PREM 19/2931

SECRET

CONFIDENTIAL FILING.

Defence Sales

DEFENCE

PT1: September 1980

PT12: March 1989

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PREM 19/2931

PART 12 ENDS

PART 12 ends:-

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PART 13 begins:-

CDP to [redacted] 3.7.90

CONFIDENTIAL UK EYES A

PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE PROCUREMENT

USofS(DP) V1/90

27 February 1990

Secretary of State

Copy to : See Distribution

VISIT TO SINGAPORE AND BRUNEI

As you will be aware, I made a first visit to South East Asia from 10 to 17 February. The timing of my visit was determined by the opening of Asian Aerospace '90 on 14 February, but my principal objective was to discuss UK defence export prospects in Singapore and Brunei. I am most grateful for the hospitality and support provided by the British High Commissioners and their staffs in both countries and also for help given by my escort officer in Singapore, Lt-Col Kam Heng.

Singapore

2. I was most impressed by the commercial energy and vibrancy of Singapore. Activity on the diplomatic circuit was greatly heightened by the presence of many official and industrial visitors to Asian Aerospace. The Sultan of Brunei was making his first official three-day state visit since attaining independence; the Sultan of Johore was another prominent guest and, at the last minute, the Malaysian Minister of Defence, Tengku Ahmad Rithauddeen, agreed to attend, after an intergovernmental rift over repeated overflights by Singapore Flying Club pilots in unauthorised Malaysian airspace, thought to be crude attempts at espionage. In addition, the Soviet Prime Minister arrived for another first visit on the Friday. In the circumstances of this hectic week, there was little opportunity for formal contacts, but I had a useful meeting with Lim, First PUS in the Ministry of Defence (full note attached), in which some progress was made on our concept of a UK-Singapore Memorandum of Understanding on longer-term defence equipment cooperation. I shall be keen to follow this up.

CONFIDENTIAL UK EYES A

3. As the guest of the First Deputy Prime Minister, Goh Chok Tong, I attended the first day of Asian Aerospace '90. This exhibition is now third only to Farnborough and Paris, having expanded by half as much again since the last occasion. Some seventy British companies were exhibiting, many under the umbrella of the Society of British Aerospace Companies. The number of stands inside the hall was encouraging; less so was the paucity of British aircraft in the static display (I saw only three, including a Thai Airlines BAe 146) and I was positively disappointed at our total absence from the flying display, where the Soviet Su-27 was, predictably enough, the star attraction, followed by the French.

4. My overall impression of our exports position in Singapore is that we have much ground to make up, but that close historical links between the UK and Singapore create a background against which determined commitment from us in Government and from industry could achieve important progress. For the moment, however, they seem keener (as exemplified by a brief visit to Singapore Shipbuilding and Engineering, the yard that would build any Singaporean MCMVs) to obtain information and know-how from us than to place orders for hardware.

Brunei

5. My short visit fell into two parts - a day in Bandar Seri Begawan in which I called on Major-General Pengiran Ibnu, the Deputy Minister of Defence and a key adviser to the Sultan, and a day in Seria with the 10th Gurkha Rifles.

6. I called on Pengiran Ibnu in the Royal Palace in Bandar (a fuller note of the meeting is attached). The meeting was not very satisfactory. I went through most of the many bilateral issues without getting any substantive response. The main problem remains the Offshore Patrol Vessels, where the Swan Hunter intervention with the Sultan continues to be extremely damaging; and, although there were some more encouraging straws in the wind elsewhere in the meeting, my impression is that the Bruneians treat their acquisition programme as a package and that it will remain stalled in the rather creaky Bruneian committee machinery while the Sultan has reservations about the OPVs. I have now followed up Ibnu's strong, if unsupported, words of encouragement with a letter stressing the need for progress. If this produces no sign of progress, and HDES's forthcoming visit does not either, we may have to consider, as a last resort, a message from the Prime Minister to the Sultan to reinforce the points she has conveyed in previous meetings.

7. After a brief visit to the embryonic Bruneian naval base at Muara on my second morning, I had a most interesting day with 10 GR at Seria; nothing of overriding importance emerged but I was impressed both with the training facilities Brunei offers and with the full use made of them by the Training Team Brunei.

8. British defence industry is generally well-placed in Brunei. But we need to avoid both complacency and the very hard sell; the Bruneians are aware of their wide-ranging lack of expertise, but a good deal of delicacy is necessary in offering them help by way of remedy.

Conclusion

9. South East Asia is a market of growing importance to the British defence industry. Competition is fierce, but our historic connections with the area and our existing commitment through the Five Power Defence Arrangements to its peace and stability should give us a strong position to build on the considerable success already achieved. The creation of the Counsellor (Defence Supply) post in Kuala Lumpur has amply justified itself by its results, and continued evidence of interest and commitment on the part of MoD Ministers will be very valuable.

M.N.

MICHAEL NEUBERT

Distribution:

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FCO - SEAD
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NOTE OF A MEETING HELD AT THE MINISTRY OF DEFENCE, SINGAPORE, ON 13 FEBRUARY 1990 AT 0930

Present:

United Kingdom	Singapore
Michael Neubert MP (US of S(DP))	Lim Siong Guan (First PUS (Defence))
Sir Michael Pike (BHC Singapore)	Col (res) Peter Ho (Deputy Secretary (Policy))
Brendan Breslin (Counsellor(DS), KL)	A notetaker
Gp Capt T Hindmarsh (DA, BHC Singapore)	
Rupert Holderness (PS/US of S(DP))	

Mr Neubert opened by commenting on how impressed he was by Singapore and the activity surrounding Asian Aerospace '90. There was a large UK industrial interest in the area, and he looked forward to the further development of defence relations between the UK and Singapore.

Sir Michael and Mr Breslin continued by explaining our concept of an overall Memorandum of Undertaking on defence equipment cooperation between the UK and Singapore. This would provide a general framework covering such issues as the services that HMG would provide in support of a Singaporean procurement of UK equipment, the training that the UK services could offer, and offset and technology transfer. Such an arrangement would provide an umbrella for the various individual projects in prospect, specific details of which could be covered and annexes to the main MOU. It would thus make the UK handling of individual issues much smoother, as well as providing both sides with a useful assurance of general political commitment to long term cooperation an partnership in the defence equipment field.

Focussing particularly on the MCMV project, the UK view was that a project of this complexity would require a wide partnership between the source nation and Singapore not just in terms of procuring the ships but also in terms of the sciences of minehunting and of related areas, such as hydrography. The hardware would need to be supported by an awareness of advancing technology, and the MOU would allow this to happen. Our belief was that we had the best technology on offer, and we were keen to supply the Singaporeans with the relevant expertise, but there clearly had to be benefits for us too.

In general, we would be interested to know what the Singaporeans would seek in terms of wider government support for particular industrial bids: would joint proposals, for instance, be suitable?

Responding, Mr Lim explained that he was sceptical about the value of a MOU, but that he was willing to be flexible, especially given assurances that an overall MOU would not circumscribe Singapore's options or commit the Republic to buy particular British equipments. If the MOU would help the Republic get the services it wanted, there would be interest in the idea, which could perhaps be pursued with the 2nd PUS, who dealt with procurement.

On joint proposals, he believed that these might not be appropriate. But training facilities and other government support were obviously relevant, and HMG could show separately what it could do in support of UK industry; explicitly linked proposals would not be of interest.

Moving on to the wider defence field, there was brief discussion of the attendance of UK and Singapore officers at staff colleges in each other's countries; Gp Capt Hindmarsh explained our particular appreciation for the flexibility the Singaporeans had readily shown over a short-notice opportunity for an officer to attend the Staff College in Bracknell. There was also brief discussion of UK involvement in FPDA exercises, where Sir Michael said that we hoped to continue to have regular deployments, both before and after 1997; our withdrawal from Hong Kong would not affect our FPDA commitment, since the peace and stability of the ASEAN area was of importance to us, and we felt that the FPDA maintained confidence in the area.

The meeting closed rather abruptly at 1010.

NOTE OF A MEETING HELD AT THE ISTANA NURUL IMAN, BANDAR SERI BEGAWAN, BRUNEI DARUSSALAM, ON 15 FEBRUARY 1990 AT 1430

Present:

United Kingdom	Brunei
Michael Neubert MP (US of S(DP))	Major-General Pengiran Ibnu (Deputy Minister of Defence)
Roger Westbrook (BHC Brunei)	Dato Sidek (PUS (Finance), Brunei MoD)
David Offer (ARMD3b)	Brig-Gen Sulaiman (Chief-des of the Armed Forces Staff)
Rupert Holderness (PS/US of S(DP))	Dato Pehin Col Ishak (Staff Officer to Pengiran Ibnu)
	another

A wide range of issues were discussed briefly in a friendly atmosphere. Ibnu, for reasons that remain unclear, was unforthcoming on detailed matters, and received little support from his officials.

Pengiran Ibnu opened by welcoming Mr Neubert's visit at a time when a big projects were being processed in Brunei. He hoped to finalise requirements for the ships and aircraft soon. On the former, the Swan Hunter letter had raised queries in the Sultan's mind which had not yet been resolved. He had not had final answers or recommendations from the Operational Requirements Committee, but hoped to be able to pursue some of the outstanding points with the Managing Director of Vosper Thornycroft when he called on 20 February; he would fax these direct to VT. He was grateful to Mr Neubert for his letter about the status of Ferranti, in relation to the OPV electronics fit; he was keen personally on the Ferranti option, as the Malaysian choice of the same system would lead to commonality of maintenance. In response Mr Neubert said that the Swan Hunter intervention was regretted and that we had told the company so. We remained of the view, as confirmed by HDES's letter, that VT's technology and skills were very good.

Ibnu said that he was anxious to make good progress on the aircraft too, as also on the infrastructure aspects, where he foresaw no problems. He noted that "the ball was already rolling on training too". In response to a question from Mr Neubert about the C3I aspects and the EASAMS consultancy, Ibnu said that he had given the go-ahead for the consultancy, but also that he was looking at various proposals. He confirmed that C3I was indeed part of the overall requirement.

In response to a question from Mr Neubert about whether we could help with procurement expertise, Ibnu said that he was grateful for our offers but could not say yet what help might be needed. He had sent people to Singapore and to Malaysia to see how they handled things and to look at the question of prime contractorship. But he would "try his best to get things going as soon as possible".

Ibnu confirmed that the Bruneians would need some if not all of the present Loan Service Personnel beyond the current commitment, especially if current projects proceeded. He was sure they would be needed for project teams and might also be required for the infrastructure later on. In response to a question from the High Commissioner on the arrangements for managing the project, Ibnu said that they would be going over the project teams for each project, including the infrastructure, plus an overall steering committee. LSP would be involved in all of these. The aircraft project team could cover both the Hawk and the MPA.

Ibnu confirmed, in response to a question from Mr Neubert, that Racal's bid for the radar fit for the MPA "seemed to be preferred". IPTN had a strong relationship with Boeing, but, as the end user, the RBAF could specify the equipment. Boeing's equipment was too bulky and too sophisticated. UK assistance could be sought on the MPA also.

Ibnu said that he would be unable to host the dinner in the evening - Dato Sidek would stand in - and, in response to the High Commissioner's point that the companies who were relying on the Bruneian ISDs, were finding it difficult to proceed without progress on contracts, said that he appreciated their position and would "do his utmost to get things going".

There was apparent relief on the Bruneian side when the production of the visitor's book for signature brought the meeting to an end.

Prime Minister

I am not sure you will have time for a separate meeting with Alan Clark at Chequers: and it would infuriate Tom King who is the Minister responsible Jan 90 for these issues

I suggest that I say that I have consulted

Spoken to Mr Clark. CDP

MINISTER OF STATE FOR DEFENCE PROCUREMENT

CONFIDENTIAL 26/1

Dear Charles

There are two points that I should like to raise with the Prime Minister privately after lunch on Saturday.

I give notice of them in case you should recommend against doing so, or in case her views would make it unecessary.

First; Peter Levene has been invited by Arnold Weinstock to take his place as Chairman of GEC. Rather than pass his, 'quarantine' period in Rothchild's, it was suggested that he should take command for a year of the Power Divison (which has no Defence interests or overlap), and go without a seat on the main Board.

I am strongly in favour of this suggestion. I have formed the highest opinion of Peter Levene during the six months that I have worked closely with him and, as the Prime Minister herself knows, I have a low opinion of the majority of British industrialists formed, or I should say confirmed, during my tenure as Minister for Trade. They simply are not up to the standard in terms of drive, intellect, or physical rigour, of their foreign counterparts. So I wholly welcome the possibility of someone of Peter's quality making an early entry to the commanding heights of the private sector. But of course I recognise that there are considerable sensitivities, scope for a row, indignation in the Defence Committee etc. etc. Personally I am quite prepared to face out all these. I have had a quick word with Michael Quinlan and he was supportive of the idea although, predictably, more apprehensive than I of the resultant furore.

The second topic, which I recognise may not be especially well received, is my desire to re-open the subject of selling the Hawk to Iraq. Chevenement is in Baghdad at the moment and trailing round the Middle East generally bad-mouthing British defence equipment and soliciting deals from which our own scruples (not shared by me I hasten to say) have excluded us.

you and:

— on the first point, we would have to go through the normal procedures & you are sceptical of his idea;

— you remain dubious about Hawk & Iraq, but will look at a formal submission. Agree? CDP 25/1

Yes mt

I admit the Iraqis are a nasty lot but they seem to have stopped gassing the Kurds and anyway the Hawk was quite unusable in this role. The stakes are very high in terms of market penetration and the balance of trade. I am satisfied that there will be no load on the public purse through ECGD. I would like to convey to the Iraqis that we would consider opening this topic afresh if they were to release Ian Richter who has been held in prison on a trumped up charge as a hostage against our own imprisonment of one of their asassins.

I am of course diffident about intruding on the Prime Minister's time on a Saturday afternoon and will welcome any guidance which you can give me verbally at some point during the morning, if you choose, or else telephone me at MOD (I will be in Plymouth all day Friday).

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

17 January 1990

SUBJECT cc OPS MASTER
Filed as DEFENCE: Sales PT12

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T8/90

Dear Prime Minister,

Thank you for your letter of 29 December about the future purchase of helicopters for your new frigates.

I understand that since you wrote, the Portuguese Navy has announced that Lynx will be chosen for your new frigates and that Westlands have been invited to enter into contract negotiations for the procurement of five Lynx helicopters. I am very glad indeed to learn this. The Lynx is an excellent, well proven helicopter in service with many NATO nations and it will serve the Portuguese Navy well.

Our Defence Secretary, Tom King, has written to Senor Brito about the British Army's requirement for all terrain vehicles, confirming that UMM will be invited to respond to our forthcoming tender request. I hope UMM will do so, and any response they put forward will be given the fullest consideration.

I send you warm good wishes for 1990.

Yours sincerely

Margaret Thatcher

Professor A. Cavaco e Silva

CCPC

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

MO 14/26S

15th January 1990

Dear Dominic,

LYNX FOR PORTUGAL

As requested in your letter of 2nd January I attach a draft reply from the Prime Minister to the Portuguese Prime Minister's message of 27th December. Ref (A)

I also attach a copy of the letter from the then Portuguese Defence Minister - Eurico de Melo - to my Secretary of State (and to which the Portuguese Prime Minister refers) together with a copy of the reply my Secretary of State will be sending.

The terms of the letters from both the Portuguese Prime Minister and Defence Minister are somewhat puzzling in that they indicate that a final decision on the procurement of Lynx has yet to be taken. This is at variance with information provided to our Ambassador in Lisbon, who learned right at the end of 1989 that the Portuguese Defence Minister had informed the Portuguese Navy that he had decided to purchase Lynx. Since then the Navy have informed the Portuguese press that Lynx will be chosen and have invited Westlands to open contract negotiations. The situation has been further confused by the departure of de Melo who has been replaced by Carlos Brito.

Further discussions with Lisbon have failed to shed any more real light on the situation but we believe that the Portuguese Ministers' letters have probably been overtaken by events (they predate the Portuguese Navy's announcement in Lisbon and the communication to Westlands). As you will see, this is the assumption my Secretary of State has made in his letter to Sr Brito.

Dominic Morris Esq
No 10 Downing Street

The reference in the Portuguese Ministers' letters to the linkage of a UK procurement of all terrain vehicles to a favourable decision on Lynx is also puzzling. This was first raised with our Lisbon Embassy last month but, at that time, our Ambassador was assured that a vehicle purchase by the UK was certainly not a condition of a favourable decision on Lynx. Given the assistance HMG is already providing on a Lynx purchase - £6.1m plus some free navy to navy training - and the fact that Westlands will be obliged to offer 100% offset, further quid pro quo demands are surprising. Nevertheless we do intend to invite the Portuguese manufacturers of the all terrain vehicle to bid for the forthcoming British Army requirement and any bid UMM choose to make will be given proper consideration. My Secretary of State deals fully with the point in his own letter and I suggest the Prime Minister can dispose of it quite simply in her own reply.

Yours sincerely

Ian Woodman.

(I M WOODMAN)
Private Secretary

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 14/26S

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

January 1990

May I offer my warmest congratulations on your recent appointment as Portuguese Minister of Defence. I wish you well in your new post and look forward to working with you to further develop the excellent co-operation that exists between our Armed Forces.

You will know that your predecessor, Sr Eurico de Melo, wrote to me on 27th December about the forthcoming decision on the helicopters for your new MEKO Class Frigate.

Since then I have learned of the Portuguese Navy's announcement on 2nd January that the Lynx has been chosen for your new frigates. I also understand that Westlands have been informed by your Navy that they wish to open contract negotiations for the procurement of 5 Lynx helicopters to meet the frigate requirement. I am delighted to learn such news. As you know, the Lynx has proved its worth in operational conditions and is already in service with a large number of NATO navies. I am confident that it will prove to be an excellent addition to the inventory of the Portuguese Navy.

Sr Carlos Brito
Minister of Defence
Portugal

In his letter, Sr de Melo asked about the possibility of the all terrain vehicles produced by the Portuguese factory UMM being considered for the forthcoming requirement of the British Army. We propose to issue invitations to tender for these vehicles later in 1990 and I can confirm that UMM will be among those given the opportunity to respond. I hope very much they will do so and I can assure you that any proposal from them will be given the fullest consideration.

So far as offsets are concerned, it has long been our practice to invite potential overseas suppliers to include offset proposals with their tender responses, although this policy is being reviewed in the light of the IEPG open defence procurement initiative. In any event we do not require overseas suppliers to state minimum offset percentages; indeed it is for the supplier to decide whether or not he wishes to offer offset proposals at all. The absence of such proposals is certainly no bar to the tender response being considered and, in the case of UMM, we would be prepared to consider their offer against the offset demand you have placed on Westlands for the Lynx, or against any future Portuguese Defence purchases from the UK.

Tom King

DRAFT LETTER FROM PRIME MINISTER TO PROFESSOR ANIBAL CAVACO SILVA, PRIME MINISTER OF PORTUGAL

Thank you for your letter of 27th December about the future purchase of helicopters for your new frigates.

I understand that since you wrote, the Portuguese Navy has announced that Lynx will be chosen for your new frigates and that Westlands have been invited to enter into contract negotiations for the procurement of 5 Lynx Helicopters. I am very glad indeed to learn this. The Lynx is an excellent, well proven helicopter in service with many NATO nations and it will serve the Portuguese Navy well.

Our Defence Secretary, Tom King has written to Sr Brito about the British Army's requirement for all terrain vehicles, confirming that UMM will be invited to respond to our forthcoming tender request. I hope UMM will do so, and any response ~~UMM~~ we put forward will be given the fullest consideration.

~~May~~ I ~~offer~~ send you ~~my very best~~ warm regards wishes for 1990.

Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

FREE TRANSLATION

MEMORANDUM

"SUBJECT: TENDER FOR ALL TERRAIN VEHICLES OF THE BRITISH ARMY

The British Army will open a tender, until the middle of next year, for the supply of all terrain vehicles, for which UMM will bid for.

The British Army will ask for swaps - except to Land Rover, obviously - of 100% minimum of the value of the order through products with, at least, the same degree of technology.

Since the acquisition of helicopters for the MEKO frigates is under discussion and that one of the bidders is WESTLAND, we would ask that, in case the Portuguese Government decides to choose the british helicopters, this purchase would be considered as a swap for a possible order of all terrain vehicles by the the British Army to UMM.

As an alternative, which seems to us preferable, we suggest that the British Army acquires soon a significant quantity (1.500 to 2.000) of all terrain vehicles from UMM, as a first gesture towards the possible acquisition of the helicopters.

The British Army has already had 2 UMM vehicles tested by The Training and Logistic Development Team in Aldershot. The vehicles are now being tested by the School of Infantry in Warminster and will then be tested by the Royal Marines.

Lisbon, 18th December 1989"

Portuguese Embassy.
11. Belgrave Square.
London. SW1X 8PP

FREE TRANSLATION

"Lisbon, 27th December 1989

Secretary of State and Dear Colleague:
As I had the opportunity to inform you in Brussels, I will take a decision this week on the purchase of 5 SEA LINX WESTLAND helicopters to equip the MEKO-200 frigates under building in Hamburg by BLOHM+VOSS.

I would like however to have your support in order that, in exchange for the acquisition of the helicopters, the British Army could buy all terrain vehicles from the portuguese factory UMM as per memorandum here attached.

I would appreciate an indication from you about this possibility which would very much help our final decision.

With my best wishes for a Happy New Year, I remain,

Yours very sincerely,

Eurico de Melo"

DEFENCE : Sales PT 12



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

MO 14/25L

12th January 1990

Dear Charles.

The Prime Minister may wish to be aware that Marconi Communication Systems have secured a £96M contract for the sale of 3000 Frequency Single Side Band (HFSSB) to the Turkish Army. The contract for this was signed on 9th January during a visit to Ankara by the Head of Defence Export Services. This is the first major defence contract we have secured in Turkey for a number of years.

You may recall that the then Turkish Defence Minister, Mr Vurulhan, delivered a message from Mr Ozal to the Prime Minister last January, informing her that Marconi had won the competition to supply these radios. It was hoped that negotiations over the contract could be completed quickly, but in the event they proved more difficult than had been expected. There are other major British projects in the pipeline and we shall obviously ensure that other British companies learn from Marconi's experience and avoid some of the problems that arose in this case. We should also be able to build on the momentum created by Marconi's breakthrough in this market during the Turkish Defence Minister's visit to the UK in March.

Finally, I should say that Marconi have expressed particular gratitude to the Head of Defence Export Services for the Prime Minister's personal help in securing this contract.

