aircraft) suggests negotiations on these points can be difficult and prolonged.

  The suggested savings of £25m to the UK if this project is pursued are speculative at this stage.

- Super Puma II: there is no requirement from UK or French forces for this aircraft, which has not yet been launched. The French believe 400 export sales are possible up to 1995. Illogically,

they claim Super Puma II would not be a competitor of NH90, but that Black Hawk is. If the French launch Super Puma II, HMG may wish to argue that this is incompatible with continued French participation in NH 90.

Views of Europeans

There have been some indications of current views by some European Governments and companies that European projects may be lost to Westland if they accept UT/Fiat. But:

i) These Governments and companies all have an interest in the European offer.

ii) While the two offers remain under consideration such indications are not surprising. Should Westland in fact decide in favour of UT/Fiat, the European Governments and companies can be expected to re-assess their position and to act in their own interest.

iii) Westland participation is valued by European partners because of:

- Westland technology
- Potential UK market
- Cost-spreading.

iv) The French Government has not associated itself with Aerospatiale's statement that a Westland link with UT/Fiat would be incompatible with continued participation in NH90.

v) In contrast to reported "indications" from Italy, the Italian Government has given no indication that they would not wish the project to continue; and the President of Agusta is reported to have said he would wish it to do so.

vi) The German Government are believed to be concerned about the financial implications of excluding Westland from NH90.

vii) Neither of the British members of the European industrial consortium has expressed a view.

viii) HMG has stated that it would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland. HMG has also made clear (in a letter from the Prime Minister to Westland of 1 January) that as long as Westland continues to carry on business in the UK, the Government will support it in pursuing British interests in Europe.

Withdrawal of Work by Aerospatiale

Aerospatiale have stated they would withdraw their current sub-contract work on Westland if Westland links with Sikorsky/Fiat.

These contracts relate to Puma, Super Puma and Gazelle aircraft and spares manufacture. The legal and contractual position is primarily a matter for the companies, but it would appear that Aerospatiale would not have the right to terminate the arrangements forthwith without penalty. Aerospatiale would also need to make alternative manufacturing arrangements.

Much of the work covered by these contracts is also the subject of UK/French Government agreements, so that substantial alteration to the present arrangements would involve Governmental consideration.

Westland also has on-going sub-contract arrangements on Aerospatiale, amounting in a typical year to some two thirds the value of the Aerospatiale sub-contract work on Westland. Inevitably, Westland would seek to withdraw that work from Aerospatiale if the French company terminated their own sub-contracts.

Unsubstantiated Allegations

It has been suggested that:

i) a Sikorsky/Westland licence arrangement for Black Hawk would conflict with an earlier Sikorsky/Shorts Memorandum;

ii) British avionic companies would be barred from supplying equipments to Westland-built Black Hawks;

iii) the UT/Fiat proposals would lead to Westland becoming merely "metal-bashers" for Sikorsky.

These allegations have not been substantiated.

5 January 1986

CONFIDENTIAL

To:

PS/SECRETARY OF STATE

From:

M J MICHELL
US/Air
Room 7/3
20 Victoria St
215 4377

24 December 1985

cc PS/Mr Pattie
Sir Brian Hayes
Sir Jeffrey Stirling
Mr Macdonald
Miss Bowe
Mr O'Shea

WESTLAND

Discussing the MoD's position on the Blackhawk on the wireless on 22 December, Mr Heseltine said the policy was not a matter for him alone. An official Committee, including DTI representatives, had recommended to MoD Ministers that consideration of a procurement of a light support helicopter should be deferred. He mentioned the three candidates as being Blackhawk, Westland 30/404 and Super Puma. He said this procedure demonstrated the truth of the Prime Minister's statement that defence procurements were a matter for collective decision by Governments.

The facts are as follows:

i) The Committee Mr Heseltine had in mind is the Equipment Policy Committee (EPC), chaired by the Chief Scientific Adviser, MoD. The DTI is not formally a member of this Committee, but we do have a right to be "in attendance" and to speak, on a matter concerning the Department. Formally, the Committee is not obliged to take account of any DTI views in framing recommendations to MoD Ministers, although in practice our views are not usually ignored.

ii) The meeting of EPC in question took place on 28 January 1985, with Mr Croft (Mr Macdonald's predecessor) and Mr M Baker (then in Air 1) attending for DTI. I attach the minutes which make rather interesting reading. The following are some key quotes:

999-80

- "NH90 .... could be rejected as a solution to AST 404 on cost grounds alone" (Deputy Chief of the Defence Staff).

- "There was little to recommend NH90" (Ibid.)

- "Although it [NH90] would not be available until about 1996, it would not be able to take advantage of any advanced helicopter technology .... It might be prudent for the UK to stay with the project for a year or two until matters had clarified" (Controller of Aircraft, MoD).

- "NH90 would not offer more than some helicopters already flying eg Blackhawk" (Unidentified speaker).

- "The Defence staff ... firmly preferred W30/404 ... They rejected NH90 as too late, too costly, and lacking in the necessary capability .... From the industrial point of view, Westlands would face difficulties in the late 80's in the absence of sufficient orders for the W30 series. NH90 could not help on this." (Chairman's summing up.)

- "The Committee accepted that other Government Departments' Ministers would need to be consulted before a decision was taken one way or the other " (Ibid).

On receipt of these views of the EPC, MoD Ministers decided to commit the UK to the feasibility study phase of NH90. Informing colleagues of this on 7 February, Mr Adam Butler noted that he had "discussed the matter thoroughly with MoD officials". The Chief Secretary wrote to Mr Butler on 13 February saying in future he would prefer to be consulted in advance. Mr Pattie wrote on 19 February expressing "unease".

As to AST 404, the expected further discussion in EPC in May 1985 never materialised. After some delay, the MoD announced that they were reviewing their requirements for support helicopters. This, we understand, arose in part from exercise Lionheart in Germany, which caused some strategists to doubt the specification set out in AST404. The MoD announced the review would take about a year.

More recently, Mr Heseltine has made clear the MoD will not buy Blackhawk or any comparable helicopter. It is not clear where this leaves the review of AST 404, which formally is still continuing.

Conclusion

I suggest that the above does not substantiate Mr Heseltine's account of events given on 22 December.

M J MICHELL

Lazard Brothers & Co., Limited

21 Moorfields
London EC2P 2HT

Telephone: 01 588 2721

Press Release

FOR IMMEDIATE RELEASE

WESTLAND plc

Westland plc has today sent out to its shareholders a circular in which the Board of Westland unanimously and strongly recommends shareholders to accept the improved terms from United Technologies Corporation ("UTC") and Internazionale Holding Fiat S.A. ("Fiat").

The text of the letters and appendices contained in the circular is reproduced below:-

LETTER FROM WESTLAND'S CHAIRMAN

6th January, 1986

Dear Shareholder,

I am writing to you again about Westland's future. In view of the extensive media coverage and the confusing, and in some cases contradictory, statements made, I wish to explain why your Board has decided, unanimously and strongly, to recommend the improved proposals from UTC and Fiat. These proposals are set out in this circular, which also contains the Board's appraisal and clear recommendations.

The key issues to be considered are :

* UTC and Fiat are strong and profitable private sector companies; UTC's Sikorsky division is the world's leading helicopter manufacturer. They will make excellent partners

for Westland. We are not in favour of linking with five separate parties which make up the Consortium, some members of which are competitors and state-owned and therefore subject to political pressure.

* The work offered by UTC and Fiat is more broadly based and will make Westland a much more viable company. It will greatly benefit Westland's non-helicopter, as well as its helicopter activities. Westland is not just a helicopter company.

* This is not an American takeover. The Prime Minister has confirmed that HM Government will continue to regard Westland as British. UTC and Fiat are both based in NATO countries and, as minority shareholders, will not alter Westland's status as an independent British company.

* The Directors' duty is to act in the best interests of shareholders and employees. The Directors have no hesitation in concluding that these interests will be better served by a partnership with UTC and Fiat.

DELAY COULD BE EXTREMELY DAMAGING TO WESTLAND. IT IS VITAL THAT YOU SEND YOUR PROXY IN FAVOUR OF THE RESOLUTIONS TO ARRIVE BY THIS WEEKEND.

Yours faithfully,

JOHN CUCKNEY

Chairman

A LETTER FROM WESTLAND'S CHAIRMAN
ON BEHALF OF THE BOARD

6th January, 1986

Dear Shareholders,

I wrote to you on 21st December, 1985 recommending a proposed association between Westland, UTC and Fiat as part of a reconstruction of Westland (the "Original Proposals"). In that letter I referred to alternative proposals which had been received from a group of European industrial companies (the "Consortium"). Since then there have been further developments. First, the Consortium revised its proposals, and full details of these were sent to you on 2nd January, 1986. Secondly, UTC and Fiat have now improved their Original Proposals and these are set out in Appendix I (the "Improved Proposals").

Against this background, your Board has evaluated the two proposals with the utmost thoroughness. It has had to weigh up not only the immediate financial benefits of the proposals for the Company and its shareholders but also their longer term potential. In this connection, the Board has consistently maintained that the Company's future lies in an association with a substantial international business. Even if the two financial proposals had not been broadly similar, the respective commercial merits of the proposals would have been of major significance.

Your Board is firmly convinced that the qualitative nature of the work offered by UTC and Fiat and an association with two major private sector companies will be of greater benefit to the Company and offers better prospects for it to regain its former pre-eminence in the European military helicopter market. Although the situation has not been without its wider political overtones, your Board is, of course, required to act solely in the best interests of Westland's shareholders and employees.

The Directors, after the most careful consideration, unanimously and strongly recommend you to support the Improved Proposals from UTC and Fiat.

Both proposals are summarised in Appendix II to this letter. In financial terms they are broadly similar, although the Improved Proposals from UTC and Fiat raise more money for the Company. An important element of the Improved Proposals is that UTC will give up its ten year option to subscribe for additional shares at 85p per share. Instead, at the time of the Annual General Meeting (expected to be held next month), shareholders will be asked to approve an issue of warrants to subscribe for new A Ordinary Shares, to be granted to all holders of Existing Ordinary Shares, as described in paragraph 2 of Appendix I.

Why your Board recommends the UTC and Fiat proposals

In your Board's opinion the key difference between the two proposals is that the commercial viability of Westland will be altogether better assured with UTC and Fiat. Westland has had almost forty years of increasingly successful working relationships with Sikorsky. Your Board is confident that the strengthened association now proposed will represent a true partnership which will bring long term benefits to Westland. UTC, Fiat and Westland are all based in countries which are members of NATO, the cornerstone of British and European defence.

To meet HM Government's wish that a British helicopter design, development and manufacturing capability should, if possible, be maintained, it is vital for Westland to retain the ability to design, manufacture and develop complete helicopters. Under the Consortium's proposals, notwithstanding the guarantees of work over the next few years, it is the Board's considered view that Westland's role as a helicopter manufacturer would steadily be reduced to that of a manufacturer of parts only. For a

Company, one of whose principal assets is the engineering and technical skills of its workforce, this is a most unappealing prospect. Under the Improved Proposals from UTC and Fiat, not only is the quality of the workload superior to that offered by the Consortium, but the licence to market and manufacture the Black Hawk secures an important addition to the Company's helicopter product range.

A further benefit is the association of the technologies and aerospace activities of the Fiat group with those of Westland. The Fiat group is a very large and profitable international group with a broad spectrum of industrial interests in aviation, space and materials technology. Many of its interests dovetail with Westland's and this will result in opportunities for strengthening Westland's technological capability and for opening up new markets to it. The Fiat group and Westland, moreover, are two of Europe's leading helicopter transmission manufacturers.

Westland is altogether more likely to improve its efficiency and to prosper as part of a partnership with two such substantial international private sector companies as UTC and Fiat than it would in association with an ad hoc grouping of companies, some of which are state-owned and competitors both of ourselves and each other. The Directors believe that, given the existing capacity and manning level problems in the European helicopter industry, the Consortium's reaction to UTC's and Fiat's initiatives was influenced in part by defensive considerations. By contrast, UTC's and Fiat's proposed investment is forward looking and constructive.

Westland's future in Europe - the Prime Minister's letter

The Prime Minister stated in a letter of 1st January, 1986 (the full text of which is set out in Appendix IV) that "as long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and

therefore European company, and will support it in pursuing British interests in Europe".

Westland holds a firm contract for the development of the Anglo-Italian EH101 helicopter. In addition, the Company is involved on behalf of HM Government on the NATO naval and military light support helicopter (NH90), and is advising HM Government on the light attack helicopter (LAH). The Prime Minister has further assured your Board that "the Government would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland". UTC and Fiat have reaffirmed that they too will fully support Westland in all the European collaborative projects in which it is currently or may in the future be involved.

The Board takes considerable comfort from these assurances. Given the importance of the United Kingdom market for helicopters and the technical contribution which a strong Westland can make to European collaborative projects, the Board is confident that the Company will continue to benefit from such arrangements.

UTC and Fiat have made it clear that their participation in Westland is not conditional upon orders from the Ministry of Defence for the Black Hawk helicopter. Whilst the Ministry of Defence at present states that it has no intention of procuring the Black Hawk helicopter, HM Government has made it clear that its "policy will remain that the United Kingdom should procure its helicopters from the most cost-effective source".

Westland's bankers

The Board of Westland is very appreciative of the support which it has received from its principal bankers in this difficult period, in particular for their participation in the proposed reconstruction of the Company. The Banks have been kept informed

by the Company of its position, including the two latest proposals.

The Banks have agreed, in line with their original commitment, to accept the Improved Proposals from UTC and Fiat, subject to those proposals being acceptable to shareholders.

Immediate action to be taken

In order to effect the proposed Reconstruction, it is necessary to pass certain resolutions at the Extraordinary General Meeting on Tuesday, 14th January, 1986. Two of the resolutions are Special Resolutions which require a three-quarters majority. In order to support your Board's recommendation, it is essential that you complete and return the proxy card which was enclosed with my letter to you of 21st December, 1985. In case you have mislaid the original proxy card, I enclose another (blue) proxy card with this letter. **TO BE VALID, PROXIES MUST BE RECEIVED NO LATER THAN 10.30 A.M. ON SUNDAY, 12TH JANUARY, 1986. TO ENSURE THAT YOUR PROXY IS RECEIVED IN TIME YOU ARE STRONGLY URGED (IF YOU HAVE NOT ALREADY DONE SO) TO COMPLETE AND POST YOUR PROXY CARD NOW.**

If you have any difficulty in completing and/or returning your proxy card in time, please ring 01-583 1398 between 10 a.m. and 8 p.m. daily.

Recommendation

Your Directors and their financial advisers, Lazard Brothers, consider that the Improved Proposals from UTC and Fiat are in the best interests of the Company and its shareholders. Your Directors unanimously recommend you to vote in favour of the resolutions to be put before shareholders at the Extraordinary General Meeting, as they intend to do in respect of their own holdings of Existing Ordinary Shares.

Westland has operated in circumstances of extreme

uncertainty for some eight months. It is therefore imperative that certainty and stability are restored without any further delay and that the Board is allowed to give its undivided attention to the Company's business and to rebuilding its prosperity. Shareholders now have before them Improved Proposals from UTC and Fiat which the Board and its advisers have considered with the utmost care and which will give effect both to a capital reconstruction and an association which the Board believes will not only achieve stability but will also provide the potential for the Company's future growth. You are therefore urged to express your confidence in the Board by voting in favour of the Resolutions on 14th January. Any delay in effecting the proposed Reconstruction could be seriously damaging for your Company.

Yours faithfully,

JOHN CUCKNEY

Chairman

APPENDIX I

IMPROVED PROPOSALS FROM UTC AND FIAT

The variations to the Original Proposals set out in the circular dated 21st December, 1985 are as follows:

1. Increased subscription by UTC and Fiat

It is proposed that UTC and Fiat will continue to subscribe for the same number of Preferred Ordinary Shares and B Preference Shares as earlier described, except that they will subscribe for the Preferred Ordinary Shares at a price of 65p per share rather than, as formerly indicated, 60p per share. It should be noted that the additional premium of 5p per share represented by the increased subscription price will not be repayable in a winding-up to the holders of Preferred Ordinary Shares in priority to any payment to the holders of the Ordinary Shares.

2. Warrants for Westland shareholders

Under the Improved Proposals, UTC will give up its ten year option to subscribe for additional shares at 85p per share. Instead, an issue of warrants will be made to holders of Existing Ordinary Shares on the register at the close of business on 7th January, 1986 (the Record Date for the proposed rights issue) on a 2 for 5 basis, fractional entitlements being ignored. No payment will be required in respect of the warrants unless and until subscription rights in relation to the warrants are exercised. Full exercise of these warrants would result in the issue of up to 23,718,986 A Ordinary Shares. The right to subscribe for A Ordinary

Shares pursuant to the warrants will be exercisable on 31st July and 28th February in each year at 85p per share. The first subscription date will be 31st July, 1986 and the last, 28th February, 1996. It is proposed to convene an Annual General Meeting for 28th February, 1986 and an appropriate resolution in relation to the issue of the warrants will be proposed at that Meeting.

Application will be made to the Council of The Stock Exchange for the warrants, which will be issued in registered form, to be admitted to the Official List. It is intended that definitive warrant certificates will be despatched on 28th February, 1986 and that their listing will become effective on 3rd March, 1986. Following the exercise of subscription rights under the warrants the Board intends to make application to the Council of The Stock Exchange for the new A Ordinary Shares resulting therefrom to be admitted to the Official List. The new A Ordinary Shares will, when issued, rank pari passu with the then existing A Ordinary Shares of such A Ordinary Shares, save for dividends and other distributions made or paid with a reference date prior to the issue of such A Ordinary Shares.

The receipt of the warrants will not give rise to a disposal of Existing Ordinary Shares for the purposes of United Kingdom taxation of capital gains and the warrants will be regarded as part of each shareholder's total holding. For the purposes of calculating gains or losses on any subsequent disposals of either shares or warrants the original cost will be allocated between the shares and warrants by reference to their respective quoted values on 3rd March, 1986.

Full details of the warrants will be sent to shareholders in due course.

3. Guarantees of Work

Under the Original Proposals, UTC formally committed to provide not less than 1 million man hours of work for Westland over a three year period. UTC's revised commitment, which is independent of market conditions and subject only to necessary Government approvals and reasonable terms, conditions and prices, provides for a total of 2 million man hours over a five year period. It is intended that this work will include approximately 1.2 million engineering man hours and approximately 0.8 million manufacturing man hours, the former being of a technological and engineering nature related to the newer models currently being designed, developed and produced by Sikorsky.

4. Purchase of A Preference Shares

UTC and Fiat have agreed to purchase, and the Banks have agreed to sell, 5 million A Preference Shares at par subject to such shares being allotted.

In all other respects, in particular in relation to the rights issue, the conversion of bank debt, the reduction of capital and the taking of a Black Hawk licence, the Improved Proposals from UTC and Fiat are identical with the Original Proposals set out in the circular dated 21st December, 1985.

APPENDIX II

COMPARISON OF IMPROVED UTC/FIAT PROPOSALS WITH CONSORTIUM PROPOSALS

A summary comparison between the Improved Proposals from UTC and Fiat and the proposals from the Consortium is set out below:

Financial	UTC/Fiat £m	Consortium £m
New ordinary share capital subscribed by existing shareholders	14.2	13.0
New ordinary share capital subscribed by potential partners	23.1	23.1
New preference share capital to be subscribed or purchased by potential partners*	13.7	14.0
Conversion of bank debt into preference share capital, net of sales*	23.0	23.0
Total reconstruction package	74.0	73.1

*UTC and Fiat have agreed to purchase 5 million A Preference Shares from the Banks at par

Other Features		
Subscription price of rights issue shares	60p	55p
Subscription price per ordinary share by potential partners	65p	65p
Coupon on preference share capital - non-convertible	10%	8%
convertible	7.5%	7.5%
Number of warrants to be issued to all existing shareholders	up to 23.7m	-
Number of warrants to be issued to existing shareholders who take up their rights	-	up to 23.7m

Work commitment		
Guaranteed man-hours	2.0m*	1.8m†

* over 5 years
† over 3 years

Fully diluted shareholdings*

Existing shareholders	64%	63%
Potential partners	21%	21%
The Banks	15%	16%

* Following full conversion and exercise of warrants

APPENDIX III

ADDITIONAL INFORMATION

1. Responsibility for Supplementary Listing Particulars

UTC and Fiat have responsibility for the information contained in this document regarding the UTC group and the Fiat group respectively. The Directors of Westland, whose names appear in paragraph 1 of Part I of the Appendix to the Listing Particulars, are the persons responsible for all other information contained in this document. To the best of the knowledge and belief of the Directors of Westland (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. UTC, Fiat and the Directors of Westland accept responsibility accordingly.

2. Material contract

In addition to those contracts disclosed in the Listing Particulars, the following contract, not being a contract entered into in the ordinary course of business, and which is, or may be, material, has been entered into by the Westland group within the two years immediately preceding the date of this document:

A letter agreement dated 5th January, 1986 between the Company (1) and UTC (2) pursuant to which UTC confirmed, for itself and on behalf of Fiat, that UTC and/or Fiat and/or a related company of UTC and/or Fiat will subscribe for a total of 35,500,000 Preferred Ordinary Shares at a price of 65p per share (and not at a price of 60p per share as provided for in the Subscription Agreement described in paragraph 6 of Part IV of the Appendix to the Listing Particulars).

3. Miscellaneous

(a) Lazard Brothers has given and not withdrawn its written consent to the issue of this document with the inclusion therein of the statement attributed to it and references to its name in the form and context in which they appear.

(b) As referred to in the Chairman's letter and Appendix I of this document, under the Improved Proposals UTC has given up its option to subscribe for additional shares in Westland.

Accordingly, the confirmation given by the Panel on Take-overs and Mergers referred to in paragraph 13 of the Chairman's letter contained in the Listing Particulars is no longer appropriate and will cease to apply.

(c) In relation to the proposed purchase of 21 Westland 30 helicopters by the Oil and Natural Gas Commission of India referred to on pages 5 and 6 of the Listing Particulars, since 21st December, 1985, the date of the Listing Particulars, it has been announced by the Indian Government that such a contract has been awarded to Westland; however, legal documentation has yet to be concluded.

(d) The gross amount payable to the Company in respect of the equity securities to be allotted pursuant to Resolution number 3 set out in the Notice of Extraordinary General Meeting contained in the Listing Particulars (as referred to in paragraph 7(k)(ii) of Part IV of the Appendix to the Listing Particulars) is £58,306,392.

(e) UTC have been advised by Morgan Grenfell & Co. Limited in relation to the Reconstruction and the Improved Proposals.

(f) The definitions contained in the circular to shareholders dated 21st December, 1985 apply for the purposes of this document.

4. Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB, until 4th February, 1986:

(a) the documents listed as available for inspection in paragraph 10 of Part IV of the Appendix to the Listing Particulars;

(b) the material contract referred to in paragraph 2 of this Appendix III;

(c) the letter from the Chairman of Westland to shareholders of Westland dated 2nd January, 1986;

(d) the Listing Particulars; and

(e) the consent letter referred to in paragraph 3(a) above.

