


TOP SECRET

10 DOWNING STREET

THIS FILE MUST NOT GO OUTSIDE 10 DOWNING ST

FILE TITLE: <i>Defence Sales</i>		SERIES
		<i>DEFENCE</i>
		PART: <i>10</i>
PART BEGINS: <i>1 FEBRUARY 1988</i>	PART ENDS: <i>31 JULY 1988.</i>	CAB ONE: 

PREM 19/2061

TOP SECRET

PART

CLOSED

CONFIDENTIAL

CP



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

MO 6/17/3L

27th July 1988

Dear Andy,

TORNADO FOR KUWAIT

att/af- The Prime Minister will recall our efforts to interest the Kuwaitis in a purchase of Tornado. The Prime Minister mentioned it briefly to Shaikh Sa'ad, during his visit to London en route to the United States in March, and the Defence Secretary discussed it with his counterpart Shaikh Nawwaf, on his visit to Kuwait earlier this month.

The Kuwaitis have expressed a preference for the US F18 and put in a request for 40 aircraft. The Senate has however for the time being opposed the supply to Kuwait of the Maverick missile, the main armament of the aircraft. Shaikh Nawwaf told Mr Younger that the Kuwaitis would not take F18 without Maverick and we have now received reports from Kuwait that American suggestions to Shaikh Sa'ad during his visit that Kuwait should take the aircraft only have been rebuffed.

Mr Younger believes accordingly that the present time is ideal for a return to the charge. He believes that the best approach would be for the Prime Minister to write to Shaikh Sa'ad reiterating the willingness of the United Kingdom to supply Tornado. I attach a draft letter, which I would be grateful if you could forward to the Prime Minister's party.

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

Yours sincerely
John Colston.

(J P COLSTON)
Private Secretary

A Bearpark Esq
No 10 Downing Street

CONFIDENTIAL

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DRAFT LETTER FROM THE PRIME MINISTER TO THE PRIME MINISTER OF KUWAIT
(HIS HIGHNESS SHAIKH SA'AD AL ABDULLAH AL SALIM AL SABAH KCMG)

I last wrote to you on 7th July 1988 when you were in London on your way to the United States. I was sorry we were not able to meet on that occasion but I very much hope that you had a most enjoyable visit there.

I know that my Secretary of State for Defence, George Younger, had discussions with Shaikh Nawwaf in Kuwait recently about the possibility of our supplying Tornado should it be considered that this would meet Kuwaiti needs, and I recall briefly discussing this topic with you in London in March. I should just like to confirm to you that the United Kingdom stands ready to enter into further discussions about the supply of this aircraft to Kuwait if and when you wish to do so.

I am sure that you will not be surprised when I say that we consider the Tornado second to none in its class; we have of course entrusted the air defence of the United Kingdom to it and the Royal Air Force is delighted with it.

CONFIDENTIAL

KUWAIT: Relations Oct 10



CONFIDENTIAL

CCP



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

MO 6/19/15L

28 July 1988

Dear Charles,

*Latest exchange at Hq +
Leprie
Steve*

SALE OF TORNADO IDS TO JORDAN

You will recall the difficulties over the availability of credit for the German and Italian workshares which have been preventing the satisfactory conclusion of the sale of Tornado to Jordan.

At Toronto, Signor de Mita told the Prime Minister that Italy supported the sale and the Italian Defence Minister has subsequently confirmed that approval has now been given. However a formal export licence is required before SACE, the Italian credit agency, can confirm the availability of credit and the terms for the Italian workshare. A number of Italian Government Departments have to process the paperwork for this. We understand, however, that while the Italian Ministry of Defence should be in a position to take their action within the next few days, this is not the case for other Ministries. Our Embassy in Rome advise that the process could take months and that the only method of speeding things up is for the Prime Minister to write to Signor de Mita.

The Jordanians have given us only until 15th August to resolve the credit arrangements and it is therefore imperative that we press the Italians for urgent action. I therefore attach a draft letter that the Prime Minister might send to Signor de Mita.

Copies of this letter go to Bob Peirce (Foreign and Commonwealth Office), Jill Rutter (Treasury), Jeremy Godfrey (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

*Yours sincerely,
Bria Hawtin*

(B R HAWTIN)
Private Secretary

Charles Powell Esq
10 Downing Street

CONFIDENTIAL

CONFIDENTIAL

DRAFT LETTER FROM PRIME MINISTER TO SIGNOR De MITA

SALE OF TORNADO IDS TO JORDAN

You will recall that when we met in Toronto we discussed the sale of the Tornado IDS aircraft to Jordan. I was very grateful for your positive response and for the subsequent confirmation that your Government had approved the sale.

We now need to make very rapid progress to complete the necessary formalities. Jordan is anxious to sign contract documents by 15th August and we have made special efforts to ensure that all the approvals necessary here are issued in time. As you know, the German Government has now also approved the sale on 29th June. I very much hope that you can issue instructions to ensure that all the necessary documentation from your various Government Departments is issued as soon as possible to enable SACE to confirm their credit terms before 15th August.

I know that you will agree that we should do everything we can to ensure that this sale is not put at risk through delays in completing the necessary procedures for its formal approval and for the provision of the essential finance. I would be most grateful for your assistance in bringing these matters to a successful and speedy conclusion.

CONFIDENTIAL

DEFENCE: *Sal, 17/10*

DEAR LETTER FROM PRIME MINISTER TO SIGNOR DE MITA

STATE OF JORDAN IS TO JORDAN

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completing the necessary procedures for the formal approval and for
the provision of the essential finance. I would be most grateful for
your assistance in bringing these matters to a successful and speedy
conclusion.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

CDP
27/7

27 July 1988

Dear Charles

MALAYSIAN DEFENCE PACKAGE

The Chief Secretary has seen Bob Peirce's letter of 22 July and is content with the proposed draft. He trusts that the Prime Minister's support will enable this deal to be clinched. flap

I am copying this letter to Bob Peirce (FCO), Neil Thornton (DTI) and Brian Hawtin (MOD).

Yours

Carys Evans

MISS C EVANS
Private Secretary

CONFIDENTIAL



cc/c
①

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218 2111/3

MO 6/17/7L

25 July 1988

Dear John,

Ria Minister
Agree with the
 defence secretary's
 views? CBP 25/7.

TORNADO FOR JORDAN

In your letter of ^{13th} June you expressed concern, not only about the cost of any further official credit support for the sale of Tornado to Jordan, but also about the open-ended nature of the commitment in the absence of a clear indication of the amount of support likely to be forthcoming from Germany and Italy.

Matters have moved on since then and I believe we must now face up to decisions on whether and how much additional support the United Kingdom is prepared to provide in a final effort to secure this strategically important sale. Otherwise we run a serious risk that after the further three weeks which they have agreed to give us to put together a financial package, the Jordanians will turn to the French (if they can provide more credit beyond that of the 12 Mirages Jordan has ordered from them which is unlikely) or to the Russians, for the Interdictor aircraft they need.

Since I wrote on 9th June, the FRG have given political approval for the sale but decided not to grant any official credit support as a matter of principle for a sale outside the NATO area. This is most disappointing and unhelpful and I shall need to ask the Prime Minister to consider returning to the charge with Chancellor Kohl, since it is important for our co-operation on EFA as well as Tornado that the Germans modify their policy. It is unrealistic, however, to

The Rt Hon John Major MP

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expect the FRG Government to reverse its policy in the three weeks we have remaining if we are to keep the Jordanian interest in Tornado alive.

There is some commercial credit available for the German workshare which will cover the first 8 years of the total 15 years horizon. ECGD calculate that this equates to about 45% of the DML, for a 15 year financing on parallel terms to the UK workshare, leaving a shortfall on the DML for the German workshare of £126 million. While I believe we can probably persuade the German parties to improve somewhat on this offer, and therefore we may not in the event need to underwrite the whole of this sum, we must recognise that some official support from the UK, in the absence of anything from the German Government, will be needed to bridge the gap and encourage the German banks and industry to move from their present position.

In the Italian case we still have no formal confirmation of the amount of support that might be available, although statements made by Italian Ministers give us confidence that appropriate support will be forthcoming. The problem is one of timing since the Italian bureaucracy is exceedingly slow and I fear that we shall not have all the details tied up in the time we have left to finalise the contract with the Jordanians.

Against this background, I believe we must now take a decision on the fall-back position I was seeking in my letter of 9th June. Given that all along our willingness to support this sale has been conditional on a risk-sharing arrangement with the British private sector, I consider we should rule out doing anything more for the German and Italian content than the 55% cover we are doing for the UK element. In the worst case the additional ECGD liability (55% for the German and Italian shares) would amount to £174 million (making £528 million for the sale as a whole) and I would again ask for your



agreement to this and to lift the Treasury reservation on early signature of the Sales Agreement which is important to maintain both customer and supplier confidence while we finalise the financial arrangements. However, while we need to cover this worst case as a framework for negotiations I would emphasise that I remain confident that the £48 million within it which relates to the Italian element will not be needed at all and that an offer of some support for the German element will encourage the German banks and industry to do better than the 45% they are offering to cover at present, thus reducing the maximum liability still further. Unfortunately, we cannot as yet be certain by how much. All these figures are based on the exchange rate of £1 = DM3.18 used in earlier correspondence, but I hope you will agree that any figure agreed can be adjusted as necessary to accommodate changes in the DM exchange rate.

Even then it is not certain that we will be able to offer terms that the Jordanians will find acceptable. For instance there will be no interest make up available on the German share. But I believe we will have a good fighting chance of striking a deal with the Jordanians, and if we cannot, at least we will have demonstrated that we have done all that can be reasonably expected of the UK and the blame will fall squarely on German shoulders.

We are meeting with colleagues on 26th July to discuss arrangements for the administration of the £1 billion special credit facility for arms sales and I hope we can use that opportunity to formalise our agreement on this matter too.

Copies of this letter go to the Prime Minister, Sir Geoffrey Howe, Lord Young and to Sir Robin Butler.

Yours ever,
George Younger

DEFENCE: Sales Pro



agreement to this end to lift the pressure on the...
of the Sales Agreement which...
and similar confidence will...
However, while we need...
I would... I remain confident...
that the 112 million within it which... to the Italian element...
will not be needed at all and that as other... support for the...
German element will encourage the German bank and industry to do...
rather than the 125 they are offering to cover...
reducing the maximum liability will further...
cannot be set be certain by how much. All these figures are based on...
the exchange rate of 11 = 100,10 and in earlier correspondence, but...
I hope you will agree that any larger spread can be absorbed...
necessity to accommodate changes in the UK exchange rate.

Even then it is not certain that we will be able to offer...
that the conditions will find acceptable. For instance there will...
no interest rate up available on the German market, but I believe we...
will have a good fighting chance of striking a deal with the...
Germans, and if we cannot, at least we will have demonstrated that...
we have done all that can be reasonably expected of the UK and the...
plans will fall squarely on German shoulders.

As you meeting with colleagues on 12th July to discuss...
arrangements for the administration of the 11 billion credit...
facility for your sales and I hope we cannot that opportunity to...
finalize our agreement on this matter.

Copies of this letter go to the Prime Minister, Sir Geoffrey...
Hear, Lord Young and to Sir Robin Butler.

George Young
George Young

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 July 1988

MALAYSIAN DEFENCE PACKAGE

Thank you for your letter of 22 July about the offer which we have made to the Malaysians on aid. I have consulted the Prime Minister who agrees that our High Commissioner should write to the Malaysian Finance Minister in the terms proposed in the enclosure to your letter. I think she would also agree that the Malaysians should be given the clear impression that this is as far as we can go (although I have to say that I do not believe that she would absolutely rule out some further concession at the end of the day).

I am copying this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Jill Rutter (Chief Secretary's Office).

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

Then we
shall have to
accept

Rina Newton

the first
option
not

If we are to step
up the amount of
ATP, it will have
to be new money.

We cannot squeeze any
more for Malaysia out
of existing funds.

Agree to ask the
Treasury to find new
money?

CDP 23/7.

PRIME MINISTER

MALAYSIAN DEFENCE PACKAGE

We have offered the Malaysians £200 million, made up of £70 million ATP and £130 million extra ECGD cover.

They have come back expressing disappointment that it is not £200 million grant. This just is not on.

Officials have looked at the problem again. They see no way to increase the ATP element now. But they have followed up a suggestion of mine that we might send the Malaysians a further letter saying that if the sums already promised are used "we would be prepared to consider sympathetically the possibility of providing additional financial support". This might do the trick: but equally it may not be enough.

Yes Agree to try this on the Malaysians? *Yes*

Or

Prefer to increase the ATP element from £70 million to say £100 million? (But in that event, I think you would have to instruct that new money be found - not all of it in one year of course.)

Would prefer the £100 million

C.D.P?

no

(C. D. POWELL)

22 July 1988

CEP



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

22 July 1988

Dear Charles

Malaysian Defence Package

In your letter of 14 July you asked us to consider whether there was any room for further flexibility in the offer which we have made to the Malaysians on aid.

Officials from the Ministry of Defence, DTI, ECGD, Treasury and the two wings of the FCO discussed this at a meeting under FCO chairmanship on 18 July. They first considered whether the Malaysians' desire for £200 million in grant might be met without recourse to the aid budget, eg. through subsidies from the defence budget or discounts by manufacturers. The Ministry of Defence made it clear that the Defence Budget could not be used to subsidise defence exports and the manufacturers would not be in a position to offer discounts. It would also be very difficult to convince the Malaysians that any discount which was offered represented a genuine concession, in addition to the reduction which they would in any case expect during the detailed price negotiations.

Officials then considered whether the sum offered to the Malaysians (a total of £200 million made up of £70 million ATP and £130 million normal ECGD cover) could be improved. They concluded that it could not, on a number of grounds. First, the commitment already given involves a substantial and disproportionate allocation of the ATP budget to a relatively affluent country. There could be no increase in the aid budget to permit additional ATP for Malaysia nor any increase in ECGD's market limit. Secondly, any further substantive concession to the Malaysians would make it more difficult to deny (in the House of Commons or elsewhere) the linkage between the defence package and aid which we have succeeded in breaking. Thirdly, to specify a higher figure now might encourage the Malaysians to put forward projects which might otherwise be financed on commercial terms. Finally, an increase in our offer so soon after we had made it clear to the Malaysians that it was the best we could do might suggest to the Malaysians that more could be wrung out of us if further pressure was applied.

/Officials

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Officials nevertheless agreed that a formula along the lines of that in the penultimate paragraph of your letter could be put to the Malaysians and might be acceptable to them if they were looking for a face-saver. I enclose a draft passage which might be incorporated in a letter from our High Commissioner to the Malaysian Finance Minister in response to his of 6 July. The Foreign Secretary would be content to proceed on this basis. I should be grateful to know whether the Prime Minister and other Ministers agree.

If it is agreed tht we should respond in this way, the Foreign Secretary believes that it will be very important to make it clear to the Malaysians that this is as far as we can go, and that there would be nothing to be gained from seeking further concessins during the Prime Minister's visit to Kuala Lumpur on 6 August. He suggests that when our High Commissioner delivers the message, Mr Spreckley should be instructed to make it clear that the Prime Minister has seen and agreed the wording of his communication. We would speak similarly to the new Malaysian High Commissioner here, who appears to have good lines of communication to Dr Mahathir.

I am copying this letter to Brian Hawtin (MOD), Neil Thornton (DTI) and Jill Rutter (Chief Secretary's Office).

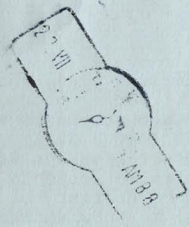
Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

REFERENCE: Sello 1910





"As I explained in my letter of 28 June the British Government believe that there are possibilities for enhanced cooperation between our two countries in areas relating to the development of Malaysia. The figure of £200 million of support for contracts to which I referred was based on an assessment of the opportunities for project business over the next few years which we have so far been able to identify. If good progress is made in the utilisation of this support, and if subsequently the Malaysian Government puts forward further eligible projects, we would be prepared to consider sympathetically the possibility of providing additional financial support."

for them

FROM: THE RT. HON. THE LORD CHALFONT O.B.E. M.C. P.C.

②



Prime Minister

CDP
25/7

65 ASHLEY GARDENS
WESTMINSTER
LONDON SW1P 1QG
01-634 5485

21st July 1988

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1A 2AA

Dear Prime Minister

Thank you for your very full reply, dated 16th July, to my letter of 11th July about the Canadian submarine programme. It was kind of you to take so much trouble and everyone at VSEL is extremely grateful for your interest and support.

With best wishes.

Yours sincerely

Alan Chalfont

mt

010
EMBASSY OF THE FEDERAL
REPUBLIC OF GERMANY
Chargé d Affaires a.i.
Helmut Wegner

London, 20 July 1988

CDP
21/7

010
Already T.
CPC
Dear Prime Minister,

I have the honour to transmit the enclosed original message of Herr Helmut Kohl, Chancellor of the Federal Republic of Germany, which has already been submitted to you on July 13, 1988.

A courtesy translation is attached.

To you, dear Prime Minister
Yours sincerely,
Wegner.

Her Excellency
The Rt. Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
L o n d o n

010

ccjk

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

July 20, 1988

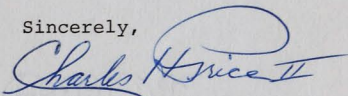
CS 27 vii

Dear Prime Minister:

The President has asked me to deliver to you the text of his letter of July 18th, which was received by the Embassy this morning. As soon as the signed original arrives at the Embassy, I will see that it is delivered to you as well.

With best wishes.

Sincerely,



Charles H. Price, II
Ambassador

Enclosure: SECRET

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



SECRET

file the 3A
cdi PC.

10 DOWNING STREET
LONDON SW1A 2AA

20 July 1988

From the Private Secretary

TORNADO FOR SAUDI ARABIA

I enclose a copy of President Reagan's reply to the Prime Minister's recent message about the sale of Tornado and other defence equipment to Saudi Arabia. As you will see, the President suggests official level contacts in due course on a number of matters associated with the proposed sales.

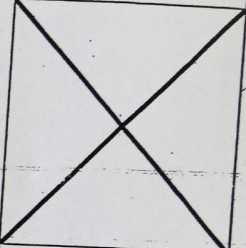
I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET

A The National Archives

DEPARTMENT/SERIES	PREM 19	Date and sign
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Extract details:	minutes from Craddock to Powell dated 19 July 1988	
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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.



ede

'T' below

THE WHITE HOUSE
WASHINGTON

EDD
25/7

July 18, 1988

Dear Margaret:

at Map

Thank you for personally bringing to my attention your government's proposed sale of military equipment and services to Saudi Arabia. We share your concern that Saudi Arabia's legitimate defense needs be met and that we build a healthy defense supply relationship between moderate states in the region and the West.

Although our first preference would have been to make additional sales ourselves, you can be assured that I will support arms transfers that serve our mutual interests in that troubled part of the world. You are aware of our interest in maintaining stability in the region and of the bipartisan commitment that exists in the United States to maintaining Israel's qualitative edge over potential adversaries. As your sales program progresses, we would like to discuss your views on how these systems will contribute to regional stability, and assurances you might seek to prevent unauthorized use or transfer of these systems.

I have instructed the appropriate U.S. Government agencies to work with your government as well as Congress to ensure that all necessary procedures and requirements are met to permit the inclusion of U.S. equipment and technology in the proposed sales.

Sincerely,

Ron

The Right Honorable
Margaret Thatcher, M.P.,
Prime Minister,
London

DEFENCE: Sales

A



THE WHITE HOUSE

WASHINGTON

Faint, mostly illegible typed text, likely the body of a letter or memorandum.

Sincerely,

[Handwritten signature]



Red inked markings or stamps at the bottom left of the page.

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. 114/88

SECRET

214/88 30.
CDP
2074.
mt

July 18, 1988

SUBJECT
ce MASTER OPS.

Dear Margaret:

Thank you for personally bringing to my attention your Government's proposed sale of military equipment and services to Saudi Arabia. We share your concern that Saudi Arabia's legitimate defense needs be met and that we build a healthy defense supply relationship between moderate states in the region and the West.

Although our first preference would have been to make additional sales, you can be assured that I will support arms transfers that serve our mutual interests in that troubled part of the world. You are aware of our interest in maintaining stability in the region and of the bipartisan commitment that exists in the United States to maintaining Israel's qualitative edge over potential adversaries. As your sales program progresses, we would like to discuss your views on how these systems will contribute to regional stability, and assurances you might seek to prevent unauthorized use or transfer of these systems.

I have instructed the appropriate U.S. Government agencies to work with your Government as well as Congress to ensure that all necessary procedures and requirements are met to permit the inclusion of U.S. equipment and technology in the proposed sales.

Sincerely,

/S/Ron

Ronald Reagan

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

SECRET US Declassified

CONFIDENTIAL

KK

File



cc: MOD
FCO
BTN

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

15 July 1988

Dear Lord Chalfont,

Thank you for your letter of 11 July about the Canadian nuclear submarine programme. I have also seen Rodney Leach's letter of 13 July. I entirely share your view about the importance of the United Kingdom winning this competition. For that reason, I intervened directly with President Reagan to ensure that the US Administration would agree to propose to Congress the legislative amendments necessary to allow our bid to go ahead (despite the considerable reservations of many senior US officials). I also spoke very forcefully in support of our bid to Mr. Mulroney only three weeks ago.

I therefore fully understand your anxiety to ensure that our offer is as competitive as possible. However, our own assessment of the situation, based on close contacts with Canadian Ministers and senior officials, does not entirely accord with yours or that of Mr. Leach. We are, of course, fully aware that the Canadians are not entirely happy with the position on the three issues that you mention. But the conditions contained in our MOU were agreed with the Canadians after long and painstaking negotiations and subsequently accepted by the Defence Minister, Mr. Beatty. They were then the subject of further detailed negotiations with the Americans in the context of the amendments to the 1959 Agreement, and again agreed by the Canadian side. There is thus no basis for claiming they will be unacceptable to the Canadian Cabinet. Nor should we assume that without movement on these issues we have definitely lost to France.

CONFIDENTIAL

DBF

The programme has yet to be considered by Canadian Ministers collectively (I understand that the meeting this weekend will consider only the timing of the decision and not its substance) and in reaching their conclusions they will have to take into account a whole range of technical, financial and political factors.

That said, naturally I accept that our position on these three issues will not be helpful to our bid. But there were very good national reasons for adopting the position we have on each of them. Moreover, even if we were prepared to re-open any of them (and, while Admiral Anderson would no doubt like to squeeze a few more concessions out of us, arguably to do so at this very late stage would do little for the credibility of our position) we would still have to convince the Americans. The President's decision was taken on the basis of the terms of the MOU agreed between ourselves and the Canadians. To try to change the basis of this decision (which would incidentally mean allowing the Canadians terms less demanding than we were required by the Americans to accept when we started our programme) would, I believe, be totally unacceptable in Washington.

We shall, of course, keep in very close touch with developments in Ottawa. But with the relevant Canadian Cabinet Committee about to meet, I think there would be nothing further to be gained by my speaking again to Mr. Mulroney, and that therefore there would be no particular value in our meeting at this stage. As I made clear to Mr. Mulroney, the Trafalgar class is undoubtedly technically superior to the French contender in almost all respects; we must hope that this is the factor that will ultimately carry the day.

Yours sincerely
Raymond Chalfont

The Rt. Hon. The Lord Chalfont, O.B.E., M.C.

CONFIDENTIAL

cc:JC



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

MO 14/6/1L

14 July 1988

Dear Charles,

SALE OF NUCLEAR POWERED SUBMARINES TO CANADA

In your letter of 11 July, you asked for advice and a draft reply to Lord Chalfont's letter to the Prime Minister of 11th July. Your letter of 13th July subsequently asked me to take account of the letter from Mr Rodney Leach.

Based on our own reports from Ottawa, we believe that VSEL may well be over-reacting, largely on the basis of a conversation between their Canadian Director and Admiral Anderson who leads the Canadian Project Team. (Admiral Anderson is, you will note, also the interlocutor behind Mr Leach's letter). There is no doubt that the three issues listed in Lord Chalfont's letter are ones on which the Canadians are not entirely satisfied with the compromises agreed in our negotiations on the MOU. But they are only one element of a range of technical, financial and political factors which the Canadians will have to take into account in reaching their final decision.

On the basis of our latest information - and the High Commission have kept very closely in touch with Canadian Ministers and senior officials - it is decidedly premature to assume that we have lost to the French. The subject has yet to be considered by Canadian Ministers collectively, and the final decision will undoubtedly be heavily influenced by political factors (not least the general attitude of the US Administration and the problem of Congressional approval). We understand that the meeting this weekend (and to which Mr Leach also draws attention) is to decide whether or not to postpone the decision until after the Canadian election; they will not be addressing the choice between the British and French boats. If they agree to keep to the original timetable, the relevant papers will be submitted separately to the Committees concerned. On the evidence available, we do not believe that this meeting gives grounds for thinking that Mr Mulroney's assurance to the Prime Minister will not be honoured.

As to the substance of the three points raised by Lord Chalfont, it is misleading to suggest that the conditions involved will be

CD Powell Esq
10 Downing Street

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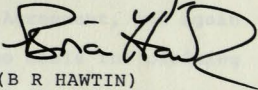


regarded as unacceptable by the Canadian Cabinet. On each of them we reached a compromise solution, agreed with the Canadians, following very lengthy discussions during the MOU negotiations. In turn they debated the issues with the Americans in the context of the necessary amendments to the 1959 Canada/US Agreement, and again reached agreement.

There is no doubt that these are the points on which the Canadians are least happy with our position, but this does not mean that they will rule our bid out of court. In fact there are good UK reasons for the line we have taken on each of the issues. But even if we were prepared to re-open discussions on any of them the position of the US would unquestionably preclude this. They are all points on which the Americans feel very strongly (indeed, the conditions very closely parallel those imposed on us by the US when we initiated our SSN programme). It was only with considerable difficulty that we obtained reluctant US acquiescence during the MOU negotiations. Indeed, as you know, it still took the personal intervention of the Prime Minister with the President to get him to overrule the advice of his officials not to support a programme based on the terms in the MOU. We judge that we would have no chance whatsoever of getting US agreement to less demanding conditions on these three key points.

In sum we believe that the Prime Minister's two interventions, first with the President and then with Mr Mulroney, were very well timed: the first undoubtedly kept the UK bid alive when there was a real danger of the Americans vetoing it, and the second may yet prove to be crucial in influencing the final Canadian decision. But we do not believe that there is any scope for a further intervention, not least because of the position of the US, and indeed it could be very damaging to the Prime Minister's credibility (and that of the UK bid) if we tried to re-open matters at the eleventh hour. In the circumstances we do not recommend that the Prime Minister should see a deputation from VSEL; I attach a draft reply accordingly.

I am copying this letter to Bob Pierce (Foreign and Commonwealth Office) and to Stephen Haddrill (Department of Energy).

Your sincerely


(B R HAWTIN)
 Private Secretary

To issue
onDRAFT LETTER FROM THE PRIME MINISTER TO LORD CHALFONT

KATU

Thank you for your letter of 11 July about the Canadian nuclear submarine programme. I have also seen Rodney Leach's letter of 13th July. I entirely share your view about the importance of the UK winning this competition. For that reason, I intervened directly with President Reagan to ensure that the US Administration would agree to propose to Congress the legislative amendments necessary to allow our bid to go ahead (despite the considerable reservations of many senior US officials). I also spoke very forcefully in support of our bid to Mr Mulroney only three weeks ago.

I therefore fully understand your anxiety to ensure that our offer is as competitive as possible. However, our own assessment of the situation, based on close contacts with Canadian Ministers and senior officials, does not entirely accord with yours or that of ^MRodney Leach. We are, of course, fully aware that the Canadians are not entirely happy with the position on the three issues that you mention. But the conditions contained in our MOU were agreed with the Canadians after long and painstaking negotiations and subsequently accepted by the Defence Minister, Mr Beatty. They were then the subject of further detailed negotiations with the Americans in the context of the amendments to the 1959 Agreement, and again agreed by the Canadian side. There is thus no basis for claiming they will be unacceptable to the Canadian Cabinet. Nor should we assume that without movement on these issues we have definitely lost to France. The programme has yet to be considered by Canadian

Ministers collectively (I understand that the meeting this weekend will consider only the timing of the decision and not its substance) and in reaching their conclusions they will have to take into account a whole range of technical, financial and political factors.

That said, naturally I accept that our position on these three issues will not be helpful to our bid. But there were very good national reasons for adopting the position we have on each of them. Moreover, even if we were prepared to re-open any of them (and, while Admiral Anderson would no doubt like to squeeze a few more concessions out of us, arguably to do so at this very late stage would do little for the credibility of our position) we would still have to convince the Americans. The President's decision was taken on the basis of the terms of the MOU agreed between ourselves and the Canadians. To try to change the basis of this decision (which would incidentally mean allowing the Canadian terms less demanding than we were required by the Americans to accept when we started our programme) would, I believe, be totally unacceptable in Washington.

We shall, of course, keep in very close touch with developments in Ottawa. But with the relevant Canadian Cabinet Committee about to meet, I think there would be nothing further to be gained by my speaking again to Mr Mulroney, and ^{that} ^{therefore} ^{there} would be no particular value in our meeting at this stage. As I made clear to Mr Mulroney, the Trafalgar class is undoubtedly technically superior to the French contender in almost all respects; we must hope that this is the factor that will ultimately carry the day.

em

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 July 1988

See Bob.

MALAYSIA: DEFENCE PACKAGE

Mr. Arumugam, Chairman of GEC Malaysia, came to see me this afternoon to discuss the Malaysian defence package. His approach was rather less trenchant than in his conversation with Robin McLaren yesterday.

Mr. Arumugam began by saying that Dr. Mahathir was very much looking forward to seeing the Prime Minister in Kuala Lumpur on 6 August and had cancelled his scheduled attendance at a political rally in order to welcome her. He was disappointed that she could not stay longer but fully understood the reasons. He wanted the visit to be a success. He envisaged the Prime Minister coming to his house for a talk. I said that this all sounded splendid. The Prime Minister was very keen to have a talk with Dr. Mahathir whom she had not seen since the Commonwealth Heads of Government Meeting in Vancouver. There were a large number of issues for them to discuss. There was no hint at all from Mr. Arumugam that the Prime Minister's visit might in any way be in question.

Mr. Arumugam went on to say that the letter from the Prime Minister to Dr. Mahathir had been very well received. But the subsequent discovery that we were not going to provide £200 million in grant form for assistance to civil projects had come as a considerable disappointment to the Malaysians. The Malaysian Finance Minister would have conveyed this to our High Commissioner earlier in the day. The Malaysians had the feeling that they were being offered only what they could reasonably have expected to receive in the normal course of our commercial relations. There was no significant additional element. Dr. Mahathir had to be able to justify to Parliament the decision to negotiate exclusively with the British on the defence package rather than call for competing tenders. Our present offer was not really adequate to allow him to do this. Dr. Mahathir had wanted to sign the Memorandum of Understanding on the day of the Prime Minister's visit and thus mark her visit with a success. It was not certain that this was any longer possible, (although Arumugam was careful not to rule it out altogether). Dr. Mahathir might still want to give the Prime Minister his personal commitment to see the

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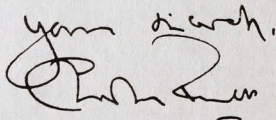
defence package go through. But it would put the matter beyond all doubt if we were able to improve on our aid offer. The Malaysians were not asking for a commitment over any particular term of years and it would in no way be a binding commitment. They were just looking for an understanding that £200 million in grant form would be available over an indefinite period.

I said that, while it would be nice to sign the Memorandum of Understanding at the time of the Prime Minister's visit, that was not her main purpose in coming to Kuala Lumpur. She was looking for a general discussion with Dr. Mahathir about a whole range of issues. We should do our best to settle matters on the defence package by then but not regard it as a tragedy if more time was needed. To be frank, I did not see any possibility at all of our being able to make available £200 million in grant form. The existing package already represented a very significant commitment of our ATP resources. His representations would of course be considered alongside those of the Malaysian Finance Minister. Mr. Arumugam said that Dr. Mahathir would be very disappointed if there was no movement at all in our position. The Americans were still very actively pursuing the sale of F16s, and it might be that the Malaysian Government would be compelled to put the defence package out to tender.

Mr. Arumugam mentioned that Dr. Mahathir intended to pay a private visit to the UK from 25 to 28 September. He thought that Dr. Mahathir would like to see the Prime Minister during that time and she might care to issue an invitation for a call or a meal when she saw Dr. Mahathir on 6 August. I said that I would consult the Prime Minister about this.

I rather got the feeling that the Malaysians know the score on the £200 million but want to get some improvement on our present offer. You will want to consider whether there is any further flexibility at all in our position such as an undertaking to look sympathetically at aid for further projects once the £200 million was used up.

I am copying this letter to Brian Hawtin (Ministry of Defence) and Jill Rutter (Chief Secretary's Office).

Yours sincerely,


CHARLES POWELL

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Secretary of State
Lippitt
13 JUL 1988

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Private Secretary

From: R J¹¹ McLaren

Date: 13 July 1988

cc: PS Lord Glenarthur

PS/AUG

Mr Carrick

Mr Richardson, (ERD)

Mr Colvin SEAD

Mr Beetham, MAED

Mr Ireton, ODA

MALAYSIA: DEFENCE PACKAGE

A

1. Mr Arumugam, Chairman of GEC Malaysia, and confidant of Dr Mahathir, called on me this afternoon. I had been warned of his visit and its purpose by Lord Prior, who was also in touch with Mr Powell at No 10 (his letter of 13 July). He was accompanied by Mr Lippitt, a director of GEC)

2. Mr Arumugam said that the Malaysians had signed the Protocol on the understanding that we would come up with £200 million in grant form. This was the only way in which Dr Mahathir could justify an exclusive deal with the British to the Malaysian Parliament. They had made a concession in not pressing for £300 million, a sum which the likely value of the package of £1.4 billion, with the possibility of more, would have justified. Dr Mahathir felt personally let down by our offer of a mix of ATP and ECGD cover and had instructed Arumugam to come to London at no notice to try to salvage the package. Unless we could produce a formula which included the full £200 million in grant (and Arumugam and Lippitt both stressed that this could be over an unspecified period) the deal would be in real danger. The Americans and the French were waiting in the wings with attractive rival offers and if the Malaysians put their requirements out to tender British firms would stand little chance.

3. Mr Arumugam added that Mrs Thatcher's visit might also be at risk. The Malaysians had envisaged that her visit might be made the occasion for the signature of a formal MOU setting the seal on the defence package. If this did not happen the atmosphere for the Prime Minister's visit would be cold. Indeed, the visit might not take place.

4. I explained that the mix was £70 million of ATP and £130 million of ECGD cover (and not £60m:£140m, as Mr Arumugam had thought). The decision to make this offer had been reached by Ministers only with very great difficulty. There was not a bottomless pot of ATP money: a high proportion of the total available was now on offer for projects in Malaysia. I would report what Mr Arumugam had said but he should be under no illusions about the British Government's position. Mr Arumugam himself had earlier advised that we must find some means of mentioning the figure of £200 million in our letter to the Finance Minister. The mix of ATP and ECGD cover was the only

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/ way

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way we had been able to do so. I added that Mrs Thatcher had suggested a meeting with Dr Mahathir because she was going to be in the region and wished to take the opportunity to consolidate the improved relationship between our two countries. She would no doubt be glad to witness the signature of an MOU if matters had sufficiently advanced by then, but that was not the prime purpose of her visit.

5. Mr Arumugam said he would report to Dr Mahathir that he had passed on the message he had been instructed to convey. He hoped we would reconsider our position in the light of what the Finance Minister would say to Mr Spreckley on 14 July.

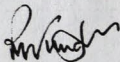
Comment

6. By erecting the Prime Minister's visit to Malaysia as an artificial deadline and by threatening us with the Americans and the French the Malaysians are employing typical negotiating tactics.

7. I discussed this conversation with the PUS this afternoon and agreed with him that in the time available there was no alternative for the immediate future but to stick to the position agreed collectively by Ministers. The instructions (cleared with the other Whitehall Departments concerned) which I have despatched to Mr Spreckley for his meeting with the Finance Minister tomorrow are in this sense. I attach a copy of the telegram.

B

8. There may well be a need to consult Ministers quickly in the light of Mr Spreckley's report.



R J T McLaren

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CONFIDENTIAL
FM FCO
TO IMMEDIATE KUALA LUMPUR
TELNO 314
OF 131000Z JULY 88

YOUR TELNOS 352 AND 353: DEFENCE PACKAGE

1. THE FOLLOWING ARE YOUR INSTRUCTIONS FOR YOUR MEETING WITH FINANCE MINISTER DAIM ON 14 JULY. THEY ARE BASED CLOSELY ON WHAT MINISTERS AGREED AT THEIR MEETING ON 23 JUNE (FCO TELNOS 278 AND 279 TO YOU).

2. YOUR OBJECTIVE IS TO DO EVERYTHING POSSIBLE TO PERSUADE THE MALAYSIANS TO SETTLE ON THE BASIS OF WHAT IS ON OFFER. YOU SHOULD OF COURSE UNDERTAKE TO REPORT WHAT DDAIM HAS TO SAY BUT, YOU SHOULD DO NOTHING TO SUGGEST OR IMPLY THAT THERE IS ANY PROSPECT OF FURTHER CONCESSIONS.

3. YOU SHOULD RECALL THE SECRETARY OF STATE FOR DEFENCE'S LETTER OF 28 JUNE AND MAKE CLEAR THAT THE LINKING OF AID TO PROJECTS IS GOVERNED BY INTERNATIONAL RULES. THESE RULES PRECLUDE ANY KIND OF LINKAGE BETWEEN AID AND DEFENCE SALES AND THIS IS, AND MUST REMAIN, OUR POSITION. NEVERTHELESS, BECAUSE WE ARE VERY KEEN, AS A SEPARATE MATTER, TO CONTINUE TO DEVELOP OUR BILATERAL COMMERCIAL RELATIONSHIP, WE HAVE BEEN WILLING TO EXPLORE NEW AVENUES OF COOPERATION BETWEEN OUR TWO COUNTRIES.

4. IT WAS AGAINST THAT BACKGROUND THAT MINISTERS CONSIDERED WHAT FURTHER FINANCIAL SUPPORT THROUGH OUR AID AND TRADE PROVISION (ATP) MIGHT BE MADE AVAILABLE, TAKING INTO ACCOUNT THE SUPPORT THAT WE HAVE PROVIDED FOR SEVERAL PROJECTS IN MALAYSIA IN THE PAST FEW YEARS AND WHAT WE KNOW OF MALAYSIA'S REQUIREMENTS FOR FURTHER ELIGIBLE PROJECTS. MINISTERS DECIDED THAT THEY WERE WILLING TO OFFER FURTHER SUPPORT, OF UP TO POUNDS 200 MILLION MADE UP OF ATP GRANTS OF UP TO POUNDS 70 MILLION STERLING PLUS ECGD NORMAL COVER OF POUNDS 130 MILLION FOR ELIGIBLE DEVELOPMENT PROJECTS TO BE AGREED MUTUALLY BETWEEN THE TWO COUNTRIES. THUS EACH ELIGIBLE PROJECT WOULD ATTRACT FINANCIAL ASSISTANCE WITH A GRANT ELEMENT 35 PERCENT. WE ARE READY TO ENTER INTO EARLY DISCUSSIONS WITH A VIEW TO IDENTIFYING ELIGIBLE PROJECTS.

5. YOU SHOULD ADD THAT, BEARING IN MIND THAT TOTAL ATP RESOURCES ARE FINITE, AND THAT ECGD COVER IS ALSO SUBJECT TO LIMITATIONS, THE OFFER WE HAVE PUT TOGETHER IS AS GENEROUS AS MINISTERS COULD MAKE IT. IF THE ATP ELEMENT TOOK 7 YEARS TO RUN OFF, IT WOULD REPRESENT NO LESS THAN 15 PERCENT OF THE TOTAL BRITISH ANNUAL WORLDWIDE ATP PROVISION FOR MIXED CREDITS. THE MALAYSIANS SHOULD

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UNDERSTAND THAT THE DECISION WAS NOT AN EASY ONE FOR MINISTERS.
6. IF DAIM RAISES THE QUESTION OF AIR SERVICES (WHICH RITHAUDEEN DID NOT SEEK TO LINK WITH DEFENCE SALES AT HIS MEETING MR YOUNGER ON 27 JUNE) YOU SHOULD SAY THAT YOU UNDERSTAND THAT THERE HAVE BEEN CONTACTS BETWEEN THE AIRLINES AND THAT AS FAR AS WE ARE CONCERNED THE BALL IS IN MAS'S COURT. WE AWAIT FURTHER WORD FROM THE MALYSIAN SIDE. MY TELNO 284 AND BEETHAM'S LETTER OF 5 JULY, NOW BEING SENT BY TELELETTER, GIVE FURTHER GUIDANCE. BUT THE POSITION REMAINS AS IN PARA 1(111) OF MY TELNO 278. IN ANY EVENT QUOTE PROGRESS UNQUOTE IN THE TIMESCALE YOU HAVE IN MIND IS UNREALISTIC.
7. ARUMUGAM CALLED ON MCLAREN ON 13 JULY AND ARGUED STRONGLY THAT WHILE POUNDS TWO HUNDRED MILLION SHOULD BE IN GRANT FORM IF THE PACKAGE WAS NOT TO BE PUT IN JEOPARDY. HE HAS SPOKEN SIMILARLY ELSEWHERE IN WHITEHALL.

