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CM(85) 24th Meeting COPY NO 65

CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held in
10 Downing Street, on
MONDAY 9 DECEMBER 1985 at 4.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John MacGregor
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

The Rt Hon John Wakeham MP
Parliamentary Secretary
Treasury

Mr Rhodes Boyson MP
Minister of State
Northern Ireland Office

Mr Michael Spicer MP
Parliamentary Under-Secretary of State, Department of Transport

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IN ATTENDANCE

Sir John Cuckney
Chairman, Westlands

Sir John Treacher
Vice-Chairman, Westlands

SECRETARIAT

Sir Robert Armstrong
Mr J B Unwin
Mr A J Wiggins
Dr D P Walker

SUBJECT

WESTLANDS

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WESTLANDS

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The Sub-Committee had before it a Note by the Secretaries (E(A)(85) 72) covering a Note by Officials of the Department of Trade and Industry and the Ministry of Defence about Westlands.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that Westlands were not seeking Government financial support to help them surmount the financial difficulties they faced. They favoured a deal with Sikorsky/Fiat whereby Sikorsky, in association with Fiat, would put into Westlands up to £30 million and take a stake of up to 35-40 per cent in the company. This deal had been jeopardised by the recommendation of the National Armaments Directors (NADs) of the United Kingdom, West Germany, France and Italy, made on 29 November, that the Governments of all four countries should meet all their helicopter requirements in the three specified classes by equipment designed and built in Europe. Westlands needed to have a rescue package firmly in place by 19 December when the accounts had to be published. If the United Kingdom Government made clear it would not commit this country to acting in accordance with the NADs' recommendation, the prospect was that the Sikorsky deal could be in place by 19 December. The offer of the European consortium - whereby Aerospatiale, Messerschmidt-Bolkow-Blohm (MBB) and Agusta would put into Westlands at least £25 million and possibly up to £40 million for a 30 per cent stake - remained speculative; it was unlikely that this offer could be firmed up into an effective rescue package which would be negotiated and in place by 19 December. It had also become clear that the possible contribution by British Aerospace (BAe) of about £5 million towards the European consortium package was subject to stringent conditions: first, the arrangements should result in Westlands having a production load sufficient to make the company viable after the proposed financial restructuring; second, the agreement reached with other European governments on the development and procurement of new types of helicopter would need to be completely firm (BAe were looking for arrangements similar to Concorde, not to Lynx); third, BAe's investment would have to be underwritten by the Government - The company was not prepared to risk a loss in this investment; fourth, BAe would need to have a member on the Westland Board, with the power

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of veto over decisions adverse to BAe's own interests (some means would have to be found of resolving the potential conflict of interest which could arise in areas where the two companies competed, such as air conditioning); fifth, the necessary redundancies should be provided for as part of the restructuring, and not represent a burden on the restructured company; and, finally, the Government should agree not to seek recovery of the launch aid given on the W30 helicopter. The strong view of Westlands was that the European consortium's proposals did not offer them the prospect of viability, either in the medium or longer term; and it did not hold out sufficient prospects of new work on the scale which Westlands would need to remain viable. Meanwhile, Westlands share price was under heavy pressure, having fallen from 66p on 6 December to 60p by Monday afternoon, 9 December. Further delay in making clear that the United Kingdom Government would not accept the NAD's recommendation could lead to further pressure on the share price, so putting the financial reconstruction package, which involved a rights issue at a discount to the current market price, at risk. The issue had been complicated by the publication of the NADs' recommendation, with its implication for Westlands, in the Financial Times for 9 December. If the Sikorsky deal fell through because of United Kingdom involvement in the NADs' recommendations, and Westlands went into receivership, the United Kingdom Government would bear much of the responsibility. It would therefore be right for Ministers to decide now not to accept the NADs' recommendation; this was the only decision which the Government now needed to take.

THE SECRETARY OF STATE FOR DEFENCE said that the motive of Sikorsky, in seeking a deal with Westlands, was to sell Blackhawk helicopters in Europe and India. The Ministry of Defence (MOD) had a year ago refused to purchase the Blackhawk helicopter when it was offered jointly by Shorts and Sikorsky (an offer which would have given more work to the United Kingdom avionics sector than would the proposed Westlands/Sikorsky arrangement); MOD should similarly refuse to purchase the Blackhawk helicopter when the offer was put to them by Westlands. In practice, no firm was able to sell defence equipment abroad without a base of domestic orders. This meant that, if the Sikorsky deal went through, the Government would face a concerted campaign by Westlands for the Government to purchase Blackhawk. The Sikorsky deal would also carry with

it a serious risk of leakage of UK/European technology to the US, while US legislation precluded satisfactory reciprocal arrangements. European collaboration in helicopters offered better prospects because of the wide market it promised; the Sikorsky deal would put at risk the prospect of successful collaborative development of the NH 90. The European consortium proposal required further working out, but the French and Germans had promised if necessary to make up any shortfall in the proposed Italian contribution. The difficulty was that Westlands had hitherto been unwilling to consider seriously the proposals of the European consortium, a concerted effort should now be made to develop these proposals into a form which Westlands and their bankers could not refuse to consider seriously, as a possible alternative to the Sikorsky deal.

