

PREM 19/1186

Part 4

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42.49

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Confidential File

Sales

DEFENCE

Part 1: Sept 198

Part 4: March 19

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.3.84		21.6.84		27.9.84		3/11/84	
7.3.84		25.6.84		30.9.84		11.12.84	
12.3.84		27/6/84		2.10.84		13.12.84	
19.3.84		26/6/84		3.10.84		17.12.84	
20.3.84		5.7.84		15.10.84		28.12.84	
26.3.84		3.7.84		19.10.84		31.12.84	
28.3.84		31.7.84		29.10.84			
2/4/84		2.8.84		31.10.84			
6.4.84		6/8/84		1.11.84			
5.84		11.8.84		8.11.84			
6.84		23.8.84		11/11/84			
11.5.84		24.8.84		14/11/84			
15.5.84		29.8.84		16/11/84			
16.5.84		4.9.84		21.11.84			
25/5/84		11.9.84		22.11.84			
6.6.84		12.9.84		23/11/84			
11.6.84		18.9.84		10/12/84			
14.6.84		24.9.84		20/12/84			
16/84							
18.6.84							
21.6.84							

- PART ENDS -

PART 4 ends:-

fw Tel 529 to jedda 31.12.84

PART 5 begins:-

DB to fw 2.1.85

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(84) 35 th Meeting, item 5	01/11/1984
C(84) 31	30/10/1984
OD(84) 11 th Meeting	22/10/1984
CC(84) 17 th Meeting, item 2	03/05/1984
OD(84) 5 th Meeting, item 2	28/03/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed J. Gray Date 14/6/2013

PREM Records Team

CONFIDENTIAL

1803 - 1

OO JEDDA

OO RIYADH

GRS 890

CONFIDENTIAL

FM FCO 311530Z DECEMBER 1984

TO IMMEDIATE JEDDA

TELEGRAM NUMBER 529 OF 31 DEC

AND TO IMMEDIATE RIYADH

INFO ROUTINE MODUK (PS/SOFS AND PS/HDS)

EGERTON'S TELELETTER OF 20 DECEMBER AND YOUR TELNO 622: TORNADO

1. PLEASE NOW DELIVER THE FOLLOWING MESSAGE TO KING FAHD FROM THE PRIME MINISTER:

BEGINS. I SHOULD LIKE TO THANK YOUR MAJESTY BOTH FOR YOUR LETTER DATED 25 NOVEMBER AND FOR THE KIND SENTIMENTS CONVEYED TO ME ON YOUR BEHALF BY HIS ROYAL HIGHNESS PRINCE BANDAR BIN SULTAN, WITH WHOM I HAD A USEFUL AND WIDE-RANGING DISCUSSION ON 17 DECEMBER. I TOO AM DELIGHTED THAT RELATIONS BETWEEN THE UNITED KINGDOM AND SAUDI ARABIA ARE WARM AND FRIENDLY. I ATTACH THE VERY HIGHEST IMPORTANCE TO MAINTAINING AND IMPROVING THEM AND I AM CONVINCED THAT THE POSSIBILITIES FOR COOPERATION BETWEEN OUR TWO GOVERNMENTS AND PEOPLES ARE VERY GREAT INDEED. I AM PARTICULARLY ENCOURAGED BY YOUR MAJESTY'S WELCOME ASSURANCE THAT BRITISH PRESS REPORTING ON SAUDI ARABIA WILL NOT BE ALLOWED TO INFLUENCE OUR BILATERAL RELATIONS.

SINCE MY MEETING WITH PRINCE BANDAR I HAVE TRAVELLED ROUND THE WORLD TO PEKING, HONG KONG AND WASHINGTON. IT WAS A STRENUOUS JOURNEY BUT AN IMPORTANT ONE. I ATTACH GREAT VALUE TO THE KIND OF FRANK PERSONAL EXCHANGES WHICH I WAS ABLE TO HAVE. PRINCE BANDAR MENTIONED YOUR PARTICULAR INTEREST IN MY VISIT TO THE UNITED STATES. I THOUGHT THAT YOU MIGHT FIND IT USEFUL THEREFORE TO HAVE, IN CONFIDENCE, A BRIEF ACCOUNT OF MY VISIT.

MY TALKS AT CAMP DAVID WITH PRESIDENT REAGAN COVERED A VERY WIDE FIELD. I WAS ABLE TO GIVE THE PRESIDENT MY IMPRESSIONS OF MR GORBACHEV. GORBACHEV STRUCK ME AS INTELLIGENT AND RESPONSIVE TO ARGUMENT. THOUGH HE HAD NOTHING NEW TO SAY HE CONVEYED THE WELL-KNOWN SOVIET POSITIONS WITH CLARITY - AND CONSIDERABLE

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1803 - 1

PERSONALITY. FOUND HIM A FORMIDABLE MAN.

I ALSO DISCUSSED WITH THE PRESIDENT THE APPROACH TO SECRETARY SHULTZ' FORTHCOMING MEETING WITH GROMYKO IN GENEVA. I BELIEVE IT VITAL THAT THE NORTH ATLANTIC ALLIANCE SHOULD SPEAK WITH ONE VOICE ON THE SUBJECT OF ARMS CONTROL, AND WE FOUND A GREAT DEAL OF COMMON GROUND. OUR DISCUSSIONS ON THIS TOPIC CENTRED ON THE UNITED STATES' STRATEGIC DEFENCE INITIATIVE. YOU MAY BE INTERESTED IN THE TEXT, WHICH I ATTACH, OF MY REMARKS ON THE STRATEGIC DEFENCE INITIATIVE FOLLOWING MY MEETING WITH THE PRESIDENT. WHO HAD AGREED THE FOUR POINTS.

THE MIDDLE EAST WAS ONE OF THE MOST IMPORTANT SUBJECTS IN MY TALKS WITH PRESIDENT REAGAN. I BEGAN BY DRAWING ATTENTION TO THE MODERATE OUTCOME OF THE PALESTINE NATIONAL COUNCIL IN AMMAN. I THEN ASKED THE PRESIDENT WHETHER HE INTENDED TO TAKE A NEW MIDDLE EAST INITIATIVE. I SAID THAT TIME WAS SHORT, AND THAT SUCH AN INITIATIVE SHOULD BE TAKEN RAPIDLY.

PRESIDENT REAGAN REPLIED THAT IT WAS HIS FIRM INTENTION TO PRESS AHEAD WITH HIS INITIATIVE. HE RECOGNISED THE IMPORTANCE OF SECURING THE COOPERATION OF MODERATE ARAB STATES, AND WELCOMED ENCOURAGING RECENT DEVELOPMENTS. IN PARTICULAR, HE LOOKED FORWARD TO SEEING YOUR MAJESTY SOON. HE REGRETTED THE PROBLEMS WHICH HAD ARISEN BETWEEN KING HUSSEIN AND THE US CONGRESS. HE STRESSED THAT HIS IDEAS WERE FIRMLY BASED ON SECURITY COUNCIL RESOLUTION NO 242, AND THAT HE DID NOT WISH TO IMPOSE ANY PLAN ON THE AREA. BUT THE CENTRE OF GRAVITY REMAINED HIS INITIATIVE OF SEPTEMBER 1982. THE UNITED STATES WOULD STAND BY THAT INITIATIVE AND WORK WITH MODERATE ARAB GOVERNMENTS TO MAKE PROGRESS. HE ALSO SAID THAT THE AMERICANS WERE MAKING ACTIVE EFFORTS TO BRING ABOUT EARLY ISRAELI WITHDRAWAL FROM LEBANON, AND TO IMPROVE THE CONDITIONS OF LIFE OF THE PALESTINIANS IN THE OCCUPIED TERRITORIES.

I FIND IT ENCOURAGING THAT PRESIDENT REAGAN HIMSELF IS SO FULLY ALERTED TO THE NEED FOR EARLY PROGRESS. WE SHALL CONTINUE TO DO ALL WE CAN TO CONTRIBUTE TO THE SEARCH FOR PEACE AND TO PROMOTE MOVES TOWARDS A NEGOTIATED SETTLEMENT OF THE ARAB-ISRAEL DISPUTE,

2

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1803 - 1

WHICH HAS CAUSED SO MUCH INSTABILITY AND HUMAN SUFFERING. MAIN
TEXT ENDS.

2. PLEASE ATTACH FOLLOWING ANNEX:

BEGINS. PRESS CONFERENCE AT ANDREWS AIR FORCE BASE ON 22
DECEMBER. QUOTE PRESIDENT REAGAN AND I HAVE HAD A VERY THOROUGH
AND EXTENSIVE DISCUSSION OF THE PROSPECTS FOR ARMS CONTROL
NEGOTIATIONS, IN THE COURSE OF WHICH WE ALSO NATURALLY TOUCHED ON
THE STRATEGIC DEFENCE INITIATIVE (SDI).

I WAS NOT SURPRISED TO DISCOVER THAT WE SEE MATTERS IN VERY
MUCH THE SAME LIGHT. I TOLD THE PRESIDENT THAT I HAD MADE IT
ABSOLUTELY CLEAR TO MR GORBACHEV THAT THERE WAS NO QUESTION OF
THE SOVIET UNION BEING ABLE TO DIVIDE THE UNITED KINGDOM FROM THE
UNITED STATES ON THESE MATTERS. WEDGE-DRIVING IS JUST NOT ON.
I TOLD THE PRESIDENT OF MY FIRM CONVICTION THAT THE SDI RESEARCH
PROGRAMME SHOULD GO AHEAD. RESEARCH IS OF COURSE PERMITTED UNDER
EXISTING US-SOVIET TREATIES: AND WE OF COURSE KNOW THAT THE
RUSSIANS ALREADY HAVE THEIR RESEARCH PROGRAMME, AND, IN THE US
VIEW, HAVE ALREADY GONE BEYOND RESEARCH.

WE AGREED ON FOUR SPECIFIC POINTS:

- A. THE US, AND WESTERN, AIM WAS NOT TO ACHIEVE SUPERIORITY, BUT
TO MAINTAIN BALANCE, TAKING ACCOUNT OF SOVIET DEVELOPMENTS.
- B. SDI-RELATED DEVELOPMENT WOULD, IN VIEW OF TREATY OBLIGATIONS,
HAVE TO BE A MATTER FOR NEGOTIATION:
- C. THE OVERALL AIM IS TO ENHANCE, NOT UNDERCUT, DETERRENCE:
- D. EAST-WEST NEGOTIATION SHOULD AIM TO ACHIEVE SECURITY WITH
REDUCED LEVELS OF OFFENSIVE SYSTEMS ON BOTH SIDES. THIS WILL BE
THE PURPOSE OF THE RESUMED US-SOVIET NEGOTIATIONS ON ARMS
CONTROL, WHICH I WARMLY WELCOME. UNQUOTE ANNEX ENDS.

HOWE

COPIES TO:-

LIMITED

PS NO 10 DOWNING ST

MED

NENAD

ACDD

SOVIET DEP

PS

PS/MR LUCE

MR EGERTON

MR FERGUSSON

-3-
CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

31 December 1984

Saudi Arabia: Tornado

Thank you for your letter of 28 December to Charles Powell, to which was attached a draft message from the Prime Minister to King Fahd.

The Prime Minister has approved the draft message subject to a few amendments. I enclose a copy of the amended version.

I should be grateful if the Prime Minister's message could now be telegraphed in advance. A signed version will follow shortly.

David Barclay

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Prime Minister

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

28 December, 1984

Le. 28.12
(D/Clerk)

Sent
refers
28.12

Dear Charles,

Saudi Arabia: Tornado

Thank you for sending me a copy of your letter of 17 December to Richard Mottram containing the record of the call on the Prime Minister by Prince Bandar bin Sultan of Saudi Arabia.

As you know, the Tornado deal remains in the balance. We believe that we are still in with a chance and that we should do all we can to keep up pressure on the Saudis. The Prime Minister wrote to King Fahd on 9 November pointing out the merits of the Tornado. We believe that it would help to support our efforts to clinch the deal if the Prime Minister now agreed to send a further brief message to King Fahd, with whom the final decision on Tornado now rests.

Rather than reiterate her earlier message, which was addressed specifically to Tornado, we believe that the Prime Minister might give the King an account of her visit to Washington as it addressed the Middle East (Sir O Wright has already given Prince Bander an oral account) coupled with a brief word on her impressions of Mr Gorbachev and on her discussions with the President on arms control.

I attach a draft. I should be grateful if you would let me know whether the Prime Minister agrees.

I am sending a copy of this letter to Richard Mottram. I shall be showing the Foreign Secretary a copy over the weekend.

Yours ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

H M KING FAHD BIN ABDUL AZIZ

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I should like to thank Your Majesty both for your letter dated 25 November and for the kind sentiments conveyed to me on your behalf by His Royal Highness Prince Bandar bin Sultan with whom I had a useful and wide-ranging discussion on 17 December. I too am delighted that relations between the United Kingdom and Saudi Arabia are warm and friendly. I attach the very highest importance to maintaining and improving them and I am convinced that the possibilities for cooperation between our two governments and peoples are very great indeed. I am particularly encouraged by Your Majesty's welcome assurance that British press reporting on Saudi Arabia will not be allowed to influence our bilateral relations.

Since my meeting with Prince Bandar I have travelled round the world to Peking, Hong Kong and Washington. It has been a busy week but an important one. I attach great value to the kind of frank personal exchanges which I was able to have. Prince Bandar mentioned your

Enclosures—flag(s).....

particular interest in my visit to the United States. I thought that you might find it useful therefore to have, in confidence, a brief account of my visit.

My talks at Camp David with President Reagan covered a very wide field. I was able to give the President my impressions of Mr Gorbachev. Gorbachev struck me as intelligent and responsive to argument. Though he had nothing new to say he conveyed the well-known Soviet positions with clarity - and with unusual charm. I found him a formidable man. I also discussed with the President the approach to Secretary Shultz' forthcoming meeting with Mr Gromyko in Geneva. I believe it vital that the North Atlantic Alliance should speak with one voice on the subject of arms control, and we found a great deal of common ground. Our discussions on this topic centred on the United States' Strategic Defence Initiative. You may be interested in the text, which I attach, of my remarks on the Strategic Defence Initiative following my meeting with the President.

The Middle East was one of the most important subjects, in my talks with President Reagan. I began by drawing attention to the moderate outcome of the Palestine National Council in Amman. I then asked the President whether he intended to take a new Middle East initiative. I said that time was short, and that such an initiative should be taken rapidly.

President Reagan replied that it was his firm intention

to press ahead with his initiative. He recognised the importance of securing the cooperation of moderate Arab states, and welcomed encouraging recent developments. In particular, he looked forward to seeing Your Majesty soon. He regretted the problems which had arisen between King Hussein and the US Congress. He stressed that his ideas were firmly based on Security Council Resolution no 242, and that he did not wish to impose any plan on the area. But the centre of gravity remained his initiative of September 1982. The United States would stand by that initiative and work with moderate Arab governments to make progress. He also said that the Americans were making active efforts to bring about early Israeli withdrawal from Lebanon, and to improve the conditions of life of the Palestinians in the Occupied Territories.

I find it encouraging that President Reagan himself is so fully alerted to the need for early progress. We shall continue to do all we can to contribute to the search for peace and to promote moves towards a negotiated settlement of the Arab-Israel dispute, which has caused so much instability and human suffering.



STATEMENT BY THE BRITISH PRIME MINISTER, THE RT HON MARGARET THATCHER MP AT HER PRESS CONFERENCE ON 22 DECEMBER 1984 AT ANDREWS AIRBASE

President Reagan and I have had a very thorough and extensive discussion of the prospects for arms control negotiations, in the course of which we also naturally touched on the Strategic Defence Initiative (SDI).

I was not surprised to discover that we see matters in very much the same light. I told the President that I had made it absolutely clear to Mr Gorbachev that there was no question of the Soviet Union being able to divide the United Kingdom from the United States on these matters. Wedge-driving is just not on.

I told the President of my firm conviction that the SDI Research Programme should go ahead. Research is of course permitted under existing US-Soviet treaties; and we of course know that the Russians already have their Research Programme, and, in the US view, have already gone beyond research.

We agreed on four specific points:

- (i) the US, and Western, aim was not to achieve superiority, but to maintain balance, taking account of Soviet developments;
- (ii) SDI-related deployment would, in view of treaty obligations, have to be a matter for negotiation;
- (iii) the overall aim is to enhance, not undercut, deterrence;
- (iv) East-West negotiation should aim to achieve security with reduced levels of offensive systems on both sides. This will be the purpose of the resumed US-Soviet negotiations on arms control, which I warmly welcome.

CONFIDENTIAL

1/11/84

Le. 28.12
(D/Clark)



Foreign and Commonwealth Office

London SW1A 2AH

28 December, 1984

Dear Charles,

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Rather than reiterate her earlier message, which was addressed specifically to Tornado, we believe that the Prime Minister might give the King an account of her visit to Washington as it addressed the Middle East (Sir O Wright has already given Prince Bander an oral account) coupled with a brief word on her impressions of Mr Gorbachev and on her discussions with the President on arms control.

Need - as rightly amended - not.

I attach a draft. I should be grateful if you would let me know whether the Prime Minister agrees.

I am sending a copy of this letter to Richard Mottram. I shall be showing the Foreign Secretary a copy over the weekend.

Yours ever,
Peter Ricketts

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CONFIDENTIAL

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FROM: PRIME MINISTER

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DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: H M KING FAHD BIN ABDUL AZIZ

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

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Foreign and Commonwealth Office

London SW1A 2AH

WJ/M

From The Minister of State

28 December 1984

Dear Mr Rees,

ECGD COVER FOR TURKEY

I have been following the exchanges between you and Paul Channon resting with Paul's letter of 17 December.

Like Paul I was very pleased that you were able to agree to ECGD cover on the sale of seven Airbus Aircraft. I am now writing to let you know that I strongly support his request that ECGD's ceiling on Turkey should be increased by £6 million. Timothy Raison is considering the ATP question in the light of changed specifications for the Bosphorus Bridge required by the Turks.

I do not need to repeat the other arguments in Paul's letter with which I entirely agree. But I should like to emphasise that the second Bosphorus Bridge is significantly more important politically than the other projects in the civil engineering sector in Turkey. I think that we should support Cleveland Bridge in their bid to win this contract even if their success would preclude British participation in other projects.

We must not underestimate the impact which success in this proposal would have, not only for Cleveland Bridge worldwide, but also for the prestige of British engineering. Conversely failure, when the odds will have been seen to have been clearly stacked in favour of the British company will have a correspondingly adverse effect. This seems to me to be a contract that we cannot afford to lose.

I am sending copies of this letter to the Prime Minister and Paul Channon.

*Yours sincerely,
Helen M Unsworth*

Baroness Young

The Rt Hon Peter Rees Esq QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

(Approved by the Minister and
signed in her absence by her
Assistant Private Secretary)

Expense Sales



CONFIDENTIAL



He JD
PC.

10 DOWNING STREET

From the Private Secretary

24 December, 1984.

Dear Richard,

Saudi Arabia: Tornado

FCO telegram No. 2180 to Washington proposed that HM Ambassador Washington should brief Prince Bandar on the Prime Minister's discussions with President Reagan on the Middle East. I had a word with Sir Oliver Wright before leaving Washington, and he agreed to do this.

I am sending a copy of this letter to Colin Budd (Foreign and Commonwealth Office).

yours sincerely

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

CONFIDENTIAL

NC

CONFIDENTIAL

ESKBY 211900Z

M FCO 211800Z DEC 84

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 2180 OF 21 DECEMBER 1984

INFO JEDDA, MODUK (FOR PS/S OF S AND PS/HDS)

YOUR TELNO 3550 OF 29 NOVEMBER AND FCO TELNO 286 TO ABU DHABI:

SAUDI ARABIA: TORNADO

FOR AMBASSADOR FROM FERGUSSON (DUSS)

1. CONTACTS WITH THE SAUDIS CONTINUE TO BE ENTIRELY FRIENDLY, THOUGH MADDENINGLY INCONCLUSIVE ON TORNADO. THE KING SENT A SOMEWHAT INCONSEQUENTIAL REPLY TO THE PRIME MINISTER'S MESSAGE. WE HAVE ALSO HAD PRINCE BANDAR BIN SULTAN HERE THIS WEEK ON A FLYING VISIT ON HIS WAY BACK TO THE STATES. HE SAW THE PRIME MINISTER ON 17 DECEMBER (RECORD SENT TO YOU BY TELELETTER) AND HAD A COUPLE OF SESSIONS WITH THE DEFENCE SECRETARY, WITH WHOM HE GOT ON VERY WELL.
2. BANDAR, WHO HAS BECOME A HELPFUL AND INFORMATIVE CONTACT, DID NOT HAVE MUCH TO SAY ON TORNADO DURING HIS VISIT. BUT HE MADE IT CLEAR THAT THE SAUDIS REMAIN HEAVILY PREOCCUPIED WITH THE NEED TO MAKE PROGRESS ON THE ARAB/ISRAEL DISPUTE AND THE KEY ROLE, AS THEY SEE IT, OF THE UNITED STATES IS IN THIS PROCESS. AS YOU WILL SEE FROM THE RECORD, THE PRIME MINISTER TOLD BANDAR THAT SHE WOULD BE URGING PRESIDENT REAGAN TO TAKE ANOTHER INITIATIVE ON THE MIDDLE EAST.
3. WE, PATRICK WRIGHT AND DEFENCE SALES BELIEVE THAT IT WILL BE VERY IMPORTANT TO KEEP UP THE PRESSURE ON THE SAUDIS AT ALL LEVELS IF THE TORNADO DEAL IS TO BE PULLED OUT OF THE FIRE. TO BE EFFECTIVE, WE NEED NOT SO MUCH TO GIVE THE SAUDIS ANOTHER SALES PITCH ON TORNADO - WE HAVE SAID ALL WE CAN FOR THE PRESENT ON THAT SCORE - AS TO CONVINCING THEM THAT WE SHARE THEIR WIDER CONCERNS AND ARE BEING GENERALLY HELPFUL. MR HESELTINE IS LIKELY TO WRITE TO PRINCE SULTAN ABOUT TORNADO IN THE NEXT FEW DAYS. THAT IS IMPORTANT, BUT OUR ASSESSMENT IS STILL THAT THE KING IS THE ONE WE HAVE TO WIN OVER. WE SHALL BE RECOMMENDING THAT THE PRIME MINISTER SEND KING FAHD ANOTHER MESSAGE AFTER HER TALKS WITH PRESIDENT REAGAN. THE SUBSTANCE OF THE MESSAGE WILL DEPEND ON THE OUTCOME OF THE TALKS, BUT THERE SHOULD BE PLENTY OF SCOPE FOR GETTING ACROSS TO THE SAUDIS THE MESSAGE THAT TO THE EXTENT OF OUR ABILITY WE ARE PLAYING A HELPFUL ROLE VIS-A-VIS THE AMERICANS.

/4.....

DIST:

CHANCERY LIMITED

ACTION OFFICER:

MR GREEN

HK

ADVANCE COPIES TO:

H OF C

MR GREEN

MR GOULTY

X1 4. MEANWHILE, MR HESELTINE HAS SUGGESTED THAT, AFTER THE PRIME MINISTER'S PARTY ARE SAFELY ON THE PLANE FOR HOME, YOU SHOULD GIVE BANDAR A CALL TO LET HIM KNOW IN GENERAL TERMS HOW THE MIDDLE EAST DISCUSSION WENT. I HOPE YOU WILL BE ABLE TO FIND THE TIME FOR THIS: WOULD YOU KINDLY CHECK THAT THE PRIME MINISTER SEES NO OBJECTION? ANYTHING WE CAN DO TO MAINTAIN BANDAR'S GOODWILL WILL BE OF USE TO US, AND IF HE IS ABLE, ON THE BASIS OF YOUR BRIEFING, TO REPORT FAVOURABLY TO RIYADH ON THE PRIME MINISTER'S VISIT, THAT SHOULD PREPARE THE WAY FOR THE MORE DETAILED PRIME MINISTERIAL MESSAGE WE SHALL BE RECOMMENDING THAT PATRICK WRIGHT DELIVER. AS YOU WILL SEE FROM THE RECORD, THE PRIME MINISTER HERSELF OFFERED TO BRIEF BANDAR EARLY IN THE NEW YEAR IF HE HAPPENED TO BE BACK IN LONDON THEN. YOU MIGHT ADD (AGAIN SUBJECT TO THE PRIME MINISTER'S CONCURRENCE) THAT THE OFFER STILL STANDS.

HOWE



AT 9/15

CP to see

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Andrew Turnbull Esq
10 Downing Street
London SW1

21 December 1984

Dear Andrew

TORNADOS FOR TURKEY

The attached telegram, which does not appear to have been copied to No.10, casts an interesting sidelight - as I think you will agree - on recent discussions in Cabinet and elsewhere on this subject.

Yours ever
David

D L C PERETZ

84 DE 17 16 32

CONFIDENTIAL

FM ANKARA 141330Z DEC 84
TO ROUTINE FCO
TELEGRAM NUMBER 544 OF 14 DECEMBER
AND TO ROUTINE DTI: (FOR OT5 AND PEP2), MODUK (RMD4), AND ECGD

(X+1)

*Mr. Gold
Very interesting!*

C.R.D. CIRCULATION	
1.	MR COOMBE
2.	MR COOMBE

think it's important that Ministers should be made aware of this.

19/12/84

MY TELNO 542: CREDIT COVER FOR TURKEY

Mine on Turkey

*cc to Twyford
The Henley
The Coombe
Turkey f.*

1. I SHOULD ALSO ADD THAT THE SUBJECT OF TORNADO CAME UP WHEN MY COUNSELLOR CALLED ON YUSUF OZAL, HEAD OF THE STATE PLANNING OFFICE, ON OTHER BUSINESS YESTERDAY. YUSUF OZAL SAID THAT THE CENTRAL AUTHORITIES OF THE GOVERNMENT (IE THE PRIME MINISTER'S OFFICE, THE UNDER-SECRETARIAT FOR FOREIGN TRADE AND FINANCE AND THE STATE PLANNING OFFICE) HAD NOT IN ANY WAY BEEN CONSULTED BY THE MINISTRY OF DEFENCE OVER A TORNADO PURCHASE. HE HIMSELF WAS TOTALLY OPPOSED TO SUCH A DEAL, WHICH TURKEY DID NOT NEED AND COULD NOT AFFORD. THE AFFAIR WAS TYPICAL OF THE WAY SEPARATE MINISTRIES WENT AHEAD ON THEIR OWN, A PROCESS WHICH WOULD HAVE TO BE CONTROLLED. OZAL ADDED THAT HE WAS ALSO CONCERNED THAT THERE SHOULD BE ADEQUATE CREDIT AVAILABLE FROM THE UK FOR OTHER CONTRACTS, BOTH MILITARY AND CIVIL TO WHICH THE TURKISH GOVERNMENT ATTACHED GREATER IMPORTANCE AND WHICH WERE MORE SUITABLE FOR TURKEY'S NEEDS.

2. THIS IS INTERESTING AS THE CLEAREST INDICATION WE HAVE HAD THAT THE GOVERNMENT IS UNEASY AT THE WAY IN WHICH DEFENCE REQUIREMENTS, WITH MAJOR IMPLICATIONS FOR TURKISH ECONOMIC MANAGEMENT, ACQUIRE A MOMENTUM OF THEIR OWN. GENERAL CELENKLER, AT THE MINISTRY OF DEFENCE, IN DISCUSSIONS WITH THE DA AM MYSELF RECENTLY, MENTIONED THE NEED TO REFER CONTRACTS TO THE PRIME MINISTER'S OFFICE AS WELL AS THE TGS TO SECURE AUTHORITY FOR CREDIT PURCHASES TO BE UNDER-TAKEN. BRITISH AEROSPACE HAVE TENDED TO BRUSH ASIDE THE QUESTION OF CIVILIAN CONTROL OF DEFENCE EXPENDITURE ARGUING THE TURKISH GENERAL STAFF WOULD ALWAYS OBTAIN PRIORITY. THERE IS NOT QUESTION THAT THE TGS CARRY GREAT CLOUT. BUT THEY CANNOT OPERATE WITHOUT REFERENCE TO TURKEY'S OVERALL ECONOMIC AND FINANCIAL POSITION AND ANY CONTRACT WHICH WOULD GO OUTSIDE THEIR AUTHORISED BUDGET LIMITS WOULD I AM SURE HAVE TO BE APPROVED BY THE PRIME MINISTER AS WELL. THIS IS A POINT TO BEAR IN MIND IN ASSESSING THE POSSIBILITIES FOR DEFENCE SALES HERE.

- RUSSELL LIMITED
- SED
- MAED
- TRED
- ERD
- NEWS D
- PS/LADY YOUNG
- PS/MR RENTON
- PS/PUS
- MR DEREK THOMAS
- MR BRAITHWAITE
- MR JENKINS
- MR O'NEILL

COPIES TO:-
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ECGD

THIS TELEGRAM
WAS NOT
ADVANCED



PS/

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

CEPC
CCNO

20 December 1984

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

NAM

Dear Charles,

SALE OF AIRBUS TO TURKEY

Following concern on the above issue expressed by M Fabius to the Prime Minister at the recent EC Summit, I wrote to you on 6 December giving some of the background and saying that Mr Channon was considering the issues involved. You replied on 10 December passing on the Prime Minister's wish to be kept informed.

2 As you have no doubt read in the Press, Mr Channon, after consulting the Chief Secretary, authorised ECGD to give full cover for the UK element of the seven Airbus aircraft sold to the Turkish airlines within the agreed credit ceiling for this market. As a result very little of this ceiling now remains to cater for other business in prospect for Turkey.

Yours ever

McCarthy

M C McCARTHY
Private Secretary

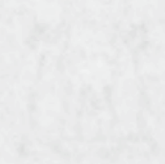
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Defence: Sales Pt 4

DEPARTMENT OF TRADE AND INDUSTRY
119 VICTORIA STREET
LONDON SW1H 0BT
TELEPHONE: 01-275 3111
FACSIMILE: 01-275 3111



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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

JU627
From the Minister for Trade

20 December 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

*nb pm
Duk
20/12*

Peter Rees

FRIGATES TO PAKISTAN

I have seen your letter of 10 December to Michael Heseltine and your subsequent minute of 13 December to the Prime Minister.

The issue of the extra cover for the frigates for Pakistan is now settled. Officials are still examining the possibility of new arrangements to allow export credit cover to be provided for major arms sales without damage to civil trade, following the remit from OD on 16 October. I cannot accept your conclusion that if contingent liabilities for such sales were to be transferred elsewhere (for example MOD) ECGD's limits would have to be reduced pari passu. The question whether there is a case for HMG to accept additional exposure on arms sales is one of the important issues we shall have to consider when officials report. I should still wish arrangements to be made which would allow cover for civil business in Pakistan to resume. But I accept that without such arrangements there is no scope for further civil business at present.

I am sending copies of this to the Prime Minister and other members of OD and to Sir Robert Armstrong.

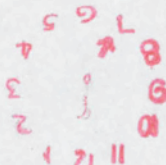
*Y
ms*

PAUL CHANNON

Paul

Dejence RT4

Sves



20 DEC 1984

Subject



cc Master

10 DOWNING STREET

From the Private Secretary

17 December, 1984

Dear Richard,

Prime Minister's Meeting with Prince Bandar bin Sultan

The Prime Minister met Prince Bandar bin Sultan this morning. The Defence Secretary, the Head of Defence Sales and Mr. Egerton were also present.

Prince Bandar brought best wishes to the Prime Minister from King Fahd who was a great admirer of the Prime Minister. He very much valued his exchanges with her. The Prime Minister said that she regretted she had not seen His Majesty for some time, though she often talked of him. The Prime Minister enquired after Prince Sultan. She looked forward to seeing him when he next came to Britain.

The Prime Minister said that we were at an important moment in international affairs. President Reagan would be deciding the policies of his new Administration over the next few weeks. It was for this reason that she was flying halfway round the world in order to see him before those policies were finalised. Prince Bandar said that King Fahd was particularly interested in the Prime Minister's visit to the United States. He knew how much President Reagan respected the Prime Minister and how carefully he would pay attention to her views.

Prince Bandar continued that there was one particular point which he had been instructed to make. King Fahd was much disturbed at suggestions that Saudi Arabia's relations with the United Kingdom could be influenced by or based upon press reports. He was well aware of the nature of freedom of the press in the United Kingdom, even though he found a great deal of what it wrote distasteful. He wished they would be more accurate and take trouble to establish facts. The Prime Minister thanked Prince Bandar for this message.

The Prime Minister asked whether King Fahd had any particular views which he wished her to represent to President Reagan. Prince Bandar said that King Fahd believed that the Soviet position in the Middle East was weaker than for many years. Unfortunately, the West was not capitalising on the situation. The Soviet Union should be forced to show its true colours. This would enhance the position of the West's friends. The West's objective should

be to promote stability, peace, economic growth and the maintenance of freedom in the area. This, of course, applied to Israel as well as to the moderate Arab states. Israel existed, must have secure borders, and should enjoy economic, political and cultural relations with her neighbours in due course. But this could only be achieved if something could be done for the Palestinians. This had to be a Palestinian entity. King Fahd did not believe that such an entity could pose a threat to anybody. In any event, various guarantees could be extended to Israel, such as that the entity would be de-militarised. The basis for a peaceful settlement in the Middle East was the implementation of Security Council Resolution 242 and the creation of a Palestinian entity. Unfortunately, there were few signs of momentum towards this. The United States continued to increase its aid for Israel. But the effect appeared to be to make Israel less, rather than more secure.

The Prime Minister said that, when she visited Washington later in the week, she would urge President Reagan to take another Middle East initiative. He had promised her last June that he would do so. In her recent talk with King Hussein she had asked whether the Palestine National Council would accept Security Council Resolution 242. It would mark a major step forward, were they to do so. She agreed that Israel could not keep the West Bank indefinitely. A solution had to be found. She was perhaps less concerned than King Fahd about the Soviet role. Particularly in the light of her conversation yesterday with Mr. Gorbachev, she thought that Soviet attention was fixed upon East/West relations and arms control and that the Middle East was not a high priority.

The Prime Minister continued that she had been encouraged to find King Hussein more buoyant than at their last meeting. Her worry now was that his expectations might be too high. He was confident that Saudi Arabia and other moderate Arab governments were behind his strategy. Prince Bandar said that there was no doubt about that. The commitment of the Saudi Royal Family to King Hussein was partly emotional, partly pragmatic. However, for tactical reasons, Saudi Arabia had decided against declaring itself in full support of King Hussein's strategy yet. They wanted to make sure of agreement between King Hussein and the Palestinians first. They saw their own role as being to deal with the Syrians. This was very difficult.

Prince Bandar continued that President Reagan had an opportunity to do something in the Middle East which would benefit the whole of the free world. He no longer had to face re-election. He did not have the same constituency problems as the Prime Minister faced. It should be easier now than in the past for President Reagan to take certain steps which would exert pressure upon Israel for a settlement. In response to the Prime Minister's question, Prince Bandar said that if Israel were prepared to negotiate, he believed that Syria would reluctantly join in. But bold moves were needed from the United States.

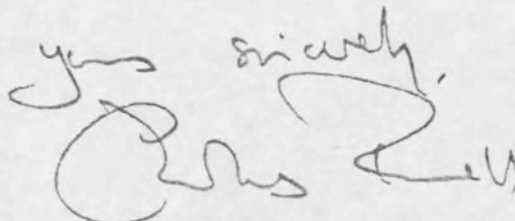
Prince Bandar said that King Fahd was anxious to co-operate more widely with Britain and the United States across a whole range of international issues, including economic issues. Saudi Arabia shared a strong interest in the stability of the international financial system. It had been able to act in support of Western interests, for instance by helping Turkey in difficult times and in supporting the rebels in Afghanistan (a support which had recently been substantially increased). In all these areas, Saudi Arabia could do much more if the Palestinian problem could be settled.

Prince Bandar also urged co-operation against terrorism. King Fahd had strongly advised the Kuwaitis to stand firm during the recent hi-jacking. The Prime Minister agreed that this had been right.

Prince Bandar said that King Fahd thought it important not just to maintain Saudi Arabia's bilateral relations with Britain but to strengthen and enhance them in every way possible. He was more than willing to work on this and to direct all the agencies of the Saudi Arabian Government to act in this spirit. Whatever the press might say, King Fahd was anxious to work closely with Britain. The Prime Minister said that she reciprocated this wish. She added that she had quizzed Mr. Weinberger on his return from Saudi Arabia as to whether he had spoken in support of Tornado and had been assured that he had. Prince Bandar confirmed this.

The Prime Minister asked Prince Bandar to thank King Fahd warmly for letting her have his views on the current situation. She would make use of Prince Bandar's advocacy when she came to see President Reagan. The three issues to which she would give priority in her discussions with the President would be East/West relations, the world economy and the Middle East. She hoped that Prince Bandar would be in London again early in the New Year so that she could inform him of the outcome of her talks.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office).

Yours sincerely,


C. D. POWELL

Richard Mottram, Esq.,
Ministry of Defence.

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GR 660

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DESKBY FCO 160900Z

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TO IMMEDIATE F.C.O.

TELEGRAM NUMBER 610 OF 16TH DECEMBER 1984.

INFO IMMEDIATE MODUK (FOR RMD1).

INFO SAVING RIYADH (FOR MUIR).

FOLLOWING FOR EGERTON:

CALL BY PRINCE BANDAR BIN SULTAN ON THE PRIME MINISTER.

1. I UNDERSTAND FROM DEFENCE SALES THAT THE PRIME MINISTER HAS AGREED TO SEE PRINCE BANDAR BIN SULTAN ON THE MORNING OF 17 DECEMBER. WITHOUT KNOWING PRECISELY HOW THIS MEETING WAS SET UP, OR WHAT PRINCE BANDAR IS LIKELY TO EXPECT FROM IT, I FIND IT DIFFICULT TO GIVE USEFUL ADVICE. SINCE, HOWEVER, HE WILL BE REPORTING BACK ON THIS MEETING TO KING FAHD, I THINK I SHOULD UNDERLINE THE IMPORTANCE WHICH WIDER POLICY QUESTIONS WILL HOLD FOR THE KING, IN CONSIDERING THE WAY FORWARD ON TORNADO.

2. WHEN HE TELEPHONED ME FROM RIYADH ON 14 DECEMBER, I ASKED BANDAR WHETHER HE WOULD BE BRINGING 'GOOD NEWS' (I.E. ON TORNADO). BANDAR REPLIED THAT THE KING HAD ASKED TO SEE MRS THATCHER, FOR WHOM HE HAD HIGH REGARD AND WITH WHOM HE WAS ANXIOUS TO SHARE HIS THOUGHTS. THE KING WAS ALSO KEEN TO SEE HOW OUR RESPECTIVE POLICIES COULD BE 'SYNCHRONISED' AND TO ENCOURAGE MORE BILATERAL CONTACT BETWEEN US. THIS REFLECTS SOME OF THE WORDING IN THE KING'S RECENT MESSAGE TO THE PRIME MINISTER (MY TELNO 580 OF 28 NOVEMBER).

3. WHATEVER THE ORIGIN OF THIS MEETING OR BANDAR'S EXPECTATIONS, IT COULD PLAY A CRUCIAL ROLE IN RECOVERING OUR CHANCES ON TORNADO. I HOPE THAT THE PRIME MINISTER CAN SHOW BANDAR, AND THROUGH HIM THE KING, THAT WE RECOGNIZE THAT THE MAIN SAUDI EXTERNAL PREOCCUPATION AT PRESENT IS TO MAKE PROGRESS ON THE ARAB-ISRAEL PROBLEM. BANDAR WILL NOT ONLY HOPE TO HEAR FROM THE PRIME MINISTER HOW WE SEE THE CURRENT SITUATION, IN THE LIGHT OF OUR RECENT TALKS WITH THE AMERICANS, JORDANIANS AND OTHERS SEMI CLM BUT MOST OF ALL, HE WILL BE LOOKING FOR SIGNS OF A CLEAR COMMITMENT ON OUR PART TO WORK ACTIVELY, BOTH NATIONALLY AND IN THE COMMUNITY CONTEXT, FOR PROGRESS ON THE PALESTINIAN PROBLEM. THE KING HAS, ON SEVERAL OCCASIONS, REVERTED TO THE NEED FOR THE EUROPEAN COMMUNITY TO WORK ON THE AMERICANS, AND HE HAS PARTICULAR HOPES, IN THIS CONNEXION, OF THE PRIME MINISTER'S PERSONAL RELATIONSHIP WITH PRESIDENT REAGAN.

CONFIDENTIAL

/ 4. THE

4. THE PRIME MINISTER'S MEETING WITH BANDAR PROVIDES US WITH AN OPPORTUNITY TO CONVINCING KING FAHD THAT WE ARE GENUINELY PREPARED TO DEEPEN OUR RELATIONSHIP WITH THE SAUDIS IN THE POLITICAL, ECONOMIC AND SECURITY FIELDS. I DOUBT WHETHER THE KING SEPARATES, IN HIS MIND, THE VARIOUS ASPECTS OF OUR BILATERAL RELATIONSHIP AS WE ARE SOMETIMES INCLINED TO DO. IT WILL, IN PARTICULAR, BE IMPORTANT TO PUT THE SALE OF TORNADO, AND INDEED OUR OVERALL DEFENCE RELATIONSHIP WITH THE SAUDI ARMED FORCES AND THE NATIONAL GUARD, IN THE CONTEXT OF OUR WISH TO COOPERATE AND CONSULT WITH THE SAUDI GOVERNMENT AS FULL AS POSSIBLE ACROSS THE BOARD.

5. ECONOMICALLY, THE MEETING COMES AT A AWKWARD MOMENT, WHEN THE SAUDIS ARE SHOWING CONSIDERABLE PREOCCUPATION WITH NORTH SEA OIL PRODUCTION AND PRICES, AND ARE NERVOUSLY WATCHING PRESS AND OTHER SPECULATION ABOUT A NEW BASIS FOR BNO'S PRICING MECHANISM. SINCE THEY ARE ALSO INCREASINGLY PRESENTING THE QUESTION OF ACCESS TO EUROPE FOR THEIR PETROCHEMICAL PRODUCTS AS A POLITICAL ISSUE. I AM SURE THAT WE ARE RIGHT TO ARGUE THAT THE LATTER QUESTION MUST BE PURSUED THROUGH THE COMMISSION. BUT THE MORE WE CAN PRESENT OUR RESPECTIVE AND IN SOME RESPECTS COMPLEMENTARY, PROBLEMS AS DIFFICULTIES OR OPPORTUNITIES TO BE TACKLED IN A SPIRIT OF COOPERATION AND PARTNERSHIP BETWEEN THE UNITED KINGDOM AND SAUDI ARABIA, THE MORE LIKELY WE ARE TO EVOKE A POSITIVE RESPONSE, AND THEREBY TO PROMOTE OUR VERY CONSIDERABLE COMMERCIAL AND DEFENCE SALES INTERESTS IN THE KINGDOM.

6. INCIDENTALLY, EVANS OF BAC, WHO HAS SEEN PRINCE BANDAR IN THE LAST FEW DAYS, HAS TOLD MUIR IN RIYADH THAT HE THINKS BANDAR WOULD WELCOME A SUGGESTION THAT HE MIGHT HAVE A TETE-A-TETE WITH MR HESELTINE AFTER HIS MEETING WITH THE PRIME MINISTER, IF THAT COULD BE ARRANGED.

7. RESIDENT CLERK PLEASE CONSULT EGERTON ABOUT FURTHER DISTRIBUTION.

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10 DOWNING STREET

From the Private Secretary

17 December 1984

QUARTERLY REPORT ON DEFENCE SALES

The Prime Minister has noted the disappointing report submitted by the Defence Secretary with his minute of 10 December.

(C.D. POWELL)

R.C. Mottram, Esq.,
Ministry of Defence.



10 DOWNING STREET

Prime Minister

Michael Heseltine, James

Slyth (Hd. of Defence Sales)

and Stephen Egerton

will attend.

CDD

14/kin

A handwritten signature in blue ink, appearing to be 'MB'.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~9207022~~ 218 2111/3

MO 5/3/3

14th December 1984

Prime Minister
Prince Bandar will be looking for ammunition to use in no internal Saudi battle over which aircraft to buy.

2. What will serve him best is quotable evidence of your interest in a peaceful Middle East settlement

Dear Charles, readiness to urge President Reagan to give priority to this.

3. The French will be playing no game as hard as they can.

C.D.P.

14/12/84

CALL BY PRINCE BANDAR BIN SULTAN, SAUDI AMBASSADOR IN WASHINGTON, ON THE PRIME MINISTER - 17TH DECEMBER 1984

The call by Prince Bandar on the Prime Minister is a follow-up to the visit by the Secretary of State for Defence to Saudi Arabia on 18th November when he discussed the proposed sale of Tornado and Hawk with Prince Sultan, the Minister of Defence (Prince Bandar's father), and with The King. (The details were recorded in the Defence Secretary's minute of 19th November). Prince Bandar attended both meetings in Riyadh.

Prince Bandar is a rising star on the Saudi scene, carrying weight beyond his years and experience. He has played a helpful role in the negotiations over Tornado so far and is certainly not, as might be thought from his position in Washington, in the Americans' pocket. He has the confidence of The King as well as of his father.

Following my Secretary of State's talks in Riyadh last month, Prince Bandar has stayed in Riyadh and been much in evidence at court. It appears that the Saudi ruling family have been debating the relative merits of the competing equipment (Tornado and Mirage 2000) and of doing business with the French or ourselves. As Mr Weinberger reported to the Prime Minister on 7th December the Americans have effectively ruled themselves out by refusing to sell the F15E to Saudi Arabia.

The argument is now mainly political, since we agreed with the Saudis on a price for the aircraft in May. The Saudis are looking to see what advantage they can derive from the deal, and Prince Bandar's visit is to be seen in this light. The Saudis are anxious, for example, to be treated as serious

C Powell Esq



partners in the search for a solution to the Palestinian problem, (on which the Prime Minister was fully briefed in preparation for her meeting with King Hussein on 10th December). It is worth noting that the Saudis publicly expressed support for the Palestine National Council which met in Amman from 22nd-29th November.

We suggest that the Prime Minister might cover the following ground:

- a. How do our prospects on Tornado now stand?
- b. What are Saudi views on prospects for a Jordanian/Palestinian peace initiative? What is Syria's attitude likely to be?
- c. What, in view of Prince Bandar's Ambassadorial role, is his assessment of US thinking on these issues?
- d. What can be done to help, especially given the Prime Minister's imminent meeting with President Reagan?

A personality note on Prince Bandar and a fact sheet on Saudi Arabia are attached.

I am copying this letter to Peter Ricketts (FCO).

Yours ever,

Richard Mottram

(R C MOTTRAM)

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HRH PRINCE BANDAR BIN SULTAN BIN ABDUL AZIZ

Ambassador to the United States.

Born 1950; son of the Minister of Defence by a negress.

Graduated from RAF College Cranwell in 1970; promoted to Major in 1977, Lieutenant Colonel in 1982. For a time nominally on the strength of the F5 Squadron at Dhahran, but not likely to fly again owing to a back injury sustained in a car accident. Attended the American Air Staff College in 1979 and obtained MA in International Relations from John Hopkins University in 1980. Appointed Defence Attaché in Washington in late 1982, but had been used as an unofficial extra Ambassador there, with access at the highest levels, during the AWACS and F15 negotiations.

In 1983 he was sent (after his appointment as Ambassador at Washington was announced) as mediator between the parties in the Lebanon: he was warmly praised in public by King Fahd following the achievement of a ceasefire agreement. He arrived in Washington to present his credentials in late September 1983; but it was reported at the time that he would continue to undertake special missions for the King on Lebanese affairs.

Lots of charm and dash; speaks excellent English. Married to Haifa, daughter of King Faisal, with four children, two sons and two daughters.

15

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SAUDI ARABIA

General

1. Dominant power in the Arabian peninsula; leading role in the Islamic Conference Organisation and the Gulf Cooperation Council; guardian of Mecca and Medina. Population 7½ million. Three times as many expatriates as Saudi nationals. UKPHs about 38,000. Majority of Saudis Sunni moslems but Shi'a minority about 4% concentrated in Eastern Province.

Internal

2. Senior Princes hold real power, although nominated Cabinet includes some technocrats. No provision for popular consultation.

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ACT 2000

Economy

3. Following spectacular expansion in the 70s economic activity now much slower due to fall in real terms in price of oil and in level of production, down to below 4 mbd compared with 10 mbd in 1981. Saudis have been drawing on their immense foreign reserves, now down to about \$100 billion, in hope of upturn in the oil market.

External

4. Saudi policy to preserve the security of the Kingdom, to restrain Soviet influence and to limit influence of the Arab radicals in the region. Saudis concerned with threat of

/Iranian



Iranian breakthrough in the war; Saudi support vital to the Iraqi war effort. Relations with the US close and broadly-based, but Saudis increasingly disenchanted with US Middle East policies.

Bilateral

5. Relations good at present. Secretary of State for Foreign and Commonwealth Affairs visited Saudi Arabia in January 1984. Crown Prince Abdullah visited UK in February. Duke of Edinburgh visited Saudi Arabia semi-privately 11-12 October: Mr Channon 11-14 November: Mr Heseltine 17 November. UK exports £1,479 million in 1983, imports £898 million - first surplus for at least a decade.



EL3AAZ

bc PC.

10 DOWNING STREET

From the Private Secretary

14 December 1984

Visit to London by Prince Bandar bin Sultan
bin Abdul-Aziz

Thank you for your letter of 13 December conveying the Defence Secretary's advice that the Prime Minister should receive Prince Bandar next Monday to discuss Tornado.

The Prime Minister agrees to this and can see him at 0930, together with your Secretary of State and Mr Blyth.

I should be grateful for briefing by this evening.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office).

(C.D. Powell)

Richard Mottram Esq
Ministry of Defence

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CYAC



Foreign and Commonwealth Office

London SW1A 2AH

13 December 1984

Dear Charles,

Saudi Arabia: Tornado

I understand that the Ministry of Defence will be writing to you separately to recommend that the Prime Minister agree to receive Prince Bandar bin Sultan bin Abdul Aziz, who will be visiting the United Kingdom on 17 December and will have a message for the Prime Minister from his father, the Saudi Minister of Defence. As you know, the Tornado deal is at a delicate stage. Anything which Prince Sultan has to tell us about it will be of interest and importance. Prince Bandar himself has been a helpful and informative contact. We therefore support the recommendation that the Prime Minister should, if possible, receive Prince Bandar briefly on 17 December.

I am copying this letter to Richard Mottram (MOD).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

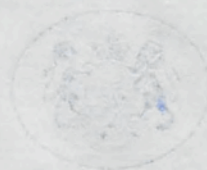
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Middle East Pty

Office of the Director of Public Health

Army Sales

London W1A 2AA





MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~938 2022~~ 218 2111/3

MO 5/3/3

13th December 1984

Prime Minister

This could help
Tornado's prospects
with Saudi Arabia.

Agree to see
him briefly on Monday?

CJP

Yes

mt

Dear General,

VISIT TO LONDON BY PRINCE BANDAR BIN SULTAN BIN ABDUL-AZIZ

As I mentioned to you on the telephone, we have heard that Prince Bandar bin Sultan bin Abdul-Aziz, the son of Prince Sultan the Saudi Minister of Defence, has asked if he might see the Prime Minister on Monday 17th December. He will be bringing a personal message from his father.

Although the exact content of this message is not yet known, he will certainly be coming in connection with the proposed sale to the Royal Saudi Air Force of Tornado and Hawk aircraft, about which King Fahd wrote to the Prime Minister on 25th November. As was made clear to Mr Heseltine when he met Prince Sultan and the King in Riyadh on 18th November, the decision between Tornado and the Mirage 2000 now lies with the King. The Saudis are probably weighing up the political advantages of choosing one or the other aircraft, and Prince Bandar has we assume been commissioned to seek a degree of political commitment from us.

If we are to stay in this race, the Defence Secretary believes that the Prime Minister should, if at all possible, receive Prince Bandar next Monday. If the Prime Minister is content, the Defence Secretary and the Head of Defence Sales would also propose to attend the meeting.

If the Prime Minister is willing to meet Prince Bandar, I should be grateful for an early indication of the likely time so that we can pass it to the Saudis. I am copying this letter to Peter Ricketts (FCO).

Yours ever,

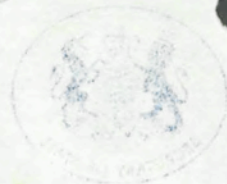
Richard Mottram

(R C MOTTRAM)

C Powell Esq

Middle East Pty
Always Sales

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01 830 7033



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FROM: CHIEF SECRETARY
DATE: 13 December 1984

PRIME MINISTER

FRIGATES FOR PAKISTAN

I have seen Charles Powell's minute of 12 December recording your view that further credit should be provided to enable Pakistan to buy frigates from Vosper Thornycroft.

2 I accept the political imperative of supporting this sale. But as I mentioned when we last discussed this matter, our exposure on Pakistan is now excessive and there will therefore be no scope for further civil business in this market.

3 I am sending copies of this minute to Members of OD and to Sir Robert Armstrong.

for PETER REES

[Approved by the Chief Secretary]

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DEFENCE : Sales Pt4

174 DEC 1984

COMPTON



10 DOWNING STREET

CC: CDLO
LPSO
MOD
LPO
HMT
LCO
CO
FCO
DTI
CS, HMT

From the Private Secretary

12 December 1984

Frigates to Pakistan

The Prime Minister has considered the Defence Secretary's letter of 19 November to the Minister of Trade, proposing that we should agree to find another £30m. worth of Government supported credit to make sure of the contract for three frigates for the Pakistan navy. She has also noted the comments by the Foreign Secretary, the Minister of Trade and the Chief Secretary.

The Prime Minister takes the view that her previous letters to President Zia amount to a firm undertaking to facilitate this contract and that the political case for helping Pakistan is very strong. She believes that we should agree to find the further credit required.

I am copying this letter to Richard Broadbent (Chief Secretary's Office), Callum McCarthy (Department of Trade and Industry), Peter Ricketts (Foreign and Commonwealth Office), to the Private Secretaries of other members of OD and to Sir Robert Armstrong.

Charles Powell

Richard Mottram Esq
Ministry of Defence.



MO 6/13

CP

PM already
agreed

NBPM.

CDP
- 12/12PRIME MINISTERFRIGATES FOR PAKISTAN with CDP

You will have seen Peter Rees' letter to me of 10th December following the previous responses from Geoffrey Howe and Paul Channon to my letter of 19th November.

2. I appreciate the difficulties which Peter Rees describes but, as he says, we have always recognised the political significance of this sale, and we are a long way down the road with the Pakistanis following on our previous decisions. Nor must we underestimate the importance of the exchanges between you and President Zia. As Geoffrey Howe has said: we have to follow this die once cast. And I too do not believe that we can withdraw now, especially as this further request for extra credit cover clearly comes from the top. We shall lay ourselves open to charges of bad faith and the political consequences could be very significant.

3. The Pakistanis have stuck with us even in the face of seductive offers from the French and a major push by Chancellor Kohl during his visit. But we cannot expect them to continue with us if we slap them in the face now. The Pakistani position seems to me to have been well set out by Mr Niaz Naik in the discussion with Antony Acland reported in Geoffrey Howe's minute.

4. It is true that the total increase to the Departmental Maximum Liability (DML) required in support of the deal is £45 million, but the new total credit proposal of £260 million is in fact only £10 million above the higher limit we agreed at OD last March. The £215 million that Peter Rees quotes is the lower end of the bracket we accepted then;



we have kept within this during the main negotiations even when an extra ship was added to the package, and the support now being proposed brings us back to the same proportion of government support as we originally accepted for the two ship package.

5. If we are to retain our credibility with Pakistan, I believe we must make available the extra £30 million of credit cover now requested.

6. I am sending copies of this minute to other members of OD and to Sir Robert Armstrong.

Hughes

Ministry of Defence
12th December 1984

REFERENCE
Sales
Part 4



12 DEC 1984





DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)

GTN 215)

(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

1) AT
2) NBPY
OAM 12/12

11 December 1984

Peter Rees

ECGD COVER FOR SALE OF AIRBUS TO TURKEY

As you will know, we have come under strong pressure to provide ECGD support for the full 85% of the UK share of the sale of seven Airbus to Turkey.

Up to now ECGD has offered support on a 60/40 risk sharing basis, giving a DML of £55 million. The contract has in fact been signed, subject to finance. Airbus Industrie are now saying that unless the British finance can be quickly confirmed, the order may still be lost to Boeing. The French and German governments have agreed to cover the full 85% of their shares (which comprise 40 per cent of the total order in each case), and the French Minister of Transport has just written to Geoffrey Pattie pressing for a quick and favourable decision. We can expect a similar approach from the Germans who have expended considerable political capital in Turkey in pursuing this order. The Turkish government is also insisting that ECGD support 85% of the UK share, as they do not wish a risk sharing arrangement to interfere with the capacity of the market to take up the loan they will shortly be seeking; Boeing are able to offer full Exim Bank support for their bid.

I am reluctant to provide cover in breach of the risk sharing principle we have established for large orders in Turkey, and I am concerned about the amount of cover which would be required for this one contract. On the other hand for us not to agree to extend ECGD cover could have a substantial adverse effect on BAe's future role in the Airbus consortium and cause considerable resentment on the part of the French and German governments. The Airbuses will also earn foreign exchange to the benefit of the Turkish economy. In all the circumstances, I consider that we should agree to the request for 85% cover.

I am, however, concerned about the implications for other business in Turkey, and in particular the second Bosphorus Bridge project. Cleveland Bridge, who built the first bridge, are facing strong international competition for this contract, particularly from the Japanese who are offering a soft finance package. We consider this



to be a very important contract, and that Cleveland Bridge will require ATP if they are to head off the Japanese. ECGD cover involving a DML of up to £40 million will be required. To date, your officials have been unable to agree the SCAT case, and I may need to write to you separately about this shortly.

The provision of 85% cover for the Airbuses would increase ECGD's exposure on this contract to £91 million, which would leave under £20 million of the total £200 million cover available under Section 2. In order to accommodate the likely maximum exposure on Bosphorus Bridge (on the risk sharing basis) and to leave some marginal flexibility I propose that the overall cover available should be increased by £30 million. I recognise that the economic outlook in Turkey remains a cause for concern; nevertheless ECGD considers that in view of the importance of the business involved this modest degree of additional risk can be accommodated.

An urgent decision is needed. Apart from the commercial pressures for a decision on Airbus, I shall be appearing before the House of Commons Select Committee on Trade and Industry tomorrow. You will have seen the publicity this case has received. I am bound to be questioned about it, and I think it is important that I should be able to say that the cover has been agreed. It would be particularly unfortunate if I were to be pressed on the difficulties, and on possible differences between us, and shortly thereafter announce that the cover would be given.

If therefore I do not hear from you in the course of today, I will take it that you are content for us to proceed on the basis I have proposed.

I am copying this letter to the Prime Minister and to the Foreign Secretary.

cc PS/Secretary of State
PS/Mr Pattie
PS/Lord Lucas
PS/Sir Brian Hayes
PS/Sir Anthony Rawlinson
Mr Croft, Dep Sec
Mr Roberts, Dep Sec
Mr Gill, ECGD
Mr Michell, Air
Mr Benjamin, PEP
Mr Bowder, Air
Miss Harding, ECGD
Mr Henley, ECGD
Miss Neville-Rolfe, PEP
(a/o)

Paul
Paul
PAUL CHANNON

112 DEC 1984

1234567890

CONFIDENTIAL



CCXO

 1) AT
 2) NBM

Treasury Chambers, Parliament Street, SW1P 3AG

CDD

12/12

Rt Hon Paul Channon MP
 Minister for Trade
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1E 6RB

11 December 1984

Dear Minister

AIRBUS FOR TURKEY

Thank you for your letter of 11 December in which you sought my agreement to increase the amount of support to be provided for the sale of 7 Airbus aircraft to Turkey with an increase in the permitted ceiling on ECGD's exposure so that the amount of cover available for other business remains broadly as it was.

This is a very difficult case and I am reluctant to agree to either proposition and neither do I accept the implication of your argument that a market limit should be increased to accommodate a project that is turning out to be larger than originally expected. It is inherent in fixing a limit that choices may have to be made about what business can be covered by that limit. It is necessary in these circumstances to choose where one's priorities lie.

There is no justification for increased ECGD exposure on Turkey. ECGD have paid very large claims on Turkey in the past and limited cover has only recently been restored and this with some trepidation. Moreover, ECGD's financial position is such that they are in no position to take on unnecessary risks. As was acknowledged in the refusal to cover the proposed Tornado sale, the Turkish economy is in a poor state. The current account deficit is widening at a time when debt service obligations under earlier rescheduling agreements reach a peak. Unless the Current Account deficit is reduced substantially in the short term, creditor confidence in Turkey will evaporate to an extent where a rescheduling in late 1985 or 1986 may prove unavoidable. This is just the time when repayments on these aircraft begin.

It is not at all clear why the risk sharing arrangement envisaged for this sale cannot be delivered especially since BAe themselves said only last month that they could provide considerably more than this in support of the proposed Tornado sale. While BAe may be bluffing, one possible explanation is that the private sector's assessment of Turkey has worsened

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worsened considerably over this period so that they no longer are able to take on the risk. If this is so this would be no reason for ECGD to take on more risk. Indeed, there would be a case for cutting back on what cover is available.

It is normal practice to require risk sharing for business with Turkey and a risk sharing arrangement was a condition of the offer of any ECGD cover for this sale. There are no reasons for exceptional treatment in this case. Furthermore, there are other projects in prospect which would be squeezed out if increased cover for this Airbus sale were agreed. Because of the risk sharing arrangements on offer for those cases, more UK exports would be supported by the amount of ECGD cover available than would be with the 7 Airbus. Finally, as in the case of all Airbus business currently supported, subsidies are considerably higher than for other business. The guidelines on Subsidies and Risks said that when the acceptance of both a high risk and a high subsidy was required to secure a contract, the contract was probably not worth securing.

