TOP SECRET

10 DOWNING STREET

THIS FILE MUST NOT GO OUTSIDE 10 DOWNING ST

FILE TITLE:	SERIES
Defence Sales	DEFENCE
	PART: 9
PART BEGINS: 1st August 1987	PART ENDS: 31 January 1988
CAB ONE: S 3000	

PREM 19/2060

TOP SECRET

Printed in the UK for HMSO Dd 4599073 7/94 C15 59064

PART

CLOSED

CONFIDENTIAL
FM AMMAN
TO DESKBY 010830Z FCO
TELNO 55
OF 310800Z JANUARY 88
INFO DESKBY 010830Z MODUK
INFO PRIORITY WASHINGTON, RIYADH

SIC ACA/Z80/EAO

YOUR TELNO 38 (NOT TO RIYADH): TORNADO

SUMMARY

1. PRIME MINISTER'S LETTER DELIVERED. PRESENTATION OF PACKAGE TO CINC WENT WELL. JORDANIANS WILL NOW STUDY IT. AGREED THAT A BRITISH TEAM WOULD BE READY FOR FURTHER TALKS IN JORDAN AS FROM 9 FEBRUARY.

DETAIL

2. I DELIVERED THE PRIME MINISTER'S MESSAGE ON 29 JANUARY TO THE CHIEF OF THE ROYAL COURT. QASM SAID THAT HE WOULD ENSURE THAT KING HUSSEIN RECEIVED IT BEFORE THE MEETING WITH FIELD MARSHAL BIN SHAKER THE FOLLOWING MORNING.

3. AT THE MEETING ON 30 JANUARY BIN SHAKER WAS ACCOMPANIED ONLY BY THE CHIEF OF STAFF OF THE JORDANIAN ARMED FORCES, GENERAL ABU TALEB, AND THE COMMANDER OF THE AIRFORCE, GENERAL SHURDOM. THE DEFENCE ATTACHE AND I ACCOMPANIED KNAPP (DG MARKETING, DESO) AND MARSH (BRITISH AEROSPACE).

4. I EXPLAINED THE TERMS OF THE PRIME MINISTER'S MESSAGE, OF WHICH BIN SHAKER WAS NOT YET AWARE, AND THAT THERE WERE NO OBSTACLES TO PROCEEDING WITH DETAILED DISCUSSIONS OVER THE SUPPLY OF THE IDS VARIANT OF TORNADO. IN PRESENTING THE WRITTEN PROPOSALS, KNAPP POINTED OUT THAT THE COST OF THE AIRCRAFT REPRESENTED ABOUT HALF OF THE TOTAL COST OF THE PACKAGE AND WAS SOMEWHAT LESS THAN THE ADV. COSTINGS HAD BEEN MADE AT THE SAME ECONOMIC CONDITIONS AS FOR THE EARLIER ADV PACKAGE IN ORDER TO FACILITATE COMPARISONS. PRICE AND THE TERMS OF THE CREDIT PACKAGE WERE OPEN TO NEGOTIATION. THE ACTUAL TOTAL PRICE WOULD

DEPEND UPON THE JORDANIAN NEEDS AS REGARDS SUPPORT AND WEAPONRY. KNAPP SUGGESTED THAT THE JORDANIANS CONSIDER DISCUSSING WITH THE SAUDI AIRFORCE TO WHAT EXTENT JORDAN MIGHT BE ABLE TO USE EXISTING SAUDI TRAINING AND MAINTENANCE FACILITIES AS A MEANS OF CUTTING COSTS.

5. IN DISCUSSION, WHICH WAS LED MAINLY BY SHURDOM, KNAPP CONFIRMED THAT THERE WAS FLEXIBILITY OVER CREDIT ARRANGMENTS AND DELIVERY TIMING, WHICH COULD BE DEALT WITH IN LATER DISCUSSION, AND THAT THERE WAS NO PROBLEM OVER THE SUPPLY OF GROUND MAPPING RADAR. ADVICE AND ASSISTANCE WOULD BE GIVEN OVER BAE'S PRICING PROPOSALS SO THAT THE JORDANIANS WERE NOT ''AT BAE'S MERCY''.

6. QASM HAD TOLD ME THE PREVIOUS EVENING THAT THE JORDANIANS WERE CONSIDERING AN ADDITIONAL FOUR TORNADO AFTER THE INITIAL EIGHT. WHILE BIN SHAKER DID NOT REFER TO THIS, KNAPP STRESSED THAT THE SUPPORT PACKAGE FOR ADDITIONAL AIRCRAFT WOULD COME RELATIVELY MORE CHEAPLY.

7. SHURDOM ENQUIRED WHETHER ARRANGEMENTS COULD BE MADE FOR JORDAN TO DEAL DIRECT WITH THE UNITED STATES OVER THE PAYMENT (NOT SUPPLY) FOR SIDEWINDER MISSILES, SUGGESTING THAT JORDAN MIGHT BE ABLE TO GET THEM CHEAPER. KNAPP TOOK NOTE AND AGREED THAT THE QUESTION WOULD BE EXAMINED.

8. BIN SHAKER AND SHURDOM SHOWED MUCH INTEREST IN THE POSSIBLE USE OF FACILITIES IN SAUDI ARABIA AND IN JOINT DETAILED DISCUSSIONS WITH THE RAF, BAE AND THE SAUDI AIR FORCE. KNAPP SUGGESTED THAT THE JORDANIANS SHOULD CONTACT THE SAUDIS FIRST. SHURDOM ALSO OBSERVED THAT IN CERTAIN ASPECTS OF MAINTENANCE JORDANIANS SKILLS AND FACILITIES MIGHT BE BETTER THAN THOSE OF THE SAUDIS AND IMPLIED THAT SOME FORM OF TASK-SHARING MIGHT BE ARRANGED. ROYAL JORDANIAN AIRLINES' EXPERIENCE IN MAINTAINING ROLLS ROYCE ENGINES MIGHT ALSO BE APPLICABLE TO MODULES OF THE TORNADO ENGINES.

9. BIN SHAKER SUMMED UP THE NEXT STEPS AS INVOLVING:

A) CONSIDERATION OF THE PROPOSALS BY RJAF

B) DISCUSSIONS WITH THE RAF ON, INTER ALIA, JORDAN'S OPERATIONAL CONCEPT IN ORDER TO REFINE THE PACKAGE AND,

CONCURRENTLY:

C) A JOINT RAF/BAE TECHNICAL SURVEY OF JORDAN'S OWN FACILITIES

D) DISCUSSIONS BY JORDAN WITH THE SAUDI AIRFORCE ON TECHNICAL COOPERATION, TRAINING ETC.

E) NEGOTIATIONS ABOUT PRICE WOULD FOLLOW AFTER THESE STEPS.

10. SHURDOM SHOWED READINESS TO COMMENCE DETAILED DISCUSSIONS WITH A BRITISH TEAM WITHIN TWO OR THREE DAYS, BUT BIN SHAKER STRESSED THAT THE JORDANIAN SIDE SHOULD BE FULLY PREPARED. IT WAS THEREFORE AGREED TO PLAN ON TALKS STARTING IN TEN DAYS, IE 9 FEBRUARY. THE JORDANIANS WOULD BE IN TOUCH THROUGH THE EMBASSY.

COMMENT

11. THE JORDANIAN SIDE, AND SHURDOM IN PARTICULAR, SHOWED A LIVELY INTEREST IN THE PACKAGE AND ENTHUSIASM TO PROCEED WITH DETAILED DISCUSSIONS. THERE WAS NO MENTION OF RIVAL OFFERS NOR ANY IMPLICATION THAT DECISIONS WERE IN ANY WAY DEPENDENT UPON THESE ALSO. AT MY MEETING WITH QASM, HOWEVER, HE CONFIRMED THAT THE FRENCH FINANCE MINISTER HAD REFERRED TO THE POSSIBLE SALE OF MIRAGE 2000 DURING HIS VISIT: THE JORDANIAN FINANCE MINISTER HAD TOLD BALLADUR THAT THE RELATIVE COSTS OF TORNADO AND MIRAGE WOULD HAVE A BEARING ON FINAL DECISIONS. QASM ADDED THAT HE WAS NOT AWARE WHETHER THE RUSSIANS HAD YET RESPONDED TO THE JORDANIAN ENQUIRIES ABOUT THE EQUIPMENT WHICH MIGHT BE SUPPLIED WITH THE MIG 29 (THE JORDANIAN DEADLINE HAD BEEN 20 FEBRUARY: AMMAN TEL 181400Z TO MODUK) THUS, DESPITE THE WARM RECEPTION FOR OUR PACKAGE, THE COMPETITION MAY NOT YET BE ELIMINATED.

12. KNAPP PROPOSED TO BE IN TOUCH WITH RIYADH ON HOW TO TAKE FORWARD THE QUESTION OF JORDANIAN TASK-SHARING WITH SAUDI ARABIA.

13. IT WILL CLEARLY BE ESSENTIAL THAT A BRITISH TEAM IS READY TO BE HERE TO TAKE MATTERS FORWARD AS FROM 9 FEBRUARY.

022703
MDHIAN 5803

SYNNOTT

YYYY

DISTRIBUTION 76

MAIN 72

LIMITED
NENAD
ESSD
DEFENCE
NEWS
INFO
ERD
PLANNERS
PS
PS/MRS CHALKER
PS/MR MELLOR
PS/PUS
MR MUNRO
SIR D MIERS
MR BOYD
MR GOULDEN
MR MAUD

ADDITIONAL 4

ASSESSMENT STAFF CAB OFFICE
PS/NO 10 DOWNING STREET
DESO MOD
SEC (O)(C) MOD

NNNN

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon John Major MP
Chief Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS4ABS
Your ref
Date 29 January 1988

CONFIDENTIAL

Dear John.

JORDAN - TORNADOS

George Younger's letter of 21 ~~January~~ May to you proposed certain improvements in the terms of our cover for the proposed sale of Tornados to Jordan. These go beyond the normal credit terms and produce a greater subsidy element than we would usually recommend. However, in view of the importance of this contract, I agree that we should accept the improvements outlined in paragraphs 5 and 6 of the letter. If these cannot be agreed, there is a strong danger that the contract - on whose importance we are all agreed - will be lost: whilst the Jordanians do not expect us to match the Russian terms, they are unlikely to regard seriously a financing offer which is markedly inferior to that of the French. I agree therefore that the improved credit offer should be conveyed as soon as possible in order to keep British Aerospace's hopes alive. This assumes, however, that they and their bankers will be content to carry the balance of the risk on the credit portion.

the Enterprise initiative

Although this can be left to be settled later, I should say that I agree very much with Geoffrey Howe in his objections to the offsetting proposals set out in the final paragraph of George Younger's letter. Quite frankly, this is a quite unnecessary complication and would involve ECGD in a needless administrative burden. We have now agreed in principle to set up the £1,000 million Defence Facility to enable important potential defence contracts of this nature to be taken on. There is a clear case for setting the whole of the potential liability on this contract, which has now risen to £220 million, against the new Defence Facility.

In view of the importance of this case, I would be prepared to agree to a revised offer being made to the Jordanians on the basis now proposed, leaving us to resolve the question of how the ECGD liability is to be allocated subsequently. This suggestion does not, however, mean that I am prepared to accept the principle of offset.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe and George Younger.

DEFENCE Sale PTO

SECRET

640

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 January 1988

TORNADO FOR JORDAN

I enclose a copy of President Reagan's reply to the Prime Minister's message about Tornado for Jordan.

I am copying this letter and enclosure to Robert Culshaw (Foreign and Commonwealth Office).

Charles Powell

Ian Andrews, Esq.,
Ministry of Defence.

SECRET

SECRET

CPC
39

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

January 29, 1988

Dear Prime Minister:

Enclosed is the text of a letter from the President we have received this evening from Washington.

With best regards,

Charlie

Charles H. Price II
Ambassador

Enclosure: SECRET

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister
Ten Downing Street,
London, SW1.

SECRET



SECRET

JANUARY 28, 1988

DEAR MARGARET:

THANK YOU FOR YOUR LETTER REGARDING YOUR DISCUSSIONS WITH KING HUSSEIN ON THE PROPOSED SALE OF TORNADO AIRCRAFT TO JORDAN. I SHARE YOUR CONCERN THAT WE MUST FIND WAYS TO PREVENT THE KING FROM TURNING TO THE SOVIETS FOR THE MIG-29. I ALSO SHARE YOUR VIEW THAT A TORNADO SALE WOULD BE IN OUR INTEREST AS AN ALTERNATIVE.

WE HAVE CONSULTED WITH KEY MEMBERS OF CONGRESS ON THIS ISSUE. BASED ON THESE CONSULTATIONS AND ON OUR RECOGNITION OF THE IMPORTANCE OF THE SALE, HER MAJESTY'S GOVERNMENT SHOULD TELL THE KING THAT THE SALE CAN PROCEED. OUR GOVERNMENT WILL ISSUE THE NECESSARY APPROVALS FOR RE-EXPORT OF U.S. ORIGIN COMPONENTS.

I AM SURE THAT YOU APPRECIATE THE POLITICAL SENSITIVITY OF THIS SALE. NEVERTHELESS, AS YOU STATED IN YOUR LETTER, ONE OF THE STRONGEST RATIONALES FOR THE SALE IS TO KEEP THE MIGS, AND THE EXPANDED SOVIET INFLUENCE THAT WOULD ACCOMPANY THEM, OUT OF JORDAN. MEMBERS OF CONGRESS HAVE ALSO FOUND THIS ARGUMENT CONVINCING. HOWEVER, AS WE HAVE ALREADY CONVEYED TO MR. CHARLES POWELL, IT IS EXTREMELY IMPORTANT THAT YOUR GOVERNMENT DO WHATEVER IT CAN TO OBTAIN COMMITMENTS FROM THE KING THAT JORDAN WILL NOT PURCHASE MIG-29S IF THE TORNADO SALE IS MADE. CONGRESSIONAL SUPPORT FOR THE SALE DEPENDS ON SUCH ASSURANCES.

OUR ABILITY TO INFLUENCE THE COURSE OF EVENTS IN THE MIDDLE EAST DEPENDS ON OUR ABILITY TO MAINTAIN APPROPRIATE MILITARY BALANCES IN THE REGION. YOUR PROPOSED SALE CONTRIBUTES TO THIS EFFORT.

NANCY AND I SEND OUR BEST WISHES TO YOU AND DENIS.

SINCERELY,

RONALD REAGAN

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T13 A3/88

US Declassified

SECRET

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T138/88

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

28 January 1988

Your Majesty,

I am very pleased to say that we are now in a position to present to Your Majesty our detailed offer for the supply of the Tornado IDS aircraft. A small team from the Ministry of Defence and British Aerospace are seeking an appointment with Field Marshal bin Shaker for Saturday 30 January, at which they will be able to set out the terms of the package. I very much hope that the negotiations can thereafter be brought to a positive conclusion, so as to strengthen further the close relationship which Britain and Jordan already enjoy on all defence matters.

I send Your Majesty my warm regards,

Yours sincerely

Margaret Thatcher

His Majesty King Hussein bin Talal

CONFIDENTIAL

Cile SEW

cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 January 1988

Dear Ian,

TORNADO FOR JORDAN

Thank you for your letter of 28 January enclosing a draft message from the Prime Minister to King Hussein confirming that we are now in the clear to supply the Tornado IDS to Jordan. The Prime Minister has signed a slightly amended version of the message. I am sending the top copy of the letter to Robert Culshaw in the Foreign and Commonwealth Office. I suggest it would be wise to wait until we have seen the text of President Reagan's message to the Prime Minister before we despatch the message to King Hussein.

The Prime Minister agrees that we should raise the point about sale of Tornado precluding a subsequent Jordanian purchase of MIG 29s in person with the King, when the Foreign Secretary sees him on 8 February and subsequently when he comes to London.

I enclose a copy of the message for you.

yours sincerely,

Charles Powell

(C. D. POWELL)

Ian Andrews, Esq.,
Ministry of Defence.

CONFIDENTIAL

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022 xxxxxxx 01-218 2111/3

MO 6/19/7E

28 January 1988

Dear Charles,

TORNADO FOR JORDAN

As you are aware, we have now had the US Government's approval to the sale of Tornado IDS to Jordan.

It is proposed that a joint Ministry of Defence and British Aerospace team should visit Jordan on Saturday to present the details to Field Marshal Bin Shaker. It would be a great help if before then a message could be sent from the Prime Minister to the King, following up her interim reply of 23rd January, confirming that we are now in a position to present a package. A draft is attached.

As for the need to satisfy the American condition that there should be a clear understanding in Jordan that a decision in favour of Tornado would preclude the subsequent purchase of MiG 29 as well, our firm advice is that it would be inadvisable for this to be spelled out in writing to the King. It would be best to communicate this message to the King in person. There are two opportunities to do this within the next few weeks; The Foreign and Commonwealth Secretary is to see the King in Amman on 8th February and the King will be in London at the end of that month, when I understand the Prime Minister may herself be able to see him.

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

Yours ever,

(I C F ANDREWS)
Private Secretary

Charles Powell Esq
No 10 Downing Street

CONFIDENTIAL

DRAFT MESSAGE FROM THE PRIME MINISTER

I am pleased to be able to tell you that we are now in a position to present our detailed offer for the supply of the Tornado IDS aircraft.

A small team from the Ministry of Defence and British Aerospace are seeking an appointment with Field Marshal bin Shaker for Saturday 30th January, at which they will be pleased to set out the terms of the package.

I am delighted that it has been possible to reach this stage. I look forward keenly to taking further our already close relationship in the defence field.

With my warmest good wishes.

004/2986

CONFIDENTIAL

CCC.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

CDN
28/1

Dear George,

28 January 1988

TORNADOS FOR JORDAN

Thank you for your letter of 21 January in which you report developments in the potential contract for the sale of Tornado aircraft to Jordan. I have also seen Geoffrey Howe's letter of 22 January.

You estimate that the concessions which MOD and ECGD now consider necessary will increase ECGD's Departmental Maximum Liability (DML) to about £220 million. This is £70 million above the £150 million agreed earlier, which was itself well beyond the market limit. Given the importance of this contract, I am prepared to agree the concessions you propose to enable BAe to compete with the French. I trust that your officials will ensure that BAe itself makes a parallel contribution. As before my agreement to the increase in cover over the market limit is on the basis that offsetting reductions are made in other similarly risky market limits.

Until agreement is reached on the introduction of the special Section 2 allocation for arms sales, the whole of the revised DML of £220 million needs to be offset by reductions in other country limits. I am prepared, however, to agree that some or all of the DML for this contract should be the first charge against the new allocation when it is introduced, substituting for some or all of the offset needed. But I do not think that our endorsement of the new terms need be delayed by discussion of the way in which this contingent liabiliy should be handled. I have asked my officials to discuss this further within EGC.

DEFENCE Sales PT9

CONFIDENTIAL

I am copying this letter to the Prime Minister, Geoffrey Howe, and David Young.

Yours Ever,
John

JOHN MAJOR



270813Z

COMMENT

SECRET
FM WASHINGTON
TO DESKBY 270830Z FCO
TELNO 190
OF 270245Z JANUARY 88
INFO DESKBY 270630Z AMMAN
INFO DESKBY 270830Z MODUK

SIC (ACA/ZMC/Z80)
MY TELNO 168: JORDAN/TORNADO
1. MURPHY TELEPHONED ME THIS EVENING TO CONVEY US APPROVAL. THE PRESIDENT WILL SIGN A FORMAL LETTER TO THIS EFFECT ON 27 JANUARY. THE LETTER WILL CONTAIN THE PROVISO THAT IT IS VERY IMPORTANT TO OBTAIN A COMMITMENT FROM THE KING THAT JORDAN WILL NOT (NOT) BUY MIG 29S.
2. I THANKED MURPHY. HE SAID THAT HIS CONSULTATIONS WITH CONGRESS HAD MET WITH VARYING DEGREES OF ENTHUSIASM BUT NO OUTRIGHT OPPOSITION, ALTHOUGH HE SUSPECTED THAT THERE MIGHT BE CONGRESSIONAL REVERBERATIONS LATER.
3. MURPHY'S DEPUTY, DJEREJIAN, LATER EXPLAINED TO US THAT THE ADMINISTRATION HAD ONLY WON CONGRESS' ACQUIESCENCE THROUGH THE STRATEGIC ARGUMENT THAT A TORNADO IDS SALE WOULD END JORDAN'S INTEREST IN THE MIG-29. IT WOULD BE MOST UNFORTUNATE IF, AFTER COMPLETION OF A TORNADO SALE AND DELIVERY OF THE AIRCRAFT, JORDAN TURNED TO THE SOVIET UNION FOR ITS OUTSTANDING AIR DEFENCE REQUIREMENTS. THE ADMINISTRATION WERE NOT TRYING TO DICTATE TACTICS TO US. BUT IT WAS IMPORTANT THAT EXPLICIT ASSURANCES ON THIS POINT BE OBTAINED FROM KING HUSSEIN AT SOME STAGE BEFORE A TORNADO SALE WAS COMPLETED. DJEREJIAN ACKNOWLEDGED THAT, FOR MANY REASONS, IT WAS UNLIKELY THAT KING HUSSEIN WOULD ATTEMPT, OR COULD AFFORD TO BUY BOTH TORNADO AND MIG 29S. BUT THE ADMINISTRATION COULD ONLY COVER THEIR POSITION IN CONGRESS BY ASKING THAT WE OBTAIN THESE COMMITMENTS.
4. FCO PLEASE ADVANCE TO POWELL (NO 10).

ACLAND

YYYY

ADVANCE	7	
PS		1
HD/NENAD		1
HD/ESSD		1
HD/DEFENCE		1
HD/NEWS		1
HD/ERD		1
RESIDENT CLERK		1
MAIN	68	
LIMITED		8
NENAD		6
ESSD		7
DEFENCE		4
NEWS		9

SECRET 36 file

GA 63
CoR

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 January 1988

TORNADO FOR JORDAN

General Powell telephoned me from the White House at 1600 this afternoon to say that everything looked good for the United States Administration to give their agreement for the sale of Tornado to Jordan. They had not been able to consult all those concerned in Congress, and there might be a few hiccups. But the President was comfortable with the consultations which had taken place and had instructed General Powell: "Do it!". Secretary Shultz was being briefed at the moment and a formal message would be despatched as soon as someone had time to draft it. I imagine we shall receive that in the morning.

You will now want to set in hand further action with the Jordanians.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office).

(Charles Powell)

Ian Andrews, Esq.,
Ministry of Defence.

SECRET

010/3298

SECRET 35

CCPF

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

26th January 1988

Dear George,

MALAYSIAN DEFENCE PACKAGE

Thank you for sending me a copy of your minute to the Prime Minister on this.

I welcome your reassurance that the arrangements do not pose the same financial and economic problems as the Al Yamamah scheme. I was pleased to see that there was no question of a government-to-government deal: indeed it would be difficult to see any justification for that. Your officials have told mine that no export credit cover will be required to enable the deal to go ahead and that the financing arrangements, including the oil lifting scheme, will therefore be entirely a matter for the commercial parties concerned. Again, this is helpful given the uncertain prospects for the Malaysian economy to which you refer in your minute. However, I note that the Minister for Trade has sounded a warning note on the need to be clearer about the Financing announcements. I support that. No doubt you would consult colleagues again should it look as if Government support would be required.

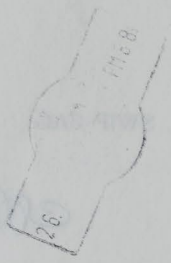
On this basis, I see no objection to your signing a Protocol with the Malaysians. Nor do I see any difficulty in the terms of the proposed message from the Prime Minister.

I am copying this letter to the Prime Minister, Geoffrey Howe, Cecil Parkinson, David Young and Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

DEFENCE : Sales PTO.



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T18/88

SUBJECT cc MASTER OPS.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

26 January 1988

cc FCO MOD DefI DTI HmT CO.

Dear Prime Minister,

I am very pleased indeed that our two Governments are to co-operate to meet Malaysia's defence needs. This important initiative has my full backing and support; it will strengthen the links between our two Armed Forces, whose co-operation is already of long-standing. And it will also be a further step, following your own very successful visit to the United Kingdom last year, in building up the relations between Britain and Malaysia.

I send you my best wishes for the success of our co-operation in this field, together with my warm regards.

Yours sincerely,

Margaret Thatcher

His Excellency Dato' Seri Dr. Mahathir bin Mohamed

CONFIDENTIAL
FM AMMAN
TO DESKBY 251000Z FCO
TELNO 42
OF 241040Z JANUARY 88
INFO IMMEDIATE MODUK, WASHINGTON

SIC ACA/ZMC/Z80

YOUR TELNO 29 (NOT TO WASHINGTON): TORNADO

1. I DELIVERED THE PRIME MINISTER'S MESSAGE TO THE HEAD OF THE ROYAL DIWAN (MARWAN AL QASEM) THIS MORNING. HE PROMISED THAT THE KING WOULD SEE IT AS SOON AS POSSIBLE TODAY.

2. QASEM SAID THAT THE MESSAGE WAS VERY TIMELY. ''SOME PEOPLE'' WERE URGING THE KING TO TAKE AN EARLY DECISION AND WERE PLEASED THAT THE BRITISH REPLY HAD BEEN DELAYED. BUT HE THOUGHT THE KING WAS STILL DETERMINED TO PURCHASE TORNADO.

3. IN VIEW OF THE PROBLEMS REGARDING AMERICAN ARMS SALES TO JORDAN, AND THE EMOTIONS AROUSED HERE IN THE PAST BY THE ADMINISTRATION'S FAILURE TO CONVINCE CONGRESS TO PERMIT SUCH SALES, I THOUGHT IT WAS WISE TO DRAW QASEM'S ATTENTION TO THE STATEMENT IN THE PRIME MINISTER'S MESSAGE TO OUR NEED TO OBTAIN AMERICAN APPROVAL TO THE RE-EXPORT OF COMPONENTS OF US ORIGIN. I SAID THAT OUR DISCUSSIONS WITH THE AMERICANS WERE NOW AT AN ADVANCED STAGE THAT WE EXPECTED A FINAL REPLY IN A MATTER OF DAYS AND I WAS PERSONALLY VERY OPTIMISTIC THAT IT WOULD BE POSITIVE. I ASKED HIM TO PASS THESE POINTS ON TO KING HUSSEIN.

COLES

YYYY

000035
MDHIAN 4807

DISTRIBUTION 63

MAIN 57

LIMITED
NENAD
ESSD
DEFENCE
NEWS
ERD
PLANNERS
PS
PS/MRS CHALKER
PS/MR MELLOR
PS/PUS
MR MUNRO
SIR D MIERS
MR BOYD
MR GOULDEN
MR MAUD

ADDITIONAL 6

ASSESSMENTS STAFF CAB OFF
PS/NO 10
DESO MOD
SEC(O)(C) MOD

NNNN

COVERING SECRET 33



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 January, 1988.

TORNADO FOR JORDAN

I enclose:

(a) the version of the Prime Minister's message to King Hussein which should now be sent Flash to Amman;

(b) a copy of a message from the Prime Minister to President Reagan, based on the information in Washington tel. no. 168, which I am despatching direct to the White House. You will wish to send a copy to our Embassy in Washington.

I am copying this letter and enclosures to the Resident Clerk in the Ministry of Defence.

(C.D. Powell)

The Resident Clerk,
Foreign and Commonwealth Office.

COVERING SECRET

OUT TELEGRAM

		Classification	Caveat	Precedence
		CONFIDENTIAL		~~DESKBY~~ FLASH

ZCZC 1 ZVZC
TC 2 CONFIDENTIAL
CAVEAT 3
FM 4 FM FCO
TO 5 TO DESKBY AMMAN
TELNO 6 TELNO
OF 7 OF JANUARY 88
AND TO 8 AND TO IMMEDIATE MODUK
9
10
11 TORNADO
12 1. Please pass to King Hussein as soon as possible the
13 following message from the Prime Minister:
14 BEGINS
15 Your Majesty, I am very much aware that you are still awaiting
16 a reply to your message of 11 December on the Tornado aircraft.
17 The delay, which I regret, has been caused in part by the
18 need to consult fully with our German and Italian partners,
19 and to finalise financial arrangements. I am now happy
20 to confirm that there is no difficulty on the part of the
21 Tornado partners about the supply of the Interdictor version
22 of the aircraft. We expect to be able to present a detailed
23 package in revised form by the end of this month at the
24 very latest. But we also have to obtain the approval of
25 the US Administration to the re-export of the components
/// 26 of US origin so as to be able to offer you the aircraft
// 27 to the optimum specification. We have approached the Americans
/ 28 and are pressing them for a very early reply.
29

YYYY
MAIN
ADDITIONAL
NNNN

		Catchword:	
File number	Dept	Drafted by (Block capitals)	Telephone no
Authorised for despatch by:	Initials	Date/time	
For COD use only	Comcen reference	Telegram number	Processed by

OUT TELEGRAM (CONT)

	Classification	Caveat	Precedence
	CONFIDENTIAL		DESKBY

I am confident that these remaining points can be resolved swiftly, so that detailed negotiations can be resumed as soon as possible.

[Alternative wording if US approval received]
We also had to obtain the approval of the US Administration to the re-export of the components of US origin so as to be able to offer you the aircraft to the optimum specification. We have just received this, and the way is now fully open for us to forward a revised package, on which negotiations can resume as soon as possible.

~~[Both versions]~~

I look forward to discussing this and other wider issues with you when you are next in London. Meanwhile, I send you my warm good wishes.
ENDS
2. There will be no/no signed original.

HOWE

YYY
Limited
Minimal
NENAD
ERD
PS
PS/Mr Mellor
Mr Munro
/// Mr Maud
// Sir D Miers
/

NNN

For distribution order see Page 1	Catchword:

XY 48A (REV)

PS/NO 10

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T12/88

241014Z

COMMENT

SECRET
FM FCO
TO DESKBY 231600Z WASHINGTON
TELNO 131
OF 231445Z JANUARY 88

YOUR TELNO 168: JORDAN/TORNADO
1. FOLLOWING MESSAGE FROM PRIME MINISTER TO PRESIDENT REAGAN WAS TRANSMITTED DIRECTLY AT 1235Z TODAY.
BEGINS
AS YOU WILL KNOW, WE ARE HOPING TO SUPPLY KING HUSSEIN OF JORDAN WITH EIGHT TORNADO AIRCRAFT. ONE PURPOSE IS TO PREVENT HIM FROM TURNING TO THE RUSSIANS FOR MIG 29S WHICH WOULD BE MOST UNDESIRABLE.
THE INTERDICTOR VERSION OF THE TORNADO CONTAINS SOME COMPONENTS OF US ORIGIN AND WE NEED THE APPROVAL OF YOUR ADMINISTRATION FOR THEIR RE-EXPORT. CONSULTATIONS ARE GOING ON WITH CONGRESS AND WE ARE VERY GRATEFUL FOR THE EFFORTS WHICH ARE BEING MADE. I UNDERSTAND THAT NONE OF THE RESPONSES SO FAR HAVE BEEN NEGATIVE, WHICH IS A GOOD SIGN. BUT THERE ARE STILL A NUMBER OF KEY MEMBERS OF CONGRESS TO BE CONSULTED.
KING HUSSEIN IS PRESSING US VERY HARD FOR AN EARLY REPLY. OUR ASSESSMENT IS THAT THERE EXISTS A REAL DANGER THAT HE WILL TAKE THE WRONG DECISION IF WE DO NOT RESPOND POSITIVELY ON TORNADO VERY EARLY NEXT WEEK. IT IS VITAL THAT WE SHOULD RECEIVE YOUR REPLY BY THE EVENING OF MONDAY 25 JANUARY AT THE LATEST.
I WOULD NOT TROUBLE YOU WITH THIS UNLESS I THOUGHT IT OF THE HIGHEST IMPORTANCE.
I AM DELIGHTED TO HEAR THAT YOU WILL BE COMING TO EUROPE FOR THE NATO SUMMIT IN MARCH, AND LOOK FORWARD TO SEEING YOU THEN.
I ALSO TAKE THE OPPORTUNITY TO SEND YOU BEST WISHES FOR YOUR STATE OF THE UNION ADDRESS ON MONDAY,
DENIS JOINS ME IN SENDING WARM REGARDS TO YOU AND NANCY,
ENDS

HOWE

YYYY
MAIN 34
LIMITED 8
NENAD 6
ERD 4
PS 7
PLANNERS 3
PS/MR MELLOR 1
PS/PUS 1
MR MUNRO 1
MR MAUD 1
SIR D MIERS 1
RC 1
[BARLOW]

SUBJECT cc MASTER OFS

30

CAB/WTE001/23

O 231235Z JAN 88
FM CABINET OFFICE LONDON
TO THE WHITE HOUSE
BT
S E C R E T
FOLLOWING FOR GENERAL COLIN POWELL FROM CHARLES POWELL,
NO. 10 DOWNING STREET

PLEASE PASS THE FOLLOWING MESSAGE TO THE PRESIDENT FROM PRIME MINISTER THATCHER

DEAR RON,

AS YOU WILL KNOW, WE ARE HOPING TO SUPPLY KING HUSSEIN OF JORDAN WITH EIGHT TORNADO AIRCRAFT. ONE PURPOSE IS TO PREVENT HIM FROM TURNING TO THE RUSSIANS FOR MIG 29S WHICH WOULD BE MOST UNDESIRABLE.

THE INTERDICTOR VERSION OF THE TORNADO CONTAINS SOME COMPONENTS OF U.S. ORIGIN AND WE NEED THE APPROVAL OF YOUR ADMINISTRATION FOR THEIR RE-EXPORT. CONSULTATIONS ARE GOING ON WITH CONGRESS AND WE ARE VERY GRATEFUL FOR THE EFFORTS WHICH ARE BEING MADE. I UNDERSTAND THAT NONE OF THE RESPONSES SO FAR HAVE BEEN NEGATIVE, WHICH IS A GOOD SIGN. BUT THERE ARE STILL A NUMBER OF KEY MEMBERS OF CONGRESS TO BE CONSULTED.

KING HUSSEIN IS PRESSING US VERY HARD FOR AN EARLY REPLY. OUR ASSESSMENT IS THAT THERE EXISTS A REAL DANGER THAT HE WILL TAKE THE WRONG DECISION IF WE DO NOT RESPOND POSITIVELY ON TORNADO VERY EARLY NEXT WEEK. IT IS VITAL THAT WE SHOULD RECEIVE YOUR REPLY BY THE EVENING OF MONDAY 25 JANUARY AT THE LATEST. I WOULD NOT TROUBLE YOU WITH THIS UNLESS I THOUGHT IT OF THE HIGHEST IMPORTANCE.

I AM DELIGHTED TO HEAR THAT YOU WILL BE COMING TO EUROPE FOR THE NATO SUMMIT IN MARCH, AND LOOK FORWARD TO SEEING YOU THEN. I ALSO TAKE THE OPPORTUNITY TO SEND YOU BEST WISHES FOR YOUR STATE OF THE UNION ADDRESS ON MONDAY,

DENIS JOINS ME IN SENDING WARM REGARDS TO YOU AND NANCY,

MARGARET.
BT

NNNN

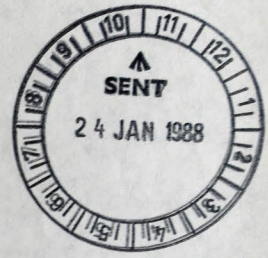
PS/NO10

241014Z SUBJECT

COMMENT CC MASTER OPS

PS. file

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T11/88



CONFIDENTIAL
FM FCO
TO FLASH AMMAN
TELNO 29
OF 231445Z JANUARY 88
AND TO IMMEDIATE MODUK

TORNADO

1. PLEASE PASS TO KING HUSSEIN AS SOON AS POSSIBLE THE FOLLOWING MESSAGE FROM THE PRIME MINISTER:

BEGINS

YOUR MAJESTY, I AM VERY MUCH AWARE THAT YOU ARE STILL AWAITING A REPLY TO YOUR MESSAGE OF 11 DECEMBER ON THE TORNADO AIRCRAFT. THE DELAY, WHICH I REGRET, HAS BEEN CAUSED IN PART BY THE NEED TO CONSULT FULLY WITH OUR GERMAN AND ITALIAN PARTNERS, AND TO FINALISE FINANCIAL ARRANGEMENTS. I AM NOW HAPPY TO CONFIRM THAT THERE IS NO DIFFICULTY ON THE PART OF THE TORNADO PARTNERS ABOUT THE SUPPLY OF THE INTERDICTOR VERSION OF THE AIRCRAFT. WE EXPECT TO BE ABLE TO PRESENT A DETAILED PACKAGE IN REVISED FORM BY THE END OF THIS MONTH AT THE VERY LATEST. BUT WE ALSO HAVE TO OBTAIN THE APPROVAL OF THE US ADMINISTRATION TO THE RE-EXPORT OF THE COMPONENTS OF US ORIGIN SO AS TO BE ABLE TO OFFER YOU THE AIRCRAFT TO THE OPTIMUM SPECIFICATION. WE HAVE APPROACHED THE AMERICANS AND ARE PRESSING THEM FOR A VERY EARLY REPLY.

I AM CONFIDENT THAT THESE REMAINING POINTS CAN BE RESOLVED SWIFTLY, SO THAT DETAILED NEGOTIATIONS CAN BE RESUMED AS SOON AS POSSIBLE.

I LOOK FORWARD TO DISCUSSING THIS AND OTHER WIDER ISSUES WITH YOU WHEN YOU ARE NEXT IN LONDON. MEANWHILE, I SEND YOU MY WARM GOOD WISHES.

