



MINISTRY OF DEFENCE

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heads off line.
Any comments?
N. L. W.
27-10*

Dear Mr Wicks

.... As we agreed, I attach the material which has been prepared here for use by the Defence Secretary and the Lord Privy Seal next Wednesday. You will see that it is still very much in draft form.

*Yours sincerely
J.S. Pitt-Brooke*

J.S. PITT-BROOKE
Private Secretary

N. L. Wicks, Esq, CBE,
PPS/Prime Minister,
10 Downing Street,
SW1.

1. I wish to deal with the Defence Committee's Third Report, which is concerned with the defence implications of the future of Westland plc. The House is indebted to the Committee for a clear and cogent exposition of the defence issues, based on wide and deep research. As Cmnd 9916 makes clear, the Government agree with much of the Committee's analysis. Inevitably there are points on which we cannot go the whole way with the Committee, but this does not prevent us from recognising the Report as a major contribution to thinking on the subject, and one which is proving valuable in helping us to form our own views.

2. The Committee rightly point out that the helicopter has an established place in both naval and land/air warfare, and that its existing range of capabilities is gradually being extended. Both the existing roles and their extension were vividly demonstrated during the Falklands conflict and its aftermath, when helicopters were not only employed for anti-submarine warfare, amphibious assault, reconnaissance and surveillance, rapid movement of troops about the battlefield, re-supply and evacuation of casualties, but also adapted at short notice to remedy our lack of airborne early warning. At the same time the helicopter has its vulnerabilities - to air defence systems, direct fire, attack by other helicopters and so forth. As the Committee have observed, the helicopter is not yet able to replace an entire capability in the land/air battle. For example, attack

helicopters must complement ground-based long range direct fire weapons rather than replacing them.

3. The problem for defence planners, and for Ministers, is therefore to define their place within a programme of balanced capabilities, and also, equally important, within the constraints of availability of funds.

4. Against this background, I believe the Committee's comment that quantity has been sacrificed for quality is a little severe. In round terms there are 850 helicopters in service with the Armed Forces today, a comparatively small reduction from the corresponding total of 940 in the mid-70s. Allowing for the fact that successive generations of equipment almost invariably cost more in real terms, while at the same time giving greater capability, I believe we can claim to have given the helicopter a good priority in the defence programme.

5. Furthermore, improved types of helicopter feature prominently in our future programme. The new anti-submarine helicopter, the Anglo/Italian EH101, is a high priority project to which we are firmly committed. Its higher payload will enable it to carry sufficient fuel to operate at very long ranges in search of hostile submarines, thereby exploiting to the full the improved sensors that will be in service in the next decade and giving greater protection to

the Fleet. It is noteworthy that Westland and their partners Agusta will be building three versions of the helicopter - naval, passenger and utility - thus enabling the development costs to be spread over larger sales and increasing value for money.

6. Our second requirement is for a new light attack helicopter in the anti-tank role to replace Lynx fitted with TOW. Entry into service is planned for the late 1990s and it is thus at a somewhat earlier stage than EH 101. Nevertheless good progress is being made. Together with our partners Italy, the Netherlands and Spain, we shall shortly be embarking on a joint feasibility study and cost definition phase, which is expected to last two years. I am optimistic that this project too will come to fruition in due course.

7. The most difficult issue facing my Department concerns support helicopters. The RAF operates the Wessex and the Puma in this role. Within the next 10 years both will be approaching the end of their air-worthiness lives and will have become progressively less economic to operate. There is no absolute cut-off date - most aircraft can be patched up and kept going for a very long time - and the timing of any successor system is therefore to some extent a matter of discretion. There is also a major prior question, what we want to use support helicopters for. Only when we have answered this can we go on to decide what kinds of helicopters we need and how many of them.

8. The Committee have commented that the delay in formulating the light support requirement has exacerbated the problems faced by Westland as the only British helicopter manufacturer. I am aware that there has been some criticism of our decision early last year to leave decisions on Air Staff Target 404 in abeyance, and I would like to put this matter into perspective. A Staff Target is no more than a broad statement of the functions and desired performance of a new piece of equipment, made before the feasibility or method of meeting such a need have been assessed. It is in no sense a fully defined requirement. This particular Staff Target dates back to 1978. It came into particular prominence in 1980 when my Department, very sensibly, considered whether a common helicopter could be found to carry out both the anti-submarine and the support tasks. The conclusion was that this was undesirable, and EH 101 went ahead as a separate programme. Meanwhile it remained fully open to the Ministry of Defence to re-assess the military requirement if new evidence came along to warrant it. This is precisely what happened. The experience of Exercise LIONHEART in the autumn of 1984, and the new thinking it stimulated about the Army's helicopter needs, are well described in the Committee's Report.

