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P.01223

PRIME MINISTER

Sale of Westland Helicopters to India

(EX(84)1 and EX(84)2)

BACKGROUND

The Government of India seeks to use £50 million from the bilateral aid programme to buy 21 Westland W30 helicopters. The helicopters would be for the use of the Oil and Natural Gas Corporation (ONGC) of India for offshore oil exploration work and would replace helicopters chartered from private companies.

2. In his memorandum (EX(84)1) the Minister for Overseas Development points out that there is a weak developmental case for the proposal; he is sceptical of the commercial case; but he notes that there are some important political considerations which have to be taken into account. In his memorandum (EX(84)2) the Secretary of State for Trade and Industry argues that there is a strong commercial case for the proposal.

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MAIN ISSUES

3. The main issue is whether, despite the weak case on development grounds, this aid proposal should be approved for commercial and political reasons.

Developmental considerations

4. It is easy to understand why the ODA do not favour this proposal on developmental grounds. We understand that Treasury officials take the same view. £50 million is a large sum to tie up in civil helicopters, instead of continuing to use chartered private helicopters. There must be a suspicion that the Indians would be unlikely to go ahead with such a proposal if it were not a way of using up aid funds which will otherwise remain unspent. However, as is common in aid cases, a refusal of aid by us is unlikely to save the Indians from their folly. The Minister for Overseas Development concedes that it is probable that the order will go to the French.

Commercial considerations

5. The Minister for Overseas Development is unconvinced by the commercial case, doubting the prospect of future sales in India on commercial terms and the likelihood that this order will help Westland in other markets.

6. The Secretary of State for Trade and Industry takes the contrary view. He points out that the sale of these 21 helicopters on aid terms would be followed by sale of 6 more for VIP use (with a value of £16 million) on commercial terms and this is conceded in Mr Raison's paper. The value of spares for all 27 helicopters, also on commercial terms, would amount to at least

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a further £70 million. He also suggests that this civil order would strengthen Westland's position in competing for Indian defence sales. Finally he argues that there are good growth prospects for the civil helicopter market worldwide; that offshore operations are an important sector of this market; and that this order would help Westland to establish itself in the civil market at a time when defence sales are flagging and in preparation for the civil version of the Anglo-Italian EH 101, for which the Government recently gave launch aid, due to come into service in 1990.

7. In aid cases the prospects for further sales on commercial terms in the same market or in world markets are always speculative. While the commercial case could be criticised because of the large amount of aid involved, it undoubtedly has some merit.

Political considerations

8. We understand that the Foreign and Commonwealth Secretary is uneasy about the political implications of turning down this aid proposal. It is conceded in Mr Raison's paper that there have been lengthy discussions to secure assurances that these aircraft would not be used for military purposes and the assurances have been satisfactory. This will have created an expectation in the minds of the Indians that, with the removal of this obstacle, the aid would be forthcoming. It is also awkward for us to continue to urge the Indians to spend up to the aid target of £110 million in 1983-84 while rejecting a proposal pressed strongly by them for meeting the target. It is therefore clear, as Mr Raison's paper concedes, that there could be a political cost in turning down this proposal. Mr Tebbit is concerned (sub-paragraph 2(vii) of EX(84)2) that this could make it more difficult for us to make use of the bilateral aid programme for the UK's commercial interests.

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General assessment

9. On the evidence presented in these papers, the Committee may feel that, despite the poor developmental case, there are sufficient commercial and political reasons for approving this aid proposal.

HANDLING

10. You will wish to invite the Minister for Overseas Development to introduce his paper. The Secretary of State for Trade and Industry will wish to comment on the commercial case and the Foreign and Commonwealth Secretary on the wider political considerations. The Chief Secretary, Treasury will wish to comment on the public expenditure aspects. The Minister of State for Defence Procurement (Mr Pattie) may have views on the links with sales of military helicopters.

CONCLUSION

11. You will wish the Committee to reach a conclusion on whether the request from the Government of India to use £50 million of the bilateral aid programme for the purchase of 21 Westland W30 helicopters should be approved.

PLG
P L GREGSON

14 February 1984

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Defense Sales

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