



10 DOWNING STREET

From the Private Secretary

26 February 1986

You sent us a copy, under cover of your letter of 25 February to Sir Robert Armstrong, of the memoranda which you intend to send to the Defence Select Committee to follow up your evidence.

We have no comments on these.

(Charles Powell)

Sir Brian Hayes, K.C.B.,
Department of Trade and Industry.

SM



Sir Brian Hayes KCB
Permanent Secretary

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25 February 1986

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
LONDON SW1

Mr. Lowell ^{EDD.}

I have no comments on this.

Dear Robert,

*N.C.U.
26.2.*

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When I appeared before the Defence Select Committee on 30 January I undertook to let the Committee have notes on several items on which I was not able to supply full answers at the time. I attach a draft of a letter I propose to send to the Clerk to the Committee together with two memoranda covering these items.

I should be grateful if you could let me know if what I propose to send causes you any problems. I am sending copies of this letter to Antony Acland, Clive Whitmore, Nigel Wicks, Murdo Maclean and David Morris.

*Yours ever,
Brian*

BRIAN HAYES

FOXAAF

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BICENTENARY

DRAFT

Addressed to :

Robert Rogers Esq
Clerk to the Defence Committee
of the House of Commons
Committee Office
House of Commons
London SW1A 0AA

File No.

Copies to :

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Enclosures :

Type for signature of

SIR BRIAN HAYES
.....
(Initials and date)

DEPARTMENT OF TRADE AND INDUSTRY

I am now enclosing two memoranda covering the points on which I promised the Committee further information when I gave evidence on 30 January. I confirm the request I made at the time that the memorandum dealing with overseas helicopter companies should be treated as confidential to the Committee.



HOUSE OF COMMONS DEFENCE COMMITTEE
Memorandum by Sir Brian Hayes following evidence given on
30 January

Discussions between Department of Trade and Industry and
Ministry of Defence during summer of 1985 (Question 1006)

Sir John Cuckney became Chairman of Westland on 26 June, following the withdrawal of the bid by Bristow Rotorcraft and the resignation of Sir Basil Blackwell. Sir John made it clear that he wished to receive the report on the company's financial position that had been commissioned from Price Waterhouse, and to consider the options for Westland in the light of that report, before deciding what course to take.

It was against this background that Mr Pattie replied to the Adjournment Debate in the House of Commons on 8 July. During the summer the Department remained in close touch both with Westland and with the Ministry of Defence, but discussions were necessarily restricted until the outcome of the Chairman's review of the company's position was known. The future of AST 404 was not an immediate focus of discussions between the two Departments because the Ministry of Defence had announced that they were reviewing their requirements for support helicopters and it was known that no decisions were imminent. Nevertheless the Department continued to discuss with the Ministry of Defence the implications of a decision on AST 404 for Westland's future plans.

A new phase of more intensive discussions began in the second half of September when Westland informed the Department and the Ministry of Defence of their plans for a financial reconstruction and asked the Government to underwrite sales of W30-160 helicopters. This request was put formally to the two Departments by Sir John Cuckney at a meeting on 24 September.



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

HOUSE OF COMMONS DEFENCE COMMITTEE
Memorandum by Sir Brian Hayes following evidence given on
30 January

Overseas helicopter companies (Question 1062)

There are eight major helicopter manufacturers in the Western world: Bell, Boeing Vertol, Hughes/McDonnell Douglas and Sikorsky in the United States; Aerospatiale, Agusta, MBB and Westland in Europe. The following assessment is based on information available to the Air Division of the Department of Trade and Industry.

2 The four US companies are all part of larger corporations (respectively Textron, Boeing Aircraft, McDonnell Douglas and United Technologies). All can thus call on strong financial backing for the launch of new projects and for investment in new technology. They are also heavily supported by the Department of Defense with large production runs for military projects and investment in advanced technology projects, both research and demonstrator.

