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the department for Enterprise

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COMMERCIAL IN CONFIDENCE
MARKET SENSITIVE

Department of Trade and Industry

Ashdown House
123 Victoria Street
London SW1E 6RB

Switchboard
01-212 7676

Telex 8813148 DIHQ G
Fax 01-828 3258

C D Powell Esq
10 Downing Street
SW1

Direct line 212 6708
Our ref
Your ref
Date 10 March 1988

Dear Charles,

WESTLAND

The attached notes may be helpful to you for information. I am aware our Private Office spoke to you after the first one.

Yours sincerely,

John Michell

M J MICHELL

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888-207

10 DOWNING STREET

Prime Minister

Westland

You should be aware of this. John Cuckney is at the lunch for the Prime Minister of Portugal tomorrow.

In my view, he is softening us up for an increased UTC stake in Westland.

CDP
10/3

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COPY NO. 5 OF 6

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To: **PS/CHANCELLOR OF THE DUCHY**

cc PS/Secretary of State
Sir Brian Hayes
Mr R Williams

From: **M J MICHELL**
US Air
Room 619
Ashdown House
212 6708

10 March 1988

WESTLAND

I have had a further discussion with Sir John Cuckney.

2 The company with whom he is having discussions is GKN. The discussions are going well in technical/commercial areas but there has been no discussion at all on possible terms because neither side wants any public disclosure at this stage. This would have to follow if terms were under discussion.

3 Sir John considers that in many ways GKN would be a suitable parent for Westland. They would want to maintain and build up the business as a platform for increasing their market share in military hardware. They see the helicopter business as complementary to their own existing product lines (armoured vehicles). By contrast, Sir John considers other possible parents for Westland (eg BAe) would probably wish to dismember the company.

4 GKN are also in Sir John's view financially sound and would have the financial strength to support Westland eg on export sales, where the company is currently so stretched.

5 However, Sir John admitted that GKN were in many ways "naive" and inexperienced in defence markets. He was therefore looking to establish possible alternative proposals. In principle he considered that would in any case be in Westland's best interests, as in 1985/86.

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6 The obvious source of alternative proposals was United Technologies (UTC) which has had a 8% holding in Westland since the reconstruction in 1986. UTC were "lukewarm" to the GKN proposals (a slight contrast here to my earlier report, but this may be my mistake rather than a genuine change of view by UTC). Having acquired their Westland shareholding with "some difficulty" UTC did not wish now to see it diluted. On the other hand UTC definitely did not want control of Westland (for financial and US anti-trust reasons, not sensitivity to British politics, although this may also be a factor). Under the reconstruction of 1986, UTC had an option to increase their shareholding already. Sir John thought that to counter a GKN move UTC might be prepared to offer to buy up to 29.9% of Westland, perhaps relying on a benign attitude by other shareholders to allow UTC to exercise effective influence, if not control.

7 GKN have already had some discussion with UTC and Sir John is seeing UTC himself this week. In his view an increased UTC stake would be but a further development in the close links between the two companies over 40 years. He repeated that the commercial links between the companies were developing very well: the two million man-hours commitment would be exceeded, Sikorsky were putting out more Blackhawk work and a "real partnership" between Sikorsky and Westland had developed in pursuit of sales prospects in the Middle East.

8 Sir John considered that budgetary pressures on US and European Governments would probably force new helicopter programmes to the right (there is of course already evidence of this in the US), and attention would tend to focus on prolonging/updating existing types. In these circumstances a closer Sikorsky/Westland link could be a powerful force in the market, since this was the type of work in which the combined skills of the companies were strong.

9 Sir John considered also that the MoD might welcome increased UTC involvement because it could be assumed to lead to improved management of the EH101.

10 Sir John commented that if a situation developed where there were competing proposals, it might well be a matter of the head against the heart. He further commented that in such situations in his life his head usually won (ie UTC).

11 He did not think Fiat was a likely contender. They had domestic problems in Italy [I would not be so sure about this]. Equally he did not think Aerospatiale would be interested [This

contrasts with a recent conversation we have had with a representative of that company, who said that they would be. But I am not sure how authoritative that was].

12 Sir John said he expected the GKN discussions to mature to a point where public announcement would be required within about a month.

Comment

13 Subject to the views of MoD colleagues (whom I have not consulted at this stage) I would have thought that on industrial grounds the Government could welcome either of the possibilities Sir John is considering, subject to the usual competition policy considerations. It may be that MoD colleagues would prefer a UTC solution, although I doubt if any such preference would be so strong as to make them wish to influence Westland away from any other course (even if the Government had any power to do so).

14 An increase in UTC shareholding to 29.9% could of course raise political controversy. I cannot judge how serious a factor that might be. The points could of course be made

i that the reconstruction scheme of 1986 clearly included the possibility of UTC increasing its stake (though not to 29.9%) and

ii that by definition 29.9% is not a controlling stake and Westland will remain a British company

15 An increase in the UTC shareholding in Westland to 29.9% could give a further argument to those (European Commission etc) currently attacking the 15% Golden Share limitation on foreign shareholdings in BAe and Rolls-Royce - though not a decisive argument I would judge. There is of course no Golden Share in Westland, which has never been in public ownership.

John Michell

M J MICHELL