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P 02583

PRIME MINISTER

Future Defence Requirement for Support Helicopters: (Westland)
(Defence Secretary's minute of 12 March)

ISSUES FOR DECISION

I suggest you should aim:-

(i) to take a preliminary view on whether there is a case for bringing forward the Utility EH 101 programme and for placing an early order for 16 Lynx 2, Mk 7 in order to fill the Westland ordering "gap";

(ii) to decide how best to take matters forward so that a decision can be taken and made public before the Easter recess.

BACKGROUND

2. You will recall that at your restricted meeting on 11 February you asked the Defence and Trade and Industry Secretaries to discuss with Sir John Cuckney the possibility of placing an order for 30 Utility EH 101 helicopters with an in-service date (IDS) of 1994 and also of ordering more Lynx 2 in order to fill the Westland ordering gap. They were authorised to explore some limited variation of these proposals but at the same time to urge Sir John Cuckney to press Sikorsky to produce work to meet the short term problems.

3. The Defence Secretary's minute of 12 March reports the outcome. In brief, Sir John Cuckney said that only 20 per cent of the work load on a Utility EH 101 order to an ISD of 1994 would fall into the period of Westland's workload gap. This would make

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it very difficult to keep Westland's specialist helicopter team together. It would, however, be possible to secure Westlands technical capability in the helicopter field if the EH 101 order was brought forward to 1991 (or possibly 1992), and 20 Lynx were ordered for 1989-90. This would still mean the closure of Weston-Super-Mare (1,200 jobs) and 700 redundancies at Yeovil (from 4,900 to 4,200). But the Defence Secretary's proposal would mean a reduction at Yovil from 4,900 to 3,300 and create serious problems in retaining the necessary core of qualified engineers and other technicians. No indication was given of what Sikorsky and Fiat might do to help the Company in addition to the work agreed when they took a minority share holding.

Options

4. The Defence Secretary (paragraph 8 of his minute) identifies three options:-

(i) to stick to the original offer of 30 Utility EH 101 with an ISD of 1994;

(ii) to bring the above order forward to late 1992;

(iii) in addition to (ii) above, to offer an order for 16 Lynx 2 Mk 7 with an ISD of 1990.

5. The additional cost of options (ii) and (iii) to the Defence Budget is:

(£M at LTC 87 prices)					
	<u>87/8</u>	<u>88/9</u>	<u>78/90</u>	<u>90/1</u>	<u>91/2</u>
Utility EH 101					
ISD 1992		+1	+8	+42	+80

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	<u>87/8</u>	<u>88/9</u>	<u>89/90</u>	<u>90/1</u>	<u>91/2</u>
An order for 16 Lynx 2, Mk 7 to an ISD of 1990	+1	+21	+34	+17	+ 5

Mr Younger is prepared to absorb the extra EH 101 costs within the present defence Budget, provided it is "agreed that the full financial impact would be borne in mind in PES 87". He would, however, require additional funds to pay the for Lynx.

MAIN ISSUES FOR CONSIDERATION

6. Before judging whether there is a case for going as far as the Defence Secretary suggests, you will want to probe the arguments more thoroughly. The following paragraphs discuss what seem to me to be the main considerations.

Defence Policy considerations

7. The MOD position is still slightly ambiguous. In the earlier (more detailed) MOD papers it was both stated that there was no defence requirement for the orders sought by Westland, and also that it was "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". This latter statement is in effect repeated in Mr Younger's latest minute which (paragraph 9) defines the defence interest as "in supporting Westland sufficiently to sustain the capability required for the naval EH 101 programme and to maintain a domestic capability to repair and modify the Services' helicopter fleet, which are strategically essential".

8. The impression given by Mr Younger is that his original offer of 30 EH 101s with an ISD of 1994 would meet the MOD's strategic requirement. If this is still his judgement, it follows that the new proposals are not justifiable on defence grounds

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alone. It is still not clear, however to what extent MOD could in fact manage (for repair, maintenance etc) if the Government's decision did lead to the kind of run down in the skilled technical core at Westland that Sir John Cuckney predicts. My private impression from MOD is that they would prefer to see Westland's helicopters capability survive. You may wish to press Mr Younger on this.

Industrial considerations

9. DTI are still lying very low. Their real position is, I think, that they would like Westland helicopter to survive if someone else will pay for it. But since they are already short of funds for other purposes (eg Airbus, which they rank as a much higher priority) Mr Channon is unlikely to argue the industrial case. You may however, wish to seek his views.

Defence Budget

10. You are aware of the severe pressures on the Defence budget. We do not yet have the new costings, but it is clear that some difficult choices will need to be made. There is also pressure on MOD to find funds for other purposes (eg Space). Against this background it is difficult to contest Mr Younger's statement that to place an order for 16 Lynx 2 would require an addition to the Defence budget. The Chief Secretary is likely to argue that the Government should stick to its earlier position, with the advancement of the EH 101 orders as a last resort fall back only.

Westland Position

11. The crucial issue here is how far they are bluffing. Although the helicopter and customer support divisions account for over half the numbers currently employed by Westland (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 the closure of Weston-Super-Mare is common to both the MOD options discussed above. Moreover, Sir John Cuckney does not

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regard this closure as calling into question Westlands credibility as a competitor in the helicopter market.

12. There must, however, be some pressure on Sikorsky and Fiat to protect their helicopter investment here. As Mr Younger comments, their silence so far may suggest that they have no further work to offer; but it may also be because they are holding back to see what the Government proposes to do.

13. There is clearly a fine judgement, and a risk, involved here, particularly given the political background to this issue. But it would certainly not be unreasonable to press Sir John Cuckney very much harder on the possibility of further work or backing from Sikorsky, and to discount to some degree the more extreme pictures he has painted. There is certainly scope for further hard negotiation.

TIMING AND NEXT STEPS

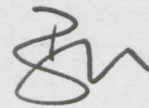
14. According to Sir John Cuckney Westland cannot delay the start of the contraction and possible restructure of the helicopter division beyond 21 April when they will have to inform their workforce of their future plans. He therefore seeks an assurance that the Government's views and proposals will be made public before the Easter Recess.

15. Subject to your discussion, you may wish to invite the Defence Secretary and Mr Channon to have one further go at Sir John Cuckney on the basis of whatever proposals you approve, and at the same time to press him very much harder on the possibility of backing from Sikorsky. They should then report the outcome in a self-contained paper for E(A) for a meeting early in the week beginning Monday, 30 March. This should give ample time for decision before Easter.

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HANDLING

16 You will wish to ask the Defence Secretary to introduce his paper, and the Trade & Industry Secretary to comment on the industrial aspects. The Chief Secretary, Treasury will wish to comment on the financial and expenditure implications.



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Cabinet Office
17 March 1987