I am copying this letter to Stephen Wall (Foreign Office), and Ben Slocock (DTI).

Yours sincerely

(I M WOODMAN)
Private Secretary

Charles Powell Esq
10 Downing Street

original in PP's box

file KB
cc Sir PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 January 1990

Dear Simon,

SAUDI ARABIA: AL YAMAMAH

I enclose a copy of King Fahad's reply to the Prime Minister's recent message about the Al Yamamah project.

I am sending a copy of this letter and enclosure to Bob Peirce (Foreign and Commonwealth office), John Gieve (H.M. Treasury) and Neil Thornton (Department of Trade and Industry).

Yours sincerely

Charles Powell

CHARLES POWELL

Simon Webb, Esq.,
Ministry of Defence.

Royal Embassy of
Saudi Arabia
London

بسم الله الرحمن الرحيم

سفارة المملكة العربية السعودية
لندن

Prime Minister
CPO
12/1

(2)

11 January 1990

Dear Mr Powell,

I have the honour to enclose a message from the Custodian of the Two Holy Mosques, King Fahad bin Abdul Aziz Al-Saud, addressed to the Prime Minister, The Rt Hon Margaret Thatcher, MP.

I would be grateful if you could kindly submit the enclosed message to the Prime Minister.

With kind regards,

Yours sincerely,

Nasser Almanqour
N. ALMANQOUR
Ambassador

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

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Enter the piece and item references, .
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PORTUGAL: Rels

FILE KK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Ack 2 January 1990

filed at 29-12

I attach a copy of a letter the Prime Minister has received from Professor Anibal Cavaco Silva, the Portuguese Prime Minister.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by Tuesday 16 January please.

(DOMINIC MORRIS)

John Colston, Esq.,
Ministry of Defence.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 January 1990

I am writing on behalf of my colleague, Charles Powell, who is absent from the office to acknowledge safe receipt of your letter of 29 December.

(DOMINIC MORRIS)

Senor Manuel Corte Real, C.B.E.

Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

2nd January, 1990

Dear Charles,

Please find enclosed an envelope addressed to The Prime Minister, The Rt. Hon. Margaret Thatcher, MP, from the Portuguese Prime Minister, Professor Aníbal Cavaco Silva.

I would appreciate it if you would be kind enough to deliver it to The Prime Minister at your earliest convenience.

Yours

(Manuel Côrte-Real)
Chargé d'Affaires a.i.

Charles D. Powell, Esq.,
Private Secretary to
The Prime Minister
(Overseas Affairs),
10 Downing Street

Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T224/89

Subject cc Master
OPS

London, 29th December 1989

Dear Prime Minister,

I have been instructed to convey to you the following message addressed by the Portuguese Prime Minister, Professor Aníbal Cavaco Silva:

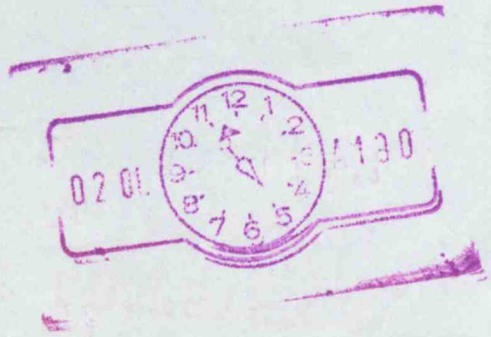
"The Portuguese Minister for Defence wrote today to his British colleague about the future purchase of five helicopters Sea Lynx, made by Westland, to equip the new portuguese frigates and asking whether, on the other hand, the British Army would be willing to buy the portuguese all terrain vehicles made by UMM.
I would like to ask you to look into this matter with your greatest interest since, I am sure, it would contribute towards reinforcing the balance that we both wish to exist in the relations between our two countries.
With my best regards and good wishes for a Happy New Year.
Aníbal A. Cavaco Silva"

Yours faithfully

M. Côrte-Real

(Manuel Côrte Real)
Chargé d'Affaires a.i.

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



Note for the Record

A new arrangement is under discussion & will probably succeed. [illegible]

Foreign and Commonwealth Office

London SW1A 2AH

22 December 1989

From The Minister of State

The Hon Francis Maude MP

ECONOMIC SECRETARY	
REC'D	22 DEC 1989
ACTION	Mr Bottrill
COPIES TO	PS/CHX, PS/CST, PS/FST, PS/PMG
	Mr Wicks, Mr H. Evans
	Mr Mountfield
	Mr R. Watts.

Richard Ryder Esq MP
The Economic Secretary to the Treasury
Treasury Chambers
Parliament Street
Whitehall
London SW1

Dear Richard

BRITISH AEROSPACE: SALE OF ATP AIRCRAFT TO BANGLADESH

I have just seen your reply to David Trefgarne's letter of 21 December refusing to allow ECGD cover for this sale until the Bangladeshis have agreed a new programme with the IMF.

I do not dispute that Bangladesh's economy has deteriorated, or that negotiations with the IMF (as always) will be difficult. Nor do I disagree about the importance of getting Bangladesh to agree to a strong IMF programme. But Bangladesh has an unblemished record on meeting debt payments, and the Bangladeshi Ministry of Finance is guaranteeing the deal. Failure so far to reach agreement with the IMF does not rule out a new Fund programme being agreed eventually.

I believe that it would be wrong meanwhile to refuse cover, when the majority partners in the financing are prepared to go ahead. Given the extent of President Ershad's personal involvement, an appeal from him to the Prime Minister cannot be ruled out. Our reports from Dhaka make clear that the Bangladeshi Foreign Minister believes that British aircraft were chosen to please the Prime Minister (who had pressed Ershad on the subject) rather than on technical grounds.

It is common ground that a decision is needed urgently, and must be taken today.

A copy goes to David Trefgarne.

Francis Maude

dti

the department for Enterprise

The Rt. Hon. Lord Trefgarne
Minister for Trade

Richard Ryder Esq MP
The Economic Secretary
to The Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

ECONOMIC SECRETARY	
REC'D	21 DEC 1989
ACTION	Mr Bobbitt
COPIES TO	PS/CHEX, PS/CST, PS/FST, PS/PUS Mr Wicks, Mr H. Evans Mr Mountfield Mr R. Wade-S

Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET
Enquiries
01-215 5000
Telex 8811074/5 DTHQ G
Fax 01-215 5468

Direct line 01-215 5144
Our ref WO8
Your ref
Date 21 December 1989

Dear Richard,

BRITISH AEROSPACE: SALE OF THREE ATP AIRCRAFT TO BIMAN - BANGLADESH

I understand that your officials are briefing you on this case where a last-minute question over the availability of ECGD support is placing in jeopardy a contract for which British Aerospace have fought for several years. You have probably seen ECGD's letter of 12 December.

I strongly support ECGD's line on the case. They have substantially reduced their exposure by bringing commercial banks in to shoulder a large proportion of the risk. Each of the banks have analysed the Bangladesh market carefully and, like ECGD, have taken account of the exemplary debt servicing record of Bangladesh. It is clearly a contract to which the Bangladesh Government attaches high priority, and its collapse at this stage would have serious consequences for our relations with the country.

Because of the risk-sharing arrangements, a decision that the requirement for a letter from the Bangladesh authorities about IMF limits should be waived needs to be taken as soon as possible today if the contract is to be salvaged. I hope that you are able to agree to this.

I am copying to Francis Maude.

Yours ever, David.

LORD TREFGARNE

Recycled Paper

est.to/RRyder/12.21.12



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Trefgarne
Minister for Trade
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

21 December 1989

Dear David,

BANGLADESH: EXPORT CREDITS

Thank you for your letter of today's date, seeking an urgent decision on ECGD cover for the sale of British Aerospace ATP aircraft to Bangladesh.

2. When cover for the deal was agreed, it was made clear that it depended on Bangladesh continuing to adhere to an IMF programme and, in particular, on condition that the loan could be accommodated within an external borrowing ceiling agreed with the Fund. The Bangladeshis were to seek the IMF's written confirmation of this. The deterioration in Bangladesh's economy and the breakdown in negotiations with the IMF mean that this condition cannot now be formally met. The Bangladeshis are resisting writing to the IMF.

3. I am particularly concerned that the Fund Staff warn that Bangladesh's reserves have fallen steeply and that without early measures there is a serious risk that Bangladesh will shortly go into arrears to the IMF. In view of the IMF's preferred creditor status, there must be a similarly serious risk that loans by other creditors will also not be serviced. It does not seem prudent to proceed with this deal in present circumstances.

4. I understand the importance of this deal to all the parties concerned, the Bangladeshis, British Aerospace and HMG. I understand, too, the risk that if we delay providing cover either the Bangladeshis or the banks may withdraw from this deal.

5. Nevertheless, I believe that the correct course is for us to tell the Bangladeshis that while we wish to pursue this deal, we are not able to conclude it until they have agreed a new programme with the IMF with an agreed external borrowing ceiling which can accommodate this loan. We should urge them to do this as quickly

as possible and offer what help we can to this end - while making clear that we can only support a firm programme that the IMF management judges adequate.

I am copying to Francis Maude.

Yours,

Richard.

RICHARD RYDER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T219/89

SUBJECT cc MASTER OPS.

cc SCH
cc MOD
FCO
HMT
DTI
PC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

18 December 1989

Sir,

Since I last wrote to you at the beginning of this year, I have continued to follow with close interest and attention the progress on Project Al Yamamah. I was very pleased to learn recently that arrangements have been made which ensure both the steady flow of work on the first phase of the project and should enable us to carry forward some of the Al Yamamah 2 programmes on which we have both agreed. The whole project represents an immensely important commitment on the part of both our countries to peace, stability and security, and to an even closer relationship in pursuit of these goals. We are deeply indebted to you, Sir, for your contribution to this great endeavour. I take the opportunity also to wish you and your country success as we start on a new decade.

With respectful goodwishes
and warm regards.

Yours sincerely

Margaret Thatcher

His Majesty King Fahd bin Abdul Aziz Al-Saud, G.C.M.G.,
Custodian of the Two Holy Mosques

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 December 1989

Dear Brian,

SAUDI ARABIA: AL YAMAMAH

The Prime Minister does not think it appropriate for her to write to King Fahd in the sort of detail you suggested. She is prepared to write a more general letter and I enclose the one she has signed. Subject to any comments you may have, I should be grateful if the FCO (to whom I am sending the top copy) could arrange for it to be sent to Riyadh for delivery as soon as possible.

I am copying this letter and enclosure to John Gieve (H.M. Treasury) and Neil Thornton (Department of Trade and Industry).

Yours sincerely,

Charles Powell

C. D. POWELL

Brian Hawtin, Esq.,
Ministry of Defence.

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(3)

PRIME MINISTER

SAUDI ARABIA

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Temporarily retained. CWayland. 24/8/17

I do not think you will want to be anything like so explicit in a message to the King, but attach an alternative version cast in very general terms which you might care to consider. I think it is right to acknowledge the great effort the Saudis have made on this, without getting into vulgar detail.

Agree to sign the attached letter?

CDP

CHARLES POWELL
15 DECEMBER 1989

c:\wpdocs\foreign\fahd.mrm

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2931 (one piece/item number)	Date and sign
Extract details: Letter from Woodman to Powell dated 14 December 1989, with enclosure	X
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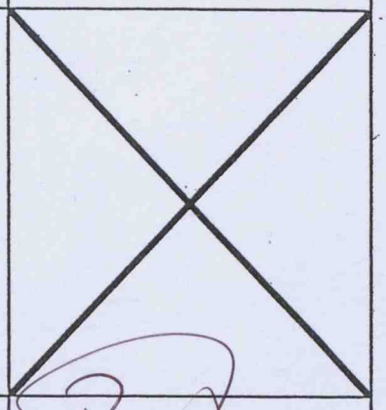
Extract details: King to PM 11/12/84	
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cst.ps/7ce11.12/drft

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cc PF

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street SW1P 3AG

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

CDP 12/12.

11 December 1989

Dear Charles

AL YAMAMAH

The Chief Secretary has seen Ian Woodman's letter of 7 December to you as well as the Lord President's minute of the same date and the earlier minute from the Foreign, Defence and Trade and Industry Secretaries.

2. He welcomes the indications that the Saudis may be able to offer an alternative financial solution which might remove the need for a loan arrangement involving ECGD, and awaits the further promised details.

3. If this solution does not materialise, the Chief Secretary would emphasise the need for the MOD to seek an independent examination of BAe's financial position, which he is glad the Lord President also supports. He would also want the Law Officers consulted about ECGD's powers since the Treasury Solicitor is not fully satisfied on this.

4. The Chief Secretary's view is that we shall in any case need to ensure that the uncomfortable situation of recent months does not recur. He would prefer that no further Intentions to Proceed or Letters of Offer and Acceptance are signed without Treasury consent. He is glad that the Secretary of State for Trade and Industry concurs. He agrees of course with the Defence Secretary that we should not forego the opportunity to sign ITPs where the Saudis can afford the expenditure and the finance has been identified but feels that we must ensure that the future stream of deliveries and work in hand matches the income available so that we do not face a repeat of the present problem.

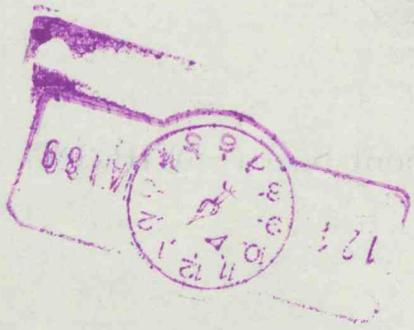
5. I am copying this letter to Stephen Wall (FCO), Tim Sutton (Lord President's Office), Ben Slocock (DTI), Gillian Kirton (Lord Privy Seal's Office), Ian Woodman (MOD) and Sonia Phippard (Cabinet Office).

Yours

Carys Evans

CARYS EVANS
Private Secretary

DEFENCE : Saw Pitr



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CCPC

(2)

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

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MO 6/17/5L

7th December 1989

Dear Charles,

Some private diplomacy.

PROJECT AL YAMAMAH

My Secretary of State minuted the Prime Minister and other colleagues on the 4th December on the Chief Secretary's comments on proposals to involve ECGD in part of a funding solution to redress the current shortfall on Project Al Yamamah. In his minute, Mr King noted that it was with some reluctance, and only after a year's efforts to find alternative solutions, that we had concluded that we were faced with no alternative but to pursue a package of proposals involving ECGD.

As you are already aware, there have very recently been indications from the Saudi side that they may be about to offer an alternative solution although we do not yet have any written confirmation from the Saudi Government of what this might involve. It appears, however, from initial indications, that their proposals might remove the need for a loan arrangement involving ECGD. Such a development, if confirmed, would of course be most welcome to us.

We expect to have firmer information on this early next week. I will write again as soon as we have more details.

I am copying this letter to Stephen Wall (Foreign Office), Tim Sutton (Lord President's Office), Ben Slocock (DTI), Carys Evans (HM Treasury), Gillian Kirton (Lord Privy Seal's Office), and Sonia Phippard (Cabinet Office).

Yours sincerely

(I M WOODMAN)
Private Secretary

Charles Powell, Esq
No 10 Downing Street

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CONFIDENTIAL

cc P.C.

7 December 1989

CDP
11/XII

PRIME MINISTER

PROJECT AL YAMAMAH

Douglas Hurd has rightly drawn attention to the continuing and far reaching international significance of the way in which we respond to BAe's financial anxieties on the Al Yamamah Project. The affair has important handling implications at home as well. Whether we agree to ECGD's providing £1 billion of cover or some lesser figure, the manner and content of the public presentation needs great care. Against the background of the Parliamentary and public interest in BAe's purchase of BL Rover and the real likelihood of the Select Committees for Trade and Industry and Defence taking an interest in this project (already long the subject of regular reports in the British press), we should avoid giving rise to any suggestions that this represents further Government support for BAe by the back door.

will cop?

Nicholas Ridley and Tom King have not yet responded to Norman Lamont's suggestion in his minute of 28 November that further, independent examination of BAe's financial position is needed before we reach a decision. Against the current background we need to take care not to look as though we are reaching a decision on the basis of unproven statements by BAe that their financial difficulties require immediate action. I hope that Norman's suggestion can be followed up so that we can draw on the result in our discussion of this issue.

I am copying this minute to Douglas Hurd, John Major, Tom King, Nicholas Ridley, Norman Lamont, John Belstead and to Sir Robin Butler.

GH

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PM/89/065

PRIME MINISTER

Project Al-Yamamah

1. I have seen the Chief Secretary's minute to you of 28 November opposing ECGD's proposed participation in the funding solution for the Al-Yamamah project. I have also seen the later comments from the Trade & Industry Secretary and the Defence Secretary.

2. Apart from its importance to our domestic economy, the Al-Yamamah project has immense significance for our political and trade relationship with Saudi Arabia. This huge project is now the central element in our relations with the Saudis. It is likely to remain so for many years, particularly if the second phase of the project (Al-Yamamah II) is fully implemented. There are also wider considerations. Saudi Arabia has the largest proven oil reserves in the Middle East. It is already our largest market outside Europe and North America and will continue to be an important customer for British goods and services, some of which will come from the Offset programme linked to the Al-Yamamah project.

/3.

3. It is strongly in the national interest to do everything we can to ensure the smooth continuation and completion of the project. For this reason I support ECGD's proposals for resolving the funding problem. It is important that the ECGD proposal is structured in such a way that loan repayments will have first call on the revenues from the Al Yamamah oil liftings. ECGD is being asked to provide cover against the political risks of Saudi Arabia reneging on its agreement to supply the oil - not the more usual country payment risk, or risks arising from fluctuations in oil prices. As my officials have already made clear at the recent discussion in EGC, the political risks involved are minimal. The longer term prospects for Saudi oil exports are good.

4. The Chief Secretary's minute of 28 November suggested that you might write to King Fahd asking the Saudis to accept full responsibility for resolving the funding problem. I do not believe that this is now a realistic course of action. It might have been at an earlier stage, but the discussions which have already taken place in Saudi Arabia between the Head of Defence Export Services (HDES) and Saudi Ministers have left the latter with the clear impression that a joint solution to the funding problem is under active consideration in London. To press at this stage for unilateral Saudi action would in my view not be understood by the Saudis; would be seen by them as going back on earlier discussions; would severely embarrass Prince Sultan and would jeopardise the chances of achieving a long-term solution to the funding problem.

/5.

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5. We do, however, need to press the Saudis hard to meet their side of a financing package. A letter from you to King Fahd will be the best means to achieve this. I agree with Tom King that your letter should outline the assistance we can provide towards solving the funding problem,

A request for additional oil liftings might be timely in view of the recent increase in OPEC production quotas.

6. I am sending copies of this minute to Sir Geoffrey Howe, John Major, Tom King, Nicholas Ridley, Norman Lamont, Lord Belstead and Sir Robin Butler.

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office

7 December 1989

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Extract details: Minute from King to Prime Minister dated 4 December 1989	
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the department for Enterprise

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PRIME MINISTER

SAUDI ARABIA & AL YAMAMAH

I have some concern with parts of Norman Lamont's minute to you dated 28 November. As he acknowledges, this project is the largest single export order we have ever won and I am concerned that we avoid the risk that temporary financing problems should impede its completion. Following my recent visit, I believe that the national interest requires us to take sensible steps to keep the project on an even keel and not risk unnecessarily jeopardising its successful continuation.

No doubt Tom King will be commenting on several of the points which Normal Lamont has made. I will limit myself to commenting on the ECGD aspects, although trade policy considerations all point in the same direction.

Country Risk

Norman Lamont's description of what is proposed does not seem fully to take account of the carefully structured package for effectively sharing the risk with the other parties concerned. This, inter alia, significantly reduces the level and nature of the risk which ECGD would take. The basic point of the proposed structure is that all concerned should play some part in solving the cash flow problem, including, importantly, the Saudis themselves. Thus ECGD would cover £1bn of the £2bn required, while the commercial banks would take on a further £1/2bn unguaranteed and the Saudis themselves put up a loan of £1/2bn. BAe's contribution would be both to accept a reduction in the amount of cover which has already been given to them in respect of non-payment of a termination settlement

Recycled Paper

(from £459m to £225m thus effectively reducing ECGD's new exposure) and also to accept that they would not seek any additional support from ECGD during the validity period of the loan. The cover which ECGD would give would not be against the usual country payment risk but against the non-delivery of the oil which the Saudis have agreed to provide. I think we can all accept that, while it is true that the Saudis may no longer have the same financial strength, they still have large oil reserves and there is no reason to believe that the oil deliveries necessary to meet the repayments of the loan will not be made. At current prices, the oil liftings will be more than enough to meet the instalments due. Indeed, the oil price would have to go down to some $8/9 per barrel before there could be any problems and, even then, ECGD are specifically excluding the oil price risk from their cover. In sum, these arrangements have been carefully structured to limit risks for ECGD.

It is not true to say that ECGD do not want to take on Saudi risk of more than the £1bn currently proposed. Because of the limited nature of the risk they would be taking here, their view is that it should still be possible to do some additional business on a more conventional basis.

ECGD's Portfolio

As Norman Lamont says, I shall shortly be circulating details of ECGD's proposed new Portfolio Management System. We should not anticipate our consideration and decisions on this system but, in any case, we are agreed that the figure of £750m is a review point and not a limit and there will be countries where, in the national interest, more than £750m could be taken on when Ministers so determine on a case by case basis. In any case, this aspect of PMS is only one part of a very complex package. It should also be borne in mind that ECGD will not in any case be covering here the normal country payment risk which has been the cause of past claims payments on developing countries with debt problems.

Recycled Paper

dti

the department for Enterprise

The Finances of the Project

I find some difficulty with Norman Lamont's view that this case looks "more like an industrial support operation than a straightforward export credit". As I see it, the credit which is to be given here is effectively for financing of exports and ECGD are satisfied that there are no vires problems over giving the cover concerned.

Great efforts have been made to try to get the Saudis to come up with a larger contribution but this has not proved to be possible. It is also apparent that there is no possibility of the earlier commercial arrangements being repeated. Similarly, I understand that it will be difficult for the banks to syndicate their unguaranteed loan of £500m mainly because of their lack of control over the underlying contracts between MoD and the Saudis in which the agreements for providing the oil are set out; their problem is certainly not due to any lack of appetite for Saudi Arabian country risk as such.

One last point. The contractual arrangements and the payment schedules agreed have all been designed to achieve the alleged "overfunding" referred to by Norman Lamont. BAe, as I understand it, accepted the deal on this basis and it is surely unreasonable to expect them to agree to any changes at this late stage and effectively to have to fund a very large unexpected shortfall, particularly when only a relatively small part of the project represents work for which they are directly responsible.

