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WESTLAND PLC

Previous reference:
CC(85) 37th

Conclusions,
Minute 1

2. THE PRIME MINISTER invited the Cabinet to consider further developments since their last discussion of the current situation created by the financial difficulties of Westland plc.

The Government had decided long ago not to put public money into Westland, apart from writing off launch aid on the W30-300 helicopter but to leave the company to find its own solution to its problems through the market.

When the Cabinet discussed the matter on 19 December 1985, there were two proposals on the table for a financial reconstruction of Westland (not a takeover) involving either United Technologies and Fiat or a European consortium taking a minority shareholding in Westland. At that meeting the Cabinet had agreed that it remained the policy of the Government that it was for the company to decide what was the best course to follow in the interests of Westland and its employees, and it had agreed that, given that that was the Government's policy, no Minister was entitled to lobby in favour of one proposal rather 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. She has answered questions in the House of Commons on 19 December 1985 accordingly and had written to the Chairman of Westland on 1 January 1986 a letter, the text of which had been agreed with the Departments concerned, in accordance with those decisions.

Members of the Cabinet knew what had happened since then. Comment and headlines in the newspapers, including those normally favourable to the Government, had been extremely damaging. The Government had entered the New Year in a way very harmful to the reputation of the Cabinet and to the public esteem in which the Government was held, just at the time when there were signs of a recovery in the Government's political fortunes. If the situation continued the Government would have no credibility left. She had never seen a clearer demonstration of the damaging consequences that ensued for the coherence and standing of a Government when the principle of collective responsibility was not observed. It was essential now to restore the standing of the Government and to reassert the collective responsibility of Ministers for the decisions of Government. The Cabinet should agree to observe in full the conclusions agreed at their meeting on 19 December.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that since 19 December revised proposals had been put to Westland by both the United Technologies-Fiat and the European consortia. In each case the new proposals were an improvement on their previous proposals. Each

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involved the consortium concerned taking a minority shareholding in Westland. The board of directors at Westland were recommending acceptance of the United Technologies-Fiat proposal. He himself had continued to emphasise that it was for the board of directors to recommend and the shareholders of the company to decide what course should be followed. The European consortium had put their proposals forward direct to the shareholders of Westland. At their meeting on 14 January 1986 the Westland shareholders would have three resolutions to consider:

- i. the first to increase the company's borrowing limits, which required a simple majority; and
- ii. the second and third to give effect to the United Technologies-Fiat reconstruction proposals which would require a 75 per cent majority.

THE SECRETARY OF STATE FOR DEFENCE said that he had very little to add. He had put his views to colleagues as clearly as he could. At the meeting of Cabinet on 19 December he had said that developments could take place which would call for a view to be taken by the Government. Those developments had taken place. The situation had, however, changed, when the Chairman of Westland has made recommendations to the shareholders. After that had happened, the Government clearly could not intervene. What would be the outcome of the shareholders' meeting on 14 January was uncertain. In the meantime he would watch developments; he had no intention of declaring himself publicly in favour of one proposal or the other, though he would continue to answer questions about procurement policy if he were asked. It would be very important that anything that was said to the media after this meeting of the Cabinet should not be seen as leaning towards one side or another in the Westland affair; otherwise the situation to which the Prime Minister had drawn attention would continue. The Government stand must be one of complete neutrality, to the effect that there was nothing to add and that it was now a matter for the shareholders of Westland. It was most important for the Government now to put itself above the battle and to distance itself from the issues to be decided. No attempt should be made to steer press comment. In that way it might be possible to create a situation in which decisions could be taken by the company. If the decision of the Cabinet was simply to reaffirm their conclusions of 19 December, as repeated by the Prime Minister in introducing the discussion, and that was the indication which came out from the meeting, it would look as if the Cabinet was backing the board of directors of Westland.

