

CONFIDENTIAL



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MCS 10/6

CF 25

Prime Minister

MCS 9/6

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

8 June 1983

Dear Secretary of State

EH 101

Thank you for your letter of May 27.

In the light of what you say I am very reluctantly prepared to agree to launch aid of up to £65 million (cash). I must emphasise that this is the absolute maximum that I could accept and that if a settlement is not achievable at this level I would not be prepared to offer any more.

My agreement to this sum is on two conditions. First, the aid must be repaid with a 5% real return. Second, I must insist that the whole of the money must be found from within your existing provision. I note that you are now willing to find all the money for 1984-85, £4 million in 1985-86 and £6 million in 1986-87. I am asking you to find a further £4 million in 1985-86 and £6 million in 1986-87 and I hope that you will be willing to meet me on this given my concession on the overall amount.

Finally, your letter served notice that in your next PES bid you would seek firm provision for launch aid. You would not expect me to respond to this now but we shall clearly have to discuss it during the next Survey.

I am copying to the Prime Minister, Francis Pym, Michael Heseltine, Norman Tebbit and Arthur Cockfield and also to Sir Robert Armstrong and John Sparrow.

Yours sincerely

J.S. Gieve

for LEON BRITTAN

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[Approved by the Chief Secretary]

Defense
Budget H-10



8 JUN 1983



8 JUN 1983



Caxton House Tothill Street London SW1H 9NA
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Prime Minister ²

MCS 13/6

The Rt Hon Leon Brittan QC
 Chief Secretary
 Treasury
 Great George Street
 LONDON SW1

10 June 1983

D. Leon

mr

EH101: LAUNCH AID

I have seen the exchange of correspondence between you and Patrick Jenkin on the question of launch aid for this project.

No-one could be more convinced than I of the need to maintain the grip on public expenditure which you have achieved. But I hope you will reconsider your position in this particular case.

It seems clear that Westland will not be able to go ahead without Government support of the order for which Patrick is asking. By all accounts the project is viable but bi-national civil/military projects carry high political risks and the Westland Board is right to look for a deal that would not threaten the company's existence if things went wrong for reasons outside their control.

If EH101 does not go ahead Westland is unlikely to be a major manufacturer of helicopters in the long run. Its shareholders may not do badly but we will lose employment, skills and technology. It seems wrong to me to spend large sums with little discussion on financing, say, coal stocks and then wreck EH101 over about £30m.

I am copying this letter to the recipients of the previous correspondence.

J. Norton

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Budget, Pt 10



13 JUN 1964

13 JUN 1964

SRJ



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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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JU791

27 May 1983

The Rt Hon Leon Brittan QC
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Prime Minister (4)

MUS 2/6

Dear Chief Secretary

EH101: LAUNCH AID

Thank you for your letter of 16 May. I confess to being very disappointed that you are not prepared to agree the negotiating flexibility which I regard as essential if a satisfactory agreement is to be reached with Westland. I am well aware of the high total cost of the project and procurement programme to HMG. However, the cost would be higher still if Westland were to decide that, on the basis of our offer, they could not pursue the civil version of the aircraft and MOD did not then have the prospect of the savings through the joint programme as now envisaged.

2 So far as the question of the contingency reserve is concerned, my understanding, as I mentioned to you recently, is that it was agreed between us in September last year that no provision for launch aid should be put into my Departmental estimates; but it was accepted that the funding of cases which arose should be considered on an ad hoc basis. With the best will in the world I do not see how I can accommodate, in full, from my Departmental budget the launch aid sum which I believe may be required if this project is to be successful.

3 Your continued objection to the use of the contingency reserve in the context of this launch aid proposal (and any others which may be expected to emerge over the PES period) obliges me to reconsider my position. In view of the interpretation of our understanding of last September on which you are insisting, I shall feel obliged to make firm provisions in my next PES bid to cover launch aid cases.