New Commitments

I fully support the point made in para 21 of Norman Lamont's minute that no further commitments of any nature should be undertaken without Treasury approval.

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dti

the department for Enterprise

Conclusions

In my view, we should approve the package which has been proposed.

I am sending copies of this minute to Tom King, Norman Lamont and to the other members of OD, John Wakeham and to Sir Robin Butler.

Ian Stewart.

" NR

DEPARTMENT OF TRADE AND INDUSTRY 4 December 1989

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

NP2ACF

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2931 (one piece/item number)	Date and sign
Extract details: Minute from Lamont to Prime Minister dated 28 November 1989	
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eg. 28, 1079, 84/1, 107/3

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

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

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

cst.ps/3nl9.11/drf

CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 9 November 1989

PRIME MINISTER

PROJECT AL YAMAMAH

I have read with concern Tom King's minute to you of 31 October reporting the funding shortfall faced by British Aerospace on the important Al Yamamah contracts, and in particular his suggestion that further ECGD support may be sought in addition to the very substantial £450 million of cover already being provided.

2. John Major as Chief Secretary warned against an eventuality such as we now face when the Al Yamamah II deal was signed last year in his letter of 1 July 1988 to George Younger, the then Defence Secretary. I am disappointed that it should have occurred so quickly when deliveries under Yamamah I are not yet even completed.

3. George Younger, in his minute to you of 7 July 1988 agreed at the time that any ECGD risk should be contained within acceptable limits and that the Saudis' requirements should be matched to available income. I am sure that this remains the right approach.

4. In my view therefore we ought to be urging the Saudis to increase the flow of revenue to fund the project. If their serious budgetary and balance of payments problems preclude them doing this in full, then we should seek to slow deliveries to a pace more in line with the income available. I understand that Alan Thomas is going to Saudi Arabia shortly and it would be helpful if he were to explore these possibilities. I am sure that you are right to keep open the possibility of a direct approach to King Fahd once we see the results of DESO's soundings.

CONFIDENTIAL

5. If a financing gap still remains, it is not yet clear to me that ECGD should become involved. Before we are in a position to take a view on this we need to be clearer on two points. First, whether the Saudis are in breach of contract. I understand that at a recent meeting of officials, it was suggested that they are not. Second, at that meeting BAe representatives apparently said that, when Al Yamamah I was agreed, BAe had accepted they would carry the risk of mismatch which has now arisen. In view of this we need to probe BAe's demands more fully. Until these points have been clarified, I do not think Alan Thomas should give the Saudis any impression that we are prepared to contemplate additional ECGD involvement.

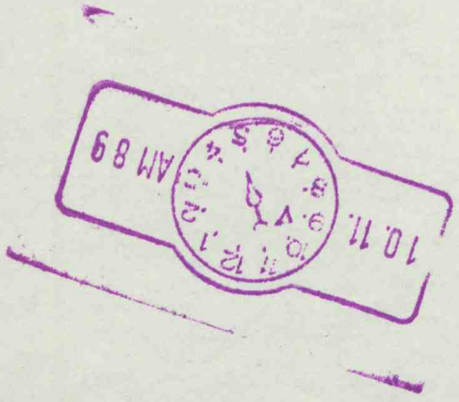
6. I understand that ECGD is preparing detailed proposals and I suggest that we reserve judgment until we see them and until the above points have been clarified. At this stage, I would merely stress that in view of ECGD's own very serious financial position it would be imprudent for it to undertake an unduly large share of any additional risk.

7. I am copying this minute to Douglas Hurd, Tom King, Nicholas Ridley, Geoffrey Howe, Lord Belstead and Sir Robin Butler.

NL

NORMAN LAMONT

DEFENCE: Sales
Pt 12



FILE PM

C: AL-YAM

CONFIDENTIAL

bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

31 October 1989

Dear Brian,

PROJECT AL YAMAMAH

The Prime Minister has noted the Defence Secretary's minute of 30 October about continuing funding difficulties with Project Al Yamamah. She agrees that we should wait, on the possiblity that she may need to write to King Fahd.

I am copying this minute to the Private Secretaries to the Foreign Secretary, the Chancellor of the Excheqer, the Secretary of State for Trade and Industry, the Lord President, the Lord Privy Seal and to Sir Robin Butler.

Yours sincerely,

C. D. POWELL

Brian Hawtin, Esq.,
Ministry of Defence.

CONFIDENTIAL

KK

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2931 (one piece/item number)	Date and sign
Extract details: Minute from King to Prime Minister dated 30 October 1989	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	24/8/17 CWayland
MISSING AT TRANSFER	
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DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

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

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

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

Enter extract details if it is an extract rather than a whole piece.
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 163/89.

SUBJECT
cc MASTER
OPS.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

File : DEFENCE : Sales Pt.12.

I understand that you will shortly be reaching a decision on the choice of helicopters for the frigates which will be part of your defence modernisation programme. As you know, I have taken a personal interest in the offer of Lynx helicopters, on very favourable terms, including one hundred per cent offset and navy-to-navy training. The Lynx helicopters are completely compatible with your frigates and would greatly enhance their capability.

I very much hope that you will feel able to accept Westland's offer, which could provide a useful basis for further collaboration in developing Portugal's own aeronautical industry.

With warm regards,

Professor A. Cavaco e Silva

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 September 1989

LYNX HELICOPTERS FOR PORTUGAL

Thank you for your letter of 6 September proposing a message from the Prime Minister to Professor Cavaco e Silva about the Lynx helicopter. I have spoken to the Prime Minister in Scotland and she would be prepared for a message to go in her name. I enclose a text which I think would be what she wants. If you are content with it it may be despatched.

(C.D. POWELL)

Ian Woodman, Esq.,
Ministry of Defence.

FME
DA.

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

I understand that you will shortly be reaching a decision on the choice of helicopters for the frigates which will be part of your defence modernisation programme. As you know, I have taken a personal interest in the offer of Lynx helicopters, on very favourable terms, including one hundred per cent offset and navy-to-navy training. The Lynx helicopters are completely compatible with your frigates and would greatly enhance their capability.

I very much hope that you will feel able to accept Westland's offer, which could provide a useful basis for further collaboration in developing Portugal's own aeronautical industry.

With warm regards,

Professor A. Cavaco e Silva

cc/c.

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

MO 14/26S

6th September 1989

Dear Charles,

LYNX HELICOPTERS FOR PORTUGAL

You will recall Westland's efforts to sell Lynx Helicopters to Portugal against strong competition from a US company whose helicopters are being offered as part of an overall military aid package. When I last wrote to you on this subject on 23rd June we believed that a decision on this was imminent and we asked if the Prime Minister could speak to Sr Silva during the European Council meeting. But in the event, the decision was delayed to allow for further consideration. We now have a firm indication that the Portuguese Prime Minister will finally make a decision before the end of this week and our Embassy in Lisbon believe that a message from the Prime Minister to Sr Silva could be decisive. We and the Foreign and Commonwealth Office support this suggestion.

Although there is no guarantee of success if the Prime Minister does send a message, the contract is of such importance to Westlands that she may like to consider sending a message along the lines of the attached draft. If the Prime Minister is content to send such a message it would obviously need to be dispatched as soon as possible.

Yours sincerely,

(I M WOODMAN)
Private Secretary

Charles Powell Esq
No 10 Downing Street

DRAFT

DRAFT LETTER FROM THE PRIME MINISTER TO THE PORTUGUESE PRIME MINISTER

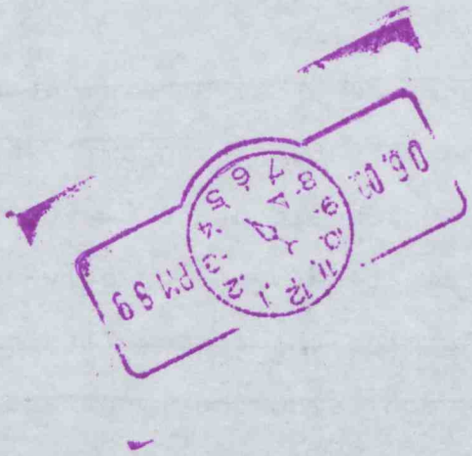
We have discussed from time to time the best way in which the UK could contribute to the Portuguese Navy's Meko Frigate Programme. As you know details of a revised offer covering two new updated Super Lynx helicopters costing £0.889m each were passed by George Younger to Sr de Melo in June. The offer included spares support, 100% offset and navy-to-navy training.

I wish to assure you at this juncture of my Government's continued support for the defence modernisation programme which you are carrying out. The provision of Lynx helicopters (which would be completely compatible with your frigates) would greatly enhance their capability. It would also underline the commonality of our maritime defence policy as well as symbolising the importance we both attach to NATO and our old alliance. I very much hope that you will feel able to accept Westland's offer, which could provide a useful basis for further collaboration in developing your Portugal's own aeronautical industry within the European context.

With warm regards

I understand that you will shortly be reaching a decision on the choice of helicopters for your the frigates which will be part of your defence modernisation programme. As you know, I have taken a personal interest in the offer of Lynx helicopters, on a very favourable terms, including 100% offset and navy-to-navy training.

DGFGNCG : Sales Ptl2



SECRET UK EYES A

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

MO 6/19/3V

11th July 1989

Dear Charles,

MEETING WITH MR GANDHI - INDIAN REQUEST FOR THE MAW

The Indian High Commissioner has asked Sir Robin Butler to intercede with the MOD to obtain clearance for the sale of the Plessey Missile Approach Warner (MAW). We believe Mr Gandhi could raise the matter directly with the Prime Minister during their forthcoming meeting.

The Indians believe that this equipment would provide protection for VVIP aircraft from terrorists, especially Sikhs, using shoulder-launched missiles. They require only a small number of the MAWs, realise that the equipment is sensitive, and have given an assurance that there is no danger of leakage of technology from their side.

FCO officials would like us to be able to meet the Indian request, provided that the security objections are not judged insuperable. They stress the importance of continuing to convince the Indians that we are serious about fighting Sikh extremism if we are to maintain the improved relations we now have with India, not least in order to protect other potential civil and defence sales business.

Unfortunately the equipment is highly classified and particularly sensitive. It is under development for introduction to the Harrier GR5 aircraft in December 1990 and the Tornado GR4 in 1992. For RAF aircraft its use will be restricted to "war only" to protect its detailed operating characteristics. We would not normally consider releasing MAW to the Indians before the year 2000.

Despite their assurances and their will to protect MAW, we do not believe that they will be able to do so against the determined efforts of the KGB. Moreover their VVIP aircraft are of Soviet origin and the Soviets would inevitably be involved in the installation of the equipment, unless we insisted on the sale being conditional on the MAW being fitted to Western-built aircraft, in conjunction with Western-supplied flare dispensers. We could also

Charles Powell Esq
10 Downing Street

insist on UK personnel fitting the equipment. We still, however, do not believe that this would offer the protection this system requires. We have also considered sanitisation; further work on this is in hand but it appears unlikely, at this stage, that the MAW will lend itself to such treatment.

This equipment will be central to the continuation of the RAF's operational viability for the foreseeable future and we cannot afford to have it compromised, as we are sure it would be if it were released to the Indians. We do not believe that there is any alternative but to refuse the Indian request.

If Mr Gandhi mentions the subject, we assume that the Prime Minister will not wish to tell him that the request has been refused. Nor will she wish to tell him about the protective devices fitted to our aircraft operating in and through Northern Ireland. These devices are of US origin and are supplied to the UK as a special favour. The Americans would not thank us if we pressed them to release their equipment to the Indians, who are likely to have been refused already. Nor would we wish to have their equipment compromised. If the subject is raised, the Prime Minister could say:

- the equipment is still under development, is not yet in service with the RAF and will not be so for some time;
- their request for the MAW is receiving very careful consideration;
- offer to bear in mind any points Mr Gandhi makes;

If the Prime Minister is pressed specifically on UK protection in NI she could say that we do not tell anyone how we protect our aircraft in Northern Ireland.

Yours sincerely

(I M WOODMAN)
Private Secretary

11 JUL 1989

CONFIDENTIAL AND PERSONAL

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

MO 6/17/5S

7th July 1989

CDS 7/7.

Dear Charles,

AL YAMAMAH

You wrote to Brian Hawtin on 28th April following the Prime Minister's meeting with Prince Bandar, amongst other things to ask about the position of Air Vice-Marshal Stuart-Paul. This is simply to record that AVM Stuart-Paul is to be promoted to Air Marshal in November, and as a consequence he will remain as Director General Saudi Airforce Projects until November 1991. This promotion is personal to Stuart-Paul and does not reflect an upgrading of the DGSAP post.

Yours sincerely,

John Colston.

(J P COLSTON)
Private Secretary

Charles Powell Esq
No 10 Downing Street

CONFIDENTIAL AND PERSONAL

01 JUL 1989

[redacted]

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

MO 14/26L

23rd June 1989

Dear Charles,

LYNX HELICOPTERS FOR PORTUGAL

I last wrote to you on 5th May to bring you up to date with Westland's efforts to sell Lynx helicopters to Portugal. We now know that a decision by the Portuguese Government is imminent.

Westland presented their final proposals to the Portuguese yesterday. However, despite a very attractive and cost-effective package from Westland it still looks as if the Portuguese will choose the rival US offer. The Defence Secretary sent a message to Sr de Melo today drawing his attention to a further reduction in the price of the two helicopters offered by HMG (a reduction achieved by removing some equipment not required by the Portuguese Navy); I attach a copy of his message. In view of the imminence of the decision it would also be extremely useful if the Prime Minister could raise the matter with Sr Cavaco Silva when they meet next week. The Prime Minister might remind Sr Silva that they discussed the sale when they met in London in March 1988 and say that she understands that Westland have now submitted a very cost effective final proposal including an extensive training package some of which would be provided by the Royal Navy. She might add that she believes this forms a very attractive proposal which would provide an ideal solution to the Portuguese Navy's requirement.

I am sending a copy of this letter to Lyn Parker (FCO).

Yours sincerely

(I M WOODMAN)
Private Secretary

Charles Powell Esq
10 Downing Street

MESSAGE FROM THE SECRETARY OF STATE FOR DEFENCE TO SR EURICO DE MELO

WHEN WE MET AT THE DPC MEETING ON 8 JUNE YOU TOLD ME THAT WESTLAND SHOULD MAKE THEIR FINAL PROPOSALS FOR THE SUPPLY OF THE LYNX HELICOPTER BEFORE 26 JUNE. I UNDERSTAND THEY HAVE NOW DONE SO.

IN CONSIDERING THOSE PROPOSALS THERE ARE TWO MATTERS I SHOULD LIKE TO BRING TO YOUR NOTICE AND I HAVE THEREFORE ASKED THE AMBASSADOR TO DELIVER THIS MESSAGE TO YOU.

FIRST, WE HAVE NOW BEEN ABLE TO INVESTIGATE MORE CLOSELY THE CONFIGURATION OF THE TWO HELICOPTERS I OFFERED IN MY LETTER OF 4 MAY AND COMPARE THEM WITH YOUR NAVY'S REQUIREMENTS. AS A RESULT, SOME OF THE EQUIPMENT CURRENTLY IN THE HELICOPTERS WHICH WILL NOT BE NEEDED BY YOUR NAVY CAN BE REMEOVED. THIS MEANS THAT IT IS NOW POSSIBLE TO OFFER THE HELICOPTERS TO YOU FOR £1.778M RATHER THAN THE £2.5M MENTIONED IN MY LETTER.

THE SECOND POINT CONCERNS TRAINING SUPPORT. AS PART OF THEIR PROPOSAL WESTLAND HAVE OFFERED THE PORTUGUESE NAVY A PACKAGE OF TRAINING SUPPORT. I THOUGHT YOU WOULD WISH TO KNOW THAT THIS TRAINING PROPOSAL HAS BEEN DRAWN UP IN CONSULTATION WITH THE ROYAL NAVY AND HAS ITS APPROVAL. MOREOVER, IN LINE WITH OUR EARLIER OFFER, ELEMENTS OF THE PACKAGE INCLUDE TRAINING WITH AND BY THE ROYAL NAVY.

I TRUST THAT YOU WILL FIND THE WESTLAND PROPOSAL COMPREHENSIVE AND COST-EFFECTIVE, PARTICULARLY WHEN THE COSTS OF MODIFICATION AND CONVERSION ASSOCIATED WITH SEA-SPRITE ARE TAKEN INTO ACCOUNT.

Defence
Sales
1+12



Prime Minister

CDP 26/5

Ref. A089/1405

MR POWELL

Tornado

On 10 May, you sent me a copy of an anonymous letter which Mr Jeff Rooker MP had forwarded to the Prime Minister. You suggested that I should draw the document's existence to the attention of the MOD and enquire whether they could throw any light on its likely origin.

2. The Ministry of Defence have no better lead to the origin of this document than such deductions as they can draw from internal clues. As you pointed out, the letter is full of inaccuracies, which suggests that the author is not a BAe executive. There might of course be bluff, or double bluff, or double double bluff, but some of the errors are sufficiently gross that they reduce the credibility of the whole document rather than suggest that they are details carefully placed for us to find. Examples are:

a. Ballast Nedam (para 2.1) are continuing their work on construction in Saudi Arabia. The project is not 'suspended', nor is there to our knowledge any indication of a suspension.

b. Nuclear-hardened Tornados (para 2.5) - none of the Tornados is nuclear-hardened.

c. Malaysia (para 3.1-3.3) - BAe has not yet proposed a price to Malaysia, since the customer has not yet drawn up his specification.

3. For what it is worth, I had a personal word with Sir Roland Smith recently; and he was in no doubt that this material was part of the campaign organised by Tiny Rowland. You will, of course, have seen the admission by Mr Trelford, reported in the Observer last week that Lonrho were behind their stories. Sir Roland Smith believes that, incredible as it may seem, the motive for all this has been to put pressure on the Government with the aim of securing an outcome satisfactory to Lonrho of the Lords' Hearing on the MMC Report into the House of Fraser. If so, it all seems to have been incredibly clumsy and to have rebounded badly on Mr Rowland and Lonrho, with even Mr Dale Campbell Savours now ranged against him. To mount an attack on the Prime Minister, which brought Mr Campbell Savours out in opposition to the attack, seems an almost incredible feat, but Mr Rowland has pulled it off.

4. However that may be, those behind this campaign might see the opportunity of Prince Sultan's visit from 29 May to 2 June to release more of this material. The Ministry of Defence have alerted Defence Export Services and the FCO to try to counter such a step.

FERB

ROBIN BUTLER

26 May 1989

CONFIDENTIAL AND PERSONAL

FLE
DA2AAO
PE

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

SIR ROBIN BUTLER

TORNADO

I attach a copy of a letter which the Prime Minister has received from Jeff Rooker MP, together with its enclosure. I also attach a copy of the Prime Minister's reply to Mr. Rooker.

As you will see, the enclosure makes allegations about the payment of commissions on the sale of Tornado to Saudi Arabia, Jordan and Malaysia. It is also potentially very damaging to our relations with a number of foreign governments. It bears similarities to the other anonymous document on the same subject which the Jordanian Government brought to our attention recently. Presumably copies have gone to other members of the PAC besides Mr. Rooker. I imagine that the chances of identifying those responsible must be very slim given the anonymous nature of the document.

I suggest that you should draw the document's existence to the attention of the MOD, not least because it might come up in connection with the further evidence which Sir Peter Levene is to give the PAC. It might also be worth enquiring whether they can throw any light on its likely origin. Whether there is a case for any further action on the basis of a document which is both anonymous and so obviously full of inaccuracies is doubtful: but that must be a matter for you to decide.

(C.D. POWELL)

10 May 1989

CONFIDENTIAL AND PERSONAL

PERSONAL

DA2AAP

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

10 May 1989

Dear Mr. Rooker

I have received your letter of 8 May including the anonymous document enclosed with it. I am passing the latter to the appropriate authorities.

Yours sincerely

Margaret Thatcher

Jeff Rooker, Esq., M.P.

PERSONAL

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PERSONAL

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PRIME MINISTER

I attach a letter from Jeff Rooker MP with which he sends you an anonymous document which he has received as a member of the Public Accounts Committee. As you will see, the document makes a number of accusations against you and Mark in connection with the sale of Tornado to Jordan, Saudi Arabia and Malaysia. It has all the hallmarks of coming from the same source as the earlier anonymous letter about which the Jordanians complained. Jeff Rooker says that he has no intention whatsoever of doing anything with the document: he only wants to draw it to your attention so that you are aware of its existence.

It seems to me the right course is as follows:

first, you should reply to Jeff Rooker thanking him for sending you the document and saying how disgraceful it is that these sort of allegations should be circulated anonymously;

second, I should send a copy to the MOD and the Law Officers to see whether they can throw any light on the origins of these documentsand asking the Attorney whether there is any action that can be taken.

Agree to proceed as proposed?

Agree to sign attached letter to Jeff Rooker?

Agree that I should write as in the attached letter to MOD and the Law Officers?

CHARLES POWELL
9 May 1989

From: JEFF ROOKER MP

R91/5

HOUSE OF COMMONS
LONDON SW1A 0AA
Telephones: 01-219 4153 or 01-219 3000

8 May 1989

Rt Hon M Thatcher MP
Prime Minister,
10 Downing Street,
London SW1

Dear Prime Minister,

PUBLIC ACCOUNTS COMMITTEE

I am writing as a member of the Public Accounts Committee. On Wednesday 26th April we took evidence from Sir Peter Levene. The transcript is not yet available.

I am assuming it is in my capacity as a member of the PAC that I have been sent the attached document. It is not my intention to raise the contents, either in the PAC or publicly. Although, of course, I will be wishing to follow up the points I and other members put to Sir Peter when he provides the further information he promised.

I have no interest whatsoever to declare as I have had no discussions with any of the parties involved, or with constituents, or with companies and am not prepared to be used as a conduit for making these allegations public. However, I think it is in your interest, as Prime Minister, to be aware of the allegations which are being made about yourself, members of your family and your Party in the attached document.

COPY

To: Chairman [redacted] From: [redacted] Copy No.: [redacted]

Classification: Restricted 2nd May, 1989

Newspaper articles on BAe and HMG bribes to obtain Tornado etc. business

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1. Jordan.

The inflated contract/ITP was cancelled,not "suspended". The price BAe hoped to obtain was in fact 112% above the comparative price charged to the RAF according to an insider report(active executive).King Hussein was severely shocked when he discovered the way Mrs.T. tried to force these over-priced aircraft on him.The news of this intended purchase was a contributory cause the the recent riots in Jordan.

