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PREM 19/2613

CAB 1

MT.

PART II

TOP SECRET

CONFIDENTIAL FILING

Defence Sales

DEFENCE

PT I : September 1980

PT II : August 1988

CAB ONE

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~12.8.88~~		27.1.89					
~~15.8.88~~		~~7/2/89~~					
~~12.9.88~~							
~~28.9.88~~		~~12.2.89~~					
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PART 11. ends:-

HMT to MOD. 28.2.89.

PART 12 begins:-

Bonn Tel No. 277. 3.3.89.

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CCPC

SECRET
UK EYES A ECLIPSE

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Treasury Chambers, Parliament Street, SW1P 3AG

J P Colston Esq
Private Secretary
to the Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

28 **February 1989**

Dear John

NUCLEAR SUBMARINES FOR CANADA

Thank you for sending us a copy of your letter of 10 February to Number 10. We have also seen Stephen Wall's reply of 17 February.

The Chief Secretary was concerned to learn of the scale of the further concessions likely to be required to win this order and the amount of political capital which will need to be invested, with the US as well as with the Canadians, if we are to stand a reasonable chance of winning the order. Bearing in mind the embarrassment arising out of our support for the Plessey MSE contract in 1985, when the Prime Minister was persuaded to support a bid to provide a US battlefield communications system which turned out to be 70 per cent more expensive than the French winner, he wonders if we should not look more carefully at the balance of risk and benefits arising out of this order before deciding whether to throw our full weight behind it.

As a first step, it would be useful if the MoD discussion paper referred to in your letter could set out what is known about the French competition in terms of their technical advantages and how big a price advantage they hold. It should also quantify the contingent liabilities which would be involved in our offer and in the possible future concessions mentioned in your letter. Only then will we be able to decide whether this is a sale we can win and whether the concessions we shall have to offer represent a reasonable balance between risk and reward.

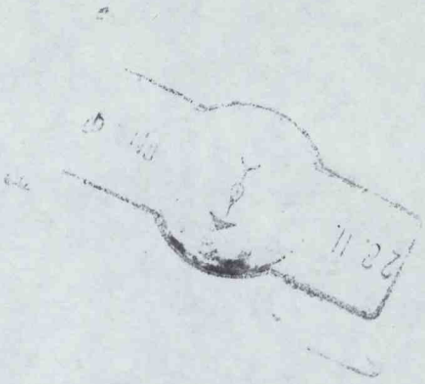
I am copying this letter to Charles Powell (No.10), Stephen Wall (FCO) and Trevor Woolley (Cabinet Office)

Yours

Caryl Evans

MISS C EVANS
Private Secretary

DEFENCE: Sales A11



13.

Foreign and Commonwealth Office

London SW1A 2AH

17 February 1989

CDP
17/2

Dear John,

Nuclear Submarines for Canada

Thank you for sending us a copy of your letter of 10 February to Charles Powell about the proposed sale of SSNs to Canada. The Foreign Secretary was grateful for this update and for the way in which you have kept us, as well as the High Commission in Ottawa and the Embassy in Washington, fully informed. He agrees that we need to handle US concerns sensitively, while at the same time making every effort to meet Canadian concerns sufficiently to make them consider Britain as the country of origin for their SSN programme. This is clearly a difficult tightrope to walk and we may sooner or later be faced with some difficult choices. But for the time being, the next steps which need to be taken are clear.

As we have reported at official level, the Foreign Secretary raised the question of Canadian submarines with Mr Baker when he was here at the weekend, referring to the indication given by the previous Administration that the US would not object to the Canadian purchase. Mr Baker said there was no question of the new Administration taking a different view. We have since heard from Ottawa that he gave a similar answer to a question from Mr Clark.

I am copying this letter to Charles Powell (No 10), Alex Allan (Treasury) and Trevor Woolley (Cabinet Office).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

J P Colston Esq
PS/Secretary of State for
Defence

SECRET UK EYES A
ECLIPSE

12

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 February 1989

NUCLEAR SUBMARINES FOR CANADA

Thank you for your letter of 10 February setting out the position on the possible sale of nuclear submarines to Canada. The Prime Minister decided against raising this with Mr. Baker at their first meeting, but proposes to speak to Mr. Mulroney when he comes here on 13 March.

C. D. Powell

John Colston, Esq.,
Ministry of Defence.

SECRET UK EYES A
ECLIPSE

SECRET UK EYES A
ECLIPSE

11(A-D) a/c

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

Prime Minister

A rather muddled letter. I doubt much would be gained by raising it with Mr. Baker at this stage. We can step in probably your meeting with Mr. Mulroney on 15 March. CDP.

MO 14/6/1L

10th February 1989

Dear Charles,

NUCLEAR SUBMARINES FOR CANADA

The Prime Minister may wish to be aware of recent developments concerning the proposed sale of SSNs to Canada, in particular before she sees Mr Baker on Sunday.

The Canadian evaluation was frozen last summer pending the outcome of the Canadian election. At about the time Mr Mulroney's Government was re-elected in November we began to receive increasingly strong signals that the French offer was preferred. This appeared to derive, inter alia, from growing Canadian anxieties about the degree to which they saw our offer as encumbered by our obligations in the US. It was also connected with some concerns that were being expressed in Canada on some of the safety aspects of our submarine design. We therefore felt it important to re-open the dialogue with the Canadian Government, not only to attempt to secure the sale, but also to put to rest any Canadian fears about the safety of our British nuclear submarines.

We arranged highly confidential meetings with Canadian officials, and these confirmed that our offer was considered inadequate on several issues. We hope that the results of these may have put us back in the race but we are still far from certain of being selected as the country of origin. The reasons for this are spelt out more fully below.

In re-opening the dialogue with Canada we have had to bear in mind the possible reactions of the Americans, whose concurrence in the form of a Congressional ratification of the revised 1959 US/Canada Treaty on nuclear energy issues is still required. This in turn will require re-confirmation of the US Administration's support following the election of Mr Bush. Our intention is that our response to the Canadians should not compromise the letter of the UK/Canada MOU which as you will recall was the subject of

Charles Powell Esq
10 Downing Street

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careful negotiation with the Americans last year when the Prime Minister wrote to President Reagan to enlist his support.

Many in the United States, most notably the Office of Naval Reactors (ONR), remain deeply suspicious of the Canadian programme. Their concern is that any proliferation of nuclear submarine technology and operations, even to Canada, would compromise highly sensitive information critical to the operational superiority of US over Soviet nuclear submarines. They feel also that nuclear submarine operations by an inexperienced Navy could prejudice the public acceptability of such operations, and they have a particular interest in ensuring that Canada does not interfere with US operations in the Arctic. In addition they worry about the impact on Congressional opinion of the acquisition by Canada of a substantially cheaper SSN than their next generation.

We thus need to take the US along with us to ensure that the necessary Presidential re-endorsement will be forthcoming, and there are very recent indications that President Bush may be favourable to this in spite of counter pressure from ONR. But we also have to bear in mind the value to us of maintaining the close relationship we have with the US on nuclear matters. We need therefore to handle US concerns sensitively, and some of the issues raised in the present dialogue are very significant in terms of US policy concerns. We are preparing a separate note on the impact that further possible concessions to the Canadians might have on our relations with the Americans in the area of nuclear technology, and on how this relates to the current US/UK Agreements. Meanwhile, in setting out below the issues involved, I have indicated where there is an American concern.

Canada was concerned about three technical matters related to nuclear safety, and on two of these we have now offered modifications that meet Canadian requirements. To honour our understanding with the US Government that the Canadian boats would have the same nuclear propulsion system as our TRAFALGAR Class, these modifications would also be made to the last of our TRAFALGAR Class (SSN 19) the costs being borne by VSEL.

The third Canadian concern is to introduce an Emergency Core Cooling System (ECCS), which we believe the French have already offered. A full system of this kind could have significant cost and timescale penalties for both the Canadian boats and SSN 19, and our approach has been to try to persuade Canadian experts that it is unnecessary. A full ECCS would also entail lengthening the boat by several feet, with awkward implications for other design features, and performance. We have therefore told the Canadians that we are prepared to go a little way down the road, but not so

C

far as to incur significant penalties. We hope this will be enough to satisfy them, but have not yet resolved the issue.

Turning to the non-technical issues, Canada continues to find unacceptable the UK Government position on liability. We have insisted that Canada should accept absolute liability for any nuclear incidents to their boats, without recourse to the UK Government even for acts of negligence by the UK Government. We have now offered to accept liability for UK Government acts or omissions connected with nuclear incidents involving the first boat (which is to be constructed in the UK) until the boat is delivered to the Canadian Government. But this concession has had little impact with the Canadian lawyers, particularly those from the Department of External Affairs. Our officials are consulting with the Treasury and FCO on the implications of further modifying our stand on this difficult issue, which could still in itself be enough to lose us the order. This is an area about which the US have in the past expressed great concern, and it may well turn out that a solution which is acceptable to Canadians will need agreement from the US Government which in turn may not be easy to secure.

The issue of access to future technology is also a critical one. The Canadians are rightly concerned that they should be certain that the cores which fuel their boats should be available for as long as the SSNs are in operation. We have provided strong assurances on the supply of nuclear cores from a UK source. But we have not offered to transfer fuel manufacturing technology, or the more advanced propulsion plant we are incorporating into our later classes of submarine. Some Canadian agencies accept the limitation on fuel manufacture; all object to the limitation on transfer of future propulsion technology. This may be a subject which we will have to reopen with the Americans. But we have to recognise that the US Government, up to now, has been implacably opposed to any relaxation of these limits, and we have national concerns, particularly in connection with the Non-Proliferation Treaty. These issues will be addressed in the discussion paper I mentioned earlier.

The recent Cabinet changes in Ottawa are unlikely to lead to early decisions on the submarine programme, but the situation is volatile. The Defence Secretary expects shortly to write to the new Minister for National Defence, Mr McKnight, to confirm understandings reached by officials. A resolution of the liability issue, and the support of the US Government, are crucial to our efforts to win this sale from the French. The Prime Minister may wish to say to Mr Baker that we are grateful for the support which the Administration has offered and that we hope that the Administration will recognise the merits of a British rather than a French sale and continue their support accordingly.

D

We shall of course be ready to provide further material for the Prime Minister should she be speaking to Mr Bush over the next few weeks and for her projected meeting with Mr Mulroney.

I am sending copies of this letter to Alex Allan (Treasury) and Stephen Wall (FCO), and Trevor Woolley (Cabinet Office).

Yours sincerely,

John Colston.

(J P COLSTON)
Private Secretary

CONFIDENTIAL

cc P.C.

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

MO 6/17/5L

8th February 1989

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

Temporarily retained, C Wayland, 31/8/17.

Dear Carys

AL YAMAMAH

Thank you for your letter of 25th January about the funding of Project Al Yamamah. The aim of the discussions which MOD staff are having with the Royal Saudi Air Force delegation this week is twofold: firstly to review in factual terms the funding performance of Al Yamamah to the end of the initial phase of the Project (on 15 February 1989) and, secondly, to review the scope and timing of the Saudi's additional military requirements as specified in the Bermuda Formal Understanding (signed by my Secretary of State and Prince Sultan on 3rd July 1988) and to seek their views on how they would propose to pay for those requirements if contracts for the supply were to be negotiated and agreed.

The need to discuss the funding performance of the programme over the life of the first three years of the Project arises principally from

and clauses in the agreement allow for both sides to meet regularly to assess the position. The fact that there has been, and is, a shortfall in funding, (brought about principally by a weak oil price and US dollar), has been apparent for some time and has been known to both Treasury and ECGD. However, as was explained in the Interdepartmental Working Group last year, the shortfall is against contractual scheduled payments not against the actual expenditure incurred by UK companies. Although revenues received fall short of those required contractually they are still in excess of the value of goods and services delivered and work in hand. This position is carefully monitored by the MOD Project Office staff - and, of course, by BAe too - and should there be a possibility of income falling behind value of deliveries a brake would be put on work in hand.

Miss Carys Evans
HM Treasury

I should also point out that the £450M cover provided by the ECGD basically covers the first £6Bn tranche of business - in effect the value of the initial phase of the Project with some on-going support. It does not cover, and was not required to cover, the Bermuda enhancements; it may be that contracts for that work would need to be the subject of further consecutive policies, as the bulk of those equipment costs and delivery will post-date the conclusion of the initial tranche, but that would be a matter for later BAe/ECGD discussion when we are in a position to negotiate contracts with the Saudis for these enhancements.

On funding for Phase I, I should add that there are very encouraging signs from the Saudis that they are prepared to consider either a sizeable cash injection into the programme

One of the purposes of this week's discussions will be to explore what precisely they have in mind. In addition, the subject of funding of the enhancements to the project is being considered. These discussions are exploratory and there is no question of any significant contractual commitment without suitable funding resources being made available from the Saudi side. Indeed, a decision on future business and its financing will not be reached during the meetings. The Saudi delegation will need to return to the Kingdom to discuss the matter with the authorities there and, in particular, to decide upon additional funding sources to finance the programme. Nonetheless, there already appears to be a good chance that substantial extra revenues may be made available by the Kingdom in order to afford the new business.

As officials here have already explained to yours, it would not be particularly productive to hold a further meeting of the Al Yamamah Interdepartmental sub-committee until the Saudi-UK meetings have concluded and the Saudis' considered response is known. We cannot, for example, accurately assess the likely cost of the enhancements until we know more of the Saudis requirements for delivery timescales and specifications; and it is not for us to make uninformed assumptions about how they would propose to pay for any extra equipment. Once we have some firmer information and some feedback from the Saudi side it is the intention of the MOD Director Commercial Saudi Armed Forces Project, who is Chairman of the sub-committee, to call a meeting at the earliest practical opportunity.

A copy of this letter goes to Charles Powell.

Yours sincerely

Jane McCarthy

(S McCARTHY)
Private Secretary

Temporarily retained, Wayland. 31/8/17

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

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FOR SIR C CHANDLER, DESO
YOUR TELS 59 AND 60: TORNADO

1. THE SULTAN RECEIVED ME AT SHORT NOTICE ON 4 FEBRUARY. I HANDED OVER THE PRIME MINISTER'S LETTER. I EMPHASISED MINISTERS CONSCIOUSNESS OF THE ECONOMIC PROBLEMS FACING OMAN, THE EXCEPTIONAL EFFORT WHICH HAD GONE INTO THE PROPOSALS INCLUDED IN THE LETTER, AND OUR SENSE THAT - WHILE OTHER OPTIONS COULD BE CONSIDERED - STICKING TO THE PRESENT DELIVERY SCHEDULE MIGHT PROVE THE BEST OPTION FOR OMAN. THE SULTAN READ THE LETTER VERY CAREFULLY. HE SAID THAT IT WAS VERY CONSIDERATE AND STRUCK HIM AT FIRST SIGHT AS AS MUCH AS OMAN COULD HOPE FOR.
HE WOULD TALK TO QAIS ZAWAWI. THEREAFTER HE THOUGHT THAT A VISIT BY SIR C CHANDLER AS PROPOSED WOULD BE A GOOD NEXT STEP.

ALSTON

YYYY

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MR LFT SMITH,BANK OF ENGLAND

MAIN

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PRIME MINISTER

PERSONAL MESSAGE

SERIAL No. T25B/89

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

31 January 1989

SUBJECT cc MASTER OPS.

Your Majesty,

When I wrote to Your Majesty on 8 December, following my meeting with His Excellency Qais Zawawi, I said that I would be writing again to say how we could help over the financial arrangements for Tornado.

We have given the most thorough consideration to Your Majesty's request. I understand the pressures on the economy of Oman and that these result very largely from the price of oil. In view of understandable concern about fluctuations in the price of oil from 1987 levels, we are prepared to extend the period of payment for the Tornado contract to reflect both the change in the price of oil, and for appreciation of the exchange rate of the Pound Sterling against the US$ over the same period. As Your Majesty will know, the present payment period in the contract is eight and a half years. Adjusting this to reflect changes in the price of oil and exchange rates since 1987, would mean extending this period from eight and a half to eleven and a half years. In order to be helpful, we are prepared to accept that the period of payment for the future would be indexed both to the oil price and the Sterling £/US$ exchange rate and within a range of a minimum period of eight and a half years and a maximum of eleven and a half years. In this way the impact of the repayments on the Oman economy would be broadly consistent with those agreed in 1987. I can assure Your Majesty that this is a quite exceptional financial proposal and reflects our concern to take account of the economic difficulties explained to me by His Excellency Qais Zawawi.

In addition to extending the terms of payment on the existing contract in this way, we are also prepared - again exceptionally - to assist the financing of the German and Italian portions of the contract by providing guarantees in respect of lending for them.

His Excellency Qais Zawawi also mentioned the interest rate, but I regret that we have no room to move below the rate of 8.75 per cent currently in the contract. In fact, the current rate agreed by the OECD nations for export finance is 9.65 per cent. Despite this I am prepared to retain 8.75 per cent for the time being.

During my talk with His Excellency Qais Zawawi the possibility was raised of deferring the delivery of the aircraft. We have looked at this very carefully. Because of current production schedules, this would be very complicated, and might well involve some extra expense. Nevertheless, we would not rule it out entirely. In our view, however, the balance of advantage lies with maintaining the current schedule.

As I said in my previous letter to you the question of rephasing the payments for Tornado is a complex one. I very much hope that the proposals I have put to you will enable you to continue with this project.

I should be very glad to arrange for Sir Colin Chandler, the Head of Defence Export Services at our Ministry of Defence to visit Oman and discuss the implications of the proposals in detail.

With warm regards.

Yours sincerely

Margaret Thatcher

His Majesty Sultan Qaboos Bin Said Al Said, G.C.B., G.C.M.G., G.C.V.O.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 January 1989

Dear Steve,

OMAN : TORNADO

The Prime Minister has seen your letter of 27 January setting out the conclusions of EGC on how we might help ease Oman's cash flow problems in connection with the sale of Tornado. She has also seen Carys Evan's letter of 30 January setting out the Chief Secretary's views, as well as the DTI's comments in Mr. Williams' letter of 30 January to the MOD.

The Prime Minister takes the view that what is proposed in the draft of the letter to the Sultan is the minimum which stands a chance of saving the Tornado order (although even then she is doubtful whether it will succeed). She thinks that we must offer to insure the German and Italian shares of the credit. There is no point in saying that the Sultan must approach the Germans and Italians himself since we know perfectly well what the answer will be. The Prime Minister does not believe that this will weaken our case on Jordan, where we are having some success, at least with the Germans. She has therefore signed the letter to the Sultan as in the draft enclosed with your letter, with very minor amendments.

The Prime Minister very much agrees with the Chief Secretary that we must define the responsibilities of different partners for providing finance for export sales outside Europe very much more precisely in future.

I should be grateful if the FCO would arrange for delivery of the Prime Minister's letter as soon as possible.

I am copying this letter and enclosure to Bob Peirce (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry) and Carys Evans (Chief Secretary's Office).

Yours sincerely,

Charles Powell

(C. D. POWELL)

Steve McCarthy, Esq.,
Ministry of Defence.

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CEPC

Treasury Chambers, Parliament Street, SW1P 3AG

CST 31/1

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1

31 January 1989

Dear Secretary of State,

TORNADO FOR JORDAN

Thank you for your letter of 30 January in which you asked me to look again at the question of extending ECGD credit cover for the Italian share of the Tornado sale to Jordan, in the light of the German Parliamentary discussions on 27 January. I have also seen Alan Clark's letter of 30 January in which he supports your proposal. Geoffrey Howe in his letter of 27 January has endorsed the extension of ECGD credit support for the Italian share up to £25 million, within the ceiling of £480 million.

I said in my letter of 27 January, that so long as there remained any doubt about the current level of German support, I was not prepared to consider providing cover for the Italian share. I also said that the Italians should be pressed to respond formally to the Prime Minister's request to Signor de Mita to consider providing official credit support. I have now seen Bonn Telno 107 and Rome Telno 70. The former confirms that the debate in the Bundestag was directed mainly towards the principles of German export policy which had no direct implications for the Jordanian deal. The Bavarian parliament was, understandably, even more supportive of the deal. The telegram concludes that the conflict between the German policy on credit support for arms sales and the Anglo/German MOU on collaborative projects will be considered further within the Bundestag.

DEFENCE : Sales PT 11

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The telegram from Rome advises that there are no prospects of the Italians tackling the question of official credit support for the sale of Tornados to Jordan in the time available.

On the understanding that there is no longer any doubt about German participation (of which ECGD will be guaranteeing about 45 per cent) and that the ECGD credit support for that element will be contained within a DML of £101 million, I am reluctantly prepared to allow ECGD credit support for 25 per cent of the Italian share within a DML of £25 million. On that basis ECGD's exposure is contained within the upper fall-back limit of £480 million which we agreed last summer. I must however draw a line here. If we ended up by guaranteeing the whole of the German and Italian shares, our potential risk would amount to an incredible £800 million on this one contract alone.

I have already commented about the difficulties associated with the sale of Tornados to Oman. The Jordanian deal is different for the reasons set out in my Private Secretary's letter of 30 January. I must stress the need for German and Italian support for collaborative projects to be reviewed urgently. I am encouraged by the comment in Telno 107 that the Germans are intending to examine the position. I should be grateful if your officials, in conjunction with FCO officials as appropriate, could pursue a review of the MOU with the Germans on collaborative projects and press the Italians to accept responsibility for providing export credit for these collaborative projects. I hope that MOD and FCO officials can review the position quickly and before we are faced with any further cases.

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

Yours sincerely,

P. Walker

pp **JOHN MAJOR**

[Approved by the Chief Secretary and signed in his absence.]



CONFIDENTIAL

(1)

PRIME MINISTER

OMAN: TORNADO

The Treasury have belatedly - three days after the deadline - commented on the proposed message to the Sultan of Oman.

They accept lengthening the 8½ year term for the credit to 11 years. But they do not agree that we should cover the Italian and German shares. They argue that the Omanis should approach the Germans and Italians direct about this; and that if we offer to cover their share for Oman, they will wonder why we do not do so for Jordan. The Treasury also propose that we look at the provisions for financing exports outside NATO in all future joint projects very carefully, to ensure that the present embarrassment does not arise again (this last point must be right).

The Treasury response is tantamount to writing off the Oman sale. We are already proposing to offer the Sultan much less than he is asking for. If we do not offer to insure the Italian and German share, then there will hardly be anything left. It's no good saying the Sultan should approach the Germans and Italians, when we know perfectly well what the response will be. The Treasury do not propose any alternative concession. The Treasury say that the Italians and Germans will look to us to insure their shares of the Jordan order if we offer to do so for the Oman order. That does not automatically follow: we are pressing them very hard on Jordan, and will probably succeed with Germany at least. The Treasury argument would simply ensure that we lose both orders.

Agree to send the letter to the Sultan unchanged, while supporting the Treasury point that in future these questions must be settled in advance?

Yes
MT

CDP

(C.D. POWELL)
30 January 1989
DCAASS

I have suggested on the attached copy of your letter some minor changes which would go some way to meet the Treasury's points. CDP.

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

Your Majesty.

When I wrote to Your Majesty on 8 December, following my meeting with His Excellency Qais Zawawi, I said that I would be writing again to say how we could help over the financial arrangements for Tornado.

We have given the most thorough consideration to Your Majesty's request. I understand the pressures on the economy of Oman and that these result very largely from the price of oil. In view of understandable concern about fluctuations in the price of oil from 1987 levels, we are prepared to extend the period of payment for the Tornado contract to reflect both the change in the price of oil, and for appreciation of the exchange rate of the Pound Sterling against the US$ over the same period. As Your Majesty will know, the present payment period in the contract is eight and a half years. Adjusting this to reflect changes in the price of oil and exchange rates since 1987, would mean extending this period from eight and a half to eleven and a half years. In order to be helpful, we are prepared to accept that the period of payment for the future would be indexed both to the oil price and the Sterling £/US$ exchange rate and within a range of a minimum period of eight and a half years and a maximum of eleven and a half years. In this way the impact of the repayments on the Oman economy would be broadly consistent with those agreed in 1987. I can assure Your Majesty that this is a quite exceptional financial proposal and reflects our concern to take account of the economic difficulties explained to me by His Excellency Qais Zawawi.

In addition to extending the terms of payment on the existing contract in this way, we are also prepared and again exceptionally to assist the financing of the German and Italian portions of the contract, if necessary, by providing financial guarantees to British lenders to cover at least part of these portions.

His Excellency Qais Zawawi also mentioned the interest rate, but I regret that we have no room to move below the rate of 8.75 per cent currently in the contract. In fact, the current rate agreed by the OECD nations for export finance is 9.65 per cent. Despite this I am prepared to retain 8.75 per cent for the time being.

During my talk with His Excellency Qais Zawawi the possibility was raised of deferring the delivery of the aircraft. We have looked at this very carefully. Because of current production schedules, this would be very complicated, and might well involve some extra expense. Nevertheless, we would not rule it out entirely. In our view, however, the balance of advantage lies with maintaining the current schedule.

As I said in my previous letter to you the question of rephasing the payments for Tornado is a complex one. I very much hope that the proposals I have put to you will enable you to continue with this project.

I should be very glad to arrange for Sir Colin Chandler, the Head of Defence Export Services at our Ministry of Defence to visit Oman and discuss the implications of the proposals in detail.

With warm regards

Yours sincerely

Margaret Thatcher.

His Majesty Sultan Qaboos Bin Said Al Said, G.C.B., G.C.M.G., G.C.V.O.

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CONFIDENTIAL

cc P.C.

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

30 January 1989

Dear Charles

OMAN - TORNADO

The Chief Secretary has now seen Steve McCarthy's letter to you of 27 January.

We understand that there is no operational deadline, but the Chief Secretary understands that the Prime Minister wishes to write to the Sultan this week.

The Chief Secretary recognises the importance of this deal, as one of the earliest sales of Tornado to a non-NATO country, and also the significance of our diplomatic relations with Oman.

For that reason, he agrees with the Prime Minister's wish to go some way to meet the Sultan's desire for softer payment terms. He is content to lengthen the present 8½ year term to a maximum of 11½ years, on the formula proposed in Steven McCarthy's letter. He recognises that this increases ECGD's maximum liability by about £50 million. He does not regard Oman as a particularly safe market, and notes that their prospects have deteriorated recently and that Oman has built up significant payment arrears to ECGD. However, in the special circumstances of this case he is prepared to accept this increase.

He also recognises that, in the normal course, this increased credit period involves an increase in Oman's interest payments, and thus in the amount of interest support which would normally be payable. Steven McCarthy puts a figure of £2 million approximately on this. Treasury officials have suggested that these costs should be met by the Ministry of Defence, rather than

charged to the non-cash-limited ECGD interest make-up vote. However, again quite exceptionally, the Chief Secretary is prepared to accept that ECGD - and thus, effectively - the Treasury - should carry these costs.

The Chief Secretary welcomes the Ministry of Defence view that we should not offer any further interest rate concessions to Oman. He also notes MOD's intention to ask BAe to help Oman; he believes this is an essential supplement to HMG's efforts.

However, he feels strongly that we should resist the third of the concessions proposed in the letter - insuring the German and Italian shares of the credit. He understands that it was originally intended that these elements should be paid for by the Omanis in cash, although the UK share has always been on credit terms. It is therefore up to Oman to approach the German and Italian authorities, to see if they are willing retrospectively to vary the terms of the deal. The Chief Secretary does not see that the UK can help in this situation. He agrees with the FCO advice that it would be unwise for the Prime Minister to get involved in a further appeal to the German and Italian governments to help, in view of the complicated position already reached on the Jordan deal. For the same reason, he thinks it would be most unwise to indicate to Oman that the UK is prepared to cover the risk, if the German and Italian authorities arrange the finance. Word of this would eventually reach the German and Italian authorities, who would justifiably wonder why we were prepared to do it for Oman when we raised such problems over doing so for Jordan.

In any case, the Chief Secretary thinks it would be quite wrong to shoulder this additional credit risk. We did so, exceptionally, for the German share of the Jordanian Tornado, in order to head off a possible approach to the USSR. No such considerations apply in Oman, which in any case is in a much stronger financial position than Jordan. Once we set the precedent of providing cover for the German and Italian shares of non-NATO sales in a second market, it will be impossible to refuse to do so in all other sales. The potential risks are enormous.

Finally, the Chief Secretary is very concerned that this situation should have arisen in two recent cases: Jordan and Oman. He understands that the original Memorandum of Understanding about Tornado production did not define very precisely the respective responsibilities of the different partners for providing finance for export sales outside NATO. This is regrettable. But in view of recent developments in Germany, and the continuing problems with Italy, the Chief Secretary believes it essential that all future collaborative ventures should specify clearly from the start the respective liabilities of the partners. This is particularly important in the case of the EFA, and the potential European Frigate. If possible, the Tornado Memorandum should be renegotiated in the same way.

I am sending copies of this letter to Bob Pierce (FCO) and Neil Thornton (DTI) as well as Steven McCarthy (MOD).

Yours

Caitys Evans

MISS C EVANS
Private Secretary

dti

the department for Enterprise

CCPC

The Hon. Alan Clark MP
Minister for Trade

S McCarthy Esq
Private Secretary to
The Rt Hon George Younger TD MP
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Our ref WO4AZJ
Your ref
Date 30 January 1989

Dear Stephen

OMAN - TORNADO

Thank you for copying to this Department your letter of ~~27~~ January 1989 to Charles Powell covering a draft reply for the Prime Minister to send to His Majesty the Sultan. The Secretary of State's office have asked me to reply in the absence of Lord Young.

We have the following comments:-

(a) ECGD confirm that, subject to Ministerial approval, they would be prepared to underwrite 11½ years' credit for this sale and thus the normal FREF arrangements could apply in respect of the additional subsidy accruing from agreement to cover an extra 3 years' credit.

(b) ECGD cover for the German and Italian shares has already been agreed. An approach to the German and Italian Governments to take their share of the exposure would not be productive at this stage. Indeed, in view of their refusal to take their share of the risk on the Tornado sale to Jordan, such an approach could be counter-productive. However, this would be a suitable case to raise with the German and Italian Governments in discussions on setting up the "Ledger Account". This should be put to the German and Italian Authorities at the appropriate time.

dti

the department for Enterprise

S McCarthy Esq

January 1989

(c) ECGD will charge premium in its normal way for the extended terms but would not stipulate who should pay it, the Omanis or BAe.

(d) It could be helpful for an ECGD Representative to go with Sir Colin Chandler on any visit to Oman to try to settle details.

There are other points which MOD's letter does not pick up from earlier points suggested by ECGD:

(a) the ten year option is still open for the Omanis to take up. It is suggested that the following is inserted in the second paragraph of the draft letter: "Alternatively our original offer of 10 years' credit is still open".

(b) ECGD would not necessarily limit its cover for the German and Italian elements to UK banks: it is therefore suggested that the third paragraph of the draft letter should be amended so that the last two lines read: "... by providing guarantees in respect of lending for these partners to cover their portions."

Otherwise we are content with the the MOD letter and the draft response.

I am copying this letter to Charles Powell (No 10), Bob Pierce (FCO) and Carys Evans (Chief Secretary's Office).

Yours Sincerely

G Williams

G WILLIAMS
Private Secretary



CONFIDENTIAL UK EYES A
COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE
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Telephone 01-218 2111/3

MO 32/10L

30th January 1989

Dear Charles

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

The Prime Minister may wish to have a brief report on the UK defence export performance in the third quarter in 1988.

In this period British Industry formally reported defence export contracts valued at £596 million (including £10M from pre-1988 contracts). The major customers in the reporting period were USA (27%), Republic of Korea (14%), Jordan (10%) and Kenya (5%). Total recorded sales in 1988 have now reached £2,216M. A list of major contracts reported in the period is attached at Annex A.

Our major competitors' achievements include the USA (sales valued at $2,500M) who had significant orders for M60 tanks ($600M), air defence aircraft and equipment ($509M) both for Egypt, AEGIS naval air defence systems to Japan ($468M), F-15 aircraft to Israel ($265M) and P-3 Orion aircraft to Pakistan ($240M); West Germany achieved sales of $510M supplying 2 submarines to Israel ($360M) and a tank training simulator system to the US Army ($150M); Sweden sold some all-terrain Bv 206 transport vehicles to Canada ($350M); China sold four Jianghu-class frigates to Thailand ($300M); and Israel achieved two significant orders in the period, supplying Colombia with communication equipment ($135M) and developing the Arrow anti-tactical ballistic missile for the USA ($150M).

The major forthcoming British prospects and the third quarter highlights include the following:

a. Middle East

In Saudi Arabia, Phase I of Project Al Yamamah is proceeding well, with eight of the 13 Letters of Offer and Acceptance (LOAs) now signed, covering more than 90% of the Phase I value (£5,000M). Delivery of 20 Tornado IDS (48 on order), all 30 Hawks and 30 PC-9 aircraft and much of the associated equipment and weaponry has been achieved.

Charles Powell Esq
10 Downing Street

Temporarily retained, SWayland. 31/8/17

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

Delivery of the 24 Tornado ADV is scheduled to begin on 8 February 1989. A Formal Understanding was signed on 3 July 1988, entailing a significantly enhanced Phased II of the project. Negotiations continue with the Saudis to determine the precise specifications, quantities and delivery requirements.

detailed contract requires further negotiation. GKN continue to promote the Saxon armoured vehicle to the Saudi Royal Guard (£12M), with a trial planned during 1989 to the National Guard (£50M).