HOWE

YYYY

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MR AINSCOW
MR IRETON

ADDITIONAL 5

MR KNIGHT, MOD
MR MOUNTFIELD, HMT
MR PALMER, DTI

MR TWYFORD, ECGD
MR DOWNING, BOE

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MDADAN 3526

CONFIDENTIAL
FM KUALA LUMPUR
TO DESKBY 140952 FCO
TELNO 364
OF 140955Z JULY 88

ADVANCE COPY

YOUR TELNO 314: DEFENCE PACKAGE: CALL ON MINISTER OF FINANCE

1. I CALLED THIS MORNING ON THE FINANCE MINISTER. THE MEETING LASTED 15 MINUTES AND THE TONE WAS FRIENDLY THROUGHOUT.
2. DAIM THANKED ME FOR MY LETTER OF 28 JUNE, TO WHICH HE HAD REPLIED. HE SAID THAT THE PRIME MINISTER WAS EXPECTING THE AID, WHICH SHOULD BE A MINIMUM OF #200 MILLION, TO BE IN THE FORM OF A GRANT. I EXPLAINED THAT THE #200 MILLION WE WERE OFFERING AS AID FOR SELECTED PROJECTS WOULD BE IN THE FORM OF #70 MILLION GRANT AND #130 MILLION ECGD COVER. DAIM WAS CLEARLY VERY DISAPPOINTED. I COVERED ALL THE POINTS IN YOUR PARAS 3 AND 5 AND URGED THE MALAYSIAN GOVERNMENT TO GIVE CAREFUL CONSIDERATION TO THIS OFFER WHICH IT HAD BEEN VERY DIFFICULT TO MAKE.
3. DAIM REPLIED THAT HE WOULD HAVE TO REPORT TO HIS PRIME MINISTER. THE PACKAGE HAD TO BE APPROVED BY CABINET, AND HE HAD TO DEAL WITH PETRONAS. HE WENT ON TO OBSERVE THAT THE #70 MILLION GRANT ON OFFER WAS APPROXIMATELY WHAT WE HAD OFFERED ON THE ANTAH-BIWATER DEAL. THE COST OF ONE TORNADO WAS EQUIVALENT TO THAT OF TWO F-16S. IN RESPONSE TO MY PRESSING HIM TO AGREE TO START IDENTIFYING PROJECTS, DAIM SAID THAT THERE WAS NO POINT IN THIS BEFORE A DEAL HAD BEEN WORKED OUT.
4. DAIM SAID HE WAS AWAY FROM TODAY UNTIL TOWARDS THE END OF THE MONTH. THIS, COUPLED WITH WHAT I HAD TOLD HIM, MEANT THAT MATTERS COULD BE CONSIDERABLY HELD UP.
5. AIR SERVICES WERE NOT MENTIONED.

COMMENT

6. I INFER FROM THIS CONVERSATION THAT:-
- A) DAIM WILL NOT RECOMMEND THAT DR MAHATHIR ACCEPTS THIS OFFER:
 - B) WE THEREFORE CANNOT EXPECT SIGNATURE OF THE MOU ON OR BEFORE 6 AUGUST:

PAGE 1
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C) THE POSSIBILITY OF BUYING THE F-16 INSTEAD OF TORNADO IS BEING
CONSIDERED.

SPRECKLEY

YYYY

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ADVANCE 3

HD/SEAD
HD/ERD

~~RE~~ MCLAREN

NNNN



MTJCNW

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 July 1988

TORNADO FOR JORDAN

I enclose a copy of a message to the Prime Minister from Chancellor Kohl about the supply of Tornado to Jordan. To some extent this has been overtaken by the Prime Minister's conversation with Chancellor Kohl at Chequers last Saturday. Nonetheless we may need a draft reply in due course.

I am copying this letter and enclosure to Bob Peirce (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Charles Powell

Brian Hawtin, Esq.,
Ministry of Defence.

085



DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

Baron Rüdiger von Wechmar

London, 13 July 1988

Dear Prime Minister,

I have the honour to transmit the enclosed message from Herr Helmut Kohl, Chancellor of the Federal Republic of Germany.

A courtesy translation is attached.

*I am, Dear Prime Minister,
yours sincerely*

Her Excellency
The Rt. Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
L o n d o n

Geheim ^{304 -B}

Schreiben
von
Herrn Helmut Kohl
Bundeskanzler der Bundesrepublik Deutschland
an
Ihre Exzellenz
Frau Margaret Thatcher
Premierminister des Vereinigten Königreichs
Grossbritannien und Nordirland

Liebe Margaret,

Botschafter Mallaby hat am 20. Mai 1988 Ihr Schreiben übermittelt, in dem Sie mich um Unterstützung der geplanten Lieferung von acht Tornado-Flugzeugen an Jordanien bitten.

Ihr Anliegen hat die Bundesregierung vor eine schwierige Entscheidung gestellt. Wie Sie wissen, verfolgt die Bundesrepublik Deutschland eine restriktive Rüstungsexportpolitik im Hinblick auf Lieferungen ausserhalb der Mitgliedstaaten der Atlantischen Allianz. Dennoch hat das zuständige Gremium der Bundesregierung - auch unter dem Eindruck der von Ihnen vorgetragenen Argumente - beschlossen, gegen die Verwendung deutscher Komponenten bei dem angestrebten Geschäft keine Bedenken unter Berufung auf die bilaterale Vereinbarung vom 25. Mai 1983 über die Ausfuhr von gemeinsam entwickeltem und/oder gefertigtem Rüstungsmaterial in dritte Länder geltend zu machen.

Allerdings sieht die Bundesregierung keine Möglichkeit, das Geschäft durch Übernahme einer Bürgschaft für die deutschen Zulieferungen zu fördern. Dies entspricht der restriktiven Linie unserer Rüstungsexportpolitik, die eine staatliche Verbürgung von Rüstungsexporten an Länder ausserhalb der NATO grundsätzlich ausschliesst. Daher konnten auch bereits die deutschen Zulieferungen zu Tornado-Exporten nach Oman und Saudi-Arabien nicht durch eine Bürgschaft abgesichert werden.

Mit freundlichen Grüssen
Ihr
Helmut Kohl

~~30~~ B
Geheim

Courtesy Translation

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T11/88

Letter
from

*Subject cc mehl
ops*

Herr Helmut Kohl, Federal Chancellor of the
Federal Republic of Germany
to

Her Excellency The Rt. Hon. Margaret Thatcher, MP
Prime Minister of the United Kingdom of Great Britain
and Northern Ireland

Dear Prime Minister, dear Margaret,

Ambassador Mallaby transmitted on 20 May your letter
requesting my support for the envisaged supply of eight
tornado aircraft to Jordan.

This request confronted my Government with a difficult
decision. As you know, the Federal Republic of Germany
pursues a restrictive arms export policy in respect of
supplies to countries not belonging to the Atlantic Alliance.
Nevertheless the relevant Government body decided, not
least in view of the arguments presented by you, not to
raise any objections to the use of German components in
the envisaged transaction on the basis of the bilateral
agreement of 25 May 1983 concerning the export of jointly
developed and/or manufactured military equipment to third
countries.

However, the Federal Government is unable to assist the
transaction by providing a guarantee for the German supplies.
This is due to our restrictive arms exports policy, which
rules out in principle any Government guarantees for arms
exports to countries outside NATO. For the same reason, it
was not possible to provide guarantees for German supplies
in connection with exports of tornado aircraft to Oman and
Saudi Arabia.

Yours sincerely,
sgd Helmut Kohl

GEHEIM



BUNDESREPUBLIK DEUTSCHLAND
DER BUNDESKANZLER

Bonn, den 11. Juli 1988

Ihrer Exzellenz
Frau Margaret Thatcher, PM
Premierminister des Vereinigten
Königreichs
Großbritannien und Nordirland

London

Sehr geehrte Frau Premierminister,
liebe Margaret,

Botschafter Mallaby hat am 20. Mai 1988 Ihr Schreiben übermittelt,
in dem Sie mich um Unterstützung der geplanten Lieferung von
8 Tornado-Flugzeugen an Jordanien bitten.

Ihr Anliegen hat die Bundesregierung vor eine schwierige Entscheidung
gestellt. Wie Sie wissen, verfolgt die Bundesrepublik Deutschland eine
restriktive Rüstungsexportpolitik im Hinblick auf Lieferungen außerhalb
der Mitgliedstaaten der Atlantischen Allianz. Dennoch hat das zuständige
Gremium der Bundesregierung - auch unter dem Eindruck der von Ihnen vorge-
tragenen Argumente - beschlossen, gegen die Verwendung deutscher Komponenten
bei dem angestrebten Geschäft keine Bedenken unter Berufung auf die bi-
laterale Vereinbarung vom 25. Mai 1983 über die Ausfuhr von gemeinsam
entwickeltem und/oder gefertigtem Rüstungsmaterial in dritte Länder
geltend zu machen.

...

Allerdings sieht die Bundesregierung keine Möglichkeit, das Geschäft durch Übernahme einer Bürgschaft für die deutschen Zulieferungen zu fördern. Dies entspricht der restriktiven Linie unserer Rüstungsexportpolitik, die eine staatliche Verbürgung von Rüstungsexporten an Länder außerhalb der NATO grundsätzlich ausschließt. Daher konnten auch bereits die deutschen Zulieferungen zu Tornado-Exporten nach Oman und Saudi-Arabien nicht durch eine Bürgschaft abgesichert werden.

Mit freundlichen Grüßen

Li Jun

Secret

Translation

Federal Republic of Germany
The Federal Chancellor

Dear Prime Minister, dear Margaret,

Ambassador Mallaby transmitted on 20 May your letter requesting my support for the envisaged supply of eight Tornado aircraft to Jordan.

This request confronted my Government with a difficult decision. As you know, the Federal Republic of Germany pursues a restrictive arms exports policy in respect of supplies to countries not belonging to the Atlantic Alliance. Nevertheless the relevant government body decided, not least in view of the arguments presented by you, not to raise any objections to the use of German components in the envisaged transaction on the basis of the bilateral agreement of 25 May 1983 concerning the export of jointly developed and/or manufactured military equipment to third countries.

However, the Federal Government is unable to assist the transaction by providing a guarantee for the German supplies. This is due to our restrictive arms exports policy, which rules out in principle any government guarantees for arms exports to countries

The Rt. Hon.
Mrs Margaret Thatcher, MP
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland
London

outside NATO. For the same reason, it was not possible to provide guarantees for German supplies in connection with exports of Tornado aircraft to Oman and Saudi Arabia.

Yours sincerely,

(sgd) Helmut Kohl

outside NATO. For the same reason, it was not possible to provide
guarantees for German supplies in connection with exports
Toward aircraft to Oman and Saudi Arabia.

Yours sincerely,

(s) Helmut Kohl





MS2CMM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 July 1988

NUCLEAR POWERED SUBMARINES FOR CANADA

I wrote to you on 11 July to send you Lord Chalfont's letter to the Prime Minister urging that we re-open negotiations with the Canadians on the Memorandum of Understanding covering the possible sale of nuclear powered submarines to Canada. I now enclose a copy of a further letter which I have received from Mr Rodney Leach of Vickers. You will wish to take this into account in preparing advice on Lord Chalfont's letter.

I note that Mr Leach's letter claims that the Canadian Cabinet Policy and Plans Committee is meeting this weekend to discuss the issue. Mr Mulroney assured the Prime Minister that he would inform her as soon as the matter reached Cabinet level.

I am copying this letter and enclosure to Bob Peirce (Foreign and Commonwealth Office).

Charles Powell

Brian Hawtin, Esq.,
Ministry of Defence.

885

CONFIDENTIAL



MINISTER OF STATE FOR DEFENCE PROCUREMENT

D/MIN(DP)/DGT/14/57

13th July 1988

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RM 2c

Copies to:
APS/Secretary of State PS/Prime Minister
PS/HDES
DGFVE
Head of Sec(O)(C)
FCO - NENAD
DA, Rabat

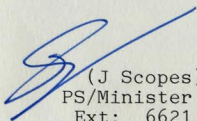
MOROCCO: ARMY EQUIPMENT

/ I attach a record of the discussion this morning with General Achahbar.

2. As subsequently agreed, Lord Trefgarne would be grateful if you could make discreet preparations for the Government-to-Government discussions that will follow once General Achahbar has secured King Hassan's further mandate. It might, for example, be useful to prepare the first draft of a MOU covering MOD assistance on training, spares etc. You also agreed to give thought to the nature of the team that might undertake these initial discussions with the Moroccan authorities.

3. As you know, the Minister is concerned that this potential sale should be handled as discreetly as possible for the time being in order not to jeopardise our position in Morocco.

4. You agreed to signal the nature of General Achahbar's message to the Embassy in Rabat.



(J Scopes)
PS/Minister (DP)
Ext: 6621 MB

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MINISTER OF STATE FOR DEFENCE PROCUREMENT

D/MIN(DP)/DGT/14/57

13th July 1988

Record of a Meeting held in the office of
the Minister of State for Defence Procurement
on Wednesday, 13th July 1988

Present:

Lord Trefgarne
Minister of State for
Defence Procurement

General Mohamed Achahbar
Secretary-General, Moroccan
Ministry of Defence

Major General S R A Stopford
Director General Fighting
Vehicles and Engineer
Equipment

His Excellency Mr A Zenined
Moroccan Ambassador

Colonel Mustapha Jabrane
Military, Naval and
Air Attaché, Moroccan Embassy
London

Mr P Russell-Jones
Regional Marketing
Directorate 2

Mr J Scopes
PS/Minister (DP)

Mr Newman - Interpreter

Lord Trefgarne welcomed General Achahbar to the Ministry of Defence and said that the Prime Minister had told him that the message the General brought from His Majesty King Hassan was that a decision had been made on the purchase of British equipment. The Minister was aware that discussions had been taking place with Vickers for some time covering tanks and 155mm howitzers. He would welcome any further detail the General could provide so that discussions could take place on how to take the matter forward. General Achahbar confirmed that the message he had brought from the King to the Prime Minister was on those lines. The trials of equipment (Challenger I, Vickers Mk III and FH-70) in Morocco had been very successful, and the Moroccans now wished to define their needs and proceed to a purchase. The Prime Minister had received the message with pleasure. There was now a "moral contract". It would now be necessary to define the Moroccan requirements in more detail.

/ Their ...

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Their main requirement was for Challenger and the training, support equipment, spares etc that would go with it. Lord Trefgarne asked whether Morocco was no longer interested in the Vickers Mk III tank. The General said that they did remain interested in the Mk III but he could not give a definite answer. This would depend on the detailed discussions ahead. Challenger seemed to suit the Moroccan requirement but there might be a case for a mix of say two-thirds Challenger and one-third Vickers Mk IIIs. The necessary tanks would be purchased in units of squadrons. In summary he said that the intention to procure such British equipment was now stated and that discussions would have to take place on detailed specifications and so on.

2. Lord Trefgarne asked what the next step would be; would it, for example, be appropriate for a Vickers mission to go to Morocco for discussions. General Achahbar said that the first step was for him to report back to King Hassan with the Prime Minister's message. Only then would it be possible to enter into the detailed discussions. Moreover, before talking to the companies direct, he would like to discuss the matter with the UK MOD. Lord Trefgarne welcomed this approach and suggested that it might be desirable to set in place a Memorandum of Understanding between the two Governments to cover what support the UK MOD might provide. He would be happy to arrange for a team for this purpose as soon as the Moroccan authorities were ready. The General expressed satisfaction with this and said that it should be possible to go ahead once King Hassan had given his seal of approval.

3. General Stopford said that in his capacity as Director General of Fighting Vehicles and Equipment he looked forward to rendering all the help possible to the Moroccan authorities. Lord Trefgarne added that the UK would be prepared to offer impartial advice to the Moroccan authorities on the mix of tanks to meet their requirement if they wanted such help. General Achahbar said that this was very kind. Lord Trefgarne added that the UK regarded it as most important not just to sell the equipment but also to see it into service and support it throughout its life.

4. Lord Trefgarne said that Vickers would naturally be interested in the nature of the message brought by General Achahbar. He appreciated the matter should be kept in strict confidence at this stage but hoped that the General could agree that we could tell Vickers in confidence the nature of the General's message while emphasising that no details had been agreed and that King Hassan had not given his final approval. General Achahbar said that his only remit was to bring the King's message to the Prime Minister and to return with her answer.

/ His ...

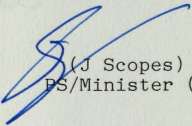
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His meeting with the Minister was to outline the Moroccan interest and the way in which they wished to proceed. As far as information to the company was concerned, that was a matter for the Minister to decide and he should not assume that the General approved or otherwise the information the Minister proposed to pass to Vickers. He had to reserve the Moroccan position until he had had further discussions with King Hassan, after which he expected matters to move forward fairly quickly.

5. Finally, Lord Trefgarne asked about the financial arrangements. General Achahbar said that no decision had been made on that and that he had no mandate to discuss it at this stage. Finance would be one of the subjects for the detailed discussions to follow.


(J Scopes)
PS/Minister (DP)

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... (Name)
... (Title)

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PFS

VICKERS SHIPBUILDING & ENGINEERING LIMITED

BARROW-IN-FURNESS

TIA

TELEPHONE & FACSIMILE NUMBERS

National 0229-23366

International +44-229-23366

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FACSIMILE MESSAGE

ORIGINATOR

Name Dr. Rodney Leach

Dept. VSEL

Tel. Ext. 3071

Number of originals to be sent
(including this sheet)

2

RECIPIENT

Name Mr. C. D. Powell

Company Private Secretary to the
Prime Minister
10 Downing Street,

Town LONDON

110M

Facsimile Number (if known)

SUPPLEMENTARY MESSAGE TO RECIPIENT:

I thought it would be helpful to send to you by facsimile the attached letter with further information regarding the Canadian Submarine Project. The original will be in the post today.

RODNEY LEACH.

Signature

S. Clarke

Date 13/7/88

Time 11.45 am/pm

V.S.E.L. OPERATOR USE

Date sent / /

Time sent am/pm

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Rodney Leach
BSc, Phd., FRINA, FIIM, Finst.M.
Chairman and Chief Executive

L/BC/195.8

13th July, 1988.

C. D. Powell, Esq.,
Private Secretary to the Prime Minister,
No. 10 Downing Street,
LONDON, SW1A 2AA.

R/14/7

VSEL

Vickers Shipbuilding
& Engineering Limited

*Already sub
copy
14/7*

c.c. to Secretary of State for Defence

Dear Mr. Powell,

CANADIAN SUBMARINE PROJECT.

at least

In his letter of 11th July to the Prime Minister, my Group Chairman Lord Chalfont drew attention to advice we had received from Canada that the reflection of certain conditions of the Anglo-Canadian MOU into Amendments to the 1959 Canadian-United States Agreement was creating an 'unacceptable' situation for Canada. It has now become clear that this view stems in large part from the fact that the Amendments would become public in Washington.

However, the purpose of this letter is to advise you of confirmatory information passed to my Canadian Project Director on Tuesday afternoon by the Canadian High Commissioner Mr. Roy McMurtry. He personally spoke with the CASAP Project Director, Rear Admiral Anderson, yesterday. As a result he confirmed that the Canadian position is as summarised in Lord Chalfont's letter to the Prime Minister. In particular, Admiral Anderson would be willing to re-assemble the Canadian team for further discussions if invited to do so by the British side. I have no doubt that the High Commissioner would readily give the same message to British officials.

It is worth adding that Mr. McMurtry also said that, in the telephone conversation, Admiral Anderson (perhaps indiscreetly) remarked: "he had found it curious that the British High Commission had not reacted more positively to the messages he had been giving."

We understand that the Canadian Cabinet Policy and Plans Committee is meeting this weekend, with the submarine issue on the Agenda. We know also that the French are pressing hard politically for a decision now.

In light of your response to Lord Chalfont's letter, I thought that you would wish to have this additional information. I believe it confirms that the U.K. can win this competition if we can crack the issues that can only be resolved politically.

*Yours sincerely,
Rodney Leach*

VICKERS SHIPBUILDING & ENGINEERING LIMITED
 BARROW-IN-FURNESS
 CUMBRIA

TELEPHONE & FACSIMILE NUMBERS

National	0229-23366
International	+ 44-229-23366

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FACSIMILE MESSAGE

ORIGINATOR		RECIPIENT	
Name	Dr. Rodney Leach	Name	Mr. C. D. Powell
Dept.	VSEL	Company	Private Secretary to the Prime Minister 10 Downing Street,
Tel. Ext.	3071	Town	LONDON <i>1100M</i>
Number of originals to be sent (including this sheet)	2	Facsimile Number (if known)	

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Signature

S. Clarke

Date

13/7/88

Time

11.45 am/pm

V.S.E.L. OPERATOR USE

Date sent

/ /

Time sent

am/pm

PPs.

VSEL

Vickers Shipbuilding
& Engineering Limited

Rodney Leach
BSc, PhD, FRINA, FIM, FInst.M.
Chairman and Chief Executive

RL/BC/195.8

13th July, 1988.

C. D. Powell, Esq.,
Private Secretary to the Prime Minister,
No. 10 Downing Street,
LONDON, SW1A 2AA.

c.c. to Secretary of State for Defence

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*Yours sincerely,
Rodney Leach*

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IMMEDIATE
131640Z JULY 1988
SECRET
TELNO UNNUMBERED
FROM CHARLES POWELL NO 10 DOWNING STREET LONDON
TO GENERAL POWELL WHITEHOUSE WASHINGTON

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17/4

PLEASE PASS THE FOLLOWING PERSONAL MESSAGE TO GENERAL POWELL
FROM CHARLES POWELL, NO 10 DOWNING STREET LONDON

MESSAGE BEGINS:

DEAR COLIN, THE PRIME MINISTER SAW GENERAL ACHAHBAR, SECRETARY
GENERAL OF THE MOROCCAN MINISTRY OF DEFENCE, THIS MORNING
AT KING HASSAN'S REQUEST. THE MAIN PURPOSE OF THE VISIT WAS TO
DISCUSS POSSIBLE FORMS OF DEFENCE CO-OPERATION BETWEEN BRITAIN
AND MOROCCO AND THE SUPPLY OF EQUIPMENT FOR THE MOROCCAN ARMED
FORCES, PARTICULARLY THE ARMY.

GENERAL ACHAHBAR SAID THAT HE WOULD BE GOING ON TO WASHINGTON
AND THAT THE KING HOPED THAT THE PRIME MINISTER WOULD ENCOURAGE
THE PRESIDENT TO SEE HIM. THE KING REGARDED THE GENERAL'S VISITS
TO LONDON AND WASHINGTON AS COMPLEMENTARY AND AS VERY IMPORTANT.

AS YOU KNOW, THE PRIME MINISTER HOLDS KING HASSAN IN HIGH
ESTEEM, BELIEVES THAT HIS VOICE CARRIES CONSIDERABLE WEIGHT
ON MIDDLE EAST QUESTIONS AND THINKS WE SHOULD ENCOURAGE HIM TO
MAINTAIN STRONG LINKS WITH THE UNITED KINGDOM AND THE UNITED
STATES. IF THE PRESIDENT WERE ABLE TO SEE GENERAL ACHAHBAR BRIEFLY,
SHE BELIEVES THIS WOULD BE WORTHWHILE AND HAVE A VERY BENEFICIAL
IMPACT. IN THE EVENT THAT A MEETING TAKES PLACE, THE PRESIDENT
MIGHT SAY THAT HE HAD A POSITIVE ACCOUNT FROM THE PRIME MINISTER
OF HER OWN MEETING WITH GENERAL ACHAHBAR.

WARM REGARDS,

CHARLES.

MESSAGE ENDS:

NNNN

SECRET *B*

PLEASE PASS THE FOLLOWING PERSONAL MESSAGE TO GENERAL POWELL
FROM CHARLES POWELL, NO.10 DOWNING STREET

Message begins:

Dear Colin, The Prime Minister saw General Achahbar, Secretary General of the Moroccan Ministry of Defence, this morning at King Hassan's request. The main purpose of the visit was to discuss possible forms of defence co-operation between Britain and Morocco and the supply of equipment for the Moroccan armed forces, particularly the army.

General Achahbar said that he would be going on to Washington and that the King hoped that the Prime Minister would encourage the President to see him. The King regarded the General's visits to London and Washington as complementary and as very important.

As you know, the Prime Minister holds King Hassan in high esteem, ~~and~~ believes that his voice carries considerable weight on Middle East questions and thinks we should encourage him to maintain strong links with the United Kingdom and the United States. If the President were able to see General Achahbar briefly, she believes this would be worthwhile and have a very beneficial impact. In the event that a meeting takes place, the President might say that he had a positive account from the Prime Minister of her own meeting with General Achahbar.

Warm regards,

Charles.

Message ends.

C D Powell

SECRET

CONFIDENTIAL



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cpc

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 July 1988

MALAYSIA: DEFENCE EQUIPMENT

Lord Prior telephoned me this morning to say that Mr Arumugam had been sent hot foot to London to express Malaysian dismay that our offer of £200m. ATP had been transposed into £60m. of ATP and £140m. of ECGD cover. Dr. Mahathir regarded this as almost a breach of faith and was extremely exercised about it. The idea of the Prime Minister being able to sign a Memorandum of Understanding when she visited Kuala Lumpur was now very much in the balance. Mr Arumugam wanted to see me: he had to report back to Dr Mahathir on Friday.

I said it was very much better to pursue this matter with FCO and MOD in the first instance and I advised Lord Prior to get in touch with David Gilmore. I would not refuse to see Mr Arumugam but it would be much better for him to see those who were abreast of all the details.

I am copying this letter to Brian Hawtin (Ministry of Defence).

Charles Powell

Bob Peirce, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

dti

the department for Enterprise

CONFIDENTIAL

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

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

2 *cc/c*
Rice Minister
CDP 13/2
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 LQ1ABP
Your ref
Date 12 July 1988

Den Charles,

MARINE DIESEL ENGINES

Your letter of ^{*15*} February conveyed the Prime Minister's agreement to allowing a sale of Kelvin marine diesel engines to Iran to proceed, on the basis of MoD's advice that such engines were unlikely to be used for military purposes. You asked however for further consideration to be given to the question of whether such equipment should be subject to export licensing controls in future.

Another issue which arose at the time was whether ECGD should be able to provide cover in this case. Kelvin Diesels Ltd is a subsidiary of GEC, one of ECGD's major customers, but it was decided that ECGD should not cover this sale because of the potential sensitivity of being seen to give support "in the national interest", since ECGD's only cover available at that time was under Section 2 of its Act, which empowers the Department to give guarantees where this is felt to be in the UK National Interest.

Officials of FCO, MoD and DTI have now met to consider the issue of extending export licensing controls to goods of this type. Their conclusion is that it would be impractical to subject the export of this class of marine diesel engine to licensing. These engines are used for a wide variety of quite innocuous purposes. And of course since there are many competitive suppliers world-wide the buyers we were concerned about could get what they want in any event. Diesel engines specifically designed for military purposes are already subject to control under the Export of Goods (Control) Order.

As regards the ECGD point, following consultation with its

The
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Advisor Council, ECGD is now willing to consider cover for the sale of such goods under Section 1, the "Commercial Account", rather than the Section 2, "National Interest Account". Officials have concluded that so long as the goods are not subject to current UK export licensing (and where the risk of introduction of new export licensing is remote enough to be judged acceptable by ECGD and can be regarded as part of the Department's normal commercial operations) ECGD should be free to give its guarantees for sales to Iran and elsewhere without necessarily consulting other Departments.

I am sending copies of this letter to Ian Andrews (Ministry of Defence), Robert Culshaw (Foreign & Commonwealth Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely

Stephen Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

DEFENSE : Saw P10

btb

the Department's interest

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... is now willing to ...
... the side of each ...
... "Official ...
... are not subject to ...
... the Department's normal commercial operations ...
... to give the ...

I am sending copies of this letter to Ian Andrews (Minister of Defense), Robert Calshaw (Foreign & Commonwealth Office) and to Trevor Woolley (Cabinet Office).

[Handwritten signature]

22/11/84

STEVEN BACCHILE
Private Secretary

the
Department
of
Defense

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MDHIAN 6710

CONFIDENTIAL
FM RABAT
TO DESKBY 111300Z FCO
TELNO 128
OF 111055Z JULY 88

MY TELNO 123: VISIT OF LORD TREFGARNE

1. LORD TREFGARNE LEFT FOR LONDON THIS MORNING AFTER A 2-DAY VISIT DURING WHICH HE HAD TWO IMPORTANT MEETINGS WITH THE MOROCCANS AND SOME USEFUL DISCUSSIONS WITH THE EMBASSY AND VICKERS' REPRESENTATIVES.

2. AT THE END OF A LUNCHEON GIVEN BY THE CROWN PRINCE IN RABAT ON 8 JULY IN HONOUR OF THE KING'S BIRTHDAY, LORD TREFGARNE WAS ABLE TO SPEAK TO GENERAL ACHAHBAR, SECRETARY GENERAL OF THE MINISTRY OF DEFENCE (AND IN CHARGE OF PROCUREMENT) AND SOUND HIM ON HIS FORTHCOMING VISIT TO LONDON. ACHAHBAR, WHO WAS VERY APPRECIATIVE OF THE FACT THAT THE PRIME MINISTER WAS FINDING TIME TO SEE HIM, CONFIRMED THAT THE MESSAGE WOULD BE ABOUT THE 'MILITARY EQUIPMENT DISCUSSED DURING THE STATE VISIT' AND 'THE VERY INTERESTING DEMONSTRATION (OF VICKERS TANKS AND FH 70 GUNS) IN MOROCCO'. HE REFUSED TO BE DRAWN FURTHER SAYING THAT THE MESSAGE WAS A PERSONAL ONE FROM KING HASSAN TO MRS THATCHER AND THAT IT WOULD NOT BE CORRECT FOR HIM TO REVEAL OTHER DETAILS. HE ADDED SOMEWHAT POINTEDLY THAT HE WOULD BE GOING ON TO WASHINGTON FROM LONDON. LORD TREFGARNE WAS ALSO ABLE TO HAVE A FRIENDLY EXCHANGE OF COURTESIES WITH THE CROWN PRINCE.

3. AT YESTERDAY'S LUNCHEON GIVEN BY THE KING AT HIS PALACE IN CASABLANCA, LORD TREFGARNE WAS SINGLED OUT FOR SPECIAL ATTENTION FROM AMONG THE SEVERAL FOREIGN DIGNITARIES AND HEADS OF STATE PRESENT. HE WAS THE FIRST TO BE CALLED TO A SHORT PRIVATE AUDIENCE WITH THE KING IN THE MARGINS OF THE LUNCHEON.

4. LORD TREFGARNE EXPRESSED HIS PLEASURE THAT THE KING'S EMISSARY WOULD BE SEEING THE PRIME MINISTER ON 13 JULY. THE KING REPLIED IMMEDIATELY THAT GENERAL ACHAHBAR WOULD BE GOING ON FROM LONDON TO WASHINGTON WHERE MOROCCO WAS HAVING GREAT DIFFICULTY WITH THE AMERICAN ADMINISTRATION, WHICH WAS BEING 'VERY BUREAUCRATIC', OVER THE SUPPLY OF F-16 AIRCRAFT. THE KING SAID HE KNEW THAT MRS THATCHER HAD A VERY CLOSE AND FRIENDLY RELATIONSHIP WITH PRESIDENT REAGAN AND HE HOPED THAT A WORD FROM HER MIGHT UNBLOCK THE SITUATION. HE DID NOT MENTION THE SUBJECT OF BRITISH

PAGE 1
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MDHIAN 6710

MILITARY EQUIPMENT, NOR DID LORD TREFGARNE THINK IT APPROPRIATE TO RAISE IT HIMSELF IN THE CIRCUMSTANCES.

5. LORD TREFGARNE EXPRESSED THE HOPE THAT THE KING WOULD BE ABLE TO RECEIVE MR MELLOR DURING HIS VISIT LATER THIS WEEK. THE KING SAID HE WOULD LIKE TO DO SO AND ASKED THAT IT BE ARRANGED THROUGH THE FOREIGN MINISTRY (WHICH WE HAVE ALREADY BEEN ATTEMPTING TO DO).

6. KING HASSAN SPOKE GLOWINGLY OF LAST YEAR'S STATE VISIT AND SAID IT WAS THE BEST VISIT HE HAD EVER MADE ABROAD. HE VERY MUCH HOPED THAT THE PRINCE AND PRINCESS OF WALES WOULD BE ABLE TO VISIT MOROCCO IN THE NEAR FUTURE "TO STAY WITH THEIR SECOND FAMILY". I TOLD THE KING THAT I HAD A MESSAGE FOR HIM FROM HRH THE DUKE OF EDINBURGH THAT I WOULD LIKE TO DELIVER PERSONALLY DURING MR MELLOR'S AUDIENCE (MCGRATH'S LETTER TO ME OF 27 JUNE). THE KING SAID HE LOOKED FORWARD TO RECEIVING IT.

7. IT IS HARD TO KNOW WHAT TO MAKE OF THESE TWO APPARENTLY DIFFERING EXPLANATIONS FOR GENERAL ACHAHBAR'S VISIT TO LONDON. MY OWN GUESS IS THAT THE "MESSAGE" WILL BE IN TWO PARTS, ONE ASKING FOR THE PRIME MINISTER'S INTERCESSION WITH PRESIDENT REAGAN OVER THE F-16S AND THE OTHER EXPRESSING INTEREST IN BUYING BRITISH TANKS, WITH PERHAPS A REQUEST FOR SPECIAL CREDITS (EVEN THOUGH THE QUESTION OF FINANCING WAS NEVER RAISED WITH LORD TREFGARNE). GIVEN THE BYZANTINE SUBTLETIES OF THE KING'S MIND, IT IS NOT INCONCEIVABLE THAT THE TWO PARTS COULD BE LINKED IN SOME WAY.

8. FCO PLEASE PASS TO PS LORD TREFGARNE, PS NO 10 AND PS DUKE OF EDINBURGH.

SHAKESPEARE

YYYY

DISTRIBUTION

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MAIN 22

MINIMAL
DEFENCE D
NENAD

PS/MR MELLOR
MR GOULDEN
SIR D MIERS

PAGE 2
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File KK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 July 1988

SALE OF NUCLEAR POWERED SUBMARINES TO CANADA

I enclose a copy of a letter to the Prime Minister from Lord Chalfont about the sale of nuclear powered submarines to Canada. As you will see, he believes that Vickers will lose the competition for this unless HMG are prepared to renegotiate the Memorandum of Understanding with the Canadian Government in respect of a number of key issues. He offers to come to explain the issues to the Prime Minister.

BFI
I should be grateful for your early advice and a draft reply.

I am copying this letter and enclosure to Stephen Haddrill (Department of Energy) and Lyn Parker (Foreign and Commonwealth Office).

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

file



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 July 1988

Dear Lord Chalfont,

I am writing on behalf of the Prime Minister to thank you for your letter of 11 July.

This is receiving attention and a reply will be sent to you as soon as possible.

Yours sincerely
C. D. Powell

(C. D. POWELL)

The Rt. Hon. The Lord Chalfont, O.B.E., M.C.,
P.C.

11th July 1988

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1A 2AA

PRIVATE AND CONFIDENTIAL

Dear Prime Minister,

I apologise for writing to you so soon after your visit to Canada, where you so powerfully advocated the benefits of British nuclear submarine technology. However, new facts have emerged which are critical to hopes for the UK in the Canadian submarine programme, and which I feel bound to bring to your attention.

In summary, it has become clear to us from the Head of the CASAP project, Rear Admiral Anderson, that the French are favoured because of less onerous conditions apparently contained within their MOU when set alongside that negotiated by the UK. Conditions in our MOU are reflected in the discussions between Canada and the United States on the essential amendments to their 1959 Agreement, which we are advised would be quite unacceptable to the Canadian Cabinet.

Even at this late date, however, Admiral Anderson would be prepared to re-open discussion with the UK if there is any possibility that progress could be made. This, I believe, gives grounds for believing that the Canadians may favour the British design, construction, operational technology, and commercial approach, and would value co-operation with the Royal Navy. However, if progress cannot be made, I believe the UK has definitely lost to France.

While the French are powerful advocates of their own cause, we must assume that they will have sought totally adequate nuclear safeguards. By implication, however, their MOU is less demanding than ours in respect of :

- (a) liability for nuclear safety, particularly for submarines built in Europe,
- (b) design changes, and

Prime Minister
MOD disagree with
this amendment - e
say that anyway we
can go no further
on nuclear safety &
design -
I have
asked
for advice.
CBP
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(c) nuclear fuel technology transfer.

While these are complex issues, which interrelate with Anglo/UK Agreements, a number of suggestions have been made that could alleviate some Canadian concerns.

It is understood that Canadian Cabinet Committees will consider the Department of National Defence recommendations this week. Hence, time is of the essence. I suggest that it is necessary to act positively and swiftly. The suggestion coming from our team, with advisers in both Canada and the United States, is that further direct intervention by yourself with President Reagan and Prime Minister Mulroney is required.

US: The approach to the President would be to enlist his support in directing officials to re-examine those factors that are currently inhibiting the UK's ability to win this competition. Recent discussions in Washington reveal incredulity among Senators and others that the French might be selected by Canada. Regrettably this is the case for reasons that can only be changed by political will. It should be noted also that certain UK naval and other officials might prefer a less capable boat to be acquired by Canada, but the Pentagon and Admiral McKee could be moved to the support of the UK if the President were to take directive action.

The approach to the Canadian Prime Minister would be to confirm the willingness of the UK to negotiate further on the MOU, and to assist Canada in re-opened negotiations with the United States on the 1959 Agreement.

We are advised that action along these lines could lead to a postponement of the Canadian choice between the UK and France, providing us with time to overcome the present disadvantageous position.

We are, of course, aware that your officials are properly concerned with other vital UK interests in dealing with this subject with the United States. However, these concerns may themselves have been misinterpreted by the Canadians, giving them the impression that our wish to have a chance to participate in their nuclear submarine programme is only on the margin.

It may be helpful to you further to clarify these issues before deciding policy. To this end I shall hold myself available at any time, with my Chief Executive, Dr Leach, and our Canadian

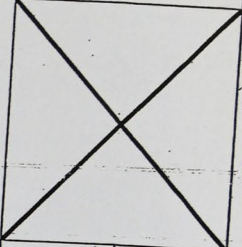
Director, to discuss them with you directly. I believe the competition is one we must win, not just for commercial reasons in VSEL and the many other participating British companies, but also for the long term operational and procurement advantages which a large scale naval collaboration could bring to the Royal Navy, to Nato, and to Britain.

Once again, I apologise for troubling you so soon. But I believe we must take every opportunity to win this valuable order, with all that will follow from it to the next century and beyond.

Yours sincerely

Alan Chart

A The National Archives

DEPARTMENT/SERIES	Date and sign
..... <i>PRGM 19</i>	
PIECE/ITEM <i>2061</i> (one piece/item number)	
Extract details: <i>minutes and attachments from George Young to the Prime Minister dated 7 July 1989</i>	
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SECRET 27A

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PRIME MINISTER'S
PERSONAL MESSAGE



SERIAL NO. T103/81 10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Subject: CC MASTER
OFS

1 July 1988

Dear Brian,

SAUDI ARABIA: ENHANCEMENT OF PROJECT AL YAMAMAH

The Prime Minister has considered the Defence Secretary's minute of 1 July covering the Formal Understanding with the Saudi government which Sir Colin Chandler hopes to conclude with Prince Sultan in Bermuda this weekend, together with the Letter of Initiation for the ships. The Prime Minister has commented that the scale of the business involved is remarkable and offers great security for the future. She is content for the Understanding and the Letter of Initiation to be concluded, subject to a satisfactory resolution of the offset issue. She has also signed a letter to President Reagan giving him forewarning of what is planned. The text is slightly amended from the draft enclosed with your letter. I am sending the original to the Foreign Office with the request that they telegraph the text to Washington for delivery once they have received the go-ahead from Sir Colin Chandler in Bermuda.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Stephen Haddrill (Department of Energy), Jill Rutter (Chief Secretary's Office) and to Sir Robin Butler.

Yours sincerely,
C. D. Powell

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET

SECRET AND PERSONAL

26A-B



10 DOWNING STREET
LONDON SW1A 2AA

T103/29

THE PRIME MINISTER

1 July 1988

Dear Ron.

You will recall that in 1985 with your support the British Government agreed to sell a number of Tornado, Hawk and PC-9 aircraft, together with supporting equipment and services, to the Government of the Kingdom of Saudi Arabia. The agreement signalled an increasing commitment on behalf of the Saudi Government to Western (and NATO) equipment - including significant items from the United States, Germany and Italy; it also contributed substantially to the chances of improving security and peace in the whole of the Gulf area. The Saudi Government's declared wish to use the equipment only for self-defence purposes has indeed been borne out in practice during the last three years and has, I think, done much to set our minds at rest about the chances of long-term stability in the area.

In recent weeks, King Fahd has indicated his firm intention of purchasing further defence equipment from the United Kingdom, as a second phase of Project Al Yamamah. The additional requirements of the Saudi Government include more Tornado, Hawk, Blackhawk (made under licence in the United Kingdom but with a significant United States content) and other aircraft, mine countermeasures vessels, a construction programme, and a miscellany of other support equipment. The potential value of this package is very considerable; clearly it reflects Saudi confidence in the quality of all the equipment that has been delivered so far and in the way the programme has been implemented by all those involved,

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SECRET AND PERSONAL

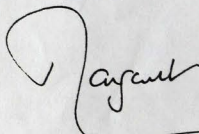
both within the United Kingdom and in the other countries which have been involved, not least the United States of America. Provision of the Mine Counter Measure Vessels in particular should help our joint aim of encouraging Gulf countries to take responsibility for providing their own capabilities in this area.

I should of course be grateful for your continued support in granting export licences for the United States-made content of the equipment which we will be supplying and my officials will be in touch with yours about the details. The increasing commitment to Western equipment implied by these additional purchases may reduce the likelihood of Saudi Arabia again feeling that it needs to turn elsewhere for defence material, as in the case of Chinese missiles.

Discussions with the Government of the Kingdom of Saudi Arabia are now reaching their conclusion, and we hope that George Younger and His Royal Highness Prince Sultan bin Abdul Aziz, the Second Deputy Prime Minister and Minister of Defence and Aviation for the Kingdom of Saudi Arabia, will sign a formal Understanding this weekend. But I wanted to let you know in advance of the extent of the sale proposed and to confirm the assurances we have received from the Saudi Government that this equipment, like that already delivered, would continue to be used for their own defensive purposes only.

Warm regards.

Yours ever



ccx



Prince Minister

MO 6/17/5L

PRIME MINISTER

Yes - it is a
fantastic order
giving great security
for the future
etc.

Content for the
Formal Understanding
to be signed?
And to send the
letter to President

SAUDI ARABIA: ENHANCEMENT OF PROJECT AL YAMAMAH

My Private Secretary's letter of 10th June to Charles Powell ^{Bayn?} detailed the proposed substantial enhancement of Project Al Yamamah. I had hoped to be able to conclude this during Prince Sultan's planned visit to the UK which had been planned for next week. But as that visit has been postponed, I am writing now to inform colleagues of the details and to outline the Formal Understanding with the Saudis to secure the deal.

ccx
1/7

2. Sir Colin Chandler, the Head of Defence Export Services (HDES) met with HRH Prince Sultan in Dhahran at the end of May to discuss these enhancements in detail. As we had already been advised privately by Prince Bandar, His Royal Highness had with him a letter from King Fahd praising him for the success of the Project and directing him to acquire the following additional equipment under Phase 2 of the programme:

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ACT 2000



CLOSED UNDER THE
FREEDOM OF INFORMATION
ACT 2000

The total value of this additional package is [redacted]

[redacted] It effectively means that the Saudis propose to procure the majority of their defence equipment from the UK until at least the end of this century. As HM Ambassador Riyadh has commented, these major procurement decisions are an important vote of confidence in Britain's policies and Government, in our defence Industry, and in the successful manner in which the Project has been operated to date. It is very significant new business for the UK which I believe we must do our utmost to secure. The potential benefit is immense, not least the industrial and employment benefits for companies such as Vospers and Westlands.

