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MO 26/16/1V

PRIME MINISTER

FUTURE REQUIREMENTS FOR SUPPORT HELICOPTERS

PLAT PT 6

In my minute of 23rd September I explained that I intended to reach a view on the defence requirement for support helicopters by the end of 1986 and that my officials, in consultation with those in the DTI, were looking at the strategic importance of an indigenous design, development and manufacturing capability for helicopters and, together with Westland, at their future workload. This work has now been carried forward and I have had a preliminary word with the Secretary of State for Trade and Industry. The next step will be a discussion with Sir John Cuckney. Before arranging this, I thought you and other colleagues would wish to know where matters stand.

2. I attach a note by officials which discusses the future defence requirement for support helicopters and the views of the Company on the implications of various levels of Government orders. To keep the paperwork to manageable proportions, the sections on defence requirements and cost implications summarise briefly much more detailed work which has been carried out.

3. The conceptual work has established that existing support helicopters will need replacing by the mid-1990s. The primary defence requirement is for a helicopter in the medium support class for service in the Central Region, that is for additional Chinook (manufactured by Boeing Vertol) or for a utility version of the Westland/Agusta EH101. The utility EH101 could cover the whole support task, both in Germany and elsewhere. Under the Chinook route, because Chinook is too large for some of the current tasks outside the Central Region, there would be a case for a limited buy of a smaller helicopter which could be Black Hawk.

4. The choice of EH101 to meet this requirement would build on the investment we have already made in the naval version and is consistent with our policy on European helicopter collaboration. It is the preferred defence solution. It would also offer Westland more work over the long term than the alternative.

5. In addition to the requirement for medium support helicopters there is also a case on military grounds for adding in a limited way to our holding of light battlefield helicopters by procuring a small number of Lynx 2, Mk 7 from Westland.

6. Just as I do not propose to order Black Hawk, there is no early requirement for the future European helicopter in the same class - NH90 - in which Westland have been participating in

feasibility studies on behalf of the MOD. The defence budget cannot fund this project and orders for other support helicopters and I am under pressure to curtail defence-related R&D. NH90 is not relevant to Westland's production loading problem. I therefore intend to withdraw from the project before it moves to the next stage of project definition. You will wish to be aware of this decision in the context of the assurances given in your letter of 1st January 1986 to Sir John Cuckney about Westland's continued participation in European collaborative projects. This letter could not represent an open-ended commitment to support Westland's participation regardless of our own requirements and I am satisfied that we can properly withdraw now from the NH90 project.

7. Westland say that, unless they get new Government orders of a sufficient size by the end of March, they will have to take a number of actions to protect the profitability of the Westland Group. These would include reducing the workforce by about 3000 from 6400; shutting the Weston-Super-Mare site; and cutting back on investment including withdrawing Company funding from the EH101 programme. They believe the consequences of such measures would be that they would lose the capability to design, develop and manufacture new helicopters, and to provide full support to the existing helicopter fleet. With substantial MOD orders in the short term, they could, on the other hand, maintain continuity in

the helicopter business and keep manning reductions to more manageable proportions.

8. There is no defence requirement for orders of the size and in the timescale envisaged by Westland nor is there funding available from within the currently planned defence budget. Indeed, there is a gap between the defence programme as presently planned and the defence budget of around £1 billion a year, the removal of which will require very difficult decisions, with a major impact on the uncommitted element of the equipment programme. On this perspective, I should be looking to cut back on provision for replacement support helicopters as elsewhere.

9. There is, however, a defence interest in maintaining a domestic capability to repair and modify the current fleet of Service helicopters and to sustain the naval version of the EH101 helicopter, which is discussed in the note by officials at Annex B below. This is not the same as saying that these capabilities have to be provided by Westland but there would be obvious advantage - from both the defence and the wider perspectives - in avoiding dramatic change.