The amount of subsidy payable on all Airbus business is currently considerably higher than for other UK exports. Hopefully, the current discussions in Paris on a OECD Sector Agreement for Aircraft will reduce considerably the amount of support sales of these aircraft will require. If these negotiations are not successful we will need to review the scale of the support we give to the sales of Airbus in future cases.

Having said that, I recognise the strong pressures on us not to frustrate a large Airbus sale at this juncture. If you judge it essential, I will acquiesce in the provision of cover for the UK share of 7 aircraft on the terms you propose: 85 per cent, and without risksharing if you are satisfied that is not negotiable.

But I must insist that this is accommodated within the present Market Limit for Turkey, of £143 million (plus some £57 million set aside against risks on cash contracts). A review of the prospects of the Turkish economy is in progress and will be reported to Ministers in the New Year. I understand that the present draft does not indicate any improvement which would justify increasing the limit, though I shall of course be ready to reconsider that judgement when the review is complete. Meanwhile you will recognise that if the present limit is maintained, there will be no room within it for the Bosphorus Bridge project, even though nearly £20 million would be left for smaller-scale business. I am sorry about that: but judgements have to be made about priorities, and you clearly believe that Airbus comes first.

I am sending copies of this letter to the Prime Minister and to the Foreign Secretary.

Yours sincerely



for PETER REES

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[Approved by the Chief Secretary]

PRIME MINISTER

FRIGATES FOR PAKISTAN

You asked about your precise undertakings to President Zia.

You have written to him twice, in August 1982 and September 1984. Both letters are attached.

At the time of the 1982 letter, only two frigates were under consideration. You said that the credit financing "... is backed by the British Government, who have agreed to provide a significant proportion of the credit through the Export Credit Guarantee Department".

By the time of your September 1984 letter, three frigates were under consideration. You gave no specific commitment on credit. But the sentence: "I was naturally delighted to hear that on the basis of the technical and financial assistance that we have offered, your Ministry of Defence have issued a letter of intent ..." could be said to imply that our willingness to extend "a significant proportion of the credit" applied equally to the sale of three ships.

In OD in March this year, you described the political case for increased credit cover for Pakistan as overwhelming. You now have the agreement of the Minister of Trade, the Foreign Secretary and the Defence Secretary to a further increase. Only the Treasury have opposed. No other members of OD have commented.

In the circumstances you might rule in favour of increased credit.

Agree?

EDP

Yes not

11 December 1984

VC2ACY



MO 26/9/1(A)

Prime Minister
Disappointing.

COP. 11/2.

PRIME MINISTER

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS
1ST JULY TO 30TH SEPTEMBER 1984

The third quarter of 1984 saw defence sales worth £353M reported by industry compared with £357M for the previous quarter and £639M for the corresponding quarter in 1983. This figure is very disappointing and, with sales in the first three quarters of 1984 some 29% lower than for the same period in 1983, the record 1983 achievement appears far out of reach.

2. The largest contract signed was with Kenya for two Fast Patrol Craft to be supplied by Vosper Thornycroft (£75M). Other significant contracts included Air Defence Radars for Yugoslavia (£28M); Naval Early Warning and Electronic Countermeasures equipment for Canada (£22M and £9M respectively); and Searchwater Radars for Spain (£13M). Details of all contracts reported in the quarter are given at Annexes A and B, whilst details of the highest priority current sales prospects are listed at Annex C. Further contracts reported since the end of the third quarter, and therefore not included in the totals above, include the contract initiating Full Scale Engineering Development of the T45A Hawk Training System. Whilst this contract is only valued at some £7.5M, it is the first step in the US process leading towards large sales for BAe and Rolls Royce.

3. The Middle East continues to be the major identified market for defence equipment sales. When I met Prince Sultan in Saudi Arabia recently, it was apparent that the Saudis have not decided whether to purchase Tornado and Hawk. However, the Saudi interest in Challenger,



and possibly MCV80, remains high. During his recent visit to the Gulf, Adam Butler was conscious of the increasingly important role which the Gulf Co-operation Council is taking in co-ordinating all stages of procurement throughout the region. In Kuwait, MCV80 still appears well placed and Challenger will be evaluated next year, but prospects for sales of British anti-aircraft missiles look bleak following the purchase of Russian SA-7 and SA-8 equipment. The prospective sale of six Hawk aircraft to Bahrain has been deferred for at least three or four years, following the Saudi and American view that the F5 combat aircraft was a more suitable Bahraini purchase. Plessey are hopeful that the acceptance of the two AR3D radars by the Qatari Air Force at the end of July may help to remove a major obstacle to their marketing efforts in other GCC states. The Omani MOD has issued what amounts to a letter of intent to purchase Tornado ADV, and a contract is expected in January 1985. The FH70 prospect, however, continues to await Omani evaluation of the Austrian 155mm gun. The tri-service communications project is progressing satisfactorily with Marconi as prime contractor. Taken with the large civil engineering component the project forms a good prospect for British contractors. The sale to Pakistan of three Type 21 frigates (£330M) is now expected to be completed in early 1985 provided the credit package involved can be made fully acceptable to the Pakistanis.

4. The current sensitivity of even our very small and selective business with Iraq and, more particularly, Iran has been demonstrated by criticism especially from the US and some Arab states. During my visit to Jordan in October, I conveyed to King Hussein the credit terms for the sale of Javelin missiles, Scorpion, aircraft refurbishment, and other items (total value £450M). A decision is awaited. The Syrian interest in various defence items is being pursued cautiously with Defence Sales staff having visited Damascus in November. The £300M ECGD backed special credit reservation for Egypt has not led to any major sales and I pressed the Egyptians for clarification of their intentions during my October visit. It appears that Mine Counter Measure Vessels now lead their priorities; Operation Harling should prove useful for UK business in this context. Throughout



the rest of Africa the situation remains quiet, with the encouraging development of the Algerian market continuing and ratification of two major infrastructure and communications equipment contracts (£180M) hoped for before the end of 1984. Nigeria continues to be restricted by its economic problems and reduced oil revenues. An MOU with Kenya has been negotiated to cover UK MOD support for the Fast Patrol Craft.

*? in light
of Delhi
telegrams
this
seems
unlikely.
C.D.P.*

5. In India, notwithstanding the assassination of Mrs Gandhi, indications are that the £150M sale of additional Sea Harriers and the short list of two 155mm artillery candidates, hopefully to include FH70, will be completed by the end of 1984. In Thailand decisions on Vickers tanks, Hawk and HS748 have been deferred but interest in ex-RAF Jaguars and submarines is being pursued. Some cause for optimism on sales to China is given by recent minor successes and the November visit by the Chinese Chief of Naval Staff. Whilst the postponement of its submarine programme is a severe disappointment, Korea remains a significant market opportunity for Lynx helicopters with Sea Skua missiles and for the Shorts Skyvan, and Government support is reflected by John Lee's visit in November. The Japanese market remains difficult with LAW 80 anti-tank weapons being the best short term prospect. Malaysian requirements for 155mm artillery are being actively pursued with an MOU to follow. In addition to its previously reported requirements, Singapore has expanded its potential for UK sales with interest being shown in communications equipment and an additional 1400 Land Rovers. Indonesia's great potential is witnessed by negotiations to purchase two Rapier batteries (£150M) with good prospects for additional Rapier and Hawk aircraft sales in 1985. A general MOU with Brunei is being offered to assist with their procurement system. Australia has now purchased US Sea Hawk helicopters for its frigates in preference to Lynx, but Westlands hope that this will not prejudice the decision on RAAF utility helicopters where their W30 is again in competition with Sikorsky.

6. As stated above, the Hawk development contract with the US has removed major fears concerning the programme which will eventually



be worth approximately £800M to UK industry. The vagaries of Congressional funding, however, are delaying the \$4Bn Mobile Subscriber Equipment programme in which Plessey and other UK contractors have a considerable interest, but funds have at last been approved for purchase of the Improved 81mm Mortar. Adam Butler and US Navy Secretary Lehman have agreed on an approach to the UK development of Forward Looking Infra Red systems for the Harrier and AV8B under the existing MOU, which should leave the selected UK contractor well placed for competitive procurement for other US airframes. BAe is responding to Canada's request for proposals for a low level air defence system with Rapier, in consortium with an Italian company who would supply the gun system, whilst Shorts have entered a non-compliant bid with Javelin.

7. Sales prospects in Europe again look relatively modest, although there have been some notable achievements with the sales of radars for Yugoslavia and Spain as reported above. You are fully aware of the problems which exist in financing the Turkish buy of Tornados. In Austria BAe has mounted a strong challenge to win the interceptor aircraft contract with an offer of Lightnings, and is also fighting hard in Germany to supply ALARM missiles to the Luftwaffe. The French twelve to eighteen month delay in a decision on the choice of an AEW system provides UK industry with a much needed breathing space in the £300M competition with Boeing's AWACS. The UK continues to receive work on the JAS 39 Swedish fighter aircraft and Skyflash 90 has a good chance of being selected as its missile system. Denmark provides opportunities with equipment for its frigates and low level air defence requirements.

8. A variety of firms continue to achieve modest successes in Latin America and the Caribbean despite the economic and credit difficulties in the area. Recent examples include Ferranti's submarine fire control system in Brazil and Racal army communications equipment in Ecuador. There is little prospect of rapid progress on high value projects at present but Brazil now wishes to procure Rolls Royce engines direct



for the Italo-Brazilian AMX fighter project, and Westlands are preparing a bid for a substantial Brazilian Navy helicopter requirement. BAe believe the time may now be right to try to revive the Hawk contract in Venezuela which has been stalled since the South Atlantic conflict. These firms will be looking for government help with their sales efforts.

9. The overall situation in 1984 to date is extremely disappointing with several major contracts still awaiting finalisation and reported achievements substantially below the 1983 level. However, industrial and Government support activity remains high in the belief that the increasingly tough conditions facing defence export sales require a determined and co-ordinated approach to achieve success.

10. I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "W. St."

Ministry of Defence
10th December 1984

ANNEX A - REPORTED CONTRACTS SUMMARY

COUNTRY	LAND SYSTEMS	AIR SYSTEMS	SEA SYSTEMS	TOTAL
	VALUE £m	VALUE £m	VALUE £m	VALUE £m
ALGERIA	3.15	-	-	3.15
BAHRAIN	-	-	2.00	2.00
BARBADOS	-	1.26	-	1.26
BRAZIL	-	-	9.00	9.00
CANADA	-	-	31.27	31.27
CHILE	-	-	1.15	1.15
CHINA (PR)	1.50	7.13	1.40	10.03
EGYPT	0.65	9.07	2.73	12.45
GERMANY (WEST)	-	0.75	2.50	3.25
INDONESIA	-	1.00	-	1.00
IRAN	3.66	0.16	9.70	13.52
IRAQ	17.88	-	-	17.88
JORDAN	16.00	-	-	16.00
KENYA	-	-	75.00	75.00
KOREA (REPUBLIC OF)	2.20	-	3.95	6.15
KUWAIT	3.00	-	-	3.00
NEPAL	0.71	-	-	0.71
NEW ZEALAND	-	-	0.25	0.25
NIGERIA	0.10	-	0.50	0.60
OMAN	9.24	-	0.40	9.64
PAKISTAN	2.55	-	-	2.55
PERU	-	4.00	-	4.00
SENEGAMBIA	0.12	-	-	0.12
SIERRA LEONE	0.10	-	-	0.10
SINGAPORE	0.35	7.00	-	7.35
SPAIN	-	13.00	-	13.00
SWEDEN	2.50	1.50	-	4.00
THAILAND	-	2.00	4.20	6.20
TUNISIA	0.10	-	0.60	0.70
USA	11.48	34.71	23.53	69.72
YUGOSLAVIA	28.00	-	-	28.00
TOTALS	103.29	81.58	168.18	353.05

ANNEX B - REPORTED CONTRACTS - AIR SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
BARBADOS	SKYVAN	1	1.26	1985	1707
EGYPT	COMMANDO HELICOPTER SPARES	NA	9.07	1984	1566
FR GERMANY	MAREC II RADAR	3	0.75	N.K.	1697
INDONESIA	NIMBUS HELICOPTER ENGINE	NA	1.00	1985	1677
IRAN	EJECTION SEAT CARTRIDGE	NA	0.16	1984	1551
PERU	VIPER ENGINE	5	4.00	1985	1711
PR CHINA	3" CATHODE RAY TUBE	NA	0.30	1985	1751
	HUD FOR F-7	NA	5.70	1985	1750
	PPES" HUD OPTICAL UNIT	NA	1.10	1985	1749
	RADAR ALTIMETER	6	0.03	1984	1681
SINGAPORE	PUMA HELICOPTER SPARES	NA	7.00	N.K.	1658
SPAIN	SEARCHWATER RADAR	3	13.00	N.K.	1477
SWEDEN	HYDRAULIC SYSTEMS	NA	1.50	N.K.	1569
THAILAND	SHORTS 330/UTT	1	2.00	N.K.	1679
USA	AV8B DEVELOPMENT	NA	0.31	N.K.	1688
	AV8B EQUIPMENT	NA	6.86	N.K.	1571
	AV8B EQUIPMENT	NA	1.96	N.K.	1572
	AV8B EQUIPMENT	NA	1.12	N.K.	1687
	AV8B EQUIPMENT	NA	0.45	N.K.	1689
	AV8B SIMULATOR VALVE	NA	0.34	N.K.	1704
	DART MINATURE GYRO	NA	4.00	N.K.	1683
	EXTERNAL COMMUNICATION SYSTEM	NA	4.50	N.K.	1562
	F-111 MAINTENANCE	NA	3.78	N.K.	1575
	F-18 INSTRUMENTS	NA	0.38	N.K.	1690
	HANDBOOK	NA	0.16	N.K.	1563
	HARRIER SPARES	NA	3.77	N.K.	1570
	KC-10A FLIGHT SIMULATOR	1	0.36	N.K.	1686
	MISC. AIRBORNE EQUIP. & SPARES	NA	0.16	N.K.	1592
NOVOVIEW SP1 VISUAL SIMULATOR	NA	3.08	N.K.	1667	
UNSPECIFIED A/C SPARES & EQPT	NA	3.48	N.K.	1576	

TOTAL FOR AIR SYSTEMS £m 81.58

END

ANNEX B - REPORTED CONTRACTS - LAND SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
ALGERIA	6000 LITRE AIRCRAFT REFUELLER	20	1.35	1985	1740
	9mm AUTOMATIC PISTOLS	NA	0.50	N.K.	1556
	MORSE CODE EQUIPMENT	NA	0.60	1985	1705
	PRC 320 HF TACTICAL RADIO	NA	0.70	1985	700
EGYPT	TYPE 2957 COMPUTER	2	0.65	1984	744
IRAN	PVS 2410 MANPACK RADIO	320	3.66	1984	1550
IRAQ	BODY ARMOUR	5000	4.70	1985	1770
	FREQUENCY CONVERTER	30	0.38	N.K.	1555
	NIGHT VISION PERISCOPE	NA	12.80	1984	745
JORDAN	KHALID MBT SPARES	NA	16.00	1984	1583
KUWAIT	JAGUAR FREQUENCY HOPPING RADIO	NA	3.00	N.K.	1573
NEPAL	JAGUAR FREQUENCY HOPPING RADIO	NA	0.59	N.K.	1478
	LAND ROVER	17	0.12	N.K.	1561
NIGERIA	PYROTECHNICS	NA	0.10	1984	1601
OMAN	25 PDR AMMUNITION	NA	3.78	N.K.	1696
	CLASS 60 TRACKWAY	NA	0.37	1984	1698
	GUNNERY SIMULATION TABLE	2	0.02	N.K.	1691
	JAGUAR FREQUENCY HOPPING RADIO	NA	4.00	N.K.	1790
	PARACHUTE FAN DESCENT TRAINER	1	0.07	N.K.	1699
	SEMI-TRAILERS	43	1.00	N.K.	1560
PAKISTAN	EOD PACKAGE	NA	0.25	1984	1552
	INFRA RED MISSILE FUZE	NA	2.30	N.K.	1678
PR CHINA	1" TANK SIGHT CATHODE RAY TUBE	100	0.50	1985	1626
	CYMBELINE SPARES	NA	1.00	1985	1752
REPUBLIC OF KOREA	AMFCTS	1	0.20	N.K.	1680
	ZB298 GROUND RADAR	12	2.00	1985	596
SENEGAMBIA	MISC. SPARES & SUPPORT (LAND)	NA	0.12	1984	1660
SIERRA LEONE	TR7V MILITARY MOTORCYCLE	35	0.10	N.K.	1547
SINGAPORE	AIRFIELD CAMOUFLAGE	1	0.35	N.K.	1702

ANNEX B - REPORTED CONTRACTS - LAND SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
SWEDEN	MEROD	NA	2.50	N.K.	1567
TUNISIA	VEHICLE HF COMMS	NA	0.10	N.K.	1554
USA	.22 CALIBER TRACING CARTRIDGE	NA	0.82	N.K.	1641
	DESIGN SUPPORT	NA	0.10	N.K.	1663
	MINE PLOUGH	2	0.86	1984	1662
	PERSONAL DOSIMETER	NA	4.40	1985	75
	SMAW SPOTTING RIFLE	NA	0.53	N.K.	1665
	TYPE 1394 TRACTOR	13	4.77	1984	1703
YUGOSLAVIA	AIR DEFENCE OP CENTER	8	28.00	N.K.	1684

TOTAL FOR LAND SYSTEMS £m 103.29

END

ANNEX B - REPORTED CONTRACTS - SEA SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
BAHRAIN	WASP 20m MK2 FAST PATROL CRAFT	1	2.00	N.K.	1692
BRAZIL	KAFS SUBMARINE FCS	NA	8.00	N.K.	1708
	V3800 THERMAL IMAGING SENSOR	NA	1.00	1985	1710
CANADA	CANEWS EW EQUIPMENT	4	9.30	1986	1693
	CANEWS EW EQUIPMENT	7	12.67	1986	1694
	RAMSES ECM SYSTEM	7	9.30	1986	1695
CHILE	SEACAT	8	0.45	1984	1709
	SUBMARINE BATTERY	1	0.70	1985	1558
EGYPT	RAMADAN AUTOMATIC TEST EQPT	NA	1.87	1985	1706
	RAMADAN FPC SPARES	NA	0.86	1984	1565
FR GERMANY	SARIE II ESM EQUIPMENT	NA	2.50	N.K.	1685
IRAN	BH7 HOVERCRAFT REFURBISHMENT	2	6.70	1984	1480
	OLYMPUS TM3B TURBINE ENGINE	3	3.00	1985	1666
KENYA	56m PROVINCE FAST ATTACK CRAFT	2	75.00	1987	580
NEW ZEALAND	TYPE 994 RADAR	NA	0.25	1983	1682
NIGERIA	SEAFASH NAVAL TARGET	8	0.50	N.K.	1548
OMAN	P1200 MARK 2 FAST PATROL CRAFT	2	0.40	N.K.	178
PR CHINA	NTC-2 INTEGRATED COMMS	NA	1.40	1985	1748
REPUBLIC OF KOREA	8m COMBAT SUPPORT BOAT (UK)	26	3.40	N.K.	1549
	SUBSKIMMER ASSAULT CRAFT	8	0.55	1985	1639
THAILAND	STINGRAY TORPEDO	12	4.20	N.K.	1557
TUNISIA	30mm KCB CANNON SPARES	NA	0.60	N.K.	1553
USA	COASTGUARD HULL	NA	0.77	N.K.	1645
	COASTGUARD VESSEL DESIGN	NA	1.15	N.K.	1546
	HARPOON LAUNCH RELAY	NA	1.78	N.K.	1657
	MDG 1700 DEGAUSSING SYSTEM	4	1.20	N.K.	358
	MINE POSITIONING SYSTEM	1	3.85	N.K.	1664
	MK3 CHEMICAL PROTECTION SUIT	NA	4.30	N.K.	1595
	SEARIDER RIGID HULL INFLATABLE	NA	1.25	N.K.	1543

ANNEX B - REPORTED CONTRACTS - SEA SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
USA	cont				
	VALENTA MARINE DIESEL ENGINE	NA	9.23	N.K.	1544

TOTAL FOR SEA SYSTEMS £m 168.18

END

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>AUSTRIA</u>	REMARKS: Austria is considering the purchase of interceptor aircraft. BAe have offered ex-Saudi Lightnings. A decision is expected by May 85.
PRODUCT: LIGHTNING	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 60.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France, Sweden, USA, Israel.
466 1985	

COUNTRY: <u>DENMARK</u>	REMARKS: The Danes have 8 Naval Lynx in service and are considering a follow-on order for Baltic surveillance. Westlands first choice, but money is not now available until 1988.
PRODUCT: LYNX (NAVAL)	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 15.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
456 1988	

COUNTRY: <u>DENMARK</u>	REMARKS: Danes are retrofitting M41 tanks. Perkins (ex-RR) engine is part of a German package.
PRODUCT: TANK ENGINE MODIFICATION	
FIRM : PERKINS ENGINES	
VALUE :£m 1.30	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA, Canada.
1791 1985	

COUNTRY: <u>FINLAND</u>	REMARKS: Plessey hope for a follow-on order of this equipment.
PRODUCT: WATCHMAN ATC/AD RADARS	
FIRM : PLESSEY RADAR	
VALUE :£m 6.90	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
1772 1985	

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>FR GERMANY</u>	REMARKS: FRG has recently specified HARM to meet its naval requirement. The Luftwaffe is also committed to HARM. UK MOD presentation given to FRG in March 1984. BAe have submitted unsolicited proposals on ALARM.
PRODUCT: ALARM	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 100.00	MINISTERIAL: On 21/9/83 M of S(DP) wrote to Herr Dr M. Woerner, Federal Minister of Defence
REF NO CON.DATE	INVOLVEMENT: to persuade the FRG to revise their decision on HARM/ALARM. In his reply of
459 N.K.	28/11/83 Dr Woerner reaffirmed the FRG selection of HARM.
	COMPETITION: USA (HARM)

COUNTRY: <u>FR GERMANY</u>	REMARKS: FRG purchased 12 Naval Lynx in 1979. Contract for 2 further aircraft expected November 1984.
PRODUCT: LYNX (NAVAL)	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 7.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
458 1984	COMPETITION:

COUNTRY: <u>FR GERMANY</u>	REMARKS: To be used in conjunction with Seaspray radar. Contract for the development phase has already been placed involving 2 sets of helicopter installed equipment (option on further 20), test equipment, telemetry missiles and expendable dummies.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 30.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
35 1984	COMPETITION: France

COUNTRY: <u>FR GERMANY</u>	REMARKS: To be fitted to Sea King SAR helicopters, combined with Sea Skua missiles, to convert aircraft to dual role. The Seaspray will operate in a new 360 degree role. Two prototype sets have already been ordered.
PRODUCT: SEA SPRAY	
FIRM : FERRANTI RADAR SYSTEMS	
VALUE :£m 20.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
573 1984	COMPETITION: MEL (UK).

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>FRANCE</u>	REMARKS: France has a requirement for 6-10 AEW systems. Current options are US Boeing AWACS system, already evaluated, and a European solution involving Marconi's MSA with probably the A300 Airbus. Marconi and BAe have submitted proposals. Evaluation flight took place in October 84 and a further flight will occur in 1985. A decision is expected in 1985, although Boeing are pushing for this to be brought forward. Offset will be an important factor.
PRODUCT: AEW EQUIPMENT	
FIRM : GEC AVIONICS	
VALUE :£m 300.00	MINISTERIAL: During regular exchange with French, Ministers will be briefed to press the INVOLVEMENT: European solution on the French Air Force.
REF NO	CON.DATE
188	1985
	COMPETITION: USA (AWACS)
COUNTRY: <u>ITALY</u>	REMARKS: The new Italian carrier (Garibaldi) has been fitted to operate VSTOL aircraft, but this remains the subject of much debate within Italian military circles. According to Italian law, only the IAF can operate fixed wing aircraft. The competition is the AV8B, and McDonnell-Douglas have been very active in Italy. The RN continues to give assistance on operational aspects. Offset will be an important factor. HMA Rome believes package deal necessary for sale.
PRODUCT: SEA HARRIER	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 136.00	MINISTERIAL: INVOLVEMENT:
REF NO	CON.DATE
1623	N.K.
	COMPETITION: USA (AV8B).
COUNTRY: <u>NETHERLANDS</u>	REMARKS: It is expected that a decision will be made end 84/early 85.
PRODUCT: SEAWOLF VL	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 24.00	MINISTERIAL: Min of S (DP) closely involved. INVOLVEMENT:
REF NO	CON.DATE
191	1985
	COMPETITION: USA(Sea Sparrow)
COUNTRY: <u>NORWAY</u>	REMARKS: The Norwegians need a wet and dry bridging system. They are looking at the US ribbon bridge (also in an FRG version). If they chose MGB for dry bridging alone, value will be £26.3m.
PRODUCT: MEDIUM GIRDER BRIDGE	
FIRM : FAIREY ENGINEERING	
VALUE :£m 50.00	MINISTERIAL: INVOLVEMENT:
REF NO	CON.DATE
1771	1985
	COMPETITION: USA;FRG.

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: SWEDEN REMARKS: A contract is expected in Jan 1985.

PRODUCT: MEDIUM GIRDER BRIDGE

FIRM : FAIREY ENGINEERING

VALUE :£m 1.30 MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

453 1985 COMPETITION:

COUNTRY: SWEDEN REMARKS: Swedes require fire and forget medium range air-to-air missile for JAS-39.

PRODUCT: SKYFLASH 90

BAe have proposed private venture development of Skyflash. BAe and MCCS are involved in a limited concept study, and DSO will be closely involved in the promotion.

FIRM : BRITISH AEROSPACE DG

VALUE :£m 25.00 MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

467 1988 COMPETITION:

COUNTRY: SWITZERLAND REMARKS: To replace Vampire FB-6/T-55 in trainer role. Much depends on RAF choice of a trainer to meet AST412.

PRODUCT: HAWK

FIRM : BRITISH AEROSPACE AG

VALUE :£m NK MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

574 N.K. COMPETITION: Italy (MB-339)

COUNTRY: SWITZERLAND REMARKS: Land Rover was chosen in 1984 to meet Swiss requirement, but finance will not now be available until 1985. Whilst we continue to be confident of Land Rover's success, the choice of trainer for the RAF AST 412 may influence matters.

PRODUCT: LAND ROVER

FIRM : LAND ROVER LTD

VALUE :£m 30.00 MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

470 1985 COMPETITION: Austria (Steyr)

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>TURKEY</u>	REMARKS: The requirement is for Turkey's 15 new frigates. Racal have submitted a tender through NA Ankara. The Turks are thought to favour Racal's equipment. The first instalment is expected to be ordered towards the end of 1984.
PRODUCT: ELECTRONIC WARFARE & ECM EQUIP	
FIRM : RACAL RADAR DEFENCE	
VALUE :£m 45.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Netherlands (Signaal).
1753 N.K.	
COUNTRY: <u>TURKEY</u>	REMARKS: Subsequent to initial proposals from BAe, the Turkish Defence Minister stated that the TAF would procure 40 Tornado IDS if a suitable financial package, involving both FRG & Italy, could be constructed. BAe recently submitted proposals involving a greater degree of risk sharing by the private sector. ECCD credit of up to £344m now being sought. A meeting of the OD has been called to consider the question.
PRODUCT: TORNADO IDS	
FIRM : PANAUIA	
VALUE :£m 573.00	MINISTERIAL: Both S of S and Min (DP) have approached FRG about possible use of FRG aid, INVOLVEMENT: but this proposal has been rejected.
REF NO CON.DATE	COMPETITION:
353 N.K.	

END

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>BAHRAIN</u>	REMARKS: MOD UK report submitted September 1983. UK firms proposals submitted shortly thereafter for low level radars, supplemented by airborne radars fitted to Skyvan or Islander aircraft. Proposals well received by BDF and they speak favourably of the Marconi S511 radar. Decision imminent. DMAO reports US currently advising on radar. COS reported as saying that radar acquisition under consideration in GCC committee. GCC committee visited UK 15-20 Oct 1984.
PRODUCT: LOW LEVEL RADAR	
FIRM : VARIOUS	
VALUE :£m 10.00	MINISTERIAL: Prime Minister and Minister(DP) (Mr Pattie) met HH Amir of Bahrain 10-13 April 1984. Minister (DP) (Mr Butler) visited Bahrain October 1984.
REF NO CON.DATE	COMPETITION:
373 1984	
COUNTRY: <u>BAHRAIN</u>	REMARKS: BAe have excellent prospect to fit Sea Skua to BDF AB212s. BAe have invited C.O.S. to visit No 815 Squadron. CO BDF Air Wing indicated in the margins of Farnborough Air Show that a decision would be made in early 1985.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 25.00	MINISTERIAL: Prime Minister and Minister (DP) (Mr Pattie) met The Amir of Bahrain 10-13 April 1984. Minister (DP) (Mr Butler) visited Bahrain October 1984.
REF NO CON.DATE	COMPETITION: France (AS15TT)
42 1984	
COUNTRY: <u>EGYPT</u>	REMARKS: VT have proposed Single Role Minehunter (SRMH) to meet the Egyptian Navy's requirement for MCMV. In an effort to prevent the order going to the Dutch (Tripartite) CNS has agreed (subject to Ministerial approval) to consider lease or sale of HMS Wilton/HMS Hurworth.
PRODUCT: MINEWARFARE SHIPS	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 66.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Netherlands, France, Belgium.
1787 1984	
COUNTRY: <u>JORDAN</u>	REMARKS: Following the refusal by the USA to supply Stinger missiles the Jordanians are looking for alternatives. Jordanian C in C has asked for a G to G credit package for equipment requirements. List of equipments produced with budgetary prices and timescales. HDS passed these to JAF CinC during S of S visit in October. Package value £450m. Major elements are Javelin missiles, aircraft refurbishment/EW, tank ammo, FPBs and comms/EW. £300m ECGD credit being considered.
PRODUCT: JAVELIN	
FIRM : VARIOUS	
VALUE :£m 450.00	MINISTERIAL: S of S visited Jordan in October. PM met with King Hussein mid-September.
REF NO CON.DATE	INVOLVEMENT: COMPETITION: USSR, France.
579 1985	

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>KUWAIT</u>	REMARKS: Kuwait have requirement to equip 5 or 6 battalions with APCs. Infantry Committee impressed with MCV-80 during visit in April 1984 and GKN Sankey successfully demonstrated vehicle in Kuwait in August and September 1984. Strong political support will be required as major defence equipment purchases by Kuwait are invariably awarded in turn to major arms producing countries.
PRODUCT: APCs/IFVs	
FIRM : GKN SANKEY	
VALUE :£m 300.00	MINISTERIAL: S of S discussed with Shaikh Salim, Minister of Defence, in July 1983, and INVOLVEMENT: visited Kuwait in February 1984. Min(DP) (Mr Butler) visited October 1984.
REF NO CON.DATE	COMPETITION: USA (Bradley, Cadillac Gage); Brazil (Engesa); USSR (BMP-2).
206 1985	
COUNTRY: <u>KUWAIT</u>	REMARKS: The Kuwaitis are showing a very strong interest in Challenger. It impressed during Abu Dhabi trials July/August 1983 and again at Bovington and Hohne ranges in Germany in April 1984 when the Kuwait armour and infantry committees visited. Kuwaitis intend to equip 3 regiments with new tanks but are unlikely to begin serious deliberations for at least a year. Prospects seem particularly good as US unlikely to sell M1 and FRG refused to sell Leopard II.
PRODUCT: MAIN BATTLE TANKS	
FIRM : ROYAL ORDNANCE FACTORIES	
VALUE :£m 150.00	MINISTERIAL: S of S discussed with Shaikh Salim, Minister of Defence, in July 1983, and INVOLVEMENT: visited Kuwait in February 1984. Minister (DP) (Mr Butler) visited October 84.
REF NO CON.DATE	COMPETITION: USA (M1),USSR(T72), France (AMX-32).
205 1987	
COUNTRY: <u>OMAN</u>	REMARKS: Tri-service requirement. MODUK provided initial study by 2 senior British officers and an LSP specialist to help run project. Embank Preece selected as consultants. Marconi hope to be selected as prime contractor; prospect for hardware from various UK electronics firms. Project includes substantial civil works content which is expected to be awarded to UK company. Morgan Grenfell are acting as UK focal point for financial arrangements.
PRODUCT: COMMUNICATIONS PROJECT	
FIRM : VARIOUS	
VALUE :£m 300.00	MINISTERIAL: Min(AF) visited Oman Oct 84.
REF NO CON.DATE	INVOLVEMENT:
208 1984	COMPETITION:
COUNTRY: <u>OMAN</u>	REMARKS: An in-country trial of FH70 took place in April 1984. It is hoped that this will result in a contract for 7 guns and an early follow-on buy of a further 6-12 guns. Oman is now showing interest in Austrian competitor, possible political snub. UK firms have now agreed their respective roles, with VSEL supplying the gun, IMS providing support and ROFs ammunition.
PRODUCT: FH70	
FIRM : VICKERS SEL	
VALUE :£m 10.00	MINISTERIAL: Min(AF) visited Oman Oct 84.
REF NO CON.DATE	INVOLVEMENT:
611 1984	COMPETITION: Austria (Novicum).

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>OMAN</u>	REMARKS: Oman has declared a strong preference for Tornado ADV and 4 GR1s visited Oman in February 1984 as part of Exercise Magic Carpet. BAe continue to have technical discussions with SOAF. Discussions on credit in train with financial institutions. BAe hope to sign contract by end of 1984. The Omanis have requested an umbrella MOU which includes Tornado. This is currently being staffed in MoD.
PRODUCT: TORNADO ADV	
FIRM : PANAVIA	
VALUE :£m 200.00	MINISTERIAL: S of S discussed with Sayyid Fahr in June 1983. Min(DP) discussed briefly with
REF NO CON.DATE	INVOLVEMENT: Sayyid Fahr at RNEE in September 1983. Min(AF) visited Oman Oct 84.
49 1986	COMPETITION: USA.
COUNTRY: <u>QATAR</u>	REMARKS: Firm long-term requirement. Budgetary provision believed to have been made in this financial year for purchase of initial vessel. French competition strong and assisted by warship visits. Qatar crew selected for training and 3 officers completed specially designed MOD course October 84. Final procurement decision will be on political, financial & delivery considerations. Political support essential.
PRODUCT: MINEWARFARE SHIPS	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 60.00	MINISTERIAL: Minister (DP) visited October 1984.
REF NO CON.DATE	INVOLVEMENT:
51 1985	COMPETITION: France (CNM)
COUNTRY: <u>SAUDI ARABIA</u>	REMARKS: A number of indications of Keen RSAF interest in Alarm identified earlier this year (1984), were confirmed when Headquarters RSAF wrote to the Air Attache in Jeddah in September 1984 asking BAe (DG) to submit detailed proposals for the supply of 750 weapons. Joint MoD/BAe discussions are continuing to resolve questions of an acceptable delivery programme and the necessary sanitisation needed to satisfy an export order.
PRODUCT: ALARM	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 150.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
1794 1986	COMPETITION: USA (HARM)
COUNTRY: <u>SAUDI ARABIA</u>	REMARKS: Contract negotiations for training on equipment already supplied are at final stage.
PRODUCT: ARTILLERY SURV. EQPT, TRAINING	
FIRM : IMS	
VALUE :£m 7.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
1470 1984	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: SAUDI ARABIA	REMARKS: Contract negotiations at final stage. IMS Project No 96/22/091.
PRODUCT: ARTILLERY SURVEILLANCE EQPT.	
FIRM : IMS	
VALUE :£m 23.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
62 1984	
COUNTRY: SAUDI ARABIA	REMARKS: Draft contract issued but negotiations delayed owing to moratorium. IMS Project No 96/22/095. Original large package now reduced to MGB and trackway only
PRODUCT: ENGINEERING PACKAGE	
FIRM : IMS	
VALUE :£m NK	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
53 1984	
COUNTRY: SAUDI ARABIA	REMARKS: Support package. Draft contract being considered. IMS hopeful of contract signature by mid/end November 1984.
PRODUCT: ENGINEERING PACKAGE	
FIRM : IMS	
VALUE :£m 6.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
58 1984	
COUNTRY: SAUDI ARABIA	REMARKS: YCosted proposals, including a buy-back of BAe Strikemaster training aircraft were submitted to the Saudi Minister of Defence and Aviation in April 1984. A decision by the Saudi government is awaited.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 175.00	MINISTERIAL: S of S discussed this prospect with his Saudi counterpart in Riyadh in Jan- INVOLVEMENT: uary 1984, and has since written to him in support of the proposals.
REF NO CON.DATE	COMPETITION: France/FRG (Alpha-jet)
56 1984	

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: SAUDI ARABIA	REMARKS: Costed proposals presented by Shorts to SANG in October 1983 with HMG letter of comfort. Presentation offered.
PRODUCT: JAVELIN	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 17.00	MINISTERIAL: Mentioned by S of S in his letter of March 1984 to Prince Abdullah.
REF NO CON.DATE	INVOLVEMENT:
345 1984	COMPETITION: Sweden (RBS70).
COUNTRY: SAUDI ARABIA	REMARKS: VSEL await invitation to present technical proposals. Written presentation submitted mid-84.
PRODUCT: PIRANHA SUBMERSIBLE	
FIRM : VICKERS SEL	
VALUE :£m 100.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
203 1984	COMPETITION: FRG, Italy
COUNTRY: SAUDI ARABIA	REMARKS: Costed proposals, including a buy-back of Lightning aircraft were submitted to the Saudi Minister of Defence and Aviation in April 1984. A Saudi Air Force evaluation team visited the UK in July/August 1984 and their report on the aircraft was submitted to the Minister at the end of August. A decision by the Saudi government is now overdue if delivery dates and prices are to be maintained. An option on a further 20 has been mentioned.
PRODUCT: TORNADO IDS	
FIRM : PANAIA	
VALUE :£m 425.00	MINISTERIAL: For contract signature, if successful, Mr Heseltine sent a "hastener" to
REF NO CON.DATE	INVOLVEMENT: Prince Sultan on 18 October 1984.
64 1984	COMPETITION: USA (F-15 Enhanced Eagle), France (Mirage 2000).
COUNTRY: UAE	REMARKS: Plessey proposals well regarded and linked to ADOC (PRI Ref70). We have offered the service of RAF ADAT which has not yet been taken up. Marconi are being discouraged from cutting across Plessey. GCC Committee visited Plessey Oct 84.
PRODUCT: AR 3D RADAR	
FIRM : PLESSEY RADAR	
VALUE :£m 50.00	MINISTERIAL: PM, S of S and Min (DP) met Shaikh Khalifa Crown Prince & DSC Abu Dhabi 18-19
REF NO CON.DATE	INVOLVEMENT: July 1984. Min(DP) visited UAE in Oct 84 (Mr Butler).
68 1984	COMPETITION: France (Thomson CSF), USA (Hughes).

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: UAE	REMARKS: Mod is giving full backing to an IMS led combination of British electronics
	firms. Interim JOC contract has not given IMS clear advantage for full
PRODUCT: JOINT OPERATIONS CENTRE	contract. International competition is strong. UAE have been invited to send a
	team to visit UK Operations Centres but the UAE progress is slowing down. This
FIRM : IMS	is due inter alia to finance, integration with Air Defence Scheme and the need
	to gain experience of the (I)JOC.
VALUE :£m 50.00	MINISTERIAL: PM, S of S and Min (DP) met Shaikh Khalifa Crown Prince & DSC Abu Dhabi 18-
	INVOLVEMENT: 19 July 1984. Min(DP) (Mr Butler) visited UAE in October 1984.
REF NO CON.DATE	
71 1984	COMPETITION: USA, France, FRG.

END

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: AUSTRALIA REMARKS: Australia requires new submarines to replace its existing Oberons. It is planned that some of the submarines will be built in Australia. VSEL are promoting T2400 and T2400 variant which more closely matches Australia's requirement. Plessey and Ferranti have submitted proposals for the combat system. RFT proposals currently under consideration by DOD. A short list of 2-3 contractors for project definition studies will be chosen by the end of the year.

PRODUCT: TYPE 2400 SUBMARINE

FIRM : VICKERS SEL

VALUE :£m NK MINISTERIAL: Minister (DP)
INVOLVEMENT:

REF NO	CON.DATE
4	1986

COMPETITION: France, Holland, Germany, Italy, Sweden.

COUNTRY: AUSTRALIA REMARKS: This is the first phase of a 3 phase purchase of 36 helicopters for the RAAF. The second phase covers 18 aircraft and the third phase 6 aircraft. The details shown above refer only to phase 1. The cost figures cover helicopters only and do not include any element for spares or training. Westlands submitted a proposal to DOD for the first phase at the end of September and this is now under evaluation. A decision is expected in mid 85.

PRODUCT: WESTLAND 30

FIRM : WESTLAND HELICOPTERS

VALUE :£m 50.00 MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE
198	1985

COMPETITION: USA (Black Hawk).

COUNTRY: INDIA REMARKS: Negotiations delayed by death of Defence Secretary have begun. Credit will be required and a package is being formulated.

PRODUCT: FH70

FIRM : VICKERS SEL

VALUE :£m 600.00 MINISTERIAL: Min (DP) discussed during visit to India in May 1984.
INVOLVEMENT:

REF NO	CON.DATE
8	1984

COMPETITION: France, Austria, Sweden.

COUNTRY: INDIA REMARKS: Negotiations underway. Latest indications are contract will be concluded by December 1984. Indian amendments to original MOU under consideration.

PRODUCT: SEA HARRIER

FIRM : BRITISH AEROSPACE AG

VALUE :£m 175.00 MINISTERIAL: Min (DP) discussed during visit to India in May 1984.
INVOLVEMENT:

REF NO	CON.DATE
7	1984

COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>INDIA</u>	REMARKS: The Indian Army have a requirement to update their Vijayanta tanks and are considering various UK equipments to meet this requirement. They also have a requirement for an indigenously manufactured MBT and are looking to Europe for co-operation in this field. Barr & Stroud demonstrated thermal imagers, Marconi Radar negotiated contract for 70 Simplified FCS and RR has supplied 2 CV12 engines for further trials.
PRODUCT: VIJAYANTA REFIT	
FIRM : VARIOUS	
VALUE :£m 500.00	MINISTERIAL: Discussed by Minister (DP) in India.
REF NO	CON.DATE
473	1986
	INVOLVEMENT:
	COMPETITION: FRG
COUNTRY: <u>INDONESIA</u>	REMARKS: Proposals being submitted with ministerial support for Hawk 200. Total requirement in excess of 100 aircraft.
PRODUCT: HAWK 200	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m NK	MINISTERIAL: US of S(DP) discussed during his visit in May 1984.
REF NO	CON.DATE
182	1986
	INVOLVEMENT:
	COMPETITION:
COUNTRY: <u>INDONESIA</u>	REMARKS: Discussions currently being held in Jakarta. Intermarine considered to be favourites.
PRODUCT: MINEWARFARE SHIPS	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 150.00	MINISTERIAL: US of S(DP) discussed during his visit in May 1984.
REF NO	CON.DATE
349	1984
	INVOLVEMENT:
	COMPETITION: FRG, Holland, Italy.
COUNTRY: <u>INDONESIA</u>	REMARKS: Strong indication that IAF will select Rapier as preferred choice to meet priority requirement for short range AD. BAe have submitted credit backed offer for initial order of one battery of optical/tracked Rapier, plus in country support. Contract expected for 2 batteries by December 1984.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 100.00	MINISTERIAL: US of S(DP) discussed during visit May 1984.
REF NO	CON.DATE
348	1984
	INVOLVEMENT:
	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>JAPAN</u>	REMARKS: Although LAW 80s elimination from the US competition for a LAW may adversely affect its chances in Japan, HEL seem confident that a sale can be achieved once firing trials are held in Spring 1985, witnessed by JGSDF, and the weapon is accepted by the British Army in late 1985. An initial sale of 50 systems for evaluation is the likely outcome.
PRODUCT: LAW 80	
FIRM : HUNTING ENGINEERING	
VALUE :£m 25.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
449 1985	
COUNTRY: <u>JAPAN</u>	REMARKS: Sea Harrier is being promoted for sea lane defence and it is hoped that the JMSDF will allocate preliminary funding for an initial purchase of up to 24 aircraft. A fundamental obstacle is the associated need for carriers which the JMSDF would find politically difficult to acquire. SHAR's ability to operate from outlying islands is thus being stressed. SHAR MLV, Harrier II, & Tornado are contenders for the FS-X programme for anti-ship/defence fighter late 1990s.
PRODUCT: SEA HARRIER	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 150.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Japan (F-1, F-4), USA (F-16E, F-15E, FA-18)
450 1987	
COUNTRY: <u>MALAYSIA</u>	REMARKS: Contract slipped to meet 5 year programme commencing 1986 but it is understood approval has been given. Will be implemented over 5 year period in stages. Total cost £100m but initial contract estimated at £20m.
PRODUCT: DEFENCE OPERATIONS ROOM	
FIRM : EASAMS	
VALUE :£m 20.00	MINISTERIAL: Letter from S of S (10.2.83) INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA
25 1986	
COUNTRY: <u>MALAYSIA</u>	REMARKS: Outline support package already submitted. Full MOU likely to be presented late November. Contract decision March 1985.
PRODUCT: FH70	
FIRM : VICKERS	
VALUE :£m 12.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Sweden, Austria (GC-45),
1744 1986	

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>MALAYSIA</u>	REMARKS: IMS submitting proposals for construction and equipping of an 'A' vehicle workshop as stage 1 of overall project. Package includes offer of joint venture with Malaysians on construction.
PRODUCT: GEMAS RANGE PROJECT	
FIRM : IMS	
VALUE :£m 10.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 352 1984	COMPETITION: Australia.
COUNTRY: <u>PAKISTAN</u>	REMARKS: VT proposals for 3 broadbeamed frigates (2 UK build, 1 local) submitted 8/82. PM ACNS(Plans) and team visited UK 7/84 followed by visit of PM CNS, when draft MOU presented covering RN support for engineering services, training & logistic support services. Pakistan MoD issued Letter of Intent to VT Sept 84. UK MoD invited to act as consultants in contract negotiations with VT which commenced 10/84. Formal letter of agreement for consultancy to be issued 11/84.
PRODUCT: TYPE 21 FRIGATE	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 300.00	MINISTERIAL: PM's letter to Zia 8/82. 3/84 ECGD cover to 50% of increased contract value
REF NO CON.DATE 2 1984	INVOLVEMENT: agreed. PM letter of support to Zia 5/84. Zia letter 7/84 to PM confirms UK offer favoured. PM acknowledged 10/84. COMPETITION: France, Italy, FRG, Belgium.
COUNTRY: <u>PR CHINA</u>	REMARKS: The collapse of Project 051 affected the progress on this project but Chinese interest in Interceptor Gamma (Sea Archer 1A FCS, command tactical console surveillance radars) was renewed during RNEE 83. BAe have submitted proposals for the sale of up to 5 systems initially, followed by technology transfer leading to full local manufacture. Third party sales rights will be a precondition to a contract.
PRODUCT: PROJECT 037 (CORVETTE REFIT)	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 10.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 180 1984	COMPETITION: France (Creusot Loire)
COUNTRY: <u>REPUBLIC OF KOREA</u>	REMARKS: BAe have submitted a draft contract for Sea Skua in association with the naval helicopter requirement. A decision has been deferred, for financial reasons, for contract in early 1985. Sea Skua has been offered to South Korea on the Westland Lynx, Kaman Sea Sprite and Agusta 219 helicopters and may be offered on the Sikorsky S76, all competing for the ROK Navy contract.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 8.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 14 1985	COMPETITION: France.(AS15TT in a package with the Dauphin helicopter).

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: REPUBLIC OF KOREA REMARKS: ROK Army have still to allocate funds for purchase of troop transport and, moreover, may lose responsibility for this function to ROKAF. Shorts are maintaining marketing pressure in anticipation of developments in 1985. Funding is a problem for the ROK and a credit package may be required.

PRODUCT: SKYVAN

FIRM : SHORT BROS AIRCRAFT

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE	COMPETITION:
13	1986	Spain, Canada

COUNTRY: REPUBLIC OF KOREA REMARKS: ROK MND have initialised draft contracts with several companies for 10-12 shipborne helicopters. A decision is expected early next year with the selected firm likely to be invited to provide a helicopter for a 6 month trial in Korea in January 1986. Contract would follow subject to evaluation. A credit package may be required as may RN support in training etc.

PRODUCT: LYNX (NAVAL)

FIRM : WESTLAND HELICOPTERS

VALUE :£m 55.00 MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE	COMPETITION:
26	1986	France(Dauphin), Italy (Agusta 219),USA(S76, Seasprite).

COUNTRY: SINGAPORE REMARKS: UK is currently assisting Singapore in determining its requirement. 1985 will see continuing support particularly with regard to linking and processing of data from airborne and ground based radars.

PRODUCT: C(CUBED) SYSTEMS

FIRM : VARIOUS

VALUE :£m NK MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE	COMPETITION:
1802	N.K.	

COUNTRY: SINGAPORE REMARKS:

PRODUCT: LYNX (NAVAL)

FIRM : WESTLAND HELICOPTERS

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE	COMPETITION:
1799	1985	

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: SINGAPORE REMARKS: RR are vying with GEC for the re-engining of up to 100 Skyhawks. Discussions have been held with RSAF re training and support and formal offer submitted at the end of October.

PRODUCT: RB.199 ENGINE

FIRM : ROLLS-ROYCE

VALUE :£m 250.00

MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

1745 N.K.

COMPETITION: USA (General Electric F404).

COUNTRY: THAILAND

REMARKS:

PRODUCT: HS 748

FIRM : BRITISH AEROSPACE AG

VALUE :£m 44.00

MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

1795 1985

COMPETITION:

COUNTRY: THAILAND

REMARKS:

PRODUCT: JAGUAR

FIRM : BRITISH AEROSPACE DG

VALUE :£m 60.00

MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

1643 1985

COMPETITION:

COUNTRY: THAILAND

REMARKS: Vickers in discussions with FFG of FRG. In-country trial carried out in Spring 1984. Project delayed owing to lack of finance but requirement remains.

PRODUCT: M41 RETROFIT

FIRM : VICKERS SEL

VALUE :£m 65.00

MINISTERIAL:

INVOLVEMENT:

REF NO CON.DATE

355 1986

COMPETITION: USA.

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: THAILAND	REMARKS: Vickers have tabled proposals for MK 3 to meet RTA requirements for 100 medium tanks for main defence. Spring trials went well. Vickers still optimistic, but finance unlikely to be available in near future.
PRODUCT: VICKERS MBT	
FIRM : VICKERS SEL	
VALUE :£m 250.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA (M-60)
354 1985	

END

ANNEX C - PRIORITY ONE PROSPECTS - AFRICA

COUNTRY: ALGERIA REMARKS: Industrial consortium (Marconi, Plessey Radar, and Racal-Decca) have submitted costed proposals through HMG for Algerian authorities covering a phased scheme. At Algerian request the consortium have submitted a further technical and cost proposal against an Algerian specified Preliminary Phase Requirement. Further discussions have led to definitions of a reduced initial phase for which proposals were submitted in early Oct 84 (approx £100m).

PRODUCT: AIR DEFENCE SCHEME (ACCORD)

FIRM : MARCONI PROJECTS

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
21 1985 COMPETITION: France.

COUNTRY: ALGERIA REMARKS: Minister (DP) request in March 1984 to improve credit terms were rejected by Minister of Trade. Contract awaiting ratification by Algerians. Credit terms: 10.7% for 85% of contract value over 7 years from mean commissioning to be finalised.

PRODUCT: GENDARMERIE BARRACKS

FIRM : BAXTER FELL

VALUE :£m 132.00 MINISTERIAL: See above.
INVOLVEMENT:

REF NO CON.DATE
582 1984 COMPETITION:

COUNTRY: ALGERIA REMARKS: Designated under MOU. Contract awaiting ratification by Algerians. Some training places from (scarce) Army resources will be provided. Credit terms still to be finalised.

PRODUCT: GR 083 RADIO RELAY

FIRM : MARCONI COMMUNICATION SYSTEMS

VALUE :£m 50.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
581 1984 COMPETITION: France.

COUNTRY: ALGERIA REMARKS: Joint (Anglo-Algerian) study team established to consider co-operation in industrial aspects of Hawk assembly, establishment of aircraft and engine overhaul/repair facility and training. Team due to report in the autumn to enable decision to be taken by end of year. Credit will be required.

PRODUCT: HAWK

FIRM : BRITISH AEROSPACE AG

VALUE :£m 200.00 MINISTERIAL: Algerian CAS called on PM and Minister (DP) during successful visit to UK in
INVOLVEMENT: March 84.

REF NO CON.DATE
22 1985 COMPETITION: France/FRG (Alpha-Jet).

END

ANNEX C - PRIORITY ONE PROSPECTS - NORTH AMERICA

COUNTRY: <u>USA</u>	REMARKS: The US have expressed interest in evaluating the 105mm Light Gun, and have requested that 25 guns (L119 configuration) be leased by the ROFs to the US Army for a period of 3 years with the option of buying the guns at any time during the lease period. Ultimately the US Army would require the release of technical data and the granting of manufacturing licence for production of the gun in the US
PRODUCT: 105mm LIGHT GUN (UK)	
FIRM : ROYAL ORDNANCE FACTORIES	
VALUE :£m NK	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	
1766 N.K.	COMPETITION: USA
COUNTRY: <u>USA</u>	REMARKS: Minister (DP) and Secretary USN have jointly agreed that UK should proceed with its FLIR development programme, adjusted to ensure that the equipment is suitable for AV-8B, and that UK will bear full development costs. FLIR procurement will be awarded to UK contractor for AV8B and GR5. Remaining changes required to give both aircraft full night capability will be undertaken within a joint programme, costs to be shared along lines of existing AV8B/GR5 MOU.
PRODUCT: FLIR FOR AV-8B	
FIRM : GEC AVIONICS	
VALUE :£m NK	MINISTERIAL: Minister (DP) INVOLVEMENT:
REF NO CON.DATE	
1768 N.K.	COMPETITION: USA
COUNTRY: <u>USA</u>	REMARKS: McDonnell Douglas have been awarded a contract by the USN, initiating full scale development of the T45 Hawk training system. Total cost of development is \$438m. Delivery of 300 production aircraft is due to run from 1989 to 1997. Total programme cost \$3.2 billion. BAe's share of aircraft design and production is around 18%. The programme will continue to be closely monitored through DSD(Washington) in support of UK industrial interests.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 461.00	MINISTERIAL: Minister (DP), Secretary of State. INVOLVEMENT:
REF NO CON.DATE	
77 1984	COMPETITION: USA.
COUNTRY: <u>USA</u>	REMARKS: Development of the JP233 airfield attack weapon system was originally a joint UK/US project from which the USAF withdrew in 1978 due to lack of funding. USAF now seem poised to develop & procure a system known as DAACM (Direct Airfield Attack Cluster Munition). HEL's HB876 now representd the best prospect of a sale to the US. The USAF are in no doubt that DAACM must have area-denial mines, and HB876 is widely regarded as the only feasible option in timescale.
PRODUCT: HB876 AREA-DENIAL MINE	
FIRM : HUNTING ENGINEER	
VALUE :£m 155.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	
1769 N.K.	COMPETITION: USA

ANNEX C - PRIORITY ONE PROSPECTS - NORTH AMERICA

COUNTRY: <u>USA</u>	REMARKS: US Army has written to Congress setting out its long range mortar strategy; this includes I-81mm mortars at company level for mechanised and standard infantry divisions, and at battalion level for light infantry divisions. Congressional agreement has been requested to proceed with procurement of mortars using FY84 money.
PRODUCT: IMPROVED 81mm MORTAR	
FIRM : ROYAL ORDNANCE FACTORIES	
VALUE :£m 350.00	MINISTERIAL: Minister (DP), Secretary of State.
	INVOLVEMENT:
REF NO CON.DATE	
74 1985	COMPETITION: USA.

COUNTRY: <u>USA</u>	REMARKS: US Army has recently issued the RFP (Request for Proposals) for the MSE requirement. Response date 30 September 1984. Contract award scheduled for May/June 1985. Plessey have formed a consortium with US companies Rockwell Collins (as prime) and ITT to respond. If successful, Plessey's share of business could total \$1.5 billion.
PRODUCT: MOBILE SUBSCRIBER EQUIPMENT	
FIRM : PLESSEY DEFENCE SYSTEMS	
VALUE :£m NK	MINISTERIAL: Minister (DP), Secretary of State.
	INVOLVEMENT:
REF NO CON.DATE	
578 1985	COMPETITION: USA, France.

COUNTRY: <u>USA</u>	REMARKS: USAF have decided to use \$50m appropriated by Congress in FY83 to extend the 'Rapier Role Model' and procure Rapier for use in Turkey. A confirmatory letter from the US Assistant Secretary International Security Policy has been handed to Minister (DP); contractual negotiations are ongoing together with discussions over the package of UK concessions in support of this procurement.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 35.00	MINISTERIAL: Minister (DP)
	INVOLVEMENT:
REF NO CON.DATE	
227 1984	COMPETITION:

COUNTRY: <u>USA</u>	REMARKS: US/UK agreement for UK participation in Trident II (D5) weapon system program signed in April 1982. Approx 1500 UK firms briefed and around 290 "approved" as potential suppliers. Competition commenced mid 83 and expected to continue at least until late 86. No guaranteed offset sum. Total awards to UK industry therefore not known until all competition complete. However, unlikely to exceed single percentage figure of UK dollar outlay.
PRODUCT: TRIDENT II (D5) COMPONENTS	
FIRM : VARIOUS	
VALUE :£m NK	MINISTERIAL: Agreement (exchange of letters) signed by S of S. Both S of S and Min(DP)/US
	INVOLVEMENT: of S(DP) have been given briefs on progress of UK industry.
REF NO CON.DATE	
1767 N.K.	COMPETITION: USA

END

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: BAHAMAS REMARKS: Understand Bahamian PM has taken decision to purchase 3 fast patrol boats from
Fairey Marine and a Letter of Intent is in the process of being drafted. The
PRODUCT: FAST PATROL CRAFT initial recommendation by the RBDF was to purchase these craft from the US-
St Augustine Trawlers. However after strong support from MOD/FCO (including
FIRM : FAIREY ALLDAY MARINE offsetting LSP debts against payments due under the AUTEK agreement and the
offer of RN training assistance) it now appears this important contract won.
VALUE :£m 6.00 MINISTERIAL: Min (DP) wrote to the Bahamian PM (in his capacity as Minister of Defence)
INVOLVEMENT: indicating HMG support for Fairey's proposals.
REF NO CON.DATE
1474 1984 COMPETITION: USA (St-Augustine Trawlers)

COUNTRY: BRAZIL REMARKS: Westlands are competing for two separate requirements; 16 aircraft for use by
the Brazilian Navy on their new corvettes and 8 aircraft for use by the Mar-
ines in a troop carrying role. Credit cover will be required for this sale
and its provision will be a problem.
PRODUCT: LYNX (NAVAL)
FIRM : WESTLAND HELICOPTERS
VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:
REF NO CON.DATE
196 1985 COMPETITION: France, Italy, USA.

COUNTRY: BRAZIL REMARKS: Originally Brazil was to buy engine kits and components for the AMX via Italy,
but it is now almost certain that Brazil will purchase direct from Rolls Royce!
PRODUCT: RB.168 SPEY ENGINE An initial order worth about £16m is expected during 1985. Further and larger
orders will follow. Brazil may seek credit for these purchases but ECGD sup-
FIRM : ROLLS-ROYCE port is unlikely to be available unless RR can remove HMG from the liability
involved.
VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:
REF NO CON.DATE
1712 1985 COMPETITION:

COUNTRY: BRAZIL REMARKS: BAe(DG) have initialled a contract with the Brazilian Navy for the purchase of
the system but this is conditional on the availability of ECGD credit cover.
PRODUCT: SEA SKUA Efforts to secure this have been made by both DSO and Min (DP), but these have
been unsuccessful. BAe(DG) is now submitting proposals for a commercial finance
FIRM : BRITISH AEROSPACE DG package without ECGD support. Contract is for 4 helicopter fits and 16
missiles.
VALUE :£m 11.60 MINISTERIAL: M of S (DP)
INVOLVEMENT:
REF NO CON.DATE
36 1984 COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: <u>CHILE</u>	REMARKS: Ferranti have been competing for this requirement for over 2 years and seem well placed to achieve a contract during 1985.
PRODUCT: MIRAGE AVIONICS UPDATE	
FIRM : FERRANTI ELECTRONICS	
VALUE :£m 12.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Israel, France.
1713 1985	
COUNTRY: <u>CHILE</u>	REMARKS: The Chilean Navy has a requirement for up to 200 Seacat missiles for its UK built vessels (2 County Class, 2 Almirante Class, & 2 Leanders). Whilst budgetary constraints preclude a once off buy, Shorts are hopeful that an initial contract for 40/50 missiles will be concluded by mid/late 1985.
PRODUCT: SEACAT	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 10.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
1714 1985	
COUNTRY: <u>CHILE</u>	REMARKS: The Chilean Navy has said it will purchase, subject to negotiations on price/hull condition, one of the inshore survey ships to be offered for sale in 1985. There is also interest in RFA ENGADINE and the remaining County Class vessels.
PRODUCT: SURFACE WARSHIPS	
FIRM : HMG	
VALUE :£m 20.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
1715 1985	
COUNTRY: <u>CHILE</u>	REMARKS: BAe have submitted proposals for 24 launching pallets plus missiles. Negotiations are continuing and BAe are hopeful of securing a contract in the near future but much depends on their proposals for financing the sale.
PRODUCT: SWINGFIRE	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 10.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
604 1984	

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: ECUADOR REMARKS: Racal have signed a contract for half of the Ecuadorean Army's current tactical communications requirement. However the contract will not become effective until the financial package has been agreed. Ecuador is currently off ECGD cover and Racal have therefore been obliged to take some of the risk themselves and arrange commercial credit cover for the remainder. Tadiran (Israel) are believed to have won the other half of the order.

