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Ref. A086/55

MR WICKS

--- I attach three copies of a draft speaking
note on Westland, on the lines we discussed
this morning.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

7 January 1986

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DRAFT SPEAKING NOTE ON WESTLAND

It has for some time been clear that, if Westland is to continue in business as a British company designing, developing and manufacturing helicopters, it needs a financial reconstruction, an injection of new capital, and assurances of a continuing and adequate workload.

2. The Government have throughout made it clear to Westland, and Westland have accepted, that Westland cannot look to the Government for financial support.

3. The directors of Westland, which has a long history of association with Sikorsky, sought an arrangement with United Technologies (Sikorsky's parent company) and with Fiat which would meet its needs.

4. Towards the end of last year there began to emerge the possibility of an alternative arrangement with a number of European companies with whom Westland are in partnership on various helicopter development projects. The discussions of this possibility led to a recommendation by the

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National Armaments Directors of Britain, France, the Federal Republic of Germany and Italy that the four countries should meet all their defence helicopter requirements by equipment designed and built in Europe.

5. These matters were considered by the Ministerial Sub-Committee on Economic Affairs (E(A)) on 9 December last. At that stage Westland needed to have a firm proposal in position in time for publication of its interim results on 17 December: otherwise it would be obliged to go into receivership. Some Ministers had a clear preference for a European alternative to the Sikorsky deal, if it could be developed into a form which the Westland Board could recommend to its shareholders. It seemed unlikely that a European alternative could be in position in the time available. It was accordingly agreed that:

1. It was for the company - in the last resort the shareholders - to take decisions about the company's future, and specifically to choose whether to accept the United Technologies/Fiat proposal or a European alternative, if one could be agreed in time.

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2. Westland should be told that the Government would not require repayment of £40 million launch aid on the Westland 30-300 unless the company went into receivership.

3. The Secretary of State for Defence should explore the possibility of developing an alternative European option which Westland would prefer.

4. The Chairman of Westland should be told that, if a European alternative which the Westland Board could recommend to its shareholders was not in place by 4.00 pm on Friday 13 December, the British Government would not thereafter be bound by the National Armaments Directors' recommendation, which would otherwise have been a major obstacle to the United Technologies/Fiat option.

6. On 16 December the Secretary of State for Trade and Industry made a statement in the House of Commons, in which he informed the House that an alternative association with a group of European companies, which by then included British Aerospace, had been provisionally offered; that the

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Directors of Westland did not consider that offer firm or attractive enough for them to be able to recommend it to their shareholders; and that accordingly the Government was not bound by the National Armaments Directors' recommendation.

7. At Cabinet on 19 December the Secretaries of State for Trade and Industry and for Defence reported developments since the meeting of E(A) on 9 December. It was noted that a detailed proposal from the European group, which by then included GEC as well as British Aerospace, was about to be given to Westland and announced. The Cabinet unanimously reaffirmed that it remained the policy of the Government that it was for Westland to decide what was the best course to follow in the interests of the company and its employees; and agreed that, given that that was the Government's policy, no Minister was entitled to lobby in favour of one proposal rather than another, and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another.

8. In the House of Commons that afternoon, following that discussion in Cabinet, I made it clear that Westland was a private sector public limited company; that its future was a matter for the company to decide; and that the company's decision was a matter of commercial judgment for its directors and, ultimately, its shareholders. I made it clear that that was the position of the Cabinet, reaffirmed that morning, and the position of the whole Government.

9. What has happened since then is, I am sorry to say, a matter of public record. Despite what was agreed in Cabinet on 19 December, there has been an almost continuous campaign of press briefing, lobbying and leaking, clearly from within the Cabinet, in support of the European alternative, aimed at influencing the judgment of shareholders in Westland and others concerned in favour of the European proposal. This has put the company itself into an extremely difficult position, and the Government itself has been made to appear completely at odds within itself. I have never seen a clearer demonstration of the damaging consequences that ensue for the coherence and standing of a Government when the principle of

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collective responsibility for Cabinet decisions is not respected.

10. We cannot go on like this.

11. The shareholders of the company are due to meet on 14 January to take their decision. It is a decision for them to take, and for no one else. It is a decision which must be taken in the light of the fullest possible information which they can get from the groups responsible for the proposals as to the nature and implications of those proposals. Nothing has happened since 19 December to modify or qualify the decisions which the Cabinet took on 19 December. I suggest to my colleagues that the time has now come for the company and its bankers to be left to clarify these matters with the representatives of the groups, and without any further intervention, direct or indirect, by Ministers [or by any other persons] save to the extent to which the company itself may find it necessary to call for further information. I ask the Cabinet to agree with that conclusion, which of course reaffirms its conclusion on 19 December. I should make it absolutely clear that, once that conclusion is agreed, any one who does not feel

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able to accept it and act in accordance with it,
and who continues to campaign on behalf of one or
other proposal, cannot do so as a Minister, and
should do so from outside the Government.