10. Given our policy of avoiding committing expenditure in advance of need, I would not in normal circumstances propose that there should be any early commitment to place orders for support helicopters with Westland. In view, however, of the wider

background, I would be prepared - exceptionally - to offer the Company the prospect of an order for 30 utility EH101 helicopters for delivery in a timescale which is realistic given progress on the existing EH101 project, and which takes account of my budgetary difficulties. This - plus the prospect of a follow-on order later - would be a major gain for them in terms of their product range and of their order book in the medium to longer term and could help to ease their production loading difficulties towards the latter part of their production trough. There is no possibility of funding from within the defence budget early orders of the scale they are seeking which are outlined in paragraph 14 of the attachment.

11. It remains to be seen how the Company will respond to this proposal. They have said that an order for EH101 on these lines, even if coupled with an order for Lynx, produces work too late for them and is no better than no orders at all. On the other hand, my judgement - and that of my procurement advisers - is that it is more likely that the prospect of lucrative orders would encourage them, like any other business, to look to other sources of work to tide them over the production trough with which they would then be faced. The reality is that - in view of the lead times in defence procurement and the pressure on the defence budget - nothing the MOD does now can help substantially over the short term production loading problem and significant retrenchment in the Helicopter Divisions of the Company would seem inevitable.

12. As the next step, I would propose, together with the Secretary of State for Trade and Industry, to meet Sir John Cuckney to follow up our conversation last September and to explain the conclusions I have reached on our defence requirements and the timing of further orders. When his views on the implications for the Company are available, we would then propose to report formally to you and our E(A) colleagues.

13. You may wish to discuss the conclusions I have reached. I am copying this minute, and its enclosure, to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

G.H.

Ministry of Defence
6th February 1987

FUTURE REQUIREMENTS FOR SUPPORT HELICOPTERS

(Note by Officials)

Background

The Services possess a number of different types of helicopter capable of transporting troops and undertaking logistic tasks: Chinook, Puma, Wessex, Sea King and Lynx. In this role, a key task is to provide support to our Army in Germany, for which 19 Chinook and 17 Puma are currently assigned; but there is a wide range of other deployments worldwide. Wessex and Sea King helicopters are also deployed in the search and rescue role. Within the next 10 years, the Wessex and the Puma will be approaching the end of their economic lives, with the older Wessex, in particular, requiring replacement by the mid-1990s.

2. While there is no precise categorisation of support helicopters into generic types, three broad levels of capability can be identified:

a. Medium Support Helicopters (MSH) designed for the transport of men and materiel and capable of carrying in one tactical lift 30 men or more. The Chinook is an example of this type of helicopter and, for the future, the utility version of the EH101 will be another.

b. Light Support Helicopters (LSH) designed for the tactical transport of men or materiel and capable of carrying in one lift about 12 to 20 men. Puma, Black Hawk, and the future collaborative helicopter - NH90 - fall into this category (as did the Westland W-30).

c. Light Battlefield Helicopters (LBH) capable of carrying up to 8 men and which can also assist with logistic tasks, represented by the utility version of Lynx.

3. Annex A gives an indication of the comparative size of the various types. To give a broad indication of their unit production costs, the Chinook costs around £14M, utility EH101 £9M, Black Hawk £6M and Lynx £3M. The meaningful cost comparison must be based upon the cost to transport one soldier or a specified amount of materiel for each nautical mile, where a large helicopter has a significant cost advantage. But it offers less flexibility and increased vulnerability compared with splitting the task between a number of smaller helicopters. The trade-off is a complex one and needs to take account of manpower and support costs as well as initial procurement costs. The Ministry of Defence has carried out detailed costings of a range of options over the period to 2010, on this basis.

4. Utility EH101 is a variant of the EH101 helicopter already under development by Westland/Agusta for introduction in the early 1990s as an Anti-Submarine Warfare (ASW) helicopter in the Royal Navy. The MOD is seriously concerned about the inadequate rate of progress on this programme and has concluded that the management and contractual arrangements must be strengthened if it is to be brought back on course. It would be necessary to agree these new arrangements with the Company before proceeding with any further commitment to the programme in the form of a utility version.