APPENDIX IV

GOVERNMENT ASSURANCES

1. The following is the text of a letter sent by the Chairman to the Prime Minister on 30th December, 1985:

"Dear Prime Minister,

In view of the response you made to a question in the House of Commons on the 19th December that major procurement decisions are a matter for the Government as a whole, it would greatly help my Board to know if Westland would no longer be considered a European company by the Government if a minority shareholding in the company were held by a major international group from a NATO country outside Europe.

This question is of fundamental importance in view of the statement in a letter from the Procurement Executive, Ministry of Defence to Lloyds Merchant Bank dated 24th December that only by joining the so called European consortium would Westland be in a position to take responsibility for the British share of European helicopter collaborative projects.

Yours sincerely,

John Cuckney"

2. The following is the text of the Prime Minister's reply to the above letter, dated 1st January, 1986:

"Dear Sir John,

Thank you for your letter of 30 December.

It has naturally been the Government's concern that a British helicopter design, development and manufacturing capability should if possible be maintained, despite the present difficulties of your company. I understand that both the proposals Westland now have under consideration are intended to achieve that objective. As long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe.

Government policy will remain that the United Kingdom should procure its helicopters from the most cost-effective source. Against this background, the Government would wish to see Westland play a full part in existing and future European collaborative projects. Some of these are still at a very early stage and all of them require the agreement of the companies and governments - including HMG - concerned. In this connection you should be aware of indications from European governments and companies that they currently take the view that a number of projects in which Westland are expecting to participate in cooperation with other European companies may be lost to Westland if the United Technologies/Fiat proposals are accepted.

It is for you to assess the significance of these indications. But of course British participation is itself an important element in the viability of European collaborative projects. And I can assure you that, whichever of the two proposals currently under consideration the company choose to accept, the Government would continue to support Westland's wish to participate in these projects and would resist to the best of

its ability attempts by others to discriminate against Westland.

I have not dealt with the question of the possible consequences for Westland's present relationship with Sikorsky of a decision to accept the European consortium's proposals. You will no doubt have made your own assessment of these.

Yours sincerely,

Margaret Thatcher"

6th January, 1986

END

Enquiries to:

<u>Westland plc</u>

Sir John Cuckney		01-588-2721
	after 8 pm	01-630-1949

<u>Lazard Brothers & Co., Limited</u>

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

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about this document you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. If you have sold all your shares in Westland plc, please hand this document and the accompanying form of proxy to the purchaser or to the stockbroker, bank or other agent through whom the sale was effected, for transmission to the purchaser.

A copy of this document, which comprises Supplementary Listing Particulars relating to Westland plc required by The Stock Exchange (Listing) Regulations 1984, has been delivered for registration to the Registrar of Companies as required by those Regulations. These Supplementary Listing Particulars should be read in conjunction with the Listing Particulars ("the Listing Particulars") dated 21st December, 1985 of Westland plc.

WESTLAND plc

IMPROVED

PROPOSALS FROM UTC AND FIAT

and

YOUR BOARD'S UNANIMOUS RECOMMENDATION OF THEM

URGENT: YOUR PROXY MUST BE RECEIVED THIS WEEK

A LETTER FROM YOUR CHAIRMAN

6th January, 1986

Dear Shareholder,

I am writing to you again about Westland's future. In view of the extensive media coverage and the confusing, and in some cases contradictory, statements made, I wish to explain why your Board has decided, unanimously and strongly, to recommend the improved proposals from UTC and Fiat. These proposals are set out in this circular, which also contains the Board's appraisal and clear recommendations.

The key issues to be considered are:

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★ The work offered by UTC and Fiat is more broadly based and will make Westland a much more viable company. It will greatly benefit Westland's non-helicopter, as well as its helicopter, activities. Westland is not just a helicopter company.

★ This is **not** an American takeover. The Prime Minister has confirmed that HM Government will continue to regard Westland as British. UTC and Fiat are both based in NATO countries and, as minority shareholders, will not alter Westland's status as an independent British company.

★ The Directors' duty is to act in the best interests of shareholders and employees. The Directors have no hesitation in concluding that these interests will be better served by a partnership with UTC and Fiat.

DELAY COULD BE EXTREMELY DAMAGING TO WESTLAND. IT IS VITAL THAT YOU SEND YOUR PROXY IN FAVOUR OF THE RESOLUTIONS TO ARRIVE BY THIS WEEKEND.

Yours faithfully,

Chairman

WESTLAND plc

(Registered in England No. 302632)

Directors:
Sir John Cuckney
Sir John Treacher, K.C.B.
H. P. Stewart
The Rt. Hon. Lord Fanshawe, K.C.M.G.
W. T. C. Miller, O.B.E.
Sir Maldwyn Thomas
C. D. Verrall

Registered Office:
Westland Works,
Yeovil,
Somerset BA20 2YB

6th January, 1986

To the shareholders and, for information only, to the holders of the Company's debenture stocks and participants in the Company's share option schemes

Dear Shareholders,

I wrote to you on 21st December, 1985 recommending a proposed association between Westland, UTC and Fiat as part of a reconstruction of Westland (the "Original Proposals"). In that letter I referred to alternative proposals which had been received from a group of European industrial companies (the "Consortium"). Since then there have been further developments. First, the Consortium revised its proposals, and full details of these were sent to you on 2nd January, 1986. Secondly, UTC and Fiat have now improved their Original Proposals and these are set out in Appendix I (the "Improved Proposals").

Against this background, your Board has evaluated the two proposals with the utmost thoroughness. It has had to weigh up not only the immediate financial benefits of the proposals for the Company and its shareholders but also their longer term potential. In this connection, the Board has consistently maintained that the Company's future lies in an association with a substantial international business. Even if the two financial proposals had not been broadly similar, the respective commercial merits of the proposals would have been of major significance.

Your Board is firmly convinced that the qualitative nature of the work offered by UTC and Fiat and an association with two major private sector companies will be of greater benefit to the Company and offers better prospects for it to regain its former pre-eminence in the European military helicopter market. Although the situation has not been without its wider political overtones, your Board is, of course, required to act solely in the best interests of Westland's shareholders and employees.

The Directors, after the most careful consideration, unanimously and strongly recommend you to support the Improved Proposals from UTC and Fiat.

Both proposals are summarised in Appendix II to this letter. In financial terms they are broadly similar, although the Improved Proposals from UTC and Fiat raise more money for the Company. An important element of the Improved Proposals is that UTC will give up its ten year option to subscribe for additional shares at 85p per share. Instead, at the time of the Annual General Meeting (expected to be held next month), shareholders will be asked to approve an issue of warrants to subscribe for new A Ordinary Shares, to be granted to all holders of Existing Ordinary Shares, as described in paragraph 2 of Appendix I.

Why your Board recommends the UTC and Fiat proposals

In your Board's opinion the key difference between the two proposals is that the commercial viability of Westland will be altogether better assured with UTC and Fiat. Westland has had almost forty years of increasingly successful working relationships with Sikorsky. Your Board is confident that the strengthened association now proposed will

represent a true partnership which will bring long term benefits to Westland. UTC, Fiat and Westland are all based in countries which are members of NATO, the cornerstone of British and European defence.

To meet HM Government's wish that a British helicopter design, development and manufacturing capability should, if possible, be maintained, it is vital for Westland to retain the ability to design, manufacture and develop complete helicopters. Under the Consortium's proposals, notwithstanding the guarantees of work over the next few years, it is the Board's considered view that Westland's role as a helicopter manufacturer would steadily be reduced to that of a manufacturer of parts only. For a company, one of whose principal assets is the engineering and technical skills of its workforce, this is a most unappealing prospect. Under the Improved Proposals from UTC and Fiat, not only is the quality of the workload superior to that offered by the Consortium, but the licence to market and manufacture the Black Hawk secures an important addition to the Company's helicopter product range.

A further benefit is the association of the technologies and aerospace activities of the Fiat group with those of Westland. The Fiat group is a very large and profitable international group with a broad spectrum of industrial interests in aviation, space and materials technology. Many of its interests dovetail with Westland's and this will result in opportunities for strengthening Westland's technological capability and for opening up new markets to it. The Fiat group and Westland, moreover, are two of Europe's leading helicopter transmission manufacturers.

Westland is altogether more likely to improve its efficiency and to prosper as part of a partnership with two such substantial international private sector companies as UTC and Fiat than it would in association with an *ad hoc* grouping of companies, some of which are state-owned and competitors both of ourselves and each other. The Directors believe that, given the existing capacity and manning level problems in the European helicopter industry, the Consortium's reaction to UTC's and Fiat's initiatives was influenced in part by defensive considerations. By contrast, UTC's and Fiat's proposed investment is forward looking and constructive.

Westland's future in Europe—the Prime Minister's letter

The Prime Minister stated in a letter of 1st January, 1986 (the full text of which is set out in Appendix IV) that "as long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe".

Westland holds a firm contract for the development of the Anglo-Italian EH101 helicopter. In addition, the Company is involved on behalf of HM Government on the NATO naval and military light support helicopter (NH90), and is advising HM Government on the light attack helicopter (LAH). The Prime Minister has further assured your Board that "the Government would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland". UTC and Fiat have reaffirmed that they too will fully support Westland in all the European collaborative projects in which it is currently or may in the future be involved.

The Board takes considerable comfort from these assurances. Given the importance of the United Kingdom market for helicopters and the technical contribution which a strong Westland can make to European collaborative projects, the Board is confident that the Company will continue to benefit from such arrangements.

UTC and Fiat have made it clear that their participation in Westland is not conditional upon orders from the Ministry of Defence for the Black Hawk helicopter. Whilst the Ministry of Defence at present states that it has no intention of procuring the Black Hawk helicopter, HM Government has made it clear that its "policy will remain that the United Kingdom should procure its helicopters from the most cost-effective source".

Westland's bankers

The Board of Westland is very appreciative of the support which it has received from its principal bankers in this difficult period, in particular for their participation in the proposed reconstruction of the Company. The Banks have been kept informed by the Company of its position, including the two latest proposals.

The Banks have agreed, in line with their original commitment, to accept the Improved Proposals from UTC and Fiat, subject to those proposals being acceptable to shareholders.

Immediate action to be taken

In order to effect the proposed Reconstruction, it is necessary to pass certain resolutions at the Extraordinary General Meeting on Tuesday, 14th January, 1986. Two of the resolutions are Special Resolutions which require a three-quarters majority. In order to support your Board's recommendation, it is essential that you complete and return the proxy card which was enclosed with my letter to you of 21st December, 1985. In case you have mislaid the original proxy card, I enclose another (blue) proxy card with this letter. **TO BE VALID, PROXIES MUST BE RECEIVED NO LATER THAN 10.30 A.M. ON SUNDAY, 12th JANUARY, 1986. TO ENSURE THAT YOUR PROXY IS RECEIVED IN TIME YOU ARE STRONGLY URGED (IF YOU HAVE NOT ALREADY DONE SO) TO COMPLETE AND POST YOUR PROXY CARD NOW.**

If you have any difficulty in completing and/or returning your proxy card in time, please ring 01-583 1398 between 10 a.m. and 8 p.m. daily.

Recommendation

Your Directors and their financial advisers, Lazard Brothers, consider that the Improved Proposals from UTC and Fiat are in the best interests of the Company and its shareholders. Your Directors unanimously recommend you to vote in favour of the resolutions to be put before shareholders at the Extraordinary General Meeting, as they intend to do in respect of their own holdings of Existing Ordinary Shares.

Westland has operated in circumstances of extreme uncertainty for some eight months. It is therefore imperative that certainty and stability are restored without any further delay and that the Board is allowed to give its undivided attention to the Company's business and to rebuilding its prosperity. Shareholders now have before them Improved Proposals from UTC and Fiat which the Board and its advisers have considered with the utmost care and which will give effect both to a capital reconstruction and an association which the Board believes will not only achieve stability but will also provide the potential for the Company's future growth. You are therefore urged to express your confidence in the Board by voting in favour of the Resolutions on 14th January. Any delay in effecting the proposed Reconstruction could be seriously damaging for your Company.

Yours faithfully,

JOHN CUCKNEY

Chairman

APPENDIX I

IMPROVED PROPOSALS FROM UTC AND FIAT

The variations to the Original Proposals set out in the circular dated 21st December, 1985 are as follows:

1. Increased subscription by UTC and Fiat

It is proposed that UTC and Fiat will continue to subscribe for the same number of Preferred Ordinary Shares and B Preference Shares as earlier described, except that they will subscribe for the Preferred Ordinary Shares at a price of 65p per share rather than, as formerly indicated, 60p per share. It should be noted that the additional premium of 5p per share represented by the increased subscription price will not be repayable in a winding-up to the holders of Preferred Ordinary Shares in priority to any payment to the holders of the Ordinary Shares.

2. Warrants for Westland shareholders

Under the Improved Proposals, UTC will give up its ten year option to subscribe for additional shares at 85p per share. Instead, an issue of warrants will be made to holders of Existing Ordinary Shares on the register at the close of business on 7th January, 1986 (the Record Date for the proposed rights issue) on a 2 for 5 basis, fractional entitlements being ignored. No payment will be required in respect of the warrants unless and until subscription rights in relation to the warrants are exercised. Full exercise of these warrants would result in the issue of up to 23,718,986 A Ordinary Shares. The right to subscribe for A Ordinary Shares pursuant to the warrants will be exercisable on 31st July and 28th February in each year at 85p per share. The first subscription date will be 31st July, 1986 and the last, 28th February, 1996. It is proposed to convene an Annual General Meeting for 28th February, 1986 and an appropriate resolution in relation to the issue of the warrants will be proposed at that Meeting.

Application will be made to the Council of The Stock Exchange for the warrants, which will be issued in registered form, to be admitted to the Official List. It is intended that definitive warrant certificates will be despatched on 28th February, 1986 and that their listing will become effective on 3rd March, 1986. Following the exercise of subscription rights under the warrants the Board intends to make application to the Council of The Stock Exchange for the new A Ordinary Shares resulting therefrom to be admitted to the Official List. The new A Ordinary Shares will, when issued, rank *pari passu* with the then existing A Ordinary Shares save for dividends and other distribution made or paid with a reference date prior to the issue of such A Ordinary Shares.

The receipt of the warrants will not give rise to a disposal of Existing Ordinary Shares for the purposes of United Kingdom taxation of capital gains and the warrants will be regarded as part of each shareholder's total holding. For the purposes of calculating gains or losses on any subsequent disposals of either shares or warrants the original cost will be allocated between the shares and warrants by reference to their respective quoted values on 3rd March, 1986.

Full details of the warrants will be sent to shareholders in due course.

3. Guarantees of Work

Under the Original Proposals, UTC formally committed to provide not less than 1 million man hours of work for Westland over a three year period. UTC's revised commitment, which is independent of market conditions and subject only to necessary government approvals and reasonable terms, conditions and prices, provides for a total of 2 million man hours over a five year period. It is intended that this work will include approximately 1.2 million engineering man hours and approximately 0.8 million manufacturing man hours, the former being of a technological and engineering nature related to the newer models currently being designed, developed and produced by Sikorsky.

4. Purchase of A Preference Shares

UTC and Fiat have agreed to purchase, and the Banks have agreed to sell, 5 million A Preference Shares at par subject to such shares being allotted.

In all other respects, in particular in relation to the rights issue, the conversion of bank debt, the reduction of capital and the taking of a Black Hawk licence, the Improved Proposals from UTC and Fiat are identical with the original proposals set out in the circular dated 21st December, 1985.

APPENDIX II

COMPARISON OF IMPROVED UTC/FIAT PROPOSALS WITH CONSORTIUM PROPOSALS

A summary comparison between the Improved Proposals from UTC and Fiat and the proposals from the Consortium is set out below:

	UTC/Fiat	Consortium
	£m	£m
Financial		
New ordinary share capital subscribed by existing shareholders	14.2	13.0
New ordinary share capital subscribed by potential partners	23.1	23.1
New preference share capital to be subscribed or purchased by potential partners*	13.7	14.0
Conversion of bank debt into preference share capital, net of sales*	23.0	23.0
Total reconstruction package	74.0	73.1

*UTC and Fiat have agreed to purchase 5 million A Preference Shares from the Banks at par

Other features		
Subscription price of rights issue shares	60p	55p
Subscription price per ordinary share by potential partners	65p	65p
Coupon on preference share capital — non-convertible	10%	8%
convertible	7.5%	7.5%
Number of warrants to be issued to all existing shareholders	up to 23.7m	—
Number of warrants to be issued to existing shareholders who take up their rights	—	up to 23.7m
Work commitment		
Guaranteed man-hours	2.0m*	1.8m†

* over 5 years
† over 3 years

Fully diluted shareholdings*		
Existing shareholders	64%	63%
Potential partners	21%	21%
The Banks	15%	16%

*Following full conversion and exercise of warrants

APPENDIX III

ADDITIONAL INFORMATION

1. Responsibility for Supplementary Listing Particulars

UTC and Fiat have responsibility for the information contained in this document regarding the UTC group and the Fiat group respectively. The Directors of Westland, whose names appear in paragraph 1 of Part 1 of the Appendix to the Listing Particulars, are the persons responsible for all other information contained in this document. To the best of the knowledge and belief of the Directors of Westland (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. UTC, Fiat and the Directors of Westland accept responsibility accordingly.

2. Material contract

In addition to those contracts disclosed in the Listing Particulars, the following contract, not being a contract entered into in the ordinary course of business, and which is, or may be, material, has been entered into by the Westland Group within the two years immediately preceding the date of this document:

A letter agreement dated 5th January, 1986 between the Company (1) and UTC (2) pursuant to which UTC confirmed, for itself and on behalf of Fiat, that UTC and/or Fiat and/or a related company of UTC and/or Fiat will subscribe for a total of 35,500,000 Preferred Ordinary Shares at a price of 65p per share (and not at a price of 60p per share as provided for in the Subscription Agreement described in paragraph 6 of Part IV of the Appendix to the Listing Particulars).

3. Miscellaneous

(a) Lazard Brothers has given and not withdrawn its written consent to the issue of this document with the inclusion therein of the statement attributed to it and references to its name in the form and context in which they appear.

(b) As referred to in the Chairman's letter and Appendix I of this document, under the Improved Proposals UTC has given up its option to subscribe for additional shares in Westland. Accordingly, the confirmation given by the Panel on Take-overs and Mergers referred to in paragraph 13 of the Chairman's letter contained in the Listing Particulars is no longer appropriate and will cease to apply.

(c) In relation to the proposed purchase of 21 Westland 30 helicopters by the Oil and Natural Gas Commission of India referred to on pages 5 and 6 of the Listing Particulars, since 21st December, 1985, the date of the Listing Particulars, it has been announced by the Indian Government that such a contract has been awarded to Westland; however, legal documentation has yet to be concluded.

(d) The gross amount payable to the Company in respect of the equity securities to be allotted pursuant to Resolution number 3 set out in the Notice of Extraordinary General Meeting contained in the Listing Particulars (as referred to in paragraph 7(k) (ii) of Part IV of the Appendix to the Listing Particulars) is £58,306,392.

(e) UTC have been advised by Morgan Grenfell & Co. Limited in relation to the Reconstruction and the Improved Proposals.

(f) The definitions set out on page 2 of the circular to shareholders dated 21st December, 1985 apply for the purposes of this document.

4. Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB, until 4th February, 1986:

(a) the documents listed as available for inspection in paragraph 10 of Part IV of the Appendix to the Listing Particulars;

(b) the material contract referred to in paragraph 2 of this Appendix III;

(c) the letter from the Chairman of Westland to shareholders of Westland dated 2nd January, 1986;

(d) the Listing Particulars; and

(e) the consent letter referred to in paragraph 3(a) above.

APPENDIX IV

GOVERNMENT ASSURANCES

1. The following is the text of a letter sent by the Chairman to the Prime Minister on 30th December, 1985:

"Dear Prime Minister,

In view of the response you made to a question in the House of Commons on the 19th December that major procurement decisions are a matter for the Government as a whole, it would greatly help my Board to know if Westland would no longer be considered a European company by the Government if a minority shareholding in the company were held by a major international group from a NATO country outside Europe.

This question is of fundamental importance in view of the statement in a letter from the Procurement Executive, Ministry of Defence to Lloyds Merchant Bank dated 24th December that only by joining the so called European consortium would Westland be in a position to take responsibility for the British share of European helicopter collaborative projects.

Yours sincerely,

John Cuckney"

2. The following is the text of the Prime Minister's reply to the above letter, dated 1st January, 1986:

"Dear Sir John,

Thank you for your letter of 30 December.

It has naturally been the Government's concern that a British helicopter design, development and manufacturing capability should if possible be maintained, despite the present difficulties of your company. I understand that both the proposals Westland now have under consideration are intended to achieve that objective. As long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe.

Government policy will remain that the United Kingdom should procure its helicopters from the most cost-effective source. Against this background, the Government would wish to see Westland play a full part in existing and future European collaborative projects. Some of these are still at a very early stage and all of them require the agreement of the companies and governments—including HMG—concerned. In this connection you should be aware of indications from European governments and companies that they currently take the view that a number of projects in which Westland are expecting to participate in cooperation with other European companies may be lost to Westland if the United Technologies/Fiat proposals are accepted.

It is for you to assess the significance of these indications. But of course British participation is itself an important element in the viability of European collaborative projects. And I can assure you that, whichever of the two proposals currently under consideration the company choose to accept, the Government would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland.

I have not dealt with the question of the possible consequences for Westland's present relationship with Sikorsky of a decision to accept the European consortium's proposals. You will no doubt have made your own assessment of these.

Yours sincerely,

Margaret Thatcher"

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CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

DRAFT

R C Mottram Esq
Ministry of Defence
Main Building
Whitehall
LONDON SW1

WESTLAND

The Prime Minister has read your letter of 6 January, and has asked me to reply as follows.

The decision of the E(A) meeting on 9 December was unequivocal: that if a viable European package which the Westland Board could recommend were not in place by 4.00pm on Friday 13 December, the UK Government would then make clear that this country would not be bound by the NADs' recommendation. Since no such package was in place by the specified time, the Secretary of State for Trade and Industry duly announced on 16 December that the Government was not bound by the NADs recommendation. That remains the Government's position, which could only be changed by a further collective decision of Ministers. ~~The Prime Minister would be disposed to allocate time to such a further collective discussion~~

our view is that a change of policy would be based regard our position to US/E range here not design

~~only if~~ the circumstances of 9 December no ~~longer obtained~~ - in other words if Westland was no longer contemplating a reconstruction involving a non-European company. ~~In those new circumstances Ministers would need~~ Circumstances have overwhelmed our view; in which event to consider the NADs recommendation in the context of general defence procurement and competition policy, and of wider international considerations. There has so far been no collective discussion ~~of~~ those aspects, although in his minute of 17 December the Chief Secretary expressed his concerns, which as I have said the Prime Minister found very pertinent.