Vickers hope to promote their Mk7 main battle tank in Abu Dhabi during summer 1989 (£60M). The contract to supply additional Hawk aircraft has now been signed (£180M), whilst Westland continue to promote the Blackhawk helicopter (£38M). IAL, a subsidiary of British Telecom, is bidding against international competition to supply a communications package for the new Bahraini air force base (£8M), with interest also being shown in bridging and rapid runway repair equipment for the Engineers. Dubai are considering the Shorts Javelin as a replacement for their Blowpipe missile (£4M). Negotiations continue with Jordan covering the contract signed in September 1988 covering the acquisition of 8 Tornado aircraft, mainly concerning credit support. Shorts have recommenced contract negotiations with Kuwait concerning the supply of the Tucano by the Air Force (£52M), whilst Blackhawk is also under consideration (£80M). The prospects covering main battle tanks for the Army and fast patrol boats and MCMVs for the Navy are still under consideration. The Sultan of Oman's Land Forces continue to evaluate the Shorts Javelin (£12M) as a Blowpipe replacement. The requirement for armoured reconnaissance vehicles is being looked at, with Warrior and Vickers Mk7 both under consideration.

b. Europe

Austria has awarded a contract (£12M) to Plessey to supply its MRS communication system to the Army. Eire has now taken delivery of ex-RN vessels HMS Swift and HMS Swallow (£8M). Finland has signed a contract to purchase the Marconi Marksman anti-aircraft system. Vosper Thornycroft have been awarded a small contract (£2M) to commence design work with Bazan of Spain on a new class of MCMVs for the Spanish Navy. Turkey has not yet announced its decision on the source of supply for the HF-SSB radio equipment; Plessey and Marconi are bidding separately (£200M).

c. The Americas

The Canadians are still evaluating both VSEL and the French bids for the Canadian Submarine Project (CASAP), with a selection decision expected during 1989. The UK decision to proceed with development of the Challenger 2 will allow Vickers to prepare a response to the Solicitation of Interest (SOI) in June 1989 (£500M). In the USA, interest is being shown by the US Army and US Marine Corps in Thorn-EMI's Air Defence Alerting Device (ADAD), which is under development for the British Army, to meet a variety of requirements in both US services (£120M). The US Navy is interested in testing the British Aerospace Sea Archer naval fire-control system, in competition with various foreign suppliers, with a trial planned in the next few months (£120M).

In Brazil, MEL is promoting its package to update the avionics on the S2 Tracker fleet of maritime patrol aircraft, but availability of credit will be a determining factor in source of supply. This case has been referred to Ministers for consideration to carry out the business under the special ECGD Arms Account (£71M). Royal Ordnance has signed a collaborative agreement with FAMAE of Chile to produce a multiple launch rocket system (£7M) which, subject to export licence clearance, could lead to further business valued at £8M.

d. Asia, the Eastern Pacific Region and Australasia

The major achievement in the region during this quarter, was the signing of an MOU between the UK and Malaysia, for a programme of defence equipment purchases from the UK totalling £1,500M over the next 10 years. Negotiations continue to agree final conditions on equipment type, specifications and delivery schedules. Prior to the signature of the MOU VSEL obtained a contract from the Malaysian Army to supply 9 FH 70 guns (£16M). In India foreign exchange problems are preventing the Government from placing any significant contracts with Western suppliers for defence equipment. No decisions on significant purchases are expected until the new financial year commences in April 1989. Westland have secured a contract from the Republic of Korean Navy to purchase 12 Naval Lynx helicopters (£77M), whilst contract negotiations continue on the supply of helicopter-launched Sea Skua missiles. The Navy is also showing interest in a ship-launched anti-ship missile, with British Aerospace promoting the ship-launched Sea Skua missile (£100M). Pakistan is showing interest in acquiring 6 Westland Naval Lynx helicopters, with the Royal Navy

supplying 2 to enable early delivery. The RN study team has presented its findings to the Pakistani Navy, with interest shown in particular in towed arrays and MCMVs. Two important orders were obtained from Thailand during this period, for an extension by ICI to a munitions factory (£39M) and for a second batch of Stingray torpedoes (£4M).

e. Africa

The Shorts contract to supply 12 Tucano aircraft to Kenya is now effective, following receipt of the first downpayment in October 1988. Zimbabwe are still considering the UK, Russian and Chinese proposals to supply air defence radars and an integrated missile/gun system (£120M), with a decision expected in early-1989. Interest is also being shown in acquiring additional Hawk aircraft.

I am sending copies of this report to Bob Pierce (FCO), Carys Evans (HM Treasury), Jeremy Godfrey (DTI) and Trevor Woolley (Cabinet Office).

Yours ever

(S McCARTHY)
Private Secretary

ANNEX A

MAJOR CONTRACTS REPORTED DURING THE PERIOD

Westland Naval Lynx to Republic of Korea	£79M
Racal EW Jamming equipment to Jordan	£55M
Royal Ordnance 81mm mortar ammunition to USA	£51M
ICI extension to munitions factory in Thailand	£39M
BAe 125 aircraft to US Air Force	£32M
Shorts Tucano to Kenya	£29M
VSEL FH 70 to Malaysia	£16M
Ferranti laser rangefinders to USA	£16M
Plessey communication system to Austria	£12M
Royal Ordnance 81mm mortar ammunition to Norway	£8M
Racal tactical radios to Mexico	£7M
Rolls-Royce nava gas-turbines to Japan	£6M
Westland Sea King to Pakistan	£6M
BAe F-111 maintenance in UK for USA	£6M
MUSL Stingray torpedoes to Thailand	£6M

c.c. P.C.

MINISTRY OF DEFENCE
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MO 6/17/6V

30th January 1989

Dear Charles

OMAN - TORNADO

Further to my letter of 27th January, I now enclose a slightly revised draft letter from the Prime Minister to the Sultan which incorporates Treasury comments: these in fact boil down to one change, at the end of the third paragraph.

I am copying this letter to Bob Pierce (FCO), Neil Thornton (DTI) and Carys Evans (Chief Secretary's Office).

Yours ever

(S McCARTHY)
Private Secretary

Charles Powell Esq
10 Downing Street

DRAFT LETTER FROM PM TO HM SULTAN QABOOS BIN SAID AL SAID GCB, GCMG, GCVO.

When I wrote to Your Majesty on 8 December, following my meeting with His Excellency Qais Zawawi, I said that I would be writing again to say how we could help over the financial arrangements for Tornado.

We have given the most thorough consideration to Your Majesty's request. I understand the pressures on the economy of Oman and that these result very largely from the price of oil. In view of understandable concern about fluctuations in the price of oil from 1987 levels, we are prepared to extend the period of payment for the Tornado contract to reflect both the change in the price of oil, and for appreciation of the exchange rate of the Pound Sterling against the US$ over the same period. As Your Majesty may know, the present payment period in the contract is eight and a half years. Adjusting this to reflect changes in the price of oil and exchange rates since 1987, would mean extending this period from eight and a half to eleven and a half years. In order to be helpful, we are prepared to accept that the period of payment for the future would be indexed both to the oil price and the Sterling £/US$ exchange rate and within a range of a minimum period of eight and a half years and a maximum of eleven and a half years. In this way the impact of the repayments on the Oman economy would be broadly consistent with those agreed in 1987. I can assure Your Majesty that this is a quite exceptional

financing proposal and reflects our concern to take account of the economic difficulties explained to me by His Excellency Qais Zawawi.

In addition to extending the terms of payment on the existing contract in this way, we are also prepared and again exceptionally to assist the financing of the German and Italian portions of the contract by providing guarantees to cover these if necessary in respect of lending for at least part of these elements.

His Excellency Qais Zawawi also mentioned the interest rate, but I regret that we have no room to move below the rate of 8.75% currently in the contract. In fact the current rate agreed by the OECD nations for export finance is 9.65%. Despite this I am prepared to retain 8.75% for the time being.

During my talk with HE Qais Zawawi the possibility was raised of deferring the delivery of the aircraft. We have looked at this very carefully. Because of current production schedules, this would be very complicated, and might well involve some extra expense. Nevertheless, we would not rule it out entirely. In our view, however, the balance of advantage lies with maintaining the current schedule.

As I said in my previous letter to you the question of rephasing the payments for Tornado is a complex one. I very much

hope that the proposals I have put to you will enable you to continue with this project.

I should be very glad to arrange for Sir Colin Chandler, the Head of Defence Export Services at our Ministry of Defence to visit Oman and discuss the implications of the proposals in detail.



30. I. [illegible] PM 9

DEFENCE : Sales Pt 4

dti

the department for Enterprise

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CC/PC

The Hon. Alan Clark MP
Minister for Trade

The Rt Hon John Major MP
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Your ref
Date 30 January 1989

CDP
30/1

Dear John

TORNADO FOR JORDAN

I refer to George Younger's letter of 24 January in which he proposes that some ECGD cover be provided for the Italian workshare in the proposed Jordan contract. David Young has asked me to comment in his absence.

It is most unsatisfactory that the Italians have not been able to offer support for their share of this contract given Snr de Mita's assurance to the Prime Minister that such support would be made available. However in view of the current political situation in Italy I assume Geoffrey Howe agrees that we will not receive a quick response from them in relation to this contract. Given the deadline; and the growing Jordanian concern about the delay; the fact that we now have an assurance that ECGD cover for the last 5 instalments of the Italian share would enable the deal to be finalised, and that this could be done within the £480 million maximum ECGD liability agreed by us, I believe the point has come when we should agree this proposition if the business is to go forward. I do therefore, on balance, support George Younger's proposal.

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the department for Enterprise

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The Rt Hon John Major MP

January 1989

It has, I think, been a significant achievement to involve Italian banks in taking the bulk of the Jordanian risk on the Italian share. However, I should not want to go further.

I strongly agree with George Younger that there is a need to look into future arrangements on collaborative projects especially those involving Germany and Italy, and ECGD is already taking this up with the Ministry of Defence. We should in any case continue to press the Italians strongly on this issue.

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

ALAN CLARK

DEFENCE: Sales Pt 11



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MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

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MO 6/17/7L

30th January 1989

Dear John,

TORNADO FOR JORDAN

I wrote to you and colleagues on 24th January seeking agreement to cover up to £25M of the Italian share of the credit finance required to support the Tornado sale to Jordan.

In giving his agreement Geoffrey Howe has pointed out that this could be accommodated within the upper fall-back limit of £480M for ECGD exposure we discussed last July. I understand that Alan Clark has also approved the proposal for the DTI.

You were concerned on two counts in your own letter of 27th January; continuing political opposition in Germany and your wish to see further pressure on Signor de Mita to secure Italian Parliamentary approval for the Italians to assume financing responsibility for their own workshare. I have since seen Bonn Tel No 107 and Rome Tel No 70 reporting further on the situation in both countries. The Bonn report, while accepting the Bundestag debate raised wide-reaching and difficult question for future export policy concluded that it had no direct implications for the Jordan sale. There would appear to be no reason to assume from either the Bundestag debate or the preliminary report of the Bavarian

The Rt Hon John Major MP

proceedings that Herr Kohl will not be able to deliver on his earlier assurance to the Prime Minister that the German banking problem had been resolved. The report from Rome expresses concern over Signor de Mita's position within Parliament and his own party and judges there to be no present chance of his being prepared to tackle the credit for Tornado issue.

I believe we must take a decision on Jordan credit now. My own letter stressed the urgency of the position, particularly since Herr Kohl's assurances on German financing have already been made known to the King at the Prime Minister's meeting on 5th December. Geoffrey Howe's letter reinforces my own concern about Jordanian edginess over our own commitment to the sale. I accept that there are major difficulties to be resolved with our German and Italian partners over credit arrangements for future collaborative projects. The Germans have not yet replied to the Prime Minister's letter in October suggesting talks between officials and, as I have suggested we need now to think about a similar approach to the Italians. But we have to act very quickly to secure the Jordan sale. While some further delay in finalising contract arrangements is now inevitable we cannot allow tomorrow's already much extended deadline to pass without at least submitting the revised credit proposals, including the limited additional ECGD cover I described in my earlier letter.

I was grateful for your readiness to look at the matter again in the light of the German debates and a possible further approach to Signor de Mita. I hope the further information from our Embassies together with Geoffrey's shared anxiety about the impact of further delay on the King's confidence in our own support will now enable you to accept the need for us to cover the remaining Italian shortfall in the manner set out in my letter of 24th January. We all regret the necessity for this and if, of course, any discussions we have with the Italians about future arrangements should allow, we might still

seek their later commitment to the Jordan sale (although I cannot pretend undue optimism on this score).

Important discussions are due in Amman tomorrow and I should be grateful if you could let me know that you can now accept the position in time to allow the revised credit offer to be submitted before tomorrow's deadline expires.

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

Yours ever,
George.

George Younger

DEFENCE : Salen pr 11



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This has considerable implications for EFA.

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MO

FROM PRIVATE SECRETARY
SECRETARY OF STATE'S TALKS WITH GENSCHER ON 27 JANUARY
SALE OF TORNADO TO JORDAN

SUMMARY

1. GENSCHER AND HIS PUS EMPHASISED THE HIGH LEVEL OF PUBLIC CONCERN. GENSCHER NEEDED TO BE ABLE TO SAY THERE HAD BEEN CONSULTATIONS WITH THE UK. HIS PUS HIGHLY CRITICAL OF THE SALE.

DETAIL

2. GENSCHER ARRIVED STRAIGHT FROM A BUNDESTAG DEBATE ABOUT GERMAN FINANCING OF THE SALE OF TORNADO TO JORDAN, DURING WHICH THE COALITION HAD BEEN HEAVILY CRITICISED BY THE SPD AND THE GREENS. GENSCHER WAS GRIEVED THAT SOME SPD MEMBERS WHO HAD BEEN COLLEAGUES IN THE PREVIOUS COALITION, AND AT THE TIME IN FAVOUR OF ARMS SALES, WERE NOW AGAINST THEM. THEIR CHANGE OF MORAL STANCE WAS INEXCUSABLE. IN THE BUNDESTAG DEBATE THAT DAY, AS ON OTHER OCCASIONS, HE HAD BEEN CAREFUL NOT TO COMMENT, LET ALONE TO CRITICISE, THE FINANCING OFFERED BY THE LANDESBANK IN BAVARIA: THIS WAS NOT A MATTER FOR THE FEDERAL GOVERNMENT. THE FEDERAL GOVERNMENT KNEW THAT BRITAIN WOULD GO AHEAD WITH THE SALE TO JORDAN IN ANY CASE, BUT NEEDED TO BE ABLE TO SAY THAT THERE HAD BEEN CONSULTATIONS.

3. THE SECRETARY OF STATE EMPHASISED THE IMPORTANCE OF MAINTAINING OUR COLLECTIVE COMMITMENT TO THE PROJECT FOR THE SAKE OF WIDER COOPERATION IN THE EUROPEAN AIRCRAFT INDUSTRY. THIS MEANT THAT WE NEEDED AN AGREED FRAMEWORK FOR SALES TO THIRD PARTIES. THE 1983 ANGLO-GERMAN MEMORANDUM WAS THE RIGHT BASIS: IT GAVE EACH PARTNER THE RIGHT TO BE CONSULTED ABOUT A SALE BUT NOT THE RIGHT OF VETO. THE PICTURE SHOULD BE CLARIFIED FOR FUTURE CASES: HENCE THE PRIME MINISTER'S LETTER OF 13 OCTOBER TO THE CHANCELLOR. THE POSITIVE EFFECT OF A SUCCESSFUL OUTCOME WOULD BE GREAT BUT FAILURE WOULD BE VERY BAD FOR OUR COLLECTIVE MORALE.

4. EARLIER SUDHOFF, PUS AT THE FOREIGN MINISTRY HAD SPOKEN BLUNTLY: CERTAIN REGIONS SHOULD NOT BE ELIGIBLE FOR SALES OF TORNADO. HE WAS ASTONISHED THAT THE POSSIBILITY OF SALE TO JORDAN HAD EVER ARISEN, AND NOT AT ALL SURPRISED AT THE PUBLIC REACTION. HE DID NOT SEE THE GERMANS TAKING THE LEAD OVER TORNADO SALES ELSEWHERE, EG KOREA. THE SECRETARY OF STATE STRESSED THE BRITISH VIEW THAT NO REGION WHERE SALES WERE LIKELY WAS FREE OF CONTROVERSY.

BLAKE-PAULEY

YYYY

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ADDITIONAL 4

PS/NO.10

NNNN

SRWBUI

(1)

CONFIDENTIAL

fax'd to Chequers 28/1

PRIME MINISTER

OMAN: TORNADO

You owe the Sultan of Oman a reply to his message about the credit terms for Tornado.

The attached letter summarises the results of work by officials. A good deal of ingenuity has gone into it. The outcome can be summarised as follows:

- we can offer a variable credit period, indexed to the price of oil and the £/$ exchange rate. This could extend the repayment period from the present 8½ years to a maximum of 11½ years. The additional interest rate support cost would be £2 million. ECGD would be content to bear this as part of normal underwriting arrangements, but the Treasury want to insist that MoD should carry it;

- we cannot make any further concession on the interest rate. It is now 8.75% against the consensus rate of 9.65% (which is what we ought to charge Oman);

- we could provide cover for the German and Italian elements. There is frankly no chance of them being prepared to provide the cover themselves: we are still battling with them on Tornado for Jordan. The result would be increase ECGD's liability from £620 million to £685 million. MoD, FCO and ECGD accept this: Treasury remain opposed;

- the idea of deferring delivery turns out to be much more complicated - and less beneficial to Oman - than at first thought. It is probably not worth pursuing;

- similarly, leasing the Tornado does not seem to be advantageous to Oman, and runs into financing difficulties here;

- we could try to get BAe to take more of the burden;

- we can send Sir Colin Chandler to Oman to explain the new arrangments.

You need to decide how far we can go in reply to the Sultan. My own view is that the minimum which stands a chance of saving the order is the extended period for repayment and providing cover for the German and Italian share. I am fairly doubtful whether that will do it - I think the Omanis probably now want to get out of the contract (in which case, of course, our offer is not likely to be called).

Are you prepared to make this offer and write to the Sultan as proposed in the draft? (It means overruling the Treasury on the £2 million and on taking the German/Italian share.)

C.D.P.

(C. D. POWELL)
28 January 1989

(3)

CONFIDENTIAL

Fax'd to Cheques 28/1 cc/C

MINISTRY OF DEFENCE
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MO 6/17/6L

27th January 1989

Dear Charles

OMAN - TORNADO

We have now completed an assessment of various options and have formulated practical proposals on the financing of the Tornado contract with Oman. We believe these are tailored to Oman's primary objective of easing cash flow problems throughout the 1990s, and maintain the current delivery schedule. The proposals were discussed by EGC on 26 January and approved as below.

A variable credit period is proposed, indexed to the price of oil and the £/US$ exchange rate. This sets the repayment period by reference to the Sterling income produced by the number of barrels of oil that were necessary, at 1987 oil price and £/US$ exchange rate, within a maximum credit period of 11.5 years (based on the scenario presented by Qais Zawawi to the Prime Minister on 24 November 1988) and a minimum of 8.5 years (the current credit period). In this way, the impact of principal repayments on the Oman economy throughout the 1990s would be much the same as that envisaged in 1987, when the present arrangements were agreed. There would be, as a result, potential maximum additional interest support costs of some £2M. The Treasury view is that these additional costs should fall to MOD, and Treasury Ministers will be writing to MOD accordingly. ECGD's view, which we obviously support, is that these costs properly fall to the normal FREF arrangements since ECGD consider the revised terms underwriteable.

As regards the interest rate, it was agreed that we can make no further concessions. In 1986, faced with a possible cancellation of the contract, Ministers agreed exceptionally to reduce the interest rate from that contained in the contract (9.5%) to the then prevailing Consensus rate of 8.75%. The current Consensus rate applicable to such a deal is 9.65%. The interest rate is therefore already "below market" and there does not appear to be any justification for any further concession in this area.

The question of whether we can offer to cover the German and Italian elements is more problematic. Ministers authorised ECGD to provide cover for these elements during the previous negotiation,

Charles Powell Esq
10 Downing Street



although this offer was not taken up. The Treasury view is that they are not prepared to agree to such cover until the German and Italian Governments have been approached. FCO sees a particular difficulty in the Prime Minister offering to do this because of the poor response so far from Chancellor Kohl and Snr De Mita on official credit for their workshares for the Jordan contract. A reply is still awaited from Chancellor Kohl to the Prime Minister's letter of 13 Oct 88 proposing a meeting of officials and my Secretary of State has instructed his officials to consider a similar letter to the Italians. In view of the poor prospect of a further approach for Oman succeeding (and of the delay that would result) and in view of the Prime Minister's statement to the Sultan that we will do all that we can to help, the draft letter to the Sultan offers to provide HMG support for these elements. This is FCO and ECGD's preferred course. If the Prime Minister does not agree, two alternatives for that paragraph would be:

a. As regards the German and Italian elements, I very much regret that we can be of no help.

b. As regards the German and Italian elements, I regret that we ourselves can be of no help. I would, however, be willing to intervene on your behalf with the Germans and the Italians.

It should be noted that ECGD support for the longer credit term and for covering the German and Italian elements, could increase the maximum liability for this project to some £685M compared with the £620M previously approved by the Chief Secretary.

We have not yet ruled out the question of deferment of delivery completely. A major difficulty arises out of the fact that any deferment would put the Omanis into a new production batch, undefined in terms of modification standard. It would be possible for the RAF to take those aircraft earmarked for the Omanis, (although unhelpful in terms of our own financial planning) with Oman in turn taking those scheduled for the RAF. This would allow, however, for slippage of only 6 months. The present production programme doe not lend itself to any longer deferment, and would cause BAe (and its partners and suppliers) to suffer a disruptive break in the programme, with a consequent increase in costs. These difficulties meant that the balance of advantage seems to lie in retaining the existing (and already revised) delivery schedule and it is proposed that Sir Colin Chandler should visit Oman to explain and discuss the implications of this possible option and the proposed new credit arrangements.

Quite separately from these proposals we are approaching BAe to see how the company could help by, for example, reducing

prices or taking up at least some of the extra ECGD premium. Sir Colin Chandler will accordingly be in touch with Sir Raymond Lygo.

We have also looked at other options including cancelling the Tornado deal and substituting EFA. However, the EFA project is, at the moment, covered only by a development contract with the European industrial consortium. Production is not yet committed and the in-service dates are not precisely known but aircraft are unlikely to be delivered to the partner countries before 1996. Deliveries for export would not be available for some time after that date. Were we to pursue this imprecise option it could allow pro-American elements in Oman to attempt to introduce the F16 which has been a constant threat for a number of years.

We have also considered a lease of 4 Tornado aircraft but any leasing arrangement would necessitate an increase in MOD financial provision. Furthermore, Treasury would be reluctant to approve MOD purchase of an aircraft not for RAF use. It is, in any case, difficult to demonstrate any advantages this arrangement would have for Oman over an easing of the payment terms.

Your letter of 24th January to Bob Pierce asked for a draft of a formal reply to the Sultan: I enclose a draft which I regret has not yet been agreed with the Treasury; it will not I am afraid be possible to produce an agreed text before Monday.

I am copying this letter to Bob Pierce (FCO), Neil Thornton (DTI), and Carys Evans (Chief Secretary's Office).

Yours sincerely

(S McCARTHY)
Private Secretary

(6) Fax'd to Cheques 28/1

DRAFT LETTER FROM PM TO HM SULTAN QABOOS BIN SAID AL SAID GCB, GCMG, GCVO.

When I wrote to Your Majesty on 8 December, following my meeting with His Excellency Qais Zawawi, I said that I would be writing again to say how we could help over the financial arrangements for Tornado.

We have given the most thorough consideration to Your Majesty's request. I understand the pressures on the economy of Oman and that these result very largely from the price of oil. In view of understandable concern about fluctuations in the price of oil from 1987 levels, we are prepared to extend the period of payment for the Tornado contract to reflect both the change in the price of oil, and for appreciation of the exchange rate of the Pound Sterling against the US$ over the same period. As Your Majesty ~~may~~ will know, the present payment period in the contract is eight and a half years. Adjusting this to reflect changes in the price of oil and exchange rates since 1987, would mean extending this period from eight and a half to eleven and a half years. In order to be helpful, we are prepared to accept that the period of payment for the future would be indexed both to the oil price and the Sterling £/US$ exchange rate and within a range of a minimum period of eight and a half years and a maximum of eleven and a half years. In this way the impact of the repayments on the Oman economy would be broadly consistent with those agreed in 1987. I can assure Your Majesty that this is a quite exceptional financing proposal and reflects our concern to take account of

the economic difficulties explained to me by His Excellency Qais Zawawi.

In addition to extending the terms of payment on the existing contract in this way, we are also prepared and again exceptionally to assist the financing of the German and Italian portions of the contract by providing financial guarantees to British lenders to cover these portions.

His Excellency Qais Zawawi also mentioned the interest rate, but I regret that we have no room to move below the rate of 8.75% currently in the contract. In fact the current rate agreed by the OECD nations for export finance is 9.65%. Despite this I am prepared to retain 8.75% for the time being.

During my talk with HE Qais Zawawi the possibility was raised of deferring the delivery of the aircraft. We have looked at this very carefully. Because of current production schedules, this would be very complicated, and might well involve some extra expense. Nevertheless, we would not rule it out entirely. In our view, however, the balance of advantage lies with maintaining the current schedule.

As I said in my previous letter to you the question of rephasing the payments for Tornado is a complex one. I very much hope that the proposals I have put to you will enable you to continue with this project.

(8)

I should be very glad to arrange for Sir Colin Chandler, the Head of Defence Export Services at our Ministry of Defence to visit Oman and discuss the implications of the proposals in detail.

Defence - Sales PV 11.

SECRET

SUBJECT
cc MASTER
OPS

file PRIMEY 11(a-b) 9

cc FCO
MOD
PC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 January 1989

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T21/89

Dear Prime Minister,

I have been taking a very close interest in the discussions between senior officials of the Government of India and British Aerospace about the possibility that the British Aerospace Hawk aircraft might meet the Indian Air Force's requirement for a new Advanced Jet Trainer. As a result I am writing to commend to you personally the proposals which British Aerospace have recently put to your Cabinet Secretary and Defence Secretary on the purchase by India of this aircraft.

The Hawk itself is a most successful advanced trainer, with world-wide orders for nearly 700 aicraft, including such an exacting customer as the United States Navy. Its technical support is assured by a production line which on present orders alone will extend beyond the year 2000.

Apart from the technical excellence of the aircraft, I would draw your attention to two other aspects of the proposal. The first is the high level of proposed participation by Indian industry in the programme. The second is the imaginative financing proposals which British Aerospace have been able to put forward. In essence, the purchase of Hawk for the Indian Air Force would involve no expenditure of foreign exchange by the Government of India. The details of the proposals have yet to be fully worked

SECRET

b

through with your officials. But British Aerospace's willingness to accept payment in rupees and to involve Indian companies and expertise in their very successful world-wide activities would be a very considerable additional benefit.

British Aerospace's proposals have my full backing and support. They underline the company's commitment to its long term collaboration with India. I hope that you and your Government will give them the favourable consideration I am certain they deserve.

I send you my very best wishes and warm regards.

At India House on Monday - I shall be unveiling a sculpture of your mother. It will bring back many memories both happy and sad.

Yours sincerely

Margaret Thatcher

Shri Rajiv Gandhi

FCS/89/017

SECRETARY OF STATE FOR DEFENCE

Tornado for Jordan

1. Thank you for copying to me your letter of 24 January to John Major.

2. The Italian reluctance to provide cover for their share is very disappointing, particularly in view of the assurances given by Prime Minister De Mita to the Prime Minister. We shall have to press them hard on provision of export credit for future collaborative projects, as you suggest. But I agree that we must now act quickly if we are to save the Tornado deal. The political arguments in favour of the sale (which I set out most recently in my minute to John Major of 15 November 1988) are unchanged. King Hussein remains committed to the purchase of Tornado, but he may be starting to question our own commitment to see the sale go through.

3. We agreed last July that ECGD could take exposure on the whole contract up to a ceiling of £480m DML. Our latest advice from Bonn supports your view that financing for the German workshare is assured. On this basis and given your view that the £25m left unused will be sufficient to conclude the Italian credit package, I agree that ECGD should now be authorised to assume the necessary degree of support for the Italian workshare within the £480m DML ceiling agreed by Ministers.

/4..

4. I am copying this minute to the Prime Minister, David Young, John Major and to Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

27 January 1989

DEFENCE: Sales Pr

cst.ps/1jm27.1/drfts

CONFIDENTIAL

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

27 January 1989

Dear Secretary of State,

TORNADO FOR JORDAN

Thank you for your letter of 24 January in which you seek my agreement to utilise the £25 million balance remaining within the overall limit of £480 milllion agreed at our meeting on 26 July 1988, to provide support for part of the Italian workshare.

You explain in your letter that the earlier difficulties about the financing arrangements for the German workshare have now been resolved. The amount of ECGD support for the combined German and UK shares is estimated at some £455 million. This is close to the target of £450 million which we agreed in July was to be provided to cover the UK and German shares. But as you know from Telno 084 of 23 January there is to be a debate in the Bundestag about German cover on 27 January and a separate debate on the same issue in the Bavarian Parliament on the same day.

I note from the later telegram from Bonn (Telno 092) that although the Federal and Bavarian Governments are confident that German credit arrangements will not be altered, the FDP coalition partners remain opposed to the participation of the Bavarian Landesbank in the financing arrangements. So long as there remains any doubt about the current level of German participation it would be imprudent in my judgement to consider providing cover for the Italian share. If the German financing were to unravel, we should be faced with the difficult task of recasting the financing arrangements.

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DEFENCE: Sales
PT 11

You suggest utilisation of 'the balance of £25 million' remaining within the overall total of £480 million mentioned at our July meeting. I would remind you that this margin was specifically agreed if necessary to clinch only the German share in the summer. Insofar as Italy is concerned the formal position is that the Italian Prime Minister, Signor de Mita, told the Prime Minister in October that he did not exclude being able to persuade the Italian Parliament of the need to help in this case. He should be pressed urgently now to do this. In the meantime, I do not believe that we should cover the Italian share. I am prepared to consider the position further in the light of the outcome of the debates in the Bundestag and the Bavarian Parliament on 27 January and a response from de Mita.

I am sending a copy of this letter to the Prime Minister, Geoffrey Howe, David Young and Sir Robin Butler.

Yours sincerely,

P. Walker

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

SECRET

file DT
bc PC

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 January 1989

Thank you for your letter of 25 January about the possibility of selling the BAE Hawk to India. The Prime Minister has agreed to write to Mr Gandhi. I enclose a copy of her letter and am sending the original to the Foreign Office with the hope that they will arrange for its delivery as soon as possible.

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

C. D. POWELL

Steve McCarthy, Esq.
Ministry of Defence

SECRET

cst.ps/3ce25.1/drfts

CONFIDENTIAL

cc PC

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
SW1A 2HB

25 January 1989

Dear Brian

AL YAMAMAH : PRINCE BANDAR BIN SULTAN

The Chief Secretary has seen your letter of 20 January. He has expressed his concern that the Al Yamamah project is reported to be short of funds. He welcomes the fact that King Fahd is reviewing the funding requirements. He hopes in particular that these can be met from providing more oil and injections of cash.

You will recall that ECGD has agreed to provide £450 million of cover to British Aerospace against cancellation of this project. We have a strong interest therefore in the Saudis maintaining an adequate flow of funds to avert this possibility.

The discussions that MOD proposes to hold with the Royal Saudi Air Force early in February on funding are important. The Chief Secretary, however, is concerned that MOD officials have apparently not so far informed other Departments of the scale of the funding problems. In particular, information has not been provided to the interdepartmental committee which Ministers agreed last July should monitor the financial aspects of the Al Yamamah project.

In view of your proposed letter for the Prime Minister to send to King Fahd it will clearly be necessary for the committee to be given this information and to consider the issue before MOD officials meet the Saudis so that MOD's negotiating position can be cleared with the relevant Departments.

I am copying this letter to Charles Powell (No.10)

Yours
Caius

MISS C EVANS
Private Secretary

SAUDI ARABIA: Relation PT 4



SECRET

96(a-d) a

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

MO 6/19/3L

25th January 1989

Dear Charles

INDIAN AIR FORCE ADVANCED JET TRAINER PROGRAMME - BAE HAWK

The Indian Air Force (IAF) has a long standing requirement for an Advanced Jet Trainer (AJT) which the IAF would like to enter service in 1992. The quantity of aircraft required is believed to be about 94, which includes a small number for the Indian Navy. The order would be worth around £600M and has inevitably attracted the attention of jet trainer manufacturers from all over the world. The IAF has evaluated British, French, Soviet, Czech, American and other aircraft but we understand that only two aircraft, BAe's Hawk and the French Alphajet, meet the IAF's requirement with the Hawk being the firm preference. The Indian MOD has not pursued the AJT programme with any great vigour, partly, we suspect, because of a general shortage of money and partly because of the continuing ramifications of the Bofors scandal and the inevitable adverse comment that another major overseas defence order would attract in India. However, because current IAF jet trainers are running out of fatigue life, this is a project which cannot be postponed much longer.

BAe have been alert to these factors and to the need to mount a major marketing initiative at an appropriate moment. To that end they prepared an outline financial package which was put to the Indian Cabinet and Defence Secretaries in October and followed up by a paper in November. In essence, BAe's proposal is that should they win the contract they will accept payment in rupees. BAe can offer this both because up to half the aircraft by value would be manufactured in India (eg the Hawk's Adour engine which is already manufactured by Hindustan Aeronautics Ltd for the IAF Jaguar programme) and because BAe would use India as a source for labour and material for infrastructure work associated with the Saudi Arabian Tornado contracts. This proposal thus directly addresses India's shortage of foreign exchange and is one which we believe the French will have difficulty in matching. It has elicited a very positive response from the Indians.

