



10 DOWNING STREET

Prime Minister

Although not
friendly for your eyes,
you might like to
glance at this helpful
account of the lengths
to which NAD are
going.

Agree that we should
have no inhibition about
going public on our
rejection of the NAD's
recommendation after 4 p.m. ^{to see}
on Friday? ^{every}
COP 12/12

I think the decision
hinges on whether
the European deal
is acceptable
to W. H. H. H.
MB

b.c. Mr Powell
No 10



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SEARCHED
E 0139
12 DEC 1985
FILING INSTRUCT
FILE No.

MR UNWIN

cc Mr Mallaby
Dr Walker

WESTLANDS

I understand that Mr Heseltine sought at this morning's Cabinet to re-open the decision taken by E(A) on Monday evening 9 December. In pressing for this he adduced the fact that the Cabinet Office had rung round to arrange a meeting on Friday afternoon - which implied that they thought such a meeting should be held - and then rang round again subsequently to cancel the proposed meeting. I told Mr Powell that the Committee Section had indeed rung round on Tuesday morning (10 December) to see whether Ministers would be available for a meeting on Friday afternoon, if one proved necessary; there was no suggestion that such a meeting was actually being fixed. Subsequently, following a conversation with the Prime Minister's Private Office, I asked Committee Section to ring round again to make clear that we were not seeking to fix such a meeting, and that Ministers should not feel inhibited from accepting other engagements. Unfortunately, it appears that this second ring round was not completed until around mid-day on Wednesday 11 December, following a further request by us to the Committee Section.

2. I should also record the following further developments.

(i) Mr Heseltine sent a personal message to his European colleagues yesterday seeking their cooperation with his proposed European solution for Westlands, and making clear that commitments were needed by 3.00pm tomorrow, 13 December. This message, which was not copied to the Secretary of State for Trade and Industry, invited the French and Germans to

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join in the joint Anglo-Italian EH101 large helicopter project, and to devote the savings they would make thereby to placing additional work with Westlands at Yeovil. (It is not clear whether this invitation reflected any consultation with the Italians.)

(ii) The Ministry of Defence have sent to BAE a full schedule of their expected future helicopter orders from Westlands. The DTI are now urging MOD to make the same information available to Westlands themselves.

(iii) Although Westlands had given Lloyds Merchant Bank a copy of their 1984/85 draft Accounts, LMB and the European companies were still dissatisfied with Westlands' disclosure of information. DTI were seeking to establish urgently what further questions LMB wish to have answered, with a view to removing this source of irritation.

(iv) LMB were said to be contemplating publishing their proposals for a European solution in the course of tomorrow. (MOD would presumably publish at the same time their supporting statement of the orders they would place with Westlands in the event of the European solution going through.)

(v) On the mechanics of a possible counter-bid, it would presumably be necessary for LMB to circulate to Westlands' shareholders the terms of their proposed alternative reconstruction, at the same time inviting shareholders to reject their own Board's recommendation of the Sikorsky deal at the scheduled Extraordinary General Meeting. In order to do this, they would in principle need the agreement of Westlands' banks, which seems unlikely to be readily forthcoming; however, if the European alternative could be made substantially more attractive to the banks than the Sikorsky deal, the banks would presumably have in the end to consider it seriously.

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(vi) Mr Perry is due to report back at 9:30pm this evening on the progress of his European tour. It should emerge from this whether the French and Germans are interested in joining the EH101, and how far they would be willing to devote the consequential savings, and also any savings from rationalisation of the battlefield helicopter projects, to providing further work for Westlands at Yeovil.

3. According to Monday's E(A) decision, UK rejection of the NADs' recommendation takes effect automatically at 4.00pm on 13 December. Thereafter it would presumably be open to Westlands to make public reference to the decision in discussions with shareholders and others. The Defence Secretary may need to consider what he should say to his European colleagues about this decision; it would be awkward if contrary impressions were given by Westlands and MOD about the stance of UK Government policy.

