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Sir Brian Hayes KCB
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For information:

Ps/Sos
Sir Robert Armstrong
→ Nigel Wicks
Muelo Maclean
David Morris

Dear Mr. Rogers,
will revert if req.

You wrote to me on 28 January requesting this Department to provide for the Defence Committee of the House of Commons copies of Mr Brittan's minute of 4 October 1985 to the Prime Minister on the subject of Westland plc and of the note dated 18 October 1985 of the meeting between Mr Brittan and Sir John Cuckney on 17 October 1985.

Ministers have now completed their consideration of this request. They do not think it appropriate or in accordance with the normal conventions to make available inter-departmental correspondence of this kind, but in order to give the Committee all possible assistance they have authorised me to provide the enclosed memoranda about the two documents. These summarise the views put forward by the Secretary of State in his minute of 4 October and the record of his conversation with Sir John Cuckney on 17 October. Every attempt has been made to ensure that the summaries are accurate and include all material points.

Yours sincerely,
Brian Hayes
BRIAN HAYES

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MR BRITTAN'S MINUTE OF 4 OCTOBER 1985

Mr Brittan's minute began by setting out the background. Westland had put to the DTI and MOD the company's proposals for a financial reconstruction necessary to put Westland on course to future viability. The main features were:

- i. the raising of new capital from existing shareholders and from a new outside minority shareholder, whether Sikorsky or a European source;
- ii. the conversion of bank debt into equity;
- iii. Government underwriting of 45 W.30-160 sales.

2. Mr Brittan reported that DTI and MOD officials considered that such a package would provide a reasonable prospect of viability; that if nothing were done, Westland would probably go into receivership; and that underwriting of only 21 helicopters, subject to discussion with the banks, might provide an adequate reconstruction package.

3. Mr Brittan said he considered underwriting 45 sales would be unjustified. He considered, however, that the company might be told that if by the end of November

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contract discussions with the Indian Oil and Natural Gas Corporation for the sale of 21 W.30s were still active, although not finalised, the Government would at that stage be prepared to consider underwriting that number of aircraft. However he thought a decision should be taken at the time in the light of progress in India. In any event, the Government should only involve itself in a reconstruction package if satisfactory assurances were received from Westland on the continuation of collaborative and launch-aided projects and of support for Westland aircraft in service with British forces.

4. Mr Brittan went on to suggest that there were no industrial policy grounds for giving a high priority to support of Westland in considering the disposition of Government financial resources. He noted that the proposed reconstruction package would not in itself ensure continuation of the launch-aided W.30-300 programme: the critical factor here he believed would be a MOD launch order. On the other hand, the package should ensure the continuation of the EH101.

5. Mr Brittan then briefly noted that there were military, international and political considerations also to be taken into account.



6. Turning to the question of an overseas shareholder, Mr Brittan noted that at that stage Sikorsky appeared the company most likely to be prepared to come in. There were no proposals from British companies. Westland were in contact with MBB, Aerospatiale and Agusta. Mr Brittan considered Westland should be encouraged to pursue the possibility of a European solution. Although the prospects of such a solution in the time available seemed not to be good, he wanted to have a better assessment of the possibilities before responding to the proposals from the company. If, however, it became clear that Sikorsky was the only practical possibility he did not consider the company's proposals should be rejected on the sole ground that they involved an association with Sikorsky, provided the required assurances were given by the company.

7. Mr Brittan then argued that if it were eventually agreed to offer underwriting, any contingent liability to Government funds should not be met from the DTI's financial resources which were very scarce and indeed decreasing.

8. Mr Brittan then considered the possible outcome of Westland going into receivership. He noted that the position would be uncontrolled and the outcome uncertain. A buyer might be found for certain parts of the business (for

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example British Aerospace had said they might consider an acquisition of some elements of Westland after receivership). But there could be costs to the Government via ECGD and redundancy payments; and there would be risks to existing projects, including collaborative projects. Mr Brittan concluded that on a balanced judgement, it would be preferable for the Government to take part in a reconstruction package, provided the required conditions were fulfilled, rather than allow Westland to go into receivership.

9. Mr Brittan then turned to the question of Mr Gandhi's forthcoming visit to the UK. He noted that the Government must continue to do all it could to help Westland obtain the Indian contract. If a reconstruction package were in place before Mr Gandhi's visit, he could be given firm assurances. However, recalling his own belief that it would be preferable to delay a response to the company until they had made more progress in discussions with possible European partners, Mr Brittan said in that event the Prime Minister would need to be briefed to answer a number of possible questions from Mr Gandhi. He suggested officials should put such briefing in hand.



10. In a concluding section, Mr Brittan summarised his recommendations. He recommended that the Government's initial response to Westland should be to urge the company to pursue discussions with possible European partners urgently. In the light of the outcome, the Government should then decide whether it was willing to participate in a reconstruction package. He noted that it was desirable to come to a decision reasonably quickly, and in any event well before the end of November.

11. Mr Brittan finally said the Prime Minister might wish to call a meeting, particularly to consider the forthcoming talks with Mr Gandhi.



MEETING BETWEEN THE SECRETARY OF STATE FOR TRADE AND
INDUSTRY (MR BRITTAN) AND SIR JOHN CUCKNEY, 17 OCTOBER 1985

It was agreed at a meeting of Ministers on 16 October that the Secretary of State for Trade and Industry should see Sir John Cuckney as soon as possible to explain the Government's position. The meeting took place on 17 October. Attached is a summary of a letter dated 18 October from Mr Brittan's Private Secretary to Mr Heseltine's Private Secretary, recording what was said at the meeting. The summary does not cover certain material in the letter which is commercially confidential.

Following normal practice with meetings of this kind, the Private Secretary's record was not put to Sir John Cuckney for his comment or agreement before it was issued.



Mr Brittan first told Sir John the Government's assessment of the prospects for securing an order from India for 21 W30-160 helicopters, in the light of the recent visit by the Indian Prime Minister.

Sir John asked whether the Government would consider underwriting the order. Mr Brittan said he was not now authorised to make any underwriting offer. Sir John also asked about the £6m which he said the Ministry of Defence owed the company. Mr Brittan said that was a matter for MOD, but undertook to pass on to the Secretary of State for Defence Sir John's concern.

Sir John said he was well aware of the Government's preference for a European minority shareholder in Westland, and attached weight to that preference. He had held talks with MBB, Aerospatiale and Agusta, invited them all to participate, and made it clear that Westland would consider any reasonable proposition. However he considered that the interest of all three companies was negative and that they were only interested in blocking Sikorsky. They were also Government-owned, loss-making and suffering from excess capacity. Agusta appeared to be the most positive and had expressed interest in taking a shareholding with United

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Technologies, but they had not come forward with any definite proposals. To secure a reconstruction it would be necessary to produce a positive and forward-looking prospectus, and to secure a reconstruction in time, Westland needed a relatively quick decision. On both counts a deal with Sikorsky looked the best option if not the only one.

Mr Brittan noted what Sir John said. He said that a European minority shareholder was in both the commercial and political interests of the Government. The Government therefore wished to be certain that a deal with Sikorsky was the best, or only, option. The idea of Agusta coming in with Sikorsky was attractive and he would be grateful if this could be pursued further. Sir John said he believed he had fully discharged his responsibility to pursue the possibility of a European minority shareholder, but in view of what Mr Brittan had said he would contact Agusta again as a matter of urgency. However he believed the only practicable solution in the end would be a deal with Sikorsky.

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