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31 December 1985

C Powell Esq
Private Secretary
10 Downing Street
LONDON SW1

Prime Minister
Some very useful
material here which
you might like to
see.

CJP 31/12.

Dear Charles,

WESTLAND

As agreed, I attach a copy of a brief I have submitted to my Secretary of State. I hope this is useful. Please contact me if you require any clarification.

Yours sincerely,

M J MICHELL

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To:

PS/SECRETARY OF STATE

cc. Sir Brian Hayes
Sir Jeffrey Sterling
Mr Macdonald
Mrs Salisbury
Mr O'Shea

From:

M J MICHELL
US/AIR
VA 7/2
215 4377

31 December 1985

WESTLAND

As requested, I have tried to summarise in the attached document the points contained in a large number of briefs of recent days. I am afraid it is still rather long. Unfortunately a great many inaccuracies and erroneous impressions have been given currency and it necessarily takes detailed argument to correct them.

2. May I stress that the list of countries named as Blackhawk export prospects is extremely commercially confidential and should not be quoted beyond those receiving this minute.

A handwritten signature in cursive script, appearing to read 'M J Michell'.

M J MICHELL



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WESTLAND: SOME NOTES ON THE ALTERNATIVE INDUSTRIAL PROPOSALS
AND ON RECENT PRESS REPORTS

The Sikorsky/Fiat Proposals

Sikorsky/Fiat are guaranteeing 1 million additional man hours work for Westland (including 650,000 engineering hours) over the period 1987-89. This is irrespective of sales and is outside the Blackhawk licence arrangement.

In addition, there is intended to be substantial extra work for Westland under the Blackhawk licence arrangement. The objective would be to build at least 150 Blackhawks under licence at Westland from 1987-9, involving some 4 million or more man hours of work (more if a higher number is built). This is omitted from the analysis attached to the Defence Secretary's minute of 23 December, although it is of course the core of the Sikorsky/Fiat proposal.

The number of Blackhawks built under licence by Westland will depend on the company's ability to market the aircraft. The MOD consider the prospects are poor. The Defence Secretary has said the MOD will not buy it, and that sales prospects in France, Germany and Italy are minimal. In fact, Sikorsky have never regarded those countries as strong prospects (though they have made clear they will continue to urge the advantages of Blackhawk through normal commercial means).

Sikorsky have received firm US orders for 924 Blackhawks (700 delivered) and expect further orders. (The US Army has stated a requirement for 1107.) They have sold it also to China, The Phillipines and Taiwan and are currently negotiating sales in Australia (where they beat the W.30 in competition), Saudi Arabia, Jordan and Korea. The potential market for Westland-built Blackhawks is seen principally as:-

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- "Secondary" European countries eg:
Sweden, Norway, Portugal, Belgium,
Netherlands, Spain.

- Middle East and Asia eg:
Oman, Dubai, Abu Dhabi, India,
Malaysia.

- Africa and S. America eg:
Nigeria, Brazil.

A number of countries have expressed interest in a Blackhawk with higher power, which could be offered with the Rolls Royce/Turbomeca (France) RTM 322, and more sophisticated avionics which could be supplied by UK companies.

The European Proposals

The European proposals offer valuable extra sub-contract work on Super Puma aircraft (some 1,250,000 additional hours over 5 years on top of the existing 1,750,000 hours under existing arrangements). Of these additional 1,250,000 hours, Aerospatiale are now offering to guarantee 35,000 per annum. 33,000 hours per annum sub-contract work is now also being guaranteed in relation to accelerated (N.B. not additional) Super Puma orders from the French Government.

Agusta of Italy are now guaranteeing their offer of 300,000 man hours of work to Westland over the period 1987-9. (This offer is omitted from the MOD's comparison attached to Mr Heseltine's minute.)

Aerospatiale are also offering Westland participation in development of a Super Puma Mk II "if a significant order (about 50) is placed for instance by HMG". The MOD have made clear they do not intend to buy such an aircraft. Aerospatiale have told



us they are aware of that. They would, however, be satisfied with another launch order or orders comprising around 50 aircraft. (This is normal procedure in the industry.)

Withdrawal of Work by Aerospatiale

Aerospatiale have stated they would withdraw their current sub-contract work on Westland if Westland links with Sikorsky/Fiat.