The Prime Minister does not consider that any question of "public faith" is at issue here. The Government's position was made absolutely clear in the Trade and Industry Secretary's statement on 16 December. Nor has he been telling others that it cannot be regarded as a breach of public faith

So far as the fifth paragraph of your letter is concerned, the Prime Minister considers it misleading to present the argument as one about "whether Britain should seek to collaborate with her European partners or allow herself to become a licensed-manufacturer of US designed and developed equipment". As she made clear in her letter of 1 January to Sir John Cuckney, whichever of the two proposals currently under consideration the company choose to accept, the Government will continue to support Westland's wish to participate in European collaborative projects and will resist to the best of its ability attempts by others to discriminate against Westland. The Prime Minister believes that if the Westland link with United Technologies/Fiat is

implemented the Government will be able to consider both the procurement of helicopters developed under European collaborative arrangements, and that of American-designed helicopters.

This would seem to commit us to acquiring a helicopter in defence procurement approved by Ch'Lor in mid 1974

The Prime Minister does not believe that developments since 19 December call for any change in the Government's policy of not indicating a preference for either of the two offers. She does not consider that the views of commentators, whether or not correctly assessed, should dictate Ministerial discussions. Nor is she aware that the conduct of the Board of Westland has been such as to require Ministerial discussion or intervention. Indeed she considers that no criticism can or should be made of the way in which Sir John Cuckney and his colleagues have conducted themselves. The Government's policy has been that it is for the Board of Westland to decide what proposals and advice they wish to put to shareholders, and for the shareholders to take the final decision. The Government has never reached a view on which option it preferred; indeed the Government's position has been that it is not for it to take such a view, nor to seek to influence shareholders by expressing public views on the advice the Westland Board may from time to time issue. The preference of a number of Ministers for the European alternative, noted by the Prime Minister in her summing up of the discussion on 9 December, was expressly qualified by the ~~proviso~~ condition that ~~such an alternative could be developed into a form~~ these proposals would have had to prove to be which the Westland Board would regard as preferable. That has not happened.

It is not correct to talk in terms of expressing a preference again which was originally held.

For these reasons there is no question of expressing again a preference originally held.

I am copying this letter to the recipients of yours.

10 DOWNING STREET

Charles

Heseltine was quoted on the 6 o'clock news as having described the Solicitor General's letter as "an astonishing piece of legal pedantry".

David.

6/1

Copy to NW
DN
RI
SS

John Wilkinson, MP, telephoned. He wrote to the Prime Minister in support of her and the Board of Westlands. Michael asked him to send it to the press, which he did, but was overtaken by Geoffrey Knight who said all he wanted to say.

JW appeared on "Newsnight" instead.

He has now written to the Prime Minister again, however, and has released the letter to the press.

He is contactable this afternoon on 01 219 6317

SHANA
6.1.86

62

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/16/1V

6th January 1986

Dear Mr Horne

You may have seen references in the press to a letter to me from the Solicitor-General following my letter to you of 3rd January. The Solicitor-General, on the basis of the evidence that he had seen so far, pointed out that my answer to your third question needed correction in one particular.

I am now writing to assure you that my answer indeed needs no correction because further evidence is available which it has not hitherto been necessary to provide to the Solicitor-General and which fully supports what I said to you in my earlier letter. I can confirm therefore that, as I said in that letter, there are indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the United Kingdom in the collaborative battlefield helicopter and NH 90 projects.

Yours sincerely

Michael Heseltine

D O Horne Esq
Lloyds Merchant Bank

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-936-6269

7 January 1986

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON S W 1

Dear Michael,

WESTLAND

Thank you for your letter of 6 January.

I am glad to learn that you are confident that the relevant sentence in your letter to Lloyds Merchant Bank of 3 January is wholly sustainable, by virtue in particular of evidence (including numerous conversations with your European Defence Minister colleagues) which is additional to the documents which you supplied to me on 3 January.

I emphasised in my letter to you of 6 January that it was on the basis alone of the documents which you supplied to me on 3 January that I had formed my opinion, and that those were all that I had seen. Those documents were not sufficient to sustain the relevant sentence in your letter to Lloyds Merchant Bank, a fact which is now common ground between us.

I have made clear (what I know you accept) that it is an essential requirement that anything said on the Westlands subject by a Minister in present circumstances must be accurate in all material respects, because it will foreseeably be relied on by shareholders, with potential legal consequences for the Government.

/The

The additional evidential material on which you rely, and in particular the conversations with your European colleagues to which you have referred, is identified to me in your letter in terms too general for me to be able personally to assess whether the accuracy test is fulfilled. I quite understand why this may be unavoidable, particularly in the case of the conversations with your European colleagues, but it means that the judgment as to whether that test is satisfied must remain your own responsibility.

On a different aspect of this matter, I want to express my dismay that a letter containing confidential legal advice from a Law Officer to one of his colleagues should have been leaked, and apparently leaked moreover in a highly selective way. Quite apart from the breach of confidentiality that is involved, the rule is very clearly established that even the fact that the Law Officers have tendered advice in a particular case may not be disclosed without their consent, let alone the content of such advice. It is plain that in this instance this important rule was immediately and flagrantly violated.

I am copying this letter to the Prime Minister and to the Secretary of State for Foreign and Commonwealth Affairs, Secretary of State for Trade and Industry, Chief Secretary to the Treasury and Sir Robert Armstrong.

Yours ever,

Patrick

Mr C Powell
No 10 CDP
8/1

COPY

66/1 61

MF

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ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn

cc - Mr Unwin
Mr Wiggins

26/1/61

Copy to:
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PS/Minister (DS
PS/US of S(DP)
PS/PUS
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PS/CDEC
DUS(DP)
CPR
DPP
DDEC

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

6 January 1986

Dear Michael,

WESTLAND

I saw in "The Times" on Saturday the text of a letter you are reported to have sent to the Managing Director of Lloyds Merchant Bank. In the course of your answer to the third question asked by Mr Horne, concerning the indications received by HMG from "European Governments and companies" as to the projects which "may be lost to Westland if the United Technologies/Fiat proposals are accepted", you state:

> "There are indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the UK in the collaborative battlefield helicopter and NH90 projects".

This sentence, when read with the rest of the paragraph (in which the Defence Ministers of four Governments apart from the UK are referred to), necessarily implies that all the Governments and all the companies involved in the collaborative battlefield helicopter and NH90 projects have given this indication to HMG.

The telegrams (No.440 of 17 December from the Hague and Nos.1037 and 1083

of 5 December from Rome) and the record of your meeting with the West German Defence Minister in November which were available to me when I gave advice on 31 December to the Prime Minister on the text of her reply to Sir John Cuckney, do not seem to me to support a statement that all the Governments and all the companies have indicated that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company in the projects. The documents I have seen contain evidence that the Netherlands' Defence Secretary, the German Defence Minister and the Chairman of Agusta have commented to the knowledge of HMG in various ways on adverse consequences which may flow from a decision to accept the Sikorsky offer. (In addition to Agusta, the documents disclose that Aerospatiale and MBB are additionally involved in the projects).

It is foreseeable that your letter will be relied upon by the Westland Board and its shareholders. Consistently with the advice I gave to the Prime Minister on 31 December, the Government in such circumstances is under a duty not to give information which is incomplete or inaccurate in any material particular.

On the basis of the information contained in the documents to which I have referred, which I emphasise are all that I have seen, the sentence in your letter to Mr Horne does in my opinion contain material inaccuracies in the respects I have mentioned, and I therefore must advise that you should write again to Mr Horne correcting the inaccuracies.

I am copying this letter to the Prime Minister and to the Secretary of State for Foreign and Commonwealth Affairs, Secretary of State for Trade and Industry and the Chief Secretary of the Treasury.

Yours ever.

63

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/16/1V

6th January 1986

Dear Paddy

WESTLAND

Thank you for your letter of today's date about one sentence in my letter of 3rd January to Lloyds Merchant Bank. You point out that the reference in my letter to indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the UK in the collaborative battlefield helicopter and NH90 projects would be read with the rest of that paragraph to imply that all the Governments and all the companies involved in these projects have given this indication to HMG. You further point out that the evidence that has been made available to you, which was provided as initial background for the Prime Minister's letter to Sir John Cuckney, was insufficient to support my statement and asked me to consider writing again to Mr Horne of Lloyds Merchant Bank correcting any inaccuracies.

I am advised that the circular now being prepared by Lloyds Merchant Bank to go to shareholders states:

Sir Patrick Mayhew QC MP

"In a letter dated 3rd January 1986 from the UK Ministry of Defence addressed to Lloyds Merchant Bank the Secretary of State for Defence, Mr Michael Heseltine, stated that there are indications available to Her Majesty's Government from other governments and companies that a Westland link with UTC/Fiat would be incompatible with participation by Westland in the collaborative battlefield helicopter and NH90 projects."

Thus the problem which you raised would not in practice have arisen.

However, shortly after receiving your letter, I read on the Press Association tape that it had been sent to me with the implication - and no doubt the express purpose of the person who revealed it to the Press Association - that the statement made to Mr Horne could not be sustained. This was not, of course, your own conclusion and, as you emphasised, the evidence you had seen was solely that referred to in your letter. Since, however, this assertion has now been made public, I thought I must write immediately to you to set out the background in further detail. As you will see, the statement which I made is entirely justified.

The concern over the implications of a Westland link with Sikorsky has existed for a number of months and was recognised from the outset within the British Government as well as amongst

our European partners. It was recognised that a Sikorsky link could not only affect existing projects such as the EH101 but also more generally affect Westlands capability to participate in future European developments. It was felt that with a Sikorsky shareholding Westland might tend to become little more than a production facility for Sikorsky and to lose its own helicopter design and development capacity. When these matters were discussed with Sir John Cuckney in the middle of October he said that he was well aware of the Government's preference for a European minority shareholder in Westland and attached weight to that preference. But he had not been able to bring this about and time was of the essence. Given the Government's preference for a European approach I myself explored with my European colleagues their own attitudes to these issues.

The attitudes of the French and German Governments could not have been clearer. They perceived that a Sikorsky tie-up with Westland would mean that Britain would be forced to drop out of the NH90 project and that there would be the most serious implications for the long term viability of the European helicopter industry.

Mr Van Houwelingen, the Netherlands State Secretary for Defence Equipment has also stated that a link between Westland and Sikorsky would make European co-operation in the helicopter field very difficult if not impossible. Mr Van Houwelingen has

confirmed to me that the Dutch company concerned, Fokker, share these views and will publicly say so.

The Italian Government faced of course a difficult decision as Italian companies were involved in each offer. My Italian opposite number, Senatore Spadolini, explained this dilemma to me fully. Nevertheless, the Italian Government is fully seized of the dangers for the NH 90 programme of a link between Westland and Sikorsky. Despite their dual interest, they have played a full part in the preparation of the documents which they have agreed they will sign to establish a European procurement programme. In particular they have expressed their commitment to meeting their future requirements by helicopters designed and built in Europe. Moreover, Agusta, Westland's present partner, is effectively state-owned and has played its active role in the British/European consortium, including participating financially, with the agreement of the Italian Government. The Chairman of Agusta expressed to the British Government serious reservations about the implications of a link with Sikorsky and the need in the event of such a link to seek other partners for collaboration.

As far as the single European battlefield helicopter is concerned, you will appreciate that the proposal for this project arises solely in the context of the draft Ministerial Agreements provisionally reached on 13th December which come into force only in the event of the success of the

British/European offer. It follows that Westland's participation in that project is effectively precluded by any link with Sikorsky/Fiat.

Some of this background was known to you at the time of your advice to the Prime Minister and is relevant to your letter. There is, however a further piece of information which is not I believe in your possession and is crucial to any conclusions that we might reach. On 31st December Lloyds Merchant Bank wrote to the Directors of Westland pointing out that:

> "Participation by UTC in Westland will jeopardise future co-operation between Westland and the other European helicopter manufacturers in at least two out of the three major European collaborative programmes since the future development of the Sikorsky Black Hawk will compete with the NH90 and the American LHX anti-tank helicopter will compete with the European anti-tank helicopter."

You will I am sure agree that this statement could not be more unequivocal on the position of Aerospatiale, MBB and Agusta. The position of the remaining major European company involved, Fokker, is referred to above.

The above represents of course only a short summary of the material available to me which is supplemented by numerous

conversations with my European Defence Minister colleagues. It is I believe more than sufficient to sustain the statement which I made to Lloyds Merchant Bank. The consequences of a Westland link with Sikorsky/Fiat are clear.

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

Yours ever

Michael Heseltine

NI4668 5 XXX 28

STRIKER ENDS FAST
ONE OF THREE REPUBLICAN HUNGER STRIKERS AT ULSTER'S MAZE PRISON HAS ENDED HIS FAST, ACCORDING TO NORTHERN IRELAND OFFICE.
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061709 JAN 86

NI4669 3 XXX 193

PRESS ASSOCIATION NEWS AMENDED

...THE U.S. PACKAGE FOR WESTLAND HAS BEEN IMPROVED TO GUARANTEE TWO MILLION MAN-HOURS WORK AND CASH INPUT BOOSTED TO £74 MILLION. CHAIRMAN SAID EURO-DEAL WOULD LEAVE THEM MAKING PARTS ONLY.

...SOLICITOR GENERAL SIR PATRICK MAYHEW HAS ACCUSED MR HESELTINE OF INACCURACY IN LETTER ABOUT HELICOPTERS DEAL THE DEFENCE SECRETARY WROTE TO A MERCHANT BANK.

...LIBYA'S COLONEL GADDAFI APPARENTLY REFERRED TO PRESIDENT REAGAN AS ''AN ISRAELI DOG'' IN FULL TEXT OF HIS TRIPOLI SPEECH. MOSCOW, MEANWHILE, ACCUSED U.S. OF THREATENING LIBYA.

...IN ANOTHER DEVELOPMENT FOLLOWING THE ROME - VIENNA AIRPORT MURDERS, ISRAEL SAID LIBYA HAD GIVEN A BILLION DOLLARS OIL MONEY TO TERRORIST GROUPS AND CALLED FOR A PETROLEUM BOYCOTT.

...WORLD'S LARGEST PLATINUM MINE NEAR JOHANNESBURG HAS SACKED 20,000 BLACK WORKERS AFTER A WILDCAT STRIKE, AND WARNED THE REMAINING 10,000 THEY WILL BE FIRED IF THEY DO NOT RETURN TOMORROW.

...COMPOSER ANDREW LLOYD WEBBER, WHOSE STRING OF HIT MUSICALS INCLUDES CATS AND STARLIGHT EXPRESS, IS GOING TO THE STOCK MARKET WITH A £35 MILLION PRICE TAG ON HIS COMPANY.

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RESTRICTED

file

BM2AAT

cc PC

10 DOWNING STREET

6 January 1986

From the Private Secretary

Dear Len,

WESTLAND: COMMENTS BY COMMISSIONER NARJES

The Foreign Secretary told the Prime Minister this evening that he would investigate the comments made by Commissioner Narjes about Westland which had been reported on the Press Association tape. He would make clear that it was unhelpful to have the Commission making ex cathedra statements of this sort on matters which were both internal to the United Kingdom and the concern of the private sector.

Yours sincerely,

Charles Powell

(C.D. Powell)

Len Appleyard, Esq.,
Foreign and Commonwealth Office

RESTRICTED

BM

File

DA

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

WESTLAND

I attach to this minute copies of two letters to the Prime Minister from Mr. Paddy Ashdown MP about Westland. Since both letters quite clearly straddle departmental boundaries, it would be helpful if the Cabinet Office would be good enough to prepare a draft reply, consulting other departments on factual points as necessary. It would be helpful to have this by 9 January.

I am copying this minute and enclosures to John Mogg (Department of Trade and Industry), Richard Mottram (Ministry of Defence) and Paul Pegler (Chief Secretary's Office).

(Charles Powell)

Ack/ 6 January 1986

Original with CDP

HOUSE OF COMMONS
LONDON SW1A 0AA

Rt.Hon M.Thatcher MP
10 Downing Street
London SW1

6 January 1986.

Dear Prime Minister,

I wrote to you last Friday morning asking you to put a stop to the continued public squabbling between members of your Cabinet, because of the damage this is doing to Westland and its future prospects.

On Friday evening Mr Heseltine published a further letter, whose tone and content are so contrary to those of your letter that they will be seen by many as a direct challenge to your authority.

My chief concern, however, is for Westland, who are once again put in a position where they have to make a very difficult decision in the face of conflicting information from key members of your Government.

I would be grateful if you would, therefore, give specific clarification on the following points :-

1. **EUROPEAN COLLABORATION IN GENERAL.** Your letter of 2 January says "As long as Westland continues to carry on business in the UK, the Government will...continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe". Mr Heseltine's letter the following day appears to accept the view "that a Westland link with Sikorsky/Fiat would be incompatible with participation by that Company in...collaborative... projects". Which of these two statements represents the Government's view ?

2. **EH101 ANGLO/ITALIAN HELICOPTER PROJECT.** Your letter of 2 January says "...the Government would wish to see Westland play a full part in existing and future European collaborative projects". Mr Heseltine's letter, 24 hours later, says "if the Westland deal with Sikorsky went through, Augusta would have to seek other partners". Surely this cannot be meant as a reference to the EH101, since this is a fully established project based on a Memorandum of Understanding, not between Westland and Augusta, but between the British and Italian Governments? It is not up to Augusta to choose who represents Britain, it is up to your Government. Will you please confirm that, irrespective of the decision taken on 14 January about Westland's new partners, Westland will remain the chosen instrument of the British Government on the EH101 project ?

3. **NATO COLLABORATION.** Would you please confirm that there is no

way that a British Company could be excluded from a NATO project by going into partnership with firms from other NATO countries ?

I mentioned in my previous letter the damage being done to Westland by the continuing public row between members of your Cabinet over this affair. Let me be more specific about this.

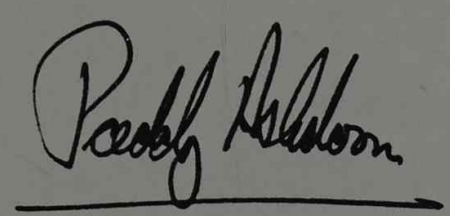
Firstly, the standing of Westland abroad (and indeed the Government on which it so often relies for support in foriegn sales efforts) is in danger of being considerably damaged by this row. It would be remarkable if foriegn prospective customers were not wondering to what extent Westland can expect to have Government support in the future.

Secondly, the Company's senior management must be spending so much of their time fending off Cabinet Ministers that they are in danger of neglecting the day to day running of the Company's own affairs. Given the very delicate financial position of Westland, this is very serious.

And lastly, this row has now reached such proportions that there is a serious danger of it affecting Westland's prospective partners. I would remind you that such formal undertakings as do exist to cover the present financial situation are of purely limited duration. Unless the future can be assured by an early date, the Company could find itself back in the extremely exposed position it was several moths ago - but without any options to choose from. If the present situation is allowed to become unstitched, there is no saying what might happen. We have to remember that British Aerospace, GEC, Aerospatiale and, indeed, Mr Heseltine himself are all reputed to have expressed the view at one time or another that the best thing for the Company in the long term, would be to go into receivership.

The Government are playing a very dangerous game indeed by allowing this public row to continue. I ask you once more to put a stop to it immediately.

Yours Sincerely



Paddy Ashdown MP.

HOUSE OF COMMONS
LONDON SW1A 0AA

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

3rd January 1985

R4/1

Dear Prime Minister

WESTLAND

I am sure you are well aware of the widespread amazement felt about the public row between two of your Cabinet colleagues over the future of Westland.

The question of Cabinet solidarity (or rather the lack of it) is not of course my concern. But the impact that this has on the future of Westland is.

I am grateful to you for your letter of yesterday, guaranteeing the Government's continued support for Westland, whatever decision the company makes. In the light of this, surely you must see that the public disagreement between the Secretary of State for Defence and for Trade and Industry must cease forthwith. The future of Westland and the standing of its prospective partners (whoever they may be) has already been affected by the ridiculous campaign of denigration and vituperation carried out against the "deal" favoured by the other. It cannot be good either for the standing of your government, or more importantly for the future of one of Britain's key defence industries, to have this issue treated as the private plaything of individual Cabinet ministers.

What Westlands needs now more than anything else is a little peace and quiet to make a very difficult decision on the basis of what is best for the company and the service it provides to Britain's defence. I ask you to use your influence over your Cabinet colleagues now to ensure that this is what Westland gets. The time has arrived when the two Ministers concerned should be put back in the Cabinet and the lid firmly shut and it is up to you to see that this happens.

I am confident that the company will, like any other commercial organisation, take full account of the views of their primary customer, the Ministry of Defence, without Ministers winding their arms half way up their backs with threats. I am also confident that they will fully consider the importance of European co-operation, whilst recognising that this cannot be undertaken at the cost of a long term weakening of the company's base or of further loss of jobs because of European excess capacity. What I am less confident about is whether, given the political reputations which have been allowed to become embroiled in this decision, Westland will not ultimately suffer from whichever "side" has, in the end, had their nose put out of joint. I note that

.../2

you have given undertakings that this will not happen and am grateful for this - provided they can be delivered and are not allowed to be once again ignored by individual Cabinet ministers who have their own axes to grind.

Incidentally, I am delighted to note that you have rejected the Labour Party's suggestion of nationalisation for Westland. The arguments against this are just as strong as they were when Labour specifically excluded Westland from the nationalisation of British Aerospace.

Apart from anything else, given the experience of the last month, Westland needs more Government interference in its affairs like it needs a hole in the head.

I hope that you can now ensure that Westland stops being treated as a political football and starts betting the backing from your Government (all of it) which it is entitled to.

Yours sincerely,

pp Paddy Ashdown MP

FX'8

PRESS ASSOCIATION 111106a

UK FILE 06-01-86 at 16:48

POLITICS Westland EEC

By Geoff Meade, PA Staff Reporterin Brussels

Westland could be cold-shouldered in future European aircraft development deals if it accepts the Sikorsky offer, the EEC Commission in Brussels warned today.

Common Market Commissioner Mr Karl-Heinz Narjes stepped into the controversy firmly on tle side of Defence Secretary Mr Michael Heseltine by backing the European consortium bid.

He said he did so in the interests of EEC industry and jobs, and in support of last year's agreement between some

7+ 9→ 8← 0↑ 4←C 5←B PA(c)1986

PRESS ASSOCIATION 111106000a

UK FILE Cont. 06-01-86 at 16:48

NATO nations to work more closely together.

He made it clear he felt that accepting the American deal would split European cooperation efforts in developing new generations of aircrafu, while offering no hope of opening fresh US markets for European producers, or improving high technology development.

"In the light of these arguments I have real doubts whether the other European partners of Westland and the British defence department would acquiesce to a completemy new situation and would go on with business as usual," said Mr Narjes.