3 So far as the European companies are concerned, Aerospatiale's helicopter operation is only part of this state-owned company's wider aerospace interests. The French Government supports Aerospatiale directly through purchases of helicopters for the armed forces (which operate no US helicopters) through low interest loans and through generous export credit arrangements and indirectly by support of new projects.

4 Helicopters are also a relatively small part of MBB's aerospace interests. Though a public company MBB is supported by the Bavarian Government and is heavily dependent upon Government helicopter purchases for military and para-military use.

5 Whilst helicopters form the largest single part of Agusta's activities the group is also quite widely diversified, notably into smaller fixed wing aircraft (Siai Marchetti and Caproni). The group is owned and supported by the State holding company EFIM, with whose assistance substantial financial reconstruction was carried out in 1984. Agusta also receives direct government support through military and para-military helicopter purchases and through low interest loans to assist the launch of new commercial products.

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6 In terms of numbers of civil helicopters sold, Bell is by far the most successful, with Hughes/McDonnell Douglas in second place. But in both cases sales are concentrated heavily in the small helicopter end of the market. Aerospatiale ranks third, again with sales numbers concentrated on small aircraft but covering a wide range of sizes. The remaining companies rank as follows: Sikorsky, Agusta, MBB, Westland, Boeing Vertol.

7 So far as design and engineering capability is concerned, each of the US companies has produced a number of indigenous designed helicopters. Boeing Vertol has a long history of military helicopter design and is noted particularly for the tandem rotor Chinook. Boeing Vertol is currently developing the tilt rotor JVX in collaboration with Bell.

8 Bell has itself designed a variety of helicopter types, specialising in two bladed rotor planes. It developed the Huey series of military craft which led to the civil designs Bell 212, 412 and 214 ST. Its other current, wholly civil design aircraft is the Bell 222, while the XV15 was its prototype design tilt rotor which is providing the basis for the JVX with Boeing.

9 Hughes developed the 300 series of piston powered small helicopters, followed by the 500 series of turbo shaft powered machines, both sold into military and civil markets. More recently it has designed the Apache, military only, aircraft. The 500 series has been taken into McDonnell Douglas.

10 Sikorsky, the inventor of the helicopter in the early 1940s has a history since then of indigenous design, including the S series 51, 55, 56, 58, 61, 70 and 76. Westland has produced UK versions of four of these under licence: S 51, 55, 58 and 61, known in the UK as the Dragonfly, Whirlwind, Wessex and Sea King.

11 Aerospatiale has the greatest breadth of experience among the European companies in in-house design and development with the Alouette, Dauphin, Ecouirel and Frélon produced alone and the Puma and Gazelle in collaboration with Westland. (The Lynx, a Westland design, involved some Aerospatiale collaboration.) Aerospatiale is also successful at marketing its products, although this is often at the cost of highly competitive "loss leader" selling with the result that helicopter sales have probably contributed substantially to past losses for the company as

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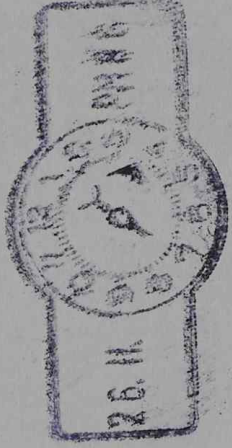


a whole.

12 MBB and Agusta have more limited experience of in-house design with MBB having designed only one helicopter, the BO105, alone, and one, the BK117, in collaboration with Kawasaki of Japan. Agusta has designed only the A109 (which led to the A129) alone. Agusta has, however a history of building under licence to U.S. companies (including the Sikorsky S 61).

