



and
a B/af.

MO 26/16/1

PRIME MINISTER

WESTLAND

1. I know my colleagues will share my sense of relief that the pressure for an immediate decision has now been greatly eased by the Westland decision (about which we did not know on Friday) that their detailed arrangements did not need to be in place until 18th December.

2. Officials have circulated a paper to E(A) setting out the facts on the various options on the way forward. I thought it would be helpful if I set out my own views on the two possible ways forward for the future of Westland that have been identified to date.

The Sikorsky/Fiat Proposals

3. Sikorsky/Fiat would take a 29.9% holding for an initial investment of £20M, and enjoy an option to raise their holding to 35-40% for another £10M. This gives them effective control of the Company - and this would essentially mean American rather



than joint control because the agreement provides that Sikorsky exercise all the votes of the partnership. This amounts to American control of the only company in the United Kingdom capable of maintaining the helicopter fleet of the Armed Forces and the design, development and production of further helicopter requirements.

4. Furthermore, this would give the Americans access to all Ministry of Defence and Westland technology now available to the Company, and to the European technology embodied in collaborative projects. The United States are precluded by law from giving us similar rights; British controlled defence companies in the United States do not enjoy access to American defence technology on the same basis as American companies. And the European governments and companies would certainly object to their technology being available to the United States in this way; collaborative projects would be at risk and Westland's workload reduce. The technology we would get would be at Sikorsky's and the US's discretion ('black boxes' to be built into their designs).

5. The Sikorsky/Fiat proposals do not mean extra work for Westland now; the licence to make the Blackhawk that Westland would buy from Sikorsky (with money loaned from Sikorsky!) would only yield work if Westland could actually sell Blackhawk helicopters in Europe, India and other countries. As Sikorsky have not been able to sell the Blackhawk in these markets



themselves since the first prototype flew eleven years ago, Westland will certainly face an uphill task. Also, if they do sell any, the purchasers will want offset; so this means there will be less work for Westland and for UK equipment suppliers especially on the electronics and avionics side. Even before such offset, the maximum UK content would only be 60-70%.

6. It is therefore clear that the central plank of the Sikorsky/Fiat proposal is that the British government should buy the Blackhawk; Westland have so far refused to explain what assumptions they are making about Blackhawk sales to HMG. Their unwillingness to do this is its own most eloquent marker as in reality of course a Sikorsky controlled Westland would rapidly use all its political muscle in the West Country to try to force the MOD to provide additional workload.

7. The central thrust of the Sikorsky/Fiat proposal is therefore that in exchange for only £20M;

- British banks and shareholders should put up £50M through converting debt to equity and by a Rights Issue;

- British and European technology would be available to the United States; and collaborative projects would be at risk as European partners seek to preserve their own technology from crossing the Atlantic;



- Britain would be pressurised to buy Blackhawk helicopters for which there is no operational requirement or money in the Defence Programme and which were not accepted by my Department when Sikorsky first put up the proposal in conjunction with Shorts over a year ago;

- There is no demonstrable extra workload for Westland and indeed European resentment might actually reduce the workload.

8. Nor can the effect on the British avionics industry be ignored. The Sikorsky offer suggests that 60-70% of the Blackhawks which might be sold would be built here. On the classic division of airframe 33%, engine 33% and avionics 33%, it is clear that the Westland airframe and the Rolls Royce engine leave nothing for the avionics industry. In each helicopter sold, this would be a potential loss of the order of £2 million workload for British companies compared with a European project which would attract a full juste retour.

The European Proposal

9. The European proposal was communicated in writing to Westland by Lloyds Bank International on December 9th. It provides:



- up to £40M of cash from the three European companies. This would reduce the amount of 'rescue' money required from British banks and shareholders;
- no controlling interest, and the European companies have indicated a willingness to dispose of a substantial part of the holding to UK residents in the future if this would be helpful;
- limited extra work not dependent on future orders;
- continued work on existing collaborative projects - the NH90 (the future troop-carrying helicopter now being studied by the United Kingdom, France, Germany and Italy) and EH101, the Anglo/Italian project for a new large helicopter (with which Germany would now wish to become associated). Of particular interest is the German and French offer to join a quadripartite battlefield helicopter project by merging the Anglo/Italian A129 project with the Franco/German PAH2 project.

Westlands Immediate Workload.

