



MINISTRY OF DEFENCE

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Telephone 01-~~930 7022~~ ~~XXXXXX~~ 218 2111/3

MO 26/16/1E

6th January 1986

Dear Charles,

WESTLAND

*Prime Minister  
Mr. Heseltine's reply to your  
minute of last week. I suggest  
a counter until  
just before Cabinet.  
CDP  
6/i*

Thank you for your letter of 30th December about the Government's approach to Westland plc. The Defence Secretary noted in particular your suggestion that the Prime Minister was puzzled by his reference to a provisional agreement between Defence Ministers on the placing of future orders for helicopters, the Government having specifically "disavowed" the recommendations of the National Armaments Directors.

The NADs recommendation was addressed at the E(A) meeting on 9th December. The Prime Minister, when summing up the discussion, said inter alia that the Sub Committee were not yet ready to reject the NADs recommendation; a number of Ministers would have a clear preference for the European alternative to the Sikorsky deal, if it could be developed into a form which the Westlands Board would regard as preferable to the Sikorsky arrangement; but there was little time available and, if the consortium had not produced a package which the Westlands Board could recommend by 4 pm on Friday 13th December, the UK Government would be obliged to reject the NADs recommendation. There is no suggestion in the Minutes that the recommendations of the NADs were being objected to on grounds of defence procurement or competition policy. The problem was that the Sub-Committee understood from the Board that they had to have a package in place by 13th December, that the Sikorsky/Fiat bid would be jeopardised if HMG did not make it clear that it was not bound by the NADs recommendation, and that there was not a sufficiently firm and attractive European alternative on offer.

In keeping with the conclusions of that meeting, my Secretary of State proceeded to explore urgently the possibility of developing the alternative European option into a package which Westlands would prefer. As a necessary part of this and a complement to the proposals of the companies, provisional agreements were reached with other Defence Ministers to come into force in the event that the European package was accepted. These were described in paragraphs 6 and 7 of my Secretary of State's minute of 13th December. As part of these provisional agreements, it was possible through the rationalisation of requirements at the battlefield helicopter level to offer

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Westland an order for 6 additional Sea King helicopters. This proposal was cleared with the Treasury at the time who raised no objection of principle on the understanding that such orders would be accommodated within the existing defence budget (Broadbent's letter to me of 13th December copied to you refers). My Secretary of State therefore went ahead and made it clear to Westland plc that, should they choose the European offer, they could expect that the understandings provisionally reached between Ministers would come into effect and that they would enjoy the benefit of an order for 6 additional Sea King helicopters. Public faith has clearly been pledged in this sense.

The terms of the statement by the Secretary of State for Trade and Industry on 16th December are also of interest in this respect. The statement explains that, because the view of the Westland Board was that the European offer which was finally received was neither firm enough nor attractive enough for the Board to be able to recommend it to its shareholders, accordingly HMG are not bound by the NADs recommendation. There is no suggestion that, if there had been in place a European offer which the Board could recommend (as is now the position), HMG would have seen any difficulty in abiding by the NADs recommendation.

I hope that this clarifies the record and the present public position of the Government. The Defence Secretary has also noted the policy arguments in your paragraph 4. He has commented that there is nothing unique to Westlands in the argument about whether Britain should seek to collaborate with her European partners or allow herself to become a licensed-manufacturer of US-designed and developed equipment. Precisely the same considerations arise in the case of fighter aircraft, for example, where it was concluded that the clear balance of advantage lay in collaboration. The Government's policy is clearly set out in the Statement on the 1985 Defence Estimates.

As in the case of the European Fighter Aircraft project, it will, of course, be important to inject appropriate pressures to keep costs down. Paragraph 10 of the Note by the Defence Ministers of France, Germany, Italy and the United Kingdom (circulated under my Secretary of State's minute of 13th December) explicitly reflects this:

"They therefore agreed, in reaffirming their commitment to the 1978 Declaration of Principles, that the needs of their forces within the 3 classes [13 tonnes, 8-9 tonnes, light attack helicopter] should be covered solely in the future by helicopters designed and built in a cost-effective way in Europe."





If the European consortium were to fail to produce proposals that were cost-effective the position of Ministers is therefore reserved. It is not clear to the Defence Secretary how the alternative of a Westland link with Sikorsky/Fiat would give the Government more freedom of manoeuvre in terms of competitive tendering.

The Defence Secretary notes the Prime Minister's conclusion that the Government's present policy, as approved by Cabinet on 19th December, of not indicating a preference for either of the two offers remains correct. The Defence Secretary believes that events since that discussion (which he forecast in Cabinet) merit a change in this policy or at the very least a further collective discussion of all of the policy implications (which have not been addressed since 9th December). In particular, on 20th December the British/European consortium submitted a firm offer that has been widely recognised by commentators as being superior to that of Sikorsky/Fiat. It has also become apparent that the Board of Westland has no wish to give the shareholders the opportunity of exercising a genuine choice but is determined, if at all possible, to force home its own original preference of a Sikorsky/Fiat link. The Defence Secretary notes the Prime Minister's view that the present policy avoids any risk that the Government itself could 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. But such a problem could arise only in circumstances where there was one firm option on the table which the Government was blocking. There are now two firm options on the table and no risk of the Company failing in a way which would generate such liabilities.

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NO

The Defence Secretary therefore believes that the Government is now in a position to express again the preference it originally held for a European minority stake, and which was expressed at the time to the Chairman of Westland. He believes that that original judgement was correct and that its political and industrial force has been strengthened immeasurably by the subsequent involvement of two British companies.

I am copying this letter to the Private Secretaries to the other members of the Cabinet, to the Legal Secretary to the Law Officers, and to the Private Secretary to the Secretary of the Cabinet.

*Yours ever,*

*Richard Mottram*

(R C MOTTRAM)

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For Attention of Mike Home

PRESS ASSOCIATION 171056003a

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Sikorsky deal betters, this

mt ms

Defence Secretary Mr Michael Heseltine tonight accused the Westland Board of disregarding a request by senior British industrialists to meet the directors before making a choice between the American and British-led offers to rescue the company.

Mr Heseltine, on hearing the Westland announcement that they would "strongly recommend" the now improved American offer to their shareholders, said he was "amazed" that the Board had disregarded this request.

He told the Press Association: "I was authorised by my Cabinet

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colleagues to ensure that the Board of Westland had before it proposals not just of the American company but also those of British companies and their European partners.

mt ms

"Earlier today, some of the most senior of British industrialists asked to meet the directors of Westland before they made any choice between the American and British-led proposals.

"It is now late at night. It is not perhaps the best time to express a considered judgment.

"Suffice it to say that I am amazed that so reasonable a request by such

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important members of a British industrial community should have been so lightly disregarded.

"As the Government has made clear, the shareholders of Westland will wish to make the ultimate judgement."

and wmd