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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/16/1V

6th January 1986

John Paddy

[Handwritten mark]

WESTLAND

*Prime Minister
You will want
to see this exchange
between the Defence
Secretary & the Solicitor-
General.
COP
#/i*

Thank you for your letter of today's date about one sentence in my letter of 3rd January to Lloyds Merchant Bank. You point out that the reference in my letter to indications available to HMG from both the other Governments and the companies concerned that a Westland link with Sikorsky/Fiat would be incompatible with participation by that company on behalf of the UK in the collaborative battlefield helicopter and NH90 projects would be read with the rest of that paragraph to imply that all the Governments and all the companies involved in these projects have given this indication to HMG. You further point out that the evidence that has been made available to you, which was provided as initial background for the Prime Minister's letter to Sir John Cuckney, was insufficient to support my statement and asked me to consider writing again to Mr Horne of Lloyds Merchant Bank correcting any inaccuracies.

I am advised that the circular now being prepared by Lloyds Merchant Bank to go to shareholders states:

Sir Patrick Mayhew QC MP



"In a letter dated 3rd January 1986 from the UK Ministry of Defence addressed to Lloyds Merchant Bank the Secretary of State for Defence, Mr Michael Heseltine, stated that there are indications available to Her Majesty's Government from other governments and companies that a Westland link with UTC/Fiat would be incompatible with participation by Westland in the collaborative battlefield helicopter and NH90 projects."

Thus the problem which you raised would not in practice have arisen.

However, shortly after receiving your letter, I read on the Press Association tape that it had been sent to me with the implication - and no doubt the express purpose of the person who revealed it to the Press Association - that the statement made to Mr Horne could not be sustained. This was not, of course, your own conclusion and, as you emphasised, the evidence you had seen was solely that referred to in your letter. Since, however, this assertion has now been made public, I thought I must write immediately to you to set out the background in further detail. As you will see, the statement which I made is entirely justified.

The concern over the implications of a Westland link with Sikorsky has existed for a number of months and was recognised from the outset within the British Government as well as amongst



our European partners. It was recognised that a Sikorsky link could not only affect existing projects such as the EH101 but also more generally affect Westlands capability to participate in future European developments. It was felt that with a Sikorsky shareholding Westland might tend to become little more than a production facility for Sikorsky and to lose its own helicopter design and development capacity. When these matters were discussed with Sir John Cuckney in the middle of October he said that he was well aware of the Government's preference for a European minority shareholder in Westland and attached weight to that preference. But he had not been able to bring this about and time was of the essence. Given the Government's preference for a European approach I myself explored with my European colleagues their own attitudes to these issues.

The attitudes of the French and German Governments could not have been clearer. They perceived that a Sikorsky tie-up with Westland would mean that Britain would be forced to drop out of the NH90 project and that there would be the most serious implications for the long term viability of the European helicopter industry.

[Where's
the
evidence]

Mr Van Houwelingen, the Netherlands State Secretary for Defence Equipment has also stated that a link between Westland and Sikorsky would make European co-operation in the helicopter field very difficult if not impossible. Mr Van Houwelingen has



confirmed to me that the Dutch company concerned, Fokker, share these views and will publicly say so.

The Italian Government faced of course a difficult decision as Italian companies were involved in each offer. My Italian opposite number, Senatore Spadolini, explained this dilemma to me fully. Nevertheless, the Italian Government is fully seized of the dangers for the NH 90 programme of a link between Westland and Sikorsky. Despite their dual interest, they have played a full part in the preparation of the documents which they have agreed they will sign to establish a European procurement programme. In particular they have expressed their commitment to meeting their future requirements by helicopters designed and built in Europe. Moreover, Agusta, Westland's present partner, is effectively state-owned and has played its active role in the British/European consortium, including participating financially, with the agreement of the Italian Government. The Chairman of Agusta expressed to the British Government serious reservations about the implications of a link with Sikorsky and the need in the event of such a link to seek other partners for collaboration.

As far as the single European battlefield helicopter is concerned, you will appreciate that the proposal for this project arises solely in the context of the draft Ministerial Agreements provisionally reached on 13th December which come into force only in the event of the success of the



British/European offer. It follows that Westland's participation in that project is effectively precluded by any link with Sikorsky/Fiat.

Some of this background was known to you at the time of your advice to the Prime Minister and is relevant to your letter. There is, however a further piece of information which is not I believe in your possession and is crucial to any conclusions that we might reach. On 31st December Lloyds Merchant Bank wrote to the Directors of Westland pointing out that:

[on what authority.]

"Participation by UTC in Westland will jeopardise future co-operation between Westland and the other European helicopter manufacturers in at least two out of the three major European collaborative programmes since the future development of the Sikorsky Black Hawk will compete with the NH90 and the American LHX anti-tank helicopter will compete with the European anti-tank helicopter."

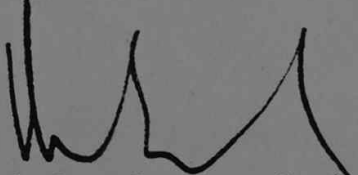
You will I am sure agree that this statement could not be more unequivocal on the position of Aerospatiale, MBB and Agusta. The position of the remaining major European company involved, Fokker, is referred to above.

The above represents of course only a short summary of the material available to me which is supplemented by numerous



conversations with my European Defence Minister colleagues. It is I believe more than sufficient to sustain the statement which I made to Lloyds Merchant Bank. The consequences of a Westland link with Sikorsky/Fiat are clear.

I am copying this letter to the other recipients of yours.

Yours ever

Michael Heseltine