← These contracts relate to Puma, Super Puma and Gazelle aircraft and spares manufacture. The legal and contractual position is primarily a matter for the companies, but it would appear that Aerospatiale would not have the right to terminate the arrangements forthwith without penalty. Aerospatiale would also need to make alternative manufacturing arrangements.

Much of the work covered by these contracts is also the subject of UK/French Government agreements, so that substantial alteration to the present arrangements would involve Governmental consideration.

← Westland also has on-going sub-contract arrangements on Aerospatiale, amounting in a typical year to some two thirds the value of the Aerospatiale sub-contract work on Westland. Inevitably, Westland would seek to withdraw that work from Aerospatiale if the French company terminated their own sub-contracts. This point is omitted from the analysis attached to the Defence Secretary's minute.

NH 90

The European consortium has stated that participation of Westland in NH90 would not be compatible with their involvement in the Blackhawk project.

NH90 is currently at a feasibility study stage. Since it is Government funded, it is not for the companies alone to decide the industrial participation, and HMG would be in a position



to resist any attempt to exclude Westland if it wished. The MOD has stated that it would not wish to see work on collaborative projects jeopardised by Westland "putting itself outside the framework of that cooperation". Despite the express view of Aerospatiale, there is no inherent reason why a UK based company with a US shareholding should not participate in European defence projects (Normalair Garrett, for example, has done so extensively). Although the MOD has clearly expressed a Departmental preference for the European proposals, they would no doubt (since they take the view quoted above) resist strongly any continental attempt to "blackball" Westland should the company in the event accept the UT/Fiat proposals.

The future of NH90 will depend on Government approvals at each stage of development and production. The "identified total requirement for 700 plus helicopters 1994-2000" described in the attachment to the Defence Secretary's minute of 23 December has elsewhere been described as a "rough planning figure".

The minutes of the Equipment Policy Committee meeting on 28 January 1985 record the Defence Staff's opposition to NH90 for the British forces.

Broad Comparison of the Offers

Westland perceive two key needs:-

- i) A product to sell in the late 1980s to replace the W30 which has failed for a number of reasons (civil market recession, technical shortcomings of /100 version, lack of MOD contract for development of military version against AST 404).
- ii) To put in place an arrangement which will provide a sound basis for long-term future viability.



The Board's judgment so far is that the Sikorsky/Fiat proposals meet these needs, while the European proposals do not. Against this must be set the fears:

- a) that the Blackhawk licence, which Westland see as meeting their first need above, will prove illusory because they will not sell the aircraft;
- b) that the MOD's policies of rationalising European procurements could be jeopardised should the Sikorsky/Fiat proposals be agreed;
- c) that Sikorsky will eventually take control of Westland and destroy its independent capability.

Financial Comparison

On the financial side each offer contains an option arrangement. In the UT/Fiat case, the option would be for the benefit of UT (although its exercise would not give them control). In the European case the option would benefit the shareholders. From a purely financial point of view, the current European offer is probably more attractive to shareholders.

Design and Development Work: "Tin Bashing"

The European proposals are based on an extension of existing sub-contract production work for Westland. There would also be new design and development work if the Super Puma Mark II went ahead, and on the possible new 4-nation battlefield helicopter (see below).

Design and development work on EH 101 and NH 90 would also continue.



Under the UT/Fiat proposals, the intention would be to maintain Westland as an independent design, development and production capability. Sikorsky have given assurances to that effect. They have also said that, as a result of their long association with Westland, they have a high regard for Westland's design and development capability. Sikorsky are concentrating their efforts on their on-going contracts to supply about 130 production Black-hawks per year to the US forces (see above). They have said they would welcome Westland devoting design and development effort to specific requirements of other customers, and believe this would be complementary to their own activities. Such an arrangement would follow Westland's successful marketing of their own developed versions of the Sea King, also built under Sikorsky licence (and which sold more export copies than the Sikorsky original).

Sikorsky have also made clear they would wish EH 101 to continue (which appears to be confirmed as Agusta's wish also, according to public statements). The position on NH 90 is discussed above.

In summary, it appears incorrect to describe either proposal as likely to lead to Westland becoming mere "tin-bashers". However, of the two proposals, UT/Fiat appears potentially to offer a higher element of design and development work.

