



MO 26/16/1E

PRIME MINISTER

FUTURE DEFENCE REQUIREMENT FOR SUPPORT HELICOPTERS

In my minute of 6th February, I explained the conclusions I had reached on the future defence requirement for support helicopters and set out the background in some detail. At your meeting on 11th February, it was agreed that the Secretary of State for Trade and Industry and I should discuss the Government's proposals with Sir John Cuckney, that we should urge him to press Sikorsky to produce work to meet the short term problem, and that we should be ready to explore some limited variation of my proposals, provided it did not distort the defence requirement significantly. We have now had two meetings with Sir John Cuckney and this minute reports the outcome.

2. At the first meeting, I explained our main conclusions that:

a. The primary defence requirement was for a medium support helicopter for the Central Region and the Government's preference to meet this task was the Utility EH101.

b. There was no early requirement for a helicopter in the light support class such as the Black Hawk or the NH90. The MOD would not fund further work on NH90 beyond the present feasibility stage.

Prime Minister cc BUP.  
Westland continue to  
tighten the screw. There is  
no indication of additional  
work from Sikorsky.  
Mr. Younger is prepared to  
fund the extra EH101 by 1992:  
but cannot find money for  
additional Lynx. He seeks an  
addition to his PES.

Agree to  
further  
restricted  
meeting?

COP  
13/3

Yes - but  
I see the  
prospects  
of going  
beyond what

MOD can  
fund. We  
are not in

The Ministry of  
Defence  
helicopters  
we don't  
need  
more



c. There was no defence requirement for orders of the size and in the timescale which the Company had initially assessed would meet its production loading problem nor were there funds available in the defence budget to pay for such orders. The Government was, however, anxious to help the Company and was prepared exceptionally to offer now an order for 30 Utility EH101 helicopters with an in-service date (ISD) of 1994.

3. Sir John Cuckney has now given a considered response to these proposals at a meeting the Secretary of State for Trade and Industry and I held with him on 6th March. Sir John said that he was delighted that there would shortly be a clear policy announcement on support helicopters. However, he was very worried about the implications of MOD's proposal for the maintenance of a well-balanced national design, development and production capability for helicopters. Only 20 per cent of the workload on a Utility EH101 order for an ISD of 1994 would fall into the period of Westland's workload gap. Sir John was not so worried about the financial profile as about the problem of keeping Westland's specialist helicopter team together. On the basis of the MOD proposal, Westland would have to consider keeping only a systems and marketing role for their helicopter subsidiary, and giving up their technological work (including advanced rotor technology). Westland's technical capability in the helicopter field could however be secured if 20 Lynx were ordered for 1989/90 (he did not specify whether he had in mind Lynx 3 or Lynx 2) and if the EH101



utility version was brought forward to 1991 (later in the discussion, he referred to 1992).

4. On employment levels, the solution he proposed would mean the closure of Weston-Super-Mare (1200 jobs) and 700 redundancies at Yeovil (a reduction from 4900 or 4200 jobs). The Company suggested that the Lynx element of their package might sustain about 300 jobs at Yeovil. The order pattern which the MOD had proposed would also mean the closure of Weston-Super-Mare but there would be 1600 redundancies at Yeovil, that is a reduction from 4900 to 3300 jobs. Westland required a core of 500 highly skilled specialists. A reduction of 1600 in the total payroll at Yeovil would - in the Company's view - mean that Westland would lose control of the outflow of manpower and many of the core of engineers whom the Company wished to retain would cease to see a viable future for the helicopter industry.

5. The closure of Weston-Super-mare, which was common to both options, would not call into question Westland's credibility as a competitor in the helicopter market. The plan would be to run down the site over 12 to 18 months. It was possible that some other member of the Westland Group might have a use for the Weston-Super-Mare factory. If not, they would hope to create a successful role for the factory and to sell it.



6. In further discussion, we probed the circumstances in which the Weston-Super-Mare factory might remain open. It would appear that, if there had been a major order for Black Hawk on offer, then the firm might have felt able to keep open the Weston-Super-Mare factory, although the Black Hawk itself would have been manufactured at Yeovil.

7. It is still not clear what, if anything, Sikorsky and Fiat are willing to do to help the Company in addition to the work agreed at the time they took a minority shareholding. This may be because they have no work to offer or it may be that they are holding back until they and the Company see finally how the Government intends to proceed.