PRODUCT: COMMS EQUIPMENT

FIRM : RACAL-TACTICOM

VALUE :£m 11.20 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE

1545 1984 COMPETITION: Israel(Tadiran)-see above, France (Thomson-CSF)

COUNTRY: ECUADOR REMARKS: BAe have a letter of intent from the Ecuadorean Air Force for the purchase of a single Jaguar plus spares and ancillary equipment to cover attrition losses. Ecuador is at present off ECGD cover and BAe are offering credit at their own risk. It is likely that BAe will purchase one of the surplus ex-RAF Jaguars to meet this requirement.

PRODUCT: JAGUAR

FIRM : BRITISH AEROSPACE AG

VALUE :£m 9.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE

601 1985 COMPETITION:

COUNTRY: ECUADOR REMARKS: Ecuador's newly acquired Esmeralda class corvettes are fitted with helicopter platforms but no helicopters have yet been purchased. Westlands have successfully carried out a Naval Lynx landing on board these ships and are hopeful of achieving a sale. The requirement will be for 6-8 aircraft. Ecuador is currently off ECGD cover and there are therefore likely to be problems with any finance package.

PRODUCT: LYNX (NAVAL)

FIRM : WESTLAND HELICOPTERS

VALUE :£m 30.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE

1716 1986 COMPETITION: France, Italy.

COUNTRY: ECUADOR REMARKS: There has been a long standing requirement for RWRs for fitting to the FAE Jaguars. Budgetary problems have delayed the sale. However, Marconi are hopeful of getting a contract signed within the next 12 months.

PRODUCT: RADAR WARNING RECEIVER

FIRM : MARCONI DEFENCE SYSTEMS

VALUE :£m 1.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE

1717 1985 COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: <u>ECUADOR</u>	REMARKS: BAe(DG) have Ecuadorian Letter of Intent for purchase of Rapier. But Ecuador is off ECGD cover and contract signature will depend on the firm's ability to present a suitable finance package which could involve counter trade. Firm now making new proposals.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 20.00	MINISTERIAL: Minister (AF) has cleared the early release of Blindfire, should this be INVOLVEMENT: necessary.
REF NO CON.DATE	COMPETITION: France (Crotale).
105 1984	
COUNTRY: <u>PARAGUAY</u>	REMARKS: Shorts have submitted a quotation for 8 aiming units, the number of missiles to be supplied has not yet been decided. No decision is expected until the announcement of the 1985/6 Paraguayan defence budget in Spring 1985.
PRODUCT: BLOWPIPE	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 3.50	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
1718 1985	
COUNTRY: <u>VENEZUELA</u>	REMARKS: BAe obtained a contract just before the outbreak of hostilities in the South Atlantic in 1982. As a result, the down-turn in the Venezuelan economy was also a factor, it was never made effective. The Venezuelan president and senior military figures have now changed and there are signs that the time is right to try and revive the issue.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 100.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
1719 1985	

END

END OF RUN

CONFIDENTIAL UK EYES B - COMMERCIAL-IN-CONFIDENCE

PRIME MINISTER

FRIGATES FOR PAKISTAN

The problem of credit for the sale of three frigates to Pakistan has re-emerged, with the Pakistanis pressing us to find an extra £30 million of Government-supported credit to make sure of the contract. The currently agreed Departmental Maximum Liability is £215 million. There are rumours, but no hard evidence, of rival offers from the French and Germans.

A&B. The MOD and the FCO want to meet the Pakistani's wish basically on political grounds of support for General Zia.

C. The DTI are not enthusiastic but are prepared to go along. They point out the good industrial and employment arguments for supporting Vosper Thornycroft, and enhancing the prospect of privatisation.

D. The Treasury are firmly opposed. Our potential exposure on the sale is already more than is prudent, and the state of the Pakistani economy has worsened since the original decision was taken. They argue that we should revert to the two ship deal originally proposed, and offer to look again at a third ship at a later date (though the Pakistanis are adamant that they want three).

/E

E The Policy Unit agree.

The question is: are we prepared to do a bit extra (and we've already gone a long way) to support General Zia and contribute to the viability of Vosper Thorneycroft? Or should we call his bluff on alternative sources of supply and/or reduce the size of the order to two ships?

Do you want to take a view? Or ask the Lord President to chair a meeting to try to find a solution?

C.D.P.

Would you look at my private undertakings to President Zia? - Was it for 2 ships? me

10 December 1984



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

10 December 1984

Dear Secretary of State

FRIGATES FOR PAKISTAN

I have seen your letter of 19 ^{with CDP?} November to Paul Channon seeking agreement to an increase in ECGD's exposure on the proposed sale of frigates to Pakistan. I have also seen comments from Geoffrey Howe and from Paul Channon.

I cannot agree to any increase in our exposure on this sale. Even if I could I would see no reason why ECGD should cover the whole of the increase in the contract price when they were only covering a part of the original deal.

What is proposed, is a substantial increase in the cover we have exceptionally agreed should be made available for this sale. As Paul's letter makes clear, the increase now requested is £45 million rather than £10 million. In accepting the original amount of £215 million in respect of these frigates, we have already gone considerably further than would be prudent on this market. Since the OD discussion, the Pakistani economy has worsened. Their current account deficit has widened through a worsening of their trade balance and a reduction in migrants' remittances and a slow down in aid disbursements much of which, anyway, goes to meet the need of Afghani refugees. The basic problems of the Pakistani economy are reflected in their request that the additional finance now required should not be found from the commercial market since this would reduce their scope for other borrowings. This clearly recognises that they are at the limit of their borrowing powers and underlines the case against providing additional ECGD cover for these frigates, particularly as they will not enhance the ability of the Pakistani economy to service their debts.

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Cover was agreed for these frigates because of our political commitment to Pakistan which I accept remains. However that commitment was for only two frigates. The third, to be supplied in kit form and assembled in Pakistan, was included on the basis that it could be covered by the agreed £215 million ceiling on ECGD's exposure. As Nigel Lawson suggested in his letter of 10 August, if this cannot now be done we should revert to two ships with an offer to look again at the third at a later date.

Paul's final paragraph refers to the work being done at official level on handling large defence sales in doubtful markets. He suggests that one way forward may be for MOD to carry the relevant contingent liability themselves so as not to prejudice ECGD's support for other business. This suggestion does not however meet the real point that what must concern us is total HMG exposure in doubtful markets. If some of the contingent liabilities are transferred to MOD, ECGD's limits would have to be reduced pari passu. Changing the accounting treatment does not provide more scope for civil business in these uncertain markets.

I am sending copies of this letter to the Prime Minister, other Members of OD and to Sir Robert Armstrong.

Yours sincerely

P. Broadbent

for PETER REES

[Approved by the ^{Chief} Secretary]

10 DEC 1984

11 12 1
2 3
4 5
6 7 8



DEPARTMENT OF TRADE AND INDUSTRY
 1-19 VICTORIA STREET
 LONDON SW1H 0ET 5422
 TELEPHONE DIRECT LINE 01-215
 SWITCHBOARD 01-215 7877

Handwritten initials and circled number 2

PS/
 Secretary of State for Trade and Industry

6 December 1984

Charles Powell Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

Handwritten initials 'MS'

Prime Minister
You enquired
about this. It
seems that
agreement is near.
I shall ask for
you to be kept
informed.
CDP 6/xii

Dear Charles

SALE OF AIRBUS TO TURKEY

You enquired this morning about the problem over the sale of Airbus aircraft to Turkish Airlines in view of the concern expressed by M. Fabius to the Prime Minister over the inability of BAe to support this business. The award of this contract to Airbus Industrie was announced in October and contracts were due to be signed this month. At a late stage, however, BAe instructed Airbus not to sign the contract because they were dissatisfied with the official support they were getting through ECGD.

ECGD cover for this sale - as with all other project business in Turkey - has been offered throughout on a risk sharing basis under which ECGD would take 60% of the risk on the proposed 10 year loan for 85% of the contract price, with the other 40% of the risk on the loan being carried by the private sector. This degree of support was maintained even though the final negotiations involved seven aircraft as against the three aircraft originally agreed inter-departmentally. For reasons which are not altogether clear - though we suspect a degree of brinkmanship by Sir Ray Lygo - BAe are unwilling themselves to carry any share of the exposure relating to the Airbus, and their bankers have still not decided whether they will carry on their own account the risk on the £36 million loan amount not covered by ECGD.

Mr Channon will be considering the position with officials on his return from the United States on Monday and will consider what should be done in the event that the banks refuse to accept their share of the risk. Our latest information suggests that there is a

JH5AMZ



A good chance that this problem will be overcome within the next few days, but Mr Channon will consult colleagues if he considers that further support by ECGD should be given to prevent the loss of the business. We will keep you informed of developments.

Yours ever

Callum

M C McCARTHY
Private Secretary

JH5AMZ



From the Minister for Trade

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CC/NO

Rt Hon Michael Heseltine MP
 Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 LONDON SW1

*Await Treasury
 views (pl ask
 for views by
 someone)*

6 December 1984

MB

New Secretary of State

FRIGATES FOR PAKISTAN

Thank you for your letter of 19 November in which you seek agreement to the increase in ECGD's DML to £260 million for the proposed sale by Vosper Thornycroft of three frigates to Pakistan. I have subsequently received a letter of 3 December from Geoffrey Howe advising that he would not challenge your request.

Your request raises difficult issues, which were discussed in OD in March. On the one hand there are good industrial and employment arguments for supporting Vosper Thornycroft. This order would serve to preserve Vospers' steel warship facility at Woolston, Southampton together with some 1,000 jobs. It would therefore enhance the prospects for privatisation. Vospers would continue to be well placed for export orders.

On the other hand, OD regarded its decision that ECGD cover should be increased to cover three frigates as exceptional, given the level of exposure required on a country with a limited capacity to pay. Following the OD decision ECGD agreed risk sharing arrangements with Vospers and their bankers on the basis of a DML of £215 million which was duly notified to all parties. Hence the increase in cover you are seeking is in reality £45 million, which is substantial in its own right.

However, if in the spirit of the basic decision to support this deal the Prime Minister and other Ministers are content to agree to your request as a final concession to secure the order, I would raise no objection.

However, the whole negotiation underlines the difficulty of handling these large defence deals in doubtful markets within ECGD's financial terms of reference. As you know, a working party of officials is examining the issue of the accounting treatment for major defence sales but this exercise is yet to be



Defence PT4
Sales

CONFIDENTIAL

completed. I do hope that a mechanism can be found for dealing with these cases without prejudicing ECGD's support for business - if necessary, by the MoD carrying the relevant contingent liability for defence sales which they themselves are promoting.

I am copying this letter to the Prime Minister and other members of OD and to Sir Robert Armstrong.

Yours sincerely
J. Nutter

for PAUL CHANNON
[approved by the Minister and signed
in his absence]

12 1 2 3 4 5 6
16 JAN 1984



FCS/84/318

MINISTER OF STATE FOR TRADE AND INDUSTRYCCNO
Await DTT ad TnyFrigates for Pakistan

1. Michael Heseltine wrote to you on 19 November about Vosper Thornycroft's efforts to sell frigates to the Pakestan Nay.
2. You should know that during official talks on 21 November between Antony Acland and his opposite number in the Pakistan Foreign Ministry, Mr Niaz Naik, the latter pressed the case forcefully for HMG agreeing to the £30 million additional credit requested by the Pakistan Navy for the sale of these three frigates. He said the Pakistan authorities were unable to increase the commercial credit element within the financial package now under discussion. This was because the Pakistan Government could not afford to increase their commercial exposure, which was already high as a result of commitments under their present 5 year plan. They therefore looked to HMG to provide the extra £30 million so that the contract could be concluded.
3. Naik stressed President Zia's personal involvement in the frigates deal saying that he had originally taken the decision in principle to offer the contract to Britain and had turned down a personal approach from President Mitterrand. President Zia wanted the Pakistan Navy to continue to have its main links with Britain. Other services, the Army and Air Force, had in recent years developed links with other countries, notably the United States. While there may be some element of bargaining in the Pakistan position as put forward by Naik the position as he explained it is plausible and we should, I believe pay proper attention to what he said.
4. As for the German interest, it is difficult to know how



for discussions between them and Palistan have gone but the signs are that Chancellor Kohl's recent visit to Pakistan made a considerable impact.

5. Negotiations for this contract would seem to be at an advanced, if not final, stage and it looks as if Britain may be near to clinching the sale. This is a big contract, and politically important for our relations with President Zia and the Pakistan Armed Services. I know that the Prime Minister (like myself) has from time to time been worried by the growing size of our bid (originally made in the aftermath of the Falklands campaign). But we have been persuaded that we have to follow the die, once cast. It was upon this basis that the Prime Minister again commended our bid to President Zia in warm terms on 30 September. Given his clear wish to buy British and the advantages that would flow from tying the Pakistan Navy to the UK, it would seem illogical and unwise to risk the contract now by attempting to call Pakistani bluff, if that is what it is. Sir Oliver Forster, who has just returned from Islamabad, shares this view. For these reasons I should not wish to challenge Michael Heseltine's request to make the necessary increase to ECGD's upper limit of DML for Pakistan.

6. I am copying this letter to the Prime Minister and other members of OD and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

3 December, 1984

CONFIDENTIAL

E 3 DEC 1984

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Dejeune #4

Sales



HOUSE OF COMMONS
LONDON SW1A 0AA

26 November 1984

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PS

My dear Margaret,

Tornados for Turkey

Thank you for your letter of the 20 November. I would not trespass further on your valuable time on this subject if I did not sense from the third paragraph of your reply the omission of a number of key factors within the advice tendered to you on which the decision was made to refuse ECGD support.

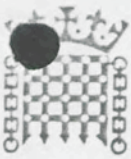
Whereas I agree with your statement that 'a cautious approach be adopted to increasing ECGD's exposure on military or civil business', I hope you will agree in turn that when the customer is the same for both military and civil business then only one ECGD standard can apply at one time to that customer.

Whilst you are being advised to turn down support for Tornados to Turkey, ECGD is simultaneously eager to support the sale of the Airbus 310s to Turkish Airlines, owned by the same customer, the Turkish Government!

If the UK and West Germany, together majority partners on Airbus, think the Turkish Government is a good customer, I find it impossible to understand how, when we are also majority partners on Tornado, the same customer can be treated differently. I trust it is not because the French have cleverly forced our hand by quietly getting ECGD committed to supporting the lesser value (£130m compared with £750m - these are the accurate figures), of the Airbus to our industry, so leaving us without resources to cover the Tornado sale? This would let in their Mirage 2000 fighter.

To the French and American governments aviation exports are regarded as great opportunities for the projection of their foreign policies. Of secondary value to them is the gaining of market shares, commercial success and the promotion of new technologies.

over/



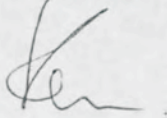
- 2 -

Whereas you are a wonderful promoter of British exports I am concerned to ensure that during consideration of ECGD support for this contract, you were appraised of four key factors. Firstly, the remarkable gains in the Turkish economy, cutting inflation and its balance of payments deficit in half and producing a 5.7% growth rate. Secondly, the excellent reliability of the Turkish Government's payments to UK defence equipment suppliers. Thirdly, the value of the order in easing the current strong strain on the rate of RAF expenditure by diverting RAF Tornado deliveries to Turkey, thus enabling us to stretch the time scale on deliveries to the RAF without the usual penalty of increased unit costs. Fourthly, the actual risk at any one time, is not the total value of the contract, but only the instantaneous value of 'work in progress', - which can be further reduced by progress payments from the customer.

If these factors were considered and rejected as of insufficient merit to justify support, one wonders what else can be done to prove an ally is worthwhile as a customer. If ECGD's track record is bad then of course they must find better sources of advice, but that is no reason, I respectfully submit, to throw away this easy catch.

I hope this additional information will cause you to call for a review of the Government's position on this contract which is being viewed inside Parliament and outside in industry and the City as a litmus test of our ability to promote industrial success.

Kenneth Warren

Yours truly


Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW1
PAMAAZ



DG-200AT

CCMA
DTI

10 DOWNING STREET

THE PRIME MINISTER

11 December 1984

Dear Kenneth,

Thank you for your letter of 26 November. I have also seen your further letter of 3 December, to which I will be replying shortly.

I must reassure you that all the key factors relevant to this case were taken into account when we reached our decision on the potential sale of Tornados to Turkey.

There is no question of our using double standards for ECGD exposure in any given market. The difference in response on Tornados, as opposed to that on Airbus, relates to the different amount of business involved. As I said before, we considered that the amount involved for the Tornados deal was quite out of scale with the amount of cover considered appropriate for Turkey in present circumstances. Incidentally, the figure of nearly £1 billion quoted in my letter of 20 November was that furnished to us by the company at the time. But even if the total figure were to be reduced to the £750 million which you have mentioned, the answer would have been the same. We were not prepared to agree to put at risk the kind of sums involved in the Tornados sale to Turkey - with or without the Airbus business.

I fully appreciate the prestige value for the UK in defence exports - and for that matter in civil exports as well. My prime consideration is that they should be paid for. But I do recognise that the size of some potential

6

defence sales poses special problems which are handled differently by some of our competitors. I had already asked officials to study all the issues involved and possible options open to us and to report back to me.

Your letter mentioned four specific issues for consideration. Let me deal with each of these in turn. We have indeed noted the remarkable gains in the Turkish economy; but the Turks still have a high level of outstanding debt and they will face problems next year when the bulk of their re-scheduled arrears start to become due for payment. The improvement in the economy had been tangibly recognised by the restoration of ECGD cover during the course of last year after a lapse of some time. But in view of the uncertainties, this exposure must be limited. Should the Turks unhappily experience further problems, then amounts outstanding on arm sales would be at risk just as much as those for civil sales. If, on the contrary, the Turks were to insist on meeting their arm sales payments at the expense of other debts, then ECGD would suffer risks against the civil business which they are covering.

It is true that the diversion of Tornado aircraft to Turkey would relieve pressure on RAF expenditure in the next few years but it would also delay the build-up of the RAF front line and could entail a temporary shortfall in our declared annual commitment of forces to NATO.

You say that the risk at any one time relates only to work in progress. This may well be the case when payments are completed on delivery of goods, but in an export sale on extended credit terms of payment as was proposed for the Tornados, it is clear that payments outstanding can in the first few years after delivery represent the major portion of the total contract value.

I do not regard a potential sale where payment is doubtful as an "easy catch" and we took the decision in this case that the risks were too great. That remains my view.

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Raycut

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Kenneth Warren, Esq., M.P.

CONFIDENTIAL

PRIME MINISTER

23 November 1984

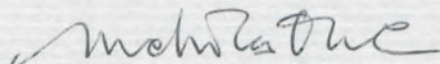
FRIGATES FOR PAKISTAN

Michael Heseltine's bid for an extra £30 million cover
ought to be resisted.

Having cheese-pared our programmes to hold public
expenditure to plan, at some political cost, how can we
countenance additional exposure in such a dodgy market?

Even if we had the money, we should not fall for this
salami tactic, without first having harder evidence about the
German package as a whole (price, terms, operational
attractions to the Pakistan Navy, local content). I
understand that the German frigate is a revolutionary concept,
which the German Navy has not adopted. How likely is it that
Pakistan will switch to an untried alternative in preference
to our frigates, whose architecture reflects the Royal Navy's
operating concepts, which are shared by the Pakistan Navy?

The point is made in the note that Pakistan is nervous
about fishing in the same pool as our commercial banks for
additional credit. This suggests that the market shares our
view about Pakistan's creditworthiness.


NICHOLAS OWEN

CONFIDENTIAL

DSG

file



10 DOWNING STREET

From the Private Secretary

22 November 1984

SALE OF TORNADO AND HAWK TO SAUDI ARABIA

The Prime Minister has noted the Defence Secretary's minute of 19 November about his talks with King Fahd and others on the possible sale of Tornado to Saudi Arabia. She also discussed it briefly with him yesterday evening. It was agreed that the omens for the Tornado sale were discouraging and that criticism of the Saudi Royal Family in the British press was probably a major factor in this.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office), Steve Nicklen (Department of Trade and Industry) and Richard Hatfield (Cabinet Office) with the same injunction on further circulation as appeared in the Defence Secretary's minute.

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

DSGADY

DSG



File 200
COPT

10 DOWNING STREET

THE PRIME MINISTER

21 November 1984

Dear Sir Austin,

Thank you for your letter of 30 October about the potential sale of 40 Tornados to Turkey. I well understand the significance of this sale to British Aerospace and other companies.

As you will I think be aware, we have nevertheless concluded that the financial risks for the Government in supporting this even with private sector support for a substantial proportion of the credit, are unacceptably high. I can assure you that the points you have made were fully taken into account in reaching this decision.

I am sorry to give you such a disappointing reply but I can assure you that we examined the case very carefully indeed.

Yours sincerely

Margaret Thatcher

Sir Austin Pearce, CBE

KB



file ECL
cc DTI

10 DOWNING STREET

THE PRIME MINISTER

21 November 1984

Dear Sir Raymond,

Thank you for your letter of 30 October about the potential sale of Tornados to Turkey. The outstanding record of the aerospace industry in exports, as well as the commercial and industrial significance of this particular order, are well understood by the Government. Nevertheless, in considering requests for credit support, for military as much as for civil business, the Government is bound to have regard to the economic circumstances and capacity to pay of the purchaser. In this case, and even with the private sector taking a substantial share of the risk as you proposed, we have concluded that the financial risks for the Government are unacceptably high.

I am sorry to give you such a disappointing reply but I can assure you that my colleagues and I went into the problem very carefully indeed.

Yours sincerely
Margaret Thatcher

Admiral Sir Raymond Lygo, KCB

—
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cc:AO
NO might do a
minute

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 6/13

19th November 1984

Paul

Await views of
~~DTF~~ & Treasury
CDP 23/11

FRIGATES FOR PAKISTAN

I owe colleagues a progress report on our efforts to sell three Type 21 frigates to Pakistan, about which the Prime Minister last wrote to President Zia on 30th September. Negotiations have reached a critical stage, following the issue of a Letter of Intent to Vosper Thornycroft on 17th September. The Royal Navy has agreed to act as consultants to the Pakistan Ministry of Defence during the contract negotiations. But the question of credit has arisen once again, and is of particular importance since, following Chancellor Kohl's recent visit to Islamabad, the Germans have put in a much improved offer to support their bid.

You will recall that OD on 28th March agreed exceptionally to provide ECGD cover to a total value of £154 million, or about 70% of the then contract value (£220 million for two ships). OD accepted a Departmental Maximum Liability (DML) of between £217 million and £250 million for ECGD, but in all the risk-sharing arrangements so far proposed to the banks, the DML has not exceeded £215 million even though the Pakistanis have now increased their order to three ships. In early September Grindlays offered the Pakistanis a total credit package of £200 million available from both ECGD and commercial sources.

The Rt Hon Paul Channon MP

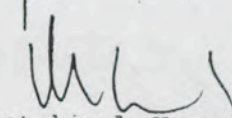


In the last round of technical discussions in October between Vospers and the Pakistani Ministry of Defence the full specifications of the ships were laid down, and the total contract value increased to £330 million, of which 93.5% is for wholly British equipment. The French, who appear to have fallen by the wayside, offered 80% credit, and the Germans have returned to the charge with 82%. Our current offer amounts to 61% (£200 million out of £330 million).

The Pakistanis have asked us to find another £30 million worth of government supported credit in order to make sure of the contract. They have assured HM Ambassador in Islamabad that although they will put up £100 million themselves, they can go no further, nor do they want Grindlays to go back to the commercial markets for any more than the £46 million already promised. I believe that there are good arguments for increasing our credit offer, especially since we need only increase by £10 million the upper limit of the DML already accepted by OD to accommodate the extra £30 million of credit to bring our offer back to nearly 70% of the contract value, as was the case in the package we originally agreed. ECGD, however, are so far resisting any increase in the DML beyond £215 million.

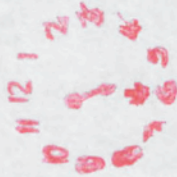
Having come so far, and with the Pakistanis saying that the contract must be signed in January, I believe that one last heave will land this deal. The long term benefits to our relations with the Pakistanis will be considerable; indeed, when we last discussed the subject in OD, it was agreed that the political case for agreeing the increased level of credit cover in support of the sale was overwhelming. Furthermore, the supply of British ships will have a beneficial spin-off in the Gulf and Saudi Arabia with whose navies the Pakistanis have very close links. I should therefore be grateful for your agreement to the necessary increase in ECGD's upper limit of DML.

I am sending copies of this letter to the Prime Minister, other members of OD and to Sir Robert Armstrong.

yes em

Michael Heseltine

Defence : Sales A by

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Prime Minister
CDP
19/11

PRIME MINISTER
SALE OF TORNADO AND HAWK TO SAUDI ARABIA

As we agreed, I visited Saudi Arabia at the weekend for talks with the Defence Minister, Prince Sultan, about the possible sale of Tornado. I went on to a meeting with King Fahd at which I handed over your letter of 9th November. Records of these meetings will be circulated in the normal way but I thought you might find helpful a brief report.

2. The Saudis were most hospitable and the atmosphere in both meetings was good. The talks with Prince Sultan lasted over three hours and I had nearly an hour with the King. They are clearly anxious to maintain good relations with us. But the position on Tornado is not reassuring.

3. At the meeting with Prince Sultan, he took the line that the cause of delay was the downturn in the oil market which had led to cuts in production and limitations on Government expenditure. He was not therefore in a position to proceed now with the Tornado purchase but there would be a review in mid-January, by which time he hoped that oil prospects would be improving and the go-ahead would be given. He admitted that the alternatives of a further purchase of F15 aircraft from the Americans or of buying the Mirage 2000 from the French were under consideration, although he suggested that neither had been taken as far as the possible purchase of Tornado. He argued that we should not give undue prominence to one particular project. There were other opportunities for co-operation,



particularly the provision of Challenger tanks and other army equipment, which could be pursued and for which financial provision already exists in the Saudi defence budget.

4. I deployed to the full the arguments that Tornado was the best aircraft on offer (assisted by the Vice Chief of the Air Staff, Sir Peter Harding, who accompanied me together with the Head of Defence Sales, James Blyth), that it represented a natural follow-on to the existing co-operation with the Saudis on the Lightning aircraft, that we were a reliable partner in the region who were willing to take action in support of our friends (the Lebanon, Red Sea mines and so on) and that you were taking a close personal interest in a deal which I had assured you had been virtually agreed. We were able to lay particular stress on the success of Tornado in the US bombing competition and to reassure the Saudis over our ability to supply the aircraft and all the spare parts from our own resources without having to rely on our collaborative partners.

5. An interesting theme in both meetings was the criticisms of Saudi Arabia in the British press. The King in particular explained to me at length that his interest was in the welfare of his people, rather than, as he put it, in putting income into the pockets of the Royal Family. Although the connection was not explicitly made, the Saudis have clearly been upset by the article in the Sunday Times of 5th August about the purchase of new Jumbo jets from Boeing and Rolls Royce and the alleged commissions involved.

6. Reading between the lines, three factors would appear to have contributed to Saudi reluctance finally to conclude the deal which was agreed in outline between Mr Blyth and Prince Sultan in May. The first is genuine concern over their ability to pay, at least in the short term with falling oil revenues. Postponing the decision obviously puts off having to make the first payment. Secondly, it is clear that our competitors have been at work to block a Tornado purchase. The Saudi Air Force must themselves see genuine attraction



in standardising on American aircraft, while the King may well see political attractions in the French alternative and will be uninformed of, and uninterested in, the technical arguments surrounding the competing aircraft. The arguments I put to him may help here. The final factor may well be concern over concluding another deal, so soon after the agreement to purchase 10 Jumbos, which could be presented as yet another device to enrich the Royal Family. Postponement has the advantage of putting time between the two deals. There is also, of course, the possibility that the Saudis may feel that they would run much less risk with the French of criticism of the kind they experienced in August in the Sunday Times.

7. There are indications that the King may already have concluded, prior to my visit, that the purchase of Tornado was not to go ahead; and that my visit and your own personal message have, at the very least, prompted further deliberation within the Royal Family. To that extent, the exercise was I am sure worthwhile.

8. We should, I believe, keep up the pressure on Prince Sultan over the next few weeks. I propose to remind him by letter of his invitation to visit the UK and, if that produces no response, to suggest that I might myself call on him in mid-January. The King told me that he intended to reply to your letter and, once his reply is received, we shall obviously need to give careful thought to whether you should make a further approach to him.

9. In sum, I do not believe that the deal is necessarily lost, but I am not optimistic about the outcome. We shall continue to press as hard as we can to achieve it. If we are unsuccessful, it seems likely that we shall be given a substantial "consolation prize" involving the sale of tanks and probably the provision of Hawk. But I would not wish to suggest that this would match the Tornado deal in terms of sustaining defence co-operation with Saudi Arabia or in the financial benefit to this country.



10. I will, of course, keep you closely in touch with further developments.

11. I am copying this minute to the Foreign and Commonwealth Secretary, the Minister for Trade and Sir Robert Armstrong. For obvious reasons I should be grateful if its further circulation could be strictly limited.

Rm/rmm

Ministry of Defence
19th November 1984

(Approved by the Defence
Secretary & signed in
his absence)



2 letters to see GR
attached

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

16 November 1984

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

PP seen

Dear Charles,
TORNADOS FOR TURKEY

October!

You wrote to me on 30 November 1984, and Tim Flesher wrote to me on 1 and 12 November enclosing letters to the Prime Minister on this subject from:

- (a) Sir Austin Pearce as Chairman of British Aerospace
- (b) Sir Raymond Lygo as President of the SBAC
- (c) John Wilkinson MP ✓
- (d) Kenneth Warren MP ✓

... I enclose draft replies for the Prime Minister to send to these letters in light of the Cabinet decision that support should not be given for this sale.

2 You have also sent us a number of telegrams, addressed to the Prime Minister and other Ministers, from British Aerospace subcontractors, in support of the sale. Mr Channon is replying to these and copies will be sent to you.

3 I am sending a copy of this letter and enclosures to Richard Mottram (Ministry of Defence), Colin Budd (Foreign and Commonwealth Office), David Peretz (HM Treasury) and David Normington (Department of Employment).

Your ans.
A. M. Hardy

PP RUTH THOMPSON
Private Secretary

Encls

JH1BMI

AAW

Sir Austin Pearce CBE
Chairman
British Aerospace PLC
100 Pall Mall
London
SW1X 5HR

TORNADO SALE TO TURKEY

Thank you for your letter of 30 October about the potential sale of 40 Tornados to Turkey. I well understand the significance of this sale to British Aerospace and other companies.

As you will I think be aware, we have nevertheless concluded that the financial risks for the Government in supporting this even with private sector support for a substantial proportion of the credit, are unacceptably high. I can assure you that the points you have made were fully taken into account in reaching this decision.

CPH

AAX

Admiral Sir Raymond Lygo KCB

President

The Society of British Aerospace Companies Ltd

29 King Street

St James's

London

SW1Y 6RD

TORNADO SALE TO TURKEY

Thank you for your letter of 30 October about the potential sale of Tornados to Turkey. The outstanding record of the aerospace industry in exports, as well as the commercial and industrial significance of this particular order, are well understood by the Government. Nevertheless, in considering requests for credit support, for military as much as for civil business, the Government is bound to have regard to the economic circumstances and capacity to pay of the purchaser. In this case, and even with the private sector taking a substantial share of the risk as you proposed, we have concluded that the financial risks for the Government are unacceptably high.

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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

14 November 1984

Overhaul Contract for Phantom Engines

Thank you for your letter of 12 November conveying the Minister of State for Defence Procurement's advice that the award of the overhaul contract for Phantom engines to the Greek firm HAI should now proceed.

The Prime Minister agrees to this.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and Bryan Cartledge (Cabinet Office).

C D Powell

James Harrison, Esq.,
Ministry of Defence

CONFIDENTIAL

CG 210

From: James Harrison, Assistant Private Secretary

①



MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement
D/MIN/AB/6/3

Prime Minister
Agreed that this contract
can go ahead, in view
12th November 1984
of Sir Ray Lygo's advice?

Dear Mr Powell,

CDP

13 XI

Yes MS

OVERHAUL CONTRACT FOR PHANTOM ENGINES

Thank you for your letter of 29th October, in which you notified me that the Prime Minister wished the award of the Phantom maintenance contract to Greece to be suspended until the fate of the Tornado contract with Turkey was known.

I understand that the Cabinet decided on 1st November that the proposal to commit credit liability of £228M to the sale of Tornado aircraft to Turkey should not be accepted. I have also spoken to British Aerospace about the Phantom contract. They were already aware of the situation, and I understand that the views of Sir Raymond Lygo are that: the award of the Phantom contract to the Greek firm, HAI, is both justifiable and explicable; that it would not affect their prospective sales of equipment to Turkey; and that, on the contrary, it could assist them with prospective business in Greece.

In view of the above circumstances, and the operational urgency for the award of the Phantom contract, which I explained in my previous letter, Mr Butler would be grateful for the Prime Minister's agreement that the award of this contract should now proceed.

I understand that the British Ambassador in Athens is anxious that we should award this contract as soon as possible; the Greek firm has already incurred significant expense in preparing for this contract, and the Ambassador believes that, if the decision is further delayed, the United Kingdom will fail to capitalise on the goodwill which would otherwise accrue.

Yours,

James Harrison

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DEFENCE: SALES: PL 4.

MINISTRY OF DEFENCE
GENERAL LONDON SW1A 2HT
Telephone: 01-334 2000 (24 hours)
Fax: 01-334 2000



Minister of Defence
The Defence Secretary

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CONFIDENTIAL



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10 DOWNING STREET

From the Private Secretary

11 November 1984

TORNADO FOR SAUDI ARABIA

I enclose the signed original of the Prime Minister's letter to King Fahd, for the Defence Secretary to hand over during his forthcoming visit to Saudi Arabia.

I am copying this letter and enclosure to Peter Ricketts (Foreign and Commonwealth Office).

(C.D. Powell)

TMB.

Richard Mottram, Esq.,
Ministry of Defence

CONFIDENTIAL

Subject



file to
OK

10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S

9 November 1984

PERSONAL MESSAGE

ccMaster

SERIAL No. T187184

OPS

Your Majesty,

I have a very clear recollection of my own visit to your country in 1981 and of the valuable discussions I had with Your Majesty about the situation in the area and the Kingdom's future defence requirements. I can assure you that our interest in the affairs of the Arabian Peninsula is undiminished. In particular, we share Your Majesty's concern over recent events in the Gulf and support your wise and constructive efforts to bring peace and stability in the region. I anticipate with pleasure meeting Your Majesty in Britain when you are able to pay us a visit.

In view of the close relations between our countries and our governments, I thought that I should write to you personally on a matter of great importance to our continued co-operation in the field of defence equipment. I believe that both our countries have benefited from this co-operation in the past and we in Britain have been looking forward to building on it in the future as part of our wider relationship.

I was naturally delighted to hear last May that our two Ministries of Defence had agreed on prices for the provision to your Air Force of Tornado and Hawk aircraft and for the buy-back of your existing Lightning and Strikemaster aircraft. As you may know, my Defence Secretary, Michael Heseltine, wrote to your brother, the Minister of Defence and

Aviation, on 18 October about this and explaining that I have been taking a close personal interest in the discussion and exchanges that have taken place between our Defence Ministers.

I am now writing to underline the merits of these aircraft and the mutual benefits which will derive from their acquisition by your Air Force. The Tornado is the most powerful and sophisticated aircraft of its kind in the world, a fact which has just been underlined by its performance in the United States in October when it defeated the Americans in two out of three arduous bombing competitions against the best of the US Air Force. These impressive results reflect the fact that the Tornado has been developed by the three leading European Members of NATO using their very latest technology. The Hawk has shown its worth in sales all over the world, including to the Americans and to some of your Gulf neighbours.

I trust that the final negotiations for the sale of these aircraft may now proceed to a satisfactory conclusion. Her Majesty's Government attach the very greatest importance to this project, cementing as it does the extensive co-operation between our two Air Forces. It will, in addition, ensure the continuing presence of the large body of British experts and technicians who are already working in the Kingdom of Saudi Arabia. As a mark of my desire to bring this message directly to Your Majesty's attention, I have asked Michael Heseltine to bring it in person to Riyadh and I look forward to hearing his report of his discussions.

Yours sincerely
Margaret Thatcher

His Majesty King Fahd bin Abdul-Aziz Al-Saud



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~530 7672~~ 218 2111/3

MO 5/3/3

8th November 1984

*Dear Mr. ...*TORNADO AND HAWK FOR SAUDI ARABIA

I was grateful for your prompt confirmation this morning that the Prime Minister was content for the telegram attached to my letter of yesterday's date to be despatched to our Ambassador in Jeddah.

You mentioned that the opening to the draft letter from the Prime Minister to King Fahd was perhaps too abrupt and that you had asked the FCO to suggest a revised version. I understand that FCO and MOD officials subsequently agreed that we here would suggest a revised text. Could I offer something on the following lines to replace the first paragraph of the draft behind my earlier letter:

A/ "In view of the close relations between our countries and our governments, I thought that I should write to you personally on a matter of great importance to our continued co-operation in the field of defence equipment. I believe that both our countries have benefited from this co-operation in the past and we in Britain have been looking forward to building on it in the future as part of our wider relationship.

I was naturally delighted to hear last May that our two Ministries of Defence had agreed on prices for the provision to your Air Force of Tornado and Hawk aircraft and for the buy-back of your existing Lightning and Strikemaster aircraft. As you may know, my Defence Secretary, Michael Heseltine, wrote to your brother, the Minister of Defence and Aviation, on 18th October about this and explaining that I have been taking a close personal interest in the discussions and exchanges that have taken place between our Defence Ministers. 1B

I am now writing to underline

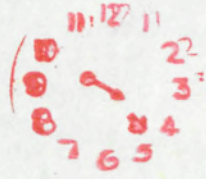
I am copying this letter to Len Appleyard (FCO) and Richard Hatfield (Cabinet Office)

*Yours etc,
 Richard*

(R C MOTTRAM)

C Powell Esq

8 NOV 1984



01-230-033

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MINISTRY OF DEFENCE



DRAFT LETTER FROM THE PRIME MINISTER TO
HM KING FAHD BIN ABDUL-AZIZ AL-SAUD

*Letter has this
one been visited by
our Ambassador
The beginning is
very simple
ms*

[Your Majesty]

My Defence Secretary wrote to your brother, the Minister of Defence and Aviation, on 18 October about the Tornado and Hawk aircraft. I was naturally delighted to hear last May that our two Ministries of Defence had agreed on prices for these aircraft and for the buy-back of your existing Lightning and Strikemaster aircraft.

[Insert from attached letter: A-B]

I am ^{now} writing to underline the merits of these aircraft and the mutual benefits which will derive from their acquisition by your Air Force. The Tornado is the most powerful and sophisticated aircraft of its kind in the world, a fact which has just been underlined by its performance in the US in October when it defeated the Americans in two out of three arduous bombing competitions against the best of the US Air Force. These impressive results reflect the fact that the Tornado has been developed by the 3 leading European Members of NATO using their very latest technology. The Hawk has shown its worth in sales all over the world including to the Americans and to some of your Gulf neighbours.

I trust that the final negotiations for the sale of these aircraft may now proceed to a satisfactory conclusion. Her Majesty's Government attach the very greatest importance to this project, cementing as it does the extensive cooperation between our two Air Forces. It will in addition ensure the continuing presence of the large body of British experts and technicians who are already working in the Kingdom of Saudi Arabia. As a mark of my desire to bring this message directly to Your Majesty's attention I have asked Michael Heseltine to bring it in person to Riyadh and I look forward to hearing his report of his discussions.

I have a very clear recollection of my own visit to your country in 1981 and of the valuable discussions I had with your Majesty about the situation in the area and the Kingdom's future defence requirements. I can assure you that our interest in the affairs of the Arabian Peninsula is undiminished. In particular we share Your Majesty's concern over recent events in the Gulf and support your wise and constructive efforts to bring peace and stability in the region. I anticipate with pleasure meeting Your Majesty in Britain when you are able to pay us a visit.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-9207622 218 2111/3

MO 5/3/3

7th November 1984

Handwritten initials: J.P. Ki

*Prime Minister.
Agree to write to King
Fahd as in the attached
draft?*

Dear Chester,

TORNADO AND HAWK FOR SAUDI ARABIA

*Agree that Mr. Heseltine
should go to Saudi
Arabia to deliver it
in person?
CDP
7/Ki*

You will recall that the Head of Defence Sales, Mr James Blyth, agreed in May on a price for a Tornado and Hawk sales package with the Saudi Minister of Defence and Aviation, Prince Sultan. Prince Sultan has invited the Head of Defence Sales to see him in Riyadh on 17th November to settle matters. Mr Blyth learned yesterday through close advisers of the Prince that the Saudis appear to have decided to buy Hawk but not Tornado. It appears that the French Mirage 2000 aircraft may be replacing Tornado as the front-runner for the next Saudi purchase of fighter aircraft, at the insistence of King Fahd who has been subjected to lobbying by President Mitterand and other members of the French Government and who is more inclined towards France than to Britain.

In view of the importance of seeking to preserve the Tornado element of this deal against strong French competition, the Defence Secretary believes that an approach now needs to be made to the Saudis at the highest level. He proposes that the Prime Minister should write to the King on the basis of the attached draft letter. Mr Heseltine would further propose to travel himself to Riyadh together with Mr Blyth on 16th November and to seek an audience with the King in order to deliver the Prime Minister's letter personally. At that audience, Mr Heseltine could then deploy in full all of the reasons why the Saudis should proceed on the basis provisionally agreed with Prince Sultan. I attach a draft telegram to our Ambassador in Jeddah enclosing a message from Mr Heseltine to Prince Sultan to this effect.

The Defence Secretary would be grateful to know that the Prime Minister is content to proceed on this basis and accordingly to write to King Fahd. If she is, you will no doubt let me have in due course a signed version of her draft letter for delivery by Mr Heseltine.

C Powell Esq

CONFIDENTIAL
AND PERSONAL



I am copying this letter and the enclosures to Len Appleyard (FCO) and Richard Hatfield (Cabinet Office)

Yours etc.

Richard Mottram

(R C MOTTRAM)

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MOD Form 140 (Revised 1/83)

Message Instructions --- 15 spaces ---

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SIC † ACA/ ZMC/Z8G

FOLLOWING FOR HMA FROM PS/S OF S FOR DEFENCE

TORNADO AND HAWK FOR THE RSAF

ONE. AS YOU WILL HAVE HEARD, THERE APPEARS TO BE SOME WAVERING ON

THE PART OF THE KING AND MINISTER OF DEFENCE AND AVIATION OVER THE

TORNADO AND HAWK PACKAGE. IT APPEARS THAT THE MIRAGE 2000 MAY BE

REPLACING THE TORNADO AS THE FRONT-RUNNER FOR THE NEXT PURCHASE OF

FIGHTER AIRCRAFT. MR HESELTINE IS MOST ANXIOUS THAT WE DO NOT MISS

ANY OPPORTUNITY, EVEN AT THIS LATE STAGE, OF IMPRESSING ON THE SAUDIS

THE IMPORTANCE WHICH HMG ATTACHES TO THIS POTENTIAL SALE.

TWO. I SHOULD BE GRATEFUL THEREFORE IS YOU WOULD PASS THE FOLLOWING

Special Distribution See note 9

File Reference

DRAFTER'S NAME (Block letters)

Extension

Branch

RELEASING OFFICER'S Signature

Page 1 of 2 Pages

Have you referred to a classified message? (Answer YES or No in box)

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Grade/ Rank

Name (Block letters)

Security Classification CONFIDENTIAL

MESSAGE FROM THE SOFS TO PRINCE SULTAN. MESSAGE BEGINS:

"ONE. IN MY LETTER OF 18TH OCTOBER TO YOUR ROYAL HIGHNESS I STRESSED OUR ENTHUSIASM FOR THE TORNADO AND HAWK AIRCRAFT AND OUR DELIGHT THAT WE WERE ABLE TO AGREE EARLIER IN THE YEAR ON PRICES, INCLUDING THE COST OF BUYING BACK YOUR EXISTING LIGHTNING AND STRIKEMASTER AIRCRAFT. IN YOUR REPLY, FOR WHICH I AM MOST GRATEFUL, YOU INVITED MR JAMES BLYTH TO RIYADH ON 17TH NOVEMBER TO DISCUSS MATTERS FURTHER.

TWO. SO GREAT IS THE IMPORTANCE WHICH WE IN THE BRITISH GOVERNMENT ATTACH TO THIS PROJECT THAT I SHOULD LIKE, IF IT WERE CONVENIENT TO YOU, TO ACCOMPANY JAMES BLYTH AND COME TO RIYADH MYSELF TO SEE YOU ON 17TH NOVEMBER. I AM PARTICULARLY ANXIOUS TO COME SINCE I SHALL BE BRINGING A LETTER FROM THE PRIME MINISTER ADDRESSED TO HIS MAJESTY THE KING WHICH I SHOULD LIKE TO DELIVER IN PERSON.

THREE. I LOOK FORWARD VERY MUCH TO SEEING YOU." MESSAGE ENDS
 THREE. I AM AWARE THAT YOU HAVE NOT YET MADE YOUR INTRODUCTORY CALL ON PRINCE SULTAN. IDEALLY IT WOULD BE MOST USEFUL IF YOU COULD DELIVER THIS MESSAGE IN PERSON, BUT EQUALLY WE KNOW THAT PRINCE SULTAN HAS NOT YET RETURNED TO RIYADH AND THAT IT MIGHT BE DIFFICULT TO CONTACT HIM. HOWEVER WE NEED THE EARLIEST POSSIBLE NOTICE IN ORDER TO MAKE FINAL ARRANGEMENTS FOR SOFS'S VISIT. IF THE SAUDIS AGREE TO RECEIVE SOFS, HE WOULD PROPOSE TO ARRIVE LATE ON 16TH NOVEMBER AND LEAVE EARLY ON 18TH NOVEMBER. OBVIOUSLY IF OTHER DATES AROUND THIS TIME WERE MORE CONVENIENT TO THE SAUDIS, WE SHOULD SEEK TO FALL IN WITH THEIR WISHES; BUT WE WOULD NOT WANT ANY SIGNIFICANT POSTPONEMENT OF THE DATE OF THE MEETING.

Special Distribution See note 9	File Reference	MO 5/3/3
	DRAFTER'S NAME (Block letters)	R C MOTTRAM
	Extension	2111
	Branch	S OF S
RELEASING OFFICER'S Signature		
Page.....2..... of2.....Pages	Have you referred to a classified message? (Answer YES or NO in box)	<input checked="" type="checkbox"/> YES
Grade/ Rank	Asst Sec	Name (Block letters) R C MOTTRAM

Ref. A084/2937

MR BUTLER

Attribution in Cabinet and Cabinet Committee Minutes

The Chancellor of the Exchequer queried the extent to which expressions of view had been attributed to individual Ministers in the minute of the discussion in OD on 22 October of Tornados for Turkey (OD(84) 11th Meeting, Minute 1).

2. The general rule is that the opening statement on an issue (incorporating a precis of the memorandum under consideration and any supplementary points made by the Minister presenting it) and the summing up are the only parts of the minute which are attributed to an individual Minister, and that other parts of a minute should be impersonal (ie no attribution of views to particular Ministers). The guidance given to Secretaries envisages exceptions to the non-attribution rule:

- (1) when more than one memorandum has been circulated, in which case an opening statement on each memorandum is attributed;
- (2) when a specifically departmental view has been put forward, or a suggestion has been made to safeguard a departmental interest;
- (3) where there is a conflict of interest between two Departments;
- (4) where a speaker reserves his (or his Minister's) position or formally registers dissent (this applies in Cabinet only if the dissenting Minister indicates his intention to resign).

3. In the particular minute in question there were four attributions: to the Minister for Trade, the Minister for Defence Procurement, the Minister of State, Foreign and Commonwealth

Office, and the Chancellor of the Exchequer. The first two attributions were covered by the general rule and the first exception: both the Secretary of State for Trade and Industry and the Secretary of State for Defence had sent out minutes on the subject (though neither of them was present at the meeting). It is arguable that the other two attributions fell within the second and third exceptions, and indeed the views of the Chancellor of the Exchequer were already on record in a minute, though that was not formally one of the minutes which the Committee had before them. But the minute of the discussion could clearly have been written without these two attributions.

4. In contemporary conditions, given the prevalence of leaks, it is clearly important to interpret the rules strictly. I therefore propose to issue an instruction to Secretaries of Cabinet and Cabinet Committees as in the draft attached.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

2 November 1984

DRAFT MINUTE FROM SIR ROBERT ARMSTRONG
MEMBERS OF THE CABINET SECRETARIAT

Attribution of Views to Individuals in
Minutes of Meetings

The general rule on the attribution of views to individuals in minutes of meetings of the Cabinet and Cabinet Committees is set out in paragraphs 15-20 of the Guide to Minute Taking. It can be summed up as follows:

As a general rule the only parts of a minute which should be attributed are the opening statement or statements of the issue by those who have circulated memoranda for discussion and the summing up. The summary of important points made in discussion should be impersonal - ie should not attribute views to persons.

It may exceptionally be necessary to attribute views to persons beyond this:

- (1) when a specifically departmental view has been put forward, or a suggestion has been made to safeguard a departmental interest;

- (2) when there is a conflict of interest between two Departments;
- (3) when a speaker formally reserves his (or his Minister's or Department's) position or formally registers dissent.

2. The Guide to Minute Taking lists a number of cogent reasons for minimising the attribution of views to individual persons. In present circumstances the risk of unauthorised disclosures, which may embarrass individual Ministers and impair collective responsibility, constitutes a further powerful reason for limiting attribution as narrowly as possible.

3. Members of the Secretariat are therefore asked, in writing minutes of Cabinet and Cabinet Committee discussions, to adhere as closely as possible to the general rule, and to make exceptions only in cases of strict necessity. Exceptions to the rule should be made only on the authority of the senior Secretary in a secretariat; and any cases of doubt should be referred for decision to the Secretary of the Cabinet.

Dyence AY

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U R G E N T

SALE OF TORNADO AIRCRAFT TO TURKEY
PROVISION OF E.C.G.D. COVER

I UNDERSTAND THAT A CABINET DECISION IS IMMINENT CONCERNING E.C.G.D. COVER FOR THE PROPOSED SALE OF TORNADO AIRCRAFT TO TURKEY. AS CHAIRMAN OF FLIGHT REFUELLING (HOLDINGS) PLC I WOULD LIKE TO EMPHASISE THE IMPORTANCE THE COMPANY ATTACHES TO THE ACHIEVEMENT OF THIS SALE.

THIS PROJECT OFFERS THE FLIGHT REFUELLING GROUP A SIGNIFICANT OPPORTUNITY BOTH IN TERMS OF WORKLOAD (100 MAN YEARS) AND ENTRY INTO A NEW OVERSEAS MARKET. IT COULD REPRESENT APPROXIMATELY A 5% GROWTH IN EMPLOYMENT PROSPECTS WITHIN THE F.R. GROUP.

FLIGHT REFUELLING WILL RESPOND COMPETITIVELY BUT YOUR HELP IN ACHIEVING A POSITIVE RESPONSE FROM E.C.G.D. IS WE FEEL ALL IMPORTANT.

M.J. COBHAM

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Ref. A084/2900

PRIME MINISTER

Tornados for Turkey

FLAG A

(C(84) 31)

BACKGROUND

At the meeting of the Defence and Oversea Policy Committee (OD) on 22 October, members of the Committee present considered that the risks involved in offering the credit required to achieve the prospective sale of Tornados to Turkey were too great to be acceptable. As the Foreign and Commonwealth Secretary, the Secretary of State for Defence and the Secretary of State for Trade and Industry had advised in favour of the terms of the sale proposed but were unable to be present at OD, you concluded that the matter should be referred for consideration by the Cabinet.

2. In his memorandum C(84) 31 dated 30 October, the Minister for Trade has, with the agreement of the Secretary of State for Trade and Industry, brought forward revised British Aerospace (BAe) proposals for this prospective order and has again recommended that ECGD credit support should be given, even though the level required is well in excess of the agreed exposure limit for Turkey. The principal new factors set out in the paper are that BAe have indicated that Turkey is willing to increase the proportion of the sale price paid in cash to 25 per cent, an increase of 10 per cent on the proposal reported to OD; that industry and the commercial banks would be prepared to fund 70 per cent of the reduced level of credit support required, so cutting the level of ECGD credit liability needed from £344 million to £228 million; and that with the labour forces of sub-contractors taken into account, the employment created by the order would rise to a peak of 10,000 jobs, including the 500 at BAe (Warton) considered at OD. At the same time the credit available within the agreed limit for Turkey has been reduced from £80 million to £30 million by a recent Airbus contract.



3. The Minister for Trade will represent the Secretary of State for Trade and Industry for this item of Cabinet business.

HANDLING

4. You should invite the Minister for Trade to introduce his memorandum. You might then invite the Foreign and Commonwealth Secretary and the Secretary of State for Defence to state their views given their enforced absence from OD last week. You may wish to invite the Secretary of State for Employment and the Minister without Portfolio to advise on employment aspects. The Chancellor of the Exchequer should be invited to comment on the revised credit proposals set out in the Minister for Trade's memorandum. The strategic importance of the order and its significance, as regards the creation of employment within the United Kingdom, will no doubt be accepted by the Cabinet and therefore you may wish to concentrate discussion on the issues which were in dispute at the recent OD meeting:-

(a) Impact of the order on future sales prospects

At OD the Chancellor of the Exchequer took the view that there was little prospect of further sales of Tornado. The Minister for Trade in his memorandum on the other hand holds out prospects of further sales in the Middle East and the Far East. How important would a breakthrough in achieving the first export order of Tornado be in terms of achieving foreign sales? The Minister for Trade, the Secretary of State for Defence and the Chancellor of the Exchequer should be invited to comment.

(b) Credibility of the British Aerospace proposal

Is it realistic to suppose that Turkey can afford to pay 25 per cent of the sale price in cash (£246 million)? Will industry and the commercial banks realistically be able to find 70 per cent of the credit required? At OD the



Chancellor of the Exchequer was extremely pessimistic about the ability of industry and the banks to meet such a large credit demand, given the probability of a further rescheduling of Turkish debts and Turkey's past record. Is there a possibility that industry and the commercial banks might withdraw at a later stage, leaving a difficult financial position with pressure on the Government to step in with further credit support? The Minister for Trade, the Secretary of State for Defence and the Chancellor of the Exchequer should advise.

(c) The maximum acceptable level of ECGD liability

Given the importance of this order in strategic and job opportunity terms, is it realistic to restrict the ECGD exposure to £30 million? With such important national interests at stake can this limit be increased somewhat without recourse to the direction of the ECGD Accounting Officer and the action with Parliament which this would imply? Can the difference between an acceptable level of ECGD liability and the remaining credit required be made up by industry or by some other means, eg military aid by the three Governments involved to reflect the importance of positioning Tornado infrastructure on the southern flank? The Chancellor of the Exchequer and the Secretary of State for Defence should be invited to advise.

CONCLUSION

5. Subject to the view taken in discussion of the viability of these proposals, given the state of the Turkish economy, you could guide the Cabinet to decide whether the revised BAe proposals are acceptable and what the division of credit exposure should be between public and private sector sources.

A handwritten signature in black ink, appearing to read 'R.A.' or 'R.A.' with a stylized flourish.

ROBERT ARMSTRONG

31 October 1984

CONFIDENTIAL

PRIME MINISTER

31 October 1984

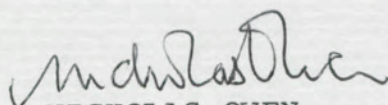
TORNADOS FOR TURKEY

BAe have now reduced their request for ECGD cover by over £100 million. This illustrates the value of holding back on requests of this kind.

It would be unwise to count on Turkey making any payments on this project before 1990. The IMF have declined to sign a stand-by credit agreement - a kind of certificate for good health. Turkey relies entirely on new borrowing to repay interest and capital on existing, and new credits. This is likely to continue to be the position to 1988, at least, on any of a range of IMF scenarios. Turkey's outstanding debt (\$20b) is not expected to decline.

Recommendation

If the sentiment in Cabinet is strongly in favour of ECGD cover for the order, at the expense of civil exports to Turkey, we suggest that as a condition for the cover BAe should be invited to negotiate an excess-risk premium with ECGD. The project could easily carry this. The price is well padded; the R&D overheads written off. ECGD need the extra income, to avoid penalising other exporters, or touching the taxpayer for more (£500 million this year).


NICHOLAS OWEN

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

Tornados for Turkey

You may like to see, in advance of Cabinet, the revised paper circulated by Paul Channon.

The differences compared with the OD paper are:

- the contract value and the UK share remain the same (£985 million and 58%);
- but the Turks are prepared to increase the cash payment from 15% to 25%;
- the total credit requirement has come down by £100 million (£837 million to £739 million) as has total exposure;
- ECGD's share comes down from 40% (£344 million) to 30% (£288 million) because the banks/suppliers are prepared to take a higher share.

But it would still be necessary to withdraw cover for civil business, unless the risk is taken elsewhere than on ECGD's trading account.

C.D.P.

C. D. POWELL
30 October, 1984

CONFIDENTIAL

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OCTOBER 1984/REF 1315/20

ATTN OF THE RT. HON. MARGARET THATCHER, MP,
PRIME MINISTER.

COPY TO THE RT. HON. MICHAEL HESELTINE, MP,
SECRETARY OF STATE FOR DEFENCE,
MINISTRY OF DEFENCE.

THE RT. HON. PAUL CHANNON, MP,
MINISTER FOR TRADE,
DEPARTMENT OF TRADE AND INDUSTRY.

THE RT. HON. TOM KING, MP,
SECRETARY OF STATE FOR EMPLOYMENT,
DEPARTMENT OF EMPLOYMENT.

THE EMPLOYMENT IMPLICATIONS OF THE SALE OF AN EXTRA 40 TORNADOS
TO TURKEY WILL REPRESENT TWO YEARS' WORK FOR 150 MEN WITHIN
DOWTY FACTORIES. WE WOULD ALSO PROVIDE ANOTHER 150 JOBS AT
OUR SUB-CONTRACTORS. CONSIDERABLE SPARES AND SUPPORT BUSINESS
WOULD BE GENERATED FOR THE FUTURE.

M. H. SPENCE,
MANAGING DIRECTOR -
AEROSPACE AND DEFENCE DIVISION,
DOWTY GROUP PLC

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British Aerospace

PUBLIC LIMITED COMPANY

100 Pall Mall
London SW1Y 5HR

Telephone: 01-930 1020
Telegrams: Britair London
Telex: 24353

From the Chairman,
SIR AUSTIN PEARCE, CBE

The Rt Hon Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, S.W.1.

30th October, 1984.

Dear Prime Minister

I understand that decisions relating to ECGD support for a sale of 40 Tornados to Turkey are imminent and while I understand HMG's concern for the risks involved, I am writing in order to emphasise the importance to British Aerospace of ECGD support for the supply of these aircraft.

We believe the following points are particularly significant.

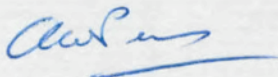
- (a) This is the first export sale for Tornado in which we are in a strong position to beat the competition.
- (b) The Turks have stated that they regard the logistic overheads associated with fewer than 40 aircraft to be uneconomic. They have, however, said that in order to secure the supply of 40 Tornados they would be prepared to consider increasing the cash element of the purchase price from 15% to 25%.
- (c) The major clearing banks have been approached, and whilst no commitment can be made at present, if appropriate ECGD cover is available it is our assessment that they would give serious consideration to the proposal. Discussions with the Governor have indicated that the Bank of England would not oppose such a commercial consideration.
- (d) We have the support of the other main industrial companies involved, which together with (b) and (c) means we are prepared to increase the Private Sector cover to 70% thus considerably reducing the ECGD exposure.

/(e)

- (e) We are making a competitive offer and there has been no change in the price of the aircraft or spares since the offer was first made 18 months ago. Any apparent change results from the application of estimates of escalation and interest.
- (f) The order represents some 3,300 man years of employment for British Aerospace alone without taking account of the continuing sales of spares over the life of the aircraft.
- (g) The Turkish military have never defaulted on a contract. In the case of the Rapier and Sea Skua contracts they have already paid us \$M100 out of a total of \$M200 in advance of deliveries.
- (h) We have an opportunity of beating the French to an important NATO contract soon after their apparent success in Greece.
- (i) We are confident that if we are seen to take the lead our German and Italian partners will follow.

In short, this order is of extreme importance to British Aerospace and we hope we can count on your support.

Yours sincerely,



THE SOCIETY OF BRITISH AEROSPACE COMPANIES, LTD.

29, KING STREET, ST. JAMES'S,
LONDON SW1Y 6RD

TELEPHONE: 01-839 3231 (10 LINES)
TELEGRAMS: THE SBAC, LONDON, S.W.1
TELEX: 262274

THE PRESIDENT

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister,
10, Downing street,
LONDON, SW1.

30th October, 1984.

Dear Prime Minister,

I am writing to you on behalf of the Member Companies of the SBAC, who would be involved in the projected sale of Tornados to Turkey, in order to seek your support to the request made by British Aerospace for ECGD cover. The Companies concerned are listed in the Annex.

I would like to emphasise the following points :-

- a) All the major Companies involved have declared their preparedness to join together in supporting a substantial part of the Private Sector risk. This will be the first time we have taken this measure in unison. The Private Sector is prepared to take 70% of the total risk.
- b) The basic production order for 40 aircraft represents some 17,600 man-years of employment to the Companies concerned, plus a further 5,500 man-years arising from the supply of weapons and other stores which will follow. These latter would not be expected to require ECGD support.
- c) Supplies of aircraft engines and equipment spares are contracted for in cash and can exceed the initial value of the contract over a typical life cycle of the aircraft. All this business flows from the initial order and secures an equivalent level of employment over many years. It is of particular benefit to the engine and equipment manufacturers.

