



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

18 October 1985

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

Dear Richard

WESTLAND

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

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

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

JF4AJD



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

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

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

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

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



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

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

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

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

*Yours ever
Edmund Hosker*

EDMUND HOSKER
Private Secretary

JF4AJD