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10 DOWNING STREET

From the Private Secretary

30 December 1985

Dear Richard,

WESTLAND

The Prime Minister has seen the Defence Secretary's minute of 23 December as well as the Trade and Industry Secretary's minute of 27 December about Westland.

The Prime Minister does not see that the fuller information now available about the European consortium's proposals calls for any change in the Government's attitude. Those proposals are on the table because the Government took steps to ensure that Westland had an alternative European-based offer to consider and thus a genuine choice. It was always foreseen, and indeed confirmed collectively by Ministers at Cabinet on 19 December, that it would be for the company, the banks and the shareholders to consider which of the two offers - or any subsequent improvements in either of them - they prefer. I understand that the Westland Board have today invited the European consortium to amalgamate their proposals into a single document which they can then send to their shareholders.

Your Secretary of State referred to Libya's involvement in Fiat as raising possible new security and political considerations. As you know, the JIC have subsequently examined this matter. Their conclusions are that, based on what is known of Libya's role in Fiat and of Fiat's involvement in West European collaborative defence projects, there is no serious risk that Libya might seek to exercise unwarranted political interference in Westland's commercial operations. The scope for such interference would in any case be limited by the restricted voting rights and the non-executive status of a Fiat director on the Westland board, should the current Sikorsky/Fiat bid be accepted. The JIC also conclude that they see no reason to consider the risk of transfer of sensitive technology as more serious in the case of Westland than in the case of other past and prospective collaborative projects involving Fiat and United Kingdom defence manufacturers, where it has not been judged at all great.

The Prime Minister found the points about competition policy made in the Chief Secretary's minute of 17 December

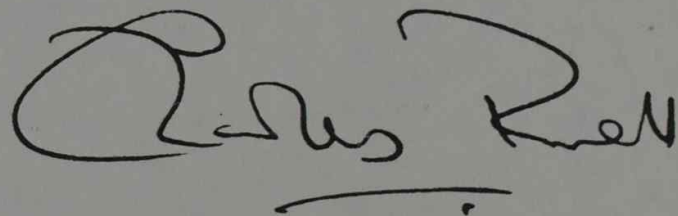
very pertinent. She is puzzled by the Defence Secretary's reference to a provisional agreement between the Defence Ministers of the European countries on the placing of future orders for helicopters: the Government have specifically disavowed the recommendations of the National Armaments Directors. The effect of any such agreement would, as the Chief Secretary points out, be to place significant restrictions on competitive tendering, thereby incurring a risk of increased costs. Moreover, the savings predicted from increased European collaboration in helicopter manufacture can only be described as speculative at this stage, and certainly seem likely to be small compared with cost over-runs on other defence projects.

The Prime Minister hopes that we shall not say anything which would lead Westland or its shareholders to believe that if they accepted the Sikorsky/Fiat proposals they would lose the Government's support for participating in future in European collaborative helicopter projects. Whichever proposals are accepted by the shareholders, Westland should continue to have the Government's support, in the future as in the past, in seeking such participation.

The Prime Minister concludes that the Government's present policy, as approved by Cabinet on 19 December and announced in the House the same day, of not indicating a preference for either one of the two offers remains correct. In particular it avoids any risk that the Government could itself be forced into assuming any direct liabilities for the future of Westland, which could arise if it appeared to be restricting Westland's own free choice.

I am copying this letter to John Mogg (Department of Trade and Industry) and to the Private Secretaries of other members of the Cabinet.

yours sincerely,



Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.