



10 DOWNING STREET

19 June 1985

From the Private Secretary

WESTLAND

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

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

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

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budget and the Treasury.

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

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

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

In discussion the following points were noted:-

i) What was important to the Defence programme was not the existing Westland company but the capability to service existing helicopters and to develop the EH101 project.

ii) If Bristow's offer were withdrawn, the result would be a major fall in Westland's share price though this might not immediately lead to the collapse of the company. A new bidder might emerge at the lower level of the share price.

iii) It was wrong to go on looking for ways to bridge the gap between the over-valued share price on which the original offer had been made and the new value which was justified by the later information.

iv) Government should take care to ensure that any action on its part did not incur liabilities under S.332 of the Companies Act.

v) If Bristows did withdraw they should be encouraged to explain this by reference to the financial difficulties of the company and not by denigrating the

technical merits of the company's products.

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

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

(Andrew Turnbull)

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