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PRIME MINISTER

WESTLAND

... I received yesterday the attached letter from Sir John Cuckney and I have seen a copy of the Chief Secretary's letter of 3 December to the Defence Secretary. I hope it will be possible to discuss urgently with you and colleagues what the Government's response to Sir John should be. Westland stress the extreme tightness of this timescale, and had hoped to conclude an agreement with Sikorsky early this week.

2 My main concern is to avoid the risk that both the competing proposals for participation in a reconstruction of Westland might fail, and that the Government could be blamed for the consequences. Indeed there would be strong and probably irresistible pressure on the Government to accept financial responsibility for those consequences. This could happen if the Government were to accept in full the recommendations of the National Armaments Directors last Friday.

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3 I do not think the Government should express, still less seek to impose, a preference for a particular solution although we must, of course, take into account not only the Ministry of Defence's interest as a customer but also my own Department's through its launch aid to Westlands. We must also have regard to the importance of current and prospective European collaborative projects. But these considerations should not in my view lead the Government to seek to prevent any particular solution. It must be for the company to decide what solution it should recommend to shareholders.

4 Sir John says in his letter that Westland are far advanced in their negotiations with Sikorsky and Fiat; that he does not believe the proposals from the European consortium in their present form provide a viable alternative; but that the effect of the recommendations of the National Armaments Directors last Friday, if accepted, would be that the Board would not be able to recommend the Sikorsky/Fiat proposals to shareholders.

5 I suggest it would be right for us to decide now not to accept the NADs recommendation that the needs of the four countries' forces in three specified classes of helicopter

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(13 tonne, 8-9 tonne and light Attack Helicopter) "should be covered solely in the future by helicopters designed and built in Europe". Clearly to endorse this recommendation would have implications for the attractiveness of a Sikorsky participation to Westland shareholders, since one feature of the proposals will no doubt be the prospect of Westland obtaining work on orders for Sikorsky-designed helicopters to be built in the UK. But quite apart from this I believe that to accept such a rigid recommendation would involve an unnecessary restriction on the opportunities for competition in future procurement decisions.

6 I believe our response to the NADs recommendations should be to reaffirm our commitment to the 1978 Declaration of Principles (the key part of which is an agreement by the Governments to make every effort to meet their needs with helicopters developed jointly in Europe); and to say that we think it would be wrong to go, any further than those Principles. I do not at present believe we need go further by way of specific rejection of the NADs recommendations in order to preserve Westland's commercial freedom, but this is subject to further discussion with the company in the course of the week.

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7 I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer and the Chief Secretary, the Secretary of State for Defence and the Chancellor of the Duchy of Lancaster.

John Major

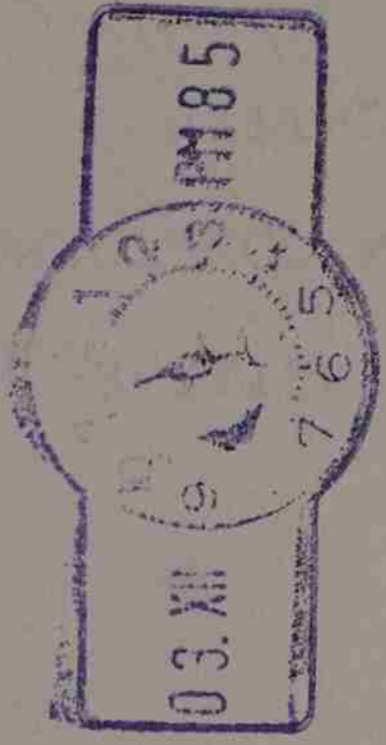
pp L B

[Approved by the Secretary of State
and signed in his absence]

3 December 1985

DEPARTMENT OF TRADE AND INDUSTRY

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SofS - we spoke. See attached too.
To see - advice has been sought
From urgently on this.
Sir John Cuckney

WESTLAND plc

McCaboff

N.P.

TO: *Mr O'Shea* COPIES TO: *AIR*
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)
PLEASE BY: *ASAP* DEADLINE:
CANNOT BE MET

4, CARLTON GARDENS,
PALL MALL,
LONDON, SW1Y 5AB.

TEL: 01-836 4061

PSIGA
PSISii BH
Sir J. Sterling
Mr Macdonald
Mr Mitchell
Mr Fairweather

COMMERCIAL IN CONFIDENCE

2nd December, 1985

Mr Mullinich Selw.

The Rt. Hon. Leon Brittan, QC, MP,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
1 Victoria Street,
London SW1H 0ET.

Dear Secretary of State,

I am writing to express the concern of the Board of Westland about recent developments which have occurred whilst we are attempting to produce a recovery plan for this Company.

We are far advanced in negotiations with Sikorsky and Fiat to take between them, in roughly equal proportions, a substantial minority stake in our equity, as enlarged by a capital reconstruction scheme which will also involve Westland's bankers and shareholders. An important objective of any proposed association with Sikorsky and Fiat will be the provision of continuity of workload in our factories. To this end we are proposing to enter into a licence to manufacture and sell the Black Hawk helicopter which, we believe, will provide the best commercial means of achieving this objective.

We have today received a letter, written on behalf of Aerospatiale and Messerschmitt-Bolkow-Blohm, and with the knowledge, but not the formal approval of Agusta, containing proposals for those companies to take a minority stake in Westland. These proposals, as they stand, represent no commercial advance over proposals previously discussed with the same parties. In particular they do not, in our opinion, secure the necessary continuity of workload already mentioned. Accordingly these proposals in their present form do not, we believe, provide a viable alternative to our current reconstruction proposals.

We are, however, gravely concerned about the implications of the Note from the National Armaments Directors of France, Germany, Italy and the United Kingdom handed to me by the Secretary of State for Defence last Friday evening. It is the opinion of the Board of Westland and its advisers that the substance of this Note, if approved by the Governments concerned, is information which would

/be material ...

be material for disclosure to shareholders in their assessment of the reconstruction proposals. In these circumstances the Board do not see how they would be able to recommend to the Company's shareholders and its Banks reconstruction proposals involving Sikorsky and Fiat.

I need hardly add that I and my Board colleagues are very conscious of our duties and responsibilities as Directors. Our concern, therefore, is that there is a danger of our falling between two stools and having no effective reconstruction proposals to put forward within the urgent timescale to which we have to adhere. In order to avoid this, we urgently request, at the least, confirmation that H.M. Government will not agree to the recommendations of the National Armaments Directors and thereby not inhibit the freedom of this Board to act in the best commercial interests of its shareholders and employees.

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

Yours sincerely,
H. C. [unclear]

1978 - no
guarantee to
purchasers

1903

