

cc Mr Powell No 10

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cc Mr Mallaby
Dr Walker

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WESTLANDS

Here is today's instalment of the continuing story.

(i) The Defence Secretary is sending today to Westlands the latest version of the European Consortium proposal, together with an indication of the six additional Sea King helicopters which MOD would order if the European deal went through.

(ii) The Defence Secretary is expected to minute the Prime Minister this afternoon, copying the minute to E(A) colleagues, attaching the documents relevant to the European approach and indicating how last Monday's E(A) decision is to be implemented.

(iii) Westlands are expected to announce some time this evening that they are in detailed negotiations with Sikorsky and Fiat on a financial reconstruction package, and that a full announcement would be made shortly. (Westlands would not specifically mention the NADs' recommendation, but if asked would confirm their understanding that the UK Government did not consider itself bound by that recommendation.)

(iv) BAe have confirmed their readiness to take a 25 per cent stake in the European Consortium, but have toughened up their condition about the need to be satisfied with Westlands' short and medium-term production loading, and have specified that they should be free to sell their share in Westlands to another UK company. (It was not clear

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whether, in specifying these conditions, BAe had withdrawn their earlier demand for a Government guarantee on their investment; nor was it clear whether the 'other company' was GEC, which has separately indicated willingness to take part in the European Consortium.)

2. The position remains that Mr Brittan and Mr Heseltine are pursuing essentially different policies. Mr Brittan is seeking to leave Westlands to make their own decision on the Company's financial reconstruction, and on the product range at which they would be aiming. The awkwardness of this approach is that the future commercial fortunes of the Company will depend substantially on decisions taken by the Ministry of Defence, with the Secretary of State for Defence seeking vigorously to exploit his market power in pursuit of the European option. It is far from clear, however, whether the European option has produced a sufficient work-load for Westlands and it is not at all clear what technical basis MOD have for their vehement rejection of the possibility of buying Black Hawk. The impression received by the civil departments is that the UK armed forces would be quite content to have Black Hawk rather than wait until the mid-1990s for the collaborative European NH 90 - and it is hard to believe that it will be cheaper and more efficient in the long run for the UK to commit itself to an unknown European machine in preference to a version of Black Hawk whose development costs will already have been largely recovered in the US. The Board of Westlands may well feel they have been treated less than fairly by MOD and the course of action pursued by MOD appears to owe more to their ambitions for European collaboration than to the operational requirements of UK forces or the need to minimise equipment procurement costs.

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3. These arguments are likely to be well ventilated in public when - as must now be expected - competing reconstruction proposals are put before Westlands' shareholders for consideration at an early Extraordinary General Meeting.

A J WIGGINS
Economic Secretariat.

13 December, 1985