4 Returning now to EH101, I should record the events of the last few days. First, Toby Aldington called to see me on 18 May. I told him that I hoped we might now have the basis for an agreement with the company over the funding of the civil version of the EH101 whereupon he readily agreed to the re-opening of negotiations. Secondly, these negotiations resumed with my officials on Friday 20 May. In the absence of any movement by

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the company from their requested figure of £105m an offer was made to the company of launch aid in the range of £40m - £45m (depending on the company's attitude towards phasing and rate of return). The company's negotiator refused even to discuss phasing and rate of return because our revised offer was not sufficiently meaningful to initiate such a discussion. My officials saw no point in going to your limit of £53m but pressed the Westland negotiator to indicate how far the company could come to meet us. In subsequent discussion a figure of £65m at June 1982 prices was mentioned (this would be £84m in outturn prices). Since this figure still left my Department and the company poles apart and your authorisation of £53m left us no means of bridging the gap, the best my negotiations could do was to press the company to go away and consider our last offer of £45m. The indications are that they will not find this figure (or £53m for that matter) acceptable.

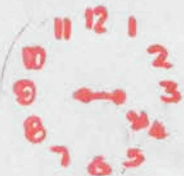
5 So far, therefore, events have totally vindicated my view that a range of £53m - £79m is required for the successful completion of this negotiation. Your insistence first on an opening figure of £36m and then on a negotiating range of £26m - £53m have, as I feared at the outset, not proved realistic. We have succeeded only in wasting valuable time and effort since MISC 35 reached conclusions on 24 February 1983; and we have thereby put ourselves in an untenable position so far as natural supporters are concerned. We should not discount the possibility that the EH101 project as presently envisaged may collapse because of the absence of a UK financial commitment to the civil version of EH101. This is a situation which both you and I would wish to avoid. I hope, therefore, that you will now feel able to reconsider your position and authorise me immediately to negotiate in the £53m - £79m range. Failing this I believe there will be no alternative to a collective Ministerial discussion as soon as this is practicable.

6 I am copying this letter to the Prime Minister, Francis Pym, Michael Heseltine, Norman Tebbit and Arthur Cockfield and also to Sir Robert Armstrong and to John Sparrow.

Yours sincerely
Stephen W. White

3 MAY 1983

PP
PATRICK JENKIN
(approved by the Secretary of State
and signed in his absence)



cc RJ ✓



Prime Minister

Mes 16/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1E 6RB

16 May 1983

P. Patrick,

[Handwritten signature]

EH 101: LAUNCH AID

Thank you for your letter of 12 May. I have reconsidered the position but remain unconvinced that I should go beyond the offer that I made to you at our meeting on 4 May.

On the amount of launch aid I continue to believe that £53 million represents a very fair offer to Westlands and am unwilling to offer any more. I said at our meeting that this programme (which will cost the Defence Budget £1.1 billion) is already a very expensive one for the Government and there comes a point at which we must draw the line. The effect of giving flexibility to pay a further £17 million would be to pump Government money into Westlands in the latter half of the decade when their profits are expected to be recovering from depressed levels in the 1983-85 period. I cannot accept that limiting our support to £53 million will jeopardise the prospective 1983 rights issue or put Westlands financial ratios under intolerable pressure. My view remains that £53 million is the maximum amount of launch aid that we should offer.

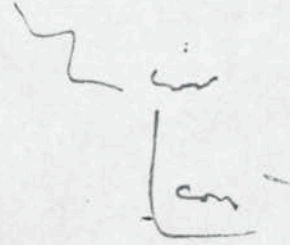
As for the phasing of launch aid I am content for you to reach any arrangement you wish with the company on condition that the whole of the sum is financed within existing PES provision. I understand that the offer in paragraph 6 of your letter relates to the years 1984-85, 1985-86, and 1986-87 and that you are not now seeking any money for 1983-84. I am grateful for your offer to find some money for this project from within your existing provision but I must also require you to find the rest. The sums at issue represent less than 0.5 per cent of your PES provision in the years in question.

At our meeting we discussed the Italian situation and noted that it was unlikely that the Italians would be in a position to start full development before at least September. While I am not seeking to delay resolution of the issues discussed in this letter they are not urgent and there is surely time to explore the possibilities of a settlement with Westlands within the terms

set out in this letter. So far this has not been attempted.

