



ce NEW
cc Ch. Whip

December 23 '85

Dear Prime Minister,

I know that the last sentence of my note to you of today's date will not be an easy one for you.

I know also that you will understand the depth of my convictions in this matter.

I ask you to read again paragraphs 9 and 19 of Leon's note to colleagues of October 4th and then to read paragraph 4



of a letter from Lenin's private
secretary to mine and circulated to
colleagues. This letter is dated October 18.

I am not copying this letter
to colleagues. I have discussed its
contents only with the Chief Whip.

Yours ever

W. Churchill



cc Ch. Wyp
ce NKW
ce DW
cc Spore

MO 26/16/1

PRIME MINISTERWESTLAND PLC

Since colleagues last discussed the substance of the Government's approach to the reconstruction of Westland plc at the E(A) meeting on 9th December, there has been a number of developments. I should, I think, report on the defence aspects updating my minute to you of 13th December. As I explained to the Cabinet last Thursday events were likely to move in a way which demanded our attention.

2. The most significant development, which we anticipated in our discussion, is the British/European consortium's offer to Westland on Friday of their counter-proposals to the Sikorsky/Fiat scheme. The consortium now embraces GEC as well as British Aerospace. The two British companies have put in a combined stake of £13M, which exceeds that of any of their European partners. I attach for information at Annex a brief comparison between the two offers. The British/European consortium appears to offer more in terms of the benefits to shareholders (I understand some 60% of the shares may be in the



Handwritten notes:
b
b
b

hands of individuals rather than institutions), the Banks, and the company itself in terms of workload in the short to medium term and product range.

3. As I suggested in my minute of 13th December, with two competing offers on the table I have been pressed on the defence procurement aspects of the issue. In answering these questions I have followed strictly the line which we agreed at Cabinet last Thursday and, although my views are well known, I have not since then expressed any personal preference between the two offers. I have made it clear that:

Handwritten note:
- Said to Sea-thing's
would only go to European offer
on Sunday radio

a. the agreements reached with my European colleagues are provisional and will come into effect for the United Kingdom (as for them) only in the event that Westland plc decide to accept the offer of the British/European consortium. I recognise that these agreements raise important issues about competition policy, on which the Treasury have commented to you and a small number of colleagues. The issue was raised publicly in the Financial Times today. I welcome the attempt to air these issues which are, I believe, at the heart of our future as an advanced country in the defence and other high technology fields. In my public response I have rested on the Government's position as set out in the 1985 Statement on the Defence Estimates. There is no question of a blank cheque to the companies involved in European collaboration

Handwritten note:
Ranked previously by the



as the draft Ministerial agreement makes explicitly clear: paragraph 10, at the suggestion of Dr Woerner with my full support, emphasises the need for a cost effective approach. This said, it is worth bearing in mind that there is absolutely no possibility of the US Government procuring a European designed helicopter to meet the requirement of its forces. The Europeans have to come together if there is to be a genuine two-way street. The American defence base is protected by law and the Pentagon's overseas purchases are permitted only if the product cannot be made in the United States. We are not dealing with an open market economy.

*like
N. W. 1000?*

*M. J.
L. 1000
W. 30 with*

b. Our position on the purchase of the Black Hawk helicopter by the Ministry of Defence remains exactly as it was when Sikorsky first offered it to meet AST 404 to be manufactured under licence by Short Brothers. That staff target is now under further study and, in any case, there are no funds in the forward defence programme for a Black Hawk purchase. The realistic option in this class of helicopter now lies in a later timeframe during the 1990s and involves NH90.

c. The Ministry of Defence order for 6 additional Sea King helicopters arises only in the context of the offer from the British/European consortium, for the reason set out in paragraph 7 of my minute to you of 13th December.



