

SUBJECT CCMaster

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LONDON SW1A 2AA

From the Private Secretary

11 February 1987

Dear John,

FUTURE REQUIREMENTS FOR SUPPORT HELICOPTERS

The Prime Minister held a meeting this afternoon to consider the Defence Secretary's minute of 6 February about the future requirements for support helicopters. The Lord President, the Chancellor of the Exchequer, the Defence Secretary, the Chancellor of the Duchy of Lancaster, the Trade and Industry Secretary and Sir Robert Armstrong were present.

The Defence Secretary summarised the position as set out in his minute. In deciding how to meet the future requirements for support helicopters, he had tried so far as possible to take account of Westland's interests. He was prepared to place with Westland now an order for 30 utility EH101 helicopters, with an in service date of 1994, with a further purchase of 29 later. The order would be worth some £680 million and would be a substantial prize for the company. Even so, it would still leave a gap of two years or so in the company's ordering programme. He could not help bridge this from the MOD budget without sacrificing other, higher priority projects. He proposed that he and the Trade and Industry Secretary put his proposal to Sir John Cuckney and report back.

The Trade and Industry Secretary agreed with the Defence Secretary's recommendation. But preliminary indications from Westlands were that the proposed offer would not be sufficient to prevent them from closing their Weston-Super-Mare site, with job losses of over 3,000 and the possible loss of a separate helicopter design and manufacture capability. This could cause the Government considerable embarrassment, in the light of the Prime Minister's Statement to the House on 15 January 1986 that the Government's concern was to see a financial reconstruction of Westland which would maintain an independent capability. It would be useful to consider to what extent, while remaining within the overall financial envelope available to MOD, orders for different helicopter types could be adjusted to help Westland over their short term problem.

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The Chancellor of the Exchequer pointed out that Westland's overall financial position was now strong. The prospect of substantial future work from the MOD, provided by the Defence Secretary's proposal, ought to be sufficient to persuade Westland to keep open its helicopter manufacturing division. Sikorsky also had an interest in placing more work with Westland, to fill the gap over the next 2/3 years. The company should be pressed hard on this. He understood the reasons for the generous offer which the Defence Secretary proposed to Westland. But it would be very difficult to justify going beyond it. In any event, the cost must be contained within the defence budget.

In discussion, it was suggested that there might be some measure of bluff in Westland's position, even though Sir John Cuckney had in general been very frank and helpful. It seemed unlikely that, faced with the prospect of substantial orders in the 1990s, they would close down their helicopter manufacturing capacity altogether. On the other hand, it was quite likely that the company would anyway close the Weston-Super-Mare plant (indeed probably ought to do so). It might suit them to claim that this was due to the Government's failure to place the necessary orders. The Defence Secretary's proposal, combined with the substantial continuing maintenance work provided to the company by the MOD, would give the Government a good defence against this claim. But the fact remained that the impact of 3,000 redundancies in the West Country would be very damaging, as well as expensive in terms of redundancy payments and unemployment benefit.

Against this background there was a case for showing some flexibility in the placing of orders. There were clear limits to this. Orders should be placed only for helicopters for which there was an identified defence requirement. The EH101 project should be preserved. The constraints of the defence budget had to be observed. This ruled out most if not all of the alternative options suggested by Westland themselves, since they were either significantly more expensive, involved buying helicopters for which the Armed Forces had no requirement (such as Blackhawk) or meant withdrawing from the EH101. But it might be possible to bring forward production of the EH101 to fill the ordering gap: the company itself envisaged an in service date of 1991. It might also be possible to consider ordering more Lynx 2, which would give work in the short term, and fewer EH101.

36 // The Prime Minister concluded that the Defence Secretary and the Trade and Industry Secretary should discuss the Government's proposals with Sir John Cuckney. They should avoid doing so in a way that suggested that the proposals were just an opening bid. They should urge him to press Sikorsky to produce work to meet the short-term problems. They should also be ready to explore some limited variation of the Defence Secretary's proposals, provided it did not distort the defence requirement significantly. They should then report back to a further restricted meeting of Ministers, before discussion in any wider forum.

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I am copying this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade and Industry and to Trevor Woolley (Cabinet Office).

yours sincerely
C.D. Powell

(C.D. POWELL)

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Ministry of Defence.

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