3. As to the modalities, the Saudis wish this new business to be swept under the existing umbrella of Al Yamamah.

[redacted] Prince Sultan has indicated, and we agree, that this significant expansion of the Project should be covered by a Formal Understanding similar to the original enabling document which was signed in September 1985. Thereafter, individual contracts for the separate equipments and work will be defined and negotiated later as discreet packages, with terms, conditions and delivery timescales (which determine the cost of each package) being related to the available income flowing into the Project from the oil liftings. [redacted]

In short, both we and the Saudis see great merit in moving on to an arrangement whereby the Project is funded by regular income without fixed time or budgetary limitations, and where that income is then

Yanger / AM 1/7/88



used to pay for as many of the Saudi requirements as can be accommodated. Although we cannot yet determine precise costs (until negotiations define Saudi requirements etc), proceeding in this step-by-step way should enable us to ensure ECGD and company exposures are held at levels acceptable to us.

4. As you know, HRH Prince Sultan asked originally that an Understanding should be ready by the time of his visit for signature with me. Now that, as he explained in his letter to you of 26th June, he is staying a little longer in Bermuda to recuperate from his knee operation, he has asked that the documents should be taken to Bermuda for signature this weekend. Sir Colin Chandler will, therefore, be travelling there on 1st July for this purpose.

5. Other Departments have been consulted about the draft Formal Understanding (a copy of which is attached at Annex A) and about the Letter of Initiation for the ships. I understand that Departments are content at official level for us to proceed although the Treasury have some residual questions about the possible implications for ECGD cover as set out in the Chief Secretary's letter of 1st July. (You will recall that similar Treasury concerns about the earlier phase of Al Yamamah were allayed - not least by the Saudi willingness to inject cash into the programme whenever it was necessary, and just under \$2 billion has been put in by them in this way since the start of the Project.) My officials, together with ECGD, expect to be able to satisfy Treasury points in discussions which are now proceeding. In the meantime, I am grateful for the Chief Secretary's agreement that the Memorandum of Understanding should be signed this weekend.

6. The only problem still unresolved is the offset paragraph (para 4) in the Understanding which is of course unacceptable as it stands. There can be no question of us signing the MOU unless this paragraph is amended on the lines of the paragraph at Annex B (if not removed) to reflect the provisions of the Offset MOU signed last year which



made clear that HMG cannot commit or guarantee any specific level of private sector investment in the Kingdom. Action is already in hand behind the scenes to try to get these paragraphs changed.

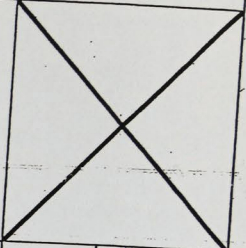
7. Apart from this Offset paragraph, I believe that the two documents are acceptable to HMG. I therefore propose to authorise Sir Colin Chandler to conclude both documents in Bermuda this weekend, subject to the satisfactory conclusion of the offset issue. I would be glad to know if you are content. Assuming that this is achieved the signature will be followed by a joint announcement of the package. In view of this, and because of the American content in much of the equipment involved, it would be advantageous to forewarn President Reagan on a personal basis just before the planned signature this weekend. This follows the pattern at the time of the original deal in 1985. I attach at Annex C a draft of a letter that might be sent over the weekend.

8. Copies of this minute go to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Energy, the Chief Secretary, and to Sir Robin Butler.

Ministry of Defence
1st July 1988

G.Y.

A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>2061</i> (one piece/item number)	
Extract details: <i>Annex to minute from George Younger to the Prime Minister dated 1 July 1988</i>	
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MO 28/15L

PRIME MINISTERTORNADO DEPLOYMENT 'GOLDEN EAGLE'

1. You may wish to be aware of plans for a global deployment of four RAF Tornado F-3 air-defence aircraft, together with air-to-air refuelling and air transport support, to the Far East, Australia and the USA during this, the RAF's seventieth anniversary, year.

2. The two principal events for which the deployment has been planned are this year's exercise of the Five Power Defence Agreement Integrated Air Defence System (IADS) from 5th-9th September in Malaysia, and the Australian Bicentennial celebrations, during which the Tornados have been invited to take part in flying and static displays at RAAF Richmond, near Sydney, from 8th-18th October. The aircraft will leave the UK on 21st August for work-up training at RMAF Butterworth in Malaysia; between the IADS exercise and the visit to Australia they will first carry out training with the Royal Thai Air Force (12th-23rd September), before deploying to Jakarta, Singapore and Kuala Lumpur for sales-related activities. They will return to the UK via the Pacific Ocean and the United States, where they will take part in two further air shows, featuring as the main element of an RAF Day at the Pennsylvania International Air Show on 23rd October. They will arrive back on 25th October, having circumnavigated the globe.

3. As in the case of the Royal Navy deployment Outback 88, we have sought to achieve a balance between the diplomatic objectives of exercising with FPDA partners and showing the flag at the Australian Bicentennial, promoting defence sales, and taking the opportunity to exercise with other friendly forces en route. In particular, our contribution to the FPDA IADS exercise will be the largest since the

ECDC
②
Rie Minister
4/7.
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FPDA was established in 1971, and will be of considerable importance in underlining our continued commitment to the stability of the region. To mark this exceptional contribution, Ian Stewart is planning to attend the exercise and to meet Ministerial colleagues from the other four members of the FPDA.

4. I am sending copies of this minute to OD colleagues and to Sir Robin Butler.

C.Y.

Ministry of Defence

~~30th~~ June 1988

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FM BONN
TO IMMEDIATE FCO
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INFO IMMEDIATE AMMAN, ROME, MODUK
INFO PRIORITY WASHINGTON

MODUK FOR PS/S OF S, HDES, RMD4.

MY TELNO 664: TORNADO FOR JORDAN.

SUMMARY

1. FEDERAL ECONOMICS MINISTRY CONFIRM THERE WILL BE NO GOVERNMENT CREDIT GUARANTEES. THEY POSTULATE VARIOUS WAYS IN WHICH THE SALE MIGHT BE FINANCED WITHOUT SUCH SUPPORT, AND WILL BE CONTACTING MBB'S CHIEF DANKERS TO DISCOVER WHAT DETAILED PROPOSALS CAN BE MADE.

DETAIL

2. I SAW GERLACH, UNDER SECRETARY IN THE ECONOMICS MINISTRY, AND GEHRING, THE MINISTRY'S EXPERT ON EXPORT CREDIT, TODAY TO DISCUSS NEXT STEPS FOLLOWING YESTERDAY'S DECISION OF THE FEDERAL SECURITY COUNCIL. I SAID THAT SINCE THE FEDERAL GOVERNMENT HAD NO POLITICAL OBJECTION TO THE SALE BUT WAS NOT HELPING OVER CREDIT, IT MUST EVIDENTLY BELIEVE THAT INDUSTRY COULD OBTAIN CREDIT COVER TO ENABLE THE SALE TO GO AHEAD. THE MATTER WAS URGENT SINCE PRICE OPTIONS COULD BE HELD FOR ONLY A FEW DAYS LONGER. WHAT FORM MIGHT THE FINANCIAL ARRANGEMENTS TAKE?

3. GERLACH CONFIRMED THAT NO HERMES COVER WOULD BE PROVIDED, AND SAID THAT THE DETAILED ARRANGEMENTS WOULD BE A MATTER FOR MBB AND ITS FINANCIERS, CHIEF OF WHOM WAS THE BAYERISCHE VEREINSBANK. GEHRING THEN OUTLINED FIVE POSSIBLE FINANCIAL OPTIONS, RECOGNISING THAT SOME WERE THEORETICAL RATHER THAN PRACTICAL:

A. ECGD SHOULD PROVIDE 100 PERCENT EXPORT CREDIT INSURANCE, AS THEY HAD DONE FOR OMAN. ECGD HAD HEDGED THEIR BETS ON WHETHER THIS WAS POSSIBLE WHEN GERLACH HAD TALKED TO THEM EARLIER IN THE WEEK.

B. ECGD SHOULD COVER A 55 PERCENT SHARE OF THE TOTAL COMMITMENT, WITH UK BANKS PROVIDING COMMERCIAL COVER FOR THE REMAINDER.

C. PANAVIA AND BAYERISCHE VEREINSBANK SHOULD SEE WHETHER COVERING

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THE GERMAN SHARE ADEQUATELY ON COMMERCIAL TERMS WAS POSSIBLE.

D. THERE COULD BE AN APPROACH TO INTERNATIONAL FINANCE HOUSES
BASED E.G. IN LONDON OR LUXEMBOURG.

E. THE BAYERISCHE VEREINSBANK SHOULD FINANCE THE GERMAN SHARE,
WITH ECGD PROVIDING THE NECESSARY INSURANCE COVER.

4. I SAID THAT WE FIRMLY BELIEVED THAT GERMANY SHOULD PLAY ITS
PROPER PART IN THE CREDIT ARRANGEMENTS. I PRESSED TO KNOW WHICH FORM
OF FINANCING ARRANGMENTS THE ECONOMICS MINISTRY CONSIDERED WORKABLE.
I GOT NO CLEAR ANSWER BUT GERLACH UNDERTOOK TO ESTABLISH QUICKLY
WITH THE BAYERISCHE VEREINSBANK WHAT POSITION THEY WERE LIKELY TO
TAKE.

5. I AM NOT OPTIMISTIC THAT MBB WILL MANAGE TO GET THE CREDIT BUT WE
SHALL CHASE THEM AND THE ECONOMICS MINISTRY AGAIN TOMORROW. (A
MESSAGE FROM MBB WAS RECEIVED IN THE EMBASSY THIS AFTERNOON AS
PROMISED, BUT IT CONTAINED NO SUBSTANTIVE INFORMATION ON FINANCE.)

MALLABY

YYYY

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PR/MR MELLOR
PS/PUS
MR MUNRO
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MR GOULDEN
MR CARRICK

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SECO (C), MOD

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FM BONN
TO DESKBY 291500Z FCO
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OF 291400Z JUNE 88
AND TO DESKBY 291500Z MODUK
INFO IMMEDIATE AMMAN, ROME
INFO PRIORITY WASHINGTON

MOD (PS/S OF S, HDES, RMD4).

TORNADO FOR JORDAN

SUMMARY

1. GERMAN GOVERNMENT DECIDES NOT (NOT) TO RAISE OBJECTION TO SALE OF TORNADO TO JORDAN BUT ALSO NOT (NOT) TO PROVIDE CREDIT GUARANTEES. KOHL WRITING TO PRIME MINISTER.

DETAIL

2. DEFENCE MINISTER SCHOLZ HAS TOLD ME THAT THE FEDERAL SECURITY COUNCIL THIS MORNING DECIDED THAT THE FEDERAL REPUBLIC SHOULD NOT EXERCISE ITS RIGHT TO RAISE OBJECTION TO THE SALE OF TORNADO TO JORDAN. ALL MINISTERS WERE FOR RAISING NO OBJECTION EXCEPT GENSCHER, WHO SAID THAT HE HAD DOUBTS ABOUT THE MATTER BUT WOULD NOT PRESS THEM IN VIEW OF THE POSITION TAKEN BY OTHER MINISTERS. I UNDERSTAND THAT A KEY FACTOR IN DAMPENING GENSCHER'S DETERMINATION TO OBJECT WAS THE INTERVENTION OF SHULTZ, AND I HAVE PASSED THIS INFORMATION WITH MY THANKS TO THE U S CHARGE. SCHOLZ TOLD ME THAT HE WAS ESPECIALLY PLEASSED BY THE DECISION NOT TO RAISE OBJECTION, SINCE IT WAS A PRECEDENT FOR POSSIBLE FUTURE SALES OF TORNADO AND OTHER EQUIPMENT OUTSIDE THE NATO AREA AND THUS A SIGNIFICANT DEVELOPMENT IN THE ARMS SALES POLICY OF THE FEDERAL REPUBLIC.

3. SCHOLZ ALSO SAID THAT THE FEDERAL SECURITY COUNCIL HAD TAKEN A DEFINITIVE DECISION AGAINST PARTICIPATION BY THE FEDERAL GOVERNMENT IN THE CREDIT ARRANGEMENTS FOR THE SALE. THE MAIN REASON WAS THAT THE FEDERAL GOVERNMENT DID NOT PROVIDE CREDIT FOR ARMS SALES. A SECOND REASON WAS THAT CREDIT FOR THIS SALE WOULD HAVE REPRESENTED AN ENORMOUS BREACH IN THE COUNTRY CREDIT LIMIT FOR JORDAN.

4. TELTSCHIK HAS INFORMED ME THAT KOHL WILL WRITE TO THE PRIME MINISTER EXPLAINING TODAY'S DECISIONS.

PAGE 1
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5. STATE SECRETARY RUEHL OF THE FMOD TELLS ME THAT THE ECONOMICS
MINISTRY ARGUED IN THE FEDERAL SECURITY COUNCIL THAT MBB WOULD BE
ABLE TO OBTAIN SATISFACTORY CREDIT FOR THIS SALE WITHOUT GOVERNMENT
INVOLVEMENT. I AM PURSUING THIS WITH THE PERMANENT SECRETARY OF THE
ECONOMICS MINISTRY, AND WE ARE ALSO MAKING ENQUIRIES IN MBB.

MALLABY

YYYY

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SIR D MIERS
MR GOULDEN
MR CARRICK

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SECO (C), MOD

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PAGE 2
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the department for Enterprise

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COPY 2 of 5

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CSP

24

Mr R Spink
Director Commercial Saudi Air Force Project
Al Yamamah Project Office
Ministry of Defence
8th Floor North
Castlewood House
77-91 New Oxford Street
London WC1A 1DS

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
Our ref
Your ref
Date

01-215-4956
GS 2013 Sub 2
D/DGSAP/1/1
28 June 1988

*CSP
20/16.*

Dear

Richard

with CSP

SAUDI ARABIA: FURTHER DEFENCE SALES

I am responding on behalf of Mr Muir to your letter of 22 June 1988 to Mr Robson as both Mr Muir and Mr Petter are out of the office today.

We are delighted to hear of your success in winning the procurement of phase II of the Al Yamamah project for UK industry. It will make a major contribution to our trade figures for a considerable period - and the Al Yamamah Project team are to be congratulated on their achievement.

DTI is content for MOD to proceed with signature of the agreements and to seek to bring the arrangements for offset investment under phase II in line with those under negotiation for phase I, **provided** the additional commitment is met by defence-related projects; you are aware of the limitations on the potential for investment in the civil sector which have already become apparent in the offset investigations under phase I.

Hopefully the discussions 'behind the scenes' will persuade the Saudis to remove the paragraphs on offset arrangements - or at least to accept an investment target which has some chance of being achieved.

I am copying this letter to **Mr Powell (No 10)**, Mr Woolley (Cabinet Office) and Mr Young (FCO).

Yours sincerely,

Ian Dixon

Ian Dixon
OT4/1A

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the
Enterprise
initiative

A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>2061</i> (one piece/item number)	
Extract details: <i>letter from Mountfield to Spink dated 27 JUNE 1958</i>	X
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10 DOWNING STREET
LONDON SW1A 2AA

FILE KK

bc PC

Copy filed on AMTOURS
Australia Jan 88

From the Private Secretary

26 June 1988

Dear Tony,

MALYSIAN DEFENCE PACKAGE

The Prime Minister has considered the Foreign Secretary's minute of 24 June recording the results of the meeting of Ministers to discuss implementation of the protocol signed by the Defence Secretary with the Malaysian Government in March. She is content for letters to issue to the Malaysian Finance Minister from the Defence Secretary and from our High Commissioner in the terms of the drafts enclosed with the minute. She also agrees that Malaysian demands for increased air services should be handled separately.

The Prime Minister has decided that she will definitely make a brief stop-over in Kuala Lumpur on the return journey from Australia, on the evening of 6 August, if convenient to Dr. Mahathir.

I am copying this letter to Ian Andrews (Ministry of Defence), Neil Thornton (Department of Trade and Industry), Jill Rutter (Chief Secretary's Office) and Myles Wickstead (Overseas Development Administration).

Yours sincerely,

(C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

CONFIDENTIAL

c/s/c
②

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

Prime Minister

MO 14/6/1L

To 2 Canadians have confirmed 24 June 1988

to me that the negotiations with the Americans are complete, despite what Mr. Mulroney told you. The American attitude is unchangeable: but it is too late

Dear Charles, to do anything about it.

NUCLEAR-POWERED SUBMARINES FOR CANADA

CAF
24/6

In the margins of Cabinet, the Prime Minister asked the Defence Secretary to have a look at the difficulties which Mr Mulroney claimed the Americans were still making over the sale of UK SSNs to Canada, despite President Reagan's earlier agreement to support the deal.

As you noted in your letter of 22 June to Lyn Parker reporting the meeting in Ottawa, Mr Mulroney and Mr Burney's account of how things stood was a little out-of-date. The "Trafalgar only" problem, to which Mr Mulroney was referring, was the last point outstanding in the US/Canada negotiations on the amendments required to the 1959 bilateral agreement on nuclear cooperation. The Canadians accepted (somewhat to the surprise of the US) the proposed US language on this point on 17 June. The problem arose from a US wish to insist that the technology transferred to the Canadians should not in any way go beyond that specified in the MOU, namely SSN-19 (the latest Trafalgar-class design). The Prime Minister will recall from her briefing for the meeting that we had, separately, been unwilling to consider transfer of the next generation of SSN technology (SSN-20) precisely because we were certain that the US would be strongly opposed to this. In addition, the MOU between ourselves and Canada explicitly dealt with SSN-19 technology, and we have been quite clear from the outset of the US/Canada negotiations that they could not be allowed to develop into a re-negotiation of the MOU, which would have been entailed by a possible transfer of SSN-20 technology. The Canadian acceptance of the US language effectively meant that they have accepted that the scope of the technology exchanges between the UK and Canada will be limited to Trafalgar.

So far as we know, therefore, the US/Canada negotiations can no longer be adduced as a reason for delays in the Canadian choice of a country of origin. Nevertheless, the Canadians have been considerably disenchanting with the attitude of the Americans throughout the last year, and, despite the President's decision, the approach of US officials during the bilateral negotiations has undoubtedly irritated them still further. Given that the

C D Powell Esq
10 Downing Street

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Congressional muddle still remains to be surmounted if our bid is to succeed, the US "encumbrance" may well weigh heavily against us when the final choice is made. However, despite the tone of some recent press reports, we believe we remain in the race, and the Prime Minister's intervention was very timely, coming as our last card immediately before the Canadians take their decision.

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

Yours sincerely,
B R Hawtin

(B R HAWTIN)
Private Secretary

CANADA Relatus pr 6



24/11/72
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24/11/72

John ...
...

Private Secretary

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MODUK FOR HDES AND RMD2

TORNADO FOR JORDAN

SUMMARY

1. PROSPECTS IMPROVING FOR FAVOURABLE GERMAN DECISION ON 29 JUNE.

DETAIL

2. IN RECENT DAYS I HAVE BEEN GETTING SIGNALS FROM GERMAN SOURCES THAT THE DECISION MAY GO OUR WAY. DEFENCE MINISTER SCHOLZ, WHEN I EXPRESSED INTEREST IN WHAT HE HAD SAID TO CARLUCCI (WASHINGTON TELNO 1579), TOLD ME HE WAS SURE THAT THE FEDERAL SECURITY COUNCIL'S DECISION ON 29 JUNE WOULD BE FAVOURABLE. STATE SECRETARY TIMMERMANN'S OFFICE IN THE FMOD HAVE ECHOED THIS. WHEN I SPOKE TODAY TO STATE SECRETARY RIEDL, WHO DEALS WITH AEROSPACE IN THE MINISTRY OF THE ECONOMY, HE ASSURED ME THAT BANGEMANN WOULD NOT OPPOSE THE SALE. BUT RIEDL SAID THAT GENSCHER'S OPINION WOULD BE CRUCIAL, AND HIS ATTITUDE WAS PROBLEMATICAL. HOWEVER, WE HAVE BEEN GIVEN TO UNDERSTAND BY FMOD THAT U S PRESSURE HAS MADE ITSELF FELT EVEN ON GENSCHER, AND ITS REINFORCEMENT NEXT WEEK (MY TELNO 640) SHOULD MAKE IT INCREASINGLY EFFECTIVE.

3. MY INDICATIONS VARY ON WHETHER THE COUNCIL DECISION WILL, AS TELTSCHIK ORIGINALLY TOLD ME (MY TELNO 566), COVER BOTH THE QUESTION WHETHER TO RAISE POLITICAL OBJECTION TO THE SALE AND THE QUESTION OF CREDIT GUARANTEES. RIEDL WAS DEFINITE THAT ONLY THE FORMER WOULD BE DECIDED, AND WHEN I POINTED OUT THE URGENCY OF PUTTING CREDIT ARRANGEMENTS IN PLACE BEFORE THE PRICES BECOME INVALID AT THE END OF THE MONTH, COUNTERED BY SAYING THAT NO APPLICATION FOR CREDIT HAS BEEN MADE BY INDUSTRY. WE HAVE THEREFORE ARRANGED WITH THE AID OF TIMMERMANN'S OFFICE, THAT MBB (THE GERMAN PARTNER IN TORNADO) WILL ESTABLISH BEYOND DOUBT WITH THE MINISTRY OF THE ECONOMY THE NEED FOR HERMES CREDIT (HIS UNDERSTANDINGS WITH THEM AND THE CHANCELLERY HAVE

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172642
MDHIAN 4850

UNTIL NOW APPARENTLY BEEN INFORMAL). IN THIS WAY I HOPE TO ENSURE THAT BANGEMANN WILL BE SUITABLY BRIEFED TO SPEAK ON THE CREDIT QUESTION IN THE FEDERAL SECURITY COUNCIL. WE HAVE ALSO ARRANGED FOR TIMMERMANN TO SPEAK TO SCHOLZ IN THE SAME SENSE.

4. THERE MUST HOWEVER REMAIN SOME DANGER THAT THE DECISION WILL COVER ONLY THE POLITICAL QUESTION AND NOT THE CREDIT ONE. IN THIS EVENT THE PROSPECT OF OBTAINING HERMES CREDIT WILL HAVE BEEN IMPROVED BUT WE WOULD HAVE TO RECKON WITH SOME DELAY BEFORE IT WAS DECIDED. WHILST WE WOULD IN THAT CASE DO EVERYTHING POSSIBLE TO PAVE THE WAY FOR A RAPID DECISION, IT WOULD CLEARLY HELP TO HAVE SOME GRACE BEYOND 30 JUNE, EVEN IF ONLY A FEW DAYS.

5. I AM SEEING SCHOLZ AT LUNCH ON 29 JUNE, JUST AFTER THE MEETING OF THE FEDERAL SECURITY COUNCIL AND SHALL REPORT IMMEDIATELY.

MALLABY

YYYY

DISTRIBUTION

71

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MR MUNRO
MR BOYD
SIR D MIERS
MR GOULDEN
MR CARRICK

ADDITIONAL 16

~~PS/NO 10~~
CABINET OFFICE

DESO, MOD
SEC(O) (C), MOD

NNNN

PAGE 2
CONFIDENTIAL



Prime Minister

①
CFC

PM/88/029

PRIME MINISTER

I think this is a satisfactory outcome. It gives the Malaysians the substantial civil aid they want. But it will still help to deal the defence deal if you are prepared to prop-over for two hours in Malaysian Defence Package Meeting to see Dr. Appabhai.

1. We agreed that I should chair a meeting of Ministers concerned to resolve the problems identified in the Defence Secretary's minute to you of 8 June, taking into account your view, recorded in Mr Powell's minute to Mr Hawtin of 9 May, that the Defence Secretary signed the Malaysian protocol for the Government and that the commitment would therefore have to be honoured in one way or another. I seek your agreement to the following joint recommendations, which emerged from the meeting of Ministers yesterday.

Agree?
(on both points)
CBP
24/6
/e
ms

2. As the Defence Secretary said in his minute, it is important to decouple civil aid from a direct linkage with the defence programme. Not only can we then maintain that we are complying with OECD rules, but we shall be better placed to defend ourselves in Parliament against criticism that we are committing a large sum of aid to a middle income country that does not need concessional resources, in order to induce it to place a defence order. We need to be able to demonstrate unambiguously that there is no link between ATP operations and defence sales, and that the nature of our ATP operations in Malaysia has not changed materially. We would argue that both the defence package and any increase in ATP operations were separate examples of the much improved Anglo-Malaysian relationship. More thought needs to be given to the public presentation of the package.



3. The letter from the Defence Secretary to the Malaysian Finance Minister must therefore, as the Defence Secretary said, deny the latter's request. But the separate letter from our High Commissioner to the Malaysian Finance Minister can be more forthcoming, and put a figure to the further support we are prepared to offer for development project contracts, through ATP grants plus normal ECGD export cover.

4. My colleagues and I then considered what figure we should use, and concluded that it should be based on a defence package of £1 billion, not £1.5 billion. £1 billion was the original figure when the Defence Secretary signed the protocol. This would imply aid of £200 million, not £300 million, ie 20% of the £1 billion package. We agreed at my meeting that this should consist of no more than £70 million of ATP, plus normal ECGD cover of about £130 million. There is no commitment to a specific period, but if it took 7 years to run off, the ATP element would represent 15% of the total ATP provision for mixed credits; and we all recognised that the commitment to Malaysia will preclude us from offering as much ATP as we might have liked to other countries. In passing, I should add that there was never any question of offering the Malaysians ATP alone to the value of £200-300 million, as paragraph 5 of the Defence Secretary's minute of 8 June might be read to imply: both these sums are several times in excess of the total annual ATP provision. As for ECGD, the combined total of maximum liability under the new package, existing commitments and the overdraft facility sought by GEC and BAe can just be accommodated within the existing country limit.

5. It was agreed at my meeting to redraft the texts of the two letters to the Malaysian Finance Minister enclosed with the Defence Secretary's minute to you, and I attach

/the



the agreed texts. They are modelled, in the case of the proposed letter from the Defence Secretary, on his Option A; and in the case of the High Commissioner's letter, upon the Defence Secretary's Option B.

6. If you are content with these texts, we shall instruct our High Commissioner to deliver both letters to the Malaysian Finance Minister, at approximately the same time, on Tuesday, 28 June, as the Malaysian Defence Minister calls on the Defence Secretary here in London.

7. We agreed that Malaysian demands for increased air services should be handled separately. There is a strong case for avoiding direct government-to-government talks; but these may become unavoidable.

8. We also agreed that future handling within Whitehall of defence sales contracts of this magnitude needed further examination. I propose to hold a meeting in due course to discuss these wider aspects.

9. I am sending a copy of this minute to George Younger, David Young, John Major and Chris Patten.

(GEOFFREY HOWE)

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DSP 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

Secretary of State for Defence
DEPARTMENT: TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

TO:

Copies to:

Top Secret

Malaysian Finance Minister

Secret

Confidential

Restricted

Unclassified

SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT

I much enjoyed our discussions in Kuala Lumpur in March, to which you referred in your letter of 23 March. You raised the question of aid for civil projects. We have, of course, considered this seriously, not least because we are very keen to continue and develop the commercial relationship between our two countries. I think you will know that the linking of aid to projects is governed by international rules which would preclude the sort of arrangement which you seemed to envisage at our meeting. However, I assure you, on behalf of my Government, that we will continue to explore new avenues of cooperation between our two countries. I will continue to give my personal support and backing to this.

Enclosures flag(s)

7/24/41
11:30 AM
3
1111

I was extremely surprised to learn today in
reply to which you replied in your letter of
11/20/40 that you raised the question of whether
I had suggested the use of "certain" materials
and that you had been advised by your
superior to advise me that the commercial relationship
between our two companies is a matter of
mutual interest and that you proposed to
be in structural steel which would produce the
kind of strength which you would be advised
to use for the purpose of making the
steel structure. I am sure that the
best interest of both companies is to
and that I will be glad to see you
and looking forward to your

Very truly yours,
[Signature]

DSP 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: High Commissioner

Reference
ML1AFZ

DEPARTMENT: TEL NO:

Your Reference

BUILDING: ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: Malaysian Finance Minister

Copies to:

PRIVACY MARKING

..... In Confidence

CAVEAT

SUBJECT:

1. As you will know, the British Government have provided financial support through our aid and trade provision (ATP) for several projects in Malaysia over the last few years. We have further considered the question of ATP on the basis of our enhanced cooperation in several areas relating to the development of Malaysia in general, and taking into account what we know of Malaysia's requirements for further eligible projects. I wish to confirm that we are willing to offer further support for contracts (through ATP grants plus normal ECGD export credit cover) of up to a total of £200 million, for development projects to be agreed mutually between our two Governments.

2. We look forward to entering into early discussion with a view to identifying eligible projects.

Enclosures flag(s)

④
cc/PC



MO 32/10L

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

2nd June 1988

Dear Charles

mt

Prime Minister

CDP
23/6.

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

The Prime Minister may wish to have a brief report on the British sales performance in the first quarter of 1988.

In this period British industry formally reported defence export contracts worth £556 million (including £294 million from pre-1988 contracts). This gives a provisional total of £3,400 million for 1987, our second best recorded annual performance. The major customers in this reporting period were Australia (13%), USA (13%), Jordan (9%), India (8%) and Oman (7%). A list of major contracts secured in the period is attached at Appendix A.

The United Kingdom's competitors signed a number of significant contracts in the period. These include the USA (\$3,800 million, including sales of 75 F16 aircraft to Israel, 4 F16s to Bahrain and TOW anti-tank missiles to Egypt); France (\$2,200 million, with Mirage 2000 aircraft to Jordan, Mirage F1 to Iraq, helicopters to Chile and upgrade and maintenance contracts to Saudi Arabia, Venezuela and Italy); and Austria (\$250 million, including a 10-ton truck contract for Canada).

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

a. Middle East

Saudi Arabia has agreed in principle to acquire 6 Sandown Class MCMVs, with a Government-to-Government agreement planned to be signed at an early date by the Defence Secretary and Prince Sultan of Saudi Arabia. The agreement will also outline requirements for other equipment including helicopters and aircraft. VSEL continue to pursue the long term prospect to supply submarines as well as the requirement to establish a Hydrographic service (£250

C D Powell Esq
10 Downing Street



million). The public announcement of Jordan's intention to purchase 8 Tornado IDS aircraft in February has been followed by detailed negotiations from March, with contract signature expected soon (£400 Million). Kuwait is still showing strong interest in the Challenger to meet its main battle tank requirement, whilst still looking at the Shorts Tucano and the Tornado for its varied aviation needs. Qatar is planning to acquire four strike craft, with Vosper Thornycroft well placed technically in the competition. The selection decision is due in September 1988 (£200 million). Following the Middle East tour of the Westland Blackhawk last year, interest is crystallising in this helicopter in Saudi Arabia, Bahrain and the UAE.

b. Europe

Marconi have commenced commercial negotiations with Finland to supply 20 Marksman gun turrets (£40 million). A decision is also expected in June on a new air defence radar, for which Marconi have proposed their Martello (£48 million). This will be followed by a decision on a new SAM system for which Rapier has been bid (ultimately valued at £120 million). Following the selection of the West German MEKO hull design by Greece, Vosper Thornycroft and Honeywell are making a joint proposal to supply the combat system. In Norway, a final decision on communications equipment between Plessey and other foreign suppliers has been delayed (£20 million). The competition to supply HF communications radios to Turkey is continuing, with a selection decision due in the next few months (£200 million).

c. The Americas

The Defence Secretary and his Canadian counterpart have agreed the text of an MOU relating to the proposed sale of Trafalgar to meet the Canadian SSN requirement. The US Government have also agreed in principle to the transfer of nuclear propulsion technology. A decision on the design to meet the requirement between Trafalgar and the French design, is expected in the next few months. Canada will be issuing a request for information for up to 250 new main battle tanks, to which Vickers Defence Systems are expected to respond. A Canadian industry team visited the UK in March to investigate collaborative opportunities with UK industry, to meet a Canadian requirement for MCMVs. In the USA, the Airship programme seems set to continue following Congressional action to re-instate \$40 million. The US Marine Corps are planning to trial the Royal Ordnance Combat Engineer Tractor in summer 1989 in competition with an American product (£78 million), support is being provided by the British Army. The US Army has expressed interest in the GEC Avionics Phoenix RPV, since the cancellation of their



own Aquila programme (£70 million); the ML Aviation Sprite RPV is also being evaluated in a damage assessment role using Nunn NATO foreign weapons evaluation funds. The Army will be carrying out a competitive evaluation of pallet loading systems, with the British Army selected Multilift product included (£140 million). British Aerospace have sold the HS 125 business jet, to meet the US Air Force requirement for a navigation inspection aircraft, with LTV of the USA leading the joint proposal (£55 million). A decision in Chile on the selection of the Seawolf is still awaited. In Colombia, Westland recently carried out a successful demonstration of the Lynx helicopter, a final decision being expected in August (£15 million). Alvis has signed a contract in Venezuela to supply Scorpions (£43 million), which represents one of the most significant defence sales in South America for some years. A major factor in the award of the contract was the availability of ECGD credit.

d. Asia, the Far East and Australasia

A Research and Development MOU was signed with India earlier this year, aimed at improving co-operation. Current problems in India are still restricting the placing of significant orders with overseas suppliers. Indonesia is still continuing discussions with British Aerospace over the supply of Hawk aircraft (£200 million), with a renewed interest being shown in Tornado. Westland remain well placed to secure the Navy Lynx contract in Korea, with a decision expected shortly (£100 million). Following a DESO Symposium (in February) on selling to this country, Racal has now signed a Technology Transfer agreement valued at several million pounds for the local manufacture of its equipment. The main highlight in this period was the signing by the Defence Secretary of a protocol document with the Government of Malaysia for the supply of a range of defence equipment over 5 years valued at at least £1,000 million. This could include Tornado; a major Command, Control and Communications project; and Rapier with Blindfire and Martello radars. Details are under negotiation and it is hoped to sign an MOU soon. Negotiations on the sale of PH70 howitzers are at the point of conclusion. Pakistan continues to show interest in acquiring Type 23 frigates although financial difficulties frustrate progress. In the interim, two ex-Royal Navy Leander frigates have been acquired (£18 million). In Singapore Plessey obtained a contract in March to supply communication switching equipment (£20 million). In March, HMG submitted to the Thai Government a proposed Military Assistance Programme, in order to comply with Thai regulations regarding credit for defence equipment purchases. This has now been agreed, but awaits final



Government approval which is expected in the next few months; several prospects await the successful conclusion of this matter.

e. Africa

Algeria has reached agreement with Tarmac Construction on the outstanding amount required to complete construction of the Gendarmarie barracks (£52 million). Botswana is showing interest in acquiring five additional Strikemaster aircraft (£5 million) following delivery of an initial batch of nine aircraft during April. A new military airfield is planned for the south of the country, which offers several opportunities for UK industry (£35 million). The Kenyan Air Force have a requirement for a basic training aircraft, and Shorts have a team in Kenya discussing the sale of 12 Tucano aircraft, including preferential ECGD terms (£25 million). A formal HMG offer including attractive ECGD credit terms has been sent by Minister (Defence Procurement) to the Government of Zimbabwe, to allow for the purchase of both air defence radars and an integrated missile defence system (£100 million).

I am sending copies of this letter to Bob Pierce (Foreign and Commonwealth Office), Zoe Everest-Phillips (HM Treasury), Steven Ratcliffe (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

Yours ever
James McCarthy

(S McCARTHY)
Private Secretary



Appendix A: Major contracts reported in first quarter 1988

Strachan & Henshaw Torpedo Launching equipment to Australia	£62M
Alvis Scorpion vehicle to Venezuela	£43M
Hunting BL 755 bombs to India	£31M
IHG Medical Services to Saudi Arabia	£22M
Vosper Thornycroft fast patrol craft to Jordan	£20M
Plessey cryptographic machines to NATO	£14M
Plessey AR 3D radar to Indonesia	£13M
Rolls-Royce Pegasus engines to USA	£12M
Marconi scimitar radios to Jordan	£10M
Racal radios to Cyprus	£9M
Plessey radios to Australia	£8M

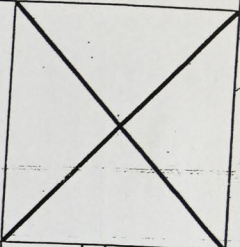


Appendix A: List of equipment received in fiscal year 1954

2424	Various electronic equipment for
2425	Various electronic equipment for
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2450	Various electronic equipment for

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1954

A The National Archives

DEPARTMENT/SERIES	PREM 19	Date and sign
PIECE/ITEM (one piece/item number)	2061	
Extract details:	Letter and attachment from Richard to Robson dated 22 JUNE 1984	
CLOSED UNDER FOI EXEMPTION	27(i)	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	20/3/18	nilin.
TEMPORARILY RETAINED		
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NUMBER NOT USED		
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DOCUMENT PUT IN PLACE (TNA USE ONLY)		

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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.

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DEPARTMENT/SERIES	Date and sign
PIECE/ITEM (one piece/item number)	
Extract details: minutes and attachment from Morrison to Powell dated 22 June 1968	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	20/3/18 Mr. Uin
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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 6/19/1E

21 June 1988

OW
 Dear Charles, or.

cc: [Signature]
 Ric. [Signature]
 008 23/6

SALE OF HMS SWIFT AND HMS SWALLOW TO REPUBLIC OF IRELAND

The Prime Minister will wish to be aware of the state of play on the proposed sale of HMS SWIFT and HMS SWALLOW, two Peacock-class patrol craft, to the Republic of Ireland, in case the Taoiseach raises it when they meet at Hanover later this month.

The two patrol craft were placed on the market earlier this year following our decision to withdraw them from service in Hong Kong. They are owned by the Royal Navy, but the Hong Kong Government is owed 75 per cent of their market value upon their disposal by sale or withdrawal from Hong Kong for service elsewhere. They are relatively new vessels, less than four years old, and at the time they were put up for sale in February there was no firm requirement to justify the estimated cost of keeping them in Royal Naval service.

When seeking tenders for the vessels, we encouraged the Irish to put in a bid. This they did after considerable heart-searching over their public expenditure constraints and repeated reference to the Taoiseach. In the event, their bid was the highest, although it remains conditional on appropriate financing arrangements, about which they have been in touch with the Commission in Brussels. But now that the Irish Government have appreciated the operational need for the vessels, it appears that they will, if put to it, come up with the finance themselves.

During the bidding process, an enhanced requirement for Naval support to security operations in Northern Ireland was identified. SWIFT and SWALLOW could meet this requirement and our Ministers have considered, therefore, whether the ships should be withdrawn from sale and retained in the Royal Navy. Alternative ways of meeting the additional Northern Ireland requirement are still being examined. But they may prove less effective; could involve the redeployment of RN ships from other tasks, such as Fishery Protection where there is at present no spare capacity; or may require the purchase of other ships for the Royal Navy at greater cost.

Charles Powell Esq
 No 10 Downing Street



Accordingly, and following consultation with FCO Ministers, we informed the Irish Government of the possibility of a Royal Naval requirement for the ships to operate in Northern Ireland and asked whether suspension of the sale would cause them difficulties. On instruction from Mr Haughey, they replied that they would be "bitterly disappointed" if the sale was not allowed to proceed.

FCO Ministers have advised that the matter at issue could cause real damage to Anglo-Irish relations and that, on the understanding that other ways of meeting our own requirement can be found, we should let the sale proceed. They have also pointed to the fact that the acquisition of the ships would improve significantly the capability of the Irish Navy to close a loophole in our common defence against the PIRA and against drug traffic. In the light of these considerations, Mr Stewart, the Minister of State for the Armed Forces, has agreed to accept this advice.

We propose, therefore, to inform the Irish Government that, in the light of their strong representations, the sale will be allowed to proceed but that they must confirm within a month that they intend to buy the ships, so that our own planning is not disrupted; otherwise, the ships will be retained in the Royal Navy.

I am sending a copy of this letter to Lyn Parker (Foreign and Commonwealth Office), Alex Allan (HM Treasury), David Watkins (Northern Ireland Office) and Trevor Woolley (Cabinet Office).

Yours sincerely
Brian Hawtin

(B R HAWTIN)
Private Secretary

A The National Archives

DEPARTMENT/SERIES	PREM 19	Date and sign
PIECE/ITEM (one piece/item number)	2061	
Extract details:	Letter from Bwell to Peirce dated 18 JUNE 1984	X
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TEMPORARILY RETAINED		
MISSING AT TRANSFER		
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DOCUMENT PUT IN PLACE (TNA USE ONLY)		

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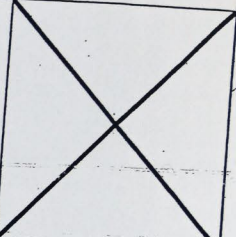
Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
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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.

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DEPARTMENT/SERIES	Date and sign
..... PREM 19	
PIECE/ITEM 2061 (one piece/item number)	
Extract details: minute from Powell to the Prime Minister dated 17 JUNE 1988	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	20/3/18 Mr. M.
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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.

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eg. HO 405, J 82.

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Enter extract details if it is an extract rather than a whole piece.

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dti

the department for Enterprise

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

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London SW1A 2HB

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

NB17

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16/6

Direct line 215 5422
Our ref DW3AKS
Your ref
Date 16 June 1988

John

MALAYSIAN DEFENCE PACKAGE

At the Prime Minister's request, George Younger, Geoffrey Howe and ourselves will be meeting shortly to see if we can find a way round the difficult problems relating to this package. However, in my view the main purpose of our discussions must be to see if we can find a way of taking advantage of possible civil sales on the back of the defence package without establishing unrealistic Malaysian expectations, which we will be unable to deliver.

I thought that it might be helpful if before the meeting I recorded my position on the subsidiary question of ECGD cover which you mentioned in your two letters to George Younger. The full implications will, of course, depend on whether a commitment of ATP availability is given and the amount of related ECGD cover that will then be required. I understand that there has been no recent discussion of ECGD country limits at official level, but ECGD are themselves ready to see a reasonable increase in the present level as the economy is diversified and the Malaysian debt service record so far has been exemplary. At the present time about £430m of cover is available and the uptake of cover remains fairly slow.

As you point out some ECGD support will be required for the defence package, but there is no question of additional credits being given to the Malaysians. (They will pay in cash from the oil sales). However ECGD cover has been requested by BAe/GEC for a £200-300m bridging facility (rather like an overdraft) so that the UK contractors are protected against temporary shortfalls between the amount in the dedicated oil escrow account and payments due to them under the cash

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contracts. ECGD would regard such a facility as a good risk as it would run for only a few years ahead and would, they hope, be doubly secured by a Malaysian Government guarantee as well as by the irrevocable assignment of the oil proceeds. Moreover interest rate subsidies are not involved. Therefore this support should not be equated with normal ECGD credit cover. I believe that both BAE and GEC regard the availability of such a facility as essential in order to protect their cashflow position and I trust that you will have no objections to it after the matter has been thoroughly discussed at official level.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger, Paul Channon, Chris Patten, Cecil Parkinson and to Sir Robin Butler.