The Results of Conceptual Studies

5. Earlier plans to replace RAF Wessex and Puma helicopters with a helicopter of similar size have come increasingly into question in recent years as a result of trials conducted by 6 Airmobile Brigade into the Army's requirements for helicopters in the Central Region. Conceptual studies have shown that - in addition to the need to replace the increasingly obsolescent Puma in the Central Region - there is a case for enhanced logistic lift and also for additional medium support and battlefield helicopters to support airmobile operations. The primary requirement is for a helicopter in the medium support class (sub-paragraph 2a above). There is also a case for adding in a limited way to our holding of Lynx 2, Mk 7 helicopters in the battlefield role.

6. From an operational point of view, there is neither funding nor any pressing or overriding need to meet these defence requirements in an early timescale. If, however, it were given priority and was affordable, there is a military case for phasing out those Wessex helicopters in the support role, transferring the Puma from Germany to replace them, and introducing either:

a. 30 utility EH101 with an in-service date (ISD) of around 1994 with a further purchase of 29 later - with a procurement cost of around £680M;

or b. 12 Chinook with an ISD of around 1994 (with a further purchase of 17 later) plus 28 Black Hawk, also with an ISD of around 1994 - with a procurement cost of around £770M;

and c. 16 Lynx 2, Mk 7 with an ISD of 1990 - with a procurement cost of around £65M.

The chosen ISD of the main purchases under a or b above was related to the available budgetary provision discussed in paragraph 9 below rather than to the earliest realistic timescale in which Westland could deliver the appropriate helicopters. The early ISD for the Lynx was chosen to identify the cost of an early order which might be of help to Westland.

7. Utility EH101 is suitable for the tasks both in Germany and elsewhere. Under the second option, while Chinook is preferred in Germany, it is too large for some tasks elsewhere and, for illustrative purposes, a Black Hawk purchase has been identified. Since proliferation of helicopter types adds to development, training, engineering and support costs, it would be undesirable to introduce two new types in these roles, for example a combination of utility EH101 and Black Hawk. The choice of utility EH101 would provide increased standardisation in the naval, support, and, ultimately, Commando roles.

8. The review of future requirements has looked at the total support task to the end of the century and beyond and reviewed the case for continued participation in the NH90 project in this context. As there is no early requirement for a helicopter in the NH90 class, the Ministry of Defence has concluded that it should not proceed to the next stage of this project by participating in project definition. It will be necessary to inform our collaborative partners in the feasibility study of our withdrawal as soon as possible. The MOD assesses that UK withdrawal will not lead to the collapse of the NH90 project. The implications of the decision not to continue in the NH90 project are discussed further in paragraph 11 below.

The Budgetary Position

9. There is limited provision for support helicopters at present included in the forward costing of the defence programme as follows:

(£M LTC 87 prices)

87/8	88/9	89/90	90/1	91/2	92/3 to 96/7
3	4	15	29	51	391

This has to cover essential work to prolong the life of the Wessex and Puma as well as any new purchases. The provision would be sufficient to cover the cost in the first five years of the utility EH101 option in sub-paragraph 6a above; the Chinook/ Black Hawk option would involve some extra costs in 1991/2. If, however, an early purchase of 16 Lynx helicopters was added, the additional costs would fall mainly in the early years, peaking in 1989/90, and could not be accommodated within existing provision. Other options referred to below, designed to help Westland with their production gap in 1988 to 1992, would inevitably have a significantly greater cost impact in the early years.

10. The present defence programme, including this limited provision for support helicopters, exceeds the defence budget in the years 1988/9 to 1991/2 by around £1 billion a year. Work is in hand to identify the programme reductions needed which could impact, inter alia, on other planned helicopter programmes. Westland's interest in early Ministry of Defence orders runs directly counter to the need to rein back the defence programme to accommodate it within approved provision.

Helicopter Policy

11. In its response (Cmnd 9916) to the Third Report of the Defence Committee on "The Defence Implications of the Future of Westland PLC" the Government reaffirmed its commitment to European helicopter co-operation. Each of the options need to be addressed in this context and against the background of the MOD's proposed withdrawal from the NH90 collaborative helicopter. We assess that the NH90 project is likely to continue, but our partners will be disappointed at, and possibly criticise, our withdrawal. The MOD believe that we shall be less open to criticism that we are being "un-European" if we go down the path of maximising the return on our investment in the collaborative EH101 helicopter rather than the alternative of the purchase of additional Chinook from the USA coupled with the purchase of Black Hawk, albeit licence-built by Westland. They believe that this latter course, in addition to UK withdrawal from NH90, would seem likely to give rise to substantial criticism from our European partners.

