



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE  
MARKET SENSITIVE  
DEPARTMENT OF TRADE AND INDUSTRY  
20 VICTORIA STREET  
LONDON SW1H 0NF

Telephone (Direct dialling) 01 - 215) 4377  
GTN 215)  
(Switchboard) 01 - 215 7877

*AM*

6 January 1986

C Powell Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

*Dear Charles,*

**WESTLAND**

The Prime Minister asked on 4 January that I should prepare a single note amalgamating my various briefs of recent days and setting out factual background. I attach such a note.

I am also enclosing a copy of an earlier note dated 24 December on the NH90 project, which is summarised in one sentence in the main note. You may be interested to see this.

*Yours sincerely,*

*M J Michell*

M J MICHELL

WESTLAND

The Companies

Westland employs some 11,000 people, mainly at Yeovil. Since the war it has principally built military helicopters under licence from Sikorsky. To a lesser extent it has associated on collaborative projects with Aerospatiale. The company is highly dependent on the MOD for orders. In the 1980s Westland have attempted to break into the civil market with the W.30. However, this has to date proved unsuccessful, mainly because:

- the civil market went into recession
- early versions had technical shortcomings
- the MOD put into abeyance a requirement which Westland hoped to meet with an advanced military version of W.30.

Westland's financial difficulties were intensified by delay in obtaining a contract from India

UT/Fiat

Sikorsky is a member of the United Technologies (UT) group which also includes Pratt and Whitney. It is one of the major US helicopter companies. Sikorsky has been associated with Westland since 1947, and has licensed Westland to develop, manufacture and sell a number of successful helicopters, including Wessex and Sea King (which Westland has exported in larger numbers than the Sikorsky original). Sikorsky has said they have a high regard for Westland's design and engineering capability. They have given assurances of their intention to maintain a design and development capability at Westland.

Fiat is the leading Italian motor and aero-engine manufacturer.

#### The European Consortium

Aerospatiale is the principal nationalised French aerospace company. Its helicopter division is the biggest helicopter business outside the US. It has been associated with Westland since 1967 on the Puma, Lynx and Gazelle helicopters. But Aerospatiale is also Westland's main commercial rival.

Agusta is an Italian state-controlled helicopter company of comparable size to Westland. Agusta and Westland are collaborating on the EH101 project.

MBB (Messerschmitt-Boelkow-Blohm) is the leading German aerospace company. However, the helicopter division employs only some 1500, and has built only small helicopters. Technologically, MBB has little to offer Westland. MBB is privately controlled (though with a minority public shareholding) but substantially financed by the German Government.

Neither British Aerospace nor GEC have previously been involved in helicopter manufacture. GEC Avionics, however, are currently causing serious problems to Westland because of delay and technical deficiencies in supplying equipment for an Indian Government order for Sea Kings.

There is over-capacity in the European helicopter industry. Financially, Aerospatiale, Agusta and MBB are all weak. BAe and GEC are both financially strong.

### The Offers

Both offers are intended to give Westland design and development, as well as production work. The guaranteed work offered by UT/Fiat appears to be better quality than the European offer: it has a higher engineering content. But each offer also contains substantial unguaranteed work on helicopter projects. The value of this depends on the market prospects of the projects concerned. The Westland Board considers the UT/Fiat offer superior. It offers Westland the opportunity to build and market a complete aircraft (Black Hawk) from Yeovil. Moreover the Board considers association with Sikorsky will provide a sound basis for longer-term viability. The Board considers both these features are lacking in the European proposals.

### Black Hawk Licence

MOD Ministers consider the Black Hawk's sales prospects are poor, especially in Europe. UT, however, consider world prospects are good: they have not to date concentrated their efforts on export sales, since they have on-going contracts to supply some 130 Black Hawks p.a. to the US forces. Westland would have exclusive sales rights in large areas of the world. MOD Ministers say that Westland will not get a "domestic" UK order for Black Hawk and this will hinder export efforts (as with W.30). But Black Hawk has "domestic" orders and commitments of 1100+ in the US.

A number of countries have expressed interest in Black Hawk with the new Rolls Royce/Turbomeca RTM 322 engine, now under development. Rolls Royce favour a link between Sikorsky and Westland for this reason.

## he European Projects

In addition to increased sub-contract work on Super Puma aircraft, potential work is offered to Westland on:

- EH101: already under development by Westland and Agusta against firm requirements of UK and Italian forces.
- NH90: currently in feasibility study phase only. Future development and production dependent on decisions of partner Governments. Claimed "requirement" of 700+ by these Governments is in fact a "rough planning figure" only. UK Defence staff in 1985 advised that NH90 was "too late, too costly and lacking in the necessary capability" for British forces.
- New "Battlefield Helicopter", amalgamating existing PAH2 and A.129: this project exists only as a "statement of intent" between Defence Ministers. There have been no detailed discussions on:
  - harmonising requirements
  - workshare
  - export rights

Experience (eg European Fighter Aircraft) suggests negotiations on these points can be difficult and prolonged.

The suggested savings of £25m to the UK if this project is pursued are speculative at this stage.

- Super Puma II: there is no requirement from UK or French forces for this aircraft, which has not yet been launched. The French believe 400 export sales are possible up to 1995. Illogically,

they claim Super Puma II would not be a competitor of NH90, but that Black Hawk is. If the French launch Super Puma II, HMG may wish to argue that this is incompatible with continued French participation in NH 90.