The Jordanian middlemen resident in London, Ghazi Shakr and Munir Attalah, are extremely upset and tried to personally intervene with Mrs. T. to rescue the deal. One visible commission of 12 million Pounds per plane payable to a special account was to be split 75% for Shakr and 25% to Attalah. Attalah's role in this deal is in fact far more important than previously recognised. He claims to collect money for the King but that this is totally untrue.

2. Saudi Arabia.

Ballast Nedam and their work on the intended huge airbases (clearly meant for use by the USA in case of tension) has come to a complete stop and their team has left Saudi Arabia and been told that the project is "suspended". The company's resident Dutch manager has left for an extended leave for Holland.

There are constant phone calls between Mrs. T. and King Fahd and Sir Peter Levene and Prince Sultan. Levene was in fact the person that made the crude oil arrangement which was invented to enable HMG/BAe to pay the huge commissions to the Saudis and their middlemen whilst still enabling HMG and BAe to sanctimoniously declare "there are no commission payments by us". Several members of the Saudi Royal family have openly taken sides against this business and the Observer article of 19th March has been reprinted in Arabic in Saudi Arabia and distributed widely. According to Saudi sources, this could have only been done by some member of the Family.

An executive of BAe explains the price, also about 120% above the RAF price by the commissions amounting to over 45% and the (successful) attempt by BAe to charge "proper profit margins on unprofitable business done in the past". Since the King wanted these huge commissions and BAe and Mrs. T. agreed to them, he could clearly not argue against this extra charge and also had to agree to "no commercial negotiation".

The same source also states that there is a sizable payment to the Conservative Party ("a huge sum") which is being administered by Wafiq Said in conjunction with Mark T.

The contract is being openly talked about in the Saudi Air Force and Saudi public. This has never happened before, no-one would have dared to under another King, and it shows the weakened position of Fahd.

A big talking point in the Royal Saudi Air Force is the fact that they are receiving nuclear-hardened Tornados on which King Fahd insisted under threat to cancel the contract and the RSAF are now trying to guess whose nuclear weapons they will be expected to carry. The word is, it will be the Pakistani bomb on a strike against Israel. Apparently, HMG agreed vis-a-vis NATO that they would not supply nuclear-capable aircraft to third non-NATO countries.

3. Malaysia.

The BAe source states that the price to that country is comparable to Jordan, about 112% above the RAF.

Reason: a large front payment to the UMNO party, if the PM Dr.Mahathir Mohamad is to be believed and it does not go straight into his pocket, of USD 250 million (already paid) and commissions payable to 3 other persons of altogether about 35%. The rest is extra profit for BAe. Again such prices could not be charged if the PM had not been bribed.

In return for the acceptance of a large British arms package including 6 nuclear-hardened Tornado atomic bombers and 2 Tornado spy-aircraft plus submarines, 155mm guns, a C-cube battle-field command system,Mrs. T.agreed to ensure that the next Commonwealth Conference would be held in Malaysia apart from agreeing to pay the above front payment and commissions.

What all this shows is by the UK Treasury´s own guidelines a wholesale interference by HMG in the proper affairs of three countries by corrupting their decision makers into deals for equipment that each country does not only NOT require but whose Air Forces in each case had previously declined this equipment on technical, performance and price reasons.

The additional financial benefits to Mark T. and his friends as Wafiq Said and other middlemen, all non-tax-paying residents of the Uk and to the Conservative Party are absolutely enormous, according to the BAe executive.

In summary, statements by Government officials and others to the National Audit Office that they have no knowledge of these huge commission payments (either already made or intended) to the Leaders of the three governments mentioned above are simply lies and should be tested by requiring sworn affidavits.

CONFIDENTIAL

CC(C)
(2)

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

MO 14/25E

5th May 1989

Rec Minister

CDP 8/5

Dear Charles,

SALE OF LYNX HELICOPTER TO PORTUGAL

You will recall that during her discussions with Sr. Cavaco Silva in March 1988, the Prime Minister expressed the strong hope that the Portuguese would decide to buy the Lynx helicopter. She made a particular point of saying that we would be prepared to give them one Lynx (together with associated spares and training) so that they would get, in effect, five helicopters for the price of four. In view of the Prime Minister's earlier involvement, I thought you might wish to know how matters now stand.

Despite this offer, the chances of Westlands actually selling the Lynx to Portugal have become seriously threatened by the recent US/Portuguese agreement on the continued use of the Lajes base. In part return for the use of this base the US have offered a substantial quantity of secondhand military equipment, including five Kaman SH2F (Seasprite helicopters) at a cost to Portugal of $25M. Despite the fact that both the SH2Fs and the MEKO frigates from which they will operate will need expensive modifications the US and Portuguese seem likely to finalise this deal soon.

In an attempt to get the Portuguese to think again we have been considering with Westlands how the British bid might be improved. Westland are currently reviewing their prices with a view to offering a further reduction and, for our part, we have examined whether the support HMG were offering might in some way be extended. We have now concluded that we could, within the total of £6.1M which was earlier approved to provide the one free helicopter, make available two helicopters at a total cost of £2.5M by agreeing to sell back to Westlands two new helicopters, which the Royal Navy can release temporarily, at their assessed value of £8.6M. Westlands would then supply these to Portugal in return for a payment of £2.5M and, in due course, replace the Royal Navy's aircraft.

We hope that this more attractive offer will commend itself to the Portuguese. Mr Younger has written personally to Sr Enrico de Melo explaining the offer. I attach a copy of his letter.

Charles Powell Esq
No 10 Downing Street

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

Yours sincerely

(I M WOODMAN)
Private Secretary

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 .....

MO 14/26E

4th May 1989

Dear Eurico,

I am writing to you in connection with Westland Helicopters Ltd's proposal to provide the Portuguese Navy with the Super Lynx to meet their requirements for shipborne helicopters. You will recall that this subject was discussed by Mrs Thatcher and Professor Cavaco Silva when they met in March 1988. I understand that our Ambassador has also discussed it with you in recent weeks and I know that you are also considering an alternative proposal from the United States

As I am sure the Ambassador has explained, we would wish to see the Portuguese Navy acquire and deploy the very best helicopter for the task and we believe that this is the Lynx. I am told that Westland, along with its suppliers, is currently preparing a new offer covering the supply of the aircraft. My Department have also been looking to see what alternative assistance the British Government might be able to provide. As a result I am pleased to be able to make the following proposal

In the event that Portugal decides to procure five Lynx, we would be able to make available to you, through Westland, two of the helicopters at a price of only £1.25M each instead of the one free helicopter previously offered. These aircraft, which could be made available early to enable training to begin, are fully equipped and entirely compatible with the standard MEKO class design. And,

His Excellency Eurico de Melo

subject to your training build up, operational needs and shipborne requirements Westlands and their partners in Portugal would be prepared to structure an appropriate modification programme for these two aircraft as and when required to bring them the same equipment standard as the other three. Additionally, we would be able to offer your Navy the full facilities of the UK Logistic Support Arrangement to support the Lynx fleet when in service. This facility, which provides a means of obtaining spares and engineering support at favourable rates, is already used by Norway, Denmark, the Federal Republic of Germany and the Netherlands, all of whom operate the Lynx. Our earlier offer to provide some free training by the Royal Navy would, of course, also still apply.

I understand, too, that Westland's proposals include an attractive offset package which would benefit Portuguese industry to the extent of 100% by value of the cost of the contract placed with the company.

I believe there is much to commend Westland's proposals, which would give the Portuguese Navy five new aircraft of a type which is compatible with several other NATO navies. Taken together with the package of assistance which I have now offered I think you will find the Lynx an ideal solution to your Navy's requirement. I am sure you will give it serious consideration before reaching your final decision.

Yours sincerely,

George Younger

George Younger

Copy to

PS/PUS
PS/CDP
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DUS(P)
DUS(F)
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AUS(IDP)
DG Mktg
AUS(Pol)
DGA(N)
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FCO - SED

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

MO 14/6/1V

28 April 1989

Dear Stephen,

SALE OF NUCLEAR SUBMARINES TO CANADA

Thank you for your letter of 25th April which has now, of course, been overtaken by events. However, for the record, I should say that our officials did contact FCO Legal Advisers in preparing the paper on liability which provided the basis for the 'agree to disagree' approach; Defence Department were also fully consulted in the lead up to my letter of 7th April which assessed the risk of making further moves to secure the sale. We certainly intended to seek further legal advice as matters proceeded, and our officials were expecting to have discussions with FCO Legal Advisers.

I am sending a copy of this letter to Charles Powell (No 10) and Carys Evans (HM Treasury).

Yours sincerely

(B R HAWTIN)
Private Secretary

J S Wall Esq
PS/Foreign and Commonwealth Secretary

Defence Defence Sales
Pt 12

Subject cc Master
OPS

CONFIDENTIAL

024513
MDHOAN 0183

CONFIDENTIAL
FM FCO
TO DESKBY 291630Z OTTAWA
TELNO 174
OF 291415Z APRIL 89

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T90A/89

FROM RESIDENT CLERK
MESSAGE TO MR MULRONEY
1. GRATEFUL IF YOU COULD PASS THE FOLLOWING MESSAGE TO MR MULRONEY FROM THE PRIME MINISTER AS SOON AS POSSIBLE.
BEGINS
DEAR BRIAN

THANK YOU FOR YOUR LETTER OF 27 APRIL. YOU WARNED ME WHEN WE MET IN MARCH OF THE SEVERE FINANCIAL DIFFICULTIES YOU FACE AND I WAS GRATEFUL TO BE INFORMED SO PROMPTLY OF THE DECISION YOU HAD REACHED.

WE HAD LOOKED FORWARD TO CO-OPERATING OVER YOUR NUCLEAR SUBMARINE PROGRAMME, AND NATURALLY SHARE YOUR DISAPPOINTMENT OVER ITS CANCELLATION. I HOPE, HOWEVER, THAT YOU WILL CONTINUE TO LOOK TO US FOR HELP WITH YOUR PLANS FOR PRESERVING CANADA'S NAVAL STRENGTH.

MORE GENERALLY, I WELCOME YOUR ASSURANCE THAT, DESPITE THE REDUCTIONS IN PLANNED DEFENCE EXPENDITURE, YOU WILL MAINTAIN CURRENT FORCE LEVELS IN EUROPE. I ALSO KNOW THAT WE BOTH SHARE THE VIEW THAT IT IS IMPORTANT AS EVER FOR THE ALLIANCE TO REMAIN STRONG IN THE FACE OF MR GORBACHEV'S TACTICS.

WARM REGARDS,
YOURS EVER
MARGARET
ENDS.

2. ORIGINAL FOLLOWS BY BAG.

HOWE

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MDHOAN 0183

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MR FEARN
RESIDENT CLERK

NNNN

CANADA

PRIME MINISTER · PREMIER MINISTRE

OTTAWA K1A 0A2

April 27, 1989

Dear Margaret,

Further to my commitment to ensure you would be the first to be informed should we make any announcements concerning our defence plans, reiterated during our recent meeting, I have asked my High Commissioner, Donald Macdonald, to deliver this letter to you.

My Government will table a budget today which outlines our strategy with respect to the reduction of our deficit. As we discussed, unless controlled and significantly reduced, this deficit threatens the long-term economic health of Canada. It has become our number one priority, as is reflected in the unprecedented cuts we have had to make in many popular programs.

Of the many painful decisions we have had to take, one of the most significant related to defence spending, and the nuclear-propelled submarines in particular. The Government has decided not to proceed with the acquisition of nuclear-propelled submarines, and will undertake an immediate examination of alternatives for the continued re-building of an effective navy, so vital to Canada's national security.

The 1987 Defence White Paper provided a policy and program framework to guide Canadian defence activities into the next century. The policy involved a set of commitments to the security of Canada, North America and Europe. We have determined that the defence procurement programs required to support these commitments will not be entirely affordable over the next few years given the need for budgetary restraint.

The Right Honourable Margaret Thatcher
Prime Minister of the United Kingdom
10 Downing Street
London, England

Although the defence budget will continue to increase in real terms, we are concerned to ensure that our defence programs continue to reflect a proper mix of forces designed to respond to our range of policy commitments. Cuts in planned expenditures have been necessary across the board, so as not to do irreparable damage in any one area. Nevertheless, the basic parameters of the White Paper remain the defence policy of the Government although, in the current fiscal context, that policy will need to be implemented more slowly.

The decision to cancel our nuclear-propelled submarine program has not been an easy one for my Government. However, we could see no other choice if our economic security, which underlies the ability to guarantee military security, is to be maintained. Nor could we see another choice if we are to maintain our current level of forces in Europe during this crucial period in East-West relations.

I would like to express my sincere gratitude to you for your cooperation, and that of your officials, in providing sensitive information and other unstinting assistance to Canada. The evident willingness of your officials to participate in such a venture with Canada and the enthusiasm and openness we encountered at all levels is, of course, entirely in keeping with the close and very special relationship we have enjoyed for so many years and is deeply appreciated.

I expect our close cooperation in the defence industrial field will continue to flourish and expand. I share the regret, however, of the Canadian Navy that the possibility of extending such cooperation to include the Canadian acquisition of nuclear-propelled submarines of U.K. design, cannot be realized.

I thank you and your colleagues for your thoughtful assistance in so many of our joint endeavours.

Yours sincerely,

Brian

CONFIDENTIAL

FILE SLW
cele

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 April 1989

CANADA: SSNs

I enclose a message which the Prime Minister has signed to Mr. Mulroney about the Canadian decision not to proceed with the order for SSNs. I should be grateful if the text could be telegraphed to Ottawa for delivery as soon as possible.

bf

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

(C. D. POWELL)

The Resident Clerk,
Foreign and Commonwealth Office.

CONFIDENTIAL

SUBJECT
cc MASTER
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. 90/89

CONFIDENTIAL

PMM

cc FCO
MOD
HMT
DTI
CO
PC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

29 April 1989

Dear Brian

Thank you for your letter of 27 April. You warned me when we met in March of the severe financial difficulties you face and I was grateful to be informed so promptly of the decision you had reached.

We had looked forward to co-operating over your nuclear submarine programme, and naturally share your disappointment over its cancellation. I hope, however, that you will continue to look to us for help with your plans for preserving Canada's naval strength.

More generally, I welcome your assurance that, despite the reductions in planned defence expenditure, you will maintain current force levels in Europe. I also know that we both share the view that it is important as ever for the Alliance to remain strong in the face of Mr. Gorbachev's tactics.

Warm regards,

Yours ever

Margaret

The Right Honourable Brian Mulroney, M.P.

CONFIDENTIAL

COVERING CONFIDENTIAL

c/c.

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

MO 14/6/1L

28 April 1989

Dear Charles,

SSNs FOR CANADA

Thank you for your letter of 27th April, enclosing a copy of the message from Mr Mulroney to the Prime Minister. We believe that a short reply would be appropriate; I attach a draft. This reflects the views of our High Commissioner who advised that we should play up the prospect of help over the conventional naval programme.

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

Yours sincerely,

(B R HAWTIN)
Private Secretary

Charles Powell Esq
10 Downing Street

COVERING CONFIDENTIAL

Subject: cc MASTER
cc OPS

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

10 DOWNING STREET
LONDON SW1A 2AA

PM Mtg
cc FCO
MOD
DTI
CST
PC

THE PRIME MINISTER

28 April 1989

Yom Majesty.

Thank you for your letter of 20 March informing me of your decision to postpone the Tornado contract and to substitute instead contracts for the Hawk aircraft and the Javelin missile. I fully sympathise with and understand your decision and I will do what I can to see that the best interests of Oman are safeguarded in the process of transition to the new contracts.

You asked in your letter if we would be prepared to arrange for the payment terms which were agreed for the Tornado contract to be applied to contracts for the Hawk aircraft and the Javelin missile. I am pleased to tell you that this can be done and that these terms will include the advantageous interest rate which I referred to in my letter of 31 January 1989.

I have, as you requested, done my best to persuade British Aerospace as Prime Contractor for the Tornado contract to waive any possible termination charges for postponement of that contract and to transfer payments already made to any contract for the Hawk aircraft. The Chairman of British Aerospace has assured me that the Company will do all in its power to reduce to the minimum possible, or even to eliminate, any such termination charges. But, as I am sure you will understand, it is not possible for the

Company to give a categoric guarantee that these can be totally eliminated. Since the Tornado contract became effective again in July 1988, the Company has incurred costs and entered into commitments with its partners in the project and with a number of suppliers and sub-contractors. It will be a time consuming process for the Company to enter into negotiations with all of these, but I am assured by the Chairman that British Aerospace will be doing all it can to make the transition from the Tornado to the Hawk as smooth as possible. I can also assure you that I shall continue to take a close personal interest in this project and that my officials from the Ministry of Defence will stay in close touch not only with your own officials but also with British Aerospace, so as to do our best to ensure that Oman's best interests are served.

The head of Defence Export Services, Sir Colin Chandler, is visiting Oman on 30 April for the purpose of further discussions with His Excellency Qais Zawawi and others on these matters.

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.

The National Archives

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Use black or blue pen to complete form.

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

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

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This should be an indication of what the extract is,
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CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

28/4

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private secretary
10 Downing Street
London
SW1

28 **April 1989**

Dear Charles,

with CSP.

OMAN

The Chief Secretary has seen Ian Woodman's letter to you of 26 April. I indicated in my letter of 12 April that we would prefer not to extend the interest and credit period concession on Hawks to the Javelin missiles. You will be aware that missiles normally attract tighter terms.

The Chief Secretary notes that MOD is now prepared to extend the concession to missiles. He has asked me to record that he would not want this exceptionally generous treatment to be a precedent for other cases.

Treasury officials will be in touch with MOD officials to discuss the financing details of this case urgently as foreshadowed in Steve McCarthy's letter to you of 10 April.

I am copying this letter to Bob Peirce (Foreign Office) Ian Woodman (MOD) and Neil Thornton (DTI).

Yours sincerely,

Peter Wanless.

PETER WANLESS
Assistant Private Secretary

CONFIDENTIAL

?. Defence Sales.



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T88/89

SUBJECT cc OPS
MASTER.

CONFIDENTIAL

OTTAWA K1A OA2

April 27, 1989

Dear Margaret,

Further to my commitment to ensure you would be the first to be informed should we make any announcements concerning our defence plans, reiterated during our recent meeting, I have asked my High Commissioner, Donald Macdonald, to deliver this letter to you.

My Government will table a budget today which outlines our strategy with respect to the reduction of our deficit. As we discussed, unless controlled and significantly reduced, this deficit threatens the long-term economic health of Canada. It has become our number one priority, as is reflected in the unprecedented cuts we have had to make in many popular programs.

Of the many painful decisions we have had to take, one of the most significant related to defence spending, and the nuclear-propelled submarines in particular. The Government has decided not to proceed with the acquisition of nuclear-propelled submarines, and will undertake an immediate examination of alternatives for the continued re-building of an effective navy, so vital to Canada's national security.

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The Right Honourable Margaret Thatcher
Prime Minister of the United Kingdom
10 Downing Street
London, England

CONFIDENTIAL

The decision to cancel our nuclear-propelled submarine program has not been an easy one for my Government. However, we could see no other choice if our economic security, which underlies the ability to guarantee military security, is to be maintained. Nor could we see another choice if we are to maintain our current level of forces in Europe during this crucial period in East-West relations.

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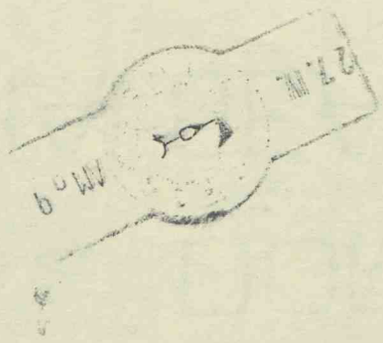
I thank you and your colleagues for your thoughtful assistance in so many of our joint endeavours.

Yours sincerely,

Brian



CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1989

SSNs FOR CANADA

I enclose a copy of a message to the Prime Minister from the Canadian Prime Minister, which was delivered this morning, informing her of the Canadian Government's decision not to proceed with the acquisition of SSNs. It also informs us of further cuts in the Canadian defence budget.

I should be grateful for advice on whether it would be appropriate for the Prime Minister to reply.

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

CHARLES POWELL

Brian Hawtin Esq
Ministry of Defence

CONFIDENTIAL

OTTAWA K1A OA2

April 27, 1989

Dear Margaret,

Further to my commitment to ensure you would be the first to be informed should we make any announcements concerning our defence plans, reiterated during our recent meeting, I have asked my High Commissioner, Donald Macdonald, to deliver this letter to you.

My Government will table a budget today which outlines our strategy with respect to the reduction of our deficit. As we discussed, unless controlled and significantly reduced, this deficit threatens the long-term economic health of Canada. It has become our number one priority, as is reflected in the unprecedented cuts we have had to make in many popular programs.

Of the many painful decisions we have had to take, one of the most significant related to defence spending, and the nuclear-propelled submarines in particular. The Government has decided not to proceed with the acquisition of nuclear-propelled submarines, and will undertake an immediate examination of alternatives for the continued re-building of an effective navy, so vital to Canada's national security.

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Although the defence budget will continue to increase in real terms, we are concerned to ensure that our defence programs continue to reflect a proper mix of forces designed to respond to our range of policy commitments. Cuts in planned expenditures have been necessary across the board, so as not to do irreparable damage in any one area. Nevertheless, the basic parameters of the White Paper remain the defence policy of the Government although, in the current fiscal context, that policy will need to be implemented more slowly.

The Right Honourable Margaret Thatcher
Prime Minister of the United Kingdom
10 Downing Street
London, England

CONFIDENTIAL

The decision to cancel our nuclear-propelled submarine program has not been an easy one for my Government. However, we could see no other choice if our economic security, which underlies the ability to guarantee military security, is to be maintained. Nor could we see another choice if we are to maintain our current level of forces in Europe during this crucial period in East-West relations.

I would like to express my sincere gratitude to you for your cooperation, and that of your officials, in providing sensitive information and other unstinting assistance to Canada. The evident willingness of your officials to participate in such a venture with Canada and the enthusiasm and openness we encountered at all levels is, of course, entirely in keeping with the close and very special relationship we have enjoyed for so many years and is deeply appreciated.

I expect our close cooperation in the defence industrial field will continue to flourish and expand. I share the regret, however, of the Canadian Navy that the possibility of extending such cooperation to include the Canadian acquisition of nuclear-propelled submarines of U.K. design, cannot be realized.