.....

The Prime Minister

30th October, 1984.

- d) The apparent loss of the Greek order to the French will have a serious effect on our ability to achieve further Tornado exports. It did cause an immediate re-examination by the Saudis of their requirement.

As a result of President Evren's recent meeting with King Fahad, Turkey and Saudi Arabia are moving closer together and have agreed on a mutual training package. The Tornado purchase by Turkey could thus have considerable implications for our hoped for sale of Tornados to Saudi Arabia and other Arab States. Certain it must be that to turn down a firm order from Turkey can only make it much more difficult to achieve orders from other Muslim Countries and allow the French to claim that our equipment is inferior to theirs.

- e) We now learn that the French are active in Turkey.

May I also point out that the terms which it is proposed to offer to Turkey are far less favourable than those which were offered to Greece with HMG support. Moreover, whereas other parts of British Industry might have prospects of business in Turkey, it is British Aerospace who have the virtual certainty of an order, given the right support by HMG, since British Aerospace have had a Letter of Intent since mid-June.

The record of the UK Aerospace Industry in exports is second to none, but if we are to continue to succeed in the increasingly competitive International Market, we need to act in partnership with HMG. This is what we are proposing.

I am sorry to burden you with all this but if you would wish to discuss any aspect of this business I am, as always, at your disposal.

James Singhal,
Ray Lgpo

<u>COMPANY</u>	<u>TOWN</u>	<u>COUNTY</u>
AEROQUIP	REDDITCH	WORCS
AIRSCREW HOWDEN	WEYBRIDGE	SURREY
AUTOMOTIVE PRODUCTION	WESTHOUGHTON	
BRITISH AEROSPACE	HATFIELD	HERTS
BESTOBELL	SLOUGH	BUCKS
BRISTOL COMPOSITE MATERIALS	BRISTOL	
BRITISH OXYGEN CO.	HARLOW	ESSEX
CHELTON	MARLOW	BUCKS
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LUCAS AEROSPACE LIMITED	BIRMINGHAM	
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SANGAMO WESTON LTD.	ENFIELD	MIDDLESEX

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SMITHS INDUSTRIES	BISHOPS CLEEVE	CHELTENHAM
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WOODVILLE POLYMER ENG LTD	BURTON-ON-TRENT	

NB. THIS LIST INCLUDES SUPPLIERS FOR THE AIRFRAME AND AVIONICS BUT DOES NOT INCLUDE ROLLS ROYCE OR THEIR SUPPLIERS.

CONFIDENTIAL

From: James Harrison, Assistant Private Secretary



MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/AB/6/3

26th October 1984

Prime Minister
Agree award of
UK contract to
Greece?

C.D.P. 26/10.

Dear David,

Mr Butler attended a meeting of OD on Monday 22nd October, at which credit arrangements for the sale of Tornado aircraft to Turkey were discussed. Mr Butler also mentioned at the meeting the imminent award of a small contract to Greece for the overhaul of RAF Phantom F4J J79 engines. Some disquiet was expressed that the contract was not being awarded to a British firm, and Mr Butler has asked me to set out the reasons for this decision.

In Cmnd 8758 (the Falklands Campaign - The Lessons) the Government announced its intention to purchase additional Phantom aircraft from the USN to replace UK air defence Phantoms committed to the South Atlantic. Approval was given in March 1983 to the purchase of 15 F4J Phantom aircraft together with a support package at a total estimated project cost of £125M. Six aircraft have now been delivered to the RAF and the balance of aircraft deliveries is due to be completed by the end of this year.

The General Electric J79-10B propulsion unit for the Phantom F4J(UK) will require access to an industrial overhaul and repair facility and the MOD has sought competitive tenders from both UK and overseas contractors for this work. In the event only three companies responded to the invitation to tender. These were Hellenic Aerospace Industries (HAI) of Greece, Motoren Turbinen Union (MTU), West Germany and Fiat, Italy, all of whom have existing facilities for the overhaul of this type of engine. The business involved is small (£6.25M over five years) and unattractive to Rolls-Royce (and to British Aerospace) who would have had to set up new facilities for a very small turnover. (The existing UK Phantoms are all equipped with Rolls Royce Spey engines). Unfortunately, therefore, there was no British contender for the contract.

/ The ...

D M Barclay Esq
10 Downing Street

CONFIDENTIAL

The MOD's assessment is that HAI are the winners of the competition, as they offer the lowest estimated expenditure over the five year duration of the contract, a quicker turn round time on engine overhaul (60 days in comparison with 100 days offered by the competition) and are the only contender whose proposal covers the procurement of spares through the United States Government Foreign Military Sales System which offers pricing safeguards not available by the alternative of direct ordering on the US manufacturer.

Mr Butler was concerned lest the award of the J79 overhaul contract prejudice the current effort to sell Tornado to Turkey. The British Embassy in Ankara is not unexpectedly worried about this business going to Greece, when it is seen as just the sort of work we ought to try to put Turkey's way as a counter to the large defence contracts (Rapier as well as Tornado) we are seeking from her. However, the advice of General Electric (the J79 manufacturer) is that Turkey could not be recommended for consideration because the engine overhaul capability for engines in their own F4s was not wholly satisfactory. Improvements are being made but even so there does not seem to be any practical possibility of diverting this work to Turkey on a satisfactory technical basis or of Turkey meeting the timescales involved.

There are strong operational arguments for placing the overhaul contract as quickly as possible. Any further delay in placing this contract for engine repair would risk the flying programme being seriously disturbed, with a consequent effect on the operational capability of the Royal Air Force.

If the Prime Minister is content, the Minister proposes to authorise the release of the contract to HAI. British Aerospace are already aware of the proposal, and Mr Butler intends to notify Sir Raymond Lygo when the decision is made.

Yours,

James Harrison

*I think we should
await the decision on
Tornado first
not*



CONFIDENTIAL

B.06868

PRIME MINISTER

c Sir Robert Armstrong

OD: Tornados for Turkey

BACKGROUND

FLAG A

In his undated minute of September 1984 the Secretary of State for Trade and Industry has set out proposals for providing export credit support for the prospective sale of 40 Tornado strike aircraft to Turkey. This minute updates the proposals set out in his minute to you of 10 August 1984 and shows a dramatic increase in both the total contract value of the order (£750 million to £985 million) and the resulting United Kingdom credit exposure (an increase from £600 million to £850 million). Mr Tebbit has expressed considerable concern about the level of ECGD credit exposure which would be incurred under the proposed deal, which has risen from £200 million in his minute of 10 August to £344 million in his September submission; however, in view of the political and industrial imperatives involved, he recommends that the risks should be accepted in the interest of securing the deal.

FLAG B

2. Support for Mr Tebbit's case has come from the Secretary of State for Defence in his minute of 3 October. Also the Minister of State, Foreign and Commonwealth Office (Baroness Young) in her minute of 20 August considered that in foreign policy terms the advantages of proceeding with the sale outweighed the disadvantages. The Chancellor of the Exchequer, however, in his minute of 21 August has indicated strong reservations about the ECGD credit exposure of £200 million proposed in Mr Tebbit's minute of 10 August and it is understood that his worries on this account have

FLAG C

FLAG D

FLAG E

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increased proportionately with Mr Tebbit's subsequent bid for a credit exposure of £344 million.

3. Neither the Secretary of State for Foreign and Commonwealth Affairs nor the Secretary of State for Defence can attend because of absence on duty overseas. They will be represented by the Minister of State, Foreign and Commonwealth Office (Mr Luce) and the Minister of State for Defence Procurement (Mr Butler). The Minister of State, Department of Trade and Industry (Minister for Trade) (Mr Channon) will represent the Secretary of State for Trade and Industry

HANDLING

4. You should invite the Minister for Trade to introduce the minute by the Secretary of State for Trade and Industry. The Minister of State, Foreign and Commonwealth Office and the Minister of State for Defence Procurement should also be asked to give their views on the political and military aspects respectively. The Chancellor of the Exchequer should be invited to advise on the credit exposure aspects of the Secretary of State for Trade and Industry's proposals. You may wish to structure the discussion to cover the following principal issues -

(a) The steep rise in price of the aircraft

The steep rise in the ECGD credit exposure envisaged in Mr Tebbit's earlier minute of 10 August is caused by the escalation in aircraft costs forecast by British Aerospace. You will wish to press the Minister for Trade for a further explanation of the 30 per cent rise in contract value as between the forecast of £750 million on 10 August and £985 million in September. Given this degree of escalation, the Committee will wish to satisfy themselves that the price being quoted is now soundly based and not likely to be subject to further rises which would have the effect of increasing credit exposure even further.



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(b) The political and military issues at stake

The political and military factors involved in this prospective sale have been fully set out by the Defence Secretary and by Baroness Young. Despite some concern about the impact on the Greeks and the Greek Cypriots, greater weight is attached to the need to encourage Turkey's progress towards a full restoration of democratic institutions and to strengthen NATO's southern flank.

(c) The industrial capability and employment issues at stake in the proposed sale

In the minutes under consideration, stress is placed on the importance of achieving this sale to bridge the gap in British Aerospace's work programme at Warton when the United Kingdom's Tornado production order tails off. The Chancellor of the Exchequer has questioned this argument on the basis that the future of the European Fighter Aircraft (EFA) is as yet uncertain. References are also made to the importance of the order to the Rolls Royce RB.199 engine programme. You will wish to assess how important this order is to ensuring a sufficient continuity of work in these key industrial areas to secure the maintenance of the United Kingdom's future capability to develop and produce conventional advanced military aircraft. How much time in keeping production lines open will an order of this relatively small size buy? Will the work involved help to sustain the critically important design teams as opposed to providing work for the production staff? The Minister for Trade and the Minister of State for Defence Procurement should advise on these issues.


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(d) Possible ways of reducing ECGD exposure

Given the difficulty of accepting an ECGD credit liability as great as the £344 million proposed, you may wish to explore all possible avenues to reduce this level of exposure:

i) Reduction in the number of aircraft. It is understood that this has been explored with Turkey and that 40 aircraft represents their minimum requirement. The Minister for Trade should be able to advise on the strength of their views.

ii) Reduction in the United Kingdom workshare of the order. The United Kingdom workshare of 58 per cent proposed is 10 per cent above the United Kingdom's normal workshare of about 48 per cent in this project largely because assembly of all 40 aircraft is assumed to take place at Warton. If the Germans assembled, say, half of the aircraft, it would reduce the United Kingdom workshare by a substantial amount, which in turn could be used to reduce the ECGD credit exposure. The Minister for Trade should advise on this issue.

iii) Persuading the Federal Republic of Germany and Italy to take a larger share of the credit exposure. Given the usual division of work and cost sharing between the three countries (48 per cent United Kingdom, 40 per cent Federal Republic of Germany and 12 per cent Italy), could our partners be persuaded to take a greater share of the credit exposure, at present based on a 58 per cent United Kingdom share? One argument to deploy would be the importance of this initial sale as the breakthrough needed to achieve success elsewhere.

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It will in any case be important to establish that the Federal Republic of Germany would be prepared to support the sale in providing credit, given her inhibitions about arms deals in general. Could the Italians be persuaded to take a greater share given their particular interest in strengthening Turkish forces and so improving NATO's posture in the Mediterranean and the southern flank? The Minister of State for Defence Procurement and the Minister of State, Foreign and Commonwealth Office could advise on these issues.

iv) Industry to take a greater share of the credit exposure. In industry's original proposals set out in Mr Tebbit's minute of 10 August, Sir Raymond Lygo proposed that the credit exposure should be shared in the proportions two-thirds by industry and the commercial banks and one-third by ECGD. It is worth challenging why, in returning with an escalated contract value of £985 million as opposed to the earlier quotation of £750 million, Sir Raymond reduced industry's proposed share of credit exposure from two-thirds to 60 per cent while expecting ECGD to bear the consequential increase from one-third to 40 per cent. The Minister for Trade should advise on why industry and the commercial banks cannot be kept to their original proposal.

(e) Agreement of the maximum acceptable level of ECGD liability

Is the Chancellor of the Exchequer being realistic in wishing to restrict the ECGD exposure to £50 million? Despite the fact that the agreed ECGD credit exposure is £100 million of which £50 million has already been used up, is there not some additional ECGD credit

£ 344m }
£ 260m }
£ 80m }


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exposure which could be allowed in view of the clear national interest involved in permitting this deal, without recourse to direction of the ECGD Accounting Officer, the taking of the commitment outside ECGD's trading accounts, and the action with Parliament which this would imply?

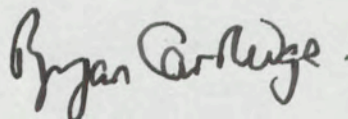
5. The proposal from the Secretary of State for Trade and Industry underlines the need for a general review to identify more satisfactory means of absorbing the large credit requirements implicit in major arms sales, without damage to civil trade. The decision reached at the OD meeting on 16 October to place this review under the leadership of the Secretary of State for Trade and Industry, in association with the Defence Secretary and the Chief Secretary, seems entirely appropriate in the light of this particular example.

CONCLUSION

6. Subject to the view taken in discussion of the viability of providing sufficient credit from all available sources for this prospective sale, you could guide the Committee to decide -

(a) whether there is any room for negotiating with our partners, the Federal Republic of Germany and Italy, a more even allocation of the credit exposure required;

(b) what division of the United Kingdom share of credit exposure between public and private sector sources should be set as the aim in continuing negotiations with British Aerospace.



B G Cartledge

19 October 1984

CONFIDENTIAL

PRIME MINISTER

19 October 1984

TORNADOS FOR TURKEY

How Good is the Deal?

Prime Minister
This is in your folder but I don't think you read it.
The last paragraph

My impression is that in addition to the strategic and industrial attractions, this contract is commercially attractive. It breaks down as follows:

might be worth mentioning.

C.D.P.

£m

-	40 aircraft at £15.2 million (a price 15-20% higher than that charged to the RAF)	606
-	add 20% for support and spares	121
-	escalation for inflation (6% pa) and contingencies	258
		—
		<u>985</u>

The price for the aircraft and the escalation provision look comfortably padded. The research and development overheads of the aircraft are already covered by the sales to the three partners in Panavia, Britain, Germany and Italy. BAe therefore stand to do pretty well if they can secure a contract close to £985 million.

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Where Should the Liabilities Fall?

The ECGD should only do what it considers prudent. It is already in deep financial difficulties, with a cash deficit this year of £500 million. The liabilities should not be taken off ECGD and dumped on the Exchequer, otherwise there will be an avalanche of similar claims. Nor should liabilities be carried by the Departments which promote deals which ECGD cannot accept. If purchasers default MoD or DTI would almost certainly raise their public expenditure bids to cover the shortfall. In this case, it would be unreasonable to ask BAe to find more cover: they have done well to find as much private sector cover as they have.

An excessive risk premium might be the answer. You can insure almost anything, at a price. Why can't ECGD suggest a premium which, in their view, covers the risk of exceeding the prudential limit for Turkey by the amount proposed? Why not then ask BAe to pay this excess to ECGD or ask the Departments which are promoting the deal - MoD and DTI - to share the excess risk premium with BAe on a basis agreed between them? On the figures above, BAe could afford it. This approach could apply to all risky markets.


NICHOLAS OWEN



CONFIDENTIAL

PRIME MINISTER

*Pl. bring forward
for OD on 22
October
OD.*

ECGD COVER: TURKEY AND PAKISTAN

1. You have called a meeting of OD next week to discuss Tornados for Turkey. This case gives rise to similar issues on ECGD cover for major defence business in difficult markets that were considered on the sale of frigates for Pakistan and which we are also considering for Jordan tomorrow. I am minuting you separately about the Jordan case. You will recall that the OD meeting on 28 March which agreed exceptionally to increased cover for the Pakistan proposal asked Peter Rees and Norman Tebbit to determine how this could be provided without detriment to ECGD's support of other potential business with Pakistan. They have been in correspondence since then, the correspondence resting with Peter Rees' minute to you of 1 August.

2. Norman Tebbit's proposal was that OD's wish could best be achieved by transferring off ECGD's trading account the cover for the sale. Peter Rees has not felt able to agree to this. So support for other potential business is not available.

3. If OD decides that cover should be provided for the Tornado sale, or if the Jordan case goes ahead as Michael Heseltine proposes, then the same issue will arise. If you agree, I would hope that we could review the whole position of cover in cases like this at the OD Meeting on 22 October so that we do not lose other good potential business.

4. I am copying this minute to Members of OD.

P.C.

PAUL CHANNON

15 October 1984

DEFENCE: Salvo



15 OCT 1984



CORRESPONDENCE

010

NBPM



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU309

Secretary of State for Trade and Industry

3 October 1984

Robin Butler Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Robin

HAWK ORDER

... You will have seen from today's newspapers the account of the Hawk order won by BAe and Rolls Royce in conjunction with McDonnell Douglas. You may find the attached copy of the McDonnell Douglas press release of some interest, as giving an American gloss on what has properly in this country been represented as a considerable British achievement.

Yours ever

Colin McCarthy

M C McCARTHY
Private Secretary

SOS The "HAWK"
PRESS RELEASE

Received 1800 hours Tues 2 Oct.
City: China
M.D. ←
D. M. ...

10 30 10# 828022

10/02 12:45



NEWS RELEASE

OFFICE OF ASSISTANT SECRETARY OF DEFENSE (PUBLIC AFFAIRS)

WASHINGTON, D.C. - 20301

PLEASE NOTE DATE

IMMEDIATE RELEASE

October 2, 1984

No. 523-84
697-3131 (Info)
697-3189 (Copies)

SAVINGS ON T-45TS JET TRAINING SYSTEM

Secretary of the Navy John Lehman and Sanford N. McDonnell, Chairman and Chief Executive Officer of McDonnell Douglas Corp., announced today the signing of a \$9.5 million letter contract to initiate full scale engineering development of the Navy's T-45TS jet flight training system. Selection of McDonnell Douglas Corp. from among nine competing bidders will result in a firm-fixed-price contract for development of the system at a total of approximately \$438 million in FY-84 dollars, or 54 percent of the \$810 million development cost originally estimated for the project. The total contract package will be incrementally funded over a period of six years.

The T-45TS training system will ultimately include procurement of 300 aircraft, 32 simulators, 49 computer aided instructional devices and a computer based training integration system for a total acquisition cost of \$3.2 billion in FY-84 dollars.

Approximately 73 percent of the work will be performed by Douglas Aircraft Company. Major subcontractors and the approximate percentage of work they will perform are: British Aerospace, Kingston, England (18 percent); Rolls-Royce Ltd., Derby, England (6 percent); and Sperry Systems, Reston, Virginia (3 percent). The prime contractor, Douglas Aircraft Company, will share aircraft development and production with British Aerospace. Rolls Royce will produce the engine (MK 861-49 ADOUR), and Sperry will develop the simulators. Logistic support for the entire system will be initially provided by Douglas Aircraft Company.

The T-45TS will be used by the Chief of Naval Air Training to replace both T-2C and TA-4J aircraft in the intermediate and advanced phases of Navy jet flight training. This integrated training system will be designed to produce 600 pilots each year at a significantly reduced cost. Initial operational capability is planned for October 1990. The Navy will not have sufficient T-2C and TA-4J aircraft to train the requisite number of Navy and Marine jet aviators in the 1990's and beyond. The T-45TS will provide a proven, cost-effective replacement for meeting the Navy's future jet flight training needs.

Two flight test aircraft and one ground test article will be delivered under the development contract. First flight is scheduled for December 1987 with test and evaluation beginning in January 1988.

- END -

To D McCler

~~1.10.84~~ PRESS RELEASE 3 MAC DAC/DAC PROPOSAL PLUS BAE INPUTS

1.10.84

US NAVY AWARDS T45A FULL SCALE DEVELOPMENT

The United States Navy has awarded McDonnell Douglas Corporation and its partners British Aerospace, Sperry Corporation and Rolls Royce, a contract valued at \$438 million to begin Full Scale Development on the T45A Training System.

The T45A TS is a jet pilot training system designed to train 600 US Naval Aviators annually for carrier-based fighter, and US Marine Corps attack squadrons. The cost reduction compared with the current training programme using the T2Cs and TA4Js is about 50%.

This significant award follows extensive studies of the training system, a derivative of the British Aerospace Hawk aircraft, Sperry simulators, the Rolls-Royce Adour engine and Integrated Logistic Support. The contract is the first in which a US service has procured a complete training system through a single prime contractor.

To meet this USN training requirement, 300 T45As are planned with joint production by McDonnell Douglas and British Aerospace, with final assembly in Long Beach, California.

The McDonnell Douglas team proposal, with the Douglas Aircraft Company Division of McDonnell Douglas Corporation as prime contractor, provides a total integrated training system package composed of five elements; the T45A Hawk, a suite of modern flight simulators, computer aided academic instruction, logistic support and a computer-based training integration system.

Savings with T45A Training System will result from a combination of factors: a more fuel efficient aircraft; fewer numbers required due to the use of advanced simulators which will reduce actual flying training time; lower maintenance costs on aircraft and ground equipment and fewer personnel to maintain the entire training system.

Under the terms of the contract, two test aircraft are to be built commencing in late 1985 with first flight scheduled for late 1987.

McDonnell Douglas and British Aerospace are modifying the Hawk design to make the plane capable of aircraft carrier operations. The changes include a dual-wheel nose landing gear and catapult bar, strengthened main landing gear, a tail hook to catch carrier-deck arresting cables, relocated speed brakes and general structural strengthening.

Present plans call for work to begin on the first 12 production aircraft, along with the associated ground training systems, scheduled to be in operation with the Navy in 1990 at the Naval Air Station at Kingsville, Texas.

The British Aerospace Hawk has flown more than 200,000 hours with the Royal Air Force as an advanced jet trainer. It also is used by the air forces of seven other countries as a trainer and light attack aircraft. The single-engine, two-seat aircraft has shown a remarkable degree of reliability, maintainability and effectiveness with the RAF and other air forces.

The Rolls-Royce Adour Mk861-49 engine also is a proven design with more than two million hours of flight in the Hawk, the European Jaguar strike fighter and the Japanese F-1/T-2 aircraft.

The T45A programme calls for Sperry simulators which rely heavily on the technology now used in the F/A-18 Hornet Sperry is building for the Navy. Many of the pilots trained in the T45A will eventually be flying the McDonnell Douglas F/A-18.

Some 30-35% of the academic work during training will be done through computer-aided instruction programmes, which will allow the student to proceed at his own pace while still receiving more individual instruction in less classroom time.

The training integration system will provide the most efficient use of aircraft, classrooms, simulators, instructors and other resources through computer-aided scheduling and management of the various parts of the training system. It will also track individual student progress through training.

The McDonnell Douglas-led team was selected for the T45A programme in 1981 after intense competition with five other contractors' concepts. The team has since been working on the project under pre-full scale development and sustaining engineering contracts.



MO 6/12

a no
 Please bring
 forward day
 before OD
 meeting.
 con

PRIME MINISTERTORNADOS FOR TURKEY

I have seen Norman Tebbit's recent minute to you on this subject. Unfortunately, I shall be out of the country when the subject is to be considered in OD, and Adam Butler will represent me at the meeting. I should put on record, however, that my view of the balance of risks and advantages on this matter coincides with that of Norman Tebbit.

2. I also agree with Norman's conclusion that the Government ought to find some special way of providing the credit support being requested, subject to British Aerospace being able to arrange the private sector share of the risk. As I said in my minute to you of 13th August, quite apart from the industrial arguments in favour of Government support, Turkey's position on NATO's flank makes the Tornado deal of particular military significance to the Alliance as a whole.

3. I am sending copies of this minute to other members of OD, to Tom King and Sir Robert Armstrong.

ms

Ministry of Defence
 3rd October 1984

DEFENCE : Sales Pt4



- 4 OCT 1984

COMMUNICATIONS
CORPORATION
LONDON



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

*NRPT
CDB 31x.*

MO 26/8/2

2nd October 1984

See Peter

MOBILE SUBSCRIBER EQUIPMENT

Thank you for your letter of 24th September 1984. I was most grateful for your helpful response.

I am glad to say the pressure we have been applying in Washington seems to have had some effect. The US Department of Defense have apparently agreed to accept bids which contain clauses to vary prices, at least for the optional element of the contract. This has enabled Plessey to bid without the need for an exchange rate scheme with the Ministry of Defence. For the basic programme, they can use normal ECGD or market facilities. I have, therefore, told Michael Clark that we have put further consideration of our scheme on the shelf. Obviously, we will be ready to discuss with them any further problems that might arise.

I am sending copies of this letter to OD colleagues and to Sir Robert Armstrong.

Yours truly

Michael Heseltine

DEFENCE : Sales Pt 4



25 OCT 1984



10 DOWNING STREET

30 September 1984

THE PRIME MINISTER

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T166 B/Sy

cc: feo
mas
bc: Sir P. Craddock
a MATTER
OP3

Dear Mr. President:

I was gratified to have your letter of 5 July about the Pakistan Navy's wish to acquire British ships, and their interest in Type 21 Frigates. We were very pleased that Admiral Khan was able to come to this country and the First Sea Lord has told me of the success of his visit and the way in which the Ministry of Defence was able to assist your Naval Evaluation Team which came here shortly afterwards for discussions with Royal Navy experts.

I was naturally delighted to hear that on the basis of the technical and financial assistance that we have offered, your Ministry of Defence has now issued a Letter of Intent to Vosper Thornycroft for three Type 21 Frigates. My officials are in close touch with Vosper Thornycroft and their bankers and I understand that contract negotiations are due to begin in the near future.

Admiral Khan will have received a draft copy of the proposed Memorandum of Understanding between our two Governments. The British Ministry of Defence stands ready to give full support to this project as set out in the Memorandum. As a first step, the First Sea Lord is making available a senior official from the Directorate of Contracts for Surface Ships to visit Islamabad to explore with your officials how we can best assist you during the

289

contract negotiations. I am very pleased at the prospect of extending still further the close collaboration between our two Navies.

Please accept my very best wishes.

With kind regards.

Yours sincerely

Nasir Shahid

General M Zia-ul-Haq



010

cc/AC

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 2111/3

MO 6/13

27th September 1984

Dear Charles,

FRIGATES FOR PAKISTAN

/ I attach a draft reply from the Prime Minister to President Zia's letter of 5th July in which he expressed a preference for purchasing three broadbeam Type 21 Frigates to be built by Vosper Thornycroft, but stressed that much would depend on the technical and financial assistance that we were able to give. Subsequently Admiral T K Khan, the Pakistan Chief of Naval Staff, called on Mr Geoffrey Pattie and asked whether the amount of ECGD-backed credit - at present £180 million - could be increased to ensure that the contract was awarded to the United Kingdom.

Following this meeting, there have been long consultations between the ECGD and Grindlays (Vosper Thornycroft's bankers) on the one hand, and between Grindlays and other major banks on the other, in an attempt to make an improved credit offer without increasing ECGD's commitment. These discussions resulted in agreement in principle that £200 million of credit could be provided and Grindlays made an informal offer of that amount to the Pakistani authorities. The banks have however had difficulty syndicating the full amount on the terms prescribed by ECGD, in advance of the Pakistanis providing further details about the order.

While detailed arrangements for the provision of finance were still under discussion, the Pakistan Ministry of Defence sent, on 17th September, a Letter of Intent to Vosper Thornycroft for three Type 21 Frigates, including materials and services for building one ship in Karachi. The letter listed the usual conditions, including the need for satisfactory financial terms, but this is a clear indication that the Pakistanis have decided to buy Type 21s. Grindlays are confident that the financial terms already on offer can be improved once detailed negotiations begin and the necessary

Charles Powell Esq



documentation is drawn up. In formulating a reply we have therefore excluded any mention of credit, but have merely used the same phraseology about technical and financial assistance that President Zia himself used in his letter.

The present position is that Vosper Thornycroft await a formal invitation to Islamabad to open negotiations. Admiral Khan has requested the services of the Navy Department to act as consultants to the Pakistani Ministry of Defence in their negotiations with Vosper Thornycroft. The First Sea Lord supports this request and, as a first step, the Controller of the Navy will be sending an official to visit Islamabad to determine the exact requirements.

Your ever,
Dennis

(D BRENNAN)

DRAFT LETTER FROM THE PRIME MINISTER TO:

General M Zia-ul-Haq
President and Chief of Army Staff
Islamic Republic of Pakistan
Islamabad

I was gratified to have your letter of 5 July about the Pakistan Navy's wish to acquire British ships, and their interest in Type 21 Frigates. We were very pleased that Admiral Khan was able to come to this country and the First Sea Lord has told me of the success of his visit and the way in which the Ministry of Defence was able to assist your Naval Evaluation Team which came here shortly afterwards for discussions with Royal Navy experts.

I was naturally delighted to hear that on the basis of the technical and financial assistance that we have offered, your Ministry of Defence has now issued a Letter of Intent to Vosper Thornycroft for three Type 21 Frigates. My officials are in close touch with Vosper Thornycroft and their bankers and I understand that ~~contractual~~ negotiations are due to begin in the near future.

Admiral Khan will have received a draft copy of the proposed Memorandum of Understanding between our two Governments. The British Ministry of Defence stands ready to give full support to this project as set out in the Memorandum. As ^{a first} ~~an initial~~ step, the First Sea Lord is making available a senior official from the Directorate of Contracts for Surface Ships to visit Islamabad to explore

with your officials how ~~best~~ we can ^{best} assist you during the contractual negotiations. I am very pleased at the prospect of extending still further the close collaboration ~~that~~ exists between our two Navies.

Please accept my very best wishes.

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10 DOWNING STREET

From the Private Secretary

27 September 1984

TORNADOS FOR TURKEY

The Prime Minister has considered your Secretary of State's undated minute on the provision of export credit support for the prospective sale of Tornados to the Turkish Air Force. She would like the matter to be discussed in OD. I shall ask the Cabinet Office to arrange a meeting as soon as possible.

I am copying this letter to the Private Secretaries to members of OD, David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

CHARLES POWELL

Callum McCarthy, Esq.,
Department of Trade and Industry.

RP

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PRIME MINISTER

TORNADOS FOR TURKEY

I minuted you on 10 August on difficulties arising for us in providing export credit support for the prospective sale to the Turkish airforce of 40 Tornados. Nigel Lawson, Quintin Hailsham, Michael Heseltine, Janet Young and Arthur Cockfield have all commented. The problem arises essentially from the large payment risk exposure that would arise which cannot be accepted by ECGD as a normal Section 2 operation, even on the basis of risk sharing with the private sector.

2 When I wrote before, we were looking at a potential UK order of about £435m (which would have meant an exposure taking into account interest etc of about £600m). BAe have since revised their estimates and have told us that, with cost escalation, spares etc, and with the private sector being unable to support more than 60% of the risk, the

CCND

Prime Minister

The Chancellor strongly opposed this even at a lower level of exposure. MOD, FCO & Lord Cockfield were in favour. No chance of getting it by correspondence. Agree to OD discussion?

Yes not CJD
- 26/9

JH1AXP



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figures would work out significantly higher, as follows:

	£m
Total contract value	985
UK share (58%)	571
UK credit (85%)	485
<u>Total exposure (including interest etc)</u>	<u>860</u>
of which: ECGD exposure (40%)	344
Private sector (60%)	516

The Turkish Defence Minister has told Michael Heseltine that they will award us the contract for this sale now provided we can offer finance, and BAe are under pressure to come up with credit proposals. However, there is no evidence that the Turkish Ministry of Finance has yet approved the deal. The Turks have emphasised that for operational reasons the order cannot be reduced in size. Although ECGD's exposure would be very large, the balancing share to be carried by the commercial banks and BAe and its principal sub-contractors has also increased substantially. BAe

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believe there is a reasonable prospect of this risk sharing arrangement being taken by the private sector, although in ECGD's view this is doubtful and it is almost certain that the later maturities will fall to HMG to support.

3 I realise that the arguments are carefully balanced here. Those in favour of giving the HMG support necessary to secure the order are as follows:

a) The industrial case is strong, as I made clear in my minute of 10 August. I accept Nigel Lawson's point that there is no commitment to the EFA programme at present. This makes export orders for Tornado still more significant industrially. Besides Turkey, I understand that there are also export prospects in Saudi Arabia and Oman (initially 20 and 8 aircraft respectively). Both are going to be difficult and are likely to be strongly influenced if we can secure the Turkish order. Taken together, these three possibilities offer an opportunity for the UK to improve its disappointing record in large defence export contracts (as compared for example with the French). Some measure of the industrial importance of the Turkey sale can be gauged from BAe employment

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projections. There are 4000 direct production staff at Warton. BAe estimate that these will reduce to 2500 by 1990 even if the Saudi and Oman orders are won. The Turkish order alone would enable an additional 500 production staff to be maintained through to 1990;

b) The Tornado programme is also of great significance to the aero engine and equipment industries. Rolls Royce's share of the Turkish order is estimated to amount to £60 million initially, plus a further £60 million in spares business;

c) The main repayments on any credit for Tornados would not commence until around 1987/88;

d) We must recognise that the Turks place great importance on the purchase of these aircraft from us and our partners. A refusal to provide finance may damage relations with a country which, as Janet Young points out, is one of our closest allies. On the other hand, the Greeks can hardly complain, since we offered them the aircraft as well and they rejected it;

e) If the UK does not supply these aircraft the Turks

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will probably buy them elsewhere. The USA or France will be only too ready to displace us, and can be expected to have fewer difficulties in offering finance on favourable terms; and

f) The Turks have scrupulously met their obligations to date on BAe's existing sales of Rapier and Sea Skua missiles (which were mainly for cash).

4 The main arguments against HMG support are:

(a) The risk exposure now proposed of about £350m is far above ECGD's existing market limits for Turkey, which will be facing difficult debt servicing problems from 1985 onwards as previously rescheduled debts fall due for payment again;

(b) Although Turkey's recent record on military debts has been satisfactory, Turkey has rescheduled its civil debts on many occasions, and ECGD is still owed some £120m which will not be repaid finally until 1992;

(c) BAe have already had the benefit of almost all of the new medium term ECGD cover for Turkey allocated so

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far (some £77m for Rapier and Sea Skua missiles); normal commercial exports have increased by 40% in the first seven months of 1984 and are currently running at an annual rate of £330m; if support on the scale proposed is agreed this would pre-empt any capacity to give cover for other project business (which would undoubtedly cause vigorous protests from many UK companies, currently negotiating in Turkey); and

(d) There must be doubts about the ability of the private sector to carry its share of the exposure and so there is a risk that BAe will ask for more HMG support later.

5 As I mentioned in my previous minute, if ECGD were to be instructed to take a commitment of this order, it would be necessary for this to be announced to Parliament and for the commitment to be taken outside ECGD's trading accounts.

6 This is a difficult decision. On the one hand there is concern at Turkey's economic prospects. On the other hand, the case is strong on strategic, political and industrial grounds. On balance I recommend that Government ought to find some special way of providing the support being

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requested, subject to BAe being able to arrange the private sector share of the risk. It would, of course, be necessary for BAe's German and Italian partners to be prepared to take their share of credit risks, but I believe that they would be likely to do so given a lead from the UK.

7 I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

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26 September 1984

Department of Trade and Industry

JH1AXP

CONFIDENTIAL

Defence PT 4

Sales



26 SEP 1984

CONDOR



CC No
Since colleagues
are agreed NBP
C.D.P.
25/9.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

24 September 1984

John Michael

MOBILE SUBSCRIBER EQUIPMENT

In the Chancellor's absence I am replying to your letter of 4 September.

2 I fully support your efforts to help Plessey win this major contract. I believe that the US Government should continue to be pressed at the highest level to relax their conditions, but accept that if the Americans resist all pressure to change their rules, we shall have to do something to relieve the company of the exchange rate risk involved.

3 I recognise Norman Tebbit's difficulties over stretching the existing schemes, pursuing new ones and would not wish to press him to go further.

4 I am content therefore to give my agreement in principle to the last resort exchange cover scheme which you propose to offer. If I may say so you have given a very fair summary of the advantages and risks and I am in no doubt that the importance of the contract justifies the action you propose. I share your concern that any rates and charges offered must be related to the market and must reflect the risk on the defence budget. There can be no subsidy. When the stage of a specific offer is reached I would ask that the Bank of England, ECGD and Treasury officials should be consulted about the precise terms and conditions.

5 I am copying this letter to colleagues on OD, to the Secretary of State for Employment and to Sir Robert Armstrong.

Peter Rees

PETER REES

[Faint, illegible handwriting]

25 SEP 1987

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2 No

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

18 September 1984

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

D. Nigel.

PLESSEY: MOBILE SUBSCRIBER EQUIPMENT FOR THE US ARMY

I have seen Michael Heseltine's minute to you of 4 September in which he invites me to comment on whether ECGD or DTI could provide assistance on the exchange risk faced by Plessey on their bid to the US for the supply of Mobile Subscriber Equipment.

2 This contract is the largest order for tactical communications systems open to British industry. Through our investment in Ptarmigan the UK has become a world leader in this important high technology sector. This is one of the rare occasions where there is no established US competitor. It is important that the key systems design skills are retained in the UK and, as far as possible, are prevented from falling into the hands of a potential US competitor. Otherwise we shall lose control of our technology and hence jeopardise British industry's prospects of winning business in other export markets, worth £400-£500m per annum. This risk would exist even if Plessey retained control of the US production and development facilities.

3 A significant number of jobs depend on winning this contract. At present 2,500 people are employed on Ptarmigan. Even if 50 per cent of the work is transferred to the US there will be sufficient workload to maintain that workforce, and possibly even increase it by several thousands until the early 1990s. While a significant US content will be required for political purposes, I would be concerned if the UK had to forego the employment and industrial benefits of this contract merely to overcome the exchange risk.

JH5BAH



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4 ECGD has indicated to Plessey its willingness to provide cover for the basic contract on the normal terms of its Tender to Contract facility. I do not think it would be right to go further than that. The TTC scheme is presently under review, and we should not modify the terms of cover in a way which would add to the potential risk for ECGD in such an unusual case.

5 I have also considered whether DTI should provide some form of exchange risk guarantee. While the means exist under the Industrial Development Act 1982, its use would involve an Affirmative Resolution, exchanges with the EC, and substantial administrative complications. These hurdles would both undermine the objective of helping Plessey to defeat the French, and be very complex, given that there is a readier solution through MOD's own US dollar flows. I very much hope therefore that Michael Heseltine will be able to approve the scheme currently proposed.

6 I am sending copies of this letter to colleagues on OD, to the Secretary of State for Employment and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

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5 6 7 8 9 10

19 SEP 1984

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

cc/lt



HOUSE OF LORDS,
SW1A 0PW

CONFIDENTIAL

Prime Minister

Tornados for Turkey

1. I have seen Norman Tebbit's minute of 10 August 1984 supporting the British Aerospace proposals for risk sharing between the Government and industry on the prospective sale of 40 tornados to Turkey. I have also seen subsequent letters from Michael Heseltine, Janet Young, Nigel Lawson and Anthony Cockfield.

2. I want only to emphasise a point which Janet Young mentioned. I do not think we should underestimate the resentment this proposal would generate amongst our Greek allies. It would be difficult to assess the extent of this resentment. But the Greeks are genuinely afraid that the Turks are more likely to fight them than the Soviets.

3. I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

H. of St. M.

*NBP 17.
DTI are considering their
next step at a meeting on
17 September.*

*CDP
14/9*

12 September, 1984

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Defense: Sales R7 4

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10 DOWNING STREET

From the Private Secretary

11 September, 1984..

Quarterly Report on Defence Sales and Prospects
1 April - 30 June 1984

The Prime Minister has noted the Defence Secretary's minute (MO 26/9/1(a)) reporting on current defence sales and future prospects.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Richard Hatfield (Cabinet Office).

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 26/8/2

4th September 1984

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MOBILE SUBSCRIBER EQUIPMENT

will request if required
You were among those who received a copy of Michael Clark's letter to me of 16th August describing the problems Plessey are facing in bidding for the United States Army's requirement for a battlefield communications system known as Mobile Subscriber Equipment. Your officials have also seen a fuller paper by Plessey analysing the problem of how they can hedge the exchange rate risks which stem from their being obliged to tender in fixed price dollars, the receipt of which would be uncertain and spread over more than 10 years.

The potential size of the contract is enormous. Plessey stand to win business worth around £1 billion at today's prices and other British companies could consequently win additional sub-contracts worth hundreds of millions of pounds.

I have today discussed the problems again with Michael Clark. We considered what more could be done to pressurise the Americans into changing the rules they have set and allowing Plessey to bid in Sterling. Plessey and Rockwell, the prime contractor through whom they are working, have already pressed US officials hard, as have the

The Rt Hon Nigel Lawson MP



Head of Defence Sales' staff. I am today writing to Caspar Weinberger. But we cannot rely on my approach being successful, nor can we afford to wait for the result before considering whether there is some way in which the Government can help. Plessey have to calculate and submit their bid by the end of this month. I am not hopeful of persuading the United States to change the rules since we are, in effect, asking them to take on the uncertainty of the exchange rate. Moreover, we do not know what approach the French, who are in direct competition, are adopting. Thomson CSF are state controlled and, Plessey believe, will be allowed to take on the risk. I understand that the French are likely to ease the risks by placing a higher proportion of the work in the United States. This is an option also open to Plessey, which may anyway be necessary to help gain the necessary Congressional support, though it would obviously reduce the employment benefits in this country.

We need to consider, therefore, the question of Government assistance, given that the normal commercial markets are not available because the sums involved are too large, spread over too long a period and too uncertain. Plessey have applied for cover under the ECGD Tender-to-Contract scheme but have been turned down. I can see that the scheme cannot cover the uncertainties of the future options which the United States might not exercise. But for the basic contract Plessey are asking for cover over a 12 month period rather than the 9 month limit of the scheme. Given the importance of the order, would it not be possible to stretch the rule? If it were possible, this would do something to reduce the size of the problem. As for the remainder, is there scope for a special scheme run by ECGD or some form of DTI exchange risk guarantee? Norman Tebbit may wish to comment.

If all else fails, I have been considering the possibility of an MOD scheme, as proposed by Plessey, under which we would agree to buy from them, at predetermined rates, all the dollars they received under the contract. I am reasonably confident that our requirement for dollars, not just to pay for Trident but for a wider range of other planned purchases, would more than cover receipts from Plessey. The



vital feature of such a scheme would be the exchange rates adopted. We would have to set rates and charges which were in some way related to the market and reflected the risk being taken onto the Defence budget. I think Plessey recognise this. There would also be some advantages to the Ministry of Defence in taking part in such a scheme. We anyway stand to benefit from substantial R&D levies if the sale goes ahead, but there would be an additional benefit from the increasing degree of certainty we would have of the cost of a significant proportion of our future dollar requirements. This could only help with our long term costing and project planning processes. Nevertheless, we would be taking on a real risk of an opportunity loss if the pound was to strengthen above the rates we had fixed in the scheme. There is also the risk that we might not, in the event, need all the dollars we had contracted to buy and it is worth noting that there are other companies in the same position as Plessey who might want a similar facility. There is also an argument that the Defence Budget should not really be in the business of taking risks in this way to support exports.

But as a measure of last resort, and if Norman Tebbit cannot help, I would be prepared to enter into the sort of arrangement proposed by Plessey. I would be glad to know that you would be prepared to agree such a scheme in principle. Given the timetable Plessey face, we need to give them an answer within a week.

I am sending copies of this letter to colleagues on OD, to the Secretary of State for Employment and to Sir Robert Armstrong.

Yours
Michael

Michael Heseltine

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SEP 4 1984



MO 26/9/1(A)

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Prime Minister

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PRIME MINISTER

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

1ST APRIL - 30TH JUNE 1984

The second quarter of 1984 saw defence sales worth £357M reported by industry compared with £403M for the previous quarter and £401M for the corresponding quarter in 1983. This figure is disappointing and, with sales in the first half of 1984 now some 18% less in cash terms than for the same period in 1983, the likelihood of matching last year's record sales now appears remote.

2. The largest contract signed was with the Saudis for a further extension of the King Khalid Hospital management contract (SANGMED) for the Saudi Arabian National Guard (£74M). Other significant contracts included sales of Combat Engineer Tractors to India (£25M), air defence radars to Ecuador (£23M), two development contracts for the Swedish JAS 39 aircraft programme (total £23M), a communications project for Australia (£20M) and Stingray torpedoes to Egypt (£17M). Details of all contracts reported in the quarter are given at Annexes A and B, whilst details of the highest priority current sales prospects are listed at Annex C. Further contracts reported since the end of the second quarter, and therefore not included in the totals above, include sales of 2 Fast Patrol Craft to Kenya (£75M), Searchwater radars to Spain (£13M) and the first batch of Stingray torpedoes to Thailand (£4.5M).

3. Despite the continued economic readjustments caused by falling oil revenues, the general security situation in the Middle East makes further significant arms purchases likely. I am now increasingly



confident that Saudi Arabia will purchase Tornado and Hawk in the near future. A final decision is possible before the end of the year. There is also renewed high-level Saudi interest in acquiring Challenger and improvements in our relationship with the Saudi National Guard reflected in the further extension to the SANGMED project mentioned earlier augur well for continued future business with them.

4. Elsewhere in the region, Kuwait continues to be interested in Challenger and MCV80, and also in Blowpipe/Javelin following the US refusal to supply Stinger air defence missiles. However the Kuwaitis recently announced an arms deal with the Soviet Union which may adversely affect some of these projects. Good progress has been made over the potential sale of Hawk to Bahrain, although a decision has been deferred for a further three months. The Omani Air Force continue to discuss details of their proposed purchase of Tornado ADV with BAe and agreement is still expected to be reached before the end of the year. Prospects for the sale of FH70 to Oman are, however, somewhat less bright than previously reported but the tri-service communications project there is progressing satisfactorily with Marconi likely to receive the lead contract. In Jordan, Shorts continue to promote Javelin but good credit terms or perhaps counter trade arrangements will be required. It is, however, possible that the potential Javelin deal could be subsumed within the wider Government-to-Government credit package which the Jordanians have requested. A similar request has also been made to the French and it is understood that the Soviet Union has already offered a credit line over 17 years at 2% interest, which could prove irresistible to the Jordanians. Negotiations for the sale of three Type 21 frigates to Pakistan (value now £300M) have moved into the final stage. As you are aware General Zia has written indicating that the Pakistani preference is to buy British provided our offer is comparable financially with those of France and Germany; a decision is expected shortly.

5. Good progress has been made by the joint Anglo-Algerian Study Team looking into the establishment of an Algerian aerospace industry,



including Hawk assembly. For a naturally secretive country, the Algerians have been remarkably frank and open during these discussions. Refinement of their requirements for air defence has resulted in a much reduced system and further proposals will be submitted shortly. The initial contract to which the terms of the MOU with Algeria will apply has been signed by Baxter Fell for a Gendarmerie barracks (£130M) and should complete the Algerian contractual process by end of September. Following discussions in Egypt during May about the £300M ECGD-backed special credit reservation, the Egyptians have signed the first contract to benefit from this credit for 50 Stingray torpedoes worth £17M. Additional projects on the Egyptian list of priorities are being processed. In Nigeria the validity of the existing Jaguar contract was effectively endorsed by General Bali's acceptance of the first batch of aircraft in the UK during May, although some final contractual amendments are still to be settled. The Swingfire contract signed last year is now not likely to become effective but could be replaced by a new, smaller-value order in the future. Nigeria's reaction to the Dikko affair does not appear to have affected defence sales relations at all: normal liaison is continuing through both UK official and industrial channels. Little business is of course to be expected with Iran and Iraq whilst the war continues in view of our neutrality obligations.

6. Following the Indian signature of the contract for 15 Combat Engineer Tractors with an option for a further 35 vehicles, negotiations started in early August on a possible purchase of FH70 by their Army. Work also continues to agree a general collaborative MOU and a line-of-credit. Full negotiations are due to commence shortly on the supply of a further 11 Sea Harriers, which has already been agreed in principle by the Indian Cabinet. In Thailand a decision is awaited on the proposals for sale of the Vickers Mk 3 tank but it is possible that the US M48 or M60 may be procured on cost grounds. Other prospects include possible sales of HS748 and Hawk, where the credit terms will be an important factor, and the construction of a rocket propellant plant. As recorded above MUSL have now signed an initial contract for Stingray.



7. The Head of Defence Sales, James Blyth, visited China and South Korea in May. He concluded that, whilst China could only be expected to provide annual defence business of at most £30M in the medium term, South Korea is a much more promising market for the UK and could provide up to £100M in 1984/85. Immediate prospects there include Tigerfish torpedoes and fire control systems for the Korean submarine programme, and Lynx helicopters with Sea Skua missiles: key decisions are expected in the autumn on both these projects. Other prospects include Hawk, Skyvan, LAW 80 and helicopters. A Ministerial visit is planned for later in the year. In Malaysia, the most important prospects are for submarines and a Defence Operations Room; Singapore continues to show interest in helicopters, fast patrol craft and associated weapons, and in RB199 engines for their Skyhawk refit programme; Indonesia offers a good prospect of a Rapiers sale and is also showing continued interest in single seat Hawk; and the Philippine Navy has a requirement for three corvettes for which Yarrow have submitted proposals. Australia is expected to decide soon on procurement of helicopters for their frigates and Geoffrey Pattie has written in support of Westland's proposals.

8. In the US, Marconi were awarded a contract for their Integrated Communications System (ICS3) worth \$7M after a protracted evaluation and an open competition. Future orders for the US fleet generally could amount to over \$1Bn during the next decade. Confirmation has recently been received that the US will proceed with a purchase of \$50M worth of Rapiers to defend the US bases in Turkey and negotiations with Turkey on manning and support will be opened by USAF shortly. Our chances of selling the Improved 81mm Mortar have been helped by the announcement by the US that the system has been deemed acceptable for Service use but several hurdles still remain before any major procurement decision can be made. Plessey are bidding in consortium with Rockwell Collins and ITT for the \$4Bn Mobile Subscriber Equipment. The industrial agreements between BAe and McDonnell Douglas for the Hawk VTX programme are currently being negotiated and it is still



hoped that the full scale engineering contract will be awarded before the end of 1984.

9. Sales to Europe continue to be disappointing. The major achievement was the initial sale of Sea Spray Radars and Sea Skua missiles to the German Navy for their Sea King helicopters. Although the initial value of the order was small, the total value of the follow-on contract is some £50M. Prospects for the sale of BAE's ALARM to the Luftwaffe are still slender. Strenuous efforts to persuade the Dutch to fit Vertical Launched Sea Wolf to their 'M' Class frigates continue. The final rejection by the Greeks of Tornado, although not unexpected, was nonetheless a major disappointment. However, if a suitable financial package can be constructed the prospects of selling Tornado to Turkey look promising. Prospects now exist for the sale of Sea Harrier to Italy. A contract has been initialled for the sale of some £28.6M worth of Marconi AS 82 Air Defence Radars to Yugoslavia, and approval has been given for the earlier sale to Yugoslavia of Marconi's Martello radar for onward sale to Libya.

10. The depressed state of the Latin American and Caribbean market has not shown any significant signs of improvement, but there have been one or two recent successes and others are in prospect. Contracts for the sale of HMS ANTRIM to Chile and the second phase of the Plessey air defence radar to Ecuador were signed in May. Ferranti are hopeful that their prospective submarine fire control system contract for the Brazilian Navy should be completed soon, now that the financial package for the West German-built submarines has been agreed. Following strong MOD and FCO support, it now appears certain that Fairey Marine will win an order to supply three Fast Patrol Boats to the Bahamas Defence Force.

11. Overall, there can be no doubt that the first half of 1984 has been disappointing and, whilst there are a number of promising prospects, the remainder of 1984 is also going to be difficult. The long-awaited



first export order for Tornado has still not materialised, although I am now cautiously optimistic that this will in fact be achieved during 1984 or early in 1985. Other aircraft prospects also appear promising and it is therefore possible that the second half of 1984 could in fact turn out to be significantly better than we currently foresee if one or two key decisions go in favour of our industries.

12. I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

WPA

Ministry of Defence
30th August 1984

ANNEX A - REPORTED CONTRACTS SUMMARY

COUNTRY	ARMY SYSTEMS VALUE £m	AIR SYSTEMS VALUE £m	NAVAL SYSTEMS VALUE £m	TOTAL VALUE £m
ALGERIA	7.50	-	-	7.50
AUSTRALIA	20.00	-	-	20.00
BAHRAIN	-	-	12.00	12.00
BERMUDA	0.10	-	-	0.10
BOTSWANA	-	0.57	-	0.57
BURMA	0.50	-	-	0.50
CAMEROON	0.10	-	-	0.10
CANADA	-	-	2.50	2.50
CHILE	-	-	10.52	10.52
CHINA (P.R.)	1.70	-	6.5	8.20
ECUADOR	23.00	-	-	23.00
EGYPT	0.35	0.94	17.29	18.58
FIJI	0.01	-	-	0.01
F.R.GERMANY	0.16	2.45	-	2.61
GHANA	0.20	-	-	0.20
INDIA	25.50	9.08	0.08	34.66
INDONESIA	5.00	-	-	5.00
IRAQ	4.00	-	-	4.00
ITALY	0.13	-	0.50	0.63
JAPAN	4.00	0.04	15.00	19.04
KOREA (SOUTH)	0.02	-	-	0.02
KUWAIT	0.18	-	-	0.18
MOZAMBIQUE	0.10	-	-	0.10
NATO	-	-	3.50	3.50
NEPAL	0.13	0.65	-	0.78
NEW ZEALAND	6.00	-	-	6.00
NIGERIA	1.00	-	-	1.00
OMAN	8.90	-	1.00	9.90
PAKISTAN	0.25	-	-	0.25
SAUDI ARABIA	74.55	-	-	74.55
SINGAPORE	2.30	-	-	2.30
SPAIN	-	-	2.00	2.00
SRI LANKA	0.07	-	7.50	7.57
SWEDEN	-	23.00	-	23.00
SWITZERLAND	-	-	3.00	3.00
THAILAND	-	7.00	-	7.00
UAE	0.40	-	-	0.40
USA	4.32	31.49	8.34	44.15
YEMEN (ARAB REPUBLIC)	-	0.54	-	0.54
ZAMBIA	0.75	-	-	0.75
TOTALS	191.22	75.76	89.73	356.71

ANNEX B - REPORTED CONTRACTS - AIR SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
AR YEMEN	SAND FILTER	15	0.54	1984	606
BOTSWANA	TRISLANDER AIRCRAFT	1	0.57	1985	737
EGYPT	GNOME AERO ENGINE SPARES	NA	0.94	1984	765
FR GERMANY	SEA SKUA HELICOPTER EQUIPMENT	2	1.25	N.K.	716
	SEA SPRAY	2	1.20	N.K.	715
INDIA	HARRIER SPARES	NA	9.08	N.K.	754
JAPAN	7.62 mm GUN POD	1	0.04	N.K.	1459
NEPAL	SKYVAN	1	0.65	N.K.	756
SWEDEN	JAS-39 RADAR DEVELOPMENT	NA	5.00	1985	15
	JAS-39 WING DEVELOPMENT	0	18.00	1985	719
THAILAND	SHORTS 330/UTT	3	7.00	N.K.	718
USA	AV8B DEVELOPMENT	NA	1.12	N.K.	1452
	COBRA AIR DATA SYSTEM	NA	1.09	N.K.	677
	F-111 AIRCRAFT SPARES	NA	4.00	N.K.	1450
	FUEL PODS FOR CH-47 CHINOOK	89	7.00	N.K.	1448
	HARRIER SPARES	NA	1.30	N.K.	1451
	HUD/WASS FOR F-16	NA	3.00	N.K.	676
	HUD/WASS FOR F-16	NA	9.53	N.K.	678
	HUD/WASS FOR F-16 A/B	NA	0.20	N.K.	1476
	HUD/WASS FOR F-16 C/D	NA	2.10	N.K.	1475
	PV1585G FLT DATA AQUISITION	NA	1.60	N.K.	679
	SR-71 FUEL PUMP CASTING	NA	0.25	N.K.	767
UNSPECIFIED A/C SPARES & EQPT	NA	0.30	N.K.	1449	

TOTAL FOR AIR SYSTEMS £m 75.76

END

ANNEX B - REPORTED CONTRACTS - LAND SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
ALGERIA	LASER RANGEFINDER	NA	1.50	1985	3
	TL10-T LASER RANGEFINDER	NA	6.00	N.K.	732
AUSTRALIA	DISCON COMMUNICATIONS PROJECT	NA	20.00	1986	1464
BERMUDA	MARKSMAN WEAPON TRAINER	1	0.10	1984	726
BURMA	VHF 4051 RADIO	NA	0.50	1984	755
CAMEROON	BOOTS	NA	0.10	1984	739
ECUADOR	AIR DEFENCE GROUND RADAR SYS	NA	23.00	1985	197
EGYPT	COMPUTER	1	0.35	1984	741
FIJI	NIGHT VISION SIGHT	NA	0.01	1984	742
FR GERMANY	RADAR SIMULATOR REFIT	1	0.16	1983	1473
GHANA	SHOTGUN CARTRIDGE	NA	0.20	1984	738
INDIA	COMBAT ENGINEER TRACTOR	15	25.50	1985	9
INDONESIA	MEDICAL EQUIPMENT PACKAGE	1	5.00	N.K.	374
IRAQ	COMPUTER	NA	4.00	1984	680
ITALY	MX42/21 FUZE ENERGISER BATTERY	NA	0.13	N.K.	1472
JAPAN	FH70 AMMUNITION	NA	4.00	N.K.	183
KUWAIT	MOBILE ABLUTION UNIT	5	0.10	1984	766
	PARKAWAY BUILDING SYSTEM	4	0.08	1984	675
MOZAMBIQUE	T1014 TRANSMITTER	1	0.10	1984	736
NEPAL	COMMS EQUIPMENT	NA	0.13	N.K.	753
NEW ZEALAND	COMMS EQUIPMENT	NA	6.00	N.K.	644
NIGERIA	L20 LASER RANGEFINDER SIGHT	NA	1.00	N.K.	731
OMAN	MOBILE WORKSHOP	4	0.40	1984	763
	SCORPION	6	8.50	N.K.	344

ANNEX B - REPORTED CONTRACTS - LAND SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
PAKISTAN	TRACKWAY	NA	0.25	N.K.	674
PR CHINA	BS250 TRAJECTORY ANALYSER	3	1.68	N.K.	1462
	RO-VEH EOD VEHICLE	1	0.02	1984	728
REPUBLIC OF KOREA	HED EXPLOSIVE DETECTOR	3	0.02	N.K.	1458
SAUDI ARABIA	SANGMED PROJECT	NA	74.00	1985	729
	SUBMACHINE GUN	1500	0.55	1984	645
SINGAPORE	LANDROVER 110	200	2.30	N.K.	733
SRI LANKA	PYROTECHNICS	NA	0.07	N.K.	757
UAE	MOBILE WORKSHOP	16	0.40	N.K.	760
USA	DESIGN SUPPORT	NA	0.14	N.K.	1456
	GDU FOR BCS	NA	4.00	N.K.	1453
	TV STUDIO EQUIPMENT	NA	0.18	N.K.	1461
ZAMBIA	COMPUTER	1	0.75	N.K.	510

TOTAL FOR LAND SYSTEMS £m 191.22

END

ANNEX B - REPORTED CONTRACTS - SEA SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
BAHRAIN	CUTLASS ESM EQUIPMENT	NA	12.00	N.K.	210
CANADA	SHIELD DECOY SYSTEM	7	2.50	1985	681
CHILE	COUNTY CLASS DESTROYER	1	10.00	1984	38
	M97 FUZE	600	0.27	1984	724
	NAVIGATION RADAR	NA	0.25	1984	727
EGYPT	STINGRAY TORPEDO	50	17.29	1985	740
INDIA	DIVING EQUIPMENT	NA	0.08	N.K.	751
ITALY	A290 TORPEDO RECORDER	17	0.50	N.K.	712
JAPAN	SM-1A ROLLS-ROYCE SPEY ENGINE	12	15.00	N.K.	1460
NATO	ADVANCED DEGAUSSING RANGE	2	3.50	N.K.	76
OMAN	P2000 FAST PATROL BOAT	1	1.00	1984	762
PR CHINA	INTEGRATED COMMS ICS3	5	6.50	N.K.	30
SPAIN	MACHINERY CONTROL TRAINER	2	2.00	N.K.	608
SRI LANKA	MISSION SUPPORT SHIP	3	7.50	N.K.	750
SWITZERLAND	DOLPHIN SURVEILLANCE RADAR	4	3.00	N.K.	758
USA	CIRCUIT BREAKERS	NA	0.72	N.K.	40
	COMPUTER SOFTWARE	NA	0.25	N.K.	769
	INTEGRATED COMMS ICS3	NA	5.70	N.K.	721
	MESSAGE PROCESSOR SYSTEM	6	0.13	N.K.	1457
	SHIP AUXILIARY POWER MOTOR	24	0.28	N.K.	1454
	SLOW SPEED WATERBRAKE	NA	1.08	N.K.	1455
	TOWED ARRAY CABLE	7	0.18	N.K.	768

TOTAL FOR SEA SYSTEMS £m 89.73

END

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>BELGIUM</u>	REMARKS: Request for tender expected 1984/85. Final decision is expected 1985/6.
PRODUCT: LYNX III	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 80.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA, France, FRG, Italy.
31 1985	
COUNTRY: <u>DENMARK</u>	REMARKS: The Danes have 8 Naval Lynx in service and are considering a follow-on order of 4 for Baltic surveillance. Money has been ear-marked in the budget for 1985/6 for this purchase.
PRODUCT: LYNX (NAVAL)	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 15.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
456 1985	
COUNTRY: <u>FR GERMANY</u>	REMARKS: FRG purchased 12 Naval Lynx in 1979. Contract under negotiation for purchase of two further aircraft.
PRODUCT: LYNX (NAVAL)	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 7.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
458 1984	
COUNTRY: <u>FR GERMANY</u>	REMARKS: To be used in conjunction with Seaspray radar.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 25.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France
35 1984	

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>FR GERMANY</u>	REMARKS: To be fitted to Sea King SAR helicopters, combined with Sea Skua missiles, to convert aircraft to dual role. The Seaspray will operate in a new 360 degree role. Two prototype sets have already been ordered.
PRODUCT: SEA SPRAY	
FIRM : FERRANTI RADAR SYSTEMS	
VALUE :£m 25.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 573 1984	COMPETITION: MEL (UK).
COUNTRY: <u>NETHERLANDS</u>	REMARKS: Linkage possible to further RM purchase of CIWS.
PRODUCT: SEAWOLF VL	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 24.00	MINISTERIAL: Min of S (DP) closely involved. INVOLVEMENT:
REF NO CON.DATE 191 1984	COMPETITION: USA(Sea Sparrow)
COUNTRY: <u>PORTUGAL</u>	REMARKS: This NATO aid project has been under discussion since '79. Current proposals based on Kortenaer frigate seem likely to founder, insufficient finance being available from NATO and Portuguese sources. Possible alternative options involve FRG and US. In 1983 S of S offered £5m towards cost of purchasing UK equipment. Most likely purchase is Lynx. WHL to provide revised proposals. ECGD have proposed additional £50m credit cover for 6 months for a Lynx purchase.
PRODUCT: LYNX	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m NK	MINISTERIAL: PM raised during visit to Portugal April 1984. INVOLVEMENT:
REF NO CON.DATE 759 N.K.	COMPETITION:
COUNTRY: <u>SWITZERLAND</u>	REMARKS: To replace Vampire FB-6/T-55 in trainer role.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m NK	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 574 N.K.	COMPETITION: Italy (MB-339)

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>TURKEY</u>	REMARKS: Subsequent to proposals from BAe the TAP have expressed interest in the procurement of 40 Tornado IDS if a suitable financial package, involving both FRG and Italy, can be constructed. ECGD credit of up to £350m could be required.
PRODUCT: TORNADO IDS	
FIRM : PANAVIA	
VALUE :£m 700.00	MINISTERIAL: Both S of S and Min (DP) have approached FRG about possible use of FRG aid, INVOLVEMENT: but this proposal has been rejected.
REF NO CON.DATE	COMPETITION:
353 N.K.	

