



Prime Minister
You should see
generally rather windy
document.

(2)

MO 26/16/1

[Handwritten scribble]

PRIME MINISTER

WESTLAND PLC

Mr. Heseltine's new trick
is to say - in effect - that
we would accept the NADs'
recommendation if Westland
accepted the European bid.
We ~~can't~~ object to this,

At the meeting of E(A) on Monday, it was concluded that the European consortium should be told that they had until 4 pm today to put forward a package which the Westland Board could recommend after which time the Government would make clear that this country would not be bound by the NADs recommendation. This decision reflected the urgency of the financial situation facing Westland and the view of colleagues that the Europeans should have a proper chance to present a convincing alternative to Sikorsky. The European offer was submitted to the Board of Westland earlier this afternoon and I now report the position to colleagues.

since it
leaves the
decision
in the
company's
hands.
CJP
13/12.

2. Perhaps the most significant development is the decision of the Board of British Aerospace plc to join the European companies as a full member of the consortium. A similar decision has now been taken by GEC in principle but is not yet quantified. The new consortium has I understand submitted its proposals to Westland comprising:

- an offer to subscribe up to a total of £30 million, and more if necessary, for new capital;



* It is a
new way of
describing the
European Consortium.

- additional firm sub-contract work from Aerospatiale and Agusta (bringing the total amount of work to be brought to Westland by Aerospatiale and Agusta over the next five years to 3,000,000 direct man hours with a value of £130 million)

* Linked with a decision by the Company to proceed with the British Aerospace consortium, the Ministry of Defence has indicated its willingness to order an additional 6 Sea King helicopters (see below).

3. On the financial side, I understand that the European bid is still subject to certain conditions. When I saw Sir John Cuckney on Tuesday evening to follow up the E(A) discussion, I explained to him the importance of providing this information in a timely fashion. He gave me an assurance that the Company would both provide the 1985 draft accounts and answer questions on them. I am told by Lloyds Merchant Bank Limited that they have not received the full information that they need. I am myself in no position to judge this but, if the Westland Board were set on proceeding with Sikorsky, they may well have seen little reason to be as forthcoming with the European consortium as they have been with Sikorsky.

4. On the second key issue of the workload at Westland, at the request of Lloyds Merchant Bank Limited, the Ministry of Defence has carried out some calculations on the effects of the European proposals which have been made available to Westland plc. I



/ attach for information a copy of a graph which shows the significant additional firm workload generated by the British Aerospace consortium. I am advised that this offers a certain level of workload that - even with no further orders - goes a considerable way to providing the Company with work on the shopfloor that would carry them through into the build up of work on the EH101.

5. We have now on offer then the involvement of our two largest British defence contractors together with the three present European partners of Westland set against a bid by a US company (with Fiat as very much the junior partner). The balance of national industrial interest seems clear.

6. Turning to the inter-Governmental position, I have reached agreement with my Defence Minister colleagues in Germany, France and Italy on our policy towards the development and procurement of helicopters over the next fifteen years or so. In accordance with the remit of E(A) I have made it explicitly clear that these arrangements would come into effect for the United Kingdom only in the event that Westland plc decide to accept the offer of the British Aerospace consortium. This condition also of course applies in the case of our European allies since, if Westland join with Sikorsky, they will obviously wish to review their existing links with the Company and plans based on future co-operation with them.



7. The general agreement on future procurement policy is complemented by a resolution by the four Ministers together with the Minister of Defence of the Netherlands on our intention to initiate a programme for a single European battlefield helicopter for the 1990s (copies are attached together with the covering letter under which I forwarded them to Sir John Cuckney). To reach agreement on this document in a matter of days is I believe a major achievement and shows the will of my European colleagues to produce a solution which meets Westlands requirements. The value of this document is two-fold. First, in terms of our general approach to defence procurement, a single European battlefield helicopter will be a significant step towards standardisation of equipment on the European battlefield. Secondly, in the particular context of the Westland reconstruction, the British Ministry of Defence will now be involved in a development programme with five countries rather than an Anglo-Italian programme as currently at the feasibility stage. I am advised that this will generate savings of around £25 million on my budget and in order to assist the Company I would intend to use this money to order 6 additional Sea King helicopters for which there is a clear operational requirement but for which at present funds are not available. You will appreciate that, since a five-nation programme is contingent upon the success of the European offer, these savings and this order will not arise in the event of a Westland tie-up with Sikorsky.



8. I have no information on how and when the Board of Westland plc will respond to these proposals. There are three possible outcomes:

a. The Board will conclude that they wish to proceed with a Sikorsky bid and the offer from the British Aerospace consortium might then be withdrawn. In these circumstances the agreements now reached with my European Ministerial colleagues will clearly fall and I would intend to make that clear publicly in line with the decision reached at E(A). I confirm also my original commitment to give full support in that event to the Sikorsky offer;

or

b. The Board will conclude that they wish to proceed with the British Aerospace consortium offer and Sikorsky will decide not proceed with their offer. In that case I will then put into effect the agreements now reached including the additional order for Sea King helicopters.

or

c. The Board decide in favour of one of the two offers but their decision is taken to the shareholders by the other group involved. The Government will then inevitably be asked certain questions.



9. In the event that these questions are raised, I will have to comment on the Ministry of Defence's procurement policies and would intend to say:

a. Our general approach to procurement in the helicopter area is to seek to satisfy our requirements by collaboration with our European partners in accordance with 1978 Declaration. The further proposals which have now been developed within that framework take this process further and provide for the procurement of helicopters in three classes on a collaborative basis over the next fifteen years. This programme, if entered into, would represent a major workload for Westland enabling them to maintain both development and production capabilities.

b. In the event that the Company decided to proceed with the tie-up with Sikorsky, we would need to consider the consequences with our European partners who have informed me that they would wish to review Westlands participation in these joint programmes.

c. That, whatever happens, the Ministry of Defence has neither the requirement nor the funds for the purchase of the Black Hawk helicopter. We are not in a position to comment upon the prospects of the helicopter in other markets.



10. I am copying this minute and the enclosures to the other members of the Cabinet and to Sir Robert Armstrong.

W.A.

Ministry of Defence

13th December 1985