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TO BRITISH EMBASSY BONN  
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BRITISH EMBASSY ROME  
FCO LONDON

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SIC ACA/A2P

FROM: PS/DEFENCE SECRETARY

SUBJECT: ANGLO/GERMAN SUMMIT-BILATERAL MEETING OF DEFENCE MINISTERS

1. IN DISCUSSION OF THE FUTURE OF THE EUROPEAN HELICOPTER INDUSTRY, THE DEFENCE SECRETARY SAID THAT HIS POSITION WAS A COMPLEX ONE. HE WAS NOT THE SPONSORING MINISTER FOR THE HELICOPTER INDUSTRY AND HIS ROLE WAS LIMITED TO THAT OF CUSTOMER FOR ITS DEFENCE PRODUCTS. WHEN WESTLANDS HAD FIRST RUN INTO FINANCIAL DIFFICULTIES, HE HAD TO TAKE A VERY TOUGH LINE BECAUSE IT WAS CLEAR THAT, OTHERWISE, OTHER MINISTERS WOULD LOOK TO HIM TO BAIL THE COMPANY OUT. THE COMPANY HAD HAD THEMSELVES TO EXPLORE THE SCOPE FOR A CASH INJECTION AND HAD RECEIVED AN OFFER FROM UNITED TECHNOLOGIES/SIKORSKY WHICH, WHILE NOT YET FINALISED, HAD OBVIOUS ATTRACTIONS FOR THEM. IT HAD SOME SUPPORT WITHIN THE BRITISH GOVERNMENT. HE WAS HIMSELF CONCERNED AT THE LONGER TERM IMPLICATIONS FOR EUROPEAN CO-OPERATION AND HAD THEREFORE RAISED THE MATTER WITH HIS DEFENCE MINISTER COLLEAGUES. IT WAS IMPORTANT TO EMPHASISE THE EXTENT OF THE FINANCIAL DIFFICULTIES FACING THE BOARD OF WESTLANDS. THEY WERE ON A KNIFE-EDGE BETWEEN RECEIVERSHIP AND TRADING FRAUDULENTLY. ANY EUROPEAN APPROACH WOULD HAVE TO BE PUT FORWARD QUICKLY. EVEN THEN WESTLANDS MIGHT THEMSELVES PREFER A US STAKE AND HE COULD NOT GUARANTEE THE APPROACH WHICH WOULD BE ADOPTED BY THE BRITISH GOVERNMENT

2. DR WOERNER THANKED MR HESELTINE FOR SPEAKING SO FRANKLY. FOLLOWING THEIR TELEPHONE CONVERSATION, HE HAD BEEN IN TOUCH WITH MBB AND WITH M QUILES. THE GERMAN INTEREST WAS IN A VIABLE EUROPEAN HELICOPTER INDUSTRY. HIS OWN COMPANY FACED SERIOUS PROBLEMS. THE PAH2 WAS NOT ENOUGH TO SECURE THEIR LONG TERM FUTURE. THAT DEPENDED UPON THE NH90 PROCEEDING AS A CO-OPERATIVE PROGRAMME BETWEEN THE FOUR PARTNERS. HE FELT THAT, IF SIKORSKY TEAMED UP WITH WESTLANDS, BRITAIN WOULD BE FORCED TO DROP OUT OF THE NH90 PROGRAMME. A EUROPEAN SOLUTION, WHICH EVEN NOW WAS ONLY A POSSIBILITY, WOULD THEN BE FINISHED. THE BLACK HAWK WOULD DOMINATE THE EUROPEAN MARKET AND THE RESULT WOULD BE LIKELY TO BE THE END OF A EUROPEAN HELICOPTER INDUSTRY. THAT WAS THE OUTCOME WHICH FRANCE FORESAW AS WELL AS GERMANY. HE WAS GLAD THAT IT WAS ALSO RECOGNISED BY MR HESELTINE. THAT WAS WHY HE AND M QUILES WERE PREPARED TO DO THEIR UTMOST TO PREVENT IT HAPPENING. WHILE MBB WERE A PRIVATE COMPANY, HE COULD INFLUENCE THEM AS THEIR MAIN

CUSTOMER. HE BELIEVED THAT THERE SHOULD BE AN URGENT MEETING OF THE HELICOPTER INDUSTRIES OF THE COUNTRIES AFFECTED INCLUDING ITALY AND OF THEIR NADS. THEY WOULD NEED TO ADDRESS FUTURE REQUIREMENTS FOR THREE TYPES OF HELICOPTER; THE PAH2/A129 ATTACK HELICOPTER, THE NH 90 AND THE EH101. AN AGREEMENT WOULD HAVE TO INCLUDE AN UNDERSTANDING ON CO-OPERATION ON THE PAH2/A129 AND A EUROPEAN SOLUTION AT THE NH90 LEVEL. GERMANY HAD NO REQUIREMENT FOR THE EH101. HE RECOGNISED THAT THERE COULD BE A PROBLEM OVER PROVIDING PRODUCTION WORK IN THE SHORT TERM FOR WESTLANDS. HE HAD ASKED MBB TO LOOK AT THIS BUT IT SEEMED LIKELY THAT SIKORSKY COULD MAKE A MORE ATTRACTIVE OFFER.

3. THE DEFENCE SECRETARY AGREED WITH THE IMPORTANCE OF BRINGING IN THE ITALIANS. HE POINTED OUT THAT THERE WAS ALSO AN ITALIAN DIMENSION TO THE UNITED TECHNOLOGIES BID SINCE FIAT WERE ALSO INVOLVED AND ENVISAGED A TAKEOVER OF AGUSTA. DR WOERNER DID NOT SEEM TO BE AWARE OF THIS. HE COMMENTED THAT THIS WOULD REPRESENT A DECISIVE BREAK THROUGH BY THE AMERICANS INTO THE EUROPEAN MARKET AND, ONCE IT HAD OCCURRED, IT WOULD ONLY BE A MATTER OF TIME BEFORE MBB WERE ALSO DRAWN IN.

4. THE DEFENCE SECRETARY EMPHASISED THE URGENCY OF TAKING ACTION. THE EFFORT OF INDUSTRY, NADS, MINISTERS, AND BANKERS, HAD TO BE BROUGHT TOGETHER IN A MATTER OF DAYS NOT THE MONTHS WHICH

WOULD NORMALLY BE DEVOTED TO A PROBLEM OF THIS KIND. HE HAD JUST BEEN INFORMED THAT TOP REPRESENTATIVES OF AEROSPATIALE AND MBB WISHED TO SEE HIM ON FRIDAY AND HE VERY MUCH HOPED THAT URGENT ACTION COULD BE TAKEN ALSO TO BRING IN AGUSTA TO SUCH A MEETING. THREE ISSUES WOULD HAVE TO BE ADDRESSED SUCCESSFULLY; A CASH INJECTION INTO WESTLANDS THE RATIONALISATION OF PRODUCTS INCLUDING A JOINT SOLUTION TO THE A129/PAH2 REQUIREMENTS, AND CLEAR FACTUALLY BASED PROPOSALS FOR THE WORKLOAD TO BE PLACED WITH WESTLANDS. DR WOERNER TOOK NOTE.

5. AFTER THE MEETING, IT WAS AGREED THAT URGENT EFFORTS SHOULD BE MADE TO INVOLVE AGUSTA IN THE MEETING WITH THE DEFENCE SECRETARY ON FRIDAY AND THAT THE NADS MEETING PLANNED FOR THAT DATE TO DISCUSS SP70 SHOULD BE RE-LOCATED IN LONDON.

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