SIR JOHN CUCKNEY, Chairman of Westlands, joined the meeting at this point. He said that the company recognised there was no prospect of Government contributing towards a rescue operation for Westlands. Westlands had a long history of association with United Technologies, the parent company of Sikorsky. In 1948 Westlands had built a Sikorsky design, and Westlands had flourished during its association with Sikorsky. Once this association had ceased, the company had found that its financial resources were inadequate and its industrial base too small for its market. Westlands now needed fundamental restructuring and a new improved product range; he believed these needs would best be met through the Sikorsky deal. He emphasised that negotiations on the financial reconstruction were very difficult; it was not simply a matter of negotiating terms with United Technologies - banks and institutional investers had to be satisfied, and the banks had to be persuaded to convert £28 million of loans into equity. Westlands now had 11,300 employees, and had made 742 employees redundant last week. The longer it took to reach agreement on a rescue package for the firm, the greater would be the the pressure on the company's share price, and the greater the difficulty of securing underwriting of the necessary rights issue. It would be open to the company to ask for dealings in its shares to be suspended; this would make clear that the only possible alternatives were financial reconstruction or receivership. Westlands had normally published their preliminary annual accounts on 11 December; market confidence could not be maintained if publication were

delayed beyond 19 December, the date which had been informally notified to the Stock Exchange. There was no prospect of concluding negotiations on the European package by 19 December; nor would the European option in any case offer Westlands a sufficient prospect of medium and longer-term viability. Under the Sikorsky deal, Westlands would hope to sell some 200 Blackhawk helicopters - around 10 per cent of their estimate of the world helicopter market for helicopters of this type - over the next 15 years. They would hope to begin work on their first order within 12 months, to reach peak manpower levels in 18 months, and to undertake their first delivery after 3 years. Sikorsky had agreed to give Westlands rights of first bidding in many countries. Undesired technology transfer to the US would be avoided under the proposed deal since the United Technologies' holding would be limited to 29.9 per cent, just below the 30 per cent level which triggered the acception of US extra-territorial claims. If the NADs' recommendations remained on the table, and there was no possiblity of selling the Blackhawk in any of the four European countries concerned, it would be very difficult to complete the financial reconstruction associated with the Sikorsky deal. The position would have to be made clear to banks and to shareholders; his estimate was that the prospects of success in such circumstances were only 30 per cent. If the Sikorsky deal went through, the company would use all normal marketing efforts to secure orders for Blackhawk helicopters, including orders from the United Kingdom Government.

SIR JOHN CUCKNEY and his advisers left the meeting at this point.

THE PRIME MINISTER, summing up the discussion, said that Ministers had already decided that the Government should not press for repayment of the £40 million launch aid for the W - 30 - 300 unless Westlands went into receivership. For the rest, the Sub-Committee were not ready yet to reject the NADs' recommendation; a number of Ministers would have a clear preference for the European alternative in 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, if the European consortium had not produced a package which the Westlands Board could recommend by 4.00 pm on Friday 13 December, the United Kingdom Government would be

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to reject the NADs' recommendation. The Secretary of State for Trade and Industry should inform Sir John Cuckney in confidence of the decision of the sub-committee, making clear that it should for the time being be kept confidential to himself and his personal advisers. If she were questioned in parliament about Westlands she would decline to comment on matters which were commercially sensitive, and where final decisions rested with a company involved in sensitive negotiations. If necessary she would make clear that the NADs' recommendation was only a recommendation by officials, on which Ministers had yet to take a decision.

The Sub-Committee -

1. Took note, with approval of the Prime Minister's summing up of the discussion.

2. Endorsed the decision not to require repayment of the £40 million launch aid for the Westlands W 30 - 300 unless the company went into receivership.

3. Invited the Secretary of State for Defence, in consultation with the Secretary of State for Trade and Industry to explore urgently the possiblity of developing the alternative European option into a package which Westlands would prefer, along the lines of the Prime Minister's summing up of the discussion.

4. Noted that if a viable European package which the Westlands Board could recommend were not in place by 4.00 pm on Friday 13 December, the United Kingdom Goverment would then make clear that this country would not be bound by the NADs' recommendation.

Cabinet Office

10 December 1985

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