G. C.
How



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I am copying this letter to the Honorable William H. Rehnquist, Chief Justice of the United States Supreme Court, and to the Honorable Earl Warren, Chief Justice of the United States Supreme Court.

[Handwritten signature]
[Handwritten name]

[Faint handwritten signature]

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Answer CSI, reply

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FCS/88/112

CHIEF SECRETARY TO THE TREASURY

Tornado for Jordan

- WITH COP/WILL REQUEST IF BOURGEOIS*
1. I have seen a copy of George Younger's letter to you of 9 June on whether we should be prepared, on a contingency basis, to provide increased cover for the sale of Tornado IDS aircraft to Jordan, should the FRG and/or Italy fail to give support to their respective work-shares.
 2. As I see it, the clear priority, given the huge sums at stake, is to make every effort to secure FRG and Italian cover for their work-shares. This we are doing, and shall continue to do. I raised the issue with Mr Genscher and Mr Shultz at Madrid last week. But the latest report - of which we are seeking confirmation - is that the Germans will not reply before 29 June. Even then, we cannot be confident of a helpful response.
 3. In the circumstances I do not think that the Prime Minister should tell King Hussein on 15 June that we will carry the credit insurance risk if the Germans or Italians fail to carry their share. This might get back to the Germans and relieve them of pressure to contribute.
 4. There are very strong political reasons for our seeing the Tornado deal through to its conclusion. But we must try to achieve this without jeopardising military and civilian contracts in other countries. How this can be done needs urgent further study by officials.

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5. I am copying this minute to the Prime Minister,
George Younger, David Young and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style. The signature is positioned to the right of the typed text.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
13 June 1988

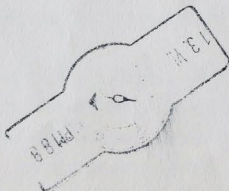


For copying this message to the Prime Minister,
George Younger, David Brown and Sir Robin Butler.

W

(SECRET COPY)

Foreign and Commonwealth Office
13 June 1958



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Treasury Chambers, Parliament Street, SWIP 3AG

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

Awar MON 22/5 // BIF
 CDP 13/6

13th June 1988

Dear Secretary of State,

TORNADOS FOR JORDAN

W/IA REQUEST IF REQUEST

Thank you for your letter of 9 June in which you seek agreement to increase ECGD's cover for the sale of Tornados to Jordan to £528 million.

As you will recall from my letters of 18 March and 18 April, my agreement to the earlier increase to £380 million for this prospective contract was on the understanding that no other major defence contracts which would have to be logged against the £1 billion allocation were imminent. I cannot therefore agree that any additional cover should be made available for this contract under the Section 2 allocation.

I am concerned that the increase which you now seek is your current estimate of the ECGD cover required to meet a refusal by the German and Italians to provide official support. The Export Guarantee Committee paper of 3 June anticipates a series of other options which would impose an increasing burden on ECGD. The financing arrangements for this deal remain unclear but the maximum total liability is estimated at some £783 million. Cover at that level would, of course, effectively close down the special Section 2 defence allocation for over 2 years.

It is also relevant that the EGC paper makes clear the concerns of the Bank of England about the Jordanian economy. The Germans have also expressed concern about the ability of the Jordanians to repay the loan required to purchase these aircraft. ECGDs exposure under Section 2 already exceeds a

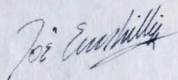
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prudent level and there is, of course, a requirement to review the market limit whenever cover for defence sales is logged under the special Section 2 allocation. The current balance of £40 million under the market limit provides no flexibility for any substantial reduction.

I fully recognise the political and strategic importance of this deal. But I cannot accept that these factors should be allowed to influence unduly the level of ECGD exposure on this market. The level of cover already offered is already far above a prudent level. In the absence, therefore, of any clear indication of German support for this deal, and the financing arrangements generally, I consider that the Prime Minister should be advised to confine any discussion with King Hussein about export credit support, to reaffirming that we will press the Germans very strongly to accept responsibility for their part of the project. There should be no commitment to review ECGD cover. It would be helpful if the Italian position could also be clarified shortly.

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

Yours sincerely,



for JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

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10 DOWNING STREET

From the Private Secretary

12 June, 1988.

Dee Bran,

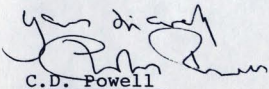
MALAYSIAN DEFENCE PACKAGE

The Prime Minister has considered the Defence Secretary's minute of 8 June about the Malaysian Defence Package. She has also seen the minute by the Chief Secretary of 10 June. Her views are:

- it is vitally important that we secure the defence package. It will make a substantial contribution to our exports, and thus a helpful contribution to the balance of payments.
- whatever commitment was given by the Defence Secretary in Malaysia must be honoured.
- this does not mean that the Malaysians can expect us to give them a commitment to a specific sum as high as £300 million for ATP. Anyway, it is not realistic for them to absorb that much.
- she would like the Ministers directly concerned - the Defence Secretary, the Foreign Secretary, the Chief Secretary and the Trade and Industry Secretary - to meet urgently and resolve the problem in a way which meets the points above, reporting to her. This should if possible be done before her departure for the Economic Summit.

I should mention that the Prime Minister now has it in mind to visit Kuala Lumpur briefly on her way back from Australia to see Dr. Mahathir. I shall be writing separately to the FCO about this.

I am copying this letter to Bob Peirce (Foreign and Commonwealth Office), Jill Rutter (Chief Secretary's Office, HM Treasury), Stephen Ratcliffe (Department of Trade and Industry), and Trevor Woolley (Cabinet Office).

Yes direct

C.D. Powell

Brian Hawtin, Esq.,
 Ministry of Defence.

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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

10th June 1988

Dear Secretary of State,

MALAYSIAN DEFENCE PACKAGE

I am extremely concerned to learn from your minute of 8 June to the Prime Minister that the Defence package has been re-costed at nearer £1.5 billion than £1 billion, and that you are also suggesting consequences for expenditure on ATP far in excess of the £70 million which I suggested in my letter to you of 7 June might be sustainable.

I expressed my worries in that letter about the export credit cover implications of both ATP support for civil projects and the possibility of cover being required for the defence sales package. Your current proposals take no account of these points. Indeed, your suggestion that ATP support might be increased to £300 million and the Defence package to £1500 million only serve to increase my concern. ATP support on this scale would alone require export cover of some £600 million - three times the Section 2 balance available within the present market limit for Malaysia, some of which is in any case likely to be needed for contracts currently being negotiated. Any cover for arms would need to be in addition to this. I repeat my concern that you should not seek any ECGD cover for the Defence package. In sum, I believe that it is imperative that we clarify the financing arrangements for this whole deal before we proceed any further.

I am copying this letter to the Prime Minister, Geoffrey Howe, David Young, John Wakeham, Paul Channon and Christopher Patten, and to Sir Robin Butler.

Yours sincerely,

for JOHN MAJOR

(Approved by the Chief Secretary

- signed in his absence)

January 1, 1950

Mr. [Name]
[Address]
London



I am extremely concerned to learn from your letter of 2 June...

I am convinced by your letter in that letter about the extent...

I am convinced by your letter in that letter about the extent...

Very sincerely,

[Handwritten signature]

[Printed name]

[Additional handwritten text]

PRIME MINISTER

MALAYSIAN DEFENCE PACKAGE

The attached note by the Defence Secretary summarises where we have got to with the Malaysian defence package. The size of the package seems now to have grown to £1.5 bn. There are really two separate problems:

- the level and nature of the ATP support which we should give to Malaysia. The Defence Secretary is talking of figures up to £300 m: the Treasury have in mind £70 m;
- how to find a way to separate the aid element from the defence sales element - since a link is against international rules - and yet provide the Malaysians with the necessary assurances that they will actually get aid for civil projects.

The Defence Secretary fears that we may lose the very substantial defence sales unless we can settle the matter soon. The Chief Secretary (whose letter is also attached) is aghast at the financial implications.

I am aghast at the possibility of losing this order and the impact on our B.P.

I think you are probably going to have to chair a meeting in due course to resolve this although it will be very difficult to find the time in the near future. Would you like me to send an interim reply making the following points:

- it is very important that we secure this business; *Yes*
- whatever commitment was given by the Defence Secretary in Kuala Lumpur must be honoured; *Yes*
- but this does not mean that the Malaysians can expect us to give them a commitment to a specific sum, let alone one as high as £300 m. In any case is it realistic to expect them to absorb that much? *No*

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- 2 -

- you would like the Ministers concerned to get together urgently and try to resolve this problem in an acceptable way which meets the points above, reporting to you. This should be done if possible before the Economic Summit.

Agree?

Yes

C.D.?

(C.D. POWELL)

10 June 1988

DCAAKM

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*File M
cc/c*

PRIME MINISTER

MALAYSIAN DEFENCE PACKAGE

The attached note by the Defence Secretary summarises where we have got to with the Malaysian Defence Package. The basic problem is to find a way to separate the aid element from the defence sales element and yet provide the Malaysians with the necessary assurances that they will actually get the aid. But there is also a problem between departments here over the level and nature of the civil aid, and whether we can give the Malaysians a figure. The Defence Secretary fears that we may lose the very substantial defence sales unless we can settle this matter soon.

You are likely to be asked to adjudicate and will want to wait for the Chancellor, Foreign Secretary and Trade and Industry Secretary to comment before reaching a conclusion.

C D POWELL

10 June 1988

SL3BBT

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17A-H code



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218

MO 6/17/7L

9th June 1988

BF || Amman (Play Sec) rmb
am

Dear John,

CBO
10/6.

TORNADO FOR JORDAN

You may know that King Hussein is calling on the Prime Minister on 15th June. The Tornado sale is an obvious candidate for discussion.

We have now heard from our negotiators in Amman that agreement had been reached on all aspects of the sale - including price and offset - and that the only outstanding issue preventing contract signature is the agreement to the provision of German (and to a lesser extent, Italian) official credit support for their national workshares. If the credit situation could be resolved in time, the Jordanians have indicated that they would be prepared to sign the MOU and related documentation during the week of 20th June, when their Commander-in-Chief is in London.

It would clearly be important - as a contingency and without prejudice to the eventual outcome - to agree a fallback position in case the Germans decline to provide credit support or have not made their decision by the time of the King's visit.

The history and importance of this project is well known and the political, defence and export credit aspects of the sale, together with the position on the Jordanian economy, are well documented in

The Rt Hon John Major MP



the EGC paper (EG(88)15) dated 3rd June, prepared by officials.
I enclose a copy for ease of reference.

For the reasons set out in that paper by the MOD and FCO officials, I now seek your agreement, and that of colleagues, to the UK providing the necessary credit support for the German (and Italian) workshares should this prove to be necessary to secure the sale.

Cover would be on the basis of the 55:45 risk sharing arrangement agreed for the UK workshare. According to the ECGD calculations in the EGC paper, this would increase their Departmental Maximum Liability by £174M (£126M FRG, and £48M Italy) to £528M. I should emphasise our confidence that the Italians will provide cover for their workshare, but colleagues would wish to be aware of the overall position. I would also emphasise that the actual contract price agreed by negotiators is, in fact, less than the £496M recorded in the EGC paper, and on which the £528M DML is based. We expect it to be nearer £480-485M and this will, of course, result in a reduction in total liability.

The total liability would, of course, have to be logged against the £1bn special arms limit and because of the importance that I attach to the sale, I have no hesitation in accepting that situation.

Agreement to this fallback position would in no way reduce the pressure being exerted on Bonn or Rome, and the card should only be played if the game were otherwise lost.

I would be grateful for the earliest possible agreement to my proposal, so that appropriate briefing can be provided for the Prime Minister's meeting with King Hussein.

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Copies of this letter go to Prime Minister, Sir Geoffrey Howe and Lord Young, and to Sir Robin Butler.

Yours very,
George

George Younger

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Repro 2 of 14

EG(88)15

June 1988

109
REGISTRY

HER MAJESTY'S TREASURY
EXPORT GUARANTEES COMMITTEE

JORDAN: TORNADOS

It was agreed at the recent EGC meeting that Departments would find it helpful to have background papers on the Jordanian economy, the political, defence and export credit aspects of this deal. Contributions from the Bank of England, FCO, MOD and ECGD are attached.

G T W JONES
MISS S L N DEVITT

HM TREASURY

JORDAN: ECONOMY (Note by the Bank of England)Overview

1. Jordan's record of careful management has, so far, enabled the economy to weather the regional recession reasonably successfully (real growth was 3.7 per cent in 1987 and inflation negative). But the economy remains extremely vulnerable because of dependence on Arab aid, remittances and regional trade; and prospects have worsened as a result of the Gulf war, continuing oil market uncertainties and recent problems in trade with Iraq.

Real economy

2. The growth targets (5.5 per cent) of the 1986-90 Five Year Plan (and its financing) were always ambitious, as the authorities now accept. In 1988, growth is expected to slow to 2 per cent. Unemployment is already high (officially 9 per cent, unofficially 17 per cent) and is likely to be exacerbated by demographic pressures in the next decade. Population growth is now 4 per cent per annum, with 50 per cent of the population below the age of 15, and high educational standards mean that Jordanians are unwilling to do manual work traditionally done by foreigners.

Fiscal

3. There are long-standing structural weaknesses in the budget (which excludes defence expenditure and royal accounts). Despite ad hoc adjustment, the 1987 budget deficit was JD220 million (13.1 per cent of GNP), again much larger than projected. For 1988, the authorities - optimistically - project a lower deficit of JD110 million (\$325 million) based on higher tax revenues and cuts in parastatal expenditure. On past form, however, the deficit could be around JD200 million (\$600 million), particularly as job-creation is a major priority.

External

4. Despite an improvement in the trade deficit in 1987, the scope for further improvement is limited while world prices for Jordan's principal exports (phosphates and potash) remain depressed. Continued import compression (reinforced by an

across-the-board increase in import tariffs in November 1989 may not be sustainable if growth is not to weaken further. Although the IMF projects rough balance in the overall balance of payments position in 1989-92, this assumes sustained high inflows of Arab aid and inward remittances, which are unlikely to materialise. The 1978 Baghdad Summit Agreement expires this year and only Saudi Arabia is honouring its commitments (\$360 million per annum). Even with a \$300 million Japanese loan in the pipeline (terms yet to be agreed), official hopes of annual aid flows of over \$600 million look very ambitious. The prospects for remittances from Jordan's estimated 330,000 expatriate workers are equally uncertain. The IMF report a 22 per cent fall in remittances in 1987 and the region remains in recession. Even if (skilled) Jordanians are among the last to be sent home, salaries have been substantially reduced in many cases.

Jordan/Iraq

5. The vulnerability of the external position has been exposed by serious problems in trade with Iraq, Jordan's main export market. At end-April, the Central Bank of Jordan suspended payments on Iraqi L/Cs under bilateral trade/credit arrangements. This was prompted by the substantial build-up of Iraqi trade arrears (reportedly close to \$1 billion); heavy drawings on the facility in the first quarter, which exceeded the annual value of the protocol for manufactured goods; and a severe erosion of foreign exchange reserves. The Central Bank also suspended sales of foreign currency to local banks, which led to sharp fluctuations in the value of the dinar, but has since resumed intervention after sizable borrowing from local banks and - delayed - payment of Saudi aid.

6. With an uncertain outlook for future trade with Iraq, confidence in the private sector and throughout the financial system has been badly hit. Several local firms could go bankrupt, with knock-on effects for growth and employment, but a support operation would be expensive in budgetary terms. The authorities have ruled out a formal devaluation but Jordan may have to approach the markets this year. Although the last borrowing was eventually successful, bankers closely involved expressed doubts about

Jordan's ability to tap the market again. Total debt now stands at around \$5 billion (excluding military/oil loans) and the debt service ratio is already high (officially 20 per cent, again excluding sizable military debt) and set to rise further by 1990. (75 per cent of ECGD's exposure is, of course, military and the Tornado contract would take the proportion much higher.)

TORNADO - POLITICAL ASPECTS (Note by the FCO)

- Prime Minister's personal commitment to King Hussein on this deal; symbol of close relationship between two countries and our support for King Hussein's position as a moderate on regional issues (notably Arab/Israel). Foreign Secretary clearly on record that sale of Tornado to Jordan of political, strategic and military importance.
- King Hussein committed to seeing contract go through to purchase of new aircraft, as basis for next generation of Jordanian air defence.
- Risk of increased Soviet influence in Jordan if he were forced to buy MiG 29. He has stated his firm preference for Tornado, but his first duty is to maintain operational standards of RJAF.
- Recently announced Mirage deal not connected with the main issue. Mirage contract relates to new defence role. Choice remains open for Jordan's counter-air requirement.
- If Germans refuse cover, and if no further UK credit is available, the deal will almost certainly fall through, with serious effects on Western standing in the region, and on Jordan/UK and Jordan/FRG relations in particular. Hard to calculate overspill into other regions: although commercial interests might not be greatly damaged, Western defence interests in the region would experience a severe set-back, with the Jordanians probably moving closer to the USSR and other Arab regimes losing confidence in the support they can expect from the West, and in particular Europe. Politically,

withdrawal from the sale would send exactly the wrong signal at a difficult time in the region, and would undermine our aim of encouraging moderate Arab policies on Arab/Israel and Iran/Iraq.

- The Americans are in favour of the sale. Shultz is likely to send a message to Genscher to reassure the FRG that the US has heard no complaints about it from Israel since the proposed deal was announced in London. They are concerned about increased Soviet influence in the area were it to fall through. We doubt if they would react against the UK should this happen, since they know the efforts we have made; and it was because of their own inability to sell the F18 that the Jordanians turned to Tornado. But we would expect them to be disappointed at German wetsness.

- If Germans refuse cover and we fill the gap, our own standing with Hussein and other moderates will be considerably enhanced. The damage to wider Western interests, listed above, will be avoided. (The effect on Jordan/FRG relations is hard to assess: the Jordanians will probably react with sorrow more than anger).

TORNADO - CONTRACT STATUS AND AIR DEFENCE ASPECTS (Note by MOD)

King Hussein and the Prime Minister have already reached an understanding that Jordan will buy 8 Tornado IDS aircraft. This created a positive framework for the subsequent Government to Government negotiations on the terms including price and credit. These have gone well and apart from the German credit issue, we see no major obstacle to concluding an agreement with the Jordanians well before the end of June deadline (when the suppliers' price offers expire). The only major points outstanding are final agreement on price and offset. Everything else - specification, programme and terms of contract - is essentially agreed.

2. On price there is still a small gap between the two sides. Our best guess at this time is that we are heading for an eventual contract price slightly below £500 million though the final figure

uld be lower if the Jordanians were willing to make real economies in the scope of the package. The Jordanians are also seeking offset in the form of British investment in joint venture companies. They claim to be only interested in economically viable projects but at the same time are pressing for a firm commitment from our side before viability is proven! A number of possible projects have been identified and, provided we can safeguard them against the risk of building white elephants, BAe has indicated it is prepared to consider these (further discussions with BAe are planned for 26 May) and we are hopeful that it will prove possible to find a formula that will both protect its position and satisfy the Jordanians.

3. The Jordanians are convinced that they need these aircraft to provide them with the counter-air capability which is nowadays recognised as a necessary element in an effective air defence plan. If they are unable to acquire Tornado IDS, they will not only feel that we have let them down but will seek to procure another aircraft instead. The two choices open to them are the Mirage 2000 and the MIG 29, both of which are primarily air defence (air-to-air combat) aircraft. While both also have a broadly comparable secondary ground attack capability, this falls considerably short of the performance of the Tornado IDS. Buying 8 additional Mirage 2000 aircraft would give the Jordanians the benefit of logistic standardisation but the French may have difficulty raising the additional credit over and above that for the present 12 aircraft, which we believe they were able to put together only with difficulty. The low price and generous credit terms which we know the Soviet Union has offered to Jordan for the MIG 29 and a wish to spite the West for denying him the sophisticated aircraft he really wants, could provoke King Hussein into buying the MIG 29 instead. It is difficult therefore to predict at this stage which aircraft he would buy, even if credit for additional Mirage 2000s were to be available.

EXPORT CREDIT ASPECTS (Note by ECGD)

When Ministers agreed cover under the new £1 billion Defence Limit for the UK portion of this contract it was on the basis of a UK contract value of £300 million. It was agreed ECGD could

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cover up to 60 per cent of this which, on the basis of 60 per cent credit over a maximum of 10 years (first repayment 5 years from contract), would involve a maximum ECGD liability of £385 million if capitalisation of interest had to be agreed. In practice in negotiations the terms have been offered to the Jordanians with the exception of capitalisation of interest and ECGD cover has been kept to 55 per cent.

In the light of recent negotiations and expected price adjustments the contract value now looks like being -

UK	£333 million
German	£118 million
Italian	<u>£45</u> million
TOTAL	£496 million

The UK element results in an ECGD maximum liability of some £353 million on the basis of 55 per cent cover. On the basis of previous statements by the banks and BAe, the banks are expected to fund some £60 million and BAe and their sub contractors the balance.

ECGD support for the UK portion has been agreed on the basis that support for the same terms would be available from Germany and Italy for their shares. If the German and Italian credit insurers do provide cover it is not clear whether they will provide their normal percentage cover (85 per cent - 90 per cent) or would seek to follow ECGD and cover only 55 per cent. Neither is it known at this stage what the attitude of the German and Italian banks would be, although when the original terms (8 years credit from mean delivery) were proposed MBB and the German banks indicated they could provide these terms without Hermes support if necessary; there is now however some doubt about this.

Given the doubt there now is over the availability of Hermes cover there is a need to consider what the effect would be if ECGD support was required for the £118 million German element. Because it is unclear to what extent German banks would be prepared to provide funds we must look at various options and the different

H

ditional liability each produces. It has been assumed that the Italian Government will support the Italian share, although confirmation is awaited. Nevertheless it seems sensible to assess the impact of the UK being asked to take on that share as well because the Italians could well follow the example of the Germans if the latter should refuse support. The following options assume that ECGD cover for the UK portion remains as at present, ie 55 per cent producing a liability of £353 million, and show the total liability involved if support was provided for the German (c) and both the German and Italian Shares (d) -

Assumptions	(a) Liability on German element	(b) Liability on Italian element	(c) Total UK + (a)	(d) Total UK +(a)+(b)
1 ECGD covers total credit amount	£187m	£71m	£541m	£612m
2 ECGD covers 55%	£126m	£48m	£480m	£528m
3 ECGD covers difference between original terms (8 years from mean delivery) and current terms	£77m	£29m	£431m	£460m

Notes (i) If ECGD covered the total credit amount in respect of the German and Italian shares (as in 1) it would seem unrealistic not to do the same for the UK share. The liability on the UK portion would then be some £525 million producing a total liability of £783 million.

(ii) It has been suggested that the German banks may be unable to take on a horizon of risk longer than 8 years from date of contract. If that was the case then option 2 should effectively deal with that situation.

ECGD support under any of the options above would result in a liability in excess of the figure of £385 million already agreed by Ministers, and would take commitments under the new Defence Limit significantly above the one third figure.

All of these assumptions are based on interest make-up being available only for the UK portion. With a UK contract value of £333 million interest make-up would be likely to total £13 million.

13 SEP 1954
MORNING



MO 6/19/7L

PRIME MINISTERMALAYSIAN DEFENCE PACKAGE

In his ^{at flap} letter of 9th May your Private Secretary referred to the problems which had arisen since the signing, on 23rd March, of a Protocol covering a package of Defence Exports to Malaysia. This note identifies these problems and discusses the way ahead, and possible consequences.

2. Immediately prior to the signing of the Protocol the Malaysians made a request for civil aid to be made available to them over an unspecified period up to a level of 20% of the value of the defence package. This was estimated at the time to be £1bn. The Protocol accordingly noted the Malaysian request and said that the matter would be discussed in the context of the Memorandum of Understanding (MOU) for the programme. The MOU would commit both parties to the extent of the UK providing a Project Team and other services, the cost of which would be met by the Malaysians.

3. The first problem was one of decoupling civil aid from a direct linkage with the defence programme to comply with OECD rules. A draft letter for this purpose has been prepared as the "First Letter, Option A" attached. It is proposed that I should send this letter to the Malaysian Finance Minister in order to deny his request. Although the draft has been cleared by officials, I consider the language to be unnecessarily bleak and, given Malaysian sensitivities over the recent BBC "Newsnight" programme, would prefer to write in the somewhat more expansive terms of "First Letter, Option B". I hope that you and other colleagues can agree to this.



4. The next problem arises out of the level and nature of the civil aid itself. It has been suggested by colleagues that the Malaysians are in fact looking for a cash grant of some £200M in direct support of the defence programme, instead of ATP to that amount for civil projects. I have to say that we have no evidence to support this view and, in the unlikely event that this is the Malaysian objective, there could be no question of such aid coming from the Defence Budget. The first letter, rejecting linkage to the defence programme, should deal with that point.

5. Evidence thus far instead points to Dr Mahathir wanting an assurance of aid, under the Aid and Trade Provisions (ATP) Programme, up to a certain level. The figure of £200M which was in his mind has now been increased to £300M to reflect their subsequent costing of the Defence package at nearer £1.5bn than £1bn. We would not argue with that potential valuation of the Defence package over time. But colleagues have been unable to agree to any specific figure of this nature (even though the period of achievement is not specified) because of the adverse affect that this will have on the cover available, both in the form of ATP and associated ECGD credit, to other countries. Officials have therefore prepared the text of a second letter which would simply offer to discuss future prospects with the Malaysians. This is attached as "Second Letter, Option A" and it is planned that this should be sent from the High Commissioner in Kuala Lumpur to the Malaysian Finance Minister.

6. But I should record my view that without a reference of some kind to a level of civil aid, the MOU and hence the Defence package could be at risk. The Americans are already fighting back and are sending a strong team to Kuala Lumpur in mid-June aimed at selling F16 in lieu of Tornado, supported, I understand, by commercial proposals which are attractive to the Malaysians. It also seems to me that there could be considerable advantage to the UK as a whole in committing such a figure, as it would tie the Malaysians to placing contracts with UK companies for the vast majority of their civil



programmes over the coming years. I therefore would prefer a letter on the lines of "Second Letter, Option B" attached which I believe would help to keep our Defence package to the forefront. Despite the caveats attached to the figure of £300M, I understand that colleagues will not be able to accept it and that, if such a text is used at all, the passage in square brackets would have to be omitted. As I have said, there can be no question of aid being provided from the Defence Budget. I must rest, therefore, on the views of my colleagues and ultimately on your decision on how we should proceed on this question. But it is only right that you should be aware that the Defence package and the civil work resulting from the aid programme represent a volume of work for British Industry that cannot easily be ignored.

7. The Malaysians have also been pursuing the question of further flight frequency allocations for Malaysian Airline Systems (MAS). Currently they have 5 flights per week and are seeking to increase that to 6 or even 7. Officials in the Department of Transport have indicated that agreement to such a request might be possible following talks between the two airlines in June, and between officials of the two Governments after that, possibly in September. This Malaysian request appears to have occupied a lower order of priority than that of civil aid but it cannot be denied that they might well return to it in the context of the Defence package before any MOU is signed. We have undertaken to keep the Transport Department informed of any approaches to us on the subject and obviously we would not make any commitments on this in our discussions with the Malaysians.

8. The Malaysian Defence Minister is expected to visit the British Army Equipment Exhibition later this month and will be calling on me. Progress on the Defence package will clearly be the principal item for discussion and it would be helpful to know your views and those of colleagues in time to permit further negotiations to take place before then.

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9. I am sending copies of this minute to the Secretaries of State for Foreign and Commonwealth Affairs, Trade and Industry, and Transport, the Chief Secretary, the Minister for Overseas Development, and to Sir Robin Butler.

Ministry of Defence

8 June 1988

C.Y.

CONFIDENTIAL

CONFIDENTIAL



LETTER TO MALAYSIAN FINANCE MINISTER FROM SECRETARY OF STATE FOR DEFENCE

First Letter - Option 'A'

In the course of our discussions in Kuala Lumpur in March, to which you referred in your letter of 23rd March, you raised the question of aid. We have considered this very seriously but I have to tell you that we cannot meet this request since the linking of aid to defence projects is not permissible under international rules on the use of aid.

First Letter - Option 'B'

In the course of our discussions in Kuala Lumpur in March, to which you referred in your letter of 23rd March 1988, you raised the question of aid for civil projects. I wish to inform you that my Government has considered this matter very seriously in the light of the Malaysian Governments wish to see some British Government commitment to such aid bearing in mind the basis of exclusive negotiation with British defence equipment suppliers.

Our efforts are, however, seriously hampered by international rules which prohibit the linking of aid to defence projects, and I accordingly have to inform you that we are unable to meet your request. But I am certain that with your understanding and cooperation in this matter our mutual efforts to enhance the existing goodwill and understanding between our two Governments will continue to produce results. Meanwhile may I assure you, on behalf of my Government, that we will continue to explore new avenues of cooperation between our two countries including those set out in the Protocol signed on 23rd March 1988 and which I discussed with you during my visit.

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Please be assured of my continuing personal support and backing for the prospect of greatly increased co-operation between our two countries that successful conclusion of the Defence Procurement Programme would bring.

CONFIDENTIAL



LETTER TO MALAYSIAN FINANCE MINISTER FROM HIGH COMMISSIONER

Second Letter - Option 'A'

As you will know, we have provided support through our Aid and Trade Provision for several projects in Malaysia over the last few years. We remain keen to increase the volume of this business. We would like therefore to look closely with you at future prospects in this connection and would be prepared to consider providing ATP in support of eligible projects.

We look forward to discussing this with you in greater detail in the near future.

Second Letter - Option 'B'

As you will know, the British Government has provided financial support through our Aid and Trade Provision (ATP) for several projects in Malaysia over the last few years. On the basis of our enhanced cooperation in several areas relating to the development of Malaysia in general, and taking into account what we know of Malaysia's requirements for further projects which could be eligible for ATP we have further considered the question of ATP and wish to confirm that we are willing to consider an increase in the level of such aid [perhaps up to a figure of £300 million in support of a number of civil projects to be implemented over a period of time to be agreed.] We look forward to entering into early discussions with a view to identifying eligible projects.



LETTER TO MALAYSIAN FINANCE MINISTER FROM HIGH COMMISSIONER

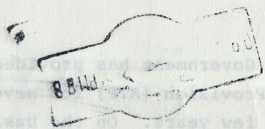
Second letter - Option 'A'

As you will know, we have provided support through our AID and Trade Provision for several projects in Malaysia over the last few years. We remain keen to increase the volume of this business. We would like therefore to look closely with you at future projects in this connection and would be prepared to consider providing AID in support of eligible projects.

We look forward to discussing this with you in greater detail in the near future.

Second letter - Option 'B'

As you will know, the British Government has provided financial support through our AID and Trade Provision for several projects in Malaysia over the last few years. On the basis of our enhanced cooperation in several areas relating to the development of Malaysia in general, and taking into account what we know of Malaysia's requirements for further projects which could be eligible for AID we have further considered the question of AID and also to confirm that we are willing to consider an increase in the level of such aid (perhaps up to a figure of £300 million in support of a number of civil projects to be implemented over a period of time to be agreed.) We look forward to entering into early discussions with a view to identifying eligible projects.



CONFIDENTIAL



CCP

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

CCP
76.

For George,

7th June 1988

MALAYSIAN DEFENCE PACKAGE

Flagged

I have now had a chance to look at the correspondence about the Malaysian defence package, not all of which was copied to Treasury ministers at the time.

The protocol which you signed in Kuala Lumpur departs significantly from the proposals you circulated before your visit. The passage on aid was quite new. It speaks of "aid in support of non-military aspects under this programme, the type, terms and conditions of which shall be mutually determined by both governments" and goes on to say that HMG "has taken note of the Malaysian Government's desire that this grant should amount to no less than 20 per cent of the value of defence equipment and this will be discussed in the context of the Memorandum of Understanding".

The Prime Minister has already commented that the commitment will have to be honoured in one way or another. I understand that the present intention is to 'decouple' the question of aid from the defence package itself. (I agree that this is essential if we are to avoid being criticised for breaking the international rules: your Private Secretary's letter of 6 May makes this clear). My officials have seen and agreed the two separate draft letters to the Malaysian authorities which have been prepared for this purpose.

The second of these drafts, dealing with aid, deliberately does not mention numbers. I believe the hope is that our commitment could be honoured by providing around £70 million

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of ATP grants, together with export credit of about £130 million, over a number of years - if Malaysia can put forward sufficient projects. The ATP would come from the existing PES allocation. The export credit - depending on when it is needed - might require an increase in ECGD's current market limit for Malaysia. (I return to this point below.) This would be an acceptable solution to the very difficult problem which we now face. But it is clearly important that all concerned in the negotiations do not go beyond this point. I must emphasise that there is no question of additional central funds being made available. Any extra costs which cannot be accommodated within the ATP must come out of existing departmental programmes - yours or Geoffrey Howe's.

Export credit could be more difficult. ECGD has been asked to carry out an early market review. But the present limit is not large enough to accommodate the whole £130 million for new civil business if it all came forward at once. I shall be prepared to consider any suggestions for an increase which David Young, or ECGD on his behalf, may put forward. But, despite recent improvements, the Malaysian economy is still very exposed to movements in world commodity prices, and I should find it difficult to agree to a large increase.

For that reason I was very concerned to discover that export credit might also be needed for the defence sales package itself. I quite specifically drew attention, in a letter dated 26 January, to the problems this would cause. I therefore hope that you will be able to revert to your original plan, and conclude the defence sale without the need to provide cover.

Finally, may I say that this case illustrates very well the importance of full prior consultation with all Ministers or Departments concerned. I recognise the pressures that can arise in large defence sales - the Tornado sale to Jordan was another recent example. But it should be possible in such cases to clear proposals with all interested departments very quickly. In particular, the Chancellor or I need to be aware of proposals involving direct or indirect costs and David Young of those involving ECGD cover, and we need time to comment before the Government becomes committed to a particular position.

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

Yours Ever,
John

JOHN MAJOR

DEFENSE: Sales

CONFIDENTIAL

PT 10

of the general condition with export credit of about \$100 million over a number of years - if Malaysia can put forward sufficient proposals. The APT would have to be the existing IMF allocation. The report would be dependent on what is needed - might require an increase in ECDF's current market rate for Malaysia. It is not clear from the report (this is not a separate solution) that the very difficult problem which we now face. But it is clearly apparent that all concerned in the negotiations do not see beyond this point. I must emphasize that there is no question of additional central funds being made available. Any extra funds which cannot be accommodated within the APT must come out of existing departmental programmes - yours or

Export credit could be more difficult. ECDF has been asked to carry out an early market review. But the present limit is not large enough to accommodate the whole \$100 million for the whole of Malaysia. I am sure that you will be prepared to consider any suggestion for an increase which would be in line with the APT. But I must emphasize that I am not sure that the Malaysian economy is still very exposed to movements in world commodity prices, and I should like to discuss it with you in a larger context.

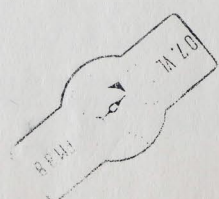
For that reason I was very concerned to discover that export credit might also be needed for the balance of payments. I quite specifically drew attention in a letter dated 25 January, to the problems this would cause. I therefore hope that you will be able to revert to your original plan and continue the balance sale without the need to provide cover.

Finally, may I say that the same discussion very well the importance of full prior consultation with all Ministers and departments concerned. I emphasize the presence that any case in large balance sale - the Toronto sale to which was made a number of months ago. But it should be possible to find some other proposals with all interested departments very actively in particular, the Department of Finance and Development of those involving direct or indirect costs and David Jones of those involving ECDF cover, and we need time to consider before the Department of Finance, particularly in a particular direction.

I am copying this letter to the Prime Minister, to David Jones, David Young and to John Wakeham.

John Wakeham
David Young

JOHN WAKEHAM



Rie Minister

②

CAF 2/6

PRIME MINISTER

7 June 1988

Saudi Minesweepers Order

You might like to know that, according to Roy Withers, the Chairman of Vosper Thorneycroft, the negotiations with the Saudis over the purchase of minesweepers are going splendidly. After a visit to Riyadh by Colin Chandler and the personal intervention of the King, a deal is now expected to be signed by mid-July, though we should not perhaps count our chickens until they are hatched. Mr Withers attributes it to your intervention with the Navy which, in his words, "got everyone thinking in terms of the national interest and not merely their service or sectional interest."

mt

John O'Sullivan

JOHN O'SULLIVAN

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Bill
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1 June 1988

PRIME MINISTER

Handwritten Note

You might like to know that, according to Roy Wilkins, the
Chairman of Wagner Foundation, the negotiations with the
Soviet over the purchase of newspapers are done
separately. After a visit to London by Colin Chantler and
the personal intervention of the King, a deal is now
expected to be signed by the July, though we should not
perhaps count our chickens until they are hatched.
Mr. Wilkins attributes it to your intervention with the King
which, in his words, "got everyone thinking in terms of the
national interest and not merely their own or national
interest."

John O'Sullivan

JOHN O'SULLIVAN

1988 JUN 1 11 20 AM

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>2061</i> (one piece/item number)	
Extract details: <i>Letter from Powell to Galsworthy dated 7 JUNE 1988</i>	X
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>20/3/18</i> <i>M. Min</i>
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/SERIES	PREM 19	Date and sign
PIECE/ITEM (one piece/item number)	2061	
Extract details:	minute from Powell to the Prime Minister dated 6 June 1988	X
CLOSED UNDER FOI EXEMPTION		
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	2013/118	M. W.
TEMPORARILY RETAINED		
MISSING AT TRANSFER		
NUMBER NOT USED		
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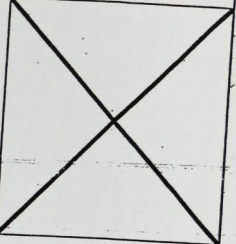
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A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>2061</i> (one piece/item number)	
Extract details: <i>letter and attachments from Galsworthy to Powell dated 6 JUNE 1989</i>	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>20/3/18</i> <i>M. L.</i>
TEMPORARILY RETAINED	
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THE GENERAL ELECTRIC COMPANY, plc.
1 STANHOPE GATE · LONDON W1A 1EH
01-483 8484

R. A. Rankin
CDB

3rd June, 1988

Dear Margaret,

Thank you for your letter of ^{11/06} 26th May, 1988
about the Anti Radar Drones.

I am most grateful to you for looking into the matter, and would also pay tribute to David Trefgarne and his procurement staff for what they have done to help. There remain a couple of points which need further clarification.

Unless I misunderstand the position, there will be no acceptable "off the shelf" choice if the Dornier proposal goes ahead, unless, of course, UK is prepared to accept something less than the Draft Staff Requirement.

And I am puzzled by the reluctance to use the magic words "collaborative venture" with the Germans,

/.....

: 2 :

when the notion is so hedged about with caveats that there is no effective limitation on MOD's freedom of action.

However, we will pursue these points with David Trefgarne and Peter Levene, and hope to arrive at a satisfactory outcome without troubling you further.

Yours,

Arnold

Lord Weinstock

The Rt. Hon. Mrs. Margaret Thatcher, MP,
10, Downing Street,
LONDON, SW1.

DEFACE: Salvo P10

When the notice is so treated that with covers that
there is no effective limitation on DOJ's freedom of
action.

However, we will discuss these points with
David Tetterton and Peter Levens, and hope to arrive at
a satisfactory outcome without troubling you further.

Handwritten marks, possibly initials or a signature.

Lord Weinstock

The Rt. Hon. Mrs. David Tetterton, B.
17, Downing Street,
LONDON, SW1.



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Ian Andrews Esq
 Private Secretary
 Ministry of Defence
 Main Building
 Whitehall
 London
 SW1

CDP
 3/6.

2nd
 June 1988

Dear Ian,

TORNADOES FOR JORDAN

We spoke ^{Mar} about the handling of the recent letter from the Prime Minister to Chancellor Kohl. Our concern is that although your letter to Charles Powell and accompanying draft for the Prime Minister were dated 16 May our copy did not arrive until the afternoon of 18 May, too late for the Treasury to comment since the Prime Minister's letter had been sent that morning (See Charles Powell's letter of 18 May). Without wishing to impose bureaucratic hoops on you, I should be grateful if you would ensure that all future correspondence in which we have a clear interest does actually reach us promptly. We would have wished to comment but were not given the opportunity to do so.

On substance, we are concerned that the Prime Minister should have been advised to link German support for the Tornado deal to UK support for Airbus sales to Jordan. Financing for the latter is likely to prove difficult and complex. We do not even know the extent of Jordan's likely request. It seems premature therefore, to enter into even implicit commitments at this stage.

I am copying this letter to Charles Powell (No.10), Bob Peirce (FCO) and Trevor Woolley (Cabinet Office).

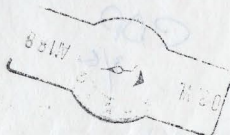
Yours ever,

ZOË EVEREST-PHILLIPS
 Assistant Private Secretary

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AF



Mr Andrew ...
Private Secretary
Ministry of Defence
Crest Building
Whitehall
London
SW1

2 June 1980

Dear Sir,

YOUR REFERENCE TO ...

We agree that the handling of the cover letter from the Prime Minister to General Sir ... Our concern is that although your letter to Charles Powell and accompanying details for the Prime Minister were dated 18 May our copy did not arrive until the afternoon of 19 May. ...
The Prime Minister's letter had been sent with covering details to Charles Powell's letter of 18 May. ...
I should be grateful if you would send me all future correspondence in which we have a direct interest. ...
We would also wish to continue to have the opportunity to ...

On 18 May we are informed that the Prime Minister's letter to Charles Powell was dated 18 May. ...
We are sorry to hear that the letter was not received until the afternoon of 19 May. ...
We would be grateful if you could advise us of the date when the letter was received. ...

I am copying this letter to Charles Powell (No. 101) and Trevor Woolley (Cabinet Office).

Handwritten signature and date



file VC4AXL
pk

10 DOWNING STREET

LONDON SW1A 2AA

31 May 1988

From the Private Secretary

ANTI-RADIATION DRONE

Thank you for your letter of 24 May about the Anti-Radiation Drone. The Prime Minister subsequently wrote to Lord Weinstock in the terms of the revised draft enclosed with your letter.