ENDS

2. THERE WILL BE NO/NO SIGNED ORIGINAL.

HOWE

YYYY

MAIN 34	
LIMITED	8
NENAD	6
ERD	4
PLANNERS	3
PS	7
PS/MR MELLOR	1
PS/PUS	1
MR MUNRO	1
MR MAUD	1
SIR D MIERS	1
RESIDENT CLERK	1

[DRYDEN]

PS/No 10.
31

241015Z

COMMENT

PT - Jute

SECRET
FM FCO
TO DESKBY 232200Z WASHINGTON
TELNO 132
OF 232100Z JANUARY 88
AND TO DESKBY 240630Z AMMAN

FCO TELNO 131: JORDAN/TORNADO

1. YOU SHOULD KNOW THAT FOLLOWING RECEIPT OF THE PRIME MINISTER'S MESSAGE IN TUR, GENERAL POWELL (NSC) SPOKE TO CHARLES POWELL AT NO.10.
2. GENERAL POWELL SAID CONSULATIONS WITH CONGRESS WERE GOING WELL. BUT SOME DIFFICULT MEMBERS COULD NOT BE TACKLED BEFORE MONDAY AFTERNOON IN WASHINGTON. HE COULD NOT THEREFORE MEET OUR DEADLINE, BUT WAS CONFIDENT OF A POSITIVE RESPONSE BY THE AFTERNOON OF TUESDAY 26 JANUARY. CHARLES POWELL REPUTED THAT TUESDAY WOULD NOT BE TOO LATE: THE IMPORTANT THING WAS TO GET THE RIGHT ANSWER. WE WERE GRATEFUL FOR THE NSC AND STATE'S EFFORTS ON OUR BEHALF.
3. GENERAL POWELL STRESSED THAT, IF JORDAN BOUGHT TORNADO WITH U S APPROVAL, THERE MUST BE NO QUESTION OF A JORDANIAN PURCHASE OF MIG-29S AS WELL. IF THAT WERE TO HAPPEN, CONGRESS WOULD UNDOUBTEDLY BLOCK SALE OF TORNADO. CHARLES POWELL SAID WE BELIEVED THAT THIS WAS UNDERSTOOD BY ALL CONCERNED IN THE SALE.

HOWE

YYYY
MAIN 33

LIMITED	8
NENAD	6
ERD	4
PS	7
PLANNERS	3
PS/MR MELLOR	1
PS/PUS	1
MR MUNRO	1
MR MAUD	1
SIR D MIERS	1

[DRYDEN]

SECRET 34

File
203 BGF
cc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 January, 1988.

Dear Resident Clerk.

JORDAN: TORNADO

General Powell telephoned me from the White House this afternoon about the Prime Minister's message to the President on Tornado for Jordan.

General Powell said that the consultations with members of Congress were going well, but he needed a little more time than the message gave him to complete them, perhaps an extra 24 to 36 hours. He hoped that our deadline was not an absolute one. The reaction from those members of Congress who had so far been approached had been positive, but there were still some difficult ones to tackle, and several of them would not be available until Monday afternoon in Washington. He was confident that he could get us a positive response by Tuesday afternoon (26 January). I said that we were very grateful for all the work that the National Security Council and State Department were doing on our account. The most important thing was to get the right answer. We would like it as soon as possible, but understood the difficulties. Tuesday would not be too late.

General Powell continued that he wanted to be sure that one point was clearly understood by us and by King Hussein. If the Administration gave the go-ahead for the sale of Tornado, and the King opted for it, there must be no question of his subsequently deciding to buy Mig 29s also. Were that to happen, there would be a major row. The strongest argument for getting Congressional support for the sale of Tornado was that this would prevent the King from turning to the Soviet Union. If he subsequently bought Mig 29s, there was no doubt that Congress would legislate to block the sale of Tornado with US components. This was a vital point. I said that my clear understanding had always been that Tornado was an alternative to Mig 29s, and that one of the main reasons we were prepared to sell was precisely to stop the King looking to the Soviet Union for aircraft. I believed that this was the understanding of all those concerned with the sale. Anyway, I did not see how Jordan could afford both. But I would of course report his comments, and establish whether any further action was needed with the Jordanians to make sure the

point was clearly understood.

General Powell then said that he would like, on a more personal basis, to raise another point. There was the outstanding question of delivery of Israeli Skyhawk aircraft to Argentina which the United States had been blocking at our request. It was getting steadily more difficult for the Administration to hold the line against this, particularly when they were having to go to the Israeli lobby in Congress to persuade them to agree to the sale of Tornado to Jordan. He knew the Prime Minister's strong feelings on this issue, but wondered whether there was likely to be any softening of our attitude as the Falklands conflict receded. I said that there was absolutely no connection between the two cases, and that our opposition to the sale of aircraft to Argentina was as firm as ever. We were grateful to the United States for resisting pressure to allow the delivery of these aircraft to go ahead. But there would be a very strong reaction indeed if there were to be any change in the US position.
General Powell said that this was the reply that he expected.

I should be grateful if you - and the Ministry of Defence Resident Clerk to whom I am copying this letter - could arrange for it to be shown to your respective Secretaries of State over the weekend. You will probably also want to telegraph the gist of paragraphs 1-3 to Washington and Amman. But I would prefer you not, at this stage anyway, to refer in the telegram to the exchange about Argentina.

yours ever,

Charles Powell

C.D. Powell

The Resident Clerk,
Foreign and Commonwealth Office.

PRIME MINISTER

TORNADO FOR JORDAN

THERE IS A MESSAGE FROM ANTONY ACLAND TO SAY THAT THE CONSULTATIONS WITH CONGRESS ARE GOING QUITE WELL, BUT BECAUSE A NUMBER OF KEY CONGRESSMEN WILL NOT BE BACK IN WASHINGTON UNTIL MONDAY, THEY WILL NOT BE COMPLETED UNTIL THEN AT THE EARLIEST. ALTHOUGH THE OUTLOOK IS QUITE GOOD, ANTONY'S STRONG RECOMMENDATION IS THAT YOU SHOULD SEND A MESSAGE OVER THE WEEK END TO THE PRESIDENT, IN THE HOPE OF DRIVING THE ADMINISTRATION ON TO A SUCCESSFUL CONCLUSION. I ATTACH A DRAFT OF A MESSAGE WHICH I SUGGEST THAT YOU SEND ON THE HOT LINE TO WASHINGTON AS SOON AS POSSIBLE.

CHARLES POWELL
23 JANUARY 1988

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 January 1988

TORNADO FOR JORDAN

I enclose a copy of a draft message to King Hussein about Tornedo in the form which I have sent it down to Chequers for the Prime Minister's approval. As you will see, I am showing her alternative versions depending on whether we receive American clearance by tomorrow morning. I should be grateful if you could let me know urgently whether you are content with my revised draft.

I am sending a copy of this letter to Robert Culshaw in the Foreign and Commonwealth Office.

C. D. Powell

Ian Andrews, Esq.,
Ministry of Defence.

CONFIDENTIAL

OUT TELEGRAM

		Classification	Caveat	Precedence
		CONFIDENTIAL		DESKBY

ZCZC	1	ZVZC
TC	2	CONFIDENTIAL
CAVEAT	3	
FM	4	FM FCO
TO	5	TO DESKBY AMMAN
TELNO	6	
OF	7	TELNO OF JANUARY 88
AND TO	8	AND TO IMMEDIATE MODUK
	9	
	10	
	11	TORNADO
	12	1. Please pass to King Hussein as soon as possible the
	13	following message from the Prime Minister:
	14	BEGINS
	15	Your Majesty, I am very much aware that you are still awaiting
	16	a reply to your message of 11 December on the Tornado aircraft.
	17	The delay, which I regret, has been caused by the need to
	18	consult fully with our German and Italian partners, and
	19	to finalise financial arrangements. But I am now happy
	20	to confirm that we have no difficulty on the part of the
	21	Tornado partners about the supply of the Interdictor version
	22	of the aircraft. We expect to be able to present a detailed
	23	package in revised form by the end of this month at the
	24	very latest. There is one further point:we also need the
	25	approval of the US Administration to the re-export of the
///	26	components of US origin so as to be able to offer you the
//	27	aircraft to the optimum specification. We have approached
/	28	the Americans and are pressing them for a very early reply.
	29	

YYYY
MAIN
ADDITIONAL
NNNN

		Catchword:	
File number	Dept	Drafted by (Block capitals)	Telephone no
Authorised for despatch by:	Initials Date/time		
For COD use only	Comcen reference	Telegram number	Processed by

OUT TELEGRAM (CONT)

	Classification	Caveat	Precedence
	CONFIDENTIAL		DESKBY

I am confident that these remaining points can be resolved swiftly, so that detailed negotiations can be resumed as soon as possible.

[Alternative wording if US approval received]
We also had to obtain the approval of the US Administration to the re-export of the components of US origin so as to be able to offer you the aircraft to the optimum specification. We have just received this, and the way is now fully open for British Aerospace to forward a revised package, on which negotiations can resume as soon as possible.

I look forward to discussing this and other wider issues with you when you are next in London. Meanwhile, I send you my warm good wishes.
ENDS
2. There will be no/no signed original.

HOWE

YYY
Limited
Minimal
NENAD
ERD
PS
PS/Mr Mellor
Mr Munro
Mr Maud
Sir D Miers

///
//
/

NNN

For distribution order see Page 1	Catchword:

XY 48A (REV)

SECRET 29.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 January, 1988.

MALAYSIAN DEFENCE PACKAGE

Thank you for your letter of 22 January about the revised arrangements for handling the Malaysian Defence Package. I am confident that the Prime Minister would be content to send a message to Dr. Mahathir in the terms you propose, and it may issue.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Stephen Haddrill (Department of Energy), Stephen Ratcliffe (Department of Trade and Industry), Jill Rutter (HM Treasury) and Trevor Woolley (Cabinet Office).

(C.D. Powell)

David Ball, Esq.,
Ministry of Defence.

SECRET

SECRET 28 CC/PC

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

MO 6/19/7V

22nd January 1988

Dear Charles,

MALAYSIAN DEFENCE PACKAGE

Thank you for your letter of ~~21~~st January to Brian Hawtin, with which you enclosed a message from the Prime Minister to Dr Mahathir.

As you are aware, the position is still fluid. The latest position is that the Head of Defence Export Services has reported today from Malaysia that Dr Mahathir and his colleagues have decided against signing a Protocol covering the package. There is thus no immediate need for Mr Younger to travel to Kuala Lumpur. The intention now is to adopt a less formal approach and for the Malaysian Finance Minister to send a letter to him accepting the concept of the package. In may ways this is helpful in achieving a degree of commitment from the Malaysians while retaining some flexibility ourselves. I understand that the Malaysians are likely to invite Mr Younger to sign a more formal Memorandum of Understanding in Kuala Lumpur in March.

It is likely that the Malaysian letter will be handed over to the Head of Defence Export Services on Monday 25th January. Our view is that it would still be of great help for the Prime Minister to send Dr Mahathir a message of support for the package, which could be handed over when the Malaysians issue their letter. If you are happy with the attached draft, I will arrange to telex the text of it to Malaysia for Mr Chandler to use if appropriate (a signed version can follow in due course).

I am sending copies of this letter to Robert Culshaw (FCO), Stephen Haddrill (Department of Energy), Stephen Ratcliffe (DTI), Jill Rutter (HM Treasury) and to Trevor Woolley (Cabinet Office).

Yours sincerely

(D C J BALL)
Private Secretary

Charles Powell Esq
No 10 Downing Street

SECRET

SRWBFV.

DRAFT LETTER FROM PRIME MINISTER TO DR MAHATHIR

I am very pleased indeed that our two Governments are to co-operate to meet Malaysia's defence needs. This important initiative has my full backing and support; it will strengthen the links between our two Armed Forces, whose co-operation is already of long-standing. And it will also be a further step, following your own very successful visit to the United Kingdom last year, in building up the relations between Britain and Malaysia.

I send you my best wishes for the success of our co-operation in this field, together with my warm regards.

REFERENCE : Sales : Pt 9.



CCPC

CONFIDENTIAL

Amount Chief
for reply
OL

FCS/88/009

CHIEF SECRETARY, TREASURY

Tornado for Jordan

1. I have seen a copy of the Defence Secretary's letter of 21 January concerning the proposed sale of Tornado to Jordan. / with CDP ?

2. As I have made clear in previous correspondence, this sale is of political, strategic and military importance to Britain. We should do all we can to help steer the Jordanians away from purchasing, as an alternative, MIG 29 from the Soviet Union. Equally, however, British interests in Jordan and the Near East would suffer considerably if the French were successful in their rival offer of Mirage 2000. We must make a decision very soon if we are not to risk losing this contract.

3. We clearly cannot hope to match the credit terms offered by the Soviet Union, nor do the Jordanians expect this. King Hussein's natural disinclination to purchase aircraft from the Soviet Union should be sufficient to ward off this threat if we are able to offer a sufficiently attractive package on Tornado. Indeed, the

/Jordanian

CONFIDENTIAL

Jordanian Commander in Chief has made it clear that, were we to offer Tornado (the IDS version now favoured by the Jordanians) on acceptable terms, they would be most unlikely to purchase any other aircraft.

4. The Jordanians do, however, expect us to match - or at least to come much closer to - the terms of the French offer. The additonal flexibility which this would require in our credit offer is set out in George Younger's letter. I judge this to be an acceptable means of boosting our hopes of selling Tornado to the Jordanians.

5. I note that the troublesome question of offsetting savings has been resurrected in connection with the revised offer we shall need to make. You are aware of my reservations about this method of juggling exposure. I hope that it will soon be possible to implement the Cabinet Office recommendation for a separate credit facility for large arms sales. Such a facility will clearly make internal debates over offsetting a thing of the past.

6. I note the Defence Secretary's proposal that only the third tranche of £50-£70 million increase in DML be logged against the new facility, if and when it is set up. This will leave an offset of £150 million DML. We have already identified means of achieving this, although ECGD have not yet agreed where £90 million of the £150 million should be offset. But I would prefer the total DML to be logged against the new credit facility, provided that satisfactory arrangements can be made to keep the £1 billion limit under review.

7. The main point is that our UK internal debate on this issue should not be allowed to create additonal delay, thus jeopardising the chances of our revised offer to the Jordanians. It is essential that the credit terms for that revised offer be resolved as soon as possible. In several discussions with our Ambassador in Amman, King Hussein has made it clear that he wishes to take a decision soon; further delay risks playing into the hands of those in his armed services who are advising him to snap up the Russian or French offers already on the table.

8. I am sending copies of this minute to the Prime Minister, George Younger and David Young.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
22 January 1988

DEFENCE: Sales PA



CONFIDENTIAL

27A cc PL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
218 2112
Telephone 01-~~930 7022~~

MO 6/17/7L

22nd January 1988

Dear Charles,

TORNADO FOR JORDAN

The Defence Secretary and the Foreign and Commonwealth Secretary discussed our revised offer of Tornado IDS for Jordan yesterday, and agreed on the importance of sending an early message from the Prime Minister to King Hussein, as an interim reply to his letter of 11th December.

2. As you mentioned in your letter of yesterday to Robert Culshaw, we are hopeful of a positive reply from Washington; and I understand that the US position is likely to become clearer in the course of today. But in case a positive reply is not immediately forthcoming, a draft message, in the form of a telegram, that the Prime Minister might send to King Hussein (prepared jointly by Defence and FCO officials) is enclosed.

3. As you will be aware, the most difficult issue is the extent to which we come clean that our ability to supply the aircraft is dependent upon US approval to the re-export of US manufactured systems and components. There are two dangers: first, that news of a possible American block might provoke a knee-jerk reaction in the King, particularly in view of his current frustration with US policy; and secondly, that word might leak to the Saudis, who were assured by Mr Heseltine that there were no foreign constraints on our supplying of the Tornado IDS. On the other hand, King Hussein is likely to know already about US involvement (which is moreover bound to leak once it enters the Congressional arena). The King may be beginning to feel that we have been stringing him along; the best way to dispel this is to lay our cards on the table now. The message has been drafted accordingly.

I am sending a copy of this letter to Robert Culshaw (FCO).

Yours ever,

David Ball

(D C J BALL)
Private Secretary

Charles Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

	Classification	Caveat	Precedence
	CONFIDENTIAL		DESKBY

ZCZC
TC
CAVEAT
FM
TO
TELNO
OF
AND TO

ZVZC
CONFIDENTIAL

FM FCO
TO DESKBY AMMAN
TELNO
OF JANUARY 88
AND TO IMMEDIATE MODUK

TORNADO

1. Please pass to King Hussein as soon as possible the following message from the Prime Minister:

BEGINS

Your Majesty, I am ~~acutely~~ very much aware that you are still awaiting a reply to your message of 11 December on the Tornado aircraft. ~~I know that our Ambassador has been in touch with you since then,~~ to assure you that we are giving most ~~urgent~~ attention to your request for a revised offer for the sale of eight of the Interdictor Version of the Tornado.

~~I~~ But I am happy to confirm that we have no difficulty about the supply of ~~this aircraft~~ the Interdictor Version of the Tornado aircraft. We expect to be able to present a detailed ~~revised~~ package in a revised form by the end of this month at the very latest. The delay, which I ~~deeply~~ regret, has been caused by the need to consult fully with our German and Italian partners, and to finalise financial arrangements. ~~These are now on the point of completion.~~

We are also urgently ~~seeking~~ need THE approval of the US Administration to the re-export of the components of US origin ~~in order to~~ so as

Here is one further point we

YYYY
MAIN
ADDITIONAL
NNNN

		Catchword:	
File number	Dept	Drafted by (Block capitals)	Telephone no
Authorised for despatch by:	Initials Date/time		
For COD use only	Comcen reference	Telegram number	Processed by

OUT TELEGRAM (CONT)

Classification	Caveat	Precedence
CONFIDENTIAL		DESKBY

complete the package to the optimum specification.

"I am confident that these remaining points can be resolved swiftly, so that detailed negotiations can be resumed as soon as possible.

"I hope very much that we shall have an early opportunity to discuss this and other current issues, when you are next in London.

ENDS

2. There will be no/no signed original.

HOWE

YYYY
Limited
Minimal
NENAD
ERD
PS
PS/Mr Mellor
Mr Munro
Mr Maud
Sir D Miers

NNNN

For distribution order see Page | Catchword:

DEFENCE : Sales PTN

SECRET

27

le cPc

SLHASA

10 DOWNING STREET

LONDON SW1A 2AA

22 January 1988

From the Private Secretary

MALAYSIAN DEFENCE PACKAGE

The Prime Minister was grateful for the Minister of Trade's minute about the Malaysian Defence Package. She accepts that a note of caution is needed. In practice it must be unlikely that the Malaysians will order all the sophisticated items mentioned. But the first and most important step is to get the Malaysians to look to us for their needs. The Prime Minister has commented that we must not lose the potential order by telling the Malaysians it is too sophisticated.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Brian Hawtin (Ministry of Defence), Stephen Haddrill (Department of Energy), Jill Rutter (Chief Secretary's Office), and Trevor Woolley (Cabinet Office).

C. D. POWELL

Miss Marjorie Davies,
Minister of State's Office,
Department of Trade and Industry

SECRET

(1)

PRIME MINISTER

TORNADO FOR JORDAN

We owe King Hussein a reply on the supply of the IDS version of Tornado to Jordan. He is becoming impatient.

The situation is that we now have clearance from the Germans and Italians and have put together a financial package. All we are waiting for is clearance from the Americans for the re-export of the components of US origin (which are vital to this version of the aircraft). There is apparently a good chance that we shall get that clearance late tonight or tomorrow. In that event, the way is clear for you to send a message to the King saying that all remaining obstacles to complete negotiations to the sale have been removed.

But there may be a possibility that we shall not get the American clearance before the weekend. The judgment is that, in this event, you will nonetheless send a message to the King for John Coles to deliver before his final departure on Sunday.

The attached message therefore has alternative endings. If you could approve it we would then send one appropriate to the circumstances. It would be helpful if you could let the Garden Room Girl at Chequers know fairly early tomorrow if you are content.

CDP

9.45 a.m. Sat. 23 Jan
Approved
Not used

C. D. POWELL

22 January 1988

PMMAPV

OUT TELEGRAM

	Classification	Caveat	Precedence
	CONFIDENTIAL		DESKBY

ZCZC
TC
CAVEAT
FM
TO
TELNO
OF
AND TO

ZVZC
CONFIDENTIAL

FM FCO

TO DESKBY AMMAN

TELNO
OF JANUARY 88
AND TO IMMEDIATE MODUK

TORNADO

1. Please pass to King Hussein as soon as possible the following message from the Prime Minister:

BEGINS

Your Majesty, I am very much aware that you are still awaiting a reply to your message of 11 December on the Tornado aircraft. The delay, which I regret, has been caused in part by the need to consult fully with our German and Italian partners, and to finalise financial arrangements. I am now happy to confirm that there is no difficulty on the part of the Tornado partners about the supply of the Interdictor version of the aircraft. We expect to be able to present a detailed package in revised form by the end of this month at the very latest. But we also have to obtain the approval of the US Administration to the re-export of the components of US origin so as to be able to offer you the aircraft to the optimum specification. We have approached the Americans and are pressing them for a very early reply.

YYYY
MAIN
ADDITIONAL
NNNN

		Catchword:	
File number	Dept	Drafted by (Block capitals)	Telephone no
Authorised for despatch by:	Initials	Date/time	
For COD use only	Comcen reference	Telegram number	Processed by

XY 48 (REV)

OUT TELEGRAM (CONT)

	Classification	Caveat	Precedence
	CONFIDENTIAL		DESKBY

I am confident that these remaining points can be resolved swiftly, so that detailed negotiations can be resumed as soon as possible.

[Alternative wording if US approval received]
We also had to obtain the approval of the US Administration to the re-export of the components of US origin so as to be able to offer you the aircraft to the optimum specification. We have just received this, and the way is now fully open for us to forward a revised package, on which negotiations can resume as soon as possible.

[Both versions]

I look forward to discussing this and other wider issues with you when you are next in London. Meanwhile, I send you my warm good wishes.
ENDS
2. There will be no/no signed original.

HOWE

YYY
Limited
Minimal
NENAD
ERD
PS
PS/Mr Mellor
Mr Munro
/// Mr Maud
// Sir D Miers
/

NNN

For distribution order see Page 1	Catchword:

SECRET

173420
MDHIAN 4595

SECRET
FM WASHINGTON
TO DESKBY 220830Z FCO
TELNO 150
OF 220355Z JANUARY 88
INFO DESKBY 220630Z AMMAN, DESKBY 220830Z MODUK

OUR TELNO 133: JORDAN/TORNADO
1. COLIN POWELL TOLD ME LATE ON 21 JANUARY THAT THE FIRST DAY OF INFORMAL CONTACTS WITH CONGRESS ABOUT OUR REQUEST HAD GONE REASONABLY WELL BUT THEY HAD NOT YET TACKLED THE QUOTE HARD PEOPLE UNQUOTE. HE WAS FULLY AWARE OF OUR DEADLINES AND SAID THAT THOSE CONCERNED IN THE ADMINISTRATION WANTED A SATISFACTORY CONCLUSION FROM OUR POINT OF VIEW. BUT HE WARNED THAT THERE MIGHT BE SOME DELAY BEYOND 22 JANUARY IN OUR GETTING A FINAL POSITIVE ANSWER.
2. STATE DEPARTMENT OFFICIALS HAVE SIMILARLY TOLD US THAT MURPHY'S CONCLUSION AFTER HIS 21 JANUARY CALLS WAS THAT IT WASN'T YET CLEAR THAT A POSITIVE ANSWER WOULD BE POSSIBLE DURING 22 JANUARY.
3. WE SHALL REPORT FURTHER ON 22 JANUARY. I MAY THEN WANT TO RECOMMEND AN INTERVENTION OVER THE WEEKEND BY YOU TO SHULTZ OR POSSIBLY BY THE PRIME MINISTER.

ACLAND

YYYY

DISTRIBUTION 96

MAIN 79

LIMITED
NENAD
NAD
ESSD
DEFENCE
NEWS
INFO
TRED
PLANNERS

PS
PS/MR MELLOR
PS/PUS
MR MUNRO
SIR D MIERS
MR BOYD
MR GOULDEN
MR MAUD

17342
MDHIAN 4595

ADDITIONAL 17

CABINET OFFICE,
ASSESSMENT STAFF
PS/NO 10 DOWNING ST

DESO MOD
SEC(O)(C)MOD

NNNN

OSO.

ccPC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 .....

MO 6/17/7L

21st January 1988

Dear John,

TORNADO FOR JORDAN

There have been two significant developments since we submitted the offer to Jordan for eight Tornado Air Defence Variants on 30th November.

First, King Hussein has written to the Prime Minister asking to buy the Interdictor/Strike Version of the aircraft instead. For our part we would be willing to go along with this request but we need to consult out Tornado partners and the United States Government before we can make a formal offer. This process is in hand and I hope we will be in a position very soon to allow the Prime Minister to reply substantively to King Hussein's request before the end of the month.

Secondly, the Jordanian Commander-in-Chief has told us that the offer for the Tornado ADV was the least competitive of the three they have received. The price of eight Tornado ADVs was said to be 20% more than twelve Mirage 2000. Even allowing for the superior capability of the Tornado, this is a substantial price advantage.

I understand that the French have agreed in their credit negotiations to a five year grace period (from contract), associated capitalisation of interest, credit on 90% of contract value and

The Rt Hon John Major MP

repayment over ten years. It is clear, therefore, that in addition to the Russian threat we now face strong competition from the French. I believe colleagues would wish to secure this sale for the Tornado if at all possible and if this requires further improvements on the support which we have already agreed to provide, we should be prepared to do this.

I believe that we must match the French offer. I do not suggest any improvement in the 8.75% interest rate we have already quoted. The interest rate offered by the French is only marginally below our own and the Jordanians do not appear to regard this as a major point. I understand that these proposals have been accepted at official level, together with agreement to follow normal practice to hold the interest rate already quoted, despite the upward revision of consensus rates following OECD January review.

Price is primarily a matter for British Aerospace. Although they cannot match the unit price of either the MIG 29 or Mirage 2000, they will make every effort to narrow the present gap. But at the moment the company is absorbing within its price the cost of interest make up beyond the £200M credit offered on which ECGD has been authorised to bear this cost. It would help to make the price more competitive if ECGD were authorised to extend interest make up support so that it applied to 90% of the British workshare (currently about £280M); they would have normally been prepared to do this on a project of this significance, were it not for the £200M limitation imposed upon them in the earlier round of Ministerial correspondence. I understand that this too is supported at official level.

The combined effect of these concessions would be an increase in the ECGD Departmental Liability by some £70M to about £220M. I hope that colleagues can see their way to agree to this. There may be a problem in deciding how to account for this extra liability but I do not believe this need hold up agreement to the new terms proposed

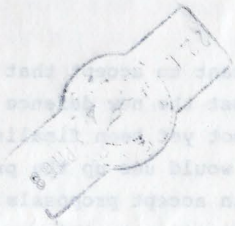
which must be available for negotiations with the Jordanians early next month.

You will know that I would be reluctant to accept that any of this £70M increase should be logged against the new defence allocation for export credit: this has not yet been finalised and to allow cover to be logged retrospectively would use up the proposed allocation far too quickly. But if we can accept proposals that have been made for offsetting the previous allocation to this project, I would agree allocation of the increase against the new limit as a special case to allow the rapid conclusion of this matter, which is necessary.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, and David Young.

Yours ever,
George

George Younger



CONFIDENTIAL

SKW

File
CDC

SUBJECT
CC MASTER

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 January 1988

Dear Robert,

TORNADO FOR JORDAN

The Prime Minister and the Foreign Secretary had a brief word this morning about supply of the Tornado IDS to Jordan. The Foreign Secretary said that the Defence Secretary hoped to have a positive reply from Washington within the next few days in which case it would be possible for Mr. Coles to deliver a message from the Prime Minister to King Hussein before his departure. If the Americans did not come through with an answer in that timescale, the Prime Minister would nonetheless need to send a message explaining the reasons for the delay. But the Prime Minister and the Foreign Secretary agreed that it would not be appropriate for her to try to telephone King Hussein on this matter.

I am copying this letter to Ian Andrews (Ministry of Defence).

Yours sincerely,

(C. D. POWELL)

Robert Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

CONFIDENTIAL

DS

SECRET

File SRWBFO. cdc 24 25

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 January 1988

MALAYSIAN DEFENCE PACKAGE

The Prime Minister has seen the Defence Secretary's minute about his intention to sign a Protocol dealing with a possible defence sales package. She agrees that Mr. Younger should do this if necessary, on the understanding that the Protocol does not impose any financial obligation on us.

The Prime Minister would be content to send a message to Dr Mahathir which Mr. Younger could hand over. I enclose a version which she has signed, while recognising that it may need some amendment if the Malaysians opt for a different procedure.

I am copying this letter and enclosure to the Private Secretaries to the Foreign and Commonwealth Secretary, the Energy Secretary, the Trade and Industry Secretary, the Chief Secretary and to Sir Robin Butler.

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET

File

SHW

SUBJECT

cc MASTER
OPS

cc FCO.
MoD
DTI
D Energy
CSO
CO.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

21 January 1988

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T8/88

Dear Prime Minister.

I am very pleased indeed that our two Governments are to sign a Protocol setting out ways in which we can cooperate to meet Malaysia's defence needs. I would have liked to come to Kuala Lumpur myself for the signing. Sadly this is not possible but our Secretary of State for Defence, George Younger, brings my full backing and support for this important initiative. It will strengthen the links between our two Armed Forces, whose cooperation is already of long-standing. And it will also be a further step, following your own very successful visit to the United Kingdom last year, in building up the relations between Britain and Malaysia.

I send you my best wishes for the success of our cooperation in this field, together with my warm regards.

Yours sincerely

Margaret Thatcher

His Excellency Dato' Seri Dr. Mahathir bin Mohamed

dti the department for Enterprise

SECRET

PRIME MINISTER

MALAYSIAN DEFENCE PACKAGE

1 In David Young's absence in the United States I comment on George Younger's paper on this topic. While I welcome the Malaysian intention to purchase an integrated defence package exclusively from the United Kingdom I am concerned that it may be over ambitious and thus frustrate its (and our) objective.

2 Tornado ADV, as experience elsewhere has shown, is a most voracious element in any shopping list. On past experience its inclusion will lead to heavy cost overruns and unbalance other, sensible, elements in the list. Why is it necessary? Against who is its use contemplated? India has Mig 29 (Fulcrum); Vietnam has Mig 27 (Flogger). I know of no other state with comparable equipment in the area. Is it to be supplied with Skyflash, and ALARM? (the latter, I suggest, is unlikely - and this would further negate its usefulness).

3 I would suggest gently steering the Malaysians towards a Hawk/AIM9L combination instead. Both Korea and Indonesia are interested in assembling Hawk locally (my own preference would be to designate Korea) but the chance to establish the aircraft firmly in ASEAN service will not exist indefinitely. The Kawasaki KT-6 will soon be coming into service in the Japanese airforce, is directly comparable and superior in most respects (except, at present, range). Japan is prevented under its constitution from selling arms abroad but were this constraint to change the KT-6 would rapidly dominate this very large market unless we are already firmly established.

dti
the department for Enterprise

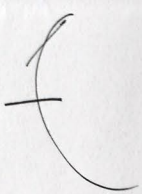
SECRET

4 As to the inclusion of submarines I would only make the general comment that this requirement is further testimony to the very large market that exists for modern silent coastal submarines of low tonnage, and the urgent need independently to develop a vessel that will not be subject (as in the case of the Canadian order) to possible frustration at the behest of the US authorities.

5 While the Shell scheme for funding the purchase looks interesting I would need to see much more detail before being satisfied as to its adequacy - still less its inviolability if Malaysia's economic situation were to deteriorate.

6 As you know the Chief Secretary and I have agreed to confirm the recommendation of the inter-departmental group for a special additional ceiling of £1bn for ECGD in arms sale cases. ECGD's record is consistently profitable in this sector in recent years. And I am confident that the new fund will contribute to an increase in returns from this sector. But I intend to nurture it carefully. I am apprehensive that a package as ambitious in scope as at present suggested for Malaysia could lead to difficulties later unless the manner in which it is to be financed is clearly agreed at the outset.

7 I am sending copies of this minute to the Secretary of State for Foreign and Commonwealth Affairs, Defence, Energy, the Chief Secretary and to Sir Robin Butler.



20 January 1988



SECRET

MO 6/19/7E

PRIME MINISTER

Prime Minister
This sounds as though it could be a considerable coup, even though the proposed Protocol is procedural rather than substantive. Agree to endorse the idea and sign the attached message? CDP

MALAYSIAN DEFENCE PACKAGE

1. I would like to inform you of the progress that has been made on the possible purchase by the Government of Malaysia of a package of defence equipment from British industry, and to seek your approval for the way in which I propose to proceed.

2. The Malaysian Armed Forces have a number of pressing defence equipment requirements which we are keen to satisfy. Following high level political contacts - including your own discussions with Dr Mahathir - close dialogue between our respective Armed Forces, and much work by our staff in the Defence Export Services Organisation and the BHC in Kuala Lumpur, over the last few years a new climate of trust and goodwill has been created. This, and the high regard the Malaysians have for the British Services and the training they can provide, has led the Malaysians to seek supply from the United Kingdom if at all possible. Indeed, I believe that it is probable that the package can be kept wholly British to the exclusion of our foreign competitors.

3. I have been aware of the troubled Malaysian economy and their difficulty in financing the sort of requirements they had in mind. But, they have been discussing with the Shell company an arrangement to create, through special oil liftings, a fund from which defence equipment purchases could be made. The scheme envisages approximately 50,000 bbls per day plus a quantity of gas, which at current prices and exchange rates should generate about £1Bn

over a five year period. Such a scheme should be able to finance purchases of Tornado ADV aircraft, Rapier missile systems, radars, howitzers and submarines, which we have been discussing with the Malaysians for some time.

4. I am keen to sign a Protocol with the Malaysians about such a major defence package. This would set out the Malaysian intention to look to Britain for their procurement and list the sort of assistance we might provide, such as procurement information, training and equipment support. While such a document will not commit either side, it will have considerable presentational value for both parties. A possible alternative which the Malaysians may favour would be to issue a letter to us accepting the concept of the package, with attendant publicity, and to follow this by the agreement of a Memorandum of Understanding which I would sign during a visit to Malaysia later this year.

5. Although, at first sight, the arrangement is reminiscent of the Al Yamamah scheme for the sale of Tornado aircraft to Saudi Arabia, there is in fact little similarity between the two. Much smaller sums are involved. Most importantly, HMG will not be in a direct contractual relationship with either the Malaysian Government or the British supplying companies. The MOU which we expect to follow on from the possible Protocol or Malaysian Government letter will be of a kind similar to those we have concluded elsewhere in support of major firm-to-Government defence deals.

6. The Malaysians have been slow in reaching decisions. But I have learned that they now see advantage in making an announcement at or just before the Singapore Air Show beginning next week. I understand that the French are planning a major presence and publicity in Singapore and am keen to pre-empt this. The Malaysians have requested that, if they opt for a Protocol, signature should take place

on 25th January. Although it is inconvenient, I am sure that we cannot miss this opportunity and I am therefore planning, if it becomes necessary, to fly to Malaysia this weekend to sign the Protocol, returning in time for Defence Top Day on Tuesday 26th January.

7. The Head of Defence Export Services is travelling to Malaysia today and should be in a position to provide me with a full report, together with a recommendation whether I will need to travel on Thursday 21st January. Dr Mahathir had originally requested your presence in Kuala Lumpur to sign the Protocol. He has accepted my explanation that this would not be possible and that I should do so, should it be necessary, in your stead; I do not believe that it would be appropriate for a junior Minister to undertake this in my place. In the event that I do have to go to Malaysia, you may wish me to carry a message for you to Dr Mahathir, and I attach a draft for your consideration. (Should it not prove necessary for me to do so, I propose to submit an appropriately amended message.)

8. I am sending copies of this minute to the Secretaries of State for Foreign and Commonwealth Affairs, Energy and Trade and Industry, the Chief Secretary, and to Sir Robin Butler.

G.Y.

Ministry of Defence

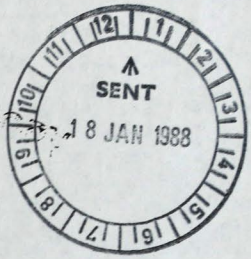
19 January 1988

CONFIDENTIAL

155721
MDADAN 2409

CONFIDENTIAL
FM AMMAN
TO DESKBY 181400Z MODUK
TELNO U/N
OF 181115Z JANUARY 88
INFO IMMEDIATE FCO, WASHINGTON

ADVANCE COPY



SIC ACA/ZMC/Z80

FOR RMD2, SIR DAVID MIERS (FCO), CHANCERY AND DEFENCE SUPPLY STAFF, WASHINGTON AND PS TO PRIME MINISTER (MR POWELL)

YOUR 141310Z JANUARY AND WASHINGTON TELNO 113: JORDAN/TORNADO

SUMMARY

1. KING HUSSEIN IS BECOMING IMPATIENT TO TAKE DECISIONS ON AIRCRAFT PURCHASES, PROBABLY BEFORE HE LEAVES JORDAN AT THE END OF THIS MONTH FOR A SERIES OF EUROPEAN VISITS. HIGH-LEVEL HOLDING ACTION NECESSARY. I RECOMMEND THAT THE PRIME MINISTER TELEPHONES THE KING.

