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From: J B UNWIN
10 February 1987

MR POWELL - No 10

cc Sir R Armstrong

FUTURE REQUIREMENTS FOR SUPPORT HELICOPTERS

The Prime Minister is holding a small meeting tomorrow to consider the Defence Secretary's minute of 6 February on this subject. The following comments might be helpful.

IMMEDIATE ISSUE FOR DECISION

2. The immediate issue is whether the Defence and Trade and Industry Secretaries should offer Sir John Cuckney the prospect of an order for 30 utility EH 101 Helicopters with an in-service date of around 1994. Alternative possibilities would be:-

(i) to withhold even this offer at this stage and to press Sir John Cuckney on other ways of filling the Westland gap (eg by further work from Sikorsky);

(ii) by contrast, to indicate willingness, if pressed, to consider the possibility of bringing the EH 101 orders forward;

(iii) to postpone any decision or dialogue with Sir John Cuckney until a wider collective discussion has been held of the issues involved.

BACKGROUND

3. The key points may be summarised as follows. Westland claim that unless they receive sufficient helicopter orders by the end of March they will have to take various steps including reducing

the work force by about 3,000 from 6,400; shutting the Weston-Super-Mare site; and withdrawing funding from the EH 101 programme (see paragraph 14(d) of the note by officials for details). MOD, however, claim that there is no defence requirement for orders of the size and in the timescale envisaged by Westland; nor do they have the necessary funds within the currently planned defence budget (a gap of about £1 billion a year is already in prospect between the planned defence programme and the agreed budget). They are, however, prepared to order 30 utility EH 101 helicopters with an in-service date of around 1994, with a further 29 later (total procurement cost of about £680 million). Westland claim, however, that this would not meet their requirement, so that the consequences referred to above would follow.

4. I understand the DTI position is that they do not see a case for putting money into Westland for industrial reasons. The Treasury - already concerned about the defence budget implications - can be expected to argue that Sikorsky should be required to fill the gap in order to protect their new investment.

MAIN ISSUES FOR CONSIDERATION

5. As in other areas (eg shipbuilding) to some extent MOD and DTI are engaged in a square dance. MOD are reluctant to concede any strategic case, since they know that if they did, they would be asked to find funds from the defence budget. Equally, DTI are reluctant to press any industrial case since their resources are limited and they already have a number of other major expenditure bids on or near the table (eg Space, Airbus, Rolls-Royce etc). Both Departments may also in any case be banking on the politics of this issue to force the Treasury in the end to have to dip into the Reserve.

6. I suggest, however, that before reaching a conclusion the Prime Minister should probe the following points:

(i) Strategic considerations: the Defence Secretary's position is ambivalent. Paragraph 8 asserts that there is no defence requirement for the orders sought by Westland. But paragraph 16 of the detailed note by officials states clearly that it is "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 EH 101 helicopter". MOD also say that this capability does not necessarily have to be provided by Westland; but it is quite clear that MOD would be much happier with the survival of Westland than with any alternative. The Prime Minister may, therefore, wish to press the Defence Secretary on how the MOD would manage if Sir John Cuckney were not bluffing. Could they really live with an early dismantling of the Westland helicopter division on the lines threatened?

(ii) Westland: the key judgement is how far they are bluffing. DTI do not think they are doing so. Although (see Annex C to Mr Younger's minute) the helicopter and customer support divisions account for over half the numbers currently employed (6,400 out of 10,500), their closure would not threaten the future of the Westland Group itself. The other divisions are successful and growing and even with the necessary helicopter orders there would have to be a reduction in numbers of around 1,400 by 1991. On the other hand, there must be some pressure on the Sikorsky parent to protect their helicopter investment here and it could be argued that they should not be let off the hook so easily.

(iii) Finance: the position on the defence budget is not clear. As noted above, Mr Younger (paragraph 8) claims that there is a gap between plans and budget of around £1 billion a year. I do not think this affects the recently published Public Expenditure White Paper figures, since MOD plan to make the necessary cut backs. But there will be acute pressure on the later years and it is not obviously right, without judging this issue against wider claims and

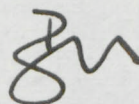
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priorities, to "sterilise" this element of the defence budget (for new helicopters) in the way proposed.

NEXT STEPS

7. If the Prime Minister agrees that the two Secretaries of State should talk to Sir John Cuckney as proposed, it would be prudent to do so on the basis that these are provisional conclusions on the defence procurement programme and that even this would cause acute problems for the defence budget. Sir John Cuckney should not be given the impression that the EH 101 order can be taken for granted, let alone that, if he presses, its size and timescale could be altered.

8. The next stage would be for the Defence and Trade and Industry Secretaries to report the outcome of their discussion for consideration at E(A). If possible, this should be in time for the meeting planned for 26 February to resume discussion of the National Space Plan. I shall be circulating a paper on industrial support and claims more generally as background for that meeting, and it would be sensible to have the helicopter papers on the table at the same time if at all possible (Mr Channon, with whom I have discussed, agrees with this).



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