3. While this approach is adequate to deal with the narrow defence procurement issues, I have to record my concern that there are wider policy issues which, in my view, would warrant further collective discussion, taking account of developments since 9th December. In particular:

a. at that time, there was only one firm offer clearly on the table and the alternative had only the prospect of a British element. This is no longer the case. In national political and industrial terms, we shall face increasing criticism for apparently having no preference between a British-led offer and a US-led one. Moreover, our European partners may also wonder why we are not supporting our stated approach to collaboration with them, which, of course, involves a number of other projects of crucial importance to us;

b. we now have the added dimension in the case of the Sikorsky/Fiat offer of possible Libyan involvement about which colleagues knew nothing. There are two aspects to this. First, I believe we must establish the facts and I have asked my Permanent Secretary to arrange for a JIC assessment. If the facts are as stated in the newspapers, namely that Fiat is run by a five man executive team one of whom is Libyan and that two Libyans sit on the main Fiat Board, then there is a security dimension which we shall need to address on the basis of the JIC's assessment.

Tornado ?
EP2 A



Secondly, there is a wider political dimension on which you and other colleagues may well have views; but certainly I do not regard the present assessment of Libya's role in terrorism on the world stage, including on the streets of London, to be compatible with political acceptability in our industrial community. There is no comparison between the role of Fiat as a component manufacturer in defence products and acting as a joint partner effectively controlling a significant British defence company.

4. In drawing these issues to your attention, I am conscious that we are about to enter the holiday period. But I am also aware that decisions could be taken which would cause grave embarrassment to the Government and to the national interest. To avoid this, I believe that the Government should indicate, at least informally, that, subject to the commercial interests of the parties being protected, it would prefer a British/European solution.

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

Ministry of Defence

23rd December 1985

COMPARISON OF UTC/FIAT AND BAe/GEC/AEROSPATIALE/AGUSTA/MBB PROPOSALS

There are now two offers before Westland. Both require a substantial financial reconstruction of the Company involving the injection of new cash in return for equity by the bidding partners and existing shareholders and the conversion of debt to equity by the banks. The details are:

	<u>Sikorsky/Fiat</u>	<u>British/European Consortium</u>
Bidding partners	30.0M	37.1M
Existing shareholders	14.2M (pay 60p a share)	13.0M (pay 55p a share)
Company's Banks (conversion of debt)	28.0M	23.0M
	_____	_____
TOTAL £M	72.2M	73.1M
	_____	_____

In both cases there are options to take more shares. For UTC/Fiat this is an option for them to acquire more shares; under the Consortium proposal the option would be given to the existing shareholders by free warrants with value on the Stock Exchange.

2. On additional workload the proposals are as follows:

	<u>Sikorsky/Fiat</u>	<u>British/European Consortium</u>
Engineering man hours	650,000 over 3 years	(1,250,000 additional (over 5 years, on top (of existing 1,750,000
Direct (manufacturing) man hours (not dependent on helicopter purchases by MOD)	350,000 over 3 years 1987-1989	(which Aerospatiale (are providing under (existing arrangements
Timing	From 1987	Now and increasing from 1987
<u>Net</u> gain/loss of man hours	Net loss to 1990 (because Aerospatiale existing work withdrawn from 1987 onwards)	1,250,000 over 5 years to 1990
Further firm helicopter orders	-	6 extra Sea Kings

3. On product range the comparison is as follows:

	<u>UTC/Fiat</u>	<u>British/European Consortium</u>
EH101	Yes	Yes
NH90	Not mentioned in proposals as published by Lazard Brothers	Yes
Black Hawk	Yes	No
Collaborative battlefield helicopter (A129 Mk II/PAH 2)	Not mentioned	Yes

(The background to these programmes is:

- EH101 - 85 for RN and Italian Navy; civil sales; military utility sales
- NH90 - Participating nations (UK, Germany, France, Italy and Netherlands) have identified total requirement for 700 plus helicopters 1994-2000
- Black Hawk - Sikorsky are currently building large numbers for the US forces. According to the offer document "UTC will license Westland to develop, market and manufacture the Black Hawk for sale to a significant number of territories throughout the world". HMG has made clear that there is no requirement for this helicopter for the British Forces and no financial provision for its purchase in the forward defence programme.
- European Battlefield Helicopter - Participating nations (UK, Germany, France, Italy and Netherlands) have identified total requirement for more than 600 battlefield helicopters in 1990s.)

2/23/22

111
112



SECRET

The following information was obtained from a review of the records of the [redacted] and is being furnished to you for your information. It is to be used only for the purpose stated and is not to be disseminated outside of your office.

Very truly yours,
[Signature]