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MO 26/16/1

10th December 1985

Prime Minister
NOTE of Defence
Secretary's meeting
with Sir J. Cuckney
EDP 11/12

Dear John,

WESTLAND HELICOPTERS

Further to my Secretary of State's letter to yours earlier today, Sir John Cuckney called on the Defence Secretary at 1800 this evening. He was accompanied by Sir John Treacher and by Mr Agius of Lazards. Mr Lamont, Mr MacDonald of your Department, Mr Bourn and I were also present.

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DTI representative

The Defence Secretary referred to the views expressed at the E(A) meeting yesterday. Ministers had set a clear deadline in which the European consortium had the opportunity to put forward proposals on the same basis as Sikorsky/Fiat. He was anxious to assist this process in the way which was most constructive from Westland's point of view. It seemed that British Aerospace had now decided to join the European consortium which he was delighted about since this brought in a large and successful British contractor. There might be one or two others who wished to be associated with the European consortium offer. Its momentum seemed to be gathering. We were pursuing with the National Armaments Directors of our European partners ideas which could assist Westland and he hoped that it would be possible to produce an offer which provided more work, a better project range and avoided US control. His aim was to persuade Sir John Cuckney that this was the better route to follow.

Sir John Cuckney said that, at the time of the Bristow bid, Agusta and Aerospatiale had been given full details of the company's position. The summary of the Price Waterhouse report had been made available to the three European companies, as well as to Sikorsky. Sikorsky's response had been to send an initial team of 12 people, subsequently 16, to work through the detail of what would be an immensely complicated deal. He believed that all of the detailed information should be made available only if a recipient could demonstrate that an association with him would benefit Westland commercially in terms of their future

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product range. A number of meetings had been held with Aerospatiale/MBB at which Aerospatiale had said bluntly that their interest was to block the Sikorsky bid. Westland were in fierce competition with Aerospatiale in a number of export markets and he could not accept that he should disclose to them information which could be commercially damaging, for example, financial information on the Indian W30 order and information on the problem which had arisen over the avionics for the Indian Sea King. If he could have demonstrated that there were commercial benefits which might accrue, he would make information available. But he was not in a bid situation and there was no obligation to make information available.

The Defence Secretary said that he of course accepted that commercially sensitive information must be protected. It was, however, difficult to know how the company might be helped if their position was not clearly understood. The European consortium were not, for example, fully in the picture on Westland's future workload. In discussion of this point, Sir John Cuckney confirmed that the projection of the future workload set out in the summary of the Price Waterhouse report had not been subject to any material changes. Sir John Treacher added that it was not simply a matter of production loading. Westland needed a product which was tried and tested in the market place and had a clear future, and they believed that product was the Blackhawk helicopter. The Defence Secretary said that he could only repeat that the Ministry of Defence had no plans to purchase the Blackhawk helicopter and, given that overseas sales of military products depended upon a successful sale to the home market, he did not understand how Westland hoped to sell the Blackhawk elsewhere. Sir John Treacher repeated that the Westland strategy was based on achieving sales of Blackhawk over the next 15 years. The Defence Secretary commented that this was a matter for Westland, not for him. The important point was that there were workload assumptions on which the European consortium could develop their proposals.

The Defence Secretary then asked about the financial position of the company. Sir John Cuckney said that he was content to make available the following day to Mr Horne of Lloyds Bank International the latest version of Westland's draft 1985 accounts, and to answer questions on them. The Defence Secretary thanked him for this. He said that a further question which needed to be resolved was Westland's calculations about redundancy payments. Sir John Cuckney said that he knew that this was an issue in which British Aerospace took a close interest. He did not himself believe that a big bang approach was the right answer. He saw a progressive and steady rundown as being the better course. Redundancy provisions were covered in the 1985 accounts.

Sir John Cuckney then said that he wished to draw attention to the limited staff resources available to Westland and their advisers to deal with these issues. He was advised that they



would already be hard pressed to complete the documentation on the Sikorsky deal and there could be no question of stopping work on that while the European alternative was to be considered. The Defence Secretary said that there was no requirement to get into a minutia with the European consortium at this stage. The aim was to produce by Friday a deal which Westland themselves would find attractive.

Sir John Cuckney said that finance was not the crucial consideration for Westland. The important point was to have proposals on future products which were attractive to the shareholders. His impression was that the European consortium proposal had yet to produce anything which would meet this requirement for an attractive prospectus. Mr Agius confirmed this. He argued that the shareholders were the key to success since the offer had to be sufficiently attractive to sustain a rights issue. The Defence Secretary suggested that the European consortium might put up sufficient finance for a rights issue to be unnecessary. Mr Agius argued that this would not meet Westland's requirement: they had to carry their shareholders with them and the shareholders would not accept that they should be denied the chance to take a further stake in the company. When pressed on this argument, however, he was less than convincing.

Mr Bourn asked how the Europeans might tailor their approach best to meet the company's needs. Sir John Cuckney asked whether it was the intention that the British Government would make available to the European companies, as well as their Governments, information which would not be made available to Sikorsky. When it was confirmed that there was such information which was relevant only to the European bid, Sir John Cuckney said that this was a matter which he might wish to raise with the Takeover Panel. He also asked whether British Aerospace would be given this information. The Defence Secretary confirmed that they would be given information relevant to the European bid.

The meeting ended at 1840.

I am copying this letter to Charles Powell (No 10), and to Michael Stark (Cabinet Office).

Yours ever,
Richard Mottram

(R C MOTTRAM)