END

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: KUWAIT	REMARKS: Kuwait have requirement to equip 5 or 6 battalions with APCs. Infantry Committee impressed with MCV-80 during visit in April 1984 and company have been invited to demonstrate vehicle in Kuwait in August.
PRODUCT: APCs/IPVs	
FIRM : GKN SANKEY	
VALUE :£m 300.00	MINISTERIAL: S of S discussed with Shaikh Salim, Minister of Defence, in July 1983, and INVOLVEMENT: visited Kuwait in February 1984.
REF NO CON.DATE 206 1985	COMPETITION: USA (Bradley), Brazil (Engesa), USSR (BMP-2).
COUNTRY: KUWAIT	REMARKS: The Kuwaitis are showing a very strong interest in Challenger. It impressed during Abu Dhabi trials July/August 1983 and again at Bovington and Hohne ranges in Germany in April 1984. Kuwaitis expect to equip 3 regiments with new tank and in-country trial later this year possible. Much will depend on political and financial considerations
PRODUCT: MAIN BATTLE TANKS	
FIRM : ROYAL ORDNANCE FACTORIES	
VALUE :£m 150.00	MINISTERIAL: S of S discussed with Shaikh Salim, Minister of Defence, in July 1983, and INVOLVEMENT: visited Kuwait in February 1984.
REF NO CON.DATE 205 1987	COMPETITION: USA (M1),USSR(T72), France (AMX-32).
COUNTRY: KUWAIT	REMARKS: Recent events in Gulf have provoked considerable interest in man portable AD systems for both land and shipborne use. As US unlikely to sell Stinger good opportunity for Blowpipe though much will depend on how Short's offer is received as we shall not be able to offer equipment on same scale as US. Scope for selling Javelin later.
PRODUCT: MAN PORTABLE SAMs	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 100.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 761 N.K.	COMPETITION: USSR
COUNTRY: OMAN	REMARKS: UK team carried out study in August 1983 and report submitted to CDS Oman. An LSP (Royal Signals) was posted to Oman in June 1984 to assist the Omani Joint Signals Board in the management of the complete project. Marconi invited (29 Feb 84) to begin design study. IAL, Teleconsult, Scicon, Embank Breece and BAe invited to tender for project management consultancy. Major prospect for hardware from UK electronics companies. Credit will probably be required.
PRODUCT: COMMUNICATIONS PROJECT	
FIRM : VARIOUS	
VALUE :£m 350.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 208 1984	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>BAHRAIN</u>	REMARKS: BAe original package of 6 Hawks presented early June. Raised offer submitted 20.06.84 (£44.7). Firm awaiting to be asked to return to negotiating table.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 45.00	MINISTERIAL: Prime Minister and Minister (DP) met HH The Amir of Bahrain 10-13 April 1984.
REF NO CON.DATE	INVOLVEMENT: Minister (DP) visited Bahrain 7 May 1984.
41 1984	COMPETITION: France (Alpha-jet), USA.
COUNTRY: <u>BAHRAIN</u>	REMARKS: MOD UK report submitted September 1983. UK firms proposals submitted shortly thereafter for low level radars, supplemented by airborne radars fitted to Skyvan or Islander aircraft. Proposals well received by BDF and they speak favourably of the Marconi S511 radar. Decision imminent. DMAD reports US currently advising on radar. COS reported as saying that radar acquisition under consideration in GCC committee.
PRODUCT: LOW LEVEL RADAR	
FIRM : VARIOUS	
VALUE :£m 25.00	MINISTERIAL: Prime Minister and Minister(DP) met HH the Amir of Bahrain 10-13 April, 1984.
REF NO CON.DATE	INVOLVEMENT:
373 1984	COMPETITION:
COUNTRY: <u>BAHRAIN</u>	REMARKS: BAe have excellent prospect to fit Sea Skua to BDF AB212s. BAe have invited C.O.S. to visit No 815 Squadron.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 25.00	MINISTERIAL: Prime Minister and Minister (DP) met HH The Amir of Bahrain 10-13 April, 1984.
REF NO CON.DATE	INVOLVEMENT:
42 1984	COMPETITION: France (AS15TT)
COUNTRY: <u>JORDAN</u>	REMARKS: Following the refusal by the USA to supply Stinger missiles the Jordanians are looking for alternatives. Successful presentation in Jordan was given by Shorts in June 1984. It is hoped for an early demonstration in Jordan or UK. ECGD Section 2 5 years credit available at consensus rate. Amount to be covered is still subject to discussion.
PRODUCT: JAVELIN	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 57.00	MINISTERIAL:
REF NO CON.DATE	INVOLVEMENT:
579 1984	COMPETITION: USSR, France.

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>OMAN</u>	REMARKS: A priority GCC funded prospect. Marconi in dialogue with Oman and are well placed to secure contract when funds are available.
PRODUCT: MARTELLO 3D RADAR	
FIRM : MARCONI RADAR SYSTEMS	
VALUE :£m 20.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 50 1985	COMPETITION:
COUNTRY: <u>OMAN</u>	REMARKS: Oman has declared a strong preference for Tornado ADV and 4 GR1s visited Oman in February 1984 as part of Exercise Magic Carpet. BAe continue to give technical presentations to SOAF. Discussions on credit in train with financial institutions.
PRODUCT: TORNADO ADV	
FIRM : PANAUIA	
VALUE :£m 200.00	MINISTERIAL: S of S discussed with Sayyid Fahr in June 1983. Min(DP) discussed briefly with INVOLVEMENT: Sayyid Fahr at RNEE in September 1983.
REF NO CON.DATE 49 1986	COMPETITION:
COUNTRY: <u>QATAR</u>	REMARKS: Requirement appears to be for 3 35m vessels, though only 1 would be purchased initially. Larger Hunt class also possibility. Likely that Qatar will wish to train 2 officers in UK before deciding on type of vessel to be purchased. DMFCT passed training proposals to RNLSP last year and are to issue revamped invitation soon. French have also offered training and visit Qatar frequently, including visit of MCMV in December 1983. Manpower shortage problem.
PRODUCT: MINEWARFARE SHIPS	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 50.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 51 1985	COMPETITION: France (CMM)
COUNTRY: <u>SAUDI ARABIA</u>	REMARKS: Contract negotiations for training on equipment already supplied are at final stage.
PRODUCT: ARTILLERY SURV. EGPT. TRAINING	
FIRM : IMS	
VALUE :£m 7.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 1470 1984	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: SAUDI ARABIA	REMARKS: Contract negotiations at final stage, IMS Project No 96/22/091.
PRODUCT: ARTILLERY SURVEILLANCE EQPT.	
FIRM : IMS	
VALUE :£m 23.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
62 1984	
COUNTRY: SAUDI ARABIA	REMARKS: Draft contract issued but negotiations delayed owing to moratorium, IMS Project No 96/22/095.
PRODUCT: ENGINEERING PACKAGE	
FIRM : IMS	
VALUE :£m 38.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
53 1984	
COUNTRY: SAUDI ARABIA	REMARKS: Support package. Draft contract being considered, IMS hopeful of contract negotiations commencing mid 1984, IMS Project No 96/22/090.
PRODUCT: ENGINEERING PACKAGE	
FIRM : IMS	
VALUE :£m 6.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
58 1984	
COUNTRY: SAUDI ARABIA	REMARKS: Costed proposals presented by Shorts to SANG in October 1983 with HMG letter of comfort. Presentation offered.
PRODUCT: JAVELIN	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 17.00	MINISTERIAL: Mentioned by S of S in his letter of March 1984 to Prince Abdullah. INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Sweden.
345 1984	

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: SAUDI ARABIA	REMARKS: VSEL await invitation to present technical proposals.
PRODUCT: PIRANHA SUBMERSIBLE	
FIRM : VICKERS SEL	
VALUE :£m 100.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 203 1984	COMPETITION: FRG, Italy
COUNTRY: SAUDI ARABIA	REMARKS: Firm proposals have been presented to the Saudi Minister of Defence & Aviation A response is awaited. Sale would be on a government to government basis.
PRODUCT: TORNADO IDS	
FIRM : PANAIA	
VALUE :£m 350.00	MINISTERIAL: S of S discussed prospect with Saudi counterpart in Riyadh in January 1984 and INVOLVEMENT: has since written to him in support of proposals.
REF NO CON.DATE 64 1984	COMPETITION: USA.
COUNTRY: UAE	REMARKS: Plessey proposals well regarded and linked to AR3D (see Ref No68). D of O (UAE) has indicated that a visit after Ramadan would be acceptable.
PRODUCT: AIR DEFENCE OP CENTER	
FIRM : PLESSEY RADAR	
VALUE :£m 50.00	MINISTERIAL: PM, S of S, and Min (DP) met Shaikh Khalifa Crown Prince & DSC (Abu Dhabi) INVOLVEMENT: 18-19 July 1984.
REF NO CON.DATE 70 1984	COMPETITION:
COUNTRY: UAE	REMARKS: Plessey proposals well regarded and linked to ADCC (Ref No70). IMS have rekindled UAE interest in an ADAT study. Proposals were delivered personally by CDS in May. D of O (UAE) has indicated that a visit after Ramadan would be acceptable.
PRODUCT: AR 3D RADAR	
FIRM : PLESSEY RADAR	
VALUE :£m 50.00	MINISTERIAL: PM, S of S and Min (DP) met Shaikh Khalifa Crown Prince & DSC Abu Dhabi 18-19 INVOLVEMENT: July 1984.
REF NO CON.DATE 68 1984	COMPETITION: France (Thomson CSF), USA (Hughes).

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: UAE REMARKS: Successful trials held July/August 83. Intensive marketing follow up, UAE follow-up questionnaires have been completed and forwarded to GHR via DA. We should keep open offer of UAE Armour Committee visit to UK. The French are reported to have made an attractive offer for the sale of AMX-40 linked to an updating or even resale programme of the current AMX-30 squadrons.

PRODUCT: CHALLENGER MBT

FIRM : ROYAL ORDNANCE FACTORIES

VALUE :£m 100.00 MINISTERIAL: PM, S of S, Min (DP) met Shaikh Khalifa Crown Prince & DSC Abu Dhabi 18-19
INVOLVEMENT: July 1984.

REF NO CON.DATE
69 1985 COMPETITION: FRG, USA, France.

COUNTRY: UAE REMARKS: Following completion of requirement definition early commencement of negotiations is expected. This project is much depleted from its original value of £100m. A substantial element of the package has been lost to PRB (Belgium). Barmines have now been removed from the package. UAE dealing direct with the ROFs and now that IJOC is underway some movement can be expected.

PRODUCT: ENGINEERING PACKAGE

FIRM : IMS

VALUE :£m 10.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
66 1985 COMPETITION:

COUNTRY: UAE REMARKS: Racal/Marconi proposals under consideration supported by MoD training offer. UAE do not intend to implement EW until after full implementation of IJOC project later this year. Budgetary restrictions will also apply.

PRODUCT: EW SYSTEM

FIRM : VARIOUS

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
73 1984 COMPETITION:

COUNTRY: UAE REMARKS: Although contract signed for 16 Hawk trainers, EGA was a budget casualty. Recent interest in Harrier (qv) may have held off marketing of A-10 and kept door open for Hawk. Recent closure of A-10 production line could further enhance Hawk prospects.

PRODUCT: HAWK EGA

FIRM : BRITISH AEROSPACE AG

VALUE :£m 84.00 MINISTERIAL: PM, S of S and Min (DP) met Shaikh Khalifa Crown Prince & DSC Abu Dhabi 18-
INVOLVEMENT: 19 July 1984.

REF NO CON.DATE
67 1985 COMPETITION: France, USA.

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: UAE REMARKS: IJOC contract has not given IMS a clear advantage for full contract. International competition is strong particularly from FRG.

PRODUCT: JOINT OPERATIONS CENTRE

FIRM : IMS

VALUE :£m 50.00 MINISTERIAL: PM, S of S and Min (DP) met Shaikh Khalifa Crown Prince & DSC Abu Dhabi 18-
INVOLVEMENT: 19 July 1984.

REF NO CON.DATE COMPETITION: USA, France, FRG.

71 1984

COUNTRY: UAE REMARKS: Ferranti are waiting to be called forward for contract discussions. UAE have reconfirmed the requirement but the site is undecided, budgetary considerations will apply and the NOC will have to interface with the JOC.

PRODUCT: NAVAL OPERATIONS CENTRE

FIRM : FERRANTI RADAR SYSTEMS

VALUE :£m 50.00 MINISTERIAL: Minister (DP) - RNEE. PM, S of S, and Min (DP) met Shaikh Khalifa Crown Prince
INVOLVEMENT: & DSC Abu Dhabi 18-19 July 1984.

REF NO CON.DATE COMPETITION:

72 1984

END

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: AUSTRALIA REMARKS: Australia requires new submarines to replace its existing Oberons. It is planned that some of the submarines will be built in Australia. VSEL are promoting T2400 and T2400 variant which more closely matches Australia's requirement. Plessey and Ferranti have submitted proposals for the combat system. RFT proposals currently under consideration by DOD. Project definition contracts are to be let in October 84 and contracts placed in 1985/6.

PRODUCT: TYPE 2400 SUBMARINE

FIRM : VICKERS SEL

VALUE :£m NK MINISTERIAL: Minister (DP)

REF NO CON.DATE INVOLVEMENT:

4 1986 COMPETITION: France, Holland, Germany, Italy, Sweden.

COUNTRY: AUSTRALIA REMARKS: The Royal Australian Navy has picked two helicopter types, the Sikorsky Ocean Hawk and the Westland Lynx III, as final contenders for an aircraft to be based on its guided missile frigates. Supplementary tender information was submitted in February and decision is expected in August 84. This may be the forerunner to a much larger order for all three services.

PRODUCT: LYNX III

FIRM : WESTLAND HELICOPTERS

VALUE :£m 50.00 MINISTERIAL: Minister (DP)

REF NO CON.DATE INVOLVEMENT:

178 1984 COMPETITION: USA (Ocean Hawk).

COUNTRY: BANGLADESH REMARKS: BAe visited country mid-July for further discussions. Credit will be required up to 80% over 7 years.

PRODUCT: HAWK

FIRM : BRITISH AEROSPACE AG

VALUE :£m 40.00 MINISTERIAL:

REF NO CON.DATE INVOLVEMENT:

752 N.K. COMPETITION:

COUNTRY: INDIA REMARKS: Negotiations delayed by death of Defence Secretary have begun. Credit will be required and a package is being formulated.

PRODUCT: FH70

FIRM : VICKERS SEL

VALUE :£m 600.00 MINISTERIAL: Min (DP) discussed during visit to India in May 1984.

REF NO CON.DATE INVOLVEMENT:

8 1984 COMPETITION: France, Austria, Sweden.

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>INDIA</u>	REMARKS: Negotiations not yet begun. Problems over spares remain to be resolved.
PRODUCT: SEA HARRIER	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 110.00	MINISTERIAL: Min (DP) discussed during visit to India in May 1984.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
7 1984	
COUNTRY: <u>INDIA</u>	REMARKS: Ferranti have also submitted proposals. Funding will be from scientific budget rather than Air Force budget; the scientific fraternity will have more of a free hand for selecting a system that will help with their own development. DSD ADAT team is preparing to give a presentation to Indians if required.
PRODUCT: AEW EQUIPMENT	
FIRM : MARCONI SDS	
VALUE :£m 300.00	MINISTERIAL: Was discussed during Min (DP)'s visit to India in May 1984.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
471 1984	
COUNTRY: <u>INDIA</u>	REMARKS: The Indian Army have a requirement to update their Vijayanta tanks and are considering various UK equipments to meet this requirement. They also have a requirement for an indigenously manufactured MBT and are looking to Europe for co-operation in this field. Barr & Stroud demonstrated thermal imagers. Marconi Radar negotiated contract for 70 Simplified FCS and RR has supplied 2 CV12 engines for trials - so far beset with problems.
PRODUCT: VIJAYANTA REFIT	
FIRM : VARIOUS	
VALUE :£m 200.00	MINISTERIAL: Discussed by Minister (DP) in India.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG
473 1984	
COUNTRY: <u>INDONESIA</u>	REMARKS: Follow-on option has lapsed, but BAe still hopeful of further sales. Requirement possibly for as many as 200 aircraft.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m NK	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
182 N.K.	

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>INDONESIA</u>	REMARKS: In view of the recent frigate purchase current position difficult to ascertain. VT working on two in the medium term with two more later.
PRODUCT: MINEWARFARE SHIPS	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m NK	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 349 1984	COMPETITION: FRG, Holland, Italy.
COUNTRY: <u>INDONESIA</u>	REMARKS: Strong indication that IAF will select Rapier as preferred choice to meet priority requirement for short range AD. BAe have submitted credit backed offer for initial order of one battery of optical/tracked Rapier, plus in country support.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 50.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 348 1984	COMPETITION:
COUNTRY: <u>JAPAN</u>	REMARKS: JMSDF have evaluated Searchwater and Thorn EMI have recently appointed an agent to help the promotion. The US decision not to purchase Searchwater will damage its chances in Japan.
PRODUCT: SEARCHWATER RADAR	
FIRM : THORN EMI ELECTRONIC	
VALUE :£m 75.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 12 1984	COMPETITION:
COUNTRY: <u>JAPAN</u>	REMARKS: Sea Harrier is being promoted for sea lane defence and JMSDF are expected to make a bid to allocate preliminary funding for up to 24 aircraft in the 84 MTOP under preparation by the JDA. SHAR MLU, Harrier II (on which McDonnell Douglas would lead in marketing) and Tornado are contenders for the JASDF FX-X requirement for an anti-ship ground defence fighter.
PRODUCT: SEA HARRIER	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 150.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 450 1987	COMPETITION: Japan (F-1, F-4), USA (F-16E, F-15E, FA-18)

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>MALAYSIA</u>	REMARKS: Contract unlikely to be signed before late 1984 at the earliest to implement a 3-4 year programme. Consideration being given to possible forms of additional training and assistance to support EASAMS during contract negotiations.
PRODUCT: DEFENCE OPERATIONS ROOM	
FIRM : EASAMS	
VALUE :£m 50.00	MINISTERIAL: Letter from S of S (10.2.83)
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA
25 1984	
COUNTRY: <u>MALAYSIA</u>	REMARKS: IMS submitting proposals for construction and equipping of an 'A' vehicle workshop as stage 1 of overall project. Package includes offer of joint venture with Malaysians on construction. Project priority linked to inadequate existing support for recent Scorpion buy.
PRODUCT: GEMAS RANGE PROJECT	
FIRM : IMS	
VALUE :£m 17.00	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Australia.
352 1984	
COUNTRY: <u>MALAYSIA</u>	REMARKS: IMS are proposing a G-to-G feasibility study conditional upon IMS being given management consultancy for the main project, completion target for which is 4-5 years.
PRODUCT: PETROLEUM EMERGENCY PROJECT	
FIRM : IMS	
VALUE :£m 60.00	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG, USA, Sweden.
351 1984	
COUNTRY: <u>PAKISTAN</u>	REMARKS: Vosper's proposals for 2 broadbeam frigates submitted August 1982. Present requirement is for 2 foreign build and 1 local build vessels. Contract negotiations commenced May 84. Draft MOU now being prepared to cover RN support for engineering services, training and logistics. PN evaluation team led by ACNS (Plans) visited UK July 84 to discuss RN support aspects, Sea day arranged in T-21. Finance will be deciding factor.
PRODUCT: TYPE 21 FRIGATE	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 300.00	MINISTERIAL: PM's letter to Zia August 1982. In March 84 agreement to ECGD cover up to 50%
	INVOLVEMENT: of increased contract value. Further support from PM in letter to Zia May 84.
REF NO CON.DATE	Zia letter of July 84 to PM confirmed offer is favoured.
2 1984	COMPETITION: France, Italy, FRG, Belgium.

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>REPUBLIC OF KOREA</u>	REMARKS: BAe have been asked to submit a draft contract for Sea Skua in association with the naval helicopter requirement. A decision has been deferred, for financial reasons, for contract in early 1985. Sea Skua has been offered to South Korea on the Westland Lynx, Kaman Sea Sprite and Agusta 219 helicopters and may be offered on the Sikorsky S76, all competing for the ROK Navy contract.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 8.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 14 1985	COMPETITION: France.(AS15TT in a package with the Dauphin helicopter).
COUNTRY: <u>REPUBLIC OF KOREA</u>	REMARKS: Decision expected late this year. Contract would be for two systems initially but with significant longer term prospects involving licenced manufacture. HDS has written in support.
PRODUCT: KAFS SUBMARINE FCS	
FIRM : FERRANTI ELECTRO-OPTICS	
VALUE :£m 5.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 597 1984	COMPETITION: Netherlands.
COUNTRY: <u>REPUBLIC OF KOREA</u>	REMARKS: ROK MND have initialised draft contracts for 10-12 Naval Lynx; a decision is expected to be made to select the chosen helicopter later this year. The selected firm will then be invited to provide a helicopter for a 6 month trial in Korea in January 1986. If the trial is successful a contract will be signed. A credit package may be required.
PRODUCT: LYNX (NAVAL)	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 55.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 26 1985	COMPETITION: France(Dauphin), Italy (Agusta 219),USA(S76, Seasprite).
COUNTRY: <u>REPUBLIC OF KOREA</u>	REMARKS: MUSL have submitted proposals to ROK MOD for the supply of Tigerfish torpedoes for Korean submarine programme. Decision expected shortly.
PRODUCT: MK24 TORPEDO	
FIRM : MARCONI SDS	
VALUE :£m 30.00	MINISTERIAL: Minister (DP) has written in support. INVOLVEMENT:
REF NO CON.DATE 598 1984	COMPETITION: FRG (AEG Telefunken), USA (Honeywell)

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: THAILAND REMARKS: Vickers in discussions with FFG of FRG. In-country trial carried out in Spring
1984. Decision related to decision on MBT (see Ref No 354).

PRODUCT: M41 RETROFIT

FIRM : VICKERS SEL

VALUE :£m 65.00 MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE	COMPETITION:
355	1984	USA.

COUNTRY: THAILAND REMARKS: Vickers have tabled proposals for MK 3 to meet RTA requirements for 100
medium tanks for main defence. Spring trials went well. Vickers still optim-
istic.

PRODUCT: VICKERS MBT

FIRM : VICKERS SEL

VALUE :£m 250.00 MINISTERIAL:
INVOLVEMENT:

REF NO	CON.DATE	COMPETITION:
354	1984	USA (M-60)

END

ANNEX C - PRIORITY ONE PROSPECTS - AFRICA

COUNTRY: ALGERIA REMARKS: Industrial consortium (Marconi, Plessey Radar, and Racal-Decca) have submitted costed proposals through HMG for Algerian authorities covering a phased scheme. At Algerian request the consortium have submitted a further technical and cost proposal against an Algerian specified Preliminary Phase Requirement. Further discussions have led to definitions of a reduced initial phase for which proposals will be submitted in early Sept 84 (approx £100m).

PRODUCT: AIR DEFENCE SCHEME (ACCORD)

FIRM : MARCONI PROJECTS

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
21 1985 COMPETITION: France.

COUNTRY: ALGERIA REMARKS: Minister (DP) request in March 1984 to improve credit terms were rejected by Minister of Trade. Final contactual negotiations imminent. Credit terms: 10.7% for 85% of contract value over 7 years from mean commissioning.

PRODUCT: GENDARMERIE BARRACKS

FIRM : BAXTER FELL

VALUE :£m 132.00 MINISTERIAL: See above.
INVOLVEMENT:

REF NO CON.DATE
582 1984 COMPETITION:

COUNTRY: ALGERIA REMARKS: Designated under MOU, credit will be required as will the provision of some training places from (scarce) Army resources.

PRODUCT: GR 083 RADIO RELAY

FIRM : MARCONI COMMUNICATION SYSTEMS

VALUE :£m 40.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
581 1984 COMPETITION: France.

COUNTRY: ALGERIA REMARKS: Joint (Anglo-Algerian) study team established to consider co-operation in industrial aspects of Hawk assembly, establishment of aircraft and engine overhaul/repair facility and training. Team due to report in the autumn to enable decision to be taken by end of year. Credit will be required.

PRODUCT: HAWK

FIRM : BRITISH AEROSPACE AG

VALUE :£m 200.00 MINISTERIAL: Algerian CAS called on PM and Minister (DP) during successful visit to UK in
INVOLVEMENT: March 84.

REF NO CON.DATE
22 1985 COMPETITION: France/FRG (Alpha-Jet).

ANNEX C - PRIORITY ONE PROSPECTS - AFRICA

COUNTRY: <u>ALGERIA</u>	REMARKS: Revised proposals submitted in August 1984. Detailed negotiations are now under way for both Piranha (qty 2-6), 550 Class (qty 4) and supporting equipment. Proposals now include in-country assembly of 2x550 Class as an alternative to all UK build. Credit likely to be required.
PRODUCT: SUBMARINES	
FIRM : VICKERS SEL	
VALUE :£m 360.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France, FRG, Netherlands.
174 1985	

END

ANNEX C - PRIORITY ONE PROSPECTS - NORTH AMERICA

COUNTRY: <u>USA</u>	REMARKS: FAM have recently submitted a response for an open competition for between 277 and 408 boats. This RFP constitutes 50% of the total US requirement; the remaining 50% being designated as a small business set aside.
PRODUCT: 8m COMBAT SUPPORT BOAT (UK)	
FIRM : FAIREY ALLDAY MARINE	
VALUE :£m 29.50	MINISTERIAL: Minister (DP)
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA
75 1984	
COUNTRY: <u>USA</u>	REMARKS: To achieve an initial operating capability (IOC) of 1990/91, \$68m R and D funding has recently been proposed by the SASC (Senate Armed Services Committee) for FY85. A teaming and licence agreement is about to be concluded between BAe and McDonnell-Douglas as an essential preliminary to the expected award of a "letter" contract to be followed by the definitive FSED (full scale engineering development) before the end of 1984.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m NK	MINISTERIAL: Minister (DP), Secretary of State.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA.
77 1984	
COUNTRY: <u>USA</u>	REMARKS: HQ US Army has 'type classified' the Improved 81mm mortar, which although not a guarantee that procurement will follow, means that the US Army now agrees that the system is acceptable for service use. An acquisition plan is being prepared for the US Assistant Secretary Research Development and Acquisition. If this is based upon a previous TRADOC report recommending deployment of the mortar in various battalions, it could generate requirement for +1000 mortars.
PRODUCT: IMPROVED 81mm MORTAR	
FIRM : ROYAL ORDNANCE FACTORIES	
VALUE :£m 350.00	MINISTERIAL: Minister (DP), Secretary of State.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA.
74 1985	
COUNTRY: <u>USA</u>	REMARKS: US Army has recently issued the RFP (Request for Proposals) for the MSE requirement. Plessey have formed a consortium with US companies Rockwell Collins (as prime) and ITT to respond. Marconi and Cossor Electronics have also requested the RFP documents.
PRODUCT: MOBILE SUBSCRIBER EQUIPMENT	
FIRM : PLESSEY DEFENCE SYSTEMS	
VALUE :£m NK	MINISTERIAL: Minister (DP)
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA, France.
578 1984	

ANNEX C - PRIORITY ONE PROSPECTS - NORTH AMERICA

COUNTRY: USA	REMARKS: USAF have decided to use \$50m appropriated by Congress in FY83 to extend the 'Rapier Role Model' and procure Rapier for use in Turkey. A confirmatory letter from the US Assistant Secretary International Security Policy has been handed to Minister (DP); contractual negotiations are ongoing together with discussions over the package of UK concessions in support of this procurement.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 35.00	MINISTERIAL: Minister (DP)
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
227 1984	

END

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: <u>BAHAMAS</u>	REMARKS: Understand Bahamian PM has taken decision to purchase 3 fast patrol boats from Fairey Marine and a Letter of Intent is in the process of being drafted. The initial recommendation by the RBDF was to purchase these craft from the US-St Augustine Trawlers. However after strong support from MOD/FCO (including offsetting LSP debts against payments due under the AUTEC agreement and the offer of RN training assistance) it now appears this important contract won.
PRODUCT: FAST PATROL CRAFT	
FIRM : FAIREY ALLDAY MARINE	MINISTERIAL: Min (DP) wrote to the Bahamian PM (in his capacity as Minister of Defence) INVOLVEMENT: indicating HMG support for Fairey's proposals.
VALUE :£m 6.00	
REF NO CON.DATE 1474 1984	COMPETITION: USA (St-Augustine Trawlers)
COUNTRY: <u>BRAZIL</u>	REMARKS: Contract signed for the shore support equipment, but the Germans will only offer officially insured credit for their own part of the contract. Ferranti has sought support from ECGD but this has been refused as Brazil is off long term credit cover. Ferranti are now considering the alternatives including bearing most of the risk themselves.
PRODUCT: KAFS SUBMARINE FCS	
FIRM : FERRANTI INSTRUMENTATION	
VALUE :£m 8.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 37 1983	COMPETITION:
COUNTRY: <u>BRAZIL</u>	REMARKS: BAe(DG) have initialled a contract with the Brazilian Navy for the purchase of the system but this is conditional on the availability of ECGD credit cover. Efforts to secure this have been made by both DSO and Min (DP), but these have been unsuccessful. BAe(DG) is now submitting proposals for a commercial finance package without ECGD support. Contract is for 4 helicopter fits and 16 missiles.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	MINISTERIAL: M of S (DP) INVOLVEMENT:
VALUE :£m 11.60	
REF NO CON.DATE 36 1984	COMPETITION:
COUNTRY: <u>CHILE</u>	REMARKS: BAe have submitted proposals for 24 launching pallets plus missiles. Negotiations are continuing and BAe are hopeful of securing a contract in the near future but much depends on their proposals for financing the sale.
PRODUCT: SWINGFIRE	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 10.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 604 1984	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: <u>ECUADOR</u>	REMARKS: Racal have signed a contract for half of the Ecuadorean Army's current tactical communications requirement. However the contract will not become effective until the financial package has been agreed. Ecuador is currently off ECGD cover and Racal have therefore been obliged to take some of the risk themselves and arrange commercial credit cover for the remainder. Tadiran (Israel) are believed to have won the other half of the order.
PRODUCT: COMMS EQUIPMENT	
FIRM : RACAL-TACTICOM	
VALUE :£m 11.20	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Israel(Tadiran)-see above, France (Thomson-CSF)
1545 1984	

COUNTRY: <u>ECUADOR</u>	REMARKS: BAe(DG) have Ecuadorian Letter of Intent for purchase of Rapier. But Ecuador is off ECGD cover and contract signature will depend on the firm's ability to present a suitable finance package which could involve counter trade. Firm now making new proposals.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 20.00	MINISTERIAL: Minister (AF) has cleared the early release of Blindfire, should this be INVOLVEMENT: necessary.
REF NO CON.DATE	COMPETITION: France (Crotale).
105 1984	

END

END OF RUN

CONFIDENTIAL UK EYES B - COMMERCIAL-IN-CONFIDENCE



10 DOWNING STREET

THE PRIME MINISTER

29 August, 1984

Dear Sir Raymond.

Thank you for your letter of 15 August about your hope to sell Tornado aircraft to Turkey.

I am well aware of the political and industrial benefits that such an order would bring, but on the other hand the proposition poses difficult financial problems in terms of our risk exposure on Turkey, which I believe you understand. It will need careful consideration to determine where the balance of national advantage lies; I am arranging for this to be studied by all Departments concerned and for you to be given a decision as quickly as possible.

I am sorry to hear that all the effort put into trying to win the Greek order has failed to bear fruit.

Yours sincerely

Roger Thatcher

Admiral Sir Raymond Lygo, K.C.B.

FILE

871

CC: FCO
AMT
MOD
DTT

SK



Chancellor of the Duchy of Lancaster

PRIME MINISTER

TORNADOS FOR TURKEY

This is a well structured package. If we are to have an innovative defence industry, we need to have the ability to sell abroad as well as to the Ministry of Defence. The comments in the Acard Review of Government Funded Research and Development are very relevant in this connection (see paragraph 11 of Acard's "Observations" on the Report). All this inevitably means that we will be selling to people whose capacity to pay may at times be questionable. Clearly we must limit the risk by ensuring that we do not shoulder all the potential losses while the contractors or those standing behind them take the profits. The present formula does secure that objective.

I am sending copies of this minute to members of OD, to Tom King and Sir Robert Armstrong.

Ac

A C

29 August 1984

Deference

A4

Sales



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5144
GTN 215
(Switchboard) 215 7877

From the Minister for Trade

David Barclay Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

CF pp 15?

24 August 1984

Dear David

*GR
pse Lygo*

You wrote to PS/Secretary of State for Trade and Industry on 16 August enclosing a letter dated 15 August to the Prime Minister from Sir Raymond Lygo about the possible sale of Tornado aircraft to Turkey.

This proposition was the subject of a minute to the Prime Minister dated 10 August from the Secretary of State. This pointed out that, even at the reduced figures British Aerospace had now agreed to consider, the level of Government support required through ECGD would be far in excess of the capacity hitherto agreed by Ministers as appropriate for Turkish risk. Nevertheless, the Secretary of State considered that the political and industrial benefits from securing such an initial export order for Tornados were so great that an ECGD commitment of about £200m should, if necessary, be authorised. This would need to be announced to Parliament and taken outside the ECGD Trading Accounts.

We are at present awaiting comments on this proposal from other Ministers concerned, in particular the Chancellor of the Exchequer whose consent is needed under the terms of the ECGD enabling legislation. It appears likely that a meeting, presumably of OD, will be necessary to decide the matter, and that it will not be possible to hold this until early next month. I therefore suggest an interim reply for the Prime Minister to send in terms of the attached draft.

I am copying this to the recipients of your letter.

Yours sincerely
Simon Carter

PAUL HASTON
Assistant Private Secretary to
the Minister for Trade
(PAUL CHANNON)

Enc.

DRAFT

Sir Raymond Lygo
The Society of British Aerospace Companies plc
29 King Street
St James's
LONDON SW1

August 1984

Thank you for your letter of 15 August about your hope to sell Tornado aircraft to Turkey.

I am well aware of the political and industrial benefits that such an order would bring, but on the other hand the proposition poses difficult financial problems in terms of our risk exposure on Turkey, which I believe you understand. It will need careful consideration to determine where the balance of national advantage lies; I am arranging for this to be studied by all Departments concerned and for you to be given a decision as quickly as possible.

I am sorry to hear that all the effort put into trying to win the Greek order has failed to bear fruit.

PRIME MINISTER

CF

Keep for OD meeting

1

PRIME MINISTER

JS

Mr. Tebbit (Flag A) proposes that ECGD should take a
substantially greater commitment than normally available on
the prospective sale of 40 Tornados to the Turkish airforce.

Mr. Heseltine and Lady Young agree (Flags B & C). The
Chancellor does not, however, believe that such a course
could be justified (Flag D).

Do you agree that this will need to be aired at OD?

Yes not

A

23 August 1984

^



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

TORNADOS FOR TURKEY

I have seen Norman Tebbit's minute to you of 10 August in which he suggests that for industrial reasons ECGD should be instructed to take on a commitment to support the sale of Tornados to Turkey well beyond what the Department consider prudent. The commitment to provide up to £200 million of cover would be contingent on the private sector providing the remaining credit on an unguaranteed basis. I have also seen Michael Heseltine's minute of 13 August setting out the defence arguments (which I do not contest) for selling Tornados to Turkey.

2. I expressed my doubts about this case in my letter to Norman of 11 May. I do not think such a course could be justified in terms of our policy of limiting ECGD's exposure in the most risky markets or in the light of ECGD's own precarious financial position, abundantly confirmed by last week's trading results. Even the more modest proposal now before us would involve a 200 per cent increase in the market limit which Departments have agreed to be appropriate. Recent developments in Turkey confirm the need for a cautious approach. I would not object to the provision of normal ECGD cover for this BAe proposal - ie the £50 million mentioned in Norman's minute on the same first come, first served basis as has been offered to other major companies for exports to Turkey - but that must be the limit.

3. Quite apart from these compelling financial considerations, the industrial argument is less strong than Norman indicates. He assumes that a Turkish order will bridge a gap in BAe's order book until the European Fighter Aircraft goes into production. But we are a long way yet from commitment to the EFA which would be the single most costly defence equipment decision since Trident. We have agreed to a collaborative feasibility study, but that is all, and we must see full assessment of the operational need and the options available before taking the next step. It cannot be assumed that the EFA programme is a foregone conclusion.



4. Finally, if at the end of the day we were to decide to overrule ECGD and instruct them to underwrite the business, the accounting questions would need careful consideration. The business would obviously fall under Section 2 - the national interest section - but, as Peter Rees' minute to you of 1 August makes clear, the Treasury would not be prepared to see Exchequer risk attributed to accounts, whether in the name of ECGD or other Departments, which were not subject to the same degree of financial discipline as ECGD's trading accounts. But I very much hope it will not come to this.

5. I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

Judith Simpson

N.L.

21 August 1984

*approved by the Chancellor &
signed in his absence.*

Reference Sales Pt 4



22 AUG 1984



COPIES

1



PRIME MINISTER

Avant Tay

TORNADOS FOR TURKEY

1. I have read with interest Norman Tebbit's minute of 13 August commending BAe's proposals for Government support for the prospective sale of 40 Tornados to the Turkish airforce.

2. As the United Kingdom is one of Turkey's closest friends and allies and given Turkey's importance as a member of NATO on the strategically vital south-eastern flank, there are strong political and military arguments for providing BAe with the cover necessary to enable them to conclude this important contract.

3. The Ministry of Defence are best placed to rehearse the military arguments. But it is clear that despite the significant size of the Turkish armed forces, their ability to fulfil their NATO role is inhibited by the obsolescence of much of their military hardware including aircraft. The purchase by Turkey of Tornados will contribute towards the full modernisation of their airforce and provide long range strike capability to complement their purchase of the F16 fighter.

4. Turkey has in the past nine months made significant strides towards the full restoration of democratic institutions and

/practices.



practices. National elections were held in November 1983 and Turkey is now once more governed by a civilian government answerable to an elected Parliament. I believe it is important to encourage Turkey's progress and help to decrease her sense of isolation and even alienation. An effective way of doing this, which is at the same time beneficial to exports and jobs and strengthen NATO's defences, is by defence sales such as Tornado. We would no doubt have to face criticism from human rights activists if we gave Government support to Turkey on the scale proposed; and the Greeks and Greek Cypriots would look askance. But in terms of our foreign policy interests, the advantages outweigh the disadvantages.

5. In scaling down their request for ECGD support, BAe would be looking for matching commitments from the private sector and would be carrying some of the risk themselves. They would also expect that our German and Italian partners in Tornado would play their part in supporting this sale. While noting what Norman Tebbit has said about the constraint of ECGD's capacity, and how this might need to be addressed, I agree with him that BAe should be encouraged to pursue their risk-sharing proposals.

6. I am sending copies of this minute to the other members of OD, to Tom King and to Sir Robert Armstrong.

Baroness Young

20 August 1984

Baroness Young

Deference Sales: DEFERENCE Pt 4.

20 AUG 1984

11 12 1 2 3 4
9 1 3 5
8 7 6





10 DOWNING STREET

From the Private Secretary

16 August 1984

I enclose a copy of a letter which has been sent to the Prime Minister from Admiral Sir Raymond Lygo.

BF | I should be grateful for a draft reply for the Prime Minister's signature on her return from holiday at the end of August, so that it can be despatched before the Prime Minister visits the Farnborough Air Show on 5 September.

I am sending a copy of this letter and enclosure to Richard Mottram (Ministry of Defence), Peter Ricketts (Foreign and Commonwealth Office) and David Peretz (HM Treasury).

David Barclay

Callum McCarthy, Esq.,
Department of Trade and Industry.

SS

THE SOCIETY OF BRITISH AEROSPACE COMPANIES, LTD.

29, KING STREET, ST. JAMES'S,
LONDON SW1Y 6RD

TELEPHONE: 01-839 3231 (10 LINES)
TELEGRAMS: THESBAC, LONDON, S.W.1
TELEX: 262274

THE PRESIDENT

Our ref: PROJ/556.2

15 August 1984

Rt. Hon. Margaret Thatcher M.P.,
10 Downing Street,
London SW1.

Dear Prime Minister,

You will be aware that despite our best endeavours to persuade the Greeks to buy the Tornado for their re-equipment programme they have rejected it in favour of French and U.S. Aircraft. This despite the very favourable financial terms that were made available to them, which included very substantial ECDG cover.

In parallel, for the past twelve months, I have been pursuing a possible sale of Tornados to Turkey and in the middle of June received a letter of interest from the General in Charge of Procurement in the Turkish Air Force, for forty Tornados. This requirement was subsequently confirmed by the Defence Minister, whom you will be meeting at Farnborough, in a statement to our Ambassador in Ankara. All this, subject to my being able to provide an acceptable financial package. This hinges on ECDG support and I know that you have received a letter from the Secretary of State for Trade and Industry on this subject.

In a previous letter to you I stressed the high regard the present Turkish administration has for our Country and stressed Turkey's solid membership of NATO. You should be aware also, that in the whole history of Turkish Military Procurement, the armed forces have never defaulted on a payment.

/Cont'd

Rt. Hon Margaret Thatcher M.P.

15 August 1984

Cont/d

This order is of very great importance to the Aerospace Industry and we very much hope that you will be able to support us in the way that is being suggested in order that I can attempt to put together a financial package for the U.K. part which I am confident will be matched by our German and Italian partners.

Sir Raymond Lygo

Yours sincerely,
Ray Lygo

*P.S. I hope you have a good hit.
You deserve it.*

Tunkey 11/79 Relations



MO 6/12

*Await Treasury**JMB
15/8*PRIME MINISTERTORNADO FOR TURKEY

I have seen Norman Tebbit's minute of 10th August seeking your agreement to British Aerospace pursuing risk-sharing arrangements involving both Government and industry in their attempt to sell Tornado to Turkey.

2. I hope that you and colleagues will be able to agree to this proposal which, subject only to the Company negotiating a delivery programme which can be reconciled with the Royal Air Force's requirements, has my full support. The sale of Tornado to Turkey would be important, not only for the industrial reasons which have been referred to, but also because of the significant benefits which would accrue to NATO.

3. Turkey faces a strong ground, maritime and air threat in what is a strategic part of NATO's Southern Region. A significant force of Tornado aircraft would strengthen considerably her ability to counter the Warsaw Pact's increasing capability for operating at night and in bad weather. Additionally, the installation in Turkey of the infrastructure necessary to support Tornado would markedly increase the flexibility for the deployment of other nations' aircraft to the Region and would produce significant benefits in terms of standardisation and interoperability. Economies resulting from the increased numbers of Tornado in service could also benefit the RAF and other allies. These latter economies could be further enhanced by the additional Tornado sales that might be encouraged by a Turkish order.



4. Whilst I can see that there may be financial arguments which could be raised against allowing British Aerospace to proceed in the way proposed, I believe that they are outweighed in this case by foreign policy, defence and domestic industrial considerations. We should do all we can to assist British Aerospace to promote this aircraft sale.

5. I am sending copies of this minute to the other members of OD, to Tom King and to Sir Robert Armstrong.

[Handwritten signature]

Ministry of Defence
13th August 1984

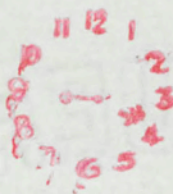
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CONQUEROR
LONDON

DEFENCE: Sales

Pt 4



5 AUG 1984



COMMUNICATIONS

LONDON



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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GTN 215

(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Michael Heseltine MP
Ministry of Defence
Whitehall
LONDON
SW1A 2HB

13 August 1984

Dear Michael,

*NBPM to
to meet
Dr.*

FRIGATES FOR PAKISTAN

You wrote to Norman Tebbit on 6 August about this subject.

While I can well understand your anxiety to secure the frigates order for Vosper Thornycroft, an increase in ECGD exposure above the £215m offer already made to the company would represent real difficulties for us and I cannot agree to it. As Peter Rees reported to the Prime Minister on 1 August, we are already in a situation where no further cover can be made available for civil exports.

In any event, I am not convinced that an improvement to the existing offer is necessary or, if it is, that the only way forward would be for an increase in the actual amount of ECGD's liability. I believe that there is no real evidence to support the Pakistani claim that they have received more favourable export credit offers from France and Germany. Moreover I believe that there are ways in which the present UK offer might be improved without significantly altering the level of HMG support which I would wish ECGD to explore with the commercial parties first. I have therefore asked ECGD to set up an urgent meeting with the commercial parties for this purpose and will advise you of the outcome.

If in the event it is not possible to improve the financial offer without an increase in the ECGD exposure then I consider that a further OD meeting will be necessary. This would then also be able to consider the questions raised by Peter Rees's minute of 1 August to the Prime Minister about the impact of this commitment on ECGD cover on ongoing civil business.



I am copying this letter to members of OD and Sir Robert
Armstrong.

Yours,

Paul

PAUL CHANNON



PRIME MINISTER

TORNADOS FOR TURKEY

You will recall that there is a prospective sale to the Turkish airforce of 40 Tornados. The UK share of this £750m order would be worth some £435m. This would be the first export order for Tornado. It would have important defence and foreign policy implications as well as substantial industrial and commercial benefits.

2 The difficulty is the provision of finance to support the order. The Turks are prepared to pay up to 15% in cash but are looking for credit for the remainder. BAe originally approached me with a request for ECGD support for the whole of this, involving a total exposure (including interest) of some £600m. Following inter-Departmental consultation, and in view of the guidelines we have agreed on restraining exposure in markets of doubtful creditworthiness, I told BAe that support of this order of magnitude could not be contemplated. However, in view of the importance of the potential order, I said that if a finance package could be developed with a very different

JH1ATN



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balance of private and public risk, we would consider it further.

3 Sir Raymond Lygo has now asked for an indication of HMG's attitude to a package which would involve Government support for about a third of the total exposure (£200m), to be matched by the commercial banks, with BAe and its principal subcontractors carrying the remainder of the risk themselves. While he is not looking for a final commitment at this stage, he needs the assurance that we are likely to look favourably on playing our part, if he can obtain the matching commitments from the private sector. It will also be necessary for our German and Italian partners to support their share of the sale, but this is considered likely to follow once the UK portion of the finance (58% of the total) is in place.

4 In this proposal, the balance of risk has been moved substantially towards the private sector, and I doubt whether it would be possible to move it much further. However, ECGD consider this reduced risk still to be well in excess of their capacity, particularly in their current financial circumstances, to take risk on the still fragile Turkish economy which has a high level of indebtedness (some

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owed to ECGD). It would also pre-empt any capacity to give cover for other business at a time when market prospects for our exporters are improving.

5 Nevertheless, the industrial case for this order is of great importance at this stage of the Tornado programme, which is our major current military aircraft programme. Without export orders for Tornado, BAe Wharton faces severe contraction from 1986 onwards, and orders like this would fill a gap before full scale production of the proposed European Fighter Aircraft comes on stream in the early 1990s. The order is high technology, high value-added business, which is not only important for BAe's profitability, but also for that of Rolls-Royce - which would be providing some 100 RB-199 engines. Therefore I consider that the Government should play its part, particularly as BAe are prepared to try to increase the proportion of the credit risk which would be carried by the private sector. I also consider that the Turks should be pressed both to increase the cash element and to consider scaling down the order: on the former, we can take heart from the fact that, in the end, Turkey paid cash for the Rapiers they purchased from BAe in 1983. But it should be noted that if HMG support is given by way of normal ECGD

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cover, the maximum exposure available (as matters stand at present) would be £50m; if eventually ECGD were instructed to take a commitment of about £200m, it would be necessary for this to be announced to Parliament and for the commitment to be taken outside its trading accounts. We should, therefore, be prepared for this, or to consider alternative arrangements of the kind I have suggested in the case of the sale of frigates to Pakistan, depending on the final shape of the financial package.

6 If you agree this I will advise BAe to pursue their risk-sharing proposals on this basis.

7 I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

McCarten

*(Seen and approved by the Secretary of State,
and signed in his absence)*

N T

10 August 1984

*Turkey - debt raise
35%
sold capital
Carnegie*

Department of Trade and Industry

JH1ATN

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 August 1984

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

*Answer
DTI
news*

Dear Secretary of State
FRIGATES FOR PAKISTAN

I have seen a copy of your letter to Norman Tebbit about increased ECGD cover for the sale frigates to Pakistan.

I am sorry that Norman's earlier offer, endorsed by both the Prime Minister and Peter Rees, for the payment of interest make-up on any commercially provided funds has not proved practicable. However, the market's unwillingness to provide this additional £20 million clearly reflects their assessment of the credit-worthiness of Pakistan. This confirms our assessment and I endorse the views expressed earlier by Peter Rees and Norman Tebbit that we have already gone as far as we can and that the additional £20 million now requested should not be provided.

The additional finance is not required for the sale discussed at OD last March. It is needed because of the Pakistanis' decision to buy the components for a third ship to be built in Pakistan. I understand that ECGD agreed to include this ship within the overall credit package provided that there was no increase in their exposure. Despite the efforts of those concerned this has not proved possible and I therefore see no alternative but to revert to the original two ship deal, perhaps offering to look again at the third ship when the other two have been delivered.

I am sending copies of his letter to members of OD Committee and to Sir R Armstrong.

Yours sincerely

Nigel Lawson

NIGEL LAWSON

*[Approved by the Chancellor
and signed in his absence]*

Defense : Sales A4

13 AUG 1954



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cash



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 6/13

6th August 1984

De Home

Await DTI response

*DMB
7/8*

FRIGATES FOR PAKISTAN

I have been following closely the correspondence regarding the Pakistani frigates. My purpose in writing is to set out the position reached now as I see it, and to seek your agreement to a way forward that would permit the Prime Minister to write in positive terms in reply to President Zia's most recent letter.

Your officials will no doubt have informed you of Geoffrey Pattie's meeting with Grindlays and Vosper Thornycroft at which little hope was held out of significant further private sector finance, in the absence of corresponding Government-backed indemnity in addition to the interest subsidy you have proposed should be made available. You may also be aware that, although the latest signals from the Vosper agent in Islamabad and HMA make clear the Pakistan MOD preference in favour of Vospers, they also stress the need to "continue to work hard" to improve our financial offer if the Pakistan Finance Ministry is to be convinced of the merit of the UK's proposals.

In the light of Geoffrey's meeting, it seems clear that the only way in which we might be able to improve the British offer to £200m in a form that the banks would find acceptable would be for ECGD to provide increased indemnity. Without such an increase the distribution

The Rt Hon Norman Tebbit MP



of risk between the banks and Government would move from a position which the banks are already finding difficult to one which they would find virtually impossible.

There has been no lack of effort, or imagination in the search for commercial support but, for understandable reasons, British Shipbuilders feel unable to provide assistance and there seems little prospect at this twelfth hour of Vospers with their major sub-contractors making significant inroads on the guarantee problem. The MOD has already agreed to forgo charges on certain frigate-associated training for the Pakistan Navy and so there is little more that we can do from here to assist the sale. It is therefore apparent that the only realistic source of indemnity which would gain the support of the banks would be ECGD.

From the Defence standpoint, I can only reiterate the advantages we see from this contract. The UK largely retains its close relationship with the senior levels of the Pakistan Navy through their earlier exposure to RN equipment and training. This position has steadily eroded, following Pakistan's decision in the mid-1960s to buy French submarines as a result of the UK's unwillingness to supply, and the more recent Saudi decision to buy warships from the French. A Pakistani decision in favour of French frigates now will close the Pakistan Navy door on the UK shipbuilding and maritime equipment industry for the foreseeable future. On the other hand, because the Pakistan Navy generally, and these ships in particular, are heavily committed to the training of foreign navies, notably the Saudis, the winning of this order would go a long way towards re-establishing our influence on navies in the Gulf region. There is also, of course, the question of Vospers' bleak order book and the effect that such a contract would have on the yard's prospects and saleability.

I hope you will agree that we have explored fully the solution proposed in your letter to Geoffrey Pattie of 27th July, which the Prime Minister and Peter Rees have also favoured. In order to avoid



an entirely negative reply to President Zia's letter, the remaining option is for ECGD to be instructed to improve the UK's offer to £200m on terms that the banks can live with. On balance I believe that this is the right course to take.

I am copying this letter to OD colleagues and to Sir Robert Armstrong.

Yours
ew

A handwritten signature in cursive script, appearing to read 'Michael Heseltine'.

Michael Heseltine



case
2 PPS

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/9/15/1

6th August 1984

Dub
7/9

LD RD

LIBYA - CURRENT DEFENCE SALES BUSINESS

Thank you for your letter of 26th July reporting the results of our approaches to the French and Italian authorities with regard to Marconi's contract to supply Martello surveillance radars to Libya via Yugoslavia. In the light of the inconclusive outcome of these approaches you recommended that no action should be taken to impede this contract. I note that both the Prime Minister and the Lord Chancellor now agree with this conclusion and I understand that our other OD colleagues are content for this sale to proceed. I will therefore ensure that Marconi are informed accordingly.

I am sending copies of this letter to colleagues on OD and to Sir Robert Armstrong.

yes *er*
[Signature]

Michael Heseltine

Richard Luce Esq MP

7 AUG 1984

12 11 10 9 8 7 6 5 4 3 2 1

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PRIME MINISTER

2 August 1984

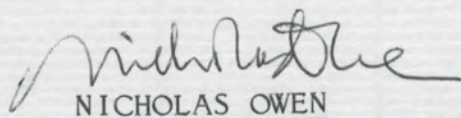
ECGD COVER FOR PAKISTAN

We recommend that you support the Chief Secretary's efforts to hold the credit limit to Pakistan at £75 million.

We have already moved way beyond financial prudence by, in effect, giving Pakistan two frigates.

ECGD are putting in an additional bid of £180 million next year, arising largely from miscalculations about interest support costs. The Nigerian debt problem will add a further £200 million to the PSBR this year, rising to a total of £500 million next year. Had Nigeria done a deal with the IMF these costs to the PSBR would have been avoided.

ECGD's contingent liabilities are over £40 billion and could easily lead to further costs. Departments are considering how ECGD could be managed better: there will be a report following The Matthews Committee investigation. We need to find a way for ECGD to resist the pressures to increase its credit limits to countries unlikely to pay. A first step is to turn down this DTI proposition.


NICHOLAS OWEN

CONFIDENTIAL

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FROM: CHIEF SECRETARY
DATE: 1st August 1984

*Await review
Mr Tebbit
CDP 2/2*

PRIME MINISTER

ECGD COVER FOR PAKISTAN

At its meeting on 28 March OD Committee agreed - on an exceptional basis and without prejudice to the Government's general policy of reducing ECGD's exposure in countries whose creditworthiness was in doubt - to provide an increased level of credit cover to meet the higher than expected cost of the frigates to be sold to Pakistan. The Committee also invited Norman Tebbit and me to determine how this increased cover could best be provided. This reflected the Committee's concern about the impact on other potential business of the additional £214 million of exposure to cover the frigates.

The present position is that the £75 million market limit for medium and long term business on Section 2, the national interest account, remains unaffected by the £214 million of exceptional cover for the frigates. The latter has been given outside the limit and is available only for that purpose. At the time of the OD discussion a small part of the £75 million remained uncommitted. That has now been utilised for business other than the frigates. By making the exceptional credit cover available outside the limit I believe that we have protected cover for civil business to the maximum consistent with our general policy. Some enquiries for cover may have to be turned away. This is an inevitable consequence of the policy that we have quite rightly adopted in response to the debt situation of a more rigorous approach to setting limits on ECGD's exposure in riskier markets.

However, in taking forward the further OD remit, Norman Tebbit has suggested that a further increase in the Section 2 limit to support on-going civil business could be provided by transferring the accounting responsibility for the potential liability on the frigates off ECGD's trading account, leaving it to some other Department to meet any losses incurred.

I have considered this suggestion very carefully but believe that the objections are overwhelming.

The original commitment to provide cover for these frigates was given on industrial grounds - the need to provide work for Vosper Thornycroft's yards. The agreement to provide additional cover was given because to do otherwise would have meant reneging on a commitment given to President Zia. We were, however, in no doubt about the prudential arguments against extending cover of this magnitude to Pakistan. Transferring the risk out of ECGD's trading accounts onto some other Government account would

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not improve Pakistan's ability to pay. Moreover, however the liabilities are treated for accounting purposes, it is the Exchequer which ultimately takes the risk and the need to protect it by restricting business for prudential reasons remains the same.

In addition, taking the liabilities off the Department's trading account and thus outside the constraint of operating at no net cost to public funds could lead to a deterioration in the control of export credit liabilities which would be inconsistent with the policy to which we are committed and which OD reaffirmed in March.

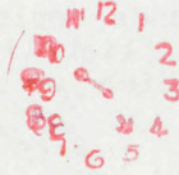
I have also considered whether recent developments in the Pakistan economy would enable us to take a less restrictive attitude towards credit on this market. They do not. In the year ending in June 1983 there was a narrowing of the current account deficit as a result of increased emigrant remittances. But the external account remains fundamentally weak and critically dependent on the level of such remittances which exceed Pakistan's export earnings. In the year which has just ended the current account deficit is expected to have doubled and to remain very vulnerable eg to troubles in the Gulf. Thus, even without the additional exposure on the frigates, I would not have felt it right to endorse an increase in the £75 million market limit. Whilst our potential exposure including the frigates remains considerably greater than this - £290 million - it would be quite irresponsible to increase the limit further. If the frigates deal falls through, we can look at the position again in the light of the then prevailing economic conditions, but for the time being I believe that the limit of £75 million is as far as we can prudently go. Further cover, outside the short term, should therefore only become available as existing commitments are run off.

I am copying this minute to Members of OD.


P R

Defence Jones Pt 4

2 AUG 1984



PETER RINT

CONFIDENTIAL



HOUSE OF LORDS,
SW1A 0PW

31 July 1984

The Right Honourable
Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Whitehall
London S.W.1

NBPM
RCD
1/8.

My dear Michael:

Libya: Current Defence Sales Business

I have seen a copy of Richard Luce's letter to you of 26th July.

I am disappointed, but not surprised, that our Embassies in Paris and Rome should have been unable to extract from the French and Italian Governments undertakings in respect of the Marconi contract. In the circumstances I fear I must agree that this sale must go forward. But I should make it clear that in reaching this conclusion I am influenced by one factor only: the fact that if the Libyans do not obtain this equipment from Marconi, they will inevitably obtain it from some other firm. The other factors mentioned in the penultimate paragraph of Richard Luce's letter are not, I believe, matters which we should take into account when considering the supply of arms to Libya.

I am copying this letter to other members of OD, to the Home Secretary, to Richard Luce and to Sir Robert Armstrong.

yrs:

Doyence PT 4

Sales



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NBP7
COD

31/7.

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq
Minister of State for Defence Procurement
Ministry of Defence
Whitehall
London SW1A 2HP

30 July 1984

John Geoffrey

FRIGATES FOR PAKISTAN

I have seen your letters of 20 and 26 July seeking an increase in the amount of cover which OD agreed should be made available for this deal. I have also seen Norman Tebbit's reply.

2. I entirely share Norman's view that OD's agreement to provide £215 million of additional cover for this deal represents the maximum that we could consider. Indeed, in agreeing it the Committee fully recognised that it went further than was justified on grounds of prudence. In the light of this, I was surprised to see the line you took in talking to Admiral Khan earlier this month.

3. However, in further recognition of the political commitment which lay behind the OD decision, I would be prepared to agree the compromise put forward in Norman Tebbit's letter i.e. that if private funds can be found to take the additional risk, we should provide interest make up on the total sum, despite the additional public expenditure involved.