Lord Weinstock has now made a number of additional points orally to the Prime Minister:

- he accepts that there is no question of the United Kingdom participating in a joint development project for an ARD involving expenditure from the defence research budget;
- anyway the bulk of the research and development work is done and he accepts that any further such work would be the sole responsibility of MDS/MBB;
- he also accepts that there is not yet an agreed staff requirement (ASR) for the Anti-Radiation Drone;
- what he wants is a statement from us that, were we to have an ASR for a drone, we would meet it by purchase of the MDS/MBB drone;
- in expressing this conditional intention, we would refer to the MDS/MBB drone as a 'joint Anglo-German project'. This is apparently important for the purpose of seeing-off the challenge from the competing Dormier project.

The Prime Minister thinks that, if we can obtain a satisfactory written assurance from Lord Weinstock that there would be no question of contributing to the development costs; and if we can satisfactorily safeguard our position on the price in the event of a purchase, then we should be prepared to look rather more sympathetically at Lord Weinstock's case. But she acknowledges that there may be aspects of which she is not aware. She would be grateful if the Defence Secretary could consider the matter personally.

C.D. POWELL

Ian Andrews, Esq.,
Ministry of Defence.



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

26 May 1988

Dear Arnold,

Thank you for your letter of 11 May about your attempts to promote Anglo-German cooperation over the supply of an Anti-Radar Drone (ARD). The subject has become hugely complex, but the main points are:

- We do not yet have an agreed requirement for an ARD, although it is probable that we shall have one.
- If we do eventually decide that we must have a new ARD, it is unlikely that we shall enter a collaborative venture because there are no funds available for its development. We are more likely to buy off-the-shelf.
- Since we cannot offer to collaborate on a joint project, there is a limit to what we can do to influence the Germans' interest in an ARD for their own forces.
- Even so, we have tried. We have told them that we would procure an ARD only if we considered the version met our requirement. We have also said that the Dornier proposal - which I understand is your main competitor - will probably not do so. That gives them a clear indication of what would be required in order to attract our (hypothetical) custom.
- Finally, we have been pressing for the FRG, France and the UK to harmonise their operational requirements both for an ARD and for a reconnaissance drone. That should have the effect of widening the market both for

File

SW

cc MOD

EL

Marconi's ARD project and, if it satisfies this requirement, for your Phoenix reconnaissance drone.

In the circumstances, I hope you will understand that, even setting aside the procedural obstacles, I am not in a position to offer the guarantee you seek that the UK will go ahead with the MBB-marconi drone in concert with the Germans.

Y
Lonsdale
Hagart
—

The Lord Weinstock

CF

File 8W



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 May 1988

ANTI-RADIATION DRONE

Thank you for your letter of 24 May covering the amended reply to Lord Weinstock. Not only those who receive letters should be able to understand them, but also those asked to sign them.

(C. D. POWELL)

Ian Andrews, Esq.,
Ministry of Defence.

CD

FILE

DAS



CC FCO
MOD
DTI.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

25 May 1988

Dear Mr. Laing,

Thank you for your letter of 10 May and for your kind words about my visit to Malaysia in 1985.

I believe that there are excellent opportunities in Malaysia, and other ASEAN countries, for British companies prepared to work hard to establish themselves in the region, as your own company has done. The Government will continue to do all it can to assist the efforts of British industry to win business in these countries, both by fostering close relations with their governments and by providing support in other ways such as the Aid and Trade provision.

You mentioned your company's interest in the defence procurement package which is now under negotiation between ourselves and the Malaysian Government. I am very much aware of the potential benefits for British industry if, as I hope, the package can be successfully brought to fruition.

Yours sincerely
J. M. K. Laing

J. M. K. Laing, Esq.

CFC



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

MO 26/5/1V

24 May 1988

Dear Clerk,

ANTI-RADIATION DRONE (ARD)

Thank you for your letter of 21st May to Brian Hawtin. I am sorry if you felt that the draft letter to Lord Weinstock was impenetrable but the feeling here was that it was necessary to go into some detail precisely because Lord Weinstock is not uninitiated!

As far as the alternative version attached to your letter is concerned, there are one or two amendments we would wish to make and I have incorporated these into the revised draft attached.

[Handwritten signature]
[Handwritten signature]
(I C F ANDREWS)
Private Secretary

C D Powell Esq
10 Downing Street

SW2AFS.

To: Mr

DRAFT LETTER TO LORD WEINSTOCK

ANTI-RADIATION DRONE (ARD)

Thank you for your letter of 11th May about your attempts to promote Anglo-German co-operation over the supply of an Anti-Radar Drone (ARD). The subject has become hugely complex, but the main points are:

- We do not yet have an agreed requirement for an ARD, although it is probable that we shall have one;
- if we do eventually decide that we must have a new ARD, it is unlikely that we ~~should~~ ^{shall} enter a collaborative venture because there are no funds available for its development. We ~~will be~~ ^{are} more likely to buy off-the-shelf;
- since we cannot offer to collaborate on a joint project, there is a limit to what we can do to influence the Germans' interest in an ARD for their own forces;
- even so, we have tried. We have told them that we would procure an ARD only if we considered the version met our requirement. We have also said that the Dornier proposal - which I understand is your main competitor - will probably not do so. That gives them a clear indication of what would be required in order to attract our (hypothetical) custom;

- finally, we have been pressing for the FRG, France and the UK to harmonise their operational requirements both for an ARD and for a reconnaissance drone. That should have the effect of widening the market both for Marconi's ARD project and, if it satisfies this requirement, for your Phoenix reconnaissance drone.

2. In the circumstances, I hope you will understand that, even setting aside the procedural obstacles, I am not in a position to offer the guarantee you seek that the UK will go ahead with the MBR-Marconi drone in concert with the Germans.

Defence : Same Prio



Finally, we have been pressing for the FIC, France and the UK to
participate in our operational activities both for an AFD and for
a reconnaissance element. It would have the effect of widening
the scope both for the AFD and for the reconnaissance element, if it satisfied
this requirement, for you think reconnaissance drone.

25/11/52

3. In the circumstances, I hope you will understand that, even
having said the procedural character, I am not in a position to
offer the guarantee you seek that the UK will be agreed with the
the National Space in concert with the demand.

CONFIDENTIAL

GR



Foreign and Commonwealth Office

London SW1A 2AH

23 May 1988

Dear Charles

Malaysia

Thank you for your letter of 11 May. I enclose a draft reply from the Prime Minister to Mr J M K Laing's letter to her about the Malaysian Defence Package and the prospect for civil sales.

The Prime Minister wrote to Dr Mahathir about this package on 9 May. Since Brian Hawtin wrote to you on 6 May, and bearing in mind the Prime Minister's views recorded in your reply of 9 May, officials have been considering how to delink the defence package from civil aid while still making it clear that we would be prepared to consider providing some ATP for eligible civil projects. Brian Hawtin will write further in due course.

John Laing plc have heard of the defence package from sources in Malaysia and appear to be aware that the Protocol signed by the Defence Secretary on 23 March includes a reference to aid. While we all hope that the package will go through, the draft reply is intended to point out that there are still obstacles to be overcome, without doing so in terms which would sound unnecessarily negative.

Mr Laing referred to a programme of hospitals that his company is pursuing in Malaysia. His company are in regular contact with DHSS, ODA and DTI. However the priority that the Malaysian Government attach to this project is uncertain. It would be better not to refer to it directly in the Prime Minister's reply.

The draft reply has been agreed by FCO, ODA, DTI, ECGD and MOD officials.

I am copying this letter to Brian Hawtin (MOD), Alex Allan (Treasury), Neil Thornton (DTI), Neil Griffins (Dept of Transport) and Trevor Woolley (Cabinet Office).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: THE PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

JMK Laing Esq
 John Laing plc
 Page Street
 LONDON NW7 2 ER

Copies to:

DASALO

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 10 May and for your kind words about my visit to Malaysia in 1985.

CAVEAT.....

I believe that there are ~~exciting~~ *excellent* opportunities in Malaysia, and other ASEAN countries, for British companies ~~which are~~ prepared to work hard to establish themselves in the region, as your own company has done. The Government will continue to do ~~everything possible~~ *all it can* to assist the efforts of British industry to win business in these countries, both by fostering close relations with their governments and by providing support in other ways such as the Aid and Trade Provision.

You mentioned your company's interest in the defence procurement package which is now under negotiation between ourselves and the Malaysian Government. I am very much aware of the potential benefits for British industry if, as I hope, the package can be successfully brought to fruition.

Enclosures—flag(s).....

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SKW

cfc

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 May 1988

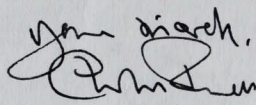
Dear Brian

ANTI-RADIATION DRONE

You wrote on 19 May to Nigel Wicks about Lord Weinstock's concern that we have not been supporting Marconi's Defence Systems' efforts to promote their solution to the German requirement for an Anti-Radiation Drone. I am grateful for the trouble which has been taken, but have to say that the draft letter to Lord Weinstock which you enclosed came close to being impenetrable to the uninitiated. I return an alternative version which reflects my understanding of what you want us to say to Lord Weinstock. Could you let me know whether it is all right. Alternatively I should be grateful if you would propose amendments.

Bk

1

Yours sincerely,

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

CONFIDENTIAL



StwBEL

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

Thank you for your letter of 11 May about your attempts to promote Anglo-German cooperation over the supply of an Anti-Radar Drone (ARD). The subject has become hugely complex. But the main points are:

- we do not yet have an agreed requirement for an ARD. It is not certain that we shall have one;
- if we do eventually decide we must have an ARD, it is unlikely that we shall enter a collaborative venture because there are no funds available for it in the defence research budget. We would more likely buy off the shelf;
- since we cannot offer to collaborate in a joint project, there is a limit on what we can do to influence the Germans' choice of an ARD for their own forces;
- even so, we have tried. We have told them that we would procure an ARD only if we considered the version on offer sufficiently state-of-the-art. We have also said that the Dornier proposal - which I understand is your main competitor - would probably not meet our requirement. That gives them a clear indication of what would be required in order to attract our (hypothetical) custom;
- we have also been pressing for the FRG, France and UK to harmonise their operational requirements both for an ARD and

for a reconnaissance drone. That should widen the market both for Marconi's ARD project and for your Phoenix reconnaissance drone;

- all that said, I cannot give any guarantee that we shall establish an operational requirement or be able to provide any funding. The Defence budget is extremely tight, not least because of the very large sums which have gone into projects which failed to meet the specifications at the estimated cost.

The Lord Weinstock



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

MO 26/5/1L

19th May 1988

Dear Nigel,

ANTI-RADIATION DRONE (ARD)

You mentioned to me last week that Lord Weinstock had suggested to the Prime Minister that the Ministry of Defence had not been as helpful as it might have been in supporting Marconi Defence Systems (MDS) in the company's efforts to promote the MBB/MDS solution to the German requirement for an Anti-Radiation Drone (ARD). Lord Weinstock subsequently followed up their conversation with a letter. The truth is that both Lord Trefgarne and Mr Levene have been as helpful to the company as is consistent with not interfering in another Government's procurement decisions.

For some years, the Department has been studying methods of improving our Suppression of Enemy Air Defence (SEAD) capability. We have worked on the assumption that we could complement our purchase of ALARM by procuring either a Short-Range Anti-Radiation Missile (SRARM) or an ARD, whichever proved to be the more cost-effective. SRARM was the subject of a NATO Feasibility Study which ended last year. Our assessment of the study was that SRARM would be a high risk undertaking and the project has now been abandoned. Meanwhile, the Department has been conducting parallel studies on SEAD and, although these are not yet all complete, there is sufficient preliminary information available to suggest that a piston-engine powered, ground-launched ARD offers an effective and economic means of projecting an anti-radar threat over the battlefield for extended periods. The Defence Staff are, therefore, drafting a Staff Requirement for submission to the Central Committees later this year.

It had been our long-standing hope to collaborate with the FRG in the development of an ARD programme should the result of our studies indicate that this represented the best way forward for SEAD. But the Germans informed us in November 1987 that, if the UK did not join the ARD project within six months, Germany would proceed alone, although there would be a chance for UK participation later. In the circumstances, we had little choice but to advise the Germans to proceed without us for the time being.

Nigel Wicks Esq
10 Downing Street

CONFIDENTIAL



Subsequently, during the final phases of consideration of LTC 88 it was decided that, given the demands on the Defence Budget and the constraints on Research and Development expenditure imposed by E(A) in 1986, the core assumption in the programme should be that ARD be bought 'off-the-shelf' and not developed as part of a collaborative project.

The position today is that the Department has, as yet, no endorsed requirement for an ARD and no money for participation in development of a collaborative project. But there is a German national project for which MBB/MDS is a competitor.

MDS and the Department

MDS have been lobbying the Department at all levels for the past five months. They fear that, in the German competition, they will lose to the Dornier/TI consortium. Despite anything MDS says, the Germans perceive clearly that the Dornier/TI solution is significantly cheaper than that offered by MBB/MDS. It is also possible that the Germans would prefer the Dornier/TI solution since it builds on established technology, whereas the MDS seeker is still in development. The extent to which the Department has been able to support MDS is, necessarily, limited by the fact that there are no plans to enter a collaborative development programme and we must not be seen to be interfering with another Government's procurement policy. Nevertheless, Lord Trefgarne has written to Manfred Timmermann on a number of occasions, most recently on 6 May 1988, pointing out that our decisions, when they are made, will be based on the technical adequacy of the systems available and that the Dornier proposal is unlikely to meet our requirement. He also emphasised our need to maintain access to and control over the relevant seeker technologies.

When the National Armaments Directors met in Edinburgh on 28 April, it was agreed that the Operational Requirements Staff of the FRG, France and the UK should meet to harmonise their operational requirements as far as possible so that the greatest possible amount of reciprocal purchasing might take place. If the concept of operations for ARD can be harmonised, then the UK will be able to buy off-the-shelf from Germany. On the other hand, if the three countries agree that their separate requirement for a reconnaissance drone could best be met by the Phoenix system already under development for the United Kingdom MOD by another of Lord Weinstock's companies (GEC-Avionics) then the group overall will benefit considerably from having a much wider market for that system.

All that said, MDS remain convinced that the Germans would choose the MBB/MDS solution if only the UK would agree to take part in a collaborative development programme. That is an undertaking we cannot give at present. Lord Weinstock is wrong to think that it is a foregone conclusion that the operational requirement, and its funding, will be endorsed in the Autumn.

CONFIDENTIAL



I attach a draft letter upon which the Prime Minister may wish to draw in replying to Lord Weinstock.

Yours sincerely
B R Hawtin

(B R HAWTIN)
Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO LORD WEINSTOCK

1. Thank you for your letter of 11th May in which you described in some detail your attempts to achieve Anglo-German co-operation over the supply of an Anti-Radar Drone (ARD). I realise that you and your staff have discussed this topic on a number of occasions with ^{Lord} David Trefgarne and Mr ^{and} Peter Levene. I know too that they have explained to you that the United Kingdom does not yet have either an endorsed requirement for such a drone or funding for a collaborative development programme. ~~Against that background, it must be a matter for the German government to assess the results of their own competition and it would not be appropriate for the Ministry of Defence to intervene in that assessment.~~

^{Trefgarne} David has, however, made clear to ^{Mr} Manfred ^{Timmermann} that any UK decision to procure an anti-radar drone would be based on the adequacy of the technology and that the Dornier proposal is unlikely to meet our requirement. ~~He has also emphasised the importance which we attach to having access to, and control over, the technologies involved.~~

^{agree} I accept what you say about the need for closer European political and industrial integration. ~~But I do not accept that the~~

~~the way of achieving this is necessarily always by collaborative projects involving two or more countries in a joint venture. In~~

~~certain circumstances, reciprocal purchasing, whereby one country develops a product and others buy it, may produce much taster and~~

now cost cost-effective solution for the customer

more accountable - management of a programme, with corresponding economies.

4. // This ~~sort of~~ idea was very much in Mr Levene's mind when, at the meeting of National Armaments Directors in Edinburgh last month, he ^{in essence} encouraged the Operational Requirements Staffs of France, the Federal Republic of Germany and the United Kingdom to ~~meet together to~~ try to harmonise their requirements for drones of various types. If the concept of operations for ARD can be harmonised, then the UK will be ^{have the option of buying} ~~able to buy~~ off-the-shelf from Germany and it is up to your ARD consortium to persuade the German government that your product is as competitive as you believe it to be. On the other hand, if the three countries agree that your Phoenix system meets their requirements for a reconnaissance drone, GEC-Avionics will have access to a far larger market than would have been the case had the Franco-German discussions on a collaborative drone proceeded to joint development and production.

5. ~~Finally, I must say that~~ the existence of a draft Staff Requirement does not necessarily mean that the requirement can be accommodated in the Defence programme at any specific time. We ~~are~~ ^{have} all ~~conscious~~ of the need to establish priorities within the Defence programme, as in all other programmes of public expenditure.

with appropriate - management of a program, with corresponding

consideration.

4. This part of the plan was prepared in the Bureau's mind when it was

developed. It is not a program in itself, but a

framework for the operational requirements of the Bureau, the Federal

Reserve Bank, and the other agencies to see to it that they

comply with the requirements of the various types of the

concept of operations for the Bureau can be harmonized, then the plan will be

of the Bureau of the Federal Reserve Bank and it is up to you to see

to it that the Bureau's program is in line with the program of the

Department as you believe it to be. On the other hand, if the Bureau

feels that your program is in line with the requirements of the

Department, the Bureau will have to see to it that it is in line

with the program of the Department.

Discussions on a collaborative basis should be held to discuss

the program.

It is the Bureau's policy to have the Bureau of the Federal Reserve

Bank and the Bureau of the Federal Reserve Bank to be in line with

the program of the Department as you believe it to be. On the other

hand, if the Bureau feels that your program is in line with the

requirements of the Department, the Bureau will have to see to it

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

18 May, 1988.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T7SA/88

Dear Helmut,

You will be aware that we have secured a commitment from King Hussein of Jordan to purchase 8 Tornado IDS aircraft. Detailed negotiations on the contract (between the British and Jordanian Governments) have been underway for some time and are now close to conclusion except for one critical point related to the financing arrangements. These are complex with UK, German and Italian workshares being financed in various currencies and it is on this point that I urgently seek your help.

Sir Geoffrey Howe and Mr. Younger have previously written to Herr Genscher and Herr Woerner respectively on the financing arrangements for the project but this has not produced a response that would help to conclude the contract quickly. I find that disappointing. The matter is of such importance and urgency that I felt I must write to you personally.

Apart from the significant industrial benefits accruing from the sale, there are very strong political reasons for us to work together to reach agreement with the Jordanians. We take encouragement from the Jordanian preference for turning to Western suppliers for their air defence, as shown by their decision to upgrade their Mirage aircraft, and their positive attitude in their discussions with us on Tornado. But if we fail to reach agreement on this sale King Hussein could well still turn to the Soviets for his next generation of new aircraft and purchase the MiG 29; neither of us would want

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- 2 -

that to occur or to see Western influence in the area correspondingly undermined. In the view of my Government, the need to head off the Soviet threat clearly outweighs any possible doubt there may have been over the supply of an aircraft such as Tornado, to a neighbour of Israel; especially one with Jordan's enviable record for moderation. This was a view shared by President Reagan and the US Administration when they approved the supply of components of US origin.

I am sure you will agree that the partner countries in collaborative projects should share their respective proportions of the benefits and the burdens of export sales. To date the UK has shouldered a disproportionate burden for the sales of Tornado to Oman and Saudi Arabia. So far as Jordan is concerned, I know that the Federal Government attaches importance to further sales of Airbus; and we are giving careful and urgent attention to how we might contribute towards the appropriate financing package. Officials of the appropriate German Ministries are familiar with the details of our ideas on this. I feel that the political as well as the industrial importance of the Tornado sale provides a powerful argument for participation by the Government of the FRG. I accept that, on the face of it, a conventional assessment of Jordan's credit worthiness would make it difficult to provide official credit cover. But the credit terms being offered are generous and I have little doubt that King Hussein will ensure that a debt for a project to which he is personally committed, will be honoured. It is therefore vital that HERMES support for the FRG workshare, on the same terms offered by our ECGD, is provided in order to obtain the contract.

The tri-national programme for Tornado has, to date, been a great success but we need to continue to build on that and pull together to secure this important export sale. Without your help it could slip away from us. I would ask therefore that you give your personal attention and support to the project and early agreement to HERMES providing the necessary credit backing to MBB. United Kingdom negotiators are due to return to Jordan shortly and your agreement by 23 May is

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- 3 -

essential if we are to conclude this business which is not only significant in its own right for our aerospace industries but which also has great political importance for our two countries in the Middle East.

I am sure you will agree that we must not let King Hussein down at this very difficult moment in Middle Eastern affairs.

Y
Louswa
Ragau

His Excellency Dr. Helmut Kohl

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 May, 1988.

TORNADO FOR JORDAN

Steve McCarthy's letter of 16 May conveyed the Defence Secretary's recommendation that the Prime Minister should send a message to Chancellor Kohl urging that the Germans should participate in the provision of credit for the sale of Tornado to Jordan. The Prime Minister has agreed to do this, and I am sending the signed version of the message to the Foreign and Commonwealth Office for delivery as soon as possible. I enclose a copy for your records.

I am sending copies of this letter and its enclosure to Bob Peirce (Foreign and Commonwealth Office), Jill Rutter (Chief Secretary's Office, HM Treasury) and Trevor Woolley (Cabinet Office).

(C.D. Powell)

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET



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

Prime Minister

MO 6/17/7L

It must be right to give
 Chancellor Kohl a push on this. 16/5 May 1988

My information is that his office

Dear Charles are in favour of it, but
he needs to be galvanized to
take on Cersider.

TORNADO FOR JORDAN

Agree to sign?

COP
17/5

Negotiations with Jordan on the Government to Government Sales Agreement for eight Tornado IDS aircraft are at the final stages. The improved terms which the Russian and French competition have obliged us to offer the Jordanians can only be financed with official Government support. We are optimistic that the Jordanians will accept the improved credit terms which we have offered for the UK workshare. For the Italian workshare, discussions held in Rome on 29th April by MOD and ECGD officials with SACE (the Italian credit agency) have persuaded us that SACE do not anticipate any problems in their matching ECGD's credit terms and cover is available for Jordan. SACE's formal agreement has to await Italian political clearance of the sale, but this has been sought through normal channels and no political difficulty is expected.

There is, however, a continuing difficulty about the German credit share. The German Government follow a restrictive policy on arms exports and are particularly sensitive about sales to Arab countries. They have so far raised no objection to export sales of collaboratively produced equipments provided one of the other partners takes the lead and shoulders the political responsibility; it was primarily for this reason that Mr Younger agreed that the Jordanian sale should be conducted on a Government to Government basis. But although German industry benefits substantially from these sales, the Germans have been reluctant to provide official credit support for sales outside the NATO area on the grounds that this would be inconsistent with their export policy (we understand however that there is no statutory bar to HERMES) the German export credit agency - providing such support and exceptions have been made in the past, though perhaps not during the Kohl Administration).

Although the UK underwrote the credit for the German share of the Oman Tornado contract, BAe have made it clear all along to their

Charles Powell Esq
 10 Downing Street



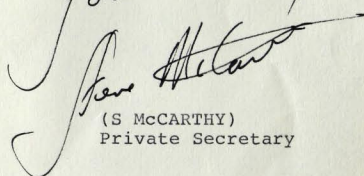
German partners that we could not do this in the case of Jordan, where there was considerable pressure on ECGD's market limit and making credit support available for the German workshare would deny cover for other British exports to Jordan, thus placing German exporters at an advantage.

Despite interventions by both the Defence and Foreign and Commonwealth Secretaries with their German opposite numbers, and by their own industry, the Bonn Government have apparently still not made any decision on whether they will provide credit support in this instance. Should they refuse to provide official credit support the only fall back position would be for the UK to provide credit cover for the German element. The implications of this are being examined and a further approach to Ministers will be necessary should HERMES support be refused.

Over the last month HM Ambassador Bonn has discussed the need for HERMES support with various German Ministers and with Chancellor Kohl. The Foreign and Commonwealth Secretary also raised the issue again with Herr Genscher in Dusseldorf on 2nd May. The German response was depressing and the situation is summarised by HMA Bonn in the Telegram 449 (attached). In view of the urgent timescale, HMA Bonn has recommended that the Prime Minister should now intervene personally with Chancellor Kohl and Mr Younger endorses this recommendation as, I understand, does the Foreign and Commonwealth Secretary.

A draft letter that the Prime Minister might send is attached. This will need to be sent as soon as possible. Our negotiators have completed the second round of negotiations in Jordan but the Jordanians expect them to return to conclude the deal at the end of this month. Good progress has been made to date but the question of German credit, which is a major issue with the Jordanian Minister of Finance, remains outstanding and needs to be resolved quickly.

I am copying this letter to Bob Pierce (Foreign and Commonwealth Office), Jill Rutter (HM Treasury) and to Trevor Woolley (Cabinet office).

Yours sincerely

 (S MCCARTHY)
 Private Secretary

To Mr
EL.

DRAFT LETTER FROM PRIME MINISTER TO CHANCELLOR KOHL

TORNADO IDS FOR JORDAN

You will be aware that we have secured a commitment from King Hussein of Jordan to purchase 8 Tornado IDS aircraft. Detailed negotiations on the contract (between the British and Jordanian Governments) have been underway for some time and are now close to conclusion except for one critical point related to the financing arrangements. These are complex with UK, German and Italian workshares being financed in various currencies and it is on this point that I urgently seek your help.

Sir Geoffrey Howe and Mr Younger have previously written to Herr Genscher and Herr Woerner respectively on the financing arrangements for the project but this has not produced a response that would help to conclude the contract quickly. I find that disappointing. ~~I know that our Ambassador in Bonn has raised the matter with Herr Hoeyack of your Foreign Ministry and indeed with yourself but~~ The matter is of such importance and urgency that I felt I must write to you personally.

Apart from the significant industrial benefits accruing from the sale, there are very strong political reasons for us to work together to reach agreement with the Jordanians. We take encouragement from the Jordanian preference for turning to Western suppliers for their air defence, as shown by their decision to upgrade their Mirage

A12

aircraft, and their positive attitude in their discussions with us on Tornado. But if we fail to reach agreement on this sale King Hussein could well still turn to the Soviets for his next generation of new aircraft and purchase the MiG 29; neither of us would want that to occur or to see Western influence in the area correspondingly undermined. In the view of my Government, the need to head off the Soviet threat clearly outweighs any possible doubt there may have been over the supply of an aircraft such as Tornado, to a neighbour of Israel; especially one with Jordan's enviable record for moderation. This was a view shared by President Reagan and the US Administration when they approved the supply of components of US origin.

I am sure you will agree that the partner countries in collaborative projects should share their respective proportions of the benefits and the burdens of export sales. To date the UK has shouldered a disproportionate burden for the sales of Tornado to Oman and Saudi Arabia. So far as Jordan is concerned, I know that the Federal Government attaches importance to further sales of Airbus; and we are giving careful and urgent attention to how we might contribute towards the appropriate financing package. Officials of the appropriate German Ministries are familiar with the details of our ideas on this. I feel that the political as well as the industrial importance of the Tornado sale provides a powerful argument for participation by the Government of the FRG. I accept that, on the face of it, a conventional assessment of Jordan's credit worthiness would make it difficult to provide official credit cover •

But the credit terms being offered are generous and I have little doubt that King Hussein will ensure that a debt for a project to which he is personally committed, will be honoured. It is therefore vital that HERMES support for the FRG workshare, on the same terms offered by our ECGD, is provided in order to obtain the contract.

The tri-national programme for Tornado has, to date, been a great success but we need to continue to build on that and pull together to secure this important export sale. Without your help it could slip away from us. I would ask therefore that you give your personal attention and support to the project and early agreement to HERMES providing the necessary credit backing to MBB. "UK negotiators are due to return to Jordan shortly and your agreement by 23rd May is essential if we are to conclude this business which is not only significant in its own right for our aerospace industries but which also has great political importance for our two countries in the Middle East.

~~We must~~
 I am sure you will agree that
 we must not let King Hussein ~~down~~ down
 at this very difficult ~~time~~ moment in
 Middle Eastern affairs.

CONFIDENTIAL

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CONFIDENTIAL
FM BONN
TO IMMEDIATE FCO
TELNO 449
OF 111700Z MAY 88
AND TO IMMEDIATE. MODUK
INFO PRIORITY AMMAN

TOP COPY
Q DIST ?

cc Mr Myrberg
Richard W. DeSo, MOD
Machell

YOUR TELNO 259: TORNADO FOR JORDAN.

SUMMARY.

1. HOLDING REPLY, IN DISCOURAGING TERMS, FROM GENSCHER. OUR BEST HOPE IS A MESSAGE FROM THE PRIME MINISTER, BUT THE TIMING MUST BE CAREFULLY JUDGED.

DETAIL.

2. WE HAVE NOW BEEN SHOWN A COPY OF THE MESSAGE WHICH GENSCHER SIGNED YESTERDAY IN REPLY TO YOUR LETTER OF 31 MARCH. WHILE ONLY A HOLDING REPLY, IT IS VERY DISCOURAGING. IT GIVES NO INDICATION OF HOW LONG THE FEDERAL GOVERNMENT MAY TAKE TO REACH A DEFINITE VIEW, BUT IMPLIES THAT BILATERAL CONSULTATIONS BETWEEN MODS UNDER THE 1983 MEMORANDUM OF UNDERSTANDING WILL BE NECESSARY. THE LETTER REFERS DISCOURAGINGLY TO FEDERAL POLICY TO REFUSE GUARANTEES FOR ARMS SALES TO THIRD WORLD COUNTRIES, AND ALSO CASTS DOUBT ON JORDAN'S ABILITY TO PAY.

3. WHEN HANDING US THE MESSAGE. LUTZ (AUSWAERTIGES AMT) STRESSED THIS LAST ASPECT, EXPLAINING THAT THE COUNTRY RISK LIMIT FOR JORDAN PRESCRIBED THAT INDIVIDUAL CONTRACTS SHOULD NOT EXCEED DM20 MILLION. THE GERMAN SHARE ALONE OF THIS DEAL WAS ASSESSED AT DM400 MILLION. LUTZ RECALLED THAT ECGD HAD REFUSED TO PROVIDE CREDIT COVER FOR THE SALE OF SIX AIRBUS TO JORDAN. HE ALSO SAID THAT THE IDS TORNADO WAS MORE SENSITIVE VIS A VIS ISRAEL THAN THE AIR DEFENCE VERSION. HE ADDED THAT THE FEDERAL SECURITY COUNCIL WOULD HAVE TO CONSIDER THE TORNADO QUESTION AND SEEMED TO HOPE THAT IT MIGHT BE ABLE TO MEET THIS MONTH.

COMMENT.

4. IT WOULD SUIT GENSCHER HIMSELF BEST IF THE DEAL FELL THROUGH, AND WOULD BE PREFERRED BY THE FEDERAL GOVERNMENT GENERALLY IF THE GERMAN SHARE WAS COVERED BY ECGD SO THAT BONN COULD DISCLAIM DIRECT INVOLVEMENT TO THE ISRAELIS. OUR BEST HOPE OF GETTING THE DECISION WE WANT IN THE RIGHT TIMESCALE IS FOR THE PRIME MINISTER TO INTERVENE WITH KOHL. THAT SHOULD BE BEFORE THE MEETING OF THE

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MDHIAN 9087

FEDERAL SECURITY COUNCIL. YOU MAY PREFER TO PURSUE OTHER PROBLEMS - EG OFFSET - BEFORE A MESSAGE IS SENT, BUT I ADVISE AGAINST WAITING MORE THAN ANOTHER WEEK. (WE SHALL KEEP AN EYE ON THE DECISION-MAKING TIMETABLE HERE IN CASE IT SLIPS AND THE TIMING OF A MESSAGE CAN THUS SLIP TOO).

5. ANY MESSAGE WOULD HOWEVER NEED TO ADDRESS FULLY THE QUESTION OF JORDANIAN CREDIT WORTHINESS

MALLABY

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MAIN 55

LIMITED
NENAD
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PS/MRS CHALKER

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

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FEDERAL SECURITY COUNCIL. YOU MAY PREFER TO PURSUE OTHER PROBLEMS -
NO OFFSET - BEFORE A MESSAGE IS SENT, BUT I ADVISE AGAINST WAITING
MORE THAN ANOTHER WEEK. I SHALL KEEP AN EYE ON THE DECISION-MAKING
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SLIP YOUR.

3. ANY MESSAGE WOULD HOWEVER NEED TO ADDRESS FULLY THE QUESTION OF
JORDANIAN CREDIT WORTHINESS

WILLIAM

TTTT

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- FRANK BELLOE
- FRANK
- MR MURPHY
- MR BOYD
- MR T. HINDS
- MR GARDNER
- MR BRANTWALTE
- FRANK SHACKER

ADDITIONAL 20

- CABINET OFFICE
- FRANK JBY
- FRANK MOP
- FRANK (ET MOP)
- FRANK

NNNN

EU



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

12 May 1988

I am writing to acknowledge your letter of 11 May, which I will draw to the Prime Minister's attention. I know that she will want to let you have a reply as soon as possible.

(N.L. Wicks)

The Lord Weinstock

df

Lord WEINSTOCK

ea

20/5



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

12 May 1988

I mentioned to you earlier in the week, the Prime Minister's conversation with Lord Weinstock about the Anti Radar Drone. Lord Weinstock has now sent the Prime Minister the letter attached which explains his concerns in some detail. I should be grateful if the note that you are preparing for the Prime Minister and the draft letter for her to send to him could take account of the points in Lord Weinstock's letter.

(N.L. Wicks)

Brian Hawtin, Esq.,
Ministry of Defence.

88

CONFIDENTIAL

CCP



Foreign and Commonwealth Office

London SW1A 2AH

12 May 1988

Dear Brian

CDP
145

Malaysian Defence Package

The Foreign Secretary has seen Lord Young's minute to your Secretary of State of 10 May.

The Foreign Secretary notes that knowledge of what is contained in the Defence Protocol has already leaked to a wider audience. It reinforces his belief that any linkage between defence sales and aid could not be kept secret either in Malaysia or here, and that the linkage must be removed.

He agrees that the way needs to be prepared with the Malaysians before the two letters are sent but he has stressed that the objective of MOD officials and the Post in so doing must be to ensure that the Malaysians understand our difficulty and do respond in the right way. He wishes to reinforce the point made by Lord Young about not mentioning a specific figure or time frame for ATP: it would certainly undermine our position that there was no linkage.

The Foreign Secretary has strong reservations about using Adrian White as an additional channel of communication with the Malaysians to that which already exists. But he agrees that it is essential that Adrian White should be left in no doubt about what our agreed position is before he sees Mr Diam. If any hint that we were prepared to reconsider got back to the Malaysian Minister of Finance we should find ourselves in an even more difficult position than we are already. The Foreign Secretary would wish his officials to be present at any meeting with Adrian White.

Finally the Foreign Secretary has noted Adrian White's interpretation of what the Malaysians might be looking for. He has commented that the reference to a grant of £200 million for civil works directly related to the defence package closely resembles the wording of the Protocol. If this were to be what the Malaysians are after, like Lord Young, the Foreign Secretary believes that it would be a matter for the Defence budget.

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I am copying this letter to Charles Powell,
Stephen Ratcliffe (DTI) and Alex Allen (HM Treasury).

Yours ever

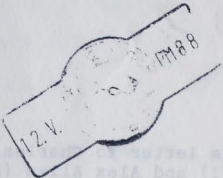
Bob Peirce

(R N Peirce)
Private Secretary

Brian Hawtin Esq
PS/Secretary of State
for Defence

CONFIDENTIAL

Defence - Sales pt 10.



I am copying this letter to the Hon. Secy of State (Mr. [unclear]) and Mr. [unclear] (Mr. [unclear]).

Yours truly

[Handwritten signature]

(R. W. [unclear])
Private Secretary

John [unclear] and
Secretary of State
for Defence

020
~~CF~~ Carole Rowlands KBo
16/5

PC Tell MoD

THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

01-493 8484

want advice +

sent letter by close Friday at
last: I have already sent the
two letters. w. c. v. 16-5

Dear Prime Minister,

Prime Minister 2

I have asked
MoD for a reply →

11th May, 1988

for advice.

Barbara N.C.U.
12-5

We were speaking yesterday evening of our bid to bring about an Anglo-German co-operation for the supply of an Anti Radar Drone, and I thought this note might be useful to you.

The system in question is required by the German Airforce to protect aircraft against attack by radar guided missiles. The Royal Air Force has an operational need for a similar system, and has been studying the potential of a Drone System for several years. We believe that MoD asked the Germans in 1985 for access to the results of their investigations, and that MoD was prepared to pay for this data. Although a Staff Target was adopted, the Staff Requirement still awaits endorsement.

We have been invited by Germany to participate in a collaborative programme. The Germans have conducted a competition between two contenders, Dornier (with American/Israeli avionics) and MBB (with Marconi avionics). The technical and financial results of the competition have been made available to the UK. The MBB/Dornier prices are similar, but we understand that the UK technical evaluation shows MBB's solution

/.....

fully meets the RAF's assessment of the threat.
Dornier's is not acceptable.

The UK MoD feel unable to commit to join the German programme as the draft Staff Requirement will not be presented for endorsement until the Autumn. In this case, Germany will select the Dornier solution. The alternatives for the UK, assuming the requirement is established, will then be to purchase the Dornier Drone (which will not be cost effective) or to develop its own, with the expenditure and risk problems that would bring.

We have reached the present position by substantial GEC investment against the money put in by MBB and the German Government. Only about £7 million more is required to complete the production engineering and trials of prototypes for the avionics. If there is a financial problem, no doubt a way round it can be found, but in any case no financial commitment has to be made until Autumn 1988, by which time the UK draft Staff Requirement and funds can be approved by the EPC.

The salient facts are as follows:-

* the latest proposals made by MBB/Marconi offer the lowest price and the best performance;

/.....

- * the MBB/Marconi solution requires lower levels of manpower to operate in the field, and for support and maintenance;
- * the performance offered by MBB/Marconi fully meets the threat as assessed by UK officials; the Dornier solution does not;
- * the MBB/Marconi proposal carries the lower risk, as all elements of the Drone have been assembled and tested;
- * full control in the UK of the guidance software and algorithms allows a better optimisation of performance against evolving threats in the future.

The UK has attained a strong position in this area as a result of the very successful ALARM seeker programme; it makes sense to follow through with the development of defence suppression systems for the protection of our aircraft. I may add that there is an estimated export market of £500 million, half of which will accrue to Marconi.

/.....

I should also mention the considerable potential for important spin-off benefits from AR technology, e.g. collision avoidance warning systems for aircraft.

The AR Drone offers the opportunity for a simply structured collaboration with Germany, fully in tune with MoD procurement policy and the initiative for closer European political and industrial integration. The programme has already been through a rigorous competition process in Germany, from which the MBB-Marconi solution has emerged as the clear winner on technical and commercial grounds.

Marconi has the only comprehensive UK capability for radar seekers, a technology of great importance in modern defence systems. We have put our own funds at risk to retain this critical capacity within the UK, but there has been no development order since ALARM some five years ago. There is no other Anti Radar project in prospect, and if we lose the Drone, it is doubtful if we can maintain this facility.

I understand very well that the constitutional procedures for the endorsement of the Staff Requirement, and its funding, have not yet been through the Whitehall machine, but there seems little doubt that this will happen in the autumn.

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All that is needed is an assurance that, subject to these processes, UK will go ahead in concert with the Germans with the MBB-Marconi Drone. That does not seem to be a great deal to ask to preserve an important capability, and to support a major UK supplier.

*Yours,
Arnold*

Lord Weinstock

P.S. I enclose a copy of an article in the current edition of "Jane's Defence Weekly", which deals with this subject.

The Rt. Hon. Mrs. Margaret Thatcher, MP,
10, Downing Street,
LONDON, SW1.

Enc.

ANTI RADAR DRONE

Appendix

Historical Summary

- Late 1970s - UK performs pre-feasibility studies which confirm effectiveness of system.
- Late 1970's - Germany/US perform feasibility studies. US pulls out of programme in 1981 and initiates black programme.
- 1985 - Germany endorses requirement and invites proposals for off-the-shelf procurement.
- 1985 - MBB selects Marconi after seeker development competition between Marconi, Texas Instruments and ESD.
- Independently, Marconi evaluates MBB, Dornier and Boeing air vehicles for compatibility with Marconi seeker - Marconi selects MBB. MBB and Marconi join together for development.

/.....

- 1986 - German evaluation determines that off-the-shelf procurement not possible and development is required.
- 1987 (June) - Germany issues RFP for development and production.
- 1987 (Sept.) - Industrial proposals submitted separately by MBB and Dornier.
- 1987 (Sept.) - UK commences evaluation of MBB and Dornier solutions.
- 1988 (Jan.) - Germany completes evaluation. MBB technically preferred, but political influences favour Dornier.
- 1988 (April) - UK evaluation confirms MBB solution as only one which meets UK requirements.
- 1988 (April/May) - MBB puts forward lowest cost of development and production in German best and final offer process.

...at chance for UK to join German drone project

THE UK MINISTRY of Defence is being given a last chance to enter into a collaborative partnership with West Germany on a bilateral anti-radiation drone programme which could be worth eventually hundreds of millions of pounds.

The deadline for the MoD's decision expires at the beginning of next week.

UK Procurement Minister Lord Trefgarne is currently studying a proposal from his West German counterpart, Manfred Timmermanns, which urges the UK MoD to make up its mind once and for all on participation in the West German DAR (Drohne Anti-Radar) programme.

According to UK and West German industry sources at Hanover, Bonn will exclude the UK from DAR for good unless Lord Trefgarne responds positively to the initiative by 17 May.

Two proposals are currently under review at the West German MoD. Dornier's DAR bid uses Texas Instruments' HARM seeker head as the basis for its anti-radiation sensor. MBB's drone is married to the UK's ALARM seeker, developed by Marconi Defence Systems (MDS).

The West German MoD is keen to pull the UK into the DAR programme in order to share development costs and capitalise on the economies of scale available through joint procurement.

The problem is that the UK has no firm requirement — although there is plenty of interest in an anti-radiation drone — but it might in six months time. West Germany has made it clear that it cannot wait that long.

Bonn feels that it has already been badly stung by the UK over its six month delay in signing up for Trigat multi-national anti-tank missile full-scale development (JDW 7 May).

The delay caused problems for both the West German and French

Defence Ministries.

An acceptable solution as far as West Germany is concerned on DAR is a definitive answer from Trefgarne, followed by the usual period of negotiations, reckoned to be around six months, to produce a joint memorandum of understanding.

Industry sources believe that Bonn would make its choice between the Dornier and MBB drone airframes "within days" of Trefgarne's 17 May deadline.

It is generally reckoned that a positive decision by the UK would lead to selection of the MBB drone with the MDS seeker head. Dornier would most likely be pulled in as a major subcontractor.