7+ 9→ 8← 0↑ 4←C 5←B PA(c)1986

PRESS ASSOCIATION 111106001a

UK FILE Cont. 06-01-86 at 16:48

The Commission's powerful intervention at a crucial stage in the Westland battle comes despite fears that Brussels will be accused of interfering in domestic matters.

mf glt

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061717 JAN 86

NI4670 5 XXX 322

WESTLAND ANNOUNCES IMPROVED U.S. DEAL

WESTLAND TODAY ANNOUNCED AN IMPROVED US DEAL DESIGNED TO FINALLY KNOCK THE EUROPEAN RIVAL RESCUE PACKAGE OUT OF THE RUNNING.

GUARANTEES OF TWO MILLION MAN HOURS OF WORK AND A FINANCIAL PACKAGE PUMPING £74 MILLION INTO THE AILING HELICOPTER COMPANY MAKE UP THE MAIN ELEMENTS IN THE NEW DEAL, HAMMERED OUT BETWEEN WESTLAND AND GIANT US HELICOPTER MANUFACTURER SIKORSKY OVER THE WEEKEND.

THE EUROPEAN CONSORTIUM HAS OFFERED A £73.1 MILLION CASH INJECTION AND 1.8 MILLION MAN HOURS OF WORK.

IN A LETTER TO SHAREHOLDERS FIRMLY RECOMMENDING THE U.S. PACKAGE, WESTLAND CHAIRMAN SIR JOHN CUCKNEY SAYS ACCEPTANCE OF THE RIVAL EUROPEAN DEAL BACKED BY DEFENCE SECRETARY MICHAEL HESELTINE WOULD REDUCE THE COMPANY TO THAT OF ''A MANUFACTURER OF PARTS ONLY''

THE TOUGHLY-WORDED LETTER OUTLINES MANY OF THE REASONS WHY THE WESTLAND BOARD ''UNANIMOUSLY AND STRONGLY'' RECOMMENDS THE NEW DEAL TO BE PUT TO SHAREHOLDERS AT A MEETING ON JANUARY 124.

SIR JOHN STATES: ''THIS IS NOT AN AMERICAN TAKEOVER. THE PRIME MINISTER HAS CONFIRMED THAT HM GOVERNMENT WILL CONTINUE TO REGARD WESTLAND AS BRITISH.''

HE SAYS UNITED TECHNOLOGIES, PARENT COMPANY OF SIKORSKY, AND FIAT ''WILL MAKE EXCELLENT PARTNERS FOR WESTLAND''.

SIKORSKY FORMERLY OFFERED JUST ONE MILLION MAN HOURS OF WORK FOR THE YEOVIL COMPANY IN ITS ORIGINAL RESCUE PACKAGE OFFER LAST MONTH.

UNDER THE TERMS OF THE NEW DEAL, THAT IS NOW RAISED TO TWO MILLION MAN HOURS - 200,000 MORE THAN THE RIVAL EUROPEAN CONSORTIUM HAS OFFERED.

SIKORSKY HAS ALSO DROPPED ITS ORIGINAL OPTION TO SUBSCRIBE FOR AN ADDITIONAL 10 PERCENT OF SHARES ON TOP OF THE 29.9 PERCENT INITIAL INVESTMENT.

THE AMOUNT OF CAPITAL TO BE DIRECTLY INJECTED UNDER THE AMERICAN PACKAGE NOW STANDS AT £23.1 MILLION, THE SAME LEVEL AS THAT PROPOSED BY THE EUROPEANS, WITH THE REST OF THE £74 MILLION COMING FROM BANKS AND SHAREHOLDERS.

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061725 JAN 86

673 5 XXX 207

EEC COMMISSION WARNS WESTLAND

BRUSSELS, MONDAY - WESTLAND COULD BE COLD-SHOULDERED IN FUTURE EUROPEAN AIRCRAFT DEVELOPMENT DEALS IF IT ACCEPTS THE SIKORSKY OFFER, THE EEC COMMISSION WARNED TODAY.

COMMON MARKET COMMISSIONER MR KARI-HEINZ NARJES STEPPED INTO THE CONTROVERSY FIRMLY ON THE SIDE OF DEFENCE SECRETARY MICHAEL HESELTINE BY BACKING THE EUROPEAN CONSORTIUM BID.

HE SAID HE DID SO IN THE INTERESTS OF EEC INDUSTRY AND JOBS, AND IN SUPPORT OF LAST YEAR'S AGREEMENT BETWEEN SOME NATO NATIONS TO WORK MORE CLOSELY TOGETHER.

HE MADE IT CLEAR HE FELT THAT ACCEPTING THE AMERICAN DEAL WOULD SPLIT EUROPEAN COOPERATION EFFORTS IN DEVELOPING NEW GENERATIONS OF AIRCRAFT, WHILE OFFERING NO HOPE OF OPENING FRESH US MARKETS FOR EUROPEAN PRODUCERS, OR IMPROVING HIGH TECHNOLOGY DEVELOPMENT.

''IN THE LIGHT OF THESE ARGUMENTS I HAVE REAL DOUBTS WHETHER THE OTHER EUROPEAN PARTNERS OF WESTLAND AND THE BRITISH DEFENCE DEPARTMENT WOULD ACQUIESCE TO A COMPLETELY NEW SITUATION AND WOULD GO ON WITH BUSINESS AS USUAL,'' SAID MR NARJES.

THE COMMISSION'S POWERFUL INTERVENTION AT A CRUCIAL STAGE IN THE WESTLAND BATTLE COMES DESPITE FEARS THAST BRUSSELS WILL BE ACCUSED OF INTERFERING IN DOMESTIC MATTERS.

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061730 JAN 86

CONFIDENTIAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

Prime Minister
Very satisfactory
CDP
6/1

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

6 January 1986

Dear Michael,

WESTLAND

I saw in "The Times" on Saturday the text of a letter you are reported to have sent to the Managing Director of Lloyds Merchant Bank. In the course of your answer to the third question asked by Mr Horne, concerning the indications received by HMG from "European Governments and companies" as to the projects which "may be lost to Westland if the United Technologies/Fiat proposals are accepted", you state:

> "There are indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the UK in the collaborative battlefield helicopter and NH90 projects".

This sentence, when read with the rest of the paragraph (in which the Defence Ministers of four Governments apart from the UK are referred to), necessarily implies that all the Governments and all the companies involved in the collaborative battlefield helicopter and NH90 projects have given this indication to HMG.

The telegrams (No.440 of 17 December from the Hague and Nos.1037 and 1083

CONFIDENTIAL

of 5 December from Rome) and the record of your meeting with the West German Defence Minister in November which were available to me when I gave advice on 31 December to the Prime Minister on the text of her reply to Sir John Cuckney, do not seem to me to support a statement that all the Governments and all the companies have indicated that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company in the projects. The documents I have seen contain evidence that the Netherlands' Defence Secretary, the German Defence Minister and the Chairman of Agusta have commented to the knowledge of HMG in various ways on adverse consequences which may flow from a decision to accept the Sikorsky offer. (In addition to Agusta, the documents disclose that Aerospatiale and MBB are additionally involved in the projects).

It is foreseeable that your letter will be relied upon by the Westland Board and its shareholders. Consistently with the advice I gave to the Prime Minister on 31 December, the Government in such circumstances is under a duty not to give information which is incomplete or inaccurate in any material particular.

On the basis of the information contained in the documents to which I have referred, which I emphasise are all that I have seen, the sentence in your letter to Mr Horne does in my opinion contain material inaccuracies in the respects I have mentioned, and I therefore must advise that you should write again to Mr Horne correcting the inaccuracies.

I am copying this letter to the Prime Minister and to the Secretary of State for Foreign and Commonwealth Affairs, Secretary of State for Trade and Industry and the Chief Secretary of the Treasury.

Yours ever.

Patrick

CC/31
2

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/16/1V

6th January 1986

Prime Minister
You will want to see this exchange between the Defence Secretary & the Solicitor-General.
CDP
7/1

Dear Paddy

WESTLAND

Thank you for your letter of today's date about one sentence in my letter of 3rd January to Lloyds Merchant Bank. You point out that the reference in my letter to indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the UK in the collaborative battlefield helicopter and NH90 projects would be read with the rest of that paragraph to imply that all the Governments and all the companies involved in these projects have given this indication to HMG. You further point out that the evidence that has been made available to you, which was provided as initial background for the Prime Minister's letter to Sir John Cuckney, was insufficient to support my statement and asked me to consider writing again to Mr Horne of Lloyds Merchant Bank correcting any inaccuracies.

I am advised that the circular now being prepared by Lloyds Merchant Bank to go to shareholders states:

Sir Patrick Mayhew QC MP

"In a letter dated 3rd January 1986 from the UK Ministry of Defence addressed to Lloyds Merchant Bank the Secretary of State for Defence, Mr Michael Heseltine, stated that there are indications available to Her Majesty's Government from other governments and companies that a Westland link with UTC/Fiat would be incompatible with participation by Westland in the collaborative battlefield helicopter and NH90 projects."

Thus the problem which you raised would not in practice have arisen.

However, shortly after receiving your letter, I read on the Press Association tape that it had been sent to me with the implication - and no doubt the express purpose of the person who revealed it to the Press Association - that the statement made to Mr Horne could not be sustained. This was not, of course, your own conclusion and, as you emphasised, the evidence you had seen was solely that referred to in your letter. Since, however, this assertion has now been made public, I thought I must write immediately to you to set out the background in further detail. As you will see, the statement which I made is entirely justified.

The concern over the implications of a Westland link with Sikorsky has existed for a number of months and was recognised from the outset within the British Government as well as amongst

our European partners. It was recognised that a Sikorsky link could not only affect existing projects such as the EH101 but also more generally affect Westlands capability to participate in future European developments. It was felt that with a Sikorsky shareholding Westland might tend to become little more than a production facility for Sikorsky and to lose its own helicopter design and development capacity. When these matters were discussed with Sir John Cuckney in the middle of October he said that he was well aware of the Government's preference for a European minority shareholder in Westland and attached weight to that preference. But he had not been able to bring this about and time was of the essence. Given the Government's preference for a European approach I myself explored with my European colleagues their own attitudes to these issues.

The attitudes of the French and German Governments could not have been clearer. They perceived that a Sikorsky tie-up with Westland would mean that Britain would be forced to drop out of the NH90 project and that there would be the most serious implications for the long term viability of the European helicopter industry.

[Where's the evidence]

Mr Van Houwelingen, the Netherlands State Secretary for Defence Equipment has also stated that a link between Westland and Sikorsky would make European co-operation in the helicopter field very difficult if not impossible. Mr Van Houwelingen has

confirmed to me that the Dutch company concerned, Fokker, share these views and will publicly say so.

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As far as the single European battlefield helicopter is concerned, you will appreciate that the proposal for this project arises solely in the context of the draft Ministerial Agreements provisionally reached on 13th December which come into force only in the event of the success of the

British/European offer. It follows that Westland's participation in that project is effectively precluded by any link with Sikorsky/Fiat.

Some of this background was known to you at the time of your advice to the Prime Minister and is relevant to your letter. There is, however a further piece of information which is not I believe in your possession and is crucial to any conclusions that we might reach. On 31st December Lloyds Merchant Bank wrote to the Directors of Westland pointing out that:

[On what authority?]

> "Participation by UTC in Westland will jeopardise future co-operation between Westland and the other European helicopter manufacturers in at least two out of the three major European collaborative programmes since the future development of the Sikorsky Black Hawk will compete with the NH90 and the American LHX anti-tank helicopter will compete with the European anti-tank helicopter."

You will I am sure agree that this statement could not be more unequivocal on the position of Aerospatiale, MBB and Agusta. The position of the remaining major European company involved, Fokker, is referred to above.

The above represents of course only a short summary of the material available to me which is supplemented by numerous

conversations with my European Defence Minister colleagues. It is I believe more than sufficient to sustain the statement which I made to Lloyds Merchant Bank. The consequences of a Westland link with Sikorsky/Fiat are clear.

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

Yours ever

Michael Heseltine

CDP (2)

Prime Minister

You may like to see these two letters from Paddy Ashdown MP both of which arrived today. I have asked Cabinet Office to prepare a draft reply, since the issues cross departmental boundaries.

CDP
6/1

HOUSE OF COMMONS
LONDON SW1A 0AA

Rt.Hon M.Thatcher MP
10 Downing Street
London SW1

6 January 1986.

Dear Prime Minister,

I wrote to you last Friday morning asking you to put a stop to the continued public squabbling between members of your Cabinet, because of the damage this is doing to Westland and its future prospects.

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My chief concern, however, is for Westland, who are once again put in a position where they have to make a very difficult decision in the face of conflicting information from key members of your Government.

I would be grateful if you would, therefore, give specific clarification on the following points :-

1. **EUROPEAN COLLABORATION IN GENERAL.** Your letter of 2 January says "As long as Westland continues to carry on business in the UK, the Government will...continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe". Mr Heseltine's letter the following day appears to accept the view "that a Westland link with Sikorsky/Fiat would be incompatible with participation by that Company in...collaborative... projects". Which of these two statements represents the Government's view ?

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3. **NATO COLLABORATION.** Would you please confirm that there is no

way that a British Company could be excluded from a NATO project by going into partnership with firms from other NATO countries ?

I mentioned in my previous letter the damage being done to Westland by the continuing public row between members of your Cabinet over this affair. Let me be more specific about this.

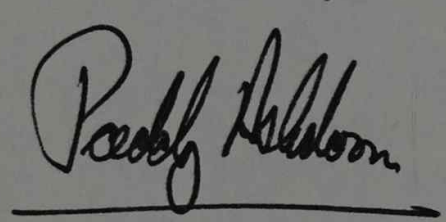
Firstly, the standing of Westland abroad (and indeed the Government on which it so often relies for support in foriegn sales efforts) is in danger of being considerably damaged by this row. It would be remarkable if foriegn prospective customers were not wondering to what extent Westland can expect to have Government support in the future.

Secondly, the Company's senior management must be spending so much of their time fending off Cabinet Ministers that they are in danger of neglecting the day to day running of the Company's own affairs. Given the very delicate financial position of Westland, this is very serious.

And lastly, this row has now reached such proportions that there is a serious danger of it affecting Westland's prospective partners. I would remind you that such formal undertakings as do exist to cover the present financial situation are of purely limited duration. Unless the future can be assured by an early date, the Company could find itself back in the extremely exposed position it was several moths ago - but without any options to choose from. If the present situation is allowed to become unstitched, there is no saying what might happen. We have to remember that British Aerospace, GEC, Aerospatiale and, indeed, Mr Heseltine himself are all reputed to have expressed the view at one time or another that the best thing for the Company in the long term, would be to go into receivership.

The Government are playing a very dangerous game indeed by allowing this public row to continue. I ask you once more to put a stop to it immediately.

Yours Sincerely



Paddy Ashdown MP.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~930 7022~~ 218 2111/3

MO 26/16/1E

6th January 1986

Prime Minister
Mr. Heseltine's reply to your minute of last week. I suggest we delay a counter until just before Cabinet.
CDP 6/1

Dear Charles,

WESTLAND

Thank you for your letter of 30th December about the Government's approach to Westland plc. The Defence Secretary noted in particular your suggestion that the Prime Minister was puzzled by his reference to a provisional agreement between Defence Ministers on the placing of future orders for helicopters, the Government having specifically "disavowed" the recommendations of the National Armaments Directors.

The NADs recommendation was addressed at the E(A) meeting on 9th December. The Prime Minister, when summing up the discussion, said inter alia that the Sub Committee were not yet ready to reject the NADs recommendation; a number of Ministers would have a clear preference for the European alternative to the Sikorsky deal, if it could be developed into a form which the Westlands Board would regard as preferable to the Sikorsky arrangement; but there was little time available and, if the consortium had not produced a package which the Westlands Board could recommend by 4 pm on Friday 13th December, the UK Government would be obliged to reject the NADs recommendation. There is no suggestion in the Minutes that the recommendations of the NADs were being objected to on grounds of defence procurement or competition policy. The problem was that the Sub-Committee understood from the Board that they had to have a package in place by 13th December, that the Sikorsky/Fiat bid would be jeopardised if HMG did not make it clear that it was not bound by the NADs recommendation, and that there was not a sufficiently firm and attractive European alternative on offer.

In keeping with the conclusions of that meeting, my Secretary of State proceeded to explore urgently the possibility of developing the alternative European option into a package which Westlands would prefer. As a necessary part of this and a complement to the proposals of the companies, provisional agreements were reached with other Defence Ministers to come into force in the event that the European package was accepted. These were described in paragraphs 6 and 7 of my Secretary of State's minute of 13th December. As part of these provisional agreements, it was possible through the rationalisation of requirements at the battlefield helicopter level to offer

Charles Powell Esq
No 10 Downing Street

Westland an order for 6 additional Sea King helicopters. This proposal was cleared with the Treasury at the time who raised no objection of principle on the understanding that such orders would be accommodated within the existing defence budget (Broadbent's letter to me of 13th December copied to you refers). My Secretary of State therefore went ahead and made it clear to Westland plc that, should they choose the European offer, they could expect that the understandings provisionally reached between Ministers would come into effect and that they would enjoy the benefit of an order for 6 additional Sea King helicopters. Public faith has clearly been pledged in this sense.

The terms of the statement by the Secretary of State for Trade and Industry on 16th December are also of interest in this respect. The statement explains that, because the view of the Westland Board 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 HMG are not bound by the NADs recommendation. There is no suggestion that, if there had been in place a European offer which the Board could recommend (as is now the position), HMG would have seen any difficulty in abiding by the NADs recommendation.

?

I hope that this clarifies the record and the present public position of the Government. The Defence Secretary has also noted the policy arguments in your paragraph 4. He has commented that there is nothing unique to Westlands in the argument about whether Britain should seek to collaborate with her European partners or allow herself to become a licensed-manufacturer of US designed and developed equipment. Precisely the same considerations arise in the case of fighter aircraft, for example, where it was concluded that the clear balance of advantage lay in collaboration. The Government's policy is clearly set out in the Statement on the 1985 Defence Estimates.

As in the case of the European Fighter Aircraft project, it will, of course, be important to inject appropriate pressures to keep costs down. Paragraph 10 of the Note by the Defence Ministers of France, Germany, Italy and the United Kingdom (circulated under my Secretary of State's minute of 13th December) explicitly reflects this:

> "They therefore agreed, in reaffirming their commitment to the 1978 Declaration of Principles, that the needs of their forces within the 3 classes [13 tonnes, 8-9 tonnes, light attack helicopter] should be covered solely in the future by helicopters designed and built in a cost-effective way in Europe."

If the European consortium were to fail to produce proposals that were cost-effective the position of Ministers is therefore reserved. It is not clear to the Defence Secretary how the alternative of a Westland link with Sikorsky/Fiat would give the Government more freedom of manoeuvre in terms of competitive tendering.

The Defence Secretary notes the Prime Minister's conclusion that the Government's present policy, as approved by Cabinet on 19th December, of not indicating a preference for either of the two offers remains correct. The Defence Secretary believes that events since that discussion (which he forecast in Cabinet) merit a change in this policy or at the very least a further collective discussion of all of the policy implications (which have not been addressed since 9th December). In particular, on 20th December the British/European consortium submitted a firm offer that has been widely recognised by commentators as being superior to that of Sikorsky/Fiat. It has also become apparent that the Board of Westland has no wish to give the shareholders the opportunity of exercising a genuine choice but is determined, if at all possible, to force home its own original preference of a Sikorsky/Fiat link. The Defence Secretary notes the Prime Minister's view that the present policy avoids any risk that the Government itself could be forced into assuming any direct liabilities for the future of Westland, which could arise if it appeared to be restricting Westland's own free choice. But such a problem could arise only in circumstances where there was one firm option on the table which the Government was blocking. There are now two firm options on the table and no risk of the Company failing in a way which would generate such liabilities.

?

NO

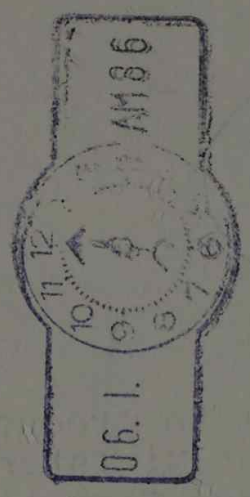
The Defence Secretary therefore believes that the Government is now in a position to express again the preference it originally held for a European minority stake, and which was expressed at the time to the Chairman of Westland. He believes that that original judgement was correct and that its political and industrial force has been strengthened immeasurably by the subsequent involvement of two British companies.

I am copying this letter to the Private Secretaries to the other members of the Cabinet, to the Legal Secretary to the Law Officers, and to the Private Secretary to the Secretary of the Cabinet.

Yours ever,

Richard Mottram

(R C MOTTRAM)


06. I. 1990

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

DEPARTMENT OF TRADE AND INDUSTRY
20 VICTORIA STREET
LONDON SW1H 0NF

Telephone (Direct dialling) 01 - 215) 4377
GTN 215)
(Switchboard) 01 - 215 7877

6 January 1986

C Powell Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Charles,

WESTLAND

The Prime Minister asked on 4 January that I should prepare a single note amalgamating my various briefs of recent days and setting out factual background. I attach such a note.

I am also enclosing a copy of an earlier note dated 24 December on the NH90 project, which is summarised in one sentence in the main note. You may be interested to see this.

Yours sincerely,

Michell

M J MICHELL

999–66

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MARKET SENSITIVE

WESTLAND

The Companies

Westland employs some 11,000 people, mainly at Yeovil. Since the war it has principally built military helicopters under licence from Sikorsky. To a lesser extent it has associated on collaborative projects with Aerospatiale. The company is highly dependent on the MOD for orders. In the 1980s Westland have attempted to break into the civil market with the W.30. However, this has to date proved unsuccessful, mainly because:

- the civil market went into recession
- early versions had technical shortcomings
- the MOD put into abeyance a requirement which Westland hoped to meet with an advanced military version of W.30.

Westland's financial difficulties were intensified by delay in obtaining a contract from India

UT/Fiat

Sikorsky is a member of the United Technologies (UT) group which also includes Pratt and Whitney. It is one of the major US helicopter companies. Sikorsky has been associated with Westland since 1947, and has licensed Westland to develop, manufacture and sell a number of successful helicopters, including Wessex and Sea King (which Westland has exported in larger numbers than the Sikorsky original). Sikorsky has said they have a high regard for Westland's design and engineering capability. They have given assurances of their intention to maintain a design and development capability at Westland.

Fiat is the leading Italian motor and aero-engine manufacturer.

The European Consortium

Aerospatiale is the principal nationalised French aerospace company. Its helicopter division is the biggest helicopter business outside the US. It has been associated with Westland since 1967 on the Puma, Lynx and Gazelle helicopters. But Aerospatiale is also Westland's main commercial rival.

Agusta is an Italian state-controlled helicopter company of comparable size to Westland. Agusta and Westland are collaborating on the EH101 project.

MBB (Messerschmitt-Boelkow-Blohm) is the leading German aerospace company. However, the helicopter division employs only some 1500, and has built only small helicopters. Technologically, MBB has little to offer Westland. MBB is privately controlled (though with a minority public shareholding) but substantially financed by the German Government.

Neither British Aerospace nor GEC have previously been involved in helicopter manufacture. GEC Avionics, however, are currently causing serious problems to Westland because of delay and technical deficiencies in supplying equipment for an Indian Government order for Sea Kings.