9. It was therefore necessary for the Defence Staff to go back to the drawing board and undertake a fundamental study

to define the operational concept and the consequential military requirement for helicopters. This study is looking a long way ahead, in fact to the year 2010. It is considering what changes in support helicopter roles and capabilities can be expected up to that date, how support helicopter assets can be used most effectively to fulfil these roles and in the light of this what the best force mix would be. On the basis of this a force mix is to be recommended.

10. As the Committee have recognised, these issues are bound up with the question of the Army's air mobility needs. We have noted carefully the Committee's preliminary view that there is a very good case for fulfilling a fully air mobile brigade, and this is being borne in mind in our studies.

11. The Committee have stressed the importance of resolving these matters quickly. I accept this. We shall continue to work as rapidly as possible on the military issues and on their consequences for procurement and for the defence programme. A key aspect of this is affordability. We cannot state military requirements in a financial vacuum, and resources are tight. I cannot at this stage forecast what our decisions will be or what their consequences may be for Westland. But I recognise the need to resolve this as quickly as possible, and I can tell the House that the military studies are nearing completion and that decisions on any consequential procurement will be taken in the New Year.

12. Meanwhile, I very much welcome the Committee's commendation of our decision to carry out a fundamental re-appraisal of our requirements before committing ourselves to procurement. I think the House will recognise that we would have been failing in our duty if we had fudged the difficult and complex judgements about military needs in order to rush to procurement of hardware. This would have been fair neither to the Services nor to the taxpayer.

13. The Committee have also raised the question of Service responsibilities for helicopters, and have said that they believe there is a strong case for giving the Army, as user of support helicopters, full responsibility for them. I am not sure whether a strong case is the same thing as a conclusive case in the Committee's mind, but I think they have raised an interesting question. Most NATO nations assign responsibility for operating all battlefield helicopters to their Army. Canada and Norway however do so to their Air Force. We have a split system, with the Army operating smaller and lighter helicopters and the RAF the bigger and heavier ones.

14. It would be wrong to under-estimate the upheaval that would be caused by going down the road the Committee have suggested. Major changes would be necessary in the training, manning and support organisations and plans of the two

Services concerned. Before embarking on such a course, therefore, I would need to be fully satisfied that the benefits involved justify the upheaval and could not be secured by simpler means - for example by some change in command and control arrangements. Nevertheless the Government is considering the matter and is bearing the Committee's views very much in mind.

DRAFT

1. THE MINISTRY OF DEFENCE IS THE LARGEST SINGLE CUSTOMER OF BRITISH INDUSTRY. DEFENCE PROCUREMENT ACCOUNTS FOR ABOUT HALF THE OUTPUT OF THE AEROSPACE INDUSTRY. IN THIS AND OTHER SECTORS THE MINISTRY SUSTAINS THROUGH THE WORK OF THE R&D ESTABLISHMENTS AND EXTRA MURAL R&D CONTRACTS MUCH OF THE INDUSTRY'S R&D BASE. IN TERMS OF EMPLOYEES, WESTLAND IS A RELATIVELY SMALL COMPANY COMPARED WITH THE GIANTS OF THE DEFENCE INDUSTRY SUCH AS GEC AND BAe. BUT IT IS THE ONLY DOMESTIC SOURCE OF HELICOPTERS AND AS A RESULT IT IS ONE OF THE RELATIVELY FEW COMPANIES TO WHICH THE MOD PAYS MORE THAN £100M P.A. INDEED MOD PAYMENTS CURRENTLY RUN AT BETWEEN £150 AND £200M P.A. THUS, THERE ALWAYS HAS BEEN AND CONTINUES TO BE A CLOSE RELATIONSHIP BETWEEN THE MOD AND WESTLAND.