4. I am copying this letter to Norman Tebbit, to the other members of OD and to Sir Robert Armstrong.

John W. Rees

PETER REES

PAKISTAN: Relations
Apr 79

31 JUL 1979

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SLH.



10 DOWNING STREET

LCO. FCO. HMT LPO LPSO COL DTI. + below Percy C.

From the Private Secretary

30 July, 1984

Dear Richard,

Libya: Current Defence Sales Business

The Prime Minister has seen a copy of Mr. Luce's letter of 26 July to the Defence Secretary, recording the outcome of the approaches made to France and Italy to try to obtain undertakings that they would not supply if HMG were to insist on cancellation of the contract for the sale to Libya of Martello Surveillance Radar.

The Prime Minister considers that, in the light of the evasive French and Italian replies to our approaches, it is unlikely that we shall ever obtain satisfactory assurances. She therefore agrees that we should place no further obstacles in the way of the sale of the Martello Surveillance Radar to Libya.

I am copying this letter to the Private Secretaries to other members of OD, to Hugh Taylor (Home Office) and to Richard Hatfield (Cabinet Office).

Yours sincerely,
C. D. Powell

C. D. POWELL

Richard Mottram, Esq.,
Ministry of Defence



DEPARTMENT OF TRADE AND INDUSTRY

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Secretary of State for Trade and Industry

27 July 1984

CONFIDENTIAL

Geoffrey Pattie Esq MP
Minister of State for Defence
Procurement
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

D. Geoffrey,

FRIGATES FOR PAKISTAN

Thank you for your letter of 20 July about Pakistan frigates.

2 I note your view that the offer of an additional £20m credit would probably clinch this deal for Britain. However, as you know, the decision to make the existing offer of £150m credit was a very difficult one. I believe OD would rightly take the view that an exceptionally strong case would be needed to justify going even further.

3 The best evidence available to us at present does not confirm the suggestion that the French and German authorities are supporting better credit offers than our own. ECGD have made fresh checks: the French say they are supporting only two frigates with credit for 70 per cent repayable over seven years, and the Germans say they are not providing official support - which is in line with their standard policy for arms sales to non-NATO countries. While there can naturally be no guarantee that this represents the final position of our competitors, experience suggests that this type of information is usually more reliable than that obtained from buyers, who have an obvious interest in giving optimistic versions of what they hope to get from competitors.

4 Against this background, I doubt whether a case can be made for increasing our own official support in the way you suggest. However, if the additional £20m can be raised with private sources

JH2AVK



taking the payment risk I should be willing, provided colleagues agree, to authorize ECGD to include this amount in their interest make-up arrangements for this contract.

5 I suggest Vosper Thornycroft should be pressed to make every effort to set up an arrangement on these lines.

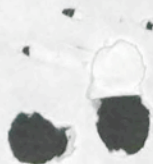
6 I am sending a copy of this letter to the members of OD and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', is written over a horizontal line. The signature is stylized and cursive.

NORMAN TEBBIT

PAKISTAN: News

Sept 77





10 DOWNING STREET

cc DTI
CS&HMT
FCO
LCO
HMT LPS
LPO CD of L
MOD CO.
bc PE.

From the Private Secretary

28 July 1984

FRIGATES FOR PAKISTAN

The Prime Minister has considered Mr Pattie's letter of 26 July to Lord Cockfield and Mr Tebbit's letter of 27 July to Mr Pattie.

The Prime Minister hopes that agreement can be reached speedily between the Ministry of Defence, the Department of Trade and Industry and the Treasury on the basis of the compromise proposal in Mr Tebbit's letter, which she favours.

BF /

I shall be grateful if you would keep me informed. I am sending copies of this letter to Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office, Treasury), Colin Budd (Foreign and Commonwealth Office), the Private Secretaries to other members of OD and to Richard Hatfield (Cabinet Office).

Charles Powell

Dr A S Kemp
Ministry of Defence

PRIME MINISTER

Frigates for Pakistan

- A. President Zia wrote to you on 5 July about the likely purchase of the Vosper Thornycroft frigates for the Pakistan Navy.

You will recall that OD agreed on a substantial credit offer for this sale of 70 per cent on £200 million. Following negotiations with

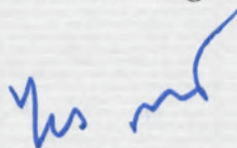
- B. Admiral Khan of the Pakistan Navy, the MOD have proposed that the credit offer be improved by an increase of principal of £20 million, in order to clinch the sale. The MOD believe that the French and Germans are offering better terms than those agreed in OD.

- C. Mr. Tebbit does not believe that this improved offer is justified and doubts whether the French and Germans are, in fact, offering better terms. He would be ready to agree, however, that, if the additional £20 million can be raised with private sources taking the payment risk, he would authorise ECGD to include this amount in their interest make-up arrangements for the contract.

The MOD say that other members of OD, apart from the Chief Secretary and perhaps Lord Cockfield, are content with their original proposal.

Agree to say that you hope that agreement can be reached speedily between DTI, Treasury and MOD on the basis of Mr. Tebbit's compromise proposal, failing which you will chair a meeting to try to settle it?

C.D.P.
C. D. POWELL
27 July, 1984



~~CONFIDENTIAL~~
CONFIDENTIAL

~~cc pe~~



Minister of State
for Defence Procurement

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/GP/3/8

26 July 1984

Dear Sir

FRIGATES FOR PAKISTAN

Thank you for your letter of 24th July outlining the lead up to the offer now on the table seeking guidance on the effects of my proposal.

Your account of the record to date is accurate so far as it goes. The table at Annex sets out the position. You have asked to know the effect of my proposal on ECGD exposure. The ECGD commitment is in two parts, the subsidy and the indemnity. The subsidy relates to ECGD's funding of the difference between their interest rate of 9.5% and the prevailing commercial rate. This element of interest subsidy would be applied to the interest portion of the DML. The commercial rate will vary over the period of the loan, but as a rough indication, the subsidy would amount to approximately 4% at today's rates. This commitment is therefore relatively small, the main issue being the level of indemnity against repayment default.

Such indemnity covers both principal and interest repayments which combine to give ECGD's total exposure, the

/ maximum ...

The Rt Hon The Lord Cockfield

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maximum limit of which being the DML. The relationship between principal and interest is complex, but ECGD would normally expect the interest to add about ~~40%~~⁵⁰ to the principal. (It so happens that it is only 40% on the existing offer). My proposed increase of £20m could thus entail up to a further £10m interest, so that the DML, which has for some time been set at £215m, would rise to a figure between £235m and £245m.

I am proposing that approval be given for an increase of DML within these limits so that ECGD can then agree with the banks the actual level of interest to be indemnified. It would then be possible for the Prime Minister to respond positively to President Zia's letter with an increase of principal of £20m. This would not need to await the outcome of discussions between ECGD and the banks. It should be noted that Admiral Khan, who delivered President Zia's letter to the Prime Minister, returns to Pakistan at the end of the week. I should therefore be grateful for colleagues approval for the proposed reply by then.

I am copying this letter to the members of OD and to Sir Robert Armstrong.

Geoffrey Pattie

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CONFIDENTIAL

ANNEX TO
D/MIN/GP/3/8
DATED: 26 JUL 84

The construction of the current and earlier offer is given in the table below. There are fourteen six-monthly payments covering both principal and interest. The banks have agreed to accept the risk on the first two payments, with ECGD indemnifying the remaining six/seven of the principal. The interest indemnified by ECGD is simply the difference between the indemnified principal and the overall DML agreed. This limited interest indemnity would apply to the later payments though ECGD would of course be providing commercial equalisation subsidy on all interest.

	<u>Previous</u>	<u>Current</u>	<u>Proposed likely ECGD worst-case</u>
a. Number of frigates	2	3	3
b. Total value	£220m	£300m	£300m
c. Principal at ECGD risk (12/14)	£132m	£154m	£171m
d. Principal at bank risk (2/14)	£ 22m	£ 26m	£ 29m
e. Total principal (c. + d.)	£154m	£180m	£200m
f. Total principal as % of total value (e. ÷ b %)	70%	60%	67%
g. Total ECGD risk or DML	£215m	£215m	£235-£245m
h. Interest at ECGD risk (g. - c.)	£ 83m	£ 61m	£ 64-74m

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Pakistan

Sept 79

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26 JUL 1984

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Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State
Richard Luce MP

Prime Minister

You wanted this 26 July 1984
settled as quickly as possible, to
remove the uncertainty for the firm.

It is clear that we shall not
get satisfactory assurances from the
French & Italians. It's all too likely
they will scratch the business if we
hold back.

John Michael

LIBYA: CURRENT DEFENCE SALES BUSINESS

Agree that we should
allow Marconi's contract to
go ahead?

In his letter of 6 July to your Private Secretary, Charles Powell said that the Prime Minister agreed with the Lord Chancellor that we should only allow Marconi's contract for the sale to Libya of Martello Surveillance Radar to go ahead if we failed to obtain undertakings from France and Italy that they would not supply if we were to cancel the contract. I am following this up in the absence abroad of the Foreign and Commonwealth Secretary.

CJP
27/7
Yes

The results of our approaches to the French and Italians are inconclusive. When asked what would be the attitude of the French Government if we were to seek formal undertakings not to supply the equipment, the Head of the North Africa Department at the Quai d'Orsay was unwilling to give a firm reply. He said that much would depend on the type and purpose of the equipment to be supplied. It might also depend on the relationship between the British firm and the third country which would be the ostensible supplier. The French were unlikely to allow the supply to Libya of mobile radar which could be used against French aircraft operating in Chad, but heavy military radar for the defence of the Libyan coast was more borderline and would probably be allowed. At no stage did the French official give the impression that Libyan attitudes towards terrorism would enter into the calculations.

The Italian official responsible for arms export licences was unwilling to give a firm assurance about the attitude which the Italian Government might take if an Italian firm sought a licence to take Marconi's place, but he asked that we provide details of the equipment's technical characteristics.

/Our Embassies

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1



- 2 -

Our Embassies in Paris and Rome believe that, even if we comply with the requests of the French and Italian Governments for details of Marconi's contract, we are unlikely to obtain undertakings to prevent their companies from taking Marconi's place. Both have pointed out, however, that we would run the risk of alerting Marconi's competitors. I do not consider that it would be right for us to do this.

We have, I believe, found out as much as we reasonably can without simply handing the contract on a plate to our competitors. Taking all the factors into account, including our political and commercial relations with Yugoslavia, our reputation as a reliable supplier and the negligible impact of this equipment on Libya's offensive capabilities, I therefore consider that we should place no further impediment in the way of this sale.

I am copying this letter to other members of OD, to the Home Secretary and Sir Robert Armstrong.

Wm

W

Richard

Distance & Sal. Pte

27 JUL 1964

MIR 1 2 3
4 5 6 7

ye PC



CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

24 July 1984

Await answer

Dear Geoffrey,

FRIGATES FOR PAKISTAN

I have seen a copy of your letter of 20 July to Norman Tebbit.

It would be helpful if we could be told what the figures are and how they are calculated. What the record shows is as follows:-

1. The 1982 offer was 50% on £150 m viz £75 m.
2. The OD minutes of 28 March 1984 say we agreed 70% on £220 m viz £154 m.
3. You now say that our offer was 60% equal to £180 m. The £180 m is apparently based on the enhanced cost of £300 m.
4. You now want to increase this to £200 m.

The first question which needs to be answered is how did we get from 70% on £220 m (equals £154 m) to which OD agreed, to £180 m - however that figure might be calculated?

The second question is what is the amount of (a) the subsidy and (b) the DML in the case of the present proposition?

I am sending copies of this letter to the Prime Minister and members of OD and to Sir Robert Armstrong.

[Signature]
[Signature]
COCKFIELD

G Pattie Esq MP
Minister of State for Defence :
Procurement
Ministry of Defence
Main Building
Whitehall
London SW1Z 2HB

PAKISTANI: Relations
Sept 79



24 JUL 1984



~~CONFIDENTIAL~~

~~COMMERCIAL IN CONFIDENCE~~

CEPC

BF

Await comment
from STS.



D/MIN/GP/3/8

20 July 1984

Dear Secretary of State,

FRIGATES FOR PAKISTAN

As you know, the Pakistan Chief of Naval Staff, Admiral T K Khan called on me yesterday to discuss the prospects for the sale of three Type 21 frigates to Pakistan. Admiral Khan emphasised how determined the Pakistan Navy were to preserve their links with the Royal Navy and referred to the letter of 5th July to the Prime Minister (copy attached) that Admiral Khan had delivered to the Foreign Office on behalf of President Zia.

Admiral Khan said that however decided the Pakistan Navy was on its choice, the final decision, which would be taken before 15th August, rested with the Ministry of Finance. The question of finance, and more particularly of credit, was therefore crucial. He asked if we would increase our ECGD-backed credit cover, in order to make sure of the deal (worth £300m).

Admiral Khan quoted the French and German offers which according to him were better than ours. On the other hand he admitted that the German offer (reportedly 85% of the cost of

/ three ...

The Rt Hon Norman Tebbit MP

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~~COMMERCIAL IN CONFIDENCE~~

three frigates at 9% over seven years from mean delivery) was in Deutchmarks which in the longer term would prove a more expensive loan than a commercial rate quoted in sterling. He said that the French offer was 90% of the cost of three ships at 9.5%, and therefore more generous than our own proposal of £180m at 9.5%, or 60% of the total cost of the deal (which, you will recall, was agreed at the meeting of OD on 28th March). ECGD's information is that the French offer is in fact 70% of the cost of two frigates plus 20% at commercial rates. It is very possible, however, that the French may have increased their offer in the past few days to cover three ships.

Having met Admiral Khan, I believe that a token gesture to meet the Pakistan Navy's wishes would secure this valuable deal for Vosper Thornycroft. Another £20m of UK credit, raised either through an extension to £170m of the present ECGD offer or by means of private finance at a subsidised rate of interest, would take the UK offer to £200m and, in my view, have great presentational advantage. Moreover, it would enable the Prime Minister to reply positively to President Zia.

Accordingly, in Michael Heseltine's absence, I am writing to seek your agreement to an increase in the level of UK credit to £200m. I also attach a draft reply from the Prime Minister couched in appropriate terms which, if colleagues agree, Admiral Khan could take back with him to Islamabad at the end of his visit (about 26th July).

The importance of this deal is considerable, principally on account of the export work it would bring to Vospers' yards, the involvement of a wide range of British manufacturers, the long term consequences for the orientation of the Pakistan Navy and for the prospects for British equipment sales to the Gulf region as a whole (which is heavily dependent on Pakistani

/ military ...

military assistance). I believe that we should not let this opportunity slip given the genuinely favourable disposition of the Pakistanis, as illustrated by President Zia's letter.

I am copying this letter to the members of OD and to Sir Robert Armstrong in the hope that we can reach a speedy agreement on the terms of the attached draft.

Atankemp

ps / Geoffrey Pattie

(Approved by the Minister
and signed in his absence)



THE ISLAMIC REPUBLIC OF PAKISTAN

General M. Zia-ul-Haq

ISLAMABAD

57/2/CMLA

6 Shawaal 1404 A H
5 July 1984

Her Excellency
The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister of the United Kingdom
London

Dear Madam Prime Minister,

I thank Your Excellency for your kind letter of May 2 in which you have responded so positively on a range of issues touching upon our bilateral cooperation, including the matter relating to the Vosper Thornycroft Frigates for the Pakistan Navy.

I would also like to avail myself of the occasion of the visit to the United Kingdom of Admiral Tariq K Khan, to convey to Your Excellency my greetings and high regard. I am sure his visit and his discussion with MOD(UK) authorities will lay the basis for greater collaboration in future between the Navies of our two countries. I am particularly mindful of the fact that this is the first formal visit of a Pakistani Chief of the Naval Staff to England after a gap of almost twenty years. Naturally, our expectations from this visit are rather high.

I have asked Admiral Khan that he should, at the conclusion of the official phase of his visit, carry out detailed discussions with MOD(N) on the performance and capabilities of Type 21 Frigates which we are considering to acquire for our Navy. Among the several alternative offers available, Type 21 will be our first option provided it meets all our operational requirements. What we need is a modern ship which will serve the Navy in a cost effective manner for the next 15-20 years. Admiral Khan will also therefore utilize the opportunity to explore the suitability of Type 42 and 22 ships for our needs and to see if they are, or can be made to come, within our financial capability.

Our intention is to have two ships built in England and the third in Pakistan in collaboration with the British Shipyard and MOD(UK). The success of the programme, its further development, and subsequent support of the ships, will depend a great deal on the technical and financial assistance which we hope will be extended by your Government.

Several other West European shipyards have expressed a keen interest in providing frigates to us on extremely competitive and attractive terms. I would, however, like to assure Your Excellency that, in the event of the terms and conditions contained in all the offers being comparable, we would continue to prefer to buy British.

Please accept, Madam Prime Minister, my best wishes for Your Excellency's health and happiness and for the continued prosperity and well-being of the friendly people of the United Kingdom.

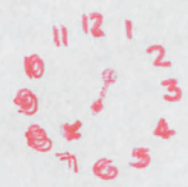
With profound regards,

Yours sincerely,

M. Zia-ul-Haq

General
(M. Zia-ul-Haq)

23 JUL 1984





MINISTER OF STATE FOR DEFENCE
PROCUREMENT

D/MIN/GP/3/8

20th July 1984

Note of a meeting held in the office of
the Minister of State for Defence
Procurement at 10.45am on
19th July 1984

Present:

Mr Geoffrey Pattie MP
Minister of State for
Defence Procurement

Admiral T K Khan NI(M)
Chief of the Naval Staff,
Pakistan Navy

Mr A Harris
Regional Marketing
Director 1

Captain M F A Khan
Naval Attache'
Pakistan Embassy, London

Dr A S Kemp
PS/Minister (DP)

Admiral Khan said that, following his official visit, he was having more detailed talks on the Pakistan Navy's (PN) requirement for three frigates, for which there was a competition between the United Kingdom, France and Germany.

2. The Admiral explained that following Vospers' impressive presentation in Pakistan of the Type 21, both the French and the Germans had sought to undermine the British position. They had called into question the stability and structural integrity of the Type 21 and had made attractive financial offers for their own designs. This was worrying for the PN which continued to favour the British ship, but which recognised that the choice of vessel lies ultimately with the Pakistan Finance Ministry. Speaking candidly, the Admiral said that the French and Germans had been more imaginative in their marketing and in particular in their approach to finance. In comparison, the UK seemed slow and traditional; neither the French nor the Germans expected, for example, Pakistan to sign a Letter of Intent before making their best offers. Admiral Khan said that he had made these points both to CNS and HDS. In

/ summary ...

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In summary, as a result of his visit so far, the UK had been able to provide the ammunition necessary for the PN to defeat the technical criticisms which had been made of the Type 21, which were largely unfounded, but he remained concerned at our relative inflexibility over finance.

3. Responding, Minister (DP) said that the PN could rely upon the MOD to provide all the technical and overseeing assistance required to ensure that the Type 21 entered service satisfactorily. He also believed that the UK would be able to put together an attractive training package. (Admiral Khan made it clear that he valued highly the involvement of the MOD in this way and asked for a suitable MOU to be established. This was agreed). However, Mr Pattie said that he could not pretend that it would be easy to improve the present, very attractive, ECGD-based terms which were being offered on the Type 21s. The UK, he said, remained as keen as ever for the sale to go ahead. The Prime Minister, as she had indicated to President Zia, was taking a personal interest. Clearly, it was important to develop relations between two highly professional Navies; there was no better way of promoting this than through the use of common equipment, approaches to training and tactical doctrine. All that said, he believed the UK was approaching the limits of what could be offered financially, although he would be prepared to examine with colleagues whether anything more might be done.

4. Admiral Khan said that he appreciated this, adding that he was genuinely fearful that, if the order went to France, his Navy would be wholly dependent on the French upon whom, following the decision by the Wilson Government in 1966 not to sell Oberon submarines to Pakistan, the PN was already heavily dependent.

5. Mr Pattie said that this would indeed be regrettable, but hoped this would not be allowed to happen.

Alan Kemp

(A S Kemp)
PS/Minister)(DP)

/ Distribution ...

~~CONFIDENTIAL~~
CONFIDENTIAL

D/MIN/GP/3/8

Distribution:

APS/Secretary of State
Sec/CNS
PS/HDS
ACNS(OR)
DG Mktg
RMD 1

David Barclay Esq.,
PS/Prime Minister

H B Warren-Gash Esq.,
PS/Mr Richard Luce MP

M C McCarthy Esq.,
PS/Secretary of State for
Trade and Industry

D J Normington Esq.,
PS/Secretary of State for
Employment

DEFENCE
Sales



DEFENCE
Sales



JF

10 DOWNING STREET

From the Private Secretary

9 July 1984

T

I enclose a copy of a letter to the Prime Minister from President Zia of Pakistan which was delivered this morning.

BF1

I should be grateful for advice on whether a draft reply is required.

I am sending a copy of this letter and enclosure to Richard Mottram in the Ministry of Defence. *+ Ruth Thompson, DTI*

(CHARLES POWELL)

Roger Bone, Esq.,
Foreign and Commonwealth Office.

ECL



FILE

OD: L. Chancellor

FCO

HMT

LPO

MOD

LPS

CDL

DTI

10 DOWNING STREET

From the Private Secretary

6 July, 1984

LIBYA - CURRENT DEFENCE SALES BUSINESS

The Prime Minister has considered the Defence Secretary's letter of 26 June to the Lord Chancellor on this subject together with further comments from other colleagues.

As regards the Martello surveillance radars, the Prime Minister agrees with the Lord Chancellor that the sale should be allowed to go ahead only if we fail to obtain undertakings from France and Italy that they would not supply if we were to cancel the contract. She thinks it unlikely in practice that either France or Italy will give such an undertaking. She wishes action to be taken quickly with them, so that the uncertainty for the company can be ended. I shall be grateful if you would arrange for this to be done.

I am sending a copy of this letter to the Private Secretaries to the members of OD and to Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

(C.D. Powell)

R. Mottram, Esq.,
Ministry of Defence

CONFIDENTIAL*J*

cc MAJL OPS

SUBJECT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T120 #/84

SUBJECT filed on: Pakistan
Negotiation
Sept 79
General M. Zia-ul-Haq
THE ISLAMIC REPUBLIC OF PAKISTAN

ISLAMABAD
57/2/CMLA

6 Shawaal 1404 A H
5 July 1984

Her Excellency
The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister of the United Kingdom
London

Dear Madam Prime Minister,

I thank Your Excellency for your kind letter of May 2 in which you have responded so positively on a range of issues touching upon our bilateral cooperation, including the matter relating to the Vosper Thornycroft Frigates for the Pakistan Navy.

I would also like to avail myself of the occasion of the visit to the United Kingdom of Admiral Tariq K Khan, to convey to Your Excellency my greetings and high regard. I am sure his visit and his discussion with MOD(UK) authorities will lay the basis for greater collaboration in future between the Navies of our two countries. I am particularly mindful of the fact that this is the first formal visit of a Pakistani Chief of the Naval Staff to England after a gap of almost twenty years. Naturally, our expectations from this visit are rather high.

I have asked Admiral Khan that he should, at the conclusion of the official phase of his visit, carry out detailed discussions with MOD(N) on the performance and capabilities of Type 21 Frigates which we are considering to acquire for our Navy. Among the several alternative offers available, Type 21 will be our first option provided it meets all our operational requirements. What we need is a modern ship which will serve the Navy in a cost effective manner for the next 15-20 years. Admiral Khan will also therefore utilize the opportunity to explore the suitability of Type 42 and 22 ships for our needs and to see if they are, or can be made to come, within our financial capability.



- 2 -

Our intention is to have two ships built in England and the third in Pakistan in collaboration with the British Shipyard and MOD(UK). The success of the programme, its further development, and subsequent support of the ships, will depend a great deal on the technical and financial assistance which we hope will be extended by your Government.

Several other West European shipyards have expressed a keen interest in providing frigates to us on extremely competitive and attractive terms. I would, however, like to assure Your Excellency that, in the event of the terms and conditions contained in all the offers being comparable, we would continue to prefer to buy British.

Please accept, Madam Prime Minister, my best wishes for Your Excellency's health and happiness and for the continued prosperity and well-being of the friendly people of the United Kingdom.

With profound regards,

Yours sincerely,

General
(M. Zia-ul-Haq)



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

JF6850

PS/ Secretary of State for Trade and Industry

5 July 1984

CC: PC
CDI
5/7

Nick Evans Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Nick,

LIBYA - CURRENT DEFENCE SALES BUSINESS

Your Secretary of State sent mine a copy of his letter of 26 June to the Lord Chancellor.

2 As he suggested in the fourth paragraph, we are issuing the export licences for the equipment over which there is no dispute.

3 We are not commenting on the Marconi and Ferranti equipment at this stage, since other OD members have not yet commented.

4 I am copying my letter to the Private Secretaries to OD members, and to Hugh Taylor and Richard Hatfield.

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

Deference Sales : DEFERENCE Pt 4.

BB
1121
- 4 JUL 1984

CONFIDENTIAL

PRIME MINISTER

Libya - Current Defence Sales Business

You earlier agreed the outcome of a review of defence sales to Libya. One point is still in dispute.

In common with the Lord Chancellor and the Chancellor you thought that supply of Martello surveillance radars should be allowed to go ahead only if we failed to get undertakings from France and Italy that they would not supply if we cancelled the contract.

The Defence Secretary is dissatisfied, arguing that the radars are not of use to terrorists, the loss of business to Marconi would be severe, and there would be a bad effect on our relations with Yugoslavia (which will actually supply the radars). He wants the point reconsidered. Norman Tebbit supports him. (Flag A).

The Lord Chancellor is sticking to his guns (indeed firing them vigorously) (Flag B).

In the light of other information about continuing Libyan activities, greater caution than ever about supplying items of defence equipment is surely called for.

Continue to side with Lord Chancellor?

C.D.P.

5 July 1984

CONFIDENTIAL

act mainly with France Italy. I do not know their agreement but we must find out in a reasonable time
Yes - we must not

CONFIDENTIAL



HOUSE OF LORDS,
SW1A 0PW

4 July 1984

Our Ref: 198/442/01
Your Ref: MO 26/9/15/1

The Right Honourable
Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
London S.W.1

My Dear Michael;

Libya - Current Defence Sales Business

Thank you for your letter of 26th June. I am very glad to see that you accept the arguments which I and others put to you on Ferranti's licence for the supply of equipment for shell muzzle velocity calculations, and I entirely agree that it would be better to let the licence lapse rather than taking positive steps to revoke it.

The main point of your letter, however, is to ask me to reconsider the views I expressed on Marconi's contract for the supply of Martello Surveillance Radars. You say that my suggestion seems to be at variance with the decisions reached in Cabinet on 3rd May. I assume the point you have in mind is the Prime Minister's conclusion that, where equipment is not of potential value to terrorist activities, existing contracts should be allowed to proceed, since you say that you see no reason why this contract should be singled out for cancellation.

The principle we agreed in Cabinet was that agreements once concluded should be honoured. It is undoubtedly the case that Marconi have concluded this contract, and if therefore the Libyans had proceeded with it in accordance with its terms I would reluctantly accept that Marconi should do likewise.

/But

CONFIDENTIAL

But this is not the case. The Libyans themselves have defaulted on the contract; they have failed to make the required 15% downpayment to Marconi, and have likewise failed to open the letter of credit which was to have been opened by 1st March 1984. On the facts as stated in your original minute the contract could thus only proceed if Marconi were prepared to waive this failure by the Libyans to honour their obligations, and I see no reason why Marconi should do so.

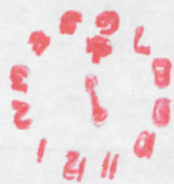
You state that you are not at all sanguine about the prospects of concluding a self-denying ordinance with France and Italy. I share your lack of optimism, but do not see this as a reason for failing at least to attempt to persuade France and Italy that, if Marconi do not proceed with this contract, they should decline to allow their own companies to step into Marconi's shoes. I note that this is a view shared by the Prime Minister, and expressed in her Private Secretary's letter of 18th June.

I have by no means ignored the fact that, if our approaches to France and Italy were successful, this would have adverse effects both on Marconi itself and on our political and commercial relations with Yugoslavia. But if we are to avoid putting arms in the hands of criminal lunatics, this is the price we have to pay.

I am copying this letter to other members of OD Committee, to Leon Brittan and to Sir Robert Armstrong.

yrs:
L.H.

DEFENCE : Sales P4



4 JUL 1964



Await other
views
CDP 29/6.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/9/15/1

26th June 1984

See Quin

LIBYA - CURRENT DEFENCE SALES BUSINESS

Thank you for your letter of 13th June in reply to my minute of 6th June.

You have suggested, and some other colleagues have agreed, that we should take the initiative in cancelling the contract which Marconi have secured to supply Martello Surveillance Radars to Libya through Yugoslavia. This seems to me to be at variance with the decisions which were reached in Cabinet on 3rd May. There, you will recall, we agreed that no arms exports should be allowed which involved equipment of potential value to terrorist activities, even where contracts had been signed but that, where this restriction did not apply, the aim should be to allow existing contracts and licences to be maintained. Although the Libyans have still to make the initial down payment and open the letter of credit required to bring this contract into effect, I would regard it as a contract concluded in good faith on our side and one which is of no conceivable benefit to terrorism. The Libyans may themselves decide not to proceed but I would argue strongly against the UK Government taking the initiative in cancelling the contract. The loss of business to Marconi would be severe as would the effect on our political and commercial relations with Yugoslavia. I am not at all sanguine about the prospects of concluding a self-denying ordinance with France and Italy and I see

The Rt Hon The Lord Hailsham of Saint Marylebone CH FRS

British Aerospace

PUBLIC LIMITED COMPANY

100 PALL MALL LONDON SW1Y 5HR

TELEPHONE 01-930 1020

From the Managing Director,
SIR RAYMOND LYGO, KCB

PROJ/556.2

25th June, 1984

The Rt. Hon. Norman Tebbit, MP,
Secretary of State for Trade and Industry,
1, Victoria Street,
London.
SW1H OET

Mr Powell (o/r)
To be aware.

Emms
26/6

Dear Secretary of State,

TORNADOS FOR TURKEY

You will be pleased to learn that as a result of my visit to Turkey, where I had discussions with the Head of Procurement for the Turkish Armed Forces as well as the Deputy Chief of the General Staff, they have indicated an intention to proceed with the procurement of 40 Tornado IDS aircraft from the UK, through British Aerospace, subject to confirmation of the terms offered in my letter of the 24th May, 1984 (not to all or needed). I would like to outline the importance of this decision so that all the factors concerned may be taken into account.

The importance of Turkey to the southern flank of NATO has increased as a result of the disturbed situation on Turkey's eastern borders. Turkey has no modern long range strike forces. The decision to procure the F16s, which has been supported by large US foreign military aid, has meant that the modernisation of its air force will leave it without long range interdiction strike aircraft. Thus the acquisition of Tornados will prove an immense strengthening of NATO's southern flank. In addition, the provision of facilities for the operation of Tornados from properly equipped bases in Turkey will provide NATO with a flexibility of deployment of its existing Tornado force in a way which must be of equal importance in strengthening NATO's ability to defend the southern flank. It is certain to have a stabilising effect in the region.

You will be aware that the Turkish Armed Forces have long maintained a separate identity in terms of procurement and that their record in this respect is unblemished. They have honoured their agreements; they have met their

Continued



no reason why this contract should be singled out for cancellation, solely on the grounds that the Libyans have not yet brought it into effect. To cancel this contract, whilst proceeding all the others that have already been signed, would be regarded as provocative and could lead to retaliatory action on civil contracts. I note that Norman Tebbit takes the same view. I must therefore ask you and other colleagues to reconsider in this case.

Colleagues also felt that Ferranti's licence for the supply of equipment for shell muzzle velocity calculations should be withdrawn. I accept the arguments which you and others have put forward against any conclusion of this contract but it seems to me that, as Norman Tebbit has pointed out, it would be better to let the licence lapse in three months time rather than taking positive steps to revoke it. It could be made quite clear to the firm that the contract should not be concluded even though the licence had not been formally revoked.

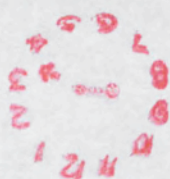
For the remaining contracts over which there is no dispute I believe we should now inform the firms without further delay that they can proceed. Some have been waiting several weeks for a decision and are running into severe difficulties. I would therefore hope that, even if further consideration is necessary on the Martello radar and muzzle velocity calculators, the necessary export licences for the rest of the equipment can be issued by the DTI at the end of this week. In the meantime I have taken the point made by the Chancellor of the Duchy of Lancaster and can confirm that steps will be taken to warn those companies for whom an export licence will not be issued against concluding a contract.

I am sending a copy of this letter to my OD colleagues, the Home Secretary and Sir Robert Armstrong.

Yours ever

Michael Heseltine

Reference Soues Pt 4



29 JUN 1984

obligations. As an indication of this you will recall that for the first order of Rapier, which amounted to £150M, we offered limited ECDG cover and soft loan facilities to them which they declined as unsatisfactory, preferring to procure on the basis of cash payments. Deliveries have commenced and the payments have been received promptly and, in fact, some have been received early. We have since that time concluded a small contract (£18M) for Sea Skua missiles and the payment for these, also in cash, has been received in accordance with the payment plan.

In the present troubled times in the Middle East the political importance of Turkey goes without saying. As I have reported on previous occasions, the Turks view with some suspicion the stated determination of the United States to maintain support for the Turkish Armed Forces, especially in moments when the Greek Lobby in Washington becomes active; they have painful memories of the termination of spares support during the Cyprus crisis. The French are not popular in Turkey at the present time because of the left wing nature of the present French Government. Relations with Germany are strained because of the German Turkish worker problem and until this is resolved they are likely to prove difficult in their dealings with the Germans. Thus, they see the British as their true friends in NATO, in the Western Alliance and in the European Economic Community and expect recognition of what they have done to restore a large degree of democracy in Turkey after the disturbances which preceded the military take over. They have a great admiration for our Prime Minister and all that she has done in the UK. Turkey's position in relation to its ties with the Middle East have strengthened considerably in recent years and the top level meeting between King Fahad and President Evren has further improved relations.

Whilst the subject of supply of military equipment often provokes very different attitudes and opinions; one thing is certain; countries will obtain the military equipment they deem necessary for their defence from one source or another and the country which supplies equipment has more authority than one which does not simply because the supply of spares which is vital to the operational conduct of the equipment is in the hands of the supplier. Thus a country which supplies defence equipment can exert more political influence than one which does not.

You will be aware that the industrial arguments for further orders for the Tornado are powerful. Without them the production line at Warton and all the associated production lines from the many equipment suppliers in the UK will begin to run out in 1986. It is thus of extreme importance that we gain export orders. As you are aware, there are other opportunities which we are pursuing with vigour. It is significant that a recent survey by the Head of Defence Sales indicates that the only area in which we are lagging behind the French in the export of defence equipment is in relation to the larger contracts over \$250M where the French ability and willingness to provide military aircraft has proved decisive to their export drive.

In financial terms, assuming that the 40 aircraft order is worth about one billion dollars, or about £700M, the UK share will be something in the order of £350M. The terms proposed include a cash element from Turkey of 13½% which would reduce the size of the UK loan package required to something in the order of £300M. This must be set in the context of the existing Rapier and Sea Skua

Continued

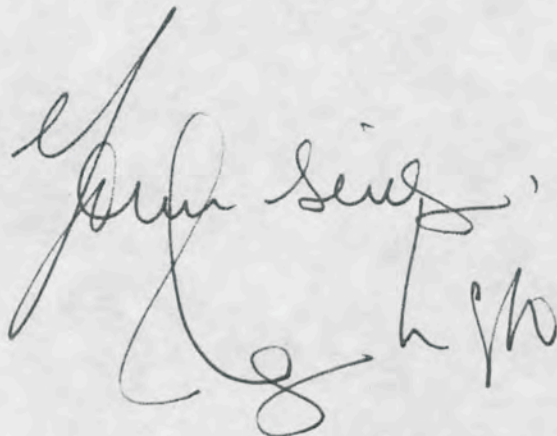
contracts which are being procured for cash at a value of £165M. In negotiating ECGD cover for a possible order of a similar quantity of aircraft for Greece we have achieved a level of cover of some 95%. I believe it is true to say that in world terms the Greek economy is weakening, whilst the Turkish economy is strengthening. In these circumstances, the political implications of being seen to be prepared to support a Greek purchase yet not a Turkish purchase would seem, in my opinion, to be difficult to defend. It must be recognised that Turkish intelligence is good enough to know what has been offered in Greece.

Whilst I well recognise the financial difficulties which this proposition might pose, I believe that the companies involved in this contract have sufficient need for the work for it to be possible that they might be prepared to provide some of the cover themselves.

An important element in any contract nowadays is offset and you will be aware that as far as direct manufacture in Turkey is concerned, we are presently negotiating for a licence agreement for the manufacture of Rapier missiles in Turkey to cover the requirements of the Turkish Armed Forces. In addition we have, with HMG support, recently succeeded in obtaining United States agreement to the purchase of Rapier missile systems for the defence of United States Air Force bases in Turkey. It is possible that the missiles for these systems could also be produced in Turkey. Turkey has a large industrial base and would expect as a condition of the Tornado contract to provide some 35% of the total value in offsets. We believe that this will provide us with far less difficulty than the 100% and more offset demanded by Greece and in this respect makes the Turkish proposition more attractive.

In conclusion, you will of course realise that this may be the first export order for Tornado. When taken with other possibilities which exist for further exports one would see the total value to this country rising to something of the order of £1B within the next 12 months. Of course, an equivalent value will flow to our German and Italian partners who will benefit from our marketing activities in a highly competitive world situation. In parallel with the discussions which must now take place in the United Kingdom, I have the task of consulting with our German and Italian partners in order to bring a complete package into being. I believe we now have an opportunity to achieve an export order for Tornado to Turkey which is unlikely to re-occur in the near future. In addition they have indicated privately that should they be successful in acquiring the 40 Tornados there would almost certainly be a follow on requirement later for an additional 32 aircraft. This may well be achieved by a rebalancing of their total air force budgets.

I would be grateful for an early opportunity to discuss the matter with you observing that the Turks have placed a 60 day timescale on me to achieve a final proposal.

A handwritten signature in cursive script, appearing to read 'Raymond Lygo', is written in dark ink at the bottom of the page.

REPORT ON THE VISIT OF A BRITISH AEROSPACE TEAM, LED BY
SIR RAYMOND LYGO, TO TURKEY - JUNE 1984

I paid a visit to Turkey between the 12th and 15th June at the invitation of General Celenkler, the Under Secretary of State for Defence Procurement of the Turkish Armed Forces. On Wednesday 13th June, I called on the British Ambassador to explain the purpose of my visit and to exchange intelligence. At 1100 on the 13th, I met with General Torumtay, Deputy Chief of the Turkish General Staff, who was accompanied by General Celenkler, General Cicek, Vice Admiral Ozkan and Colonel Batur, Turkish Air Force. I was accompanied by Mr. R. H. Evans from British Aerospace Warton, Mr. L. A. Sanson, British Aerospace Marketing Director, Mr. John Benda, from the British Aerospace local agent Panturk and General Naipoglu.

General Celenkler opened the meeting by stating that they were interested in the proposals contained in my letter of the 24th May but that they had decided that they wanted 40 aircraft and that this was the minimum force they regarded as viable. They would have two squadrons of 18 aircraft each, with four held in reserve. General Celenkler went on to enquire whether it would be possible to make a proposal similar to that for 20 aircraft but covering 40. I replied that this would be a matter for discussion with our German and Italian colleagues in Panavia, but subject to their being able to match the kind of terms that were being offered in my letter and subject also to my being able to confirm those terms within the United Kingdom, we would be in a position to offer the supply of 40 aircraft. He next asked me to confirm that I was not considering German foreign military aid as part of the German contribution. I said that my understanding was that the Turkish Armed Forces had now presented an additional requirement for German aid, of which I had been unaware when I made my original proposition. I now knew that there was little or no possibility of receiving further German foreign military aid and therefore my proposition would be based on a commercial package similar to the one that I had offered in my letter of the 24th May. Celenkler explained that the Army's needs for German foreign military aid were of top priority and that they could not be replaced by an airforce requirement. He did say however that the Turkish General Staff wished to acquire Tornado aircraft if financial circumstances made this possible. There then followed a series of questions relating to some of the details in my letter covering training, simulators, publications where the training and conversion of pilots would take place, etc.

It is clear that the support package that is being proposed to them for the F16 exceeds what they were led to believe. I made clear that the original proposal for 72 and 40 aircraft had contained an element of 27% of the purchase price for support over two years and that in my subsequent letter I had reduced this to 20% because they had thought that 27% was too high. I went on to explain that in my view, 27% was a sensible allowance, but that they did not have

Continued

to take up the whole value of this part of the package if they did not wish to do so. It was for them to decide how much of this they would require. However, if they elected for 20% and subsequently found they needed more, it would be difficult to put the right financial package into place. Therefore, it was better to start with 27% and work down. I also pointed out that we had evidence to suggest that the support package for the Tornado was less than that required for F18s, F16s and F15s. I offered the services of a Royal Air Force team to advise them on the support package they required. I said I was sure the Royal Air Force would confirm our own opinions but we were quite happy to rest on whatever discussions they had with the Royal Air Force in this respect. General Torumtay intervened at this point in Turkish to say that he did not think there was any point in pursuing details of this kind at the meeting we were having. I had offered the Royal Air Force team and that was sufficient!

General Celenkler then turned to delivery saying that I had originally offered half a squadron within 12 months. I said that discussions would have to relate to how many could be made available from any contract date. We would still do our best to honour our offer of early delivery but they should realise that time was passing and other customers were in the offing. I was left with the impression that they could be flexible on this. He then touched on the question of offset saying that they understood that other countries were getting up to 100% offset. I acknowledged this but said that our offer of 35% was one which I knew we could honour in the circumstances prevailing in Turkey. I pointed out that it was better to go for a positive low contribution which we knew we could meet rather than to make extravagant promises that we subsequently failed to achieve. I said that our record in this respect was excellent whereas the record of some of our competitors was less than satisfactory. I accepted that offset would be an important part of the package.

General Celenkler concluded the meeting by saying that he would now have to seek the permission of the General Staff to continue negotiations with us and he would let me know. General Torumtay intervened to say he was seeing General Urug, the Chief of General Staff, immediately afterwards and that he would then let me have the answer. I said I was grateful for this but that I would like to have a letter confirming their continuing interest in pursuing the negotiating package I had outlined because I was having difficulty in certain quarters in the United Kingdom, and elsewhere, in getting people to believe that they were really serious. General Torumtay acknowledged this and said that a letter would be provided. The letter at the Appendix was the one that was produced. In subsequent discussions, Celenkler explained that the F16 deal had been approved by the Chief of Air Staff three days before the new Civilian Government came into power and they were somewhat embarrassed to find that this commitment had been entered into so soon before they assumed office. They, the Turkish General Staff, were anxious to make sure that their new Civilian Government was fully aware of what they were doing and they had informed the Minister of Defence and the Finance Minister of what they were discussing with us so that when any decision was sought, it would not come as a complete surprise. This was the sole reason for the letter being couched

Continued

in the terms it was. The Turkish General Staff had decided that they wanted the Tornado for strategic reasons in order to give them a strike capability on the Southern flank, which at the moment they did not possess, and they were quite certain that it would provide a stabilising effect in the region. This viewpoint was expressed to me privately by several other officers of the General Staff and I am in no doubt as to their seriousness now in looking at the Tornado for this role.

At a subsequent meeting on the 15th, we discussed the second tranche of the Rapier buy, as well as the indigenous manufacture of Rapier. I explained to them the decisions of the United States Department of Defence in relation to the purchase of Rapier for the Defence of USAF bases in Turkey. The significance of being able to obtain the missiles from a Turkish indigenous source was stressed. General Celenkler took the opportunity, once again, to stress to me that they were serious about Tornado as long as we could put a reasonable commercial package together. I debriefed the British Ambassador, showed him the letter I had received, and departed to the United Kingdom on the 15th.

Copies to:-

The Rt. Hon. Sir Geoffrey Howe, QC, MP
Secretary of State for Foreign Affairs

The Rt. Hon. Michael Heseltine, MP
Secretary of State for Defence

The Rt. Hon. Tom King, MP
Secretary of State for Employment

Mr. Geoffrey Pattie, MP
Minister of State for Defence Procurement

The Rt. Hon. Paul Channon, MP
Minister for Trade,
Department of Trade and Industry

Mr. Norman Lamont, MP
Minister of State for Industry
Department of Trade and Industry

Mr. F. E. R. Butler ✓
PPS to the Prime Minister
Cabinet Office



M. S. B.
MÜSTEŞARLIĞI

14 June 1984

Hüsnü ÇELENKLER
General

Dear Mr. Lygo :

As a result of the discussions held with you on 13 June 1984 in relation to the procurement of TORNADO aircraft, we wish to inform you that we are interested in acquiring 40 IDS Tornado aircraft conditional upon the following :

- 1. The financial terms for the supply of the 20 aircraft as per BAe proposals will be evaluated by MOD Turkey in detail.*
- 2. For the rest 20 aircraft you can proceed to achieve favorable financial terms from your German and Italian partners within a period of sixty days. Please, keep us informed on developments.*
- 3. We have to make a final evaluation for 40 aircraft after having the proposals from your German and Italian partners.
The final decision for both packages is subject to the approval of the Government of Turkey, taking into consideration the terms you propose.*
- 4. In pursuing your negotiations with your partners in order to achieve a satisfactory financial package you should be mindful of the importance to provide the maximum amount of direct and indirect offset.*

Sincerely yours.

*Admiral Sir Raymond LYGO, KCB
President, SBAC
Ministry of Defence
Main Building
Whitehall London SW1A 2HB*



No action
C.D.P. 25/6
C.D.P. 22/6 (2)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
Telephone (Direct dialling) 01-215
GTN 215
(Switchboard) 215 7877

Secretary of State for Trade and Industry

22 June 1984

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

Prime Minister
Letters from Chancellor and
Mr. Tebbit. It is highly
unlikely that the French &
Italians would give the
required assurances. Mr
C.D.P. 22/6

D Michael,

LIBYA - CURRENT DEFENCE SALES BUSINESS

I have seen the reply from Geoffrey Howe to your minute MO/26/9/15/1 of 6 June and the comments made by the Prime Minister and the Lord Chancellor. I am in broad agreement with the proposals you put forward and the comments made by OD colleagues, but two matters cause me concern.

2 Revocation of the licence to Ferranti for the supply of equipment for shell muzzle velocity calculations would be a serious step to take. You pointed out that a contract looks unlikely. The licence has, I understand, only three months to run. It would, in my view, be preferable to allow it to expire and not to renew it. In the meantime your officials could, as the Lord Chancellor has suggested in his letter of 13 June, speak to Ferranti explaining the position.

3 The Marconi contract for supply of the Martello surveillance radars is the other matter on which I should like to comment. Even if the French and Italian Governments were to provide watertight undertakings along the lines proposed by the Lord Chancellor, a decision to revoke the export licence would have damaging consequences for both Marconi and our relations with Yugoslavia. The effect on employment at Marconi and their future exports to Yugoslavia would be serious and a factory at Gateshead or Leicester would have to close. Our relations with Yugoslavia are on an excellent footing following the very successful official visit to the UK last November of Mrs Planinc, the Yugoslav Prime Minister, during which she had cordial discussions with the Prime Minister and me. Cancellation of the contract following this visit would be taken very hard by the Yugoslavs with serious repercussions for our future trade.

JH3ANV



4 I am sending a copy of this to the other recipients of your minute.

*Yours
Norman*

NORMAN TEBBIT

RESTRICTED



cc PC.
MBM
CDD
22/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 June 1984

Richard Mottram Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1

Dear Richard,

LIBYA - CURRENT DEFENCE SALES BUSINESS

The Chancellor of the Exchequer has seen the correspondence on this question and agrees with the approach proposed in Charles Powell's letter of 18 June.

I am copying this letter to the Private Secretaries to other OD members, and to Hugh Taylor and Richard Hatfield.

Yours etc,

Timothy Lapsin

Miss J C Simpson
Private Secretary



10 DOWNING STREET

c. LCO
FCO
HMT
LPO
LPSO
CDL
DTI
CO
HO

From the Private Secretary

18 June 1984

Dear Richard,

Libya - Current Defence Sales Business

The Prime Minister has considered the Defence Secretary's minute of 6 June, the Lord Chancellor's letter of 13 June and the Foreign and Commonwealth Secretary's minute of 15 June on this subject.

Subject to the views of other OD colleagues, the Prime Minister is in general content with the recommendations in the Defence Secretary's minute, with the exception of two points. She shares the view of the Foreign and Commonwealth Secretary and the Lord Chancellor that Ferranti's licence for the supply of equipment for shell muzzle velocity calculations should be revoked. She also agrees with the Lord Chancellor that the contract for Martello surveillance radar should be allowed to stand only if we are unable to obtain undertakings from the French and Italian Governments that they would refuse export licences if HMG were to cancel the contract.

I am sending copies of this letter to the Private Secretaries to members of OD and to Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

yours sincerely
C.D. Powell

C.D. POWELL

Richard Mottram, Esq.,
Ministry of Defence.

vsc



FCS/84/177

SECRETARY OF STATE FOR DEFENCE

Libya: Current Defence Sales Business

1. I agree with most of the points in your minute of 6 June on current defence sales business with Libya.

2. Specifically, I share your views about the Marconi contract for Martello surveillance radars (item 6). I agree that the licence for an indoor shooting range (item 11) should be withheld. I also agree, with reluctance, that although the Libyans have not yet signed a contract we should if necessary allow Plessey to go ahead with their contract for the supply of vehicle radios (item 10), in view of the potential damage to the company's other business interests in Libya if a licence were to be withheld. I am even less happy about the supply of Saladin spares (item 5). We could be open to criticism for allowing the supply of spares which enhance Libya's offensive capability. But in view of the importance of the contract to Alvis, and the need not to damage our reputation as reliable suppliers, I am willing to agree that supplies could go ahead.

3. I do not, however, agree that Ferranti's licence for the supply of equipment for shell muzzle velocity calculations (item 7) should stand. Here too we could be exposed to criticism for licensing equipment which would improve the offensive capability of the Libyan Armed Forces. I am not persuaded that revocation of the export licence would increase the risks to the British community in Libya. The negotiations have been dormant for some time and a contract now looks unlikely. I very much doubt either that the Libyans expect this to go ahead or that they would react badly to its cancellation. Presumably

/all



Presumably all we need do is tell Ferranti, who have no need to inform the Libyans. On the contrary, if we do allow Ferranti to proceed to sign a contract, we risk encouraging the Libyans to think wrongly that we are willing to resume business as usual in the defence field. Such a misunderstanding could increase our difficulties with Libya.

4. I see no difficulty with the other recommendations made by officials.

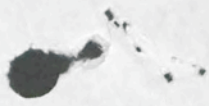
5. Provided you and others can accept the revised line over item 7 spelled out in my paragraph 3 above, I believe we can regard this exercise as complete.

6. I am copying this minute to the Prime Minister, to our other colleagues on OD, and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
15 June 1984

Defence : Sales Pt 4



15 JUN 1984

CONFIDENTIAL

PRIME MINISTER

Libya: Defence Sales

A

The Defence Secretary has conducted a review of defence sales to Libya.

The aim is to terminate contracts of potential benefit to terrorists but allow other business to continue.

The only contract recommended for termination is the indoor shooting range.

There are doubts over the Martello surveillance radars, equipment for shell muzzle velocity calculations, vehicle radios and Saladin spares.

But on balance the Defence Secretary is prepared to let contracts/licences stand.

B, C

The Foreign and Commonwealth Secretary and the Lord Chancellor think the licence for shell muzzle velocity calculation should be cancelled. *No contract signed.*

The Lord Chancellor also thinks that we should try to get other countries to undertake not to supply the radars. Only if they refuse should the contract for Martellos be allowed to stand.

Other OD members have not yet commented.

Agree the Defence Secretary's recommendations as qualified by the Foreign and Commonwealth Secretary and the Lord Chancellor?

Yes not

C.D.P.

C.D. Powell
15 June 1984

CONFIDENTIAL

HOUSE OF LORDS,
SW1A 0PW

13 June 1984

My dear Michael:

Libya - Current Defence Sales Business

Thank you for copying to me your minute to Geoffrey Howe of 6th June.

I believe we should act, and be seen to act on principle. My first principle is that it is wrong to put lethal weapons in the hands of criminal lunatics. It follows that we should sell no further arms to Libya at all. My second principle is that where a contract has been concluded in good faith, it should be carried out. Even with the Libyans we should abide by our agreements, even if they do not.

Applying these principles, there are two items listed in the Schedule to your minute on which my conclusions might differ from yours. The first is Item 6, the Martello Surveillance Radar. I appreciate that in this case contracts have been concluded, but the Libyans are in breach of the conditions which must be satisfied for it to take effect. I appreciate too the very serious consequences which would flow from cancellation: redundancies, adverse affect on our trade with Yugoslavia, and adverse effect on Marconi's potential civil projects. Moreover, I would not suggest that this contract should be revoked if the only result would be for a French or Italian company to take Marconi's place. But I do feel that, particularly so soon

/after

The Right Honourable
Michael Heseltine MP
Secretary of State for Defence

CONFIDENTIAL

after this subject was discussed at the Summit, the very least we can do to avoid arms sales of this type to Libya is to approach the French and Italian Governments and attempt to obtain from them undertakings that, if we revoked the contract and French or Italian firms were approached instead, France and Italy would both refuse export licences. If however either France or Italy refuses to give such an undertaking, I would agree that you have no alternative but to allow the contract to continue.

The other item on which I ^{might} ~~would~~ differ is Item 7, the supply by Ferranti of electronic equipment for shell muzzle velocity calculations. No contract has been signed. There is no financial risk to the company, and the equipment would improve the offensive capability of the Libyan Armed Forces. Officials have therefore recommended that the export licence should be revoked. You say you feel there is little to be gained and much to be lost in withdrawing the export licence at this stage. But the reason you give is that British subjects are at risk of arbitrary arrest.

I do not see why the revocation of this particular export licence would cause more offence to the Libyans, and hence put British subjects at greater risk, than any other action we might see fit to take. But even if you are right, I would have thought that the appropriate action to take would be, not to withdraw the export licence at this stage, but for your officials to approach Ferranti and say that they should not resume these negotiations, because if they do attempt to conclude a contract the export licence will be revoked. If no contract is concluded, the Libyans will never know that you were intending to take action which might have caused them offence. It would only be if they resumed

/negotiations

negotiations that you would be obliged to disclose your intention to withdraw the export licence.

Subject to my points on these two items, I agree with your proposals.

I am copying this letter to Geoffrey Howe and other members of OD Committee, to Leon Brittan and to Sir Robert Armstrong.

Yrs:

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

Defence Sales Pt 4



15 JUN 1984

file

288

11 June 1984

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

The Prime Minister has noted the contents of your Secretary of State's minute of 6 June covering the Quarterly Report from 1 January to 31 March 1984.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

288

opc



Chancellor of the Duchy of Lancaster

Await FCS reply.

SECRETARY OF STATE FOR DEFENCE

ML 11/6.

LIBYA - CURRENT DEFENCE SALES BUSINESS

The only comment I have to make on your minute of 6 June to the Foreign Secretary is that presumably the potential contractors for item 11 (paragraph 4) and item 7 (paragraph 5) should be warned off to prevent them signing a contract and thus precipitating us in the difficulties we now face on item 10 (paragraph 6).

I am copying this to the other recipients of your minute.

11 JUN 1984

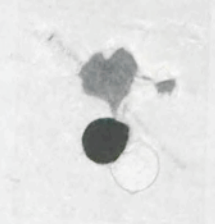


A.C.

A C

11 June 1984

Defence : Sales Pt 4.



W 1 JUN 1984





MO 26/9/1A

Prime Minister

To note.

8/6

PRIME MINISTER

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS
1ST JANUARY 1984 - 31ST MARCH 1984

The first quarter of 1984 saw defence sales worth £403M reported by our defence industries, compared with an out-turn figure of £636M for the last quarter of 1983, and sales in the corresponding quarter of 1983 of £528M. Although not unexpected, this relatively modest level of sales was disappointing following our highly successful achievements in 1983, and tends to confirm the prediction in my last report that 1984 could prove to be a more difficult year.

2. The largest contract signed was with the US for the supply and maintenance of 18 Shorts 330/Sherpa aircraft worth £100M, and options included in the contract could raise the total value to some £400M. Other significant sales reported included further US purchases of avionics equipment for the F-16 (£36M); the sale of surplus Tribal class frigates to Indonesia (£32M); the supply of Rolls-Royce Spey engines to the Netherlands (£28M) following the agreement signed by Geoffrey Pattie early this year for a reciprocal purchase of the Dutch Goalkeeper CIWS; and a licence agreement with Japan for the FH70 gun (£25M). We were however unsuccessful in our attempts to sell Sea King helicopters to Singapore, where the French Super Puma was preferred largely on cost grounds, and also in our efforts to sell Rapier to Spain where Roland was preferred. Details of all contracts reported during the quarter are given at Annexes A and B, whilst details of the highest priority sales prospects are listed at Annex C.

3. I now believe that there are grounds for some optimism for the sale of Tornado and Hawk to Saudi Arabia. I discussed this with



Prince Sultan in January and James Blyth, the Head of Defence Sales, has just returned from the Kingdom to report considerable progress. The total value of the deal is expected to be of the order of £600M with follow-on support business worth at least as much again. Our chances of selling Challenger to the Saudis have also improved following the recently announced German decision not to supply Leopard II; however, strong competition will still come from the US M1 tank.

4. Elsewhere in the Gulf the prospects are bright for a sale of Tornado to the Omanis, who have stated informally their intention to purchase. It is increasingly likely that they will purchase the FH70 gun later this year and they are also now expressing interest in further Chieftain tanks. In the UAE prospects include the full Joint Operations Centre (JOC) project, further radars and an Air Defence Operations Centre (ADOC), and continued interest in Challenger although progress on all of this will probably be slow. Following the visit of the Amir of Bahrain there are now good prospects for a Hawk sale to Bahrain. As you are aware, Jordan is showing interest in the purchase of Javelin worth some £70M, although credit problems will need to be overcome. The Pakistani Navy is pressing firmly for a purchase of Type 21 frigates and, following the decision to offer a substantial government backed credit package, there are good prospects for a favourable decision which could be worth some £200M.

5. In Africa, prospects in Algeria continue to appear promising following signature of the Defence Co-operation MOU last year. The Algerian Air Force has decided to purchase 27 Hawk aircraft subject to detailed contract negotiations. A joint Anglo/Algerian Study Team has been set up to look into the establishment of an Algerian aerospace industry (including Hawk assembly) and training requirements. Considerable progress has been made in determining Algerian Air Defence requirements and detailed proposals will be submitted shortly. Signature is expected soon of the first batch of contracts to which the terms of the MOU will apply. Vosper Thornycroft have submitted revised proposals for two fast patrol craft (£75M) for Kenya which



now includes an attractive ECGD-backed credit offer. Despite strong competition from France, Italy and Israel, the proposal is being viewed favourably: a decision is expected in June of this year. Following the Nigerian coup the new Military Government has been consolidating its position and assessing priorities. A new budget was published recently which shows a significant reduction in capital expenditure. This confirms our earlier view that greater emphasis would be placed on support and maintenance of equipment already purchased by the Nigerians. UK companies are well placed to benefit substantially from this new type of business. Following accusations of malpractice some of the larger contracts placed by the previous Nigerian regime are being "re-negotiated". The UK contracts affected include those for Jaguar and Swingfire. The Jaguar review has now been completed and their Defence Minister formally accepted the first batch of aircraft at BAe Warton in May. The outcome of the Swingfire review is not yet known, although a reduction in the size of the project is expected.

6. A Heads of Agreement has finally been signed with the Indians for the supply of 15 Combat Engineer Tractors (£18M) with the option for a purchase of a further 35 over the next few years. Negotiations are also underway for a sale of a further 11 Sea Harriers (£110M). Work is continuing on sales of FH70, development of a Light Combat Aircraft, and on trying to agree a general Memorandum of Understanding and associated credit arrangements. There are a number of promising sales prospects to Thailand, most notably for the Vickers Mk III tank worth up to £200M. The prospects for this are still reasonable; suitable credit arrangements may be the crucial factor here. There is Malaysian interest in a possible purchase of Vickers submarines backed by RN training but other prospects there are not expected to progress significantly due to shortage of funds. Following the failure to sell Sea King to Singapore for utility purposes, we will now concentrate upon promoting it to meet their ASW requirement. There are also prospects for further sales of Land Rovers following a £12M deal for the vehicle there; for 57 metre patrol craft and associated weapons



fits; and for an Air Defence transportable radar. The sale of frigates to Indonesia may help future sales with Rapier being a likely purchase later in the year. Considerable interest is also being shown in the single-seater Hawk, and with locally licensed production.

7. Elsewhere in the Far East, the Foreign and Commonwealth Secretary raised the subject of increased defence sales during his recent visit to Japan but the intention is still either to rely upon US purchases or to pursue a policy of indigenous production. UK defence sales prospects there in the near future are therefore limited. A similar policy of reliance upon US sources is being followed in South Korea, although there are rather more encouraging signs of prospects for the UK including Lynx, Sea Skua and Tigerfish. China still appears to offer little in the way of short term prospects but, in an attempt to increase our links with the Chinese, John Stanley visited at the end of April and James Blyth followed this up in May.

8. In the US, Plessey are bidding strongly in consortium with Rockwell Collins and ITT for Mobile Subscriber Equipment which will form part of a communication programme worth some £4Bn. Plessey are basing their bid upon the UK Ptarmigan system and should be well placed, the main competition coming from the French RITA system. It is hoped that full scale development of the Hawk VTX will begin shortly and we will continue to try and ensure that a contract is placed before the end of the year.