Charles Powell Esq
10 Downing Street

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Our High Commissioner in New Delhi has recently, however, been briefed in confidence by G P Hinduja on a meeting he had with Rajiv Gandhi on the status of the project. (Hinduja is one of four influential brothers, two of whom live in the UK, who are confidants of Rajiv Gandhi. They are known to British Ministers and have been reliable sources of information in the past). Mr Gandhi had said that the French were pressing very hard for their aircraft to be selected and that President Mitterand had sent him a strong message about it. In response to Hinduja's extolling the merits of the British competitor, the Hawk, and the imaginative proposals BAe had submitted for financing the contract, Mr Gandhi replied that it would strengthen his hand in supporting Hawk if the Prime Minister could send him a personal message endorsing the terms of the BAe offer and commending it to him.

President Mitterand is visiting India between 1st and 4th February and will undoubtedly press Mr Gandhi to respond to his message on Alphajet, which has secured no recent overseas orders. Failure to win the Indian contract will almost inevitably result in the closure of the production line. The French manufacturer, Dassault, has already suffered from British successes in Saudi Arabia and Malaysia and is in danger of further erosion of its manufacturing base if it fails to win in India. This has very significant implications for the future structure of Europe's aerospace industry and for the Rafale project. In contrast the BAe current order book is strong and that for the Hawk alone will ensure production to beyond the year 2000.

It would clearly strengthen BAe's hand considerably if the Prime Minister were to respond positively to Mr Gandhi's suggestion by writing in support of BAe's offer before M. Mitterand's visit. The Foreign Office have been consulted, and agree. I therefore attach the draft for a message for the Prime Minister's consideration.

I am copying this letter to Bob Peirce (FCO).

Yours sincerely

(S McCARTHY)
Private Secretary

MEMACEY.

To Tyrie.

Shri Rajiv Gandhi

DRAFT MESSAGE FROM THE PRIME MINISTER TO MR GANDHI

I have been following with keen interest the discussions between senior officials of the Government of India and British Aerospace about the possibility that the British Aerospace Hawk aircraft might fulfil the Indian Air Force's requirement for a new Advanced Jet Trainer.

I am now writing to commend to you personally the proposals which British Aerospace have recently put to your Cabinet and Defence Secretaries on the purchase by India of this aircraft. The Hawk itself is a most successful advanced trainer, with world-wide orders for nearly 700 aircraft, including such an exacting customer as the United States Navy. Its technical support is assured by a production line which on present orders alone will extend beyond the year 2000.

Apart from the technical excellence of the aircraft, I hope you will not mind my drawing your attention to two other aspects of the proposal. The first is the high level of proposed participation by Indian industry in the programme. The Adour engine is, of course, already successfully manufactured by HAL and British Aerospace's proposals will provide further substantial individual benefits, as well as enhancing the close relationship between the industries and the Air Forces of our two countries.

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Secondly, I know that British Aerospace have been able to put forward some imaginative financing proposals. In essence, the purchase of Hawk for the Indian Air Force would involve no expenditure of foreign exchange by the Government of India. I know that the details of the proposals have yet to be fully worked through with your officials but British Aerospace's willingness to accept payment in rupees and to involve Indian companies and expertise in their very successful world-wide activities, will undoubtedly enhance the already strong Anglo-Indian defence relations and is testimony to the high regard in which India is held.

I think you will agree that British Aerospace's proposals, which have my full backing and support, underline the company's commitment to its long term collaboration with India. I hope that you and your Government will give them the favourable consideration I am certain they deserve.

I send you my very best wishes and warm regards.

B

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref

Your ref

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

25 JAN 1989

Dear George.

MALAYSIA

Thank you for your letter of ~~16~~ May January about air services to Malaysia.

Since you wrote, you will have seen the further exchanges between my Private Secretary and 10 Downing Street on this subject. I attach a copy of my letter of 19 January to Sir Colin Marshall at British Airways, in which I urged BA to bring negotiations to a very early resolution having regard for the important to British industry of the defence and civil projects under discussion with Malaysia. I understand that there are to be further talks between BA and MAS starting on 25 January and I hope that these will lead to a negotiated settlement, which both Governments can subsequently endorse.

I shall keep you informed of developments.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, David Young, John Major and to Sir Robin Butler.

Yours

PAUL CHANNON

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

Sir Colin Marshall
Chief Executive
British Airways plc
PO Box 10
Heathrow Airport (London)
Hounslow
TW6 2JA

CD 2571

19 JAN 1989

Dear Colin

UK/MALAYSIA AIR SERVICES

Thank you for your letter of 16 January. It was most timely to get your report on your negotiations on the UK/Malaysian air services question.

I understand that the intermediary you mention is Dr Arumugam, who is well know to us and will certainly be acting on behalf of Dr Mahathir. Dr Arumugan came in to see one of my officials yesterday on this subject. He is concerned about the way things have developed. His view is of course a partial one, but he claims that his discussions with your people were going well, but have now broken down. He is concerned about the effect that this may have on the UK's relations with Malaysia generally, but particularly on the defence and civil projects which are in the offing. He stressed that the main remaining difficulty concerns the arrangements necessary to bring MAS's seventh service on line. He said he had been told by Dr Mahathir that he was to negotiate a resolution of this problem and still stands ready to continue his discussions with your people. He is planning to return to Kuala Lumpur tonight or tomorrow night.

He was told by my official that you have been keeping me informed on progress and that, as you state in your letter to me, BA remains willing to continue discussions. I understand that since yesterday afternoon, negotiations between BA and Dr Arumugam have resumed.

I fully appreciate the efforts you have been making to resolve this matter, but I must stress again that while we continue to resist a direct link between the extra MAS services and the defence and civil projects, we have to recognise the importance to British industry of these projects. I therefore urge you strongly to bring your negotiations to a very early resolution. I assure you that the Prime Minister feels the same way.

Yours ever,

PAUL CHANNON

Paul

DEFENCE: Sales PTI.



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bc PC
B-up.

PRIME MINISTER

MEETING WITH THE TURKISH DEFENCE MINISTER

You have agreed to see the Turkish Defence Minister briefly tomorrow morning. He will be accompanied by the Ambassador and the Director of the Defence Industries Development Association. He apparently bears a message from Mr. Ozal.

The best bet is that he will tell us that Marconi have won or will win the military radios contract which you discussed during your visit, but may try to extract better credit terms. ECGD would be ready to discuss arrangements which would help the Turks ease the cash flow burden in the early years. You could speculate about this, but will not want to make a firm commitment.

Other defence sales prospects do not look too bright. We seem to have lost Zeus - the electronic warfare suite which Marconi offered for the F16 aircraft - to American competition, even though no-one else has chosen the American system. You will want to enquire about this and see if, even at this late stage, it can be salvaged. If the Turks ordered it, we might be able to put together a credit package linking Zeus and the radios on advantageous terms. There are some other prospects including mobile radars.

There are some political topics which might come up:

- the Turks fear that the flank countries may be isolated in the negotiations on conventional force reductions. You can reassure him that we are determined to maintain NATO's strategic unity.

- WEU. The Turks have applied but have been stalled, as have the Greeks.

- EC. The Commission are likely to make a first report to the Council by the end of 1989. There is nothing we can say in the meantime.

- Cyprus. You are seeing President Vassiliou again in March.

There is fuller briefing in the folder.

CHARLES POWELL
24 January 1989

EL3DGS

CONFIDENTIAL

MO 6/17/7L MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

24th January 1989

Dear John,

TORNADO FOR JORDAN

The position on financing arrangements for the Tornado sale has at last clarified. A new German banking consortium has been established which is able to match the credit terms offered by the previous consortium but at a fixed interest rate of 8.25% in Deutschemarks. Problems over risk sharing within German industry have also finally been resolved and finance for the German workshare is therefore now assured.

Unfortunately the Italian position is less satisfactory. It seems fairly clear that Snr de Mita is not prepared to authorise SACE's involvement without Parliamentary approval, and HMA Rome has advised that De Mita is also unwilling to take the latter course of action because of the risk of having the whole question of Government financial support for arms exports raised in the Italian parliament.

While the timescale for making the Sales Agreement effective has been extended to 31st January, much of this time has been lost due to the German delays. A further extension will therefore be inevitable but there is nonetheless an urgent need to act quickly and finalise arrangements. The Jordanians are showing signs of edginess over the delay - particularly since the Prime Minister's meeting with King Hussein on 5th December, when the Prime Minister passed on

The Rt Hon John Major MP

Chancellor Kohl's assurance that the question of German financing had been resolved. In my view we cannot afford to wait any longer for possible - but highly unlikely - official credit support from the Italian Government, and I believe that we must now grasp the nettle to save the sale. The only option I see being open to us which will enable financing arrangements to be progressed in an acceptable timescale is for ECGD to assume a degree of support for the Italian workshare.

Italian industry had initially asked that ECGD provide the same level of support as being given to the Germans (45% of German contract value). However such an arrangement would necessitate exceeding - by £11M or so - the £480M DML ceiling agreed last July for the project. Given the deterioration in the Jordanian economy I would be loath to seek such an increase, particularly as there are strong indications that we can persuade the Italians to accept less. Our assessment is that if ECGD were to guarantee the last 5 or 6 repayments (this is about 22-27% of the Italian contract value), Italian industry and banks would, albeit reluctantly and despite their opening bid, take the risk on the rest and agree to match the terms being offered by the Germans. Our Embassy in Rome confirms this to be the case. ECGD calculate that 6 repayments would require a DML of £25M, and on that basis the detailed position on credit support of the project would then be:

	Contract Value	DML
	£M	£M
UK	338	354
German	116	101
Italian	46	25
	500	480

I therefore seek your agreement and that of colleagues to utilise the balance of £25M to DML to the extent necessary to provide support for the Italian workshare, although we would aim to restrict support to 5 repayments (DML of £21M). In view of the urgent need to finalise negotiations with the Jordanians I would welcome your earliest possible response.

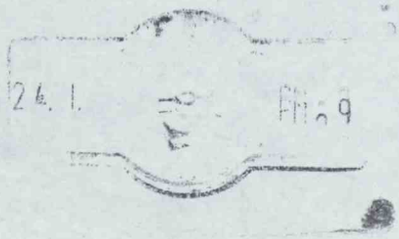
You will I am sure recall the Prime Minister writing to Chancellor Kohl on 13th October 1988, on the need to establish more satisfactory future arrangements for the provision of export credit for collaborative projects. We clearly face similar problems with the Italians and I have asked that action be put in hand to produce a draft letter that we might consider sending the Italian Government.

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

Yours ever,

George.

George Younger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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 January 1989

OMAN/TORNADO

The Prime Minister has seen Muscat telno 39 about Omani thinking on Tornado. She has commented that we must decide very quickly what we can offer and send the Sultan a formal reply. I should be grateful for a draft by the end of this week.

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

C. D. Powell

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

CONFIDENTIAL

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MDHIAN 9746

CONFIDENTIAL
FM BONN
TO DESKBY 250900Z FCO
TELNO 092
OF 241838Z JANUARY 89
INFO DESKBY 250900Z MODUK
INFO PRIORITY AMMAN, ROME

SIC
MODUK FOR DESO AND SEC (O)(C)

YOUR TELNO 61: TORNADO FOR JORDAN

SUMMARY
1. FEDERAL AND BAVARIAN GOVERNMENTS CONFIDENT THAT GERMAN CREDIT ARRANGEMENTS WILL NOT BE ALTERED.

DETAIL
2. I SAW FEDERAL MINISTER SCHAEUBLE TODAY AND SPOKE IN LINE WITH MY TELNO 84 AND YOUR TUR. SCHAEUBLE SAID THAT HE WOULD SPEAK FOR THE FEDERAL GOVERNMENT IN THE BUNDESTAG DEBATE ON 27 JANUARY. HE WOULD SAY THAT THE FEDERAL GOVERNMENT HAD DECIDED LAST YEAR TO RAISE NO OBJECTION TO THE SALE OF TORNADO TO JORDAN. THE FEDERAL GOVERNMENT AND ITS ALLIES MAINTAINED DEFENCES IN ORDER TO UPHOLD THEIR SECURITY, AND SHOULD RESPECT THE WISH OF FRIENDLY AND RESPONSIBLE GOVERNMENTS, LIKE THAT OF JORDAN, TO DO THE SAME. HE WOULD ALSO TELL THE BUNDESTAG THAT THE FEDERAL GOVERNMENT HAD INFORMED THE BAVARIAN AUTHORITIES AND THE BAVARIAN BANKS THAT IT HAD NO OBJECTION TO THOSE BANKS PARTICIPATING IN THE CREDIT ARRANGEMENTS. INDEED, HOW COULD THE FEDERAL GOVERNMENT OBJECT TO BANKS PARTICIPATING IN CREDIT FOR A SALE TO WHICH THERE WAS NO OBJECTION? SCHAEUBLE AGREED THAT LINKS WOULD BE MADE IN THE DEBATE BETWEEN THE LIBYA/CW AFFAIR AND TORNADO FOR JORDAN. BUT HE WOULD HAVE NO DIFFICULTY SHOWING THAT THE TWO WERE COMPLETELY DIFFERENT.

3. IN REPLY TO MY DIRECT QUESTION SCHAEUBLE SAID THAT THE BUNDESTAG DEBATE WOULD ALTER NEITHER THE FEDERAL GOVERNMENT'S DECISION NOT TO OBJECT TO THE TORNADO SALE NOR THE INVOLVEMENT OF BAVARIAN BANKS IN THE CREDIT ARRANGEMENTS.

4. IN MY PRESENCE, SCHAEUBLE TELEPHONED TANDLER, THE RESPONSIBLE MINISTER IN THE BAVARIAN GOVERNMENT, TO CHECK THAT THERE WAS NO RISK THAT THE SEPARATE DEBATE IN THE BAVARIAN PARLIAMENT, ALSO ON 27

JANUARY, WOULD CAUSE THE BAVARIAN LANDESBANK OR ANY OTHER BANK TO WITHDRAW FROM THE CREDIT ARRANGEMENTS. TANDLER REPLIED THAT THE DECISIONS ON THE CREDIT ARRANGEMENTS HAD BEEN TAKEN AND WOULD STAND. THERE WAS NO SIGN THAT THE LANDESBANK WOULD HAVE COLD FEET.

5. MINISTER-PRESIDENT STREIBL IS ON LEAVE BUT I HAVE SPOKEN TO THE HEAD OF HIS OFFICE, WHO REPLIED IN TERMS SIMILAR TO TANDLER'S.

6. I HAVE ALSO PUT OUR POSITION TO SCHAEFER, MINISTER OF STATE IN THE AUSWAERTIGES AMT AND A MEMBER OF THE FDP. HE SAID THAT THE FDP PARLIAMENTARY PARTY HAD DECIDED TODAY THAT IT COULD NOT OPPOSE THE EXPORT BY THE UK OF TORNADO TO JORDAN. BUT THE FDP CONSIDERED IT WRONG FOR A BANK CONTROLLED BY THE BAVARIAN GOVERNMENT TO BE INVOLVED IN THE CREDIT ARRANGEMENTS WHEN THE FEDERAL GOVERNMENT HAD DECIDED NOT TO BE SO INVOLVED. GENSCHER WOULD NOT PARTICIPATE IN THE BUNDESTAG DEBATE. SCHAEFER WOULD BE PRESENT, BUT DID NOT INTEND TO SPEAK.

COMMENT

7. SCHAEUBLE'S AND TANDLER'S ASSURANCES SHOW THAT THE GOVERNMENTS IN BONN AND MUNICH ARE DETERMINED NOT TO BE BLOWN OFF COURSE BY THIS FURTHER STORM ABOUT TORNADO FOR JORDAN. THE BAVARIAN LANDESBANK IS MUCH MORE LIKELY TO HEED THE VIEWS OF THE BAVARIAN GOVERNMENT THAN THOSE OF THE OPPOSITION IN THE BUNDESTAG OR THE BAVARIAN PARLIAMENT. SO I AM REASONABLY CONFIDENT.

8. SINCE THE BUNDESTAG DEBATE WILL TAKE PLACE DURING YOUR TALKS WITH GENSCHER ON 27 JANUARY, I SUGGEST THAT YOU COULD CONFINE YOUR REMARKS TO HIM TO POINTS 7(A) AND (B) IN MY TELNO 84 AS AMENDED BY TUR. HE MAY ARGUE (DESPITE THE LIBYA/CW NONSENSE) THAT THE FEDERAL REPUBLIC, GIVEN GERMANY'S PARTICULAR HISTORY, MUST BE PARTICULARLY CAREFUL IN MATTERS LIKE THIS. YOU COULD REPLY THAT ISRAEL'S AIR SUPERIORITY WILL NOT BE AFFECTED BY THIS DEAL, AND THAT THE DEAL IS IN THE FRG'S POLITICAL AS WELL AS INDUSTRIAL INTERESTS.

MALLABY

YYYY

012134
MDHIAN 9436

CONFIDENTIAL
FM MUSCAT
TO DESKBY 230900Z FCO
TELNO 39
OF 230600Z JANUARY 89
AND TO DESKBY 230900Z MODUK

1. ~~to~~ PS/No.10
2. Back please.
RJP 23/1

We must decide very quickly, mt

SIC ACA/Z8G
MODUK FOR SIR C CHANDLER, DESO
YOUR TELNO 41: TORNADO

1. I DISCUSSED THE SITUATION AGAIN WITH BENNETT ON 18 JANUARY. I SAID THAT I THOUGHT WE SHOULD NOT ENCOURAGE THE SULTAN TO RUSH TO HIS FENCES. A NUMBER OF OPTIONS WERE BEING LOOKED AT IN LONDON. ALTHOUGH THE CAUTIOUS NOTE IN SIR G HOWE'S COMMENTS REMAINED VALID THE OMANIS SHOULD NOT WRITE OFF WHAT WE COULD DO IN ADVANCE. THEY SHOULD BE GIVEN TIME TO WEIGH UP OUR RESPONSE BEFORE LOOKING FOR ALTERNATIVE OPTIONS. IN RESPONSE TO A QUESTION I SAID THAT THE KIND OF OPTIONS UNDER EXAMINATION INCLUDED, IN ADDITION TO THE DURATION OF CREDIT, DEFERRED DELIVERY, LEASING, AND POSSIBLY ARRANGEMENTS WHICH WOULD LINK REPAYMENT TO THE PRICE OF OIL. I DID NOT, HOWEVER GO INTO ANY OF THE DETAIL IN TUR.

2. BENNETT SAID THAT HE UNDERSTOOD THAT THE SULTAN HAD TOLD A CABINET MEETING THE PREVIOUS DAY THAT, IF THE BRITISH REACTION TO THE OMANI APPROACH DID NOT GO FAR ENOUGH TO MEET OMAN'S FINANCIAL NEEDS, HE WOULD CONSIDER CHANGING OMAN'S ORDER OF PRIORITIES TO EMPHASISE EQUIPMENT FOR THE ARMY AND POSSIBLY THE HAWK (AS HUNTER REPLACEMENT) IN THE EARLY 1990S WITH AN EFA PURCHASE IN 1998 OR THEREABOUTS SUBSTITUTED FOR TORNADO. BENNETT DESCRIBED IT AS A MAJOR STEP THAT THE SULTAN SHOULD DEMONSTRATE HIS FINANCIAL REALISM IN THIS WAY ON DEFENCE MATTERS IN FRONT OF THE FULL CABINET. IT EMPHASISED THE MESSAGE THE SULTAN HAD BEEN TRYING TO GET ACROSS THAT, IN OTHER AREAS TOO, OMAN MUST CUT HER CLOTH ACCORDING TO HER SITUATION. WHEN I ARGUED THAT THIS COULD BE A RISKY STRATEGY AND THAT EFA MIGHT NOT BE AVAILABLE TO OMAN UNTIL AFTER THE TURN OF THE CENTURY, BENNETT COMMENTED THAT THIS CONTRADICTED HIS INFORMATION WHICH WAS THAT THE AIRCRAFT COULD BE AVAILABLE FOR EXPORT TO OMAN AS EARLY AS 1996.

3. BENNETT AND I AGREED THAT THE ISSUE SHOULD NOT BE RUSHED BUT

HANDLED IN A WAY LEADING NATURALLY UP TO THE PROBABLE MEETING BETWEEN THE SULTAN AND THE PRIME MINISTER IN THE SUMMER. WE ALSO AGREED THAT IT WAS IMPORTANT TO ALLOW THE NEW MILITARY STRUCTURE UNDER THE CHIEF OF STAFF TIME TO SETTLE DOWN AND DEFINE THE OVERALL PRIORITIES OF THE ARMED FORCES. HE REITERATED HIS CONCERN THAT IT WOULD BE DANGEROUS TO SQUEEZE OUT THE INTERESTS OF THE ARMY IN ORDER TO MAINTAIN TORNADO ON COURSE.

4. COMMENT. THOUGH THE ARGUMENTS ABOUT THE FINANCIAL SITUATION AND THE NEEDS OF THE ARMY ARE VALID, I AM NOT SURE THAT THEY ARE THE FULL PICTURE. THE ORIGINAL TORANDO CONTRACT WAS SIGNED BEFORE MY ARRIVAL HERE BUT I UNDERSTAND THAT BENNETT WAS LESS THAN ENTHUSIASTIC ABOUT IT. HE IS CLEARLY WORKING VERY CLOSELY WITH QAIS ZAWAWI. THE LATTER'S ECONOMIC CONCERN IS WELL FOUNDED (MY TELNO 472) THOUGH I AM LESS CLEAR THAT CREDIT TERMS AND DEBT SERVICING ARE THE REAL ISSUE. THE MAIN OBJECTIVE (FOR SOME AT LEAST) MAY BE TO CREATE A SITUATION WHERE THE TIMESCALE OF THE PURCHASE (AND ITS BUDGETARY IMPACT) ARE CHANGED: OTHERS MAY ACTIVELY HOPE THIS LEADS TO REPLACEMENT OF TORNADO WITH A DIFFERENT AIRCRAFT.

5. WE ARE NOW IN A NEW BALL GAME. THE SULTAN'S HITHERTO UNSHAKEABLE DETERMINATION TO PROCEED WITH TORANDO NOW APPEARS LESS FIRM AND THIS IS WIDELY KNOWN HERE. THE PRESSURE ON US TO MAKE AN IMPROVED OFFER IS THAT MUCH GREATER. WE SHOULD GO STEP BY STEP. THE OMANIS WILL NOW BE LOOKING FOR A FAIRLY EARLY FOLLOW UP TO THE PRIME MINISTER'S INTERIM REPLY. CLEARLY THE BETTER THE OFFER WE CAN MAKE, THE LESS LIKELY THE SULTAN IS TO BE CONVINCED THAT HE MUST LOOK AT ALTERNATIVES. WE SHOULD I BELIEVE CONSIDER INCLUDING IN THE PRIME MINISTER'S REPLY AN OFFER FOR CHANDLER TO COME TO DISCUSS IT IN DETAIL. IF THE BEST WE CAN DO DOES NOT MEET THE SULTAN'S CONCERNS WE SHOULD BE PREPARED TO LOOK CAREFULLY AT ALTERNATIVES WHICH CHANGE THE TIMESCALE AND THUS THE ECONOMIC BURDEN OF THE DEFENCE SECTOR - ESPECIALLY IF WE CAN WORK TOWARDS OTHER STILL SUBSTANTIAL BRITISH PROCUREMENT OPTIONS IN THE MEANTIME. IF THE SULTAN HIMSELF CONCLUDES THAT THIS IS WHERE HIS BEST INTERESTS LIE POLITICALLY IN TERMS OF THE BALANCE BETWEEN INTERNAL STABILITY AND EXTERNAL SECURITY IT WOULD BE RASH TO PUSH HIM TOO FAR. WE SHOULD CLEARLY GUARD AGAINST THE REEMERGENCE OF AN F16 (OR FRENCH) ALTERNATIVE. I BELIEVE THE SULTAN WILL HOWEVER STILL WANT EITHER TO STICK TO A (REVISED) TORANDO PACKAGE OR WORK OUT AN ALTERNATIVE BRITISH DEAL. THIS REMAINS OUR STRONGEST CARD.

6. BENNETT TRAVELLED TO LONDON OVER THE WEEKEND. HE IS DUE TO SEE CDS. I ALSO SUGGESTED THAT IT MIGHT BE HELPFUL AT THIS JUNCTURE FOR HIM TO CONTACT SIR C CHANDLER, TO WHOM I AM REPEATING THIS TELEGRAM. A NEW DEVELOPMENT TODAY OF POSSIBLE RELEVANCE IS THAT MUHAMMAD MOOSA HAS BEEN APPOINTED SECRETARY GENERAL OF THE DEVELOPMENT COUNCIL WITH MINISTERIAL RANK (AND ADVISER TO THE MINISTRY OF FINANCE) SEMI CLN IT IS TOO SOON TO SAY WHETHER THIS MEANS THAT HE WILL CEASE TO BE RESPONSIBLE FOR DAY TO DAY FINANCIAL MANAGEMENT.

ALSTON

YYYY

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ADDITIONAL 2

MR CHANDLER, HDES, MOD
HD/SEC (O) (C), MOD

NNNN

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TORNADO FOR JORDAN

SUMMARY

1. GERMAN FINANCIAL ARRANGEMENTS FOR THIS SALE AND PRIME MINISTER'S MESSAGE TO KOHL OF 13 OCTOBER LEAKED TO DER SPIEGEL MAGAZINE MUCH COVERAGE IN OTHER MEDIA TOO. BUNDESTAG DEBATE ON EXPORT OF TORNADO ON FRIDAY 27 JANUARY. REQUEST INSTRUCTIONS TO SPEAK TO FEDERAL MINISTER SCHAEUBLE ON 24 JANUARY.

DETAIL

2. THE WEEKLY NEWS MAGAZINE DER SPIEGEL OF 23 JANUARY CONTAINS A PHOTO OF THE TOP HALF OF THE FIRST PAGE OF THE PRIME MINISTER'S LETTER OF 13 OCTOBER TO KOHL IN THE SIGNED VERSION. THERE IS NO INDICATION OF THE SOURCE OF THE LEAK. THE TEXT OF THE ACCOMPANYING ARTICLE REPORTS MOST OF THE REMAINING TEXT OF THE LETTER IN TRANSLATION, INCLUDING THE SECOND SENTENCE OF PARAGRAPH 2, THE LAST BUT ONE SENTENCE OF PARAGRAPH 3 AND THE SECOND SENTENCE OF PARAGRAPH 4. THE ARTICLE REPORTS THAT A PRACTICAL SOLUTION CONCERNING GERMAN CREDIT HAS BEEN FOUND AND THE TORNADO DEAL WITH JORDAN SAVED. IT SAYS THAT BAVARIA, HOME OF MBB, IS BEARING THE WHOLE OF THE GERMAN SHARE OF THE COST OF CREDIT (SIC) WHIGH WAS DEMANDED BY MRS THATCHER, AND THAT, AT THE INSTIGATION OF THE NEW CSU PRIME MINISTER STREIBL, A BAVARIAN BANKING CONSORTIUM UNDER THE LEADERSHIP OF THE BAVARIAN LANDESBANK TOOK ON THE DM 370 M FINANCIAL DEAL.

3. TODAY'S SUDDEUTSCHE ZEITUNG (SZ) SAYS THAT THE BAVARIAN GOVERNMENT HAS TRIED TO PLAY DOWN BAVARIA'S ROLE. IT QUOTES THE BAVARIAN GOVERNMENT SPOKESMAN AS SAYING THAT THIS WAS A NORMAL BANK FINANCING TRANSACTION AS A RESULT OF A REQUEST OF THE BRITISH GOVERNMENT AND IN COORDINATION WITH THE FEDERAL GOVERNMENT. ACCORDING TO FDP-POLITICIAN HAMM-BRUECHER IN SZ, THE FDP KNEW

NOTHING OF ALLEGED COORDINATION WITH THE FEDERAL GOVERNMENT. SHE ASKS WHY THE PARTICIPATION OF THE BAVARIAN LANDESBANK SHOULD BE POLITICALLY LESS QUESTIONABLE THAN THAT OF THE FEDERALLY OWNED KREDITANSTALT FUR WIEDERAUFBAU (KFW), WHICH WAS FORCED TO WITHDRAW LATE LAST YEAR.

4. THE SPD HAVE SECURED A DEBATE ON TORNADO FOR JORDAN IN THE BUNDESTAG ON 27 JANUARY, IE DURING YOUR VISIT TO BONN. THE DEBATE IS LIKELY TO BE MAINLY ABOUT WHETHER A BANK UNDER THE CONTROL OF THE BAVARIAN GOVERNMENT SHOULD FINANCE THE SALE.

5. LAMSDORFF, LEADER OF THE FDP, WAS LUNCHING WITH ME TODAY. I MADE WITH EMPHASIS THE POLITICAL AND SECURITY CASE FOR SELLING TORNADO TO JORDAN AND THE CASE FOR THE FRG PLAYING ITS PART IN THE CREDIT ARRANGEMENTS. LAMBSDORFF SAID THAT THE FRG COULD NOT STOP THE UK SELLING TORNADO TO JORDAN AND, ALTHOUGH HE REGRETTED THE INVOLVEMENT OF THE BAVARIAN LANDESBANK, THE BUNDESTAG DEBATE ON 27 JANUARY WOULD NOT STOP THAT EITHER.

COMMENT.

6. LAMBSDORFF'S REMARKS ARE REASSURING SO FAR AS THEY GO. BUT I STILL SEE A RISK THAT THE GERMAN FINANCIAL ARRANGEMENTS FOR THIS SALE COULD COLLAPSE UNDER FIRE FROM THE FDP AND THE OPPOSITION SPD, AS WELL AS HOSTILE MEDIA COMMENT. THE FURORE OVER THE COMPLETELY DIFFERENT MATTER OF GERMAN SUPPLIES FOR THE LIBYAN CHEMICAL FACTORY HAS RAISED THE TEMPERATURE ON ARMS SALES QUESTIONS AND COULD WORK, HOWEVER ILLOGICALLY, AGAINST CREDIT FOR THE TORNADO SALE. SPIEGEL'S ARTICLE WILL ALSO BRING OUT INTO THE OPEN THE QUESTION OF FUNDING FUTURE EXPORTS OF COLLABORATIVELY PRODUCED MILITARY EQUIPMENT - THE MAIN SUBJECT OF THE PRIME MINISTER'S LETTER OF 13 OCTOBER.

7. I THEREFORE RECOMMEND THAT I BE INSTRUCTED TO SEE SCHAEUBLE, THE CABINET MINISTER MOST CLOSELY INVOLVED WITH THIS SUBJECT, ON 24 JANUARY, TO MAKE THE FOLLOWING POINTS:

(A) IMPERATIVE FOR SALE OF TORNADO TO JORDAN AND FOR FUTURE OF ANGLO-GERMAN COLLABORATION IN ARMAMENTS PRODUCTION THAT THE FINANCIAL ARRANGEMENTS FOR THIS SALE SHOULD STAND, FOR REASONS SET OUT IN PRIME MINISTER'S LETTERS OF 13 AND 29 OCTOBER TO KOHL.

(B) KOHL TOLD THE PRIME MINISTER ON 2 DECEMBER THAT SHE COULD TELL KING HUSSEIN THAT ALL WAS WELL ON THE TORNADO DEAL: THE PRIME MINISTER TOLD KING HUSSEIN ON 5 DECEMBER.

(C) IT HAS TAKEN MONTHS FOR GERMAN BANKS AND INDUSTRY TO REACH AGREEMENT ON CREDIT, SO THAT CONTRACT NEGOTIATIONS WITH JORDAN COULD RESUME. THESE START AGAIN THIS WEEK, 8 WEEKS AFTER KOHL'S ASSURANCE TO THE PRIME MINISTER, AND MUST NOT BE DELAYED AGAIN.

(D) ANY COMPARISON WITH THE CHEMICAL WEAPONS PLANT IN LIBYA IS ABSURD (A POINT I ALSO MADE TO LAMBSDORFF).

8. I SHOULD BE GRATEFUL FOR INSTRUCTIONS BY 240900Z IF POSSIBLE. AFTER TAKING ACTION, I SHALL PROPOSE A LINE FOR YOU TO TAKE WITH GENSCHER ON 27 JANUARY. IT LOOKS AS THOUGH HE DOES NOT PLAN TO BE AT THE BUNDESTAG DEBATE ON THIS SUBJECT, WHICH IS LIKELY TO START AFTER 11.45 WHEN HE IS DUE ON PRESENT PLANS TO START HIS TALKS WITH YOU.

MALLABY

YYYY

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PS/NO10 DOWNING ST
CABINET OFFICE
DES(O), MOD
SEC(O)(C), MOD

NNNN

CDP 23/1

Foreign and Commonwealth Office

London SW1A 2AH

23 January 1989

Dear Charles,

Turkey: Call by the Turkish Defence Minister, Mr Vurulhan

Steve McCarthy is writing to you recommending that the Prime Minister should receive the Turkish Defence Minister, Mr Vurulhan, following his meeting with Mr Younger on 25 January. We understand that Mr Vurulhan has a personal message to the Prime Minister from the Turkish Prime Minister, Mr Özal, about the award of an £80 million contract to Marconi for the supply of high frequency single side band radios to the Turkish Armed Forces. On Mr Ozal's instructions, Mr Vurulhan would also raise orally one or two other points of a wider political nature, going beyond just defence.