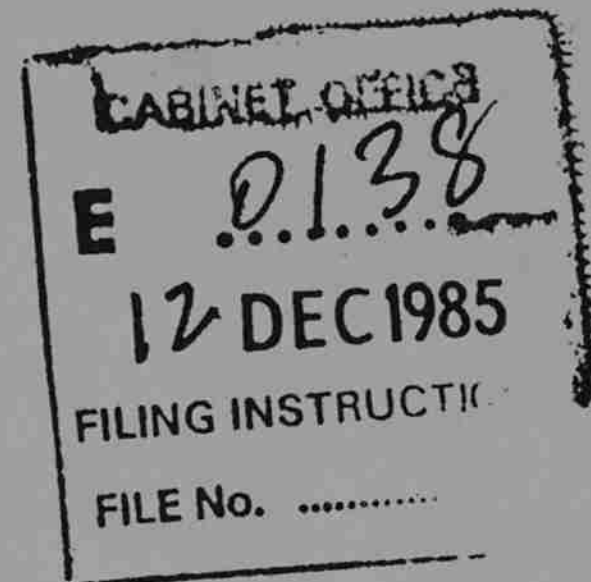
JW

A J WIGGINS
12 December, 1985

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MR UNWIN

cc Dr Walker



WESTLANDS

This is to record a few gleanings from the DTI.

- (i) MOD (Mr Bourn, Deputy Secretary) have had a meeting with Sikorsky. Mr Perry is said to be touring Europe today to see his fellow NADs, apparently with the intention of securing commitments that the money saved by rationalising the competing battlefield helicopter projects will be spent at Yeovil.
- (ii) It is apparently MOD's intention that when the European consortium proposal is announced, it will be accompanied by an MOD statement about additional helicopter orders in the event of its going through. Westlands understandably dislike this.
- (iii) The banks concerned have now agreed the Sikorsky reconstruction package, and only the underwriting of the rights issue remains to be set in place. Westlands are said to have refused to authorise their banks to discuss the situation with representatives of the European consortium. The Bank of England apparently think that the banks would be most reluctant in any event to start a completely new set of negotiations with the European consortium, now agreement has been reached on the Sikorsky package.
- (iv) Despite the Defence Secretary's assertion that a rights issue would not be needed if the European consortium approach prevailed, Lloyds Merchant Bank have now told

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DTI that the shape of the reconstruction package would be the same in either case - both a rights issue, and some conversion of bank loans into equity.

(v) MOD envisage that United Scientific Holdings and Bristow (which hold respectively 5 per cent and 3 per cent of Westlands' shares) would join the European consortium alongside BAE and the three continental companies. It is clear that MOD are seeking to mobilise shareholders' support for their preferred alternative, but in practice Westlands' shares are said to be very widely distributed among small holders, so that it would be extremely difficult to mobilise a majority to resist a recommendation from the Westlands' Board.

(vi) DTI expect Westlands to reject the European approach in whatever form it is put to them tomorrow (following Mr Perry's excursion today), and to confirm their recommendation of the Sikorsky deal. In principle this would trigger the UK Government's rejection of the NAD's recommendation. The way would then be open for the proposed reconstruction to be announced on 19 December, subject to ratification by an Extraordinary General Meeting of Westlands' shareholders three weeks later. It seems unlikely that Mr Heseltine will admit defeat, and DTI therefore expect some sort of announcement of the European counter-proposal (supported by the MOD statement indicated above). I have asked DTI to consider when an announcement of the counter-proposal might be made, what its legal implications would be, and what form it would have to take; if it had the effect of causing the banks to withdraw from the Sikorsky deal, but was not itself supported by the banks as an alternative, would this have the effect of forcing Westlands into receivership? Alternatively, would the announcement be made after the publication of Westlands'

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accounts and the proposed Sikorsky deal, with the objective of securing rejection of the Sikorsky approach at the EGM? How and when would bank support for the European alternative be put in place? Would it be in order for the European alternative to involve a bid for only 29.9 per cent of Westlands' shares, or would the proposed consortium find itself in a position of having to make a full bid for 100 per cent of Westlands? (It would appear that all Westlands' Directors supporting the Sikorsky approach would have to resign if the alternative were to prevail.)

JW

A J WIGGINS
12 December, 1985