

PRIME MINISTER*has seen
CDF 13/4*WESTLAND

The Ministry of Defence's game-plan today is broadly as follows:

- (i) They will be informing Westlands of the outcome of discussions among European Defence Ministers. These are to the effect that if a European bid went ahead, this would allow rationalisation of helicopter production in Europe. This would generate savings for the Ministry of Defence of the order of £25 million. It would in those circumstances invest the money in purchasing six more Seakings from Westland. Together with extra sub-contracting work placed by Aerospatiale and Augusta, this should tide Westland over until production of the EH101 starts.
- (ii) Lloyds Bank International will present a financial offer on behalf of the European companies. This offer will be conditional on their having been given a full statement of Westland's liabilities. (They claim that Westlands are refusing to give them full information).
- (iii) The MOD expect Westlands to turn down the European offer. Lloyds Bank International will make clear that they do not accept that the offer has been given full and fair consideration; they may appeal to Westland's shareholders and bankers to give them further consideration. This will be a matter for the judgement of the private sector.

If this scenario is played out, there seem to me two consequences:

- (i) after 1600 hours we say to Westland that the Government is not accepting the NAD's recommendation, thus removing the obstacle to the Sikorsky bid if that is what Westland decide to pursue. But
- (ii) the MOD will confirm that if the European bid were accepted, and if it led to a rationalisation of European helicopter production, then MOD would devote savings to extra purchases from Westland. This would be saying in effect that we would in practice adopt the NAD's recommendations if the private sector opted for the European bid - but the choice remains in their hands. MOD would probably also say that they had no plans to buy Blackhawk.

This seems to me to offer a potential way through the minefield, though the Government's position would be slightly curious. The present obstacle to Westland's Board reaching whatever decision it wants would be removed. But the Government would be giving an indication of the implications of the decision which will be material to shareholders' decisions.

EDR

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13 December, 1985.