DETAIL

2. KING HUSSEIN RAISED WITH ME IN AQABA ON 16 JANUARY THE AIRCRAFT PURCHASE QUESTION. HE SAID THAT HE HAD TOLD THE RUSSIANS THAT THEY MUST ANSWER JORDAN'S OUTSTANDING QUERIES ABOUT THE MIG 29 BY 20 JANUARY AT THE LATEST BECAUSE A DECISION NOW HAD TO BE TAKEN. THE KING ADDED THAT THE MIG 29 WAS A FINE AIRCRAFT (SEMI COLON) BUT JORDAN STILL NEEDED TO BE SATISFIED ABOUT PRECISE TECHNICAL SPECIFICATIONS AND ABOUT CREDIT ARRANGEMENTS. HE THEN REMINDED ME THAT (AS PREVIOUSLY REPORTED) THE FRENCH PRIME MINISTER HAD RUNG HIM RECENTLY AND WAS PRESSING FOR A DECISION.

3. I SAID THAT I HOPED NO-ONE FELT THAT WE WERE STRINGING JORDAN ALONG. I HAD CHECKED WITH MY AUTHORITIES AFTER THE KING HAD RAISED THE ISSUE WITH ME ON 11 JANUARY. WE WERE VERY WILLING TO SUPPLY 8 IDS TORNADOES TO JORDAN BUT THE NEED TO CONSULT OUR GERMAN AND ITALIAN PARTNERS AND, IN COLLABORATION WITH THEM, TO WORK OUT A NEW AND DETAILED PRICE PACKAGE HAD CAUSED MATTERS TO GO MORE SLOWLY THAN WE WOULD HAVE WISHED. IT LOOKED AS THOUGH WE SHOULD NEED AT LEAST

I am not sure it is appropriate to deal with this sort of thing on the telephone. It just hands the Russians a negotiating advantage. A message, perhaps?
CDR.

Yes –

but we may have to do both
ms

ANOTHER TEN DAYS. I HOPED HE WOULD BE MORE PATIENT WITH US THAN WITH THE RUSSIANS.

4. THE KING SAID HE UNDERSTOOD THE DIFFICULTIES ARISING FROM THE TRIPARTITE NATURE OF THE PROJECT. I THEN ASKED HIM DIRECTLY WHETHER A DELAY OF A FURTHER TEN DAYS OR SO WOULD CAUSE HIM DIFFICULTY. HE DID NOT GIVE ME A STRAIGHT ANSWER BUT IMPLIED THAT HE WAS VERY ANXIOUS TO GET THE NECESSARY DECISIONS TAKEN.

5. I SUSPECT THAT HE IS DETERMINED, IF AT ALL POSSIBLE, TO DECIDE THINGS THIS MONTH BECAUSE HE WILL BE OUT OF JORDAN FOR MOST OF FEBRUARY. HE TOLD ME THAT HE EXPECTS TO LEAVE AMMAN ON 31 JANUARY FOR A VISIT ON 1 FEBRUARY TO THE HOLY SEE, FOLLOWING BY VISITS TO ITALY AND FRANCE AND GERMANY. IN FRANCE, HE SAID, THE AIRCRAFT QUESTION WOULD BE MUCH ON HIS MIND. HE THEN PLANS TO GO TO AUSTRIA FOR SKIING (I AM NOT SURE WHETHER HIS PROPOSED OFFICIAL VISIT TO AUSTRIA IS STILL IN PLACE). HE HOPED TO BE IN THE UK IN THE LAST 10 DAYS OR SO OF FEBRUARY AND, SUBJECT TO CONFIRMATION WHEN THE DATES WERE CLEARER, WOULD MUCH LIKE TO SEE THE PRIME MINISTER THEN (HE SAID HE WOULD GET BACK TO US ON THIS).

6. IN MY VIEW THE DELAY IN REPLYING TO THE KING IS NOW OR WILL SOON BE IN SOME DANGER OF PUTTING THE TORNADO SALE AT RISK. HAVING FORMALLY TAKEN LEAVE OF THE KING, AND SPENT A FAREWELL SOCIAL WEEKEND WITH HIM IN AQABA, IT WILL PROBABLY NOT BE POSSIBLE FOR ME TO SEE HIM AGAIN BEFORE I LEAVE JORDAN ON 25 JANUARY. BY THE TIME MY SUCCESSOR ARRIVES HUSSEIN WILL BE ON HIS TRAVELS ABROAD. THERE ARE OF COURSE OTHER WAYS OF GETTING MESSAGES TO HIM OTHER THAN THROUGH HMA AMMAN BUT CONTINUED DIRECT PERSONAL CONTACT WITH HUSSEIN ON THIS SUBJECT SEEMS VERY DESIRABLE.

7. I CONSIDER THAT SOME HIGH-LEVEL HOLDING ACTION IS NOW NECESSARY. IN VIEW OF THE DEADLINE GIVEN TO THE RUSSIANS, AND THE PROSPECT OF AN EARLY VISIT BY THE KING TO FRANCE I RECOMMEND THAT THE PRIME MINISTER SHOULD RING KING HUSSEIN (AS CHIRAC HAS ALREADY DONE) IN THE NEXT FEW DAYS, ASSURE HIM OF HER PERSONAL WISH TO SUPPLY THE TORNADOES, EXPLAIN WHY OUR REPLY IS TAKING LONGER THAN WE HAD HOPED AND TRY TO ESTABLISH HOW LONG THE KING CAN WAIT FOR THE ANSWER. MRS THATCHER MAY ALSO WISH TO ADD THAT SHE HOPED TO SEE HUSSEIN IN LONDON IN THE LATTER PART OF FEBRUARY. I SUGGEST

THAT SHE DOES NOT IMPLY THAT WE SHALL DELAY OUR ANSWER TILL THEN BUT RATHER THAT SHE WILL BE IN TOUCH WITH THE KING AGAIN, WHEREVER HE IS, AS SOON AS POSSIBLE.

COLES

YYYY

DISTRIBUTION 9

ADVANCE 9

HD/NENAD
HD/ESSD
HD/DEFENCE
HD/NAD
HD/NEWS
HD/TRED
PS
SIR D MIERS
PS NO 10

NNNN

SECRET

154432
MDHIAN 3866

SECRET
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 113
OF 161700Z JANUARY 88
INFO IMMEDIATE MODUK, AMMAN

SIC ACA/ZMC/Z80
MODUK FOR RMDZ
OUR TELNO 26: JORDAN/TORNADO
SUMMARY
1. NO DECISIONS. CONTINUING INDICATIONS THAT THE ISSUE IS CAUSING THE ADMINISTRATION GREAT DIFFICULTY. THE PROCESS, IF WE ARE TO GET THE RIGHT ANSWER, MAY HAVE TO EXTEND BEYOND 25 JANUARY.
DETAIL
2. OUR REQUEST FOR RE-EXPORT APPROVAL WAS CONSIDERED IN A PRELIMINARY WAY AT AN NSC POLICY REVIEW GROUP (PRG) MEETING ON 15 JANUARY, CHAIRED BY THE DEPUTY NATIONAL SECURITY ADVISER, NEGROPONTE - THE FIRST STAGE OF THE INTER-AGENCY PROCESS. IN LIGHT OF THE DIFFICULTIES IDENTIFIED, THE ISSUE WAS REFERRED TO A FURTHER PRG MEETING TO BE HELD ON 19 JANUARY, CHAIRED BY DEAN (NSC). ARMACOST HAS TOLD ME THAT ANY AGREEMENT THERE IS LIKELY TO BE AD REFERENDUM TO PRINCIPALS. I HAVE REINFORCED OUR ARGUMENTS AND THE URGENCY TO BOTH ARMACOST AND NEGROPONTE. I HAVE ALSO BEEN ABLE TO MENTION THE MATTER TO CARLUCCI. THOUGH NOT FAMILIAR WITH THE DETAILS, HE WAS VERY SYMPATHETIC INDEED TO JORDON'S NEEDS. HE ASKED US TO GET IN TOUCH WITH HIS OFFICE VERY EARLY ON 19 JANUARY (MONDAY BEING A HOLIDAY), AND HE WILL HAVE THE DOD LINE LOOKED INTO.
3. WE HAVE SEPARATELY BEEN IN CLOSE CONTACT THIS WEEK WITH STATE DOD AND NSC. OUR ALLIES AT WORKING LEVEL IN THE ADMINISTRATION (PRINCIPALLY THE NEA BUREAU AND, IN DOD, ARMITAGE'S OFFICE) HAVE ENCOUNTERED STRONG OBJECTIONS FROM MANY SIDES TO MEETING OUR REQUEST. IT IS BEING ARGUED, IN PARTICULAR, THAT THE ADMINISTRATION'S ALREADY DIFFICULT TASK WITH CONGRESS OVER THEIR MIDDLE EAST ARMS SALES STRATEGY FOR 1988 WILL BECOME IMPOSSIBLE IF THEY AGREE OUR REQUEST. THERE IS STRONG PRESSURE FROM WORKING LEVEL AT LEAST TO DELAY ANY DECISION UNTIL CONGRESS IS FULLY IN SESSION (I.E. 25 JANUARY) SO THAT MORE CONGRESSMEN CAN BE INFORMED/CONSULTED IN PERSON, RATHER THAN THROUGH THEIR STAFF. ARMACOST, ON THE OTHER HAND, TOLD ME ON 15 JANUARY THAT THE IDEA OF A QUICK REPLY WITHOUT PRIOR CONSULTATIONS ON THE HILL HAS NOT YET BEEN RULED OUT, THOUGH IT FACED STIFF OPPOSITION.
4. WE HAVE DEPLOYED THE USEFUL ARGUMENTS IN MODUK U/N TELEGRAM

OF 151245Z WITH BOTH STATE AND DOD, AND WILL BE IN THOUCH WITH CONTACTS INCLUDING DEAN TO THE EXTENT POSSIBLE OVER THE WEEKEND AND UP TO THE 19 JANUARY MEETING

ACLAND

YYYY

DISTRIBUTION 87

MAIN 70

LIMITED	PS
NENAD	PS/MELLOR
NAD	PS/PUS
ESSD	MR MUNRO
DEFENCE	SIR D MIERS
NEWS	MR BOYD
INFO	MR FALL
TRED	MR MAUD

ADDITIONAL 17

CABINET OFFICE,	DESO MOD
ASSESSMENT STAFF	SEC(O)(C)MOD
PS/NO 10 DOWNING ST	

NNNN

EL 30 K I

file EL
cc for PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 January 1988

CHILE: DEFENCE SALES

The Chilean Ambassador called on me this afternoon to deliver a letter (copy enclosed) from the Commander in Chief of the Chilean Navy to the Prime Minister about the supply of Sea Wolf. The burden of his message was that the Chilean Navy were very keen to purchase Sea Wolf but the price being quoted to them was impossibly high. Unless some reduction could be made, the Chilean Navy's long-standing links with the Royal Navy would be put at risk. The Ambassador said that Admiral Merino had also written to our Ambassador in Chile last November in the same sense.

I said that I knew nothing about the details but would enquire what the position was and draw the problem to the Prime Minister's attention. I would be in touch with him as soon as I had something to report.

I should be grateful if you and the Ministry of Defence could let me have advice both on the substance of a reply and on the most appropriate means for conveying it. I should like to be able to give the Ambassador here at least a preliminary response within a fortnight.

I am copying this letter to Ian Andrews (Ministry of Defence).

CHARLES POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

The Ambassador

Greek Embassy
London

24 December 1987

No.F.1003.1

Dear Prime Minister,

I have the honour to enclose a letter addressed to you by Mr. Andreas Papandreou, Prime Minister of Greece.

Yours sincerely,

S. Stathatos

Stephanos G. Stathatos

The Rt.Hon. Margaret Thatcher M.P.,
Prime Minister,
10 Downing Street,
London S.W.I.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 December 1987

I enclose a copy of the reply from Mr. Papandreou to the Prime Minister's message of 2 November about Tornado. As you will see, it conveys the Greek Government's decision not to purchase Tornado.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

John Howe, Esq.,
Ministry of Defence.

COMANDANTE EN JEFE ARMADA
CHILE

SANTIAGO, December 23rd., 1987.

The Rt. Hon.
Margaret Thatcher
M.P.
10 Downing Street
London S.W. 1

Dear Prime Minister:

Ever since the beginning of our independence days, the Chilean Navy has maintained tight bonds of friendship and a very close profe - ssional relationship with the Royal Navy.

At the present time, ninety per cent of our fleet units and submarines are of British origin and in the last three years, the Chi - lean Navy has bought five Royal Navy ships, which we believe they now require a certain amount of equipment modernization so as to make them suitable to face up to date challenges.

During this year, the Chilean Navy contacted British Enterpri- ses directed by the British Aerospace Society, with the purpose to pur - chase and install the Sea Wolf System on board our ships. However, we have not been able to come to an agreement on the price or its financial payment, in spite of the fact that conversations to this respect have been held for many months. This is due to the enormous differences of prices between what the British Firms demand, to that of the competitive ones.

Mr. Alan White, the British Ambassador in Chile, has been in - formed of this situation, and it was made quite clear that we wish at least a thirty per cent reduction of the quotation received. In spite of

his interceding on our behalf, the reduction attained is still beyond our possibilities.

As you may well know, the Chilean Government receives US dollars for its exports, being this currency therefore our only means of transac - tion. Unfortunately, the US Dollar fluctuations, in relation to other currencies, has changed our budget resources considerably for this matter.

Based on all these consideration, I entreat your personal mediation on this subject, so as to convince the British Firms to grant us the desired reduction on the cost of the system and also to consider our fi - nancial project. This would make it possible for my Navy to obtain the Sea Wolf System, which is the weapon system that, according to our know - ledge, will really fulfill our needs.

Unfortunately, the Chilean Navy would not be able to buy this British make equipment, should there be no possibility of cutting down the price, and much to our regret, we would have to accept some other foreign gear which is more in accordance with our financial capabilities.

A negotiation in the terms requested will mean an immense gain to the Chilean Navy, and although it may not look attractive at the beginning to the British Industries and possibly to your Government, you will get the benefits of this transaction at the long run, because we will be - come customers of the British Defense Industry for many years to come, as it was in the old days.

I take this opportunity to convey my respectful regards, thanking you for what you can do in this matter.

With great respect, I remain your faithful

JOSE T. MERINO CASTRO
ADMIRAL

COMANDANTE EN JEFE ARMADA
CHILE

Santiago, 5th., November 1987

His Excellency
The Ambassador of Great Britain
Mr. Alan WHITE CMG OBE
British Embassy
La Concepción 177
Santiago.-

Dear Mister Ambassador:

As you very well know, the Chilean Navy has been studying for the past year, the feasibility of installing on the ships of the Fleet, an effective weapon system to counter aircraft and sea-skimming missile threats.

After the initial analysis, the French Crotale Navale was eliminated considering the limited possibilities it has of further technological development. Thus, the studies were continued with the British SEA WOLF and the Israeli BARAK I systems.

The Bureau of Weapons of the Navy has developed models and carried out lengthy studies from which it finally concluded that the solution to the Anti Missile Defense problem must include at least two Trackers on each ship, in order to be able to effectively counter the predicted missile threats for, at least, the next 15 years.

Having discussed for months, with British Aerospace, the cost and financial aspects of their offer, we are sorry to say that their proposition is extremely demanding, and above the financial capabilities of the Chilean Navy. They have made no significant effort to reduce their prices, thereby creating this situation.

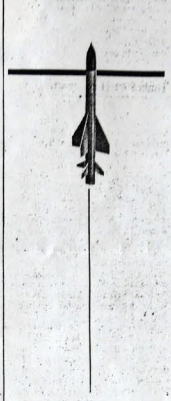
The Chilean Navy is extremely grateful for the facilities and assistance provided by Her Majesty's Government which have led to the sale of the four County Class destroyers, and it is, and has been its intention, to have these ships equipped with British systems. Nevertheless, in this case, this will not be possible, considering the exorbitant costs presented by the British firms, of both, the systems and the project financing, which make it unacceptable in comparison with the competing firm, even if one takes into account the state of development and the delivery times of each offer.

Considering all the above mentioned, and before reaching a final decision on which system to buy for our ships, I deemed it necessary to inform you of the present situation, and to say, that the only viable alternative for selecting the SEA WOLF system, which is what the Chilean Navy prefers, requires a reappraisal of the British Aerospace offer which should include a substantial price reduction, of not less than 30% with respect to the last quotation received.

Thanking you in advance for your support and most kind attention on this matter, and awaiting your prompt reply, I remain, Yours Sincerely

JOSE T. MERINO
ADMIRAL

Copy to:
Adm. STAVELEY R.N.



El misil Seawolf británico producido por British Aerospace, Marconi y Plessey, captado en pleno despegue.



Inquietudes de la Armada chilena

Vitrineando misiles

Los grandes buques de guerra son un blanco fácil para los misiles. Ello quedó demostrado en las Malvinas y el golfo Pérsico. La marina chilena está evaluando modernos sistemas de misiles para defender sus buques.

RAUL SOHR

El destructor británico Sheffield yace en el fondo del Atlántico Sur. Es uno de los monumentos invisibles a la eficacia de los misiles. En 1982 un misil Exocet lanzado desde más allá del horizonte, fuera del alcance del radar por la curvatura de la tierra, vengó para la Argentina el hundimiento de su crucero Belgrano.

Un pequeño misil como el Exocet, con un costo de aproximadamente un millón de dólares, disparado desde tierra, aire u otro buque puede echar a pique un navío con cientos de hombres a bordo. Esta realidad se ha convertido en una pesadilla para los almirantazgos del mundo entero.

No es que el uso de cohetes sea nuevo en los océanos. Los japoneses emplearon los pilotos *kamikazes* durante la II Guerra Mundial. Aunque se trataba de aviones pilotados, para todos los efectos prácticos era el equivalente de un "misil crucero". La diferencia con las armas actuales es que ya no despegan de un portavión.

Cualquier lancha patrullera puede llevar el equivalente de una docena de *kamikazes* a bordo y dispararlos a por lo menos desde una treintena de kilómetros de distancia. Además vuelan justo por encima de las olas para golpear en la forma más sorpresiva posible.

Con todo, los misiles antinavío no son infalibles. Israel, luego de la pérdida de un destructor a manos de los egipcios en 1967, dedicó grandes esfuerzos a perfeccionar sus defensas. En el *round* siguiente, en 1973, las fuerzas israelíes proclamaron que habían eludido más de cincuenta misiles soviéticos disparados por la marina egipcia.

Las diversas armadas han buscado soluciones para los misiles de vuelo rasante. Una medida es mejorar los sistemas de alerta temprana mediante la vigilancia aérea. Pero para operaciones mar adentro se requiere de portaviones o de helicópteros que, en todo caso, tienen una capacidad de vuelo limitada.

Otra contramedida son los cañones de tiro ultra-rápido, como los Phalax norteamericanos, que guiados por radar descargan miles de disparos contra el misil atacante. También se utilizan señuelos (chaff) para engañar el radar del misil, además de las maniobras que realiza el propio buque tratando de disminuir su flanco. Finalmente están los misiles antimisiles.

Misiles para Chile

La Armada chilena ha completado la compra de cuatro destructores británicos de la clase County (Prat, Cochrane, Latorre y Blanco Encalada). Son buques de estructura sólida, aptos para operaciones oceánicas.

La primera prioridad de la Marina fue dotarlos con helicópteros. Esta fase culminó —según lo consigna *Informe Latinoamericano* una publicación de *Latin American Newsletters*, de Londres— con la adquisición de cuatro helicópteros Dauphin y cuatro Super Puma franceses. Los marinos chilenos hubiesen preferido Lynx y Sea King ingleses, ya que estos helicópteros están diseñados para calzar en los estrechos hangares de los destructores.

Ello no fue posible pues Estados Unidos vetó, por la enmienda Kennedy, la venta de los Sea King construidos bajo licencia de la empresa norteamericana Sikorsky. Los almirantes que querían los Lynx decidieron que en definitiva era preferible comprar a un solo proveedor, Aerospatiale, aunque ello implicara trabajo para Asmar, que deberá ampliar los hangares. La marina también compró dos aviones Falcon a la misma empresa, que serán asignados al patrullaje naval.

La Armada chilena, en todo caso, se encuentra en clara inferioridad en cuanto a armamentos con respecto a las flotas peruana y argentina.

Ahora el almirantazgo debe resolver sobre la defensa antiaérea y antimisiles de los destructores. Una comisión especialmente formada para este propósito ha estudiado los sistemas de tres países. El misil Seawolf británico producido por British Aerospace, Marconi y Plessey; el Barak israelí, desarrollado por Israel Aircraft Industries Ltd. y Rafael (la autoridad de Desarrollo de Armamento para las Fuerzas de Defensa de Israel) y, finalmente la versión naval del misil francés Crotale.

Al parecer, el Crotale ha sido descartado y la disputa es entre el Seawolf y el Barak. Estaría pues próximo el momento en que el cuerpo de almirantes colocará su orden.

El punto fuerte de los armamentos israelíes (un triste subproducto de las guerras) es su sello de autoridad indiscutida: "Probado en combate". En este caso no es así, pues el Barak se encuentra aún en su fase experimental; su promoción es más modesta: "Desarrollado en combate", queriendo decir que la inspiración proviene de la experiencia ganada en batallas navales. El Barak tiene un alcance de diez kilómetros.

El Seawolf, por el contrario, sí lleva el codiciado sello del combate. La fuerza de tarea británica lo empleó en la guerra de las Malvinas y fuentes independientes dieron cuenta de un buen rendimiento.

Características

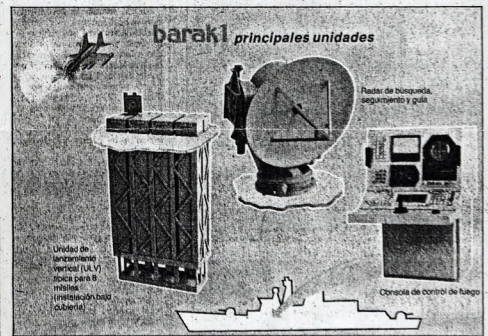
Aunque el Seawolf que interesa a Chile no es idéntico al empleado en el Atlántico Sur, pues es de despegue vertical (al igual que el Barak). Esta es una gran ventaja, pues ahorra el escaso espacio de cubierta y es de fácil instalación. El Seawolf (de despegue vertical) está más avanzado que el Barak, pues está siendo instalado en las fragatas tipo 22 de la Royal Navy y equipará a la nueva generación de fragatas tipo 23. El Seawolf puede alcanzar un avión a 30 kilómetros y un misil atacante a trece.

Además de las características técnicas de cada sistema misilero, el precio es siempre importante para países de escasos recursos. Este es un secreto tan celosamente guardado como la propia tecnología del misil. Cabe suponer que cada destructor será dotado, como mínimo, con una batería de misiles.

A ellos deben sumarse las consolas de control de fuego, los radares de búsqueda y guía, formación de personal e instalación de los sistemas. Sería sorprendente si el precio de la transacción descendiese de los diez millones de dólares.

En cuestiones militares siempre se habla de probabilidades, y con razón. Ni el Seawolf ni el Barak pueden garantizar inmunidad contra misiles o aviones. La primera condición para sobrevivir, como lo demostró trágicamente la fragata norteamericana Stark, es estar alerta. En alta mar, con rigurosas condiciones climáticas, no hay máquina a prueba de fallas oceánicas; menos aún los delicados mecanismos de un misil.

Y aún si todo funciona bien, el factor suerte tiene la última palabra como lo admitirá todo almirante sensato.□



Equipo de mando del misil Barak israeli, desarrollado por Israel Aircraft Industries Ltd. y Rafael.

cc

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~9XX~~XXXX 01-218 2111/3

MO 6/17/5E

23rd December 1987

CDP
23/XII

Dear Charles.

MINEHUNTERS FOR SAUDI ARABIA

Ian Andrews mentioned in his letter of 11th December that the Head of Defence Export Services, Colin Chandler, was about to meet Prince Sultan, the Saudi Defence Minister, in Riyadh.

The meeting took place on 14th December and Chandler told Prince Sultan that, if the Saudis were seriously interested in acquiring new Sandown Class mine counter measure vessels, a 2 year lease of Hunt class vessels, to bridge the delivery time for the Sandowns, was possible. Prince Sultan expressed interest and said that he would instruct the Commander of the Royal Saudi Navy to enter into discussions along these lines.

In preparation for these discussions, responses have been sought from Vosper Thornycroft about the level of support for the leased vessels that they are able to offer. It is expected that a combined MOD/Industry team, to include Royal Navy Mine Counter Measure experts, will go to Saudi Arabia during the first half of January.

Yours sincerely,

John Howe.

(J F HOWE)
Private Secretary

Charles Powell Esq
No 10 Downing Street

DEFENCE: Sales PT9.



052250
MDHIAN 0377

CONFIDENTIAL
FM WASHINGTON
TO DESKBY 150900Z FCO
TELNO 2760
OF 150023Z DECEMBER 87
INFO DESKBY 150900Z MODUK
INFO IMMEDIATE AMMAN, RIYADH, BONN, MOSCOW

SIC ACA/ZMC/Z80

AMMAN TEL OF 141100Z TO MODUK: TORNADO FOR JORDAN
SUMMARY
1. THE ADMINISTRATION WOULD FACE GREAT DIFFICULTY IN CONGRESS OVER OUR SUPPLY OF TORNADO IDS TO JORDAN WITH US-ORIGIN EQUIPMENT. THE MIRAGE 2000 WOULD NOT POSE THE SAME POLITICAL PROBLEMS. A HIGH LEVEL POLITICAL APPROACH PROBABLY REQUIRED AT SOME STAGE. BUT AN INFORMAL APPROACH AT SENIOR OFFICIAL LEVEL RECOMMENDED AS FIRST STEP.
DETAIL
2. A SALE OF TORNADO IDS TO JORDAN WILL BE A DIFFICULT NETTLE FOR THE ADMINISTRATION TO GRASP. THOUGH IT IS LIKELY (WE ARE CHECKING) THAT THE VALUE OF US-ORIGIN EQUIPMENT ASSOCIATED WITH AN IDS SALE WILL BE WELL BELOW THE US THRESHOLDS FOR FORMAL NOTIFICATION, THE ADMINISTRATION WILL FEEL COMPELLED TO CONSULT CONGRESS INFORMALLY. THE POSSIBILITY OF SUPPLY OF MODERN GROUND-ATTACK AIRCRAFT TO JORDAN HAS LONG BEEN A NEURALGIC ISSUE FOR THE PRO-ISRAELI LOBBY. IN NOVEMBER 1985 CONGRESS LEGISLATED AGAINST ANY US SALES TO JORDAN OF ADVANCED WEAPONS SYSTEMS, INCLUDING ADVANCED AIRCRAFT AND ADVANCED AND DEFENCE SYSTEMS UNLESS DIRECT AND MEANINGFUL PEACE NEGOTIATIONS BETWEEN ISRAEL AND JORDAN ARE UNDERWAY. IN THIS CASE, ONCE THE LOBBY HEAR OF A TORNADO IDS PROPOSAL, THEY MAY WELL INTRODUCE SPECIFIC LEGISLATION TO PROHIBIT SUPPLY OF THE ASSOCIATED US EQUIPMENT. AND IN AN ELECTION YEAR, THERE WOULD BE A GOOD CHANCE OF SUCH LEGISLATION PASSING WITH VETO-PROOF MAJORITIES IN BOTH HOUSES.
3. ANOTHER RISK FOR THE ADMINISTRATION, IF THEY TRY TO EVADE CONGRESSIONAL SENSITIVITIES, IS THE REINTRODUCTION OF THE DRAFT LEGISLATION FROM 1986 BY BIDEN AND LEVINE WHICH WOULD REMOVE THE THRESHOLD LIMITS ON NOTIFICATION OF ARMS SALES AND IN EFFECT REQUIRE POSITIVE CONGRESSIONAL APPROVAL OF ALL FUTURE US ARMS SALES TO ARAB COUNTRIES.
4. THE ADMINISTRATION'S PRESENT PRIORITY IS TO AVOID A JORDANIAN

MIG-29 DEAL. A MIRAGE 2000 SALE WOULD ACHIEVE THIS WITHOUT INVOLVING THEM IN FURTHER CONFRONTATION WITH CONGRESS. (WE UNDERSTAND THAT THERE IS NO US-ORIGIN EQUIPMENT IN THE MIRAGE 2000). IT WILL BE DIFFICULT TO PERSUADE THE ADMINISTRATION TO TURN THEIR BACK ON THIS EASY SOLUTION.

5. WE SHOULD, NONTHELESS, MAKE THE ATTEMPT. WE SUSPECT THAT A HIGH-LEVEL POLITICAL APPROACH WILL AT SOME STAGE BE NEEDED. BUT WE RECOMMEND THAT, AS AN INITIAL STEP, WE SHOULD BE INSTRUCTED TO SOUND OUT SENIOR OFFICIALS IN STATE AND DOD ABOUT KING HUSSEIN'S VOLTE-FACE AND THE NEED FOR US APPROVAL OF THE SUPPLY OF THE US-ORIGIN PARTS ASSOCIATED WITH THE IDS VERSION. (THE FACT THAT THEY HAVE ALREADY APPROVED THE ADV-ASSOCIATED EQUIPMENT STANDS US IN GOOD STEAD, THOUGH US OFFICIALS QUESTIONED US CLOSELY DURING THAT PROCESS ABOUT POSSIBLE JORDANIAN INTEREST IN THE IDS).

6. THE ARGUMENTS WHICH WE (AND LATER THE ADMINISTRATION) COULD USE IN SUPPORT OF TORNADO IDS ARE:

(A) KING HUSSEIN WANTS THE TORNADO IDS AND, OF THE LESS SOPHISTICATED ALTERNATIVES, WOULD BUY THE CHEAPER MIG-29S, NOT MIRAGE 2000, IF TORNADO IDS WERE NOT AVAILABLE. THE TORNADO IDS, THEREFORE, HAS THE BEST CHANCE OF PREVENTING A MIG-29 SALE:

(B) GIVEN ISRAEL'S OVERWHELMING MILITARY SUPERIORITY, THE SMALL NUMBER OF AIRCRAFT PROPOSED WILL POSE NO THREAT TO ISRAEL BUT WILL GIVE JORDAN A MINIMUM DETERRENT. (THE ADMINISTRATION WILL NOT DISPUTE THIS. BUT NO ARGUMENT ON THESE LINES IS LIKELY TO CONVINCE THE PRO-ISRAEL LOBBY):

(C) THE TORNADO IDS HAS ALREADY BEEN SOLD IN GREATER NUMBERS TO SAUDI ARABIA WITH NO DESTABILISING EFFECTS.

7. WE NEED TO BEGIN WORK ON THIS IMMEDIATELY, BUT IT IS LIKELY TO BE A LONG PROCESS. THERE IS VERY LITTLE CHANCE OF THE PRIME MINISTER BEING ABLE TO GIVE KING HUSSEIN A CLEAR POSITIVE ANSWER ON THE AVAILABILITY OF THE IDS VERSION BEFORE HE GOES TO MOSCOW. BUT WE SEE NO PROBLEM FROM HERE WITH THE LINE RECOMMENDED IN PARAGRAPH 4 OF TUR.

ACLAND

YYYY

CONFIDENTIAL

file to 81 bc. P.C.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 December, 1987.

TORNADO FOR JORDAN

I have seen a copy of Amman unnumbered telegram of 14 December about Tornado for Jordan. I would see no objection to telling the Jordanians before the King leaves for Moscow that the Prime Minister has instructed that his latest request be considered ugently by all concerned. I doubt that it will be possible to go beyond that in the time available, given that the problems of supply of the IDS version lie more with other Governments than with us.

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

(C.D. Powell)

John Howe, Esq.,
Ministry of Defence.

CONFIDENTIAL

THE PRIME MINISTER OF GREECE

Athens, December 14, 1987

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T231A/87

SUBJECT cc MASTER
OPS

Her Excellency
The Right Honorable Margaret Thatcher M.P.
Prime Minister of the United Kingdom
London

Dear Prime Minister,

Thank you very much for your kind letter dated November 2, 1987.

I share with you the pleasure from the recollection of the discussion we had during our meeting on December last year and I am equally happy for the exchanges of official visits between our two countries and the progress that has been made in the field of defence procurement. I sincerely hope that our relations and cooperation will be strengthened and further developed in other sectors as well.

I would like to thank you for the information concerning the operational success of the Tornado aircraft in various European and third countries' air forces. As we discussed during the European Summit in Copenhagen Greece has already decided upon two other well known options which constitute an already excessive burden as far as both financial and training cost is concerned. An eventual additional option of a third type of aircraft would give rise to unsurmountable problems to Greek Airforce which is already splitted from the technical point of view.

Thanking you once again, you may rest assured, however, that the overall cooperation between the Greek and British forces both bilaterally as well as in the framework of the NATO Alliance will remain as close as ever according to a long tradition established successfuly over the years.

Looking forward to meeting you in February.

Yours Sincerely,

Andreas G. Papandreou

Andreas G. Papandreou

053237
MDHIAN 0432

CONFIDENTIAL
FM BONN
TO IMMEDIATE FCO
TELNO 941
OF 141800Z DECEMBER 87
AND TO IMMEDIATE MODUK, WASHINGTON, RIYADH, AMMAN, MOSCOW

MODUK FOR RMD2 PERSONAL FOR MIERS AND HDES

AMMAN TELEGRAM 140935Z DEC 87 TO MODUK: TORNADO FOR JORDAN

1. A CHANGE OF THE JORDANIAN REQUIREMENT FROM THE ADV TO THE IDS AIRCRAFT WOULD CERTAINLY NOT MAKE IT EASIER FOR THE GERMAN MOD TO SECURE THE ACQUIESCENCE OF THE FEDERAL SECURITY COUNCIL. I WOULD EXPECT THE AUSWAERTIGES AMT TO JOIN THE FINANCE MINISTRY IN EXPRESSING SERIOUS CONCERN. THE STRATEGIC ARGUMENT WILL NEED TO BE PRESENTED VERY ADROITLY, GIVEN GERMAN SENSITIVITY ABOUT SALES OF OFFENSIVE WEAPONRY TO ANY COUNTRY DIRECTLY BORDERING ON ISRAEL.

2. ALL THE ELEMENTS THAT MADE THE SAUDI TORNADO DEAL DIFFICULT FOR THE GERMANS NOW LOOK LIKE BEING PRESENT IN THIS ONE, SAVE ONLY THE NUMBER OF AIRCRAFT, BUT WITH THE ADDITIONAL PROBLEM OF LESS ADVANTAGEOUS FINANCIAL ARRANGEMENTS. WE NEED TO SUBMIT A COMPREHENSIVE PRESENTATION OF THE CASE FOR THE SALE IN WRITING AS SOON AS POSSIBLE. THE GERMAN MOD REQUESTED THIS WHEN THE SUBJECT WAS LAST DISCUSSED ON 16 NOVEMBER. IT IS ALL THE MORE NECESSARY NOW IF THE IDS VERSION IS INVOLVED. I SHOULD BE GRATEFUL FOR EARLY INSTRUCTIONS ON THIS POINT.

3. YOU SHOULD KNOW THAT SIR RAYMOND LYGO WILL BE IN BONN ON WEDNESDAY 16 DECEMBER. UNLESS INSTRUCTED OTHERWISE, I INTEND TO BRIEF HIM IN STRICTEST CONFIDENCE ON THE LATEST DEVELOPMENTS AND URGE THAT HE MAKE NO REPEAT NO REFERENCE TO JORDANIAN INTEREST IN THE IDS VERSION WHEN SPEAKING TO HIS GERMAN CONTACTS

BULLARD

YYYY

053237
MDHIAN 0432

DISTRIBUTION 67

MAIN 60

LIMITED
NENAD
ESSD
SEC POL
DEFENCE
NEWS D
TRED
PS
PS/MR MELLOR
PS/PUS
MR MUNRO
MR BRAITHWAITE
MR BOYD
SIR D MIERS
MR FALL
MR MAUD

ADDITIONAL 7

DTI VIC ST
D/ENGY
MR SMITH B/E
ASSESSMENT STAFF CAB
PS/NO.10
DESO,MOD
SEC(O)(C),MOD

NNNN

CLOSED UNDER THE FREEDOM OF INFORMATION ACT 2000

051010
MDHIAN 0324

CONFIDENTIAL
FM AMMAN
TO DESKBY 141100Z MODUK
TELNO U/N
OF 140935Z DECEMBER 87
INFO IMMEDIATE FCO, WASHINGTON, RIYADH, BONN, MOSCOW

SIC ACA/ZMC/Z80

PERSONAL FOR PS/HDES AND MIERS (FCO). RIYADH PLEASE SHOW TO HDES

MY TELNO 470: TORNADO FOR JORDAN

Yes but as you indicated the matter does not lie with us

1. DURING HIS MEETING HERE WITH THE JORDANIAN C-IN-C ON 12 DECEMBER, HDES OBTAINED CLARIFICATION OF THE THINKING BEHIND KING HUSSEIN'S RECENT MESSAGE TO THE PRIME MINISTER IN WHICH HE SAID THAT JORDAN WANTED TO BUY THE IDS RATHER THAN THE ADV VERSION OF TORNADO. HDES EXPRESSED SOME SURPRISE AT THIS AND ASKED WHETHER THE SOMEWHAT AMBIGUOUS REFERENCE IN THE MESSAGE TO QUOTE OUR FIGHTERS UNQUOTE RELATED TO JORDAN'S EXISTING MIRAGE F1S OR INDICATED AN INTENTION TO ACQUIRE OTHER FIGHTER AIRCRAFT AS WELL AS TORNADO IDS.

