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PRIME MINISTER

FUTURE REQUIREMENTS FOR SUPPORT HELICOPTERS

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In my minute of 6 February 1987 I reported the outcome of my review of the defence requirement for support helicopters and of the parallel review of the strategic importance of an indigenous helicopter industry and the future workload of Westland. The review concluded that there was a requirement for a medium support helicopter in the Central Region and elsewhere. The preferred solution was the purchase of 59 utility variants of the Westland/Agusta EH101 helicopter. This also had the advantage of offering Westland more work over the longer term than the alternative option of buying a mix of Chinook and Black Hawk helicopters. In subsequent discussion and correspondence with you and other colleagues, it was agreed that I should offer Westland an initial order of 25 Utility EH101s to an in-service date of 1992, together with an order for 16 Army Lynx helicopters to an in-service date of 1990. On 9 April 1987, I announced to the House the Government's intention - subject to satisfactory resolution of contractual and other issues - to place an order for an initial batch of 25 Utility EH101s for delivery in the early 1990s.

2. Following that announcement, my Department has been carrying out initial studies to refine the scope of the work required to develop a utility variant of the EH101 to the staff requirement in preparation for the next formal stage of the development programme, Project Definition (PD). The initial assessment of the Utility EH101, reflected in the Note by Officials enclosed with my earlier minute, was necessarily based upon information provided by the



company. It is now clear that Westland considerably underestimated the amount of work involved. The basic military requirement is for a helicopter which can carry a platoon over a radius of action of 120 kms. Subsequent investigations have shown that, contrary to our previous understanding, the existing EH101 engine cannot achieve this. It will therefore be necessary to install an uprated engine, which in turn will require an uprated transmission system. Without the detailed analysis which will be carried out as part of PD, it is not possible to provide precise cost estimates for this additional work. However, on initial estimates, the total procurement cost (including spares, etc.) of the EH101 to a specification which would, unlike the original Westland proposal, meet the requirement, would be of the order of £930M rather than £680M (£740M at current prices) estimated in early 1987. This new figure considerably exceeds existing provision for the EH101 in our long term costing. The EH101 may also no longer be cheaper than the alternative Chinook/Black Hawk option. In addition, the earliest in-service date which can be achieved is 1996 for an aircraft which meets the full requirement, or 1994 for one which does not. This will offer less assistance to Westland during their perceived workload trough in the early 90s than we envisaged in 1987.

3. Alongside these disturbing developments, there have also been changes in Westland's position. First, their management strength and long term stability should be increased by GKN's decision to take a 22.2% stake and be represented on the Board, with a declared intention of obtaining a controlling interest in the longer term. Secondly, under the Formal Understanding signed earlier this year, there is now the prospect of a launch order for the Westland Black Hawk from Saudi Arabia. Westland's future is thus looking rather more secure than in early 1987.

4. Against this background, I believe it would be right to review the Utility EH101 programme. In the normal course of events, the



EH101 would now be due to enter the PD stage involving a financial commitment of some £20M. In view of the uncertainty over the EH101 costings, I intend to split PD into two separate phases and to proceed initially only to the first phase. This will consist of a cost definition study to refine our estimates against a range of EH101 options so as to provide a firm foundation for a decision to proceed, or not to proceed, with the utility EH101 programme. At the same time, my Department will look again at possible alternative means of meeting the requirement (such as the Chinook/Black Hawk mix) so that by the Autumn of next year there will be the basis for an informed assessment of which procurement route represents the best value for money. I will report the outcome to you and colleagues as soon as possible thereafter. These studies - cost definition of the EH101 and study of alternatives - will involve a commitment of only about £5M. (My officials will seek formal Treasury approval in the usual way.) One disadvantage of this approach is that, if we decide to stay with the EH101, a two phase PD with a break will lead to yet further delay to the in-service date - 1997 for an aircraft which meets the full requirement, or 1995 for one which does not. I believe, however, that if we are to obtain the best value for the substantial sums of money involved, we and Westland will just have to live with this delay.

5. David Trefgarne has discussed this situation confidentially with Westland and warned them that we propose to look again at alternatives to the utility EH101. While disappointed, Sir John Cuckney was not surprised. He said that Westland would have to accept our decision and recognised the need for parallel studies into alternatives in the light of the estimated cost increases in the utility EH101 programme. His chief concern was to limit any damage to the prospects for utility EH101 sales overseas (the Canadians are showing a close interest in the Utility EH101 though they have no firm requirement at this stage. There is also some interest from Egypt).



6. While the study of alternatives to the EH101 will be conducted as discreetly as possible, we must nonetheless assume that it will become public knowledge. We know that there is already strong interest in the story from the 'Sunday Times'. Moreover, there is already interest in the House in the status of the EH101 project - the issue was raised twice in the recent defence debate. To forestall further speculation, I propose to give a written answer in the House of Commons at the earliest opportunity. A question has now been tabled for written answer in the Commons on 9th November. The terms of the attached draft reply, which makes only passing reference to a range of options, have been agreed with Westland.

7. I should be grateful to know if you and colleagues are content with this approach.

8. I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and the Chief Secretary, and to Sir Robin Butler.

Ministry of Defence

3rd November 1988

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WRITTEN PQ

To ask the Secretary of State for Defence if he will make a statement on the RAF Utility EH101 helicopter programme.

REPLY

I announced to the House last year the MOD's intention to order, subject to the satisfactory resolution of contractual and other issues, a utility variant of the Anglo/Italian EH101 helicopter for the RAF to meet the requirement for additional support helicopters in the Central Region.

Following that announcement, work was set in hand to define more precisely the RAF performance requirements. This work has been carried out in close consultation with EH Industries Limited, the main contractor for the EH101 project, and its parent companies, Westland and Agusta. We will now start the formal Project Definition stage which will examine in detail the RAF's foreseen requirement against a range of options and establish more

*fully the costs &
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AGROBAGS: Westland A7.





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