Battlefield Helicopter

The proposal to rationalise the two existing battlefield helicopter projects in Europe (PAH2 and A129) into a single project appears at this stage to be essentially a statement of intent (which is not to deny the significance of that step). Experience suggests that discussions to reach agreement on the specification and industrial work-sharing for such a project could be prolonged (Aerospatiale have confirmed that such discussions have not yet begun at the industrial level). Experience also suggests that the estimated "saving" to HMG of £25m must at this stage

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be uncertain, if not speculative. Should this saving not be fully achieved, ~~other defence procurements would no doubt have to be deferred (possibly to the detriment of other UK companies) in order to release funds to honour the commitment to buy 6 extra Sea Kings. (N.B. it has never been clear how the spares for these additional aircraft would be funded without detriment to other items in the procurement programme.)~~

As well as the industrial workshare, the export rights for a possible new battlefield helicopter would need to be negotiated. Experience suggests the French are likely to take a hard line on this, and the negotiations could be difficult. Unfortunately, throughout all the negotiations Westland would be in a weak position as supplicant.

Shorts

See separate note dated 28 December 1985 (attached).

UK Avionic Companies

It has been suggested that British avionic companies might be excluded from participating on Westland-built Blackhawks. This seems erroneous. British avionic companies would be able to bid in international competition for contracts to supply customers' special requirements. This is normal procedure in military aircraft procurements. Aerospatiale have confirmed they would expect this procedure to operate if Westland build Blackhawks under licence.

Libya

This has been covered in the JIC assessment of 24 December.

**Air Division
D.T.I.
30 December 1985**

WESTLAND: AGREEMENT BETWEEN SIKORSKY AND SHORTS

The key points of the memorandum between Sikorsky and Shorts are as follows:

i) The agreement is not a licence. It is a memorandum of agreement which envisaged the subsequent negotiation of more specific licence arrangements.

ii) The agreement is specifically related to the former Air Staff Target 404 (AST 404).

iii) In the context of AST 404 Sikorsky intended to have Shorts' participation in the final assembly, flight test, fabrication of the pipe fuselage and other composite parts.

iv) There was a possibility of further participation by Shorts following a successful programme for AST 404.

v) Any specific work resulting from this statement of intention was to be the subject of a separate agreement.

vi) Both sides have the right to terminate the agreement on 60 days' notice.

The agreement did not refer to arrangements for avionics. It did not exclude participation by UK avionic companies as has been suggested. We are not aware of any other document which would exclude such participation. Indeed, our understanding was that Sikorsky were anxious to encourage UK avionic companies to participate in order to improve the attractiveness of the aircraft to the UK authorities. For a similar reason they arranged for the aircraft to be powered by the Rolls Royce RTM 322 engine.

AST 404 has been withdrawn by the MOD who have announced that they are reviewing their requirements for support helicopters. More recently Mr. Heseltine has announced that the MOD will in any case not order the Black Hawk or any similar helicopter. Although the Sikorsky/Shorts memorandum remains in existence, in practice it has therefore never become operational.

So far as the prospective licence arrangement between Sikorsky and Westland is concerned, this would not be specifically tied to AST 404, which has in any case been withdrawn. We understand it will be a general licence to manufacture and sell the Black Hawk in agreed areas of the world. We are not aware of any intention to exclude British avionic companies from supplying equipment to Black Hawks built under licence by Westland. The normal arrangements can be expected to apply ie that particular customers will be able to specify equipment fits based on international competitive tender.

Should the MOD change its mind and order Black Hawk from Westland at some future date, the question may arise as to possible conflict with the Sikorsky/Shorts arrangements. This would be a commercial matter between the companies and has not yet been addressed by them because the situation is entirely hypothetical, given the clear statement from the MOD that Black Hawk will not be ordered. The matter might need to be resolved through legal channels, or some commercial compromise might be worked out. In fact it is arguable that, since a hypothetical future MOD order would not be against AST 404, and would not be placed with Sikorsky/Shorts (both of which are assumed in the Sikorsky/Shorts memorandum) the terms of the Sikorsky/Shorts memorandum would not be regarded as activated by any order placed with Westland by the MOD.

Department of Trade and Industry

28 December 1985