I thank you and your colleagues for your thoughtful assistance in so many of our joint endeavours.

Yours sincerely,

Brian

Canadian High Commission

Haut Commissariat du Canada

Macdonald House
1 Grosvenor Square
London W1X OAB

April 27, 1989

Mr. Charles Powell
Private Secretary to the Prime Minister
10 Downing Street
London

Dear Mr. Powell,

I should be most grateful if you would bring to Prime Minister Thatcher's attention on an urgent basis the attached message from Prime Minister Mulroney.

Yours sincerely,

L. A. Delvoie
Deputy High Commissioner

CONFIDENTIAL

cc/c.

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

MO 25/15L

26th April 1989

Dear Charles,

TORNADO FOR OMAN

Thank you for your letter of 25th April covering a letter dated 24th April from the Chairman of British Aerospace to the Prime Minister.

Discussions have now been held between officials of the MOD and senior officials of BAe and we have concluded that there is no need for the Prime Minister to intervene further with the Company in the immediate future. The two letters from the Prime Minister to Professor Smith have helped considerably in persuading BAe to take a reasonable line with the customer in respect both of termination charges and of transferring the loan arrangements for the Tornado deal to the Hawk. But it is still a pity that it took BAe so long to come in for discussions after the Prime Minister's first letter to the Company seeking discussions with MOD officials. I suggest that a Private Secretary acknowledgement of Professor Smith's letter is all that is needed for the time being.

Discussions with BAe have persuaded us that the next step would be for the customer and BAe to get into direct discussion both about limiting any possible termination charges for the Tornado deal and about transferring the loan arrangements from the Tornado to Hawk. Given that the Tornado contract was actually first signed in 1985 and was subsequently re-negotiated and amended with a new effective date of July 1988, it is a fact that costs have been incurred and commitments entered into under this project not only within BAe itself but also with its partners in the project and with a large number of suppliers and sub-contractors. While BAe, as Professor Smith has promised, will do their utmost to reduce any termination charge to an absolute minimum or even eliminate it, it is a time consuming process to go through the various accumulated costs and commitments with all these parties and to negotiate termination, salvage and perhaps compensating arrangements. The Omani authorities are aware, and agree, that the sensible next step would be for the Company and themselves to get

Charles Powell Esq
10 Downing Street

together, but they would still like to see a monitoring role being undertaken by MOD. They are grateful for what the Prime Minister has done to date, and a promise of continued interest in the project to ensure that their best interests are protected would be re-assuring.

It will also be important now to demonstrate to Sultan Qaboos that we accept the other part of his request to the Prime Minister, ie that the payment terms which were agreed for the Tornado, including the interest rate, should be applied to the Hawk-Javelin package. You will have seen the correspondence between Departments on this topic and of course you will recall the Prime Minister's view that the terms should be applied to the new contracts. We believe that the Prime Minister should now communicate this to Sultan Qaboos. That will have the desired effect not only of assuring the Omanis that we are continuing to look after their best interests but should also enable the Javelin component of the package to go ahead fairly quickly. That will be good news for Shorts who are in need of a further Javelin sale. I attach a draft of a suggested letter from the Prime Minister to Sultan Qaboos.

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

Yours sincerely

(I M WOODMAN)
Private Secretary

MEMAPV

His Majesty Sultan
Qaboos Bin Said Al Said
QCB CFMG GCVO

TO

SUGGESTED TEXT OF A LETTER FROM THE PRIME MINISTER TO SULTAN QABOOS OF OMAN

1. Thank you for your letter of 20th March informing me of your decision to postpone the Tornado contract and to substitute instead contracts for the Hawk aircraft and the Javelin missile. I fully sympathise with and understand your decision and I will do what I can to see that the best interests of Oman are safeguarded in the process of transition to the new contracts.

2. You asked in your letter if we would be prepared to arrange for the payment terms which were agreed for the Tornado contract to be applied to contracts for the Hawk aircraft and the Javelin missile. I am pleased to tell you that this can be done and that these terms will include the advantageous interest rate which I referred to in my letter of 31st January 1989. ~~I am personally~~ pleased that we are able to provide this measure of support to your objective of the strong defence of your country allied to prudent ~~economic management~~.

3. I have, as you requested, ~~used my offices to seek~~ done my best to persuade British Aerospace as Prime Contractor for the Tornado contract to waive any possible termination charges for postponement of that contract and to transfer payments already made to any contract for the Hawk aircraft. The Chairman of British Aerospace has assured me that the Company will do all in its power to reduce to the minimum possible, or even to eliminate, any such termination charges. But, as I am sure you will understand, it is not possible

32/33.

for the Company to give a categoric guarantee ~~at this time~~ that these can be totally eliminated. Since the Tornado contract became effective again in July 1988, the Company has incurred costs and entered into commitments with its partners in the project and with a number of suppliers and sub-contractors. It will be a time consuming process for the Company to enter into negotiations with all of these, but I am assured by the Chairman that British Aerospace will be doing all it can to make the transition from the Tornado to the Hawk as smooth as possible. I can also assure you that I ~~will~~ would continue to take a close personal interest in this project and that my officials from the Ministry of Defence will stay in close touch not only with your own officials but also with British Aerospace, so as to do our best to ensure that ~~your~~ Oman's best interests are served.

4. The Head of Defence Export Services, Sir Colin Chandler, is visiting Oman on 30th April for the purpose of further discussions with His Excellency Qais Zawawi and others on these matters.

5. ~~Please be assured of my best attention at all times.~~

DEFENCE - Jails PT12



SECRET UK EYES A

cefc

Foreign and Commonwealth Office

London SW1A 2AH

7a

25 April 1989

CRW 25/4.

Dear Brian,

Sale of Nuclear Submarines to Canada

The Foreign Secretary has seen your letter of 7 April and the replies from Carys Evans (13 April) and Charles Powell (14 April).

He agrees that we should seek to make our offer more attractive to the Canadians in the two areas suggested, while being careful not to aggravate the problem with the Americans to such an extent that we put at risk future cooperation (outside the area of propulsion technology) and the willingness of the Administration and Congress to facilitate the sale at the end of the day.

His main concern is about what is proposed on legal liability. The annex to your letter rightly identifies this as the issue most likely to broaden the opposition which we already face in Washington. There will be a constituency in the Departments of State and Defense - and possible in the NSC - which is unhappy about any modification of what has so far been a standard US/UK position on liability. There may also be more specific criticism about the details of an "agreement to disagree" with the Canadians. The Foreign Secretary believes that these details need to be further considered before we enter into such an arrangement. He has, therefore, instructed FCO legal advisers to consult rapidly on this matter with their MOD counterparts.

This further consideration need not call into question the procedures already agreed for the next phase of discussion with the Canadians or for consultation of our Embassy in Washington about future tactics. But the Foreign Secretary considers that we should not finalise any arrangements on liability or brief the Americans until Ministers have seen agreed legal advice on this point.

I am copying this letter to Charles Powell (No 10) and Carys Evans (HM Treasury).

Yours,

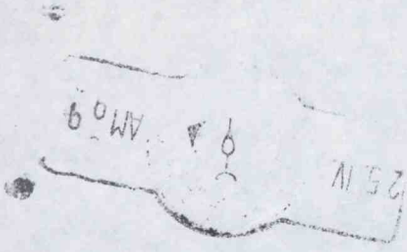
Stephen Wall

(J S Wall)
Private Secretary

Brian Hawtin Esq
PS/Defence Secretary

SECRET UK EYES A

DEFENCE: Sales PT2



CONFIDENTIAL

SCC
FILE
DA
PE

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 April 1989

TORNADO FOR OMAN

Professor Roland Smith of BAe has now replied to the Prime Minister's letter of 14 April about Oman's decision to cancel the Tornado contract and purchase Hawk instead. I enclose a copy of his reply. As you will see, he suggests that the next step is to persuade the Omanis to enter discussions with BAe. I should be grateful for advice on whether further intervention by the Prime Minister is needed.

PF 1

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

(C.D. POWELL)

Steve McCarthy, Esq.,
Ministry of Defence.

BRITISH AEROSPACE

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

From: CHAIRMAN

Direct Line: 01-389 3923

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

24th April, 1989.

Dear Prime Minister,

OMAN

Thank you for your letter dated 14th April, 1989. We begin from the premiss that British Aerospace, in recognising our long standing relationship with Oman, will do everything possible to assist in meeting the Sultan's request with respect to cancellation charges for the Tornado contract and transfer of downpayments to a Hawk contract.

However, I am not over optimistic about receiving such positive reactions from our German and Italian Partners.

I am sure you appreciate, with the revised Omani Tornado contract having been in being since July 1988 irrevocable costs and commitments have accrued under that contract and it will not be possible to entirely transfer these to other foreseen Tornado requirements. It follows that we need to get into a position that will allow us to quickly address, with our Omani customer, how best to handle such residual cancellation costs. Part of these will be attributable to our industrial Partners and although I hope it will not be necessary, we may have to call upon your personal support in making representations to the German and Italian Governments.

Without going into detail, the transfer of the downpayment to a Hawk contract will require discussions with our Partners and sub-contractors and, of course, officials of the Ministry of Defence with regard to future funding of RAF Tornados.

/I fully endorse ....

I fully endorse your view of the need for an early response to the Sultan, and would suggest that it contains an assurance that British Aerospace will, within the constraints mentioned above, use all its efforts to minimise, and hopefully to eliminate, any potential liability. Discussions with your own officials lead me to believe that this should be possible.

To assist in this process, it would be helpful if, as mentioned in your letter of the 23rd March, you could suggest to the Sultan that his officials now pursue discussions with us in accordance with the terms of the Contract between the Oman Government and British Aerospace. They will not find us lacking in our efforts to settle the Tornado issue and to conclude new agreements for the Hawk as speedily as possible.

Yours sincerely,

Roland Smith

Professor Roland Smith.

24. IV. 50 PM no

DEFENCE: Saken pr 12.

6(a)

PRIME MINISTER

NUCLEAR SUBMARINES FOR CANADA

I understand from the Defence Secretary that the Canadian Defence Minister took him aside at the NPG meeting yesterday and gave him a very broad hint that the Canadians would cancel the whole project because of their difficulties over defence expenditure. In that event, there would be little point in the matter being raised at OD.

(C.D. POWELL)

21 April 1989

DA1ACI

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CONFIDENTIAL

PRIME MINISTER

NUCLEAR SUBMARINES FOR CANADA

In the Business Note (attached) Sir Robin Butler suggests that the issue of Liability in the negotiations with the Canadians on the sale of nuclear submarines and the question of access to future technology should be raised in OD. The matter was in fact resolved in correspondence between you, the Defence Secretary, the Foreign Secretary, the Chief Secretary and the Trade and Industry Secretary, all of whom are members of OD. You ruled - with clear majority support - that the sale was sufficiently important to warrant a concession over Liability. I do not see the need to raise the matter now in OD: indeed to do so would risk reopening the Whitehall argument at a crucial stage of the negotiations with the Canadians. The matter was handled perfectly properly: no Minister has expressed reservations subsequently about the decision reached or asked for it to be referred to OD or Cabinet. I recommend, therefore, that you resist this suggestion.

C.D.P.

(C. D. POWELL)
20 April 1989

I agree. If Sir Robin was arguing not arguing that the issue was so important that the endorsement of full Cabinet was essential I could see his point. But OD is hardly bigger than the circle that has already considered it.

AT

CONFIDENTIAL

Ref. A089/1008

MR TURNBULL

Business

This minute contains proposals for Cabinet and Cabinet Committee meetings chaired by the Prime Minister for the three weeks from Monday 24 April to Friday 12 May.

Monday 24 April

2.30 pm MISC 128
Implementation of Broadcasting White Paper
Ownership of TV Franchises
Channel 4

Tuesday 25 April to Wednesday 26 April

No Prime Minister's Committees

Thursday 27 April

10.00 am CABINET
Parliamentary Affairs
Home Affairs
Foreign Affairs
Community Affairs

11.00 am MISC 66
Civil Service Pay

4.45 pm MISC 138
Food Safety and Single European Market

The Foreign and Commonwealth Secretary and the Home Secretary should be invited to attend.

Friday 28 April

9.30 am OD

An Air Combat Manoeuvring Installation in the North Sea

[Sale of SSNs to Canada]

The sale of SSNs to Canada, though a decision of considerable magnitude, has not been considered by Cabinet or a Cabinet Committee. Would the Prime Minister like the Secretary of State for Defence to report orally to OD? The Home Secretary, the Secretary of State for Employment, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Transport, the Secretary of State for Energy and the Attorney General should be invited to attend (the Home Secretary, the Secretary of State for Employment, the Secretary of State for Transport and the Secretary of State for Energy will be out of London and will need to be represented). If the Prime Minister is content to include Item 2, the Attorney General should also be invited to attend for Item 2.

Saturday 29 April to Monday 1 May

No Prime Minister's Committees

Tuesday 2 May

9.30 am MISC 138

Food Bill

Wednesday 3 May

No Prime Minister's Committees

Thursday 4 May

10.30 am CABINET

Parliamentary Affairs

Home Affairs

Foreign Affairs

Community Affairs

Friday 5 May to Wednesday 10 May

No Prime Minister's Committees

Thursday 11 May

9.30 am — MISC 128
Competitive Tendering
Night Hours
Channels 3 and 5: Geographical and Time Divisions

10.30 am — CABINET
Parliamentary Affairs
Home Affairs
Foreign Affairs
Community Affairs

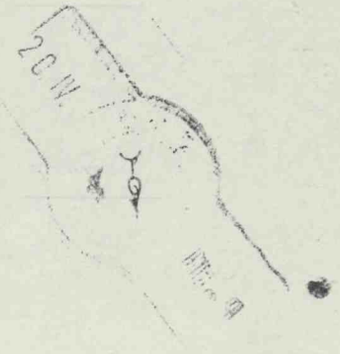
Friday 12 May

No Prime Minister's Committees

Pawick Turner

P H TURNER

20 April 1989



SECRET UK EYES A

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 April 1989

Dear Brian.

SALE OF NUCLEAR SUBMARINES TO CANADA

The Prime Minister has seen your letter of 7 April about the proposed sale of SSNs to Canada, covering papers dealing with outstanding issues, including liability and the impact of a sale on our relations with the Americans. She has also considered the Chief Secretary's views as set out in Carys Evans' letter of 13 April.

The Prime Minister shares the Defence Secretary's view that we must strive to obtain this order. She has commented that liability is never an easy decision. But we shall not get the sale unless we are prepared to move some way towards the Canadians and she thinks the Defence Secretary's proposal is probably the best we can do.

The Prime Minister has noted that the Americans will need very careful handling both on liability and on future technology exchanges and she would want the Defence Secretary personally to supervise this. But she shares the conclusion that the risks are tolerable.

I am copying this letter to Carys Evans (Chief Secretary's Office), Richard Gozney (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET UK EYES A

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

14 April 1989

Dear Professor Smith.

Thank you for your letter of 30 March.

I note your comments about the position of your German and Italian partners but I hope you can confirm that British Aerospace, for its part, accepts the Sultan's request that the cancellation charges relating to the Tornado contract should be waived and that the down payment already made to Tornado can be applied to a contract for Hawk aircraft. By the same token, we will be prepared to apply to the revised deal the very favourable credit terms and subsidised interest rate which were proposed for Tornado.

So far as Italy and Germany are concerned, I believe strongly that you have every justification to expect their participation in meeting the Sultan's request. Both countries have benefited substantially from the British effort applied to securing the large Tornado element of the Al Yamamah project. Similar arguments apply to our success to date with Malaysia. And the Government of Oman has made it clear that it intends to consider re-instating the Tornado deal later.

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In these circumstances I am sure that you will be able to persuade your partners to accept their full share of any burden and that this should be weighed against the advantage that they have derived from our own successes in marketing Tornado.

As it would be unreasonable to delay my response to the Sultan much longer, I most earnestly hope you will be able to reply in more detail as soon as possible.

Yours sincerely

Margaret Thatcher

Professor Roland Smith

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

Thank you for your letter of 30 March. ~~I regret that your response does not provide me with sufficient grounds on which to base a reply to Sultan Qaboos.~~ N.P. I note your comments about the position of your German and Italian partners but I hope you can confirm that British Aerospace, for its part, accepts the Sultan's request that the cancellation charges relating to the Tornado contract should be waived and that the down payment already made to Tornado can be applied to a contract for Hawk aircraft. By the same token, we will be prepared to apply to the revised deal the very favourable credit terms and subsidised interest rate which were proposed for Tornado.

So far as Italy and Germany are concerned, I believe strongly that you have every justification to expect their participation in meeting the Sultan's request. Both countries have benefited substantially from the British effort applied to securing the large Tornado element of the Al Yamamah project. Similar arguments apply to our success to date with Malaysia. And the Government of Oman has made it clear that it intends to consider re-instating the Tornado deal later.

In these circumstances I am sure that you will be able to persuade your partners to accept their full share of any burden and that this should be weighed against the advantage that they have derived from our own successes in marketing Tornado. // ~~Because~~ N.B. As it would be unreasonable to delay my response to the Sultan much longer, I ~~look forward to hearing further from you~~ most earnestly hope you will be able to reply as soon as possible.

Professor Roland Smith

dti

the department for Enterprise

CONFIDENTIAL

The Hon. Alan Clark MP
Minister for Trade

Charles Powell Esq
Private Secretary
No 10 Downing Street
London

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 WO7AVO
Your ref
Date 13 April 1989

Dear Charles

OMAN

I refer to Steven McCarthy's letter of 10 April enclosing the draft of a further letter for the Prime Minister to send to Professor Smith at BAe. I have also seen the Chief Secretary's comments set out in Peter Wanless's letter of 12 April, and your reply of the same date.

Mr Clark has always taken the view that, as the Chief Secretary has indicated, the Hawk purchase is a more sensible one for Oman. It also has the advantage that no ECGD support for German and Italian shares is involved. He therefore thinks that we should do all that we reasonably can to support it and agrees with the proposed reference in the draft letter to Professor Smith to the terms to be offered for the Hawk/Javelin deal.

On the credit terms, on the assumption that the Omanis are seeking the flexible terms offered to them recently for Tornado, there could be real benefit to the UK if the movement of oil prices and exchange rates meant that shorter credit, possibly down to 8½ years, was provided; that would be the case on the basis of present oil prices. It is also true, as the Chief Secretary says, that these subsidised terms would not normally be availble for the Javelin missile system. However where such equipment is provided as part of a larger package, longer terms have been agreed (the

dti
the department for Enterprise

Charles Powell Esq April 1989

case of the Jordan defence package, where ammunition was supported with long-term credit, illustrates this). Mr Clark considers that it is quite justifiable to support the proposed terms for this package.

On interest rates it is normal for the Consensus rate, currently 9.65%, to be charged but given that this is a replacement contract for a much lower sum, and that there is a need for the UK to respond positively to the Sultan, Mr Clark considers that we should be prepared to continue to offer the 8.75% interest rate. At that rate the interest make-up cost would be some £13 million compared with some £8.25 million if the current Consensus rate was charged. This compares incidentally with an interest make-up cost of £25 million that would have been incurred in respect of the Tornado contract.

I am copying this letter to Steven McCarthy (MOD), Bob Pierce (FCO), Peter Wanless (HMT) and Malcolm Stephens (ECGD).

Yours Sincerely
Glyn Williams

G WILLIAMS
Private Secretary

Defence : Sales Pt 12

cst.ps/4ce13.4/lets

SECRET UK EYES A
ECLIPSE



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

13 April 1989

Dear Charles

SALE OF NUCLEAR SUBMARINES TO CANADA

The Chief Secretary has seen Brian Hawtin's letter of 7 April and the annexes (for which he is most grateful) addressing the points raised in my letter of 28 February.

The Chief Secretary fully appreciates the importance of an order for British industry but he sees considerable difficulties in further concessions to achieve it. He has two specific points of concern. First, the financial liability for a nuclear incident. The Chief Secretary thinks that the 'agreement to disagree' proposal is ingenious but unsatisfactory. The British Government would be putting itself in the position of allowing the sale to proceed despite failing to secure Canadian agreement to our explicit condition that it would go ahead only if they accepted full liability. In the event of a future nuclear incident, such an 'agreement' would be seen at that time to have been a considerable gamble, since it must inevitably increase the likelihood of a claim against the UK. This would be a further contingent liability on the UK taxpayer. The Chief Secretary believes that we would be unwise to accept this. Moreover, since in our view the UK design is clearly superior, he believes that the taxpayer need not be put at further risk to secure a sale which should go through on its commercial and technical merits.

Second, the Chief Secretary notes the finely balanced judgment on wider UK/US relations. He acknowledges that he is not best placed to reach a judgment on wider relations but it does seem from the MOD/FCO paper that we are asking a lot of the new US administration and Congress. In the nuclear area, he is concerned about the end of the recent dialogue on advanced fuels and the risk of losing further valuable information and technology flows from the US. Even if the US did not formally withdraw co-operation, a less co-oporative attitude could add considerably to our costs. Our nuclear expenditure in the US, of

SECRET UK EYES A
ECLIPSE

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around £300 to £400 million a year, is an indication of the scale of current co-operation. And there are other areas such as co-operation on FNTW, where US co-operation could be of even greater value.

Although this is a finely balanced decision the Chief Secretary believes that we should not increase the contingent liability faced by the UK taxpayer or risk damage to our relationship with the US.

I am copying this letter to Brian Hawtin (MOD), Richard Gozney (FCO) and Trevor Woolley (Cabinet Office).

Yours
Cathy

MISS C EVANS
Private Secretary

DEFENCE: Sales. PTR.

13 IV PM 9

CONFIDENTIAL

FILE MJ.

bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 April 1989

Dear Peter,

OMAN

The Prime Minister has seen your letter of 12 April setting out the Chief Secretary's view that we should not volunteer the same credit terms and interest on subsidies for the sale of Hawk to Oman as was agreed for Tornado. The Prime Minister is strongly of the opposite view and thinks that we should offer the same terms. Since we are seeking Professor Smith's help on other matters, she also thinks that it would be wise to mention the offer in her letter to him. Unless the Chief Secretary wishes to pursue this further, I propose to put the letter to the Prime Minister for signature tomorrow.

I am copying this letter to Steve McCarthy (Ministry of Defence), Bob Peirce (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry) and Malcolm Stephens (ECGD).

Yours sincerely,

Charles Powell

Peter Wanless Esq
Chief Secretary's Office.

KK

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CONFIDENTIAL

CCPC (8)

Yes - We have lost the larger order. We must get this one. We have a Current Account deficit of £14bn already

Prime Minister

The Chief Secretary does NOT want to offer the same credit terms to Oman for Hawk & Javelin as for Tornado.