Although we are unaware exactly what the letter contains, Mr Daunt in Ankara has suggested that the award of the contract to Marconi may be presented as part of a bigger defence package. Clearly the Prime Minister would not be expected to comment on any new financial proposals which would first have to be studied closely by the departments concerned. But Mr Daunt believes that the Prime Minister's influence is crucial and that if she receives Mr Vurulhan, then this would probably clinch the deal for Marconi.

In the circumstances, with such a large contract at stake, the Foreign Secretary supports the Defence Secretary's recommendation that the Prime Minister should receive Mr Vurulhan on 25 January.

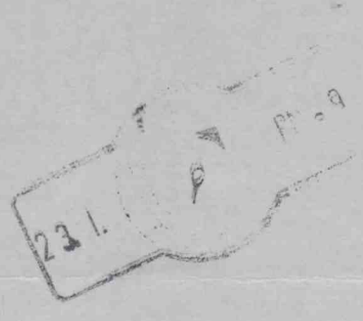
I am copying this letter to Steve McCarthy in the MOD and Carys Evans in the Chancellor's Office.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street



010

BRITISH AIRWAYS

Enserch House
8 St. James's Square
London SW1Y 4JU

Telephone: 01-930 4915
Telegrams: Britishair

23rd January 1989

CDP 23/1

C D Powell Esq
10 Downing Street
London S W 1.

Dear Mr Powell

It was kind of you to take the time to see Sir Frank Kennedy and myself this morning. I apologise again for having got off on the wrong foot. There is no lack of appreciation for the support we have had from the Prime Minister and Mr Channon over these negotiations and I was grateful to hear what you said.

We for our part will endeavour, if we can, to resolve our differences with the Malaysian side though, as I said, as things were left last week it did not look particularly promising.

Yours sincerely

Robert Ayling

British Airways Plc,
Registered office:
Speedbird House,
Heathrow Airport (London)
Hounslow TW6 2JA,
Registered in England No. 1777777.

PERSONAL

Sir Colin M Chandler
Head of Defence Export Services

Defence Export
Services Organisation

Ministry of Defence
Main Building
Whitehall
London SW1A 2HB
Facsimile 01-218 7082
Telex 22241
Telephone 01-218 3042

20 January

Dear Charles,

You may have heard that the Turkish Defence Minister, Mr Varulhan, is paying a brief visit here, at very short notice, on Wednesday next, 25 Jan.

My Secretary of State will be meeting him of course but we hear from other sources that a courtesy call on the Prime Minister would greatly assist defence sales prospects in Turkey. I do believe that this need be no more than a courtesy call - the Ministry will take care of the defence and defence sales issues.

Unfortunately, we have been unable to persuade the FCO to agree to support the idea of a courtesy call. Hence this unconventional approach to you, for which I apologise.

Yours ever

Colin

PERSONAL

~~Prime~~ Minister

We could fit him in early on Wednesday 25 January, if you would like. Agree?

CDP

[You met him in Turkey].

CHARLES

Alan Curtis and Steve Tipping (who have regular business dinners with D.T. at the Savoy) asked for this letter to go to you direct from Sir Colin Chandler. It was sent round by hand.

Joy

JOY

20.1.89

CF

no doubt

Yes mt

0930 on 25 January.

CDP

cc PS (2)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

Prime Minister

You may wish to see. British Airways have asked to come to see me ~~tomorrow~~ 19 JAN 1989 on afternoon Monday morning. CDP 19/1

Charles Powell Esq
Private Secretary
10 Downing Street
LONDON
SW1A OAA

Dear Charles

UK/MALAYSIA AIR SERVICES

Thank you for your letter of 18 January reporting your discussion with Datuk Arumugam. As you know, he had also come to see one of our officials that afternoon and had told much the same story.

However, in the afternoon he spoke to us as if his negotiations with BA had broken down. As you predict in your letter and from what we have heard from BA, he did in fact see Bob Ayling of BA last night and discussions have continued today.

BA have been keeping us very fully informed of developments and Sir Colin Marshall has written to my Secretary of State this week on this question. My Secretary of State has replied today reporting on this Department's contacts with Datuk Arumugam. He has, as the Prime Minister wished, urged BA strongly to reach a very early resolution. I attach a copy of my Secretary of State's letter to Sir Colin.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Carys Evans (Chief Secretary's Office), and to Sir Robin Butler.

Yours ever
Roy

R J GRIFFINS
Private Secretary

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

Sir Colin Marshall
Chief Executive
British Airways plc
PO Box 10
Heathrow Airport (London)
Hounslow
TW6 2JA

Dear Colin,

19 JAN 1989

UK/MALAYSIA AIR SERVICES

Thank you for your letter of 16 January. It was most timely to get your report on your negotiations on the UK/Malaysian air services question.

I understand that the intermediary you mention is Dr Arumugam, who is well know to us and will certainly be acting on behalf of Dr Mahathir. Dr Arumugan came in to see one of my officials yesterday on this subject. He is concerned about the way things have developed. His view is of course a partial one, but he claims that his discussions with your people were going well, but have now broken down. He is concerned about the effect that this may have on the UK's relations with Malaysia generally, but particularly on the defence and civil projects which are in the offing. He stressed that the main remaining difficulty concerns the arrangements necessary to bring MAS's seventh service on line. He said he had been told by Dr Mahathir that he was to negotiate a resolution of this problem and still stands ready to continue his discussions with your people. He is planning to return to Kuala Lumpur tonight or tomorrow night.

He was told by my official that you have been keeping me informed on progress and that, as you state in your letter to me, BA remains willing to continue discussions. I understand that since yesterday afternoon, negotiations between BA and Dr Arumugam have resumed.

I fully appreciate the efforts you have been making to resolve this matter, but I must stress again that while we continue to resist a direct link between the extra MAS services and the defence and civil projects, we have to recognise the importance to British industry of these projects. I therefore urge you strongly to bring your negotiations to a very early resolution. I assure you that the Prime Minister feels the same way.

Yours ever,

PAUL CHANNON

Paul

DEFENCE: Sales PT11

CONFIDENTIAL

(2)

Prime Minister
You may like
to see.
CDP 18/1

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 January 1989

Thank you - I hope agreement will be reached soon

MALAYSIA: AIR SERVICES

Datuk Arumugam, the Malaysian Prime Minister's intermediary, came to see me this evening. He raised a number of matters, but his main concern was the deadlock reached in discussions between British Airways and MAS over further frequencies for MAS to the United Kingdom.

I will not go over all the ground, which will be familiar to you. Arumugam claimed that he had reached agreement in principle with Lord King before Christmas on the outline of a solution, but this was now being unpicked. Even so, the differences between the two sides were not very great, focussing on the passenger load factor which would have to be reached in order to trigger MAS' seventh frequency, and the period over which that would be measured. The latter was easily soluble, so it was really only the passenger load factor which was at stake. However, the time given to him by Dr Mahathir to reach a solution had expired, and he was fearful of reactions in Malaysia if agreement was not reached very rapidly. Negotiations on all the defence contracts were in suspense, and the future of some of them was at stake. He had been fearful that there would have been some unhelpful announcement following the Malaysian Cabinet meeting planned for today, but fortunately it had been cancelled because of Dr Mahathir's illness. He knew that we did not see any direct linkage between air services and defence contracts, but that was not how it was seen in Malaysia.

Arumugam continued that he was seeing Mr Ayling of British Airways tomorrow, but had been told this would not be a negotiating meeting, indeed that the British Airways last offer was not negotiable. The Malaysian side had cancelled the airline to airline talks planned for 26 January. Matters had reached an impasse. (He did not mention any meeting between Lord King and the Chairman of MAS tomorrow, although he had plenty of opportunity to do so. Presumably he either does not know of it or assumes it will not take place. I did not mention it.)

CONFIDENTIAL

I made the usual points that we could not accept that defence contracts should be linked in this way to air services and that British Airways were not subject to instruction by the Government. Arumugam waved these points away. Of course they represented the formal position. The reality was that the United Kingdom wanted and needed the very large defence contracts which were at stake. The Malaysians were seeking only a very minor concession in return. It was inconceivable that a deal could not be struck. I suggested that the Malaysians seemed to have got most of what they wanted anyway. Why try to extract the final drop? Arumugam was adamant that they had to have just a bit more.

I have informed the Prime Minister of the situation as described by Arumugam. She has also seen the Defence Secretary's letter of 16 January to your Secretary of State. She finds the Malaysian tactics distasteful and sees the risk that they may be repeated in future if successful this time. On the other hand, the amount of business for United Kingdom companies which appears to be at stake is very substantial indeed, and the remaining differences between British Airways and MAS seem very narrow. The Prime Minister thinks therefore that, unless he sees any strong reason against doing so, the Transport Secretary should intervene early tomorrow with the senior management of British Airways to urge them strongly, in her name as well as his own, to reach a very early resolution.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Carys Evans (Chief Secretary's Office), and to Sir Robin Butler.

CHARLES POWELL

Roy Griffins Esq
Department of Transport

(4)

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

Rec Minister
I fear Arnold will not be pleased.
CDP 17/1

MO 26/5/1L

16th January 1989

Were CHC not given a chance to tender? Or not

Dear Charles,

ANTI RADAR DRONE(ARD)

flap PTO

You may recall the correspondence last Summer between Lord Weinstock and the Prime Minister on the subject of the Anti-Radar Drone, which rests with Lord Weinstock's letter of 3rd June 1988. At the time of the correspondence the UK had no agreed requirement for an ARD but Lord Weinstock was seeking to stimulate Anglo-German collaboration in an ARD programme. He hoped to influence German decisions in favour of a MBB/Marconi Defence Systems (MDS) solution over the Dornier/Texas Instruments proposals to meet the German requirement. The Prime Minister replied that if we decided to have an ARD we were likely to buy off-the-shelf. Consequently there was a limit to what we could do to influence a German programme. You may find it helpful to have a short note on the present state of the programme.

The UK requirement for an ARD was approved in October 1988. Lord Trefgarne wrote to his German colleague telling him of the UK requirement and saying that we should wish to purchase the German ARD provided that it met our requirements (both operationally and financially). UK officials subsequently visited FRG in November for briefings on the German programme. They were told that:

a. the German requirement had been approved and the development programme should start in January 1989;

b. Dornier had been selected as the Prime Contractor for the German programme;

c. the German requirement now matched the UK requirement in all important respects. Both German officials and Dornier were determined that the system would be developed to meet the German requirement, although Germany itself required more information on the capability of the Texas seeker. The development programme will be fully open to the UK so that we might be satisfied that the developed ARD will meet the UK operational requirement.

Charles Powell Esq
10 Downing Street

Officials here have reported all this to Marconi Defence Systems, pointing out that HMG cannot involve itself in FRG commercial and technical judgements, and that whilst there is scope for MDS to compete as sub-contractors to Dornier, any such involvement of MDS (or any other UK contractor) must be a matter for Dornier's judgement.

Discussions among officials are continuing and I will keep you aware of any substantial developments.

Yours sincerely,

John Colston

(J P COLSTON)
Private Secretary

DEFENCE: Sales PTI

PM 9
17.1.



010,

(2) CCPC

MO 6/19/7L **MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB** 16th January 1989

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

Prime Minister
CDC 17/1

Dear Paul,

MALAYSIA

WILL REQUEST IF REQUIRED

Thank you for your letter dated 24th November 1988. I am grateful for your assurances that British Airways is seeking to resolve the issue of increased air traffic frequencies for Malaysian Airlines into London through the medium of negotiations.

I was assured by a representative of the Malaysian Prime Minister, at a meeting just before Christmas, that Dr Mahathir does not want there to be seen to be a formal link between progress under the Defence Package and the question of more frequencies for their Airline. Dr Mahathir nevertheless does have to satisfy political and public opinion in Malaysia that in return for giving Britain a virtual monopoly over their defence procurement some concessions have been gained from us. The resulting paradox is that there is linkage between the two issues in Malaysia but not necessarily in this country.

Bearing in mind the importance to British industry of both the defence package and the civil projects which are near to resolution I hope you will agree that it is essential that British Airways should resolve their negotiations with the Malaysians without delay, and in a manner which will enable us all to move ahead with our various

The Rt Hon Paul Channon MP

projects. I am sure that colleagues would join me in asking you to represent this view to the senior management of British Airways.

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

Yours ever,
George.

George Younger

CONFIDENTIAL: SENIOR STAFF IN CONFIDENCE

EL3DFS

SUBJECT cc Master

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 January 1989

HEAD OF DEFENCE SALES

The Prime Minister had a meeting this evening with Mr. Alan Thomas, the new Head of Defence Sales. It went very well and the Prime Minister is pleased with his appointment.

The Prime Minister began by saying that she was very glad that Mr. Thomas would be joining MOD. The post of Head of Defence Sales was a crucial one. We needed all the arms exports we could get. It was also a very demanding job. It was vitally important to handle our major customers, above all the Saudis, with great skill. She could not emphasise too much the importance of the Al Yamamah project. She was always ready to support the efforts of Defence Sales in contacts at Head of Government level. This could often play a helpful part and she relied on the Head of Defence Sales to advise her when her intervention would be most valuable. There were a number of markets in which she would like to see us do better, for instance Australia. She did not believe in selling countries weapon systems which they could not afford. Equally we had to be flexible and inventive when it came to devising methods of financing major sales, and in the provision of training and other support.

The Prime Minister said that she understood Mr. Thomas would start in about June and work for a while in double harness with Sir Colin Chandler until the second phase of the Al Yamamah project was well launched. This might take until about September. Mr. Thomas confirmed that this was acceptable to him, although he was anxious to start getting himself briefed as rapidly as possible.

The Prime Minister said that she would be seeing Prince Bandar on 13 January and would commend Mr. Thomas to him. It might be useful if they were to meet during Prince Bandar's next visit to the United Kingdom.

(CHARLES POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

CONFIDENTIAL: SENIOR STAFF IN CONFIDENCE

SW2AQB

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PRIME MINISTER

Temporarily retained. D Wayland. 31/8/17

MEETING WITH NEW HEAD OF DEFENCE SALES

You are to see Mr. Alan Thomas the new Head of Defence Sales on Tuesday afternoon. The purpose of the meeting is to reassure Mr. Thomas that the decision to ask Sir Colin Chandler to continue until the late summer, and to delay announcing his own appointment, does not reflect any lack of confidence in him or intention not to proceed with his appointment.

You will recall the background. Sir Colin Chandler was due to leave last year but agreed to stay on until the end of March. The Defence Secretary selected Mr. Thomas as his successor and you approved his choice. However, concern was expressed by the Saudis about a change in the management of the Al Yamamah project at this stage. It has been agreed, therefore, that Chandler will stay on for several more months, probably until September, with Mr. Thomas beginning to assume some of his other duties in the summer.

You will want to emphasise to Mr. Thomas the high importance of his post both in political terms and in relation to our overall export performance. The Saudi relationship is the most important of all and will require him to build up good working contacts with them as quickly as possible. Mr. Thomas will have your full support in this.

A fuller note by the Ministry of Defence is in the folder.

C.D.P.

(C. D. POWELL)
6 January 1989

CONFIDENTIAL AND PERSONAL

cc RAP

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

MO 32/8L

6th January 1989

CDP 9/1

Dear Charles

DEFENCE SALES

Thank you for your letter of 20th December. As requested, I attach a brief for the Prime Minister to use when Mr Thomas calls on her on 10th January.

Yours sincerely
Brian Hawtin

(B R HAWTIN)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL AND PERSONAL

AIM OF THE MEETING

1.

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Temporarily retained, C Wayland, 31/8/17

POINTS TO MAKE

2. Unfortunate that announcement of appointment has had to be delayed. Thomas aware of the background, which emphasises the particular sensitivity of the HDES post, the high-level political dimension of the arms sales business, and the importance of maintaining the best of relations with customers. Hope an announcment will be possible soon.

3. The UK has a strong record on defence sales and the Government attaches great important to maintaining our presence in this market. After the US, the UK is the most important seller of defence equipment (annual sales of £3.5bn at present). Al Yamamah, worth potentially £20bn, very important; Malaysian package, worth £1.5bn, also major achievement. Vital that we ensure these and other existing projects continue to go well.

4. Important also to move into new markets. DESO operates essentially in support of industry but inevitable that Thomas will be involved directly in negotiating some sales which have to be made on a Government to Government basis. This involves contacts at the highest levels. Thomas should be aware that he will have strong political support for all the activities of DESO.

5. Important for Thomas that customers should be in no doubt that he is working 100% for the UK in his new appointment, without any strings leading back to US-owned parent company Raytheon.

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BACKGROUND

Temporarily retained, CD Wayland, 31/8/17

Mr Alan Thomas has been appointed the successor to Sir Colin Chandler as Head of Defence Export Services. A CV is attached.

2. After first intending to give up the post in the course of 1988, Sir Colin Chandler had proposed to relinquish the HDES post at the end of March 1989, and it had been hoped to announce Mr Thomas as his successor last month. Action was in hand to prepare our major customers for the announcement, including arrangements for Sir Colin Chandler to stay on for a period to oversee an important phase of the development of Al Yamamah II, but (possibly owing to some meddling by British Aerospace) this action was overtaken

The situation is complicated by Sir Colin Chandler's own present relationship with British Aerospace his parent company who he feels are unlikely to offer him an appropriate post on his return.

3. Mr Thomas is generally aware of, and understands, the reasons why the announcement of his appointment was not made last month. However, it is important to Raytheon that an announcement is not long delayed because of their need to find a successor to

homas. At present, it is envisaged that Mr Thomas might begin the handover from Sir Colin Chandler in the Summer, with Sir Colin remaining in post until September to see through the next stage of Al Yamamah II.

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Temporarily retained, CWayland, 31/8/17

Alan Thomas is 45. He was educated at a South Wales Grammar School, took an engineering degree at Nottingham University and worked for a merchant bank before qualifying as an accountant.

In 1973 he led a management buy-out of Data Logic Ltd, a computer software company, which was acquired by the Raytheon Company in 1977. In 1985 he was appointed Vice-President, Raytheon Company and President and Chief Executive of Raytheon Europe, where he has responsibility for Cossor Electronics Ltd, Data Logic Ltd, Sterling Greengate Cables Ltd and Electrical Installations Ltd, all in the UK, Lacroix & Kress GmbH and Company in West Germany and TAG Semiconductors Ltd in Switzerland.

Mr. Thomas was President of the Computing Services Association in 1980 and a visiting professor at the Polytechnic of Central London from 1981-3. He is a Chartered Engineer, and a Fellow and prize-winner of the Chartered Institute of Management Accountants.



CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 December 1988

Dear Brian,

OMAN: TORNADO

Thank you for your letter of 22 December reporting on the work which has been done in response to the Sultan of Oman's request for help on the financing of the Tornado contract. I have shown this to the Prime Minister who hopes that we shall be in a position to give the Sultan a definitive reply fairly soon. She has not objected to the proposed line for the Foreign Secretary to take during his own discussions with the Sultan in Oman on 6-7 January.

The Prime Minister has noted that the option of delaying supply of Tornado to Oman, with the RAF taking the aircraft at present earmarked for the Omanis, is not being persued very vigorously; and that one reason for this is the fact that the price to the Omanis may rise as a result of the delay. She has commented that this does not say much for BAe. We do everything we can to help them sell their aircraft but do not get much co-operation back in return. You will wish to consider whether this point should be conveyed, in bowdlerized form, to BAe.

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

Yours ever,

C. D. POWELL

Brian Hawtin, Esq.,
Ministry of Defence

CONFIDENTIAL

CCDC 1

Prime Minister
This records the point reached in considering the Sultan's requests. We can help a bit, but nothing like as much as he wants. Agree the proposed line for Foreign Secretary at X?

SECRETARY OF STATE

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

MO 6/17/6E

22 December 1988

Dear Charles,

OMAN: TORNADOS

In your letter of 24th November to Bob Peirce, following the Prime Minister's meeting with the Deputy Prime Minister of Oman, you asked that we should look at how we might be able to help on the financing of the Tornado contract. You will wish to know where matters stand.

We have been able, with ECGD, to take a detailed look at the implications of the Omani request, their likely cost and at what their options may require. Work is continuing on all of this and we intend to bring this subject to the ECGD Committee early in the New Year. I attach an interim Report; as you will see, none of the options identified so far will be either cheap or go all the way to meet the Omani's request and it will be some time before we can provide a definitive response.

On the immediate way ahead, the Foreign and Commonwealth Secretary is visiting Oman on 6th/7th January with affords an opportunity to take matters forward. Following discussions between MOD and FCO officials we suggest that he should take the following line:

- A number of options have been identified which are being evaluated carefully to ensure that they will meet the Omani requirements. But at this stage, we think it may be possible to agree to some addition to the credit period;

- We are looking at ways of arranging financing for the German and Italian elements;

- Interest rates are a more difficult matter, but we are also looking at ways in which we might help.

- This work is being carried out as quickly as possible and the Prime Minister will be writing to the Sultan as soon as we have firm and substantive proposals.

Charles Powell Esq
No 10 Downing Street

I am copying this letter, and attachment, to Stephen Wall (FCO), Alex Allan (HM Treasury), Neil Thornton (DTI) and to Trevor Woolley (Cabinet Office).

Yours sincerely

Brian Hawtin

(B R HAWTIN)
Private Secretary

19 December 1988

OMAN

TORNADO

1. In December 1987 Oman signed a revised contract with BAe for the supply of 8x Tornados. The total value of the contract is £350M. Aircraft delivery is in 1992.

2. A rescheduled loan for 85% of the UK element was signed in July 1988. The loan was for £229.5M, payable over 8.5 years in 17 half-yearly instalments of £13.5M from March 1993 and interest @ 8.75%. Support was offered by ECGD for 10 years post delivery credit and for the German and Italian workshare (guarantee support only, no interest make-up ("IMU")) but was declined by Oman because of a reluctance to pick up the ECGD premium cost. The accepted terms give ECGD a country risk on Oman ("DML") of £378M and are likely to require IMU of some £30M, in present value terms and assuming future interest rates at 10.27%.

3. The recent fall in the value of the US$ (to which the Omani Riyal is pegged) and the price of oil, has led Oman to revise their cash flow forecasts and budgeted income based on a reduction in oil revenues from $15 p.b. to $12 p.b. Oman has also become increasingly concerned by the unbalancing effect that Tornado has on its defence spending. It has to absorb the operating costs of the aircraft, which BAe estimate will be in the region of £10M p.a.(based on a 5 year period). This figure covers spares, repairs and fuel. It assumes all expendable/consumables will come from the initial 2 years spares package included in the contract.

4. Oman has therefore requested revised financial terms for the existing financing of the UK work share:-

Period: 15 years from 1992

Rate of Interest: 6% per annum

as well as finance for the German and Italian work shares. We are led to believe that payment of additional ECGD premium is not now a problem.

5. The following are the financial consequences for the UK of meeting either request in respect of the UK work share only:

a. Extending EGCD cover from 8.5 years to 15 would result in an increase of £72M in ECGD's DML from £378M to £450M (the extra interest burden for the extended credit period) and a likely increase in IMU of £12M from £30M to £42M.

b. Reduction of the rate of interest from 8.75% to 6% would result in a decrease of £44M in ECGD's DML from £378M to £334M (the reduced interest burden for the lower interest rate) and a likely increase in IMU of £23M

from £30M to £53M.

6. Any loan agreed on the terms requested by Oman would go far beyond what is usual for arms purchases. It would not therefore seem realistic to pursue the proposals as presented. We can attempt to meet Oman part way, but there will inevitably be penalties. Notwithstanding the IMU and/or DML consequences, any reduction in the interest below 8.75% or increase in final loan maturity beyond 11.5 years from delivery of the aircraft could bring us into conflict with Jordan on the financing of their Tornados. Thus we cannot go too far in meeting the Oman request without causing other major problems.

7. Although Oman is not too difficult in terms of ECGD providing extra cover, the IMU cost of meeting the terms requested by Oman could be very expensive, and therefore probably unacceptable. However, some less expensive variations on the Oman proposals might be saleable:-

a. The IMU cost of any meaningful reduction in interest rate through official intervention would seem to be prohibitively expensive and not in any event critical to solving Oman's difficulties which are primarily cash flow related. On the repayment period issue, ECGD advise that, provided Oman are now prepared to pay their premium, they do not see any difficulty in extending the credit period to 10 years. This would give ECGD an extra £15M DML exposure and £1.2M in IMU.

b. To incorporate the German and Italian elements in the UK loan, even on the existing terms, would be prohibitively expensive. To arrange some financing with ECGD guarantees but no IMU might prove acceptable.

c. It may be possible to swap the existing Sterling loan into US Dollars - thus potentially easing the rate of interest and enabling the repayments to be made in the currency to which the Omani Riyal is pegged and in which oil sales are denominated.

d. Restructuring the existing, or any renegotiated, loan on to an annuity repayment basis would flatten out early repayments but at a cost to IMU and DML.

e. Loan repayments could be linked to the oil price - i.e. lower oil price = longer to pay, higher oil price = less time to pay.

8. Each of the foregoing options needs detailed evaluation to determine the realism and the extent to which it would meet Oman's objectives in re-scheduling payments. A combination of some options may be practicable. Discussions have been initiated with ECGD and we are hopeful of being able to put together a package for consideration by the Export Guarantees Committee which will help Oman in its present difficult position whilst minimising the cost of so doing. Options d. and e. at para 7, in particular, are novel and would need very careful examination.

9. In putting together a package to save the deal we also need to establish what contribution BAe might make. In addition, we would also have to determine to what extent BAe and the banks would be willing to participate.

10. In the course of her conversation with Qais Zawawi, the PM volunteered that the RAF might take on the aircraft earmarked for Oman, thereby allowing Oman to defer their payments beyond 1992/93. This may be possible, though unhelpful in terms of our own financial planning. But

Oman were in turn to take over the currently scheduled RAF slots, it would defer delivery only by some 8 or 9 months. To defer delivery might also put their aircraft into a different batch with a likely increase in price. This course may however just postpone the day of reckoning.

11. If we cannot make a positive response to Oman the possibility has to be addressed that the contract may founder. This could affect our chances of selling Tornado elsewhere in the Gulf. There would also be some cancellation costs that would fall to Oman. Under the terms of the contract these are likely to be limited to irrecoverable costs to date-subject to negotiation. (The payment plan to 1.1.89 requires total payments of £75M). We would in any case do what we could to alleviate the penalties.



CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 December 1988

DEFENCE SALES

The Prime Minister will see the new Head of Defence Sales, Mr. Thomas, at 1745 on Tuesday 10 January. It will be helpful to have a short note of points which she might discuss with him.

C. D. Powell

Brian Hawtin, Esq.,
Ministry of Defence.

CONFIDENTIAL

CDP

Mrs gm. 1745 on Tues. 10 Jan

TG. 20/12

MRS. GAISMAN

The Prime Minister has agreed to see the new Head of Defence Sales in the Ministry of Defence some time in January. He is Mr. Thomas. Could you please contact the MOD Private Office to propose a date for him.

CDP

CDP

19.12.88

CONFIDENTIAL AND PERSONAL

File SM

CCPL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 December 1988

Dear Brian,

DEFENCE SALES

When the Defence Secretary came to see the Prime Minister on another matter this afternoon he took the opportunity to inform her of the position on the handover of responsibilities between Sir Colin Chandler and Mr. Thomas as Head of Defence Sales. Sir Colin Chandler had agreed to stay on until September, principally to supervise the implementation of the Al-Yamamah project. Mr. Thomas would take up his new post rather later than originally envisaged and would work in harness with Sir Colin for a period. Prince Bandar would visit London in January and request a meeting with the Prime Minister, at which this subject was likely to come up. The Defence Secretary added that it would be very helpful if the Prime Minister could find time to see Mr. Thomas early in the New Year.

The Prime Minister expressed satisfaction at this outcome and said that she would certainly see Mr. Thomas early in the New Year. I will arrange for our Diary Secretary to be in touch with your office to discuss dates.

yours sincerely,

Charles Powell

C. D. POWELL

Brian Hawtin, Esq.,
Ministry of Defence

SM

CONFIDENTIAL AND PERSONAL

cc/c

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

From The Minister of State

14 December 1988

CBD 15/xii

Dear Minister,

Thank you for your letter of 30 November in which you proposed the revision of Government guidelines on defence sales to Iran and Iraq. Officials from our departments have been considering this subject since July and have, I believe, been able to achieve a more flexible interpretation of the guidelines. I have to say that I believe that continuing uncertainty about the prospects for an early peace settlement will require us to adopt a more cautious approach than the one you propose. Rather than discuss this in further correspondence, I suggest that you, David Trefgarne and I meet in the near future to discuss all the implications arising from the Gulf ceasefire. Officials should prepare our meeting in advance.

I am coppying this letter to the Prime Minister and to David Trefgarne.

Yours faithfully,

Julian Evans

pp The Hon William Waldegrave MP
(dictated by Mr Waldegrave,
signed in his absence)

The Hon Alan Clark MP
Minister for Trade
Department of Trade & Industry
1 Victoria Street
London SW1

CONFIDENTIAL

DEFENCE

Sales pt 11



CONFIDENTIAL + PERSONAL

file DS2AM9
bc: PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 December 1988

Dear Brian,

SAUDI ARABIA: AL YAMAMAH

Thank you for your letter of 13 December about arrangements for the supervision of the Al Yamamah project. The Prime Minister discussed this with the Defence Secretary in the House last night. She is concerned that the Ministry of Defence is being far too casual about the Al Yamamah project, which she sees as vital not just to our defence industry but to our trading and economic position more widely. She would hope very much that Sir Colin would see the second phase of the project formally launched and the main contracts signed. It would not be a question of his being "available to help", but remaining in charge of this aspect of defence sales until it is irrevocably on course. The Prime Minister has added that she is amazed that this aspect does not seem to have been properly considered at a time when Sir Colin's replacement was decided.

Meanwhile, the Prime Minister says that she does not agree to an announcement being made on Thursday of Mr Thomas's appointment. That must wait until the matter of Sir Colin's future supervision of the Al Yamamah project is satisfactorily settled.

You will no doubt be contacting Sir Colin in Washington. I should be grateful if you could let me know the situation as it stands by the end of today.

Yours ever,

Charles Powell

C. D. POWELL

Brian Hawtin, Esq.
Ministry of Defence

CONFIDENTIAL + PERSONAL

CONFIDENTIAL AND PERSONAL

Prime Minister
This is beginning to look better.
CDP 14/xii

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

SECRETARY OF STATE

MO 6/17/5V

Thank letter
MT

14 December 1988

Dear Charles,

SAUDI ARABIA : AL YAMAMAH

Thank you for your letter of 14th December.

The Defence Secretary attaches the very greatest importance to ensuring that the Al Yamamah project is safeguarded, for the very reasons to which the Prime Minister has drawn attention; and to making sure that arrangements which satisfy Saudi concerns on that score are agreed. The need to do this was, and remains, a key consideration in our preparations for Sir Colin Chandler's replacement. We had already discussed with Sir Colin how best to proceed and we had anticipated the probable need for him to stay on for a period to handle Al Yamamah business. Sir Colin's planned meeting with the Saudis, in January, was seen as the occasion for reviewing the state of play on the project and for determining, in the light of that, the period and arrangements for his continuing involvement.

At yesterday's meeting, Prince Bandar made it clear that he, and his father, would want to see the first contracts launched for Al Yamamah II before Sir Colin relinquished his responsibilities. Prince Bandar will be visiting the UK on 13th/15th January and would, we understand, like then to consider with the Prime Minister and Mr Younger what would be a sensible timescale for Sir Colin to retain his association with the project. We believe that September is the kind of timescale that the Saudis have in mind and which could prove sensible.

We do not think, in practice, that it will be necessary to wait until January before we can confirm that we can meet Saudi concerns. We shall be pursuing the way ahead with Sir Colin urgently as soon as he returns to his office tomorrow morning. We are hopeful, however, that we shall be able to reach a mutually satisfactory arrangement under which he would stay on for a further 6 months, after Mr Thomas's appointment, with sole responsibility for Al Yamamah. I will write to you again as soon as possible about this and the way ahead. In the meantime, we will be making no announcement of Mr Thomas's appointment.

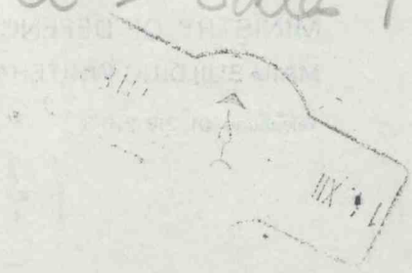
Yours sincerely
Brian Hawtin

(B R HAWTIN)
Private Secretary

Charles Powell Esq
No 10 Downing Street

CONFIDENTIAL AND PERSONAL

DEFENCE – Sale Pt. II



CCFC

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

The Rt Hon George Younger MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON
SW1A 2AS

CBF 15/m

Dear George.

13 DEC 1988

MALAYSIA

Thank you for your letter of ~~24~~ for November.

I well understand the concern you have about securing business under the defence MOU with the Malaysians whilst air services remain unresolved. We all want to see an early resolution of the air services issues but equally I am sure that we must continue to resist any linkage between air services and contracts to be placed under MOU.

I am therefore pleased that a firm message has been passed to the Malaysian authorities proposing that both Governments urge their respective airlines to meet again as soon as possible in a further attempt to find a commercial solution to the problem and to agree a package that they can recommend to governments for endorsement. This continues to represent the best prospects for achieving an early equitable solution on air services. BA are, of course, anxious to engage in substantive negotiations with MAS, as confirmed by Lord King in his letter of 10 October, and my officials are keeping in touch with BA on day-to-day developments.