Westland's Views

12. The Company have been invited to comment on the implications for them of a range of possible procurement options. The Helicopter Divisions of Westland face a major gap in production orders for the period 1988 to 1992. No further MOD orders are planned before the production order for the first ASW EH101 in 1989. Westland's preliminary view is that unless further MOD orders are placed by March 1987 to fill this gap they will have to contract the two helicopter divisions substantially with consequences for their design, development and manufacturing capability.

13. Various factors affect the extent to which MOD orders for different types of helicopter would benefit Westland:

a. An order for Black Hawk would firmly launch this new product line and stimulate export prospects. On the basis of an MOD order, the Company would make the necessary production investment to enable them to manufacture a substantial part of the helicopter from the early stages which Westland claim would help considerably to fill their production gap from the outset. If their only orders were for export, however, they would start by assembling kits supplied by Sikorsky and the work content in the UK would remain relatively low unless and until orders had built up to substantial numbers.

(It is also relevant that, if a Black Hawk order were for the RTM322-powered version, this would greatly benefit Rolls Royce by providing a launch order for that programme which appears to have good export potential.)

b. Orders for a utility EH101 would broaden the base of the EH101 project. The extent to which they would help over the production gap depends upon the timescale in which a utility version could be developed and produced. The Company believe that they could achieve an ISD of 1991. The MOD's view, based upon the performance of Westland/ Agusta on the existing EH101 programme and the further work needed on the utility version, is that a realistic earliest ISD would be end 1992. An order to this timescale - which itself is significantly earlier than that envisaged at paragraph 6 above - would therefore tend to fill the later rather than the earlier part of the production gap. Under the agreed work-sharing arrangements, the work would also have to be shared roughly equally with Agusta.

c. Lynx 2, Mk 7 could, like Black Hawk, provide some work in the early part of the gap. But the work it would offer for Westland is limited: it would be shared with Aerospatiale, there would be little additional spares purchases, and no export multiplier.

d. Sea King helicopters have a high work content and could fill the early part of the workload gap. They were included in Westland's original proposals to fill the "gap" with a MOD order of 17 Sea King and 50 Black Hawk. Although there is an identified requirement to replace in due course the RAF's ageing Wessex in both the SAR role (15 aircraft) and The Queen's Flight (2 aircraft) with Sea Kings, there is no MOD financial provision for such orders.

e. Lynx 3, a developed version of the existing Lynx, would offer substantial development work and a new product which they believe would have considerable export potential.

14. The Company has identified the implications of four broad levels of future defence orders, which are in descending order of attractiveness from their point of view:

a. An early order on the lines of:

12 - 47

40 utility EH101 (with an ISD of 1991) and 30 Black Hawk

or 50 Black Hawk and 17 Sea Kings

or 40 Black Hawk and 20 Lynx 3

would generate a sufficient level of business to maintain viable helicopter/customer support divisions and enable the Company to continue to invest in the helicopter business including funding the industrial share of the EH101 project. Some manning reductions would be essential (and are considered desirable by Westland management) with numbers falling from the present total of around 6400 to 5000 by 1991. But they could be achieved by natural wastage and selective redundancy and without major site closures.

b. An order for 40 EH101 (ISD 1991) plus 20 Lynx 2, Mk 7 or 17 Sea Kings is considered to be less attractive than a above because it lacks any short term export multiplier, and therefore to be less effective in resolving the difficulties facing the Helicopter Division and to place greater pressure on Westland's borrowing facilities. Westland have not given an assessment of the implications for redundancies.

c. An order for 30 EH101 (with an ISD of 1994) plus 15 Sea Kings or 15 Lynx 2, Mk 7 is claimed by the Company to be ineffective in resolving the difficulties faced by the Helicopter Divisions. Westland have said that the volume of business it generates is too low, it lacks any export multiplier effect and the order pattern for the EH101 is too late to assist with the Company's production loading gap. They have therefore regarded this option as being similar in effect to d below.

d. No early orders. Under this option (and c above), the Helicopter Division and the indigenous helicopter industry in the UK is assessed to be "unlikely to survive". The Company assess that they would be obliged to take the following actions to reduce capacity and conserve profit and thus to protect the profitability of the Westland Group:

- Reduce manning in the Helicopter Division from around 6400 to around 3350 with the shut-down of the Weston-Super-Mare site.