I think this is a mistake: and it runs counter to the original view of Treasury officials. It will wound the Sultan. Agree that we should offer the same terms? agree

Yes

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

12 April 1989

Dear Charles,

OMAN

The Chief Secretary has seen Steve McCarthy's letter of 10 April to which a draft letter was attached for the Prime Minister to send to Professor Smith.

The Chief Secretary agrees that BAe should be urged to waive cancellation charges on the Tornado contract since the company stands to benefit significantly from the substitute Hawk contract. This will still be a significant sale for the UK and more commensurate with Oman's ability to pay.

However, he is not convinced that it is necessary to volunteer to Professor Smith at this stage the extension of the exceptional credit terms and interest rate subsidies offered for the Tornado deal.

On the extended 11½ year credit terms, he has queried whether these are still needed for the Hawk deal in view of the recent rise in the price of oil, from the proceeds of which the sale is to be funded. He is in any case opposed to making these terms available for the Javelin missiles. Our normal practice is to limit credit terms for missiles to five years.

On interest rates, he has queried whether the exceptionally generous terms provided for the Tornado deal are still appropriate for the Hawk deal. The Tornado interest rate was fixed at 8.75 per cent in 1986. The current equivalent rate agreed by OECD countries for export finance is 9.65 per cent. Although, arms are not covered by the OECD Consensus we normally apply the same terms. Under the Consensus interest rates are reviewed each six months, indications cannot be held beyond that and an earlier rate cannot be switched between contracts. The Chief Secretary, would prefer to adhere to our established practice.

CONFIDENTIAL

In the case of missiles, we do not normally provide interest support for export credit, and the Chief Secretary does not consider that an exception should be made in the case of the Javelin deal.

The Chief Secretary, therefore, is reluctant to include any reference to credit or interest terms in the letter to Professor Smith. He prefers that officials should examine the precise terms for any new contract before any public commitment is given.

I am copying this letter to Steven McCarthy (MOD), Bob Pierce (FCO), Neil Thornton (DTI), and Malcolm Stephens (ECGD).

Yours sincerely,

Peter Wanless.

PETER WANLESS
Assistant Private Secretary

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

12 April 1989

Dear Charles

(Removed)

Steve McCarthy's letter of 10 April to you sought views on how we should respond to The Sultan's request that the Hawk/Javelin package be offered on the same financial terms as Tornado.

The Foreign Secretary agrees fully with the Defence Secretary's recommendations. The Hawk/Javelin package reduces the financial risk to HMG. Moreover, the realistic attitude which the Omanis have adopted towards the economic consequences of buying Tornado suggest that they will handle the arrangements for the revised contract sensibly. The Foreign Secretary sees a distinct advantage in the Prime Minister being able to say in her letter to Professor Smith that HMG have agreed the same financial terms as for Tornado. This might encourage BAe to take a more positive attitude on other elements of the Prime Minister's letter.

I am copying this to Steve McCarthy (MOD), Neil Thornton (DTI), Carys Evans (Chief Secretary's Office) and Malcolm Stephens (ECGD).

Yours ever

Bob Peirce

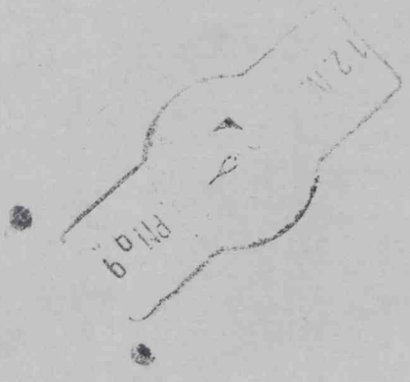
(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

Defence

: Sales Pt. 12.



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SECRET

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PRIME MINISTER

NUCLEAR SUBMARINES FOR CANADA

We seem to be approaching - and it's not the first time we have been told this - a crucial phase in the competition for the supply of nuclear submarines to Canada.

There are two main issues outstanding:

- liability. We have been insisting that the Canadian Government must accept absolute liability without recourse to us in the event of a nuclear accident. The Canadians want a provision that the two governments would agree to consult in the event of an incident, and say that the French have already agreed to this. The Ministry of Defence now say that the risks of any negligence being proved against the UK in respect of an accident to a Canadian submarine will be minimal. They propose therefore to leave the position on liability open, implicitly admitting that any future claims would be settled by consultation.

- future technology exchange. We are trying to mark out a form of words which will offer the Canadians some assurance of future cooperation, while giving the US a guarantee that we shall not transfer any SSN20 advanced fuel technology. This is not an easy task: and the potential damage to our interests in terms of future cooperation with the US in this area if we offer the Canadians too much is considerable.

This leads on to the whole question of the cost-benefit to us of this transaction. The direct benefit to HMG is only some £10 million. British industry stands to gain some £750 million - £1 billion. The costs are harder to calculate. Since we started to treat with the Canadians in 1987, the Americans have refused any further discussion with us on advanced fuel technology. The Ministry of Defence say that they can live with this. They do not believe that wider cooperation on nuclear weapons design and technology with the

US would be jeopardised.

On this basis MOD recommend that we should press ahead with our efforts to secure the sale, in the belief that the risks are containable. Your own further intervention with President Bush and with Congress is likely to be required, to ensure that the Americans allow the sale to go ahead.

These matters are set out in more detail in the attached papers. Are you content with the general approach?

C.D.?.

CDP

11 April, 1989.

Yes - the BAP advantage to us would be considerable - and it does make sense to have U.S./Canada/U.K. co-operation

MS

CONFIDENTIAL

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

MO 6/17/6L

10th April 1989

Dear Charles

OMAN

Andrew Turnbull's letter of 31st March sought advice on how the Prime Minister should reply to the Sultan of Oman in the light of Professor Smith's letter of 30th March.

As Andrew noted, British Aerospace have failed to give the commitment which the Prime Minister sought. This may be because we understand that there are elements within BAe who have not entirely given up the idea of pursuing a charge for cancellation of the Tornado deal. Professor Smith may therefore need to have his resolve strengthened, and the Defence Secretary believes that it would be appropriate for the Prime Minister to go back to Professor Smith seeking a clearer response and, at the same time, urging him to reach a speedy agreement with BAe's Italian and German partners. I attach a draft of such a letter.

We also need to respond to the Sultan's request that the Hawk/Javelin sale should be on the same terms as those offered in the Prime Minister's letter of 31 January for a revised Tornado contract. The contract value of the new package is estimated to be approximately £175 million, which is substantially less than the value of the Tornado deal (£400 million approx): the ECGD cover likely to be required and the cost of interest subsidy should thus be considerably less than that which was previously envisaged. In this light, Mr Younger believes that the circumstances which determined the original offer remain valid and he sees no grounds on which the Sultan's request should be declined, although there will clearly be a need for detailed discussion over the precise terms for a new contract both within Whitehall and, subsequently, with Omani officials. He would be grateful to know whether the Prime Minister and colleagues agree.

I am sending copies of this letter to Bob Pierce (FCO), Neil Thornton (DTI), Carys Evans (Chief Secretary's Office) and Malcolm Hughes (ECGD).

Yours sincerely

(S McCARTHY)
Private Secretary

Charles Powell Esq
10 Downing Street

CONFIDENTIAL

CONFIDENTIAL

SUGGESTED TEXT OF A LETTER FROM THE PRIME MINISTER TO PROFESSOR ROLAND SMITH, CHAIRMAN BRITISH AEROSPACE

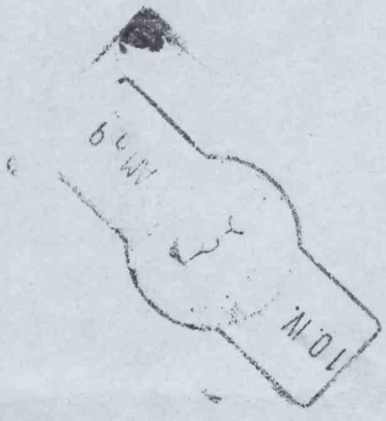
Thank you for your letter of 30th March. I regret that your response does not provide me with sufficient grounds on which to base a reply to Sultan Qaboos. I note your comments about the position of your German and Italian partners but I hope you can confirm that British Aerospace, for its part, accepts the Sultan's request that the cancellation charges relating to the Tornado contract should be waived and that the down payment already made to Tornado can be applied to a contract for Hawk aircraft. By the same token, we will be prepared to apply to the revised deal the very favourable credit terms and subsidised interest rate which were proposed for Tornado.

So far as Italy and Germany are concerned, I believe strongly that you have every justification to expect their participation in meeting the Sultan's request. Both countries have benefited substantially from the British effort applied to securing the large Tornado element of the Al Yamamah project. Similar arguments apply to our success to date with Malaysia. And the Government of Oman has made it clear that it intends to consider re-instating the Tornado deal later.

In these circumstances I am sure that you will be able to persuade your partners to accept their full share of any burden and that this should be weighed against the advantage that they have

derived from our own successes in marketing Tornado. Because it would be unreasonable to delay my response to the Sultan much longer, I look forward to hearing further from you as soon as possible.

DEFENCE · Sales PT12



SECRET AND PERSONAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 April 1989

OMAN

Air Vice Marshal Bennett called on me this morning to deliver the enclosed letter to the Prime Minister from the Sultan. Since it was marked strictly personal, I shall be grateful if you could ensure that it is seen by only a very limited number of people.

Bennett expressed general satisfaction with the decision on Tornado and said that the Sultan was very relieved by our understanding response. He entirely took the point about the need to delay a public statement until we had sorted things out with the Germans and Italians.

Bennett raised one specific point and that was the question of a replacement for Lockwood who is apparently a civil servant on loan to the Omani Defence Ministry as Financial Controller. Apparently your Secretary of State promised Sayed Faher that a replacement would be forthcoming and the Omanis hope he could run in double harness with Lockwood between now and October. But they have not yet received any news of a replacement and are becoming anxious. Bennett is to see General Walker on 12 April and hopes to get a reply then. He stressed that a successor did not have to be on loan but could equally be on contract. I said that I knew nothing of this but would remind you of what Mr. Younger was reported to have said.

I imagine there is no need for the Prime Minister to reply directly to this latest letter, but we may need a further response in due course.

I am copying this letter and enclosure to Bob Peirce (Foreign and Commonwealth Office) and Alex Allan (H.M. Treasury).

(CHARLES POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

SECRET AND PERSONAL

بسم الله الرحمن الرحيم



Salalah
2nd April 1989.

Dear Prime Minister,

I wanted to write to you privately following on from my letter of 20th March to say how difficult it was to take the decision to cancel the Tornado aircraft, for the time being, and to further emphasise that I intend to get the order for the aircraft going again as soon as the financial circumstances permit. You will be aware more than most, Prime Minister, of the strong bonds which exist between our two countries, and I am concerned that this result of the necessity for prudent economic management is not allowed to dilute the strong relationship.

As you know I will be visiting England privately in July, God willing, and I look forward to the opportunity to meet once again, and personally discuss this and other matters with you.

With warm regards,

Qaboos bin Said

SULTAN OF OMAN

The Rt. Hon. Mrs. Margaret Thatcher MP.

1A (a-BB).

a

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

MO 14/6/1E

7 April 1989

Dear Charles,

NUCLEAR SUBMARINES FOR CANADA

In his letter to you of 10th February about the proposed sale of SSNs to Canada, John Colston promised that we would let you know the outcome of further work commissioned here on the impact of the likely terms of sale on our relations with the Americans. In my letter of 10th March, I also undertook to provide a full response to the points raised by the Chief Secretary in Carys Evans' letter of 28th February. Since then, the Prime Minister has stressed to Mr Mulroney her commitment to the supply of Trafalgar-class nuclear submarines to meet the Canadian requirement. Our understanding remains that the Canadian Government might reach a decision on country of origin before the NATO summit in May. I am therefore writing to bring you up to date.

The Canadians continue to find our position on liability unacceptable. They believe it is not consistent with what would, in practice, be likely to happen in the event of a major incident. In such a circumstance, they say, the two Governments would inevitably need to consult, and thus the question of liability should not be predetermined. We believe - though we do not know for certain - that this is effectively the understanding they have reached with the French. Our position, set out in correspondence between my Secretary of State and the then Canadian Defence Minister in March and April last year has been that - apart from the period until the first boat (built here) is delivered to the Canadians - the Canadian Government must, regardless of any negligence on our part, accept absolute liability without recourse to us in the event of a nuclear incident.

In practice, UK Government negligence - the only circumstance in which we could contemplate liability - could arise in three broad areas: in connection with the technical data pack, particularly for

Charles Powell Esq
No 10 Downing Street

the nuclear plant, which will be authorised by MOD and supplied by VSEL and RRA; in connection with advice to the Canadian Defence Department on nuclear and other submarine safety matters;or in connection with any additional information provided by MOD if VSEL/RRA are unable to complete the supply. We assess that, in the light of the Trafalgar design, the risks of any negligence being demonstrated against the UK Government in respect of an accident to a Canadian submarine will be minimal. If we shift our ground, the theoretically unlimited scope of potential claims would remain throughout Canadian operation of T-class submarines; however, the likelihood of a claim would diminish with time as the UK design was Canadianised, thus making it less likely that faults could be unarguably traced back.

Against this background, we envisage a further exchange with the Canadian Government in which the UK would recognise that the Canadians have found the UK position on liability, as set out in the Defence Secretary's letters cited above, to be unacceptable, while making it clear that the UK does not regard this as a bar to the sale. The aim would be to reach a situation whereby the Canadian position was clearly stated and there would effectively be an agreement to disagree. This would not involve the withdrawal of Mr Younger's earlier letters; both Governments would implicitly leave any dispute over future claims to be settled by consultation at the time. Ministry of Defence officials are now consulting Treasury officials about this.

Mr Younger believes that such a position, while not meeting all the Canadian wishes, will markedly improve our bid. However, the fact that we would not have reached clear agreement with the Canadians on this issue would be contrary to our earlier understanding with the Americans, whom we should need to tell.

Turning to the general matter of our relations with the Americans, I attach at Annex A the paper foreshadowed in John Colston's letter of 10th February; it has been agreed by the FCO/MOD at official level. Our conclusion is that our nuclear interests in, for example, the weapon area are not in danger. Exchanges on nuclear propulsion technology, which had long been at zero until 1984, had then developed into a useful dialogue on advanced fuels, but this has now stopped, ostensibly because of the Canadian deal. The amendments we are considering can only reduce the prospect of resuming this dialogue; but the chances of reopening it in time to get useful information for our current development work are already very slim anyway. We do not see any wider threat to our relations with the United States, for example on intelligence or operations matters.

We shall need to consider carefully when and how we take the Americans more fully into our confidence about the further changes we are proposing but, on balance, we believe this can be managed without detriment to our interests. It is clear that, when we do tell them,

we shall need to emphasise that the whole deal remains firmly within the spirit of current undertakings. This will require careful and positive handling, and we would not rule out the need for high-level political intervention at the right time to ensure strong support from the Administration when the revised Canada/US agreement comes before Congress.

We have also looked afresh at the costs and benefits of the matter from the UK perspective generally. The paper at Annex B draws together the main strands. The chances of finding acceptable solutions to the remaining two major concerns of the Canadians (liability and future technology exchanges) are promising. There will be no cost to MOD in introducing the design changes to SSN 19 (described in general terms in John Colston's letter of 10th February), and the risk of accepting an additional contingent liability while the first boat is under construction is judged to be minimal. For the future, but probably not until after a country-of-origin decision, both we and the Canadians will need to work to ensure US agreement to the changes made. We judge that this will be achievable, given sensitive handling, especially if it comes in the wake of an explicit choice by the Canadians of the British boat. The benefits are difficult to quantify in advance of Canadian choices of prime and sub-contractors, but we assess the business stemming directly from the programme to be of the order of £0.75-1.0bn, with potential for considerable spin-off benefits in future.

In sum, the Prime Minister has already put her weight behind the deal. The Canadians are now much more favourable to our offer than they were last autumn. The game is very much worth winning; the evidence available suggests we can win; and we believe that this will be at negligible financial cost to ourselves, at small risk to our relations with the Americans, and at considerable benefit to UK prestige and UK industry. Obstacles remain, especially in handling American sensibilities; but my Secretary of State's firm view remains that the overall benefit to the UK of securing this order against fierce French competition justifies the continuation of full and high-level Government support.

I am copying this letter and attachments to Carys Evans (HM Treasury) and Richard Gozney (FCO), and to Trevor Woolley (Cabinet Office).

Yours sincerely,

Brian Hawtin

(B R HAWTIN)
Private Secretary

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ANNEX A

SSNs FOR CANADA: WHAT IS AT STAKE IN US/UK NUCLEAR RELATIONSHIP

Summary and Conclusions

1. The consent of the US Administration and Congress is required for the transfer of US-derived naval nuclear propulsion material and information to Canada. On the basis of terms set out in the UK-Canadian MOU and related documents, the last US Administration agreed to recommend to Congress, if Canada took up the UK option, that approval should be given; and the new Administration has confirmed this.

2. Quite apart from the need for formal US support for the sale, we need to retain US goodwill to benefit fully from the 1958 US-UK agreement. This agreement covers crucial US-UK nuclear exchanges on weapons and submarine propulsion systems. It is the latter area that is most likely to see any impact from the Canadian deal.

3. Concern about any dissemination of US nuclear submarine technology runs deep in the US, and in particular in the Office of Naval Reactors. It derives essentially from the high value placed on the retention of US superiority in submarine technology and operations as a key element in US security. We have ourselves received little information from the US since the initial transfer of Dreadnought; and US Administration support for transfers under the Canadian deal was only won after detailed scrutiny of the terms.

4. The further discussions now underway with the Canadians touch on issues close to the heart of several specific and

previously-expressed US anxieties. In particular, the US can be expected to scrutinise with great care any formulae dealing with future technology and with liability. On the former, the US will wish to be satisfied that the wording cannot be read as meaning that any SSN20 advanced fuel technology would be involved. On liability, a separate paper analyses the complex issues; the underlying US concerns will be to avoid sensitive information being at risk of disclosure in legal procedures, and to distance US designs and operations from the adverse impact of public proceedings arising from potential Canadian mistakes and mishaps.

5. We are thus sailing close to the wind in terms of arousing US sensibilities. First, the raising of sensitive issues, even in the cautious terms proposed, provides an opportunity for the known opponents of the deal in the US to re-open the debate within the US Administration, and if necessary in due course in Congress. Second, in some cases there is a danger that our proposals will broaden the base of opposition. In this respect the appointment of Admiral Watkins, a former OUR hand, to the Energy department is likely to prove a handicap to our cause. It would be disappointing if the opposition resulted in a reversal of the US Administration decision; but we must expect our actions to give rise to a harder task of persuasion, particularly in Congress, than would otherwise be the case.

6. In wider terms, our nuclear interests beyond submarine propulsion are unlikely to be in danger, either from the deal as a whole or from the present proposals. It would in our judgement take a major and totally unexpected change in current US

perceptions for the deal to place our close relationship with the US on nuclear weapons at risk. Nor have we seen, nor anticipate, any impact on our intelligence and naval operational relationship in respect of exchanges on nuclear propulsion. From the early 1960s until 1984 these were effectively zero. From 1984 through 1987, we developed a closer relationship from which we derived significant benefit to our development programme on advanced fuels. This then came to a halt, and our US interlocutors attribute this explicitly to the Canadian deal. With the position we are already in, our ability to coax more out of the reluctant US machine in due course is very doubtful. The limited amendments we are considering can only be expected to worsen the chances. It is possible that we could be shut out from information of potential benefit to our submarine programmes.

7. We have not yet told the Americans in any detail what our resumed discussions with the Canadians involve. Some of the suggestions (eg on liability) are likely to change visibly the basis on which we discussed the matter with the US in 1988, and here we have an obligation to inform them. In some cases (eg the detailed design changes to SSN19), we need not consult, and might prefer not to do so; but this apart, our view is that the time may come when we shall have to take the Americans more fully into our confidence. We shall then need to take a very positive line, and seek to bring out forcefully that what we are about remains within the spirit of current understandings. Any perception that we were not being frank would be likely to make matters more difficult in Congress and extinguish any faint hope of resuming a dialogue with ONR.

SSNs FOR CANADA: WHAT IS AT STAKE IN US/UK NUCLEAR RELATIONSHIP

Requirement for US Consent

1. The 1958 US-UK Agreement prohibits the further transfer of US naval nuclear propulsion data or hardware without US consent. In addition, the US Administration needs Congressional authority to be able to transfer, and to authorise UK transfer of, such material to Canada: this involves approval of the necessary amendments to the bilateral US-Canada 1959 Agreement. The relationship of all the propulsion information involved in a Trafalgar-class submarine to the original US material transferred under the 1958 Agreement is not clear-cut; but in practice we have not disputed the need for US consent.

2. The last US Administration indicated in April 1988 that it would recommend to Congress that the necessary authority should be given. It took this decision on the basis of the terms set out in the draft UK-Canadian MOU and supporting Statement of Intent which were shown to and discussed with the relevant US agencies. It decided however not to submit to Congress unless and until the Canadians had decided on the UK option. The new Administration has indicated that it intends to follow the same line.

3. In all of this, a major consideration for the UK is not simply to win the US Administration and Congress support for the sale to proceed. We also need to retain US goodwill, especially within the Defence and Energy Departments, to ensure that cooperation under the 1958 Agreement continues.

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Exchanges under the 1958 Agreement

4. The 1958 Agreement governs all US/UK exchanges on the uses of atomic energy for defence purposes, including classified information, materials and equipment. It is the crucial plank in US-UK cooperation on nuclear technology for defence, both for weapons and for submarine nuclear propulsion systems.

5. Cooperation in weapons design and technology has been and is extensive. The UK depends on the US for aspects of the supply of special nuclear material used in our weapon programme, and for enrichment of uranium which is also used to fuel the naval propulsion reactors. Under the 1958 agreement the US also provides testing facilities for our weapons systems and exchanges other information which substantially reduces our testing requirements. We also receive an additional and valuable insight into the US-USSR negotiations on nuclear testing constraints. In addition there is an active and healthy exchange of information across the whole field of nuclear weapon design and technology, an exchange which continues despite the relatively small scale of the UK effort. The dialogue with US weapon laboratories, with their supporting technology organisations and with the whole US nuclear weapons community, provides invaluable across-the-board support to the UK nuclear defence area. Without continuation of the close cooperation that exists, maintenance of our defence nuclear capability would be both extremely difficult and significantly more costly. We would hope indeed to be able to

extent into areas (such as US tactical warhead designs relevant to a new tactical air-to-surface missile) of further direct operational interest to us. Nor have we seen, nor do we anticipate, any impact on our intelligence and naval operational relationship.