I understand that there have been contacts between BA and MAS over last weekend and that they will be meeting informally in Kuala Lumpur on 10 December with the prospect of substantive negotiations following on quickly after this. I am encouraged by responses of the airlines to our proposal that they should resume exchanges. I am sure that agreement at the airline level is the most effective way of reducing the risk of air services continuing to impinge on the defence package and we should give the airlines a little more time to try to come to a solution.

We have asked the airlines to report back to governments by mid-January following on from which I hope that governments can meet to endorse the airlines' recommendations.

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

Yours,
Paul

PAUL CHANNON

DEFENCE: Sales Pitt.



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

MO 6/17/5V

13 December 1988

Dear Charles,

SAUDI ARABIA: AL YAMAMAH

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS AC

This clearly follows Sir Colin's telephone efforts, with Departmental agreement, to prepare the way for an announcement (this Thursday 15th December, on present plans) of Mr Alan Thomas's appointment.

As the Prime Minister requested, the Defence Secretary has given the matter his personal attention. Mr Younger considers that, as the Saudi Government know Sir Colin very well, there is doubtless no time when they would welcome his being replaced. However, we had already envisaged that, with particular reference to Al Yamamah, we would take a flexible line - which Sir Colin can fit in with - on the precise timing of his departure; the plan is that Mr Thomas's appointment should become effective on 28th March, but Mr Younger considers that it may well make sense to have a period of double-harness, in some form, in respect of Saudi Arabia (and perhaps Malaysia). Precisely what arrangement and timing will make best sense cannot be determined until a stocktaking, which we hope to have in January, between Sir Colin and the Saudis on the pattern of action on Al Yamamah II; but we are confident that a mutually satisfactory arrangement can be arrived at.

Sir Colin has today left for the United States where he will explain this to Prince Bandar personally, and on behalf of Mr Younger, and will emphasize the following points:-

a. we are very conscious that the changeover, which cannot be deferred indefinitely, should be managed in a way which creates no difficulties for Al Yamamah; and that we are equally determined to ensure that that key objective is achieved;

b. to that end Sir Colin will be undertaking a review of the way ahead in January, with the Saudi authorities;

Charles Powell Esq
10 Downing Street

in charge of

c. in the light of that we shall be very happy to agree some arrangement whereby, to smooth the handover, Sir Colin would remain available to help with Al Yamamah business for up to two or three months beyond the formal late-March handover;

with the contracts in sight.

d. we have considered carefully the implications of Mr Thomas's current employment with a US company when making the appointment; have taken action to remove any potential conflicts of interest; and will ensure that he does not return to the US defence side of Raytheon's business on completion of his appointment.

Delay no

Assuming that no problems arise from Sir Colin's meeting with Prince Bandar, we would intend to make the announcement of Mr Thomas's appointment, as planned, on Thursday. Unless you see any objections, we will do so in time to catch the 3.30 News Distribution run to Fleet Street and provide defensive briefing for Prime Minister's questions.

No

Yours sincerely

Brian Hawtin

(B R HAWTIN)
Private Secretary

DEKENKE: Sales Pg 11



1312447

COMMENT

CONFIDENTIAL
FM HARARE
TO PRIORITY FCO
TELNO 624
OF 121400Z DECEMBER 88
INFO PRIORITY MODUK, PRETORIA, WASHINGTON

SIC

MY TELNOS 596 AND 613: AIR DEFENCE PACKAGE

SUMMARY

1. ZIMBABWE ASKS BAE FOR FIVE HAWK60S. WE MAY YET ACHIEVE OUR MAIN AIM OF PREVENTING ZIMBABWE FROM ACQUIRING SOPHISTICATED AIRCRAFT, ESPECIALLY RUSSIAN ONES.

DETAIL

2. CHIWEWE, PERMANENT SECRETARY AT THE DEFENCE MINISTRY, TOLD THE LOCAL BRITISH AEROSPACE REPRESENTATIVE LAST WEEK THAT ZIMBABWE WOULD LIKE TO ACQUIRE FIVE MORE HAWK 60 AIRCRAFT SUBJECT TO SATISFACTORY FINANCIAL TERMS. HE ADDED THAT, IF BAE COULD PROVIDE 100 PER CENT FINANCING, THE DEAL COULD BE SIGNED IMMEDIATELY. IF A DOWNPAYMENT WAS REQUIRED, THE APPROVAL OF THE FINANCE MINISTRY WOULD TAKE LONGER. NEVERTHELESS, THEY HOPED TO REACH AGREEMENT IN THE EARLY MONTHS OF NEXT YEAR.

3. THE PROPOSED ACQUISITION OF HAWKS, TOGETHER WITH THE INFORMATION GLEANED IN THE COURSE OF MR HAMILTON'S VISIT (MY TELNO 613), ALL ACCORDS WITH RECENT ASSESSMENTS THAT THE ZIMBABWEANS ARE ABOUT TO ACQUIRE CHINESE MILITARY RADAR FOR AIR DEFENCE PURPOSES, ARE ON THE ROAD TOWARDS CONTRACTING FOR SOME FORM OF RELATIVELY UNSOPHISTICATED MISSILE, MAYBE ALSO SOURCED FROM CHINA BUT POSSIBLY FROM THE SOVIET UNION, AND ARE TRYING TO IMPROVE THE EXISTING INVENTORIES OF AIRCRAFT, THROUGH THE ACQUISITION OF MORE HAWK 60S AND ADAPTATIONS TO THE CHINESE F7 (MIG 21) AIRCRAFT ALREADY DELIVERED. THESE ACUISITIONS WILL IMPOSE A SUBSTANTIAL, BUT NOT INTOLERABLE, BURDEN ON ZIMBABWE'S PUBLIC PURSE. ALTHOUGH THE HAWKS HAVE BEEN BUDGETED FOR FOR SOME TIME, THERE IS NO EVIDENCE THAT A SPECIAL FOREIGN EXCHANGE ALLOCATION HAS BEEN KEPT BACK FOR THEM.

4. THE PACKAGE WHICH SEEMS TO BE EMERGING COULD BE MUCH WORSE. OF COURSE I WOULD HAVE PREFERRED THE ZIMBABWEANS TO HAVE BOUGHT RADAR AND MISSILES FROM US AS WELL AS THE HAWKS - AND THEY STILL MIGHT. BUT THE ACQUISITION OF RELATIVELY UNSOPHISTICATED CHINESE RADAR AND SIMPLE ANTI-AIRCRAFT MISSILES (FROM WHATEVER SOURCE), WHICH ARE WHOLLY DEFENSIVE IN PURPOSE, WILL NOT DO MUCH TO CHANGE THE MILITARY BALANCE IN SOUTHERN AFRICA AND WILL CERTAINLY NOT FRIGHTEN THE S OUTH AFRICANS. WITH LUCH IT SHOULD ALSO MEAN THAT A PERMANENT SOVIET, OR CHINESE, MILITARY PRESENCE HERE SHOULD NOT MATERIALISE.

5. ON THE QUESTION OF POSSIBLE ACQISITION OF MIG 29S OR OTHER SOPHISTICATED AIRCRAFT, AN IMPULSIVE AND TOTALLY IRRATIONAL DECISION BY MUGABE (AS WITH THE INSTRUCTIONS TO ACQUIRE BOEING 767 CIVIL AIRCRAFT) IS ALWAYS ON THE CARDS. BUT I SHARE THE VIEWS OF THOSE IN LONDON WHO DOUBT THAT ZIMBABWE IS AS FAR DOWN THE TRACK TOWARDS ACQUIRING MIG 29S AS SOME ZIMBABWEANS WOULD HAVE US BELIVEVE. MOREOVER, I DOUBT WHETHER THE ZIMBABWEANS WOULD WANT TO DIVERT FROM MORE PRESSING CIVIL PROJECTS THE RESOURCES NEEDED TO ACQUIRE RADAR, MISSLES, HAWKS AND SOPHISTICATED AIRCRAFT IN ANY SHORT TIME SPAN. EVEN IF THEY DO WANT MIGS, THEREFORE, WE MAY HAVE SEVERAL YEARS BEFORE THEY CAN ACTUALLY BE DELIVERED.

CONCLUSION

6. IF I AM RIGHT, (AND I MAY GET MORE DIRECT NEWS IF MY REQUEST TO SEE MUGABE IS GRANTED THIS WEEK), WE HAVE CERTAINLY NOT YET FAILED TO ACHIEVE OUR PRIMARY OBJECTIVE WHICH WAS TO PREVENT THE ZIMBABWEANS FROM ACQUIRING SOPHISTICATED AIRCRAFT WHICH THEY COULD NEITHER AFFORD NOR SUCCESSFULLY OPERATE AND WHICH WOULD ALTER THE MILITARY BALANCE SIGNIFICANTLY IN SOUTHERN AFRICA. WE HAVE ALSO BEEN SEEKING TO PREVENT THOSE AIRCRAFT BEING SUPPLIED BY THE SOVIET UNION WITH THE ACCOMPANYING MILITARY PERSONNEL. THESE OBJECTIVES ARE STILL ATTAINABLE. WE SHOULD CONTINUE TO PLAY THE GAME CALMLY, REINFORCING OUR STEADY IMPROVING RELATIONSHIP.

MELHUISH

YYYY
MAIN 110

.ZIMBABWE	1
LIMITED	6
CAFD	8
COMED	5
ERD	5
CCD	3
PPD	1
SAFD	8
CONSULAR	6
PUSD	26
NEWS	9
INFO	11
DEFENCE	4
RESEARCH	1
PS	7
PS/MRS CHALKER	1
PS/PUS	1
MR MUNRO	1
MR FAIRWEATHER	1
MR J CAINES, ODA	1
MR HUDSON, ODA	1
BUCKINGHAM PALACE	3
ADDITIONAL 5	
ASSESSMENTS STAFF, CAB OFF	1
SEC (O) (C) MOD	1
HD/CSAD, ODA	1
MR J ROBBERTS ECON/ODA	1
OT4/DTI (VICTORIA ST)	1

[HOW]

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2613 (one piece/item number)	Date and sign
Extract details: Letter from Powell to Hawtin dated 12 December 1988	X
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dti

the department for Enterprise

CCPC

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

The Rt Hon John Major
Chief Secretary
H M Treasury
Treasury Chambers
Parliament Street
London
SW1

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 JW4AEG
Your ref
Date 9 December 1988

CDP 13/xii

Dear John,

SAUDI ARABIA: AL YAMAMAH OFFSET PROGRAMME

I was somewhat puzzled by some of the comments which you made in your letter of 25 November to George Younger.

There seems to be some confusion over the cover which ECGD gives for overseas investments and that which is given as part of their normal credit insurance arrangements for covering UK exports. You refer twice to cover for investments and seem to imply that this cover should be given within the market limit for normal cover. The two forms of cover are in fact quite distinct and cover for genuine investments will have to be considered separately.

I am also confused by your reference to a "bridging loan". ECGD is of course considering covering a form of bridging loan for the Malaysian deal but so far as Saudi Arabia is concerned cover is being given in respect of non-payment of a termination account. This is a completely different matter.

I should also like to make it clear that we still have to decide what an appropriate limit for Saudi Arabia should be. The current limit is only a review point and, as I have pointed out in earlier letters, a somewhat higher limit can be justified.

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

Yours ever,
David

the Enterprise initiative



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DEFENCE 1 Sales PT 11

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2613 (one piece/item number)	Date and sign
Extract details: Minute from Powell to Prime Minister dated 9 December 1988	X
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TO DESKBY 011700Z UKDEL RHODES
TELNO 001
OF 011558Z DECEMBER 88
INFO ROUTINE MODUK, FCO, AMMAN, ROME

TORNADO FOR JORDAN

SUMMARY

1. STILL NO GERMAN DECISION ON CREDIT ARRANGEMENTS.

DETAIL

2. FEDERAL MINISTER SCHAEUBLE TOLD ME TODAY THAT THE DEUTSCHE BANK HAD DECIDED NOT TO PARTICIPATE IN THE CREDIT ARRANGEMENTS FOR THE SALE OF TORNADO FOR JORDAN. STREIBL, THE NEW MINISTER-PRESIDENT OF BAVARIA, WAS WORKING HARD TO ASSEMBLE A CONSORTIUM OF BAVARIAN BANKS TO PROVIDE CREDIT ARRANGEMENTS FOR ABOUT 50 PERCENT OF THE VALUE OF THE GERMAN INDUSTRIAL SHARE OF THIS SALE. THE FEDERAL GOVERNMENT HAD FORMALLY ASSURED THE LEAD BANK THAT IT HAD NO POLITICAL OBJECTIONS TO CREDIT ARRANGEMENTS BEING MADE. SCHAEUBLE WAS CONFIDENT THAT AN APPROPRIATE ARRANGEMENT WOULD BE MADE RAPIDLY.

3. I SAID THAT THE MATTER HAD DRAGGED ON FOR OVER A MONTH AND REALLY MUST BE RESOLVED URGENTLY. I TOLD SCHAEUBLE THAT THE PRIME MINISTER MIGHT WELL RAISE THE MATTER WITH KOHL IN RHODES ON 2 DECEMBER.

MALLABY

R011612Z

YYYY

BPLNAN 1828

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2613 (one piece/item number)	Date and sign
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CAB 1.

VSEL CONSORTIUM PLC

From the office of the Chairman
The Rt Hon The Lord Chalfont, OBE, MC, PC

VSEL Consortium PLC
10 Charles II Street
London
SW1Y 4AA

30th November 1988

c.c. (PDD)
CDP
35/xi

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1

PERSONAL AND CONFIDENTIAL

Dear Prime Minister. file with EDP

Thank you for your letter of 28th November about Canada and the Trafalgar submarine.

I am pleased to hear that George Younger will be contacting the Canadian Defence Minister and I am most grateful for all your interest and support.

With best wishes.

Yours sincerely

Alun Chalfont

VSEL Consortium PLC 10 Charles II Street London SW1Y 4AA
Telephone 01 925 0787 Facsimile 01 925 0518 Telex No. 916178 Comet
Registered office: VSEL Consortium PLC Barrow-in-Furness Cumbria LA14 1AF Registered in England No. 1957765

The National Archives

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Extract details: J. W. B. RICHARDS TO POWELL 30. 11. 1988.	X
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dti

cc PC

CONFIDENTIAL

The Hon. Alan Clark MP
Minister for Trade

The Hon William Waldegrave MP
Foreign and Commonwealth Office
London SW1A 2AH

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 01-215 5144
Our ref WO3AWA
Your ref
Date 30 November 1988

CMP
30 xi

Dear William

flup

I welcome your letter of 14 November and that from David Trefgarne of 17 November about the export of defence related equipment to Iran and Iraq. I am naturally pleased that we are in agreement over the important Westland contract. I know this will be unreservedly welcomed by that company.

I understand that the Inter-Departmental Committee met on Monday 21 November and agreed their recommendations on the extensive list of items which had been deferred pending your agreement. I hope that you and David will be able to confirm those recommendations very soon.

In your letter you use the phrase "within existing guidelines". Surely these guidelines were set out in the context of the Gulf conflict which has now abated.

Whilst recognising that at present there is only a ceasefire between the two belligerents and not a peace agreement, the general belief is that the path to a settlement will be long and difficult. The fact that a peace agreement has not been signed and sealed will not deter our competitors from entering into these two markets with offers of defence equipment, and even arms.

Our stance during the period of open war is well known and we gained the high moral ground by our strong adherence to our guidelines. From this dubious vantage point we can now see clearly the opportunities being denied to our defence industry. Both Iran and Iraq are anxious to establish a defence capability.

CONFIDENTIAL

dti

the department for Enterprise

CONFIDENTIAL

The Hon Williams Waldegrave

November 1988

We can answer possible criticism of easing restrictions on defence sales to Iraq in the light of continuing public concern about Iraq's use of CW by pointing to the continuance of our strict controls on all supplies relevant to CW.

Bearing in mind the importance of defence exports to the UK and the lengthy period which would undoubtedly be involved in any export promotion and contract negotiation, it seems to me not only illogical but unnecessarily restrictive to continue to allow ourselves to be constrained by "guidelines" whose original raison d'etre has now been removed.

I therefore propose that the block on all export licence applications for Iran and Iraq delayed on grounds of enhancement should be lifted, and that our policy on licensable exports to both markets should be brought in Line with the practice of other western allies in bearing only upon Munitions List goods.

I am sending copies of this letter to the Prime Minister and to David Trefgarne.

ALAN CLARK

PERSONAL AND CONFIDENTIAL

FLE
SofH
CMOD
FCO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

28 November 1988

Dear Lord Chalfont,

Thank you for your letter of 14 November about the United States' attitude to Canada's acquisition of nuclear submarines.

As you know, I very much share your view about the importance of the United Kingdom winning this competition. I also firmly believe that Trafalgar is the better boat and that its selection would offer many advantages to Canada.

We are aware that some senior United States' officials have serious reservations about Canada's SSN programme. As you know, President Reagan's agreement to support the legislation necessary for our bid to proceed was offered in the context of our existing MOU with the Canadians. I simply do not believe it would be realistic to re-open the issue of access to SSN20 technology at this stage.

Nonetheless, we fully appreciate the importance of meeting Canada's concerns about the suitability of the Trafalgar Class. Now that the uncertainty generated by the Canadian election has been lifted, George Younger will be contacting Mr. Beatty (or his successor, if an appointment is made in the near future) in an effort to explore these

PERSONAL AND CONFIDENTIAL

concerns in more detail. Our aim, as it has been throughout, will be to convince the Canadians that Trafalgar can best meet their requirements.

Kind regards.

Yours sincerely

Margaret Thatcher

The Right Honourable The Lord Chalfont, O.B.E., M.C.

cst.ps/5jm25.11

CONFIDENTIAL

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

25 November 1988

Dear Secretary of State,

SAUDI ARABIA: AL YAMAMAH OFFSET PROGRAMME

Thank you for sending me a copy of your minute of 7 November with copies of the Al Yamamah Offset Memoranda. I have also seen the letter of 8 November from No. 10 confirming that the Prime Minister is content fro them to be signed. Geoffrey Howe and David Young have also confirmed that they are content.

My officials have discussed with yours the implications for ECGD cover of private sector investments which will flow from the offset arrangements. The Treasury is involved in the inter-departmental committee set up to monitor the cash flow arrangements under the Al Yamamah projects, but it is still unclear at this stage the extent of the ECGD cover which will be required for the bridging loan. I am assuming that any further cover sought for offset projects will be contained within the overall limit for Saudi Arabia.

I have no objections at all to MOD proceeding with signature of the Memoranda, but there should be no presumption that ECGD cover will be available for any private sector investments under the Offset Agreement. Your officials have confirmed that there is no automatic HMG commitment to any individual project. Any cover required over the period of the offset programme will be considered in the normal way having regard to ECGD's commercial judgement and the availability of cover within the market limit.

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

Yours sincerely,

P. Walker

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

DEFENCE: Sales Pg 4



CONFIDENTIAL

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 6/19/7L

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

24th November 1988

CDP 28/9.

Dear Paul,

MALAYSIA

My Head of Defence Export Services, Sir Colin Chandler, has recently been in Malaysia and while there, had separate meetings with both the Malaysian Defence Minister and the Deputy Defence Minister.

On both occasions it was made very clear to Sir Colin that further meaningful progress on both civil projects and those under the defence package is unlikely until the Malaysian request for extra frequencies for their national airline, MAS, into London is resolved in their favour. The same message has now been given to the High Commissioner in Kuala Lumpur by the Malaysian Defence Defence Minister, representing Dr Mahathir's views.

The difference of status between BA, a private company, and MAS who are Government owned, means that it is likely that direct negotiations will continue to make little progress. BA will continue to argue for a settlement based on their commercial interests while MAS appear to be ready to rely on political imposition. This position clearly causes considerable difficulty for us in securing the important business represented by the various projects included in the defence package and covered by the Memorandum of Understanding signed between the Prime Minister and Dr Mahathir on 27 September. The negotiations have, until now, been largely left to the companies,

The Rt Hon Paul Channon MP

but in order to break the impasse, I believe that we now need to intervene. As a start it would be useful if you felt able to approach Lord King to obtain an indication of BA's final negotiating position should an extra frequency be awarded to MAS in the way proposed by the High Commissioner. Such information would then enable us to examine the prospects for orchestrating a return to the negotiating table.

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

Yours ever,

George

George Younger


AMP

SECRET

443

cc PC

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

MO 14/6/1E

23rd November 1988

Dear Charles,

NUCLEAR SUBMARINES FOR CANADA

Brian Hawtin's letter of 15th November attached indicated that we would provide a formal reply to Lord Chalfont's letter of 14th November to the Prime Minister.

Lord Chalfont believes that the prospect for selling a UK boat would be transformed if we could offer access to SSN20 technology. It is certainly the case that the Canadians are concerned that the Trafalgar Class technology on offer does not meet contemporary standards. However, the Americans are very firmly opposed to releasing the later technology.

We therefore propose to open up a formal dialogue with the Canadians to explore their concerns in more detail. This may enable us to convince them that the Trafalgar design is acceptable under their criteria. But, if not, and if our bid is to stand a good chance of success, we may still be faced with the question of modifications to the Trafalgar design. In this case a further approach to the Americans would be necessary, and one in which there must remain serious doubt about the prospects for success.

It would therefore be premature to hold out any hope that either modified SSN19 or SSN20 technology could be available. The attached draft reply essentially reiterates the present position.

Yours sincerely,

John Colston.

(J P COLSTON)
Private Secretary

Charles Powell Esq
No 10 Downing Street

SECRET

DRAFT LETTER FROM THE PRIME MINISTER TO LORD CHALFONT

Thank you for your letter of 14th November about the US attitude to Canada's acquisition of nuclear submarines.

As you know, I very much share your view about the importance of the "UK" winning this competition. I also firmly believe that TRAFALGAR is the better boat and that its selection would offer many advantages to Canada.

We are~~, of course, fully~~ aware that some senior US officials have serious reservations about Canada's SSN programme. As you know, President Reagan's agreement to support the legislation necessary for our bid to proceed was offered in the context of our existing MOU with the Canadians. I simply do not believe it would be realistic to re-open the issue of access to SSN20 technology at this stage.

Nonetheless, we fully appreciate the importance of meeting Canada's concerns about the suitability of the Trafalgar Class. Now that the uncertainty generated by the Canadian election has been lifted, George Younger will be contacting Mr Beatty (or his successor, if an appointment is made in the near future) in an effort to explore these concerns in more detail. Our aim, as it has been throughout, will be to convince the Canadians that TRAFALGAR can best meet their requirements.

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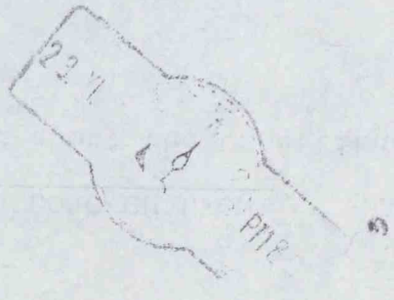

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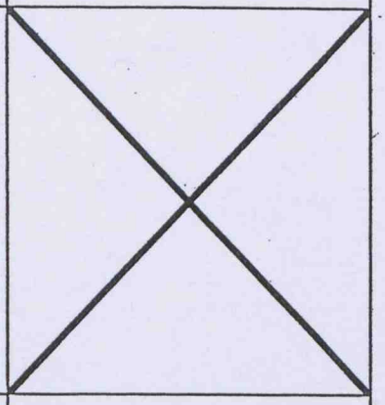
Extract details: POWELL TO WALL 22.11.1988	
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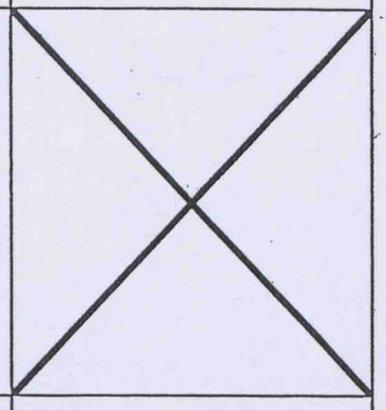
Extract details: WALL TO POWELL 21.11.1988	
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cc PE

dti

the department for Enterprise

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 PS6AQH
Your ref
Date 18 November 1988

C88
21/XI

Dear John

TORNADOS FOR JORDAN

Thank you for your letter of 7 November generally supporting the views I expressed in my letter of 2 November. I have now received George Younger's letter of 10 November and have seen Geoffrey Howe's letter to you of 15 November.

I welcome the agreement you have now reached with Geoffrey Howe that no steps should be taken to consider any withdrawal of support for this project for the time being and certainly until the extent of any German and Italian participation is determined.

Your comments on the purpose of the £1 billion Arms Limit are not, I think, quite accurate. It was designed to cope with exceptionally large cases, which do not fit within ECGD's normal market limits not - as you say - "exceptionally risky" ones. As the agreed text for the PQ and ECGD Press Release made clear the cover would not be used to support unduly hazardous risks. It was certainly not intended to be used to subsidise exports at any cost.

I am copying this letter to George Younger, Geoffrey Howe, Sir Robin Butler and Nigel Wicks.

Yours David

the Enterprise initiative

DEFENCE: Sales Pill.





With the Compliments of the

Minister of State for Defence

Procurement

CDP
18/xi

MINISTRY OF DEFENCE, WHITEHALL, SW1A 2HB

CONFIDENTIAL

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

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

Minister of State
for Defence Procurement

D/MIN(DP)/DGT/14/42/3

17 November 1988

Dear Alan,

Thank you for copying to me your letter of 4th November to William Waldegrave about the outstanding export licence applications for dual purpose items for Iran and Iraq, and the Westland's proposal to refurbish 2 hovercraft for Iran.

I agree that the dual purpose items are the right ones to be releasing first if we are to gradually relax our policy. My officials have assessed virtually all the outstanding dual purpose items as militarily insignificant. I should therefore be very happy to consider releasing these items if William is content. Perhaps the Inter-Departmental Committee could make recommendations to us on the outstanding items as soon as possible.

On the Westland's proposal, I understand that the company has said that the craft have never been fitted with any armament during the conflict, and intelligence confirms this. It is believed that they have been used for logistics support and search and rescue. The refurbishment programme would not enhance the craft's specified performance; nor would weapons systems or weapons controls be fitted. As you have said, the Iranians would be denied the use of the craft during the refurbishment. The company also accepts that we could revoke the licence at any time; I would not, however, expect us to do that unless

/ justified ...

The Hon Alan Clark MP

CONFIDENTIAL

justified by hostilities breaking out again. On this basis, and subject to William also agreeing, I am prepared to agree to the issue of a licence for the refurbishment.

I am copying this letter to the Prime Minister and William Waldegrave.

Yours,
David.

Lord Trefgarne

DEFENCE: Sales
Pt 11

CONFIDENTIAL
COVERING SECRET

1 a cc PC

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

MO 14/6/1E

15 November 1988

CDT
15/XI

Dear Charles,

NUCLEAR SUBMARINES FOR CANADA

Thank you for your letter of 14th November covering one from Lord Chalfont of the same date about Canadian concerns on technology of British SSNs. As you know, this is not a new issue, it is one that has been looked at in detail already; and we would see no merit in the Prime Minister raising the matter with President Elect Bush. However, I attach a short defensive brief, setting out the present position, in case the matter is raised with her. There is an outside chance that Mr Bush might do so as VSEL employ US consultants, one of whom ran his Pennsylvania campaign and no doubt favours our being called in.

We will let you have a formal reply to Lord Chalfont separately.

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

Yours sincerely,

Brian Hawtin

(B R HAWTIN)
Private Secretary

P.S. Since dictating the letter, we have received the attached letter from Mr Beatty setting out the Government's position which you may find helpful. (Mr Younger has not yet seen it.) Given the caveat on it, I should be grateful if you would not distribute it further.

Charles Powell Esq
No 10 Downing Street

CONFIDENTIAL
COVERING SECRET

SSNs FOR CANADA

LINE TO TAKE

It would not be appropriate to raise this issue either with the President or with Mr Bush.

IF RAISED BY VICE PRESIDENT BUSH

Aware that Canadians have delayed decision until after the election and that they have concerns about outdated technology of Trafalgar; and that this could lead to decision in favour of the French boat. Might need his help in due course.

BACKGROUND

We are aware of concerns that the Canadians may incline towards choice of the French submarine (if indeed they decide to proceed with the project at all which remains unclear and will depend, on a number of factors, including the outcome of the election); and that a major factor behind their thinking is concern that the 20 year old technology of the Trafalgar design may not meet the more stringent safety criteria set for the 1990s.

The Anglo-Canadian MOU precludes design changes until at least after the first Canadian build probably the second boat, which would come into service in the late 1990s. The Canadians appear to want a more positive undertaking than this, if they are to buy British,.

The problem is that the USN are implacably opposed to any offer of modern SSN 20 technology. Indeed, it took the personal intervention of the Prime Minister with the President to get him to overrule the

advice of his officials that he should oppose even a programme based on the terms of the MOU and transfer of existing SSN 19 technology.

Given the very recent unofficial disclosure of Canadian concerns over the safety of Trafalgar (of which Vickers is unaware), the MOD is currently considering whether it should formally invite the Canadians to discuss their concerns in more detail.

SECRET AND PERSONAL

(a)

Minister of National Defence | Ministre de la Défense nationale

CANADA

November 3, 1988

The Right Honourable George Younger
Secretary of State for Defence
Ministry of Defence
Whitehall London SW1A 2HB

Dear Mr. Younger:

As you know, we are now engaged in a General Election here in Canada. This has, as you can imagine, resulted in a delay in proceeding with our choice of a design for our nuclear-propelled submarine. It would be inappropriate for us to proceed further, binding the hands of the next government. I have, therefore, instructed my officials to suspend the evaluation process.

This delay does not stem from any aspect of the evaluation process itself. It is not caused by other submarine-related issues, nor does it reflect any flagging in our commitment to implement the new defence policy set out in our White Paper of last year.

This decision is one of short-term delay only. We do, indeed, intend to select the country-of-origin and proceed with the program at the earliest possible opportunity. I would like to emphasize that the Prime Minister, the Government as a whole and I, personally, remain fully and wholeheartedly committed to the new defence policy and, in particular, to the SSN program.

In closing, I would again like to thank you for the efforts your officials have expended in support of our program. We look forward to your continuing cooperation.

Sincerely,

Perrin Beatty

Perrin Beatty

SECRET AND PERSONAL

Ottawa, Canada K1A 0K2



DEFENCE

Sales pr 11

FCS/88/191

CHIEF SECRETARY TREASURY

CDP
15/XI

Tornados for Jordan

at flap

1. Thank you for copying to me your letter of 7 November to David Young. I have also seen his letter of 2 November and George Younger's of 10 November.

2. When we met in the margins of Cabinet on 10 November we agreed that we should take no steps to review our commitment to this project for the time being. I am sure that this is right. While I share your concern at the deterioration of the Jordanian economy and have some sympathy with your and David's view that we should not increase ECGD's exposure beyond the £480 million already agreed, I believe that we should not attempt to take new decisions on this until the position over credit for the German and Italian measures is clearer and we know the extent of any shortfall.

3. As you know, the Germans are taking very seriously the Prime Minister's message to Chancellor Kohl. The German Cabinet on 7 November approved the plan for Daimler Benz to take a major interest in MBB. This new industrial structure should be potentially strong enough on its own to guarantee financing for the German production share.

4. Aeritalia continue to lobby for prompt approval of official credit for the Italian workshare. It is important in our wider interests that partners bear their share of credit costs for cooperative ventures. I believe that we should continue to press the Germans and Italians to bear their share of the risk in this case, though in the German

/case

case we have not obtained fair burden-sharing and so have made proposals to remedy this in future.

5. I am not as sanguine as you about the political risks of withdrawing from this deal. There remains a real danger that if the Jordanians are denied Tornado (and Mirage) they will turn to the cheaper MIG 29. We can not afford to assume that the Russians would pass up this opportunity to extend their influence in a key moderate Arab state, with which we have a particularly close relationship.

6. Furthermore, the Prime Minister has on several occasions assured King Hussein of our commitment to this deal. It would shake his confidence in Britain if we were now to seek to renege on that commitment. We understand that the Jordanians remain determined that their purchase of Tornados should go ahead.

7. I understand that the manufacturing consortium are likely to agree to an extension of the 8 December deadline for conclusion of the financing arrangements, as are the Jordanians. If this became necessary, it would signal to King Hussein the seriousness of the problem we faced and at the same time give him the opportunity to seek financing from his Arab friends. It would also give him the opportunity to consider pulling out of the deal, thus relieving us of the considerable onus of such a decision on our side. There is little to be gained by taking unnecessarily precipitate action at this stage.

8. I am copying this minute to David Young, George Younger, Sir Robin Butler and Nigel Wicks.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
15 November 1988

DEFENCE: Sales Pt 11



CONFIDENTIAL

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apc

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 November 1988

NUCLEAR SUBMARINES FOR CANADA

I enclose a copy of a letter to the Prime Minister from Lord Chalfont of VSEL asking her to raise the question of the sale of nuclear submarines to Canada during her visit to Washington this week. Lord Chalfont claims that agreement by the US to allow the Canadians to have access to SSN20 technology at some future date could be crucial in tipping the sale towards us. The best chance of securing this is for the matter to be raised by the Prime Minister herself.

I should be grateful for very early advice. When we spoke on the telephone you were sceptical whether it would be appropriate for the Prime Minister to raise this at the moment.

I should also be grateful for a draft reply in due course.