10. Although there is now greater confidence of an Indian order for W30-160s, Westland attach great importance to additional work to see them through the gap until EH101 production begins. Westland claim that a Sikorsky license to manufacture Blackhawk



holds out the possibility of sales in Europe and they estimate that the potential market - including the UK - over the next 15 years at 750. MOD officials assess the potential market for all helicopters in that class to be much smaller - nearer half this figure - but whatever the size of the market the prospect for actual sales of Blackhawk cannot be good. The MOD has neither the money nor a currently endorsed requirement for Blackhawk helicopters and it seems unlikely that other European countries would buy from Westland preferring their own European helicopters or, if they did indeed require Blackhawk, to build themselves or acquire directly from the US. The Sikorsky proposal does not therefore hold out a realistic prospect of significant work. It is well established that successful exports of military equipment need firm domestic orders. None is in prospect.

11. The European proposal on the other hand, contains several features that indicate small but extra firm work. First, Aerospatiale have proposed to place extra sub-contract work at Westland amounting to about £3M a year, which should amount to an extra 90 jobs. Secondly, if the recommendations of the National Armaments Directors are accepted by Ministers and the two European battlefield helicopters projects - the Anglo-Italian Al29 Mk II and the Franco-German PAH2 are rationalised, as all four NADs have confirmed in writing they can be, there would be the prospect of some savings in development costs. For the UK, these might amount to £25M over



the next 5 years which would become available for extra work at Westland. This would enable additional helicopter orders to be placed - say half a dozen Sea Kings or Lynx - to help fill the gap in production work. Finally on Friday evening the new French Minister of Defence phoned me personally to tell me that the French Army are about to place an order for more Super Pumas. Work on this order would be made available to Westland, but he could not in all fairness take a decision until he knew which way the negotiations were going.

12. The net result of the European solution would be a flow of work to Westland comprising orders already placed; further orders in my Department's programme of 9 Sea King Mk VI (mid 1986); 5 Sea King Mk IV (late 1986), which I would intend to place in any case, together with a new and further order for (say) another 6 Sea King/Lynx which will take up the £25 million of funds available to me in the case of the European (but not the Sikorsky) offer. Taken with additional work from the European partners this constitutes a firm contribution to filling the gap in production at Westland. Further sales of W30-160 might possibly be achieved once the Indian order is secured. There seems no reason therefore, from the point of view of workload, why Westland should prefer the uncertain prospect of Blackhawk sales and the lost opportunity of European co-operation to the firm work in the European proposals.



The European Dimension.

13. My European Defence colleagues have expressed their concern about a Sikorsky stake in Westland. The Ministers of Defence of France and Germany have already endorsed the National Armaments Directors' proposals, and the attached telegram dated 5th December from HM Ambassador in Rome sets out the views of Dr Teti, the Chairman of Agusta. These views are important, since Dr Teti is already in collaboration with Westland over the existing Anglo-Italian projects, the Al29 and EH101. Dr Teti says that he is very unhappy about the proposed link with Sikorsky; he sees it based on short term financial considerations rather than the long term industrial interests of both companies. In particular he argues that the result of the Sikorsky link 'Would be that Westland would be turned into a manufacturer of parts for Sikorsky and the prospect for Westland in 3 or 4 years time would be grim. ... If the deal with Sikorsky went through, he "would be left an orphan and would have to seek other partners"'. In brief, As Dr Woerner, the Federal Republic's Defence Minister, has said, Europe sees the Sikorsky link as spelling the end of an independent European helicopter industry within 10 to 20 years.

14. These European concerns cannot be ignored, especially those of Germany, our central partner in the EFA project, and Italy, our existing partner in helicopter collaboration. As I made clear in my minute of 4th December to you what the National



Armaments Directors propose 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 obtain. It would certainly reduce competition with 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 will be no different to that we already face in the aerospace industry and, for example, in the EFA programme itself.

15. Acceptance of the collaborative arrangements proposed by the National Armaments Directors would therefore be in the technical, military and financial interests of the United Kingdom. The precise wording of the National Armaments Directors recommendation - its thought that European countries should only buy helicopters of the three types under consideration which are designed and built in Europe - would not require positive acceptance if we endorsed European collaboration at the three levels proposed, and if the proposals of the European Consortium are accepted by Westland.



Conclusions and Recommendations.

16. It is clear from the above that the European proposals have substantial advantages over those proposed by Sikorsky/Fiat; specifically:

- in maintaining ultimate United Kingdom control over a significant supplier of critical defence equipment;
- in providing immediately twice as much new money for Westland;
- in facilitating an increase in Westland's workload;
- in securing and extending our policy of European helicopter collaboration;
- in protecting British technology from a one-way flow to the United States;
- in avoiding the necessity for HMG to purchase Blackhawk helicopters which it does not require and for which there is no money in the Defence Programme;
- in maintaining relations with European governments, without any offence to the United States government who have not expressed any views on the Sikorsky proposal.