2. THE C-IN-C SAID THAT JORDAN HAD REVIEWED ITS PLANS IN THE LIGHT OF THE OFFERS RECEIVED FOR TORNADO, MIRAGE 2000 AND MIG 29. NEW AIR DEFENCE AIRCRAFT WOULD BE VERY EXPENSIVE. EIGHT TORNADO ADVS WOULD NOT BE SUFFICIENT FOR THE NEXT FIVE YEARS OR SO IT COULD NOT AFFORD MORE. THE KING FELT THAT THE BEST WAY FORWARD WOULD BE TO UPGRADE THEIR F1 AIRCRAFT AND RUN THESE ON IN THE AIR DEFENCE ROLE PENDING REPLACEMENT IN THE MID 1990S WITH ONE OF THE NEW GENERATION OF FIGHTERS SUCH AS EFA OR RAFALE WHICH WOULD BE AVAILABLE THEN AND WHICH SHOULD BE CHEAPER IN REAL TERMS THAN THE TORNADO ADV. MEANWHILE HE WOULD LIKE TO BOOST THE EFFECTIVENESS OF JORDAN'S AIR DEFENCES BY ACQUIRING A SMALL NUMBER OF MODERN INTERDICTOR AIRCRAFT TO PROVIDE A COUNTER AIR CAPABILITY. IF THE TORNADO IDS WAS AVAILABLE AND OUR TERMS WERE COMPETITIVE, KING HUSSEIN'S FIRST CHOICE WOULD BE TO PURCHASE, SAY, 8 OF THEM. HOWEVER IF WE WERE NOT ABLE TO MAKE THE IDS AVAILABLE ON AFFORDABLE TERMS (AND THE JORDANIANS INDICATED THAT OUR PRESENT PROPOSALS WERE NOT YET SUFFICIENTLY ATTRACTIVE) HE WOULD HAVE LITTLE OPTION BUT TO PURCHASE THE MIG 29 OR MIRAGE 2000.

3. HDES' VIEW FOLLOWING HIS DISCUSSIONS HERE IS THAT THERE IS LITTLE POINT IN CONTINUING TO PRESS THE JORDANIANS TO BUY THE ADV AND THAT WE SHOULD BE PREPARED TO OFFER THE IDS. WHILE I DO NOT THINK WE SHOULD ENTIRELY EXCLUDE THE POSSIBILITY OF A JORDANIAN CHANGE OF MIND AS TO THE ADV AS NEGOTIATIONS PROGRESS, WE CLEARLY NOW NEED TO EXAMINE URGENTLY THE POSSIBILITY OF A TORNADO DEAL. THE KING'S LONG-HELD PREFERENCE FOR TORNADO APPEARS TO REMAIN FIRM. HE PROBABLY SEES AN ORDER FOR THE IDS AS A MEANS OF SATISFYING JORDANIAN ASPIRATIONS FOR A STATE OF THE ART AIRCRAFT WHILE POSTPONING FURTHER AIRCRAFT PURCHASES UNTIL 1995. WHILE HE WOULD CERTAINLY REGARD THE IDS AS A VALUABLE ADDITION TO JORDAN'S CAPABILITY, HE MAY NOW FEEL THAT EXPENDITURE ON WHAT HE SEES AS THE LESS THAN IDEAL AIR DEFENCE VERSION FOR DELIVERY IN 1991 IS SCARCELY MERITED WHEN A MORE SUITABLE AIRCRAFT WILL BE ON THE MARKET SHORTLY AFTER. IF WE DO NOT OFFER THE IDS, JORDAN WILL BE VERY TEMPTED TO BUY ONE OF THE ALTERNATIVE AIRCRAFT ON OFFER. THE THREAT OF A MIG 29 PURCHASE HAS NOT DISAPPEARED. THERE IS STILL A LOBBY INSIDE THE ARMED FORCES THAT WOULD PREFER TO SEE A PURCHASE OF A SUBSTANTIAL NUMBER OF MIRAGE 2000 AIRCRAFT RATHER THAN TORNADO.

4. WE NEED TO MOVE QUICKLY. AS A MINIMUM I HOPE I CAN BE INSTRUCTED TO TELL THE JORDANIANS BEFORE THE KING LEAVES FOR MOSCOW AROUND 20 DECEMBER THAT THE PRIME MINISTER HAS INSTRUCTED THAT HIS LATEST REQUEST BE CONSIDERED URGENTLY BY ALL CONCERNED. IF THE PRIME MINISTER WERE ABLE TO REPLY POSITIVELY TO THE KING'S MESSAGE BEFORE HIS DEPARTURE FOR MOSCOW THAT WOULD BE MUCH BETTER BUT I APPRECIATE THAT THAT MAY NOT BE POSSIBLE.

5. ON CREDIT THE JORDANIANS INDICATED TO HDES THAT OUR OFFER IN SUPPORT OF THE CURRENT PROPOSAL FOR TORNADO ADV IS THE LEAST FAVOURABLE OF THE THREE THEY HAVE RECEIVED. THEY WILL WISH TO HOLD EARLY DISCUSSIONS WITH US ABOUT THIS. THEY WOULD NOT EXPECT US TO MATCH THE UNREAL TERMS ON OFFER FROM THE SOVIET UNION BUT FOR THE KING TO BE ABLE TO PURCHASE TORNADO OUR TERMS MAY HAVE TO BE MORE OR LESS ON A LEVEL WITH THOSE OFFERED BY FRANCE. WE HAVE RELIABLE INFORMATION THAT THESE INCLUDE A GRACE PERIOD OF THREE YEARS FOLLOWING DELIVERY OF THE AIRCRAFT AND A LONGER REPAYMENT PERIOD THAN WE HAVE PUT ON THE TABLE SO FAR, MARGINALLY LOWER INTEREST RATE THAN OURS AND A CREDIT INSURANCE PREMIUM OF LESS THAN 1 PERCENT (RMD2

WILL BE BRINGING FURTHER DETAILS WITH HIM ON RETURN).

6. FOR WASHINGTON. HDES WOULD BE GRATEFUL IF WASHINGTON COULD PROVIDE EARLY ADVICE ON THE BEST TACTICS FOR OVERCOMING THE DIFFICULTIES WHICH WE KNOW SUPPLY OF THE IDS WILL POSE FOR THE UNITED STATES SO THAT MOD CAN TAKE ACCOUNT OF THIS IN A SUBMISSION TO NO. 10 THIS WEEK. SUPPLY OF THE IDS WILL ALSO BE DIFFICULT FOR THE GERMANS, BUT HDES BELIEVES THAT, WITH THE NECESSARY LEVEL OF POLITICAL SUPPORT AT THE LONDON END, THESE CAN BE OVERCOME WITHIN THE FRAMEWORK OF OUR BILATERAL MOU WITH THE FRG ON DEFENCE EXPORTS.

COLES

YYYY

DISTRIBUTION 67

MAIN 60

LIMITED
NENAD
ESSD
SEC POL
DEFENCE
NEWS D
TRED
PS
PS/MR MELLOR
PS/PUS
MR MUNRO
MR BRAITHWAITE
MR BOYD
SIR D MIERS
MR FALL
MR MAUD

ADDITIONAL 7

DTI VIC ST
D/ENGY
MR SMITH B/E
ASSESSMENT STAFF CAB
PS/NO.10
DESO,MOD
SEC(O)(C),MOD

NNNN

SECRET

file DTS 22

bc: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 December 1987

TORNADO FOR JORDAN

The Prime Minister has seen the text of King Hussein's reply to her recent message about Tornado, conveyed in Amman tel no 470. I should be grateful if you could keep closely informed of how it is intended to proceed.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office).

C D POWELL

John Howe, Esq.
Ministry of Defence

SECRET

(2) 21A
cc PC

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3

MO 14/6/1V

11th December 1987

Prime Minister
There are major difficulties in the way of a British sale. The French are being opportunistic in regard to this now & talk about the details of nuclear safety later. CDP 14/12

Dear Charles,

NUCLEAR POWERED SUBMARINES FOR CANADA

In my letter of 19th October, I promised to let you have a further report on the position on the possible sale of Trafalgar class nuclear submarines to Canada. The Defence Secretary has now had two meetings on the subject with Mr Beatty, and has also discussed it with Mr Carlucci during the latter's visit to London last week. In addition there have been extensive official-level discussions with both the US and Canada.

The Americans, despite the misgivings still clearly entertained in some quarters in Washington, have been very helpful in expediting the legal processes which were necessary for us to release sensitive nuclear information to the Canadians. The necessary Statutory Determination was signed at the end of October, and since then we have been able to pursue with the Canadians the difficult issues of nuclear security, safety and non-proliferation. It rapidly became clear that they had seriously underestimated the complexity of these problems, and they lacked both the expertise and personnel to get to grips with them. However, following Mr Younger's meeting with Mr Beatty in Brussels last week, when he explained in detail the difficulties we were facing in establishing a satisfactory dialogue on the nuclear issues, the Canadians have now made a major effort to tackle the problem. At a meeting with senior Canadian officials in Ottawa earlier this week a good deal of progress was made. While a considerable amount of work still remains to be done, including the resolution of some significant differences of view, before we are in a position to agree the text of a Memorandum of Understanding with the Canadians, we are now at least moving in the right direction. Substantial progress has also been made on non-nuclear procurement issues in providing the information the Canadians require before they can take a decision on the country of origin.

Unfortunately parallel meetings with the Americans have underlined the difficulties we face in obtaining the agreement of the US Administration to table before Congress the legislative

Charles Powell Esq
No 10 Downing Street

amendments to the 1959 US/Canada Agreement which will be needed before we can transfer equipment and material (as opposed to information) to Canada. Not surprisingly, the Canadians wish to see this legislation passed before they commit themselves to the purchase of British submarines. While there are still some reservations in Washington about the whole basis of the Canadian decision (the sovereignty issue, in particular, rankles), senior members of the Administration including Mr Carlucci have accepted that the Canadian Government is determined to go ahead with an SSN programme, and it seems unlikely that any fundamental political objections will be placed in the way of the sale of Trafalgar boats. However the technical obstacles are still formidable, and it is clear that we face major problems in particular in satisfying Admiral McKee (the successor to Admiral Rickover as Head of the Office of Naval Reactors) who will have a key role both in the Administration's decision to table legislation and in the subsequent process of Congressional ratification. These problems can only be overcome by a series of exchanges with both Americans and Canadians aimed at producing texts of the MOU and supporting documents acceptable to all three parties.

Time is not on our side in this process. The original Canadian target for signature of the MOU was this month. (The French, we understand, are about to sign their MOU: we believe they have simply left the difficult nuclear issues to be resolved at a later stage - an option not open to us, even if we were prepared to take the risks involved, because of the US requirements). The Canadians have now accepted that it would be unrealistic to aim to complete negotiations until well into January, but even so it must be very doubtful if we can achieve this in view of the additional complication provided by the US dimension. Moreover, once the MOU is signed there is still the process of getting the formal concurrence of the US Administration and the subsequent Congressional ratification procedure which could take several months and cannot even then be taken for granted.

We are, of course, pressing on with all possible speed, and we hope to provide the Canadians with a virtually complete revised draft of the MOU, including the nuclear issues, before Christmas. Once we have discussed it with them, and subsequently with the Americans, at meetings early in the New Year we will have a better idea of the prospects for the way ahead. I will let you have a further report at that stage.

I am sending copies of this letter to Tony Galsworthy (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,

John Howe.

(J F HOWE)
Private Secretary

DGFGNCG: Sales PTQ

(2)

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022 xxxxxxx 01-218 2111/3

Prime Minister
The MOD have agreed to make the Minehunters available to Saudi Arabia: but the RN are not very happy.

MO 6/17/5V

11th December 1987

Dear Charles

MINEHUNTERS FOR SAUDI ARABIA

Thank you for your letter of 27th November about Vosper Thornycroft's request for two HUNT Class vessels to be leased to the Royal Saudi Navy in support of their bid to sell new SANDOWN Class minehunters to Saudi Arabia. Mr Peter Usher, the Managing Director of Vosper Thornycroft (VT), had already approached the Defence Secretary direct with this proposal and he has been considering it.

We have already offered to lease TON Class ships to the Saudis to cover the period before SANDOWN Class ships can be made available but this offer has been rejected, apparently for reasons of prestige. This is unfortunate as the TON Class would have provided an excellent lead in for the Saudi Navy, and indeed the vital sonar equipment with which they are fitted almost certainly has a better performance than that installed in the newer ships which the French and Dutch are offering. But we must recognise the Saudi wish, evident at the time of the Tornado deal, to operate only the latest equipment, and Mr Younger has decided, albeit reluctantly, that the two new HUNT Class vessels due to come into service with the Royal Navy within the next year or so could, if necessary, be diverted in support of the Vosper Thornycroft bid. In reaching this conclusion he has taken into account the size of the order at stake, the need to maintain the good relations which have been built up with the Saudi Government, and our wish to retain credibility with the Saudis as reliable suppliers.

The offer of HUNT Class vessels cannot of course be guaranteed to swing the order our way. But if it does there will be severe operational penalties for the Royal Navy. The size of the HUNT Class has already been reduced from 20 to 13 when the decision was taken to procure the cheaper Single Role Minehunter instead and at the best of times the mine countermeasures force would be severely stretched. In time of war, diversion of the two ships would jeopardise the quality of MCMV support of the SSBN force. It would also oblige us to reduce the number of minehunters in the Gulf from

Charles Powell Esq
No 10 Downing Street

four to three, although we might wish to do that in any case. But even more worrying are the demands which may be made to support the ships when they are in service with the Saudis. Although we shall be negotiating stringent terms with VT along the lines of those for the Tornado sale to Saudi Arabia, there is likely to be a limit to what they are able to secure from the market in the way of specialist manpower and materiel. In that event, the Royal Navy may well have to provide much of this itself from very limited and strained resources.

While a great deal remains to be done to negotiate terms and conditions for the lease with VT we need to make known our decision to the Saudis as soon as possible if the company's bid, and our own reputation, is to benefit. Coincidentally, Mr Colin Chandler, the Head of the Defence Export Services Organisation, will be in Riyadh at the beginning of next week for discussions with Prince Sultan, the Saudi Defence Minister. Mr Younger has asked him to enquire about the progress of the minehunter project and to inform the Saudis of our willingness to make HUNT Class vessels available. But he will also explain that the operational penalties for the Royal Navy as a result of our willingness to support the Saudis in this way are such that we can only contemplate leasing these two vessels as part of a substantial overall package as part of which the Saudis accept the VT bid. Mr Chandler will therefore need to avoid making any irreversible commitment at this stage.

I am sending copies of this letter to Alex Allan (HM Treasury) and Alison Brimelow (Department of Trade and Industry).

(I C F ANDREWS)
Private Secretary

PM87

DEFENCE Sales PtG

21

SUBJECT cc MASTER OPS

SECRET

044503
MDHIAN 0077

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T228/87

This should cause us no difficulty, but may lead to trouble with the Germans (and the Israelis).

SECRET
FM AMMAN
TO DESKBY 111430Z FCO
TELNO 470
OF 111315Z DECEMBER 87
INFO DESKBY 111430Z MODUK

SIC ACA/Z80/ZMC

MIPT: TORNADO

TEXT IS AS FOLLOWS.

BEGINS

DEAR PRIME MINISTER,

I AM MOST GRATEFUL FOR YOUR MESSAGE WHICH WAS DELIVERED TO ME BY AMBASSADOR COLES, REGARDING THE FINANCING OF THE TORNADO AIRCRAFT.

ALLOW ME, AT THE OUTSET, TO EXPRESS TO YOU MY DEEP APPRECIATION AND PROFOUND GRATITUDE FOR ALL YOUR VALUABLE EFFORTS AND GENUINE CONCERN OVER JORDAN'S NEEDS. I AM FULLY AWARE OF THE DIFFICULTIES THAT HAD TO BE OVERCOME IN ORDER TO PUT TOGETHER THE CREDIT PROPOSAL WHICH WAS EXPLAINED TO OUR COMMANDER-IN-CHIEF. I ALSO VALUE YOUR OFFER TO SUPPLY THE AIRCRAFT ON A GOVERNMENT-TO-GOVERNMENT BASIS. I REALIZE THAT ALL THIS REFLECTS THE IMPORTANCE YOU ATTACH TO HELPING JORDAN, AND YOUR DESIRE TO CONTINUE AND FURTHER STRENGTHEN THE TRADITIONAL, CLOSE, AND GROWING CO-OPERATION BETWEEN US. I SHARE YOUR DESIRE WHOLEHEARTEDLY, AND ASSURE YOU THAT I WILL CONTINUE TO DO MY UTMOST TO PRESERVE, PROTECT AND DEVELOP OUR SPECIAL RELATIONSHIP, TO THE BENEFIT OF OUR TWO COUNTRIES, PEOPLES, AND THE IDEALS WE SHARE.

THERE IS ONE POINT WHICH I HOPE YOU WILL PERMIT ME TO BRING TO YOUR ATTENTION. IT CONCERNS THE TYPE OF THE TORNADO WHICH WE WOULD LIKE TO ACQUIRE. IT IS TRUE THAT WE ATTACH GREAT PRIORITY TO JORDAN'S AIR DEFENCES, BUT WE BELIEVE THAT EIGHT TORNADOS OF THE AIR DEFENCE VERSION WILL NOT MEET OUR REQUIREMENT FOR AN EFFECTIVE AIR DEFENCE. AS YOU CORRECTLY MENTIONED IN YOUR MESSAGE, THE TORNADO IS AN EXPENSIVE

AIRCRAFT, AND WE ARE NOT IN A POSITION TO INCREASE THE NUMBER OF THE TORNADOS WHICH WE HOPE TO ACQUIRE TO MEET OUR FULL REQUIREMENTS. AS A RESULT OF VERY CAREFUL ANALYSIS OF OUR NEEDS, AS WELL AS OUR FINANCIAL LIMITATIONS, AND ON THE BASIS OF YOUR VERY GENEROUS OFFER, WE HAVE DECIDED THAT OUR REAL REQUIREMENT, AT THIS STAGE, IS THE INTERDICTOR VERSION OF THE TORNADO. THIS AIRCRAFT, COUPLED WITH OUR FIGHTERS, WILL ENABLE JORDAN TO SATISFY SOME OF ITS AIR DEFENCE REQUIREMENTS, AS WELL AS TO PROVIDE US, FOR THE FIRST TIME, WITH A CREDIBLE DETERRENT WHICH, AS YOU WELL KNOW, IS AN INTEGRAL PART OF ANY AIR DEFENCE.

I SINCERELY HOPE THAT YOU WILL FIND OUR REQUEST REASONABLE, IN WHICH CASE I WILL INSTRUCT MY GOVERNMENT AND ARMED FORCES TO ENTER INTO IMMEDIATE DISCUSSIONS WITH THEIR BRITISH COUNTERPARTS TO FINALIZE THE AGREEMENT.

I WISH TO AVAIL MYSELF OF THIS OPPORTUNITY TO THANK YOU ONCE AGAIN FOR ALL YOUR HELP AND ASSISTANCE. I AM VERY PROUD OF THE RELATIONSHIP WHICH HAPPILY EXISTS BETWEEN OUR TWO COUNTRIES, PEOPLES, AND PERSONS. I VALUE YOUR FRIENDSHIP AND WISH YOU CONTINUED SUCCESS IN ALL YOUR GREAT ENDEAVOURS. YOUR INSPIRED AND INSPIRING LEADERSHIP IS AN EXAMPLE FOR ALL LEADERS TO FOLLOW.

WITH MY SINCERE BEST WISHES FOR YOUR CONTINUED GOOD HEALTH, HAPPINESS AND PROSPERITY.

I AM

YOUR SINCERE FRIEND,

HUSSEIN

ENDS

SYNNOTT

YYYY

C. SECRET

cc PC

Foreign and Commonwealth Office

London SW1A 2AH

22 December 1987

CDP 22/XII

Dear Charles,

Tornado

I enclose the original of the letter to the Prime Minister from King Hussein dated 10 December. The Prime Minister has seen the text in Amman telno 470.

We understand that the Ministry of Defence are drafting a reply.

Yours ever,

Tony Galsworthy

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

C. SECRET

21

Already T'd.

Amman

10 December, 1987

Dear Prime Minister,

I am most grateful for your message which was delivered to me by Ambassador Coles, regarding the financing of the Tornado aircraft.

Allow me, at the outset, to express to you my deep appreciation and profound gratitude for all your valuable efforts and genuine concern over Jordan's needs. I am fully aware of the difficulties that had to be overcome in order to put together the credit proposal which was explained to our Commander-in-Chief. I also value your offer to supply the aircraft on a government-to-government basis. I realize that all this reflects the importance you attach to helping Jordan, and your desire to continue and further strengthen the traditional, close, and growing co-operation between us. I share your desire wholeheartedly, and assure you that I will continue to do my utmost to preserve, protect and develop our special relationship, to the benefit of our two countries, peoples, and the ideals we share.

There is one point which I hope you will permit me to bring to your attention. It concerns the type of the Tornado which we would like to acquire. It is true that we attach great priority to Jordan's air defences, but we believe that eight Tornados of the air defence version will not meet our requirement for an effective air defence. As you correctly mentioned in your message, the Tornado is an expensive aircraft, and we are not in a position to increase the number of the Tornados which we hope to acquire to meet our full requirements. As a result of very careful analysis of our needs, as well as our financial limitations, and on the basis of your very generous offer, we have decided that our real requirement, at this stage, is the interdictor version of the Tornado. This aircraft, coupled with our fighters, will enable Jordan to satisfy some of its air defence requirements, as well as to provide us, for the first time, with a credible deterrent which, as you well know, is an integral part of any air defence.

I sincerely hope that you will find our request reasonable, in which case I will instruct my government and armed forces to enter into immediate discussions with their British counterparts to finalize the agreement.

I wish to avail myself of this opportunity to thank you once again for all your help and assistance. I am very proud of the relationship which happily exists between our two countries, peoples, and persons. I value your friendship and wish you continued success in all your great endeavours. Your inspired and inspiring leadership is an example for all leaders to follow.

With my sincere best wishes for your continued good health, happiness and prosperity.

I am,
Your sincere friend,

The Rt. Hon. Margaret Thatcher, MP PC
Prime Minister of the United Kingdom
10 Downing Street
London SW1
England

CONFIDENTIAL

cc PC

Treasury Chambers, Parliament Street, SW1P 3AG

I C F Andrews Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1

CSP 8/12

4 December 1987

Dear Ian,

TORNADO FOR JORDAN

You wrote to Charles Powell on 1 December recommending that the Prime Minister write to King Hussein in support of this contract.

The Chief Secretary was content with the letter to King Hussein. However, he noted two points on recent developments in the package. First, that a Government to Government deal is proposed. The Chief Secretary is pleased that the exceptional character of such arrangements will be made clear to King Hussein. It would be unwise if the Jordanians (or other potential customers) were allowed to think that such deals will be normal practice even for large defence orders. He also considers that the arrangements for the sale should incorporate the same stringent safeguards for the taxpayers' interest as the Al Yamamah project and trusts that his officials will be kept fully informed throughout the negotiations.

Second, he noted the suggestion that the Jordanians would seek to improve on the indicative credit offer that has been tabled and that the contract value could be in excess of the £240 million assumed for the aircraft and their role equipment. You will recall that his letter of 30 October warned against our generous contribution being pushed up step by step. The £120 million (DML) of credit agreed (or, subject to the financing arrangement, a DML of £150 million) was on the basis of a contract of £300 million and was quite

clearly a maximum from HMG sources. No doubt you will be reporting on the make-up and sources of the credit package that has been tabled.

I am copying this letter to Charles Powell (No.10), Robert Culshaw (FCO) and Timothy Walker (DTI).

Yours,

JILL RUTTER
Private Secretary

DEFENCE

SALES

PT 9



fric DTS

CC FCO
HMT
PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3rd December 1987.

Dear Ian.

TORNADO FOR JORDAN

Thank you for your letter of 1 December enclosing a draft message from the Prime Minister to King Hussein about the financing package for Tornado. The Prime Minister has approved the letter with minor amendments. I am sending the top copy to Robert Culshaw in the Foreign Office so that the text can be telegraphed urgently to Amman. I enclose a copy for you. I am also sending a copy to Max Felstead (HM Treasury) together with a copy of this letter.

Yours sincerely.

C D POWELL

Ian Andrews, Esq.
Ministry of Defence

SUBJECT CC MASTER OPS

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T225/87.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

3rd December 1987

Your Majesty,

When I had the pleasure of meeting Your Majesty in London in September, I informed you that we were examining ways in which a small initial order for Tornado aircraft might be financed.

I am very pleased to be able to tell Your Majesty now that by the joint efforts of the British Government Departments concerned, British Aerospace and its German and Italian partners and not least the banking community, we have been able to put together a credit proposal to support the supply of an initial quantity of eight Tornado F3 Air Defence Variant aircraft to meet your requirement. The detailed proposal, which I strongly commend, was explained to your Commander-in-Chief in London on 30 November. While Jordan may wish to acquire additional Tornado aircraft later, I believe that these aircraft will provide the early strengthening of Jordan's air defences to which I know Your Majesty attaches great priority.

Because of the importance we attach to helping Your Majesty in improving the air defences of the Kingdom, and our desire to see a continuation of the close and growing co-operation between the Royal Jordanian Air Force and the Royal Air Force, we will be pleased to supply the aircraft on a Government-to-Government basis. This is a most exceptional arrangement; the only other recent occasion on which we have

been willing to do this was for the Saudi Arabian Al Yamamah project. In addition, we would be pleased to assist the Royal Jordanian Air Force with training and any other assistance it might need to introduce the Tornado into service. Ministry of Defence officers will be ready to discuss this with their Jordanian counterparts.

While the Tornado is expensive, I believe Your Majesty appreciates that its performance far exceeds that of its competitors so that less aircraft are required for any given task. There is also an 80 per cent commonality between the air defence and interdictor versions of the aircraft which offers considerable logistic advantages should you later decide to acquire both types.

I hope that you will find our detailed proposals satisfactory. We are ready to start discussions straight away with the aim of reaching an early agreement. I am confident that Tornado would prove to be as effective an asset to the Royal Jordanian Air Force as it is to ours and those of the three other nations who have the Tornado in service; it also offers the benefits of standardisation with the Royal Saudi Air Force and the Sultan of Oman's Air Force.

Yours sincerely

Margaret Thatcher

His Majesty King Hussein bin Talal

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T224/87

SUBJECT
a MASTER
OPS

file
cc FCO
MOD
DTI
SUPC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

2 December 1987

Dear Mr. President,

During our discussions in London and in Seoul last year we talked about ways in which we might strengthen the links between our two countries in science, technology, commerce and industry and I am pleased to note that since then there has been real progress on certain items of British equipment. I understand that your Ministry of National Defence is now considering another major item, a new naval helicopter and the British Westland Super Lynx helicopter equipped with British Aerospace Sea Skua missiles is under consideration for this requirement.

This helicopter is in operational service with the Royal Navy and successfully demonstrated its combat capability during the Falklands campaign. It is in service with the French, German and other Navies and over 300 Lynx aircraft are in use worldwide. The Royal Navy is ready to offer its advice and experience based on proven operational use to the ROK Navy and Westland Helicopters are committed to a transfer of technology to assist the Republic of Korea in further developing your country's helicopter capability.

I am pleased that the Republic of Korea's naval helicopter programme offers the opportunity to increase collaboration between our armed forces and our industries, in accordance with the principles which we agreed, and I commend the Lynx helicopter for your favourable consideration.

I continue to follow developments in your country very closely, and retain the warmest memories of my visit.

With best wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Chun Doo Hwan

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 December 1987

LYNX HELICOPTERS FOR KOREA

Thank you for your letter of 27 November proposing that the Prime Minister should write to President Chun to support the prospects of selling Lynk helicopters to Korea.

The Prime Minister was initially rather reluctant to do this but has now agreed to sign the letter. I enclose the attached copy. I am sending a further copy to Robert Culshaw (Foreign and Commonwealth Office) so that it can be telegraphed to Seoul.

I am copying this letter and enclosure to Stephen Ratcliffe (Department of Trade and Industry).

CHARLES POWELL

John Howe, Esq.,
Ministry of Defence.

CCPC

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*

CONFIDENTIAL

2 December 1987

C Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1A 2AA

CDP
2/12

Dear Charles,

MINEHUNTERS FOR SAUDI ARABIA

W top of file

Thank you for copying to me your letter of 27 November to Ian Andrews (Ministry of Defence) on this subject.

My Secretary of State has noted the potential export benefits of the Saudi Arabian minehunter package not only to Vosper Thorneycroft but to several other British companies who could win valuable orders for ancillary equipment and support systems. He also understands that if the Saudi order were to be won for the UK, there would be strong prospects of follow-on minehunter business from other Gulf Cooperation Council states, including Bahrain, UAE, and Kuwait. He therefore hopes the constructive proposals put forward by Vosper Thorneycroft, which would enable the early Saudi delivery requirements to be met with an interim lease of Royal Navy Hunt class vessels, will be carefully examined.

I am copying this letter to Ian Andrews (Ministry of Defence) and Alex Allan (HM Treasury).

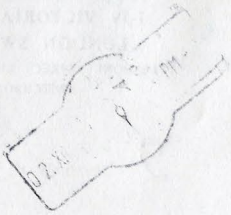
Yours sincerely

Steph Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

JG2BYM

DEFENCE Sales pt 9



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

MO 6/17/7L

1 December 1987

Dear Charles.

TORNADO FOR JORDAN

Thank you for your letter of 27th November.

Although the subject of Jordanian interest in the Interdictor/Strike Version of the Tornado was raised when the Jordanian Commander-in-Chief passed through London yesterday, it did not figure prominently in the discussion. Field Marshal Bin Shaker asked whether the Air Defence Variant had a ground attack capability, since he said King Hussein seemed to think it had, or could be given one. He was told that although it could be modified for the purpose, this would not really be cost effective, since the result would be more expensive and less capable than the Interdictor/Strike Version. The Commander of the RJAF who was present agreed. When the Field Marshal enquired casually about the possibility of Jordan acquiring the Strike version, the Head of Defence Export Services (Mr Chandler) told him that we would not rule this out. But he suggested that, given their priorities and financial situation, Jordan should start by acquiring the Air Defence Variant. The discussion then moved on and the point was not pursued.

Following the precedent of the Saudi Arabian sale, Mr Younger has decided that we should offer the eight ADV aircraft to Jordan on a Government to Government basis, since this will overcome potential difficulties over supply of German manufactured parts. At current prices, the aircraft and their role equipment will cost approximately £240 million but the total value of the package will not be known until the Jordanians decide the scale of weapons, training and logistic support they require. This could amount to a further £100-150 million. This is a very substantial bill for eight aircraft but there is a basic level of support equipment which must be provisioned irrespective of the number of aircraft purchased.

Charles Powell Esq
10 Downing Street

Further discussion with the Jordanians will also be needed before the final shape of the credit package can be decided. But discussions with BAe, their German and Italian partners and the bankers nominated by BAe have progressed sufficiently to give an indicative offer of 100% credit with 85% at consensus interest rates. This will be made available by a consortium of banks from the three Tornado partner countries (with the aircraft manufacturers bearing a substantial portion of the risk) there is no intention to see any Saudi finance for this initial batch of aircraft. The offer, which is a mixture of three currencies, is regarded by the banks as competitive but whatever is tabled in the first instance will be regarded by the Jordanians as only a starting point for negotiations and we must expect to have to improve upon it at the second round.

The advice of HMA Amman is that a clear signal of political support for the Tornado is needed to overcome the inherent price disadvantage of the aircraft in the face of strong competition from the Soviet Union (MIG29) and France (Mirage 2000). Although, for the reasons explained in John Howe's letter of 24th November, we remain anxious not to encourage Jordanian interest in an early purchase of the Interdictor/Strike version - at least for the moment - the attached draft of a message for the Prime Minister to send to the King acknowledges their interest in both versions of the Tornado. Field Marshal Bin Shaker is likely to report details of our proposal to the King on his return to Jordan on 3rd December and it would be helpful, if the Prime Minister is willing to send a message, if the text could be telegraphed to Amman.

I am sending a copy of the letter to Robert Culshaw (Foreign and Commonwealth Office) and to Max Felstead (HM Treasury).

Yours ever

(I C F ANDREWS)
Private Secretary

CONFIDENTIAL

file E L
& SR PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 November 1987

MINEHUNTERS FOR SAUDI ARABIA

The Prime Minister has learned of Vosper-Thorneycroft's bid to sell SANDOWN class minehunters to Saudi Arabia, and the firm's proposal that the Ministry of Defence should assist their bid by agreeing to lease two of its HUNT class vessels to the Saudis to cover the gap while the SANDOWN class ships are being built.

The Prime Minister would be grateful for a note on this issue. While appreciating the Navy's reluctance to lease their vessels, she has noted that we must remember that we have to be able to sell our products abroad in order to generate the wealth to purchase things here.

When I mentioned this on the telephone, you told me that the MOD were engaged in a further consideration of the firm's request. I should be grateful if you could let me know the outcome before a final reply is given to Vosper-Thorneycroft, in case the Prime Minister wishes to intervene.

I am copying this letter to Alex Allan (H.M. Treasury) and Alison Brimelow (Department of Trade and Industry).

CHARLES POWELL

Ian Andrews, Esq.,
Ministry of Defence.

CONFIDENTIAL

cc PC

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

MO 6/19/12L

27th November 1987

Dear Charles,

LYNX HELICOPTERS FOR KOREA

On 2nd August 1986 the Prime Minister wrote to President Chun Doo Hwan in support of the sale of Javelin to Korea. This letter was instrumental in the decision by Korea in favour of Javelin - a sale worth £20M - with the possibility of a much larger follow-up order.

Korea is becoming an increasingly important export market for defence equipment and a major prospect at the moment is the sale to the ROK Navy of 12 Lynx helicopters equipped with BAe Sea Skua missiles. The initial order is worth £100M with a strong likelihood of a further order for 22 worth another £200M. Competition comes from the US and France. The sale would be on a cash basis.

The US is becoming alarmed at the increasing penetration of the Korean market by the UK and Vice President Bush has written on a number of occasions to President Chun. They are particularly concerned at the prospects of a non-US sale of a complete weapons system into what was a US preserve. But US companies have been less responsive than ours to Korean requirements for offset and technology transfer. The French have also been very active.

The sale is important to us. It will consolidate our position as a major supplier to Korea and it will provide Westlands with a vital production run over the next few years in the period before the EH 101 enters production; and the Brazilian Navy, who are also close to making a decision on a Naval helicopter, are likely to be influenced by the Korean decision. As far as the timescale for a decision is concerned, the Ministry of National Defence will consider the report of an evaluation team (which visited US, UK and France last week) on 1st and 5th December. Thereafter a recommendation will go to President Chun with the expectation of a Presidential decision before the elections on 16th December.

My Secretary of State wrote to the Korean Defence Minister on 30th July (I attach a copy of the letter) and believes that a message of support from the Prime Minister to President Chun could be critical to the success of this sale. I understand that the

Charles Powell Esq
10 Downing Street

Secretary of State for Trade and Industry is of the same opinion. Given the timescale it would be helpful, if the Prime Minister is content to intervene, if the text of the letter could be telegraphed to the Embassy. A draft is attached.

I am sending a copy of this letter to Robert Culshaw in the Foreign and Commonwealth Office and Stephen Ratcliffe in the Department of Trade and Industry.

Yours sincerely,

John Howe

(J F HOWE)
Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO PRESIDENT CHUN DOO-HWAN REPUBLIC OF KOREA

During our discussions in London and in Seoul last year we talked about ways in which we might strengthen the links between our two countries in science, technology, commerce and industry and I am pleased to note that since then there has been real progress on certain items of British equipment. I understand that your Ministry of National Defence is now considering another major item, a new naval helicopter and the British Westland Super Lynx helicopter equipped with British Aerospace Sea Skua missiles is under consideration for this requirement.

This helicopter is in operational service with the Royal Navy and successfully demonstrated its combat capability during the Falklands campaign. It is in service with the French, German and other Navies and over 300 Lynx aircraft are in use worldwide. the Royal Navy is ready to offer is advice and experience based on proven operational use to the ROK Navy and Westland Helicopters are committed to a transfer of technology to assist the Republic of Korea in further developing your country's helicopter capability.

I am pleased that the Republic of Korea's naval helicopter programme offers the opportunity to increase collaboration between our Armed forces and our industries, in accordance with the principles which we agreed, and I commend the Lynx helicopter for your favourable consideration.

I continue to follow developments in your country very closely, & retain the warmest memories of my visit.

With best wishes.

DEFENCE

SALES

PTP

CONFIDENTIAL

8Kw

file

be: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 November 1987

Dear John,

TORNADO FOR JORDAN

Thank you for your letter about the supply of Tornado to Jordan and the question whether we need offer the strike version as well as the air defence aircraft. The Prime Minister has considered this but wonders how our intention to offer only the air defence version can be reconciled with the King's judgement that he must have a strike capability. She thinks that her own message to the King would have to address this problem unless you are able to make progress in the meantime in eliciting more about Jordanian needs and intentions from the Jordanian Commander in Chief when he passes through London on 30 November.

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

yours ever,

(C. D. POWELL)

John Howe, Esq.,
Ministry of Defence.

CONFIDENTIAL

DBS

PRIME MINISTER

MINEHUNTERS FOR SAUDI ARABIA

25.11.87

The attached mega-minute from the Policy Unit recommends that you intervene in the matter of minehunters for Saudi Arabia.

In a nutshell, Vospers-Thorneycroft argue that their bid does not have a chance unless the Royal Navy agree to lease two of their own most up-to-date minehunters to the Saudis for two years, until others can be manufactured. The Policy Unit support this: the MOD and the Navy staff are opposed.

It comes down to a question of priorities. Do we use our best and most modern equipment for our own defence, in this case the Clyde approaches? Or do we use it as bait for a major commercial contract?

