

COMMERCIAL-IN-CONFIDENCE

Sir John Cuckney
Chairman

TEL: 01-838 40651
FAX: 01-830 04422

The Rt. Hon George Younger, M.P.,
Secretary of State for Defence,
Ministry of Defence,
Whitehall,
LONDON, SW1A 2HB.

31st March, 1987

Dear Secretary of State,

At our meeting on the 19th March you asked for two briefs, one on the manpower effects of the order which you stated it was your intention to place with Westland, and the other on why a helicopter company with good medium term order prospects can have doubts about retaining a highly skilled engineering team in the face of a short term order gap.

These briefs are enclosed and I would like to stress the following points:-

- a) Our manpower loadings are very sensitive to the actual start time of the additional work and hence on there being no delay in the placing of a firm order. We are rather conscious that the order for Sea Kings announced at Farnborough last year has not yet been turned into a contract.
- b) Retaining engineers with the skills which are unique to the helicopter industry depends on their confidence that there is a future in the long term for helicopter design and development in the U.K. This, in turn, depends on the evidence of:
- i) Commitment to remain in the forefront of rotary wing development through worthwhile and realistic research and demonstrator funding.
 - ii) Commitment to participate in present and future collaborative programmes. Westland has been a major contributor to the NH90 and unilateral withdrawal by the U.K. from what is becoming accepted as the programme which will lead to the Super Puma and Black Hawk replacements in the next century would have the opposite effect. The five nation LAH programme to enhance the existing Al29 is not in the same category.

/Continued.....

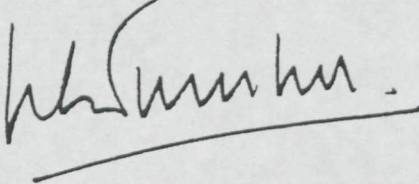
Finally, the position regarding E.H. Industries Limited. You will recall it is a company, owned equally by Westland and Agusta, set up as contracting authority for the joint venture between the two Ministries of Defence and the two industrial groups, DTI and Westland - MICA and Agusta, to develop a Sea King replacement and a civil and utility variant with costs of the basic vehicle being shared.

Inevitably this leads to a complex structure of contractual arrangements under which we have to labour and the fact that the helicopter is still under development and that the utility version directly involves the Italians in funding (MICA) and design, considerable goodwill, understanding and flexibility will be required if your intentions to purchase are to be converted into a contract acceptable to the Ministry of Defence, Westland and the Italians. Not least this will mean a preparedness to order long lead items by the end of the year (the sums involved are not substantial), as clearly stated in the proposals put forward by Westland on the 3rd December 1986.

Westland, of course, remain wholeheartedly committed to the EH101 and an early order will be of great value to the programme as a whole.

I am sending a copy of this letter and enclosures to the Secretary of State for Trade and Industry.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'John Cuckney', written over a horizontal line.

Sir John Cuckney

Signed in his absence by the Deputy Chairman

c.c. The Rt. Hon. Paul Channon, M.P.,

Manpower Effects

Westland's direct labour capacity in the Helicopter and Customer Support divisions is presently 3,100 personnel supported by a similar number of indirects, giving a total employment of around 6,200.

The forward work load projections which include 7 Ministry of Defence Sea Kings promised at Farnborough, the 25 Utility EH 101s and 16 Lynx which are the subject of current discussions, the 2m manhours from Sikorsky and an aggressive export forecast, indicate that we have considerable surplus labour.

In order to maintain competitive cost rates we shall therefore have to reduce capacity by up to 2,300 people.

The Customer Support activity at Weston-super-Mare will be effectively closed, with the temporary exception of about 200, engaged in metal blade manufacture and Government stores. This means a reduction of around 1,000 people. The rest of Weston-super-Mare's activities will be relocated at Yeovil to eliminate the cost associated with an additional site. It is planned to implement this reduction over the next twelve months following appropriate consultation with our employees.

At Yeovil, it will also be necessary to reduce manpower by up to 1,300, again over the next twelve months.

If the rephasing of EH 101s and Lynx orders were not included, the total reduction in manpower would have been approximately 2,800. Assuming 1,000 were necessary to reduce costs, the additional work has therefore saved 500 out of 1,800 under threat.

In both cases, our plans assume that we shall have firm commitments from the Ministry of Defence for their requirements in the immediate future so that the labour retained for this work may be deployed on it by the end of our financial year.

HPS/MEC/4641
26 March 1987.