There is over-capacity in the European helicopter industry. Financially, Aerospatiale, Agusta and MBB are all weak. BAe and GEC are both financially strong.

Prime Minister 2

From the Secretary of the Cabinet

Mr Wicks

The Prime Minister will like to see where Lord Hanson stands on Westlands.

RA

6.i.86

Prime Minister

It would help if Lord Hanson wrote to the Times to day. CDP

The Offers

Both offers are intended to give Westland design and development, as well as production work. The guaranteed work offered by UT/Fiat appears to be better quality than the European offer: it has a higher engineering content. But each offer also contains substantial unguaranteed work on helicopter projects. The value of this depends on the market prospects of the projects concerned. The Westland Board considers the UT/Fiat offer superior. It offers Westland the opportunity to build and market a complete aircraft (Black Hawk) from Yeovil. Moreover the Board considers association with Sikorsky will provide a sound basis for longer-term viability. The Board considers both these features are lacking in the European proposals.

Black Hawk Licence

MOD Ministers consider the Black Hawk's sales prospects are poor, especially in Europe. UT, however, consider world prospects are good: they have not to date concentrated their efforts on export sales, since they have on-going contracts to supply some 130 Black Hawks p.a. to the US forces. Westland would have exclusive sales rights in large areas of the world. MOD Ministers say that Westland will not get a "domestic" UK order for Black Hawk and this will hinder export efforts (as with W.30). But Black Hawk has "domestic" orders and commitments of 1100+ in the US.

A number of countries have expressed interest in Black Hawk with the new Rolls Royce/Turbomeca RTM 322 engine, now under development. Rolls Royce favour a link between Sikorsky and Westland for this reason.

The European Projects

In addition to increased sub-contract work on Super Puma aircraft, potential work is offered to Westland on:

- EH101: already under development by Westland and Agusta against firm requirements of UK and Italian forces.

- NH90: currently in feasibility study phase only. Future development and production dependent on decisions of partner Governments. Claimed "requirement" of 700+ by these Governments is in fact a "rough planning figure" only. UK Defence staff in 1985 advised that NH90 was "too late, too costly and lacking in the necessary capability" for British forces.

- New "Battlefield Helicopter", amalgamating existing PAH2 and A.129: this project exists only as a "statement of intent" between Defence Ministers. There have been no detailed discussions on:

  - harmonising requirements
  - workshare
  - export rights

  Experience (eg European Fighter Aircraft) suggests negotiations on these points can be difficult and prolonged.

  The suggested savings of £25m to the UK if this project is pursued are speculative at this stage.

- Super Puma II: there is no requirement from UK or French forces for this aircraft, which has not yet been launched. The French believe 400 export sales are possible up to 1995. Illogically,

they claim Super Puma II would not be a competitor of NH90, but that Black Hawk is. If the French launch Super Puma II, HMG may wish to argue that this is incompatible with continued French participation in NH 90.

Views of Europeans

There have been some indications of current views by some European Governments and companies that European projects may be lost to Westland if they accept UT/Fiat. But:

i) These Governments and companies all have an interest in the European offer.

ii) While the two offers remain under consideration such indications are not surprising. Should Westland in fact decide in favour of UT/Fiat, the European Governments and companies can be expected to re-assess their position and to act in their own interest.

iii) Westland participation is valued by European partners because of:

- Westland technology
- Potential UK market
- Cost-spreading.

iv) The French Government has not associated itself with Aerospatiale's statement that a Westland link with UT/Fiat would be incompatible with continued participation in NH90.

v) In contrast to reported "indications" from Italy, the Italian Government has given no indication that they would not wish the project to continue; and the President of Agusta is reported to have said he would wish it to do so.

vi) The German Government are believed to be concerned about the financial implications of excluding Westland from NH90.

vii) Neither of the British members of the European industrial consortium has expressed a view.

viii) HMG has stated that it would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland. HMG has also made clear (in a letter from the Prime Minister to Westland of 1 January) that as long as Westland continues to carry on business in the UK, the Government will support it in pursuing British interests in Europe.

Withdrawal of Work by Aerospatiale

Aerospatiale have stated they would withdraw their current sub-contract work on Westland if Westland links with Sikorsky/Fiat.

These contracts relate to Puma, Super Puma and Gazelle aircraft and spares manufacture. The legal and contractual position is primarily a matter for the companies, but it would appear that Aerospatiale would not have the right to terminate the arrangements forthwith without penalty. Aerospatiale would also need to make alternative manufacturing arrangements.

Much of the work covered by these contracts is also the subject of UK/French Government agreements, so that substantial alteration to the present arrangements would involve Governmental consideration.

Westland also has on-going sub-contract arrangements on Aerospatiale, amounting in a typical year to some two thirds the value of the Aerospatiale sub-contract work on Westland. Inevitably, Westland would seek to withdraw that work from Aerospatiale if the French company terminated their own sub-contracts.

Unsubstantiated Allegations

It has been suggested that:

i) a Sikorsky/Westland licence arrangement for Black Hawk would conflict with an earlier Sikorsky/Shorts Memorandum;

ii) British avionic companies would be barred from supplying equipments to Westland-built Black Hawks;

iii) the UT/Fiat proposals would lead to Westland becoming merely "metal-bashers" for Sikorsky.

These allegations have not been substantiated.

5 January 1986

CONFIDENTIAL

To:

PS/SECRETARY OF STATE

From:

M J MICHELL
US/Air
Room 7/3
20 Victoria St
215 4377

cc PS/Mr Pattie
Sir Brian Hayes
Sir Jeffrey Stirling
Mr Macdonald
Miss Bowe
Mr O'Shea

24 December 1985

WESTLAND

Discussing the MoD's position on the Blackhawk on the wireless on 22 December, Mr Heseltine said the policy was not a matter for him alone. An official Committee, including DTI representatives, had recommended to MoD Ministers that consideration of a procurement of a light support helicopter should be deferred. He mentioned the three candidates as being Blackhawk, Westland 30/404 and Super Puma. He said this procedure demonstrated the truth of the Prime Minister's statement that defence procurements were a matter for collective decision by Governments.

The facts are as follows:

i) The Committee Mr Heseltine had in mind is the Equipment Policy Committee (EPC), chaired by the Chief Scientific Adviser, MoD. The DTI is not formally a member of this Committee, but we do have a right to be "in attendance" and to speak, on a matter concerning the Department. Formally, the Committee is not obliged to take account of any DTI views in framing recommendations to MoD Ministers, although in practice our views are not usually ignored.

ii) The meeting of EPC in question took place on 28 January 1985, with Mr Croft (Mr Macdonald's predecessor) and Mr M Baker (then in Air 1) attending for DTI. I attach the minutes which make rather interesting reading. The following are some key quotes:

- "NH90 .... could be rejected as a solution to AST 404 on cost grounds alone" (Deputy Chief of the Defence Staff).

- "There was little to recommend NH90" (Ibid.)

- "Although it [NH90] would not be available until about 1996, it would not be able to take advantage of any advanced helicopter technology .... It might be prudent for the UK to stay with the project for a year or two until matters had clarified" (Controller of Aircraft, MoD).

- "NH90 would not offer more than some helicopters already flying eg Blackhawk" (Unidentified speaker).

- "The Defence staff ... firmly preferred W30/404 ... They rejected NH90 as too late, too costly, and lacking in the necessary capability .... From the industrial point of view, Westlands would face difficulties in the late 80's in the absence of sufficient orders for the W30 series. NH90 could not help on this." (Chairman's summing up.)

- "The Committee accepted that other Government Departments' Ministers would need to be consulted before a decision was taken one way or the other " (Ibid).

On receipt of these views of the EPC, MoD Ministers decided to commit the UK to the feasibility study phase of NH90. Informing colleagues of this on 7 February, Mr Adam Butler noted that he had "discussed the matter thoroughly with MoD officials". The Chief Secretary wrote to Mr Butler on 13 February saying in future he would prefer to be consulted in advance. Mr Pattie wrote on 19 February expressing "unease".

As to AST 404, the expected further discussion in EPC in May 1985 never materialised. After some delay, the MoD announced that they were reviewing their requirements for support helicopters. This, we understand, arose in part from exercise Lionheart in Germany, which caused some strategists to doubt the specification set out in AST404. The MoD announced the review would take about a year.

More recently, Mr Heseltine has made clear the MoD will not buy Blackhawk or any comparable helicopter. It is not clear where this leaves the review of AST 404, which formally is still continuing.

Conclusion

I suggest that the above does not substantiate Mr Heseltine's account of events given on 22 December.

M J MICHELL

For Attention of Mike Horne

PRESS ASSOCIATION 171056003a

UK FILE Cont. 05-01-86 at 23:19

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mtl ms
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He told the Press Association: "I was authorised by my Cabinet
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UK FILE Cont. 05-01-86 at 23:23

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important members of a British industrial community should have been so lightly disregarded.
"As the Government has made clear, the shareholders of Westland will wish to make the ultimate judgement."
end wmd

House of Lords · Westminster

January 4, 1986

Dear Woodrow:

Congratulations on an excellent ... and absolutely correct ... article in today's Times. I have followed the course of this situation from the start ... we were asked by the then board to intervene after Bristow made his bid and, after conversations with the MOD (at the top), who indicated minimal interest ... we decided that the ONLY solution lay in Westland's getting together with Sikorsky asap, a course we recommended several years ago.

We all know the insecurity of these so-called European consortia and there is no doubt that THEIR course, if they have one, is to reduce Westland to tin bashing.

I hope John Cuckney, Tony Fanshawe and Co hold firm to the best commercial solution.

Thanks for a very perceptive and timely essay.

As ever

James

Sir Woodrow Wyatt
19 Cavendish Avenue
London NW8

Robert - RGA
For the PM's info -
James

Reply to: The Lord Hanson, 180 Brompton Road, London SW3 1HF

THE TIMES
Saturday January 4, 1986

Woodrow Wyatt

Bovver boy's hover ploy

Michael Heseltine's self-appointment as cheer-leader for the European consortium in the save-Westland contest is odd not merely because the Cabinet's official policy is neutrality but also because last summer his attitude was quite different.

In late June and early July Sir John Cuckney, Westland's chairman, asked for government help in underwriting the company's future work position to tide it over its cash crisis. At that point Heseltine was unconcerned about Westland going into receivership.

Moreover during August and September the Ministry of Defence withheld some £6 million due in payment for fear it might be criticized for giving money to the company if it immediately went bankrupt. Heseltine's hostility stimulated trade creditors to press harder and discouraged customers from placing further work.

As Heseltine offered no help to the company which he now claims to be vital to our technology, Westland looked for a survival kit elsewhere. The obvious choice was Sikorsky, with which Westland has been associated for 40 years. Westland's most successful helicopter, the Sea King, which was so valuable in the Falklands (Heseltine now wants to buy more of them), was made under licence from Sikorsky. The two companies are natural partners.

The Sikorsky bid involves a guarantee of long-term work with growing prospects. Though in certain circumstances a Sikorsky-Fiat shareholding in Westland could rise to some 35 per cent, it would not amount to a take-over, as has been mischievously propagated. Initially Peter Levene, the MoD official heading weapon procurement, encouraged Sikorsky to come in. A senior vice-president of Sikorsky saw Heseltine, who said he had no objection.

What happened suddenly to compel Heseltine to the belief that two Nato firms coming to the rescue of Westland were a menace to the state?

It could not have been the merits of the case which galvanized him into egging on the hastily botched together European consortium and threatening Westland with a cessation of government purchases and other things too horrible to mention if it did not do his bidding. None of the elements of the European consortium had previously offered the help needed. The German participant would require parliamentary authority which is unlikely to be forthcoming in view of Germany's competition laws. Aérospatiale (France), British Aerospace and GEC all considered receivership the best solution.

Pique in part was responsible for the extraordinary lengths to which Heseltine has gone in breaching the Cabinet policy of neutrality. According to the *Sunday Telegraph* of December 22 he was "goaded ... because his efforts to have the European plan discussed in Cabinet were thwarted". Doubtless also Heseltine thought it was time for him to make a flourish to register that he was in the fore of contenders for the leadership in succession to Mrs Thatcher.

Western Europe has over-capacity in helicopter production. Large losses are being made and there are considerable redundancy problems. The European offer of steady and prolonged work for Westland seems dubious. The unpleasant threat from Aérospatiale to withdraw work if Westland does not fall in line behind Heseltine is also tenuous as its contract would not allow it to do so for at least a year.

The threat that Westland would not get further orders from the MoD is illusory, as such procurement decisions are made by a Cabinet committee, not by the Defence Secretary personally. So is the threat that Westland would not be allowed to join in European projects, if any. This is an intergovernmental matter, as are purchases by Nato. Westland will remain a British firm if the Sikorsky-Fiat bid succeeds and will have still stronger Nato credentials for participating in Nato's NH90 helicopter.

The ill-thought-out European consortium would give Westland component work, not the building of whole helicopters. It is thus a greater danger to the future of British technology than the Sikorsky plan, which would enable construction of entire helicopters to be maintained. Sikorsky has a high regard for Westland expertise, which is the main reason for its interest. Sikorsky believes that Westland could materially help with exports in countries where it has a better *entrée* than Sikorsky; and Black Hawks made by Westland would be 100 per cent British.

It is not surprising that eight out of 10 of Westland's 11,000 employees prefer Sikorsky. Its backing looks much more attractive than the rickety, non-cohesive European consortium of loss-makers with no central purpose which would be quite likely to let Westland down at the first sign of trouble.

However, shareholders and employees alike can be grateful to Heseltine for one by-product of his curious change of behaviour. It has stimulated the European consortium and Sikorsky-Fiat into making offers which a few months ago Westland would have thought impossible.

Heseltine has absurdly gambled his political future on Sikorsky-Fiat being defeated. He has called in patriotism, though it is hard to see the difference between one set of Nato allies and another. He is arousing baseless fears about lost British technology which a few months ago did not alarm him at all. He has raised the flag of government intervention to appeal to the *dirigistes* in the Tory party and elsewhere.

But all the evidence suggests that his intervention is on the wrong side. He has bullied and blackmailed Westland. In short, he has got himself into a regular tantrum about nothing at all.

Whichever way the Westland shareholders now decide, Heseltine will be left with no reputation for reliability or sound judgement but will have shown himself ready to veer impulsively in search of a political opportunity. That will not endear him to those who one day will choose the next Tory leader.

For Attention of Mike Horne

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PRIME MINISTER

WESTLAND

Sir John Cuckney has been in touch to say that his Board have just concluded a meeting and decided to recommend the revised UTC/Fiat offer. This matches the financial terms of the previous European offer. A circular to shareholders is being printed tonight and will issue as soon as the Stock Exchange approves it early tomorrow.

However according to news reports the European consortium is writing to Sir John tonight to request an urgent meeting before he sends a circular to his shareholders. He has not yet received any such letter and does not intend to hold up the circular. As a consequence, he expects a fairly major row tomorrow. His inclination is to meet the consortium but only after the Board's recommendation in favour of the UTC/Fiat proposal has issued. I have not discouraged this.

CHARLES POWELL

5 January 1986

Transmitted to Chequers
4.1.86

DEPARTMENT OF TRADE AND INDUSTRY
20 VICTORIA STREET
LONDON SW1H 0NF

Telephone (Direct dialling) 01-215) 4377
GTN 215)
(Switchboard) 01-215 7877

C. Powell Esq.
10 Downing Street.

Westland

We spoke. I enclose copies of briefing notes our own Press Office is using. Please refer also to my own brief of 31 December and subsequent notes copied to you.

Regards —

John Mitchell

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

MARKET SENSITIVE

Carbons.

To:

PRESS OFFICE (Miss Samuel)

cc. PS/Secretary of State
PS/Mr Pattie
Sir Brian Hayes
Sir Jeffrey Sterling
Mr Whittingdale
Mr Macdonald
Mr O'Shea

From:

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

3 January 1986

WESTLAND

You asked for further briefing on the Prime Minister's letter, expanding on the note the Secretary of State gave you last night.

2. I attach extensive briefing on the letter.

3. Other points to make are:

i) The new battlefield helicopter project, which is a major element in the European proposals, is no more than a statement of intent by Defence Ministers. There have been:-

- no discussions on harmonising requirements (we would expect the Germans to be difficult)

- no discussions on industrial work sharing

- no discussions on export rights outside Europe.

Experience (eg European Fighter Aircraft) shows that all these points can provoke long and bitter negotiations. There is no certainty the project would survive these (the EFA only survived by the French being forced out).

999-80

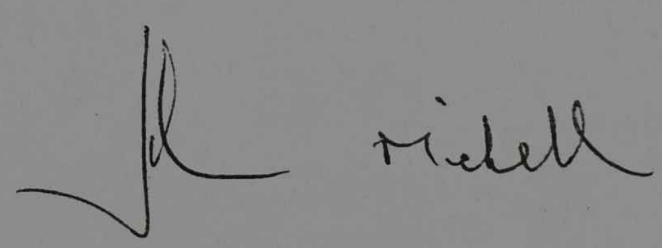
ii) The "savings" of £25m to the MOD arising from the rationalisation of the battlefield helicopter projects are entirely speculative. If they do not materialise, the commitment to buy 6 extra Sea Kings will have to be met by deferring other defence procurements, very probably to the detriment of other UK companies.

iii) The Super Puma Mark II, which is another major element in the European proposals, is a paper aircraft. There is no requirement for it from either British or French forces. (Normally it is reckoned to be disastrous to launch a military helicopter with no domestic requirement - cf. W.30.)

The French claim that Super Puma II will not be a competitor of NH90 (which is in the same size category) but that Blackhawk will. This is illogical and they cannot have it both ways.

If the French launch Super Puma II, should they be told that their continued participation in NH90 is "incompatible"?

4. I have no more time. For further points if required, refer to me.



M J MICHELL

P.S. I have just heard that by employing the device of getting Lloyds Bank to write to him seeking clarification, Mr Heseltine has written a letter (no doubt to be made public) containing all the material he was unable to get into the Prime Minister's letter. You should be aware of this. The material in this note may help to combat it.

999-80

PRIME MINISTER'S LETTER TO SIR JOHN CUCKNEY

You should make all the points in the note given to you by the Secretary of State.

2. Particular sentences to underline in the letter are:-

i) As long as Westland continues to carry on busines in the UK, the Government will of course continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe.

The Government's policy is to make available to any company carrying on business in the UK, irrespective of whether it is part-owned (or even wholly owned, although that is not an issue in the Westland case) by foreign interests, the full range of Government support (eg regional grants, ECGD, export support or support in discussions on collaborative projects, as appropriate). This sentence makes clear that this policy will be applied to Westland whether or not there is an American (or European) shareholding in the company.

ii) Government policy will remain that the UK should procure its helicopters from the most cost-effective source.

This sentence shows that the Government will continue its successful policy of opening defence procurements to wide international competition. In helicopters, this must in practice mean including US designed machines in the consideration in order to get the benefit of the competitive process.

iii) The Government would wish to see Westland play a full part in existing and future Eurpean collaborative projects.

This is a clear statement of the Government's desire to see Westland participate fully in these projects (compare the Government's full support for participation by British Aerospace and Rolls Royce in comparable collaborative projects).

iv) Some of these are stillat a very early stage and all of them require the agreement of the companies and governments - including HMG - concerned.

The main projects concerned are:

- EH101. A joint Anglo/Italian project, launched in full development in 1984. Expected to enter service around 1991/92.

- NH90. A five nation project (UK, France, FRG, Italy, Netherlands) currently in a feasibility study phase only. Subject to decision to launch development and production, could be in service around 1995. But at this stage the outcome of this project is uncertain. Defence staff have advised UK Defence Ministers that NH90 would be "too late, too costly and lacking in the necessary capability" for British forces.

- A new battlefield helicopter project, to be "rationalised" from two existing European projects, PAH 2 and A.129. This project is no more than a "statement of intent" by Defence Ministers at this stage. It does not yet exist as an industrial project.

v) British participation is in itself an important element in the viability of European collaborative projects.

In the case of EH101 (see above) which has only two partners, continued UK participation is clearly vital to the project (the MOD has a firm requirement for this aircraft).

For other projects, UK participation is important to our partners because:

a) the UK is a potentially large market; and

b) Westland technology, especially in rotor blade materials and design, is acknowledged to be very advanced (Aerospatiale is also highly advanced technically. MBB and Agusta are inferior).

vi) Whichever of the two proposals currently under consideration the company choose to accept, the Government would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discrminate against Westland.

This is the key sentence and makes the position absolutely clear on the point Westland put to the Prime Minister. As the Prime Minister's letter says earlier, certain indications of current views have been expressed in Europe that collaborative projects may be lost to Westland if they choose Sikorsky/Fiat. This sentence makes absolutely clear that, if these views continue to be expressed (which is by no means certain) HMG will resist any attempt by European interests to "blackball" Westland. This statement should be read

with the previous sentences which make clear that decisions on these projects are for Governments, including HMG; and that UK participation is in itself an important element in the projects.

3. Contrast all this against the single sentence:

vii) You should be aware of indications from European governments and companies that they currently take the view that a number of projects in which Westland are expecting to participate in cooperation with other European companies may be lost to Westland if the UT/Fiat proposals are accepted.

On this:

- Emphasise "indications", "currently" and "may". These are expressions of view from countries which are party to the rival European bid. So they are bound to take this line at this stage.

- Note that the views are in fact expressed very weakly. This is not surprising. The Europeans know it may well be against their own interest to blackball Westland.

- So far as Italy is concerned, the "indications" quoted are contrary to the President of Agusta's reported statement of 14 December (Financial Times) that he would want the Anglo/Italian EH.101 to continue.

- We believe the French Government does not fully support the statement by Aerospatiale that they would blackball Westland from NH90 if Westland accept Sikorsky/Fiat.

- We believe the German Government is seriously concerned at the potential increase in its own financial burden if Westland is excluded from NH90.

- These "indications" are clearly related to the specific commercial situation where there are rival proposals. If Westland decide in favour of Sikorsky/Fiat, the European companies and Governments will undoubtedly re-assess their position in the light of their commercial interests. Do the French ever do anything else?

- Westland will remain a European company, whatever happens. Our European partners value Westland technology, and the potential UK market. There is no inherent reason why a British company with a minority US shareholding should not participate in European collaborative projects (Normalair-Garett, for example, does so, although it has a 48% US shareholding).

2 January 1986.

OFF THE RECORD PRESS BRIEFING ON PRIME MINISTER'S LETTER TO SIR JOHN CUCKNEY

- Letter succinctly makes clear that Government is not leaning on the company, which is being left free to make its own decision. Naturally delighted with this.

- Follows policy set out by Leon Brittan in his statement to the House on 16 December and Prime Minister's subsequent answers to questions on 17 and 19 December.

- Absolutely clear from letter that HMG will not seek to influence the decision of Westland's shareholders by making any threats about future procurement decisions, and will fight hard for Westland's to continue participation in any European projects if the Sikorsky-Fiat deal goes through.