### Views of Europeans

There have been some indications of current views by some European Governments and companies that European projects may be lost to Westland if they accept UT/Fiat. But:

- i) These Governments and companies all have an interest in the European offer.
- ii) While the two offers remain under consideration such indications are not surprising. Should Westland in fact decide in favour of UT/Fiat, the European Governments and companies can be expected to re-assess their position and to act in their own interest.
- iii) Westland participation is valued by European partners because of:
  - Westland technology
  - Potential UK market
  - Cost-spreading.
- iv) The French Government has not associated itself with Aerospatiale's statement that<sup>a</sup>/Westland link with UT/Fiat would be incompatible with continued participation in NH90.

- v) In contrast to reported "indications" from Italy, the Italian Government has given no indication that they would not wish the project to continue; and the President of Agusta is reported to have said he would wish it to do so.
- vi) The German Government are believed to be concerned about the financial implications of excluding Westland from NH90.
- vii) Neither of the British members of the European industrial consortium has expressed a view.
- viii) HMG has stated that it would continue to support Westland's wish to participate in these projects and would resist to the best of its ability attempts by others to discriminate against Westland. HMG has also made clear (in a letter from the Prime Minister to Westland of 1 January) that as long as Westland continues to carry on business in the UK, the Government will support it in pursuing British interests in Europe.

#### 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.

#### Unsubstantiated Allegations

It has been suggested that:

- i) a Sikorsky/Westland licence arrangement for Black Hawk would conflict with an earlier Sikorsky/Shorts Memorandum;
- ii) British avionic companies would be barred from supplying equipments to Westland-built Black Hawks;
- iii) the UT/Fiat proposals would lead to Westland becoming merely "metal-bashers" for Sikorsky.

These allegations have not been substantiated.

5 January 1986





To:

PS/SECRETARY OF STATE

From:

M J MICHELL

US/Air

Room 7/3

20 Victoria St

215 4377

cc PS/Mr Pattie  
 Sir Brian Hayes  
 Sir Jeffrey Stirling  
 Mr Macdonald  
 Miss Bowe  
 Mr O'Shea

24 December 1985

**WESTLAND**

Discussing the MoD's position on the Blackhawk on the wireless on 22 December, Mr Heseltine said the policy was not a matter for him alone. An official Committee, including DTI representatives, had recommended to MoD Ministers that consideration of a procurement of a light support helicopter should be deferred. He mentioned the three candidates as being Blackhawk, Westland 30/404 and Super Puma. He said this procedure demonstrated the truth of the Prime Minister's statement that defence procurements were a matter for collective decision by Governments.

The facts are as follows:

- i) The Committee Mr Heseltine had in mind is the Equipment Policy Committee (EPC), chaired by the Chief Scientific Adviser, MoD. The DTI is not formally a member of this Committee, but we do have a right to be "in attendance" and to speak, on a matter concerning the Department. Formally, the Committee is not obliged to take account of any DTI views in framing recommendations to MoD Ministers, although in practice our views are not usually ignored.
- ii) The meeting of EPC in question took place on 28 January 1985, with Mr Croft (Mr Macdonald's predecessor) and Mr M Baker (then in Air 1) attending for DTI. I attach the minutes which make rather interesting reading. The following are some key quotes:



- "NH90 .... could be rejected as a solution to AST 404 on cost grounds alone" (Deputy Chief of the Defence Staff).
- "There was little to recommend NH90" (Ibid.)
- "Although it [NH90] would not be available until about 1996, it would not be able to take advantage of any advanced helicopter technology .... It might be prudent for the UK to stay with the project for a year or two until matters had clarified" (Controller of Aircraft, MoD).
- "NH90 would not offer more than some helicopters already flying eg Blackhawk" (Unidentified speaker).
- "The Defence staff ... firmly preferred W30/404 ... They rejected NH90 as too late, too costly, and lacking in the necessary capability .... From the industrial point of view, Westlands would face difficulties in the late 80's in the absence of sufficient orders for the W30 series. NH90 could not help on this." (Chairman's summing up.)
- "The Committee accepted that other Government Departments' Ministers would need to be consulted before a decision was taken one way or the other " (Ibid).

On receipt of these views of the EPC, MoD Ministers decided to commit the UK to the feasibility study phase of NH90. Informing colleagues of this on 7 February, Mr Adam Butler noted that he had "discussed the matter thoroughly with MoD officials". The Chief Secretary wrote to Mr Butler on 13 February saying in future he would prefer to be consulted in advance. Mr Pattie wrote on 19 February expressing "unease".

As to AST 404, the expected further discussion in EPC in May 1985 never materialised. After some delay, the MoD announced that they were reviewing their requirements for support helicopters. This, we understand, arose in part from exercise Lionheart in Germany, which caused some strategists to doubt the specification set out in AST404. The MoD announced the review would take about a year.



More recently, Mr Heseltine has made clear the MoD will not buy Blackhawk or any comparable helicopter. It is not clear where this leaves the review of AST 404, which formally is still continuing.

Conclusion

I suggest that the above does not substantiate Mr Heseltine's account of events given on 22 December.

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

M J MICHELL