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Sir Brian Hayes KCB
Permanent Secretary

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27 February 1986

Michael Stark Esq
Private Secretary to
Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
LONDON SW1

Handwritten: CB 27/2
R. Small
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Dear Michael

You will recall that Sir Brian wrote to Sir Robert on 25 February concerning a letter and two memoranda which he proposed to send to the Clerk to the Defence Committee. All was clearly not well with our distribution system that day and of the first memorandum only the first page was
..... included. I now attach a second page and a cutting from the Wall Street Journal which together complete that memorandum.

I am sending copies of this letter to Nigel Wicks, Murdo Maclean, David Morris, Sherard Cowper-Coles and John Pitt-Brooke.

Yours ever

KEN LUSSEY
Private Secretary

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Representations from US sources that there might be difficulties with Airbus from an American point of view in the event that the Sikorsky bid was frustrated (Question 1036).

I am not aware of any representations from US sources made to Ministers or officials suggesting a danger to Airbus sales in this event. On checking the record, I find that the conversation I recalled, in which concern was expressed about possible repercussions in the United States, related to another aspect of British Aerospace business in that market, unconnected with Airbus. A report in the Wall Street Journal on 6 January (copy attached) also suggested that the Westland affair had highlighted "a deep anti-Americanism among some European government officials and industry people". US diplomats were reported as being troubled by the situation, expressing concern that co-operation between Europe and the US might become more difficult.

The Department's view of the possibility that Westland might fall under foreign ownership (Question 1041).

The Department has taken no view on the question of foreign ownership of Westland in general. It has taken the view that any specific proposal for foreign ownership would have to be considered on its merits, taking account of the strategic implications, Westland's future prospects and the possible alternatives.

Number of Ministerial meetings with people outside the Department attended by Mr Mogg (Question 1088)

During the time Mr Brittan was in office Mr Mogg attended between 90 and 100 Ministerial meetings with people outside the Department.

Takeover Battle for British Helicopter Firm Sets Off Flurry of Anti-American Rhetoric

By CRAIG FORMAN

Staff Reporter of THE WALL STREET JOURNAL

LONDON—The battle to take over a small British company has highlighted a deep—and, to some, disturbing—anti-Americanism among some European government officials and industry people.

United Technologies Corp. of the U.S. and Fiat S.p.A. of Italy are competing with a consortium of European companies to bail out Westland PLC, an ailing helicopter maker. While the size of the deal is small (either rescue would be valued at about \$100 million at current exchange rates), the issue has stirred a big political battle.

It appears that, despite talk of cooperation, many Europeans don't want U.S. companies in their home markets. The affair also has highlighted a streak of economic interventionism in the Thatcher government. Perhaps most important, it has shown that increased transatlantic defense cooperation is easier in theory than in practice.

British politicians, businessmen and commentators have lashed out against the United Technologies/Fiat plan for Westland. Some worry that the British helicopter maker will be just a "tin-basher" for the Americans. In Parliament, a member of the governing Conservative Party has urged the government not to lose "a vital company and its technology to the U.S."

Us vs. Them

The takeover battle is entering its decisive stage. It clearly has touched a raw nerve. "It's an 'us-against-them' situation at the moment; all of the European helicopter industry is fighting against the threat of American intervention," says Robert Golding, an aerospace analyst at London stockbrokers Quilter Goodison. Donald Kerr, an analyst at the London-based International Institute for Strategic Studies says the Westland situation has highlighted "a wide-ranging distrust (in Britain) of corporate decisions made from outside national frontiers."

Some here fear that United Technologies, through its Sikorsky helicopter unit, would let the British company's design expertise atrophy while gaining a larger stake in the European helicopter market. Both United Technologies and Westland's board deny this, saying Westland will continue to design and build its own craft. Indeed, they contend that the European plan, under which Westland may make parts for planned joint European projects, poses greater risks to Westland's independence.

More broadly, the Westland affair shows reservations about increasing U.S.-European cooperation in defense, and suspicion about American business interests.

"In the back of people's minds, there still is the thought of 'here we go handing over yet another bit of the family silver to the Americans,'" one U.K. executive says.