- Withdraw Company funding for research and development, demonstrator and product improvement programmes.

- Withdraw Company funding from the EH101 programme.

- Reduce capital expenditure to care and maintenance of plant.

There would probably remain, after these actions, a support divison able to supply spares and carry out modifications and repairs. But the loss of skilled staff would be likely to lead to numbers falling below the level needed to support the Company's role as design authority for the current helicopter fleet and to sustain the development of new helicopters.

15. The MOD order which is affordable within present provision (30 utility EH101, ISD 1994) thus falls short of the third level looked at by Westland (sub-paragraph 14c) which also included a Lynx order. And, at this third level, Westland say that they would need completely to restructure the helicopter business. It remains to be seen whether, in the event that the MOD did offer a significant order for utility EH101, with the likelihood of a further substantial follow-on order, the Company would proceed, as they have said they would, with a complete restructuring of the helicopter business on the same basis as if they had been offered no order at all. This would depend in part upon whether there was any change in their judgment of export prospects and upon the attitude of Sikorsky/UTC. Sikorsky have made a sizeable investment for helicopter purposes and have the ability if they wish to provide work to cover the minimum production loading gap that has to be bridged, though subject to possible penalties to themselves and to domestic pressures in the United States. If Westland proceeded as they have predicted and pulled out of the development of new helicopters (EH101 and LAH), they would be abandoning a large and profitable order book throughout the 1990s and probably beyond.

The Strategic Importance of an Indigenous Helicopter Industry

16. An assessment by MOD officials of the strategic importance of a domestic helicopter capability is at Annex B. So long as there are viable and cost-effective sources of Design Authority and new helicopters and spares overseas, it is not essential to maintain these capabilities in the UK (although it would be highly desirable if this could be achieved in a cost-effective

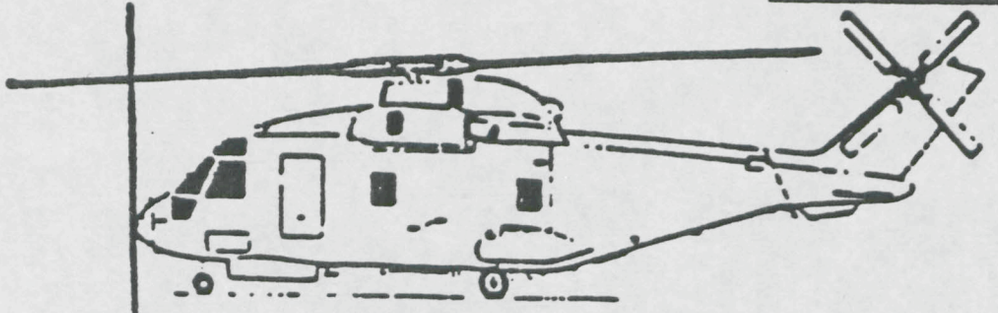
way). It is, however, strategically essential to maintain a domestic capability to repair and modify the Services' helicopter fleets and to sustain the cost-effective introduction of the naval version of the EH101 helicopter. The importance of Westland as the provider of that capability depends upon a judgment of whether it would be possible successfully to manage a transition to new arrangements under which these services were provided by another company or companies.