2. BUT WESTLAND IS MORE THAN A HELICOPTER COMPANY. UPWARDS OF 40% OF ITS TURNOVER ARISES FROM THE AEROSPACE AND TECHNOLOGIES DIVISIONS WHICH ARE SUCCESSFUL AND COMPETITIVE. THE SMALLER OF THE TWO, THE AEROSPACE DIVISION IS NOW THE LARGEST EMPLOYER IN COWES ON THE ISLE OF WIGHT, [AND ITS AEROSTRUCTURES AND HOVERCRAFT BUSINESS IS EXPANDING. RECENTLY THERE HAVE BEEN, I AM PLEASED TO SAY, EXPORT ORDERS FOR HOVERCRAFT INDICATING AN UPTURN IN THIS MARKET.] THE TECHNOLOGIES DIVISION IS RATHER LARGER AND COMPARABLE IN TURNOVER TO EACH OF THE TWO HELICOPTER DIVISIONS; AND IT IS VERY SUCCESSFUL IN SUCH AREAS AS ENVIRONMENTAL CONTROL AND

LIFE SUPPORT SYSTEMS, FILTERATION AND HEAT TRANSFER. IT IS A SIGNIFICANT SUB-CONTRACTOR TO THE TORNADO PROGRAMME PROVIDING VALVES, TANKS, AND UNDERCARRIAGE COMPONENTS PLUS MANY OTHER ITEMS. IT IS VERY SUCCESSFUL TOO IN THE CIVIL AND EXPORT FIELD AND ITS A SUPPLIER TO AIRBUS AND THE US B1 BOMBER AND F18 FIGHTER. THE TECHNOLOGIES DIVISION REPRESENTS THE IDEAL DEFENCE SUPPLIER: SUCCESSFUL, INNOVATIVE AND PROFITABLE BUT NOT WHOLLY DEPENDENT ON THE MOD FOR ORDERS HAVING ACHIEVED WIDE CIVIL AND FOREIGN MILITARY SALES.

3. THESE TWO DIVISIONS AND THE HELICOPTER CUSTOMER SUPPORT DIVISION HELP TO MAKE WESTLAND WHAT IT IS NOW, A SOUND COMPANY, AND I KNOW THAT THE MANAGEMENT ARE OPTIMISTIC THAT IT IS BETTER PLACED THAN IT HAS BEEN FOR SOMETIME. BUT IT IS, OF COURSE, THE HELICOPTER DIVISION AT YEOVIL FOR WHICH IT IS BETTER KNOWN. THIS DIVISION TOO HAS BEEN SUCCESSFUL SUPPLYING THE MOD FOR MANY YEARS WITH MOST OF ITS HELICOPTER REQUIREMENTS, SUPPORT OF THE MOD FLEET AND TAKING PART IN SOME MAJOR TECHNOLOGICAL DEVELOPMENTS WHERE IT HAS A WORLD LEAD AS SHOWN BY ITS RECENT SUCCESS IN RECOVERING FROM THE SOVIET UNION THE WORLD HELICOPTER SPEED RECORD AND BREAKING THE 200 KNOT BARRIER. IT HAS ALSO SOLD IN THE CIVIL MARKET AND EXPORTED.

4. WESTLAND'S HELICOPTER BUSINESS WAS ORIGINALLY BUILT UPON THE LICENSED PRODUCTION OF HELICOPTERS DESIGNED AND DEVELOPED BY THE AMERICAN SIKORSKY COMPANY. OVER THE YEARS

WESTLAND EXPANDED THE BRITISH DESIGN AND DEVELOPMENT ELEMENT OF THEIR WORK AS IN THE SUCCESSFUL SEA KING SERIES OF HELICOPTERS WHICH THEY HAVE SOLD IN LARGE NUMBERS TO OUR OWN ARMED FORCES AND WHICH HAS ALSO BEEN A PARTICULARLY SUCCESSFUL EXPORT PRODUCT SELLING TO [] COUNTRIES. WESTLAND, TOO, WAS INVOLVED IN SOME OF THE EARLIEST COLLABORATIVE EQUIPMENT PROJECTS IN EUROPE THROUGH THE ANGLO-FRENCH HELICOPTER AGREEMENTS OF THE LATE 1960s. ONE OF THE FRUITS OF THAT COLLABORATION - THE LYNX - HAS NOW BEEN SOLD TO [] COUNTRIES. THE CORE OF WESTLAND'S FUTURE HELICOPTER BUSINESS RESTS ON THE ANGLO-ITALIAN EH101 HELICOPTER WHICH WILL BE WIDELY DEPLOYED IN THE ROYAL NAVY IN THE 1990s. WESTLAND ARE ALSO INVOLVED IN THE PRELIMINARY WORK ON A 4 NATION LIGHT ATTACK HELICOPTER FOR THE LATE 1990s BASED UPON THE DEVELOPMENT OF THE ITALIAN A129 HELICOPTER.