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

Charles Powell

Brian Hawtin Esq
Ministry of Defence

CONFIDENTIAL

010

cc

VSEL CONSORTIUM PLC

From the office of the Chairman
The Rt Hon The Lord Chalfont, OBE, MC, PC

VSEL Consortium PLC
10 Charles II Street
London
SW1Y 4AA

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

14th November, 1988

CONFIDENTIAL

Dear Prime Minister,

In the knowledge that you are shortly to visit the United States, I write to you to express our concerns about the US attitude to the acquisition by Canada of nuclear submarines.

Your intervention in April produced a most helpful statement from President Reagan. However the USN has paid no more than lip service to this. We have good intelligence that the words and actions of the USN are intended to hinder rather than help. Indeed there are signs that certain elements of the USN might prefer the Canadians to purchase French submarines. Congressional staffers have said that the USN could see advantage in Canada having the noisier submarine with a different reactor system and would not wish the superior British submarine to be built cheaply in North America in contrast with their own costs.

We now have information that the French have offered complete access to their current and future technology on attractive economic terms. Because of this, the Canadians are clearly favouring the French. The only way by which we can save this contract for the UK is to match the French offer on technology.

Our problem is that the USN constrained the Anglo-Canadian MOU covering technology transfer to technology extant in the SSN19. They would not allow any statement about the technology to be used in SSN20. If they were to agree that the Canadians could have access to SSN20 technology at some future date after it has been proven in service with the Royal Navy, we believe that it would transform the UK's position with the Canadians.

The commitment to acquire nuclear submarines has been restated by the Progressive Conservative party in the current election campaign. Were Mr Mulroney to win the election on 21st November, our advisers believe that he will move quickly on the submarine issue. We do not have much time.

Against this background, it is suggested that you might consider the possibility of raising the matter again at the highest political level, with the aim of securing a stronger expression of support and intention from the President aimed as much at the USN as Mr Mulroney, with more accommodating language on future technology in the Memorandum of Understanding.

Yours sincerely

Charles.

Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

From The Minister of State

14 November 1988

D Alan.

END OF THE GULF WAR: DEFENCE SALES GUIDELINES

Thank you for your letter of 4 November about licence applications for export of dual use equipment to Iran and Iraq.

I agree that, in view of the ceasefire in the Gulf, we should within existing guidelines adopt a more flexible attitude towards such applications. In particular, I agree that a re-export licence should be granted to Westlands for refurbishment of the 2 UK-built hovercraft which you mention.

As for the outstanding licence applications for dual use equipment agreed at official level but deferred by Ministers, I suggest an immediate meeting of the IDC to prepare a comprehensive paper for submission in parallel in the DTI, MOD and FCO. No time should be lost over this. We shall clearly need to look at the list on a case by case basis. But I can assure you that I shall give the applications sympathetic consideration.

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

The Hon William Waldegrave

The Hon Alan Clark MP
Minister for Trade
Department of Trade and Industry
Victoria Street
LONDON SW1

CONFIDENTIAL

DEFENCE: Sales Pt III

CCPC

CCPC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

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MO 6/17/7V

10th November 1988

CDP
14/xi

Dear David,

TORNADO FOR JORDAN

Thank you for your letter of flap 2nd November. I have also seen John Major's reply of 7th November.

We have all been watching very closely the developments on this project and I too have been concerned at the way that the financing arrangements have deteriorated. But the idea of lobbying the Jordanians to drop the idea of Tornado and go instead for the utterly-different Hawk would present, at the least, grave difficulty, and I cannot believe it is a sensible course now. The Jordanians in general and King Hussein (who is a highly-qualified airman) in particular know their defence business extremely well, and are wholly clear that they want Tornado. I know of no evidence whatever for speculation that the Jordanians (and the King is of course the key) in their hearts actually want out. Geoffrey Howe may want to comment on the broader Anglo-Jordanian aspects; but for my part I see no basis for a new approach to the King unless either the currently-sought credit package collapses or we are fully ready to face up to telling him that his creditworthiness has in UK eyes fallen away crucially.

The Rt Hon Lord Young of Graffham

In my view, the only realistic course for the immediate future is to see how things go in Bonn and Rome on the current package. We gather that the Prime Minister's letter to Chancellor Kohl struck home hard; the German Government have said they are doing all they can to put together a replacement credit package. They are twisting the arm of German banks to rejoin the consortium and take on KFW's share, and the recent approval of the Daimler Benz and MBB merger will produce a much stronger industrial base to cover possible risks. It would be strange, so recently after the Prime Minister's message, to take the pressure off the German Government. On the Italian front also the position looks a little brighter. I understand that Parliamentary approval is not required to allow SACE to play its full part in the credit arrangements.

We seem unlikely to have a clear picture of the Italian and German scene until nearer the end of the month. I think we should defer further consideration of the credit arrangements for this project until then. Officials remain in close contact meanwhile.

I am copying this letter to Geoffrey Howe and John Major, and to Sir Robin Butler and Nigel Wicks.

Yours ever,

George

George Younger

DEFENCE: Sans Ptie.



CONFIDENTIAL

cc PC

CRD
10 Nov

FCS/186/88

SECRETARY OF STATE FOR DEFENCE

Saudi Arabia: Al Yamamah Offset Programme

1. Thank you for sending me a copy of your minute of 7 November to the Prime Minister about the recent progress made in finalising the Yamamah Offset Memoranda.

2. I too am very pleased at these developments and am content for signature to proceed as soon as possible. The concessions won from the Saudis are a considerable achievement, and I warmly congratulate the Ministry of Defence for its perseverance in the negotiations. We must ensure that the programme gets a good launch with British business.

3. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Energy and the Chief Secretary, and to Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
10 November 1988



CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 November 1988

SAUDI ARABIA: AL YAMAMAH OFFSET PROGRAMME

The Prime Minister has considered the Defence Secretary's minute of 7 November about the outcome of the negotiations on the Offset Programme associated with Project Al Yamamah. Subject to the views of colleagues, the Prime Minister is content for the text which has been negotiated to be signed. She has commented that we must pursue our obligations vigorously and enthusiastically.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Energy, the Chief Whip and Sir Robin Butler.

CHARLES POWELL

Brian Hawtin Esq
Ministry of Defence

CONFIDENTIAL

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CONFIDENTIAL

ccPM (2)

Prime Minister

You will want to be aware of the Treasury's view that we should withdraw from the Tornado for Jordan project.

CP 9/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

7th November 1988

Dear David,

TORNADOS FOR JORDAN

Thank you for your letter of 2 November. I too have been following with disquiet the recent developments on this contract.

Specifically, I can confirm the advice we have received from the Bank of England about the state of the Jordanian economy. Jordan's ability to service its existing level of debt is now in doubt. It has compounded its problems by (apparently) contracting to buy Mirage aircraft from France, on credit terms. But we understand that Jordan is having difficulty in raising even the 15 per cent or so front-end finance required to finance these aircraft. It is totally unclear how Jordan proposes to fund its intended order for GKN-built tanks.

At the same time, our exposure on the Tornado deal has increased inexorably from the original £120 million which I approved, reluctantly enough, on 30 October last year, to the present £480 million. Notwithstanding the Prime Minister's direct approach to the Italian Prime Minister, it remains unclear whether the Italian Government will provide officially-supported credit for the Italian share. The German Government has already refused to guarantee their share of the deal, forcing ECGD to take up the slack. And now it seems that the German banks will be reluctant to provide the unguaranteed portion, following the withdrawal of KFW. My estimate of the total exposure, if HMG had to assume all of these responsibilities and the parallel ones for UK banks and manufacturers if they too seized the opportunity to withdraw, is £820 million, rather than the £780 million quoted in your letter. But this is a detail, in the context of these very large figures.

I agree entirely with you that we should not increase our exposure beyond the £480 million already agreed. It is worth reminding ourselves that this is an order of only eight aircraft, of a type more sophisticated than Jordan itself requires or needs. One of the principal reasons for backing the order in the first place was the desire to head-off Russian competition. It is not clear that the Soviet Government, in its present mood, would be prepared to provide credit on any extended scale for the sale of Mig aircraft. Moreover, Jordan has now decided to buy French aircraft as well. For these two reasons the political motive is now perhaps less strong.

It seems unavoidable that the deal will collapse if the German and Italian governments refuse to do their share. For the time being we should make sure that we do not imply any willingness to assume further responsibilities (the letter which the Prime Minister sent to Chancellor Kohl on 29 October very carefully avoided doing so).

I see a case for going further. I think the time has now come to re-examine our whole approach to this contract, in view of the deteriorating prospects for repayment even of the £480 million currently at risk. Ministers have agreed to make available a total of £1 billion over 3 years to support exceptionally-risky arms sales. This one order has already pre-empted almost half of that ration, and there are other possible contracts in the pipeline. I do not regard the special arms facility as a means of subsidising exports at any cost: it is there to help exceptionally risky business, but not business where the risks are so great that the chances of ultimate repayment are very small indeed. My own view is that the circumstances are such that it is worth considering with colleagues whether it would be wise to seek a way of withdrawing from the project.

Is it possible to do so with minimum political damage? It seems to me to be likely that many in the Jordanian Government may be looking for an excuse to terminate this contract in view of their deteriorating economic circumstances. With some additional nudging from us, I wonder whether the King might be persuaded that he can no longer afford the project? The failure of the German banks to put up the unguaranteed portion of finance required (for understandable domestic political reasons) gives us the excuse to withdraw with dignity. Any failure by the Italians to come up with official support would be an added pretext. I conclude that we should not now press either Germans or Italians any further, but should let the project die a natural death.

If however a fallback position were needed, I suppose the best course would be to suggest to the King that he should go for something less expensive. There can be no doubt that we have done our best to help him, by taking a disproportionate share of the risks attached to a minimum order for eight aircraft; but faced with the reluctance of our partners to put up their share, our commitment is in danger of becoming disproportionately large and increasingly risky. I am however, very conscious of the

importance of our relationship with the King and feel that we should indicate that we would still be interested in helping him buy British aircraft, of a simpler type (ie Hawk) and for a considerably smaller sum.

I would welcome your view, and that of Geoffrey Howe and George Younger on this issue following which, if necessary, we might meet to discuss a collective view.

I am copying this letter to George Younger, Geoffrey Howe, Robin Butler and Nigel Wicks.

Yours Ever, John

JOHN MAJOR

DEFENCE: Salve PT II.

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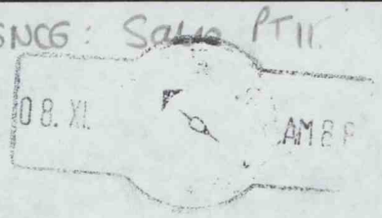

(1) CCK

Prime Minister

MO 6/17/5L

Yes - but we must publish our objections vigorously

Content for this to be signed, subject to the views of colleagues?

CDP 7/XI

PRIME MINISTER

SAUDI ARABIA: AL YAMAMAH OFFSET PROGRAMME

In my minute of 7th July I reported on the outcome of the negotiations for the enhancement of Project Al Yamamah and in particular on the satisfactory agreement reached in the Formal Understanding with regard to the Offset programme associated with the Project. I am pleased to report that the subsequent discussions to finalise the Memoranda setting out the detailed rules and procedures for Offset have proved to be less difficult than expected and texts of these documents agreed by both sides, subject to UK Ministers' endorsement, are attached.

2. When the Saudi Arabian Economic Offset Committee (led by HH Prince Fahd bin Abdullah, Chairman of the Saudi Offset Committee) visited the Farnborough Air Show in September, Sir Colin Chandler and his British Offset Committee colleagues were able to persuade them that HMG was in earnest in its desire to make Offset a success and that a great deal of work had already been done to stimulate interest in the Programme. My officials who visited Riyadh shortly afterwards found, untypically, ready to negotiate realistically, and they managed to reach agreement on texts which reflect both the need for flexibility and speed in dealing with venture proposals and also a more reasonable approach to the counting of Offset Credits. The attached texts have now been endorsed by both the British Offset Committee (which includes representatives of DTI and FCO) and the Saudi Offset Committee (mainly comprising Deputy Ministers).

Temporarily retained, OWayland, 29/8/17

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

3. I consider that the two documents now satisfactorily meet our earlier concerns. Specifically the Technical Value Memorandum confirms that the "Offset Component" (ie the target level of investment by UK companies and their associates) will be 25% of the British technical content for the whole programme, rather than the 35% included in the earlier Offset MOU. The resulting value of the offset Component is established as being "at least £1 billion". The inclusion of this figure (which is a very modest estimate of the Offset target if all the Al Yamamah enhancements go ahead) was presentationally important to the Saudis, but it remains revisable, up or down, in the light of the new Al Yamamah business that should come to the UK.

4. In the Investment Memorandum, my officials have been able to restrict HMG's commitment to "establishing and developing the programme through British companies ..." - the same wording as the Formal Understanding we signed in July, which avoids any HMG underwriting of the Offset target. The Saudis' desire for a UK Government guarantee on the achievement of the Offset Component, which had been a major stumbling block to agreement over the past 18 months, has therefore been removed.

5. The timescale for the implementation of Offset projects remains at 10 years from the date of the Investment Memorandum for contracts (Letters of Offer and Acceptance) already signed; but more importantly, for all future additions to the programme the 10 year period will run from the date of the appropriate LOA. This effectively extends the timescale for completion of the offset programme as a whole well into the next century and so reduces the scope for the Saudis to complain until very close to that time that progress has not been satisfactory.

6. The Saudis have also made concessions on the counting of Offset credits. For instance, they have agreed that where a UK company is requested to take less than a 50% stake in a joint venture, a 50% Offset Credit will nonetheless be earned; they have also agreed to consider granting credits for export market expansion activities on behalf of Saudi companies. Although credits have to be recorded against a complicated schedule which sets out a model timescale of the progress of investment and the suitable categories of ventures, this schedule is only "illustrative" and we have been able to resist Saudi pressure for there to be a stated "requirement" for UK companies to invest certain percentages of the Offset target by specific points in time.

7. Encouragingly, these textual improvements have been matched by increased Saudi understanding that offset needs energetic and positive promotion by both Governments and that any failure of the Programme will be a mutual responsibility. Members of the Saudi Offset Committee have agreed to participate in events to promote the programme in the two countries and recognise that their Committee must gain the confidence of both private sectors if the programme is to succeed.

8. I believe that the texts of these two Memoranda represent a satisfactory basis for HMG to undertake to carry forward the objectives of the Offset MOU signed in September 1987. In short we have won some major concessions which we need to capitalise on by formal signature as quickly as possible. We have a chance to remove the offset thorn from the side of our Saudi relationships and I therefore propose to authorise Sir Colin Chandler to sign the documents. Sir Stephen Egerton, our Ambassador in Riyadh, strongly supports this proposal and in particular the need to act quickly. HH Prince Fahd bin Abdullah would be expected to sign for the Saudi side. I would be glad to know if you are content. As usual, the

Saudis have asked for there to be no publicity in advance of a joint formal announcement which I would hope might be made at the time of my visit to Saudi Arabia on 21st-23rd November. But I consider it important that the documents are signed by both parties before my visit otherwise there may be a temptation on the Saudi side to exploit my presence to attempt further negotiation. Sir Colin and his team are already discussing with the Saudis arrangements for a major event to launch the Offset programme early in the New Year.

10. 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 and the Chief Secretary, and to Sir Robin Butler.

G.Y.

Ministry of Defence
7th November 1988

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2613 (one piece/item number)	Date and sign
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Enter the department and series,
eg. HO 405, J 82.

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

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dti

the department for Enterprise

CONFIDENTIAL

The Hon. Alan Clark MP
Minister for Trade

The Hon William Waldegrave MP
Minister of State
Foreign and Commonwealth Affairs
Downing Street
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Department of Trade and Industry

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Direct line 01-215 5144
Our ref
Your ref WO7AIQ
Date 4 November 1988

END OF THE GULF WAR: DEFENCE SALES GUIDELINES

I am concerned about the large number of licence applications for export of dual use equipment to Iraq and Iran agreed at official level but deferred by Ministers. The goods concerned, totalling over £5.6 million for Iran and £3.1 million for Iraq, include spare parts for civil aircraft and helicopters, communications and transport equipment and machine tools.

Para 2 of the official's note enclosed with Geoffrey Howe's of 31 August suggested: "We can use discretion within the Ministerial guidelines to adopted a phased approach to borderline cases, relaxing control on a growing number of categories as peace takes hold". It would in my view be entirely consistent with this policy to issue without further delay the licences mentioned above. Not to do so will harm the efforts of British companies to re-establish themselves in both markets and deny them industrially valuable orders. Our international competitors are not so inhibited and the case for continuing to apply a wide ranging unilateral UK embargo on defence sales is now well-nigh impossible to justify to British firms. The ceasefire holds and while I am aware that substantive peace negotiations have yet to get off the ground, I doubt if it could seriously be argued that progress would be affected by such a marginal relaxation of controls by the UK.

dti

the department for Enterprise

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The Hon William Waldegrave MP November 1988

Apart from outstanding applications, there are important new orders to be won if licences are available. A prime example is a £14 million contract for Westlands for refurbishment of 2 UK built Iranian hovercraft. This would provide 120 man years work in a severely depressed sector of industry. The work in the UK would take 18 months and the Iranians would meantime be denied use of the craft - urgently needed for rehabilitation of Iran's offshore oil industry. But Westlands will not get the contract without an assurance of a re-export licence and the work may be lost to Australia or the Soviet Union. Licence applications for this work have hitherto been resisted on the basis that refurbishment would upset the strategic balance in the Gulf. Continued denial of licences on these grounds would strain credulity.

I hope that you and David Trefgarne can agree to the above proposals. I recognise, of course, that whatever is agreed between us will require the Prime Minister's approval in the light of her Private Secretary's letter of 2 September.

I would not propose an announcement of any decision to issue the outstanding licences but we should be prepared to explain our decision if necessary and appropriate defensive briefing would need to be available to meet possible criticism.

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

This is important!

ALAN CLARK

CONFIDENTIAL



dti

the department for Enterprise

CONFIDENTIAL

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

The Rt Hon John Major MP
Chief Secretary
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 PS3BMM
Your ref
Date 2 November 1988

Dear John,

JORDAN : SALE OF TORNADOS

You will recall that, following our meeting with Geoffrey Howe, it was agreed that ECGD should cover the UK and German shares of the sale of Tornados to Jordan under the £1 billion arms limit, subject ot a maximum exposure of £480 million.

Since ECGD cover was approved there have been disturbing reports about Jordan's economy which appears to be deteriorating. Foreign exchange reserves are know to be low and there is speculation about Jordan's ability to service its debts unless Arab aid is made available quickly. ECGD will shortly be putting a paper to the Export Guarantee Committee recommending some cut-back in its limit on Jordan.

In addition, there are now some indications that financing from KFW and from the other German banks may not be forthcoming. There are still some doubts about Italian support for the deal. If the German banks' and Italian Government are unwilling to participate, the additional burden - if carried by the UK - would increase ECGD's exposure from £480 million to some £780 million, assuming <u>full</u> support for all shares.

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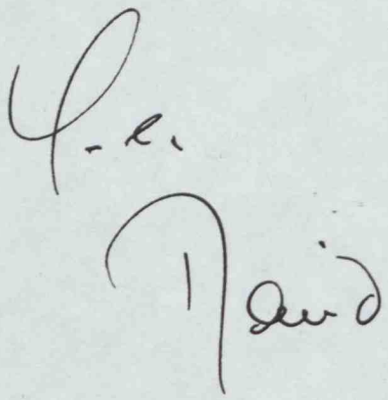
Whilst I do not suggest that we should seek to withdraw from this contract at this stage, against the background of recent economic trends I must make clear my view that if the Germans and Italians fail to support their respective share of the deal, ECGD should not be asked to increase - even contingently - its exposure beyond that already agreed. Neither do I think that it would make sense for ECGD cover to be given for any new arms business for Jordan until the economic position improves and the Tornado deal is sorted out, even under the £1 billion arms limit. This would include the possible GKN Warriors business.

I am copying this letter to Geoffrey Howe, George Younger, Sir Robin Butler and Nigel Wicks.



the Enterprise initiative


02.XI.
PM 8

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T165/88

SUBJECT cc MASTER
OPS

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CONFIDENTIAL
FM FCO
TO DESKBY 291930Z BONN
TELNO 609
OF 291843Z OCTOBER 88
INFO IMMEDIATE MODUK, ROME, AMMAN

SIC ACA/EAD/Z8G/20K

YOUR TELNOS 1077 AND 1078: TORNADO FOR JORDAN
1. PLEASE DELIVER AS SOON AS POSSIBLE THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO CHANCELLOR KOHL:
BEGINS I UNDERSTAND THAT THE ARRANGEMENTS FOR GERMANY TO CONTRIBUTE TO CREDIT COVER FOR THE SALE OF TORNADO AIRCRAFT TO JORDAN ARE IN DANGER. THIS IS APPARENTLY A RESULT OF YOUR GOVERNMENT'S DECISION NOT TO ALLOW THE PLANNED PARTICIPATION OF THE KREDITANSTALT FUER WIEDERAUFBAU.
THIS SALE IS IN THE POLITICAL, SECURITY AND INDUSTRIAL INTERESTS OF YOUR COUNTRY. THE EXISTING PLAN WAS FOR GERMANY TO COVER ONLY 55 PER CENT OF ITS WORKSHARE. TO FAIL TO DO EVEN THAT WOULD BE A SEVERE BLOW. I BELIEVE IT VITAL THAT YOU FIND A WAY OF PROVIDING FROM GERMANY AT LEAST AS MUCH OF THE CREDIT AS HAS BEEN ENVISAGED. I NEED HARDLY SAY THAT THIS IS IMPORTANT NOT ONLY IN THE PRESENT CASE, TO PREVENT JORDAN FROM BUYING SOVIET EQUIPMENT, BUT ALSO FOR FUTURE EXPORTS OF JOINTLY PRODUCED DEFENCE EQUIPMENT, A MATTER ON WHICH I WROTE TO YOU ON 13 OCTOBER. I CANNOT STRESS TOO MUCH WHAT HANGS ON THIS.
ENDS

HOWE

YYYY

MAIN	52	
LIMITED		6
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DEFENCE		4
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PS/MRS CHALKER		1
PS/MR WALDEGRAVE		1
PS/PUS		1
MR MUNRO		1
MR BOYD		1
SIR D MIERS		1
MR GOULDEN		1
MR CARRICK		1
ADDITIONAL	7	

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CABINET OFFICE	1
DESO, MOD	1
SEC O (C), MOD	1
P MOUNTFIELD, TREASURY	1

[BRADLEY]
OCMIAN 6809

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary 29 October 1988

TORNADO FOR JORDAN

Stephen Wall wrote to me on 28 October enclosing a draft message from the Prime Minister to Chancellor Kohl about credit arrangements for the sale of Tornado to Jordan. I enclose a copy of the message for ease of reference. I am confident the Prime Minister would be content with it and I should be grateful if you could despatch it.

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

(C. D. POWELL)

The Resident Clerk,
Foreign and Commonwealth Office.

CONFIDENTIAL

PRIME MINISTER

Could Charles have your answer on this some time today please.

Kay
29/10 11.30 am

CONFIDENTIAL

faxed to Chequers am 29/10 CDP

Foreign and Commonwealth Office

London SW1A 2AH

28 October 1988

Prime Minister

Agree to send the attached message?

CDP 29/X.

Dear Charles.

Tornado for Jordan

You will have seen Bonn telnos 1077 and 1078 (copies enclosed for ease of reference) reporting that the German Government have decided to withdraw support through public funds from the credit arrangements worked out for this sale and recommending that the Prime Minister should send a message to Chancellor Kohl.

The Foreign Secretary endorses this advice. Only intervention with the Chancellor himself will stand any chance of reversing the German decision. I enclose a slightly revised message in the form of a draft telegram to Bonn.

I am copying this letter to Brian Hawtin (MOD) and Jill Rutter (HM Treasury).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

ADVANCE COPY

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CONFIDENTIAL
FM BONN
TO DESKBY 281930Z FCO
TELNO 1077
OF 281837Z OCTOBER 88
AND TO DESKBY 281930Z MODUK
INFO IMMEDIATE ROME, WASHINGTON, UKDEL NATO, AMMAN

SIC ACA/EAO/Z8G/ZOK

MODUK FOR DG MARKETING

TORNADO FOR JORDAN

SUMMARY
1. GERMAN GOVERNMENT HAS DECIDED TO WITHDRAW SUPPORT THROUGH PUBLIC FUNDS FROM THE CREDIT ARRANGEMENTS WORKED OUT FOR THIS ORDER. OTHER OPTIONS FOR MAINTAINING SCOPE OF GERMAN CREDIT CONSIDERED. THE ONLY ONE OFFERING ANY HOPE WOULD INVOLVE DELAY. PRIME MINISTERIAL PRESSURE ON KOHL RECOMMENDED.

DETAIL
2. STATE SECRETARY TIMMERMANN'S OFFICE HAS REPORTED TO ME ON HIS AUTHORITY, THE OUTCOME OF A MEETING YESTERDAY TO REVIEW - IN THE FACE OF THE FDP'S PUBLIC DISAPPROVAL OF INVOLVEMENT OF A PUBLICLY FUNDED FINANCING INSTITUTION - THE CREDIT ARRANGEMENTS FOR THE GERMAN WORKSHARE. THE FEDERAL CHANCELLERY, FINANCE, ECONOMICS, DEFENCE AND FOREIGN AFFAIRS MINISTRIES WERE REPRESENTED AT STATE SECRETARY LEVEL. DEUTSCHE BANK AND MBB WERE ALSO REPRESENTED.

3. FOUR OPTIONS WERE DISCUSSED:

A. UPHOLD THE PRESENT CONSORTIUM INCLUDING 13 PER CENT PARTICIPATION BY THE PUBLICLY FUNDED INSTITUTION, KREDITANSTALT FUR WIEDERAUFBAU (KFW).

B. TRANSFER KFW'S SHARE TO OTHER BANKS NEW TO THE CONSORTIUM.

C. HAVE KFW'S SHARE TAKEN OVER BY MBB AND MTU (IE INDUSTRY ALONE).

D. HAVE INDUSTRY TAKE OVER THE WHOLE OF THE CREDIT COVER FROM THE BANKING CONSORTIUM IF, AS WAS PROBABLE, THIS NOW FELL APART.

4. THE FOLLOWING DECISIONS WERE REACHED:

A. OPTION A WAS REJECTED, SCHAEUBLE (CABINET MINISTER IN CHARGE OF FEDERAL CHANCELLERY) INSTRUCTED STOLTENBERG, WHO IS ALSO CHAIRMAN OF KFW BOARD, TO WITHDRAW KFW PARTICIPATION. THE REASON FOR THIS DECISION WAS THAT THE CDU/CSU FELT UNABLE TO OVERRULE THE OPPOSITION OF THE FDP TO KFW'S INVOLVEMENT, WHICH IN TURN DERIVED FROM FEARS OF ISRAELI REACTIONS.

B. OPTION B TO BE EXPLORED, BUT PROSPECTS OF SUCCESS CONSIDERED SLIGHT.

C. OPTION C UNLIKELY.

D. OPTION D BECOMES POSSIBLE ONLY IF THE GERMAN CABINET DECIDES TO APPROVE THE PLAN FOR DAIMLER BENZ TO TAKE A MAJOR INTEREST IN MBB. I WAS TOLD IN STRICT CONFIDENCE THAT SUCH A DECISION WAS LIKELY ON 2 NOVEMBER. IN THIS CASE THE NEW INDUSTRIAL STRUCTURE IS CONSIDERED BY FMOD TO BE STRONG ENOUGH TO PUT TOGETHER A CREDIT PACKAGE ON ITS OWN. HOWEVER THIS WOULD NOT BE ACCOMPLISHED BY THE 9 NOVEMBER DEADLINE.

5. I WAS GIVEN THE IMPRESSION THAT THE FMOD ARE DETERMINED TO PUT TOGETHER A WORKABLE PACKAGE BY HOOK OR CROOK, SINCE THEY RECOGNISE THAT THEIR NATIONAL REPUTATION AS A COLLABORATIVE PARTNER IS AT STAKE.

6. I BELIEVE IT IS VITAL TO KEEP UP THE PRESSURE ON MINISTERS AND INTEND TO CALL ON THE APPROPRIATE PEOPLE IN FINANCE AND FOREIGN AFFAIRS MINISTRIES AS EARLY AS POSSIBLE NEXT WEEK.

7. I ALSO RECOMMEND THAT THE PRIME MINISTER, PARTICULARLY IN VIEW OF HER INVOLVEMENT IN EARLIER PHASES OF THIS SAGA, SHOULD WRITE TO CHANCELLOR KOHL OR TELEPHONE HIM. A DRAFT IS IN MIFT.

MALLABY

YYYY

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PS/NO 10 DOWNING STREET

NNNN

OUT TELEGRAM

		Classification	Caveat	Precedence
		CONFIDENTIAL		DESKBY291000Z

ZCZC	1	ZCZC
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TO	5	TO DESKBY 291000Z BONN
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OF	7	OF OCTOBER 88
AND TO	8	INFORMATION IMMEDIATE MODUK, ROME, AMMAN
	9	
	10	SIC ACA/EAD/Z8G/20K
	11	
	12	YOUR TELNOS 1077 AND 1078: TORNADO FOR JORDAN
	13	1. Please deliver as soon as possible the following message from
	14	the Prime Minister to Chancellor Kohl:
	15	Begins I understand that the arrangements for Germany to
	16	contribute to credit cover for the sale of Tornado aircraft to
	17	Jordan are in danger. This is apparently a result of your
	18	government's decision not to allow the planned participation of
	19	the Kreditanstalt fuer Wiederaufbau.
	20	This sale is in the political, security and industrial
	21	interests of your country. The existing plan was for Germany to
	22	cover only 55 per cent of its workshare. To fail to do even that
	23	would be a severe blow. I believe it vital that you find a way
	24	of providing from Germany at least as much of the credit as has
	25	been envisaged. I need hardly say that this is important not
///	26	only in the present case, to prevent Jordan from buying Soviet
//	27	equipment, but also for future exports of jointly produced
/	28	defence equipment, a matter on which I wrote to you on
	29	13 October. I cannot stress too much what hangs on this.

YYYY		Catchword:	
MAIN	File number MAD	Dept NENAD	Drafted by (Block capitals) A F GOULTY	Telephone no
ADDITIONAL	Authorised for despatch by:	Initials	Date/time	
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OUT TELEGRAM (CONT)

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MR CARRICK

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For distribution order see Page Catchword:

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28. XI.

File MJ2C

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T158/88

Subject cc MASTER OPS

cc HMT
MoD
DTI
TW
PC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

13 October 1988

T

Dear Helmut

I was glad that your Government approved the sale of the Tornado IDS aircraft to Jordan. But I am disappointed that you felt unable to provide official credit support for this sale which we both agree - as do the Americans - is strategically important.

I understand the political sensitivity for the Federal Republic of arms sales outside the NATO area. But I believe that we are entitled - indeed have a duty - also to take account of other needs such as maintaining the viability of our defence industries; keeping down NATO defence costs by increasing production runs; and supporting Western foreign policy objectives beyond as well as within the NATO area. All these considerations mean that it is important for both our countries to be able to export the defence equipment we manufacture collaboratively, with a fair division of the burdens.

There is every reason to suppose that further export sales will be forthcoming, not only of Tornado, but also of other collaboratively produced defence equipment, such as the European Fighter Aircraft, TRIGAT and the NATO frigate. It is all too likely, therefore, that exactly the same problem will arise again in future, as we have experienced over

Tornado for Jordan. To preserve this valuable order, the United Kingdom is being obliged to shoulder a considerably larger than expected share of the credit burden. I must tell you that for the future I would find it difficult to accept such credit arrangements. Risks associated with export sales should be shared according to the work ratio.

I propose that we instruct our respective officials to find a way of conforming more closely to that principle. I am sure that they can work out a practical solution to the problem, which would otherwise cause continuing differences between us. I would welcome your early agreement, so that they might meet and report fairly quickly. Important decisions need to be made soon on existing and future collaboration.

His Excellency Dr. Helmut Kohl.

cc PC

Foreign and Commonwealth Office

London SW1A 2AH

7 October 1988

Dear Charles

flap Pt. 10 below

Official credits for UK/FRG Defence Sales

Chancellor Kohl's reply (copied to us under cover of your letter to Brian Hawtin of 13 July) to the Prime Minister's letter of 18 May 1988 agreed to the sale of Tornado to Jordan but refused official credit. This is to the UK's commercial disadvantage and is likely to become an increasing problem affecting Tornado and other defence equipment produced collaboratively with the FRG, such as the European Fighter Aircraft, TRIGAT (an anti-tank gun) and NFR 90 (NATO frigate).

There is no possibility of changing the FRG decision onJordan, but all Whitehall Departments concerned are agreed that a further letter from the Prime Minister, along the lines of the enclosed draft, is essential if we are to secure Chancellor Kohl's support for the proposal that a practical solution should be worked out by British and German officials. We and other Whitehall Departments concerned are also agreed that, if we are unable to persuade the Germans to change their general policy, which Chancellor Kohl has ruled out on grounds of principle - we should aim for some form of ledger account arrangement. Such an arrangement should enable ECGD credit for the German work-share of a Tornado sale outside NATO to be balanced against official German credit for the UK work-share of defence sales within NATO and for civil sales both inside and outside, and where ECGD's market limits are under pressure. This would be a great improvement on the present situation, in which we are being obliged to take risks associated with the German work-share with no compensating benefit.