We did the latter in the case of Tornado. The RAF would argue that it has left big holes in our capability. It might be difficult to explain politically why we were giving the Saudis our newest minehunters while relying on 30-year old models for our own defence.

But you may, as the Policy Unit suggest, like to ask for a note of the arguments for and against. Agree?

Yes - I incline to getting the orders - Surely we can step up the production from Vospers?

I do think that the Navy should take into account the fact that we have to sell goods abroad to earn the wealth for them to purchase things here. MT

C.D.P.

Charles Powell

26 November 1987

MJ2BPH

SECRET

PRIME MINISTER 25 November 1987

SAUDI-VOSPER MINEHUNTERS DEAL

The issue here is relatively straightforward. Saudi Arabia wishes to puchase eight minehunters and would like two of them delivered at once. It seems that the French and Dutch are ready to do so. Vosper Thorneycroft can offer eight Sandown class destroyers, the most modern in the field, in two years, but has nothing to offer immediately. It would therefore like the Royal Navy to lease two Hunt class minehunters (which V-T is due to deliver this month and November 1988 respectively) to the Saudis for a two-year period. Everyone agrees that, without such an offer, the company would have no chance against its competitors.

The advantages of the deal are as follows.

For V-T, the prospect of contracts for minehunters, spares and maintenance with Saudi Arabia and other Gulf states worth between £500 million and £1 billion. This would keep the yard busy for at least the next four years (i.e. past the next election.)

For the Government, the promotion of British technology in an important export field, the enticement of V-T out of frigate-building and into specialised warshipbuilding, and the development of local naval self-defence in the Gulf which might subsequently permit a reduction in the costly and politically risky British role.

The obstacle is that the Navy is reluctant to surrender the two Hunt class minehunters which it considers necessary to its triple role of defending the deterrent, fulfilling obligations to NATO and patrolling the Gulf. Instead, it offers three thirty-five-year-old Ton class minehunters which, again everyone agrees, the Saudis would reject.

SECRET

There has been some movement on this since my note on Warshipbuilding (18 November). The MOD has asked Vosper Thorneycroft present their case in the light of the Navy's objections. I enclose V-T's letter which gives a very useful account of their position. The DTI has also been examining the scheme and I understand from officials that Mr Clarke strongly favours it. Since the matter is fairly urgent - the Saudi Royal Naval Force would like some minehunters delivered immediately - I outline and examine the MOD's doubts.

MOD Objections Examined

(1) "The Ton class minehunters on offer to the Saudis, though 30 years old, contain technologically advanced sonar equipment and do the job very well. The Saudis should accept them."

CLOSED UNDER THE FREEDOM OF INFORMATION ACT 2000

If, however, the Ton class ships can do the job very well, why should they not be retained in service for a further two years by the Royal Navy? The Hunt class vessels are an improvement, admittedly, but is their performance so superior as to be worth sacrificing the advantages outlined above? It seems doubtful.

(2) "The Navy simply cannot spare the two Hunt class minehunters which Vospers would like to lease to the Saudis since the Gulf patrol requires four ships, thus stretching resources to the limit."

In fact, the Gulf patrol requires more than four ships since they are regularly rotated. Minehunters return to

O'Sullivan/Phu 25/11/87

Britain for repairs and maintenance and are replaced by other minehunters. Given that the round trip is two months, and that refitting and repairs also take time, this means that something between 6-8 ships are required for Gulf duty at any one time. (Calculations differ).

V-T argue that the Gulf requirement could be sharply reduced by

(a) rotating the crews, flying them to and from the Gulf as commercial companies do;

(b) repairing and refitting the ships on the spot. V-T is prepared to undertake maintenance work on them at the Wudam base in Oman where its related companies, Airwork and Seawork, already have 33 people on the site.

Such measures should release at least two minehunters from Gulf duty and thus recompense the Navy for being deprived of the two Hunt class ships for two years. This may not be the way that the Navy traditionally does things, but if such methods save a £750,000 million deal for Britain, the sacrifice would surely be worthwhile.

(3) "The Hunt class minehunter is (and houses) a delicate and complicated piece of technology. If it breaks down in the unfamiliar circumstances of the Gulf, it would damage Britain's reputation for technology and perhaps put at risk bigger contracts like the Saudi submarine deal."

V-T simply denies this. They think the Hunt minehunters are "structurally robust" and that the sonar equipment is simple to operate. They add that the Saudis have bought much more complex technologies and that, where they lack the skilled manpower to operate them, they hire it. In this case, they would probably hire Egyptian naval

personnel now that Egypt has rejoined the Arab fold. The Egyptian navy is of reasonable quality and operates V-T's modern patrol boats (which the company considers to be of equal technical complexity to the Hunt class) quite well. So there should be no need for Royal Navy personnel.

It should be noted that this argument, like (4) below, is an argument against <u>any</u> deal with the Saudis that involves complex technology. For, if it is the case that the Saudis can't operate complicated machines, then any such sale will lead to disaster which in turn will prejudice all future sales. This seems a needlessly pessimistic approach to commercial life.

(4) "The Hunt minehunters cannot operate without a 'forward operating base' of advanced equipment and skilled maintenance personnel on the spot. Without this, the ships will break down and discredit British technology etc."

As part of any deal with Saudi Arabia, V-T would expect to establish and man a repair and maintenance base on the Saudi coast. Such maintenance contracts customarily add between 20% and 30% to the value of the original contract. Vosper Thorneycroft is experienced in this regard, having just completed a £15 million takeover in Kenya, complete with jetties, repair and maintenance equipment, and skilled personnel.

(5) "We'll never get the ships back".

But the minehunters are to be leased, not sold, and the commercial fees going to the Navy will more than pay for a full refitting afterwards.

All in all, the balance of the argument seems to lie firmly on the side of overriding the Navy's objections and going

SECRET

ahead with the deal. Some of the above points, however, depend on technical considerations which I am not competent finally to judge. And although it is my impression that the MOD is listening more sympathetically to V-T's case, this may take more time than the Saudis, the French and the Dutch will allow us.

It might concentrate minds wonderfully therefore if you were to ask for a technical report on the disputed points, in particular the ability of Navy to retain the Ton class minehunters and the practicability of V-T's suggestions for rotating crews and repairing the Navy's minehunters on the spot.

John O'Sullivan

John O'Sullivan
25 November 1987

SECRET

CONFIDENTIAL

173355
MDHIAN 7552

CONFIDENTIAL
FM AMMAN
TO DESKBY 251130Z MODUK
TELNO U/N
OF 251000Z NOVEMBER 87
AND TO DESKBY 251000Z FCO

SIC ACA/ZMC/Z80
FOLLOWING FOR HDES AND SIR DAVID MIERS
AUDIENCE WITH KING HUSSEIN: TORNADO FOR JORDAN

1. AT AN AUDIENCE WITH KING HUSSEIN ON 24 NOVEMBER I SAID THAT OUR FINANCIAL AND TECHNICAL PROPOSALS FOR A TORNADO SALE WERE READY AND WE HAD ARRANGED TO PRESENT THEM TO HIS C-IN-C IN LONDON ON 30 NOVEMBER.

2. THE KING SAID HE WAS MOST GRATEFUL. JORDAN WAS LOOKING AT THIS QUESTION IN THREE STAGES. FIRST THERE WAS THE NEED TO UPDATE ITS CURRENT AIRCRAFT. SECOND THERE WAS TORNADO, IE THE AIR DEFENCE VERSION WITH SOME STRIKE CAPABILITY. THIRD, PERHAPS LATER, THEY WOULD LOOK AT FIGHTER AIRCRAFT.

3. AS REGARDS THE LATTER, WHETHER FRENCH, RUSSIAN OR WHATEVER, JORDAN HAD TO BE CAREFUL NOT TO REPEAT THE MISTAKES OF THE PAST AND DISCOVER THAT BY THE TIME THE AIRCRAFT WERE DELIVERED THEY WERE ALREADY OUT OF DATE. BUT TORNADO, HE IMPLIED (BY WHICH I MEAN HIS WORDS WERE NOT CLEAR THOUGH HIS MEANING WAS), WAS A SETTLED OBJECTIVE. I SAID I WAS OBVIOUSLY GLAD TO HEAR THAT AGAIN, THE MORE SO BECAUSE I KNEW WE WERE OFFERING A MARVELLOUS AIRCRAFT.

4. THE KING TOLD ME THAT THE DATES FOR HIS MOSCOW VISIT WERE STILL NOT SETTLED THOUGH HE IS CLEARLY STILL HOPING TO GO THERE IN NOVEMBER .

5. I SAID THAT IF I ASKED FOR ANOTHER AUDIENCE IN THE NEXT FEW DAYS IT WOULD BE ON THE TORNADO ISSUE, ON WHICH I MIGHT WISH TO DELIVER A MESSAGE. HE SAID I WAS WELCOME AT ANY TIME.

6. WHEN I SAW THE JORDANIAN PRIME MINISTER THIS MORNING ON OTHER MATTERS HE SAID THAT THE KING HAD DISCUSSED WITH HIM THE ABOVE CONVERSATION. RIFA'I SAID THAT HE PERSONALLY WAS CONCERNED ONLY WITH THE FINANCIAL ISSUE. AS HE HAD TOLD ME

EARLIER, JORDAN COULD NOT PAY A PENNY FOR ANY AIRCRAFT UNTIL 1993. BUT THE KING HAD EMPHASISED TO HIM LAST NIGHT THAT HE NEEDED TORNADOES FOR AIR DEFENCE PURPOSES BUT WITH A STRIKE CAPABILITY AND HAD INSTRUCTED RIFA'I TO MAKE THAT CLEAR TO THE C-IN-C BEFORE HIS TALKS IN LONDON ON 30 NOVEMBER. THE KING'S ADVISERS HAD TOLD HIM THAT THIS REQUEST WAS NOT ON: HE COULD EITHER SEEK THE ADV OR THE IDS VERSION, BUT THERE WAS NO AMALGAM. I TOLD RIFA'I THAT I FOUND ALL THIS VERY STRANGE. WE HAD ALWAYS BEEN TALKING ABOUT THE ADV VERSION AND THAT WOULD BE THE BASIS OF OUR PROPOSALS. BUT ANYTHING COULD BE DISCUSSED IN LONDON.

7. I SUSPECT THE HAND OF SHURDOM IN THIS. WHETHER HE IS GENUINELY CONCERNED TO SECURE THE IDS, OR WHETHER HE KNOWS THAT THAT MAY CAUSE US DIFFICULTY AND THEREFORE SEES INSISTENCE ON IT AS THE BEST WAY OF SECURING A DECISION IN FAVOUR OF THE MIRAGE, I CANNOT CONFIDENTLY JUDGE. BUT YOU WILL OBVIOUSLY HAVE TO BE PREPARED, AS I WARNED EARLIER, TO DISCUSS THESE MATTERS ON 30 NOVEMBER . INDEED THE CHOICE OF VARIANT MAY NOW BECOME THE MAJOR ISSUE. IT MAY BE THAT, DESPITE ALL OUR EFFORTS, THE KING AND THE C-IN-C ARE MUDDLED ABOUT THE PRECISE CAPABILITIES OF THE ADV VERSION. I DO NOT KNOW HOW FAR YOU CAN CREDIBLY STRESS ITS OFFENSIVE CAPABILITIES, OR EMPHASISE THE ADVANTAGES OF STARTING WITH ADV AND MOVING TO IDS LATER.

8. IT WOULD BE HELPFUL IF I COULD RECEIVE FURTHER GUIDANCE ON THESE ISSUED IF AND WHEN I AM INSTRUCTED TO DELIVER A MESSAGE FROM THE PRIME MINISTER.

COLES

YYYY

DISTRIBUTION 60

MAIN 54

LIMITED
NENAD
ESSD
DEFENCE D
NEWS D

PS/MR MELLOR
PS/PUS
MR MUNRO
SIR D MIERS
MR BOYD

CONFIDENTIAL UK EYES A
COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022 xxxxxxx 01-218 2111/3

MO 32/10L

25th November 1987

Prime Minister

Ian Charles,

COP 26/XI

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

The Prime Minister may wish to have a brief report on British defence sales performance in the third quarter of 1987.

In this period British industry formally reported defence export sales worth £686 million (including £78 million from 1986 contracts), which is 57% higher than the corresponding figure in the third quarter in 1986. The major customers in this period were the USA (37%), Australia (13%), and India (9%). A list of the major contracts awarded in the period is attached in an Annex to this letter.

The United Kingdom's competitors have also signed a number of significant contracts in the third quarter of 1987. These include the US sale of the F8 aircraft improvement package to China ($245 million); the Israeli sale of a Mirage III aircraft improvement package to Spain ($150 million); the sale of one US E3 aircraft to France ($120 million); an Italian order for helicopter avionics with a US company ($100 million); a West German contract with Thailand for trucks ($138 million); and the sale of some US light tanks to Thailand ($100 million).

The most substantial forthcoming British prospects and highlights include the following:

a. Middle East

Saudi Arabian plans to purchase submarines have been delayed until 1988. Meanwhile, the Royal Saudi Navy has asked HMG for a proposal covering supply of 12 Black Hawk helicopters, 8 mine counter measures vessels (MCMV), 15 fast patrol boats and naval mines (£500 million); HMG has responded with a package which includes RN support and training. The Challenger MBT has

Charles Powell Esq
10 Downing Street

CLOSED UNDER THE FREEDOM OF INFORMATION ACT 2000

now completed its in-country trials.

In Jordan the Tornado remains the major prospect. The GKN trial of Warrior in-country was successful, although credit remains a major hurdle (£300 million). Kuwait has recently indicated that they have $8.5 billion available to update and strengthen their armed forces with a range of prospects for Challenger MBTs, Shorts Tucano, Warrior and fast patrol boats. In the UAE contract discussions are proceeding to supply British Aerospace Hawks to both Abu Dhabi (£300 million) and Dubai (£190 million); interest is also being expressed in an electronic warfare package (£100 million), with Plessey in strong competition with the West Germans. Qatar is also looking for some naval strike vessels (£50 million) and is evaluating the Shorts Javelin.

b. Europe

Greece are not expected to make a decision on a frigate purchase until the New Year. Vosper are teaming with Honeywell, the preferred combat-systems supplier, to produce a joint proposal (£100 million). A decision on the Turkish armoured personnel carrier requirement is not expected until after the Turkish elections, but Warrior is not well placed because of the lower price of the US and West German vehicles. Vosper Thornycroft are responding to Spanish MCMV requirements; a selection decision is expected in the next two months. There is serious doubt that Yugoslavia will be able to fund their Light Combat Aircraft (LCA) project. Ministers are still considering the level of technology that will be released, which will in any case be lower than that preferred by Yugoslavia. On 20th October Switzerland signed a £164 million contract to acquire 20 Hawk aircraft.

c. America

In the United States, the Rockwell/Marconi team have just been awarded a $40 million contract to provide the US Navy with a shipborne communications system for entry into service in the 1990s. The total programme is valued at £2,500 million. The US Army have completed the firing trials for Tracked Rapier which is under evaluation for their air defence requirements; a selection decision is imminent. The US Department of Defence has just announced that they are to evaluate 19 British projects under their 1988 Foreign Weapons Evaluation programme, making Britain the most successful country in terms of the number of programmes selected. In Canada, following the publication of the Canadian defence White Paper, a significant number of

Ball/Powell 25/11/87

CLOSED UNDER THE
FREEDOM OF INFORMATION
ACT 2000

high-value opportunities will emerge in the next few years. The next major programme, following the selection of the EH 101 for a project definition study, is for between 10-12 nuclear submarines (£2400 million) with significant effort being made to promote the British Trafalgar Class in competition with the French Rubis; a decision is expected in 1988. Westland have sent a Lynx for in-country trials in Brazil in competition with a French helicopter. A decision is expected by the end of 1987 (£50 million). A Chilean Navy decision to acquire Vertical Launched Seawolf is imminent. This will be the first export order for this system (£85 million).

d. Australasia and the Far East

Australia and New Zealand are due to select two designs for a final competition to meet their requirements for up to 12 surface vessels (£2000 million). Yarrow with a modified type 23 design are in competition with Dutch and West German designs. In Pakistan a decision to acquire three Type 23 ships is still awaited (£570 million). A positive decision will lead to proposals to revive the substantial HMG backed credit package. Indonesia has signed a £19.5 million contract to acquire Plessey radars; total requirements are valued at £100 million over the next five years. In India business has come to a virtual standstill following the Bofors arms scandal, which is affecting all overseas suppliers. There are now over 250 offshore procurement decisions still under consideration including Hawk (£700 million) and tank and artillery upgrade packages. A Singaporean naval team visited the UK recently to discuss their requirements for MCMVs (£200 million). Final arrangements have been concluded with Malaysia to acquire the six ex-RN Wasp helicopters. The requirement for a new artillery piece for the Army is likely to lead to a decision to purchase the FH 70 (£12 million).

e. Africa

A Moroccan military team toured UK industry during October, following the official visit of King Hassan. This has led to a request for trials in-country of the Vickers Challenger and Mk III main battle tanks, Scammell tank transporters and FH 70. British Aerospace have signed a £17 million contract with Botswana for nine Strikemaster aircraft and ground support equipment; negotiations continue to acquire a BAe 125 aircraft to be operated by the Botswana Defence Force (£8 million). Vosper Thornycroft have signed a £15 million contract for an extension to the Kenyan Navy's dockyard complex in Mombasa. A HMG team is to visit Zimbabwe in the near future for further discussions of their air defence requirements.

I am sending copies of this letter to Lyn Parker (Foreign and Commonwealth Office), Jonathan Taylor (HM Treasury), Stephen Radcliffe (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

(D C J BALL)
Private Secretary

ANNEX

JULY - SEPTEMBER 1987: IMPORTANT CONTRACTS

- Rolls-Royce Pegasus engines to USA	(£103M)
- Barr & Stroud submarine periscopes to Australia	(£32M)
- GEC Avionics equipment for USA	(£29M)
- Paxman marine diesel engines to USA	(£27M)
- Plessey Radios to Australia	(£25M)
- British Aerospace Sea Eagle missiles to India	(£25M)
- Strikemaster aircraft to Botswana	(£17M)
- Royal Ordnance 105mm Field Gun to USA	(£13M)
- Nitor Ltd Range Complex to Qatar	(£10M)
- Racal radios to Kenya	(£7M)
- Solatron tank gunnery simulator to Austria	(£5M)
- Plessey Shield system to Canada	(£5M)

CONTRACTS REPORTED BUT NOT INCLUDED

- Hawk to Switzerland	(£164M)
- Plessey radars to Finland	(£5M)
- Singer Link-Miles submarine simulator to Norway	(£10M)
- Racal radios to Philippines	(£8M)

VOSPER THORNYCROFT (UK) LIMITED

VICTORIA ROAD WOOLSTON SOUTHAMPTON SO9 5GR

TELEPHONE
NATIONAL 0703 445144
INTERNATIONAL + 44 703 445144

TELEX: 47682 VT WOOL(G)

FACSIMILE
0703 421539 (ADMIN DEPT GR.2&3)
0703 431582 (TECH DEPT GR.2)

OUR REF: PJU/mmd YOUR REF:

24th November, 1987.

The Rt. Hon. George Younger, TD, MP,
Secretary of State for Defence,
Ministry of Defence,
Main Building,
Whitehall,
London SW1A 2HB.

Dear Secretary of State,

You will be aware that the Royal Saudi Naval Force wishes to purchase eight minehunters and would like two or possibly three of the vessels delivered immediately. The French and Dutch responded some weeks ago by offering the Tripartite design. It is our understanding that the French would transfer three from their Navy within about 12 weeks, and the Dutch two in the same period.

The potential for U.K. industry is huge if we can win this order, because the other Gulf States are also planning to buy minehunters and will be strongly influenced by the Saudi decision. The eventual export benefit to the U.K. is likely to be between one half and one billion pounds. The political gain too of having the Gulf States equipped with British equipment and able to detect and destroy mines in this vulnerable area, is clearly attractive.

Within Vosper Thornycroft we have the capacity to fulfil the whole of the potential minehunter business in the Gulf, but we cannot match the immediate deliveries being offered by our competitors. To do so we would ideally like to offer two HUNT Class for sale forthwith.

We are, however, aware of the operational problems which this would cause the Royal Navy, and we believe it may be possible to persuade the Saudi Forces to take two HUNT Class vessels on lease for two years whilst new SANDOWN Class ships are being built.

We therefore make the following proposal:-

1. Royal Navy HUNT Class for Saudi Arabia

One ship - preferably HMS BERKELEY - to be leased to the Royal Saudi Naval Force for a period of two years from the date of a contract.

The lease to be either Navy to Navy or Vosper Thornycroft to the Royal Saudi Naval Force. In either case Saudi Arabia would be required to pay a leasing charge which would be sufficient to cover the commercial cost of refurbishing the ship to an agreed standard. This standard would be to that of other HUNT Class vessels of the same age. A detailed specification would be drawn up by Vosper Thornycroft who would undertake the work.

A second ship, HMS QUORN would be advanced from her current programme completion date of February, 1989, to mid-1988 at Saudi cost, and leased for a period of two years on the same basis as that for the first ship.

Eight SANDOWN Class (the first two of which may have to be fitted with Plessey Sonar Type 193M as an interim measure) to be supplied on a VT to Saudi contract. Depending on the requirement, deliveries would commence about 20 months from date of contract and follow at approximately 4 monthly intervals. This throughput is achievable with our existing facilities which are desperately underloaded at present. It could be enhanced quite readily.

3. Support activities for Saudi Arabia

VT and/or its related Company AV Seawork to provide such training, spares, maintenance and in service support as the Royal Saudi Naval Force require in Saudi Arabia. Operational training if requested would probably best be provided by the Royal Navy.

4. Royal Navy HUNT Class in the service of the Royal Navy

The heavy demand imposed by events in the Gulf on R.N. maintenance staff, spares support and ultimately on refitting could be significantly relieved by enlisting the services of Vosper Thornycroft. We are prepared to undertake maintenance work on Royal Navy ships in the Gulf using our own and our sub-contractors staff. It appears likely that diplomatic arrangements could be made to permit the use of the Wudam Base in Oman for maintenance work on the HUNT Class where Seawork and Airwork already have some 33 people on site. This would reduce wear on the machinery of ships which may otherwise return to the UK.

Vosper Thornycroft Support Services could undertake the sourcing and provisioning of spares for the HUNT Class. As a consequence of our experience in building these ships we are ideally suited to carry out refits and DEDs.

5. SANDOWN Class for the Royal Navy.

The contract dates of existing orders for the first five SANDOWN Class will not be affected by the above proposals.

In summary we believe that work to the value of approximately £750,000,000 is achievable on cash contracts from the Middle East. Such work will be sustained for a long period, and many elements of British Industry will benefit. Saudi Arabia will influence the outcome significantly. To win the Saudi order requires a very early decision to sell, or to lease for about two years, two HUNT Class Mine Countermeasures Vessels. We recommend that the selling effort be led by HDES personally to ensure that Britain is seen to be responding wholeheartedly with full Royal Navy support. The credibility established by the Royal Navy as the leaders in minehunting techniques is clearly a major sales factor.

Your sympathetic consideration of these issues would be greatly appreciated.

Yours sincerely,

Peter J. Usher
Managing Director

Copy to: Vice Admiral Sir Derek Reffell, Controller of the Navy
Mr. Colin Chandler, Head of Defence Export Services.

2DA CCK

But the Chief says he must have a strike capability (2)

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

MO 6/17/7L

24th November 1987

Prime Minister

The advice is that we should offer Jordan only the air defence version of Tornado for the time being, while not ruling out the strike version later if the Jordanians can afford it.

CDP 25/11

Dear Charles,

TORNADO FOR JORDAN

I have agreed with Robert Culshaw that I should reply to the request in your letter to him of 18th November for an assessment of whether we should offer the strike version of Tornado to Jordan as suggested in a telegram of 16th November from Amman.

The Interdictor/Strike (IDS) version of the Tornado is being supplied to Saudi Arabia and there would be no fundamental military or political objection on our part to its sale to Jordan. Indeed the discussions with King Hussein last year, which assumed Saudi funding would be forthcoming, envisaged a mix of Air Defence (ADV) and IDS aircraft - the roles of which are complementary - in a package of 40 aircraft.

Supply of IDS would however be less welcome to our German Tornado partners and also to the Americans, who would have to agree to the release of American technology; more is incorporated in the IDS than the ADV version. Both the Germans and Americans are concerned about their relations with Israel, and in the American case the effect also on pro-Israel domestic opinion. Whilst there should be no insuperable difficulty in obtaining the agreement of both countries, Mr Younger feels that it would not be opportune to raise the subject of the IDS supply with either so soon after assuring them that our intention, and that of the Jordanians, was to meet Jordan's pressing air defence needs with a small number of ADV aircraft: and the Americans have already given their formal approval to this.

More fundamental, perhaps, is the question of whether Jordan could afford to purchase both types of Tornado. A purchase of 8-10 Tornados is probably the most for which they could meet the repayments, at least initially. It would be difficult to make available additional credit for further IDS aircraft. Similarly we would need to consider whether we could still offer Jordan our £300 million package, including £100 million guaranteed by ECGD, if they

Charles Powell Esq
10 Downing Street

intended to borrow in parallel a similar sum from France. If, as has been suggested, it was intended that the Saudis should cover a Mirage purchase there would be obvious political difficulties when we remained at risk on a government supported credit offer.

On the face of it the remarks by the Jordanian Commander-in-Chief to the Ambassador are puzzling. A purchase of Mirage 2000 and the Tornado ADV, besides being beyond Jordan's means, makes no military sense. Such a small air force would be hard pressed to cope with the logistic and operational complexities of operating both types - indeed, the Commander of the Royal Jordanian Air Force has in the past criticised Tornado for requiring two versions (although with a high degree of commonality) to cover the spectrum of their requirements. Against this the Mirage 2000, although in our view a less effective aircraft, does combine both air defence and ground attack capabilities in a single airframe. In the unlikely event that Jordan did decide to opt for a mixture of both aircraft, it would make little sense for them to use the Mirage for ground attack and the Tornado for air defence as that would reverse the optimum attributes of the two aircraft.

It could therefore be that the Commander-in-Chief's confidences are preparing us for a decision to buy Mirage rather than Tornado, although that would fly in the face of all the other indications that we had received from him and others. It is perhaps more likely that this was intended to encourage us in an offer also of IDS. If that matter were raised more specifically we should wish to avoid a negative response, but the questions of finance and American and German approval would have to be faced.

For the present, while taking every opportunity to sound out Jordanian thinking on a Mirage 2000 purchase, we propose to confine our proposal to eight ADV aircraft. A formal offer will be made to the Jordanian Commander-in-Chief when he passes through London on 30th November; our intention is to ask the Prime Minister to write to King Hussein in support (a draft letter will be forwarded for the purpose).

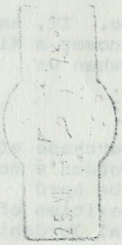
I am sending a copy of this letter to Robert Culshaw (Foreign and Commonwealth Office).

Yours sincerely,

John Howe.

(J F HOWE)
Private Secretary

DEFENCE: Sales pt 9



RESTRICTED

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

MO 14/2L

23rd November 1987

Dear Charles

FORWARD AIR DEFENCE SYSTEM FOR THE UNITED STATES

Thank you for your letter of 21st November. I confirm that the action you describe in your third paragraph has been taken through our Embassy. I spoke to Sir Raymond Lygo on Saturday evening and said so. I fear that the upshot will be that for the next few days at least he will be putting pressure on me rather than on you!

I am copying this letter to Tony Galsworthy in the Foreign and Commonwealth Office and to Alex Allan in the Treasury.

Yours sincerely,

(J F HOWE)
Private Secretary

C D Powell Esq
10 Downing Street

RESTRICTED

DEFENCE Secret PT 9



RESTRICTED

Cte JA
cc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 November 1987

Dear John.

FORWARD AIR DEFENCE SYSTEM FOR THE UNITED STATES

Thank you for your letter of 20 November.

I have discussed this with the Prime Minister who has decided that it would not be appropriate for her to intervewne directly with the President, either with a message or by telephone. She has also rejected the further suggestion that I should telephone General Powell. If there is to be any intervention, she feels that it should be by the Defence Secretary with Mr. Carlucci. You explained to me why the Defence Secretary was reluctant to do this.

I have been in touch with Admiral Lygo who is naturally unhappy. His understanding after his talks with the Defence Secretary yesterday is that Mr. Younger would take steps to let Mr.Carlucci know that he hoped to discuss Tracked Rapier with him on 2 December, and to say that if an irreversible decision was likely before then, he would want to be able to put his views first. When we spoke on the telephone this afternoon, you told me that this was in hand.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and to Alex Allan (HM Treasury).

Yours ever,

(CHARLES POWELL)

John Howe, Esq.,
Ministry of Defence.

RESTRICTED

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2060 (one piece/item number)	Date and sign
Extract details: Minute and attachment from Cradock to Powell dated 20 November 1987	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	21/3/18
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
NUMBER NOT USED	
MISSING (TNA USE ONLY)	
DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

From the Office of:
[redacted]OKE
Executive Assistant To Chief Executive

Mr Powell

Sir Raymond thought that the attached info' may be useful background info' – he has highlighted the points that he would wish to stress.

Regards

20/4

British Aerospace Public Limited Company
11 Strand
London WC2N 5JT
Tel. 01 389 3930
Facsimile 01 389 3986
Telex 919221

1. WHAT DOES THE ARMY NEED?

- In 1975 the Army selected Roland to meet their low level air defense requirements. The US Roland program was terminated in 1981.

- In 1975 the Divisional Air Defense (DIVAD) Gun System was initiated to support Roland at the forward edge of the battle area. The DIVAD program was cancelled in 1985.

- In 1986 the Army's five part Forward Area Air Defense (FAAD) system concept was born. One major element is the Line of Sight-Forward-Heavy (LOS-F-H) or DIVAD replacement system.

- By 26 November 1987 the Army must select a LOS-F-H competition winner. Foreseen as a non developmental item (NDI) program the initial system must be rapidly fielded to provide immediate defense and later upgraded to meet the future threat - a two step approach.

- The need is urgent. US troops are currently without effective low level air defense. Having spent in excess of $3 billion supporting the US Roland and DIVAD programs selection of a low risk, in production, cost effective system is essential.

2. RAPIER PLUS POINTS

- Excellent overall performance during testing phase. High system reliability and excellent detection, acquisition and tracking results. Initial problems during the firing phase were quickly corrected.

- Risk free deployment program based on mature NDI system from hot production line. Over 25,000 missiles and 600 systems already produced.

- Rapier systems and support units are currently in operational service with the British Army in NATO. The system has been sold to 13 countries.

- UK Government committed to support the US Program including benefits from the $1.5 billion investment committed to take UK Rapier's forward from today into 21st century.

- Strong US Rapier team - UTC (electronics and missile), FMC (vehicle), GE (vehicle servos), Grumman (test equipment software) and Singer (training equipment) will achieve a high US content.

- A strong UK/US axis will ensure effective NATO air defense.

3. RAPIER FIRING TRAILS PROBLEMS (limited use only - not for circulation)

Firing conditions 2 and 3 were unsuccessful due to the missile tracking system being decoyed by flares emitted by the target aircraft.

Following identification of the problem, BAe informed the Army program office and range authorities of their intended course of action. A crash study was carried out in the UK and a number of modifications defined. Two missiles were successfully fired at a test Ministry of Defence range at West Freugh to prove the modifications.

The modifications were incorporated into the trials system which appeared for its next scheduled firing slot of the remaining seven missile firings, two hits and three near misses were achieved against small drone targets. This demonstrated a high level of company responsiveness and system flexibility.

In further Operational Testing phases, incorporation of the flare modifications and the availability of the new MKII proximity fuzed missile, funded by the UK Government, will ensure success.

4. COMPETITORS

ADATS poses the greatest threat.

ADATS

Testing

ADATS performance during the trials phase has clearly demonstrated that it is a developmental system that is clearly not "ready for production".

Overall system reliability was bad and surveillance radar performance was found to be inadequate.

ADATS was the only candidate (of four) unable to field two identical vehicles for the test phase. One was mounted on an M113 vehicle, the other on a Bradley.

Following the first ADATS firing, which failed, they used an external collimator board, deployed 1.5km downrange from the firing point, to align the system before each engagement.

ADATS missile reload drills were carried out on the M113 system and not the Bradley which they are bidding.

Program

Every effort has been made to allow ADATS to participate. Even the original Congressional language mandating a US Army decision by 26 November 1987 had to be modified to add the words "systems in production or ready for production".

Credibility

During the detection, acquisition and tracking phase, US Army observers discovered that the ADATS team had deployed civilians downrange to spot targets for the operating crew. This issue is currently under investigation by senior US Army officials.

The Canadian ADATS contract land scandal is still under active review. Delivery of the first ADATS system has now slipped well in 1989.

LIBERTY (CROTALE - SHAHINE (FOR SAUDI))

The system is not imediately available in the tested configuration.

The eventual system configuration offers a new untested LTV missile.

Liberty is a large, heavy system which has to be mounted on the MI tank chassis.

The overall system and missile are very expensive.

FRENCH GOVERNMENT IS UNDERSTOOD TO BE "VERY SUPPORTIVE"

PALADIN WHATEVER THAT MEANS!

The program was previously terminated by the US Army in 1981 when it was known as US Roland.

System performance and reliability was bad during the recent trails.

Their proposal offers system on the heavy and expensive MI tank chassis.

CONFIDENTIAL

PRIME MINISTER

RAPIER FOR THE UNITED STATES

You will recall that British Aerospace are trying to sell Rapier to the United States. Ray Lygo asked for help in covering their forward foreign exchange requirements but we turned this down. He is now pressing for some high level intervention with the Americans to urge the merits of Rapier before a decision is reached.

What Ray Lygo would like best is a message from you to the President. He claims this would have to go almost instantly, given that the decision could be taken as early as Monday, (although our people think it is likely to be later). Failing a message, he would like you to telephone the President.

No-one thinks a message a good idea. As in the case of Ptarmigan, it might well leak and cause us embarrassment. Nor do I think you can possibly telephone the President, given all the far weightier subjects which there are around. Equally, you will not want to turn Ray Lygo down flat, since you earlier offered to intervene in support of Rapier.

I suggest, therefore, two courses:

(i) you instruct me to telephone General Powell about this over the weekend, and ask him to bring your personal endorsement of Rapier to the attention of the President and the Defense Secretary;

(ii) if the decision has still not been taken by the time Frank Carlucci comes to London on 2 December, you raise the matter with him then.

I am sure that Ray Lygo would be happy with a combination of these two.

CONFIDENTIAL

Would it be possible to telephone the Duty Clerk if you approve this course of action so that I can telephone General Powell in the course of Saturday?

C.D.?

But I heard that Rapier did not replace Well on its U.S. tiles? Is that right? MT

This is NOT for me to send a message either directly or indirectly. MT

C D POWELL
20 November 1987

DASAEF

cc PE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
xxxxxxx 01-218 2111/3
Telephone 01-~~218 2022~~

MO 14/2V

20th November 1987

Dear Charles,

FORWARD AIR DEFENCE SYSTEM FOR THE UNITED STATES

Thank you for your letter of yesterday.

The strong advice from the Defence Equipment Supply Organisation here, who are not normally reluctant to advise Ministers to apply pressure or persuasion to potential customers at the highest level, is that on this occasion it would not be wise for the Prime Minister to write to the President. Mr Younger agrees this advice. There has been a very thorough series of trials and evaluations and the decision will be taken on technical grounds. A letter even from the Prime Minister herself is not likely to be be decisive at this stage; moreover a letter is very likely to leak in Washington, as it did in the MSE case, with embarrassing and counter-productive consequences. A telephone call to the President might be less risky but we would by no means press this idea on the Prime Minister; the Prime Minister will wish to judge whether a telephone call on this subject would be effective at a time when the President has many issues on his mind and when he is - we hope - still digesting the message of the Prime Minister's speech at the Mansion House on Monday.

Sir Antony Acland talked to Mr Taft yesterday evening and put the technical and political arguments for Rapier. Taft said that the judgement would be for the Army to make but he and Mr Carlucci would be reviewing the Army's recommendation carefully given the history of the project and the fact that the Army had got it wrong in the past. I understand that a recommendation by the Army may reach Mr Carlucci at the beginning of next week but that the review of the decision which Mr Taft mentioned to Sir Antony Acland would follow that.

I should add that Sir Raymond Lygo also pressed Mr Younger to take urgent action with the Pentagon. But they spoke on the 'phone

Charles Powell Esq
No 10 Downing Street

today and now he accepts Mr Younger's reasons for not rushing to apply pressure. We intend to raise the subject of Rapier when Mr Younger meets Mr Carlucci on 2nd December; and we hope to ensure that a final decision is not taken before then, though of course we cannot be completely confident that we will succeed. It would I am sure be very helpful if the Prime Minister were prepared to have a word with Mr Carlucci at her meeting with him on the same day, and we will ensure the matter is covered in her briefs.

If nevertheless the Prime Minister does wish to speak to the President, the points to stress are that:

- tracked Rapier is a tried and tested system already in service with the United States Air Force, as well as with the British Army and the Royal Air Force. It fully meets the United States Army's requirement in the medium term without the need for modification.

- we have allocated a further £1.5 billion to develop Rapier for use in the next century. This is an investment from which the US would benefit and which is the most vivid evidence of the confidence we place in the system.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and Alex Allan (HM Treasury).

Yours sincerely,

John Howe.

(J F HOWE)
Private Secretary

Defence - Sales Pr 9.

