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PRIME MINISTER

Copy to:

Minister (AF) DUS (FB)
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 US of S (DP) VCNS
 PUS *see i draft* DGA2
 CDS *Pa* AUS (RP)
 CDP *13/5* AUS (IP)
 CNS AUS/Air (PE)
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 DCA Head of DS3
 DUS (P) DOI - Mr Hudson
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EVENTS IN ITALY: IMPACT UPON EH101 HELICOPTER

I am concerned, and so is Patrick Jenkin, about the potentially serious impact of the fall of Signor Fanfani's government upon the EH101 helicopter project. Besides being an important new programme in its own right, this was recognised at your bilateral discussion with Signor Fanfani in February as being one of the brightest prospects for Anglo-Italian collaboration.

2. You may recall that we and the Italians plan to develop EH101 as an integrated naval/commercial programme with government and industrial funding. If successful EH101 should secure very substantial sales, preserve or create up to some 10,000 jobs in British industry, and provide a much needed enhancement to the Royal Navy's anti-submarine warfare capability in the 1990s. But time is vital to its success and you rightly emphasised the need for an early start on this project at your press conference with Signor Fanfani.

3. At the time of your bilateral we were expecting that the finance bill (DDL) allocating funds for the Italian MOD contribution to the project would be approved by the Senate within a matter of days. In the event however Senate approval was subject to successive administrative delays (we are assured that all the main parties support EH101) and had still not been secured when Parliament was dissolved last week. Taking account of the time required to form a new administration and of the Summer holiday period, we judge that in the ordinary course of events the DDL is now unlikely to secure approval by both



Houses much before April next year. Thus if nothing were done the project would almost inevitably suffer up to a year's delay, which would not only bring serious operational penalties for the Royal Navy, but would jeopardise the very promising market prospects of the commercial versions of EH101.

4. These damaging effects could be avoided if industrial effort in both countries, which is currently running at a relatively low level under interim funding arrangements, were built up to the levels required for development with effect from July as originally planned and despite the absence of the DDL. We understand that the Board of Agusta, the Italian firm concerned, is considering a proposal that it should provide part of the finance necessary for the first year's development work in order to preserve programme timescales and give time for the DDL to be approved by Parliament. However a contribution from the Italian MOD would also be necessary, which in the absence of the DDL would have to be found from within the existing defence budget. To unlock that particular door we judge that a high level political approach from the UK side is necessary.

5. Ordinarily I would have written to Signor Lagorio the Defence Minister, but we believe that, as a member of the Socialist Party which brought about the downfall of the Fanfani administration, he is unlikely to play a very active part in the caretaker government. In the circumstances I believe - and H M Ambassador in Rome agrees - that it would be extremely helpful for you to write to Signor Fanfani, who is continuing as caretaker Prime Minister, urging him to use his influence to ensure that the necessary funds are made available. You may feel that there is some difficulty in making such an approach in present circumstances, but without it there is a very real danger of the project's becoming bogged down by inter-Service bickering within the Italian MOD, and if it is not done now there will be insufficient time to influence decisions before the Italian election on 26th June.



6. I would therefore be most grateful if you would agree to write to Signor Fanfani along the lines of the attached draft, the terms of which have been agreed with H M Ambassador, FCO and DOI. Lord Bridges suggests that he could hand the message to Signor Fanfani's political adviser, whom he is seeing next week.

7. You will see that the draft undertakes that we on the UK side will match the proposed build up of effort in Italian industry. I understand this assurance to be within the terms of Leon Brittan's approval to the defence elements of the EH101 project. Leon has also agreed in principle to the provision of launch aid by DOI and Westland for the commercial elements, and though I understand that he and Patrick Jenkin are still discussing the quantum of such assistance, I do not think that there is any conflict there with what I am now proposing.

8. I am copying this minute to Francis Pym, Patrick Jenkin, Arthur Cockfield, Leon Brittan and Robert Armstrong.

WMB

Ministry of Defence

12th May 1983

DRAFT LETTER FROM THE PRIME MINISTER TO SIGNOR FANFANITHE EH101 HELICOPTER PROJECT

1. When we met in London in February we had a very useful talk about the opportunities for expanding industrial collaboration between our two countries, especially in advanced technology projects. I have been looking forward to building on this, and hope that our two general elections will not complicate matters too greatly.

2. We agreed on that occasion that the EH101 helicopter project offered the most immediate prospects for collaboration between our industries with government support. The earliest possible start on development work is now necessary if the substantial potential market is to be captured and the operational needs of our two Navies satisfied. The project has been running at a relatively low level of effort on interim funding for almost a year now. I fear that further extension of this arrangement would have increasingly damaging effects on its commercial appeal and in consequence on the viability of the naval version of the aircraft. The two aspects are of course closely inter-related.

3. I realise that you must have much on your mind at the moment. But I hope nevertheless that you will be able to use your personal influence to do everything possible to ensure that sufficient funds are made available, whether from government or private sources, to

allow effort in Italian industry to be built up to development levels from July. If this could be done in Italy we on the UK side would be prepared to do the same, subject of course to the conclusion of satisfactory contractual arrangements with the firms. It should still then be possible to bring the helicopter into service when it is required. This would be of very considerable benefit to the industries and Navies of our two countries.