



MO 26/16/1

PRIME MINISTER

WESTLAND

Leon Brittan minuted you yesterday on this subject, and John MacGregor also wrote to me. It may be helpful for me to explain to you and colleagues the background on the defence side.

2. When Ministers met under Leon Brittan's chairmanship on 16th October (Hosker's letter of 17th October copied to Powell refers), I expressed my concern about the implications of a Sikorsky bid for Westland's future capabilities. Leon Brittan explained Westland's reservations about a European alternative but said that he had already asked them to explore the prospects for a European shareholder as thoroughly as possible. My own efforts since then have been similarly directed to helping to clarify what the European companies might offer and how their Governments might assist this process by rationalising their requirements for military helicopters.





3. I have throughout kept in close touch with Sir John Cuckney who told me last week that he did not himself have the management resources to clarify the European option and that he welcomed any assistance that we and the DTI together could provide in this direction. He said that if the European companies came up with a comparable offer to that from Sikorsky and Fiat he would of course wish to look at it objectively alongside the Sikorsky bid. In practice, it may be that ever since October he has been committed to Sikorsky as the bird in the hand and that he had hoped that the Europeans would never achieve a competing bid: there is some evidence that Westland have sought to frustrate such a bid by not providing information on a comparable basis to that made available to Sikorsky.

4. The second dimension which has developed in recent weeks is the concern of other European Defence Ministers about the implications if Westland were to take an American partner. The fear is that, if Sikorsky take even a minority stake in Westland, they will use their position to put pressure on the Ministry of Defence to order American designed Blackhawk helicopters (for which there is no financial provision in my programme). If we were to accede to this pressure, it would spell the end of the five-nation NH90 collaborative helicopter project now in feasibility study, because we would not be able to afford to buy both Blackhawk helicopters over the next few years and NH90 helicopters in the future. With scope for collaboration diminished in this way, the European helicopter





manufacturers would one by one go out of business or be taken over by American companies (probably Sikorsky). The Americans would, over a period of time, establish a monopoly on design and development work with the Europeans left with licenced production work. It is not self-evidently the case that this would be in the long-term economic interest of this country any more than that of other European countries or that letting Sikorsky in now preserves competition: it could do the exact opposite.

5. These concerns are particularly strongly felt by the German Defence Minister, Dr Woerner. As Dr Woerner put it to me when he came to London with Helmut Kohl last week, a Sikorsky stake would mean: 'The end of a viable European helicopter industry within 20 years'. He has also made the point that Sikorsky's approach to Westland was merely part of their continued attempt to buy into a European helicopter company. They had made an earlier approach to MBB but, although it was a private company, the German Government had resisted this in the wider interest of European co-operation. Given the pivotal position of the German Government in the European Fighter Aircraft programme, these German concerns are not ones which we could simply ignore. I therefore agreed with Dr Woerner that the National Armaments Directors of the 4 key European countries should meet immediately to consider the scope for further European collaboration in helicopters.





6. There are already two European collaborative projects in existence which are open to European countries - the feasibility study for the NH90 tactical transport helicopter and the EH101 maritime and logistic transport helicopter now in development. The National Armaments Directors recommended that a third project should be introduced and, instead of Britain and Italy on the one hand, and France and Germany on the other, both developing battlefield helicopters, there should be a common project for all four countries, thus enabling development costs to be shared by four partners instead of by two sets of two, and offering the possibility of lower production costs and wider sales potential. In addition, the Germans indicated that they might well wish to order some EH101 helicopters for their Navy, and Aerospatiale offered to take a stake in the EH101.

7. The National Armaments Directors also recommended that European nations should only buy helicopters of the three kinds mentioned above which are designed and built in Europe. Clearly this would have the effect of protecting the European technological base; but in the case of the United Kingdom, we are already taking part in European projects in these three categories. So what is proposed is in line with existing plans and, indeed, in the round, the proposal offers scope for achieving our plans at a lower cost than we could otherwise attain. It would certainly reduce competition within Europe on the Battlefield Helicopter, but I had already sought earlier a rationalisation of requirements at this level in line with our





policy of European harmonisation. The truth is that 4 European companies acting separately could never compete with the US giants whose development costs are almost completely funded by the massive American Department of Defense procurement programme. As we have recognised for many years, they must come together to compete on a worldwide basis. From our national point of view the end result would be no different to that we already face in the Aerospace industry and, for example, in the EFA programme itself. I can quite see the concern of the Westland management over the implications for the Sikorsky bid, but we should not dress this concern up in any wider competition context. The simple truth is that we are asked to tailor the policies of Her Majesty's Government to suit a particular choice on its future made by the Westland Board.

8. I find myself in a good deal of difficulty in reaching a view on the proposals of Sir John Cuckney since, as far as I am aware, the Government has no information on the precise terms of the Sikorsky bid to set alongside the information that has been provided on the European alternative. (I understand incidentally that there is to be a meeting tomorrow between Lazards (who act for Westland), Lloyds Bank International (who act for the European companies), Westland and the European companies which suggests that all is not cut and dried in favour of Sikorsky). Until we have information on the Sikorsky bid, I do not see how we could reach a responsible and informed decision on the way forward, particularly having regard for the





substantial international ramifications of that decision and the possibility that it might spill across into other programmes of equally crucial importance for other British companies.

9. I therefore believe that before there is any meeting of Ministers, DTI and MOD officials should, as a matter of urgency, explore with the Company the nature of the bid which they say they prefer.

10. I am copying this minute to the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury and the Secretary of the Cabinet.

A handwritten signature in blue ink, appearing to be "W. J. H.", is written above the typed name.

Ministry of Defence

4th December 1985