9. In Australia, Westlands continue to promote the Lynx helicopter for use on the RAN's frigates and Vickers' proposals are under consideration for their replacement submarine programme, a project with which Canada and New Zealand are also associated. Other prospects in Canada include Rapier for the defence of Canada's two European air bases, and equipment sales into their Patrol Frigate programme.

10. Apart from the sale of Spey engines to the Dutch, sales to Europe have been disappointing. We will pursue the possible sale of Vertical Launched Sea Wolf to the Dutch along reciprocal purchase lines and



other opportunities exist for UK companies to sell into the Dutch M-Class Frigate programme. The prospect of selling BAE's ALARM to the Luftwaffe has receded and decisions are still awaited on aircraft purchases by Greece and Turkey, where Tornado is a contender. We continue to monitor the possible sale of Lynx naval helicopters to Portugal.

11. South America continues to be a depressed market; limited component and sub-system sales to Brazil have been made as part of Engesa's tank programme, but the potential Jaguar deal with Chile is unlikely to proceed for the time being due to budgetary constraints. A contract for the sale of HMS ANTRIM to Chile was however signed in May. Further prospects include possible sales of Lynx and Swingfire, but the Chileans are likely to need Government assurances that we will supply and where necessary provide associated support.

12. Overall, despite the relatively poor start to the year, there is now some room for being slightly more optimistic. A number of prospects, particularly in the aircraft sector, could result in a marked improvement in the total for this year.

13. I am copying this to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

Ministry of Defence
6th June 1984

ANNEX A - REPORTED CONTRACTS SUMMARY

COUNTRY	ARMY SYSTEMS VALUE £m	AIR SYSTEMS VALUE £m	NAVAL SYSTEMS VALUE £m	TOTAL VALUE £m
ALGERIA	1.75	4.00	-	5.75
ANGOLA	10.00	-	-	10.00
AUSTRALIA	0.18	-	-	0.18
BAHRAIN	0.11	-	-	0.11
BRAZIL	0.40	2.37	0.11	2.88
BRUNEI	1.00	-	-	1.00
CAMEROON	0.12	-	-	0.12
CANADA	-	-	0.25	0.25
CHILE	-	-	0.30	0.30
DENMARK	0.1	-	-	0.10
EGYPT	5.50	1.24	-	6.74
INDIA	-	0.75	-	0.75
INDONESIA	-	-	32.00	32.00
IRAN	1.50	-	-	1.50
IRAQ	9.45	0.60	-	10.05
ITALY	-	5.00	-	5.00
JAPAN	25.00	-	5.00	30.00
KENYA	0.40	-	-	0.40
MOROCCO	0.08	-	-	0.08
NETHERLANDS	-	-	28.00	28.00
NEW ZEALAND	-	-	0.17	0.17
NIGERIA	-	-	0.40	0.40
OMAN	14.25	-	0.10	14.35
PAKISTAN	-	-	4.00	4.00
PARAGUAY	0.80	-	-	0.80
PERU	2.70	-	-	2.70
PR CHINA	0.30	-	0.20	0.50
QATAR	-	-	0.20	0.20
REPUBLIC OF KOREA	1.40	-	-	1.40
SINGAPORE	10.50	-	-	10.50
SUDAN	2.05	1.00	-	3.05
SWITZERLAND	10.00	-	-	10.00
USA	18.29	179.59	3.41	201.29
ZIMBABWE	19.20	-	-	19.20
TOTALS	135.08	194.55	74.14	403.77

ANNEX B - REPORTED CONTRACTS - AIR SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
ALGERIA	RECONNAISSANCE POD	6	4.00	1984	499
BRAZIL	EJECTION SEATS	108	2.37	1984	28
EGYPT	MIG 21 AIRCRAFT SPARES	NA	0.04	1985	512
	SAND FILTERS	NA	1.20	1984	632
INDIA	SCR 300 FLIGHT DATA RECORDER	1	0.75	N.K.	672
IRAQ	A LEVEL TRAINING	40	0.60	1984	594
ITALY	E/H POWER FOR ASPIDE	NA	5.00	N.K.	664
SUDAN	MIL-8 ENGINE SPARES	NA	1.00	1985	503
USA	AV8B DEVELOPMENT	NA	4.96	N.K.	618
	AV8B EQUIPMENT	NA	0.41	N.K.	617
	B-1B OXYGEN SYSTEM EQUIPMENT	NA	0.67	N.K.	671
	BOEING E-3A SIMULATOR	1	6.42	N.K.	629
	COBRA AIR DATA SYSTEM	NA	0.89	N.K.	626
	F-111 AIRCRAFT SPARES	NA	0.74	N.K.	620
	F-18 INSTRUMENTS	NA	0.30	N.K.	616
	HARRIER SPARES	NA	0.87	N.K.	619
	HAWK VTX DEVELOPMENT	NA	0.20	N.K.	630
	HUD/WASS FOR F-16	NA	1.28	N.K.	624
	HUD/WASS FOR F-16	NA	4.60	N.K.	625
	HUD/WASS FOR F-16	NA	30.80	N.K.	649
	LANTIRN HUD	NA	2.42	N.K.	627
	LASER RANGEFINDER	NA	0.38	N.K.	651
	PROJECTED MAP ASSEMBLIES	NA	11.87	N.K.	650
PROJECTED MAP ASSEMBLIES	NA	0.76	N.K.	652	
SHORTS 330/SHERPA	48	100.40	N.K.	79	
TF 41 ENGINE SPARES	NA	10.23	N.K.	648	
UNDERCOVERALLS	NA	0.66	N.K.	628	
UNSPECIFIED A/C SPARES & EQPT	NA	0.73	N.K.	621	

TOTAL FOR AIR SYSTEMS £m 194.55

END

ANNEX B - REPORTED CONTRACTS - LAND SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE \$M	DELIVERY DATE	REF NO.
ALGERIA	BUG TRACKING SYSTEM	NA	1.00	1984	500
	PRC 320 HF TACTICAL RADIO	NA	0.75	1985	501
ANGOLA	COMMS EQUIPMENT	NA	10.00	1985	584
AUSTRALIA	AMPCTS	1	0.18	N.K.	653
BAHRAIN	FIRE EXTINGUISHERS	NA	0.11	1984	670
BRAZIL	GCE 628 TANK F.C.S.	3	0.40	1984	603
BRUNEI	SERVICES	NA	1.00	1984	511
CAMEROON	UNIFORMS	NA	0.12	1984	585
DENMARK	FORK LIFT TRUCK	8	0.10	N.K.	673
EGYPT	APV SPARES	NA	4.50	1984	593
	DOME TRAINER	2	1.00	1984	502
IRAN	HELICOPTER TEST FACILITY	NA	1.50	1985	586
IRAQ	AIRPORT SECURITY EQUIPMENT	NA	0.25	1984	595
	SCAMMELL CRUSADER RV	100	9.20	1984	583
JAPAN	FH70	NA	25.00	N.K.	10
KENYA	RIFLES	NA	0.40	1984	588
MOROCCO	SUPER HYLO LOADER	1	0.08	N.K.	665
OMAN	GHALLAH BASE ACCOMODATION	NA	6.90	N.K.	669
	GROUND POWER UNITS	390	0.85	1984	668
	JAVELIN	NA	6.50	N.K.	610
PARAGUAY	COMMS EQUIPMENT	NA	0.80	1984	600
PERU	WEBBING FACILITY	NA	2.70	1984	599
PR CHINA	THERMAL IMAGING COMMON MODULE	3	0.30	1985	655
REPUBLIC OF KOREA	T300 TRANSMISSIONS	NA	1.40	N.K.	654
SINGAPORE	LANDROVER 110	900	10.50	N.K.	661

ANNEX B - REPORTED CONTRACTS - LAND SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
SUDAN	BEDFORD 4 TON TRUCKS	60	1.20	1985	631
	TRANSIT MINIBUSES	100	0.85	1984	666
SWITZERLAND	BLOODHOUND BOOSTER ROCKETS	728	10.00	N.K.	193
USA	510 RESPIRATOR	1200	0.20	N.K.	136
	LINK REINFORCEMENT SETS	NA	4.66	N.K.	570
	RAPIER	NA	13.43	N.K.	647
ZIMBABWE	LAND ROVER	NA	1.20	1984	590
	TRUCKS	NA	0.30	1984	591
	VEHICLE HF COMMS	NA	5.00	1985	589
	VEHICLE HF COMMS	NA	12.70	1985	592

TOTAL FOR LAND SYSTEMS £m 135.08

END

ANNEX B - REPORTED CONTRACTS - SEA SYSTEMS

COUNTRY	PRODUCT	QUANTITY	VALUE £M	DELIVERY DATE	REF NO.
BRAZIL	REFURBISHMENT OF SEACAT FUZES	NA	0.11	N.K.	605
CANADA	PERTEL PERISCOPE CAMERA	6	0.25	N.K.	667
CHILE	SONAR EQUIPMENT	NA	0.30	1984	612
INDONESIA	TRIBAL CLASS (TYPE 81) FRIGATE	3	32.00	N.K.	350
JAPAN	SM-1A ROLLS-ROYCE SPEY ENGINES	4	5.00	N.K.	558
NETHERLANDS	SM-1A ROLLS-ROYCE SPEY ENGINES	16	28.00	N.K.	32
NEW ZEALAND	ELSA LIFE SUPPORT APPARATUS	1500	0.17	N.K.	575
NIGERIA	GENERATING SETS	2	0.40	N.K.	587
OMAN	ELECTRICAL TRAINING	NA	0.10	N.K.	609
PAKISTAN	ACTION SPEED TACTICAL TRAINER	1	4.00	N.K.	367
PR CHINA	COMMAND TACTICAL CONSOLE	2	0.20	1984	656
QATAR	ELECTRICAL TRAINING	NA	0.20	N.K.	613
USA	LASER RANGEFINDER FOR SEAFIRE	NA	2.05	N.K.	622
	MAST MOUNTED SIGHT	NA	1.36	N.K.	623

TOTAL FOR SEA SYSTEMS £m 74.14

END

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>BELGIUM</u>	REMARKS: Technical evaluations of Land Rover, Mercedes & Bombardier completed. Decision is deferred until mid 1984.
PRODUCT: LAND ROVER	
FIRM : LAND ROVER LTD	
VALUE :£m 30.00	MINISTERIAL: US of S(DP) wrote to Belgian Minister of Defence on 17 November 1983 support- INVOLVEMENT: ing the Land Rover proposals.
REF NO CON.DATE 15 1984	COMPETITION: FRG (Mercedes), Canada (Bombardier).
COUNTRY: <u>BELGIUM</u>	REMARKS: Request for tender expected 1984/85. Final decision is expected 1985/6.
PRODUCT: LYNX III	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 80.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 31 1985	COMPETITION: USA, France, FRG, Italy.
COUNTRY: <u>DENMARK</u>	REMARKS: The Danes have 8 Naval Lynx in service and are considering a follow-on order of 4 for Baltic surveillance. Money has been ear-marked in the budget for 1985/6 for this purchase.
PRODUCT: LYNX (NAVAL)	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 15.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 456 1985	COMPETITION:
COUNTRY: <u>FR GERMANY</u>	REMARKS: FRG has recently specified HARM to meet its naval requirement. The Luftwaffe is also committed to HARM. UK MOD presentation given to FRG in March 1984.
PRODUCT: ALARM	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 100.00	MINISTERIAL: On 21/9/83 M of S(DP) wrote to Herr Dr M. Woerner, Federal Minister of Defence; INVOLVEMENT: to persuade the FRG to revise their decision on HARM/ALARM. In his reply of 28/11/83 Dr Woerner reaffirmed the FRG selection of HARM.
REF NO CON.DATE 459 N.K.	COMPETITION: USA (HARM)

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: <u>FR GERMANY</u>	REMARKS: To be used in conjunction with Seaspray radar.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 25.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France
35 1984	
COUNTRY: <u>FR GERMANY</u>	REMARKS: To be fitted to Sea King SAR helicopters, combined with Sea Skua missiles, to convert aircraft to dual role. The Seaspray will operate in a new 360 degree role.
PRODUCT: SEA SPRAY	
FIRM : FERRANTI RADAR SYSTEMS	
VALUE :£m 25.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: MEL (UK).
573 1984	
COUNTRY: <u>GREECE</u>	REMARKS: The Greeks are believed to be in the final stages of the decision making process for their new fighter aircraft. The decision is currently expected during June 1984, but could slip, again. They are concerned about the implications of the requirement programme and attach considerable importance to the financial and offset packages being offered. The Greek PM has confirmed that on political grounds Greeks should opt for split purchase.
PRODUCT: TORNADO IDS	
FIRM : PANAUIA	
VALUE :£m 500.00	MINISTERIAL: S of S accompanied by Min(DP) visited Athens in September to press the case INVOLVEMENT: for Tornado, and to provide details of a revised financial package. A further message from PM to Mr Papandreou was delivered during S of S's visit.
REF NO CON.DATE	COMPETITION: USA, France
16 1984	
COUNTRY: <u>NETHERLANDS</u>	REMARKS: Linkage possible to further RN purchase of CIWS.
PRODUCT: SEAWOLF VL	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 24.00	MINISTERIAL: Min of S (DP) closely involved. INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA(Sea Sparrow)
191 1984	

ANNEX C - PRIORITY ONE PROSPECTS - EUROPE

COUNTRY: SWEDEN REMARKS: Requirement to replace fleet over next decade, WHL quoted, in September 1983, for 20 anti-tank and 10 SAR helicopters.

PRODUCT: HELICOPTERS

FIRM : WESTLAND HELICOPTERS

VALUE :£m 120.00 MINISTERIAL:
 INVOLVEMENT:

REF NO CON.DATE
 33 1986 COMPETITION: FRC, France, Italy, USA.

COUNTRY: SWITZERLAND REMARKS: To replace Vampire III in trainer role.

PRODUCT: HAWK

FIRM : BRITISH AEROSPACE AG

VALUE :£m NK MINISTERIAL:
 INVOLVEMENT:

REF NO CON.DATE
 574 N.K. COMPETITION: Italy (MB-339)

END

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>BAHRAIN</u>	REMARKS: Highly successful in-country demonstration given April 83. Buy dependent on GCC funding. Saudis are now understood to have withdrawn offer of 6 F-5s to BDF to be operated from facilities being constructed at Bahrain International Airport. Bahrain now expressing firm interest in purchase of Hawk.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 25.00	MINISTERIAL: Prime Minister and Minister (DP) met HH The Amir of Bahrain 10-13 April 1984.
	INVOLVEMENT: Minister (DP) visited Bahrain 7 May 1984.
REF NO CON.DATE	COMPETITION: France (Alpha-jet), USA.
41 1984	
COUNTRY: <u>BAHRAIN</u>	REMARKS: MOD UK report submitted September 1983. UK firms proposals submitted shortly thereafter for low level radars, supplemented by airborne radars fitted to Skyvan or Islander aircraft. Proposals well received by BDF and they speak favourably of the Marconi S511 radar. Decision promised mid-1984. DMAO reports US currently advising on radar. COS reported as saying that radar acquisition under consideration in GCC committee.
PRODUCT: LOW LEVEL RADAR	
FIRM : NOT KNOWN	
VALUE :£m 25.00	MINISTERIAL: Prime Minister and Minister(DP) met HH the Amir of Bahrain 10-13 April, 1984.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
373 1984	
COUNTRY: <u>BAHRAIN</u>	REMARKS: BAe have excellent prospect to fit Sea Skua to BDF AB212s. BAe have invited C.O.S. to visit No 815 Squadron in July.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 25.00	MINISTERIAL: Prime Minister and Minister (DP) met HH The Amir of Bahrain 10-13 April, 1984.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France (AS15TT)
42 1984	
COUNTRY: <u>JORDAN</u>	REMARKS: Souter had been short listed (with Korea and Greece), but list has been challenged by ACOS procurement who want to include Fairey and Lurssen. Decision has been deferred pending further analysis. MOD assistance in this may be sought. S.L. Sea Skua being offered but may be too expensive.
PRODUCT: FAST PATROL CRAFT	
FIRM : NOT KNOWN	
VALUE :£m 14.00	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG, Greece, ROK.
45 1984	

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>JORDAN</u>	REMARKS: Following the refusal by the USA to supply Stinger missiles the Jordanians are looking for alternatives. Short Bros. are confident they are in the running and are preparing proposals based on initial supply of Blowpipe followed by Javelin. The possibilities of ECGD cover and commodity counter-trading are being investigated.
PRODUCT: MAN PORTABLE SAM'S	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 71.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 579 1984	COMPETITION: USSR, France.
COUNTRY: <u>KUWAIT</u>	REMARKS: Requirement is replacement of ageing Ferrets, Saladins, and Saracens. Alvis, GKN, and ROF Leeds have submitted proposals in response to tender. Marked preference for wheels though GKN currently in strong position. Kuwait armour and infantry committees visiting April and at their request will see 90mm Cockerill Gun on MCV-80 in Belgium. There is also major requirement for APCs for infantry and IS duties.
PRODUCT: LIGHT TANKS/RECCE	
FIRM : VARIOUS	
VALUE :£m 300.00	MINISTERIAL: S of S discussed with Shaikh Salim, Minister of Defence, in July 1983, and INVOLVEMENT: visited Kuwait in February 1984.
REF NO CON.DATE 206 1985	COMPETITION: France(AMX-10),Brazil(Engesa),Austria(SK105),Canada(Piranha)
COUNTRY: <u>KUWAIT</u>	REMARKS: Kuwaitis highly impressed with Challenger at Abu Dhabi trials. There is a strong possibility of purchase of 74 tanks, though there are rumours that as many as 180 might be purchased. Kuwait Armour Committee will be seeing Challenger under exercise conditions in BAGR and at Bovington in April. Though majority of Committee favour Challenger, influential minority yet to be convinced and political and financial considerations likely to influence.
PRODUCT: MAIN BATTLE TANKS	
FIRM : NOT KNOWN	
VALUE :£m 100.00	MINISTERIAL: S of S discussed with Shaikh Salim, Minister of Defence, in July 1983, and INVOLVEMENT: visited Kuwait in February 1984.
REF NO CON.DATE 205 1987	COMPETITION: USA (M1),USSR(T72), France (AMX-32).
COUNTRY: <u>OMAN</u>	REMARKS: The purchase of 6 Scorpion, 6 Spartan, 13 Sultan and 1 Samson has been agreed. Contract signature imminent.
PRODUCT: ARMoured VEHICLES (TRACKED)	
FIRM : ALVIS	
VALUE :£m 5.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 344 1984	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: OMAN REMARKS: This project has now resurfaced. UK team carried out Study in August 1983 and Report submitted to CDS Oman. An LSP (Royal Signals) will be posted to Oman in mid-84 to assist the Omani Joint Signals Board in the management of this complete project. Marconi invited (29 Feb 84) to begin design study. IAL, FIRM : VARIOUS Telconsult, Scicon, Ewbank Breece and BAe invited to tender for project management consultancy. Major prospect for hardware from UK electronics companies

PRODUCT: COMMUNICATIONS PROJECT

VALUE :£m 270.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE COMPETITION:
208 1984

COUNTRY: OMAN REMARKS: A priority GCC funded prospect. Marconi in dialogue with Oman

PRODUCT: MARTELLO 3D RADAR

FIRM : MARCONI RADAR SYSTEMS

VALUE :£m 20.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE COMPETITION:
50 1985

COUNTRY: OMAN REMARKS: Oman has declared a strong preference for Tornado ADV and 4 GR1s visited Oman in February 1984 as part of Exercise Magic Carpet. BAe to give further detailed technical presentations to SOAF during July 1984.

PRODUCT: TORNADO ADV

FIRM : PANAUIA

VALUE :£m 200.00 MINISTERIAL: S of S discussed with Sayid Fahr in June 1983. MDS(DP) discussed briefly with INVOLVEMENT: Sayid Fahr at RNEE in September 1983.

REF NO CON.DATE COMPETITION:
49 1986

COUNTRY: QATAR REMARKS: Requirement appears to be for 3 35m vessels, though only 1 would be purchased initially. Larger Hunt class also possibility. Likely that Qatar will wish to train 2 officers in UK before deciding on type of vessel to be purchased. DNFCT passed training proposals to RNLSP last year and are to issue revamped invitation soon. French have also offered training and visit Qatar frequently, including visit of MCMV in December 1983. Manpower shortage problem

PRODUCT: MINEWARFARE SHIPS

FIRM : VOSPER THORNEYCROFT

VALUE :£m 50.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE COMPETITION: France (CNM)
51 1985

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: SAUDI ARABIA REMARKS: Shorrock Security are still in a position to win a contract for the provision of security systems for RSAF airfields and other facilities. The RSAF have gone out to tender again but have been forced to cancel this action and re-start the process to comply with new government regulations on open tendering. Previously this only applied to civilian projects. Chubb and Protec have also entered in the latest bidding.

PRODUCT: AIR BASE SECURITY SYSTEM

FIRM : VARIOUS

VALUE :£m 90.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
210 1984 COMPETITION: USA.

COUNTRY: SAUDI ARABIA REMARKS: Contract negotiations at final stage. IMS Project No 96/22/091.

PRODUCT: ARTILLERY SURVEILLANCE EQPT.

FIRM : IMS

VALUE :£m 33.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
62 1984 COMPETITION:

COUNTRY: SAUDI ARABIA REMARKS: Draft contract issued but negotiations delayed owing to moratorium. IMS Project No 96/22/095.

PRODUCT: ENGINEERING PACKAGE

FIRM : IMS

VALUE :£m 38.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
53 1984 COMPETITION:

COUNTRY: SAUDI ARABIA REMARKS: Support package. Draft contract being considered. IMS hopeful of contract negotiations commencing mid 1984. IMS Project No 96/22/090.

PRODUCT: ENGINEERING PACKAGE

FIRM : IMS

VALUE :£m 6.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
58 1984 COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: SAUDI ARABIA	REMARKS: Costed proposals presented by Shorts to SANG in October 1983 with HMG letter of comfort. Presentation offered.
PRODUCT: JAVELIN	
FIRM : SHORT BROS MISSILE DIVISION	
VALUE :£m 17.00	MINISTERIAL: Mentioned by S of S in his letter of March 1984 to Prince Abdullah.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Sweden.
345 1984	
COUNTRY: SAUDI ARABIA	REMARKS: VSEL await invitation to present technical proposals.
PRODUCT: PIRANHA SUBMERSIBLE	
FIRM : VICKERS SEL	
VALUE :£m 100.00	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG, Italy
203 1984	
COUNTRY: SAUDI ARABIA	REMARKS: There would appear to be some prospect for Tornado IDS as a potential replacement for the Lightning aircraft when this is phased out of Saudi Air Force service in 1987. Information is being supplied to interested commercial agencies in Saudi Arabia.
PRODUCT: TORNADO IDS	
FIRM : PANAVIA	
VALUE :£m 450.00	MINISTERIAL: S of S wrote to Saudi Minister of Defence and Aviation.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA.
64 1987	
COUNTRY: UAE	REMARKS: Plessey proposals well regarded and linked to AR3D (see Ref No68). DSO ADAT Study will be offered. UAE have formed committee for further evaluation.
PRODUCT: AIR DEFENCE OF CENTER	
FIRM : PLESSEY RADAR	
VALUE :£m 50.00	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
70 1984	

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: UAE REMARKS: Plessey proposals well regarded and linked to ADOC (Ref No70). IMS have rekindled UAE interest in an ADAT study. Proposals were delivered personally by CDS in May. A response is awaited.

PRODUCT: AR 3D RADAR

FIRM : PLESSEY RADAR

VALUE :£m 50.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
68 1984 COMPETITION: France (Thomson CSF), USA (Hughes).

COUNTRY: UAE REMARKS: Successful trials held July/August 83. Intensive marketing follow up. UAE follow-up questionnaires have been completed and forwarded to GHQ via DA. We should keep open offer of UAE Armour Committee visit to UK. The French are reported to have made an attractive offer for the sale of AMX-40 linked to an updating or even resale programme of the current AMX-30 squadrons.

PRODUCT: CHALLENGER MBT

FIRM : ROYAL ORDNANCE FACTORIES

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
69 1985 COMPETITION: FRG, USA, France.

COUNTRY: UAE REMARKS: Following completion of requirement definition early commencement of negotiations is expected. This project is much depleted from its original value of £100m. A substantial element of the package has been lost to PRB (Belgium) and there are signs that UAE is once again reviewing the UK package, and now that IJOC Project is underway some movement can be expected.

PRODUCT: ENGINEERING PACKAGE

FIRM : IMS

VALUE :£m 10.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
66 1985 COMPETITION:

COUNTRY: UAE REMARKS: Company proposals under consideration, supported by MOD training offer. UAE do not intend to implement EW until full implementation of the IJOC Project later this year. Budgetary restrictions will also apply.

PRODUCT: EW SYSTEM

FIRM : NOT KNOWN

VALUE :£m 100.00 MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
73 1984 COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - MIDDLE EAST

COUNTRY: <u>UAE</u>	REMARKS: Although contract signed for 16 Hawk trainers, EGA was a budget casualty. Rec-ent interest in Harrier (qv) may hold off US marketing of A-10 and Keep door open for Hawk.
PRODUCT: HAWK EGA	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 84.00	MINISTERIAL: Mr Pym raised further aircraft sales during his visit in April 1983.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France, USA.
67 1985	
COUNTRY: <u>UAE</u>	REMARKS: IJOC contract success gives IMS ideal opportunity to advance negotiations with UAE on JOC. IMS and Marconi gave enhanced IJOC (IJOCE) presentation in January 1984 and have asked to submit proposals. The JOC proposal is to be simplified and the timescale shortened. MOD will be offering an ADAT study which will interface with IJOC project.
PRODUCT: JOINT OPERATIONS CENTRE	
FIRM : IMS	
VALUE :£m 50.00	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA, France.
71 1984	
COUNTRY: <u>UAE</u>	REMARKS: Ferranti are waiting to be called forward for contract discussions. UAE have reconfirmed the requirement but the site is undecided, budgetary considerations will apply and the NOC will have to interface with the JOC.
PRODUCT: NAVAL OPERATIONS CENTRE	
FIRM : FERRANTI RADAR SYSTEMS	
VALUE :£m 50.00	MINISTERIAL: Minister (DP) - RNEE
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
72 1984	

END

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: AUSTRALIA REMARKS: Australia requires new submarines to replace its existing Oberons. It is planned that some of the submarines will be built in Australia. VSEL are promoting T2400 and T2400 variant which more closely matches Australia's requirement. Plessey and Ferranti have submitted proposals for the combat system. RFT proposals currently under consideration by DOD. Project definition contracts are to be let in October 84 and contracts placed in 1985/6.

PRODUCT: TYPE 2400 SUBMARINE

FIRM : VICKERS SEL

VALUE :£m 200.00 MINISTERIAL: Minister (DP)

REF NO CON.DATE INVOLVEMENT:

4 1986 COMPETITION: France, Holland, Germany, Italy, Sweden.

COUNTRY: AUSTRALIA REMARKS: The Royal Australian Navy has picked two helicopter types, the Sikorsky Ocean Hawk and the Westland Lynx III, as final contenders for an aircraft to be based on its guided missile frigates. Supplementary tender information was submitted in February and decision is expected in August 84. This may be the forerunner to a much larger order for all three services.

PRODUCT: LYNX III

FIRM : WESTLAND HELICOPTERS

VALUE :£m 50.00 MINISTERIAL: Minister (DP)

REF NO CON.DATE INVOLVEMENT:

178 1984 COMPETITION: USA (Ocean Hawk).

COUNTRY: INDIA REMARKS: Heads of agreement signed. Contract signature expected end of June 1984.

PRODUCT: COMBAT ENGINEER TRACTOR

FIRM : ROF

VALUE :£m 50.00 MINISTERIAL: Minister (DP) discussed during visit to India.

REF NO CON.DATE INVOLVEMENT:

9 1984 COMPETITION: N/C

COUNTRY: INDIA REMARKS: Negotiations began in mid-May 1984. Indian MOD hopes contracts can be signed by end of September.

PRODUCT: FH70

FIRM : VICKERS SEL

VALUE :£m 600.00 MINISTERIAL: Min (DP) discussed during visit to India.

REF NO CON.DATE INVOLVEMENT:

8 1984 COMPETITION: France, Austria, Sweden.

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>INDIA</u>	REMARKS: The contract was due for signature on 31 March 1984 but the IN have now requested an extension to June 1984. Further extension expected.
PRODUCT: SEA HARRIER	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 110.00	MINISTERIAL: Min (DP) dicussed during visit to India.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
7 1984	
COUNTRY: <u>INDIA</u>	REMARKS: Ferranti have also submitted proposals. Funding will be from scientific budget rather than Air Force budget, the scientific fraternity will have more of a free hand for selecting a system that will help with their own development. DSO ADAT team is preparing to give a presentation to Indians if required.
PRODUCT: AEW EQUIPMENT	
FIRM : MARCONI SDS	
VALUE :£m 300.00	MINISTERIAL: Was discussed during Min (DP)'s visit to India in May.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
471 1984	
COUNTRY: <u>INDIA</u>	REMARKS: The Indian Army have a requirement to update their Vijayanta tanks and are considering various UK equipments to meet this requirement. They also have a requirement for an indigenously manufactured MBT and are looking to Europe for co-operation in this field. Barr & Stroud demonstrated thermal imagers. Marconi Radar negotiated contract for 70 Simplified FCS and RR has supplied 2 CV12 engines for trials - so far beset with problems.
PRODUCT: VIJAYANTA REFIT	
FIRM : VARIOUS	
VALUE :£m 200.00	MINISTERIAL: Discussed by Minister (DP) in India.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG
473 1984	
COUNTRY: <u>INDONESIA</u>	REMARKS: Follow-on option has lapsed, but BAe still hopeful of further sales. Requirement possibly for as many as 200 aircraft.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m NK	MINISTERIAL:
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
182 N.K.	

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>INDONESIA</u>	REMARKS: Package will proceed piecemeal, initial contract still not signed.
PRODUCT: MEDICAL EQUIPMENT PACKAGE	
FIRM : NOT KNOWN	
VALUE :£m 8.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
374 1984	
COUNTRY: <u>INDONESIA</u>	REMARKS: In view of the recent Frigate purchase current position difficult to ascertain. VT working on two in the medium term with two more later.
PRODUCT: MINEWARFARE SHIPS	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m NK	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG, Holland, Italy.
349 1984	
COUNTRY: <u>INDONESIA</u>	REMARKS: Strong indication that IAF will select Rapier as preferred choice to meet priority requirement for short range AD. BAe have submitted credit backed offer for initial order of one battery of optical/tracked Rapier, plus in country support.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 50.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
348 1984	
COUNTRY: <u>JAPAN</u>	REMARKS: JMSDF have evaluated Searchwater and Thorn/EMI have recently appointed an agent to help the promotion. The recent US decision not to purchase Searchwater will damage its chances in Japan.
PRODUCT: SEARCHWATER RADAR	
FIRM : THORN EMI ELECTRONIC	
VALUE :£m 75.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION:
12 1984	

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: <u>JAPAN</u>	REMARKS: Sea Harrier is being promoted for sea lane defence and JMSDF are likely to make a bid to allocate preliminary funding for up to 24 aircraft in the 84 MTOP. Harrier II (on which McDonnell Douglas would lead in marketing), is one of the contenders for the JASDF FSX requirement for a ground support fighter.
PRODUCT: SEA HARRIER	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 150.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Japan (F-1, F-4), USA (F-16, F-15E)
450 1987	
COUNTRY: <u>MALAYSIA</u>	REMARKS: Contract unlikely to be signed before late 1984 at the earliest to implement a 3-4 year programme. Consideration being given to possible forms of additional training and assistance to support EASAMS during contract negotiations.
PRODUCT: DEFENCE OPERATIONS ROOM	
FIRM : EASAMS	
VALUE :£m 50.00	MINISTERIAL: Letter from S of S (10.2.83) INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA
25 1984	
COUNTRY: <u>MALAYSIA</u>	REMARKS: IMS submitting proposals for construction and equipping of an A vehicle workshop as stage 1 of overall project. Package includes offer of joint venture with Malaysians on construction. Project priority linked to inadequate existing support for recent Scorpion buy.
PRODUCT: GEMAS RANGE PROJECT	
FIRM : IMS	
VALUE :£m 17.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: Australia.
352 1984	
COUNTRY: <u>MALAYSIA</u>	REMARKS: IMS are proposing a G-to-G feasibility study conditional upon IMS being given management consultancy for the main project, completion target for which is 4-5 years.
PRODUCT: PETROLEUM EMERGENCY PROJECT	
FIRM : IMS	
VALUE :£m 60.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: FRG, USA, Sweden.
351 1984	

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: PAKISTAN REMARKS: Vosper's proposals for 2 broadbeam frigates submitted August 1982. Present requirement is for 2 foreign build and 1 local build vessels. Contract negotiations commenced May 84. Draft MOU now being prepared to cover RN support for engineering services, training and logistics.

PRODUCT: TYPE 21 FRIGATE

FIRM : VOSPER THORNEYCROFT

VALUE :£m 300.00 MINISTERIAL: PM's letter to Zia August 1982. In March 84 agreement to ECGD cover up to 50% INVOLEMENT: of increased contract value. Further support from PM in letter to Zia May 84.

REF NO	CON.DATE
2	1984

COMPETITION: France, Italy, FRG, Belgium.

COUNTRY: REPUBLIC OF KOREA REMARKS: BAe have been asked to submit a draft contract for Sea Skua in association with the naval helicopter requirement. A decision has been deferred to mid 1984 for financial reasons, for contract in early 1985. Sea Skua has been offered to South Korea on the Westland Lynx, Kaman Sea Sprite and Agusta 219 helicopters and may be offered on the Sikorsky S76, all competing for the ROK Navy contract.

PRODUCT: SEA SKUA

FIRM : BRITISH AEROSPACE DG

VALUE :£m 8.00 MINISTERIAL: INVOLVEMENT:

REF NO	CON.DATE
14	1985

COMPETITION: France, (AS15TT in a package with the Dauphin helicopter).

COUNTRY: REPUBLIC OF KOREA REMARKS: Decision expected late this year. Contract would be for two systems initially but with significant longer term prospects involving licenced manufacture. HDS has written in support.

PRODUCT: KAPS SUBMARINE FCS

FIRM : FERRANTI ELECTRO-OPTICS

VALUE :£m 5.00 MINISTERIAL: INVOLVEMENT:

REF NO	CON.DATE
597	1984

COMPETITION: FRG.

COUNTRY: REPUBLIC OF KOREA REMARKS: ROK MND have initialised draft contracts for 10-12 Naval Lynx; a decision will be made to select the chosen helicopter later this year. The selected firm will then be invited to provide a helicopter for a 6 month trial in Korea in January 1986. If the trial is satisfactory a contract will be signed.

PRODUCT: LYNX (NAVAL)

FIRM : WESTLAND HELICOPTERS

VALUE :£m 55.00 MINISTERIAL: INVOLVEMENT:

REF NO	CON.DATE
26	1985

COMPETITION: France(Dauphin), Italy (Agusta 219), USA(S76, Seasprite).

ANNEX C - PRIORITY ONE PROSPECTS - ASIA & FAR EAST

COUNTRY: REPUBLIC OF KOREA REMARKS: MUSL have submitted proposals to ROK MND for the supply of Tigerfish torpedoes for Korean submarine programme. Decision expected shortly.

PRODUCT: MK24 TORPEDO

FIRM : MARCONI SDS

VALUE :£m 30.00

MINISTERIAL: Minister (DP) has written in support.
INVOLVEMENT:

REF NO CON.DATE
598 1984

COMPETITION: FRG (AEG Telefunken), USA (Honeywell)

COUNTRY: THAILAND REMARKS: Vickers in discussions with FFG of FRG. In-country trial carried out in Spring 1984. Decision related to decision on MBT (see Ref No 354).

PRODUCT: M41 RETROFIT

FIRM : VICKERS SEL

VALUE :£m 65.00

MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
355 1984

COMPETITION: USA.

COUNTRY: THAILAND REMARKS: Contract anticipated early 1984, for initial quantity 12-20, with in country support.

PRODUCT: STINGRAY TORPEDOES

FIRM : MARCONI SDS

VALUE :£m 5.00

MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
356 1984

COMPETITION: USA, Italy.

COUNTRY: THAILAND REMARKS: Vickers have tabled proposals for MK 3 to meet RTA requirements for 100 medium tanks for main defence. Spring trials went well. Vickers still optimistic.

PRODUCT: VICKERS MBT

FIRM : VICKERS SEL

VALUE :£m 250.00

MINISTERIAL:
INVOLVEMENT:

REF NO CON.DATE
354 1984

COMPETITION: USA (M-60)

END

ANNEX C - PRIORITY ONE PROSPECTS - AFRICA

COUNTRY: <u>ALGERIA</u>	REMARKS: Industrial consortium (Marconi, Plessey Radar, and Racal-Decca) have submitted costed proposals through HMG for Algerian authorities covering a phased scheme. At Algerian request the consortium is preparing detailed technical and cost proposals against two alternative Preliminary Phase Requirements. Total project could be in excess of £500m.
PRODUCT: AIR DEFENCE SCHEME (ACCORD)	
FIRM : MARCONI PROJECTS	
VALUE :£m 300.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France.
21 1985	
COUNTRY: <u>ALGERIA</u>	REMARKS: Designated under MOU, final contract terms and credit arrangements remain to be negotiated.
PRODUCT: GENDARMERIE BARRACKS	
FIRM : BAXTER FELL	
VALUE :£m 132.00	MINISTERIAL: Minister (DP) wrote to DTI and Treasury to improve credit terms in March.
REF NO CON.DATE	INVOLVEMENT:
582 1984	COMPETITION:
COUNTRY: <u>ALGERIA</u>	REMARKS: Designated under MOU, credit will be required as will the provision of some provision of some training places from scarce resources.
PRODUCT: GR 083 RADIO RELAY	
FIRM : MARCONI COMMUNICATION SYSTEMS	
VALUE :£m 40.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France.
581 1984	
COUNTRY: <u>ALGERIA</u>	REMARKS: Joint (Anglo-American) study team being established to consider co-operation in industrial aspects of Hawk assembly, establishment of aircraft and engine overhaul/repair facility and training.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m 200.00	MINISTERIAL: Algerian CAS called on PM and Minister (DP) during successful visit to UK in
REF NO CON.DATE	INVOLVEMENT: March 84.
22 1985	COMPETITION: France/FRG (Alpha-Jet).

ANNEX C - PRIORITY ONE PROSPECTS - AFRICA

COUNTRY: <u>ALGERIA</u>	REMARKS: Proposals under consideration. Detailed negotiations are now under way for both Piranha and 550 Class submarines. Credit likely to be required.
PRODUCT: SUBMARINES	
FIRM : VICKERS SEL	
VALUE :£m 320.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE	COMPETITION: France, FRG, Netherlands.
174 1985	
COUNTRY: <u>KENYA</u>	REMARKS: Vosper have submitted proposals to the Kenyan Navy for two 56m fast patrol craft. ECGD backed credit is included in the offer. Despite strong competition from France, Italy and Israel, Vosper have now received a letter of intent from the Kenyan government and final contractual negotiation is under-way.
PRODUCT: FAST PATROL CRAFT	
FIRM : VOSPER THORNEYCROFT	
VALUE :£m 75.00	MINISTERIAL: After consideration by Minister (DP) and Ministers of Trade and Treasury, the INVOLVEMENT: ECGD credit terms were approved by the Prime Minister.
REF NO CON.DATE	COMPETITION: France, Israel, Italy.
580 1984	

END

ANNEX C - PRIORITY ONE PROSPECTS - NORTH AMERICA

COUNTRY: <u>USA</u>	REMARKS: US Army is undecided about proceeding with procurement of 81mm mortar, and is thought to favour retention of existing 4.2in. mortar. MoD continues to press the case in favour of the 81mm mortar.
PRODUCT: 81mm MORTAR (UK)	
FIRM : ROYAL ORDNANCE FACTORIES	
VALUE :£m 350.00	MINISTERIAL: Minister (DP), Secretary of State.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA.
74 1985	
COUNTRY: <u>USA</u>	REMARKS: RFP's issued for 632 boats; 50% to open competition, 50% reserved as small business set-aside. Closing date for response 24 April 1984. A decision is expected by end of August 1984.
PRODUCT: 8m COMBAT SUPPORT BOAT (UK)	
FIRM : FAIREY ALLDAY MARINE	
VALUE :£m 29.50	MINISTERIAL: Minister (DP)
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA
75 1984	
COUNTRY: <u>USA</u>	REMARKS: To achieve an initial operating capability (IOC) of 1990/91, \$68m R and D funding has been included in the draft FY85 budget. MOD continues to seek assurances of full commitment to the Hawk VTX programme.
PRODUCT: HAWK	
FIRM : BRITISH AEROSPACE AG	
VALUE :£m NK	MINISTERIAL: Minister (DP), Secretary of State.
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA.
77 1984	
COUNTRY: <u>USA</u>	REMARKS: Plessey have formed a consortium with Rockwell, Collins and ITT to respond to an RFT to be issued in June 1984.
PRODUCT: MOBILE SUBSCRIBER EQUIPMENT	
FIRM : PLESSEY DEFENCE SYSTEMS	
VALUE :£m NK	MINISTERIAL: Minister (DP)
	INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA, France.
578 1984	

ANNEX C - PRIORITY ONE PROSPECTS - NORTH AMERICA

COUNTRY: USA REMARKS: The US is close to a decision on commitment of the \$50m appropriated for FY83.
Rapier is a candidate with Turkey being the favoured location for up to 12
PRODUCT: RAPIER fire units.

FIRM : BRITISH AEROSPACE DG

VALUE :£m 35.00 MINISTERIAL: Minister (DP)
INVOLVEMENT:

REF NO CON.DATE COMPETITION:
227 N.K.

END

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: <u>BRAZIL</u>	REMARKS: Contract signed for the shore support equipment, but the Germans will only offer officially insured credit for their own part of the contract. Ferranti has sought support from ECGD but this has been refused as Brazil is off long term credit cover. Ferranti are now considering the alternatives including bearing most of the risk themselves.
PRODUCT: KAFS SUBMARINE FCS	
FIRM : FERRANTI INSTRUMENTATION	
VALUE :£m 8.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 37 1983	COMPETITION:
COUNTRY: <u>BRAZIL</u>	REMARKS: BAe(DG) have initialled a contract with the Brazilian Navy for the purchase of the system but this is conditional on the availability of ECGD credit cover. Efforts to secure this have been made by both DSD and Min DP, but these have been unsuccessful. BAe(DG) is now submitting proposals for a commercial finance package without ECGD support. Contract is for 4 helicopter fits and 16 missiles.
PRODUCT: SEA SKUA	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 11.60	MINISTERIAL: M of S (DP) INVOLVEMENT:
REF NO CON.DATE 36 1984	COMPETITION:
COUNTRY: <u>CHILE</u>	REMARKS: Westlands hope to conclude a contract for the sale of 6-8 Lynx helicopters with the Chilean Navy in the near future. There is a possibility that 4 of the helicopters will be fitted for, but not necessarily with, Sea Skua. RN training subsidised by MOD/Westlands will be offered if the sale goes ahead.
PRODUCT: LYNX	
FIRM : WESTLAND HELICOPTERS	
VALUE :£m 50.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 17 1984	COMPETITION:
COUNTRY: <u>CHILE</u>	REMARKS: BAe have submitted proposals for 24 launching pallets plus missiles. Negotiations are continuing and BAe are hopeful of securing a contract in the near future. The recent change in finance minister is expected to lead to some delay.
PRODUCT: SWINGFIRE	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 10.00	MINISTERIAL: INVOLVEMENT:
REF NO CON.DATE 604 1984	COMPETITION:

ANNEX C - PRIORITY ONE PROSPECTS - LATIN AMERICA

COUNTRY: <u>Ecuador</u>	REMARKS: BAe(DG) have Ecuadorian Letter of Intent for purchase of Rapier. But Ecuador is off ECGD cover and contract signature will depend on the firm's ability to present a suitable finance package. This could involve counter trade.
PRODUCT: RAPIER	
FIRM : BRITISH AEROSPACE DG	
VALUE :£m 30.00	MINISTERIAL: Minister (AF) has cleared the early release of Blindfire, should this be INVOLVEMENT: necessary.
REF NO CON.DATE	COMPETITION: France (Crotale).
105 1984	

END

ANNEX C - PRIORITY ONE PROSPECTS -

COUNTRY: USA	REMARKS: US Navy has ruled that there should be competition for the communications system for the LHD1 requirement. Marconi teamed with the US company, Litton Data Systems, have submitted their bid. Contract award is imminent.
PRODUCT: INTEGRATED COMMS ICS3	
FIRM : MARCONI COMMUNICATION SYSTEMS	
VALUE :£m 10.00	MINISTERIAL: Minister (DP) INVOLVEMENT:
REF NO CON.DATE	COMPETITION: USA
76 1984	

END

END OF RUN

CONFIDENTIAL UK EYES B - COMMERCIAL-IN-CONFIDENCE

MO 26/9/15/1



W. J. H. C. P. C.
Await FCS reply.

FOREIGN AND COMMONWEALTH SECRETARY

LIBYA - CURRENT DEFENCE SALES BUSINESS

In Cabinet on 3rd May it was agreed that a review should be undertaken of current defence sales business with Libya, with the aim of terminating any contracts which might be of potential benefit to terrorist activity but allowing other business to continue.

2. This review, carried out by our officials in consultation with the FCO and DTI, is now complete. A detailed schedule of eleven defence contracts which are either in progress or under negotiation with Libya is enclosed, with an assessment of the potential benefit to terrorism, the scope for bringing pressure to bear on Libya and the commercial implications of cancellation in each case. The schedule also includes agreed recommendations by our officials.

3. None of the contracts already signed are of potential benefit to terrorism. The only one which might provide a means of exerting pressure on Libya is Marconi's contract to supply Martello surveillance radars for air defence. But these are being supplied to Libya through Yugoslavia and cancellation would do more to upset our political and trading relations with the Yugoslavs than influence the Libyans. Moreover cancellation would allow firms in either France or Italy, who were strong competitors for this contract, to replace Marconi.

4. Against the criteria agreed in Cabinet, there is one item which should clearly not be sent to Libya. This is Item 11, the indoor shooting range, which could be of potential benefit to terrorist training. However no contract has been signed nor has an export



licence been issued. There are therefore no commercial or political implications in withholding a licence for this item.

5. Our officials were prepared to agree that Item 7, Ferranti's equipment for shell muzzle velocity calculations, should be stopped on the grounds that, although an export licence has been issued, no contract has been signed and this could therefore be regarded as new business which might be politically sensitive. I understand that negotiations have been dormant for some time and that a contract now looks unlikely, but I feel that there is little to be gained and much to be lost, in a situation where British subjects are at risk of arbitrary arrest, in withdrawing the export licence at this stage.

6. Our officials were unable to agree on Item 10, Vehicle Radios, where, although Plessey have signed the contract, the Libyans have not yet done so and no export licence has been requested. While it could be argued that this contract represents new business and should therefore be refused, Plessey are concerned that they will be at risk under Libyan law if the Libyans sign and that performance bonds and stage payments on their other business in Libya (civil as well as defence) could also be at risk. Since the equipment is of no benefit to terrorism, I suggest that this contract should be allowed to continue if the Libyans sign, even though no export licence has yet been issued.

7. On the remaining contracts I support the recommendations that they be allowed to continue, with export licences being renewed when necessary for items 2, 5, 6 and 8, unless relations with Libya deteriorate significantly. In this event we would need to review the position again.



8. I would be glad to have your agreement to these proposals and that of my OD colleagues and the Home Secretary, to whom I am copying this minute and enclosures. A copy also goes to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "H. H. H." or similar, written in a cursive style.

Ministry of Defence
6th June 1984

CONFIDENTIAL

SUPPLY OF MARCONI MARTELLO RADARS TO LIBYA VIA YUGOSLAVIA

Summary Contracts for this order worth £87M have been signed and an export licence has been issued. Because of Libyan prevarication Marconi are not yet committed to delivery and ECGD would not be liable if an export licence was revoked. On the other hand our trading relations with Yugoslavia would be badly damaged and the industrial consequences for Marconi would be severe.

Contractual Details

A contract was signed between the Government of Yugoslavia and Libya on 5 June 1983 for the supply of air defence radars and associated communications equipment, this being one element of an agreement made in 1981 between the two countries for the supply of defensive military equipment and services to Libya. In July 1983 Marconi signed a back to back contract with the Yugoslav Federal Directorate of Supply and Procurement (FDSP), the nominal value of which was for £87M comprising £70M radars, £17M communications equipment.

The Marconi/FDSP contract envisages a 15% downpayment, 25% of contract value to be paid after 9 months and the balance on shipment of the equipment. The Yugoslav/Libyan contract was ratified on 17 January 1984, to be effective on 1 February, and the Marconi/FDSP contract was then ratified in turn.

The conditions set out in the contract for it take effect are:-

- a. The Yugoslavs must hold a copy of the UK export licence
- b. The 15% downpayment must be made to Marconi
- c. A letter of credit must be opened by 1st March 1984

Although a UK export licence has been issued, the Libyans are not satisfied with some aspects of the Yugoslav Letter of Guarantee and have not yet made the 15% downpayment or opened the letter of credit. Thus although both the Marconi/Yugoslav and Yugoslav/Libyan

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contracts have been signed there is no commitment to delivery.

ECGD Position

The ECGD has provided Marconi with a letter of intent covering the conditions for credit cover. A final exchange of letters between the company and ECGD has been held up pending Libya's opening of the letter of credit. Thus the ECGD has yet to enter into a commitment and would therefore not be affected by a revocation of the export licence issued to Marconi.

Marconi Position

Because of Libya's failure to meet the contractual conditions Marconi would not be financially at risk if their contract with the FDSP were to be revoked. However, the knock-on effects would be considerable:-

- a. Industrially. The total Marconi employment expected from this contract over the next 4½ years amounts to some 1100. Similar numbers are expected to be engaged in sub-contractual work. Failure to implement this contract would result in the closure of Marconi's factory in either Gateshead or Leicester with some 500 redundancies. Loss of jobs could also be expected amongst sub-contractors.

- b. Future Trade with Yugoslavia (Excluding Marconi Avionics)
Apart from the contract under discussion Marconi has further outstanding enquiries from Yugoslavia for equipments valued at some £400M. These include tropospheric scatter communication equipment and low-looking radars. Some are intended for Yugoslav use and others for onward sale to 3rd countries. Revocation of the contract with the FDSP would put this potential work at risk, particularly since French and Italian companies would undoubtedly exploit the opportunity created by Marconi's enforced withdrawal from the deal with Libya - both Selenia and Thomson - CSF have equipments which could replace the Marconi equipment.

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- c. Future Trade with Libya. Marconi currently have enquiries from Libya amounting to £140M for civil projects and £100M for defence equipment. Although we will not be approving further defence orders all the civil work would be at risk by a revocation of the contract with the Yugoslav FDSP.

Anglo-Yugoslav Defence Relations

The accord between Libya and Yugoslavia is regarded as very important by the latter, not least because of the contribution it would make to the currently ailing Yugoslav economy. If HMG were to be seen to be undermining this agreement - worth some £1000M in total - a bitter reaction from Yugoslavia could be anticipated. The Yugoslavs have already committed significant resources to this project and although there is no legal liability, it is not beyond the bounds of possibility that they would seek some compensation.

Over the past 10 years or so Yugoslavia has been a useful, if not large, market for UK defence equipment (£20M pa) and UK companies are generally well regarded. In addition to the various projects being progressed by Marconi, other British companies have made a significant commitment to Yugoslavia, in particular British Aerospace and Rolls Royce are seeking to collaborate with the Yugoslav Air Force in the design, development and production of the YAF's new fighter aircraft. They face French competition in this potentially lucrative collaboration.

Revocation of Marconi's contract with the Yugoslav FDSP as a means of showing displeasure with Libya would cast doubt in Yugoslav eyes, on the reliability of the UK as a supplier of defence equipment and could effectively close this otherwise useful market.

LIBYA - CURRENT DEFENCE SALES BUSINESS

Date of Licence	Goods and Company	Total Contract Value	Value Outstanding	Benefit to Terrorism	Scope for Pressure	Commercial Implications	Comment and Recommendations
1. July 83	Broadcasting Communication Equipment (Racal Comms)	£9M	£0.75M of spares	None	None	All equipment delivered and paid for except £750K of spares (of which £500K stock items easily sold elsewhere). Racal have performance bond of £300K and advance payment bank guarantee of £2.25M. Both would be at risk and neither is covered by ECGD.	Allow contract to be completed.
2. July 83	'RAMPART' Passive Defence Equipment (Wallop Industries)	£ 3.8M	Option for further £1M of equipment until July 84	None	None	Equipment delivered and paid for. But Wallop have binding contractual agreement allowing Libyans option on further £1M of equipment until July. Option covered by ECGD. Performance bond of £400K and coverage by ECGD will expire in December 84.	Issue further export licences if Libyans take up option before end July.
3. July 83	Ground Mobile '405' Jammers. (Plessey Radar)	£1.7M	None	None	None	Contract completed and paid for but provides for a warranty until August 1985 keeping 2 Plessey engineers in Libya. Performance bond of £760K covered by ECGD expires July 1984.	Allow company to honour their warranty.
4. August 83	'Manpack 320' Radio Equipment (Plessey)	£11M	£3M	Infantry System too bulky for use by terrorists	None	Deliveries of £3M to be completed by July 84. Contract and £1.1M performance bond covered by ECGD. Warranty continues until July 85. Resident engineer in Libya.	Allow contract to be completed and warranty to be honoured.
5. November 83	Spares for Saladin Armoured Cars (Alvis/USH)	£8.1M	£8.1M	None	Possible	Contract signed September 83 and export licence issued but letter of credit delayed and deliveries still to commence. No ECGD liability but performance bond of £800K insured commercially. £8M order is high proportion of Alvis' annual turnover of £50M and urgently needed to fill gap in production line. Possible redundancies if licence revoked.	No direct assistance to terrorism. Severe industrial consequences if licence revoked. Issue further export licences to enable deliveries to be completed.

No.	Date of Licence	Goods and Company	Total Contract Value	Value Outstanding	Benefit to Terrorism	Scope for Pressure	Commercial Implications	Comment and Recommendations
6.	February 84	'Martello' Surveillance Radar and associated equipment (Marconi)	£93M	£93M	None	Strong competition from France and Italy so Libya could turn elsewhere. Cancellation would do more to offend Yugoslavia than apply pressure.	See separate brief enclosed. No ECGD capability yet but cancellation would have severe industrial consequences and damage our relations with Yugoslavia.	Allow contract to continue, renewing licences if required.
7.	September 83	Electronic equipment for shell muzzle velocity calculations (Ferranti)	£9.8M	No Contract Signed	None	Very little	No contract yet signed, there is no financial risk to the company.	Revoke export licence since this equipment would improve offensive capability of Libyan Armed Forces and represents new business, No industrial penalty.
8.	Licence expired March 84 Revalidation sought 9 March 84	Spares for Tank Transporters (Scammell)	£3.5M	£3.1M	None	Possible	Contract signed January 83 and export licence, issued March 83, now expired. Libyan letter of credit delayed until August 83 and deliveries delayed in consequence. Only £350K of spares delivered so far. Company applied for revalidation of export licence but was held up as a result of bombings in UK on 10/11 March. Company have £600K of spares awaiting delivery, performance bond of £350K (not covered by ECGD since no licence at present) and £1M of commitments to suppliers. Serious industrial consequences if licence not renewed.	Renew export licence in view of serious industrial consequences to company and lack of any direct relevance to terrorism.
9.	July 83	'Owl' Radar Display Units (Plessey)	£3.3M	£0.26M	None	None	Contract signed 1981 for 6 stations. 1 completed and paid for. 4 more completed. Total payments of £213K outstanding. Contract completion date November 84. Performance bond of £326K covered by ECGD.	Allow contract to continue, renewing licences if required.
10.	No application yet made	Vehicle Radios (Plessey)	£2.7M	£2.7M	None	None	Contract signed by company and with Libyans for signature. If Libyans sign, company could be liable to penalty payments of 10% under Libyan law. Libyans could also retain performance bonds or final payments on other Plessey business totalling some £3M.	Ministers to consider whether contract should continue if Libyans sign.

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No.	Date of Licence	Goods and Company	Total Contract Value	Value Outstanding	Benefit to Terrorism	Scope for Pressure	Commercial Implications	Comment and Recommendations
11.	No licence yet applied for.	Indoor Shooting Range (Visual Training Systems)	£16.7M	£16.7M	This facility could be of assistance in training terrorists.	None	No contract yet signed and hence no financial liability.	Withhold export licence

Defence Pt 4
Sales



CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422

Telephone (Direct dialling) 01-215)

GTN 215)

(Switchboard) 215 7877

Secretary of State for Trade and Industry

25 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

A.S.C. $\frac{29}{5}$

p-a.

D Nigel.

TORNADOS FOR TURKEY

Thank you for your letter of 11/ May.

2 I certainly agree that in cases of this kind interdepartmental consultation should precede commitments to exporters or their customers. No such commitment was involved in this case. As my minute to the Prime Minister of 1 May made clear, I regard this potential order as sufficiently important industrially to justify continued pressure on the Germans at political level, since it seems virtually certain that the order will not materialise without German military aid.

3 I recognise also, of course, the continuing uncertainty surrounding Turkey's economic prospects, and ECGD's own difficulties. The line to take which I recommended to the Prime Minister made no commitment regarding UK export credit support but I could understand a concern that strong words from the UK might have been taken as implying credit support. But I would also note that, should the German Government experience a change of heart on the question of aid, and the Turkish order became a real possibility, we would then clearly need to consider interdepartmentally our position on export credit support in the light of the circumstances then prevailing.

4 I am sending copies of this letter to the recipients of yours.

NORMAN TEBBIT

JH1AEO

DEFENCE: Sales Prof



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~830 7022~~ 218 2111/3

MO 5/3/3

16th May 1984

Prime Minister.

A. & C. 17/5

Dear Peter,

SALE OF TORNADO TO SAUDI ARABIA

When we talked today about the proposed sale of Tornado to Saudi Arabia I mentioned the need for maintaining the confidentiality of our negotiations with the Saudi Minister of Defence. Although we have reached agreement in principle over the price of the equipment, the deal has not yet been agreed by the Saudi Council of Ministers. The Saudis are still formally in negotiation with the French and, if news of the proposed sale were to leak out, they would be severely embarrassed and the whole deal would be at risk. There is the further point that, once agreement has been given by the Saudi Government, much of the deal, for example the support package, spares and training still remains to be negotiated. Also we have not yet obtained the agreement of the German Government to the proposed sale. A number of hurdles therefore remain to be surmounted and it would be very damaging to our sales prospects and our relations with Saudi Arabia if the informal and preliminary agreement were to leak. I am sure that you are aware of these points but it would be useful if you could draw them to the attention of those concerned in the FCO.

I am copying this letter to John Coles.

Yours ever

Nick Evans

(N H R EVANS)

Peter Ricketts Esq

SUBJECT :
AUSTRALIA
Visit by Foreign Minister
Feb 81.



See 1/3

10 DOWNING STREET

From the Private Secretary

14 May 1984

HELICOPTERS FOR AUSTRALIAN
FRIGATES

Thank you for your letter of
14 May. I am afraid that an
opportunity did not arise for the
Prime Minister to discuss this
question with Mr. Hayden.

Miss Wendy Anderton,
Ministry of Defence.

COMMERCIAL: IN CONFIDENCE

1/3



SUBJECT :
 AUSTRALIA,
 Visit by Foreign
 Minister, Feb 81.

MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~93X X02X~~ 218 2111/3

MO 14/5

14th May 1984

Dear John,

HELICOPTERS FOR RAN FRIGATES: SUPPORT FOR WESTLANDS

The competition for frigates for the Royal Australian Navy (RAN) frigates has been narrowed down to one between the Sikorsky Sea Hawk and Westlands Lynx 3. The RAN, in general, prefer the larger Sea Hawk; but the Lynx 3 has considerable advantages - not least in cost. The final decision is likely to be taken in the next month or two, on political as much as military grounds.

In these circumstances the High Commissioner in Canberra has recommended that Mr Hayden's visit to London provides an excellent opportunity to give the Westlands case timely support. I attach a short brief, in case the Prime Minister has the time and/or opportunity to raise the matter in her talks with Mr Hayden.

yours ever

W Anderton
 (W ANDERTON) (MISS)

A J Coles Esq

HELICOPTERS FOR RAN FFG FRIGATES

POINTS TO MAKE

1. We attach great importance to Westlands securing the RAN contract for helicopters to be based on their guided missile frigates. We believe that the Lynx 3 helicopter will meet the RAN requirement at a cost substantially less than the Sikorsky Sea Hawk. The close military and industrial co-operation created by such a purchase will be of long term benefit to both our countries.

2. During his visit to Australia last year Minister(DP) proposed that there should be more collaboration between our two countries. We endorse that statement and are giving full consideration to the Westlands proposals for Australian collaboration on their helicopter projects.

3. We welcome the proposed visit by Defence Minister Mr Scholes and believe that this will provide a useful forum in which to discuss the various suggestions for defence and industrial co-operation currently under consideration.

ESSENTIAL FACTS

1. The competition for this requirement has been narrowed down to the Westlands Lynx 3 and the Sikorsky Sea Hawk. The Lynx is the cheaper option but the Sea Hawk more fully meets the Australian operational specification.

2. Both companies have recently responded to a supplementary tender requesting additional information and costings for an initial procurement of 8-12 aircraft. (The value is approximately £50 million). This is seen as just the first tranche of a much larger RAN requirement. The project is now going through the final committee stages and a decision is expected in July this year; the successful contractor will be well placed, in terms of continuity of supplies and logistical support, to compete for the later helicopter requirements of the RAAF and Australian Army.