Analysis of Westland Group by Activity

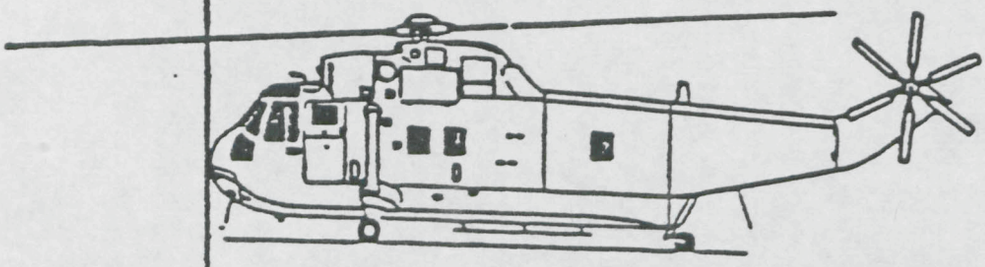
17. A breakdown of the 1986 results of the constituent parts of the Westland Group in terms of turnover, profit and numbers employed is at Annex C.

ANNEX A

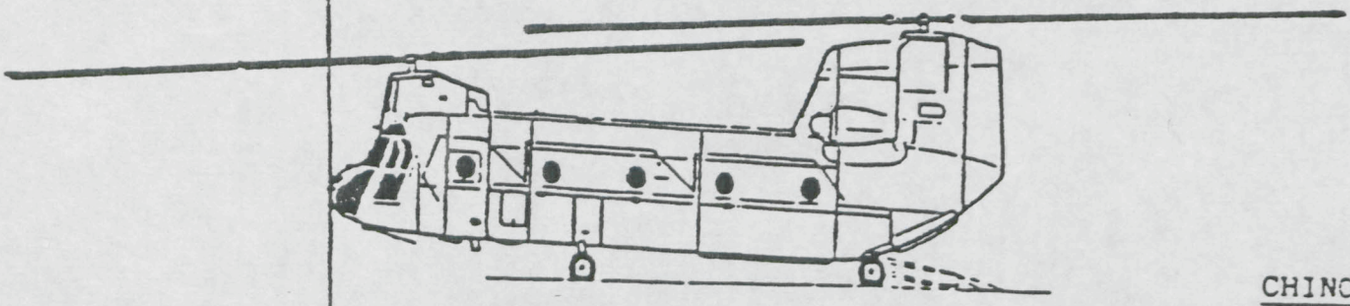
FUSELAGE COMPARISON



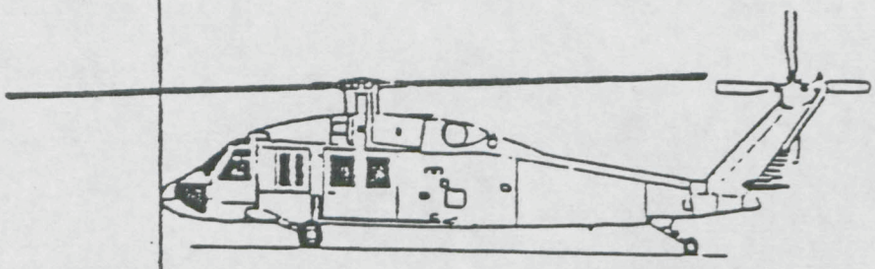
EH 101



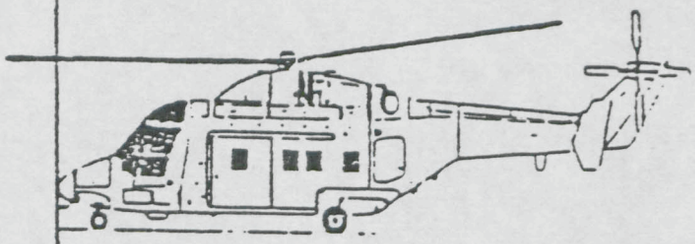
SEA KING



CHINOOK



BLACKHAWK



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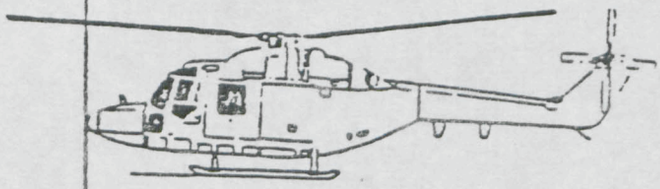

