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P 01860

MR POWELL - No 10

cc Sir Robert Armstrong  
Mr Wiggins - o/r

WESTLAND

*FILE WITH CDP*  
We spoke about the letter of 6 January to you from the Defence Secretary's Private Secretary and I undertook to let you have any points that I thought might be helpful in reply, particularly in relation to the interpretation of the E(A) minutes of 9 December (E(A)(85)24th Meeting).

2. The Defence Secretary's references to the summing up and conclusions of that meeting seem to be correct, but there are two inferences which can, I think, be challenged.
3. First, the Defence Secretary argues (second paragraph of Mr Mottram's letter) that there is no suggestion in the Minutes that the recommendations of the NADs were being objected to on grounds of defence procurement or competition policy. This is correct. The key concern of the Sub-Committee at the time was that the Sikorsky deal should not be jeopardised by the NADs recommendations remaining on the table if no more attractive European deal was quickly forthcoming. But equally, the Minutes do not prove that the anti-competitive nature of the NADs recommendations was not also in the minds of the Prime Minister and other colleagues at the same time. Indeed, my brief of 9 December to the Prime Minister for the meeting (paragraph 9) explicitly pointed out that the NADs recommendation 'would mean the elimination of any element of competition from the European military helicopter market'. I think, therefore, that the Prime Minister can justifiably challenge the Defence Secretary's inference.
4. Second, the Defence Secretary argues (third paragraph of Mr Mottram's letter) that the provisional agreements reached with other Defence Ministers was a 'necessary part' of the remit to him from the E(A) meeting. His minute to the Prime Minister of 13 December (paragraph 6) also described the reaching of this agreement as 'in accordance with the remit of E(A)'. I see nothing, however, in the E(A) minutes to oblige the Secretary of State to reach such a discriminatory agreement. Indeed, in so far as it appears in effect to have been a substitute for the NADs recommendations,

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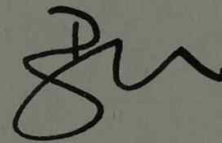
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it could be argued that the Secretary of State's action was in conflict with the spirit of the Minutes.

5. You will wish to consider whether it would be appropriate to the general tone of the Prime Minister's reply to pick these points up. If so, I attach two short passages for consideration.

6. I might perhaps also add that it seems to me that this particular saga, other considerations apart, is an example of the kind of difficulties we get into by not having a clear strategy from the Ministry of Defence on international collaboration in the defence procurement field. It is not at all clear that an independent UK capability to develop helicopters is fundamental to this country's security or that allocating resources in this direction (necessarily at the expense of others elsewhere) is in the best interests of UK industry. However, this is one of the unsatisfactory aspects of defence R & D procurement that I hope will soon emerge in the final report of MISC 119 for consideration in E(A).



J B UNWIN

7 January 1986  
Cabinet Office

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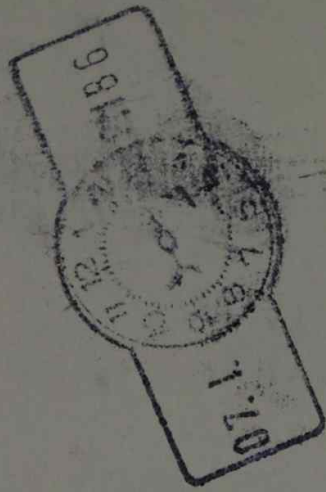
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POSSIBLE PARAGRAPHS FOR INCLUSION IN PRIME MINISTER'S REPLY TO MINISTRY OF DEFENCE LETTER OF 6 JANUARY

1. The Prime Minister notes the Secretary of State's reference to the conclusions of the E(A) meeting on 9 December on the NADs recommendations. She agrees that, in their contingent decision to reject the NADs recommendations, the Sub-Committee were primarily concerned that the Sikorsky/Fiat deal should not be jeopardised if the European Consortium had not produced a package which the Westlands Board could recommend by 4 pm on Friday, 13 December. But she is quite sure that in reaching this conclusion both she and other members of the Sub-Committee also had in mind the undesirable restriction on competition that the NADs recommendation entailed; and she continues to attach importance to the relevant points on this in the Chief Secretary's minute to her of 17 December.

2. The Prime Minister is also not at all clear that it was "a necessary part" of the E(A) remit to the Defence Secretary that any agreement should be reached between European Defence Ministers under which collaborative arrangements would only come into effect for the United Kingdom if Westlands decided to accept the European package. Indeed, the Prime Minister believes that this could in fact serve to vitiate the rejection of the NADs recommendations by itself placing significant and undesirable restrictions on competitive tendering. As she has already made clear, the Prime Minister does not believe that the Government should say or do anything that would lead Westlands or its shareholders to believe that if they accepted the Sikorsky/Fiat proposals they would lose the Government's support for participating in future in European collaborative projects. She is particularly concerned that we should not, by pursuing such a course, give our European partners any excuse for discrimination against British companies in the defence procurement field on the grounds that they were only doing what the British Government itself had sought from them.



AEROSPACE

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