RESTRICTED

FLE
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 November 1987

Dear John.

FORWARD AIR DEFENCE SYSTEM FOR THE UNITED STATES

Admiral Sir Ray Lygo has telephoned me to bring me up to date on the latest developments over this. By his account, all the contestants have to put in best and final offers by this evening. He is still grappling with the problem of how to deal with future fluctuations in the exchange rate. He appears to have an idea which involves guaranteeing the Americans more vehicles if the exchange rate moves in the United Kingdom's favour.

That is beside the point. The real purpose of his call was to say that the time for a message or other intervention from the Prime Minister with the Americans is likely to arise very shortly, possibly in the next two days or so. As you know, the Prime Minister has in the past expressed willingness in principle to intervene to help in any way she can. You may therefore like, on a contingency basis, to start to prepare a draft message.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and Alex Allan (HM Treasury).

Yours sincerely,

(C.D. POWELL)

John Howe, Esq.,
Ministry of Defence.

RESTRICTED

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 November 1987

TORNADO FOR JORDAN

The Prime Minister has seen Amman unnumbered telegram of 16 November to the Ministry of Defence about Tornado. She would like to see an early assessment of whether we should offer the strike version of Tornado.

I am copying this letter to John Howe (Ministry of Defence).

(Charles Powell)

R.N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL

142122
MDHIAN 6024

Can we also offer the Thule revision?

Prime Minister
You will wish
to note the
important para. 8
over
CDP.

CONFIDENTIAL
FM AMMAN
TO DESKBY 160930Z MODUK
TELNO U/N
OF 160835Z NOVEMBER 87
AND TO DESKBY 160930Z FCO
INFO PRIORITY WASHINGTON, MOSCOW, PARIS, RIYADH

SIC ACA/ZMC/Z80

FOR HDES AND MIERS (FCO)

YOUR 131445Z: TORNADO

1. I DISCUSSED WITH THE JORDANIAN COMMANDER-IN-CHIEF EARLIER TODAY THE PRESENTATION OF OUR PROPOSALS ON TORNADO.

2. HE IS NOW LEAVING AMMAN TOMORROW, 17 NOVEMBER, FOR PARIS AND WASHINGTON AND WILL NOT REPEAT NOT BE TRANSITTING LONDON ON HIS OUTWARD JOURNEY, NOR HAS KING HUSSEIN ANY PLANS TO VISIT LONDON IN THE NEAR FUTURE.

3. BUT THE C-IN-C WILL REACH LONDON FROM WASHINGTON ON FRIDAY, 27 NOVEMBER. IN DISCUSSION WE AGREED THAT THE BEST THING WOULD BE TO ARRANGE MEETINGS IN LONDON ON MONDAY, 30 NOVEMBER. HE WOULD HAVE TAISIR ZAROUR AND IHSAN SHURDOM WITH HIM (SEMI COLON) DURING OUR MEETING HE PROVISIONALLY INSTRUCTED THEM TO PREPARE THEMSELVES ACCORDINGLY.

4. HIS PREFERENCE WOULD BE TO HAVE AN INITIAL MEETING WITH HDES AND A SENIOR BAE REPRESENTATIVE FIRST. THERE COULD THEN BE A WIDER AND MORE TECHNICAL DISCUSSION OF OUR PROPOSALS.

5. I ASKED THE C-IN-C WHETHER BY WAITING UNTIL 30 NOVEMBER WE WOULD BE DISADVANTAGED IN ANY WAY. HE ASSURED ME THAT WE WOULD NOT. I BELIEVE HIM.

6. I HAVE PROMISED TO CONFIRM TO HIM BEFORE HE LEAVES TOMORROW MORNING THAT THE ARRANGEMENTS DESCRIBED ABOVE ARE ACCEPTABLE. I VERY MUCH HOPE THAT HDES CAN MANAGE THE MEETINGS ON 30 NOVEMBER PERSONALLY. PLEASE CONFIRM BY CLOSE OF PLAY TODAY THAT 30 NOVEMBER IS ACCEPTABLE AND LET ME KNOW YOUR PREFERRED TIME AND VENUE. IT MIGHT BE BEST FOR HDES AND

THE BAE REPRESENTATIVE TO OFFER TO CALL AT THE C-IN-C'S FLAT FOR THE INITIAL MEETING.

7. I ALSO TOLD THE C-IN-C THAT I HAD IT IN MIND TO RECOMMEND THAT THE PRIME MINISTER SHOULD SEND KING HUSSEIN A SHORT GENERAL MESSAGE ABOUT OUR PROPOSALS. I DID NOT KNOW WHETHER MRS THATCHER WOULD WISH TO OR NOT BUT I THOUGHT SHE MIGHT. HE AT ONCE AGREED THAT THIS WOULD BE MOST USEFUL. I RECOMMEND THAT I SHOULD BE INSTRUCTED TO DELIVER THE PRIME MINISTER'S MESSAGE IN THE USUAL WAY ON 29 OR 30 NOVEMBER. THE MESSAGE COULD BE QUITE BRIEF AND REFER TO THE FACT THAT DETAILED DISCUSSIONS WILL TAKE PLACE SHORTLY WITH THE C-IN-C IN LONDON. IT WOULD NOT BE APPROPRIATE TO ASK THE C-IN-C TO GIVE THE KING THE MESSAGE ON HIS RETURN (SEMI COLON) AND WE SHOULD MISS THE BENEFIT OF A DIRECT REACTION FROM THE KING IF WE ADOPTED THAT PROCEDURE. BUT WHEN I HAVE DELIVERED IT THE C-IN-C (NOT ZAROUR OR SHURDOM) COULD BE SHOWN A COPY OF IT FOR HIS PERSONAL INFORMATION.

8. THE C-IN-C TOLD ME A NUMBER OF THINGS FOR MY OWN INFORMATION AND ASKED NOT TO PASS THEM ON. THE FOLLOWING SHOULD THEREFORE BE STRICTLY PROTECTED AND NEITHER PASSED TO THIRD PARTIES OR PLAYED BACK TO THE JORDANIANS AT ANY STAGE. ABU SHAKER SAID THAT THE KING WAS DETERMINED TO PURCHASE TORNADO PROVIDED OF COURSE THAT THE FINANCIAL TERMS WERE ACCEPTABLE. BUT JORDAN WOULD NEED ANOTHER AIRCRAFT AS WELL SINCE WE WERE PRESUMABLY ONLY CONSIDERING SELLING THE AIR DEFENCE VERSION OF TORNADO. THE PROBABILITY WAS THAT JORDAN WOULD ALSO BUY THE MIRAGE 2000. THE FRENCH WERE BEING VERY ACTIVE (THE FRENCH AIR FORCE COMMANDER VISITED JORDAN LAST WEEK). THE PROSPECT OF THE MIG 29 WAS NOW RECEDING UNLESS THE RUSSIANS CAME UP WITH A VERY ATTRACTIVE OFFER DURING THE KING'S VISIT TO MOSCOW, THE DATES FOR WHICH WERE STILL NOT FIXED. HE HAD TOLD NOBODY ELSE THESE THINGS AND AGAIN ASKED THAT I SHOULD NOT REPORT THEM TO LONDON (WE SHOULD CERTAINLY NOT TELL THE AMERICANS).

9. FINALLY THE C-IN-C RAISED THE QUESTION OF US-SUPPLIED MISSILES FOR TORNADO. I SAID THAT THE POSITION WOULD BE FULLY EXPLAINED TO HIM AT HIS MEETINGS IN LONDON BUT I WAS OPTIMISTIC THAT THERE WOULD BE NO PROBLEM ABOUT THE SUPPLY OF AIM 9 L. AS TO AMRAAM MY IMPRESSION WAS THAT IT WAS STILL UNDER DEVELOPMENT AND HE COULD NOT EXPECT A FIRM GUARANTEE THAT IT WOULD BE AVAILABLE SOME YEARS HENCE. HE SAID HE

UNDERSTOOD THAT. HE INSTRUCTED SHURDOM ON THE TELEPHONE TO BRIEF HIM CLEARLY AS TO WHEN AMRAAM WOULD BE IN USE BY THE US AIR FORCE. SHURDOM SAID HE THOUGHT IT WAS ABOUT TO BE DELIVERED BUT WOULD CHECK.

10. I HAVE SAID NOTHING TO ANYONE HERE ABOUT PRICES, DELIVERY DATES OR ANY OTHER ELEMENT OF OUR PROPOSALS AND DO NOT INTEND TO DO SO.

11. YOU WILL WISH TO CONSIDER WHETHER TO ATTEMPT TO FRUSTRATE A JORDANIAN PURCHASE OF THE MIRAGE 2000 BY OFFERING THE STRIKE VERSION OF TORNADO AS WELL AS THE ADV.

12. I EXPECT TO BE OUT OF AMMAN BETWEEN 18 AND 22 NOVEMBER BUT MY STAFF WILL CONTACT ME IF NECESSARY.

COLES

YYYY

DISTRIBUTION 60

MAIN 60

LIMITED
NENAD
ESSD
DEFENCE DEPT
NEWS DEPT
TRED
PS
PS/MR MELLOR
PS/PUS
MR MUNRO

SIR D MIERS
MR BOYD
MR FALL
MR MAUD
COPIES TO
DTI VIC ST
DEPT OF ENERGY
BANK OF ENGLAND MR SMITH
CAB OFFICE ASSESS.STAFF
PS/NO 10 DOWNING ST

NNNN

004/4208

COMMERCIAL IN CONFIDENCE

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

11 November 1987

Dear David,

TRACKED RAPIER

...As requested in Charles Powell's letter, I attach a draft letter for the Prime Minister to send to Sir Raymond Lygo.

You have seen the previous correspondence (Mr Younger's letter of 28 October, the Chief Secretary's reply of 5 November and Lord Trefgarne's interim response of 6 November) which set out the background.

You will recall the Plessey MSE case; this is a re-run. Treasury Ministers were then persuaded to agree to a scheme on the firm assurance from MOD that it could well be the deciding factor in gaining Plessey the contract. In the end, Plessey did not need to take advantage of the scheme, since their consortium's bid turned out to be hopelessly over-priced compared with the opposition. Their failure was all the more annoying since the Prime Minister, as well as Defence Ministers, had given strong political support to their bid.

MOD claim that some of the factors applying in the Plessey case do not apply here. Nonetheless, I do not think that they would claim that BAe's chances are much better than evens. In the US Army shoot-out Rapier failed to hit a single target.

Some marginal benefit to themselves is claimed by the MOD in this case (as in Plessey) in that they would have some certainty as to the rates at which they would fund their future dollar requirements. But since Plessey, we have agreed a forward

cover scheme for MOD with the Bank of England, whereby at any time they will have certainty as to rates for eighteen months forward. Any additional benefit to them from the BAe scheme is frankly minimal.

Against that, MOD would be taking on the defence budget a substantial risk - in effect a contingent liability if rates in future diverged markedly from those set now with BAe. Those rates, calculated by the Bank of England, simply take account of interest differentials in the way the market would do in calculating forward rates for much shorter maturities. They make no allowances for the additional risks involved in going so far ahead in such quantities, nor for the series of options involved.

Sir Raymond Lygo admits that he could obtain a partial solution in the market but claims this would be prohibitively expensive. Our own investigations suggest that, with an imaginative adviser, a full solution might be available. The important factor is, of course, price. BAe are not prepared to pay the market price, and are therefore looking to MOD for a (nearly) free ride. Thus the scheme is essentially a form of industrial support. The costs of the contingent liability, if it matured, would fall on the defence budget, to the detriment of the defence of the country, and indirectly on future taxpayers. The small premium of 5% on the Bank of England rates, which MOD have negotiated with BAe, barely impacts on this risk.

Moreover, it would be extremely difficult in future to refuse any similarly pressing requests from British companies. MOD would be turning the defence budget into a foreign exchange market of last resort. This cannot be to our advantage.

I am copying this letter and enclosure to John Howe (Ministry of Defence).

Yours sincerely

JILL RUTTER
Private Secretary

/4208

COMMERCIAL IN CONFIDENCE

DRAFT LETTER

CGW

Sir Raymond Lygo
British Aerospace plc
11 Strand
London
WC2N 5JT

November 1987

Thank you for your letter of 10 November.

I understand your difficulties. But the proposal which you have discussed with MOD is, as you will recognise, highly unusual.

The scheme you propose would ~~mean in effect that we would be providing~~ provide a facility ~~for you~~ which the market is apparently unwilling to provide, at least at a price which you regard as realistic. ~~If we were to agree to this~~ it would, as I am sure ~~you will appreciate~~, amount to a subsidy to ~~your company~~ British Aerospace from the defence budget. The defence budget would be bearing a substantial risk-in effect a contingent liability on your behalf - should rates move against the MOD in future.

~~We~~ British Aerospace therefore need to weigh the potential advantages to ~~your~~ company against the very real risk to future taxpayers. In the circumstances ~~I~~ we have concluded that ~~I am~~ we are not able to extend the support you seek. I know that this will be a disappointment to you but I hope this letter helps explain the background to ~~my~~ our decision.

MT

Reference: Sales PT 9

10 DOWNING STREET

David

I have asked Gill Rutter for a draft reply by later today. Since I shall be away, she will send it to you. I have told her that the PM seems sympathetic to the Treasury viewpoint.

CDP

(1)

PRIME MINISTER

TRACKED RAPIER FOR THE US

Sir Ray Lygo has written to you seeking help over BAe's bid to sell Tracked Rapier to the US Army. The business is worth $1 billion. The bid has to take the form of a series of options in US dollars stretching forward over seven years. What Ray Lygo wants is a currency exchange facility, similar to that given to Plessey at the time of the Ptarmigan bid. This helps BAe to cover their forward currency exposure. Without it, he says he cannot put in a compliant bid by the deadline of 12 November.

The request has already been considered by the MOD and the Treasury. MOD would be willing to agree, so would Lord Young. The Treasury have, however, refused. The Chief Secretary's letter is attached.

The MOD acknowledge that there is no benefit in the scheme for them, but no loss either. They are prepared to do it for UK Ltd.

I have sent Ray Lygo's letter to the Treasury and MOD for further advice in the course of tomorrow. But you may like to be aware of the background.

C.D.P.

C. D. POWELL

10 November 1987

SLHAOX

CONFIDENTIAL

123662
MDADAN 4243

ADVANCE COPY

CONFIDENTIAL
FM ATHENS
TO IMMEDIATE FCO
TELNO 376
OF 101225Z NOVEMBER 87

PRIME MINISTER'S LETTER TO PAPANDREOU : TORNADO

1. I DELIVERED THE PRIME MINISTER'S LETTER OF 2 NOVEMBER TO PAPANDREOU PERSONALLY TODAY.

2. HE READ IT WITH EVIDENT SATISFACTION AND SAID HE GREATLY LOOKED FORWARD TO TALKING TO HER IN THE MARGINS AT COPENHAGEN. HE RECALLED THEIR TALK IN LONDON. HE WOULD GET HIMSELF BRIEFED BY THE DEFENCE MINISTER ON THE CURRENT POSITION AND WOULD RESPOND TO THE PM WHEN THEY MET. HE RECALLED THAT GREECE WAS BUYING 40 MIRAGE AND F16 FIGHTERS AND HAD LEFT OPEN THE POSSIBILITY OF ADDING ANOTHER 20 AIRCRAFT. HE WOULD LOOK SERIOUSLY AT THE POSSIBILITY OF BUYING TORNADO. HE COULD NOT SAY NOW THAT THIS WOULD HAPPEN. BUT HE COULD SAY THAT HE DID SERIOUSLY WANT TO DEVELOP THE RELATIONSHIP BETWEEN GREECE AND BRITAIN IN THE DEFENCE EQUIPMENT AREA. HE RECOGNISED THAT NOT ENOUGH HAD YET BEEN DONE AND THAT IT WAS THE UK'S TURN.

3. I SAID THAT THE PM WAS ALSO SERIOUS IN WANTING TO ACHIEVE SOMETHING SPECIFIC IN ANGLO-GREEK DEFENCE EQUIPMENT COLLABORATION. IN THE TORNADO, AND IN OUR FRIGATES, WE HAD SOME FINE EQUIPMENT AND PROPOSALS TAILORED TO GREEK REQUIREMENTS.

4. PAPANDREOU ASKED ME TO CONVEY HIS WARMEST GOOD WISHES TO MRS THATCHER. THEY HAD DIFFERING POLITICAL VIEWS. BUT HE ADMIRED HER GREATLY.

THOMAS

FCO PLEASE PASS COPIES TO
PS/NO 10
PS/SECT OF STATE FOR DEFENCE
PS/MR SAINSBURY (MOD)
DEFENCE SALES (MOD)
YYYY

SENT
10 NOV 1987

DISTRIBUTION 2

ADVANCE 2

HD/SED

HD/DEFENCE DEPT

NNNN

COMMERCIAL IN CONFIDENCE

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 November 1987

TRACKED RAPIER FOR THE US ARMY

I enclose a copy of a letter which the Prime Minister has received from Sir Raymond Lygo, about British Aerospace's bid to sell Tracked Rapier to the US Army. As you will see, he claims that without the offer of a currency exchange facility from the MOD, his company cannot submit a compliant bid on 12 November (the deadline). The Prime Minister will want further advice on this in the course of tomorrow. Since I shall be away in the latter part of the day I should be grateful if you would write to David Norgrove.

I am copying this letter and enclosure to John Howe (Ministry of Defence).

C. D. POWELL

Ms. Jill Rutter,
Chief Secretary's Office,
H. M. Treasury

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

PRIME MINISTER

TRACKED RAPIER FOR THE US

Sir Ray Lygo has written to you seeking help over BAe's bid to sell Tracked Rapier to the US Army. The business is worth $1 billion. The bid has to take the form of a series of options in US dollars stretching forward over seven years. What Ray Lygo wants is a currency exchange facility, similar to that given to Plessey at the time of the Ptarmigan bid. This helps them to cover their forward currency exposure. Without it, he says he cannot put in a compliant bid by the deadline of 12 November.

The request has already been considered by the MOD and the Treasury. MOD would be willing to agree, so would Lord Young. The Treasury have, however, refused. The Chief Secretary's letter is attached.

The MOD acknowledge that there is no benefit in the scheme for them, but no loss either. They are prepared to do it for UK Ltd.

I have sent Ray Lygo's letter to the Treasury and MOD for further advice in the course of tomorrow. But you may like to be aware of the background.

C. D. POWELL

10 November 1987

COMMERCIAL IN CONFIDENCE

SLHAOX

Decision already taken.
CDP
11/11

MINISTER FOR TRADE

10 Nov 87

Prime Minister

TRIGAT (anti-tank weapon)

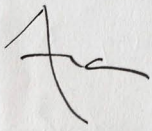
I have seen the correspondence on this subject and, improperly I don't doubt, I send you my views – which are entirely in accord with those of the Chief Secretary.

It is not necessary or desirable to sign a M.O.U. at the present time. A M.O.U. invariably – notwithstanding all disclaimers – creates obligations at first notional then of increasing substance; and would affect our negotiating position in subsequent, or

complementary arms contracts.

There is no special need to accelerate the development of this weapon. No technological breakthrough makes it urgent. But if we set it up now it will turn into a great cuckoo (£2 bn. plus) in the whole field of arms procurement, and most likely squash a lot of other worthy little fledglings.

Yours



ccPC

BRITISH AEROSPACE

BRITISH AEROSPACE
PUBLIC LIMITED COMPANY
11 STRAND
LONDON WC2N 5JT
Telephone: 01-930 1020
Facsimile: 01-839 4774
Telex: 919221

From: Sir Raymond Lygo, K.C.B.

Direct Line: 01-389 3925

Original in PM's Box

The Rt Hon Margaret Thatcher,
FRS, MP,
The Prime Minister,
10 Downing Street,
London SW1.

Ref: JW6/122

10 November 1987

Dear Prime Minister,

Our exchange of letters in June foresaw the possibility of the time coming when I would need help with the low level air defence proposal for the US Army and I am now obliged to ask for that help with a specific problem which has recently arisen.

The US Army are insisting that we bear all the risk of future fluctuations in the Pound/Dollar exchange rate. The currency options market is not able to handle transactions whereby the customer can exercise contractual options of this size, i.e. up to $1 Billion of business to the UK, in a series of large steps over seven years and even partial hedging solutions are prohibitively expensive. Having failed, within the last two weeks, to persuade the US to recognise these facts, I wrote to George Younger to ask for his help. I was much encouraged by the way and the speed with which his people responded, only to find that the Treasury found themselves unable to support what MOD had proposed.

The competition includes the French and the Germans and if recent experience is a reliable indicator, and I believe it to be so, they have available from their Governments the kind of support I am seeking. A US firm is also involved and they do not have the exchange problem.

Without the support of HMG, I cannot submit a compliant bid on 12 November and that must mark the virtual end of our chances and will, I fear, mean that we are opting out of a very large slice of US business and an even larger slice of future export business, to the benefit of the competition.

Continued/...

Registered in England & Wales No. 1470151 Registered Office: 11 Strand London WC2N 5JT.

I am sure that you have no illusions about the problems in making the two way street with the US into a reality. We have fought our way into a position where I think and believe our Rapier system can win and your help will be decisive in taking us into the final phase of the competition.

Yours sincerely,

Ray

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

COMMERCIAL IN CONFIDENCE

9 November 1987

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Nigel,

TRACKED RAPIER FOR THE US ARMY

I have seen a copy of George Younger's letter of 28 October seeking your agreement to offer a currency exchange facility to BAe for this Tracked Rapier contract.

I strongly support his request, and hope that you will approve the agreement he proposes. Rapier is BAe's most important guided weapon project; the loss of this large contract to the competing Swiss-USA ADATS system would not only be unfortunate in itself, but could damage prospects for Tracked Rapier with other potential customers.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger and to Sir Robert Armstrong.

Yours ever,

LORD YOUNG OF GRAFFHAM

JG7ACP

DEFENCE SALES

PT 9

COMMERCIAL IN CONFIDENCE

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(DP)/DGT/14/92/1

6th November 1987

Dear Chief Secretary,

TRACKED RAPIER FOR THE US ARMY

I have seen your letter of 5th November to George Younger, who as you know is in Washington at the moment. He will wish to reflect on what you say, but there are some factual points which I am sure he would wish me to make immediately.

You imply that a market exists in which British Aerospace could cover their exposure. I suppose that in theory anything is possible if one is prepared to pay the price. But on any practical and realistic basis there is no market to which the company can look.

I recognise your concern about requiring the company to contract with us now to sell pre-determined amounts of dollars at given dates; but we have devised a form of contract with which our lawyers are content, which signed now does compel British Aerospace to sell to us any dollars they receive under any of the options in their contract with the Americans which are exercised. While we will not know what the dollar flows

/ will ...

The Rt Hon John Major MP

COMMERCIAL IN CONFIDENCE

will be until a particular option is exercised by the Americans, we will have some certainty thereafter. While I would not wish to overstate the point the deal will provide some benefit in this way to the Ministry of Defence.

In his letter George mentioned that he would press the company to accept a premium. I am pleased to confirm that British Aerospace have now accepted that they will pay the Ministry a premium, which averages around 5% over the Bank of England rates. This development may allay some of your concerns on the commercial element in the proposed deal. Nevertheless at the end of the day we are not seeking to justify the proposition on the grounds of benefit to the Ministry of Defence. Just as in the Plessey case we are proposing this way forward because there is no alternative route, commercially or within Whitehall, which would allow British Aerospace to submit a compliant bid in an important competition.

Finally, on the competition itself, I am advised that Rapier still has a very real chance. Although the crude firing results were disappointing, but not disastrous, the system performed extremely well in acquisition and tracking trials; and reliability and availability were excellent. These are points to weigh in our assessment of whether the company's place in the competition is such that we should lend them the support which they have now sought.

I am copying this letter to the Prime Minister, Geoffrey Howe, David Young and to Sir Robert Armstrong.

Yours sincerely,

Lord Trefgarne
Approved by the Minister
and signed in his absence

DEFENCE : Sales pt 9

PM87

DEFENCE : Sales pt 9

014/4206

COMMERCIAL IN CONFIDENCE

CCPL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

Row!
CDP
6/Ki

Dear George,

5 November 1987

TRACKED RAPIER FOR THE US ARMY

Thank you for your letter of 28 October to Nigel Lawson.

I have carefully considered your proposal, but I am afraid that I cannot agree to it. Even if BAe were in a strong position in the competition (and their performance in the recent US army shoot-out hardly suggests they are) we would need to weigh the potential benefits for BAe against the disadvantages for MOD. I find these compelling.

Effectively, you are proposing that MOD should provide to BAe a facility which they are apparently unable to obtain from the market, at least at a price they are prepared to pay. This in itself suggests a distinctly uncommercial proposition. You are further proposing to make no allowance for the risk thereby incurred by MOD (and which BAe are not prepared to bear themselves), by being willing to forgo any premium.

In return for this, BAe will have a series of options against the MOD (for which again apparently no price is to be paid). Because we do not know whether BAe will win the contract, or whether if it does the US Army will take up its series of option purchases, there is no means of compelling BAe to contract with you to sell you pre-determined amounts of dollars at given dates at the rates fixed now.

Sales PV 9.

COMMERCIAL IN CONFIDENCE

The result is that you will have no certainty about your future dollar requirements. Even if you had, I find it difficult to see real advantages in such certainty beyond the period for which your existing forward cover scheme extends.

I can thus see no advantage to MOD. The scheme could only be justified on the basis of support for British industry. This is not a proper use of the defence budget.

It would also create a precedent which could hardly be denied to other British companies. There are no alleged special circumstances such as led Treasury Ministers, very reluctantly, to offer the scheme to Plessey. You will recall that the assurances we then had from the MOD, that the scheme and then the agreement to forgo any premium would be the decisive element in securing the contract, turned out to be wholly without foundation.

I am copying this letter to the Prime Minister, Geoffrey Howe, David Young and to Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR



(3)

10 DOWNING STREET

Prime Minister

You ask whether we would be able to offer EGCD cover.

It's difficult to answer at this stage, until we know how many aircraft they would need, what terms they would seek, what Italy & Germany would stump up. But I don't think this should inhibit us from going after the order. There will certainly be some credit.

C.D.P.



10 DOWNING STREET

Prime Minister

It is suggested that you send a message to Mr. Papandreou, to try to promote Tornado prospects. I think this is well worthwhile, & recommend that you sign.

Agree?

CDP

Are we sure that LEGAL cover would be provided?

SUBJECT cc MASTER OPS

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

2 November 1987

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T195/87

Dear Prime Minister,

I remember with pleasure the very useful discussion which we had at our private meeting on 6 December last year, in which we examined the prospects for developing stronger links between our two countries in the field of defence procurement. I am glad that this has subsequently been followed by exchanges of visits by and communications between our Defence Ministers and their Deputies, and that progress is being made.

Among the projects we ourselves discussed was the Tornado aircraft, which continues to be an outstanding operational success with the Royal Air Force and with the German and Italian Air Forces whose industries participate in this impressive example of European collaboration. Since we met, the aircraft has also entered service with the Saudi Arabian Air Force, giving that country significant additional security in these times of tension in the Gulf.

I am not certain what stage your consideration of Greece's needs in this field has reached. But I would like you to know that I believe that a decision by Greece to acquire the Tornado would represent a most important step forward in our relations and would also, in view of the collaborative nature of the project, be important and influential in the wider European context. I should very

much value it if we were able to have a word in the margins of the forthcoming European Council so that you could let me know how your mind is moving on this.

With warm good wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Andreas Papandreou

SECRET

File
APC 19

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 November 1987

Dear David,

TORNADOES FOR GREECE

The Prime Minister has agreed to sign a slightly revised version of the message to the Greek Prime Minister about Tornado, a draft for which was enclosed with your letter of 27 October. I am sending the top copy to Lyn Parker in the Foreign Office to arrange for delivery. I believe that HM Ambassador Athens is back in the country at present for a Heads of Mission meeting. Perhaps he can take it back to Athens with him and deliver it personally to Papandreou.

You will see that the Prime Minister offers to have a word about this with Mr. Papandreou in the margins of the European Council in Copenhagen. We shall need briefing nearer the time. The arrangements for such a meeting are probably best made on the spot. I should add that the prospect of even a short bilateral between the Prime Minister and Mr. Papandreou in Copenhagen should ease the task of explaining why the Prime Minister is unable to see the Greek Foreign Minister when he is here later this month.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office).

Yours sincerely,

(C. D. POWELL)

David Ball, Esq.,
Ministry of Defence.

SECRET

SECRET

file JD3 BD/
196
bic.
P.C.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 October, 1987.

overtaken by FCS visit to Jordan

TORNADO FOR JORDAN

The Prime Minister has seen the telegram from HM Ambassador in Amman about his conversation with the Jordanian Commander in Chief on the subject of Tornado (Amman Telegram No. 391). She has commented that she thinks it very important to help Jordan at this juncture if we can. She would like the considered views of the Departments concerned on the scope for increasing the amount of new money in the financing package for Tornado which was discussed by Ministers on 29 September.

I am sending copies of this letter to Tim Walker (Department of Trade and Industry), Ian Andrews (Ministry of Defence), and Jill Rutter (Chief Secretary's Office, HM Treasury).

C.D. Powell

Lyn [illegible]r, Esq.,
Foreign and Commonwealth Office.

SECRET

APC 17.

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(DP)/DGT/14/48

CDP
30/X

30th October 1987

Dear John.

JORDAN: TORNADO AND FOREIGN AND COMMONWEALTH SECRETARY's VISIT

FILE WITH CDP

I have seen David Mellor's letter of yesterday's date which advises you of the further development since the Prime Minister and the Foreign and Commonwealth Secretary met on Wednesday. The Jordanian Commander in Chief has concluded that to divert £60 million of their existing defence credit would necessitate Jordan cancelling its most important Electronic Warfare programme. Our Ambassador feels that faced with a choice between, on the one hand, purchasing Tornado, which is more expensive than the MiG 29, as well as foregoing Jordan's urgent Electronic Warfare requirements and on the other hand purchasing the MiG 29, his honest assessment of Jordan's defence needs may lead King Hussein to conclude that he must go for the Soviet option despite all the problems that might pose for him. The Mirage 2000 option might also appear more attractive than Tornado as it would not necessitate cancellation of the Electronic Warfare project.

As the Jordanians have signed a number of further contracts recently, the unspent balance of the previous defence credit is

/ now ...

The Rt Hon John Major MP

now reduced to £110 million. All of this has been allocated to urgent requirements, the largest being Electronic Warfare (£40 million), Fast Patrol Boats (£29 million) and an Air Combat Simulator (£10 million), with the balance (£31 million) spread across a number of smaller items (nonetheless urgent nevertheless). The Jordanians could only make savings of £60 million by cancelling one or more of the three major items and the Commander in Chief has said that the Air Combat Simulator and Fast Patrol Boats are really so far advanced that they are virtually unstoppable and both are badly needed anyway. This leaves only the Electronic Warfare project plus a large part of the smaller items as a possibility.

I would not disagree with the Jordanian military view of the importance of their Electronic Warfare requirement. The priority which the Jordanians appear to attach to the other two items is perhaps questionable but it is not a matter which we can properly seek to influence them on. The choice before us seems to be either to face up to the difficulties of making a further £60 million credit available to obviate the need for any clawback, or to make something less than £60 million of further credit available (which the Ambassador believes would lack the political impact which is needed in present circumstances) or to stand by our present position and run the risk that our offer will not be sufficiently attractive to prevent King Hussein ordering the Russian aircraft (or Mirage 2000).

I realise that a decision to make further credit available will not be easy for reasons that were addressed in our earlier discussions. Nevertheless I must in the circumstances support David Mellor's request that we should lift the requirement for clawback of £60 million of the existing Jordanian credit, not only for commercial export reasons but also because of the wider strategic and political considerations which were earlier judged to be involved.

/ It ...

It is not for the Ministry of Defence to suggest whether there should be an increase in overall market limits to accomodate further cover for the Tornado sale, or to intervene in the debate about the principle of offsetting reductions in ECGD's market limits for other countries. But if this were to be a condition of your agreement to this proposal I for my part would be content. However, I feel that we should not, prudently, take more from the Algerian limit (if this were to be the suggestion). If compensating savings have to be found these should come from one (or a combination) of the other possibilities which officials identified in earlier discussions on this matter.

Finally, the third paragraph of the Prime Minister's Private Secretary's letter of 28th October put a question to the Department of Trade and Industry which was answered by Radcliffe's letter of 29th October so far as DTI and ECGD aspects were concerned (though this has been somewhat overtaken). I can add that British Aerospace are negotiating with a number of banks with a view to raising a further £100 million commercial credit on the UK market. They are in touch with their German and Italian partners with a view to them providing the balance of the £300 million required altogether. An approach has also been made through BAe's channels to King Fahd seeking Saudi assistance. BAe state that the reaction from both their partners and the Saudis has been extremely positive (though it seems unlikely the German Government will be prepared to make any official support available) and they are confident that they will be able to present an attractive proposal (leaving aside the question of the £60 million clawback) by 15th November which is the date we have previously told the Jordanians that we would aim to present an offer to them.

/ I would ...

I would be very willing to join a discussion if you wish to hold one.

I am copying this letter to the Prime Minister, to David Young and to David Mellor.

Yours,

David.

Lord Trefgarne

30. X. 87

DEFENCE

SALES

PT 9

2 of 4 16 cc PC

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

SECRET

30 October 1987

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

CDP
30/x

Dear Chief Secretary

TORNADO FOR JORDAN

David Mellor's letter of 29 October refers to the strong political arguments in favour of leaving the existing defence sales credit line to Jordan untouched and finding this £60m element by way of additional new ECGD-supported cover. I have agreed to this and a telephone message was passed accordingly to your office before noon today.

Like you, I am concerned that a £100m ECGD-backed contribution should be the limit to which we should go in this case and, ideally, it would have been better to have given this away at a later stage when we could have been sure that the other elements in the package were all in place. However, we had no real choice in the circumstances.

I gathered that you are proposing another round of "offsetting", the additional ECGD cover now allocated to be deducted, again, from Algeria's ECGD market limit. This will have to be discussed by officials and if there is no better option at present we must accept it. You know my view on "offsetting" however and I would only add that these latest events point to the need for the Cabinet

JG4BKW

SECRET

Office-chaired study of ECGD cover for large defence equipment sales to be concluded as quickly as possible, so that we can hope to deal with these problems more rationally in future.

I am copying this letter to the Prime Minister, David Trefgarne and David Mellor.

Yours sincerely

Stephen Ratcliffe

LORD YOUNG OF GRAFFHAM
(approved by the Secretary of State
in his absence)

JG4BKW

999-49

DEFENCE : Sales pt 9.



004/2986

CONFIDENTIAL

CCDC.

Treasury Chambers, Parliament Street, SW1P 3AG

David Mellor Esq MP
Minister of State
Foreign & Commonwealth Office
King Charles Street
London
SW1A 2AH

CDP
30/X.

30 October 1987

Dear David,

TORNADOS FOR JORDAN

Thank you for your letter of 29 October in which you seek agreement to lifting the requirement on the Jordanians to divert £60 million from their existing cover for defence sales as a contribution to the Tornado financial package. I have also seen David Trefgarne's letter of today on the same subject.

We are already being very generous to the Jordanians, not only in the provision of credit but in the provision of subsidised finance. Whilst I agree that in view of the political case we should be prepared to extend cover for the full £100 million - one-third of the total contract value - we must clearly guard against our already generous contribution being pushed up step-by-step (as it was on the Pakistan Frigates deal). I would therefore have preferred to wait before contemplating any further increase to see whether the other contributions to the financial package were forthcoming.

However, provided David Young is prepared to see additional export credit cover offered in this case, I agree that Geoffrey Howe should offer up to the full third of the contract price (£120 million DML) if he judges that necessary during his talks with King Hussein on three conditions.

First, it must be clearly understood that this is the maximum available from HMG. There will be no further increase if other partners are unable to provide their shares. If there

Defence Sales PT 9

is a shortfall, the deal will be off. Second, we should try to persuade the other sources to pick up part of the additional £60 million of cover we are now providing. Finally, the additional £60 million, like the original increase of £60 million must be offset by a reduction in the Algerian market limit or another market where a cut would effectively reduce ECGDs contingent liabilities.

I am copying this letter to the Prime Minister, David Young and David Trefgarne.

Yours Ever,
John

JOHN MAJOR

SECRET

15

PRIME MINISTER

TORNADO FOR JORDAN

You will recall that Ministers agreed in mid-October to provide £100 million of financing for the sale of Tornado. £60 million would be drawn from the existing line of credit for defence sales. £40 million would be new finance. A further £100 million would be sought from the Germans, Italians and perhaps the Saudis. The MOD hope to have financing proposals by mid-November.

The Jordanian Commander-in-Chief now says that he is most reluctant, possibly unwilling, to divert the £60 million from other defence orders, which he says that he desperately needs. John Coles assesses that unless we can make the £60 million into new money, the King will go for the Mig 29, especially in his present anti-American mood.

I have no doubt that your colleagues - certainly Secretary of State Department of Trade and Industry and the Chancellor - will be very reluctant to contemplate this. There is to be a discussion at Minister of State level tomorrow between departments: but it is unlikely to resolve the problem.

Do you feel that the political case for Jordan is so strong that you would feel compelled to over-ride your colleagues and agree that the £60 million should be new money? (Some of it could be transferred from other countries' credit limit.)

My recommendation is that you recognise the strength of the case but wait until we know whether the rest of the package can be put together (i.e. the Germans, Italians and Saudis), before bringing the issue to a decision.

Agree?

I think it very important to keep.