If the UK decides not to participate, the consensus is that West Germany will choose the Dornier air vehicle and the Texas Instruments sensor. The Luftwaffe already has HARM in service on its Tornados.

The MoD in Bonn has to make its decision on DAR this month, it is understood, otherwise it will lose out on the funds that have been pre-allocated to the programme in the Federal budget.

For the air vehicle manufacturers, the decision goes way beyond the DAR programme.

DAR is closely allied to the West German MoD's thinking on a reconnaissance and combat/harassment drone.

Both Dornier and MBB are emphasising the 'family approach' to their respective remotely piloted vehicle programmes and the DAR decision is likely to dictate the choice of air vehicle for the combat drone, in particular.

Procurement of the latter is not due to be decided until the turn of the decade. The KZO reconnaissance drone is also due for a decision.

DAR was previously designated KDAR.

J. M. K. LAING

25/5



ea

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Adk | 11 May 1988

I enclose a copy of a letter to the Prime Minister from Mr. J.M.K. Laing about our relations with Malaysia, covering both the prospects for defence sales and for civil projects. I should be grateful for a draft reply on which you will certainly wish to consult the DTI and MOD.

I am therefore copying this letter and enclosure to Ian Andrews (Ministry of Defence) and Stephen Ratcliffe (Department of Trade and Industry).

(CHARLES POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

✓

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pp5 - Memo
to CPP
12/14

J. M. K. LAING

JOHN LAING plc
PAGE STREET, LONDON NW7 2ER
01-906 5600

10th May 1988

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

Dear Prime Minister

Apologies for writing to you yet again, but I did want to thank you for your support, not only for our involvement in British Urban Development and what we are trying to do for urban regeneration, but also for the export efforts of British industry.

I particularly want to mention how beneficial your overseas visits can be. I personally feel it is essential that we continue to increase our share of world trade and think that this is far more feasible now that industry generally is more competitive.

To those of us who have maintained links with Malaysia in the belief that it is a country of great potential for trade and commercial co-operation, your visit in 1985 was something of a watershed in that it brought to an end the anti-British stance of the Malaysian Government. The further exchanges that have taken place since then, including of course the very successful visit of Dr Mahathir to this country in 1987, have all contributed to a steadily improving relationship between the two countries such that we now appear to be on the verge of business that is potentially enormous, not only in its size and scope but also in its likely favourable effect on British prestige in the ASEAN region.

I visited Malaysia in March to attend the Asian Defence Exhibition and it was encouraging to the British firms participating that the Secretary of State for Defence was able to attend. My company has excellent prospects in the defence procurement package under discussion between the two Governments

/over

in both infrastructure and basic construction projects and I am very grateful for the initiative which HMG has taken in support of British industry. My Malaysian sources tell me that it is very much in the mind of their key decision makers that success with the defence deal should also bring opportunities for Britain in civil projects and this is excellent news bearing in mind how often major civil projects in Malaysia have been lost to Japanese and/or Eastern European competitors backed by particularly advantageous support from their governments.

You may be aware that with the support of the DHSS we have over the past 18 months been pursuing a programme of hospitals with the Malaysian Ministry of Health, these to be built using the UK developed nucleus concept of hospital design.

I feel sure that Government and Industry can combine to capitalise to the full on the opportunities being created in Malaysia but I am quite sure that none of these would exist were it not for the completely changed nature of the relationship between the two countries.

Yours sincerely

Mark Laing

J M K Laing

dti

the department for Enterprise

cc/PC

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

CONFIDENTIAL

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

**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 DC6ADR
Your ref
Date 10 May 1988

COP
H/S

New Group,

MALAYSIAN DEFENCE PACKAGE

You should be aware that I had a short meeting this afternoon with Michael Grylls MP and Adrian White, the Chairman of Biwater. Mr White has close contact with the Malaysian Minister of Finance following from his company's success some two years ago in winning the major Aid and Trade Provision (ATP) supported Malaysian Rural Water Supply Contract.

Mr White is, therefore, aware of the defence package and its approximate value of £1 billion. He is also aware that a condition of this package is £200 million aid for associated civil projects. He believes that this offers an opportunity to seal a much larger business package for Britain, with ATP support (in which some of his prospective project interests would clearly feature). More immediately, Mr White expects to travel to Malaysia and see the Minister of Finance in a week or so and suggests he will be expected to give some informal indication of HMG's thinking.

While we cannot allow our policy to be dictated by outside interests, I am conscious of the need to achieve a satisfactory resolution of the present difficult position on the defence package without any link being drawn in public with aid. I believe we might usefully proceed in two ways. First, I understand that your officials may propose that two letters be written to the Malaysian Finance Minister, one making it clear that there can be no link between aid and defence projects, and the other offering to look closely with the Malaysians at future civil project prospects in Malaysia for which we might be prepared to consider providing ATP. This would be helpful; the business would have to be spread

the
Enterprise
Initiative



the department for Enterprise

over several years and take into account the Malaysians ability to generate such project activity. Second, I believe it would be useful as soon as you have written, if your officials, together with DTI and FCO/ODA, could meet Mr White and broadly indicate the line taken.

There is one point which needs to be made quite clear. Mr White believes that the Malaysians may be looking for such ATP support in addition to a straight "aid" grant of £200 million to cover the cost of the civil works (docks, airports) directly associated with the defence package. It is possible that he may have misinterpreted the position and I can see no justification for any such additional expectations. Certainly I would see no way of the Government providing a £200 million grant of that sort, except through its absorption in some way within the defence package (which would itself presumably have to come from the defence budget).

I would also urge that, in suggesting to the Malaysians that we are prepared to consider ATP for eligible projects, we avoid commitment to a specific figure. The sums potentially involved are extremely large (far in excess of ATP supported project business in Malaysia over the past decade), we do not know how quickly appropriate projects will come along, and there is also the question of the sufficiency of ECGD cover which may also be needed to support the defence deal itself. A specific figure would weaken the argument that there is no link between the defence package and the ATP.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Chancellor of the Exchequer and the Minister for Overseas Development.

over several years and take into account the Malaya
ability to generate such product. Second, I believe
it would be useful to have an idea of how much
financial support will be required, and how much
and probably indicate the line taken.

There is one point which needs to be made clear.
An White believe that the Malaya may be looking for some
type support in addition to a "grant" and
1966 million to cover the cost of the civil works.
I quote directly associated with the defence package. It is
possible that he may have misinterpreted the position and
ask for no justification for any such additional expenditure.
Certainly I would see no way of the Government providing a
1966 million grant of that sort, except through its association
in some way with the defence package (which would itself
presumably have to come from the defence budget).

I would also like to suggest to the Malaya that
we are prepared to consider any for eligible projects. We
avoid commitment to a specific figure. The sum is essentially
involved are extremely large (in the order of \$100 million)
project business in Malaya over the next decade, we do not
and we are not in a position to do so. It is a matter of
time to give the question of the Malaya's defence needs
which may also be needed to support the defence needs.
A specific figure would weaken the argument that there is no
link between the defence package and the A.P.

I am copying this letter to the Prime Minister, the Foreign
Secretary, the Comptroller of the Exchequer and the Minister
for Overseas Development.

J. P. [Signature]



CONFIDENTIAL



filed

bc = PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

9 May 1988

MALAYSIAN DEFENCE PACKAGE

Thank you for your letter of 6 May enclosing a draft message from the Prime Minister to Dr Mahathir about the Defence Sales Package for Malaysia. The Prime Minister has signed the message and I am sending the top copy to the Foreign and Commonwealth Office for despatch. I should add that the Prime Minister's view about the problems which have arisen over this Protocol is that the Defence Secretary signed for the Government and the commitment will therefore have to be honoured in one way or another.

I am copying this letter and enclosure to Robert Culshaw (Foreign and Commonwealth Office), Stephen Ratcliffe (Department of Trade and Industry), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

C. D. POWELL

Brian Hawtin, Esq.
Ministry of Defence

CONFIDENTIAL

CH



file SLHAWE

T
**PRIME MINISTER'S
PERSONAL MESSAGE**
10 DOWNING STREET
LONDON SW1A 2AA
SERIAL No. *768A/88*

cc MOD
FCO
PC
DTI
DITP
CO

THE PRIME MINISTER

*Suggest cc mail
ORS*

9 May 1988

Dear Prime Minister,

Our Defence Secretary, George Younger, has told me of the Protocol which he signed in Kuala Lumpur on 23 March and which sets out a framework for the supply of British equipment to meet Malaysia's defence needs. I was pleased to learn that further discussions are in hand about the details. Like you, I hope very much that the proposals can be carried forward to a successful conclusion.

I am also glad that Geoffrey Howe's visit to Malaysia early in April was so successful. He was struck, as I was during my own visit in 1985, by the remarkable progress which has taken place in your country in recent years, and by your government's commitment to stability and co-operation in the region. I know from my discussions with British businessmen that this message is not lost on them and that many are keen to explore the further investment opportunities in Malaysia to which you drew attention during your visit last year. I believe therefore that the prospects for collaboration in this and other areas are excellent. I look forward to working with you to bring about an ever closer relationship between Britain and Malaysia in the years ahead.

I send you my best wishes and warm regards,

Yours sincerely
Narasimhaiah *DR*

His Excellency Dato' Seri Dr. Mahathir bin Mohamed

tm
CONFIDENTIAL
Covering SECRET



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

MO 6/19/7E

6 May 1988

Dear Charles,

MALAYSIAN DEFENCE PACKAGE

Thank you for your letter of 27th April. You will recall that the Prime Minister wrote to the Malaysian Prime Minister on 26th January giving her support to the Defence Package currently under discussion. Dr Mahathir's reply is attached.

Significant progress has been made with the Malaysians since the Prime Minister's letter. A Protocol was signed by the Secretary of State for Defence on 23rd March. A copy is also attached. This is an expression of the Malaysians' intention to purchase a range of equipment, services and facilities for their Armed Forces, a deal potentially in excess of £1 billion. This achievement builds on the recent improvement in Anglo-Malaysian relations and, although there is still some way to go, the successful conclusion and implementation of the defence package will do much to enhance the growing reputation of British industry as a competitive supplier of defence equipment in the whole ASEAN region. It will give the UK a great advantage over its competitors.

In connection with the defence package, the Malaysians have requested British aid for civil projects up to a level of 20% of the value of the defence equipment (ie up to £200 million of aid). At the last minute, they insisted on the inclusion of a reference to this aid in the Protocol. They also made clear their wish to increase flight frequencies on the UK route for Malaysian Airlines Systems.

Both these points present very substantial difficulties (as you intimated to Arumugam). Any linkage between defence sales and the use of aid money would expose us to enormous criticism both at home and internationally. I understand that the Foreign and Commonwealth Secretary would not wish to make any advance commitment about the amount of ATP which might be made available for civil projects in Malaysia; a view I imagine that the Secretary of State for Trade and Industry might well share. Nor would ECGD cover be sufficient for the purpose.

Charles Powell Esq
No 10 Downing Street

CONFIDENTIAL
Covering₁ SECRET



The problem, therefore, is to find some way of delinking aid from the defence package but at the same time to make clear that we would be prepared to consider providing some ATP for eligible civil projects. Officials in the departments concerned are currently considering how this might best be done. A possible way forward would be for two separate letters to be sent to the appropriate Malaysian minister, the first of which would make it clear that the linking of aid to defence projects was out of the question, while the second would express our readiness to discuss the provision of some ATP for suitable projects. These letters would almost certainly need to be discussed with the Malaysians beforehand to ensure as far as possible that they responded in the right way.

Officials will also have to consider the Malaysian request for concessions over air services if the Malaysians continue to press for them. As you know, there is a very long history to this problem and it will not be easy to find a way to satisfy Malaysian demands.

In the meantime, I understand that Dr Mahathir is expecting the Prime Minister to reply to his letter. Mr Younger and the Foreign and Commonwealth Secretary both believe that we should respond as positively as possible. I attach a draft which is intended to reassure Dr Mahathir of the Prime Minister's continuing support for the defence package, and her commitment to the further development of Anglo-Malaysian relations.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Stephen Ratcliffe (Department of Trade and Industry), Roy Griffins (Department of Transport) and to Trevor Woolley (Cabinet Office).

Your sincerely
Brian Hawtin

(B R HAWTIN)
Private Secretary



DRAFT LETTER TO DR MAHATHIR FROM THE PRIME MINISTER

Our defence needs,

shawe

George Younger has told me of the Protocol which he signed in Kuala Lumpur on 23rd March and which sets out a framework for the supply of British equipment to meet Malaysia's defence needs. I was pleased to learn that further discussions are in hand about the details. Like you, I hope very much that the proposals can be carried forward to a successful conclusion.

I am also glad that Geoffrey Howe's visit to Malaysia early in April was so successful. ^{He} Geoffrey was struck, as I was during my own visit in 1985, by the remarkable progress which has taken place in your country in recent years, and by your government's commitment to stability and co-operation in the region. I know from my discussions with British businessmen that this message is not lost on them and that many are keen to explore the further investment opportunities in Malaysia to which you drew attention during your visit last year. I believe therefore that the prospects for collaboration in this and other areas are excellent. I look forward to working with you to bring about an ever closer relationship between Britain and Malaysia in the years ahead.

I send you my best wishes and warm regards.

PRIME MINISTER

DEFENCE SALES TO MALAYSIA

The attached letter describes the background to the Protocol which Mr. Younger signed in Malaysia for defence sales which could amount to £1 billion.

The problem is that the Malaysians wanted a commitment to provide aid for civil projects up to 20 per cent of the value of the defence sales (ie. potentially £200 million). The Defence Secretary happily signed up for this and only told the Foreign Secretary on return. He is most indignant at having the aid programme pre-empted, and a brisk argument is going on between the departments to sort it out.

Meanwhile, Dr. Mahathir has written to you in general terms about the protocol. We are told that he is expecting a reply from you which recognises the political importance of the prospect of improved cooperation.

I think you must write, otherwise the whole deal could slip through our fingers. But obviously you cannot commit yourself on the details. The attached text is approved by both the Foreign Secretary and the Defence Secretary.

Agree to sign? ("Dear Prime Minister")

CDP

C. D. POWELL

6 May 1988

SLHAWD

I'm afraid that whatever S/S for Defence signed - it will have to be honoured. His speed for a government.

ms



SWH

**PRIME MINISTER'S
PERSONAL MESSAGE**

10 DOWNING STREET
LONDON SW1A 2AA

SERIAL No. 761A/88

THE PRIME MINISTER

cc: Mod
FCO
CO
PC

3 May 1988

SUBJECT
CC MASTER.
OPS.

Dear Ron,

May I thank you most warmly for your very helpful decision to agree to the transfer of nuclear technology to Canada provided they opt for British submarines. It was good of you to take the arguments which we put forward so fully into account, and I am very grateful to you.

I understand why you felt that, for Congressional reasons, the Canadian Government must make up its mind to choose the Trafalgar class before you will proceed with the necessary legislative amendments. I hope we can work together to overcome any timetable problems which this may cause.

Thank you once again for all your help over this difficult and important matter.

Warm regards,

Yours sincerely
Ronald Reagan

The President of the United States of America

053

CONFIDENTIAL

J1

File



be: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 April, 1988.

SSNs FOR CANADA

Thank you for your letter of 28 April covering a draft message of thanks from the Prime Minister to President Reagan for the recent decision over SSNs for Canada.

I am afraid that the Prime Minister thought the draft rather graceless, and was only prepared to sign a rather shorter version which you will find enclosed. Some other way will have to be found to get over the other points in your draft.

I am sending a copy of this letter with the original of the message to the President to Lyn Parker (Foreign and Commonwealth Office), with a copy to Trevor Woolley (Cabinet Office).

(C.D. Powell)

B.R. Hawtin, Esq.,
Ministry of Defence.

CONFIDENTIAL

06

CCP
①



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 211/3

MO 14/6/11

28 April 1988

No - I think it is graceful. I would rather want to see hope we can complete the timetable in time

Dear Charles, Agree to sign attached message?

CDP
2074

SSNs FOR CANADA

The Defence Secretary was very grateful for the Prime Minister's intervention with the President over Canadian submarines. This appears to have been crucial in tipping the balance in favour of the positive decision announced yesterday. But we are not out of the wood yet. The condition that the President has attached, namely that the Canadians must first decide in favour of the UK option before the Administration will submit the necessary legislative amendments to Congress, will present the Canadians with considerable difficulties. Their technical assessment of the British and French submarines will not be complete for at least a month, and if the Congressional process to amend US legislation does not start until after then, there is no hope of it being completed this year. There will thus be no hope of meeting the Canadian timetable of a final decision this summer. Moreover, the Canadians would have no guarantee that, even with Administration support, Congress will agree to the necessary legislative amendments. The President's decision may thus, in the event, prove to be unacceptable to the Canadians.

Nevertheless, there is obviously much to be said for a message of appreciation for the President's efforts, and I understand that the Prime Minister wishes to do this. Such a message could also usefully make the point that, now the President has made his decision, it would be very damaging if attempts were made to attach additional stringent conditions to the US agreement during the process of amending the 1959 US/Canada legislation. We know that there are opponents of the President's decision in the Administration who have it in mind to do this. Accordingly, I attach a draft message which thanks the President for all his help and puts down a marker about the need to avoid subsequent changes to the ground rules.

I am copying this letter to Lyn Parker (FCO) and to Trevor Woolley (Cabinet Office).

Yours sincerely
Brian Hawtin
(B R HAWTIN)
Private Secretary

Charles Powell Esq
10 Downing Street



shawk

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN

~~My warm thanks for~~ ^{May I thank you most warmly for} your very timely decision to agree to the transfer of nuclear technology to Canada provided they opt for British submarines. I understand, ~~of course~~, why you felt that, for Congressional reasons, the Canadian Government must make up its mind to choose the Trafalgar class before you will proceed with the necessary legislative amendments. ~~Undoubtedly~~, ^{indeed} this will cause the Canadians some timing difficulties. But I hope they will still conclude that these are offset by the very considerable operational advantages of the British design. As I said in my previous message, ~~I believe a French outcome would be in neither of our interests.~~ ^{decision to close the Ford submarine}

Assuming the Canadians decide to go ahead, it will be important to maintain good faith with them over the conditions which will apply. As you know, these have been set out in a Memorandum of Understanding between the British and Canadian Governments. If these were to be changed significantly or added to as a consequence of the proposals put to Congress to amend the 1959 Canada/US Agreement, the Canadians could legitimately object that the terms of your decision had been altered. I am sure your officials will bear this in mind in drafting the necessary legislative amendments.

~~Once again~~ ^{help} Thank you for all your ~~assistance~~ over this difficult and important matter.

with warm regards.



Handwritten notes in a bottle-shaped stamp on the left side of the page.

Faint, mostly illegible typed text in the upper and middle sections of the page.

Faint, mostly illegible typed text in the lower middle section of the page.

Handwritten signatures and notes at the bottom of the page, including a circled name.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Rine Minister

Panelous - we
must thank him for

Canadian SSNs

Re President has found

in our favour, thanks to

your message. We

Canadians opt for our

submarine, the Administration will

seek the necessary authority from
Congress.

C.D.P. 27/4

FROM: MICHAEL LATHAM M.P. (RUTLAND & MELTON)



HOUSE OF COMMONS
LONDON SW1A 0AA

Prime Minister (4)

*f 29/4
ps*

27th April 1988

Dear Margaret,

mt

Thank you for your letter of the 26th of April. I would have liked you to have been more specific about some of the matters, but I am grateful to have your assurance that it is not the Government's policy to allow the supply of licensable equipment to the PLO. I am also glad to see that you are satisfied that procedures have been improved to prevent a repetition of such a deplorable incident.

*✓
Michael*

The Rt. Hon. Margaret Thatcher, MP.,
10 Downing Street,
London, SW1A 2AA.

CONFIDENTIAL



FILE
DA
AC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1988

Dear Ian.

DEFENCE SALES TO MALAYSIA

At the request of Colin Chandler and Lord Prior I saw Datuk Arumugam, Executive Deputy Chairman of GEC of Malaysia, this morning. The burden of his message was as follows. Dr. Mahathir had taken a quite exceptional step in agreeing the details of the Memorandum of Understanding on defence sales so rapidly. But he was beginning to feel that the response on the British side had not matched his effort. He needed the reassurance of a high level political commitment to the arrangements which had been agreed. This should ideally be in the form of a message from the Prime Minister. Moreover, the Americans were working very hard to secure defence orders and he saw a danger that they would get in ahead of the UK. (He mentioned in particular an order for F-16s.) He hoped that we could agree to provide such a message rapidly. It would have a very important and reassuring effect. Datuk Aru added that there were two further points of concern to Dr. Mahathir. The first was the continuing bad press which he got in the United Kingdom. He understood that the Government could not directly affect this and the Malaysians were themselves making efforts to correct it. But anything we could do to set the record straight would be much appreciated. Secondly, there was the matter of the continuing negotiations over a sixth and seventh frequency for MAS.

I said that I noted very carefully all that he had said. I waxed eloquent on the subject of the Prime Minister's visit to Malaysia in 1985 and on Dr. Mahathir's visit here last year, on the high regard which the Prime Minister had for Dr. Mahathir, and on how much she was looking forward to the Commonwealth Heads of Government Meeting in Kuala Lumpur in 1989. I said that we were delighted that Malaysia was looking to us for defence equipment. I was not fully up to date on all the details. But I did know that we had to avoid any direct and explicit link between ATP and defence contracts (although in principle ATP ought to be available for any major civilian projects). This had nothing to do with Malaysia but was a generic difficulty. Datuk Aru interjected that this point was now very well understood by Dr. Mahathir. I continued that I would discuss with others the suggestion that

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da

CONFIDENTIAL

2

there should be a high level message. There was nothing very much we could do about the British press and I was not familiar with the details of the negotiations on air services. But I hoped there would be no attempt to link extraneous issues to defence sales. Datuk Aru denied any intention of this but reiterated his main point: there was a real need for a high level message from the Prime Minister to Dr. Mahathir recognising the political significance of the discussions which had taken place on defence sales and the arrangements now envisaged.

Datuk Aru seemed to go on his way happy. He said that he would very much hope to meet the Prime Minister on a future visit. I held out no hope of that.

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

*Yours sincerely,
C.D. Powell*

(C.D. POWELL)

Ian Andrews, Esq.,
Ministry of Defence.

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

File K14
cc DTI
AA
FCO
MOD

THE PRIME MINISTER

26 April 1988

Jean Richard,

Thank you for your letter of 29 March. I can confirm that it is the Government's policy not to allow the supply of any licensable equipment to the PLO.

As to the remainder of your question, I can add little to what has already been said. An error occurred in 1982 which led to the licensing of one export of non lethal military communications equipment of very small value to a Lebanon company which had links with the PLO. It was made clear in Kenneth Clarke's answer of 18 March, that information was to hand to indicate a link which, but for the oversight, would have been taken into account in considering whether to license the export. I am satisfied that everything possible is being done with the inter-departmental procedures, under which applications for export licenses are considered, to ensure that an error such as that which occurred in 1982 does not happen again.

Yours ever

Raymond

—

Michael Latham, Esq., M.P.

✓ 16



10 DOWNING STREET
LONDON SW1A 2AA

8 (2)
Prime Minister
C80
25/4.

From the Private Secretary

25 April 1988

CANADIAN SSNs

We spoke about the Embassy in Washington's advice that the Prime Minister should telephone the President ahead of this afternoon's meeting in Washington to settle the Administration's position on SSNs for Canada. The following is the gist of advice which I have had from Colin Powell (but would you please treat it with particular care: "Everything is probably OK and it would not help the process for the Prime Minister to call the President. We obviously have a tough situation with respect to the Hill and there is sharp interagency disagreement. But the letter from the Prime Minister served its purpose. Relax and trust me".

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

mg

(C.D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET

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126235
MDADAN 3906

SECRET
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 1078
OF 230430Z APRIL 88
AND TO IMMEDIATE MODUK, OTTAWA

ADVANCE COPY



FCO PLEASE ADVANCE TO NUMBER 10 (POWELL)

MODUK FOR PS/S OF S, AUS (POL), ACSA(N), D DEF POL, DG MARKETING

FCO TELNO 700: CANADIAN SSNS

SUMMARY

1 NO DECISION AT NSC MEETING ON 22 APRIL, BUT DISCUSSION SHOWS THAT PRIME MINISTER'S LETTER HAS HAD A POSITIVE EFFECT. PRESIDENT EXPECTED TO LOOK AGAIN AT THE ISSUE ON 23 APRIL. RECOMMENDATION FOR A TELEPHONE CALL FROM THE PRIME MINISTER TO THE PRESIDENT. GOTTLIEB SEES NEGROPONTE (NSC) TO MAKE POINTS QUOTE AUTHORISED BY MULRONEY UNQUOTE. DETAILS OF LIKELY PROBLEM AREAS FOR NEGOTIATION ON AMENDMENTS TO 1959 US/CANADA AGREEMENT.

*Discussed
w/ Charlie
Price, who
says the
President knows
your views &
a telephone
call would
not be
helpful.*

DETAIL

2 THE CANADIAN SSN ISSUE DULY CAME UP (BRIEFLY) AT THE NSC MEETING ON THE MULRONEY VISIT ON 22 APRIL. IN THE ABSENCE OF HERRINGTON AND CARLUCCI, MCKEE AND TAFT MADE CLEAR THEIR OPPOSITION TO THE PROJECT WHILE WHITEHEAD (IN SHULTZ'S ABSENCE) SPOKE IN SUPPORT. I SUBSEQUENTLY SPOKE TO WHITEHEAD WHO TOLD ME THAT THE PRESIDENT HAD LISTENED TO THE ARGUMENTS BUT MADE NO DECISION. IT WAS CLEAR, HOWEVER, THAT THE PRIME MINISTER'S LETTER HAD HAD A POSITIVE EFFECT (BUT SEE PARA 4) FOR, THE PRESIDENT HAD SAID HIS GENERAL VIEW WAS QUOTE WHY SHOULDN'T WE DO THIS FOR TWO GOOD FRIENDS UNQUOTE. WHITEHEAD WENT ON TO SAY THAT THE ISSUE WOULD PROBABLY BE LOOKED AT AGAIN BY THE PRESIDENT ON 23 APRIL, AND THAT A DECISION IN PRINCIPLE LIKELY BEFORE MULRONEY'S ARRIVAL ON 26 APRIL.

3 WHITEHEAD'S COMMENTS TO ME ARE IN LINE WITH THE ACCOUNTS OF THE MEETING THAT WE HAVE GOT FROM OUR CONTACTS IN THE OTHER AGENCIES. HOWEVER, JUDGEMENTS ABOUT WHERE THE PRESIDENT WILL FORMALLY COME DOWN CONTINUE TO DIFFER: WHILE THE STATE DEPARTMENT ARE SOMEWHAT OPTIMISTIC, ONR STILL BELIEVE THAT THE BEST WE CAN HOPE FOR IS QUOTE YES HOWEVER UNQUOTE, WITH THE QUALIFICATIONS RECOMMENDED BY CARLUCCI BEING ATTACHED TO THE PRESIDENTIAL DECISION.

mb

4. WE UNDERSTAND THAT THE CONTINUING OPTIMISM IN ONR STEMS LARGELY FROM DOUBTS STILL BEING EXPRESSED AT SENIOR LEVELS IN THE NSC TO THE EFFECT THAT THE PRIME MINISTER SOMEHOW DOES NOT FEEL STRONGLY ABOUT THIS ISSUE. SEPARATELY, WHITEHEAD SAID TO ME THAT HE UNDERSTOOD THAT THE PRIME MINISTER MIGHT BE TELEPHONING TO THE PRESIDENT ON 22 OR 25 APRIL. IN VIEW OF THE CURIOUS (AND DAMAGING) MISCONCEPTIONS IN THE NSC AND THE EXPECTATIONS IN THE STATE DEPARTMENT I RECOMMEND THAT THE PRIME MINISTER SHOULD TELEPHONE TO THE PRESIDENT TO FOLLOW UP HER MESSAGE OF 21 APRIL.

5. MEANWHILE, IN AN EFFORT TO ENSURE THAT THE ADMINISTRATION DID NOT BELIEVE THAT MULRONEY WOULD BE BOUNCED INTO A FIRM COMMITMENT TO TRAFALGAR ON 27 APRIL, GOTTLIEB SAW NEGROPONTE (IN POWELL'S ABSENCE) ON 22 APRIL. GOTTLIEB HANDED OVER SPEAKING NOTES QUOTE PERSONALLY AUTHORISED BY MULRONEY UNQUOTE, WHICH WAS APPARENTLY AS FAR AS MULRONEY WAS PREPARED TO GO IN RESPONSE TO OUR EFFORTS TO PERSUADE HIM TO COMMUNICATE DIRECTLY WITH THE PRESIDENT PRIOR TO HIS VISIT HERE. WE UNDERSTAND THAT THE SPEAKING NOTES TALKED OF THE DAMAGE THAT A US VETO WOULD DO TO US/CANADA SECURITY COOPERATION, AND OF THE CANADIAN COMMITMENT TO ACQUIRE SSNS COME WHAT MAY, NEGROPONTE APPARENTLY PROBED GOTTLIEB CLOSELY ON THE FRENCH BID, AND GAVE THE STRONG IMPRESSION THAT HE AT LEAST REMAINED SCEPTICAL AS TO WHETHER IT WAS A SERIOUS CONTENDER.

6. THE ADMINISTRATION HAS NOW VIRTUALLY COMPLETED ITS PREPARATIONS FOR ANY NEGOTIATION OF AMENDMENTS TO THE 1959 US/CANADA AGREEMENT. INTER-AGENCY AGREEMENT ON A NEGOTIATING TEXT WAS REACHED AT WORKING LEVEL ON 20 APRIL AND THE TEXT WILL BE REVIEWED AT A MORE SENIOR LEVEL ON 25 APRIL. WE UNDERSTAND THAT THE STATE DEPARTMENT WAS ULTIMATELY SUCCESSFUL IN RESISTING THE INCLUSION OF TOO MUCH MATERIAL, AS THE DOE WANTED, BUT THE DOCUMENT IS STILL FAIRLY UNCOMPROMISING.

THE ADMINISTRATION HAS RESISTED THE EFFORTS OF THE CANADIAN EMBASSY HERE TO GET DETAILS OF THE DOCUMENT IN ADVANCE OF A PRESIDENTIAL DECISION. BUT WE HAVE NOW BEEN BRIEFED ON ITS CONTENT IS STRICT CONFIDENCE BY OUR CONTACTS. MIFT CONTAINS A SUMMARY OF THE LIKELY PROBLEM AREAS IN THE US TEXT, AND COULD BE DRAWN ON BY HM HIGH COMMISSION IN OTTAWA IN BRIEFING THE CANADIANS (THOUGH WITH VERY GREAT CARE: ANY LEAK BACK TO THE ADMINISTRATION THAT THE CANADIAN WERE AWARE OF US THINKING ON THEIR NEGOTIATIONS WITH THE CANADIANS WOULD SERIOUSLY JEOPARDIZE THE ACCESS WE CURRENTLY ENJOY HERE ON THIS ISSUE).

ACLAND

YYYY

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MR POWELL 10 DOWNING ST
RESIDENT CLERK

NNNN

CONFIDENTIAL

File 86



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 April 1988

Dear Brian

NUCLEAR POWERED SUBMARINES FOR CANADA

Thank you for your letter of 21 April enclosing a draft message from the Prime Minister to President Reagan about the sale of nuclear powered submarines to Canada.

I have somewhat amended the message and the Prime Minister has signed it in its revised form. I am sending the top copy to the Foreign Office for urgent transmission to Washington. I am also sending a copy on the direct line to the White House.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Chris Powell

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence

CONFIDENTIAL

DSG



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. TS2/88

10 DOWNING STREET
LONDON SW1A 2AA

SUBJECT
cc master
OPS

THE PRIME MINISTER

21 April 1988

Dear Ron,

I know that you will shortly be reaching a decision whether to agree to the transfer of nuclear submarine technology from the United Kingdom to Canada, to meet Canada's requirement for nuclear submarines.

The Canadian Government are determined to acquire a fleet of nuclear-powered submarines. The only question is whether they buy from Britain or France. Obviously I would very much prefer that they bought from us. The British TRAFALGAR-class is a much more capable submarine. Canada's purchase of it would strengthen NATO's collective defence. But we cannot sell it to them without your agreement.

It is important to be clear that if you were to object, it would not stop the Canadians from acquiring nuclear-powered submarines. They are absolutely determined to go ahead and would in those circumstances turn to France. I do not believe that would be in the interests of either of our countries since it would deprive us of any influence over the Canadian programme.

82

I want you to know the great importance which I attach to an early and positive decision by your Administration. It is only because of this that I trouble you personally.

We are so much looking forward to your visit here in June.

Warm regards

Yours ever

Roosevelt

The President of the United States of America.

CPC



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

MO 14/6L

21st April 1988

Dear Charles,

CO 2/14

SSNs FOR CANADA

In my letter of 20th April, I indicated that the Embassy in Washington were considering whether to recommend that a message should be sent from the Prime Minister to the President in an attempt to ensure that the final US decision on SSNs for Canada goes in our favour. You will now have seen Washington tel no 1036 which not only recommends that such a message should be sent, but indicates that it may indeed be crucial, since the key DoD "vote" appears to have gone against us. The reason for this, in part, is that in the absence of a Prime Ministerial intervention, they believe HMG is not fully committed to the programme.

The Defence Secretary strongly endorses Sir Antony Acland's recommendation. He believes that we have now done all we can, in both Washington and Ottawa (he spoke to Perrin Beatty yesterday evening on the lines indicated in my letter to you), short of a direct approach to the President. He also believes that such an approach could be crucial in tipping the scales in a finely balanced situation. I attach a draft of a message which the Prime Minister might send; as you know the Presidential decision may well be taken tomorrow so the message will have to be sent today if it is to have the desired effect. If the Prime Minister is content to write in these terms, advance warning to Ambassador Price might also be helpful.

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

Your sincerely
 Brian Hawtin

(B R HAWTIN)
 Private Secretary

C D Powell Esq
 10 Downing Street

*have to reach reach
a decision whether
to agree*

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN

1. I understand that you will shortly ~~be considering~~ ^{know} the question of US agreement to the transfer of nuclear submarine technology from the United Kingdom to Canada, to meet the Canadian requirement for nuclear submarines. I am sure that you are aware of the great importance which HMG and the Canadian Government attach to the UK TRAFALGAR-class submarine being a contender for the programme. I know that you are facing several difficult issues in the course of considering your decision, but I felt I should stress my personal concern that you should reach an early and positive decision.

from British or France

class submarine

The only question is whether they buy or build
2. The Canadian Government is determined to acquire a fleet of nuclear powered submarines and has made clear that the money will not be spent on any other defence project. Although TRAFALGAR is clearly the more capable submarine ^{Canada's preference is it} and hence would very substantially enhance NATO's collective defence, the Canadians regard the French option as a wholly acceptable alternative. ^{But if submarines are sold in the way of} If the Canadians cannot buy TRAFALGAR, they certainly intend to acquire French submarines. ^{that would not be in the interests of either the US or the UK.} That would not be in the interests of either the US or the UK. I have no doubts that the Canadian programme will be safe and secure if it is based on TRAFALGAR. ^{But should the Canadians be forced to choose the French option, neither the US nor the UK will have any influence on the Canadian programme.} But should the Canadians be forced to choose the French option, neither the US nor the UK will have any influence on the Canadian programme.

3. The Canadians have set themselves a very tight timetable. Any delay in your decision would increase the danger that Canada will choose the French option by default. And if the TRAFALGAR option is ruled out by your decision, this would be profoundly damaging for relations with Canada. I hope, therefore, that you will be able to come to a swift and favourable conclusion.

All know the difficult issues are involved for you



Handwritten notes in the top left corner, including '21. IV.' and 'AM 88'.

The Canadian Government is pleased to announce that it has decided to fund the Canadian program for the year 1988. This decision is based on the progress of the program and the need for continued support. The program has been successful in providing training and technical assistance to the people of the Caribbean. The Canadian Government will continue to support the program and will be pleased to announce the results of the program in the future.

Handwritten notes in the middle left margin, including '21. IV.' and 'AM 88'.

The Canadian program for the year 1988 will be based on the results of the program for the year 1987. The program will continue to provide training and technical assistance to the people of the Caribbean. The Canadian Government will continue to support the program and will be pleased to announce the results of the program in the future. The program has been successful in providing training and technical assistance to the people of the Caribbean. The Canadian Government will continue to support the program and will be pleased to announce the results of the program in the future.

The Canadian program for the year 1988 will be based on the results of the program for the year 1987. The program will continue to provide training and technical assistance to the people of the Caribbean. The Canadian Government will continue to support the program and will be pleased to announce the results of the program in the future. The program has been successful in providing training and technical assistance to the people of the Caribbean. The Canadian Government will continue to support the program and will be pleased to announce the results of the program in the future.

Handwritten notes at the bottom of the page, including '21. IV.' and 'AM 88'.

070
CONFIDENTIAL

GePC



Foreign and Commonwealth Office

London SW1A 2AH

21 April 1988

COO
2/4

Dear Charles

Canadian SSNs

As you will be aware, events have moved rapidly since you spoke on this subject to Ambassador Price on 15 April. It now looks as if the debate in Washington is coming to a head. A decision is likely on 22 April.

The Embassy in Washington have suggested that, in addition to our urging Mr Mulroney to send a message to President Reagan, the Prime Minister should herself send a message to the President. The Foreign Secretary supports this recommendation. A message from the Prime Minister to the President could well be the vital element capable of swinging the decision in our favour. The pros and cons may well seem finely balanced to the President. He faces an uncomfortable situation as he weighs up the arguments. There is no consensus amongst his most powerful Ministers on how to proceed. Shultz is strongly in favour; Herrington is adamantly against; and Carlucci's attitude has shifted from neutrality to qualified opposition. In these circumstances, the prospects for a favourable outcome will be enhanced if it is clear to the President that the Prime Minister attaches importance to a positive decision and has put her authority behind the British proposal.

Time is short. We hope this morning to clear a draft message for the Secretary of State for Defence to recommend to the Prime Minister. The Foreign Secretary hopes that it will be possible for this to be issued later today.

I am sending copies of this letter to Brian Hawtin (MOD) and Trevor Woolley (Cabinet Office).

Long over,
L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

21. IV 1988



1988. IV. 21. 1988

Personal

*Charles - MOD will presumably send you the top copy.
we must worried about X, if it means the £200m of
ATP and associated ECGB! MOD/FCO officials meet on
MOD/FCO officials meet on*

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MDHIAN 6619

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FM KUALA LUMPUR
TO DESK BY 210900 FCO
TELNO U/N
OF 210330Z APRIL 88
AND TO DESK BY 210900Z MODUK

*Robson C 23
u*

SIC ACA/ZMC

PERSONAL FOR ADAMS (SEAD) AND CHANDLER (HDES MODUK) FROM COUNSELLOR (DS)

SUBJECT MALYSIAN DEFENCE PROCUREMENT PACKAGE

(T) 1. LETTER JUST RECEIVED FROM DR MAHATHIR TO THE PRIME MINISTER DATED 20 APRIL WHICH READS

QUOTE

THANK YOU FOR YOUR ASSURANCE OF SUPPORT FOR THE ARRANGEMENTS BEING MADE FOR MALAYSIA'S DEFENCE NEED. IT IS ALSO MY HOPE THAT WITH THIS ARRANGEMENT THERE WILL BE GREATER UNDERSTANDING AND COOPERATION BETWEEN OUR TWO COUNTRIES. THE MALYSIAN CABINET IS FULLY APPRAISED OF THIS AND THE MINISTER OF FINANCE WILL DEAL WITH THE DETAILS.

x

WITH ALL GOOD WISHES AND WARM REGARDS.
UNQUOTE

2. ORIGINAL BEING HAND CARRIED BY KNIGHT (RMD3) WHO RETURNS TO LONDON TONIGHT. POST COMMENT FOLLOWS TOMORROW.

BAKER BATES

YYYY



**PRIME MINISTER'S
PERSONAL MESSAGE**
SERIAL NO. *T51A/88*

**PRIME MINISTER
MALAYSIA**

*Sub Seal: cc mast-
cc CPS*

20th April, 1988

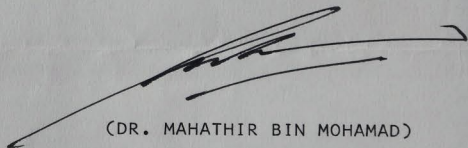
The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland,
LONDON.

Dear Prime Minister,

Thank you for your assurance of support for the arrangements being made for Malaysia's defence need. It is also my hope that with this arrangement there will be greater understanding and cooperation between our two countries. The Malaysian cabinet is fully appraised of this and the Minister of Finance will deal with the details.

With all good wishes and warm regards.

Yours sincerely,



(DR. MAHATHIR BIN MOHAMAD)

CPE



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 14/6/11

20th April 1988

2116.

Dear Charles,

NUCLEAR POWERED SUBMARINES FOR CANADA

You will be aware from the briefing provided for the Prime Minister's meeting with Ambassador Price on 15th April, on which you drew to make clear to him the Prime Minister's concern that the US Administration's decision should be favourable, that we now appear to be reaching a critical stage on this issue.

X Since I last wrote to you on this subject, on 9th March, prolonged discussions have taken place in Washington between the various agencies involved in the decision-making process. It is clear that the Department of Energy, of which the Office of Naval Reactors is part, is determinedly hostile to the Canadian programme, and has used every argument available to obstruct it. The State Department has been strongly favourable throughout, and the NSC has been broadly supportive as well. The crucial undecided player is Mr Carlucci, the Secretary of Defense. We believe that we have now done all we can by way of lobbying (short of a direct approach to the US President), culminating in a lengthy and detailed letter from the Defence Secretary to Mr Herrington, the US Secretary of Energy, on 11 April; we understand that this letter had a positive effect. *at flat*

The final Administration decision now appears likely to be made at a meeting of the NSC, chaired by the President, on Friday 22nd April. We believe that the prospects of a favourable decision would be enhanced if the Canadians would intervene with a direct message at the highest level, stressing the commitment of the Canadian Government to the programme and their desire to be able to make an unencumbered decision about the country of origin of their SSNs. The Defence Secretary is to speak to Mr Beatty this afternoon to convey our view that a Canadian contribution could now tip the balance crucially, and that this contribution could best come from Mr Mulrone, who is due to visit Washington on 26th April. In view, however, of the short time available, we believe that it would be useful if you were to make a telephone call to Mr Mulrone's office to reinforce these points, and to stress the urgency of the need - Mr Mulrone's message would have to reach Mr Reagan tomorrow (21st April).

C D Powell Esq
 10 Downing Street

CONFIDENTIAL



We understand that the Embassy in Washington are now considering whether to recommend a last minute intervention by the Prime Minister in order to tip the balance in our favour. If we receive such a recommendation, I shall of course write to you again.