In discussion the question was raised what would happen if there was not a 75 per cent majority at the shareholders meeting on 14 January for the United Technologies-Fiat proposal. THE SECRETARY OF STATE FOR

DEFENCE said that there was a certain anxiety that the shareholders of Westland were being given only one choice. The European consortium proposed to have documents available which could be put before the meeting of shareholders at once, if the recommendations by the board of directors on the United Technologies-Fiat proposal did not receive a 75 per cent majority. There need therefore be no question of the company going into receivership provided that solicitors representing Westland did not deny solicitors representing the European consortium access to the appropriate information. If there was not a 75 per cent majority in favour of either proposal, or if 10 per cent of those present sought a delay, then decisions might be delayed until a further Extraordinary General Meeting. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he understood that, if the resolutions proposed by the board of directors in favour of the United Technologies-Fiat proposal did not receive the support of a 75 per cent majority, United Technologies and Fiat would not then be bound by their agreement with Westland and it would be open to the board of directors of Westland to put forward whatever proposal they thought fit to the shareholders.

There was general agreement that the time had now come to put aside what had happened, to leave it to the company to conduct negotiations with the two consortia and to reach their decisions, and for the Government to disengage from the issue. It would be important to demonstrate a determination to re-establish the credibility and coherence of the Cabinet.

THE PRIME MINISTER suggested to the Cabinet that the time had now come for the company and its bankers to be left to deal with representatives from the two consortia, and to come to their decisions without any further intervention, directly or indirectly, by Ministers or by other people acting on their behalf. That must be accepted and observed by everyone and there must be no lobbying or briefing directly or indirectly. Because of the risks of misrepresentation, during this period of sensitive commercial negotiations and decisions answers to questions should be cleared interdepartmentally through the Cabinet Office, so as to ensure that all answers given were fully consistent with the policy of the Government.

THE SECRETARY OF STATE FOR DEFENCE said that it would be impossible to clear every answer through the Cabinet Office. He did not envisage making any new statements. If any new statements needed to be made, he would be ready to clear them collectively. If, however, he was asked to confirm statements which he had already made, it could create an extremely difficult situation, particularly for the European consortium, if he were not able to confirm them without delay. Any delay would give the impression of hesitation or uncertainty which could prejudice the

commercial situation. Equally, if he were asked a question of fact about procurement requirements, he needed to be able to reply without delay once again, any delay in answering in order to consult would give the impression of hesitation or of uncertainty about future policy.

In further discussion the following points were made:

- a. it should be possible to answer further questions about procurement matters by reference to the Prime Minister's indication in the House of Commons on 19 December 1985 that major issues of procurement policy were for collective decision by the Government.
- b. it was highly desirable that so far as possible any questions to the Government which arose between now and the meeting of Westland shareholders should be answered by reference to statements already on the record and an indication that there was nothing to add. It was suggested, however, that even so it might be necessary to consider whether answers already given were still completely appropriate in present circumstances: it was not unreasonable that a short time should be taken to reflect, even on an answer that had already been given. It should be possible to ensure collective agreement on any answers that had to be given between now and the date of the shareholders' meeting; matters could be considered again in the light of the new situation after that meeting.
- c. Some of the difficulties of dealing with questions that called for confirmation of existing statements or replies and of anticipating difficult questions could be dealt with by the preparation and interdepartmental agreement of an agreed fact sheet or a list of possible questions and answers which could be used as a source for the preparation of answers to actual questions.

THE SECRETARY OF STATE FOR DEFENCE said that he did not want at this stage to comment publicly on the situation that might arise after the meeting of the shareholders and he would have no problem about seeking agreement to any answer that might be called for about that. He was, however, concerned about the period between now and the meeting of the shareholders on 14 January. The proposals of the European consortium rested in part on statements which he had made, all of which had been circulated to colleagues. If there was any suggestion that these statements were in question, that could be material to the decisions taken by the shareholders. It would not be acceptable to have a position in which delay in answering could be a weapon to be used to the disadvantage of one side or the other. He did not believe that it could be constitutionally right for a departmental Minister to be obliged to clear interdepartmentally through

the Cabinet Office replies on matters which fell within his Ministerial responsibility. He was prepared to clear collectively any new statements which he might be called upon to make, but he must be able to confirm without the delay implicit in the requirement to consult any statement already made. He would be ready to inform the Cabinet Office of any answers which he gave on that basis.