CDP

Charles Powell
29 October 1987

MJ2BMR

SECRET

cc PC 14

Foreign and Commonwealth Office

London SW1A 2AH

29 October 1987

From The Minister of State

Dear Chief Secretary,

JORDAN TORNADO

You will have seen Charles Powell's letter of 28 October recording the Prime Minister's view that the Foreign Secretary must be in a position to give good news on Tornado when he meets King Hussein in Amman on 1 November. I understand that David Trefgarne is writing separately to you on this.

You will recall that the meeting chaired by the Prime Minister on this subject on 29 September agreed that some £40m contract value of new credit cover should be found for Jordan. The intention was that this, supplemented by Jordanian agreement to divert £60m of the existing defence sales package, would enable us to cover around one-third of the total contract value of £300m for an initial sale of 8 Tornados.

HM Ambassador at Amman has now reported on a conversation he had today with the Jordanian Commander-in- Chief. You will have seen Amman telegram number 391. King Hussein had repeated to Field Marshal Bin Shaker his preference to purchase Tornado. Bin Shaker had been considering ways of doing this within the constraints of our financing proposal. But the cost to the Jordanian Armed Forces, in terms of loss to defence capability would be high: they would have to surrender purchases already under negotiation which were very important for Jordan's defence requirements. Mr Coles therefore considers that our present financing proposal, which will oblige Jordan to forego previously agreed defence contracts worth some £60m on which negotiations are well advanced, may well tip the balance against Tornado in favour of MIG 29. He believes King Hussein is determined to go ahead with the purchase of new interceptor aircraft, even if the choice has to fall on the Russians.

More generally, King Hussein has reached a very critical juncture in his relations with the West. His disillusionment with the United States is great. King Hussein is moreover committed to visiting Moscow in

/December

SECRET

December and is evidently considering how far he should go in seeking political support from the Russians (despite his personal disinclination to do so). The Moscow visit is going to expose the King to great pressure on the proposed MIG 29 deal. And, as was agreed at the Prime Minister's meeting on 29 September, a decision to purchase the Russian aircraft would constitute a very significant setback to British and to Western interests in this key region.

Geoffrey Howe and I thus see it as of prime importance to give King Hussein a clear and early signal of support. The need for this becomes pressing in the light of Geoffrey Howe's impending visit on 1 November.

I hope very much, therefore, that you will be able to agree, in the course of tomorrow, that we should lift our requirement on the Jordanians to divert £60m from their existing military cover in order to make up the UK element in the Tornado financial package. Geoffrey Howe would then be able to tell King Hussein that we were prepared to extend cover for £100 m - one-third of the total contract value - without affecting the existing credit available to Jordan for defence purchases. It is the Ambassador's advice, which we endorse, that this should suffice to keep King Hussein focussed on Tornado.

Time is unfortunately very short for a decision. If you would consider it useful, I should be glad to call on you early tomorrow, perhaps together with Ministers from MOD and DTI, to agree a line for telegraphing to Geoffrey Howe on his arrival in Amman on 1 November.

I am copying this letter to the Prime Minister, David Young and David Trefgarne.

R I Dennis

p.p. David Mellor
(approved by Mr Mellor
and signed in his absence)

Mr Major
HM Treasury

MIDDLE EAST

SITUATION

PT 17

1 of 4 13

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

SECRET

29 October 1987

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

CDP 29/X.

Dear Charles,

FOREIGN SECRETARY'S VISIT TO JORDAN

Your letter of 28 October addressed to Tony Galsworthy asked me for a quick note on the Tornado aircraft position. I am replying as far as DTI and ECGD are concerned.

As Lord Young's letter of 15 October reported, agreement was reached among Departments for the official support of £100m of financing for the sale of Tornados, representing £60m drawn from the existing defence line of credit and £40m of new ECGD-backed finance. Interest rate subsidy has been agreed too, not only for the ECGD-guaranteed portion but also in respect of the further £100m which it is hoped can be found from UK commercial sources. This leaves a further £100m to be found which it has been agreed should be sought from the German and Italian partners in Tornado and perhaps the Saudis. This is all reflected in the briefing on Tornado prepared for Sir Geoffrey Howe.

I understand that MOD hope to have financing proposals ready by mid-November and that they have briefed the Foreign Secretary to be optimistic about the prospects for finding the remaining elements in the financial package. At the present time we in DTI have had no clear indication from BAe of what progress they have made to date, but MOD may have more up-to-date information.

I am copying this letter to the other recipients of yours.

Yours sincerely,

Stephen Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

DW4CPX

MIDDLE EAST

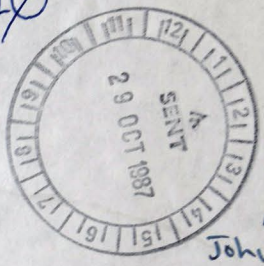
ARMS SALES

PT 4

291346Z

COMMENT

N° 10



CONFIDENTIAL
FM AMMAN
TO DESKBY 291400Z FCO
TELNO 391
OF 291145Z OCTOBER 87
INFO DESKBY 291400Z MODUK

SIC ACA/Z80

INFO MODUK FOR HDES

YOUR VISIT TO JORDAN: TORNADO

1. WHEN I CALLED ON THE JORDANIAN COMMANDER-IN-CHIEF THIS MORNING ABOUT OTHER BUSINESS I SAID THAT, WHILE I DID NOT KNOW WHICH SUBJECTS YOU WOULD WISH TO RAISE WITH HIM ON 2 NOVEMBER, I THOUGHT YOU MIGHT VERY WELL ENQUIRE HOW HIS THINKING WAS PROGRESSING ON THE PROPOSAL PUT TO HIM EARLIER THAT JORDAN SHOULD MAKE AVAILABLE A SUBSTANTIAL SUM FROM THE EXISTING DEFENCE PACKAGE TO HELP FINANCE A PURCHASE OF TORNADO.

2. BIN SHAKER SAID THAT HE HAD GIVEN A LOT OF THOUGHT TO THIS BUT HE HAD TO TELL ME THAT IT LOOKED VERY DIFFICULT. HIS PRELIMINARY VIEW WAS THAT HE COULD ONLY MEET OUR SUGGESTION BY SURRENDERING PURCHASES WHICH WERE VERY IMPORTANT FOR JORDAN'S DEFENCE REQUIREMENTS. NEGOTIATIONS ON BOTH THE AIR COMBAT SIMULATOR AND THE FAST PATROL BOATS WERE VERY FAR ADVANCED AND BOTH OF THESE ITEMS WERE BADLY NEEDED. IT LOOKED THEREFORE AS THOUGH THE ONLY CANDIDATE TO BE CUT WAS ELECTRONIC WARFARE EQUIPMENT. BUT THIS WAS AN AREA WHERE JORDAN WAS TERRIBLY WEAK. ITS NEIGHBOURS WERE YEARS AHEAD OF THEM. HE COULDN'T DISGUISE FROM ME THAT TO ABANDON THAT ELEMENT OF THE PACKAGE WOULD HAVE VERY SEVERE CONSEQUENCES FOR JORDAN'S DEFENCE CAPABILITY. I SAID THAT I KNEW THERE WAS A VERY DIFFICULT CHOICE TO BE MADE BUT HE SHOULD NEVERTHELESS BE PREPARED FOR YOU TO RAISE THE MATTER WITH HIM.

3. I HAVE REPORTED SEPARATELY ON THE CURRENT MOOD IN JORDAN. DISILLUSIONMENT WITH THE UNITED STATES IS VERY GREAT AND THERE IS EVERY SIGN THAT KING HUSSEIN IS REASSESSING JORDAN'S WHOLE RELATIONSHIP WITH AMERICA. HE IS COMMITTED TO VISITING MOSCOW IN DECEMBER AND IS ACTIVELY CONSIDERING HOW FAR HE CAN GO IN SEEKING SUPPORT FROM THE RUSSIANS, A COURSE WHICH HE IS INSTINCTIVELY DISINCLINED TO PURSUE BUT WHICH HE FEELS IT NECESSARY TO CONSIDER IN THE LIGHT OF HIS DISENCHANTMENT WITH THE US ADMINISTRATION. DISCUSSIONS ABOUT THE POSSIBLE PURCHASE OF THE MIG 29 HAVE BEEN WELL ADVANCED FOR SOME TIME. OBVIOUSLY, THE SOVIET AUTHORITIES WILL TRY TO BRING THIS ISSUE TO A HEAD DURING THE KING'S VISIT. AS I HAVE PREVIOUSLY STATED, IN MY VIEW A DECISION TO PURCHASE THE RUSSIAN AIRCRAFT WILL BE THE BIGGEST SETBACK TO WESTERN INTERESTS IN JORDAN FOR MANY YEARS.

4. THERE IS NO DOUBT THAT THE KING'S PREFERENCE IS TO

Prime Minister

John Coles recommends that we provide new credit for the Jordanian purchase of Tornado, rather than ask them to switch it from other purchases. This would mean finding £70/80 million which would be very difficult to get through your colleagues.

CON..

PURCHASE TORNADO. HE REPEATED THIS TO THE COMMANDER-IN-CHIEF AGAIN YESTERDAY. HE WILL ALSO WISH TO DO NOTHING TO STRAIN HIS RELATIONSHIP WITH THE PRIME MINISTER. BUT HE IS DETERMINED TO PURCHASE A NEW GENERATION OF AIRCRAFT. IF FACED WITH A CHOICE BETWEEN, ON THE ONE HAND, PURCHASING TORNADO, WHICH IS CONSIDERABLY MORE EXPENSIVE THAT THE MIG 29, AS WELL AS FOREGOING JORDAN'S URGENT ELECTRONIC WARFARE REQUIREMENTS AND ON THE OTHER HAND PURCHASING THE MIG 29 I VERY MUCH FEAR THAT HIS HONEST ASSESSMENT OF JORDAN'S DEFENCE NEEDS MAY LEAD HIM TO CONCLUDE THAT HE MUST GO FOR THE SOVIET OPTION WITH ALL THE PROBLEMS THAT MIGHT POSE FOR HIM. THE MIRAGE 2000 OPTION MIGHT ALSO APPEAR MORE ATTRACTIVE THAN TORNADO IN THESE CIRCUMSTANCES.

5. I WELL APPRECIATE ALL THE DIFFICULTIES BUT THERE IS NO DOUBT THAT WE ARE AT A CRITICAL AND POTENTIALLY DANGEROUS MOMENT IN JORDAN'S RELATIONS WITH THE WEST. IF IT WERE POSSIBLE TO RELIEVE JORDAN OF THE REQUIREMENT TO DEVOTE PART OF ITS EXISTING DEFENCE PACKAGE TO TORNADO, THIS WOULD BE SEEN HERE AS A VERY CONSIDERABLE GESTURE OF POLITICAL SUPPORT AT A TIME WHEN THE KING SO BADLY NEEDS IT. IF MINISTERS DECIDE TO MAKE THIS POLITICAL GESTURE I CONSIDER THAT IT SHOULD BE THE CLEAR AND SIMPLE ONE OF INFORMING THE JORDANIANS THAT WE NO LONGER EXPECT THEM TO USE ANY PART OF THE EXISTING CREDIT PACKAGE FOR TORNADO AND THAT WE WILL PUT TOGETHER A PACKAGE WITHOUT THAT CONTRIBUTION.

6. THE POLITICAL IMPACT WOULD OF COURSE BE MUCH BLUNTED IF WE WERE TO HAGGLE WITH THEM ABOUT FIGURES AND SUGGEST THAT IF THEY MAKE AVAILABLE NOT WHAT WE HAVE ASKED FOR BUT A SMALLER FIGURE.

7. IN VIEW OF THE KING'S FORTHCOMING VISIT TO MOSCOW SPEED IN PUTTING TOGETHER A TORNADO FINANCING PACKAGE IS NOW OF THE ESSENCE. WHEN I LAST SAW HUSSIN TWO DAYS AGO THE SOVIET AMBASSADOR WAS NEXT IN LINE FOR AN AUDIENCE.

COLES

YYYY

ADVANCE	4	
HD/NENAD		1
HD/DEF		1
HD/SEC POL		1
PS		1
MAIN	33	
LIMITED		8
NENAD		6
DEFENCE		4
SEC POL		5
PS		7
PS/MRS CHALKER		1
PS/MR MELLOR		1
SIR D MIERS		1

[MITCHELL]

COMMERCIAL IN CON

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 14/2E

28 October 1987

Dear Nigel,

TRACKED RAPIER FOR THE US ARMY

I enclose a copy of a letter I have received from Sir Raymond Lygo. What he is asking for is that we should enter into the same sort of agreement with BAe as we offered to Plessey two years ago when they were competing for the MSE contract.

You will recall the reasons why we decided to offer the currency exchange facility to Plessey. The same considerations apply here in that BAe face a requirement to tender fixed and firm prices in dollars over a prolonged period for a series of options which the US Army may not in the event exercise. The size of the business - up to $1 billion - combined with the timescale and, particularly, the uncertainty of the options, rules out commercial cover for the foreign exchange exposure and ECGD schemes provide no real assistance. In principle, therefore, I believe we should consider the proposal and my officials have held discussions with BAe on the practical details, though strictly without prejudice.

You will also recall the outcome of the MSE competition. Before deciding whether to proceed, therefore, we need to consider why this occasion should be different from the last:

a. BAe have considerably more experience of the US market than did Plessey. Their successes in selling the Harrier and the Hawk are clear examples of this. Because of this experience

The Rt Hon Nigel Lawson MP

they have been more judicious in their selection of a partner whenever bidding for a DOD requirement. Their selection of United Technologies and FMC as partners in offering Tracked Rapier is no less judicious; both companies have considerable experience in the US DOD field and in particular with the US Army.

b. There is not likely to be the enormous price differential that proved to be the case on the MSE bid, since BAe are bidding to what they know to be the US Army's budgetary position.

c. Rapier is a truly non developmental item and can be made available in the timescale required by the US Army. None of the other competitors can be said to be in the same position.

d. Because of the ability of BAe to divert deliveries due to the UK Army without operational penalty to the latter, the bulk of the work associated with the early deliveries will be undertaken in this country - this very fact gives rise, because of the higher UK content, to the need for protection compared with BAe's competitors.

One of the other factors which has changed since the Plessey agreement is that MOD has now moved to forward purchase of our dollar requirements and we are already covered up to March 1989. In practice, BAe would not stand to receive substantial numbers of dollars until later in that year, and even after that the peak flow is unlikely to exceed a quarter to a third of our requirements.

On a more detailed point, you agreed in the Plessey case that we should not add any sort of premium to the Bank's forward rates to reflect the sort of margin which would feature in a commercial deal. On this occasion I would intend to press BAe to accept a premium of 5%-10% but, if I judged it necessary, I would be ready to concede the

point if they persuaded me that it would be a critical one to their success.

In view of BAe's need to submit their offer by 5 November and in order to allow them time to recalculate their figures I would welcome your views before the end of the week.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, David Young and to Sir Robert Armstrong.

Yours ever,

George

George Younger

BRITISH AEROSPACE

BRITISH AEROSPACE
PUBLIC LIMITED COMPANY
11 STRAND
LONDON WC2N 5JT
Telephone: 01-930 1020
Facsimile: 01-839 4774
Telex: 919221

From: Sir Raymond Lygo, K.C.B.

Direct Line: 01-389 3925

The Rt Hon George Younger, TD,PC, DL, MP,
Secretary of State for Defence,
Ministry of Defence,
Main Building,
Whitehall,
London SW1A 2HB.

Ref: JW6/92

23 October 1987

TRACKED RAPIER FOR THE US ARMY

Dear George,

I am writing to ask for your help in solving a problem which we now have to face in connection with our efforts to win the competition currently being conducted by MICOM to select a Low Level Air Defence System for the US Army and which Tracked Rapier whilst never having been the favourite is, I believe, well placed to succeed.

The terms specified by MICOM for the best and final offer require the bid to be in the form of a series of options in US Dollars and without the benefit of any form of exchange rate protection.

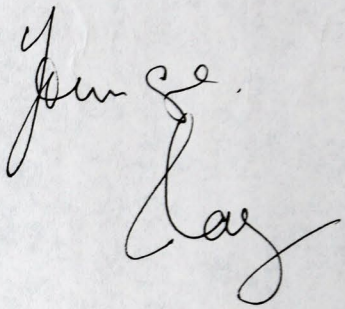
The combination of requirements, and in particular the existence of the options, leaves us bereft of the cover which the commercial market could ordinarily be expected to provide and we have to face the almost inevitable consequence, which is a non-compliant bid. At this point my people were led to seek advice and assistance from your Department and I am given to understand that should a proposal result from the joint efforts it will need your approval. Hence this letter.

I attach considerable importance to this business, that is why I approved the expenditure of $12M to participate in the competition. If ADATS is selected by MICOM that brings a very serious competitor to an already overcrowded market place for Low Level Air Defence Systems. In consequence, we can expect to lose future potential business (such as the Turkish Ground Forces) and also follow-on and update business from our existing customers.

Continued/...

I have stressed to my team in Army Weapons Division the need to heed the advice from your Department to avoid the embarrassments created during the closing stages of the MSE competition in the United States. I hope the advice coming to you will confirm that they have done so and would certainly want to know if they have not.

Time, unfortunately is not on our side. I hope you will be able to help so that we can submit a responsive bid by 5 November 1987.



REFENCE: Sales Pt 9



SECRET

cc PC 12C

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-[redacted] 01-218 2111/3

MO 14/23E

27th October 1987

Dear Charles,

TORNADO FOR GREECE

Thank you for your letter of 23rd October. Since the Prime Minister is unable to see the Greek Foreign Minister, Mr Younger shares the concern of the Foreign and Commonwealth Office that this may adversely affect Tornado's prospects.

Since I wrote on 22nd October, the Head of Defence Export Services, Colin Chandler, has received informal advice supporting the idea of a message from the Prime Minister to Mr Papandreou and I understand that HM Ambassador in Athens is also supportive. In all of these circumstances, Mr Younger is inclined to recommend that the Prime Minister send a message. I attach a draft of a suggested text, which takes some account of the advice we have received.

Yours sincerely

David Ball

(D C J BALL)
Private Secretary

Charles Powell Esq
No 10 Downing Street

SECRET

SECRET

DRAFT LETTER FROM THE PRIME MINISTER TO THE GREEK PRIME MINISTER

I well remember our meeting on 6th December 1986 when we were able to discuss a number of matters affecting not only bilateral relations between Greece and the United Kingdom but also those having a wider European dimension.

Our discussion then included the possibility of stronger links being developed between our two countries in the field of defence procurement and this was followed by exchanges of visits by and communications between our Defence Ministers and their Deputies.

Among the projects we discussed was the Tornado aircraft, which continues to be an outstanding operational success with the Royal Air Force and with the German and Italian Air Forces whose industries participate in this outstanding example of European collaboration. Since we met, the aircraft has also entered service with the Saudi Arabian Air Force, giving that country additional security in these times of tension in the Gulf.

Following the exchanges between our Defence Ministers, I believe that the time may be right to take this project further and I would very much welcome your views as to how this might be achieved. Should Greece decide to acquire the Tornado, this would represent a significant step forward in our bilateral relations and would also, in view of the collaborative nature of the project, be important in the wider European context.

SECRET

Greece Relations PM



250934Z
DISTRIBUTION ADVANCE - DISTRIBUTION SYSTEM DOWN
HPLNAN 0416 ALHPAN 4099
CONFIDENTIAL
DD 260930Z FCOLN
PP PARIS WASHI
FM AMMAN TO FCOLN
250845Z OCT
GRS 350



CONFIDENTIAL
FM AMMAN
TO DESKBY 260930Z FCO
TELNO 370
OF 250845Z OCTOBER 87
INFO IMMEDIATE MODUK
INFO PRIORITY WASHINGTON, MOSCOW, PARIS, RIYADH

SIC ACA/280
MODUK FOR HDES

AUDIENCE WITH KING HUSSEIN: JORDAN/SOVIET RELATIONS: TORNADO

1. AT AN AUDIENCE WITH KING HUSSEIN ON 24 OCTOBER THE KING CONFIRMED, IN ANSWER TO MY QUESTION, THAT HE WOULD VISIT THE SOVIET UNION AT A DATE IN DECEMBER YET TO BE AGREED.

2. I DID NOT THINK IT APPROPRIATE TO REFER TO TORNADO ON THIS OCCASION AS I HAD NOTHING NEW TO SAY. I INSTEAD MENTIONED THE HIGHLY SUCCESSFUL VISIT TO JORDAN BY THE CHIEF OF THE GENERAL STAFF LAST WEEK AND OUTLINED A NUMBER OF WAYS IN WHICH WE WERE HELPING THE JORDAN ARMED FORCES.

3. BUT THE FLAVOUR OF OTHER PARTS OF THE CONVERSATION LEFT ME CONCERNED THAT FOR VARIOUS REASONS THE KING MIGHT WELL BE TEMPTED TO CONCLUDE A MIG 29 DEAL WHEN HE IS IN MOSCOW. HIS DISILLUSIONMENT WITH THE UNITED STATES, FOLLOWING HIS TALKS WITH SHULTZ IN LONDON, REMAINS WELL-NIGH COMPLETE. HE APPEARS IMPRESSED WITH CURRENT SOVIET POLICIES IN THE MIDDLE EAST AND SOVIET FIGURES SUCH AS VORONTSOV WHO HAVE VISITED THE REGION IN RECENT MONTHS. IT IS POSSIBLE THAT THE OUTCOME OF THE ARAB SUMMIT WILL PUSH HIM MORE IN THE DIRECTION OF ARAB SOLIDARITY AND CLOSE RELATIONS WITH THE SOVIET UNION THAN HIS NATURAL INCLINATIONS WOULD DICTATE.

4. I CANNOT BE CONFIDENT THAT WE HAVE MUCH TIME LEFT FOR AN OFFER OF FINANCIAL ARRANGEMENTS FOR TORNADO. I PRESUME THAT THE RUSSIANS WILL SPEND THE NEXT FEW WEEKS TRYING TO COMPLETE THEIR NEGOTIATIONS WITH THE JORDANIANS ON A MIG 29 PURCHASE. AS I HAVE EARLIER REPORTED THE FRENCH ARE AGAIN ACTIVELY TRYING TO SELL THE MIRAGE 2000 HERE. MY BEST GUESS IS THAT A FIRM AND DETAILED PROPOSAL, PREFERABLY IN THE FORM OF A LETTER FROM THE PRIME MINISTER TO THE KING, WILL NEED TO BE TABLED VERY SOON.

5. IN THE SAME CONTEXT I HOPE THAT ON YOUR VISIT HERE NEXT WEEK YOU WILL BE ABLE TO TELL THE KING OR THE COMMANDER-IN-CHIEF IN PRIVATE ABOUT OUR PROGRESS IN PUTTING TOGETHER A FINANCING PACKAGE. BUT TO MAKE ANY IMPACT YOU WILL NEED TO BE ABLE TO

SAY MORE THAT THAT WE ARE SIMPLY TRYING TO ASSEMBLE A PACKAGE.

COLES

YYYY

ALHPAN 4039

ADVANCE

MIDDLE EAST	1
PS	1
PS/MR MELLOR	1
PS/PUS	1
SIR J FRETWELL	1
MR MUNRO	1
SIR L MIERS	1
HD/NENAD	1
HD/MED	1
HD/DEFENCE	1
DEP. HD/PUSD	2
NEWS	1
RESIDENT CLERK	1
Nº 10 DOWNING ST.	1
CABINET OFFICE D10	1

SECRET

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 October 1987

TORNADO FOR GREECE

Thank you for your letter of 22 October recommending against a message from the Prime Minister to Mr. Papandreou about Tornado at present.

You mentioned the forthcoming visit of the Greek Foreign Minister as providing an opportunity for exploring the prospects for Tornado more fully. The Prime Minister herself is unable to see the Greek Foreign Minister and I know that the Foreign Office are worried that this may affect Tornado's prospects (she did see the Turkish Foreign Minister earlier this year). In the circumstances, you may feel that a message from the Prime Minister to Mr. Papandreou would alleviate to some extent the disappointment of her inability to meet the Greek Foreign Minister and any effect this may have on Tornado's prospects.

BF

CHARLES POWELL

David Ball, Esq.,
Ministry of Defence.

SECRET

SECRET

43

CDPC 12A

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022 xxxxxxx 01-218 2111/3

MO 14/23L

22nd October 1987

Dear Charles,

TORNADO FOR GREECE

Thank you for your letter of 7th October to John Howe, in which you asked for advice on whether the Prime Minister should intervene on the potential sale of Tornado aircraft to Greece.

Our assessment, after consultation with British Aerospace and the Embassy in Athens, is that there are still good prospects for Tornado for Greece; its strike and penetration role would provide a complement to the F16 and Mirage 2000 aircraft they are buying. While it is true that there have not been detailed discussions between the company and the Greek Government, this is not necessarily a bad sign: in the case of the Greek purchase of Mirage aircraft, these discussions did not happen until after a decision in principle by Mr Papandreou. The Greeks are well aware of what Tornado has to offer but Mr Papandreou himself will need to agree that detailed negotiations with British Aerospace can begin. Brigadier Landon may well be right that some move by the Prime Minister would be needed to trigger this.

But Mr Younger agrees this is not the moment for the Prime Minister to raise the subject. We are hoping that there will be a chance to raise it in the course of the visit by the Greek Foreign Minister on 12th-13th November. It might then make sense to follow this up with a letter, which would provide a clearer basis for a conversation if necessary between the two Prime Ministers at Copenhagen in December.

Yours sincerely

(D C J BALL)
Private Secretary

Charles Powell Esq
No 10 Downing Street

SECRET

Greece: Int. Sit. PT2.

L

CONFIDENTIAL

cc PC (2)

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

MO 14/6/1E

19th October 1987

Rec Thatcher
CDP
21/X.

Dear Charles,

NUCLEAR POWERED SUBMARINES FOR CANADA

In your letter of 8th October you asked for regular reports on the progress of our discussions with the Americans and Canadians on the Canadian plan to acquire nuclear submarines. We have just completed a further round of negotiations with the Canadian Submarine Acquisition Project Team in London, followed by talks with senior US officials in Washington.

Progress with the Canadians has been good. We have now completed the first draft of a so-called Memorandum of Understanding, a document summarising the information the Canadians require about the Trafalgar class submarine and the basis on which we would supply them, which the Canadians wish to see completed by December in order to enable them to make their decision between our boats and the French Rubis SSNs. Work will now proceed over the next few weeks to refine this draft. An important step will be to discuss aspects of nuclear propulsion technology which we have been unable to deal with hitherto because they are covered by the US/UK 1958 Defence Agreement. US officials have been very helpful on this point, and have agreed with us the outlines of a Statutory Determination which they hope will be signed by the US Secretaries of Energy and Defence shortly, thus enabling our discussions with the Canadians to proceed.

Despite this, however, US officials still clearly have reservations about the Canadians' intentions, and in particular about the Canadian ability to run a safe, viable and independent programme. In order to satisfy their concerns (which we need to do by December so that the US Administration will agree to place before Congress the necessary amendments to the 1959 US/Canada Agreement) we propose to seek Canadian agreement to show the Americans the draft MOU. Once we have done this we will need to conduct a series of detailed discussions at expert level with both the Canadians and Americans, the aim being to reach agreement on a document which both meets the

C D Powell Esq
10 Downing Street

Canadian requirement for information and also the US (and indeed UK) concerns that safety and security aspects should be adequately covered. This will not be easy; the US are likely to demand very stringent conditions which the Canadians may resist. We will therefore need to seek an acceptable compromise between these positions.

The Defence Secretary will be visiting Washington on 5th/6th November and will take the opportunity to review progress with both Mr Weinberger and Mr Herrington (the Energy Secretary). I will let you have a further report following this visit.

I am sending copies of this letter to Tony Galsworthy (FCO) and Trevor Woolley (Cabinet Office).

Yours sincerely,

John Howe.

(J F HOWE)
Private Secretary

DEFENCE: Sales PT9





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

15 October 1987

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

TORNADO FOR JORDAN

Following the Prime Minister's meeting of 29 September, officials have discussed the arrangements for implementing the decision to provide ECGD cover for one-third of the contract value.

It has been agreed to provide £60m by drawing on the unallocated balance of the existing line of credit for defence sales to Jordan, and a further £40m guaranteed 100% by ECGD as a new loan. This will produce a total of £100m, based on an estimated contract value of £300m.

After allowing for interest, the new loan will represent additional liability for ECGD of £60m and the Section 2 limit for Jordan will be raised by this amount. It was agreed that this should be offset by a reduction in the limit for another country; officials recommend that the country chosen should be Algeria. I propose proceeding accordingly. However, this kind of offsetting seems to me arbitrary and unsatisfactory to a substantial degree and I hope we can avoid resorting to it in future. There are no sound grounds for equating £60m less of Algerian risk with £60m more of Jordanian risk, and I give warning that I may have to raise the matter again if the consequence proves to be a serious and unjustifiable constraint on the availability of cover for civil business with Algeria.

Generally, I believe we need to find better answers for this kind of problem, and I hope that the new look ECGD are at present taking at their methods of managing country risk and the study we have

JG3BPT

commissioned from officials on the special problems of large arms contracts, will help us to do this.

I understand that Ministry of Defence consider that, in order to produce a sufficiently attractive credit package for the Jordanians, we shall need to provide interest make-up not only for the £100m to be guaranteed by ECGD but also for a further £100m that it is hoped to fund from British sources without ECGD cover. This would, of course, double the amount of subsidy payable to an estimated level of 4.32% of the price. Although this is clearly unwelcome, I consider that the exceptional importance of this order is sufficient to justify this extra cost and that we should authorise officials to proceed accordingly. This would be the first time that we have agreed interest make-up for so large a proportion of unguaranteed credit. However, I consider that we should not normally want to provide interest make-up support for unguaranteed credit in excess of the amount we were prepared to guarantee in a particular case, so we should regard the decision in this case (50% guaranteed: 50% unguaranteed) as establishing a limit not to be exceeded without explicit Ministerial authority.

If you and other colleagues agree, officials will go ahead on these lines. I am copying to the Prime Minister, The Secretary of State for Foreign & Commonwealth Affairs, Secretary of State for Defence, and Sir Robert Armstrong.

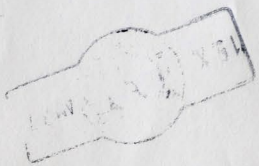
LORD YOUNG OF GRAFFHAM

JG3BPT

MIDDLE EAST

ARMS SALES

PT 4



SECRET

file KB 4/12

cc dir PC

LO4AMK

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 October 1987

NUCLEAR POWERED SUBMARINES FOR CANADA

The Prime Minister has read with interest the recent correspondence between the Secretary of State for Defence and the Foreign and Commonwealth Secretary about the Canadian plan to acquire a fleet of nuclear powered submarines. She agrees that there are good arguments for helping the Canadians. But given the possible problems which a British sale raises for the Americans, we shall need to handle the discussions with great sensitivity. She would like to be kept closely in touch at every stage. I should be grateful if you could let me have regular reports.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

John Howe, Esq.,
Ministry of Defence.

SECRET

3 11

Ref. A087/2858

MR POWELL

Nuclear Powered Submarines for Canada

The Prime Minister will have seen the recent exchange of minutes between the Secretary of State for Defence and the Foreign and Commonwealth Secretary, initiated by the Secretary of State for Defence's minute of 24 September, about the Canadian plan to purchase 12 nuclear powered submarines (SSN).

2. If the United Kingdom were to win such an order, in the teeth of French competition, this would be a great feather in our cap. More generally, Canadian acquisition of a SSN fleet would give a welcome boost to the Alliance's naval resources and go a long way to redeem Canada's hitherto unimpressive defence contribution (even though the proposal may be prompted partly by the need to uphold Canadian sovereignty vis-a-vis the United States in the waters around her northern coastline).

3. But the potential difficulties, hinted at in the Secretary of State for Defence's minute, are real. Despite their long experience of operating civil reactors, the Canadians may not fully appreciate the complexities, and in particular the safety implications, of operating nuclear propulsion reactors. They have no research and development expertise in this field on which to draw, and it is doubtful whether the United Kingdom could help supply this, except at penalty to scarce naval resources. It will also be necessary carefully to consider the extent to which we can make available our own up-to-date design information to the Canadians, quite apart from the need to persuade the Americans to agree to the transfer of information governed by the 1958 agreement. There is a particular practical difficulty over the supply of fissile material. We are in no position to help since we are dependent on the Americans for the high enrichment of the uranium. The Canadians may decide to set up their own enrichment

plant. But they may, like us, look to the Americans for a guaranteed supply. There can be no assurance that, in that event, the United States would agree. Finally, the Americans may be uneasy about opening up a possible loophole in the Non Proliferation Treaty.

4. All of these aspects are being pursued, including with Washington where appropriate. But the Americans are not enthusiastic about the Canadian project and if, at the end of the day, the United Kingdom is unable to proceed it is important that our bilateral relations with Ottawa should not suffer. It is even more important, bearing in mind our great dependence upon the Americans in the nuclear area, that the issue does not become an irritant in Anglo-United States defence relations.

5. It would in my view by appropriate if, because of the issues at stake, the Prime Minister were to express an interest in the subject and ask to be consulted before final decisions are taken. If she agrees, you may like to write to Mr Howe in terms of the attached draft.

RTA

ROBERT ARMSTRONG

8 October 1987

SECRET

LOA
AMK

To [illegible]

DRAFT LETTER FROM MR POWELL TO MR J F HOWE, MINISTRY OF DEFENCE

Nuclear Powered Submarines for Canada

The Prime Minister has read with interest the recent correspondence between the Secretary of State for Defence and the Foreign and Commonwealth Secretary about the Canadian plan to acquire a fleet of nuclear powered submarines. She agrees that there are good arguments for helping the Canadians, whose defence contribution leaves a great deal to be desired, to build up its navy in this way, and she appreciates the risk that they will turn to the French if we are unable to make the necessary technology available (though she understands that the Americans doubt whether supply by the French is a very real alternative).

given the possible problems which

But she notes that a British sale raises a number of difficulties, especially for the Americans, and believes that, bearing particularly in mind our dependence on the United States in the nuclear area, we shall need to handle the discussions with great sensitivity consider carefully where the balance of advantage lies before pressing the matter to a conclusion. She would therefore be grateful for a like to be kept closely in further report on the progress towards resolving these difficulties from the Secretary of State for Defence, touch at each every stage. I in the light of our further negotiations with the should be grateful if we could let Americans. She may then wish to discuss the issues we have regular reports on paper. raised with the Secretary of State for Defence and the Foreign and Commonwealth Secretary.

SECRET

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and to Trevor Woolley (Cabinet Office).



DEFENCE

SALES

PT 9

SECRET

DS2ADO

cc PC

10A.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 October 1987

TORNADO FOR GREECE

Brigadier Landon (former adviser to the Sultan of Oman) came to see me today about the possible sale of Tornado to Greece. He has been in touch with me about this in the past, principally last Autumn before the matter was raised in the bilateral meeting which the Prime Minister had with Mr Papandreou in the margins of the London European Council.

Brigadier Landon said that his information was that Mr Papandreou was still prepared to go ahead with negotiations for the purchase of Tornado but needed a "trigger" in the form of some further intervention by the Prime Minister. His contacts had suggested the Prime Minister might telephone Mr Papandreou and express disappointment at Greece's failure so far to open negotiations with British Aerospace. She might stress that Tornado was a European project involving not only the UK but also Germany and Italy.

I said that my own impression was that the prospects for Tornado had rather faded. Brigadier Landon interjected that he knew what I meant (which is surprising, because I cannot myself remember why I thought that) but he could assure me that his information came from a recent conversation between Papandreou and one of his former advisers. I continued that, in any case, I was certain the Prime Minister would not want to telephone Mr Papandreou on such a matter. I did not absolutely exclude that at some point she would be ready to send a message, if so advised, or talk to him in the margins of a European Council. But I wondered whether even this would be worthwhile if British Aerospace had not even reached the stage of opening negotiations with the Greek Government. I would ask Ministry of Defence for an up-to-date assessment of the prospects.

I should be grateful if you could let me have a view whether the Prime Minister should be advised to intervene on this matter.

C D POWELL

John Howe, Esq.
Ministry of Defence

SECRET

SECRET

2 10

SPC.

FCS/87/205

CDS
2/X.

SECRETARY OF STATE FOR DEFENCE

Nuclear-Powered Submarines for Canada

1. Thank you for your minute of 24 September. I entirely agree with what you say. When I discussed this subject with Joe Clark in Washington last week, I formed the same impressions as you of Canadian intentions and drew similar conclusions about what we should do to help.

2. I welcome your letter of 24 October to Cap Weinberger, putting over the political points that need to be made. There may also be advantage in my writing to George Shultz; perhaps we can consider this when Cap Weinberger has replied to you and we have the results of the next round of talks between officials in Washington on 13 October. I may have an opportunity to raise the subject personally with George Shultz when he passes through London on 19-20 October.

3. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

SECRET

DEFENCE Sales: Pt 9.



SECRET

9

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 September 1987

Dear Tim,

TORNADO FOR JORDAN

The Prime Minister held a meeting this afternoon to discuss the possible provision of ECGD credit to Jordan for the purchase of Tornado aircraft. The Foreign Secretary, the Defence Secretary, the Trade and Industry Secretary and the Chief Secretary were present.