6. There has been no indication of US retaliation, or reticence, in these areas of information exchange as a consequence of the proposed Trafalgar deal with Canada. We have continued to enjoy a fruitful and beneficial relationship. We, as the junior partner, receive a disproportionate return, but do also contribute usefully, from a much smaller base, to US thinking in a way which is clearly appreciated. It would in our judgement take a very major change in US perceptions, for the Canadian submarine deal to place our interests here at risk; and we do not seriously expect it.

7. On submarine nuclear propulsion systems, cooperation effectively ceased from the time when Dreadnought was commissioned until 1984. The careful nurturing of contacts after 1984, at a time when SSN20 designs were approaching the feasibility stage, provided a valuable insight into a concept for advanced fuel technology. Now, however, exchanges in this area have again virtually stopped, despite efforts by CDS and CSA to invigorate them. The US Office of Naval Reactors, our interlocutor on these matters, have said that this is because of the Trafalgar deal. This has recently been reiterated to CSA by the new Director ONR, who has also indicated that he was unable

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to consider the possibility of a visit to the UK while the sale remained a possibility.

8. It is thus clear that there is a continuing connection between the fruitfulness of the dialogue in this field and the Canadian deal. This is affecting UK interests. On the basis of the initial transfer of Dreadnought, the UK has developed the capability to design and construct nuclear submarines and we could if necessary continue without further US assistance; but, the cessation of the exchanges initiated after 1984 has led to difficulties which might otherwise have been avoided, and these difficulties can be expected to take longer, and be more expensive, to resolve than would be the case with more US cooperation.

Extent and Nature of US Concerns

9. The source of ONR opposition derives essentially from deep concern about the dangers inherent in dissemination of knowledge of naval nuclear propulsion programmes, especially those derived from US technology. In recent years a number of specific UK actions have come under criticism: the SSN sale itself, the plan to dispose of Dreadnought at sea, and, in lower key, both the involvement of UK firms in the sale of non-nuclear components to the nuclear submarine project in Brazil and the commercial activities of UK contractors tied to the UK naval nuclear propulsion programme. In both the discussions over the disposal of Dreadnought, and the correspondence over the Brazil project,

ONR have explicitly linked the UK action with US readiness to provide information on submarine propulsion under the 1958 Agreement.

10. Underlying this attitude is the philosophy that places high value on the retention of US superiority in nuclear submarine technology as a key element in US security, and a sense that avoidable proliferation of nuclear submarine activity and expertise could only act against US interests. Tight control over the dissemination of information remains a major US concern, and includes considerable anxiety over the risk of compromise to any information, including that on submarine performance and operational characteristics, nuclear or not, which bears upon the vulnerability of the US nuclear submarine fleet. In this, ONR take the lead; but it is an attitude shared much more widely in the US Administration and Congress; and US Administration agreement to recommend the necessary transfers to Congress to allow the Canadian sale to proceed was obtained after a struggle, and arguably decided in our favour only by the personal intervention of the Prime Minister with President Reagan.

11. In addition, ONR have raised other general concerns, such as the fear that Canadian operations in the Arctic would interfere with US activities there, and that Canadian defence resources could be put to better use. These concerns in particular relate less to a UK sale to Canada, than to any sale to Canada; but they could nonetheless feed into relations with the UK in the event of a UK sale. They also reflect an underlying

attitude which will readily seize on any arguments to increase opposition to the deal.

Specific US Concerns

12. Stemming from those general concerns, the acquiescence of the US authorities in the SSN deal has been conditional on satisfaction over both the thrust and detail of the proposed arrangements. In particular:

a. They have strongly opposed any suggestion of a transfer to Canada of the more recent nuclear technology, particularly the advanced fuel developments, associated with SSN 20 and beyond.

b. They have been anxious to establish that if the Canadians go ahead, they should become self-sufficient, and acquire the necessary infrastructure to support and operate SSNs.

c. They have been adamant that Canada should not receive the technology to manufacture reactor fuel cores, in view of the implications for further proliferation.

d. They have been concerned to avoid any ambiguity in the language covering the transfer arrangements, in case this is used as a loophole for enlarging the exchanges in future.

13. The Americans have also taken a close interest in the issue

of liability. Their principal concern here appears to be to avoid so far as possible a situation in which a "liability trail" leads back to the US government, and results in matters of nuclear safety design being adjudicated in legal proceedings. This concern is reflected in the 1958 and 1959 agreements; the former states that the UK should "indemnify and hold harmless the Government of the United States against any and all liabilities whatsoever ....."; and both agreements contain non-disclosure provisions, designed to keep sensitive information out of any legal proceedings. Similar effects are sought through the Standard Statements (and associated laws and Ministerial statements) provided by the US and the UK when their nuclear submarines visit other nations. In the US-UK exchanges about the Canadian deal in 1988, we spelled out to the US the liability arrangements proposed for the Canadian deal, and said that they were intended to mirror so far as possible the US-UK arrangements. The US argued that Canadian reluctance to accept such operator liability would indicate a lack of confidence in their own ability to take on the responsibilities of the SSN 'club'; and stressed that a nuclear accident involving a Canadian SSN could prejudice the operation of US nuclear submarines.

Connection with Present Issues

14. The further discussions now underway with the Canadians touch on issues close to the heart of expressed US policy concerns. Our Embassy in Washington have drawn particular attention to the proposals on future technology and liability.

15. Future Technology. We can expect the US to scrutinise with great care any formula which deals with exchanges on future technology, in order to satisfy themselves that the wording cannot be read as meaning that any SSN20 advanced fuel technology would be involved. If ONR were not satisfied of this, and could put forward a persuasive argument within the US Administration that this point had been left ambiguous, we could expect widespread opposition with the potential for reversing US endorsement of the transfer. Even if ONR were not able to carry the day, we could expect that the present reluctance to share advanced fuel technology with us would be enhanced, and that our hopes of reinvigorating the exchanges would diminish.

16. Liability. The view of our Embassy is that the amendments under consideration would set off alarm bells in State Dept and DOD, as well as ONR, that we were departing from general US principles. A separate paper analyses the complex issues raised by liability; we can expect that the US authorities will wish to scrutinise any wording that we agree with the Canadians with care, and measure them against their own requirements and concerns. Our view is that the option under consideration should not expose the US Government to any risk of being subject to a claim; on this basis, US concern is likely to focus on the public impact of any UK Government exposure to liability, in the fear that this could cause doubt to be cast on a US-derived design.

Conclusions

17. There is general agreement that in the measures we are proposing we are sailing close to the wind in terms of the impact on US sensibilities. First, the raising of sensitive issues, even in the cautious terms proposed, provides an opportunity for the known opponents of the deal in the US to re-open the debate within the US Administration, and if necessary in due course in Congress. Second, in some cases there is a danger that our proposals will broaden the base of opposition. In this respect the appointment of Admiral Watkins, a former ONR hand, to the Energy department is likely to prove a handicap to our cause. It would be disappointing if the opposition resulted in a reversal of the US Administration decision; but we must expect our actions to give rise to a harder task of persuasion, particularly in Congress, than would otherwise be the case.

18. In wider terms, our nuclear interests beyond submarine propulsion are unlikely to be in danger, either from the deal as a whole or from the present proposals. The situation is less clear-cut in respect of exchanges on nuclear propulsion. From 1984 through 1987, we developed a closer relationship from which we derived significant benefit to our development programme on advanced fuels. This then came to a halt, and our US interlocutors attribute this explicitly to the Canadian deal. With the position we are already in, our ability to coax more out of the reluctant US machine in due course is very doubtful. The limited amendments we are considering can only be expected to

worse the chances. It is possible that we could be shut out from information of potential benefit to our submarine programmes.

19. We have not yet told the Americans in any detail what our resumed discussions with the Canadians involve. Some of the suggestions (eg on liability) are likely to change visibly the basis on which we discussed the matter with the US in 1988, and here we have an obligation to inform them. In some cases (eg the detailed design changes to SSN19), we need not consult, and might prefer not to do so; this apart, our view is that the time may come when we we shall have to take the Americans more fully into our confidence. We shall need to take a very positive line and seek to bring out forcefully that what we are about remains within the spirit of current understandings. Any perception that we were not being frank would be likely to make matters more difficult in Congress and extinguish any faint hope of resuming a dialogue with ONR.

SSNs FOR CANADA: ASSESSMENT OF RISKS AND BENEFITS OF SECURING ORDER

Introduction

1. This paper attempts to provide an overall assessment of what needs to be offered to secure the sale; the benefits which would accrue; and our chances of success. It does so in the context of what we know to be the main concerns which the Canadians have about the UK bid and which have been specifically identified following high level confidential meetings between UK and Canadian authorities.

2. In addition, an Annex compares the salient features of the RUBIS and TRAFALGAR class submarines and, so far as we know them, broad indications of the French offer in relation to those issues which are causing the UK the greatest difficulty.

Canadian Concerns

3. The Canadians have six major concerns about the UK bid - three technical (safety) issues and three non-technical (policy) issues.

Technical (Safety) Issues

4. We have already made firm proposals to satisfy two of the technical (safety) concerns and expect these to be acceptable to the Canadians. The third, to meet a Canadian requirement for an Emergency Core Cooling System, is more difficult but we are putting forward firm proposals on this too. We are hopeful that these collectively will now meet their anxieties.

5. All three proposals involve design changes which would have to be made to our SSN19 boat, which is now under construction, in order to preserve our agreement with the US that Canada will only be offered the Trafalgar class nuclear propulsion plant. This can be achieved. The penalty is about an eight month delay to the build programme of SSN19, which the MOD is prepared to accept. All costs associated with the changes to SSN19 will be borne by VSEL and RRA (both companies have agreed to this) and there will, therefore, be no extra charge to HMG.

Non-Technical (Policy) Issues

6. The three issues of contention in this area are liability, access to future nuclear technology and the continued availability of nuclear fuel. We have already provided strong assurances that UK fuel sources will continue to be available and our view is that these assurances (which can be confirmed in a Ministerial exchange of letters) will be sufficient to overcome most, if not all, Canadian reservations on this issue.

7. On liability, we believe we have devised a formula which recognises the practical situations which are likely to occur and which we think will be acceptable to the Canadians. We have accepted liability for nuclear incidents during the period of construction of the first boat in the UK. The probability of an incident occurring is negligible, being no different from the position during construction of SSNs for the RN. We are now proposing to concede that there would be Government consultations in the event of a nuclear incident during the operational life of Canadian boats, but we are not explicitly stating that we would accept any liability.

8. The third issue in this area - access to future nuclear technology - is arguably the most difficult of all. The Canadians certainly regard this as the major outstanding problem area. Although we have offered them the very latest version of SSN19 and information on future changes to the nuclear plant of the Trafalgar class, the Canadians have stressed that their SSN procurement programme will stretch over a period of 27 years and that, shortly after the entry of their first boats into service, the UK will have a new class of nuclear submarines (SSN20 class) coming into service. They have asked for assurances that they will not be denied access to the technical advances we may be introducing into SSN20 class boats. The main impediment for us is our agreement with the US authorities that we will not give the Canadians nuclear technology beyond that of Trafalgar; the

accompanying paper explains this in detail, and examines the implications for our relationship with the US.

9. The Canadians recognise our difficulty over access to future nuclear technology and, in a recent discussion with our High Commissioner in Ottawa, the new Canadian Defence Minister acknowledged the extreme sensitivity of the issue. He suggested, helpfully, that the Canadian request for some kind of reassurance on access to future nuclear technology might best be made in the context of a Canadian decision in favour of Trafalgar rather than before any determination of country of origin had been made; and he also suggested that it was one which might most appropriately be handled at Prime Ministerial level. This statement represents a significant softening in the Canadian position, although we recognise that if there is to be a satisfactory Prime Ministerial exchange in due course, it will have to be handled with extreme delicacy in view of American sensitivities.

Where we Stand with the Canadians

10. We firmly believe that the recent exchanges have gone a very long way towards satisfying Canadian anxieties in the key areas of their concern. There are strong indications from the Canadians at all levels that the UK bid is now showing up well in the evaluation. Our High Commissioner has very recently reported that "we are definitely back in the race" following the successful meeting with the new Canadian Defence Secretary

mentioned above. The two outstanding problems are over liability and access to future nuclear technology. On both issues, however, there are potential solutions.

The US Dimension

11. Moving forward with the Canadians in the ways suggested above will at some stage require us to secure US agreement to what we are doing; and do so in such a way that our other interests with the US are not unacceptably jeopardised. The reasons for and implications of this are set out in the accompanying paper. This will be a difficult task which, as noted above, may ultimately require the involvement of the Prime Minister.

Price

12. Cost comparisons in this case need to be treated with the utmost caution. Like is not being compared with like, and the Canadians understand this. The attached brief comparison of the French and British boats underlines this. In addition, the Canadian programme stretches on their own admission over a period of 27 years, and marginal differences in total procurement cost over this time will not be as important for them as other factors. It is probably because of this that price has not figured in the recent high level dialogue.

13. Against this background, we believe (though obviously we have

no hard evidence) that the French bid - ten boats plus the necessary infrastructure - is assessed by the Canadians as being some 15-20% cheaper than the UK bid. It is, of course, for the Canadians to determine their choice, but we believe they are now conscious of the potential technical risks involved in choosing the cheaper option and of the substantial differences between the design and operational capabilities of the British and French boats. One option which we believe they are now seriously considering on grounds of affordability is building, at least initially, fewer submarines if the British design is chosen. In terms of capability bought, it is arguable that fewer British boats can do the same job as a larger number of French boats.

Benefits from Sale

14. In terms of direct Vote receipts to the UK MOD, we have to acknowledge that the benefits will be small - perhaps £10M in respect of design rights revenue. The benefits to British industry, however, will be far greater. Although only the first Canadian boat would be built in the UK, it might be more economic for Canada to buy at least some weapons systems and components from this country. In any event, both VSEL and RRA and their large army of UK sub-contractors, would be involved to a greater or lesser extent in this major procurement programme, the cost of which is estimated at greater than Can $8BN stretching over more than the next 20 years. It is worth mentioning specifically that all the cores will be manufactured in the UK by RR. This

additional work will provide them with useful long term business and should in turn provide better value for money to the Royal Navy from fuller utilisation of our core manufacturing facilities.

15. The links which British companies will need to establish with their Canadian counterparts will also leave them very strongly positioned to pick up further defence and associated hi-tech business in Canada in the longer term. With the publication of the Canadian Defence White Paper in 1987, the opportunities for UK firms to do business in Canada are greatly enhanced. It is impossible to speculate what the total amount of business might be, but a conservative estimate of just the direct benefits from the SSN programme to UK Industry suggest a figure of Can $1.5 - 2BN (£0.75 - 1.0BN).

ANNEX

COMPARISON BETWEEN BRITISH AND FRENCH BIDS TO MEET THE THE CANADIAN GOVERNMENT's REQUIREMENT FOR NUCLEAR SUBMARINES

A: TECHNICAL SUMMARY

1. Direct comparison between the UK nuclear powered attack submarine (SSN) on offer - the TRAFALGAR Class - and the French proposal - AMETHYSTE - is complicated not only because TRAFALGAR is a much larger and more capable submarine but because AMETHYSTE is several years from completion and evaluation and represents a major development from the design of the current French SSN RUBIS. Five TRAFALGAR submarines are already in commission and are fully proven whereas AMETHYSTE must represent considerable technical risk. A summary of the principal differences between the two submarine designs being offered to the Canadians is set out below.

TRAFALGAR

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2. TRAFALGAR is a fourth generation SSN with development stretching back 30 years and covering 20 sea-going nuclear plants. She has been designed primarily to counter the Soviet submarine threat well into the 21st Century. At 5200 tons displacement she is considerably larger than AMETHYSTE (2900 tons) but smaller than the USN LOS ANGELES class (6900 tons) which has a capability similar to TRAFALGAR.

3. Great emphasis has been placed on noise reduction in the TRAFALGAR design and she is remarkably quiet. She has a proven capability against modern submarine targets. She has demonstrateed that she can surface through the ice region on several occasions and has a fin which is able to break through one meter of ice. She carries 25 weapons and has five launch tubes. She has a maximum speed of about 30 knots compared with AMETHYSTE's 25 knots.

4. The design philosophy behind TRAFALGAR's primary Anti-submarine warfare (ASW) role is largely compatible with the task of anti-ship warfare (ASUW), where her high quiet and maximum speeds, coupled with a deep diving depth and resistance to shock damage make her highly effective. She is able to carry out attacks against surface ships from long range using Sub-Harpoon (range 120km) or Tigerfish ASW/ASUW torpedoes (range 27km).

5. TRAFALGAR has most important items of propulsion

machinery duplicated including two steam generators, two main condensers and two feed systems. This enables her to operate "sided" with split systems so that in the event of a major defect she can isolate the affected side. AMETHYSTE has only one steam generator and with certain defects she would have to shut the nucelar plant down completely. Whilst the incidence of such failures is not common, nevertheless under ice they could prove catastrophic.

6. The submarine branch of the Royal Navy numbers 8000 personnel and could take on the training necessary for Canadian personnel. The French submarine branch numbers 4000 and their capaity to train Canadian personnel must be in doubt.

AMETHYSTE

7. AMETHYSTE will be a derivative from the first generation SSN RUBIS. Development has been over 23 years and the French have ten reactors at sea but only four in their SSNs. RUBIS was designed primarily for the anti-ship role with ASW of secondary importance. The design philosophy appears to have been to produce a small, relatively cheap SSN for power projection. It is of considerable significance that the base chosen for RUBIS is TOULON in the Mediterranean whereas BREST/LORIENT would have been ideal to support operations in the North Atlantic against the real opposition.

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8. Although AMETHYSTE will have some ASW capability, her effectiveness against modern submarines is likely to be only moderate because she will be relatively noisy. She is equipped with French ASW/ASUW torpedoes but unlike TRAFALGAR will need major changes to enable her to discharge the more advanced USN Mark 48 (ADCAP) torpedoes. The Canadians will require French assistance to modify the AMETHYSTE design to take the Mark 48 (ADCAP). US agreement to this may not be forthcoming.

9. Presumably for reasons of cost, AMETHYSTE will be kept to a remarkably small size but this means that access to machinery, noise reduction and accommodation are all areas which will suffer in consequence. For example, TRAFALGAR requires a complement of 118 for patrols of over 100 days, whereas AMETHYSTE will need two crews of 66 for patrols of only 70 days.

10. Because of the current shortcomings of RUBIS, AMETHYSTE will be fitted with two extra torpedo tubes (making six in all), a secondary propulsion motor (already fitted in TRAFALGAR), and a periscopic ice pick (not yet proven) which it is hoped will give her an ability to break through ice. T viewed with consierable scepticism by UK and USN submarine designers. It should also be noted that the French have never operated in the ice region.

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B: NON-TECHNICAL SUMMARY

11. On the issues which have caused the Canadians some concern about our bid, we believe the French position is broadly as follows:

a. Liability No formal agreement has been included in the France/Canada MOU concerning apportionment of liability or responsibility in the event of an accident. The two Governments are believed to have accepted that, in the case of a nuclear accident, there would be consultation between them at the time.

b. Future technology The French appear to have offered to co-operate fairly fully on the development of future nuclear propulsion systems in the event that their design is chosen. They have conceded that all boats, including the first of class, can be built in Canada to Canadian specifications, which may evolve partly as a result of shared technology exchanges.

PRIME MINISTER'S
PERSONAL MESSAG
SERIAL No. ~~63~~ d
SUBJECT: M1
CC MASTER
OPS

بسم الله الرحمن الرحيم

Prime Minister

A nice letter. AVM Bennett tells me the Sultan is much relieved by your understanding response.

CDP 19/4

Salalah
2nd April 1989.

Dear Prime Minister,

I wanted to write to you privately following on from my letter of 20th March to say how difficult it was to take the decision to cancel the Tornado aircraft, for the time being, and to further emphasise that I intend to get the order for the aircraft going again as soon as the financial circumstances permit. You will be aware more than most, Prime Minister, of the strong bonds which exist between our two countries, and I am concerned that this result of the necessity for prudent economic management is not allowed to dilute the strong relationship.

As you know I will be visiting England privately in July, God willing, and I look forward to the opportunity to meet once again, and personally discuss this and other matters with you.

With warm regards,

Qaboos bin Said

SULTAN OF OMAN

The Rt. Hon. Mrs. Margaret Thatcher MP.

CONFIDENTIAL

10 DOWNING STREET

From the Principal Private Secretary

31 March 1989

OMAN

Professor Roland Smith has now replied to the Prime Minister's letter of 23 March - copy attached. While he confirms that British Aerospace will "use its best endeavours to come to a satisfactory arrangement" this falls short of the commitments which the Prime Minister was seeking. I would be grateful for advice on how the Prime Minister should now respond to the Sultan's letter.

(ANDREW TURNBULL)

Steve McCarthy, Esq.,
Ministry of Defence.

CONFIDENTIAL

10 DOWNING STREET

From the Principal Private Secretary

31 March 1989

I am writing on behalf of the Prime Minister to thank you for your further letter of 30 March.

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

(ANDREW TURNBULL)

Professor Roland Smith

CSCST!

BRITISH AEROSPACE

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

From: CHAIRMAN

Direct Line: 01-389 3923

CONFIDENTIAL

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

30th March, 1989.

Dear Prime Minister

Thank you for your letter of 23 March.

Naturally, we are extremely disappointed that despite all the hard work that has been put in to achieve the Oman contract, it has failed to materialise. Coming, as it does, on top of the Jordan announcement, it is doubly disappointing. Nevertheless, the possibility of substituting Hawk aircraft, in the case of Oman, is better news.

We will now be in touch with our partners and sub-contractors in the Oman order to pursue the question of how we deal with the aftermath of the announcement. You should be aware that, we may not find our German and Italian partners as ready to be flexible in this matter as we could afford to be, because there is no direct benefit to them from the replacement order.

I will be in touch again after we have established the position of our partners but, in the meantime, I would be happy for you to confirm to the Sultan that British Aerospace will use its best endeavours to come to a satisfactory arrangement.