In discussion other members of the Cabinet considered that, in the especially sensitive period between now and the meeting of shareholders, it was of paramount importance to maintain the Government's decision that the matter should be left to the shareholders without Government intervention and to ensure that all Government pronouncements were consistent with that decision. That made it necessary to adopt a procedure of interdepartmental clearance even in respect of confirmation of statements already made or replies already given. Some statements which had already been made had appeared to be *ex parte* or conflicting as between one Minister and another: in these circumstances the confirmation of a given response could oblige another Minister to reassert a different position and the appearance of Government disunity would continue. It was now necessary that all statements and replies by members of the Government on this matter should be cleared interdepartmentally through the Cabinet Office until after the meeting of shareholders. Only that would ensure the restoration and maintenance of collective responsibility.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it was for the company to decide what was the best course to follow in the interests of Westland and its employees; that the time had now come for the company and its bankers to be left to deal with representatives of the two consortia and to come to their decisions without any further intervention, directly or indirectly, by Ministers or by other people acting on their behalf. The Cabinet also agreed that, in the interest of ensuring adherence to that decision and of restoring and maintaining collective responsibility of the Government, during the particularly sensitive period of commercial negotiations and decisions which lay ahead of all statements or replies by members of the Government in relation to Westland, including replies which confirmed statements already made, should be cleared with the Departments concerned through the Cabinet Office. Consideration should also be given to the preparation under Cabinet Office auspices of an interdepartmentally agreed fact sheet which could be drawn upon as a source of answers to questions.

THE SECRETARY OF STATE FOR DEFENCE said that there had been no collective responsibility in the discussion of this matter. There had been a breakdown in the propriety of Cabinet discussions. He could not accept the decision recorded in the Prime Minister's summing up. He must therefore leave this Cabinet.

THE SECRETARY OF STATE FOR DEFENCE withdrew from the meeting at that point.

The Cabinet –

1. Took note, with approval, of the Prime Minister's summing up of the discussion.
2. Reaffirmed that it was the policy of the Government that it was for the company to decide what was the best course to follow in the interests of Westland and its employees, and that the time had now come for the company and its bankers to be left to deal with representatives of the two consortia and to make their decisions without any further intervention, directly or indirectly, by Ministers or by other people acting on their behalf.
3. Agreed that all statements or replies by members of the Government on matters relating to Westland between now and the meeting of shareholders on 14 January should be cleared interdepartmentally through the Cabinet Office, and that consideration should be given to the preparation of an agreed fact sheet on the lines indicated in the Prime Minister's summing up.
4. Invited the Secretary of the Cabinet to make the arrangements necessary to give effect to that decision.
5. Took note, with extreme regret, of the decision by the Secretary of State for Defence to leave the Cabinet.

The Cabinet proceeded to consider Foreign Affairs, Community Affairs and Northern Ireland Affairs (see Minutes 3, 4, and 5). The meeting was then adjourned for half an hour. When the meeting resumed after the adjournment, the Prime Minister said that Mr Heseltine had informed the press as he left 10 Downing Street that he had resigned from the Government. Guidance was being given to the press on the following lines.

“The Cabinet have reaffirmed that it is the policy of the Government that it is for the company to decide what course to follow in the best interest of Westland and its employees. Cabinet discussed how this decision should apply in practice to ensure that collective responsibility was upheld. It was agreed that during this period when sensitive commercial negotiations were in process, all statements by Government Ministers should be cleared interdepartmentally through the Cabinet Office to ensure that all answers given by the Government were consistent with the policy

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decided by Cabinet.

Mr Heseltine found himself unable to accept this procedure and left the Cabinet. The Prime Minister expressed her regret at his decision.”

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