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No 10  
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Reference No E 0132

MR JAGO

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cc Mr Unwin  
Dr Walker

WESTLANDS

The Prime Minister's Office intend to hold a small meeting between OD and Cabinet tomorrow to consider the future of Westlands.

2. Westlands' accounts for the year ending 30 September 1985 are due to be published on 11 December. Although some postponement is now inevitable, the delay cannot be long; and because of the extent of write-offs, it will be necessary at the same time to announce a financial reconstruction package in order to avoid a breach of debenture conditions and thus enforced receivership.
3. Westlands have been in discussion with Sikorsky, with a view to Sikorsky and Fiat taking between them a 29.9 per cent share in the company. (The discussions have all been with Sikorsky, who in turn have been talking to Fiat.) In addition to this injection of equity, the proposed reconstruction would provide for the banks to convert some of their loans into equity, and for a rights issue. The total amount involved is thought by DTI (who have not seen financial details) to amount to about £60 million.
4. Meanwhile the Defence Secretary seems to have been associated with an attempt to arrange a European 'rescue' for Westlands. Under this proposal a 29.9 per cent stake

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in Westlands would be taken jointly by Aerospatiale (France), MBB (Germany) and Agusta (Italy). The cash injection would apparently be of the order of £25 million. The French and German companies were in a position to commit themselves, but Agusta (which is financially weak, and which is owned by the Italian Government) has not yet secured approval for its participation. As part of the deal, the Armaments Directors of the four countries (in the case of the UK, this means Mr Perry, Chief of Defence Equipment Collaboration) have agreed to recommend to their Governments that all their requirements for the three types of helicopter currently in prospect should be satisfied from European sources, on the basis of European designs. The effect of this would be to rule out Westland helicopters produced on the basis of Sikorsky designs, and effectively to eliminate competition in the European military helicopter market.

5. Westlands consider that the European rescue package is financially inadequate, and would not save them from receivership. But acceptance by the UK Government of the Armaments Directors' recommendation would preclude them from recommending the Sikorsky deal to shareholders, since much of the market would have been put beyond their reach. DTI officials see the European solution as in effect converting Westlands into an assembly plant for Aerospatiale - which is certainly how Aerospatiale see it.

6. The attitude of the Italian Government remains uncertain. Agusta and Westlands are working together on a military helicopter which is very important to Agusta's future, so Agusta would be distinctly embarrassed if Westland were forced into receivership. DTI also understand that Fiat have offered to take a stake in Agusta, although they know nothing about the financial details. The effect of such an arrangement, if it went ahead, would presumably be to

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strengthen the existing association between Westlands and Agusta, in partnership with Sikorsky, so creating a credible alternative supplier to Aerospatiale/MBB.

7. Formally, the Armaments Directors' proposal to their Governments has the status only of a recommendation, which Ministers need now to consider. (It would be surprising, however, if Mr Perry had not received some encouragement from the Defence Secretary.) The Secretary of State for Trade and Industry is now seeking a Government decision to reject the recommendation, and has minuted the Prime Minister accordingly.

JW

A J WIGGINS  
Economic Secretariat.  
4 December, 1985