

u signPM/84/42PRIME MINISTERWestlands Helicopters for India

1. EX agreed on 15 February that up to £50 million of aid should be provided to India for the purchase of 21 Westlands helicopters, and some spares. The Indians have come back to us asking for two separate large increases in the amount of aid. After discussion with colleagues, I propose to make it clear to the Indians that we cannot improve on the offer we have made.

2. The first Indian suggestion was that, in order to match a French offer for their rival helicopter, we would need to provide an additional spares package costing a further £15 m bringing the total amount of aid required to £65 m. I had already called colleagues together to discuss our response to that when a further request arrived, indicating that the Indians are now asking for a package totalling some £83 m. They are pressing for a reply as soon as possible.

3. In view of the urgency and of Timothy Raison's departure today for an overseas visit, I discussed the problems with Peter Rees, Timothy Raison, Norman Lamont and officials over the weekend. We concluded (though see also paragraph 4 below) that there were very good grounds for not accepting these Indian requests to increase our aid for this project above £50 million. Briefly:

- (i) there is no benefit to us in allowing the Indians to play us off against the French - whose helicopter is cheaper, and who can therefore easily match our terms;
- (ii) as the aid element in the package increases, the commercial case becomes weaker: it was argued that the UK would eventually benefit from the provision of

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spares on non-aid terms, but this prospect has been much diminished by the large quantity of spares now added by the Indians to their original request;

(iii) our tied bilateral aid will in any case continue to be spent to our commercial advantage in India, where there are other projects in the pipeline;

(iv) as the cost of this proposal increases, the economic justification becomes more and more questionable. ODA are obliged to consider whether aid funds will contribute to development; their assessment is that at £65 m or more, this project has an unacceptably low rate of return on capital.

4. On the other hand, Norman Lamont considered at my meeting that we should increase the aid contribution up to £65 m, on the grounds that a successful deal would open up significant commercial opportunities for Westlands in India. He has since consulted Norman Tebbit who will, I understand, be sending you a separate minute. Our High Commissioner in New Delhi has commented that if we fail to get this contract we shall lose goodwill in the Indian Department of Foreign Affairs as well as further helicopter business. Janet Young, who is at present in India, agrees. But I continue to believe that the balance of the argument lies on the side of sticking to the offer of £50 m of aid agreed at EX.

5. I should mention also one other point. EX was concerned that the helicopters should not have military registration; and the Indians have now made it clear that they will have. It was agreed at our meeting yesterday that this need not be a sticking point, so long as firm written guarantees are given on civilian use and ownership.

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6. I am sending copies of this minute to the Secretary of State for Trade and Industry, the Chief Secretary to the Treasury, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
5 March 1984

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