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ANNEX B

THE STRATEGIC IMPORTANCE OF A DOMESTIC HELICOPTER CAPABILITY

(Note by MOD Officials)

Current Capability

1. The Services have an operational requirement for helicopters for the foreseeable future. Westland provides the only domestic capability to meet this requirement. A high proportion of the MOD's fleet of over 850 operational helicopters is supported by Westland and the company is manufacturing the remaining orders for Sea King and Lynx. Deliveries are due to complete in 1990. As regards future programmes, the Government has so far invested about £300M (at 1986 prices) in development of the Anglo-Italian EH101 helicopter and its equipment which is essential for the ASW capability of the Royal Navy. Westland is involved currently in a collaborative feasibility study and cost definition for a light attack helicopter and a feasibility study for the NH90 It also has a significant capability to generate innovative developments such as the British Experimental Rotor Programme and Advanced Engineering Gearbox.

MOD Requirements

2. It is essential that the current helicopter fleet should be supported and maintained during its life, that current helicopter orders should be completed, and that the MOD should have access to secure sources of supply for future helicopters. On 15 January 1986 the Prime Minister 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, its employees and its shareholders (col. 1097). Within this context, this Annex examines the military requirement for a British helicopter capability irrespective of which company or companies might own that capability.

Need for Domestic Capability

3. There are four main elements to Westland's activities: support, manufacture of current and future orders, enhancement of current helicopters and development of future ones, and innovation. These activities derive from two

basic capabilities: the ability to design and develop and the ability to manufacture.

Support

4. Support includes design authority, modification and repair work, and the supply of spares. It is preferable though not essential for design authority to lie within the UK because this enables better understanding of the customer's requirements and procedures, ease of communication and responsiveness particularly in time of tension and war. Design authority nevertheless could lie outside the UK on the pattern of support for the Chinook and Puma/Gazelle which were designed in the US and France respectively. In these cases this has not created any insuperable problems. For other helicopters however, design authority would have to be transferred to another company, as it has been done with aircraft, but only where the original designer has remained in existence, which would not be the case here.

5. On the other hand, it is essential to have a domestic production capability to modify and to repair helicopters as reliance on overseas sources could lead to delays or the unavailability of aircraft which would be unacceptable in time of tension or war. In extremis, however, the Royal Navy Aircraft Repair Organisation and the aerospace industry could carry out most of the work subject to there being satisfactory design authority arrangements. Finally, supply of spares would be practicable from overseas sources, as it is with other weapons, so long as cost-effective sources existed and stockholdings took account of the longer supply chain and the possible disruption in time of tension of war.

6. Considering the total capability for support, it is not necessary for this to be owned by Westland plc: it could in principle be absorbed by another UK aerospace company without significant detriment to the Services.

Production of Helicopters

7. Helicopters are very important assets for all three Services but not so vital that reliance on overseas sources of supply for new construction aircraft is unacceptable. The Royal AirForce does already rely on Boeing-Vertol for Chinook production, Puma and Gazelle have been part manufactured abroad and so will EH101; there are other vitally important weapons and equipments in the Services' inventory which are procured from abroad for a variety of reasons. In the case of helicopters, there is a number of NATO nations with helicopter companies who could supply the

MOD (eg. Aerospatiale, Sikorsky, if their products met the Services' requirements) where the likelihood of disruption of supplies in peace time is remote. Although disruption is more likely in tension or war, current plans do not require Westland to provide for a rapid increase in production of new aircraft. So long therefore, as cost-effective sources of supply exist overseas, there is no strategic necessity to maintain a domestic production capability for new construction aircraft, particularly if this involved an element of subsidy through placing orders at high prices, or at a time or in numbers not required by the Services.

Future Projects

8. The most important helicopter in development at Westland is the Anglo/Italian EH101 ASW helicopter which is vital for the Royal Navy's ASW capability. It is possible that another company could take over the contract for the development work, if it purchased the relevant assets and technical expertise from Westland, as it would probably need and wish to do in order to safeguard its chances of making a commercial success of the work. However, the Royal Navy's current ASW helicopter project could be jeopardised if the Westland assets and expertise were not maintained and managed by the present company or any other aerospace company. Should these circumstances arise it is unlikely that a satisfactory alternative overseas helicopter could be procured within a timescale that met the Royal Navy's requirement. The Royal Navy could, nevertheless, in the long run, rely on overseas sources for ASW helicopters.

