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Secretary of State for Trade and Industry

17 October 1985

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

Dear Richard

WESTLAND

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

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

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

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

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

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

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

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

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

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

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

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

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