Key Engineering Resources

The preservation of an indigenous helicopter industry capable of providing total support to the UK Ministry of Defence helicopter fleet and playing a full part in future European helicopter development, is dependent upon maintaining a critical mass of key technology and engineering skills. Specifically:-

- the ability to design and develop new helicopter products, whether unilaterally or as part of a collaborative programme.
- The ability to provide a complete support service to the existing Ministry of Defence helicopter fleet.
- The ability to develop major modifications to meet specific operational needs.
- The maintenance of an effective Design Authority for current Westland products in-service with the UK Ministry of Defence and export customers. This could leave the whole fleet vulnerable to the first major in-service problem which arises.

These key engineering skills can only be retained by a regular flow of relevant work which exercises and develops such skills. Particularly important in this context are: New Design Programmes, Major Update Programmes, Demonstrator Programmes and Research. The availability of this type of work is threatened by an overall run-down of major design activity (now that the basic design of EH 101 is virtually complete), a serious cut-back in Research and Demonstrator funding and severe pressure on Company funds due to its major contribution to EH 101.

Without some major initiative, the workload in key areas will reduce to about one half of that required to maintain a nucleus of helicopter engineering skills, which are largely unrelated to routine production work. The engineering and manufacturing skills associated with rotor blades, rotor heads and the complex transmission systems are unique to the helicopter industry and cannot be found from any other source in the UK.

Positive steps which could be taken are:-

- proceeding with the LAH programme without further delay.
- a decision for the UK to actively support the NH90 programme through the next phase.
- A restoration of Research and Demonstrator funding (recently cut to one third of its previous level).

JDT/mec
26 March 1987.

DRAFT LETTER FROM SECRETARY OF STATE TO SIR JOHN CUCKNEY

Thank you for your letter of 31 March, with the further information on the manpower effects for Westland of our proposed order, and the explanation of need of the company to retain its highly skilled engineering team.

I quite take your point that there should be no delay in the placing of firm orders with you. Of the Sea Kings which you mention, negotiations are continuing over the 7 for the Navy, although the one Sea King for the Procurement Executive was ordered earlier this year. In the normal course of events, I should have waited until details were settled before announcing the order, but as I recall, we agreed to your request that Westland should be authorised to announce the MOD's intention to proceed with the order rather earlier than usual, in order to secure maximum positive impact at Farnborough last year. In the circumstances this was designed to be as helpful and positive in supporting you as we could be. I hope - as you do - that the order can be placed soon. For our part we

will certainly do our best to resolve the uncertainties over our order soon.

As to future orders, we shall, of course, aim to place contracts as soon as we can. But this can only be done when requirements have been clearly defined, clear contractual terms have been settled, and in the case of aircraft under development satisfactory technical progress achieved.

You mention three specific steps which you would like to see taken to help maintain the key engineering resources of the company. Taking them in turn:

a. we are, of course, totally committed to the feasibility/cost definition study for the LAH programme, and we wish to begin this as quickly as possible. You will appreciate that with such programmes there is inevitably a great deal of effort involved in organising and engineering the management arrangements. But we hope that industry will feel able to begin work on this phase of the programme as soon as possible;

b. we have, especially in view of your request at our meeting on 19 March, looked carefully again at the possibility of continuing in the NH90 programme. We have concluded that there is no defence requirement for

NH90. The key point is that we have now established that our primary defence requirement is for a larger support helicopter than NH90 and that is why we propose to purchase the Utility EH101. Moreover, Utility EH101 offers you production work earlier than the NH90. We cannot remain in collaborative projects for which there is no defence requirement and I simply do not have money to fund both participation in the NH90 programme and early purchase of other helicopters;

c. of course, the MOD spends significant amounts on project related research and development on programmes such as EH101. But, against the budgetary background that I have explained, I see no prospect of being able to increase Research and Demonstrator funding at present. We are, of course, very willing to discuss with you the best way of applying the limited funds we have available.

In all the circumstances I would have thought - although this is a matter for you more than for than me - that your key engineering staff would be influenced by the more general prospects for the Industry. Future defence business will be very substantial, ranging from the continued support of our in-service helicopters, new production orders,

support of development programmes such as the EH101 - now in both its military versions - through to the preliminary work on the new Light Attack Helicopter. Taken together this adds up to potential business well in excess of £2bn in which Westland will fully share, with your overseas partners and major suppliers. I am sure you will agree that these are major prospects by any standards and provide a firm foundation for the helicopter industry. And on top of that, I know that you will be planning to participate in the technical plans which your partnership with Sikorsky open up.

What is essential - as I know you will agree - is that we both present the decision now reached and future prospects for the company in as positive a way as possible. I for my part am very ready to do this and we are already in touch with your people about the announcements shortly to be made.

AGROSPAC6 : Westlands PT7