17. It is therefore my view that Westland should be informed of the proposed pattern of ordering that arises from this analysis; that is: no Blackhawk orders and concentration on the proposed range of existing and new collaborative projects that it is the policy of the Ministry of Defence, their principal customer, to pursue. They should be invited to consider most seriously the advantages of the European offer which, from the Government's standpoint, represents the defence procurement policies it is publicly committed to pursue.

18. I am sending copies of this minute to other Members of E(A), the Foreign and Commonwealth Secretary, the Chief Whip, and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "W. H. H.", written in a cursive style.

Ministry of Defence

9th December 1985

FOLLOWING IS TEXT OF TETI'S TELEX TO SIR J CUCKNEY OF MUWESTLANDS:--

IN MOST DELICATE MOMENT OF OUR EFFORT TO FIND A NEGOTIATED SOLUTION

PAGE 2 RBDWC 5013 UNCLAS

OF THE WESTLAND PROBLEM WHICH TENDS TO RESOLVE THE TEMPORARY DIFFICULTIES THAT THE COMPANY IS FACING I WOULD DRAW YOUR ATTENTION TO THE FACT THAT WHILE WE ACKNOWLEDGE YOUR RIGHT TO AUTONOMOUS DECISION. WE MUST ASK YOU TO FULLY RESPECT THE PROGRAM THAT AGUSTA DEVELOPS INDEPENDENTLY WITH WESTLAND OR WHICH HAVE BEEN INITIATED WITH THE OTHERS EUROPEAN PARTNERS STOP I REFER IN PARTICULAR TO EH101 PROGRAM WHICH HAS NOW REACHED THE ADVANCED PHASE AND TO ANGLO-ITALIAN-DUTCH PROGRAM FOR THE DEVELOPMENT OF A MULTIROLE LIGHT HELICOPTER BORN OUT OF MANGUSTA 129 AS WELL AS NH90 HELICOPTER TO BE DEVELOPED BY THE NATO !!PARTNERS!!. THESE ARE PROGRAMS. ESPECIALLY EH101 AND THE MULTIROLE HELICOPTER. ON WHICH WE WORKED INTENSIVELY WITH YOUR BREDECESSOR. THE SPIRIT WAS ONE OF FULL COOPERATION WHICH COULD RIGHTLY BE TAKEN AS AN EXAMPLE OF THE FIRST INSTANCE OF JOINT WORKING ACTIVITY BETWEEN OUR TECHNICIANS AND ALL OUR OTHERS EMPLOYEES IN THE EUROPEAN COMMUNITY. I DO NOT WANT TO INTERFERE WITH THE DIFFICULT DECISION THAT YOU MUST MAKE. YOU ARE ALSO AWARE OF THE GOOD RELATIONS WE ENJOY WITH SIKORSKY. THE FACT IS THAT THIS COMPANY MANUFACTURES SOME MACHINES AND HAS PROGRAMS WHICH ARE VERY SIMILAR TO THOSE THAT

PAGE 3 RBDWC 5013 UNCLAS

OUR COMPANIES HAVE. THEIR PARTICIPATION IN WESTLAND AND ON THE EUROPEAN MARKET COULD HAVE NEGATIVE REPERCUSSIONS AND WORSEN OUR MANUFACTURING DIFFICULTIES. IT WOULD ALSO ENDANGER THE PROGRAMS ILLUSTRATED ABOVE.

LASTLY I MUST REMIND YOU THAT THE AGREEMENT SIGNED IN PARIS 28. MARCH 1985 WOULD ALSO SERIOUSLY SUFFER BY THE PARTICIPATION IN WESTLAND OF NON EUROPEAN THIRD PARTIES. SINCE THIS WAS THE SPIRIT WITH WHICH AGUSTA DECIDED TO COLLABORATE WITH AEROSPATIALE AND MBB IN PRESENTING THE OFFER. THEREFORE I MUST ASK YOU TO CAREFULLY CONSIDER THESE PROBLEMS AND TO ASSESS THEM OBJECTIVELY BEFORE MAKING ANY DECISION. I WOULD ASK YOU TO DO YOUR UTMOST TO RESPECT THE FUNDAMENTAL MOTIVE UNDERLYING OUR AGREEMENT BETWEEN AGUSTA AND WESTLAND SINCE IT HAS PROVED TO BE VERY FRUITFULL IN THE PAST AND COULD STILL BE EXTREZELY POSITIVE FOR THE FUTURE.

WITH BEST REGARDS.

RAFFAELLO TETI

CHAIRMAN AND C.E.O. AGUSTA GROUP.