But we believe that it would be tactically unwise to put the ledger idea forward in the proposed further letter from the Prime Minister in case that gave Chancellor Kohl an opportunity to reject it outright, referring again to objection of principle. Our first step must be to persuade Chancellor Kohl of the need for a new long term arrangement and to make it difficult for him to refuse a meeting of

/officials.

officials. We also intend to try to ensure that the lead is taken by foreign, defence and economic policy makers; we want to deny the Head of HERMES, who we know is personally opposed to the idea of a ledger account, the opportunity to build roadblocks in advance of the proposed meeting.

If the Prime Minister agrees, it would be helpful if we could arrange delivery of her proposed letter before 12 October, when there is a meeting of Export Credit Agencies from G7 countries in Munich.

I am copying this letter and enclosure to Brian Hawtin (MOD), Carys Evans (HM Treasury), Neil Thornton (DTI) and to Trevor Woolley (Cabinet Office).

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

CONFIDENTIAL

DSR 1[illegible] (Revised Sept 85)	DRAFT: minute/letter/teleletter/despatch/note	TYPE: Draft/Final 1 +
	FROM: PM DEPARTMENT: TEL. NO: BUILDING: ROOM NO:	Reference ML1ACK Your Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Enclosures flag(s) .....

TO:

Chancellor Kohl

Copies to:

SUBJECT:

OFFICIAL CREDITS FOR UK/FRG DEFENCE SALES

1. I was ~~pleased to hear~~ glad that your Government ~~had~~ approved the sale of the Tornado IDS aircraft to Jordan, but I am ~~extremely~~ disappointed that you felt unable to provide official credit support for this sale which we both agree - as do the Americans - is strategically important.

2. I understand the political sensitivity for the Federal Republic of arms sales outside the NATO area. But I ~~also~~ believe that we are entitled - indeed have a duty - also to ~~give expression to~~ take account of ~~other~~ other needs ~~other important shared policy objectives~~ such as maintaining the viability of our defence industries; keeping down NATO defence costs by increasing production runs; and supporting Western foreign policy objectives beyond as well as within the NATO area. All these considerations mean that it is important for both our countries to be able to export the defence equipment we manufacture collaboratively, with a fair ~~de~~ division of the burdens.

CVR

SECURITY CLASSIFICATION

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Restricted
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PRIVACY MARKING

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3. There is every reason to suppose that further export sales will be forthcoming, not only of ~~this extraordinarily successful aircraft~~ Tornado, but also of other collaboratively produced defence equipment, such as the European Fighter Aircraft, TRIGAT and the NATO frigate. ~~I am therefore all the more concerned by what has happened so far over credit arrangements in the case of the sale to Jordan. It has not proved possible for MBB to secure all the backing it needs on the normal commercial market. That in turn means that to preserve this valuable order, from which both our industries stand to gain, the UK Government will be obliged to shoulder a considerably larger than expected share of the burden of credit.~~ I must tell you that for the future I would find it difficult to accept such credit arrangements. Risks associated with export sales should be shared according to the work ratio.

4. ~~If we were to~~ instruct our respective officials to find a way of conforming more closely to that principle. I am sure that they can work out a practical solution to the problem, which would otherwise cause continuing differences between us. I would welcome your early agreement, so that they might meet and report fairly quickly. Important decisions ~~will~~ need to be made soon on existing and future collaboration.

DEFENCE : Sales Pt. 10

CONFIDENTIAL UK EYES A
COMMERCIAL IN CONFIDENCE

Prime Minister (2)

CDP 5/X

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

MO 32/10L

5th October 1988

Dear Charles

I fear all opportunities in Kuwait will have been extinguished now ms

QUARTERLY REPORT ON DEFENCE SALES AND PROSPECTS

The Prime Minister may wish to have a brief report on the UK defence export performance in second quarter of 1988.

In this period British industry formally reported defence export contracts worth £1475 million (including ~~£128 million from pre-1988~~ contracts). The major customers in this reporting period were Saudi Arabia (66%), USA (12%), Malaysia (3%), Jordan (1%) and Italy (1%). Total recorded sales in 1988 have now reached £1630M. A list of major contracts secured in the period is attached at Annex A.

The United Kingdom's major competitors achieved several major successes during the quarter with the USA ($3200M) being selected to supply F18 aircraft package to Kuwait ($1900M) and aircraft support services to Saudi Arabia ($800M). France signed contracts valued at $790M, West Germany was awarded the Greek frigate contract ($1200M) and Sweden and Argentina both received awards valued at over $100M each.

The major forthcoming British prospects and the second quarter highlights include the following:-

a. Middle East

Saudi Arabia signed a "Formal Understanding" with the UK on 3 July 1988 to extend the Al Yamamah project to include further purchases of 48 Tornado and 60 Hawk aircraft, 6 Vosper Thornycroft Sandown-class MCMVs and 88 Westland Blackhawk helicopters, plus a range of other items including two air bases and some electronic projects. Plessey has teamed with Racal to compete for area communications project for the Saudi Arabian Army (£1000 million). VSEL continue to pursue the project to set up a Hydrographic service in Saudi Arabia (£250M) and the longer-term requirement for submarines. In Kuwait, Westlands and Short Bros have submitted proposals for Blackhawk (£80M) and

Charles Powell Esq
10 Downing Street

COMMERCIAL IN CONFIDENCE
CONFIDENTIAL UK EYES A

Tucano (£52M) to the Kuwaiti Air Force. Sales opportunities still exist for new main battle tanks (£500M+), refurbishment of the existing Chieftain fleet and the purchase of Minehunters and fast patrol boats. A Blowpipe replacement is under investigation by the Sultan of Oman's Land Forces, along with a requirement for reconnaissance vehicles. In Qatar, Vosper Thornycroft have submitted proposals for a new strike craft for the Navy (£140M). Plessey and MEL both have proposals under consideration in the United Arab Emirates for separate Electronics Warfare systems. Dubai are continuing discussions with British Aerospace on acquisition of Hawk aircraft (£190M) whilst the Abu Dhabi decision is slipping (£300M). Westlands are about to commence discussions with Abu Dhabi on the acquisition of between 14 and 17 Blackhawk. The Jordanian Government signed an MOU and a sales contract on 9 September to acquire 8 Tornado IDS aircraft. Final details concerning credit remain to be solved before the contract becomes effective (£500M).

b. Europe

Following signature of a Letter of Intent, detailed negotiations continue with Eire on the purchase of HMS Swift and HMS Swallow (£8M). Marconi are continuing to negotiate with Finland on the supply of up to 20 Marksman AA turrets (£40M), but the French were awarded an order for the Crotale SAM system and air defence radars, (following competition with British Aerospace and Marconi respectively). In Norway, Plessey are competing to supply communications equipment for an Army requirement, with final Request for Quotations (RFQ) due to be submitted in October (£50-£100M). British Aerospace are continuing to promote the Hawk aircraft in Sweden, to meet an Air Force advanced trainer requirement. Indications in Spain are that the Spanish Navy will opt for the Vosper Thornycroft design for their new generation of MCMVs. Turkey is expected to announce its decision on the supply of HF-SSB radios soon; Plessey and Marconi are bidding separately for this £200M project.

c. The Americas

The Canadians are still evaluating both the VSEL and French bids for the Canadian Submarine Acquisition Programme (CASAP). A final decision is not expected until after the Canadian General Election. Easams Ltd have been awarded a pre-feasibility study contract for the Canadian Army Tactical Command Control & Communications System (TCCCS); the overall requirement is valued at over £1000M. Canada is not expected to release an RFP for up to 250 main battle tanks (MBT) until March 1989, which will consider only MBTs in NATO service; Vickers Defence Systems are hoping to bid Challenger 2. In the USA, work on the US Navy

Airship programme continues, following successful attempts to continue funding for this project. The Marconi/Rockwell US Navy HFAJ programme will now be funded to phase 1, whilst the MOD is investigating the possibility of the UK becoming involved in this project on a collaborative basis. Plessey have now received two contracts valued at $20M for their Mirror mine avoidance sonar from the US Navy following successful trials in the Gulf and USA. The US Marine Corps are evaluating the Marconi Zeus radar warning and jamming system with trials planned in February 1989 (£70M), for use on their AV-8B fleet of aircraft. Brazil is expected to select a naval helicopter within two months, although a contract is unlikely to be placed until 1989. The Westland Lynx is competing for this order (£50M). The Lynx is also competing with the French in Colombia to meet a naval requirement for three machines (£15M). An RFQ will be issued soon. Whilst Westlands have financial support from ECGD they are experiencing difficulty in obtaining commercial cover for the balance.

d. Asia, the Far East and Australasia

In May the Defence Secretary and his opposite number from Australia signed an MOU on Defence Equipment Procurement which will allow a variety of co-operative ventures including joint development, procurement and production. Many UK companies registered strong interest in supplying equipment for the ANZAC frigate programme, before the closing date for registration during this quarter. In New Zealand Ferranti secured a £2.5M contract for towed array sonar; this could place the company in a strong position for the Australian element of the ANZAC project. China remains a depressed market, but GEC Avionics are competing with the French to supply ASW equipment for use on Chinese Z9 helicopters, with a decision planned during October (£40M). In India the effects of the Bofors scandal and budgeting constraints have resulted in a significant slowdown in Indian procurement programmes. Japan has ordered a small quantity of Royal Ordnance 81mm mortar systems for evaluation: total requirements exceed £15M. The Republic of Korea Navy has now signed a contract to acquire 12 Westland Lynx helicopters and associated weapons (£100M), further requirements exist for 22 helicopters (£200M). Pakistan continues to show interest in the purchase of Type 23 frigates, although financial difficulties frustrate progress. A high level naval study group visited Pakistan to discuss options which might be considered along with the Type 23 frigates, although the upgrading of the two ex-RN Leander acquired during the quarter (£18M) now appears their top priority.

e. Africa

The Cameroon Presidential Guard have signed a contract with United Scientific (Alvis) for 39 Scorpion Light tanks and support variants (£44M). ECGD credit is essential and this is now under discussion in Whitehall. The Kenyan Air Force have signed a contract with Shorts for the supply of 12 Tucano training aircraft (£29M), including ECGD support. Lord Trefgarne visited Zimbabwe recently in support of the UK package to supply air defence radars and an integrated missile system (£120M).

Finally, the final figures relating to our 1987 performance have also now been assimilated. A brief resume is at Annex B.

I am sending copies of this letter to Bob Pierce (Foreign and Commonwealth Office), Carys Evans (HM Treasury), Jeremy Godfrey (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

Yours ever

Stan McCarthy

(S McCARTHY)
Private Secretary

ANNEX A

MAJOR CONTRACTS REPORTED DURING THE PERIOD

Airbase construction in Saudi Arabia	£950M
Alvis armoured vehicle update to Malaysia	£46M
Ammunition factory to Thailand	£39M
IHG medical support contract to Saudi Arabia	£22M
GEC aircraft avionics to USA	£11M
Marconi communication equipment to Jordan	£10M
Patrol boats to Eire	£8M
Marconi Stingray torpedoes to Thailand	£4M
Racal HF radios to Philippines	£3M

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT
SECRETARY OF STATE
Temporarily retained, C Wayland, 29/8/17

ANNEX B

1987 UK DEFENCE EXPORT PERFORMANCE

1. Last year was the United Kingdom's second best ever with signed contracts exceeding £3,400M, in comparison with the exceptional 1986 performance when signed contracts totalled £6,000M. With a 12.4% market share, the UK was the world's third largest supplier behind the USA and USSR; see Appendix A for details. The major markets for UK exports were Saudi Arabia, USA, Australia, NATO, Switzerland and Jordan (see Appendix B).

2.

Other highlights are:

- 1987 sales, excluding Saudi Arabia, rose to £2200 million.
- Sales to Europe (+100%) and USA (+5%) continue to rise.
- Our main market continues to be the Middle East.
- the main growth area was the supply of management services and construction projects.
- New markets are developing in NATO (£144M) and in SDI-related projects (£21M).

Regional Performance

3. Sales in the Middle East, outside Saudi Arabia, exceeded £300 Million with significant sales in Jordan for ships and army equipment and in Egypt, for construction projects and electronics. Sales in Oman were mainly of support equipment, whilst UAE has shown strong signs of recovery, with a large sale of radios and Bedford trucks.

4. North American sales increased to almost £650 Million, with the Canadian market showing signs of growth particularly for naval equipment. The award of a sole source definition contract to Westland/Agusta for the EH 101 helicopter is expected to lead to a large jump in sales in 1988/89. The US market was buoyant with major sales of Rolls-Royce aero-engines, aircraft avionics, 81mm mortars and 105mm Light Gun, Paxman diesel engines and Negretti Aviation NBC respirators.

5. European sales showed a significant increase, due in part to the sale of two communications satellites to NATO (£140 Million). In Switzerland a large sale of Hawk training aircraft was made. Aircraft equipment, particularly aero-engines accounted for a large element of sales to Italy. In West Germany, the navy was the main purchaser of a wide range of equipment, whilst there was a large increase in sales to Austria.

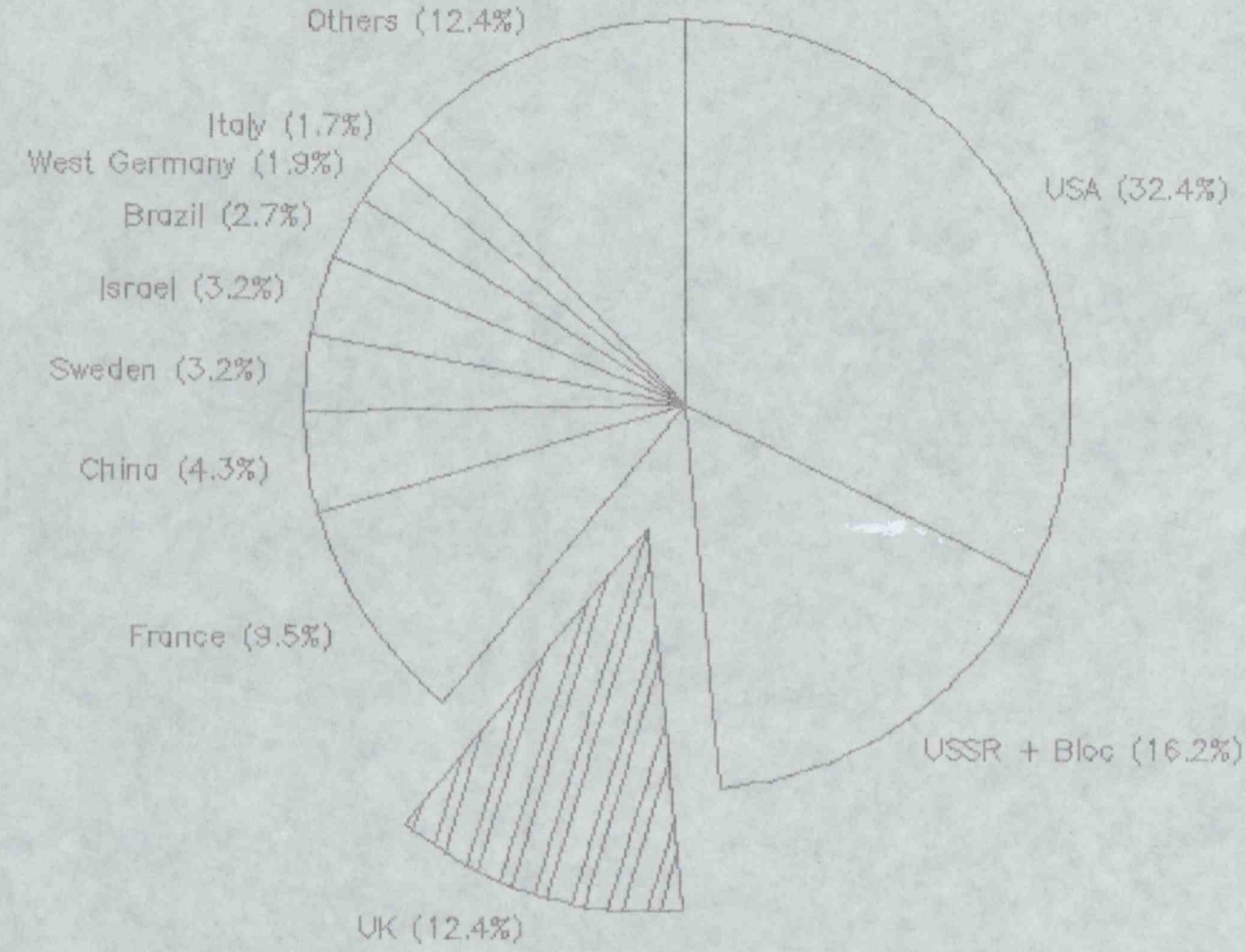
6. Sales in the Far East and Australasia (excluding India) rose in 1987, with Australia showing the most dramatic rise due to two large orders placed for equipment for their new submarines and a new radio system for the Army. In Japan and Korea the majority of sales were for naval equipment. Defence procurement by India fell over the period, due to investigations into the Bofors howitzer sale in 1986, with the major purchases being made by the navy for Sea Eagle missiles and aero-engines. The markets of Thailand, Singapore and Malaysia also show some promise.

7. In Africa sales continued at a similar level, with only a small number of contracts. The key markets in 1986 were Kenya with electronics sales and a contract for an update to Mombassa dockyard, whilst Botswana placed an order for some Strikemaster aircraft. Other markets where small sales were achieved were Algeria, Sierre Leone, Uganda, Zambia and Zimbabwe.

8. Brazil was the major customer in Latin America ordering a wide range of components both for its own use and for export. Mexico continued to place contracts for radio equipment, whilst Venezuela ordered a range of support equipment.

TOP TEN DEFENCE EXPORTERS 1987

(Based on estimated values)



APPENDIX A TO ANNEX B

APPENDIX B TO ANNEX B

UK Defence Exports in 1987

1. Geographical Breakdown by Value:

Region	Value (£M)
Africa	73
Europe	526
Far East & Australasia	339
Latin America & the Caribbean	57
Middle East	1586
North America	639
Unspecified	235
TOTAL	3455

2. Top Ten Customer countries by Value:

Country	Value (£M)
Saudi Arabia	1269
USA	607
Australia	163
NATO	144
Switzerland	129
Jordan	92
India	87
Egypt	83
Italy	75
West Germany	52

3. Breakdown by System:

Service	Value (£M)
Air Systems	1683
Land Systems	685
Sea Systems	278
Management & Service	698
Unspecified Service	111
TOTAL	3455

4. Top Ten Exporting Companies by Value:

1987	Rank 1986	Company	Value of Signed Contracts (£M)
1	1	British Aerospace	1503
2	3	Rolls-Royce	401
3	2	GEC	205
4	4	Royal Ordnance*	145
5	7	Plessey	139
6	6	Racal	122
7	-	Strachan & Henshaw	62
8	31	Pilkington Group	55
9	5	Ferranti International Signal	55
10	-	IHG	48

* Now part of British Aerospace.

5. Top Ten Contracts:

Product	Country	Value (£M)
Missiles & Ordnance	Saudi Arabia	733
Training	Saudi Arabia	396
Hawk	Switzerland	103
Communication Satellite	NATO	100
Pegasus engine	USA	79
Torpedo launching equipment	Australia	62
81mm Mortar	USA	53
Satellite communication payload	NATO	40
Military Townstrip	Egypt	40
SADAP	Saudi Arabia	39

10 DOWNING STREET
LONDON SW1A 2AA

MLE DG
cc MOD
HMT
FCO
DTI
PC

THE PRIME MINISTER

4 October 1988

Dear Sir Raymond,

Thank you for your letter of 26 September about the Memorandum of Understanding which as you know was signed by the Prime Minister of Malaysia and myself on 27 September.

The Memorandum of Understanding does indeed include a reference to the wish of the Malaysian Government to have a single prime contractor for the co-ordination of the programme for the various equipments covered by the Understanding. There is no doubt here about your company's ability to undertake such projects and to work closely with the Ministry of Defence. However, it is for the Malaysian Government to decide.

We still have further work to do before the selection of prime contractor for this project becomes an urgent issue. I suggest that you continue your discussions with the Ministry of Defence and the Malaysian authorities, to pursue your company's case.

Yours sincerely

Margaret Thatcher

Admiral Sir Raymond Lygo, K.C.B.

COMMERCIAL IN CONFIDENCE

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

MO 6/19/7L

30 September 1988

Dear Charles,

MALAYSIA MAJOR DEFENCE PACKAGE - PRIME CONTRACTOR

Thank you for your letter of ~~26~~ 29 September enclosing a copy of a letter that the Prime Minister has received from Sir Raymond Lygo.

The Memorandum of Understanding signed by the Prime Minister and Dr Mahathir on 27th September for the defence procurement package contains a clause under which the Malaysian Government will seek the nomination by MOD of a prime contractor to cover the range of equipment specified in the MOU. In an ideal world, the Malaysian Government should go along with our nomination. But it will not be as simple as that and we are likely to obtain informal indications of their preference before we make the nomination.

British Aerospace fear that the Malaysian Government may favour the appointment of GEC, who have a strong position in Malaysia, as the prime contractor. GEC have a company there manufacturing electronics, some of which are exported and they have worked hard to cultivate this market. They have also undertaken other measures, which have pleased Dr Mahathir, such as the training of Malaysian students in GEC facilities in the UK. The nomination of GEC would not be counter to UK interests: indeed there are advantages in encouraging a wider range of UK companies to be prepared to take on such a prime contractorship role.

However, we recommend that the Prime Minister should not become involved in the process of selection of a prime contractor. Selection is likely to be based on a number of factors not the least important of which will be customer preference; BAe should be devoting their attention to cultivating Malaysia in much the same way as GEC have. We suggest that the Prime Minister should be non-committal in the face of what is, in effect, an attempt by BAe to influence the customer through the Prime Minister after failing to do so direct. I attach a draft reply.

Yours sincerely,

Brian Hawtin

(B R HAWTIN)
Private Secretary

Charles Powell Esq
10 Downing Street

COMMERCIAL IN CONFIDENCE

Admiral Sir Raymond Lygo

DRAFT REPLY

Thank you for your letter of 26 September about the Memorandum of Understanding which as you know was signed by the Prime Minister of Malaysia and myself on 27 September.

The Memorandum of Understanding does indeed include a reference to the wish of the Malaysian Government to have a single prime contractor for the co-ordination of the programme for the various equipments covered by the Understanding. The experience and expertise of British Aerospace is, of course, well known to the Ministry of Defence and your company's ability to undertake such projects and to work closely with the MOD is appreciated and much admired. However, the wishes of the Malaysian Government will, of course, be paramount.

We still have further work to do before the selection of prime contractor for this project becomes an urgent issue. I suggest that you continue your discussions with the Ministry of Defence and the Malaysian authorities in order to pursue your company's case.

DEFENCE: Sales Pt II



cst.ps/6jm28.9/let

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CCPU

→ N. Powell

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

CDP
28/9.

28 September 1988

Dear Secretary of State,

ROLLS ROYCE HELICOPTER ENGINES

You referred to this matter in your letter of 26 September about the Malaysian arms sale.

I will not repeat my specific objections to the press release issued on 9 September. They were set out in my Private Secretary's letter of 6 September and repeated on the telephone on 9 September.

My concern is that, despite my opposition, it was decided unilaterally to go ahead with the press release. This was quite clearly contrary to the way that Government business is conducted.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

Yours sincerely,

P. Wardlaw

pp JOHN MAJOR

[Approved by the Chief Secretary and signed on his behalf.]


28.IX.
PM8

temporarily retained

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MDLIAN 0314

Money 5.12.2016

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FM MODUK
TO IMMEDIATE BRITISH EMBASSY RABAT
TELNO U/N
OF 261645Z SEPTEMBER 88
INFO PRIORITY FCO LONDON
INFO PRIORITY BRITISH EMBASSY RIYADH

Rec Minister
Your next target
CDS

SIC ABA/Z80
COMMERCIAL IN CONFIDENCE
RABAT PERSONAL FOR AMBASSADOR. FCO PERSONAL FOR HEAD OF NENAD.
RIYADH PERSONAL FOR MCKANE. FROM RMD2.
DEFENCE SALES.
1. YOU WILL WISH TO BE AWARE THAT VICKERS HAVE LEARNED FROM THEIR LOCAL SOURCES THAT THE MOROCCANS ARE ABOUT TO ASK THEM TO PUT TOGETHER A CONSORTIUM OF COMPANIES TO SUPPLY A MUCH LARGER PACKAGE OF DEFENCE EQUIPMENT GOING BEYOND TANKS AND GUNS, TO SHIPS AND HELICOPTERS.
2. IN REPLY TO THE OBVIOUS QUESTION OF WHERE THE MONEY WAS COMING FROM, THE MOROCCANS INDICATED THAT THEY HAVE BEEN PROMISED DOLLARS 4.5 BILLION OF ASSISTANCE FROM SAUDI ARABIA TO FINANCE PURCHASES OF DEFENCE EQUIPMENT. MOST OF THIS WILL BE SPENT ON UK EQUIPMENT (THE REMAINDER GOING TO FRANCE FOR MIRAGE 2000 AND THE US FOR LOGISTIC ITEMS). QUID PRO QUO IS THAT MOROCCO WILL PROVIDE MILITARY PERSONNEL TO TAKE THE PLACE OF PAKISTANI TROOPS CURRENTLY ASSISTING THE SAUDI FORCES. IT SEEMS THAT THIS DEAL WAS LARGELY NEGOTIATED DURING PRINCE SULTANS RECENT VISITS
3. IT SEEMS THAT FINANCE IS STILL TO BE DERIVED IN SOME WAY FROM SAUDI OIL. A GIFT OF 200,000 BARRELS A DAY FOR FOUR YEARS HAS BEEN REFERRED TO. ON A ROUGH CALCULATION THIS WOULD ADD UP TO ABOUT DOLLARS 4.5 BILLION BUT IT WOULD BE A DISTINCTLY DIFFERENT TYPE OF DEAL TO THAT PREVIOUSLY ENVISAGED WHERE SMIP WOULD ONLY DIVERT A MARGIN FROM THEIR PROFITS TO FINANCE THE ARMS DEAL.

4. TOTAL PACKAGE OF EQUIPMENT AS STATED BY THE MOROCCAN SOURCE IS QUANTITY 114 CHALLENGER TANKS, QUANTITY 114 VICKERS MARK 3 I TANKS, QUANTITY 40 TANK TRANSPORTERS, QUANTITY 36 OR QUANTITY 72 FH70, QUANTITY 5 FRIGATES (2,500 TONS) WITH LYNX HELICOPTERS, QUANTITY 8 PATROL VESSELS (500 TONS), QUANTITY 25 WESTLAND BLACK HAWK HELICOPTERS AND QUANTITY 12 PBN DEFENDER AIRCRAFT. WE ESTIMATE THE VALUE OF THIS AT AROUND POUNDS 1,500 MILLION.
5. AT THIS STAGE NEITHER WE NOR VICKERS ARE ABLE TO JUDGE HOW MUCH

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT.
R Stoney 5.12.2016.

CREDIBILITY WE SHOULD GIVE TO THIS INFORMATION

IN ORDER TO CREATE AN OPPORTUNITY THAT GENERAL LOUBARIS (WHO WE ARE INFORMED HAS BEEN APPOINTED BY THE KING AS CHAIRMAN OF THE COMMITTEE TO NEGOTIATE THIS DEAL WITH HMG AND THE BRITISH COMPANIES CONCERNED) TO TELL US SOMETHING OF WHAT IS INTENDED IF HE HAS A MIND TO,WE ARE ASKING YOUR DA TO ARRANGE FOR ME AND MY SUCCESSOR TO PAY A HANDOVER COURTESY CALL ON HIM ONE DAY NEXT WEEK. PURPOSE FOR VISIT SHOULD BE CAMA-FLOUGED WITH ONE OR TWO OTHER CALLS AS WELL.

6. WE HAVE NOT YET ADDRESSED THE IMPLICATIONS OF A DEAL ON THIS SCALE. FCO WILL NO DOUBT WISH TO LOOK AGAIN AT THE POLITICAL CON-SIDERATIONS, THE PRECISE NATURE OF THE FINANCING WOULD ALSO HAVE IMPLICATIONS FOR OUT ATTITUDE. NOR HAVE WE YET FORMED A FINAL VIEW ON HOW SUCH A DEAL MIGHT BE MANAGED AT THIS END, THOUGH EXPERIENCE WITH MAJOR PROJECTS WITH SAUDI ARABIA SUGGESTS THAT IT WOULD BE BEST IF VICKERS (WHO HAVE ALL THE LOCAL CONNECTIONS) WERE TO ACT AS PRIME CONTRACTOR FOR ALL THE EQUIPMENTS. BUT ALL THIS IS PREMATURE UNTIL WE ESTABLISH WHETHER THERE IS ANY TRUTH AT ALL IN THE STORY.

7. IF YOUR DA IS ABLE TO ARRANGE THE PROPOSED HANDOVER VISIT, WE MAY HAVE AN OPPORTUNITY TO DISCUSS THIS IN MORE DETAIL NEXT WEEK. OTHERWISE WE SHOULD BE GREATFUL FOR ANY FURTHER INFORMATION THAT YOU ARE ABLE TO PICK UP OR OTHER COMMENTS. IT IS HOWEVER IMPORTANT THAT AT THIS STAGE NOTHING IS SAID FROM OUR SIDE TO THE MOROCCANS BT

YYYY

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MR GOULDEN
SIR D MIERS

ADDITIONAL 3
PS/NO10

DDDN

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

ack/ 26 September 1988

I attach a copy of a letter the Prime Minister has received from Admiral Sir Raymond Lygo, Chief Executive of British Aerospace Plc.

I should be grateful for an early draft reply for the Prime Minister's signature.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury), Lyn Parker (Foreign and Commonwealth Office) and to Neil Thornton (Department of Trade and Industry).

C. D. Powell

Brian Hawtin, Esq.,
Ministry of Defence.

010

ccpc

BRITISH AEROSPACE

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

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

Direct Line: 01-389 3925

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

26 September 1988

Dear Prime Minister,

May I first of all express my gratitude for the personal effort you have put into the concept of the Package of Defence Equipment which we hope will be procured from United Kingdom Companies by the Government of Malaysia. I am pleased to hear that another major milestone should be achieved tomorrow with the signature of the Memorandum of Understanding.

I am currently given to understand the Package will contain not only a substantial proportion of British Aerospace equipment, but will also be financed through countertrade in oil and gas. In both these regards it suggests considerable similarity to the Saudi Arabian Package in terms of complexity, if not total value and UK MOD are using it as a model in their discussions with the Malaysian authorities. The task confronting the Malaysians has led to the inclusion of a request, within the MOU, for our Government to nominate a single Prime Contractor. The coordination of the Saudi Package leaves me in no doubt that such a task can only be undertaken by a major Defence Company and I believe British Aerospace is the preference of the Malaysian Ministry of Defence. British Aerospace wishes to undertake this task and I respectfully request, Prime Minister, your support of our aim.

I firmly believe the precedent that is being established within the ASEAN could be the start of a major expansion for our industry in the area and that the content and the conduct of the Package will be closely observed by Malaysia's neighbours. The track record of British Aerospace as Prime Contractor is one that I am sure you recognise and we would do our utmost to further promote the reputation of the UK industry in this important growth region.

Yours sincerely,

Ray Lygo

cst.ps/11jm26.9

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CHIEF SECRETARY TO THE TREASURY

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

26 September 1988

Dear Secretary of State

ARMS SALES TO MALAYSIA

Sir Geoffrey Howe kindly sent me a copy of his minute of Friday night on this subject and I have now seen your letter of 26 September.

I understand there has been further discussion between officials of MOD and ECGD about the interpretation of the term 'concessionary rates' in the MOU and the availability of interest make-up (IMU) under the fixed rate export finance (FREF) scheme for the particular transactions involved. MOD now accept that there is no question of providing IMU on this deal.

The important point at this stage therefore is to ensure that the Malaysians are not misled by anything which is said to them in negotiation. Your letter confirms that you envisage that the interest rate would be less than the full Malaysian rate which would be available without an ECGD guarantee. On that basis it should have been made clear in the MOU that 'concessionary rate' means no more than a favourable commercial rate. This would involve no cost to the Exchequer. If you feel that it would be tactically unwise to clarify the situation with the Malaysians in this way then I must insist that any costs which may arise will fall on the Defence budget.

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

Yours sincerely

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



CDP 26/9

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 6/19/7L

26th September 1988

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

Dear Chief Secretary,

You wrote to me on 23rd September about the MOU to be signed on Tuesday by the Prime Minister and Dr Mahathir. I have also seen Geoffrey Howe's letter of the same date.

Let me say straight away that I can understand your concern. Large sales of defence equipment more often than not involve in their negotiations difficult decisions which have to be dealt with quickly. Otherwise the psychological moment passes and the sale is lost. This was particularly so in the Malaysian case since, as you probably know, Dr Mahathir was under considerable internal pressure not to place this defence work with the UK without any form of international competition.

Almost at the end of the negotiations in Kuala Lumpur the question of terms of a bridging facility became a crucial point in the discussions. My officials of course know that normally in deals of this kind Consensus rate financing would be available but they also know that in this case before this could be formally offered Treasury and ECGD should be approached. There just was not time. Instead therefore they persuaded the Malaysians to accept the inclusion of the word 'concessionary'. This does not commit us to an interest rate even as low as Consensus. It means no more than that when the rate comes to be negotiated it will be less than the full Malaysian market rate which an ECGD guarantee on the financing would

The Rt Hon John Major MP

seem to ensure in any case. My negotiators therefore took the view that it was better to live with the word 'concessionary' than to run the very real risk of losing the whole deal. I understand that my officials are already discussing the detailed implications of this with yours; I am, of course, very happy for these discussions to continue.