- European Governments and companies have only given indications of view they currently take that future collaborative projects may be lost to Westland. Natural that they should make comments of this kind now, when they are interested parties in the future of Westland. If the UT/Fiat arrangement were to go through, all concerned would need to make a sober re-appraisal of the position. As it is, Agusta have made it clear that they regard continuation of the EH101 and A129 as crucial in any event. So far as we are aware no Government has said formally and publicly that it would want Westland to withdraw from collaborative projects if it was linked with Sikorsky.

- UK participation is an important element in the viability of European collaborative projects. HMG would therefore be well placed to resist any attemps to force Westland out.

JF4ASA

- Aerospatiale are threatening to withdraw sub-contract work from Westland if the line with Sikorsky goes ahead. But Westland also place sub-contract work with Aerospatiale (about $^{2}/_{3}$ the value of Aerospatiale's work with Westland) which they might also withdraw. It is therefore most unlikely that Aerospatiale would when it came to it find it in their own interest to implement this threat.

- If Westland opt for the European proposal, they risk damaging their long-standing and successful association with Sikorsky [NOTE, however, that we are not aware of specific existing business which Westland would lose as a consequence].

JF4ASA

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

To:

PS/SECRETARY OF STATE

cc. PS/Mr Pattie
Sir Brian Hayes
Mr Macdonald
Mr Michell
Mrs Williams O.R.

From:

M K O'SHEA
AIR 1
VA 5/3
215 4213

2 January 1986

WESTLAND: FUTURE EUROPEAN COLLABORATION

I have asked the Foreign Office to bring us up-to-date with all the telegrams they have received recording statements by European Governments and companies about their possible unwillingness to continue collaborative programmes with Westland if United Technologies were to take a shareholding. They are aware of the following, all of which are attached:

The Netherlands

* - Telegram of 17 December from The Hague, saying that The Netherlands was withdrawing "for the time being" from bilateral talks with the UK on European helicopter collaboration.

Italy

* - Telegram of 5 November from Rome, covering telex from Dr Teti, Chairman of Agusta to Sir John Cuckney.
- Telegram of 18 December from Rome, reporting comments by Agusta and Italian officials.

Germany

* - Telegram of 27 November from Bonn, reporting conversation between Mr Heseltine and Herr Woerner.

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France

- Telegram of 30 October from Paris reporting Aerospatiale's reaction.
- Telegram of 13 December from Paris, principally relating to competition for helicopter orders from India.

2. The three items asterisked are those which No.10 told you had been seen by the Prime Minister.

Comment

3. The following points are worth making:

- So far as we are aware no Government has said formally that they would wish Westland to withdraw from collaborative projects. The Dutch have gone furthest, by withdrawing from bilateral talks "for the time being".

- Neither the French nor Italian Governments are recorded as even indicating that they would expect Westland to withdraw from collaborative projects. (They may have given such indications informally and off the record.)

- The comments of Dr Teti are contradicted by subsequent statements reported in the press that he is anxious to continue with the EH101 and A129.

- French Government officials have indicated to Mr Michell today that they do not necessarily go along with Aerospatiale's view that for Westland

to build Blackhawk would be incompatible with its continued participation in NH90. (On a separate point, French officials have also confirmed to Mr Michell that there is currently no French Army requirement for the Super Puma Mark II, which features strongly in the European proposals.)

M.K. O'Shea

M K O'SHEA

PRIME MINISTER

WESTLAND

I have followed up the points which we discussed late this afternoon.

Fact Sheet

We are working on a fact sheet with the DTI expert in strict confidence which could be given to Sir John Cuckney on Monday, to make such use as he sees fit with his shareholders.

Press

Mr. Brittan has spoken at length to the Sunday Times, Sunday Telegraph and Observer. I urged him to speak also to Sir John Junor. He decided against this on the grounds that Sir John Junor had always been hostile to him. But I have checked that DTI press office have already spoken to the Sunday Express at a lower level.

Mr. Heseltine's letter

I asked Mr. Brittan to speak to the Solicitor General and he duly did. Mr. Heseltine's letter had not been cleared with the Solicitor (who had not actually read it at all). After reading the text in the Times, he concluded that it contained a material inaccuracy. (The sentence which reads: "There are indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible..." in fact it is not all the Governments. On the more general question whether the letter as a whole was misleading, the Solicitor was inclined to the view first that this was not really a legal question and, second, that he could not give a considered view without studying the matter further.

Since Mr. Brittan does not appear to have done so, I am proposing to suggest to the Solicitor that he should write to Mr. Heseltine to say that he has read a copy of his letter to Lloyds Bank International in the Times; that he regrets that it was not cleared with him in advance; that it contains a material inaccuracy; that Mr. Heseltine ought to issue a letter of

correction; and that since he gave the first letter to the press he should give the second one also. I think this is worth doing but don't place great reliance on it. Mr. Heseltine will all too easily obtain statements from other Ministers to give substance to the assertions in his letter.

Your meeting tomorrow

You will no doubt be discussing some aspects of this with the Lord President and the Chief Whip. I think the most important issue is how to handle MH next week. Nigel Wicks is inclined, I think, to suggest there should be a full discussion in Cabinet with papers from Ministers concerned. I am not sure that this is really relevant since nothing Cabinet decides at this stage will affect the outcome, though a repeat of the sort of discussion in Cabinet on 19 December could be useful. No doubt the Lord President and Chief Whip will have some ideas on how to restrain MH.

I shall be at home tomorrow if any help is needed on Westland points.

CHARLES POWELL

4 January 1986

PRIME MINISTER

WESTLAND

Sir John Cuckney telephoned me again this morning. He said that discussions with Sikorsky had continued late last night and they had finally agreed some improvement to their offer which was accepted by the banks. There would be further negotiations during the weekend which should result in a revised and improved offer on Monday. This would be better than the European offer. The Westland board would strongly recommend it and would mount a strong campaign in support of it.

Sir John said that the banks - Barclays and National Westminster had told him that they had never in their experience been subjected to such heavy pressure as over the last few days by supporters of the European proposals.

Sir John also said that Sikorsky had now shot their bolt. If the European consortium made a further and better offer then Sikorsky would withdraw. I asked whether the matter would not at least go to the shareholders meeting. Sir John said that if the difference between the two offers was very small, the board might continue to support the Sikorsky proposals at the shareholders meeting. But if the European offer was significantly better, this would be impossible to reconcile with their fiduciary duty.

I asked Sir John how he rated the prospect of sticking to the 14 January date for the shareholders meeting. He said that "the opposition" were preparing an injunction to stop the meeting being held on 14 January. The Westland board were taking counter legal action. He thought there was a reasonable prospect of sticking to the 14 January date.

The crucial factor now is whether the Europeans increase their offer next week to exceed the revised Sikorsky offer. I am sure that MH will be encouraging them to do so. For that reason, knowledge of the fact that Sikorsky would in those circumstances withdraw their proposals is very sensitive.

Suzanne

pp **CHARLES POWELL**

4 January 1986

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/16/1E

3rd January 1986

Dear Mr Horne

Thank you for your letter of today's date about HMG's procurement plans for military helicopters. The answers to your questions are as follows:

a. Is there a requirement or funding for the purchase of the Blackhawk helicopter in the MOD forward programme?

As I have already explained publicly the Ministry of Defence has had under consideration a Staff Target (AST 404) for a Light Support Helicopter which it was originally envisaged might have an in-service date of about 1990. There were three main contenders which it was assessed could meet this target: the W30-404 (Westland plc), the Super Puma (Aerospatiale) and the Black Hawk (Short Brothers Ltd in association with Sikorsky). It was announced in March 1985 that the Army was reviewing its requirements and that the Staff Target was in abeyance. There is in any case no provision in the Defence Budget to

D O Horne Esq
Lloyds Merchant Bank

procure helicopters of this type by the assumed in-service date. To find funds for such a purchase from within the presently planned Defence Budget would involve removing items of higher military priority which we are not prepared to do. The Government therefore has no intention of procuring the Black Hawk helicopter, whether offered by Short Brothers Ltd in association with Sikorsky or by Westland plc in association with Sikorsky.

b. Does the Ministry of Defence have any knowledge of a military helicopter type being exported by Westland plc when that helicopter was not also part of the inventory of the British Services?

I am advised that there has been no such export.

c. Further to the Prime Minister's letter of 1st January to Sir John Cuckney, what are the projects which HMG have indications from European governments and companies may be lost to Westland if the United Technologies/Fiat proposals are accepted?

There are three future helicopters intended to form the core of the fleet of the British Armed Services in the longer term all of which are planned to be produced

collaboratively. At the battlefield helicopter level Britain has been intending to proceed with a feasibility study with Italy which, in the event of Westland proceeding with a link with the British/European consortium, would now be subsumed in a five nation collaborative project (United Kingdom, Italy, The Federal Republic of Germany, France and The Netherlands) on which Defence Ministers have agreed to instruct their staffs to produce detailed proposals. In the 8-9 tonne class feasibility studies have commenced of a helicopter known as NH 90 under a Memorandum of Understanding involving the same five countries. Westland are currently participating in the feasibility study. In the 13 tonne class a bilateral programme has been established between the United Kingdom (Westland plc) and Italy (Agusta) for the EH 101 helicopter. Fúll development was launched in 1984 and initial production versions are planned to be available by about 1990. There are indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the United Kingdom in the collaborative battlefield helicopter and NH 90 projects. There have been separate indications from Agusta that if the Westland deal with Sikorsky went through Agusta would have to seek other partners.

I am copying this letter to Sir John Cuckney of Westland plc.

Yours

Michael Heseltine

Michael Heseltine

CMG

HOUSE OF COMMONS
LONDON SW1A 0AA

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

3rd January 1985

R4/1

Dear Prime Minister

WESTLAND

I am sure you are well aware of the widespread amazement felt about the public row between two of your Cabinet colleagues over the future of Westland.

The question of Cabinet solidarity (or rather the lack of it) is not of course my concern. But the impact that this has on the future of Westland is.

I am grateful to you for your letter of yesterday, guaranteeing the Government's continued support for Westland, whatever decision the company makes. In the light of this, surely you must see that the public disagreement between the Secretary of State for Defence and for Trade and Industry must cease forthwith. The future of Westland and the standing of its prospective partners (whoever they may be) has already been affected by the ridiculous campaign of denigration and vituperation carried out against the "deal" favoured by the other. It cannot be good either for the standing of your government, or more importantly for the future of one of Britain's key defence industries, to have this issue treated as the private plaything of individual Cabinet ministers.

What Westlands needs now more than anything else is a little peace and quiet to make a very difficult decision on the basis of what is best for the company and the service it provides to Britain's defence. I ask you to use your influence over your Cabinet colleagues now to ensure that this is what Westland gets. The time has arrived when the two Ministers concerned should be put back in the Cabinet and the lid firmly shut and it is up to you to see that this happens.

I am confident that the company will, like any other commercial organisation, take full account of the views of their primary customer, the Ministry of Defence, without Ministers winding their arms half way up their backs with threats. I am also confident that they will fully consider the importance of European co-operation, whilst recognising that this cannot be undertaken at the cost of a long term weakening of the company's base or of further loss of jobs because of European excess capacity. What I am less confident about is whether, given the political reputations which have been allowed to become embroiled in this decision, Westland will not ultimately suffer from whichever "side" has, in the end, had their nose put out of joint. I note that

.../2

you have given undertakings that this will not happen and am grateful for this - provided they can be delivered and are not allowed to be once again ignored by individual Cabinet ministers who have their own axes to grind.

Incidentally,I am delighted to note that you have rejected the Labour Party's suggestion of nationalisation for Westland. The arguments against this are just as strong as they were when Labour specifically excluded Westland from the nationalisation of British Aerospace.

Apart from anything else, given the experience of the last month, Westland needs more Government interference in its affairs like it needs a hole in the head.

I hope that you can now ensure that Westland stops being treated as a political football and starts betting the backing from your Government (all of it) which it is entitled to.

Yours sincerely,

pp Paddy Ashdown MP

Lloyds Merchant Bank

Managing Director

Lloyds Merchant Bank Limited
40-66 Queen Victoria Street
London EC4P 4EL
Telephone 01-[illegible]
Telex 8884212

3rd January 1986.

The Rt. Hon. Michael Heseltine, M.P.,
Secretary of State for Defence,
Ministry of Defence,
Whitehall,
London, SW1A 2HB.

Dear Secretary of State,

The Government has answered a number of questions put to it by the Board of Westland plc about its future procurement plans for military helicopters. I should be grateful for advice on three questions relevant to the choice to be made by the shareholders of Westland between the offer from United Technologies/Fiat and that from the European consortium:

(a) Is there a requirement or funding for the purchase of the Black Hawk helicopter in the Ministry of Defence forward programme?

(b) Does the Ministry of Defence have any knowledge of a military helicopter type being exported by Westland when that helicopter was not also part of the inventory of the British Services?

(c) Further to the Prime Minister's letter of 1st January to Sir John Cuckney, what are the projects which Her Majesty's Government have indications from European governments and companies may be lost to Westland if the United Technologies/Fiat proposals are accepted?

Yours sincerely,

D. O. Horne

D. O. Horne

DOH/GTM

FILE DA

10 DOWNING STREET

From the Private Secretary

1 January 1986

Dear Catherine,

I enclose a copy of the Prime Minister's letter to Sir John Cuckney.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence), Len Appleyard (Foreign and Commonwealth Office), Richard Broadbent (Chief Secretary's Office) and Michael Saunders (Law Officers' Department).

Yours sincerely,

(Charles Powell)

Miss Catherine Bradley,
Department of Trade and Industry.

10 DOWNING STREET

THE PRIME MINISTER

1 January 1986

Dear Sir John.

Thank you for your letter of 30 December.

It has naturally been the Government's concern that a British helicopter design, development and manufacturing capability should if possible be maintained, despite the present difficulties of your company. I understand that both the proposals Westland now have under consideration are intended to achieve that objective. As long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore European company, and will support it in pursuing British interests in Europe.

Government policy will remain that the United Kingdom should procure its helicopters from the most cost-effective source. Against this background, the Government would wish to see Westland play a full part in existing and future European collaborative projects. Some of these are still at a very early stage and all of them require the agreement of the companies and governments - including HMG - concerned. In this connection you should be aware of indications from European governments and companies that they currently take the view that a number of projects in which Westland are expecting to participate in cooperation with other European

companies may be lost to Westland if the United Technologies/Fiat proposals are accepted.

It is for you to assess the significance of these indications. But of course British participation is itself an important element in the viability of European collaborative projects. And I can assure you that, whichever of the two proposals currently under consideration the company choose to accept, the Government would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland.

I have not dealt with the question of the possible consequences for Westland's present relationship with Sikorsky of a decision to accept the European consortium's proposals. You will no doubt have made your own assessment of these.

Yours sincerely

Margaret Thatcher

Sir John Cuckney

File -

Managing Director

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

31st December 1985.

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

Dear Sirs,

At the request of your financial advisers, we are writing to summarise in one letter, as briefly as practicable, our proposals to assist in the reconstruction of Westland plc ("Westland"), which were set out in more detail in our letters to you of 2nd, 9th, 13th, 20th and 27th December 1985. The proposals, which are included as an Appendix, have been formulated to be financially attractive to Westland, its shareholders and its creditors and also to provide Westland with a substantial amount of guaranteed work for the period 1987 to 1989, which you have consistently said is a key factor. In other respects the proposals accord with the share capital reconstruction recommended to shareholders in your letter of 21st December 1985 containing details of the proposals put forward by UTC/Fiat ("the UTC/Fiat proposals"). Since we understand that it is your intention to copy this letter to Westland shareholders, we confirm that it is in order for you to do this.

In the view of the Consortium, its proposals are significantly better than the UTC/Fiat proposals for existing shareholders and for the employees of Westland.

1. Existing shareholders will only pay 55p per share under the rights issue, as opposed to 60p per share - in total existing shareholders will pay approximately £1.2 million less for the same number of shares.

2. Existing shareholders who take up their rights will receive at no additional cost warrants to subscribe for additional shares, as opposed to UTC receiving options. In our opinion the total value of such warrants/options could be several million pounds.

3. Existing shareholders will, after full conversion and exercise of warrants/options, own approximately 63 per cent. of the increased share capital, as opposed to 50 per cent. under the UTC/Fiat proposals.

4. The Consortium will pay 65p per share for its new shares, as opposed to 60p by UTC/Fiat.

5. The Preference shares to be issued to the Consortium will carry a coupon of only 8 per cent., as opposed to 10 per cent..

6. The Consortium will guarantee 1.5 million direct man hours of work to Westland for the three years 1987 to 1989, as opposed to the UTC commitment, subject to necessary government approvals, of 1 million man hours. In addition, the six Sea Kings, which will be ordered by the Ministry of Defence provided the Consortium's proposals are implemented, should represent a further 300,000 man hours of work.

7. Westland is not required to pay any licence fee to the Consortium. Under the UTC/Fiat proposals Westland will pay to UTC an initial sum of £5 million and certain fixed payments and royalties in respect of the Black Hawk licence.

As far as the long-term future of Westland is concerned, our clients wish to repeat that it is their intention to ensure that Westland remains a strong independent U.K. company, participating fully within a European helicopter industry in helicopter design, development, production and sales. Our clients believe that Westland's position on future projects will be more secure within a European helicopter industry. Provided the Consortium's proposals are implemented, Westland would have assured work in the 1990's to the full value of U.K. participation in the three collaborative European projects. We do not see in the alternative proposal a better long-term future for Westland.

We believe that this letter demonstrates clearly the advantages of the Consortium's proposals compared with the UTC/Fiat proposals and that Westland's shareholders should be given the chance to vote on the Consortium's detailed proposals at the earliest opportunity. Accordingly we would hope that you and your financial advisers will withdraw the recommendation made to accept the UTC/Fiat proposals and now recommend the proposals from the Consortium. We respectfully suggest that the Extraordinary General Meeting convened for Tuesday, 14th January 1986, be adjourned after the passing of the Resolution numbered 1 and that a new Extraordinary General Meeting be called for a later date, at which resolutions will be put to approve the Consortium's proposals.

We are authorised to confirm that these proposals are considered by each member of the Consortium to be severally binding upon it in respect of its commitment as described in the Appendix.

We and our clients remain available for meetings with you in order to progress this matter as quickly as possible.

Yours faithfully,
For LLOYDS MERCHANT BANK LIMITED

D. O. Roberts

Managing Director

DOH/GTM

Lloyds Merchant Bank

APPENDIX

The Consortium's Proposal

Societe Nationale Aerospatiale of France ("Aerospatiale"), Agusta S.p.A. of Italy ("Agusta"), British Aerospace PLC ("British Aerospace"), The General Electric Company, p.l.c. ("GEC") and Messerschmitt-Boelkow-Blohm GmbH of Germany ("MBB"), together called the "Consortium", are prepared, subject to the conditions set out below, to participate in a reconstruction of Westland on the following terms (the UTC/Fiat proposals are shown for comparison in brackets):-

1. Westland to make a rights issue to existing shareholders of 2 'A' Ordinary shares of 2½p each for every 5 Ordinary shares held, at 55p (60p) per share to raise approximately £13.05 million before expenses. This rights issue will be underwritten by Lloyds Merchant Bank Limited.

2. As part of the rights issue, existing shareholders who take up their rights will receive warrants to subscribe at 85p per share for 2 new 'A' Ordinary shares for every 5 Ordinary shares presently held until December 1996 (UTC alone to receive an option to subscribe for 22.5 million shares at 85p per share).

3. The Consortium to subscribe, equally between them, for a total of 35.5 million Preferred Ordinary shares at 65p (60p) per share at a total cost of £23.1 million (£21.3 million).

4. The Consortium to subscribe, equally between them, for a total of 9 million 8 per cent. (10 per cent.) Cumulative Redeemable 'B' Preference shares of £1 each, at par.

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

6. Westland's bankers to convert £23 million of Westland's current debt into 7.5 per cent. Convertible Cumulative Redeemable Preference shares of £1 each at par (£21 million of 7.5 per cent. Convertible Preference shares plus £7 million of 10 per cent. Redeemable Preference shares).

7. A reduction of capital reducing the nominal value of the existing Ordinary shares of Westland from 25p to 2½p per share and reducing the share premium account and other reserves accordingly.

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

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

2. Westland's bankers to agree to participate in the reconstruction on the above terms and to make available on the same terms the borrowing and bonding facilities provided for under the UTC/Fiat proposals.

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 summary, and compared with the UTC/Fiat proposals, the proposals of the Consortium are as follows:-

		Consortium	UTC/Fiat
1.	New share capital subscribed by the Consortium or UTC/Fiat	£37.1m	£30.0m
2.	New share capital subscribed by existing shareholders	£13.0m	£14.2m
3.	Conversion of bank debt into Preference capital	£23.0m	£28.0m
4.	Total reconstruction package	£73.1m	£72.2m

In addition, existing shareholders of Westland who take up their rights will receive warrants to subscribe for a total of 23.7 million new 'A' Ordinary shares. Assuming full take-up of rights, conversion and exercise of warrants, existing shareholders would own approximately 63 per cent. (only 50 per cent. available under the UTC/Fiat proposals) of the increased share capital and the Consortium approximately 21 per cent. (UTC/Fiat would own 35 per cent. under their proposals).

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.

The following additional work will be provided to Westland over the period 1987 to 1989, subject to the proposals of the Consortium being implemented:-

(a) Current contractual arrangements between Aerospatiale and Westland involve Westland in receiving an annual workload of approximately 350,000 man hours. These contracts are due to expire in 1986 and 1987. Aerospatiale will maintain this level of approximately 350,000 man hours per annum until the end of 1990 by renewing similar contracts subject only to negotiating price and delivery schedules.

Aerospatiale will guarantee an additional 35,000 man hours per annum for the years 1987 to 1990, again subject only to negotiations on price and delivery schedules.

Aerospatiale has been informed by the French Government that orders for the Super Puma are being brought forward which will result in a guaranteed extra 33,000 man hours per annum.

(b) Agusta will guarantee 300,000 engineering man hours over the three years 1987 to 1989 subject only to negotiations on price and delivery schedules.

(c) Subject to the Consortium's proposals being implemented, the Ministry of Defence will place orders with Westland for six Sea Kings for expected delivery early 1990. We are informed that this order represents approximately 300,000 man hours of work in the period 1987 to 1989.

In summary, Westland would receive guaranteed work for the years 1987 to 1989 as follows:-

	Direct man hours - '000		
	1987	1988	1989
Aerospatiale			
Existing work	350	350	350
Additional work	35	35	35
French Army order	-	33	33
Agusta			
Engineering work	100	100	100
Ministry of Defence			
Sea Kings, say	85	130	85
	570	648	603

Total: 1,821,000 man hours

The total amount of guaranteed work for the three years 1987 to 1989 under the Consortium's proposals of 1,821,000 direct man hours compares with 1,000,000 direct man hours under the UTC/Fiat proposals.

In addition to the above, Aerospatiale and Agusta have stated that approximately 150,000 further direct man hours of work per annum are highly probable from 1987 onwards. This work is based on forecasts of future sales.

