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PRIME MINISTER

Westlands Helicopters for India

There are three papers attached.

The Foreign Secretary reports that the Indians have asked for aid beyond the £50 million agreed at EX. They first asked for £65 million and then for £83 million, allegedly to match a French offer. The Foreign Secretary held a meeting and concluded that we should not increase our aid beyond £50 million (his reasons are set out in his minute).

Mr. Tebbit, who was represented by Mr. Lamont at the meeting, has minuted separately. He says that he does not dispute the decision reached. But the rest of his minute tends to argue that we might consider going as far as £65 million. He points out that it was not Westlands but India that asked for aid; that we stand to lose the largest ever civil helicopter order; and that Westlands would, if aid were increased, pay a voluntary levy on the helicopters sold of between £2-3 million.

His letter and offer are quite impressive.

Lord Aldington has written on behalf of Westlands, emphasising the need to win this major contract - and mildly criticising HMG for being slow in producing an offer.

Do you wish to endorse the Foreign Secretary's conclusion that we should stick to the decision of EX - that up to £50 million of aid should be provided?

A.T.C.

No. This order is important. I am prepared to go to £65 m.
MB

6 March, 1984

all



COMMERCIAL IN CONFIDENCE

JH 1000

PRIME MINISTER

WESTLAND HELICOPTERS FOR INDIA

Norman Lamont has told me of the conclusions reached at Geoffrey Howe's meeting yesterday afternoon on the issue of how far should we respond to the Indian request for further aid to match French competition on the ONGC helicopter deal. I do not wish to dispute the decision that was reached, but I believe it important that the background and implications to that decision should be fully appreciated.

2 The background is important, in that this is a case unlike most others involving aid for export sales: Westlands have never asked for subsidy and so far as they are concerned it is a commercial deal. They believe the helicopter is competitively based - after all the WG30 has proved competitive enough to sell in the USA. The question of aid arose when the Indians asked to use part of the aid programme which you discussed with Mrs Gandhi to finance their purchase, and we agreed to that proposition. It was not at Westlands' behest.

3 Now that aid has come into the picture, we need to be clear about the consequences of not matching the French. First, we shall lose the largest ever civil helicopter order. If this occurs, the benefits of the Sea King contract which Westlands won



last year will be lost. Westlands' entry into the civil market,
for which we have given launch aid and which is a key objective
of our aerospace policy, will be made much more difficult.
Second, the French - and no doubt the Americans - will make
considerable capital out of our decision: I have no doubt that
both will represent the UK as now lacking confidence in
Westlands, who it will be said could not even land the deal with
the benefit of our very large aid programme to India.

4 Faced with this background and these consequences, we have
the choice of increasing our aid offer to £64m - to cover the
Westlands but not the Rolls Royce contract - and match the French
offer as we understand it. Westlands have agreed that this
increase in Government aid support would have to be accompanied
by sacrifices by them, and have agreed to pay a voluntary levy on
the helicopters sold which would yield between £2-3m, equivalent
to between 3 and 4½% of the value of the contract. Their prices
to the Indians are already at 17% below the price which they
obtained when breaking into the highly competitive US market last
year.

5 It is hard not to be irritated with the way in which Indian
officials have sought to play us off against the French in a
cynical fashion. It is important, however, to recognise that
this is a consequence of our aid policy which gives the Indians
an "entitlement" to £110m a year. In future I would support any
move which reduces the expectations that the Indians have of an
entitlement to a given quantity of aid. But I think we must



recognise that Westlands with a good product have negotiated effectively, and have been prepared to take very tight commercial terms.

If we do not match the French because our dislike of Indian tactics makes us unwilling to go beyond £50m, Westlands will be the losers in a situation which we and not they have made.

6 There was concern at yesterday's meeting about how we could draw the line against further attempts to bid up the aid component. If we did agree to match the French, it would be important I think to go to the Indians at senior Ministerial level making clear our reservations about Indian tactics, and to make clear that under no circumstances would we go any further.

7 I am copying this minute to Geoffrey Howe, Peter Rees, Timothy Raison and Sir Robert Armstrong and Michael Heseltine.

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N T

5 March 1984

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