9. On the Army side, other countries have an equal or better capability in battlefield and attack helicopters and overseas sources could be expected to meet the Services' requirements. Withdrawal from the 4 nation collaborative LAH (A129 development) would jeopardise its continuation, but if it did other similar helicopters would be available for the late 1990s. On the other hand, the NH90 could be expected to continue if the UK withdrew.

Innovation

10. Westland has a good record in producing effective proposals for improving the performance of helicopters and in some areas has a world lead. However, such innovation as arises in other helicopter companies world-wide is probably adequate for the UK needs and there must be some doubt any way whether or not a domestic industry can afford to keep up or catch up with the major R&D work now taking place in the US. On the other hand, the Royal Navy does have within NATO a unique ASW role in the North Atlantic requiring a

special capability of ship borne helicopters which is not matched and could not be readily designed and developed elsewhere. The continuation of the EH101 project would avoid these difficulties.

Transition

11. It would be essential for any transition from reliance on Westland's capability to another UK capability or to reliance on overseas sources of supply, particularly for the Design Authority function, to be managed smoothly and without loss of any of the essential capabilities the Services' require. Any sudden cessation of Westland's capability would be unacceptable because support of the current fleet could not be sustained in the considerable period necessary to establish an alternative Design Authority. Current production orders and development of EH101 would, of course, also be delayed and there could be additional costs. However, experience of the purchase and sale of manufacturing companies with substantial work in hand, such as that possessed by Westland, shows that a smooth transition is possible. The manner and extent to which another company might absorb or substitute for Westland's capabilities and capacities and whether there would be any cost in money and delay to the MOD is at the present time unknown. HMG's scope to influence or bring about new industrial arrangements is naturally limited, but there are other companies in the UK and abroad eg. BAe, UTC, who have the potential to acquire and successfully manage the assets should Westland seek to dispose of them.

Conclusions

12. The conclusions of this brief analysis may be summarised as follows:

a. The Services have an operational requirement for helicopters for the foreseeable future.

b. Industry is required to provide:

i. in service support;

ii. capability enhancements;

iii. production of helicopters;

iv. design, development and production of new helicopters.

c. This requires two distinct capabilities:

i. the ability as Design Authority to engineer helicopters and sustain their air-worthiness;

ii. capability and capacity to manufacture.

d. All of the above is provided by Westland for the majority of the Services' requirements.

e. It is strategically essential to maintain a domestic capability to repair and modify the current fleet because dependence on overseas sources can lead to unacceptable delay, particularly in time of tension or war, in making available all available assets for operational use.

f. It is also essential to sustain the EH101 project which is vital to the Royal Navy's ASW capability.

g. So long as there are viable and cost-effective sources of Design Authority and new helicopters and spares overseas it is not essential to maintain these capabilities in the UK (although it would be highly desirable if this could be achieved in a cost-effective way).

h. Transition from the current industrial arrangements to alternative sources eg. another UK company, an overseas company, the Royal Navy Aircraft Repair Organisation, would need careful management to avoid unacceptable disruption to the support of the current fleet, orders in production, and the EH101. However, several UK and foreign companies may be expected to have the managerial and financial strength to take over Westland's capabilities should the company ever wish to dispose of this part of their business.

ANNEX C

ANALYSIS OF WESTLAND GROUP 1986 RESULTS AND EMPLOYMENT

BY ACTIVITY

	Turnover	Profit before tax	Numbers employed
Helicopter and customer support	£219.9M	£ 8.9M	6380
Aerospace	£ 46.7M	£ 4.1M	1455
Technologies	£ 89.4M	£11.5M	2663
Consolidation adjustments	(£ 11.6M)	£ 1.8M	
Group Total	£344.4M	£26.3M	10498

AEROSPACE
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PT7