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Treasury Chambers, Parliament Street, SW1P 3AG

Mike Power Esq
PS/Minister of State
Overseas Development Agency
Eland House
Stag Place
London SW1E 5DH

N.B.P.N.

23 March 1984

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Dear Mike

WESTLANDS HELICOPTERS FOR INDIA

The Chief Secretary learned yesterday of the proposal to keep the aid grant in this case at £65 million, despite a reduction in the requirement for helicopter spares, and to use the available money to finance some spare Rolls Royce engines. As you will already know, he is unconvinced of the merits of using part of our bilateral aid programme for this project, and developments in recent weeks have only served to confirm his reservations. He would have preferred to see a reduction in the aid grant in the latest circumstances.

The Chief Secretary will, however, acquiesce in the latest proposals, provided that the Minister for Overseas Development is convinced that it is a suitable use of aid funds and the cost can be met from within ODA's existing programme. This is on the understanding that the Secretary of State for Trade and Industry attaches high priority on industrial grounds to Westlands winning this contract.

There is a further point of considerable importance. The Chief Secretary is particularly anxious that the proposal as it now stands should in no way contravene the undertaking given by the Chancellor to M Delors in February that the helicopters would be given as 100 per cent aid on grant terms. I understand that your officials are satisfied that the latest package does not breach the DAC guidelines on associated financing. In order to ensure this it is essential that the contract with Rolls Royce for additional spares and services on commercial terms should be kept quite separate from the contracts with Westlands and Rolls Royce covered by aid, and should not be signed until as long as possible afterwards.

I am sending copies to Ruth Thompson and Peter Ricketts to whom I spoke yesterday and explained the Chief Secretary's position.

(E J W GIEVE)

Yours sincerely

J. Gieve

India Laboratory

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