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

*Your sincerely,
Brian Hawtin*

(B R HAWTIN)
Private Secretary

DEFENCE : Defence takes P/10



we understand that the Embassy in Washington are now considering
whether to recommend a last minute intervention by the Prime Minister
in order to tip the balance in our favour. If we receive such a
recommendation, I shall of course write to you again.

I am sending copies of this letter to my father (Foreign and
Commonwealth Office) and to Trevor Woolley (Colonial Office).

John Amundson
John Amundson

(S R HARTIN)
Private Secretary

CONFIDENTIAL



file 416
cds PC.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 April 1988

DEFENCE SALES TO SUDAN: BEDFORD TRUCKS

Thank you for your letter of 31 March on the subject of ECGD credit for the export of Bedford Trucks for the Sudanese Army.

BF || The Prime Minister would, I am sure, agree to reply to Sadiq al Mahdi's letter on the lines of the enclosure to your letter. I have made a few minor amendments and the reply may be despatched.

I am copying this letter to Brian Hawtin (Ministry of Defence), Stephen Ratcliffe (Department of Trade and Industry), Myles Wickstead (Overseas Development Administration), Jill Rutter (Chief Secretary's Office, Treasury) and Malcolm Stevens (ECGD).

CHARLES POWELL

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

416

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OUT TELEGRAM

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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ZCZC
 CONFIDENTIAL

FM FCO
 TO IMMEDIATE KHARTOUM
 TELNO
 OF 281245Z MARCH 88

YOUR LETTER OF 21 MARCH TO GOULTY: SUDAN DEFENCE SALES/BEDFORD TRUCKS

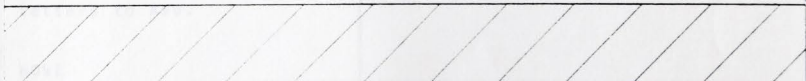
1. Please pass the following reply from the Prime Minister to Sadiq's letter of 17 March:

Begins:

Dear Prime Minister,

Thank you for your letter of 17 March about the agreement signed between your government and AWD for the supply of Bedford trucks and related spares. I am pleased that you should look to a British firm to fulfil your requirements in this field. For both our countries, this would be a valuable commercial transaction which should strengthen our commercial links and I share your wish to see it concluded successfully.

I regret that at present ECGD can only provide its support for business with Sudan where payment is to be made on cash



		Catchword:	
File number EG2	Dept NENAD	Drafted by (Block capitals) D G ROBERTS	Telephone no
Authorised for despatch by:		Initials	Date/time
For COD use only	Comcen reference	Telegram number	Processed by

210

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①

cc/b



Prime Minister

Agree to reply
as proposed?

Foreign and Commonwealth Office

London SW1A 2AH

31 March 1988

Joan Charles

COO
31/3

(It must be right: Sudan is a chronic defaulter).

dated 17/3/88.

Defence Sales to Sudan: Bedford Trucks

Agreed
me

I enclose a letter to the Prime Minister from the Sudanese Prime Minister seeking the Prime Minister's support and ECGD credit for the export of Bedford trucks for the Sudanese army. The letter reached us via our Ambassador in Khartoum. I also enclose, in the form of a draft telegram to Khartoum, a draft reply from the Prime Minister. This has been agreed with ECGD, MOD, DTI, ODA and Treasury officials. It warns Sadiq about the current difficulty in providing ECGD credit for Sudan, but seeks to set this in the context of support for the deal itself, our good bilateral relations and our wish to see the adoption of sensible economic adjustment measures by the Sudanese government.

AWD Bedford signed their £77 million contract in February for the supply of nearly 900 trucks and related spares to the Sudanese Ministry of Defence. Exact financial arrangements for the deal are still unclear. Sadiq's letter mentions "overseas government guarantees" of payment. AWD and the Sudanese have told MOD that these would come from Saudi Arabia, but they have not so far materialised. It would therefore be imprudent for the Prime Minister's reply to make any advance commitment about what ECGD's position might be should a Saudi guarantee be confirmed.

The question of ECGD cover is more recent and poses difficulties. ECGD medium term cover (ie for credit of 2 years or more) was withdrawn following Sudan's first debt rescheduling in 1979. Since then Sudan has returned to the Paris Club three times, the last being in 1984. The UK-Sudan bilateral debt agreement in respect of the last rescheduling, although agreed in principle, has never been signed by the Sudanese. Some £150m plus \$45m has been rescheduled so far with ECGD and currently arrears of some £81m are outstanding. There are additional unrecovered, and as yet unrescheduled, claims. Other agencies, including the IMF, are also carrying substantial arrears on this market. In view of the foregoing it is in our interests that the Prime Minister's reply should leave Sadiq in no doubt about the difficulties of providing ECGD credit.

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We have no objection on political grounds to the sale of these trucks. They are clearly intended for military use and there is some risk that they would exacerbate the civil war in Southern Sudan. On the other hand, trucks are not normally subject to export licensing and AWD and the Sudanese argue that they would be used for transporting or escorting relief aid. Their supply would undoubtedly strengthen our relations with the Sudanese military who may one day resume power in Khartoum. We do not, however, think that this amounts to a political case for granting export credit against ECGD's better judgement. Following the Sudanese army's temporary seizure of ODA-funded Oxfam trucks in Southern Sudan last month, their credibility in support of aid workers is low. Nor is there an arguable case for financing the sale from UK aid funds, as the trucks are for the military.

We believe that to make such a big exception to our rules on ECGD credit at present would risk sending a counter-productive signal to the Sudanese authorities at a time when their first tentative attempts at IMF-approved economic reforms already appear to be flagging. Recent signs suggest Sudan's projected financing gap has been seriously underestimated and creditors have yet to decide how to deal with the \$4.8 billion of debt falling due this financial year. The IMF is likely to put forward soon proposals for tackling part of this - the SDR 620 million arrears to the Fund itself which Sudan will owe by June. But innovative solutions by creditors depend on the strength of Sudanese commitment to continued reform. Further substantial military spending would seriously jeopardise the prospects of Sudan being able to maintain an effective adjustment programme. In addition, the transaction may be only part of a £200 million shopping-list including radar, machine guns and helicopters. Conceding credit on this occasion might therefore set a difficult precedent.

I understand that Lord Trefgarne will be replying to the letter from the Sudanese Minister of State for Defence (which Sadiq mentions) to confirm that, subject to financial arrangements for the sale being completed soon, MOD will be willing to assist with the diversion of vehicles from British Army orders to help AWD meet Sudan's delivery needs.

CONFIDENTIAL



I am copying this letter to Brian Hawtin, Stephen Ratcliffe, Miles Wickstead, Jill Rutter, and Malcolm Stevens at ECGD.

Yours ever

A handwritten signature in blue ink, appearing to read 'R N Culshaw', written in a cursive style.

(R N Culshaw)
Private Secretary

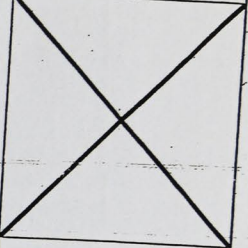
C D Powell Esq
PS/No 10 Downing Street

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A The National Archives

DEPARTMENT/SERIES <i>Rem 19</i>	Date and sign
PIECE/ITEM <i>2061</i> (one piece/item number)	
Extract details: <i>Letter from Powell to Colshaw dated 31 March 1948</i>	
CLOSED UNDER FOI EXEMPTION	
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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.

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033040
MDHOAN 3087

CONFIDENTIAL
FM FCO
TO IMMEDIATE ANKARA
TELNO 119
OF 291345Z MARCH 88

YOUR TELNO U/N OF 28 MARCH: TORNADO FOR TURKEY

1. SIR RAYMOND LYGO, CHIEF EXECUTIVE OF BAE TOLD THE PUS ON 28 MARCH THAT BRITISH AEROSPACE HAD JUST SUBMITTED ANOTHER DEFENCE PACKAGE TO THE UNDER-SECRETARY IN CHARGE OF DEFENCE PROCUREMENT IN THE TURKISH MINISTRY OF NATIONAL DEFENCE. THE PACKAGE INCLUDED SUPPLY OF SKY FLASH AND LASER FIRE/RAPIER AND A RENEWED OFFER OF 40 TORNADOS. AS OFFSET, BAE WERE OFFERING TO TAKE TURKISH SUPPLIES INCLUDING MATERIAL FOR BRITISH ALUMINIUM. SIR RAYMOND ASKED THAT YOU SHOULD CONVEY A COPY OF HIS OFFER (WHICH WAS BEING SENT TO YOU DIRECT) TO THE MINISTRY OF FOREIGN AFFAIRS.
2. THE PUS SAID THAT HE WOULD GLADLY DISCUSS THE PROPOSAL WITH DEFENCE EXPORT SERVICES ORGANISATION, BUT THAT HE THOUGHT WE WOULD HAVE TO BE SOMEWHAT CAUTIOUS IN CASE WE WERE TO GIVE THE TURKS THE IMPRESSION, ON THE EVE OF THE PRIME MINISTER'S VISIT, THAT WE WERE GIVING THE BRITISH AEROSPACE PACKAGE PRIORITY OVER OTHER BUSINESS IN WHICH THE TURKS MIGHT BE INTERESTED. HE REFERRED TO THE SHORTAGE OF COMMERCIAL FUNDS AND OFFICIAL COVER, AND ALSO POINTED OUT THAT, AT A TIME WHEN THE TURKS WERE SEEKING POLITICAL FAVOURS OF US (EG OVER THEIR HOPES FOR MEMBERSHIP OF THE EUROPEAN COMMUNITY), WE HAD TO BE CAREFUL NOT TO APPEAR TO BE PRESSING THEM UNDULY FOR CONTRACTS.
3. WE HAVE DISCUSSED WITH DESO AND ECGD. WHILE WE DO NOT WISH TO APPEAR UNHELPFUL TO BAE AND WOULD NOT WISH TO SPOIL THEIR CHANCES OF WINNING THE RAPIER CONTRACT, WE CANNOT GIVE THE PRESENT PACKAGE PROPOSAL FULL BACKING, SINCE THERE IS NO CHANCE OF FULL COVER FOR A PROJECT OF THIS SIZE BEING PROVIDED BY ECGD. UNLESS YOU SEE OBJECTION, GRATEFUL THEREFORE IF YOU WOULD PASS COPY OF THE BAE LETTERS TO THE MFA, WITH THE EXPLANATION THAT THEY ARE BEING CONVEYED PURELY FOR INFORMATION. WE DO NOT (NOT), HOWEVER, THINK THAT YOU SHOULD HELP SET UP A MEETING FOR LYGO WITH THE TURKISH PRIME MINISTER AT THIS STAGE. LYGO DID NOT RAISE THIS WITH THE PUS AND, GIVEN THE DIFFICULTIES OVER CREDIT COVER, WE BELIEVE THIS WOULD AT BEST CONFUSE AND AT WORST MISLEAD THE TURKS. WE ARE TELLING LYGO OF THESE INSTRUCTIONS AND ADVISING HIM TO POSTPONE HIS PROPOSED VISIT

PAGE 1
CONFIDENTIAL

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0330
MDHOAN 3087

TO ANKARA UNLESS THE TURKS SPECIFICALLY ASK HIM TO COME THEN.

HOWE

YYYY

DISTRIBUTION

56

MAIN 48

LIMITED
SED
DEFENCE DEPT
SEC POL DEPT
COMED
ERD

PS
PS/MRS CHALKER
PS/PUS
SIR JOHN FRETWELL
MR RATFORD
MR GOULDEN

ADDITIONAL 8

ECGD
PEP/DTI
OT4/DTI

DESO/MOD
TREASURY
PS/NO 10

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047200
MDHOAN 3386

CONFIDENTIAL
FM FCO
TO IMMEDIATE KHARTOUM
TELNO 149
OF 281245Z MARCH 88

TOP COPY
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see 24

PA
Sud/Def Sales.

YOUR LETTER OF 21 MARCH TO GOULTY: SUDAN DEFENCE SALES/BEDFORD TRUCKS

1. PLEASE PASS THE FOLLOWING REPLY FROM THE PRIME MINISTER TO SADIQ'S LETTER OF 17 MARCH:

BEGINS:

DEAR PRIME MINISTER,

THANK YOU FOR YOUR LETTER OF 17 MARCH ABOUT THE AGREEMENT SIGNED BETWEEN YOUR GOVERNMENT AND AWD FOR THE SUPPLY OF BEDFORD TRUCKS AND RELATED SPARES. I AM PLEASED THAT YOU SHOULD LOOK TO A BRITISH FIRM TO FULFIL YOUR REQUIREMENTS IN THIS FIELD. FOR BOTH OUR COUNTRIES, THIS WOULD BE A VALUABLE COMMERCIAL TRANSACTION WHICH SHOULD STRENGTHEN OUR COMMERCIAL LINKS AND I SHARE YOUR WISH TO SEE IT CONCLUDED SUCCESSFULLY.

I REGRET THAT AT PRESENT ECGD CAN ONLY PROVIDE ITS SUPPORT FOR BUSINESS WITH SUDAN WHERE PAYMENT IS TO BE MADE ON CASH TERMS. THIS IS DUE TO THE SUBSTANTIAL CLAIMS PAID BY THE DEPARTMENT ARISING FROM THE DEBT RESCHEDULING AGREEMENTS WITH YOUR COUNTRY SINCE 1979, AND THE FACT THAT NO PAYMENTS HAVE BEEN RECEIVED UNDER THESE AGREEMENTS SINCE APRIL 1985. I HOPE THAT YOU WILL NONETHELESS FIND SOME WAY TO ENABLE THE TRANSACTION TO BE SATISFACTORILY CONCLUDED. I CONFIRM THAT, IN THE EVENT THAT THE SALE GOES AHEAD SOON, WE WOULD HOPE TO BE ABLE TO ASSIST WITH THE DIVERSION OF TRUCKS FROM BRITISH ARMY ORDERS WITH AWD.

I SHOULD ADD THAT OUR CURRENT DIFFICULTIES OVER ECGD CREDIT UNDERLINES SUDAN'S URGENT NEED AS WE SEE IT FOR BROAD ECONOMIC ADJUSTMENT. I HAVE NOTED WITH INTEREST THE POSITIVE STEPS YOUR GOVERNMENT HAVE RECENTLY TAKEN IN CONJUNCTION WITH YOUR WESTERN FRIENDS AND THE INTERNATIONAL FINANCIAL INSTITUTIONS. I HOPE THESE EFFORTS WILL BE SUSTAINED AND HAVE EVERY FAITH IN YOUR COURAGE AND DETERMINATION TO PUSH THEM THROUGH. A PROSPEROUS AND STABLE SUDAN IS AN AMBITION WE BOTH CHERISH.

CONFIDENTIAL

047200
MDHOAN 3386

WITH BEST WISHES,

YOURS SINCERELY,
MARGARET THATCHER

ENDS.

2. ONCE YOU HAVE DELIVERED THIS REPLY, WE SHALL COPY TO THE
SUDANESE EMBASSY HERE AND SHALL PASS THE GIST OF THE EXCHANGE
OF LETTERS TO AWD.

HOWE

YYYY

DISTRIBUTION 42

MAIN 36

LIMITED
NENAD
ERD
DEFENCE DEPT
PS
PS/MRS CHALKER

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

ADDITIONAL 6

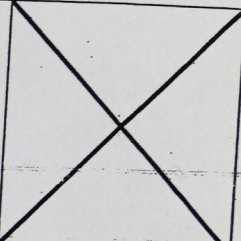
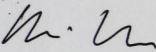
RMD2, DESO, MOD
ID3, ECGD
HM TREASURY
(LFT SMITH ESQ)

BANK OF ENGLAND
EAFD, ODA
OT4, DTI

NNNN

PAGE 2
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A The National Archives

DEPARTMENT/SERIES	PREM 19	Date and sign
PIECE/ITEM (one piece/item number)	2061	
Extract details:	Letter from Culshaw to Powell dated 28 March 1988	
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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.

SECRET ^{4A}

PROTOCOL

MALAYSIAN DEFENCE PROCUREMENT PROGRAMME

The Government of Malaysia and the Government of the United Kingdom of Great Britain and Northern Ireland, having regard to:

the friendly relations between the two countries and the desire of the Government of Malaysia to purchase defence equipment for the Malaysian Armed Forces from United Kingdom sources

have reached the following understanding.

The Government of Malaysia will purchase from sources in the United Kingdom a range of equipment, services and facilities for the use of the Malaysian Armed Forces, the key elements of which are listed in the Annex to this document. The priority to be attached to the items of equipment, will be determined by the Malaysian Government.

The two Governments will mutually agree on :

- a. items of equipment to be added to the list at Annex
- b. alterations in the quantities of agreed items
- c. prices of items of equipment.

The Government of the United Kingdom will bring to bear the resources of its Ministry of Defence on the overall

24.

SECRET

SECRET

Programme in order to grant facilities including, but not necessarily limited to:

- a. Aid in support of non-military aspects under this Programme, the type, terms and conditions of which shall be mutually determined by both Governments. Her Majesty's Government has taken note of the Malaysian Government's desire that this grant should amount to no less than 20% of the value of defence equipment and this will be discussed in the context of the Memorandum of Understanding.
- b. training of Malaysian personnel in theoretical and operational concepts and in operation, maintenance, overhaul and repair of the equipment specified herein.
- c. the purchase by the British Ministry of Defence, either directly or through its suppliers, of items produced in whole or in part, by the Malaysian Defence Industry subject to the agreement of terms and conditions;
- d. direct assistance to Syarikat Malaysia Explosives to upgrade its defence production capacity with a view to penetrating the export market.
- e. through the British companies involved in the specified equipment, including major sub-contractors as well as prime contractors, and

C.Y. 8

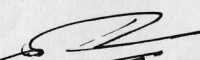
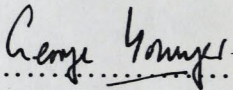
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
SECRET

through other infrastructure projects as may be mutually agreed, the transfer of sophisticated and advanced technology with the objective of further developing the defence industrial base of Malaysia.

The two Governments hereby undertake to commence the Programme forthwith and draft and agree an overall Memorandum of Understanding encompassing and elaborating this Protocol for signature as soon as possible. Separate arrangements to cover discrete aspects of the overall project may also be required in the form of a separate Memorandum of Understanding or by supplements to the overall Memorandum of Understanding.

SIGNED IN KUALA LUMPUR THIS 23rd DAY OF MARCH 1988

SIGNED.....		SIGNED.....	
NAME	Y.M. TENGKU DATUK AHMAD RITHAUDDEN	NAME	RT HON GEORGE YOUNGER TD MP
TITLE	MINISTER OF DEFENCE	TITLE	SECRETARY OF STATE FOR DEFENCE
	FOR THE GOVERNMENT OF MALAYSIA		FOR THE GOVERNMENT OF GREAT BRITAIN AND NORTHERN IRELAND



SECRET

ANNEX TO PROTOCOL

KEY PROJECTS

- An Integrated Air Defence Project comprising :
 - 12 Tornado aircraft
 - 6 Batteries of Rapier Blindfire missile systems
 - 2 Martello 3D radars

- An integrated Command, Control, Communications and Intelligence System (C³I) with application to naval, land and internal security forces as well as Air Defence

A.Y.
B

SECRET

Defence - Sales PR 10



TO PROTOCOL

to interested Air Police Project...
1. Manual 3D radar
2. Manual 3D radar
3. Manual 3D radar

to interested Command, Control, Communication and
Intelligence System (C3I) with application to naval
land and internal security forces as well as Air
Defence

W 3

ce/jk

CONFIDENTIAL

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

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM 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 DW5CRT
Your ref
Date 21 March 1988

COB
2/13

John

TORNADOS FOR JORDAN

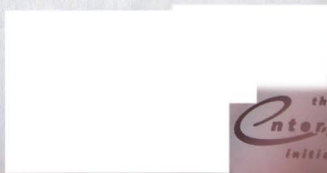
I refer to George Younger's letter of 17 March in which he proposes that ECGD support for this business be increased. Previously I have taken a firm line against the allocation of too much of the limited ECGD Section 2 cover to this single contract. However with the establishment of the new Arms Limit, which was intended for this kind of exceptional case, I do not see the need now to be so restrictive and I recognised the importance of this contract to our bilateral relations. I therefore fully support his proposals.

I understand BAe and the banks seem ready to accept 50/50 risk sharing and that should clearly be the basis on which we should aim to do the business. However additional problems for BAe might arise if capitalisation of pre-delivery interest has to be agreed and therefore I also agree that fallback authority should be given to increase the ECGD share up to 60 per cent if that should prove necessary.

I am pleased to note that George Younger has agreed that the whole of this liability should be set against the Arms Limit.

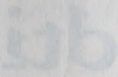
It should be noted that this business would take up a sizeable portion of the Arms Limit and this could create problems sooner than perhaps we had expected. However this is exactly the kind of exceptional contract for which the Arms Limit was intended.

I am copying this letter to the Prime Minister and to Sir Geoffrey Howe.



J. S.
How





CONFIDENTIAL

The Hon. the Secretary of State for Defence
Cabinet Office, Whitehall, London SW1A 2JG

The Hon. the Secretary of State for Defence
Cabinet Office, Whitehall, London SW1A 2JG

18/11/58
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[Handwritten signature]

FORWARDED FOR JOURNAL

I refer to George Younger's letter of 14/11/58 in which he proposed that RND support for this decision be increased. Provisionally I have taken a like line with the suggestion of the Hon. the Secretary of State for Defence to refer to the contract. However with the re-arrangement of the new team, which was intended for this kind of exceptional case, I do not see the need now to be so restrictive and I recognise the importance of this contract to our bilateral relations. I therefore fully support his proposal.

I understand that the RND team is ready to accept 20/50 risk and that would clearly be the basis on which we should aim to do the business. However additional provision for the RND team is required in the light of the fact that we are to proceed and therefore I also agree that RND should be given to increase the RND share up to 50 per cent if that should prove necessary.

I am pleased to note that George Younger has agreed that the role of this Ministry should be set against the Army's role. It is noted that this business would take up a significant part of the Army's time and this could create problems for the Army as the RND team is engaged. However this is largely a contractual matter for which the Army has no responsibility.

[Large handwritten signature]



CONFIDENTIAL



2 pps

Treasury Chambers, Parliament Street, SW1P 3AG

Brian Hawtin Esq
 Private Secretary
 to the Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 London
 SW1

COP
 2/7

12
 March 1988

Dear Mr Hawtin,

NUCLEAR POWERED SUBMARINES FOR CANADA

The Chief Secretary has seen your letter of 9 March to Charles Powell.

The question of liability is clearly crucial. Not only could we hardly contemplate having to report to Parliament that we had, in connection with this sale, incurred a contingent liability of unimaginable magnitude; the underlying policy considerations are even more important. As you say, if Canada is to become a member of this exclusive club, she must accept the onerous responsibilities which go with it. Any suggestion that she could dodge these by recourse to the UK would create an unacceptable degree of moral hazard in her operation of such a sophisticated fleet. Moreover, any wavering in our position could damage our relations with the United States in this vital area of nuclear technology.

It will be essential that the Canadian Government accepts full responsibility. This requires Canada to waive all claims against the UK Government and to give a full indemnity to us in the terms already transmitted to the Government of Canada. The Chief Secretary sees no possibility of further concessions to the Government of Canada on this subject.

I am copying this letter to Charles Powell (No.10), Tony Galsworthy (FCO) and Trevor Woolley (Cabinet Office)

Yours sincerely,
 Joe Evans

pp JILL RUTTER
 Private Secretary

ajc

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

C90
1873

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

18 March 1988

Dear Secretary of State,

TORNADOS FOR JORDAN

flap

Thank you for your letter of 17 March in which you seek agreement to an increase in ECGD's cover beyond the improvements in the credit terms I endorsed in my letter of 28 January.

In view of the reluctance of the banks and BAe to meet their share of the risk and in order to maintain our commitment to the Jordanians, I agree the increase proposed in ECGD's share of the risk. I endorse your aim to contain the increase to a risk sharing between ECGD and the commercial parties to a 50 : 50 ratio. I am, however, also prepared to agree to an increase to a maximum 60 : 40 risk sharing ratio, if that is necessary in negotiations.

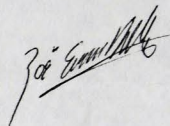
I am prepared to agree to this substantial increase in ECGD's Departmental maximum liability on the understanding that you are now prepared to accept that the whole of ECGD's exposure for this contract is logged against the £1 billion Section 2 defence allocation. The DML for this deal will of course exceed 1/3 of the £1 billion. The new arrangements have only just been agreed and one potential contract already exhausts what might be appropriate for one year. I understand that the recent Export Guarantees Committee quarterly review of major defence contracts concluded there are no other major contracts imminent. But I should make clear that there can be no question of including any further substantial defence contracts under the special allocation in the current year, without a Ministerial review of the arrangements. I further understand that ECGD have agreed to review the Jordanian market limit shortly, in accordance with the

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procedures for allocating contracts against the new account; the aim will be, of course, to provide an offsetting reduction in the overall contingent liabilities, although I recognise that the balance of the market limit is minimal.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read "John Major", written over a horizontal line.

JJ JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

DEFENCE Sales pt 10

CONFIDENTIAL

Proprietor for shipping matters against the air account; the
air will be covered, to provide an effective solution in
the event of any delay; this is a standard procedure for the
release of the main line of travel.

It is expected that later on the first Minister, Geoffrey
Howe and David Hunt.

John G. ...

[Handwritten signature]

JOHN G. ...

(...)

(...)



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cc/c

FCS/88/053

*CDP
18/73*

CHIEF SECRETARY OF THE TREASURY

Tornado for Jordan

1. I have seen a copy of George Younger's letter of 17 March seeking agreement to improvements in the credit terms of the package we are offering for the sale of 8 Tornado IDS aircraft to Jordan.
2. As you know, I view this sale as of the utmost political, strategic and military importance to Britain. We have secured an assurance from King Hussein that he will proceed with the purchase of these aircraft. We must now do all we can to ensure that the Jordanians are able to follow through on this commitment.
3. I am naturally concerned at the possibility that BAe will withdraw from this deal unless there is an improvement in the risk sharing arrangements with ECGD. We must ensure that they stay on board.
4. I recognise the problem posed by the increase in ECGD's Departmental Maximum Liability which such a change in risk sharing would involve. But the importance of the Tornado deal is such that I support fully the case presented in George Younger's letter. The importance of this deal is reflected in his agreement, which I welcome, that the whole of the ECGD contingent liability for this contract should be logged against the new £1 billion credit facility for major arms sales.

May

/I

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5. I hope that you will be able to give your approval to these new arrangements quickly in order that the negotiating team, who leave for Amman at the weekend, will be equipped with the wherewithal to maximise the prospects of securing this very important contract for Britain.

6. I am copying this minute to the Prime Minister, George Younger and David Young.

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

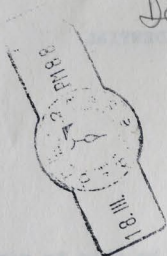
(GEOFFREY HOWE)

Foreign and Commonwealth Office
18 March 1988

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Refer to file

PR10.



I hope that you will be able to give your attention to these and administrative duties in order that the production work may have the same in the week-end. It will be equipped with the necessary material to maintain the progress of securing this very important document for release.

I am copying this memo to the other members of the group and to the staff.

Handwritten initials or a signature, possibly 'M' or 'H', in the center of the page.

Foreign and Commonwealth Office
12 Horse Lane

The Prime Minister



Your Excellency,
The Prime Minister of the United Kingdom,
The Right Honourable Mrs. M. Thatcher,
London,
ENGLAND

Khartoum in 17.3.1988

Dear Prime Minister,

The Government of Sudan wish to extend to Her Majesty's Government and yourself their best wishes and respect.

We refer to an Agreement signed between the Ministry of Defence, Sudan and AWD Bedford on 14 February 1988 for the supply of 899 trucks and related spares. The implementation of this Agreement is conditional upon there being a supporting financial arrangement satisfactory to the Government of Sudan.

We further refer to the letter from my Minister of State for Defence, to Lord Trefgarne dated 14 February 1988 requesting the diversion of 110 Bedford trucks from the British Army to enable the immediate delivery of these vehicles to Sudan on humanitarian grounds. This request, we understand, has been sympathetically received by Her Majesty's Government.

We confirm that should an export credit type of finance, of a medium term duration, be made available by ECGD to assist this contract, value £ 77.27 Million such an offer will be accepted in principle by the Government of Sudan. We are ready to commence negotiation for such finance immediately particularly in view of the very tight delivery schedule which we are most anxious to adhere to so that as many vehicles as possible are received before the rainy season commences to alleviate a serious famine situation in parts of the country. My Government is prepared to arrange such local and overseas government guarantees as may be required, subject to the terms and conditions being agreed by all parties.



The Prime Minister



The Government of Sudan, acting through the Ministry of Defence, having entered into a protocol agreement with Eastlords Limited of London confirm their intention to mandate Midland Bank plc to arrange the relevant financial package.

We very much appreciate the considerable assistance so far received from the British Government. We sincerely hope you will add your personal support to this important transaction in order that it may be expedited with all speed to ensure the vehicles are delivered as quickly as possible.

Thank you for giving this matter your kind consideration.

Yours most sincerely.



Sadig Al Mahdi

SADIG AL MAHDI
PRIME MINISTER

CJPC



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218

MO 6/17/7L

17 March 1988

BF || Pl. want Chief
 January, 1988
 CDD 17/3

Dear John,

TORNADO FOR JORDAN

at Head PTA
 Your letter of 28th January conveyed your agreement to the improvements I had proposed to the credit terms we have offered to Jordan on this sale. Specifically we were concerned then with the increased interest make-up and liability on the ECGD supported element of the credit, and we were asking the commercial parties (BAE and the Banks) to accept the parallel increases resulting from matching improvements on their share of the risk.

ECGD and my own officials have since put these proposals to BAE and the Banks. I regret to say a further problem has arisen. Estimates of the likely contract value have increased significantly since we first considered the matter last September. In consequence the UK workshare could now amount to £300 million. On the risk sharing ratio agreed at present this would mean BAE and their sub-contractors carrying the risk on £140 million of loan principal (or £160 million if capitalisation of interest is required) which far exceeds the profit and other benefits of the deal to them. They do not feel able to proceed on this basis.

The powerful strategic, political and commercial case for securing this sale is unchanged and I fear that (notwithstanding King

The Rt Hon John Major MP

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Hussein's recent public announcement that the sale is already agreed between our two Governments) we shall not succeed in finalising it unless we can find a way round this difficulty. EGC reviewed the case again earlier this week and agreed that, subject to Ministerial approval, ECGD and MOD should seek to negotiate a 50:50 risk sharing with BAe and the Banks. This would take ECGD's guarantee above the principal value of £100 million previously agreed by Ministers, but the risk sharing would still be better than the 55:45 ratio which applied when official support for the deal was first offered. There is good reason to believe that this will encourage the Banks to increase the amount of risk that they can take and also reduce the risk which BAe will need to carry to a figure closer to the likely profit they might earn on the sale. However, in the event that it is not possible to strike a deal with the commercial parties on a 50:50 ratio, officials considered that the importance of the sale and the Government commitment to it, justify continuing negotiations with the commercial parties up to a maximum 60:40 risk sharing ratio. I would be grateful for colleagues' early agreement to this (our negotiating team are due to meet with the Jordanians this weekend and will have little negotiating flexibility until this point is resolved).

A 50:50 risk sharing ratio would increase ECGD's maximum liability to £290 million (or £330 million if capitalisation of interest has to be accepted). A 60:40 ratio would imply liabilities of £335 million (or £380 million with capitalisation). There is an outstanding question of how this is to be logged as between ECGD's Country Limits and the new £1 billion provision recently agreed for major arms sales where there is insufficient Country Limit available. I have previously opposed the logging of the whole amount of the cover needed for the Jordanian Tornado sale against the new provision, but given the strong reluctance of colleagues to agree 'offsetting' against cover for other countries I would be prepared - if the increased ECGD support now proposed can be agreed - to accept that, in this instance, the whole of the ECGD liability should be



logged against the £1 billion fund. However, I remain concerned that proper ground rules should be agreed on how cover for future major defence deals should be allocated where some country limit is available, but is insufficient to fully cover ECGD's liability.

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

Yours wsl,
George

George Younger

DEFENCE: Sales Price



[Faint, illegible handwritten text]

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cdfe
②
MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

Rine Anster
CDP/19
9th March 1988

MO 14/6/1L

Dear Charles,

NUCLEAR POWERED SUBMARINES FOR CANADA

You will be aware from briefing provided for the Prime Minister's meeting with Mr Mulroney on 3rd March that the text of a Memorandum of Understanding (MOU) covering the possible purchase by Canada of Trafalgar Class nuclear powered submarines (SSNs) from the UK was recently agreed at official level. Both the Defence Secretary and Mr Beatty have now confirmed that they are content to approve and sign this MOU.

Since my predecessor wrote to you on this subject on 11th December, further detailed negotiations have taken place with both the US and Canada. During these discussions, the Canadians became aware of the complexity of the issues involved in their intended acquisition of SSNs, chiefly those of safety and security and of nuclear non-proliferation. They have, on the whole, responded constructively and, in particular, have accepted the need to tailor the arrangements to meet US concerns, the most important of which is that in the interests of ensuring a safe programme the first submarine must be built in the UK, and that there should be no change to the nuclear propulsion plant at least until completion of the first boat built in Canada. We have nevertheless been concerned that the Canadians may be placing too much emphasis on presentational issues, and that they may be in danger of making the choice of country of origin on the basis of factors other than operational capability and cost. But we have had the impression all along, that the technical superiority of the Trafalgar is clearly recognised within the Canadian Department of National Defence.

Despite the general willingness on the part of the Canadians to compromise on most of the issues which gave rise to problems during the negotiations, they were unable to accept the UK position on one important question, that of liability in the event of an accident to a Canadian SSN. We have made it clear that one of the necessary conditions of joining the "club" of nuclear submarine operators is to accept total contingent liability and that HMG could not accept any responsibility in this respect. But the Canadians, while accepting

C D Powell Esq
10 Downing Street

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full responsibility for meeting third party claims, have not been prepared to forego the right to seek subsequent redress from the UK. Accordingly, the Defence Secretary has written to Mr Beatty explaining our position in detail. Further discussions will take place to try to resolve this issue, but if this is not possible the Canadian Government will have to take account of a unilateral statement of HMG's position when making its final choice of country of origin.

Now that the MOU has been agreed by both Defence Ministers, the next stage is to seek the consent of the US, as required by the 1958 US/UK Agreement and by the American Atomic Energy Act of 1954. Accordingly, Mr Younger has written to Mr Herrington, who as Secretary of Energy is responsible through the Office of Naval Reactors for US naval nuclear policy, and to Mr Carlucci formally requesting them to take the necessary action. This will consist of tabling amendments before Congress to the 1959 US/Canada Agreement (a counterpart of our own Agreement of 1958) to bring its terms into line with those of the 1958 Agreement. This Administration decision, in which several Agencies, co-ordinated by the National Security Council, will be involved, will be based on the text of the MOU and is likely to take several weeks. Thereafter, assuming that the decision is favourable, the necessary amendments must be laid before Congress for a 90-day period, in which there may be committee hearings. The amendments will take effect at the end of the 90 days unless both Houses of Congress concurrently vote them down. The final act (and we cannot take a smooth ride in Congress for granted) will be for the US Administration to issue another Statutory Determination on the 1958 Agreement allowing the UK to transfer all the information and hardware which the Canadians will need to acquire and construct SSNs.

It is not clear when the Canadian Government will seek to make its decision on country of origin. They had originally hoped to make a decision by March. That being clearly unrealistic, their revised deadline is now June but this is still likely to be optimistic since the process of Congressional consideration is unlikely to be completed before the end of July at the earliest. This probably means a deferral until the autumn when considerations of the timing of the Canadian General Election may influence the decision. Thus, although we have achieved a major milestone in reaching agreement on the MOU, there is still a very long way to go.

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

Your sincerely
B R Hawtin

(B R HAWTIN)
Private Secretary

British Aerospace

Sir Raymond Lygo, KCB

Chief Executive

15

4th March 1988

Dear Prime Minister,

Just a short thank you
note for all your help in
achieving the Jordanian Tornado
breakthrough.

We will now do our best
to prove you right.

Yours sincerely,
Ray

copy
(2)



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-920X 202X 218 2111/3

MO 32/10L

24th February 1988

See also,

Prime Minister
Good past performance,
but future prospects less
promising.

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

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

CDP
24/2

In this period British industry formally reported defence export contracts worth £648 million (including £82 million from pre-1987 contracts). This gives a provisional total of £3090 million for 1987, already second only to our best ever year in 1986 (£6,000 million). Many 1987 contracts are still to be formally reported. The major customers in the fourth quarter were Switzerland (18%), USA (15%), Egypt (14%) and Saudi Arabia (12%). A list of major contracts secured in this period is attached at Appendix A.

The United Kingdom's competitors have signed a number of significant contracts in the final quarter of 1987. These include the USA (\$1500 million total) with F15 aircraft for Saudi Arabia, patrol aircraft for Spain and Boeing E-3 AWACS to the UK; Brazil with Astros II rocket launchers (\$500 million) for Saudi Arabia; Israel (\$300 million total) with artillery shells for West Germany (\$165 million); Canada with reconnaissance drones for West Germany and France (\$250 million); and Switzerland with its ADATS anti-aircraft missile system for the USA (\$97 million for the first tranche).

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

a. Middle East

Saudi Arabia is still evaluating the British proposals for a naval package comprising mine counter measures vessels (MCMV), fast patrol boats, helicopters and sea mines (£250 million). The package includes the lease of two Royal Navy (RN) Hunt class MCMVs. A UK team will be visiting the Kingdom in late February 1988. The Saudi Navy is also evaluating a joint RN/Sea Consult proposal to set up a Hydrographic Service (£250 million). Following in-country trials in 1987, Challenger failed to join the shortlist of the Brazilian Osorio and the US M1 main battle tanks. A Government to Government offer to Jordan for 8 Tornados

Charles Powell Esq
No 10 Downing Street



IDS aircraft and support equipment was presented on 30 January 1988. Subsequently, a joint MOD/British Aerospace team visited the country for discussions on operational and support concepts, and further discussions will take place in April. Kuwait has concentrated its efforts on seeking short-term countermeasures to the Iranian Silkworm missile. Although aware of the Seawolf air defence missile system they have not yet made an official approach. Until this requirement has been addressed, evaluation of requirements for main battle tanks, armoured personnel carriers, fast patrol boats and aircraft is being postponed. In the UAE, British Aerospace negotiations continue with Dubai to purchase further Hawk aircraft (£190 million), whilst Abu Dhabi interest in acquiring additional aircraft appears to be weakening.

b. Europe

The Finnish Army has trialled the Marconi Marksman gun turret to meet their requirement for 20 systems to be fitted to existing tank chassis (£40 million). Swiss and Swedish proposals are due to be submitted by April, with a decision due later this year. Marconi have responded to a Finnish Air Force request for bids for 5 air defence radars; their Martello proposal is valued at £49 million, with a decision due in the first quarter in 1988. Greece is now believed to have completed the evaluation of various frigate proposals, including a joint Vosper Thornycroft and Honeywell (USA) submission (which may include US FMS support) but there is no clear indication of when a final decision will be reached. Strong competition is expected from West Germany and Holland. A trial of Plessey communications equipment took place in Norway during September 1987; a final decision between Plessey and the Swedish and French equipment is due in March (£20 million). Although Warrior's technical superiority was recognised Turkey has taken its armoured personnel carrier decision on the basis of price and has begun commercial negotiations with the American FMC company. A decision is still awaited from Spain on selection of a minehunter design; Vosper Thornycroft are one of the main contenders. Against a background of serious doubts that Yugoslavia will be able to fund the Light Combat Aircraft, their authorities have been told that the UK will not be able to supply equipment in four key areas of technology.

c. The Americas

Negotiations are nearing completion on a Memorandum of Understanding (MOU) for the Canadian submarine project, setting out the terms on which the UK could offer the Trafalgar design. France is the sole competitor, but the UK will need to obtain US agreement before it can transfer some of the American-derived nuclear technology. The Canadian Army have two major requirements, the first for 250 MBTs; a Solicitation of Interest (SOI) to Vickers and all other NATO tank manufacturers is



planned in June. The second requirement is for a Tactical Command, Control and Communications System (TCCCS) to replace all communications equipment in Army service (£1,000 million). Plessey, Marconi, Racal, Ferranti and Software Sciences are all able to supply some of the equipment to meet this requirement. In the USA defence cuts have affected the contract that Marconi/Rockwell were awarded for a US Navy communication system (HFAJ); the final two of three phases have been zero-funded by the Pentagon, although the Defence Secretary wrote to Mr Carlucci about the benefits of the programme. Funds for the Airship programme have been similarly reduced, but initial funding of \$79 million (UK content) has not been affected. British Aerospace's bid for the US Army's Forward Area Air Defence programme has been unsuccessful, with the US Army selecting the US/Swiss ADAT system. The US Army are evaluating Chellingworth and Singer's pipe fascine, and a decision is expected soon (total programme value \$100 million). The US Navy are evaluating the Defence Equipment and Systems Limited 30mm stabilised gun mount in competition with Italian equipment (\$100 million). The Westland Lynx performed extremely well during trials held in Brazil during November 1987; decisions on this Navy programme have been delayed but are currently expected by June 1988. A decision is still awaited in Chile on a missile system for the Navy's ex-RN destroyers, for which Sea Wolf is being offered.

d. Asia, the Far East and Australasia

Following the official visit of General Ibnu, Deputy Defence Minister for Brunei, in January, the Bruneians are examining their requirements and are expected to set up evaluation committees in the near future with the aid of UK Loan Support Personnel (LSP). India has finally signed a contract (£28 million) with Hunting Engineering for the BL 755 air-delivered weapon. British Aerospace are conducting talks with the Indonesian Ministry of Technology and Indonesian Air Force on the sale of a significant quantity of Hawk aircraft, which will be locally assembled by IPTN at Bandung. Negotiations are at a final stage with Malaysia on the sale of FH 70 artillery to the Army. Japan chose the F16 to meet its future fighter requirements; Panavia had been promoting Tornado. Because of the Korean Presidential elections, decision making has come to a temporary halt, with Westlands and the other two competitors for the Korean navy helicopter requirement being asked to hold their price until June 1988. Pakistan is still holding open a decision on frigates. This is due to internal budgeting difficulties as well as problems over US FMS credits. The HMG-backed credit package formally expired on 30th June 1987; it would need to be revived should Pakistan make a decision in favour of UK vessels. Yarrows were unsuccessful in Australia in their attempts get on the shortlist for the joint



Australian and New Zealand frigate requirements (ANZAC project). The shortlist comprises Royal Schelde of Holland and Blohm and Voss of West Germany. UK manufacturers are maintaining their efforts to win sub-contracts for the supply of various ship systems.

e. Africa

A successful trial took place in Morocco during December with the Vickers Mk III and Challenger MBTs, Scammell tank transporters, FH 70 and Supercat all-terrain vehicle. Following the visit of the Zimbabwean Defence Minister, Mr Nkala, in February, interest is focusing in the short-term on acquiring defence radars and Rapier (£100 million).