5. THE HCDC RIGHTLY DREW ATTENTION TO THE DEFENCE INDUSTRIAL BASE AND WESTLAND'S POSITION IN IT. THE GOVERNMENT'S POSITION WAS WELL EXPRESSED BY MY RT HON FRIEND THE PRIME MINISTER ON 15 JANUARY WHEN SHE SAID THAT THE GOVERNMENT'S CONCERN WAS TO SEE A FINANCIAL RECONSTRUCTION OF WESTLAND AS SOON AS POSSIBLE WHICH MAINTAINED A BRITISH HELICOPTER, DESIGN, DEVELOPMENT AND MANUFACTURING CAPABILITY, SUPPORTED UK PARTICIPATION IN COLLABORATION WITH NATO ALLIES AND SAFEGUARDED THE INTERESTS OF THE COMPANY AND ITS EMPLOYEES AND SHAREHOLDERS. WE ARE PLEASED THAT THE

FINANCIAL RECONSTRUCTION CAME ABOUT AND THAT A BRITISH HELICOPTER CAPABILITY HAS BEEN MAINTAINED WHICH CAN SUPPORT THE MOD FLEET, MEET CURRENT ORDERS FOR LYNX AND SEA KING HELICOPTERS AND PARTICIPATE IN THE COLLABORATIVE PROJECTS I HAVE MENTIONED. WE WISH WESTLAND WELL IN ITS CLOSER ASSOCIATION WITH SIKORSKY AND FIAT AND HOPE IT ACHIEVES EARLY EXPORT ORDERS FOR ITS FULL PRODUCT RANGE OF SEA KING, LYNX, BLACKHAWK AND EH101. THE GOVERNMENT WILL OF COURSE, GIVE THE COMPANY EVERY ASSISTANCE FOR ITS EXPORTS JUST AS IT DOES FOR OTHER AEROSPACE MANUFACTURERS.

6. THE COMMITTEE DREW ATTENTION TO THE NATIONAL SECURITY ISSUES THAT CAN ARISE THROUGH FOREIGN INVOLVEMENT IN UK DEFENCE SUPPLIERS. THIS IS NOT A NEW ISSUE; WE WELCOME FOREIGN INVESTMENT IN THIS COUNTRY'S INDUSTRIES; WHETHER THEY BE DEFENCE OR CIVIL SUPPLIERS AND THIS HAS BEEN THE CASE FOR MANY YEARS. WHERE NATIONAL INTERESTS ARE AT STAKE AND THERE IS THE POSSIBILITY OF CONTROLLING INTERESTS ARISING, THEN THERE ARE POWERS AVAILABLE UNDER EXISTING LEGISLATION. OF MORE IMMEDIATE CONCERN HOWEVER, IS THE PROTECTION OF CLASSIFIED INFORMATION AND TECHNOLOGY. I CAN ASSURE THE HOUSE THAT THERE ARE WELL ESTABLISHED PROCEDURES AND PRACTICES TO PROTECT SUCH INFORMATION AND TECHNOLOGY IN OUR DEFENCE INDUSTRIES JUST AS THERE IS IN DEFENCE ESTABLISHMENTS. I CANNOT, OF COURSE, GO INTO DETAIL, BUT WE TAKE MANY FACTORS INTO ACCOUNT AND ONE OF THESE WILL BE THE EXTENT AND NATURE OF THE VARIOUS SHAREHOLDINGS. IN THE CASE

OF WESTLAND, AS WE WOULD WITH ANY OTHER FIRM WHERE THERE HAS
BEEN A SIGNIFICANT CHANGE IN FOREIGN INVOLVEMENT, THE
PROTECTION OF CLASSIFIED MATTERS HAS BEEN POSITIVELY
CONFIRMED.

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