Participation by UTC in Westland will jeopardise future co-operation between Westland and the other European helicopter manufacturers in at least two out of the three major European collaborative programmes since the future development of the Sikorsky Black Hawk will compete with the NH90 and the American LHX anti-tank helicopter will compete with the European anti-tank helicopter.

In summary, the following table shows that the Consortium's proposals are significantly better in all respects than the UTC/Fiat proposals for Westland, its shareholders, its creditors and employees:-

	Consortium	UTC/Fiat
Financial		
Rights issue price for existing shareholders	55p	60p
Options granted to UTC/Fiat to subscribe for additional shares at 85p	-	22.5 million
Warrants granted to existing shareholders to subscribe for additional Ordinary shares at 85p	23.7 million	None
Subscription price per share for 29.9% stake	65p	60p
Coupon payable by Westland to holders of the Redeemable Preference shares	8 per cent.	10 per cent.
Shareholding of Consortium or UTC/Fiat in Westland following full conversion and exercise of warrants/options	21 per cent.	35 per cent.
Existing shareholders' holding in Westland, following full conversion and exercise of warrants/options	63 per cent.	50 per cent.
Commercial		
Total guaranteed direct man hours for the three years 1987 to 1989	1.8 million	1 million
Initial licence fee	None	£5 million (Black Hawk)

31st December 1985.
DOH/GTM


32.XI

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone ~~01-930 7022~~ 218 2111/3

26/16/1E

31st December 1985

Dear Charles,

WESTLAND

You copied to me your letter of 30th December to Catherine Bradley requesting a draft reply to the letter from Sir John Cuckney to the Prime Minister about participation by Westland in European collaborative helicopter projects. As I told you over the telephone this morning, since my Secretary of State has Ministerial responsibility for this matter he cannot understand the basis on which you referred it to another Department for advice.

I have been in touch with Catherine Bradley about the draft reply and understand that, because time is short to meet your deadline, she intends to submit to you direct a suggested draft which takes some limited account of points we here have made. My Secretary of State is strongly of the view that the letter must make clear both that ultimately prospects for collaboration are determined by all the partners and are not within our control and that there are deep reservations amongst our partners about the implications of a Sikorsky/Fiat link for their willingness to collaborate with Westland. Given that these reservations have been expressed to us in such clear terms and given that Sir John Cuckney has now asked the Government a direct question on this matter, the Defence Secretary believes that the Government would be failing in its duty to the shareholders if it did not make clear the realistic position, as opposed to the position which Ministers or the Company might wish for if these were matters within their gift. There is also a number of points in the draft where in my Secretary of State's view the position is over-stated. I attach a revised draft to take the minimum account of these concerns: for convenience the amendments are underlined.

Mr Charles Powell
No 10 Downing Street

I am copying this letter to Len Appleyard (FCO), Catherine Bradley (DTI), Richard Broadbent (Chief Secretary's Office), M L Sanders (Law Officer's Department) and Michael Stark (Cabinet Office).

Yours ever,

Richard Mottram

(R C MOTTRAM)
Private Secretary

DRAFT LETTER TO SIR JOHN CUCKNEY

Thank you for your letter of 30th December 1985.

It has naturally been the Government's concern that a British helicopter design, development and manufacturing capability should if possible be maintained, despite the present difficulties of your company. I understand that both the proposals Westland now have under consideration are intended to achieve that objective. As long as Westland continues to carry on business in the UK, this Government will regard it of course as a British company and will support it in pursuing British interests in Europe. The Government cannot determine the views of our European partners who have themselves expressed deep concern about what they perceive as effective American control of Westland in the event of the Sikorsky/Fiat offer succeeding.

The Government would wish Westland to play a full part in existing and future European collaborative projects, some of which are at present at a very early stage and all of which will of course require the agreement of the foreign Governments and companies concerned. In this connection, you should be aware of the view of other participating countries in the NH 90 project

that the manufacture under licence by your company of the Blackhawk helicopter would be incompatible with participation in NH 90 since the two projects will be competing in the same market. You will appreciate also that the proposal for a single European Battlefield helicopter arose from the provisional Ministerial agreements on future European co-operation which would come into force only in the event that Westland retain their link with their present European partners by accepting the offer of the British/European consortium. In the event of a link with Sikorsky/Fiat, collaboration at the battlefield level would have to rest on the feasibility study for an Anglo/Italian helicopter, the continuation of which would depend upon the attitudes of the Italian government and the Italian company involved, Agusta. Agusta have expressed to the British Government their serious reservations about the implications of a link with Sikorsky and the need in the event of such a link to seek other partners for collaboration.

But I can assure you that, whichever of the two proposals currently under consideration the company chooses to accept, the Government will not differ in its full support for Westland's efforts on behalf of Britain, including supporting Westland's wish to participate in European collaborative projects. The Government would use its best endeavours to resist any attempt by others to discriminate against Westland, although, as I have explained earlier, ultimately collaboration has to rest on the willingness of all the partners to work together.

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(2)

DEPARTMENT OF TRADE AND INDUSTRY
20 VICTORIA STREET
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(Switchboard) 01 - 215 7877

C Powell Esq
Private Secretary
10 Downing Street
LONDON SW1

31 December 1985

Prime Minister
Some very useful material here, which you might like to see.
CDP 31/12.

Dear Charles,

WESTLAND

As agreed, I attach a copy of a brief I have submitted to my Secretary of State. I hope this is useful. Please contact me if you require any clarification.

Yours sincerely

Michael

M J MICHELL

999–66

M650

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To:

PS/SECRETARY OF STATE

cc. Sir Brian Hayes
Sir Jeffrey Sterling
Mr Macdonald
Mrs Salisbury
Mr O'Shea

From:

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

31 December 1985

WESTLAND

As requested, I have tried to summarise in the attached document the points contained in a large number of briefs of recent days. I am afraid it is still rather long. Unfortunately a great many inaccuracies and erroneous impressions have been given currency and it necessarily takes detailed argument to correct them.

2. May I stress that the list of countries named as Blackhawk export prospects is extremely commercially confidential and should not be quoted beyond those receiving this minute.

Michell

M J MICHELL

999-80

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WESTLAND: SOME NOTES ON THE ALTERNATIVE INDUSTRIAL PROPOSALS AND ON RECENT PRESS REPORTS

The Sikorsky/Fiat Proposals

Sikorsky/Fiat are guaranteeing 1 million additional man hours work for Westland (including 650,000 engineering hours) over the period 1987-89. This is irrespective of sales and is outside the Blackhawk licence arrangement.

In addition, there is intended to be substantial extra work for Westland under the Blackhawk licence arrangement. The objective would be to build at least 150 Blackhawks under licence at Westland from 1987-9, involving some 4 million or more man hours of work (more if a higher number is built). This is omitted from the analysis attached to the Defence Secretary's minute of 23 December, although it is of course the core of the Sikorsky/Fiat proposal.

The number of Blackhawks built under licence by Westland will depend on the company's ability to market the aircraft. The MOD consider the prospects are poor. The Defence Secretary has said the MOD will not buy it, and that sales prospects in France, Germany and Italy are minimal. In fact, Sikorsky have never regarded those countries as strong prospects (though they have made clear they will continue to urge the advantages of Blackhawk through normal commercial means).

Sikorsky have received firm US orders for 924 Blackhawks (700 delivered) and expect further orders. (The US Army has stated a requirement for 1107.) They have sold it also to China, The Phillipines and Taiwan and are currently negotiating sales in Australia (where they beat the W.30 in competition), Saudi Arabia, Jordan and Korea. The potential market for Westland-built Blackhawks is seen principally as:-

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- "Secondary" European countries eg:
  Sweden, Norway, Portugal, Belgium,
  Netherlands, Spain.

- Middle East and Asia eg:
  Oman, Dubai, Abu Dhabi, India,
  Malaysia.

- Africa and S. America eg:
  Nigeria, Brazil.

A number of countries have expressed interest in a Blackhawk with higher power, which could be offered with the Rolls Royce/ Turbomeca (France) RTM 322, and more sophisticated avionics which could be supplied by UK companies.

The European Proposals

The European proposals offer valuable extra sub-contract work on Super Puma aircraft (some 1,250,000 additional hours over 5 years on top of the existing 1,750,000 hours under existing arrangements). Of these additional 1,250,000 hours, Aerospatiale are now offering to guarantee 35,000 per annum. 33,000 hours per annum sub-contract work is now also being guaranteed in relation to accelerated (N.B. not additional) Super Puma orders from the French Government.

Agusta of Italy are now guaranteeing their offer of 300,000 man hours of work to Westland over the period 1987-9. (This offer is omitted from the MOD's comparison attached to Mr Heseltine's minute.)

Aerospatiale are also offering Westland participation in development of a Super Puma Mk II "if a significant order (about 50) is placed for instance by HMG". The MOD have made clear they do not intend to buy such an aircraft. Aerospatiale have told

us they are aware of that. They would, however, be satisfied with another launch order or orders comprising around 50 aircraft. (This is normal procedure in the industry.)

Withdrawal of Work by Aerospatiale

Aerospatiale have stated they would withdraw their current sub-contract work on Westland if Westland links with Sikorsky/Fiat.

These contracts relate to Puma, Super Puma and Gazelle aircraft and spares manufacture. The legal and contractual position is primarily a matter for the companies, but it would appear that Aerospatiale would not have the right to terminate the arrangements forthwith without penalty. Aerospatiale would also need to make alternative manufacturing arrangements.

Much of the work covered by these contracts is also the subject of UK/French Government agreements, so that substantial alteration to the present arrangements would involve Governmental consideration.

Westland also has on-going sub-contract arrangements on Aerospatiale, amounting in a typical year to some two thirds the value of the Aerospatiale sub-contract work on Westland. Inevitably, Westland would seek to withdraw that work from Aerospatiale if the French company terminated their own sub-contracts. This point is omitted from the analysis attached to the Defence Secretary's minute.

NH 90

The European consortium has stated that participation of Westland in NH90 would not be compatible with their involvement in the Blackhawk project.

NH90 is currently at a feasibility study stage. Since it is Government funded, it is not for the companies alone to decide the industrial participation, and HMG would be in a position

to resist any attempt to exclude Westland if it wished. The MOD has stated that it would not wish to see work on collaborative projects jeopardised by Westland "putting itself outside the framework of that cooperation". Despite the express view of Aerospatiale, there is no inherent reason why a UK based company with a US shareholding should not participate in European defence projects (Normalair Garett, for example, has done so extensively). Although the MOD has clearly expressed a Departmental preference for the European proposals, they would no doubt (since they take the view quoted above) resist strongly any continental attempt to "blackball" Westland should the company in the event accept the UT/Fiat proposals.

The future of NH90 will depend on Government approvals at each stage of development and production. The "identified total requirement for 700 plus helicopters 1994-2000" described in the attachment to the Defence Secretary's minute of 23 December has elsewhere been described as a "rough planning figure".

The minutes of the Equipment Policy Committee meeting on 28 January 1985 record the Defence Staff's opposition to NH90 for the British forces.

Broad Comparison of the Offers

Westland perceive two key needs:-

i) A product to sell in the late 1980s to replace the W30 which ahs failed for a number of reasons (civil market recession, technical shortcomings of /100 version, lack of MOD contract for development of military version against AST 404).

ii) To put in place an arrangement which will provide a sound basis for long-term future viability.

The Board's judgment so far is that the Sikorsky/Fiat proposals meet these needs, while the European proposals do not. Against this must be set the fears:

a) that the Blackhawk licence, which Westland see as meeting their first need above, will prove illusory because they will not sell the aircraft;

b) that the MOD's policies of rationalising European procurements could be jeopardised should the Sikorsky/Fiat proposals be agreed;

c) that Sikorsky will eventually take control of Westland and destroy its independent capability.

Financial Comparison

On the financial side each offer contains an option arrangement. In the UT/Fiat case, the option would be for the benefit of UT (although its exercise would not give them control). In the European case the option would benefit the shareholders. From a purely financial point of view, the current European offer is probably more attractive to shareholders.

Design and Development Work: "Tin Bashing"

The European proposals are based on an extension of existing sub-contract production work for Westland. There would also be new design and development work if the Super Puma Mark II went ahead, and on the possible new 4-nation battlefield helicopter (see below).

Design and development work on EH 101 and NH 90 would also continue.

Under the UT/Fiat proposals, the intention would be to maintain Westland as an independent design, development and production capability. Sikorsky have given assurances tothat effect. They have also said that, as a result of their long association with Westland, they have a high regard for Westland's design and development capability. Sikorsky are concentrating their efforts on their on-going contracts to supply about 130 production Blackhawks per year to the US forces (see above). They have said they would welcome Westland devoting design and development effort to specific requirements of other customers, and believe this would be complimentary to their own activities. Such an arrangement would follow Westland's successful marketing of their own developed versions of the Sea King, also built under Sikorsky licence (and which sold more export copies than the Sikorsky original).

Sikorsky have also made clear they would wish EH 101 to continue (which appears to be confirmed as Agusta's wish also, according to public statements). The position on NH 90 is discussed above.

In summary, it appears incorrect to describe either proposal as likely to lead to Westland becoming mere "tin-bashers". However, of the two proposals, UT/Fiat appears potentially to offer ahigher element of design and development work.

Battlefield Helicopter

The proposal to rationalise the two existing battlefield helicopter projects in Europe (PAH2 and A129) into a single project appears at this stage to be essentially a statement of intent (which is not to deny the significance of that step). Experience suggests that discussions to reach agreement on the specification and industrial work-sharing for such a project could be prolonged (Aerospatiale have confirmed that such discussions have not yet begun at the industrial level). Experience also suggests that the estimated "saving" to HMG of £25m must at this stage

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be uncertian, if not speculative. Should this saving not be fully achieved, other defence procurements would no doubt have to be deferred (possibly to the detriment of other UK companies) in order to release funds to honour the commitment to buy 6 extra Sea Kings. (N.B. it has never been clear how the spares for these additional aircraft would be funded without detriment to other items in the procurement programme.)

As well as the industrial workshare, the export rights for a possible new battlefield helicopter would need to be negotiated. Experience suggests the French are likely to take a hard line on this, and the negotiations could be difficult. Unfortunately, throughout all the negotiations Westland would be in a weak position as supplicant.

Shorts

See separate note dated 28 December 1985 (attached).

UK Avionic Companies

It has been suggested that British avionic companies might be excluded from participating on Westland-built Blackhawks. This seems erroneous. British avionic companies would be able to bid in international competition for contracts to supply customers' special requirements. This is normal procedure in military aircraft procurements. Aerospatiale have confirmed they would expect this procedure to operate if Westland build Blackhawks under licence.

Libya

This has been covered in the JIC assessment of 24 December.

Air Division
D.T.I.
30 December 1985

999-80

WESTLAND: AGREEMENT BETWEEN SIKORSKY AND SHORTS

The key points of the memorandum between Sikorsky and Shorts are as follows:

i) The agreement is not a licence. It is a memorandum of agreement which envisaged the subsequent negotiation of more specific licence arrangements.

ii) The agreement is specifically related to the former Air Staff Target 404 (AST 404).

iii) In the context of AST 404 Sikorsky intended to have Shorts' participation in the final assembly, flight test, fabrication of the pipe fuselage and other composite parts.

iv) There was a possibility of further participation by Shorts following a successful programme for AST 404.

v) Any specific work resulting from this statement of intention was to be the subject of a separate agreement.

vi) Both sides have the right to terminate the agreement on 60 days' notice.

The agreement did not refer to arrangements for avionics. It did not exclude participation by UK avionic companies as has been suggested. We are not aware of any other document which would exclude such participation. Indeed, our understanding was that Sikorsky were anxious to encourage UK avionic companies to participate in order to improve the attractiveness of the aircraft to the UK authorities. For a similar reason they arranged for the aircraft to be powered by the Rolls Royce RTM 322 engine.

AST 404 has been withdrawn by the MOD who have announced that they are reviewing their requirements for support helicopters. More recently Mr. Heseltine has announced that the MOD will in any case not order the Black Hawk or any similar helicopter. Although the Sikorsky/Shorts memorandum remains in existence, in practice it has therefore never become operational.

So far as the prospective licence arrangement between Sikorsky and Westland is concerned, this would not be specifically tied to AST 404, which has in any case been withdrawn. We understand it will be a general licence to manufacture and sell the Black Hawk in agreed areas of the world. We are not aware of any intention to exclude British avionic companies from supplying equipment to Black Hawks built under licence by Westland. The normal arrangements can be expected to apply ie that particular customers will be able to specify equipment fits based on international competitive tender.

Should the MOD change its mind and order Black Hawk from Westland at some future date, the question may arise as to possible conflict with the Sikorsky/Shorts arrangements. This would be a commercial matter between the companies and has not yet been addressed by them because the situation is entirely hypothetical, given the clear statement from the MOD that Black Hawk will not be ordered. The matter might need to be resolved through legal channels, or some commercial compromise might be worked out. In fact it is arguable that, since a hypothetical future MOD order would not be against AST 404, and would not be placed with Sikorsky/Shorts (both of which are assumed in the Sikorsky/Shorts memorandum) the terms of the Sikorsky/Shorts memorandum would not be regarded as activated by any order placed with Westland by the MOD.

Department of Trade and Industry
28 December 1985

CONFIDENTIAL

To:

PS/Secretary of State

cc. Sir Brian Hayes
Mr Mallinson
Mr O'Shea

From:

M J MICHELL
US/Air
Room 7/3
20 Victoria St
215 4377

31 December 1985

WESTLAND: SIR JOHN CUCKNEY'S LETTER

We spoke. I am tied up all morning as you know. I attach a possible draft reply to Sir John Cuckney's letter which you may be able to make use of, subject to the instructions from No. 10. Please alter it as appropriate to suit circumstances.

Michell

M J MICHELL

999-80

To: Sir John Cuckney

From: The Prime Minister

Thank you for your letter of 30 December 1985.

It has naturally been the Government's concern that a British helicopter design, development and manufacturing capability should if possible be maintained, despite the present difficulties of your company. I understand that both the proposals Westland now have under consideration would achieve that objective. As long as Westland continues to carry on business in the UK, subject to British law, it will remain a company under the sponsorship of the Government.

The Government is determined that Westland should play a full part in existing and future European collaborative projects. I can assure you that, whichever of the two proposals currently under consideration the company chooses to accept, the Government will not differ in its full support for Westland's efforts on behalf of Britain. The Government would resist strongly any attempt by others to discriminate against Westland.

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To:

PS/SECRETARY OF STATE

cc. Sir Brian Hayes
Mr Macdonald
Miss Bowe
Mr O'Shea

From:

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

31 December 1985

WESTLAND: AEROSPATIALE

Aerospatiale telephoned from Paris on the morning of 30 December and asked to see me urgently. I readily agreed and a representative arrived at about 2.30pm with Mr Horne of Lloyds.

2. Aerospatiale rehearsed the details of their offer and argued in favour of keeping Westland within Europe on familiar lines. I explained the DTI position in accordance with the 16 December statement.

3. Further discussion disclosed the following:

i) On the battlefield helicopter, there had been no discussions to date between the four companies on a harmonised project, or on work sharing. Aerospatiale thought there should be no problem in harmonising the British and French requirements, but the Germans would be "difficult". They were attached to the present heavy version of PAH2. The British Government had "yet to learn" that a battlefield helicopter would be "very expensive". The French and Germans were learning the hard way on PAH 2.

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ii) Aerospatiale confirmed that should Westland manufacture Blackhawk under licence, they assumed the avionics would be open to international tender, including UK companies, for specific customer requirements.

iii) Aerospatiale also confirmed that they would require launch orders of around 50 (preferably from not more than two or three substantial customers, not necessarily including the MOD) to launch the Super Puma Mk II.

iv) They considered a contract to supply Super Puma to Spain was "as good as signed". Blackhawk had "no chance". Indeed Blackhawk prospects in Europe were minimal or, where they existed, full offset would be demanded eg in Germany. Germany, however, was much more likely to buy Super Puma Mk II (without any demand for offset, it seemed).

v) Aerospatiale repeated firmly that in their view continued Westland participation in NH90 was incompatible with an association with Blackhawk, since the two projects were competitors. [This view cannot really stand alongside their other views (a) that Blackhawk will not sell anyway and (b) that it is already outdated 1970s technology. NH90 will not be in service before the mid-1990s, so if these views are correct, would not be seriously threatened by Blackhawk. Indeed the MOD itself, for example, has made clear a preference to wait for NH90.]

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4. I repeated the DTI position again, drawing attention to our financial investment in EH101, which led us on particular as well as general grounds to be most concerned that the EH101 should continue.

M J MICHELL

999-80

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

PS/

Secretary of State for Trade and Industry

31 December 1985

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

Dear Charles,

WESTLAND

Thank you for your letter of 30 December requesting a draft reply for the Prime Minister to send to Sir John Cuckney.

... 2 The draft reply attached has been amended in the light of comments from the Ministry of Defence, who might be commenting further to you this afternoon. My Secretary of State has seen and approved it.

3 I am copying this letter to Richard Mottram (Ministry of Defence), Richard Broadbent (Chief Secretary's Office), Len Appleyard (Foreign and Commonwealth Office) and Michael Stark (Cabinet Office). This is also being sent to Henry Steel (Legal Secretary) with a copy of your letter of yesterday.

Yours sincerely,

CBradley

CATHERINE BRADLEY
Private Secretary

Encl

JF2AQK

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Sir John Cuckney

Thank you for your letter of 30 December 1985.

It has naturally been the Government's concern that a British helicopter design, development and manufacturing capability should if possible be maintained, despite the present difficulties of your company. I understand that both the proposals Westland now have under consideration would achieve that objective. As long as Westland continues to carry on business in the UK, it will of course continue to be regarded as a British and therefore European company.

The Government is determined that Westland should play a full part in existing and future European collaborative projects, many of which are at present at a very early stage and all of which will of course require the agreement of the foreign Governments and companies concerned. But I can assure you that, whichever of the two proposals currently under consideration the company chooses to accept, the Government will not differ in its full support for Westland's efforts on behalf of Britain including supporting Westland's participation in European collaborative projects. The Government would resist strongly any attempt by others to discriminate against Westland.

JF2APS

01-[redacted]7641 Ext.

Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

C D Powell Esq
Private Secretary to Prime Minister
No.10 Downing Street
London SW1

31 December, 1985

Dear Charles.

WESTLAND

The Solicitor General has seen copies of Sir John Cuckney's letter to the Prime Minister of 30 December, your letter to Catherine Bradley of the same date, Catherine Bradley's reply to you and Richard Mottram's response of today's date.

Although in paragraph 1 of his letter Sir John Cuckney asks if Westland would no longer be considered a European company by the Government if a minority shareholding in the company were held by a major international groupfrom a NATO country outside Europe, the Solicitor General attaches much importance to the second paragraph of his letter in which he makes it clear that Westland's anxiety is that only by joining the European Consortium would it be in a position to take responsibility for the British share of European helicopter collaborative projects. The Government are thus put on notice that it is as to this hypothesis that their reassurance is required.