Moreover, Europeans are scrambling to collaborate in aerospace, computers and other technology fields. So resistance to collaborating with U.S. enterprises may grow.

"Cooperative ventures (in defense matters) are the flavor of the month in Europe in the 1980s," says Mr. Kerr of the I.I.S.S.

Westland makes many of Britain's military helicopters, as well as commercial helicopters. Westland's board supports the United Technologies/Fiat plan, which provides for a capital injection in return for a 29.9% stake. The board says the capital would allow Westland to overcome a temporary shortage of orders and restructure its finances.

The United Technologies/Fiat plan would give the U.S. firm an increased presence in the European helicopter market. The European plan, obviously, would keep United Technologies out. Five European companies—Aerospatiale S.A. of France, Agusta S.p.A. of Italy, Messerschmitt-Boelkow-Blom G.m.b.H. of West Germany and British Aerospace PLC and British General Electric Co.—would offer

"IN the back of people's minds, there still is the thought of here we go handing over yet another bit of the family silver to the Americans," one U.K. executive says.

more money for the same stake United Technologies and Fiat are seeking, though the U.S. company and Fiat are expected this week to announce a sweetened bid matching the European offer. Both plans would mean considerable new work for Westland.

The Westland affair is focusing attention on the so-called special relationship between the U.S. and Britain. The two nations are partners in the North Atlantic Treaty Organization, while France—whose state-owned Aerospatiale could gain mightily by keeping the U.S. company out of the European helicopter market—withholds its military forces from NATO control.

New Rapport

Also, the sudden cooperation between U.K. and French defense interests in the European proposal follows a rocky period after a failed effort by Prime Minister Margaret Thatcher to win a multibillion-dollar U.S. military communications contract over French competition.

The Westland situation troubles some U.S. diplomats. "In the future, we're going to be working towards a closer integration between Europe and the U.S.," says one, who wonders if cooperation is going to become more difficult.

Some defenders of the European scheme say the primary motive is simply to extend European cooperation. But Sir John Cuckney, Westland's chairman, has another theory.

"There's been a major anti-American

motive in all of this to keep United Technologies out of the European market," he says. "But it isn't up to our company to do what is best for one industry or another."

A few months ago, Sir John says, "No one wanted to help us. Then we set up a deal with American and Italian participation and it scared the living daylights out of them."

Westland lost the equivalent of \$140 million for the fiscal year ended last Sept. 30. The company had thought it might have to cease operating.

"Three months ago no one wanted to speak with us," says Michael Baughan, an official of Lazard Brothers & Co., the merchant bank advising Westland. "Now we have two proposals to rescue the company."

Italy Means to Keep Ties With Libyans, Despite U.S. Pressure

By a WALL STREET JOURNAL Staff Reporter

ROME—Despite growing U.S. pressure, Italy means to maintain its privileged relations with Libya unless firm proof emerges that the government of Muammar Qadhafi is backing terrorist groups.

Diplomatic and other government sources said Italy's relations with its former colony had entered a difficult phase after the recent terrorist attack at Rome's airport. But they emphasized Italy's opposition to any military action against Libya, and argued that economic sanctions would serve no purpose.

"We have informed Washington that we firmly reject the idea of a military strike (against Libya)," one official said. "In the absence of solid proof of Libyan backing for terrorist attacks, we don't feel we're at the point where our relations with Tripoli must be reconsidered."

The U.S. has made clear it believes Libya has helped terrorist groups, including those responsible for the Dec. 27 attacks on the Rome and Vienna airports, and called upon its European allies to impose sanctions.

Because Italy has a special relationship with Libya, it is sensitive to U.S. calls to act against Tripoli. Italian sanctions could have a devastating effect on the Libyan economy. However, important Italian economic and political interests are also at stake.

Libya, an Italian colony between 1911 and 1943, takes 30% of its imports from Italy and is Rome's 10th largest trading partner.

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