



FROM: CHIEF SECRETARY

DATE: 17 December 1985

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PRIME MINISTER

## WESTLAND

Now that the Government's position on the NAD's recommendation has been clarified, Westland's shareholders have to decide whether or not to accept the Sikorsky solution recommended by the Board. It is important that they are allowed to make a fair choice. While alternatives could be made to look attractive I think I must draw attention to the repercussions for public expenditure we might have to face if the shareholders pursued the European solution.

2 First, the European solution would mean less competition and therefore increased costs. Acceptance of the NADs recommendation will require future procurement to be from the European participants. This would mean we could not even seek tenders from four out of the seven major helicopter companies in the world. The value of international competitive tenders is becoming increasingly apparent. There have been recent examples of competitive tenders saving a third or more of MOD's originally estimated costs (for example, the RAF trainer).

3 Second, it remains unclear whether if, under a European solution, all four nations would in the event jointly agree to abandon their collaborative ventures on the light attack helicopter (respectively PAH2 and Al29) in favour of a different 4 nation collaboration, this will give rise to savings. I understand the German Minister of Defence has had reservations on this. The £25 million saving which Michael has referred to, is therefore far from reliable. Indeed, on this scenario Michael is effectively committing

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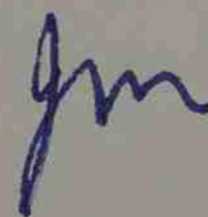
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us to development and production of the NH90 to which we are not currently committed. In my view, therefore continuing several collaborative projects will impose a cost.

4 Finally, the US have a vast development programme underway to develop a new light attack helicopter. The enormous resources they are able to bring to bear on the development make it likely that over the next decade we will see helicopter technology making rapid advances. The Europeans will require a vast development project to try to catch up. The risk is that if we were exclusively committed to the European alternative we may find that this could involve the government underwriting and ultimately contributing to the financing of a relatively larger programme of research and development.

5 It is of course primarily for Michael Heseltine to decide how to allocate his Defence Budget. But he has already said that this year's Survey settlement is a difficult one for him, and there are many competing pressures on defence expenditure in the medium to long term. I am particularly concerned that in these circumstances we should get maximum value for money from defence expenditure and that there should be no increased demands in future years as a result of decisions we take now.

6 I am copying this minute to Geoffrey Howe, Michael Heseltine and Leon Brittan.



JOHN MacGREGOR

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