Since there is no intention to depart from the practices normally followed in such cases I hope that this will not cause ECGD undue difficulty. In any event there can be no question of the UK defence budget being reduced in support of an export sale, as I have made clear in the past. I am also aware that as you point out Ministers have agreed to a maximum £250M ECGD cover. In the unlikely event it appears that more is required I will naturally approach you and David Young.

The bottom line of all this is a £2.5 Billion export deal achieved with a country with which we were hardly on speaking terms a few years ago. This must be good news. I agree with Geoffrey Howe that to insist on deletion would jeopardise the whole project: we must surely avoid this.

As for your point on the EH101 helicopter engine press release, that was, of course, a disagreement between our Departments of a very different nature; your description of it misrepresents the position and it would not be productive to address the issues in this letter. If you wish to return to it separately, I will, of course, listen to what you have to say.

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

Yours sincerely,

J Holston (Private Secretary)

George Younger

(Approved by the Secretary of State and signed in his absence).

24. IX.

CEPC

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

MO 6/19/7L

CDP 26/9.

26th September 1988

Dear Charles,

ARMS SALES TO MALAYSIA attached

You have seen the exchange of correspondence between the Chief Secretary and the Defence Secretary about a difficult phrase in the MOU with the Malaysians which the Prime Minister is set to sign tomorrow. This correspondence rests with the Chief Secretary's response of today's date to the Defence Secretary.

Normally of course such a difficulty could be worked out in consultation between our two Ministries. If the negotiation process in Kuala Lumpur had allowed we would certainly have sought the agreement of the Treasury and ECGD before we accepted that the possible credit finance would be at 'concessionary rates'. In the Defence Secretary's letter earlier today he described the background to this pressure on us and explained that 'concessionary rates' was a phrase which was consciously accepted by us as meaning no more than rates more favourable than Malaysian commercial rates. The strong advice we have from our negotiators is that if we attempt to clarify this phrase further at present there is a real risk that the Malaysians will pull out of the deal altogether. The meeting this afternoon to discuss some of the legal points in the MOU developed into a significant scaling down and reshaping of the original package. It was obvious that some of the less friendly Malaysian voices are starting to have some effect. We shall be letting you have a note of the impact of these revisions as soon as possible tomorrow morning.

Against this background and recognising the very severe time constraints against which officials have been working the Defence Secretary (who is currently as you know in Norway but who has been consulted personally) believes that the only safe way forward is to accept the phrase 'concessionary rates' and for MOD and Treasury officials to work towards ensuring that in the event that this credit finance is required by the Malaysians ways will be found to avoid any possibility of extra costs to the Exchequer.

Copies of this letter go to Stephen Wall (FCO), Neil Thornton (DTI) and Carys Evans (Chief Secretary's Office).

Yours sincerely,

John Colston.

(J P COLSTON)
Private Secretary

Charles Powell Esq
No 10 Downing Street


26 IX
PM 8

1. 010

CONFIDENTIAL

FCS/88/161

CDP 23/9.

CHIEF SECRETARY

Arms Sale to Malaysia

WITH CDP/DM?

1. Thank you for sending me a copy of your letter of 23 September to George Younger.

2. I share your concern that without prior consultation with other departments a controversial issue should have been introduced into the draft MOU, initialled in Kuala Lumpur, which the Prime Minister and Dr Mahathir are to sign in London on Tuesday. We cannot postpone signature at this stage without causing a great deal of harm.

3. We have already established that aid funds cannot be used in connection with defence sales and we have told the Malaysians that clearly. I need hardly add that no other part of the FCO budget would be able to contribute to the cost of any concessionary interest rates.

4. As you may know, there are several points where the text needs to be tidied up for legal reasons. FCO Legal Advisers are meeting the Malaysian Attorney-General at 10 a.m. on Monday to sort these out. If the MOD cannot find a way to finance concessionary rates as you suggest,

and if the only way to resolve the present problem is deletion - your other option - then it is vital that the MOD negotiators should warn the Malaysians in good time before the lawyers meet. We would otherwise be open to a serious accusation of bad faith. I am bound to say, however, that insistence on deletion at this late stage could jeopardise the whole package.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
23 September 1988



CONFIDENTIAL

CC PC

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

CDP
23/9.

23 September 1988

Dear Secretary of State,

ARMS SALE TO MALAYSIA

I am most concerned about the Memorandum of Understanding (MOU) which your officials have recently initialled with the Malaysians.

I am sure you will recall the difficulties earlier in the summer over the Protocol signed with the Malaysians. These difficulties arose from a reference in the Protocal to aid, and from a lack of consultation between our departments.

I now understand that the MOU contains the following passage:

> "the United Kingdom Government will ensure that the interest to be charged [on bank facilities for the Malaysians] will be at concessionary interest rates".

There was no consultation with the Treasury about this provision before the MOU was initialled despite the fact it is likely to have public expenditure implications.

This would be quite unsatisfactory at the best of times. It is doubly so in view of the difficulties with the Protocol. Moreover, this comes on top of the recent press release about the EH101 helicopter engine in which one of your Ministers went ahead with the announcement of the MOD's choice of the Rolls Royce variant (worth £450 million) despite the fact that I opposed it. There ha been no consultation with the Treasury or alternatives and no decision ha been taken on the requirement for such an engine. We simply cannot conduct business on this basis.

Insofar as the Memorandum is concerned I must ask you either to have the reference to concessionary interest rates removed from the MOU, or to agree that, whatever the public expenditure cost of the concessionary rate, it will be met by offsetting savings within the PES 87 constrained defence programme.

CONFIDENTIAL

I note that the estimated value of the package has increased to £2½ billion. Your officials have accepted that there will be funding shortfalls but cannot provide any estimate of the level of bank borrowing and ECGD cover, required. Ministers have agreed to £250 million (departmental maximum liability) ECGD cover for the bridging facility. No doubt you will approach David Young and me if the increase in the value of the package has implications for this figure.

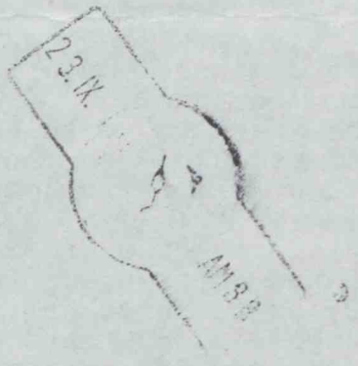
I am copying this letter to the Prime Minister, Geoffrey Howe, David Young and Sir Robin Butler.

Yours sincerely,

P. Warless

PP **JOHN MAJOR**

[Approved by the Chief Secretary and signed in his absence]



Prime Minister ②

COS 13/9

13/9

British Aerospace

Sir Raymond Lygo, KCB
Chief Executive

13th September 1988

Dear Prime Minister, no

Another thank you note for all your help in obtaining the Jordan order.

It seems an age since I was with you at Chequers with the King and progress has not been easy. Without your help however, it would not have been possible. Thank you.

Now for the next one!

Yours sincerely,

Ray

WBD M211/357/86-1

010

Sir Colin M Chandler
Head of Defence Export Services



Defence Export Services Organisation
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB
Facsimile 01-218 7082
Telex 22241
Telephone 01-218 3042

D/HDES/1/32

Mr D H Gillmore CMG
Deputy Under-Secretary of State
Foreign and Commonwealth Office
Room 37
Downing Street West
LONDON
SW1A 2AL

15/8

15 August 1988

Dear Mr Gillmore,

MALAYSIA - DEFENCE PACKAGE

1. I visited Malaysia from 9 to 12 August and a copy of my detailed visit report has been sent to Robin McLaren. My purpose in writing to you is to provide a summary of the present position for you and Charles Powell.

2. I had a 40 minute meeting with Dr Mahathir, accompanied only by Datuk Arumugam. Other meetings were held with the senior defence personalities. I de-briefed Nick Spreckley and Merrick Baker-Bates.

3. In summary, there was a general mood of confidence that the defence package would proceed and that it is expected to form the basis of a long deal with items being added from time to time, as the financing position permits.

4. Dr Mahathir was in excellent humour and he harked back to the initial meeting which he and I had had in London in July 1987 when the defence package was first mooted. He mentioned the ATP aspect saying that £70M was somewhat short of the figure of 20% of the defence package which Malaysia had sought. I emphasised the Prime Minister's message, pointing out its clear implication that, given good progress on eligible projects and with the passage of time, the figure of £70M need not be regarded as fixed. But the deal offered was exceptional in my experience and that despite record defence export business for the UK, there were no other instances of similar concessions by HMG. He came back by seeking ATP for a particular highway project, the proposed "Hill Resort Road". Although, as you know, because of the usually significant level of local content, highway projects do not normally attract much ATP, this is a somewhat unconventional project and ATP application could have a disproportionate significance in helping to reduce the profile of the whole ATP topic. Further details are likely to come to me in due course and I will pass these to the DTI and ODA. Similarly, sympathetic consideration of whatever aid is applicable to the

sail training ship project (mentioned to me by Dr Mahathir) would assist considerably given his commitment to the development of younger persons.

5. He agreed to instruct his negotiators to commence discussions on the MOU for the defence package and we should all breathe a collective sigh of relief, at least for the time being, if these get underway this week. Dr Mahathir continues to expect the MOU to be signed during his visit to this country next month. During that time we will be organising a visit by him to a defence company.

6. He is looking forward to the sail training ship being completed and being in Malaysia for CHOGM. Given the 12 month construction period for the vessel, this is tight but achievable.

7.

The visit also continued to confirm the influential position of Datuk Arumugam. He is clearly a confidant of Dr Mahathir and is regarded by him as his personal representative for the defence package. Our High Commissioner, having assessed Datuk Arumugam's influence, had worked hard on him to obtain acceptance of our position on the aid issue thus successfully countering the pressure from Daim. In these circumstances the message from the Prime Minister hit exactly the right note.

8. Although content to leave the issue of extra air services frequencies for MAS in the context of airline to airline discussions for the time being, Dr Mahathir made it clear that this issue would not go away. He knows full well that it is governments which decide frequencies, regardless of the ownership of national airlines.

9. I hope that the above is helpful. Although, as you know better than most, the only predictable aspect of Malaysia is its unpredictability, it does seem to be that the way ahead is now open on the defence package, at least for the time being and I am very grateful for the support you and your staff and Charles Powell have provided to telling effect recently.

Temporarily retained, Wayland. 31/8/17

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

Yours sincerely,

T C Evans.

pp HDES
(drafted by HDES and signed in his absence on leave)

Copy to:
Mr C D Powell, No 10.

Foreign and Commonwealth Office

London SW1A 2AH

12 August 1988

Prime Minister 4

Dear Charles,

I enclose a self-explanatory message for the Prime Minister from Shaikh Saad Al Abdullah Al Salim Al Sabah, the Kuwaiti Crown Prince and Prime Minister.

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

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

EMBASSY
OF
THE STATE OF KUWAIT
46 QUEEN'S GATE
LONDON S.W.7

سفارة دولة الكويت
لندن

Miss Ashdown
Please send via PS
to No 10 and copy to MOD.
GJ 11/8

10th August 1988

Ref : KKB72/88

The Ambassador of the State of Kuwait presents his compliments to the Foreign and Commonwealth Office and has the honour to enclose a message addressed to the Prime Minister , Mrs. Margaret Thatcher , from the Crown Prince , Prime Minister of Kuwait , Sheikh Saad AlAbdallah AlSalem AlSabah.

The Ambassador of the State of Kuwait avails himself of this opportunity to renew to The Foreign and Commonwealth Office the assurance of his highest consideration .

EMBASSY OF THE STATE OF KUWAIT UNITED KINGDOM

The Foreign and Commonwealth Office
London S.W.1.

EMBASSY
OF
THE STATE OF KUWAIT
46 QUEEN'S GATE
LONDON S.W.7



سفارة دولة الكويت
لندن

10th August 1988

To The Right Hon. Mrs. Margaret Thatcher

Prime Minister of the United Kingdom.

I received with much appreciation your message today and I would like to convey once again my sincere gratitude and that of the Kuwaiti Government for your readiness to help with our defence needs. As I wrote to you on 9 July 1988, this is a true reflection of our longstanding close relationship to which we attach special importance.

As you know, our Defence MinisterSheikh Nawwaf AlAhmed discussed with your Secretary of State for Defence Mr. George Younger,on his recent visit to Kuwait a number of topics relating to this issue. Our military technicians are interested in the Tocano trainer aircraft as well as a variety of other British made ground equipment.

I am sure you will be pleased to hear that my recent visit to Washington has been successful and fruitful , and that it will constitute a significant contribution to our common objectives.

Saad AlAbdullah AlSalem AlSabah

file JD 86

bc. PRE

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 August, 1988.

TORNADO FOR JORDAN

I enclose a copy of a message to the Prime Minister from the Italian Prime Minister about the provision of credit for the sale of Tornado to Jordan. As you will see, he says that the necessary procedures have not been completed and it is unlikely that they can be within the date suggested by the Jordanians. You will wish to consider what further action is needed.

(C.D. Powell)

John Colston, Esq.,
Ministry of Defence.

86 CCPR

The Italian Ambassador

Italian Embassy
4, Grosvenor Square
London, W. 1.

7290

12th August, 1988

Dear Charles,

I take pleasure in sending you the text of a message, together with its rough translation, addressed to the Prime Minister, from the Italian President of the Council of Ministers, Onorevole Ciriaco De Mita, in reply to Mrs. Thatcher's letter concerning the sale of Tornado aircraft to Giordania.

I should be most grateful if you could kindly pass the message on to the Prime Minister.

Yours sincerely,

Boris Biancheri

encl.

Mr. Charles Powell
Private Secretary
to the Prime Minister
10, Downing Street
L O N D O N SW1

SUBJECT : CC MASTOR OPS.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T124/88

ROUGH TRANSLATION

Prime Minister and Dear Friend,

I refer to your message of the 2nd August, 1988, concerning the sale of Tornado aircraft to Giordania.

I am glad to confirm that the Italian Government fully approves of this sale.

As for the conditions of granting the credit and the insurance from SACE, the relevant procedures have not yet been completed. I believe it is therefore unlikely that the whole process could be concluded within the date suggested by Giordania.

However, I can assure you that I have given the necessary instructions in order to have the matter examined in the shortest possible time.

With my best regards.

Ciriaco De Mita



From: Onorevole Ciriaco De Mita

To: The Rt. Hon. Margaret Thatcher, MP

Date: Rome, 11th August, 1988

TEXT OF THE MESSAGE

" Signor Primo Ministro e Cara Amica,

mi riferisco al Suo messaggio del 2 agosto scorso, concernente la vendita dei velivoli Tornado alla Giordania.

Sono lieto di poterLe confermare che il Governo italiano approva pienamente questa vendita.

Riguardo alle modalità di concessione del credito e della assicurazione da parte della SACE, le relative procedure non sono state ancora ultimate. Mi sembra pertanto improbabile che la intera istruttoria possa concludersi entro la data suggerita dalla Giordania.

Posso peraltro assicurarLe di aver dato le necessarie disposizioni affinchè la questione venga esaminata nei tempi più brevi.

Con i miei migliori saluti.

Ciriaco De Mita"

Il Presidente
del Consiglio dei Ministri

Already T'd.

Roma, 10 agosto 1988

Signor Primo Ministro e Cara Amica,

mi riferisco al Suo messaggio del 2 agosto scorso, concernente la vendita dei velivoli Tornado alla Giordania.

Sono lieto di poterLe confermare che il Governo italiano approva pienamente questa vendita.

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Posso peraltro assicurarLe di aver dato le necessarie disposizioni affinchè la questione venga esaminata nei tempi più brevi.

Con i miei migliori saluti

C. De Mita

S.E. Margaret THATCHER
Primo Ministro del
Regno Unito di Gran Bretagna
e Irlanda del Nord

L O N D R A

Mr Rowell

Fr mf.



J. Patrick MacAdam

Minister-Counsellor
(Press and Media)

Ministre conseiller
(presse et médias)

Canadian
High Commission
London

Haut-commissariat
du Canada
Londres

Tel. (01) 629-9492

PREM

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THE GAZETTE AUG 9 1988

Here's why Canada needs nuclear subs: minister

By PERRIN BEATTY

DIALOGUE
A column of opinion and commentary open to readers

• *Perrin Beatty is minister of national defence.*

OTTAWA — Very shortly, the federal government will be making a decision on which of the two competing submarine designs will launch the Canadian Navy into the next century.

The submarines have attracted a great deal of attention, but they are only a part of the picture for rebuilding our navy.

To meet our national maritime responsibilities and those to the NATO alliance, we are acquiring balanced force of modern frigates and helicopters, nuclear-powered submarines, long-range maritime aircraft, and seabed and mobile surveillance systems, supported by ships to identify and clear mines from essential ports.

In recent weeks, a number of questions have been asked about our proposal to acquire nuclear propulsion. I would like to address those questions head-on.

Let me start with the most frequently asked question: Can we afford them?

The answer is a most emphatic yes. The submarines have been costed in detail and the entire program will not exeed $8 billion, including the cost of infrastructure. Furthermore, this cost will be spread over a quarter of a century, averaging only $300 million annually, or 3 per cent of our total defence budget. This will enable Canada to patrol all three oceans and do it effectively.

We have not increased the amount of money allocated to the Navy by the previous government. We have merely re-ordered priorities to make it more effective. As well, during the quarter century of implementation, the submarines will represent an amount equal to less than one-half of 1 per cent of federal government social expenditures. Canada is not required to choose between a modern navy and social services. We can, and must, afford both.

Another question is this: Do these submarines contribute to the arms race?

They will not. First, they are nuclear-propelled, not nuclear-armed. We have no intention of acquiring nuclear weapons. Second, a fleet of 10 to 12 submarines is tiny in comparison with Soviet or American fleets. They are no more confrontational than our surface ships or our air force fighters. Canada is a peace-loving nation, a fact not changed by having a modern navy.

Do the submarines conflict with nuclear non-proliferation?

They will not. They are in no way a violation of the nuclear non-proliferation treaty, which we have signed and uphold. We are for arms control and disarmament.

We are also, however, a maritime trading nation with a need for a navy to patrol our waters.

Can we build these submarines in Canada?

Yes. Our shipyards, our electronics and engineering sectors, and our nuclear industry are more than capable of building these vessels in Canada. In fact, we expect well over 50,000 person-years of employment to result for Canadians. A process to ensure a competitive selection of industry to build the submarines is now being prepared.

Do we need nuclear-propelled submarines?

If you believe that Canada as a mature and sovereign nation should take responsibility for its own defence, the answer is yes. If you believe that Canada should patrol its own Arctic and not be a protectorate of some other nation, the answer is yes.

These submarines are also the most effective way of performing our traditional role of protecting shipping in the Atlantic and the Pacific. They are the *only* means of patrolling our Arctic. Someone's navy will be patrolling our waters. We want it to be Canada's.

If we are going to rebuild the Navy, then we should rebuild for the 21st century. The men and women who serve and will serve our nation in our Navy are asked to perform a dangerous task; we owe them the tools to do the job, safely and effectively. Most important, the defence of Canada is too important to be simply contracted out to someone else.

Other political parties have declared that they will not support a nuclear-powered submarine program should they be offered the opportunity to govern. However, they have not explained how, in the absence of such a program, the Navy can meet its responsibilities to defend Canada.

Let me put the challenge directly to the critics of the government's program.

Canadians know where we stand. In contrast, the other parties have told you what they are against, but not what they're for.

Surely anyone who opposes buying nuclear-propelled submarines has an obligation to level with us. Would they rebuild the Navy in another way? If so, how would they do it and what would be the cost? If they would simply drop the money from the defence program and spend it some other way, what is the price they're prepared to pay in terms of Canada's security and sovereignty? It's time for straight answers.

This government is determined to take our defence responsibility seriously and to ensure that we get the best value for our defence dollar.

In so doing, we will help build the sort of Canada that we all want to pass on to our children — sovereign, secure, prosperous and free.

THE CITIZEN

JUL 30 1988

Sub fleet could hurt pact: study

Document reveals DND doubts about nuclear subs purchase

By Iain Hunter
Citizen staff writer

A Canadian fleet of nuclear-powered submarines would fire a torpedo into the world's fragile nuclear non-proliferation system, a National Defence study warns.

The previously-secret August 1987 report notes that Canada would be the first country without nuclear weapons to use a loophole in its agreement with the International Atomic Energy Agency to get a nuclear propulsion system for a military vessel.



Beatty
Within rights

This would remove from international safeguards inspection the nuclear material needed for its submarine program and set a precedent countries less committed to non-proliferation might follow, it argues.

The study acknowledges Canada has the legal right to take this step. But it warns it might undermine confidence in the 1968 Non-Proliferation Treaty just before it comes up for review in 1990.

"Canada could, unwittingly and over the long run, contribute to undermining some of the main premises of the NPT, a development which would have serious effects on international strategic stability," it says.

Defence Minister Perrin Beatty and his officials have argued the acquisition of a nuclear-powered submarine fleet is allowed under the safeguards treaty and doesn't contravene non-proliferation commitments made by Canada.

But the document reveals for the first time serious doubts within Beatty's own department about the wisdom of going for nuclear-powered subs instead of conventional diesel-powered boats.

Cabinet was supposed to have chosen between a British and French version of the nuclear submarine in March. It has not done so yet and there have been reports the nuclear option is no longer a certainty.

The defence paper was obtained by the Canadian Centre for Arms Control and Disarmament under the Access to Information Act.

It was prepared by an anonymous departmental analyst in August of 1987, two months after Beatty announced the nuclear fleet would be purchased.

Tauriq Rauf, senior research associate at the centre, said the document acknowledges "that any break in the IAEA (International Atomic Energy Agency) safeguards or on-site inspection coverage would undermine the political reliability of the system."

The study argues the Non-Proliferation Treaty is not an arms control treaty between nuclear powers that can be interpreted legally.

It is, instead, an "unequal bargain" between states with nuclear weapons and those without them that depend on "political confidence" for survival.

Canada would be undermining this confidence by using its legal right to acquire nuclear-powered submarines, the paper says.

Another defence department study obtained by Rauf's organization under the access law agrees Canada would be setting a precedent by bypassing international safeguard inspections but downplays the danger. The study, prepared in November last year, says few other countries likely will want nuclear subs.

TORONTO STAR

JUL 30 1988

U.S. claims legal right to tap Lake Michigan

WASHINGTON (CP) — Trade Minister John Crosbie may have plugged a hole in his free trade bill this week, but it appears he can't stop future American attempts to divert water from the Great Lakes to the U.S. Midwest.

Spurred by opposition demands, Crosbie amended the proposed free trade agreement to bar large-scale exports of water to the United States.

But a U.S. official said yesterday the agreement can't prevent future American moves to divert Great Lakes water to the Mississippi River, especially if there's a repeat of this summer's drought.

Canadian approval is not needed for large-scale diversion of Lake Michigan, since the lake is completely within American territory and not covered by the 79-year-old Boundary Waters Treaty between the two countries.

"My layman's understanding (of the treaty) is that diversion from Lake Michigan can be done without Canada's consent," Edward Dickey of the U.S. Army Corps of Engineers said in an interview.

Two weeks ago, the Corps of Engineers rejected a request by Illinois Governor Jim Thompson and several states along the Mississippi to divert water from Lake Michigan into the Mississippi through the Illinois River and the Chicago canal.

Canada vehemently objected to the diversion plan because it could lower water levels in the four other Great Lakes, jointly managed by both countries.

THE CITIZEN OTTAWA AUG 10 1988

Sub program threatens U.S. security: document

By Jonathan Manthorpe
Southam News

The Canadian nuclear-powered submarine program presents numerous perils to United States' security, says a congressional research paper.

The paper was prepared in July for senators and congressmen whose approval may be required if Canada chooses the British Trafalgar class design which contains U.S. nuclear reactor technology.

The paper questions whether U.S. nuclear submarine secrets — "a national 'crown jewel' that helps the U.S. Navy remain qualitatively superior to the larger Soviet fleet" — can be safely passed to Canada without risk of being leaked to the East Bloc.

Canada's need to quickly attract talented submarine engineers could lead to a "brain drain" from the U.S. and "provide a human conduit by which the most advanced, up-to-date, and sensitive U.S. naval nuclear propulsion breakthroughs could be transmitted to Canada without U.S. approval," says the paper.

The paper notes that one of Canada's aims is to reinforce its claim to sovereignty in Arctic waterways, a sovereignty which the U.S. disputes. Why should the U.S. help Canada against its own interests, the paper asks, and suggests the two navies may have difficulties working together.

The paper was acquired by the independent analysis group, the Canadian Centre for Arms Control and Disarmament.

After the lengthy presentation of all the reasons not to give Canada permission to build the Trafalgar class submarine, the reasons for agreement are given in short and brisk form.

Canada has a good record of protecting U.S. secrets, the paper says.

And it points out that U.S.-Canada relations could be badly damaged by a congressional refusal.

The paper ends by reporting the view that opponents in the U.S. are only trying to avoid the inconvenience of having to co-ordinate nuclear submarine activities with Canada and are displaying "a knee-jerk sense of possessiveness about (U.S.) naval nuclear propulsion technology."

CONFIDENTIAL

BF

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

MO 6/17/3L
MO 6/17/7

9th August 1988

Dear Duty Clerk,

TORNADO SALES

Further to Andy Bearpark's letters of 2nd August to Brian Hawtin on the sale of Tornado IDS to Jordan, and to myself on the possible sale of Tornado to Kuwait, I enclose as requested copies of the telegrams forwarding the Prime Minister's messages.

Yours sincerely,
John Colston.

(J P COLSTON)
Private Secretary

Duty Clerk
10 Downing Street

CONFIDENTIAL

[redacted]

67

C O N F I D E N T I A L

CAF107 02/1635 215A3659

FOR CAF

PRIORITY/ROUTINE 021510Z AUG 88

FROM MODUK
TO BRITISH EMBASSY KUWAIT
INFO FCO LONDON

C O N F I D E N T I A L
SIC ACA/A2P/ZMC
FROM APS/SECRETARY OF STATE FOR AMBASSADOR.
FCO FOR PS/FOREIGN SECRETARY.
SUBJECT: TORNADO: PM'S MESSAGE.
GRATEFUL IF YOU WOULD ARRANGE FOR FOLLOWING MESSAGE FROM THE PRIME INISTER TO BE PASSED TO SHAIKH SAAD (NO ORIGINAL):
QUOTE. I LAST WROTE TO YOU ON 7TH JULY 1988 WHEN YOU WERE IN LONDON ON YOUR WAY TO THE UNITED STATES. I WFAS 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 WHOULD 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 WITH TO DO SO. 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. UNQUOTE
BT

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C O N F I D E N T I A L

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FOR CAF

PRIORITY/ROUTINE 021515Z AUG 88

FROM MODUK
TO BRITISH EMBASSY ROME
INFO FCO LONDON
BRITISH EMBASSY AMMAN

C O N F I D E N T I A L
SIC ACA/A2P/ZMC
FROM APS/SECRETARY OF STATE FOR AMBASSADOR.
FCO FOR PS/FOREIGN SECRETARY
SUBJECT SALE OF TORNADO TO JORDAN: PM'S MESSAGE TO DE MITA.
GRATEFUL IF YOU WOULD ARRANGE FOR FOLLOWING MESSAGE FROM THE PRIME MINISTER TO BE PASSED TO SIGNOR DE MITA AS SOON AS POSSIBLE (NO ORIGINAL).
QUOTE . 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 15 TH 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. UNQUOTE.
BT

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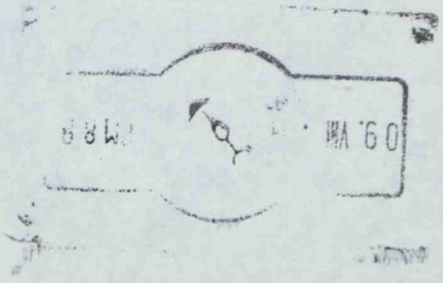
*END

C O N F I D E N T I A L



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FM AIRBORNE
TO CABINET OFFICE 011 IMMEDIATE
BT

C O N F I D E N T I A L

FOLLOWING FOR ANDY BEARPARK, 10 DOWNING STREET
FROM CHARLES POWELL, AIRBORNE

SALE OF TORNADO TO JORDAN AND KUWAIT

THE TWO MESSAGES ENCLOSED WITH BRIAN HAWTIN'S LETTER OF 28 JULY TO ME CAN ISSUE. IN THE KUWAIT MESSAGE PLEASE DELETE THE FIRST THIRTEEN WORDS OF THE THIRD PARAGRAPH.

CDP

GRS00000
NNNN

MJ2 CPO

apl

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 August 1988

SALE OF TORNADO IDS TO JORDAN

Your letter of 28 July to Charles Powell refers. The Prime Minister is content for the message to issue and I should be grateful if you could now arrange this. If a signed original is required we can provide this on her return from Australia.

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

P.A. Bearpark

Brian Hawtin, Esq.,
Ministry of Defence.

MJ2CPP

apc

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 August 1988

TORNADO FOR KUWAIT

Thank you for your letter of 29 July. The Prime Minister has confirmed that the message attached thereto may issue with the deletion of the first thirteen words of the third paragraph. Could you please now arrange this. If a signed original is required we can provide this on the Prime Minister's return.

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

P.A. Bearpark

J.P. Colston, Esq.,
Ministry of Defence.

Rio

COVERING CONFIDENTIAL

MR. POWELL

I attach two letters from MOD. The first dated 28 July concerns the sale of Tornado to Jordan, and that dated 29 July is about Tornado for Kuwait.

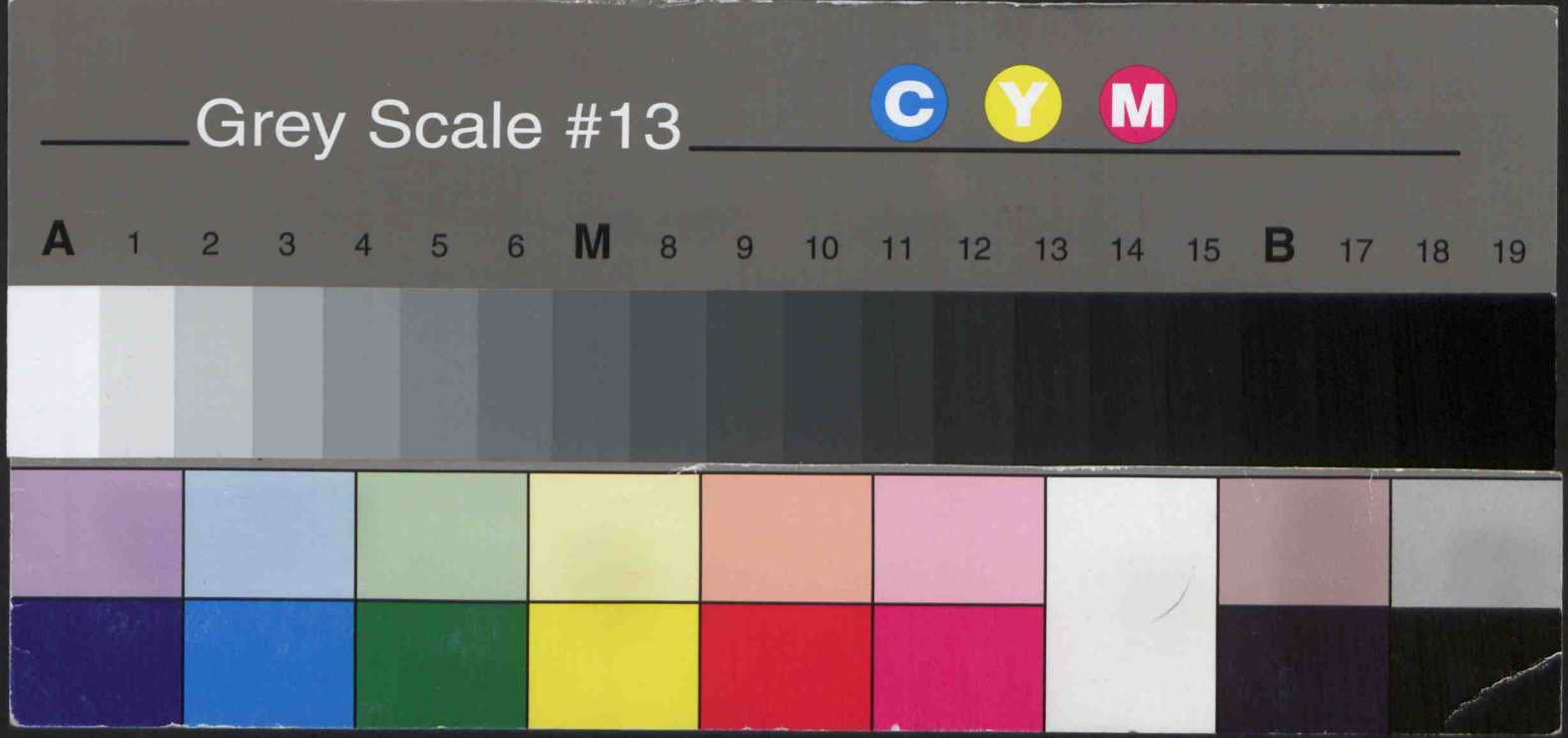
Would you like to clear the messages concerned with the Prime Minister, and let me know what arrangements you wish me to make from this end.

P. A. BEARPARK

1 August 1988

COVERING CONFIDENTIAL

TOP 01124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