The Prime Minister concluded that we had a major strategic interest in discouraging Jordan from purchasing Mig 29 aircraft from the Soviet Union. Such a purchase could not but affect our wider defence relationship with Jordan adversely, and would be a setback for Western interests in the area. Since the United States was not willing to supply F16 or F20 aircraft to Jordan, Tornado was the main alternative. We should therefore be ready to take the initiative in offering partial credit cover for the purcahse of eight Tornado, while approaching the German, Italian and Saudi Arabian governments, as well as British Aerospace, for the remainder. As our share, we should be ready to cover one-third of the contract value (including interest rate make-up). This would be made up by drawing on a substantial part of the cover already made available for defence sales to Jordan but not so far spent; and by an increase in Jordan's market limit, to be offset by a reduction in the limit for another country. The Trade and Industry Secretary and the Chief Secretary should meet as soon as possible to settle the precise details.

I am copying this letter to John Howe (Ministry of Defence), Robert Culshaw (Foreign and Commonwealth Office), Jill Rutter (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C.D. POWELL

Tim Walker, Esq.,
Department of Trade and Industry.

SECRET

E.R.

PRIME MINISTER

CREDIT FOR JORDAN

We have some slightly revised figures, which are relevant to this afternoon's discussions.

The total unused credit available is:

- £120 million under existing defence facilities;

- £30 million under Section 2 limit for civil business;

making a total of £150 million

But MOD want to allocate only £50-70 million of the outstanding sum for military purchases to Tornado; while DTI do not want to commit the £30 million for civil business to Tornado. If we were to meet both points it would mean increasing the existing Section 2 ceiling by up to £100 million, in order to provide the necessary £120 million of credit for Tornado. This will be the main issue in dispute.

The points to be resolved are:

(i) should all the outstanding military credit facility go to Tornado? Or are the prospects for other military business sufficiently good to warrant keeping some of it back?

(ii) should all the outstanding £30 million for civil business be switched to Tornado? Or should it be retained for civil business?

(iii) can we take the risk of increasing the ceiling for Jordan, largely on political grounds? If so by how much?

(iv) if we do increase the ceiling for Jordan, should we reduce it for some other country?

C.D.P

C. D. POWELL

29 September 1987

SLHANQ

010

3A

CC PK

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*

CONFIDENTIAL

28 September 1987

Charles Powell Esq
Secretary to the Prime Minister
10 Downing Street
London SW1A 2AA

Dear Charles,

JORDAN: TORNADO

Following consultations with the Ministry of Defence I attach a revised version of the note on the figures behind Lord Trefgarne's proposal for addtional ECGD credit support.

I apologise for the short notice of these revised figures.

I am copying this letter to Lyn Parker (FCO), John Howe (MoD) and Jill Rutter (Treasury).

Yours
Paul

PAUL STEEPLES
Private Secretary

JG1BKN

ECGD limits relate to the liability assumed by the Department (DL). This is not the same as the value of the contracts covered (CV) because:

a ECGD-guaranteed loans are normally for no more than 85% of the CV; the balance being paid direct by the buyer;

b DL includes interest.

2 When these two factors are balanced out, for a 5 year credit plus manufacturing and delivery times, DL will typically exceed CV by a factor of around 50%. However, in the case of Jordan the picture is complicated because of the existence of different - and separate - risk-sharing arrangements with the UK banks. In such cases ECGD guarantee a loan value below 85% of the CV eg 78% or 60%. In these instances the "rule of thumb" link between CV and DL detailed above does not apply.

3 The current ECGD Section 2 limit for Jordan is £600m (DL). Within this, £28m is uncommitted and with the latest 60:40 ECGD/Banks risk-sharing arrangement this would support business with a CV of £30m.

4 Two ECGD-guaranteed lines of credit exist with Jordan for defence exports. The first agreement relates to a CV of £270m, which because of risk-sharing equates to a DL of £333m. The £40m (CV) supplement recently negotiated with its own risk-sharing arrangement has a DL of £37m.

5 No contracts have yet been formally signed on the £40m supplement and with the £80m (CV) uncommitted on the first agreement, a total of £120m (CV) and related £130m (approx)(DL) is available for potential reallocation.

6 Lord Trefgarne's letter asks for £100-120m (CV) support for Tornado by switching some £50-70m from the existing defence facilities, supplemented by a further £50m of new credit. The potential Tornado contract has a CV of £300m and the balance of the credit would be sought from British Aerospace, the City, our Tornado partners and the Saudis.

7 In summary therefore:

a Up to £120m (CV) or £130m (DL) is available under existing defence facilities.

b Up to £30m (CV) or £28m (DL) is available under the Section 2 limit for civil business.

c If the whole available balance at a were to be allocated to Tornado, this would be sufficient.

d However, Lord Trefgarne's proposal is to allocate only £50-£70m (CV) from the line and to leave £50-£70m for other defence business already in negotiation. If this were done and b were retained for civil business, this would require an additional £30-50m (CV) which, with the necessary absence of risk-sharing given the separate plans for non-ECGD-supported finance, would involve a DL of up to £75m in excess of the existing Section 2 ceiling.

SECRET

MO 14/6/1E

FOREIGN AND COMMONWEALTH SECRETARY

NUCLEAR POWERED SUBMARINES FOR CANADA

1. I visited Canada last week as the guest of Perrin Beatty. The issue that is uppermost in his mind, and which occupied the greater part of our discussions, is the Canadian plan declared in their Defence White Paper to acquire a fleet of SSNs. I was left in no doubt at all that the Canadian Government is firmly committed to this plan. It has set itself an ambitious timetable for deciding on the source of supply for procurement leading to the entry of the first submarine into service in 1996. The choice lies between British and French submarines and Perrin Beatty hopes to have all the relevant information available by the end of this year to enable a choice to be made by March 1988.

2. I am in no doubt that we must do what we can to help the Canadians to acquire an SSN capability. There is the commercial aspect, still important although much of the submarine is to be built in Canada, and the Canadians are very likely to turn to the French - whose system they are evaluating in parallel with our own - if we or the Americans make difficulty; more fundamentally, it could have the most serious implications for public support in Canada for the pro-NATO policies of the present Government there for their principal allies to be seen to be lukewarm or even hostile towards a very considerable build-up in Canadian capability. It would certainly do us little good if Canada, whose active support for NATO has sometimes been fragile, were driven into the arms of the French who are making attractive offers of support. The Canadian plans call for a decision between the British and French options by the Spring of next year.

The way must be clear in Washington before then since Beatty could not accept any lingering doubt of an American veto. Canadian sensitivities towards American actions which appear to impinge upon their own sovereignty are also very relevant here. These are points which strongly impressed me during my visit to Canada last week.

3. We are, as you know, in discussion with US officials about the Canadian proposals, because of our obligations under the 1958 Agreement on the transfer of nuclear technology. It is of course critical to take the Americans with us on this given the overriding importance to us of US/UK cooperation in the key area of nuclear weapons. Initial reactions from Admiral McKee, the Head of the Office of Naval Reactors, were very discouraging and indeed he has made it clear to Perrin Beatty himself that he sees great difficulty in the proposals. His position - which the Canadians regard as patronising - seems to be that the Canadians are taking on a bigger commitment than they can manage, and in particular will not be able to meet the necessary safety standards. There is also some concern over proliferation, though I believe this should be manageable. Nuclear propulsion technology is not directly covered by the NPT and the underlying US concern here is the precedent that might be set for similar requests from other Allies.

4. It may well be be that the Canadians will find that their timetable is over-ambitious and that the costs are higher than they at present assume (although Perrin Beatty assured me that there is no doubt that the programme will be funded). But if the Canadians do modify their plans, it is important that they should see this as their own decision and not the result of pressure or veto. We ourselves should certainly not compromise on the issue of safety but it would be quite wrong to prejudge the Canadian capability; they have been in the civil nuclear business for years. It is not of course for us, as I made clear to Perrin Beatty, to take upon ourselves the task of giving the US reassurances which can only come from the Canadians themselves; but we ought, in the interests of the Alliance, to use our influence.

In order to enable the technical exchanges to take place within the timescale the active support, and not simply the acquiescence, of the US Administration will be needed in order to overcome any Congressional obstacle.

5. The indications I have at present are that Admiral McKee is the main source of resistance in Washington, and even he, to judge from a reassuring discussion Admiral Fieldhouse had with him earlier this week, may now not be wholly unreceptive to the wider context. Cap Weinberger's attitude is said to be helpful, but I have not yet talked to him. I am writing to him to seek his help in facilitating the technical exchanges. I would be prepared, if necessary, to meet him at short notice although at present I do not believe a meeting is necessary before I see him at the Nuclear Planning Group in early November. It may however be necessary to take matters even higher and the issue may need to figure on the bilateral agenda in Vancouver next month.

6. I thought you would wish to know where matters now stand. I will keep you informed.

7. I am sending copies of this minute to the Prime Minister and to Sir Robert Armstrong.

G.H.

Ministry of Defence
24th September 1987

PRIME MINISTER

TORNADO FOR JORDAN

You are to have a meeting on Tuesday to discuss the possible provision of credit for the sale of a small number of Tornados to Jordan.

You told King Hussein that we would examine ways in which a small initial order of Tornados for Jordan might be financed. The King made clear that he would prefer Tornado to the Mig 29. But negotiations for the latter were well advanced.

The basic facts and figures are as follows:

- eight Tornados would cost £400 million;
- the (recently increased) market limit for Jordan is £600 million. It is virtually fully committed: only £28 million remains;
- of that, some £333 million is set aside for defence sales;
- of the £333 million, £120 million remains uncommitted.

There is consensus among Departments that we should offer about £120 million of cover, with British Aerospace, the City, the German and Italian governments and perhaps the Saudis providing the balance. The disagreement comes over how that £120 million should be constituted.

- MOD say that £80 million should be switched from the unallocated £120 million for defence sales and an additional £40 million provided. But because the market limit for Jordan has been reached, that additional £40 million would mean a further increase in cover and in ECGD's contingent liabilities;

- DTI do not want to make additional cover available at the expense of civil contracts that they regard as more likely to come to fruition;

- Treasury are worried that the market limit is already too high and the prospects for the Jordanian economy bleak. They want to see the whole of the £120 million of unallocated credit for defence sales committed to Tornado (thus ruling out the sale of, e.g. Warrior). They are also prepared to concede an increase of £20 million in the market limit, making a total available of £140 million. If there is to be any question of going beyond that, they want corresponding reductions made in some other countries' market limits (to contain ECGD's liabilities). The DTI very strongly oppose this last point.

It seems to me that:

- we have a strong strategic interest in stopping the sale of Mig 29s;

- following your talk with King Hussein, we have a commitment to come forward with a proposition;

- if there is to be any chance of success, it will need to be at least £120 million (indeed £200 million is probably more realistic);

- if we are going to keep open the prospect of other business, this means increasing the Jordan market limit to £650 million;

- the question then becomes whether we just take on that much more risk, or take away £50 million from some other market or markets.

CD?

Charles Powell
23 September 1987

copy no. 1 of 4 #7

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

SECRET

23 September 1987

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

Dear Charles

JORDAN TORNADOS

I am attaching a note explaining the figures. This has been prepared by ECGD who explain that confusion can arise because some figures in early papers relate to contract value and some to ECGD liability. There is often a substantial difference between the two and the note explains the reasons for this.

In the time available since you asked for the figures, there has not been time to agree them with other Departments. However ECGD think that they should be acceptable to all interested Departments.

I am copying this letter to Jill Rutter (Treasury) and David Ball (MOD).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary

DW3COA

1 ECGD limits relate to the liability assumed by the Department (DL). This is not the same as the value of the contracts covered (CV) because:

a ECGD-guaranteed loans are normally for no more than 85% of CV, the balance being paid direct by the buyer;

b DL includes interest.

When these two factors are balanced out, for a five-year credit plus manufacturing and delivery times, DL will typically exceed CV by a factor of around 50%.

2 The current ECGD Section 2 limit for Jordan is £600m (DL). Within this, £28m is uncommitted: using the rule of thumb explained above, this would support business with CV of roughly £20m.

3 The existing ECGD-guaranteed line of credit for defence exports to Jordan is for £280m (CV). A commitment of £333m (DL) in respect of this is included under the limit. Of this, £120m (DL), say £80m (CV), remains available (ie contracts have not yet been placed).

4 Lord Trefgarne's letter asks for £100m-£120m (CV) support from ECGD for the Tornado deal by switching unused credit from the existing defence line and agreeing supplemental credit.

5 In summary, therefore:

a) up to £120m (DL) equivalent to £80m (CV) is available under the existing defence credit line;

b) up to £28m (DL) equivalent to £20m (CV) is available under the Section 2 limit for civil business;

c) if a) were allocated to Tornado and b) retained for civil business, Lord Trefgarne's proposal would require an additional £30-£60m (DL) equivalent to £20-£40m (CV) of ECGD support.

SECRET

FILE 6
DG2CFB
CDP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

MR. HOWE

MINISTRY OF DEFENCE

JORDAN: TORNADO/MIG 29

The Prime Minister has considered the minute of 8 September from the Minister of State (Defence Procurement) about the possibility of additional ECGD credit support for Jordan, to encourage them to opt for Tornado aircraft rather than Soviet MIG 29s. She has also seen the comments by the Secretary of State for Trade and Industry, the Foreign and Commonwealth Secretary and the Chief Whip.

The issue came up in the Prime Minister's talk with King Hussein this morning. The Prime Minister said that we are examining ways in which a small initial order for Tornado might be financed. The King responded positively to this news and confirmed that purchase of Tornado would still be very much his preferred option.

The Prime Minister wants to discuss this further with colleagues directly concerned and we shall be getting in touch shortly to arrange a meeting.

I am sending copies of this minute to Robert Culshaw (Foreign and Commonwealth Office), Tim Walker (Department of Trade and Industry) and Jill Rutter (Chief Secretary's Office).

C D P

Charles Powell

11 September 1987

SECRET

004/2989

CCBkp
SA

CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 10 September 1987

PRIME MINISTER

TORNADOS FOR JORDAN

The minute of 8 September from the Minister of State (Defence Procurement) seeks agreement to an additional £50m ECGD credit support for Jordan in order that they might be encouraged to opt for BAe Tornado aircraft rather than Soviet MIG 29's. I recognise the political and strategic importance of maintaining our links with the Jordanians and the advantages of you giving King Hussein an assurance at your meeting with him on 11 September that we will consider urgently ways in which an initial order for Tornados might be financed. My support for this proposal is, however, on condition that there is no commitment to increase the Section 2 market limit for Jordan by the £50m proposed by MOD, or ECGD's contingent liabilities.

As recently as March this year, Ministers agreed an increase of £70m in the market limit, to £582m, in order to support the Aqaba Power Station project and a package of proposed defence sales. It was generally accepted that the Jordanian economy did not justify a market limit as high as £500m; for that reason £70m was transferred from the Algerian market limit. This was a novel expedient, which you endorsed at the time, in order to contain ECGD's contingent liabilities by offsetting the Jordan increase with an equivalent cutback in the potential exposure on similarly risky markets.

Although the increase in the price of oil has assisted the Jordanian economy indirectly by increasing the scope for Saudi Arabian aid, the economy continues to weaken steadily. There

has been no significant change in the economic outlook since the market review by the Export Guarantees Committee which preceded the Ministerial decision in March. A further increase in the market limit would not therefore be justified on normal economic criteria.

If colleagues agree that there are overwhelming political and strategic grounds for offering Tornados to Jordan, the offer of ECGD credit support should, in my view, be contained within the current market limit; if that is not possible then, in line with the earlier arrangement, there should be offsetting savings in one or more equally risky markets so that there is no increase in ECGD's contingent liabilities.

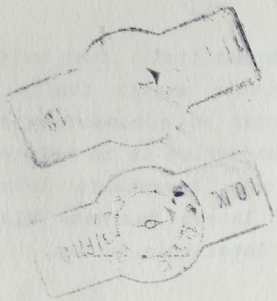
I understand that some £120m ECGD cover allocated to defence sales remains uncommitted within the Jordan market limit. I suggest that the Jordanians should be invited to consider reallocating the whole of that balance to provide support for the purchase of Tornados, which are clearly now their (and our) top priority. On that basis, in the current circumstances, I would be prepared, notwithstanding the advice on the economy, to agree a modest increase of some £20m, taking the limit to £600m. That is the most that I am prepared to concede. If MOD fail to secure support from other sources for the balance there should be no question of a further increase in the market limit beyond that point. If some £140m to £150m ECGD cover is allocated to Tornados there will be no cover available for further defence sales, particularly the substantial potential GKN contract for Warrior tanks to Jordan; similarly there will be no cover available for other than the initial sale of 8 Tornados. A further order for Tornados is clearly out of the question unless wholly-financed from other (eg Saudi) sources.

If MOD and ECGD wish to retain some flexibility within the market limit for other contracts under the defence allocation, I believe ECGD must find offsetting savings of the same amount from some other similarly risky market. John MacGregor made clear in his letter of 6 March to Paul Channon, when we agreed

to the transfer of cover to the Jordanian market limit, that unless it was possible to contain ECGD cover within market limits, a similar approach might be necessary in order to accommodate any further exceptional cases. The overriding objective is to maintain ECGD's overall contingent liabilities within acceptable levels - something which is emphasised in their latest Business Plan, which I shall be discussing with Alan Clark later this Autumn.

I am copying this minute to David Trefgarne, to OD colleagues and to Sir Robert Armstrong.

JOHN MAJOR



010.

SECRET

CC/C 5

PM/87/051

PRIME MINISTER

This seems a bit over the top. Obviously we must do our best: but our ability to give credit is not inexhaustible

Jordan: Tornado/Mig 29

1. I have seen the Minister of State for Defence Procurement's minute to you of 8 September and strongly endorse the case he makes for additional officially supported credit for a Tornado sale to Jordan.

2. In addition to the threats to our military relationship with Jordan, a MIG 29 purchase would significantly enhance the Soviet position in the Near East at the expense of the West. It could have serious implications in the longer term for the moderation of Jordan's policies which is so important for our own approach to the region. Failure to do all we can to help Jordan acquire British rather than Soviet aircraft would seriously erode King Hussein's confidence in the British connection and in his personal relationship with you.

3. Our immediate aim should be to ward off the danger of a precipitate deal with the Russians and to maintain Jordanian interest in a possible Tornado purchase when Saudi funds become available. There have recently been encouraging indications of renewed Saudi interest in this matter and both King Hussein and the Americans are considering new approaches to them about it. It is in my view essential that when you see King Hussein on 11 September you should be able to assure him that we are making every effort to provide an attractive alternative package so that he is not obliged to go Russian.

4. The Americans, like us, are very concerned at the prospect of the Russians gaining this foothold in the Jordanian Air Force. As a result the State Department has approached

/both

both ourselves and the French to consider ways of preempting the Russians with a Tornado or a Mirage deal. If the French now do a deal with Jordan, helped by the Americans and Saudis, this would undo much of the good, in terms of our continuing Middle East defence sales efforts, that was achieved by the 1985 Tornado contract with Saudi Arabia.

5. The approach suggested by David Trefgarne seems the best way forward. I recognise that additional ECGD-backed credit of the order he suggests would entail an increse in the credit limit for Jordan. I believe that we must be prepared to contemplate this; a substantial pump-priming contribution from HMG will be essential if we are to carry conviction in soliciting support from our partners and the Saudis for a Tornado sale.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
10 September 1987

Copy 1 of 8

SECRET

PRIME MINISTER

JORDAN:TORNADO/MiG 29

The minute from Lord Trefgarne of 8 September proposes that you offer at your meeting with King Hussein on Friday to consider ways of funding an initial purchase of Tornados by Jordan. While I would certainly not object to this I do feel that we have to be careful about implying any commitment to provide additional ECGD-backed financing for this business, beyond that which we have already offered for military purchases.

2 ECGD cover for Jordan is virtually exhausted and any further cover would require careful consideration in view of the Department's already large commitments on the market (almost £650m) and the uncertain prospects for the Jordanian economy. That is not to say that no increase in cover can be agreed. I would merely not wish to see at this stage a decision to commit any additional cover which might be provided to further defence business such as Tornados, which is a fairly distant prospect, which would have the effect of ruling out of consideration any of a number of civil contracts that could mature more quickly. I therefore suggest that while an offer could be made to King Hussein to consider financing Tornados, it would need to be made clear to him that we would propose to do so by diverting funds from the existing defence package under which I understand about £80m of finance, (excluding interest) is available. As Lord Trefgarne suggests we shall certainly need to seek the balance of the finance required from BAe and the banks

JG3BLZ

999-49

(without ECGD support), from the German and Italian partners in the Tornado project and possibly the Saudis. I must say that I am not at all optimistic that such financing will be available.

3 I understand that officials are giving priority to a review of ECGD cover arrangements for Jordan generally and this will obviously help us to determine whether some new cover might be made available for Tornados. However we must recognise that the amount of new cover likely to become available will at best be very limited and we shall need to consider very carefully whether this should be allocated to Tornado and thus effectively close the market to other exporters.

4 I would be very strongly opposed to any attempt to repeat the exercise when we last agreed an increase in cover for Jordan whereby an increase in the limit for Jordan was offset by a reduction in the limit for another country. ECGD country limits are not equivalent to cash limits in the accepted term and it appears to me entirely wrong to exercise portfolio management in this haphazard way, before a proper and workable system can be introduced.

5 Quite clearly this case yet again illustrates the need for better arrangements for dealing with large and difficult arms cases and I hope that the working group chaired by Cabinet Office can quickly come up with satisfactory solutions to this problem.

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

DY JG3BLZ

10 September 1987



SECRET

MINISTER OF STATE FOR DEFENCE PROCUREMENT

D/MIN(DP)/DGT/14/48/1

Prime Minister

CDP 8/9

PRIME MINISTER

JORDAN: TORNADO/MIG 29

In the Defence Secretary's absence I am writing to you and colleagues about the JIC report about the Jordanian negotiations with the Soviet Union concerning the possible purchase of the MIG 29. The JIC concludes that, if Jordan became convinced that it could not buy Tornado or Mirage 2000 on acceptable financial terms, and if the Russians offered an attractive technical and financial package, there is a serious possibility that Jordan would proceed with purchase of the MIG 29.

This would be a considerable setback for Western interests in Jordan. The closer contacts between the Jordanian and Soviet Military that would follow would inevitably have a deleterious longer term effect on our military relationship with Jordan and could be of strategic significance. We should also have to impose security constraints on the types of defence equipment we would be able to supply to Jordan in future, which in turn would drive Jordan further towards Soviet equipment.

HM Ambassador in Amman has discussed the report with both the Jordanian Commander in Chief and King Hussein. The King has confirmed that he would still very much prefer to purchase Tornado but he has now become convinced that the

/ Saudis ...

SECRET

Saudis are unlikely to provide the financial assistance which he was expecting in the volume or timescale required. He has concluded that Jordan will have to do what it can from its own resources to meet its urgent requirement for new air defence aircraft, beginning with a much smaller quantity than they would really wish. The Tornado is more expensive than the MIG 29 but since it has a more advanced radar, a viable initial capability can be provided by a smaller number of aircraft, say eight against the twelve to fifteen MIG 29 currently under discussion. The King has asked if credit could be made available on terms which Jordan could afford for a purchase of a small number of Tornados (though he would clearly hope that it would be possible for Jordan to purchase more aircraft later, perhaps with Saudi assistance).

We have previously ruled out the possibility of any sale of Tornado to Jordan unless it was financed by Saudi Arabia and we have certainly given Jordan no encouragement to think that we could make credit available for the forty or even twenty aircraft they have previously said they required. Indeed, given the state of the Jordanian economy and the extent of our existing lending to them, it is not even realistic to think that we should make available the further £400 million of officially supported credit necessary if we were to assume the whole burden for the sale of eight Tornados.

However, I believe that we must seek ways to dissuade the King from the MIG 29 and demonstrate a willingness to help him. And indeed it may be possible to finance a sale of eight Tornados with much less official support. The Jordanians have yet to commit finally the last £100 million or so of the £310 million credit which we have made available to them under previous agreements. If they now attach as much urgency to their aircraft requirement as we are led

/ to ...

to believe, they should be prepared to switch say £50 million to £70 million of this credit to Tornado. If we could supplement this with a further £50 million of ECGD backed credit and obtain support from British Aerospace, their sub-contractors and the City, we should have a basis on which to approach the Saudis, and also perhaps our German and Italian partners in Tornado, for the balance. We would be able to demonstrate that we were making a contribution ourselves and it might then prove possible to persuade the Saudis to assist with this (for them) relatively modest amount in some way or at least to provide guarantees for further loans to Jordan. We cannot at this stage be certain that it will prove possible to put together a package of this type but I judge that the chances will be greatly enhanced if we could agree to make available an extra £50 million officially supported credit. I should be grateful to know whether you and colleagues agree that this should be made available.

It will not be possible, given the consultations required, to reach a final position on this before your meeting with King Hussein on 11th September. But I suggest that in addition to warning him again of the dangers inherent in a purchase of MIG 29 and our regret if he felt obliged to go ahead, you might assure the King that we will examine urgently ways in which a small initial order for Tornado might be financed and ask him at least to hold his hand until we have been able to explore this fully.

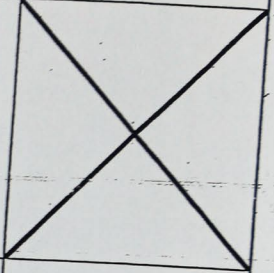
I am sending copies of this minute to OD colleagues and to Sir Robert Armstrong.

Yours ever,

Ministry of Defence
8 September 1987



The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2060 (one piece/item number)	Date and sign
Extract details: Minute from Cradock to Addison dated 24 August 1987	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	21/3/18
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
NUMBER NOT USED	
MISSING (TNA USE ONLY)	
DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 26/9/1(A)V

18th August 1987

Prime Minister (2)
MEA 19/8

Dear Charles,

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

The Prime Minister may wish to have a brief report on British defence sales performance in the second quarter of 1987.

In this period British industry formally reported defence export sales worth £601 million (including £136 million from 1986 contracts), higher than the corresponding figure in the second quarter of 1986. The major customers were NATO (22%), USA (12%), Indonesia and West Germany (both 7%); a list of the main contracts is attached at Annex A.

The UK's competitors have signed a number of significant contracts in the second quarter of 1987. These include the sale of Swedish Type 471 submarines to Australia ($2,400 million) for which both French and US companies received significant sub-contracts; US sales of Sikorsky Black Hawks to Australia ($200 million); French sale of a variety of defence equipment to Cyprus ($250 million); and the Spanish sale of ships to Morocco ($105 million). There were also fifteen other large contracts signed during the period where the values ranged between $10 million and $70 million.

The most substantial forthcoming British sales prospects include the following:

a. Middle East

A Saudi Arabian decision concerning the purchase of submarines (£5,000 million) is likely to be delayed for up to 12 months. The Challenger tank is now being trialled in-country, against competition from France, Brazil and the United States. Progress continues to be made towards agreement of the remaining Letters of Offer and Acceptance (LOA) in the Al Yamamah project, and we hope to sign all

Charles Powell Esq
No 10 Downing Street

outstanding LOAs during the current financial year. In Jordan a £40 million supplement to the 1985 MOU has been signed, opening the way for further defence contracts. Other Jordanian opportunities include the Tornado, which depends upon as yet unconfirmed Saudi finance, and the Warrior, which GKN will demonstrate locally during the late summer. Westland has embarked on a Black Hawk sales tour in UAE, Kuwait, Qatar, Bahrain and Oman this month. Abu Dhabi has now signed the contract with Bertlin (£24 million) to design the Al Taweela naval base.

b. Europe

A decision is expected shortly in Turkey on the purchase of an armoured personnel carrier (£400 million) for which the Warrior is competing (as you know, an increase in the credit provided by HMG has been recently agreed). A final decision on the transfer of technology for the Light Combat Aircraft for Yugoslavia still has to be made, with a paper setting out the issues currently being considered by Ministers. Spain is expected to decide upon a new minehunter ship design in the next three months; Vosper Thornycroft and Intermarine of Italy are the main contenders. In Greece, the competition for the frigate has been re-opened to allow consideration of a number of new bidders. This is expected to delay a procurement decision until 1988, with both Vosper Thornycroft and Yarrow's offers being considered.

c. America

In the United States, a Rockwell/Marconi team are awaiting a final contract for full scale engineering development of a new shipborne communications system initially valued at £130 million, with a total programme value of £2,500 million. The US Navy has also purchased a 30 mm gun mount from Defence Systems and Equipment Ltd for trials in mid-1988, to meet a requirement for up to 300 mounts (£100 million). The US Army are currently trialling the Tracked Rapier, along with three other European competitors, to meet a need for 160 systems for deployment in Europe (£730 million). EH Industries have just been awarded a £10 million preliminary design contract by Canada, for the EH 101 helicopter. ECGD support for the sale of Lynx to Brazil is still under consideration by Ministers. In Chile the order for helicopters is likely to go to Aerospatiale of France, but the agreement to ECGD support for the Seawolf missile sale (£85 million) has increased the chances of success, and a decision is due soon.

d. Australasia and the Far East

Australia (and New Zealand) are continuing their evaluation of the proposals submitted for the new surface combatant (£2,000 million), with Yarrow and Vosper Thornycroft still in the running. Plessey received a £24 million contract for the Raven radio during this quarter. A Singaporean Navy team is to visit UK industry and the Royal Navy to discuss their requirements for mine countermeasures vessels (£200 million). Brunei has decided in principle to expand her armed forces' capabilities, and the MOD offer of assistance in this procurement programme is still under consideration. Agreement has been reached on the sales agreement and MOU for the sale of six ex-RN Wasp helicopters to Malaysia (£2 million), for which final signature should take place in the next few months. This is seen as an important sale as it could lead to the future selection of the Westland Lynx. The Malaysian Government have given the Army approval to purchase a 155 mm Howitzer; VSEL are a leading contender for this sale (£15 million), on which a decision is expected before the end of 1987. Progress in India is still slow pending the outcome of the investigation into the contracts awarded to Bofors for howitzers and to HDW of West Germany for submarines. But British Aerospace has received a £6 million contract for an aircraft simulator. The Indian Government has decreed that agents may not be used in defence business; the DESO and British industry are looking at ways to overcome the resulting problems. The first batch of Javelins for South Korea has been delivered, and Shorts are well placed to secure a contract for a second tranche; intense competition is expected from the United States. Promotion of the Lynx in South Korea is continuing; there is a naval requirement for up to 34 helicopters. Following the recent DESO visit to South Korea a general sales MOU is now being drafted. The Pakistani Government were due to make a decision on the frigate acquisition by end-June, but were prevented as a result of internal budgeting difficulties. A decision is expected in the near future.

e. Africa

Difficulties have arisen on the one major defence contract in Algeria - won by Baxter Fell in 1984 for barracks for the Gendarmerie - caused by escalating costs. Negotiations are in progress with a view to Tarmac taking over the contract. During his State visit, King Hassan of Morocco expressed interest in acquiring British defence equipment, particularly offshore patrol boats and the Defender AEW aircraft; there is also a possibility of a sale of Vickers tanks, although it has been reported that the United States has sold some second-hand tanks to meet this requirement. Following the

King's visit, the Vice Chief of Defence Staff will be visiting the country later this year. Zimbabwe has not made a final decision on the purchase of equipment to meet their air defence requirement.

I am sending copies of this letter to Lyn Parker (FCO), Jonathan Taylor (HM Treasury), Paul Steeples (DTI) and to Trevor Woolley (Cabinet Office).

Yours sincerely

(D C J BALL)
Private Secretary

ANNEX A

APRIL - JUNE 1987: MAIN CONTRACTS

- British Aerospace satellites to NATO (£100M)
- IHG operation and management of King Khalid Hospital in Saudi Arabia (£25M)
- Bertlin & Partners design contract for Al Taweela naval base in UAE (£24M)
- Plessey radios to Australia (£24M)
- Racal radios to Iraq (£21M)
- Rolls Royce Adour engines to USA (£17M)
- Racal ESM equipment to West Germany (£13M)
- HMS Fife to Chile (£12M)
- Racal radios to Mexico (£10M)

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2060 (one piece/item number)	Date and sign
Extract details: Minute from Cradock to Powell dated 6 August 1987	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	21/3/14
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
NUMBER NOT USED	
MISSING (TNA USE ONLY)	
DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

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

6 August 1987

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1P 3AG

CDP
6/8.

Dear John,

WARRIOR FOR TURKEY

Thank you for your letter of 23 July concerning ECGD cover for the GKN Warriors for Turkey.

I am disappointed that you were unable to accept my proposal that cover should be given outside the market limit pending a full market review. I am concerned that we are in danger of letting what may be a short term wobble in the Turkish economy jeopardise UK exporters' longer term prospects for obtaining worthwhile and profitable business in this fast growing and important market. As I have said before, the credit insurers of all other major countries and the multilateral institutions seem to take an optimistic view of the longer-term prospects for the Turkish economy. Moreover, ECGD's Advisory Council of Businessmen and Bankers have in the past few weeks signified their willingness to see the grading of Turkey improved from D to C and to increase the Section 1 medium-term limit from £10m to £50m. ECGD believe that Turkish business is unlikely to involve them in net cost because if Turkey does run into payment problems it can confidently be expected to qualify for a debt refinancing operation at market interest rates, and experience has shown that Turkey has honoured the terms of its debt rescheduling agreements.

JG3BHQ

You have proposed that ECGD should operate within a limit of £660m and that, to avoid having to withdraw existing indications of cover for other important business, ad hoc consideration should be given to any case for which a firm commitment to cover is necessary because the business concerned is likely to come to fruition. ECGD will, therefore, continue to give indications of cover on a first come, first served basis for new applications, subject to EGC clearance as necessary. While this should be manageable in the short run, it is not something with which ECGD can live for any long period of time because they cannot properly encourage exporters to incur the costs of continuing to pursue business when there is no reasonable probability that cover will be available if their efforts are successful. You will appreciate that, if we reached a situation where EGCD had to refuse to give indications or reservations on the grounds that the availability of cover had been exhausted, this would be read as a signal that HMG had lost confidence in the Turkish economy. I do not think we ought to allow such a situation, with all its possibilities for political repercussions, to develop without full and careful consideration.

I am therefore instructing ECGD to prepare a full market review to be submitted to EGC at the latest by the end of August. Officials and if necessary Ministers will then have to take firm decisions on whether we wish to maintain a stake in this increasingly important market or surrender it to our competitors.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger and Sir Robert Armstrong.

Yours,
David

LORD YOUNG OF GRAFFHAM

JG3BHQ

CONFIDENTIAL

CCPC (1)

Prime Minister
This will probably be quite a major story. ITN already ran it at 12.30
CDP 5/8

I heard it all on radio. MJ

Treasury Chambers, Parliament Street, SW1P 3AG

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1A 2AA

5 August 1987

Dear Charles

ILLEGAL ARMS EXPORTS TO IRAN

You may wish to know about the latest developments in this area.

Colin Baker, a reporter for ITN, has been investigating the UK operations and personnel of DBI, whose sales manager is under arrest in the USA and whose company secretary has been indicted in absentia for their part in alleged illegal exports of military equipment to Iran (see paragraph 6 of my letter of 26 May). Both men are UK citizens and this has prompted Baker's interest.

In the course of his enquiries, Baker has discovered the involvement of three of the companies (including DBI) who are currently under investigation by Customs and Excise. In addition, probably resulting from a visit to Aer Lingus (whom Customs have also visited), he is aware that Customs investigations are taking place on some scale.

Customs officials met Baker on 3 August, at his invitation, as he wished to confirm that Customs enquiries were taking place in relation to exports of military equipment to Iran. In the light of legal advice, Customs provided the following quote: "We are conducting wide-ranging enquiries into this area but cannot confirm or deny that any particular company has been visited by our officers". Baker offered to supply copies of material which he has gathered to assist Customs with their enquiries. He also stated that he would not broadcast any material which would harm Customs investigations. The report is due to be screened in the first part of "News at Ten" tonight. It will indicate that UK firms have been involved in the export of military equipment to Iran. Although it will concentrate on a small number of UK companies, it may well suggest that the scope of illegal

exports is substantially greater and that the Iranian military procurement office in 4 Victoria Street are involved. This seems likely to give rise to renewed media interest in the subject. The attached revisions to the briefing line have been agreed between Customs and FCO (who, along with DTI, have been kept fully in the picture).

I am copying this letter to Kim Darroch (FCO), Steven Phillips (DTI), Crispin Hain-Cole (MOD) and Trevor Woolley (Sir Robert Armstrong's Office).

Yours ever

Simon.

S P JUDGE
Private Secretary

BRIEFING LINE

Q1 Are investigations taking place into illegal exports to Iran or Iraq?

A1 Where allegations of breaches of controls are brought to the attention of HM Customs and Excise they investigate them. Several investigations are taking place at the present time.

Q2 Whom are Customs and Excise investigating?

A2 It is not Customs' practice to reveal whom they are investigating.

Q3 Are Customs and Excise investigating the Iranian military procurement offices at 4 Victoria Street?

A3 It is not Customs' practice to reveal whom they are investigating.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 6/12E

3rd August 1987

Dear David,

WARRIOR FOR TURKEY

I have seen the correspondence between you and the Chief Secretary ending with his letter of 23rd July on the question of how the £200M section 2 cover for GKN's bid in Turkey is to be handled.

Quite apart from its commercial value, I believe that the sale of Warrior to Turkey would be a major step in improving the relations between the two countries and their armed forces, which we have been trying to build up slowly over the years. The political importance of the sale was emphasised by the Prime Minister in her recent letter to Mr Ozal. Having done so much to secure political goodwill by agreeing to the £200M cover, it seems to me to make little sense to negate those efforts through indicating our lack of faith in Turkey by suspending cover for other projects.

I therefore share your concern and hope that we shall be able to maintain an open position on the indications which have already been

The Rt Hon Lord Young of Graffham

given, and that it will be possible to consider sympathetically new projects within the existing £70M DML ceiling for each.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, John Major and Sir Robert Armstrong.

Yours ever,

George

George Younger