8. We have a choice between three options:

a. To stick to my original offer of 30 Utility EH101 to an ISD of 1994.

b. To bring forward the ISD for Utility EH101 to late 1992, on which basis the first production aircraft would be delivered by the Company at the beginning of 1992. I am advised this is the earliest realistic programme. Since the Company themselves spoke both of a 1991 and a 1992 date, I suspect that they would not press the point. If they continued to argue for an earlier date than 1992, I would not



rule out agreeing that they could work to this aim but against a contract and a payment profile related to a later 1992 ISD. The Company would be expected to bear any additional financing costs that arose from working to an earlier date.

c. In addition to b, to offer the Company an order for Lynx 2 Mk 7 to an ISD of 1990. Although the Company suggested an order for 20 helicopters, and have indicated in earlier discussions that they would prefer an order for the more advanced Lynx 3, I believe that we should restrict any order to 16 Lynx 2, Mk 7s for which there is an established defence requirement, if funding were available.

As I explained in my earlier minute, there is not a defence requirement for a package involving Utility EH101 and Black Hawk and I do not believe that we should pursue a theoretical Black Hawk option any further. I also intend to proceed with withdrawal from the NH90 project, on which there is due to be a meeting of the collaborative partners on 25th March.

9. The defence interest is in supporting Westland sufficiently to sustain the capability required for the Naval EH101 programme and to maintain a domestic capability to repair and modify the Services' helicopter fleet, which are strategically essential. The MOD is offering continuing business in support of the existing fleet on a very large scale together with the prospect, subject to



satisfactory contractual and management arrangements, of the development and production of three major helicopter types in the 1990s and beyond - Naval EH101, Utility EH101, and a Light Attack Helicopter (currently at the feasibility stage). Initial business on these helicopters could be worth over £2½ billion, with perhaps £1 billion of this going to Westland. It is our commitment to this challenging development work which in my view would be the primary factor in sustaining the interest and commitment of key Westland staff rather than short-term production loading on the factory floor. I therefore believe that we should treat with some caution more extreme scenarios predicting the loss of these key staff. On the other hand, I have no reason to doubt Sir John Cuckney's view that there will need to be a substantial reduction in the workforce as a whole, including, under any of the options, the closure of the Weston-Super-Mare site. In the perspective of our longer term interest - rather than shorter term employment and other considerations - such a restructuring is to be welcomed since, as well as lowering the overheads we have to carry on defence contracts, it will improve Westland's efficiency and thus its international competitiveness.

10. This said, I recognise the case for some action beyond that I have previously recommended to attenuate the rundown at Westland. You are aware, however, of the scale of the problem I face in bringing the defence programme into line with the existing budget and the likelihood of reductions elsewhere in the programme, with



political and industrial implications and visibility at least equal to that of the Westland case. The cost over the next few years of an accelerated order for Utility EH101 to an ISD of 1992 compared with the original option of an ISD of 1994 would be:

|                           | (£M at LTC 87 prices) |             |              |             |             |
|---------------------------|-----------------------|-------------|--------------|-------------|-------------|
|                           | <u>87/8</u>           | <u>88/9</u> | <u>89/90</u> | <u>90/1</u> | <u>91/2</u> |
| Utility EH101<br>ISD 1992 |                       | +1          | +8           | +42         | +80         |

An order for 16 Lynx 2, Mk 7 would add the following:

|    |     |     |     |    |
|----|-----|-----|-----|----|
| +1 | +21 | +34 | +17 | +5 |
|----|-----|-----|-----|----|

Bringing forward the EH101 would add considerably to the difficulties already facing the defence programme. In view, however, of the relatively limited impact in the early years, I should be prepared very reluctantly to offer to fund an order to this ISD from within the defence budget, provided that it was agreed that the full financial impact would be borne in mind in PES 87. An early order for 16 Lynx 2, Mk 7 is, however, not affordable from within present defence budget provision. If colleagues believed it was important to proceed within this order for wider reasons, then additional funds would be needed to pay for it.

11. There is considerable and growing interest in how we intend to proceed and I have intimated that an announcement is likely this month. Sir John Cuckney is also anxious for the matter to be



resolved and for a positive announcement to be made. He wrote to me today to say that in the view of the Westland board the company cannot delay the start of the contraction and possible restructure of the helicopter division beyond 21st April when they will have to inform their work force of their future plans; and to ask for an assurance that the Government's views and proposals will be made public before the Easter recess. You may wish to discuss how best to proceed in the light of this minute and reach a view on whether it would be necessary, following a discussion in a restricted forum, also to refer the matter to E(A).

12. I am sending copies of this minute to the Lord President of the Council, 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.Y.

Ministry of Defence

12 March 1987

G Y



AEROSPACE : Westland . PE7