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

Yours sincerely
D C J Ball

(D C J BALL)
Private Secretary



ANNEX A

OCTOBER - DECEMBER 1987: IMPORTANT CONTRACTS

- Hawk aircraft and simulators to Switzerland (€110M)
- Cementation construction project in Egypt (€40M)
- Taylor Woodrow construction project in USA (€24M)
- IHG medical services in Saudi Arabia (€23M)
- Vosper Thornycroft update of Mombassa naval dockyard (€15M)
- Graviner fire suppression equipment to Jordan (€11M)
- Negretti Aviation AR5 respirator to USA (€10M)
- Mowlem construction work in Kenya (€10M)
- BMARC 20mm naval guns and ammunition to Oman (€6M)
- Plessey Watchman radar to Finland (€6M)
- MEL Seasearcher radar to Brazil (€5M)
- Racal ESM equipment to Turkey (€5M)
- BMARC 25mm ammunition to Italy (€5M)
- Rolls-Royce Spey engine spares to USA (€5M)

CONTRACTS NOT YET FORMALLY RECORDED

- Royal Ordnance 105 mm Guns to USA (€27M)
- Shorts Shorland to Turkey (€4M)



ANNEX 2

OCTOBER - DECEMBER 1987. INSTANT CONTACTS

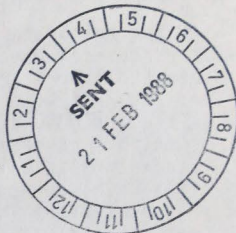
- (210X) - East Africa and Somalia to Switzerland
 - (209X) - Construction construction project in Egypt
 - (212X) - Taylor Woodrow construction project in USA
 - (213X) - Two medical warehouses in Saudi Arabia
 - (214X) - Vopak Technology update of Westport naval dockyard
 - (215X) - Questioned the equipment shipment to Jordan
 - (216X) - Nigerian Airlines 747 regulator to USA
 - (217X) - Mexican construction work in Kenya
 - (218X) - EMARC 2000 naval guns and ammunition to Oman
 - (219X) - Pioneer Maritime center to Finland
 - (220X) - MEL Research center to Brazil
 - (221X) - Fiscal EM equipment to Turkey
 - (222X) - EMARC 2000 ammunition to Italy
 - (223X) - Rolls-Royce 3000 engine spare to USA
- CONTACTS NOT YET FORMALLY REPORTED
- (224X) - Royal Ordnance 105 mm guns to USA
 - (225X) - British Rockland to Turkey

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FM AMMAN
TO DESKBY 220800Z FCO
TELNO 98
OF 211340Z FEBRUARY 88
AND TO DESKBY 220800Z MODUK

ADVANCE COPY



SIC ACA/Z80

KING HUSSEIN'S MEETING WITH MRS THATCHER: TORNADO

SUMMARY

1. KING HUSSEIN WANTS TO "FINALISE" TORNADO OFFER DURING A MEETING WITH MRS THATCHER. FIRM DECISIONS ON PRICE DEPEND ON OUTCOME OF TECHNICAL DISCUSSIONS BUT PUBLIC AGREEMENT IN PRINCIPLE WOULD HELP LOCK JORDANIANS IN AND AVOID TORNADO BEING SUPPLANTED BY MIRAGE.

DETAIL

2. IN SPEAKING TO ME ON 20 FEBRUARY ABOUT A POSSIBLE MEETING ON 2 MARCH BETWEEN KING HUSSEIN AND MRS THATCHER, RIFAI SAID THAT THE KING WOULD LIKE IF POSSIBLE TO "FINALISE" THE TORNADO OFFER DURING HIS MEETING WITH THE PRIME MINISTER. THE DECISION TO PURCHASE THE AIRCRAFT WAS, HE SAID, ALREADY TAKEN. IT WAS NOW JUST A MATTER OF OF WORKING OUT THE FINANCIAL PACKAGE.

3. I ASSUME THAT IT WOULD BE DIFFICULT TO FINALISE THE FINANCIAL ASPECTS OF TORNADO AT THIS STAGE SINCE THE FINAL PRICE DEPENDS ON FACTORS YET TO BE AGREED, SUCH AS THE SIZE AND SCOPE OF THE SUPPORT OPERATION AND ARMAMENTS WHICH MAKE UP A SIGNIFICANT PROPORTION OF THE TOTAL COST. MOD'S TIMESCALE FOR TECHNICAL DISCUSSIONS WHICH, WHEN COMPLETE, WOULD FORM THE BASIS FOR DETAILED PRICING DECISIONS, CURRENTLY EXTENDS OVER SEVERAL MONTHS. THE QUESTION OF WHERE THE JORDANIANS WILL OBTAIN THE FUNDS TO PAY FOR BOTH MIRAGE AND TORNADO, TOGETHER WITH THE TIMESCALE OF REPAYMENTS, WILL ALSO PRESUMABLY BE IMPORTANT FOR US AND THE PARTNERS IN THE TORNADO CONSORTIUM WHEN REACHING DECISIONS ON EXPORT CREDIT COVER AND TERMS. THE KING MAY HOWEVER BE ABLE TO SHED LIGHT ON THIS IN HIS DISCUSSION WITH THE PRIME MINISTER.

PAGE 1
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4. ON THE OTHER HAND, THE JORDANIAN LEADERSHIP, HAVING TAKEN THE POLITICAL DECISION TO PURCHASE TORNADO, EVIDENTLY WANT TO PROCEED QUICKLY AND POSSIBLY PUBLICLY DEMONSTRATE PROGRESS, AS OCCURRED WITH THE FRENCH.

A MEETING BETWEEN THE KING AND THE PRIME MINISTER COULD THEREFORE REPRESENT AN IMPORTANT OPPORTUNITY TO LOCK THE JORDANIANS INTO A DECISION TO PURCHASE TORNADO AND PREVENT THIS BEING SUPPLANTED BY ANY DECISION TO PROCEED WITH MIRAGE FIRST, LEAVING TORNADO TO SOME VAGUE FUTURE DATE AND THUS OPEN TO DEFINITE DEFERMENT OR CANCELLATION.

5. SOME FORM OF LETTER OF INTENT OF THE SORT WHICH WAS APPARENTLY SIGNED IN PARIS FOR THE MIRAGE DEAL, OR A FORMAL PUBLIC ANNOUNCEMENT OF AN AGREEMENT IN PRINCIPLE OUGHT TO FULFIL THIS PURPOSE.

6. GRATEFUL TO KNOW AS SOON AS POSSIBLE WHETHER ANYTHING ON SUCH LINES IS FEASIBLE SO THAT I CAN PREPARE THE GROUND WITH THE JORDANIANS.

REEVE

YYYY

DISTRIBUTION

6

ADVANCE

6

HD/NENAD
HD/ESSD
HD/DEFENCE

MR MUNRO
PS/NO 10 DOWNING ST
RESIDENT CLERK

NNNN

PAGE 2
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CONFIDENTIAL

WJH
(2)



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~330 7022~~ 218 2111/3

MO 6/17/7V

18A February 1988

Rene Minister
COP
19/2

mb

1 Dec Carter

TORNADO IDS FOR JORDAN

at flap, second file

In my letter of 28th January I told you of our intention to send a joint MOD/BAe team to Jordan in connection with the proposed sale of the Tornado IDS.

Following approval by the US Administration for the re-export of components of American origin, a formal offer for the supply of 8 IDS aircraft, weapons and support items was delivered in Amman on 30th January. It was well received and the Jordanians asked for a further follow-up team to discuss with the Royal Jordanian Air Force (RJAF) the concept of operations, training and the support facilities necessary to introduce the aircraft into service.

This further visit took place between 7th and 13th February. The team concluded that the RJAF has a sound basic infrastructure on which to build for the operation and maintenance of the IDS aircraft and it was also apparent that the high-level enthusiasm for the aircraft seems now to have permeated the RJAF at Brigadier level and below. The Team will submit a full report to the Jordanians later this month, and this will provide the basis for further detailed discussions to refine the RJAF requirement. These in turn will lead to negotiations on credit terms and price. No detailed discussion of the financial aspects took place during either of the visits, but there is no doubt that satisfactory financing arrangements are likely to be the key to the sale.

Neither team was able to glean much additional information about the reported sale of Mirage 2000, other than indications that the accord signed between King Hussein and M. Chirac in Paris earlier this month probably has the status of a letter of intent. Indeed, the news from Paris seemed to have taken lower ranks in the RJAF by surprise.

Charles Powell Esq
No 10 Downing Street

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If the Prime Minister is able to meet King Hussein in London in the near future it would be a useful opportunity to clarify the status of the French sale, the existence or otherwise of third party funding and Jordan's ability to repay both loans.

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

[Handwritten signature]

[Handwritten signature]

(I C F ANDREWS)
Private Secretary

CONFIDENTIAL

DEFENCE sales pt 10



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

If the Foreign Minister is able to meet King in London in the near future it would be a useful opportunity to discuss the matter of the Foreign Office, the existence of a policy leading and Jordan's ability to repay the loan.

10/11/48
 8827

[Handwritten signature]

SECRET
 H. C. P. ADAMS

CONFIDENTIAL



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 February 1988

Dear Jeremy,

IRAN: GEC (KELVIN) SUPPLY OF MARINE DIESEL ENGINES

I wrote to you earlier today on this subject. David Ball's letter of today's date conveyed a considered military assessment that the engines which Kelvin Diesel Limited propose to sell the Iranians are not likely to be used for military purposes which would constitute a direct threat to British shipping in the area. On this basis, the Prime Minister agrees that we should not raise any objection to the sale on this occasion. But we clearly need to look further at the question whether such equipment should not be made subject to export licensing in future.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Ian Andrews (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Charles Powell

CHARLES POWELL

Jeremy Godfrey, Esq.,
Department of Trade and Industry.

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ccpc



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-536 7022 ~~XXXXX~~ 218 2111/3

MO 6/17/9

15th February 1988

See checks,

IRAN: GEC (KELVIN) SUPPLY OF MARINE DIESEL ENGINES

In your letter of this morning to Jeremy Godfrey, you asked whether the engines which Kelvin Diesel Limited proposed to sell to Iran could be used for naval or military purposes in operations in which British ships could be the target.

The military assessment is that these engines are unsuitable for use in vessels for either fast attack or mine laying. The engines are designed only for achieving very low speeds and are most suitable for fishing. If the Iranians were to wish to use them for military purposes, the most likely use would be for logistic support, for instance for the ferrying of men and supplies. Iran has some 8,000 other fishing vessels and dhows which the Revolutionary Guard could press into service and has used in the past for routine resupply and logistics.

I am sending copies of this letter to Robert Culshaw (FCO), Stephen Radcliffe (DTI) and to Trevor Woolley (Cabinet Office).

Yours sincerely
John Ball

(D C J BALL)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-8337053



MEMORANDUM FOR THE SECRETARY OF DEFENCE

1. In your letter of 24th October to the Secretary of State, you stated that the Ministry of Defence is unable to supply the information requested in your letter of 14th October. It is requested that you should be kept advised of any developments in this regard.

2. The Ministry of Defence is unable to supply the information requested in your letter of 14th October. It is requested that you should be kept advised of any developments in this regard. The information requested in your letter of 14th October is being considered by the Ministry of Defence. It is requested that you should be kept advised of any developments in this regard. The information requested in your letter of 14th October is being considered by the Ministry of Defence. It is requested that you should be kept advised of any developments in this regard.

3. It is requested that you should be kept advised of any developments in this regard. The information requested in your letter of 14th October is being considered by the Ministry of Defence. It is requested that you should be kept advised of any developments in this regard.

[Handwritten signature]
[Handwritten name]

Yours faithfully,
The Secretary of State

27th October 1955
The Secretary of State

CONFIDENTIAL



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bc : PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 February 1988

IRAN: GEC (KELVIN) SUPPLY OF MARINE DIESEL ENGINES

Thank you for your letter of 10 February about the proposed sale by Kelvin Diesel Ltd of marine diesel engines to Iran.

In the Prime Minister's view, there is one crucial question which should determine the Government's attitude to this proposed sale. Are these engines likely to be used for naval or military purposes, in operations in which British ships could be the target? That is a matter primarily for military advice. The Prime Minister would like this advice to be assessed again urgently in the course of the morning, before a final decision is reached.

I am copying this letter to Ian Andrews (Ministry of Defence), to Robert Culshaw (Foreign and Commonwealth Office) and to Trevor Woolley (Cabinet Office).

C D POWELL

Jeremy Godfrey, Esq.
Department of Trade and Industry

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SECRET

TO BE RELAYED OVER THE HOT LINE TO THE WHITE HOUSE

FOLLOWING FOR GENERAL COLIN POWELL FROM CHARLES POWELL, No. 10
DOWNING STREET

MESSAGE BEGINS:

Dear Colin,

The President's message of 28 January to the Prime Minister about the proposed sale of Tornado aircraft to Jordan made the point that we should do whatever we could to obtain commitments from King Hussein that Jordan would not purchase MIG 29s if the Tornado sale was made.

This is just to let you know that Sir Geoffrey Howe discussed this with King Hussein on 8 February. The King confirmed that, with deals now proceeding for the purchase of both Mirage interceptors and Tornado ground attack aircraft, the Jordanians had informed the Russians that they would not be taking up their offer to supply MIG 29. I think you will find this assurance satisfactory.

May I thank you and your colleagues once again for all your help and trouble over this matter.

Warm regards,

Yours ever,

Charles

CDP.

13 February 1988

MESSAGE ENDS

LOS-AJX

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O 131310Z FEB 83
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

MESSAGE BEINGS:

DEAR COLIN,

THE PRESIDENT'S MESSAGE OF 28 JANUARY TO THE PRIME MINISTER ABOUT
THE PROPOSED SALE OF TORNADO AIRCRAFT TO JORDAN MADE THE POINT
THAT WE SHOULD DO WHATEVER WE COULD TO OBTAIN COMMITMENTS FROM KING
HUSSEIN THAT JORDAN WOULD NOT PURCHASE MIG 29S IF THE TORNADO SALE
WAS MADE.

THIS IS JUST TO LET YOU KNOW THAT SIR GEOFFREY HOWE DISCUSSED THIS
WITH KING HUSSEIN ON 3 FEBRUARY. THE KING CONFIRMED THAT, WITH
DEALS NOW PROCEEDING FOR THE PURCHASE OF BOTH MIRAGE INTERCEPTORS
AND TORNADO GROUND ATTACK AIRCRAFT, THE JORDANIANS HAD INFORMED
THE RUSSIANS THAT THEY WOULD NOT BE TAKING UP THEIR OFFER TO SUPPLY
MIG 29. I THINK YOU WILL FIND THIS ASSURANCE SATISFACTORY.

MAY I THANK YOU AND YOUR COLLEAGUES ONCE AGAIN FOR ALL YOUR HELP
AND TROUBLE OVER THIS MATTER.

WARM REGARDS,

YOURS EVER,

CHARLES

BT

NNNN

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Jeremy Godfrey Esq
Private Secretary to
The Rt Hon Lord Young of Graffham
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

12 February 1988

Dear Jeremy,

IRAN: GEC (KELVIN) SUPPLY OF MARINE DIESEL ENGINES

I refer to your letter of 10 February to Charles Powell.

My Secretary of State does not think that Government action would be appropriate. The engines concerned are not subject to restrictions and are of a type which has been supplied in the past. There is, of course, no general trade embargo with Iran as exports of £308 m. in 1987 clearly illustrate. Finally he notes MOD's advice that the engines are unsuitable for use in vessels for either fast attack or mine-laying.

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

Yours Ever
Robi

ROBIN WEATHERSTON
Private Secretary

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DEFENCE: Sales Pt 10

CONFIDENTIAL



SCOTTISH OFFICE
WATERLOO LONDON SW1E 6JH

CO
M

General Secretary
The Hon. Lord Young of Stirling
Department of Trade and Industry
1-17, Cannon Street
LONDON
EC4A 3DF

LEARNERS AND INSTRUCTORS GUIDE TO MOTOR DRIVING TESTS

I refer to your letter of 14 January on this subject.

My Secretary has said that the Department would be prepared to discuss the various questions you have raised and use of a type which has been approved in the past. I am sorry to hear that you are unable to do this at the moment. I shall be pleased to hear from you again when you are able to discuss the various questions you have raised. I shall be pleased to hear from you again when you are able to discuss the various questions you have raised.

[Handwritten signature]

ROSE WATSON



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I share Lord Prior's misgivings -
the validity of the military advice
is crucial. Could there be
purpose in which our navy could be the target?

PRIME MINISTER

cc Mr. Powell

IRAN/GEC (KELVIN) MARINE DIESEL ENGINES

The FCO tell us that they support the sale by GEC of the marine diesel engines to Iran, referred to in the DTI letter at flag A. MOD, in their letter at flag B, agreed reluctantly that the sale should be allowed to proceed.

It is tempting, especially following the alleged Rascal sales to the PLO, to block this sale. But:

- 50 engines were supplied to Iran last year and 30 in 1986;
- it is understood that the engines are not suitable for use in vessels for either fast attack or mine-laying;
- the company in Glasgow desperately need the work;
- action to thwart this contract would have wider damaging repercussions for British trade;
- the engines are not covered by the UK guidelines on defence supplies to Iran and would not be subject to a UN arms embargo.

Can we be sure of this?

but they could be used for military purposes??

So despite the political sensitivity and the real risk of misrepresentation, especially in view of the involvement of SEPAH, a buying organisation associated with the Iranian revolutionary guards, I think that we should allow this order to proceed.

You should know that Lord Prior telephoned me on Thursday to lobby. He said that the company would do everything they could to avoid publicity (though we obviously cannot bank on that, particularly since the Iranians might publicise it if they want to embarrass us).

The company have to have a reply by midday Monday. Content for the order to go ahead?

We will ask the DTI to consider separately Mr. Younger's suggestion that future sales to the revolutionary guards of marine engines should be made the subject of export licences.

N.L.W.

N.L. WICKS

12 February 1988

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MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~336 48 25~~ 01-218 2111/3

MO 6/17/9E

11¹⁵ February 1988

See Jeremy.

IRAN: GEC (KELVIN) SUPPLY OF MARINE DIESEL ENGINES

Thank you for sending me a copy of your letter of 10th February to Charles Powell drawing the Prime Minister's attention the case of the Kelvin engines for Iran. *WITH COP?*

As you know, Lord Trefgarne wrote to Mr Clark on 2nd February, saying that, although he understood that the engines would be unsuitable for use in vessels for either fast attack or mine laying, his preference was for the sale not to go ahead. He felt that we should do nothing to assist the Revolutionary Guard. He agreed reluctantly that the supply should in this case be allowed to proceed, but suggested that we should attempt to stop future sales to the Revolutionary Guard by making it necessary to obtain a licence for marine engine exports to Iran (and Iraq). Mr Younger supports this line, and would be prepared - with reluctance - to let this sale go ahead, given the stage it had reached. He realises the damaging effect the proposed extension of export licensing controls could have on Kelvins and other British companies in respect of future sales. But there seems to be no other way to thwart these sales.

I am sending copies of this letter to Charles Powell (No 10), the Private Secretaries to members of OD, David Crawley (Scottish Office) and to Trevor Woolley (Cabinet Office).

*Yours sincerely
 J. Ball*

(D C J BALL)
 Private Secretary

Jeremy Godfrey Esq
 Department of Trade and Industry

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egp



Foreign and Commonwealth Office

London SW1A 2AH

11 February 1988

Joan Charles

Jordan/Tornado

As foreshadowed in your conversation with General Powell (your letter of 23 January), President Reagan's approval for the re-export of components of US origin for our proposed sale of Tornado IDS aircraft to Jordan was effectively made conditional on our obtaining an assurance that the Jordanians would not also purchase MIG 29 from the Soviet Union. I enclose a copy of President Reagan's message to the Prime Minister of 28 January.

The Foreign Secretary discussed this with King Hussein at their meeting in Bonn on 8 February. The King confirmed that, with deals now proceeding for the purchase of both Mirage interceptors and Tornado ground attack aircraft, the Jordanians had informed the Russians that they would not be taking up their offer to supply MIG 29.

You no doubt will wish to pass this assurance to the White House, so as to allay the President's anxieties on this score.

I am copying this letter to Brian Hawtin.

Joan Charles

(Signature)

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

covering SECRET
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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

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DEFENCE: Sales
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THE SECRETARY OF DEFENCE HAS ADVISED THAT THE
DEFENCE DEPARTMENT IS CURRENTLY REVIEWING THE
MATTER OF THE DEFENCE DEPARTMENT'S POLICY ON
THE SALE OF DEFENCE EQUIPMENT TO FOREIGN
COUNTRIES.

IT IS THE POLICY OF THE DEFENCE DEPARTMENT
TO SELL DEFENCE EQUIPMENT TO FOREIGN
COUNTRIES ON A CASE-BY-CASE BASIS. THE
DEFENCE DEPARTMENT WILL CONSIDER THE
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DEFENCE EQUIPMENT TO FOREIGN COUNTRIES
ON A CASE-BY-CASE BASIS.



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the department for Enterprise

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

Charles Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1A 2AA

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 DW3DJU
Your ref
Date 10 February 1988

Dear Charles

IRAN : GEC (KELVIN) SUPPLY OF MARINE DIESEL ENGINES

Lord Young felt that, against the background of recent UK action to initiate discussion at the UN of an arms embargo against Iran and of press allegations concerning supplies of equipment to the PLO, the Prime Minister should be aware of this case.

Kelvin Diesel Ltd is a Glasgow based subsidiary of GEC, specialising in the manufacture of marine diesel engines, with a workforce of 145 currently working a three day week due to the depressed state of their market. Exports represent 80 per cent of turnover of which 25 per cent are supplied to Iran. Kelvin traditionally supply heavy slow-speed engines for dhows used in fishing and trade, their major competitor being M.A.N. (West Germany). The British company supplied 50 engines to Iran last year and 30 in 1986.

The most recent contract negotiated by the firm is for 65 diesel engines worth £3.5 million. Fulfilment of this contract is extremely important to Kelvins in industrial terms, in allowing the immediate resumption of a 5 day week for their workforce. Conversely, its frustration would be

the
Enterprise
Initiative

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extremely serious for the company involving loss of a valuable traditional market, probably to West Germany for many years to come.

The potential sensitivity of the contract arises from the fact that the nominal purchaser is Sepah, a buying organisation associated with the Iranian Ministry of Revolutionary Guards who, according to GEC, are purchasing on behalf of the Iranian fishing industry. This is not improbable given the central role of the IRG and Iran's acute shortage of foreign currency.

The engines concerned are not covered by the UK Guidelines on defence supplies to Iran (and Iraq) and would not be subject to an UN arms embargo. They are not subject to export licensing control to any destination and MOD have advised that they would not be suitable for use in vessels for either fast attack or mine laying. Had GEC not approached ECGD for cover in the normal way, this purely commercial transaction could well have proceeded without the Government becoming aware of it.

GEC are able to obtain commercial cover and wish to proceed with the contract as soon as possible. In the absence of export licence constraints and of ECGD cover there would normally be no Governmental involvement in the transaction. Lord Young is concerned however, that the supply of goods ostensibly destined for the Revolutionary Guards, about which Departments had been consulted and could, therefore, be represented as having tacitly approved would be widely misconceived in Parliament and the press if these ever came to light. The risks of such mis-representation are heightened by the recent allegations in the Mail on Sunday about supply of communications equipment to the PLO, although the circumstances of each case are quite different.

Although the trade issues appear clear ie. there is now no question of ECGD cover for this contract and the goods are not subject to export licensing control, Lord Young believes that a political judgement needs to be made on whether the Government should risk any adverse publicity or decide to thwart this export order. It would, if necessary, be possible to extend export licensing controls to marine diesel engines and refuse applications for Iran. To do so would be damaging not only to Kelvins and to the principle of contract sanctity but also to other British companies seeking to maintain a normal commercial relationship with Iran in difficult circumstances. Despite our political differences with Iran the market remains important, yielding UK exports of £308 million in 1987.

dti

the department for Enterprise

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If we are to take action we need to do so quickly. We understand that the company has, at least part, of the order ready for shipment. Lord Young would therefore appreciate reactions from you and copy addressees by close of play tomorrow.

I am sending copies of this letter to the Private Secretaries to members of OD, David Crawley (Mr Rifkind's Office) and to Trevor Woolley (Sir Robin Butler's Office).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary



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EMBASSY OF THE UNITED STATES OF AMERICA
LONDON, ENGLAND

February 10, 1988

CHARLES H. PRICE II
AMBASSADOR

RCS/2

Dear Prime Minister:

Enclosed please find the signed original of a letter from the President the text of which has previously been transmitted to you.

With best wishes.

Sincerely,
Charles

Enclosure: a/s

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

US Declassified

THE WHITE HOUSE
WASHINGTON

Already 'T'
T 13 A3/88

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,

The Right Honorable
Margaret Thatcher
Prime Minister
London
England

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022
XXXXXXXX 01-218 2111/3

Prime Minister

MO 6/19/7L

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February 1988

Gen Anders,

MALAYSIAN DEFENCE PACKAGE

In my letter of 22nd January, I explained where matters then stood on the Malaysian Defence Package.

The Malaysian Government issued a form of Letter of Intent on 25th January, signed by the Finance Minister Mr Daim, a copy of which is enclosed. Mr Chandler, for his part, handed over the message from the Prime Minister. There was no further statement, and for the time being and until Malaysia's specific requirements are made known to us, confidentiality is being maintained.

The lack of definition of Malaysia's precise requirements in terms of type of equipment, quantities required and priority of acquisition is disappointing but is perhaps not surprising given the remarkably rapid progress on a complex and expensive package of equipment, which we first discussed in a somewhat tentative way in the margins of Dr Mahathir's visit to this country in August 1987. Discussions are now underway within Malaysia aimed at agreeing a list of precise requirements to be discussed with our officials, and at placing them in some order of priority.

We are now looking towards the agreement of a Memorandum of Understanding between the Malaysian and British governments which should be available for the Secretary of State to sign during a visit to coincide with a major Defence Equipment Exhibition in Kuala Lumpur in March of this year.

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

Yours sincerely
D C J Ball

(D C J BALL)
Private Secretary

C D Powell Esq
No 10 Downing Street

Covering SECRET
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MINISTER OF FINANCE MALAYSIA

PMK/R/3

S E C R E T

January 25, 1988

Mr. George Younger
Secretary of State for Defence
Whitehall
LONDON

Your Excellency

I refer to your letter dated 17th December 1987 to the Rt Honourable Dato' Seri Dr. Mahathir Mohamad.

Subject to further discussions, I am pleased to inform you that the Government of Malaysia has in principle agreed to purchase some of the items proposed in the annex attached to your letter. Details on the precise package will be finalized in the course of discussions between our two countries.

Thank you.


(DAIM ZAINUDDIN)

S E C R E T



MINISTRY OF DEFENCE

SECRET

1978

January 13, 1988

Mr. George...
Secretary of State for Defence
Whitehall
London

For [unclear]

I refer to your letter dated 11th December 1987 to the [unclear] and [unclear] [unclear].

Subject to further discussion, I am pleased to inform you that the Government of [unclear] has in principle agreed to [unclear] some of the [unclear] proposed in the [unclear] attached to your letter. Details of the [unclear] will be finalized in the course of discussions between our two countries.

Thank you.

[Signature]
[unclear]

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FM PARIS

TO IMMEDIATE FCO

TELNO 152

OF 051247Z FEBRUARY 88

INFO IMMEDIATE AMMAN, WASHINGTON, UKMIS NEW YORK, MODUK

*Prime Minister
This looks like
bad news -
but at least
it's not Migs.
But perhaps this is
an announcement
to hold us
not so worried
about.
CAF.*

SIC ACA/ZMC/UZA/UZG

PARIS TELNO 147 (NOT TO ALL) : MIRAGE 2000 SALE TO JORDAN

SUMMARY

1. IT HAS BEEN ANNOUNCED, AND THE AMBASSADOR HAS CONFIRMED WITH THE PRIME MINISTER'S OFFICE, THAT KING HUSSEIN YESTERDAY AGREED TO PURCHASE 20 MIRAGE 2000 AND TO UPGRADE 15 MIRAGE F1'S. FINANCIAL PACKAGE, NEGOTIATED BY BALLADUR (FINANCE MINISTER), APPARENTLY CRUCIAL. THIS NEWS DOES NOT AT FIRST SIGHT SQUARE WELL WITH INFORMATION REPORTED IN MY TUR.

DETAIL

2. THE ANNOUNCEMENT STATES THAT AN AGREEMENT WAS CONCLUDED YESTERDAY BETWEEN KING HUSSEIN AND CHIRAC FOR PURCHASE BY JORDAN OF 20 MIRAGE 2000 AND MODERNISATION OF 15 MIRAGE F1. PRESS ESTIMATES SUGGEST THE VALUE OF THE AGREEMENT TO BE IN THE REGION OF 2.5 BILLION FRANCS.

3. BUJON (DIPLOMATIC ADVISER TO CHIRAC) CONFIRMED TO THE AMBASSADOR THIS MORNING THAT AGREEMENT HAD BEEN REACHED IN THIS SENSE BUT WOULD NOT REVEAL ANY DETAILS OF THE FINANCIAL PACKAGE.

4. WE HAVE SPOKEN ALSO TO THE MOD SALES ORGANISATION. IN ADDITION TO CONFIRMING THAT THE CONTRACT WAS FOR NEW MIRAGE 2000 AIR DEFENCE FIGHTERS, OUR CONTACT SAID THAT THE FINANCIAL ARRANGEMENTS HAD BEEN CRUCIAL. BALLADUR'S VISIT TO AMMAN LAST WEEK HAD SOWN THE SEEDS FOR A DEAL, BUT IT HAD NOT BEEN UNTIL AFTER FURTHER DISCUSSION BETWEEN THE KING AND BALLADUR YESTERDAY THAT JORDAN'S FINANCIAL REQUIREMENTS HAD BEEN MET. HAVING LOST THE SAUDI ORDER IN 1985, FRANCE HAD CONCLUDED THAT LOSS OF THE JORDANIAN ORDER WOULD EFFECTIVELY KILL ANY REMAINING OPPORTUNITIES FOR MIRAGE IN THE MIDDLE EAST. HER FINANCIAL OFFER HAD ACCORDINGLY BEEN VERY FAVOURABLE. OUR CONTACT ADDED THAT FRANCE HAD NOT EXPECTED THE SALE TO BE CONCLUDED SO QUICKLY, NOR THAT IT WOULD COMPRISE 20 NEW AIRCRAFT. THEY HAD EXPECTED A PURCHASE OF 12 MIRAGE TO BE COUPLED WITH ACQUISITION OF 8 TORNADO. IN OBTAINING A CONTRACT FOR 20 PLANES, THEY BELIEVED THEY

CONFIDENTIAL

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MDHIAN 6624

HAD SEEN OFF TORNADO. APART FROM FINANCIAL ASPECTS, FRANCE HAD PLACED PARTICULAR EMPHASIS ON THE AIR DEFENCE OPTIMISATION OF MIRAGE 2000 AS BEST MEETING JORDANIAN REQUIREMENTS.

5. REGARDING THE F1 MODERNISATION, WHICH FORMS PART OF THE PACKAGE, THE JORDANIAN PLANES ARE TO BE FULLY UPGRADED FROM F1C TO F1E STANDARD. IN INITIAL NEGOTIATION, JORDAN HAD WANTED FRANCE TO BUY BACK THE F1 PLANES, BUT SHE HAD SUBSEQUENTLY BEEN CONVINCED OF THE MERITS OF UPGRADING.

COMMENT

6. IT WOULD APPEAR THAT THE DEAL WAS ONLY CLINCHED YESTERDAY, POSSIBLY AFTER THE AMBASSADOR HAD SEEN THE KING. (A MEMBER OF BALLADUR'S CABINET WAS AWAITING AUDIENCE WHEN I LEFT, AND THE KING MET CHIRAC YESTERDAY EVENING.) IT SEEMS DIFFICULT AT FIRST SIGHT TO SQUARE THE KING'S REMARKS WITH THE ANNOUNCEMENT.

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

ADDITIONAL

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DESO MOD
SEC(O)(C)MOD

ASSESSMENT STAFF CAB OFF
PS NO 10 DOWNING ST

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 February 1988

CHILEAN: DEFENCE SALES

Thank you for your letter of 3 February enclosing a draft reply to Admiral Merino's letter to the Prime Minister about Chile's acquisition of Sea Wolf.

I have this afternoon handed over to the Chilean Ambassador the Prime Minister's reply (in the version enclosed). He undertook to transmit it immediately to Admiral Merino.

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

(C. D. POWELL)

David Ball, Esq.,
Ministry of Defence.

~~OK~~



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

lib JD

cc FCO
MOD
CDP
(orig. handed over to
Chilean Amb.)

5 February 1988

Jean Adnoid Nevio

Thank you for your letter of 23 December 1987 in which you set out the difficulties your Navy faces in acquiring the Sea Wolf missile system.

I was pleased to learn that you prefer the Vertical Launch Sea Wolf system. The version of Sea Wolf currently in service is a proven system; and the vertical launch system, which is to be fitted in the Royal Navy's Type 23 frigates, will show improved effectiveness. The fact that the Royal Navy will itself deploy Vertical Launch Sea Wolf will also provide overseas customers with the assurance of through-life support for the system for many years to come.

I understand that following your earlier approach to our Ambassador in Santiago, the companies submitted a revised price proposal, with a price reduction of some 13.5%: when this was carried into the credit arrangements, the overall cost saving was, I believe, some 23.5%. This represents a significant step towards the scale of reduction you were seeking, and I hope very much that it will make it possible to achieve a satisfactory conclusion. In view of your concern, I also asked the Ministry of Defence to carry out a review of the price structure of this offer. In their view the prices quoted are, to the extent that the costs of the system being offered to Chile can be compared with equipment already in service or coming into service with the Royal Navy, fair and reasonable.

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May I also assure you that both Her Majesty's Government and the companies recognise the importance of this contract and of continuing the links that have been built up so successfully over the years between our two Navies, and between your Service and the British defence equipment industry. I know that the British companies are making every effort to produce final proposals that will allow you to acquire the right system for the Chilean Navy. I look forward with confidence to a successful outcome.

Yours sincerely
Raymond Dalrymple

Admiral Jose T. Merino Castro

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MDHIAN 6481

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FM PARIS
TO DESKBY 050900Z FCO
TELNO 147
OF 041954Z FEBRUARY 88
INFO PRIORITY AMMAN, MODUK

AMMAN (PERSONAL FOR AMBASSADOR)
MODUK (PERSONAL FOR HDES)

SIC ZMC

TORNADOS FOR JORDAN

1. WHEN I SAW KING HUSSEIN THIS AFTERNOON, HE TOLD ME THAT HE HAD VERY MUCH APPRECIATED THE MESSAGE HE HAD RECEIVED FROM THE PRIME MINISTER ON THIS SUBJECT BEFORE HE LEFT AMMAN. HE WAS VERY CONTENT WITH WHAT HAD BEEN PROPOSED. HE WOULD DEFINITELY GO FORWARD WITH THE PURCHASE OF EIGHT TORNADOS. MEANWHILE HE DID NOT WANT THE UK TO MISCONSTRUE ANY STATEMENT WHICH MIGHT ISSUE FROM PARIS ON A JORDANIAN AGREEMENT WITH THE FRENCH, INVOLVING THE PURCHASE OF MILITARY EQUIPMENT AND THE UPGRADING OF THE MIRAGES WHICH JORDAN ALREADY POSSESSED.

2. THE KING DID NOT (NOT) MENTION ANY NEW PURCHASE OF MIRAGE 2000, WHICH I UNDERSTAND IS THE RUMOUR WHICH TODAY REACHED HDES.

FERGUSSON

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ccpc
MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022
XXXXXXXX 01-218 2111/3

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3rd February 1988

New Clerk,

CHILE: DEFENCE SALES

In your letter of 13th January to Lyn Parker you asked for a draft reply from the Prime Minister to Admiral Merino about Chile's acquisition of Sea Wolf.

The sale of vertical launched Sea Wolf (VLSW) to Chile would be worth some £70M and represent the first overseas contract for the system. It is therefore important to future market prospects for Sea Wolf, and the Ministry of Defence has been working closely with the companies to try to secure this contract. VLSW is the Chilean Navy's preferred technical solution to its requirement for an anti-missile missile system to be fitted into its four ex-Royal Navy destroyers. The competitor system, the Israeli Barak missile, is still far from completing its development and therefore represents a considerable technical risk. But the Israelis have supported their bid with a price and credit package which undercuts what British Aerospace, Marconi and Plessey have been able to offer: Admiral Merino has sought the assistance, first of our Ambassador in Santiago and now the Prime Minister, to reduce the price differential.

Following the Admiral's first approach to the Ambassador in November, the three companies reviewed their price structure. By adjusting the work programme, by making changes to their own financing and with more generous ECGD terms, they were able to offer a reduction in the basic price of 13.5% which, when carried into the supporting credit arrangements, gave an overall cost reduction of 23.5%. These measures appeared to bring the British bid within striking distance of the Chilean requirement for a 30% reduction and a negotiated compromise for the balance might have been possible. However, the fall in the dollar has served to widen the gap once more between the cost of VLSW and the available budget.

The improved ECGD terms came in a series of steps; ECGD cover made available was increased to £60M, the percentage of cover was raised to 85% of contract value, the credit period was extended to eight years and, finally, an exceptional grace period of four years for repayments of principal was approved. A further request from the

Charles Powell Esq
No 10 Downing Street



companies for the rate of interest to be reduced from 8.75% to 7% to match the reported offer of the Israelis was rejected by the Chief Secretary; the additional subsidy would have increased the public expenditure cost of supporting the deal from £4.5M to £11.5M and lifted the subsidy element to 11.27% compared with the threshold of 4.5% under the agreed guidelines.

The companies have now concluded that they cannot offer any further major price reductions if the project is to remain a viable business proposition. Our contract staff have been through their price proposals; insofar as cost comparisons can be made with equipment under contract to the Royal Navy, we are satisfied that the prices quoted are reasonable. The attached draft for the Prime Minister makes this point in case the Admiral is concerned that he might be being overcharged. Beyond this there is probably little comfort the Prime Minister can offer. The only way a major drop in the overall price could be achieved would be by offering ECGD support for a reduction in the interest rate on which the credit package is based; this should produce a saving of about 10%.

The draft draws attention to the points in favour of the British system: it is based on proven technologies, will be in service within the Royal Navy for many years and offers the assurance of through-life support from Britain. These are factors which Admiral Merino should be encouraged to consider before he opts for Barak despite its lower procurement cost.

You asked also about handling of the reply. I suggest that you give the Chilean Ambassador the Prime Minister's written response to forward to Admiral Merino, and let the Ambassador have the substance of the reply which he will no doubt communicate to Santiago.

I am sending copies of this letter to Lyn Parker (Foreign and Commonwealth Office), Jeremy Godfrey (Department of Trade and Industry), Jill Rutter (Treasury) and to Trevor Woolley (Cabinet Office).

Jm, nuly
John Ball

(D C J BALL)
Private Secretary

BGX

DRAFT LETTER FROM THE PRIME MINISTER TO ADMIRAL MERINO

Thank you for your letter of 23rd December 1987 in which you set out the difficulties your Navy faces in acquiring the Sea Wolf missile system.

you prefer

I was pleased to learn that ~~the~~ Vertical Launch Sea Wolf is the system that you would prefer ~~on technical grounds~~. The version of Sea Wolf currently in service is a proven ~~weapon~~ system; and ~~we are confident that~~ the vertical launch system, which is to be fitted in the Royal Navy's Type 23 frigates, will show improved effectiveness. ~~The Royal Navy's own deployment of~~ Vertical Launch Sea Wolf will also provide overseas customers with the assurance of through-life support for the system for many years to come.

to put the

with itself

I understand that following your earlier approach to ~~the~~ *our* Ambassador in *Santiago* Chile, the companies submitted a revised price proposal, ~~which gave~~ *with itself* a price reduction of some 13.5%: when this was carried into the credit arrangements ~~the companies have been able to offer~~, the overall cost saving was, I believe, some 23.5%. This represents a significant step towards the *scale* level of reduction you were seeking, and I hope very much that it will *make it possible to achieve* form the basis of a satisfactory conclusion ~~in this matter~~.

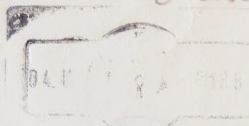
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~~can well understand~~ ~~fall in~~ ~~has~~
I fully appreciate that the problems with the dollar ~~have~~ placed
additional pressure on your ~~procurement~~ budget. I have asked the
companies involved to ~~investigate~~ ^{investigate} further adjustments and they are
now doing that; ~~they~~ ^{but} have assured ~~me~~ that there is no scope for a
further ~~significant price reduction~~. In view of your concern, I also
asked the Ministry of Defence to carry out a review of the price
structure of this offer. In the ~~view of our own experts~~, the prices
quoted ^{part,} to the extent that the costs of the system being offered to
Chile can be compared with equipment already in service or coming
into service with the Royal Navy, ~~are~~ fair and reasonable.

May I also assure you that both Her Majesty's Government and the
companies recognise the importance of this contract and of continuing
the links that have been built up so successfully over the years
between our two Navies, and between your Service and the British
defence equipment industry. I know that the British companies are
making every effort to produce final proposals that will allow you to
acquire the right system for the Chilean Navy, ~~and~~ I look forward
with confidence to a successful outcome.

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DEFENCE: Defence Sales
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I fully appreciate that the problems with the dollar have placed additional pressure on your industrial sector. I have asked the companies involved to factor in their alternative and they are now doing their best to ensure that there is no scope for a further significant price reduction. In view of your concerns, I have asked the Ministry of Defence to carry out a review of the price structure of this offer. In the view of our own experts, the prices quoted, to the extent that the costs of the system being offered to this can be compared with equipment already in service or coming into service with the Royal Navy, are fair and reasonable.

May I also assure you that both Her Majesty's Government and the companies recognize the importance of this contract and of continuing the links that have been built up so successfully over the years between our two Nations, and between your service and the British defence equipment industry. I know that the British companies are making every effort to produce final proposals that will allow you to acquire the right system for the Chilean Navy, and I look forward with confidence to a successful outcome.

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PART 9. ends:●

Annan Tel No. 55 31.1.88

PART 10 begins:-

MOD to COP. 3.2.88