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Prime Minister
You may like to see this which I have received on a personal basis
CDP.

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

cc PS/Secretary of State
Sir Brian Hayes

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

16 June 1988

MT

WESTLAND

I have recently had some further discussions with senior management at United Technologies Corporation (UTC) about the proposed financial restructuring of Westland.

2 There has been some delay, but in UTC's view the discussions are going ahead satisfactorily. They expect a deal to come together by about September (i.e. in practice at Farnborough).

3 UTC consider that GKN's ultimate aim is to take over the Westland Group. However GKN do not feel strong enough at present to do this and are therefore proposing that they should initially have a 29.9% shareholding. Sir John Cuckney is resisting this unless combined with other moves, on the grounds that by itself a 29.9% GKN holding in the Westland Group would not bring significant benefit to Westland.

4 Hence the proposal that a small group of corporate shareholders should each move to take a significant shareholding is still the front runner. This would result in effective control of Westland residing with this group: ultimately, though perhaps not initially, this group might take complete control and Westland Group would cease to be a publicly quoted company.

5 UTC say the precise outcome of the present negotiations is not yet clear. They say they have a good relationship with GKN. UTC themselves are unlikely to wish to increase their shareholding to more than 30%. Fiat are thought not to be interested. Hanson (at present the largest single shareholder) is involved in the present discussions but may

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not have a long-term interest. UTC seemed to consider it quite likely that an interim arrangement might be worked out involving three or four large shareholders (including GKN and themselves), leading to an ultimate situation where Westland Group was owned 70% by GKN and 30% by UTC.

Personalities

6 UTC consider Sir John Cuckney and Mr Hugh Stewart (Chief Executive) should be replaced by a full time British Chairman/ Chief Executive with a professional knowledge of the helicopter business, preferably in his mid-40s. They are discussing this with GKN and will be inclined to accept GKN's proposals in the absence of obvious objection. They do not consider Sir John Treacher (present Deputy Chairman) appropriate.

Westland Helicopters

7 UTC's attitude towards Westland Helicopters is distinct from their attitude towards Westland Group, and much higher profile. They intend to make their investment in Westland Helicopters a success. Following Sikorsky's "technical audit" of the EH101, a top Sikorsky engineer will be spending 2-3 months at Westland advising on the programme (especially the tail rotor problem). Sikorsky will not allow the "production gap" at Westland to damage the company's capability irreparably. (Sikorsky is a subsidiary of UTC.) In effect UTC's intention is that Sikorsky's effective influence over Westland Helicopters should be strengthened.

EH101

8 UTC regard the EH101 programme as central to their whole plans. At an appropriate moment (i.e. soon) they will be seeking an assurance from HMG of a firm British requirement for the aircraft.

Comment

9 The question of an assurance on EH101 is a matter for the MoD. More generally, I continue to think that there is nothing to which HMG need object in these proposals, subject at the appropriate stage to the usual Fair Trading Act procedures. As far as EH101 is concerned, I think both we and the MoD should welcome increased involvement by Sikorsky in the programme.

J Michell

M J MICHELL

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Our ref
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Date 16 June 1988

Dear Charles,

WESTLAND

You may like to be aware of the latest situation on the possible financial restructuring of Westland involving GKN and United Technologies (US), as set out in the attached note I have sent to Ministers here.

Yours sincerely,

J. Michell

M J MICHELL

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