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MINISTRY OF DEFENCE
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MO 26/16/1V

31st July 1986

Prime Minister
You have already
agreed to an E(A)
discussion in September.
You will want to note:

Dear Charles,

(a) the intention to order 8 Sea Kings now
(b) the figures on the cost of
benefit versus the saving on not
ordering 7 more Sea Kings. They are not
convincing
COP
31/7

WESTLAND

The Prime Minister will have seen the letter of 28th July from the Secretary of State for Trade and Industry to the Secretary of State for Defence, proposing an E(A) discussion of the Westland problem in September.

My Secretary of State and the Trade and Industry Secretary have now met to consider the proposals in Mr Channon's letter. Mr Younger sees the advantages of E(A) discussion in September, and if this course commends itself to the Prime Minister, a paper on the options will be prepared by the officials of the Departments accordingly. Mr Younger also agrees a prior meeting with Sir John Cuckney, as Mr Channon has proposed.

Mr Younger and Mr Channon considered in particular the problem of Sea King procurement, on which they had exchanged views in letters of 1st July and 17th July. Defence plans currently provide for eight Sea Kings, as against the figure of up to fifteen which Westland knows was at one time in mind. The firm is likely to continue to press for a decision. To order eight now will inevitably raise doubts about the remainder of the fifteen; on the other hand, to delay any order, pending E(A) discussion, would raise doubts about the order as a whole. The Defence Secretary therefore proposes to order the eight; questions about the rest will be answered on the lines that the requirement for any further Sea Kings was still being considered. The Defence Secretary believes the approach to the firm should be low-key because of the sensitivities; the order will therefore be agreed at a meeting between officials and the firm, to carry forward discussion of the details of the Westland approach.

Finally, I owe you a reply to your letter of 7th July about the cost of redundancies and unemployment benefit as a result of the procurement of only eight Sea Kings. On very broad assumptions about earnings figures and the numbers of the workforce who would need to be laid off, our assessment is that

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the cost of benefit and the loss of revenue at 1985/86 prices might amount to around £1 million a year for three years. This assumes about one hundred and fifty redundancies, direct and indirect. The saving from not ordering seven Sea Kings would be about £28 million. These figures are very tentative in the absence of any consultation with the firm: but the general point that the cost of redundancies in this case is unlikely to be a substantial offset to savings is likely to be valid.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for Trade and Industry, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Yours sincerely,
John Howe

(J F HOWE)

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AEROSPACE : Westland P.T.S