Finally you argue that further delay will expose us to criticism in Yeovil and the South West. The major cause of the delay is the Italian political situation and I think we can convincingly rebut any criticism that may be levelled at us. Geoffrey Howe has now replied to John Peyton's letter along the lines of the draft that you were shown and I believe that his response will do much to banish the misconceptions in John's letter.

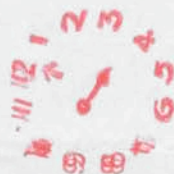
I am copying to the recipients of your letter.

A handwritten signature in dark ink, appearing to read 'Leon Brittan'. The signature is written in a cursive style with a large initial 'L' and a distinct 'B'.

LEON BRITTAN

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Pt 10.

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Secretary of State for Industry

JF3476

DEPARTMENT OF INDUSTRY
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cc RJ

12 May 1983

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister

MUS 12/5

Dear Leon,

EH101 : LAUNCH AID

Following our discussion on 4 May I have reviewed the various aspects of the problem of providing an adequate amount of launch aid for Westland's EH101 project in response to the company's request for £106 million.

2 It is already agreed between us that the provision of launch aid for this project is acceptable in principle. But we have yet to settle the amount, its phasing, the repayment terms and the implications for public expenditure during the PES period.

3 On the question of amount you were unwilling to grant me any flexibility to go above £53 million. This figure is the bottom of the range £53-£79 million judged reasonable for negotiating purposes by my Department and its professional advisers and by MISC 25 (the Treasury reserving its position) as long ago as 24 February 1983. I have no reason to believe that an offer of £53 million (without flexibility to move upwards) will be any more realistic a basis for going back to the company than our original offer of £26 million. At your insistence we pitched our opening offer at £26 million and Toby Aldington rejected it as derisively low. The task of re-starting negotiations on a sensible basis has been made that much more difficult, as I pointed out at the time. I should therefore like your authorisation to negotiate up to a maximum of £70 million and I hope that taken together with the other proposals and considerations in this letter, this will have your approval.

/4 On ...



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12 MAY 1985

4 On the question of repayment of launch aid, I believe that you are willing to accept a rate of return below 10%. Although I have, as you already know, reservations of principle regarding the applicability of a sliding scale rate of return to launch aid, I am prepared in this particular instance to explore further the possibility of securing a real rate of return in excess of 5%.

5 As regards phasing, I am also prepared to explore with the company the possibility of avoiding the degree of front-end loading currently envisaged by the company.

6 I am also prepared to provide from within my existing departmental provision the sums of £4 million, £4 million and £6 million during the PES period on the understanding that I may have recourse to the Contingency Reserve for any sums in excess of those figures within a profile of £4 million, £8 million and £12 million respectively, in so far as this profile cannot be adjusted in the course of the negotiations mentioned in my previous paragraph. I cannot go further without exhausting the Department's wedge and thereby creating acute difficulties for the management of the Department's programme.

7 I am anxious that we should press ahead with our negotiations with Westland for three general reasons. First, it is essential to keep to the EH101 programme timetable if Westland and Agusta are to optimise their chances of world-wide commercial sales. Secondly, if we are to keep up pressure on the Italians during the next few months to play their part in maintaining the timescale, we must be able to demonstrate our commitment to civil funding arrangements. So long as the main elements of launch aid are incomplete, our credibility and that of Westland will be left in question.

8 Thirdly, I believe that further delay will expose us unnecessarily to criticism from our supporters in Yeovil and the South West. John Peyton has already alerted us to the risks we are running and I believe we must pay due heed to his warning.

9 Accordingly I should be grateful if you would reconsider the situation urgently in the light of current circumstances and authorise me to re-open negotiations as quickly as possible on the lines outlined above.

10 I am sending copies of this letter to the Prime Minister, Francis Pym, Michael Heseltine, Norman Tebbit and Arthur Cockfield and to Sir Robert Armstrong and John Sparrow.

Your ever
Patel