3. At the request of Westlands, MOD has agreed to provide support in the following areas:

- a. Evaluation trials at A & AEE to substantiate the results of the Westlands development programme.
- b. Availability of MOD ranges for weapon trials.
- c. Advanced crew training, including operation off RN ships, after delivery of the aircraft but prior to their departure to Australia.
- d. Oversight of manufacture by MOD Quality Assurance Directorates.

- e. Assistance in the logistic support, under the UKLSA arrangement, of the aircraft in so far as the aircraft retains commonality with helicopters in UK service.
 - f. A & AEE assistance in certification of the aircraft.
4. There has recently been some concern expressed by the RAN on the effectiveness of the Gem 60 engine and Engine Usage Monitoring System (EUMS) and reassurance has been sought from MOD. A reply will be sent to Australia this week, stating confidence in the engine and EUMS system. Certification is expected in advance of the RAN requirement.
5. On the industrial side Westlands proposals for setting up an Australian Helicopter Industry (AHI) have fallen through and they have now put forward a new set of proposals concentrating on 3 areas:
- a. An Australian interest in one of their 3 major projects, Lynx, W30 or EH101.
 - b. Westlands to represent the Australian Aircraft Corporation (AAC) in the UK in marketing the A20 basic trainer for the RAF AST 412.
 - c. Joint UK/Australian collaboration on procurement of support helicopters for the RAF and RAAF. (The timescale and requirements of the RAAF are similar to those in AST 404).
6. This would provide long term employment opportunities in Australia and also aid the development of their indigenous

defence industries. MOD and DTI approval would need to be given to these proposals and this is currently being considered. Minister(DP) will be writing on this to Mr Scholes, Minister for Defence, shortly and will also meet Mr Scholes during his proposed visit to the UK next month. Secretary of State for Industry is also expected to write to Senator Button of the Ministry for Industry and Trade.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

WESTERN EUROPEAN UNION (WEU)

You sent me a copy of your minute of 16 April.

2. It is difficult to believe that yet another forum is needed to discuss defence matters (the problem is how to get results from those we have already), and I note that most of our WEU aims appear to be of a damage limitation rather than a constructive nature. Nevertheless, I realise that there would be problems if the UK were seen to be unwilling to co-operate at the present time in this European activity.

3. I particularly agree that we must be circumspect about the use that may be made of WEU for urging collaborative arms procurement - and not only because of the existence of Eurogroup, IEPG etc. I strongly welcome collaboration and/or specialisation - with WEU or other partners - where this is competitive and cost-effective. The main criterion for our public purchasing decisions, however, remains value for money for the purchaser. It is important that all concerned with WEU understand the UK position, and are not given the mistaken impression that we share the "buy European regardless" tendencies of some of them. This would be contrary to our own public procurement and economic strategy, and to the need to get the maximum defence effort and output from the massive resources which we are putting in.

4. I am copying this minute to OD colleagues, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish at the end.

(N.L.)

11 May 1984



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

N. S. P. R.

11 May 1984

A. J. C. 14/5

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

p.a.

Norman Tebbit

TORNADOS FOR TURKEY

You sent me a copy of your minute of 4 May to the Prime Minister recommending that she should take the opportunity of the Anglo-German Summit on 2 May to raise with Chancellor Kohl the question of the possible sale of Tornado aircraft to Turkey. As you know, the Prime Minister did not in fact raise this issue, although I understand it was briefly mentioned by Michael Heseltine to his opposite number.

I am however seriously concerned about the way this proposal was put forward at the last minute without proper consultation. The UK share of the credit risk on the order, including interest, would be about £500-£600 million. This is out of all proportion with the limited amount of cover (£100 million on Section 2) that we are currently prepared to make available on Turkey. When the Export Guarantees Committee recently considered ECGD's exposure on Turkey a cautious view was taken of its prospects, given the large losses sustained there by the Department in recent years and the continuing difficulties of the economy, including the risk of further rescheduling in 1985-86. Although we have been prepared to sanction the restoration of limited amount of cover, I do not see how an exposure of the amount implied by this deal could be justified on the present prospects for Turkey, particularly against the background of ECGD's current financial problems and the deterioration in the quality of its portfolio.

I also understand that when our officials considered Turkey, no reference was made to this very large potential piece of business - even though it seems clear that the prospect has been around for some time. Consideration of credit for sales, including arms sales, such as this, should always involve interdepartmental consultation before commitments are made to exporters or their customers. This is particularly important in present circumstances when ECGD has little scope for taking on additional risks in poor markets. I would hope that we could all agree on the need to consult at a very much earlier stage in future cases.

I am sending copies of this letter to the Prime Minister, Sir Geoffrey Howe, Michael Heseltine, and Sir Robert Armstrong.

NIGEL LAWSON

Nigel Lawson



With the compliments of

THE PRIVATE SECRETARY

T.A.
M.H.
5

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

CONFIDENTIAL

GR 160

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FM JEDDA 080716Z MAY 84

TO IMMEDIATE F.C.O.

TELEGRAM NUMBER 232 OF 8TH MAY 1984.

INFO ROUTINE ALL GULF POSTS.

AIRCRAFT SALES TO SAUDI ARABIA

1. THE HEAD OF DEFENCE SALES AND I HAD ANOTHER MEETING WITH PRINCE SULTAN, THE MINISTER OF DEFENCE, YESTERDAY IN RIYADH. AGREEMENT WAS REACHED ON THE SALE TO SAUDI ARABIA OF 20 TORNADOS AND 24 HAWKS. WE ARE TO BUY BACK SOME LIGHTNINGS AND STRIKEMASTERS. THE DEAL IS WORTH SOMETHING OVER £400 MILLION (BLYTH, WHO WILL BE BACK IN LONDON TODAY, HAS THE DETAILS). IT MAY ALSO LEAD TO FURTHER SALES AND WILL CERTAINLY INVOLVE THE EXTENSION, ON AN ENLARGED SCALE, OF THE CURRENT MOU BY WHICH BAE PROVIDE TRAINING AND MAINTENANCE SERVICES TO THE RSAF.

2. THE AGREEMENT IS SUBJECT TO THE APPROVAL OF THE KING AND COUNCIL OF MINISTERS. BUT SINCE THE KING HAS BEEN KEPT INFORMED BY HIS BROTHER SULTAN DURING THE NEGOTIATIONS I DO NOT EXPECT HIS APPROVAL TO BE WITHHELD, THOUGH THERE MAY BE SOME DIFFICULT NEGOTIATIONS OVER THE SCHEDULE OF PAYMENTS.

3. THE CONTRACT IS NOT CONCLUDED YET AND EVEN WHEN IT IS, THE SAUDIS WILL BE VERY SENSITIVE ABOUT PUBLICITY. IT IS ESSENTIAL THEREFORE THAT THE NEWS SHOULD BE HELD VERY CLOSE UNTIL SUCH TIMES AS THE SAUDIS AGREE TO ITS RELEASE.

CRAIG

LIMITED
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NEWS D
DEFENCE D
PS
PS/MR LUCE
PS/PUS
SIR J LEAHY
MR EGERTON

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File 1/2

10 DOWNING STREET

From the Private Secretary

3 May 1984

TORNADO FOR TURKEY

In his minute of 1 May, your Secretary of State recommended that the Prime Minister should raise with the Chancellor of the Federal Republic of Germany on 2 May the question of the possible sale of 40 Tornado aircraft to Turkey.

I write to say that a suitable opportunity for the Prime Minister to raise this subject did not arise.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), John Gieve (Chief Secretary's Office, H.M. Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

Callum McCarthy, Esq.,
Department of Trade and Industry.

DMH

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PRIME MINISTER

Handwritten mark

TORNADO FOR TURKEY

When you meet Chancellor Kohl on Wednesday I think it would be useful if you could raise with him the subject of a possible sale of 40 Tornado aircraft to Turkey.

2 Michael Heseltine has been pursuing this with his opposite number in Bonn but I think it to be a sufficiently important order for BAe*, both in terms of its size (£600 million) and as a successor to the present Tornado procurement before the European fighter aircraft emerges, to justify you maintaining the pressure on the Germans.

3 I am attaching a short note which briefly sets out the background. I am sending a copy of this minute, with the note, to Geoffrey Howe, Michael Heseltine, Peter Rees and Sir Robert Armstrong.

** And of great importance to Rolls Royce.*

NT

NT

1 May 1984



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COMMERCIAL IN CONFIDENCE

POSSIBLE SALE OF TORNADO AIRCRAFT TO TURKEY

Background

1 Tornado is the Anglo-German-Italian advanced fighter aircraft currently in full production and being delivered to the partner airforces. The UK industrial participant is British Aerospace at whose Warton site near Preston most of the UK workshare of 48% is carried out.

2 Deliveries of Tornado to partner air forces (some 809 aircraft) will be completed by late 1980s. BAe Warton then faces a long gap until the European Fighter Aircraft enters service, currently projected for 1995. This critical gap can only be filled by Tornado export orders. None have so far been achieved. Turkey has been a persistent prospect and remains so, despite a major Turkish order for 160 American F16 fighters announced last September. Proposals for the sale of 40 Tornados were put to the Turks when Sir Raymond Lygo and Geoffrey Pattie visited in February.

3 A sale of 40 Tornados would be worth around £600m in total. The crucial element in converting the undoubted Turkish interest and respect for the capabilities of the aircraft into a contract will be financial terms offered. The recent US order was won with over \$2bn of military aid and generous offset provisions. It will be essential that the terms contain a substantial element of additional German foreign military aid although possibly not as much as the 46% mooted with the Turks by BAe. Michael Heseltine has not been able to get a positive response from his German opposite number, Herr Woerner, who has expressed doubt about the strength of the Turkish interest. However, if the Germans were to offer aid this would require reciprocal effort from us in the form of ECGD credit support probably no less generous than that we are offering to Greece, another long standing prospect for Tornado: 95% credit over 10 years in Deutsch marks at 8.95%.

4 This is a crucial order, which would have benefits for NATO in reinforcing the South Eastern flank, as well as for the participant manufacturers. We should therefore continue to press the Germans at political level on the need for flexibility and ingenuity on financing terms. At industrial level, BAe are pressing the same message on the German participants MBB and MTU.

LINE TO TAKE

- 1 Tornado is a vital programme for both the UK and the Federal Republic. Export orders are essential for our companies.
- 2 Financing terms will be crucial if the Turks are to be persuaded to purchase Tornado and thereby reinforce NATO's South Eastern flank.

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- 3 HMG trusts that the Federal Government will support industry's efforts to win this sale if necessary with military aid or by other means. HMG is prepared to play its full part.

1-1-1904

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3 2





FHE

RW

10 DOWNING STREET

From the Private Secretary

12 April, 1984

SPAIN: RAPIER

The Prime Minister has noted the contents of your letter of 11 April.

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office



Foreign and Commonwealth Office

London SW1A 2AH

11 April 1984

Prime Minister.

For information.

A.S.C. 1/4.

Spain: Rapier

////

You asked for background on the Spanish Government's recent decision to buy the Franco-German Roland missile system in preference to Rapier. I am enclosing copies of Madrid telegrams Nos 207, 211, 212 and 213, which report the decision and the way it has been presented in Spain.

As you know, in the final stages before the Spanish decision it was made clear to us that, despite the attraction of British Aerospace's offer, political considerations could tilt the balance. It appears that the French were able to take advantage both of Spanish concern about ETA activities in Southern France, and of their EC Presidency, in order to promote the prospects for Roland. The Spaniards have, nevertheless, presented their decision as having been taken on technical grounds.

Sir Geoffrey Howe expressed disappointment about the loss of the contract when he met the Spanish Foreign Minister on 10 April. Sr Moran said that he had advised in favour of Rapier but military experts had taken the view that Roland was more sophisticated, offered technical and economic advantages and allowed a great amount of work to take place in Spain. He added, however, that the Spaniards wished to co-operate bilaterally with us on defence equipment matters and that other contracts would be coming up. Sir Antony Acland has also spoken to the Spanish Ambassador about Rapier. The Ambassador told him that he had worked hard to secure the contract for Britain and had been very disappointed himself at the outcome.

The Managing Director of British Aerospace's Dynamics Division has expressed his company's gratitude for the consistent efforts which HMG and the Embassy at Madrid have given to support their bid.

/Although

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Although this is a disappointing setback, there remain some medium term prospects for British defence sales in Spain (for instance, the Spanish Navy has shown interest in a new class of Mine Countermeasures Vessels). We shall continue to encourage Spain to take an interest in collaborative ventures, which will have benefits for British industries (eg the future European Fighter Aircraft project).

I am copying this letter to Richard Mottram (Ministry of Defence).

[Handwritten signature]
[Handwritten signature]

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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Reference Soues.



USS 087/1

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copy

GRS 1500
 CONFIDENTIAL
 FROM MADRID 021620Z MAR 1984
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 207 OF 2 APRIL
 AND TO IMMEDIATE MODUK (DESKBY 021700Z)FOR PATTIE, BEAUMONT,
 RMD 4,
 INFO ROUTINE PARIS, BONN, WASHINGTON.

Re
E 3/4

MY TEL NO 205: RAPIER

SUMMARY

1. THE SPANISH GOVERNMENT THIS MORNING DECIDED TO BUY THE FRANCO/
 GERMAN, ROLAND, IN PREFERENCE TO RAPIER. POLITICAL GESTURES BY
 THE FRENCH APPEAR TO HAVE TIPPED THE BALANCE. DECISION BOUND TO LEAD
 TO A CERTAIN CHILL IN BRITISH DEFENCE SALES EFFORTS IN SPAIN.
 BUT LONGER TERM OPPORTUNITIES IN AREAS OTHER THEAN GUIDED WEAPONS
 STILL OPEN.

DETAIL

2. THE STATE SECRETARY FOR DEFENCE, EDUARDO SERRA, CURRENTLY
 ATTENDING THE IEPG MEETING IN THE HAGUE, TELEPHONED THE BRITISH
 AEROSPACE REPRESENTATIVE IN MADRID THIS MORNING THE SPANISH
 GOVERNMENT'S DECISION TO ACQUIRE ROLAND. HE COMMENTED BRIEFLY
 THAT LAST MINUTE POLITICAL MOVES BY THE FRENCH HAD SWUNG THE
 DECISION IN FAVOUR OF THE FRANCO/GERMAN SYSTEM ALTHOUGH HE DID NOT
 ELUCIDATE. ACCORDING TO VINUESA, OF THE MFA, WHO ATTENDED THE
 LUNCH GIVEN FOR HANNAY TODAY, THE FRENCH MOVES RELATE TO CROSS
 -FRONTIER ACTIVITIES BY ETA MEMBERS AND INVOLVE ACTION ON THE PART
 OF THE FRENCH AUTHORITIES TO PREVENT BASQUE EXILES SETTLING IN THE
 ADJACENT FRENCH PROVINCES. VINUESA CLAIMED THAT MORAN HAD ARGUED
 AT LAST WEEK'S CABINET MEETING IN FAVOUR OF RAPIER ON THE GROUND'S
 THAT , WHILST THERE WERE OTHER OPPORTUNITIES FOR DEFENCE
 COLLABORATIONWITH THE US, FRANCE AND THE FRG, THIS WAS THE ONLY
 PROSPECT OF DIRECT CO-OPERATION WITH THE UK.

COMMENT

3. THIS IS A REAL BLOW TO BRITISH AEROSPACE WHO HAVE SPENT FIVE
 YEARS MARKETING RAPIER AND NEGOTIATING WITH THE SPANISH AUTHORITIES
 UNDER FRUSTRATING CIRCUMSTANCES. PARKHOUSE, MANAGING DIRECTOR OF
 BAE STEVENAGE DIVISION, TELEPHONED ME TODAY AND, WHILST EXPRESSING
 DISAPPOINTMENT, PUT ON RECORD HIS COMPANY'S GRATITUDE FOR THE
 CONSISTENT EFFORTS WHICH HMG AND THIS EMBASSY HAD GIVEN.

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4. THERE WILL BE MUCH SCEPTICISM IN SPAIN AS TO THE RELIABILITY OF LAST MINUTE FRENCH EFFORTS TO SECURE THIS CONTRACT. MANY SPANIARDS WILL SEE THE OUTCOME AS ANOTHER TRIUMPH FOR FRENCH TECHNIQUES IN BLACKMAIL. VINUESA'S ACCOUNT OF MORAN 'S ATTITUDE IS NOT WHOLLY IMPLAUSIBLE, ALTHOUGH IT CONTRADICTS WHAT OTHERS E.G. MR GAREL-JONES MP, HAVE REPORTED. MORAN MAY INDEED HAVE ARGUED THAT A CONCRETE COLLABORATION WITH THE UK COULD REINFORCE THE SPANISH GOVERNMENT'S EFFORTS TO MAKE PROGRESS ON GIBRALTAR.

5. WE WILL NEED TO CONSIDER THE IMPLICATIONS FOR OUR DEFENCE SALES POLICY TOWARDS SPAIN. THERE IS LITTLE DOUBT THAT BAE DYNAMICS GROUP WILL DOWNGRADE SPAIN AS A PRIORITY MARKET. THERE IS ALSO BOUND TO BE A DETAILED POST MORTEM WITHIN THE STEVENAGE DIVISION. THE COMPANY FEEL THAT THEY DID EVERYTHING POSSIBLE TO WIN THE CONTRACT AND ARE NOT INCLINED TO BLAME EITHER THEIR SALES EXECUTIVES OR SPANISH AGENTS FOR ANY SHORTCOMINGS DURING THE PROTRACTED NEGOTIATIONS.

6. INVOLVEMENT IN THE FUTURE EUROPEAN FIGHTER AIRCRAFT PROJECT AND OTHER COLLABORATIVE VENTURES IN WHICH SPAIN HAS EXPRESSED AN INTEREST, SUCH AS TRIGAT, WILL MAKE IT UNWISE FOR BRITISH AEROSPACE TO NEGLECT SPAIN ENTIRELY. COMPANIES SUCH AS THE ROYAL ORDINANCE FACTORIES AND BRITISH SHIPBUILDERS WILL HAVE SEPARATE COMMERCIAL REASONS FOR CONTINUING TO PROMOTE THEIR PRODUCTS AND TECHNOLOGY IN SPAIN. WE SHALL FOLLOW UP SEPARTELY ON THIS SUBJECT WITH DEFENCE SALES.

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ECD (E)

PS/MR LUCE
PS/LADY YOUNG
PS/MR WHITNEY
SIR J BULLARD
MR WRIGHT
MR CARTLEDGE
MR JENKINS

Redistributed to include PS.
4/4.

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1098 087/1

GRS 200
CONFIDENTIAL
FROM MADRID 031045Z MAR 1984
TO IMMEDIATE FCO
TELEGRAM NUMBER 211 OF 3 APRIL
INFO IMMEDIATE MODUK (FOR RMD4),
INFO ROUTINE WAHSINGTON, BONN, PARIS.

per *[Signature]* 4/4
TOP COPY

MY TEL NO 207: RAPIER

1. THIS MORNING'S SPANISH PRESS IS AT PAINS TO STRESS THAT THE DECISION TO BUY ROLAND WAS BASED ON TECHNICAL AND COMMERCIAL GROUNDS. THE PRESS REPORTS A COMMUNIQUE ISSUED BY THE MINISTRY OF DEFENCE WHICH CLAIMS THAT ROLAND WAS SUPERIOR BOTH IN ITS TECHNICAL /OPERATIONAL CHARACTERISTICS AND AS FAR AS THE COMMERCIAL, INDUSTRIAL AND TECHNOLOGICAL PROPOSALS MADE BY EUROMISSILE WERE CONCERNED. ARTILLERY EXPERTS WERE SAID BY THE DEFENCE MINISTRY TO HAVE BEEN INFLUENCED BY ROLAND'S GREATER COST EFFECTIVENESS, ITS ABILITY TO CARRY VARIOUS PAYLOADS IN THE WARHEAD, AND RELATIVE EASE OF TRANSPORT. THE CHIEF OF ARMY STAFF, GEN. SAENZ DE TEJADA, IS QUOTED AS SAYING THAT ROLAND WAS THE BEST OF THE THREE MISSILES I.E. RAPIER AND CHAPARRAL INCLUDED.

2. THE SPANISH GOVERNMENT APPEARS THEREFORE TO BE MAKING A CONSCIOUS EFFORT TO PLAY DOWN THE POLITICAL ASPECTS OF THE DECISION. THE DEFENCE MINISTRY BRIEFING CERTAINLY CONTRADICTS EVERYTHING SAID TO US OVER THE LAST FEW MONTHS, AND REPEATED MOST RECENTLY ON 30 MARCH BY THE STATE SECRETARY OF DEFENCE (MY TELNO 205 REFERS), THAT THE TWO OFFERS WERE EQUAL ALTHOUGH ROLAND WAS JUDGED TO HAVE THE EDGE ON TECHNICAL CRITERIA, WHEREAS RAPIER OFFERED BETTER INDUSTRIAL PARTICIPATION AND WAS CHEAPER. IN JUSTIFYING ITS DECISION ON NON-POLITICAL GROUNDS, THE GOVERNMENT PRESUMABLY HAS IN MIND POSSIBLE CRITICISM AT A TIME WHEN SPAIN'S RELATIONS WITH FRANCE ARE FAR FROM GOOD.

3. THERE HAS BEEN NO COMMENT IN THE PRESS ON THE OPPORTUNITY FOR COLLABORATION WITH THE UK IN THE DEFENCE FIELD, WHICH HAS NOW BEEN RULED OUT.

PARSONS
LIMITED SIR J BULLARD
SED MR WRIGHT
DEF D MR CARTLEDGE
ACDD MR JENKINS
TRED
ECD(E)
PS
PS/MR LUCE
PS/LADY YOUNG
PS/MR WHITNEY

Copied to News Dept
[Signature] 4/4
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WSS 087/1

per A
E 4/4

GRS 350
UNCLASSIFIED
FROM MADRID 031505Z MAR 1984
TO IMMEDIATE FCO
TELEGRAM NUMBER 212 OF 3 APRIL
INFO ROUTINE MODUK (FOR RMD4), WASHINGTON, PARIS, BONN

TOP COPY

MY TEL NO 211: RAPIER

FOLLOWING IS THE TEXT OF THE STATEMENT ISSUED BY THE SPANISH DEFENCE MINISTRY ON 2 APRIL. QUOTE. IN ACCORDANCE WITH THE DECISION ADOPTED BY THE COUNCIL OF MINISTERS ON 28 MARCH, AND IN THE LIGHT OF THE OFFERS WHICH HAVE BEEN PRESENTED, THE SPANISH GOVERNMENT HAVING STUDIED THE LATTER HAS DECIDED TO ACQUIRE THE AIR DEFENCE MISSILE SYSTEM ROLAND FOR ITS LOW LEVEL AIR DEFENCE PROGRAMME IN THE OPERATIONAL THEATRE. THIS CHOICE HAS BEEN MADE AFTER TAKING INTO ACCOUNT THE ASSESSMENT OF THE FOUR SYSTEMS: CHAPARRAL (US), RAPIER (UK), ASPIDE (IT) AND ROLAND (FR/FRG).

2. THESE ASSESSMENTS HAVE BEEN MADE ON THE BASIS OF TACTICAL-OPERATIONAL, INDUSTRIAL, TECHNOLOGICAL AND ECONOMIC POINTS OF VIEW. THE TACTICAL-OPERATIONAL EVALUATION WAS MADE BY THE ARMY HEADQUARTERS ARTILLERY DEPARTMENT AND THE INDUSTRIAL TECHNOLOGICAL AND ECONOMIC ASSESSMENTS BY THE DIRECTORATE GENERAL FOR ARMAMENT AND MATERIAL.

3. THE ROLE OF THE ASSESSMENT COMMITTEE FOR ARMAMENT AND MATERIAL (CADAM) HAS MADE IT POSSIBLE TO STUDY AND CONSIDER THE OFFERS AND POSSIBILITIES FOR NATIONAL INDUSTRY WHICH IS REPRESENTED ON THIS COMMITTEE. THE PURCHASE PRICE WILL TOTAL ABOUT 27 BN PESATAS. NEGOTIATIONS HAVE PRODUCED AS COMPENSATION THE MANUFACTURE IN SPAIN OF AN IMPORTANT PART OF THE SYSTEM, TOTALLING NEARLY 60% OF THE TOTAL COST, WITH AN ADDED VALUE IN SPAIN IN EXCESS OF 12 BN PESATAS. TOGETHER WITH THE TECHNOLOGICAL ATTRIBUTES THE OPERATIONAL FEATURES OF ROLAND WHICH INFLUENCED THE CHOICE CAN BE SUMMARISED IN:

- A) ITS HIGH INDEX COST EFFICIENCY
- B) THE FACT THAT IT CARRIES A WARHEAD WITH MULTIPLE HOLLOW CHARGES, TOGETHER WITH ITS PROXIMITY FUSE, GIVES IT A LARGE RADIUS OF EFFECTIVE ACTION

/ C) THAT IT

C) THAT IT CONSTITUTES A COMPACT SYSTEM MOUNTED ON A SINGLE VEHICLE
OF GREAT TACTICAL MOBILITY AND, FINALLY,
D) THAT, ALTHOUGH ITS MAINTENANCE IS COMPLEX, OUR ARMY IS PERFECTLY
CAPABLE OF CARRYING THIS OUT WITHOUT DIFFICULTY. UNQUOTE.

PARSONS

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PS/LADY YOUNG
PS/MR WHITNEY
SIR J BULLARD
MR WRIGHT
MR CARTLEDGE
MR JENKINS

Replied to News Dept
C 4/4

WSS 087/1

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*R/A cc Mr Palmer, News Dept
4/4
r Per.
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GRS 450
CONFIDENTIAL
FROM MADRID 040925Z MAR 1984
TO IMMEDIATE FCO (DESKBY 041000Z)
TELEGRAM NUMBER 213 OF 4 APRIL
INFO IMMEDIATE MODUK (FOR RMD 4)
INFO PRIORITY WASHINGTON, PARIS, BONN

NY TELNO 212: RAPIER

1. THE WORDING OF THE OFFICAL STATEMENT ABOUT THE CHOICE OF MISSILE FOR THE SPANISH LOW LEVEL AIR DEFENCE SYSTEM CONFIRMS THE ASSUMPTION (PARA 2 OF MY TEL NO 211) THAT THE SPANISH GOVERNMENT HAVE DECIDED TO TRY TO PRESENT THE DECISION PUBLICLY AS HAVING BEEN TAKEN ON TECHNICAL AND COMMERCIAL RATHER THAN POLITICAL GROUNDS. GIVEN THE FRENCH UNPOPULARITY IN SPAIN AT THE PRESENT TIME THE ADVANTAGES ARE OBVIOUS OF THIS APPROACH, WHICH SEEMS LIKELY TO HAVE BEEN AUTHORISED BY THE PRIME MINISTER HIMSELF. THE SPANIARDS MAY ALSO HAVE CONCLUDED THAT THEY SHOULD BE SEEN TO BE DOING ALL THEY CAN TO MAINTAIN RELATIONS WITH THE UK ON THEIR PRESENT EVEN KEEL, NOT LEAST IN THE GIBRALTAR CONTEXT.

2. AS EDUARDO SERRA AND OTHERS HAVE TOLD US IN RECENT MONTHS, AND AS WE OURSELVES HAVE REPORTED, IT IS IN FACT THE CASE THAT THE ISSUE OF GIBRALTAR HAS PLAYED AN IMPORTANT PART IN THE SPANISH GOVERNMENT'S DECISION TO OPT FOR ROLAND RATHER THAN RAPIER. NEVERTHELESS I BELIEVE THAT BRITISH MINISTERS HAVE DONE ALL THEY COULD TO CREATE THE MOST PROMISING POLITICAL CLIMATE FOR RAPIER. AS YOU KNOW, OUR APPROACHES TO THE SPANIARDS HAVE RANGED FROM THE PRIME MINISTER DOWNWARDS.

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3. THE DECISIVE ELEMENT IN THE FRENCH OFFER SEEMS TO HAVE BEEN UNDERTAKINGS GIVEN BY THEM ABOUT BORDER ACTIVITIES BY ETA MEMBERS IN THE SOUTH OF FRANCE (PART 2 OF MY TELEGRAM NO. 207). BUT OF COURSE IT IS NOT FOR US TO COMMENT PUBLICLY ON THE MOTIVES OF THE SPANISH GOVERNMENT IN DECIDING FOR ROLAND. ALTHOUGH THE REPORT IN YESTERDAY'S DAILY TELEGRAPH MAY HAVE GIVEN A DIFFERENT IMPRESSION, WE ARE STICKING CAREFULLY TO THIS LINE.

(attached)

PARSONS

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ECD (E)
PS
PS/MR LUCE
PS/LADY YOUNG
PS/MR WHITNEY
SIR J BULLARD
MR WRIGHT
MR CARTLEDGE
MR JENKINS

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10 DOWNING STREET

John Artyr.

On Saturday Tristan Gower-Jones phoned to say he had a contact in Madrid (the Defence Minister) who had told him the Spanish Cabinet were about to meet & would decide to buy ~~buy~~ Rapier from Britain. He thought Sr Gonzalez would phone to tell the PM.

I spoke to MOD & FCO who thought this was a strong possibility. MOD suggested the attached as briefing for the PM if the phone call took place. However, later in the day the Embassy in Madrid established that it was unlikely Sr Gonzalez would

phone ~~at~~ over the weekend
but may possibly ~~be~~
so on Monday. The
PM knows this.

Nicky 2/4



10 DOWNING STREET

PRIME MINISTER

Attached is briefing for the proposed telephone call by Snr Gonzalez. FCO have asked if you could make the point that augurs well for Anglo/Spanish co-operation in the future.

Monica

NB There will be an interpreter on the line.

Subject: Defence
Sales Pt 3

Mufaxed
to Chequers 31/3.

The Prime Minister

Felipe González Márquez

Madrid, 20 February 1984

To Mrs Margaret Thatcher
Prime Minister of the
United Kingdom
LONDON

THIS IS
ON Pt 3
MINISTER'S
PERSONAL MESSAGE

SERIAL No.: T33A1184

Dear Prime Minister,

As soon as I received your letter of 16 January in connection with British Aerospace's offer to form a consortium with Spanish industry so that they could cooperate in coproduction of the "RAPIER" system, I informed my Minister of Defence of its contents and asked him to consider the arguments put forward in it.

As you know, at the moment, this low level air defence system is being considered along with three others: the American "Chaparral", the Franco-German "Roland" and the Italian "Skyguard-Aspide".

From our point of view, what concerns us most, apart from the efficiency of each system, is the impact that its acquisition might have on the level of technology of Spanish industry. In this respect, the "RAPIER" system offer is undoubtedly attractive.

At the moment, we have not yet finished assessing these four systems, although we hope to be able to make a final decision soon.

Yours etc.

(signed)

Felipe González

OPS

Subject: Defence
Sales pt. 3.



COG 1000
FCO

10 DOWNING STREET

THE PRIME MINISTER

16 January, 1984

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T.111/84

Dear Prime Minister,

During 1983 there have been discussions between the defence industries of our two countries about the prospects for collaboration on a wide range of military equipment. The importance which both our Governments attach to these activities has been underlined by the visit of Sr Eduardo Serra to the United Kingdom in June, and Mr. Geoffrey Pattie's visit to Madrid in November.

I am writing to express my hope that 1984 will see this practical dialogue continue and bring constructive results. In particular I am keenly aware of your Government's desire to develop Spain's guided weapons industry. In this regard I believe that the offer by British Aerospace to form a consortium with Spanish industry for the co-production of the RAPIER system to meet the Spanish Army's low-level air defence requirements, and for Spanish participation in RAPIER export sales, could provide a very important contribution.

I am pleased that BAe's proposals have clearly received very serious consideration. Should your Government decide to take them up, I am sure that this will greatly encourage further very significant cooperation. Not only will it afford Spanish industry opportunities to work alongside British Aerospace and important UK subcontractors on RAPIER - it will also provide the possibility of involvement in some of BAe's other guided weapons technology. In addition, and perhaps in the longer term of still greater importance, agreement to cooperate in this important field will

/ be seen

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be seen by both our defence industries as an encouragement to pursue vigorously the opportunities for collaboration on other projects, to the benefit of both our countries' economy and security.

I know that Michael Heseltine has written very recently to Sr Narcis Serra on this same subject, and I feel sure that any of the more specialised aspects of this important decision for your Government could be discussed further, if necessary, between our Defence colleagues. But I wish to add my own support to the British Aerospace proposals, and at the same time to send you my good wishes for 1984.

Yours sincerely
Margaret Thatcher

His Excellency Senor Don Felipe Gonzalez Marques


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PRIME MINISTER

c Sir Robert Armstrong

Frigates for Pakistan: Export Credit for
Vosper Thornycroft
(OD(84) 8)

BACKGROUND

1. In early 1982 Ministers agreed that 50 per cent Export Credit Guarantee Department (ECGD) cover should be provided on a contract value of £150 million in support of the potential sale by Vosper Thornycroft of two frigates to the Pakistan Navy; the rest of the credit was to be sought from Arab sources. This would have given ECGD a Departmental Maximum Liability (DML) (i.e. the maximum amount which ECGD might have to pay in terms of principal, agreed increases in the cost of the contract, and interest payments if there were to be a default on the loan) of £110 million. On 24 August 1982 you wrote to President Zia referring to this offer and supporting Vosper's efforts. The value of the contract has now risen to £220 million (as a result of an enhanced specification) and the Arab credit package is no longer available. The Pakistan Navy claims to have a comprehensive French offer for the enlarged contract, including 50 per cent Government backed credit. Vosper have now applied for increased ECGD cover of up to 85 per cent of the contract price of the enlarged order, which would give ECGD a DML of between £27 million and £250 million; they believe this would clinch the decision in their favour.

FLAG A

2. The Secretary of State for Trade and Industry wrote to the Chief Secretary, Treasury on 7 March about this potential sale, as well as that of patrol craft to Kenya. This letter, and the ensuing correspondence, have been circulated under OD(84) 8. Mr Tebbit drew attention to the importance in

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industrial terms of both orders to Vospers whose immediate export prospects are poor. He believed that providing credit on orders of this kind was essential if warship building capacity was to be sustained. Without such orders, the prospects for privatising Vosper (or the price obtained) would be adversely affected. If the Pakistan order were lost, Vosper's Woolston shipbuilding yard would have to close; this would help to reduce the over-capacity in steel warship building, but it would be preferable for the reduction to occur elsewhere. Mr Tebbit believed that it would be helpful if possible to defer decisions on the Pakistan deal until the Government had decided the detailed approach to warship building privatisation and had discussions with potential purchasers.

3. The Secretary of State for Trade and Industry pointed out that ECGD were concerned that the potential exposure on both orders would be beyond what could be justified by the economic circumstances of the countries, and therefore outside the guidelines agreed by Ministers in 1982. It would also damage the prospects in the markets concerned for other sales requiring credit. Mr Tebbit recommended that support be given for either the Kenya or the Pakistan sale, but not both, and considered that Kenya was marginally the better case.

4. In subsequent Ministerial correspondence, culminating in Mr Turnbull's letter of 19 March to Mr McCarthy in Mr Tebbit's office, it was agreed that the request for export credit support for patrol craft for Kenya should be agreed, but that the question of support for frigates for Pakistan should be considered by OD. In the course of this correspondence, the Chief Secretary, Treasury recorded that his agreement to support for the Kenya deal was conditional upon withdrawal of the existing credit cover for the Pakistan deal, which in any case expires at the end of March.

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5. The Foreign and Commonwealth Secretary, in his minute to the Chief Secretary, Treasury of 15 March, argues that the foreign policy implications are such that an exception should be made to the prudential considerations which would customarily influence decisions on such cases as export credit support for the sale of the frigates to Pakistan. Your own support for Vosper's efforts in your letter to President Zia is an important factor. Although Vosper's are now seeking increased cover, Sir Geoffrey Howe believes that the President will expect the United Kingdom to stand by its support for Vosper. The President recently told Baroness Young that Vosper's bid would have priority once adequate financing had been arranged. The Pakistanis would be surprised and disappointed if we now backed out of the deal. The Foreign and Commonwealth Secretary therefore recommends that the increased cover should be agreed, and if necessary special cover outside the normal limits could be reserved in order to keep the market open to other British exporters.

6. The Lord President of the Council and the Chancellor of the Exchequer will be unable to attend the meeting because of Parliamentary commitments. The Chancellor will be represented by the Chief Secretary. If the Secretary of State for Foreign and Commonwealth Affairs is unable to attend, the Minister of State, Foreign and Commonwealth Office (Baroness Young) will represent him.

HANDLING

7. You should invite the Foreign and Commonwealth Secretary or in his absence the Minister of State, Foreign and Commonwealth Office, to introduce the discussion. If Baroness Young is present, she might also report on her recent discussions with President Zia. The Secretary of State for Trade and Industry, the Defence Secretary and the Chief Secretary, Treasury, should then be invited to comment. Points to establish are -



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- a. Is it possible, as Mr Tebbit has suggested, to defer a decision until the Government has decided the detailed approach to warship privatisation and had discussions with potential purchasers? If so, should the existing level of cover be maintained until final decisions can be made?
- b. If not, does the Committee believe that the potential political damage resulting from a refusal to increase credit cover in this case outweighs the prudential considerations which point to a refusal to increase cover?
- c. If so, should cover be increased outside the normal limits for Pakistan so as to avoid prejudicing British exporters' prospects of obtaining civil orders? Would the additional risk which this course would involve for ECGD be acceptable? (In this connection the Foreign and Commonwealth Secretary has pointed out that it would be wrong to ignore the relatively high economic growth Pakistan has achieved over the last six years.)
- d. If the view is taken that credit cover for the sale should not be increased, should the existing cover be withdrawn when it expires at the end of the month? If the Pakistanis had not by then made their decision, they could be expected to react sharply to withdrawal.

CONCLUSION

8. Subject to the points made in discussion, you could guide the Committee to decide whether a decision on export credit cover in support of the sale of frigates to Pakistan should be taken now or deferred pending decisions on the Government's approach to warship building privatisation,



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in which case the Committee will presumably wish to maintain the existing level of cover after the current offer expires at the end of March and until final decisions are taken. If a decision needs to be taken now, the Committee will need to decide whether -

- i. the export credit cover should be increased, and, if so, whether the increase should be outside the normal guidelines for Pakistan or within them; or
- ii. the cover should be maintained at its current level until Pakistan makes its final choice; or
- iii. the existing cover should be withdrawn when it expires at the end of March.

David Goodall

A D S Goodall

27 March 1984

27 FEB 1984





PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. 7764/82

10 DOWNING STREET

Pakistan Military Aid June 1980

THE PRIME MINISTER

24 August, 1982.

MAILED

cc OHS
Subject + Defence

Gen. Zia. President.

When we met in Pakistan last year, and I still have happy memories of the fascinating day we spent together, we had a brief discussion about the possible supply of British military equipment to Pakistan. At that time you were thinking of buying HMS LONDON for your Navy and I was delighted to hear that the sale and delivery of PNS BABUR, as she is now called, went so smoothly and that the Flagship of the Pakistan Navy remains a British built ship.

I understand that you are now contemplating the purchase of new frigates and that among the suppliers being considered is Vosper Thornycroft Ltd. Their offer, which includes provision for 100% credit financing, is, as I think you will know, backed by the British Government, who have agreed to provide a significant proportion of the credit through the Export Credit Guarantee Department.

There has, of course, been much discussion of the role of frigates as a result of the recent battles in the Falklands and I wanted to let you know that in our considered opinion the Type 21 frigates, which Vosper Thornycroft are offering you, performed magnificently throughout this most successful campaign and fully

/lived

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lived up to our expectations. It now has the unique advantage that it has been battle tested in some of the most severe weather conditions in the world and in an adverse air situation. You as a soldier will know better than I how important it is that equipment, which men may have to use in battle, should be tested in this way. The Type 21 has proved itself to be a fine ship of sound design and popular with its crews; mechanically reliable and a stable weapons platform. Of course, no untested ship is ever perfect and if as a result of our experience in the Falklands, some improvements have been found to be desirable, these would, of course, be included in any ships built for Pakistan should you place your order with Vosper Thornycroft. So you would get ships which incorporate the lessons learnt from the most recent and most testing battle experience.

I need not elaborate on the other benefits to the Pakistan Navy of having their ships built in a British shipyard. Co-operation between our two navies has been particularly close since 1947. We share many of the same naval traditions, have common training and operation procedures and, of course, a shared language.

I am confident that if you decide to buy the Vosper Thornycroft frigates they will serve you very well indeed for the tasks which face your country and your Navy.

Warm personal regards.

Yours sincerely

His Excellency General Mohammad Zia-ul-Haq,

Nazimuddin

PRIME MINISTERPOLICY UNIT
27 March 1984EXPORT CREDIT FOR PAKISTAN

In OD tomorrow, the FCO, MoD, and DTI may argue in favour of providing cover for up to 70% of the value of a contract for £220 million for two Type 21 frigates. ECGD would incur a Departmental Maximum Liability (DML) of £217 million.

Given Pakistan's financial position, this proposal comes very close to aid, in military form. Pakistan is a poor risk and currently uses 60% of her aid to pay off external debts. The Arab backers who had originally put up 50% of the earlier order (for two small frigates) have withdrawn their offer, which suggests that the market takes a similar view of Pakistan's credit-worthiness to that taken by ECGD, which had placed a Section 2 Market Limit for Pakistan of £60 million. £55 million of this is already taken up. This order would push our exposure up to several times this prudential limit. ECGD is already making calls of £600 million a year over the next two years.

The prime object of exporting is to get paid, not to win prestige, or cement friendships, important though these can be. Giving military aid in the guise of export credit is of no help to a country in financial difficulties, since defence equipment purchases cannot generate foreign exchange.

Norman Tebbit accepted, in his letter of 7 March, that ECGD have already supported Vosper's export efforts beyond the limits they would consider prudent. And that if a limit on cover to Pakistan was adhered to the Vosper's order would crowd out other business, such as the export of a BL Ital car operation, which is well advanced.

Industrial Issues

It will be argued that the order will assist in the privatisation of Vosper and sustain its Woolston yard at Southampton. There is clearly force in this point, but the market will have to

take a view on whether cover will be forthcoming in the future for similar orders. The question whether it is worth risking these sums to assist the privatisation of Vosper needs to be seen in the wider context of BS privatisation and MoD orders. The three, profitable, dedicated warship yards (Vickers, Vosper and Yarrow) and the unprofitable Swan Hunter are candidates for privatisation. MoD have two Type 22 frigate orders to place very shortly. They propose placing them, not with the warship yards, but with Swan Hunter and Cammell Laird. DTI consider that all three dedicated yards can be privatised without these orders. Vickers (submarine specialists) and the Yarrow yard are full; Vospers badly need work, but could still be saleable on a slimmed down basis. Swan Hunter needs an MoD order to be saleable at all.

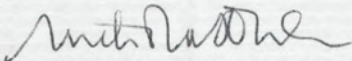
We think that the option of placing one of the Type 22's with Vosper rather than with Cammell Laird, and not providing what amounts to aid to Pakistan, ought to be considered. Cammell Laird, now a heavily loss-making offshore yard, seems an odd choice by the MoD. It has to do with Cammell's submarine background, which MoD think they may wish to call upon in the future. Cammell's bid was lower than Vospers, but we are less impressed than the MoD by this; the bid may be unrealistic, and paid for eventually by the taxpayer.

Could the Pakistan Order be Secured Later?

Another alternative, less immediately helpful to Vosper's Woolston yard, might be to keep the negotiation in play if and until Pakistan's financial position improves. How sure are we that the French and Italians are prepared to provide the necessary credit and in any case, would the Pakistan Navy accept these alternatives? Vosper's offer is lower than its rivals'; Admiral T K Khan, the Pakistan Chief of Naval Staff, is strongly committed to British systems (he attended the RCDS in 1979). Warship design reflects, to a certain extent, naval concepts. It would be worth considering whether, in the event that cover is refused at this juncture the Pakistan Navy might prefer to wait, rather than pay a higher price for less preferred equipment.

Recommendation

There seems to be no point in winning orders for which we seem unlikely to be paid. If Vosper's steel shipbuilding capability at Woolston, with its proven record of warship design and exporting, is worth preserving, ought not a Type 22 contract be awarded to Vospers? Failing that, is there any possibility of securing a Pakistan order when Pakistan's finances improve?


NICHOLAS OWEN

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~2307822~~ 218 2111/3

MO 5/16/1

26th March 1984

Mr Coles

26/3

A.F.C. 27/3.

Dear David,

f.a.

RAPIER

You wrote to Richard Mottram on 5th March, enclosing a copy of Sr González's letter to the Prime Minister dated 20th February. You asked to be kept informed of any further steps on Rapier which it was thought appropriate to take at this stage.

Since then, the Prime Minister has of course agreed the Foreign and Commonwealth Secretary's proposal to send a message to Sr Moran on the subject of Gibraltar. In the light of this, and the reaction to it, we do not envisage any further action at the moment.

I am copying this to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours ever

Simon Lowe

(S H LOWE)

D Barclay Esq

CONFIDENTIAL



cc FCO
HMT
~~DPI~~
MOD
CO

10 DOWNING STREET

From the Private Secretary

19 March 1984

Export Credit Support for Vosper Thornycroft

The Prime Minister has seen your Secretary of State's letter of 7 March to the Chief Secretary and the replies from the Chief Secretary on 12 March and the Foreign Secretary on 15 March. She takes the view that the request for export credit support for fast patrol craft for Kenya should be agreed but that a meeting of OD should be held to discuss the request for export credit support for frigates to Pakistan.

I am copying this letter to Private Secretaries to members of EX, Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy Esq.
Department of Trade and Industry.

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PRIME MINISTER

Export Credit Support for Vosper Thorneycroft

You have seen Mr. Tebbitt's letter of 7 March on the request for export credit support for the sale by Vospers of fast patrol craft to Kenya and frigates to Pakistan - Mr. Tebbitt said he would be prepared to support one but not both of these contracts, and that he preferred the Kenyan one. The Chief Secretary was also prepared, reluctantly, to go along with just the Kenyan contract.

The Foreign and Commonwealth Secretary in his letter to the Chief Secretary of 15 March continues to press the case for the Pakistan contract. In support of this, he quotes your letter of August 1982 to President Zia which said that the Vosper offer

"is, as I think you will know, backed by the British Government who have agreed to provide a significant proportion of the credit through the Export Credit Guarantee Department".

This might be thought to be binding, but since then the value of the contract has increased from £150 m to £220 m, and the degree of cover has gone up from 50% to between 70% and 100%.

The best course would be a meeting of OD or EX next week to settle two issues. We have been informed that President Moi intends to make his decision on Tuesday or Wednesday next week. A meeting after you return from Brussels could mean that the Kenyan contract would be lost which could leave us in the position of chasing the inferior Pakistan contract in order to support Vospers.

Although it would not please the Chief Secretary who sought to make his agreement to the Kenyan contract conditional on withdrawal

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/ of

of support for the Pakistan contract, you may want to agree to the Kenyan contract, and call for a meeting of OD or EX next week to discuss the Pakistan contract. This needs to be settled before the end of the month. Mr. Heseltine has not yet given a view on his choice. He may decide to press the Pakistan case, but he intends to talk to Mr. Tebbitt first, and having done so, may decide not to.

Agree the Kenyan contract and a meeting on Pakistan?

Yes

JT Yes

I think my letter to President
Zia must be honoured.

mt

16 March, 1984.

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10 DOWNING STREET

A.J.C.

Chief Secretary has agreed to either the Kenyan or the Pakistan deal but not both, with a preference for the former

N Tebbat will accept just the Kenyan deal

Foreign Secretary argues for the Pakistan deal - ~~it~~ as well, citing the Prime Minister's August 1982 letter. This looks pretty binding to me. What do you think?

AT

15/3

Mr. Turnbull.

I agree that the Prime Minister's letter is pretty binding. But it looks to me as though we should have a brief meeting of EX next week.

A.J.C. $\frac{16}{3}$



FCS/84/83

~~CC NO~~
2pp3

CHIEF SECRETARY TO THE TREASURY

1. In your letter to Norman Tebbit of 12 March about patrol boats for Kenya and frigates for Pakistan, you reluctantly agreed to ECGD cover for the sale of Vosper Thornycroft patrol boats to Kenya, providing that ECGD cover for Vosper Thornycroft frigates for Pakistan were withdrawn.

2. The background has been fully set out in earlier correspondence. I agree with Norman Tebbit that the economic, industrial and commercial aspects of the two cases face us with a difficult decision. I also acknowledge the strength of your points about the economic and market assessment of Kenya and Pakistan, the potentially expensive risk of default at a difficult time for ECGD, and the effect of cover for either order on the prospects of other British exporters in the markets concerned. These important prudential considerations are indeed discouraging, though I believe they need qualification. In the case of Pakistan her external position remains vulnerable, but it would be wrong to ignore the relatively high economic growth she has achieved over the last six years. In the case of Kenya, her reserves are at their highest level since the late 1970's; also, with one explainable exception, Kenya has not defaulted on commercial debt, as Malcolm Rifkind pointed out in his letter of 27 February.

3. But my chief point is a political one. I believe that the foreign policy implications are such that exceptions should be made in both cases. The arguments for Kenya were set out in Malcolm Rifkind's letter of 27 February and remain

/valid



* PAKISTAN: MILITARY AID:
OCT 79

valid: the foreseeable damage to our relations with Kenya in reducing cover outweighs the commercial risks of granting it. Pakistan is more complex. The Prime Minister's support for Vosper's efforts in her letter to President Zia of August 1982 is an important factor. Although Vospers are now seeking increased cover, President Zia will no doubt expect us to stand by our support for Vosper. He told Janet Young on 11 March that once adequate financing had been arranged our bid would have priority. Given their clear preference to buy British, the Pakistanis would be surprised and disappointed if we now backed out of the project. Any decision to withdraw cover from Pakistan will of course need to take into account the Prime Minister's intervention with President Zia.

4. In short, while I accept the need to give full weight to the prudential considerations, I believe in this case that the balance of advantage lies in approving ECGD support for both the fast patrol boats for Kenya and the frigates for Pakistan, if necessary by reserving special cover outside normal limits in order to keep the market open to British exporters.

5. I am copying this minute to members of EX, Michael Heseltine, Norman Tebbit and Sir Robert Armstrong.


GEOFFREY HOWE

Foreign and Commonwealth Office
15 March 1984

Defence : Pt 4

Defence Sales

15 MAR 1964





JF6024

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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GTN 215)

(Switchboard) 215 7877

15 March 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

D. Peter

EXPORT CREDIT SUPPORT FOR VOSPER THORNYCROFT

Thank you for your letter of 12 March. As I said in my letter of 7 March, I consider it is necessary from the industrial point of view, and with privatisation in prospect, that we should offer export credit support for either the Kenya or the Pakistan order. I am glad that you are able to agree to ECGD supporting the potential Kenyan sale on this basis.

2 As regards the withdrawal of the existing offer of cover for the potential Pakistan sale, this expires at the end of this month, so that all that will be needed is to inform Vospers and the Pakistan Navy that, regrettably, the offer cannot be renewed.

3 Further advice from our High Commissioner in Nairobi this week suggests that we need to move urgently to counter aggressive selling tactics by our competitors, notably the Italians. I hope, therefore, that colleagues can agree quickly that we should proceed on the basis set out above.

4 I am sending copies of this letter to other members of EX and to Michael Heseltine and Sir Robert Armstrong.

NORMAN TEBBIT

McFarlane
Sales N.Y.

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15 MAR 1964

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CGNO

1. ADV A.S.C. 1/3.
2. CF to await DTD
reps

AT 12/3



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State
Department of Trade & Industry
1 Victoria Street
LONDON
SW1E 6RB

12 March 1984

Dear Secretary of State,

EXPORT CREDIT SUPPORT FOR VOSPER THORNEYCROFT

Thank you for your letter of 7 March about Geoffre Pattie's requests for credit support for the sale by Vospers of fast patrol craft to Kenya and the increased cover for the sale of frigates to Pakistan. I have seen comments on the Kenyan case from Malcolm Rifkind.

The current economic and market assessment of both Pakistan and Kenya is such that there is no prudential justification for providing cover for either of these sales. Cover had originally been agreed for the original proposal for the sale of frigates to Pakistan mainly on industrial arguments. The same arguments, particularly the argument about the need to provide work for Vospers as a means of enhancing their privatisation prospects, apply equally to the Kenyan case. The latter does not seem a sufficient justification for taking on potentially expensive risks of default by two buyers at a time when ECGD's finances are under serious pressure and at the expense of other orders. I would therefore favour rejecting both proposals.

If however you judge that the impact of doing so would be to cast serious doubt on the whole future of Vospers I would, very reluctantly, be prepared to agree that ECGD should offer cover for one or other of these sales, though not both. Like you, I prefer the Kenyan order where the future market prospects seem better and the risk is smaller. But before agreeing to this we would need to be satisfied that the outstanding cover on the Pakistan deal can be withdrawn.

I am sending copies of this letter to other Members of EX and Michael Heseltine and Sir Robert Armstrong.

Yours Sincerely
Paul Rees

PETER REES
Approved by the Chief Secretary
and signed in his absence

DEFENCE : SALTS : Pt 4

1 3 MAR 1984





JF5915

Secretary of State for Trade and Industry

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7 March 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister.

You will wish to be aware, but
I suggest you await the view of the Chief
Secretary and others before intervening.

BF

mm

A.J.C. 1/3.

D. Peter.

EXPORT CREDIT SUPPORT FOR VOSPER THORNYCROFT

Geoffrey Pattie wrote to you on 8 February and to Paul Channon on 27 February to seek agreement for credit support for potential sales by Vosper Thornycroft to, respectively, Kenya and Pakistan. I understand that a decision is now needed very urgently on the Kenyan case, and that Vosper wish to present a revised credit offer to Pakistan this month. Both cases raise difficult issues, and we need to determine our overall approach in light of the conflicting considerations involved.

Kenya: Essential Facts

2 The latest proposal is for ECGD cover to be provided in support of an initial sale to the Kenyan Navy of two fast patrol boats worth £70m on terms which would give ECGD a Departmental maximum liability (DML) of about £105m. The Kenyan requirement is ultimately for four craft value £139m (DML £211m). France, Italy and Israel are now said to have made credit offers for the contract, so Vosper will lose their current position as the preferred supplier if the UK does not do likewise.

Pakistan: Essential Facts

3 In early 1982 Ministers agreed that 50 per cent ECGD cover should be provided on a contract value of £150m (giving a maximum DML of £110m) in support of the potential sale of two frigates to the Pakistan Navy; the rest of the credit was to be sought from Arab sources. The Prime Minister later wrote to President Zia referring to this



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offer and supporting Vosper's efforts. The contract value has now risen to £220m (as a result of an enhanced specification). The Pakistan Navy claims to have a comprehensive French offer for this, including 50 per cent Government backed credit. Vosper have now applied for increased credit on the enlarged order which would give ECGD a DML of between £217m and £250m; Vosper believe this would clinch the decision in their favour.

Industrial Considerations

4 Geoffrey Pattie's letters have explained the significance of these orders to Vosper. Apart from the potential sale of fast patrol boats to Egypt (for which a special reservation of ECGD cover has already been agreed), immediate export prospects are poor. With few exceptions, richer or more credit-worthy countries either manufacture their own vessels or are not at present in the market for new ones. Providing credit on orders such as these is thus essential if warship capacity is to be sustained. Without such export orders, the prospects of privatising Vosper (or at least the price likely to be obtained) will be adversely affected.

5 There is a particularly strong industrial case for the Kenyan order. The craft are of the type that Vosper have successfully exported in the past, and for which there should be a significant market in the future. Accepting the Kenya order would preserve employment at Vosper's Portchester yard (otherwise some 300 jobs will be lost), and the presence of the order would provide a very useful fillip to privatisation prospects. It is relevant that about 60 per cent of the Kenyan order would comprise defence equipment rather than the vessels themselves. We expect the manufacturers of such equipment to be among those interested in purchasing the yard, if its prospects are sufficiently promising.

6 The Pakistan order is more difficult, and if it were possible it would be helpful to defer the decision until we have decided the detailed approach to warship privatisation and had discussions with potential purchasers. On the one hand Vosper not taking the Pakistan order might help to solve the problem of overcapacity in steel warshipbuilding, since its loss must mean the closure of the steel building facility. However, the Woolston yard is not the yard where we would most like to see such capacity lost, and the presence of the order would provide a very useful dowry for its purchaser on privatisation. The closure of this facility would also necessarily mean the loss of many of the 2,000 jobs which it now provides.



ECGD Aspects

7 ECGD are concerned that the potential exposure on both the Kenya and Pakistan orders would be beyond what can be justified by the economic circumstances of those countries. To agree credit would, therefore, be outside the Chancellor's guidelines agreed by Ministers in 1982. ECGD have already, in providing a special reservation of cover for defence sales in Egypt and the existing offer of support for the Pakistan frigate order, given support to Vosper's export efforts beyond the limits they would consider prudent solely in the light of the strength of those economies. The proposal to accept increased exposure on the Pakistan economy is difficult. The proposed increase in the Kenya limit involved in covering two patrol boats value £70m also goes beyond what the ECGD would regard as prudent in the current circumstances of that country's economy. However, as between the two on balance ECGD takes a rather less gloomy view of Kenya than Pakistan.

Other Trade Considerations

8 Provision of cover for either order would damage the prospects in the markets concerned for other sales requiring medium or long term credit support for the foreseeable future. This threatens the position of long established exporters. This is a particular problem at present in relation to Pakistan where the present reservation for frigates is already adversely affecting British exporters' prospects of obtaining civil orders; we can expect representations if this market is effectively closed by the frigate order. A possible approach is to reserve special cover for the warship orders outside normal limits, leaving some, albeit restricted, scope for other sales, but this would, of course, make the ECGD exposure problem even worse.

Conclusion

9 On industrial grounds I would wish to support Vosper in obtaining at least one of these orders. However I realise that the allocation of ECGD cover on markets of such limited credit-worthiness would inevitably prevent ECGD support being given for other export to these markets. If my colleagues agree, therefore, I would recommend that support be given for either the Pakistan or the Kenya sale but not both and for the reasons set out above I consider the latter marginally the better case.

10 In view of the urgency of the Kenya case, a discussion may be necessary.



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11 I am copying this to members of EX, to Michael Heseltine and to Sir Robert Armstrong.

Norman

NORMAN TEBBIT

DEFENSE
Sues P 4

8 MAR 1984





FILE

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10 DOWNING STREET

From the Private Secretary

5 March, 1984

CREDIT FOR DEFENCE SALES TO INDIA

Thank you for your letter of 2 March to John Coles. The Prime Minister has noted the contents of your letter without comment. She was grateful to be kept in touch.

(David Barclay)

S.H. Lowe, Esq.,
Ministry of Defence

CT.

*Defence
Sales*



FUE

RJ

10 DOWNING STREET

From the Private Secretary

5 March, 1984

RAPIER

I enclose for information a copy of a message to the Prime Minister from Sr. González, in reply to her letter of 16 January about Rapier. No doubt you will let us know if there is any further action which you consider it appropriate to take at this stage.

I am copying this letter and its enclosure to Brian Fall (Foreign and Commonwealth Office), Callum McCarthy (Department of Trade and Industry) and to Richard Hatfield (Cabinet Office).

(David Barclay)

R. Mottram, Esq.,
Ministry of Defence

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CC.

FILE

Key

5 March, 1984

Thank you for your letter to Mr. Butler of 2 March with which you enclosed a letter from Senor González, President of the Spanish Government. I shall place Senor Gonzalez's letter before the Prime Minister for her attention.

(David Barclay)

His Excellency Senor Jose J. Puig de la
Bellacasa



24 BELGRAVE SQUARE
LONDON SW1X 8QA

SPANISH AMBASSADOR

2nd March 1984.

Dear Mr. Butler,

I enclose a letter addressed to the Prime Minister
by the President of the Spanish Government, Don Felipe
González, and I shall be most grateful if you will kindly
see that it reaches her. 20-2-84

*Yours sincerely,
Jose J. Puig de la Bellacasa*

JOSE J. PUIG DE LA BELLACASA

F.E.R. Butler Esq.,
Principal Private Secretary,
10 Downing Street,
LONDON SW1.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~2307022~~ 218 2111/3

MO 6/11

2nd March 1984

Dear John

CREDIT FOR DEFENCE SALES TO INDIA

The Prime Minister wished to be kept in touch with developments on discussions with the Indian Government on credit for future defence purchases from Britain. The Indian Minister of Defence, Mr Venkataraman, raised the matter with the Prime Minister in November last year.

MOD officials have had a first round of discussions in New Delhi, and the matter now rests with the Indian Government. They are currently looking for credit for all their major defence purchases as a matter of policy. But it became clear that rather than a simple line of credit with us, the Indians are seeking longer term arrangements for a soft credit package. Although realising that they could not expect the same very advantageous terms available to them from the USSR, they asked if government-to-government finance could be made available on the basis of no less than 12 years repayment from delivery, at an interest rate of no more than 6½% per annum.

The MOD team explained that, while willing to be flexible in our approach to major contracts, we would have difficulty with terms of the kind that the Indians were suggesting. The Indians were however given a full explanation of ECGD cover arrangements and their advantages. Although the ECGD system appeared to be acceptable, clearly the normal terms applicable were not. Accordingly we can perhaps expect an approach for an undertaking to give softer than normal terms, but to be applied on a case by case basis. This will be most relevant in cases where there is competition - from, say, France or the United States - which is prepared to oblige. Credit terms are clearly going to play an important part in our efforts to secure a major piece of the Indian defence market estimated at more than £2,000M over the next 5 years.

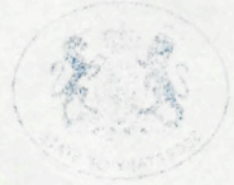
I am copying this letter to Peter Ricketts (FCO) and Ruth Thompson (DTI).

Yours ever
Simon Lowe
(S H LOWE)

Reference : Series :

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone: 01-753 3033



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2 - FEB 1984

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