In these circumstances, the Prime Minister's reply can be expected either to be sent direct to Westland shareholders or to be reflected in advice to them emanating from the Board.

The Government is therefore under a duty not to withhold from Westland any information which it knows to be relevant having regard to the contents of the second paragraph of Sir John Cuckney's letter. If it does withhold such information, it could well be liable in damages since it would have been put on notice that whatever reply was given to Sir John Cuckney's letter was likely to be relied upon by Westland and its shareholders.

/The

01 7641 Ext.

Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

The Solicitor General having seen the amendments proposed by the Secretary of State for Defence understands that the projects therein referred to may well be adversely affected by a decision on the part of Westland to accept the Sikorsky offer. He understands that evidence of these risks is provided in telegrams to the FCO, the record of a meeting between the Secretary of State for Defence and the West German Defence Minister and in public statements.

In these circumstances the Solicitor considers the terms of the second paragraph of the draft attached to Catherine Bradley's letter to be insufficiently informative. He advises that the Government will be at serious risk if the Prime Minister's reply does not incorporate or at least point to the information as to the possible danger to these projects contained in the amendments put forward by the Secretary of State for Defence. Whilst this could be done by incorporating the Secretary of State's principal amendments, a shorter passage would suffice to protect the Government from liability, provided that it drew attention to the nature and scale of the risk. Such a passage could be along the following lines (replacing the material following the first sentence of the third paragraph in the Secretary of State for Defence's draft):

> "In this connection you should be aware of the fact that there are indications from European Governments and companies that they take the view that a number of projects in which Westland are currently expecting to participate in co-operation with other European companies may well be lost to Westland if the Sikorsky offer is accepted."

Catherine Bradley (DTI),
I am copying this letter to Richard Mottram (Ministry of Defence), Richard Broadbent (Chief Secretary's Office), Len Appleyard (Foreign and Commonwealth Office) and Michael Stark (Cabinet Office).

Yours sincerely,
Michael Saunders

M L SAUNDERS

PERSONAL

With the Compliments of the Chief Secretary to the Treasury's Private Secretary

Treasury Chambers,
Parliament Street,
SW1P 3AG

1898-089

COMMERCIAL IN CONFIDENCE

From: D SEAMMEN
Date: 30 December 1985

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Burgner
Mr Kitcatt
Mr Scholar
Mr Turnbull

WESTLAND

Mr Heseltine has proposed to the Prime Minister that we should indicate 'informally' that we favour the European solution. Mr Brittan disagrees. We advise you should also disagree.

2. There is one further aspect which requires clarification. Mr Heseltine says that his agreements with European colleagues (effectively the NAD document, which rules out purchases of American helicopters) are provisional and will come into effect in the event that Westland plc decides to accept the offer of the European consortium. I do not believe this to be the case. The NAD document was disavowed by Mr Brittan's statement in the House. There has been no Ministerial agreement to reinstate it if Westland go European. Nothing Mr Brittan or the Prime Minister said implied any such commitment, nor was it included in the Prime Minister's summing up at Cabinet on 19 December.

3. We should continue to resist any such commitment. It is neither logical nor desirable that the decision of a private sector company should automatically dictate Government policy (any more than the other way round).

4. Mr Heseltine may say that he can only offer the Seakings if European collaboration goes ahead thus providing him with 'savings'. You have of course already told him that the Defence Budget must finance the Seakings, (irrespective of any such

savings); and of course European collaboration could, as Mr Brittan pointed out in the House, go ahead with Westland under the Sikorsky option. What we must avoid is the commitment to buy nothing but European helicopters.

5. I attach a draft minute to the Prime Minister.

D SEAMMEN

Draft letter from CHIEF SECRETARY

to

PRIME MINISTER

WESTLAND

I have seen Michael Heseltine's minute to you of 23 December and Leon Brittan's of 27 December.

2. I entirely agree with Leon that we should give no indications of a preference for the European solution.

3. I am puzzled by Michael's assertion that the provisional agreements he reached with his European colleagues will come into effect if Westland decide to accept the European offer. I do not believe we have agreed to this. Leon Brittan's statement in the House on 16 December made clear that the Government is not bound by the NAD recommendation. That continues to be the case. As you know, I have major reservations about the procurement strategy envisaged by Michael's draft agreement. In particular, I cannot agree that if the European offer is eventually accepted by Westland shareholders we as a Government should cut ourselves off from possible procurement of American helicopters for the foreseeable future in favour of a single, wholly

protected, European source of supply.

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

[JM]

file

ECL

10 DOWNING STREET

From the Private Secretary

30 December 1985

I enclose a copy of a letter which I have received from Mr. Alan Bristow about Westlands.

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

(Charles Powell)

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

Tel: (0483) 274674

Meadowfield,
Cranleigh,
Surrey GU6 7DJ

23 December 1985

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

FILE
D.G.

1

cc CH
RTA
cc CDL

10 DOWNING STREET

From the Private Secretary

30 December 1985

Dear Richard,

WESTLAND

The Prime Minister has seen the Defence Secretary's minute of 23 December as well as the Trade and Industry Secretary's minute of 27 December about Westland.

The Prime Minister does not see that the fuller information now available about the European consortium's proposals calls for any change in the Government's attitude. Those proposals are on the table because the Government took steps to ensure that Westland had an alternative European-based offer to consider and thus a genuine choice. It was always foreseen, and indeed confirmed collectively by Ministers at Cabinet on 19 December, that it would be for the company, the banks and the shareholders to consider which of the two offers - or any subsequent improvements in either of them - they prefer. I understand that the Westland Board have today invited the European consortium to amalgamate their proposals into a single document which they can then send to their shareholders.

Your Secretary of State referred to Libya's involvement in Fiat as raising possible new security and political considerations. As you know, the JIC have subsequently examined this matter. Their conclusions are that, based on what is known of Libya's role in Fiat and of Fiat's involvement in West European collaborative defence projects, there is no serious risk that Libya might seek to exercise unwarranted political interference in Westland's commercial operations. The scope for such interference would in any case be limited by the restricted voting rights and the non-executive status of a Fiat director on the Westland board, should the current Sikorsky/Fiat bid be accepted. The JIC also conclude that they see no reason to consider the risk of transfer of sensitive technology as more serious in the case of Westland than in the case of other past and prospective collaborative projects involving Fiat and United Kingdom defence manufacturers, where it has not been judged at all great.

The Prime Minister found the points about competition policy made in the Chief Secretary's minute of 17 December

JB.

very pertinent. She is puzzled by the Defence Secretary's reference to a provisional agreement between the Defence Ministers of the European countries on the placing of future orders for helicopters: the Government have specifically disavowed the recommendations of the National Armaments Directors. The effect of any such agreement would, as the Chief Secretary points out, be to place significant restrictions on competitive tendering, thereby incurring a risk of increased costs. Moreover, the savings predicted from increased European collaboration in helicopter manufacture can only be described as speculative at this stage, and certainly seem likely to be small compared with cost over-runs on other defence projects.

The Prime Minister hopes that we shall not say anything which would lead Westland or its shareholders to believe that if they accepted the Sikorsky/Fiat proposals they would lose the Government's support for participating in future in European collaborative helicopter projects. Whichever proposals are accepted by the shareholders, Westland should continue to have the Government's support, in the future as in the past, in seeking such participation.

The Prime Minister concludes that the Government's present policy, as approved by Cabinet on 19 December and announced in the House the same day, of not indicating a preference for either one of the two offers remains correct. In particular it avoids any risk that the Government could itself be forced into assuming any direct liabilities for the future of Westland, which could arise if it appeared to be restricting Westland's own free choice.

I am copying this letter to John Mogg (Department of Trade and Industry) and to the Private Secretaries of other members of the Cabinet.

yours sincerely,

Charles Powell

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

JCAAXM

FILE

bc: Sir P. Gadoch
Chief Whip

10 DOWNING STREET

From the Private Secretary

30 December 1985

WESTLAND

I enclose a copy of a letter which the Prime Minister has this afternoon received from Sir John Cuckney.

The Prime Minister would like to reply tomorrow. The gist of the reply which she would like to send is that the Government believe that a substantial British design development and production capability should remain, irrespective of which consortium takes a minority share-holding; that we hope and expect that in either case Westland will want to continue to play a full part in European collaborative helicopter projects; and that the Government will continue to give full support to the company's efforts in seeking to do so.

I should be grateful for a draft by 1600 hours on 31 December, cleared as appropriate with other departments and the Law Officers.

I am copying this letter to Richard Mottram (Ministry of Defence), Richard Broadbent (Chief Secretary's Office), Len Appleyard (Foreign and Commonwealth Office) and Michael Stark (Cabinet Office).

(Charles Powell)

Miss Catherine Bradley,
Department of Trade and Industry.

089

WESTLAND plc

From
Sir John Cuckney

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

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

30th December, 1985

Dear Prime Minister,

In view of the response you made to a question in the House of Commons on the 19th December that major procurement decisions are a matter for the Government as a whole, it would greatly help my Board to know if Westland would no longer be considered a European company by the Government if a minority shareholding in the company were held by a major international group from a NATO country outside Europe.

This question is of fundamental importance in view of the statement in a letter from the Procurement Executive, Ministry of Defence to Lloyds Merchant Bank dated 24th December that only by joining the so called European consortium would Westland be in a position to take responsibility for the British share of European helicopter collaborative projects.

Yours sincerely,

John Cuckney

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

Patricia Rowe

for D.R. Morris


30.XII
PM

PRIME MINISTER

how seen
CDP
30 xii

WESTLAND

Sir John Cuckney telephoned me this afternoon to give me the gist of the press statement which the Board of Westland will be making later this afternoon. This will say that they have now received letters from Lloyds Bank International and the MOD providing various clarifications of the European offer. They are inviting the European Consortium to draw together the various elements of their proposals into a single communication, which Westland can then pass on to their shareholders. The Board will make no comment on the proposal at this stage, but Sir John Cuckney will write in good time to shareholders before the meeting on 14 January. Sir John commented that this press statement might be taken as some weakening in the Board's attitude to the European offer. He wanted to stress that this was not the case. Rather Westland felt it was better for them to take the initiative in announcing their action rather than allow the European Consortium to do so.

Sir John added that he could tell me privately that the Board's conclusion today was that they continued to believe that the Sikorsky/Fiat proposals were preferable if the terms could be improved in certain respects. His personal guess was that there would be some improvement in the Sikorsky/Fiat offer by the end of the week to match or exceed the European terms. If so, his Board would make a very strong recommendation in favour of acceptance and mount a major PR campaign to push it.

We have now received Sir John Cuckney's letter (attached).

CDP

CHARLES POWELL
30 December 1985

EL3ATQ

10 DOWNING STREET

MT

Prime Minister

Westland letters

The whereabouts of the 3 letters are:

i. Mr John Smith: Original not yet arrived, but he has dictated the text to us.

ii. Mr Teddy Taylor: See attachment

iii Sir John Cuckney: No letter arrived and the Sunday Telegraph article attached suggests the letter has still to be written. I have not telephoned to enquire about the timing

of its arrival, but will do
if you wish.

N. L. W

29. Dec.

LETTER DICTATED BY MR. TEDDY TAYLOR MP, ON 29 DECEMBER, 1985.

(Mr. Taylor's original letter - not yet arrived - was written, and as he has no copy to hand, the letter below forms only the gist of the original.)

Happy Christmas, and best wishes for good health in 1986.

You may recall that on 19 December you were kind enough to give me an assurance that you would not permit the Defence Ministry to discriminate against Westlands should they opt for the Sikorsky-Fiat arrangement, and you further assured me that procurement decisions were for the Government as a whole.

Despite this, there have been statements from the Ministry of Defence and from Lloyds Merchant Bank to the effect that six additional Sea King helicopters would be ordered from Westlands if and only if they made an arrangement with the European Consortium.

I really feel that the issue should be cleared up preferably before the Westland meeting. Personally, however, I would be happy with an acknowledgement from your office.

JD/45/29.12.85

SUNDAY TELEGRAPH.

west. At one time it was thought that a fifth attacker might have taken refuge in this area after escaping the shoot-out, but this theory is now denied by investigators.

The two victims who died early yesterday in hospital were named as Don Malamed, 30, an American, who suffered severe head wounds, and Signora Elena Tomarelli, 67, from Latima, the second Italian victim. The other dead included two Mexicans, four Americans, three Greeks, an Algerian and three of the terrorists.

Two of the dead terrorists carried forged Moroccan passports, an apparent link with a series of recent attacks attributed to the break-away Palestinian faction led by Abu Nidal, which has claimed responsibility for both attacks.

Holders of Moroccan passports need no visa to enter Italy.

Signor Scalfaro's admission that the secret service had been warned to expect a Christmas attack provoked some bitter political criticism. This recalled that which brought about the temporary collapse of the Socialist-led coalition government following the hijacking of the Achille Lauro cruise ship earlier this year.

BBC television broadcast an interview last night with one of the terrorists involved in the Vienna airport attack.

From his bed in a hospital 32 miles outside the Austrian capital, Abdel Aziz Merzoughi, 25, said that he was a member of Al-Fatah, "official" terrorist wing of the Palestine Liberation Organisation.

An American CBS reporter, who was specially allowed through the tight security screen to speak to Merzoughi, asked whether he had gone to the airport to kill people. "Yes," replied the terrorist.

Merzoughi claims to be a Lebanese. But the Austrian police have doubts about his true nationality as he was travelling on a Tunisian passport.

He told police that the group of terrorists hired a taxi to get to Vienna airport. Asked by the reporter why they had carried out the massacre, Merzoughi said: "Because Israel tried to kill us."

When asked if he was a member of the PLO, Merzoughi answered simply: "Yes." And in answer to a question about who had given the group its instructions, Merzoughi replied: "Al-Fatah."

Britain 'on hit list'—P2
Editorial comment—P16

Cold snap grips Britain

By CATHERINE STEVEN

OUTLOOK: Dry, changing to snow or rain in most areas. Very cold, warmer later.

WINTER took a grip on many parts of Britain yesterday. Roads became impassable in north-east Scotland, three foot snow drifts were reported in Northumberland, 23 football matches were postponed and all four race meetings were abandoned.

The cold snap is predicted to last until at least New Year's Eve, with snow flurries moving further south.

The AA said: "Conditions in Scotland and the North-east are worst. It is very nasty for motorists in Cumberland, Northumberland, Durham and Tyneside." Whitby, North Yorkshire, was completely cut off by snow.

Snow also fell in London and the south east.

Many minor accidents occurred in Kent, Sussex, Surrey and Hampshire, where police issued warnings of black ice. A young motorist died when his car skidded off a road at Much Wenlock, Shropshire.

The A39 at Woolavington, near Bridgwater, Somerset, was closed after a 20-vehicle pile-up on black ice. No one was hurt.

The Weather Centre said last night that plenty more snow was on the way for Scotland in the next 24 hours. That should please skiers, who yesterday could use only one of the 15 slopes at Aviemore, in the Cairngorms, because of the lack of snow.

Further afield, conditions for skiers were expected to improve over the next few days after a pretty disastrous start to the season throughout Europe. In Switzerland, heavy falls of snow were forecast for all over the country.

Official forecast—Back Page

SKIERS REJOICE

French skiers, who were bitterly disappointed by the failure of the weather to provide snow, took heart yesterday. Snow began to fall heavily, particularly at mountain altitudes.

MICHAEL PATTISON

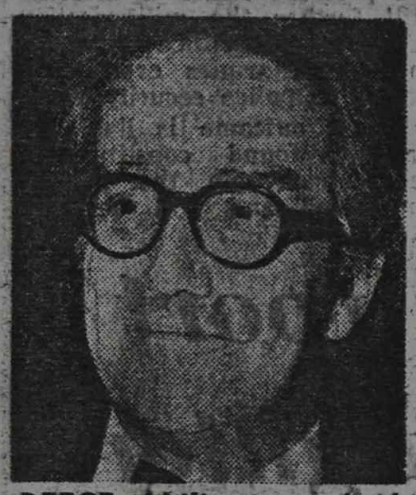
HOLIDAY OFF: Mr Heseltine, Defence Secretary, enjoying a spot of gardening at his home near Banbury, Oxon, yesterday after cancelling a family holiday in Nepal because of the Westland Helicopters crisis. His three children went on their own.

Thatcher man for Westland

By JOHN LEWIS, Political Correspondent

MR GORDON REECE, for several years public relations adviser to the Prime Minister and still a close friend, is advising Westland, the British helicopter firm, in the controversy about whether it should accept the American Sikorsky - Fiat or the European solution to its troubles.

Mr Reece's appointment, which I understand was made some weeks ago but has only now come into the open, will add to the continuing controversy and is certain to raise questions about the Prime Minister's attitude.



REECE: Ability recognised by Mrs Thatcher

Mrs Thatcher has been taking a strictly neutral line, insisting that any decision on whether to go European or American must be for the company to decide. But the company has been leaning heavily in favour of the Sikorsky-Fiat deal and it now emerges that Mr Reece is advising in a public relations capacity.

Mr Heseltine, Defence Secretary, is bound to feel deep unease about the disclosure.

Mr Reece, 53, first attracted Mrs Thatcher's attention in the early 1970s, when he was recruited by the Conservative Party to supervise party political broadcasts. He became her personal adviser in the 1975 leadership battle.

He was adviser to the Prime Minister last during the 1983 general election, but took control of Conservative Central Office for a few months last year when the director of publicity died.

"Since then I have had no connection with advice to the Prime Minister or the Conservative Party," Mr Reece said. "I am an independent public relations consultant, and if someone approaches me with an offer, I consider it. I have never spoken to the Prime Minister on Westland."

After he joined Dr Armand Hammer's Occidental Oil in California at a salary of between £50,000 and £75,000, Mrs Thatcher persuaded him to return as a personal adviser in the 1983 general election.

Sir John Cuckney, Westland's chairman, is expected to go ahead with a shareholders' meeting on January 14 to approve the financial reconstruction of the company. He may well leave the choice of whether to join the European consortium of countries or Sikorsky until later.

But he intends to put the European offer to shareholders while denying suggestions that he is legally bound to allow three weeks' notice before he does this. Sikorsky-Fiat are expected to submit an improved offer at the end of the week.

Sir John is giving the impression that he is trying to bring the Prime Minister on his side. He is to write to her seeking clarification of the Government's policy on defence procurement.

The Westland chairman is referring back to a Commons answer Mrs Thatcher gave before Christmas when she said major procurement decisions were a matter for the Cabinet and not simply for the Defence Secretary.

Optim over jobles

By JOHN K
Industrial Corr

GOVERNMENT that Britai ployment level i to fall was under in a survey by of Directors.

The Institute that 59 per cen directors questione ployment will rise six months; 59 p lieve it will remain 11 per cent expect

Also, this week the Department of are expected to sh decline in the 3·2 employed.

Mr Graham Mat the Institute's poli "the fact that al cent of senior bus pect job growth i panies in the first will help reduce employment grow ing".

LATE NEWS

Rock rampage on Broadway

By Our Staff Correspondent in New York

Two men received gun-shot wounds and at least six others were stabbed when a group of more than 200 youths went on the rampage through New York's theatre district.

They terrorised passers-by and fought with police on Broadway after attending a raucous rock concert late on Friday night. There were 18 arrests.

ON OTHER PAGES

VCDP - to see.

PRIME MINISTER

WESTLAND

The new twist in the Westland saga this weekend is that Gordon Reece has been appointed by Westland to advise them on public/political relations.

I find it interesting that the first to tell me this was Adam Raphael, of the Observer, who asked me to keep it quiet since he believed that no other journalist knew it. Raphael of course last weekend leaked the alleged Leon Brittan minute. He has always been close to the MOD.

The next rumour I heard from the press (Sunday Express) was that they had it from the MOD that an emminent person was being asked to intervene in the Westland affair. After checking with No. 10, I said I knew nothing of this but did mention that there was a rumour flying around that Gordon Reece was being engaged by Westland.

Subsequently the Sunday Express confirmed that the MOD acknowledged that the emminent person was Gordon Reece and the Sunday Express said it was being suggested that he had spent part of Christmas with you at Chequers. The MOD was unattributably describing the appointment as "incredible".

I think there is little doubt that stories tomorrow will imply, apparently at the inspiration of the MOD, that you have intervened in Westland by putting your own man into the company as an adviser.

Can I say that:

i) Gordon Reece has not been at Chequers this Christmas?

ii) His involvement with Westland comes as news to you?

Bernard Ingham
28 December 1985

WESTLAND: AGREEMENT BETWEEN SIKORSKY AND SHORTS

The key points of the memorandum between Sikorsky and Shorts are as follows:

i) The agreement is not a licence. It is a memorandum of agreement which envisaged the subsequent negotiation of more specific licence arrangements.

ii) The agreement is specifically related to the former Air Staff Target 404 (AST 404).

iii) In the context of AST 404 Sikorsky intended to have Shorts' participation in the final assembly, flight test, fabrication of the pipe fuselage and other composite parts.

iv) There was a possibility of further participation by Shorts following a successful programme for AST 404.

v) Any specific work resulting from this statement of intention was to be the subject of a separate agreement.

vi) Both sides have the right to terminate the agreement on 60 days' notice.

The agreement did not refer to arrangements for avionics. It did not exclude participation by UK avionic companies as has been suggested. We are not aware of any other document which would exclude such participation. Indeed, our understanding was that Sikorsky were anxious to encourage UK avionic companies to participate in order to improve the attractiveness of the aircraft to the UK authorities. For a similar reason they arranged for the aircraft to be powered by the Rolls Royce RTM 322 engine.

AST 404 has been withdrawn by the MOD who have announced that they are reviewing their requirements for support helicopters. More recently Mr. Heseltine has announced that the MOD will in any case not order the Black Hawk or any similar helicopter. Although the Sikorsky/Shorts memorandum remains in existence, in practice it has therefore never become operational.

So far as the prospective licence arrangement between Sikorsky and Westland is concerned, this would not be specifically tied to AST 404, which has in any case been withdrawn. We understand it will be a general licence to manufacture and sell the Black Hawk in agreed areas of the world. We are not aware of any intention to exclude British avionic companies from supplying equipment to Black Hawks built under licence by Westland. The normal arrangements can be expected to apply ie that particular customers will be able to specify equipment fits based on international competitive tender.

Should the MOD change its mind and order Black Hawk from Westland at some future date, the question may arise as to possible conflict with the Sikorsky/Shorts arrangements. This would be a commercial matter between the companies and has not yet been addressed by them because the situation is entirely hypothetical, given the clear statement from the MOD that Black Hawk will not be ordered. The matter might need to be resolved through legal channels, or some commercial compromise might be worked out. In fact it is arguable that, since a hypothetical future MOD order would not be against AST 404, and would not be placed with Sikorsky/Shorts (both of which are assumed in the Sikorsky/Shorts memorandum) the terms of the Sikorsky/Shorts memorandum would not be regarded as activated by any order placed with Westland by the MOD.

Department of Trade and Industry
28 December 1985

PART ONE ends:-

27 DECEMBER 1985

PART TWO begins:-

28 DECEMBER 1985