

PRIME MINISTER

10 February 1987

FUTURE REQUIREMENTS FOR SUPPORT HELICOPTERS

George Younger offers you a nicely-judged proposal for:

- meeting MoD's helicopter requirements within the constraints of the already-stretched Defence budget;
- keeping a leaner, hungrier - and probably fitter - Westland in the business of developing and manufacturing helicopters;
- thereby preserving largely intact the political capital invested in Westland.

In the case of defence procurement too many post-War Governments have believed that they could have their cake and eat it; that on the one hand they could rely on favoured British defence suppliers, usually rewarded under cost-plus contracts, to provide the MoD with the best equipment at the best prices; while on the other hand giving the British defence industry a secure home market from which to develop good export business. Thus it was that Lord Aldington, as Chairman of a Westland dominated by uncommercial engineers, saw his marketing strategy as being the task of regularly telling his chums at the MoD what helicopters they needed and when they needed them - whilst peddling the line to would be export customers that if it's good enough for the Royal Navy it's good enough for you.

The illusion that the British defence industry above all should be the vehicle for industrial policy has been largely destroyed, although it still lingers in odd corners of the DTI and the manufacturing sector. Far from inducing British companies to develop competitive products and adopt the hard-headed attitudes needed to succeed internationally, the

protected home market weakened them - in the case of Westland near fatally. Now the MoD are moving rapidly in the direction of competitive sourcing to give the armed forces maximum value for money irrespective of the origin of the equipment.

The danger in the politically-loaded case of Westland was that this sound policy would be compromised. To his credit George Younger has refused to be blackmailed by Westland's threat that, without additional early helicopter orders to fill the dip over the next 3-4 years, they would have to retrench and abandon their capability to design, develop and manufacture new helicopters, and provide full support to the existing fleet.

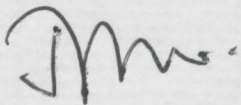
We believe that the MoD are correct in their judgement that, in spite of Westland's threats, they will react positively to the proposed order for 30 Utility EH 101's for delivery around 1994. There is more in it than this. Westland themselves have said "We regard an early order for Utility EH 101's from MoD as an important factor in creating worldwide confidence in the product type as a whole and specifically in the Utility and Civil variants. - - - It is likely that an early MoD order for Utility EH 101's would ultimately produce additional export sales of EH 101 at least equal in number to the MoD order." Moreover, this estimate is based on the conservative assumption that the market for helicopters to support offshore oil and gas operations will remain depressed. Interestingly, since the Shetland crash towards the end of last year Boeing's big Chinook helicopter has fallen out of favour for North Sea operations.

If Westland don't have the gumption to reconstruct their Helicopter Division in response to these opportunities, other more go-getting companies will pick up the pieces - and good luck to them. The task of reconstruction won't be as painless as Westland had hoped, but they are likely to end up

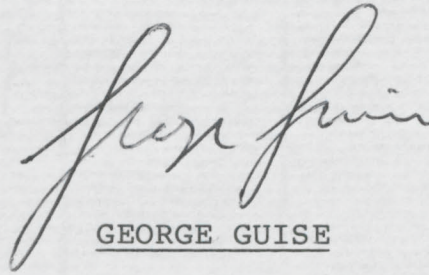
leaner and fitter for it. In defining the Government's minimum strategic requirement (a domestic capability to repair and modify the current MoD helicopter fleet, and development of the EH 101 helicopter for anti-submarine warfare - although not necessarily by Westland) the MoD should concentrate minds in Yeovil, at United Technologies, and at Fiat .

Conclusion

We endorse George Younger's proposal. Given his adroit handling of the final decision on Nimrod/AWACS, George Younger should take the lead in handling this one.



JOHN WYBREW



GEORGE GUISE