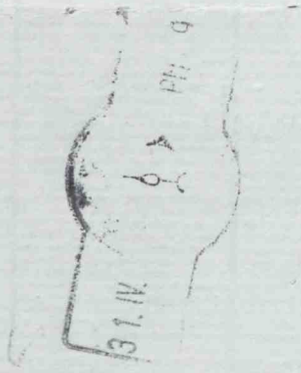
Yours sincerely,

Roland Smith

Professor Roland Smith.

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

DEFENCE: Sak A 12



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CONFIDENTIAL
FM AMMAN
TO DESKBY 310800Z FCO
TELNO 180
OF 301751Z MARCH 89
INFO DESKBY 310800Z MODUK, RIYADH, WASHINTON, NEW DELHI, BLANTYRE

BLANTYRE FOR PRIME MINISTERS PARTY

NEW DELHI FOR SECRETARY OF STATE'S PARTY

MODUK FOR DESO

YOUR TELNO 105: TORNADO AND THE DEFENCE PACKAGE

SUMMARY

1. KING HUSSEIN GRATEFUL FOR THE PRIME MINISTER'S REPLY TO HIS MESSAGE. HOPEFUL THAT PRESENT DIFFICULTIES WITH SAUDI ARABIA (AND GULF STATES) WILL BE RESOLVED AND THAT FURTHER FINANCIAL ASSISTANCE WILL BE FORTHCOMING. PROMISES TO INVESTIGATE NON-PAYMENT ON DEFENCE PACKAGE.

DETAIL

2. I HAD AN AUDIENCE WITH KING HUSSEIN ON 30 MARCH.

3. THE KING SAID THAT HE HAD BEEN DEEPLY TOUCHED BY THE PRIME MINISTER'S MESSAGE AND FOR THE UNDERSTANDING SHE HAD SHOWN OVER THE POSTPONEMENT OF THE TORNADO CONTRACT. THE DECISION TO POSTPONE HAD BEEN ONE OF THE MOST DIFFICULT HE HAD HAD TO MAKE IN RECENT YEARS. IN REPLY TO MY QUESTION, HE SAID THAT THE PRESENT MOMENT, WITH THE SHUTTING OFF OF ANY FINANCIAL ASSISTANCE FROM THE ARAB WORLD AND THE OUTCOME OF THE IMF NEGOTIATIONS STILL UNCERTAIN, WAS A LOW POINT, BUT HE HOPED THAT IT WOULD NOT BE TOO LONG BEFORE THE NEGOTIATIONS COULD BE RESUMED.

4. THE KING WENT ON TO SAY THAT HE COULD NOT UNDERSTAND WHAT HAD PROMPTED HIS PRESENT DIFFICULTIES WITH HIS ARAB FRIENDS. IN THE AFTERMATH OF THE ALGIERS SUMMIT, HE HAD BEEN CONFIDENT THAT KING FAHD WAS PREPARED TO PURCHASE THE EIGHT TORNADO ON BEHALF OFJORDAN, BUT THERE HAD BEEN NO FOLLOW-THROUGH. MOREOVER IT SEEMED CLEAR THAT THE SAUDI DECISION TO WITHOLD FURTHER FINANCIAL ASSISTANCE HAD BEEN CO-ORDINATED WITH THE GULF STATES. THE KING COMMENTED (A SHADE DEFENSIVELY) THAT HE FELT HE MIGHT HAVE BEEN IN AN EVEN WORSE SITUATION HAD HE NOT DECIDED ON DISENGAGEMENT LAST JULY. THE COMBINATION OF LACK OF FUNDS PLUS THE CONTINUING ARAB CRITICISM OF JORDANIAN INVOLVEMENT ON THE WEST BANK WOULD HAVE CREATED EVEN MORE PROBLEMS AT HOME. AT LEAST HIS RELATIONS WITH THE PLO WERE NOW IN EXCELLENT SHAPE.

5. THE KING DID NOT THINK THAT THE DECISION TO SET UP THE ACC HAD PROMPTED KING FAHD'S CHANGE OF MIND OVER FINANCIAL ASSISTANCE. THE LATTER HAD IN ANY CASE PRECEDED THE FORMER. HE (HUSSEIN) HAD HEARD THAT FAHD WAS ANNOYED AT NOT HAVING BEEN CONSULTED IN ADVANCE ABOUT THE ACC: BUT THE FACT WAS THAT AT THEIR LAST MEETING IN DHARAN, FAHD HAD EFFECTIVELY PREVENTED HIM FROM SPEAKING ON THIS SUBJECT BY AVOIDING A TETE-A-TETE MEETING ON THE SECOND DAY (DESPITE BEING TOLD THAT HUSSEIN HAD AN IMPORTANT MATTER TO RAISE). IN ANY CASE FAHD HAD GONE OUT OF HIS WAY TO SAY THAT RELATIONS WITH JORDAN WERE EXCELLENT AND TO UNDERLINE JORDAN'S STRATEGIC IMPORTANCE. IF THE CAUSE OF FAHD'S DISPLEASURE WAS YEMEN'S INCLUSION IN THE ACC, THAT WAS NOT HIS DOING. HE HAD PROPOSED THAT THE FOUNDER MEMBERS SHOULD BE JORDAN, IRAQ AND EGYPT. YEMEN HAD BEEN SUGGESTED BY OTHERS, AND HE HAD WILLINGLY GONE ALONG WITH THAT, SINCE HE DID NOT THINK IT RIGHT THAT YEMEN SHOULD BE LEFT IN ISOLATION.

6. THE KING THOUGHT THAT FAHD'S ATTITUDE WOULD CHANGE BEFORE TOO LONG, AND HE CONTINUED TO HOPE FOR SAUDI ASSISTANCE, NOT JUST OVER TORNADO, BUT MORE WIDELY. HE BELIEVED, TOO, THAT SAUDI ARABIA WOULD BE THE KEY TO A CHANGE OF STANCE BY THE OTHER GULF STATES.

7. I THEN SPOKE AS INSTRUCTED IN YOUR TUR. THE KING REPLIED THAT HIS GOVERNMENT HAD HAD NO CHOICE BUT TO DEFAULT ON VARIOUS PAYMENTS SINCE THEY HAD BEEN ADVISED (HE THOUGHT BY THE IMF) NOT TO MAKE FURTHER PAYMENTS TO ANYBODY, EXCEPT OF INTEREST. I POINTED OUT THAT IN THE CASE OF OUR DEFENCE PACKAGE THE NON-PAYMENT [illegible] ARCH WAS [illegible] UP OF BOTH INTEREST AND PRINCIPAL. WE FULL[illegible] TOOD TH[illegible] THE PRESENT ECONOMIC SITUATION WAS VERY DIFFI[illegible] [illegible] ORDAN BUT NEVERTHELESS HOPED THAT THIS PROBLEM, WHICH WAS [illegible] CONSIDERABLE SIGNIFICANCE IN OUR MILITARY RELATIONS, COULD BE RESOLVED VERY SOON. SPEAKING PERSONALLY, I WONDERED WHETHER SOME DISCUSSION BETWEEN THE JORDANIAN MINISTRY OF FINANCE AND THOSE INVOLVED ON THE BRITISH SIDE (PERHAPS THE BANKS OR ECGD) MIGHT BE A USEFUL FIRST STEP. THE KING NODDED, THEN SAID THAT HE WOULD MAKE IMMEDIATE ENQUIRIES ABOUT THE NON-PAYMENT ON 6 MARCH.

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8. DESPITE EARLIER RUMOURS OF SAUDI ASSISTANCE, THE KING HAD NOT PREVIOUSLY TOLD ME EXPLICITLY THAT HE HAD BEEN EXPECTING KING FAHD TO PAY THE BILL FOR HIS EIGHT TORNADOS. IN RECENT MONTHS, THE IMPRESSION WHICH HE AND HIS MINISTERS HAD GIVEN WAS THAT THE MONEY WOULD SOMEHOW BE FOUND FROM JORDAN'S OWN RESOURCES (ON THE UNDERSTANDING THAT NO MAJOR PAYMENT WOULD BE NEEDED IN THE FIRST THREE YEARS). SEEN FROM HERE, THE PROSPECTS OF KING FAHD MAKING GOOD HIS EARLIER UNDERTAKING (IF INDEED IT AMOUNTED TO THAT) WOULD SEEM UNLIKELY, ESPECIALLY GIVEN THE ADVERSE PUBLICITY WHICH PRECEDED THE POSTPONEMENT OF THE DEAL. I HAD NOT EXPECTED THE KING TO BE ABLE TO GIVE ME MORE THAN AN APPROXIMATE ANSWER ON THE TIME-SCALE FOR RESUMING NEGOTIATIONS. MY OWN JUDGEMENT IS THAT UNLESS THE SAUDIS DO PICK UP THE TAB, A PURCHASE OF TORNADO BY JORDAN MUST BE UNLIKELY FOR SEVERAL YEARS. I ASSUME THAT THE IMF NEGOTIATIONS WOULD IN ANY CASE MAKE IT MORE DIFFICULT FOR JORDAN TO MAKE LARGE NEW ARMS PURCHASES UNLESS MONEY FOR THAT PURPOSE IS SPECIFICALLY PROVIDED BY OTHERS. ON THE DEFENCE PACKAGE, THE KING SEEMED UNAWARE OF THE FAILURE TO PAY EVEN INTEREST ON THE 6 MARCH INSTALMENT. THIS DESPITE THE FACT THAT I MADE THE SAME POINT TO ZAID BIN SHAKER VERY RECENTLY.

REEVE

YYYY

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OF 301751Z MARCH 89
INFO DESKBY 310800Z MODUK, RIYADH, WASHINTON, NEW DELHI, BLANTYRE

BLANTYRE FOR PRIME MINISTERS PARTY

NEW DELHI FOR SECRETARY OF STATE'S PARTY

MODUK FOR DESO

YOUR TELNO 105: TORNADO AND THE DEFENCE PACKAGE

SUMMARY

1. KING HUSSEIN GRATEFUL FOR THE PRIME MINISTER'S REPLY TO HIS MESSAGE. HOPEFUL THAT PRESENT DIFFICULTIES WITH SAUDI ARABIA (AND GULF STATES) WILL BE RESOLVED AND THAT FURTHER FINANCIAL ASSISTANCE WILL BE FORTHCOMING. PROMISES TO INVESTIGATE NON-PAYMENT ON DEFENCE PACKAGE.

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REEVE

YYYY

SVLNAN 9104

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SUBJECT

(92)

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. 59 d/89

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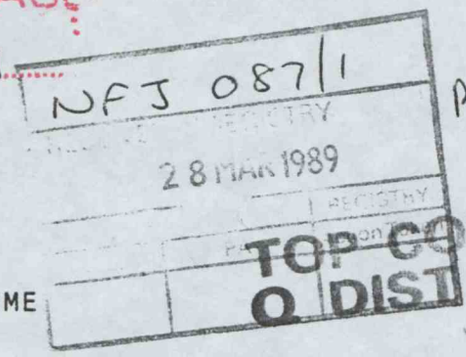

CONFIDENTIAL
FM FCO
TO FLASH AMMAN
TELNO 106
OF 231656Z MARCH 89
INFO IMMEDIATE MODUK, BONN, ROME

91
MIPT (NOT TO ALL): TORNADO

1. FOLLOWING IS REPLY FROM THE PRIME MINISTER TO KING HUSSEIN: BEGINS

I AM VERY GRATEFUL FOR YOUR MAJESTY'S LETTER OF 20 MARCH IN WHICH YOU SAID THAT YOU HAD CONCLUDED WITH REGRET THAT IT WOULD BE IN YOUR AND OUR BEST INTERESTS TO POSTPONE THE TORNADO PURCHASE UNTIL MORE FAVOURABLE CIRCUMSTANCES PREVAILED. I, TOO, AM SORRY THAT CIRCUMSTANCES HAVE NOT ALLOWED THIS SALE TO PROCEED IN THE TIMESCALE WE PLANNED.

I FULLY UNDERSTAND THE REASONS WHICH LED YOU TO TAKE THIS DIFFICULT DECISION. I WELL KNOW THE IMPORTANCE YOU PERSONALLY ATTACHED TO ENHANCING THE OPERATIONAL CAPABILITY OF THE ROYAL JORDANIAN AIR FORCE BY EQUIPPING IT WITH TORNADO. BUT I BELIEVE THAT YOU HAVE MADE A WISE DECISION UNDER PRESENT CIRCUMSTANCES. I CAN ASSURE YOU THAT THE EXCELLENT RELATIONS AND COOPERATION BETWEEN OUR TWO AIR FORCES AND, INDEED, BETWEEN OUR ARMED FORCES IN GENERAL WILL CONTINUE AS BEFORE.

I REGRET TO SAY THAT THE QUESTION OF THE SALE OF TORNADO BOTH TO SAUDI ARABIA AND TO JORDAN HAS BEEN THE SUBJECT OF HIGHLY MISLEADING COMMENT IN THE BRITISH MEDIA. I AM SURE THAT YOU WILL AGREE THAT THIS MAKES IT ALL THE MORE IMPORTANT TO SET THE PRESENT POSITION STRAIGHT IN PUBLIC. I UNDERSTAND THAT MR. REEVE HAS AGREED A TEXT WITH THE HEAD OF THE ROYAL COURT, WHICH I PROPOSE TO USE IN ANSWER TO A PARLIAMENTARY QUESTION THIS WEEK. WITH WARM REGARDS.
ENDS

HOWE

YYYY

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 March, 1989.

In Charles Powell's absence with the Prime Minister in Africa, I am writing on his behalf to thank you for your letter of 28 March and to acknowledge receipt of the sealed envelope addressed to the Prime Minister sent by His Majesty the Sultan of Oman.

Dominic Morris

Mr. Abdulaziz Al-Hinai

Embassy of the Sultanate of Oman
44a,44b, Montpelier Square
London SW7
Telephone: 01.584 6782 Telex: 918775

PRIVATE AND CONFIDENTIAL

28th March, 1989.

Mr. Charles Powell,
Private Secretary to
The Prime Minister,
Ten Downing Street,
London, SW1.

Dear Mr. Powell,

I have the honour to enclose herewith one sealed envelope addressed to The Prime Minister, Mrs. Margaret Thatcher, sent by His Majesty The Sultan of Oman.

I should be most grateful if you would be kind enough to acknowledge receipt of the aforementioned envelope.

Abdulaziz Al-Hinai,
Charge d'affairs.

067420
MDADAN 2416

CONFIDENTIAL
FM BONN
TO IMMEDIATE FCO
TELNO 345
OF 231627Z MARCH 89
INFO IMMEDIATE ROME, AMMAN, MODUK
INFO SAVING HMCG MUNICH

ADVANCE COPY

YOUR TELNO 213[SIC]: TORNADO FOR JORDAN

SUMMARY

1. I SPOKE AS INSTRUCTED TO KOHL'S AND BAVARIAN MINISTER-PRESIDENT'S OFFICES. WORRIED REACTIONS.

DETAIL

2. I WAS GRATEFUL FOR YOUR AGREEMENT, IN VIEW OF THE SENSITIVITY OF THIS MATTER HERE (MY TELNO 277), TO MY SPEAKING TO THE FEDERAL CHANCELLERY, AND ALSO TO THE BAVARIAN GOVERNMENT, BEFORE THE ANNOUNCEMENT IN UK.

3. I SPOKE AS INSTRUCTED TO THE PRIVATE SECRETARY OF CABINET MINISTER SCHAEUBLE IN THE FEDERAL CHANCELLERY AND TO THE RESPONSIBLE OFFICIAL IN THE OFFICE OF THE MINISTER-PRESIDENT OF BAVARIA. I STRESSED THAT THE DECISION TO POSTPONE FURTHER NEGOTIATIONS HAD BEEN A JORDANIAN ONE. I TRIED TO CONVEY THAT THE PICTURE COULD HAVE BEEN WORSE: THE ANNOUNCEMENT WAS ABOUT POSTPONEMENT ONLY, AND THE DIFFICULTIES HAD COME AT A TIME WHEN THE CREDIT ARRANGEMENTS HAD NOT YET BEEN ACTIVATED, SO THERE WAS NO RISK TO THE BANKS.

4. IN THE FEDERAL CHANCELLERY THE REACTION WAS BRIEF AND SHARP. SCHAEUBLE HAD HAD TO MAKE A STRONG AND DIFFICULT INTERVENTION IN THE BUNDESTAG TO ENABLE THE GERMAN SIDE OF THE CREDIT ARRANGEMENTS TO STAND. THE FEDERAL GOVERNMENT WOULD BE HEAVILY CRITICISED.

5. HARTMANN, THE BAVARIAN OFFICIAL, SAID THIS NEWS WOULD PROVIDE A FIELD DAY FOR GERMAN OPPONENTS OF THE TORNADO SALE AND OF THE GERMAN CREDIT ARRANGEMENTS. THEY WOULD CLAIM A FAILURE OF THE DEAL, EVEN AT JORDAN'S INSTIGATION, AS A VICTORY. IF NEGOTIATIONS ON THE DEAL WERE RESUMED, IN CIRCUMSTANCES WHERE JORDAN'S FINANCIAL SITUATION WAS SEEN TO BE WEAK, IT WOULD BE VERY DIFFICULT TO REASSEMBLE THE FINANCIAL PACKAGE IN GERMANY.

6. BOTH OFFICIALS SAID THAT THEIR AUTHORITIES WOULD NOT COMMENT PUBLICLY ON THE ANNOUNCEMENT.

067420
MDADAN 2416

MALLABY

YYYY

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RESIDENT CLERK

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CONFIDENTIAL FILE KK

bc PC

10 DOWNING STREET
LONDON SW1A 2AA

23 March 1989

From the Private Secretary

TORNADO FOR JORDAN

Thank you for your letter of 23 March enclosing a draft reply from the Prime Minister to King Hussein's message informing her of his decision to postpone the Tornado contract.

The Prime Minister is content to reply but does not want to raise the Jordanian failure to keep up their payments on the existing defence package in the message itself. This should be dealt with separately and orally by our Ambassador as he thinks appropriate. I enclose a revised version of the message which should be despatched as rapidly as possible.

RBF 11

I am copying this letter to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence) and Neil Thornton (Department of Trade and Industry).

(C. D. POWELL)

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

CONFIDENTIAL

CONFIDENTIAL FLASH

ZCZC
CONFIDENTIAL

FM FCO
TO FLASH AMMAN
TELNO
OF MARCH 89
INFO IMMEDIATE MODUK, BONN, ROME
YOUR TELNO 155 and 156: TORNADO

1. Please deliver as soon as possible the following reply from the Prime Minister to King Hussein:
Begins I am very grateful for Your Majesty's letter of 20 March in which you said that you had concluded with regret that it would be in your and our best interests to postpone the Tornada purchase until more favourable circumstances prevailed. I, too, am sorry that circumstances have not allowed this sale to proceed in the timescale we planned.

I fully understand the reasons which led you to take this difficult decision. I well know the importance you personally attached to enhancing the operational capability of the Royal Jordanian Air Force by equipping it with Tornado. But I believe that you have made a wise decision under present circumstances. I can assure you that the excellent relations and cooperation between our two Air Forces and, indeed, between our armed forces in general will continue as before.

I regret to say that the question of the sale of Tornado both to Saudi Arabia and to Jordan has been the subject of highly misleading comment in the British media. I am sure that you will

OUT TELEGRAM (CONT)

	Classification	Caveat	Precedence
	CONFIDENTIAL		FLASH

agree that this makes it all the more important to set the present position straight in public. I understand that Mr. Reeve has agreed a text with the Head of the Royal Court, which I propose to use in answer to a parliamentary question this week.
With warm regards.
ENDS

HOWE

YYYY

TORNADO FOR JORDAN

NNNN

For distribution order see Page 1	Catchword:

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

23 March 1989

Agreed as amended

Prime Minister

Content with attached message? We ought to get it off this afternoon CDP 23/3

Dear Charles

King Hussein of Jordan sent a message to the Prime Minister on ~~20~~ March informing her of his decision to postpone the Tornado contract until more favourable circumstances prevail. This is a sensible through disappointing decision. It is good that the Jordanians, after prompting by the Prime Minister and the Foreign Secretary, have come to it themselves.

I enclose a draft reply to the King which has been cleared with interested Whitehall Departments. As the Germans and Italians were also involved, though not as helpfully as we would have wished, we shall let them know of the King's decision.

We are coordinating press handling with the Jordanians, and have agreed with them the enclosed line, which the Prime Minister might use in reply to the written question from Mr Allan Rogers for answer today.

I am copying this letter to Alex Allan, Brian Hawtin and Neil Thornton.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

	Classification	Caveat	Precedence
	CONFIDENTIAL		~~DESKBY~~ FLASH

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FM FCO
TO ~~DESKBY~~ FLASH AMMAN
TELNO
OF MARCH 89
INFO IMMEDIATE MODUK, BONN, ROME
YOUR TELNO 155 AND 156: TORNADO

1. Please deliver as soon as possible the following reply from the Prime Minister to King Hussein:

Begins I am very grateful for Your Majesty's letter of 20 March in which you said that you had concluded with regret that it would be in your and our best interests to postpone the Tornado purchase until more favourable circumstances prevailed. I, too, am sorry that circumstances have not allowed this sale to proceed in the timescale we planned.

I fully understand the reasons which led you to take this difficult decision. I well know the importance you personally attached to enhancing the operational capability of the Royal Jordanian Air Force by equipping it with Tornado. But I believe that you have made a wise decision under present circumstances. I can assure you that ~~we shall not allow this setback to affect~~ the excellent relations and cooperation between our two Air Forces, and, indeed, between our armed forces in general. I am ~~therefore concerned to learn that~~ a difficulty has arisen over our existing defence package. I understand that a payment of principal and interest totalling £18 million due on 6 March has not been made and that because of this and Jordan's

My concern to preserve these leads me to write with Your Majesty the delicate question of

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OUT TELEGRAM (CONT)

Classification	Caveat	Precedence
CONFIDENTIAL		DESKBY

<<<<

decision to reschedule its debts the banks have exercised their right to suspend drawings on the lines of credit. This means that some companies will be unable to fulfil their contracts. I hope that it will be possible to resolve this quickly.

I regret to say that the question of the sale of Tornado both to Saudi Arabia and to Jordan has been the subject of highly misleading comment in the British media. I am sure that you will agree that this makes it all the more important to set the present position straight in public. I understand that Mr Reeve has agreed a text with ~~your people~~ the Head of the Royal Court, which I propose to use in answer to a parliamentary question this week. With warm regards

ENDS

HOWE

YYYY

TORNADO FOR JORDAN

NNNN

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DSR 11C
(Revised 5/87)

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DRAFT PRESS LINE

"Negotiations for the sale of Tornado aircraft to Jordan have been in train for some time. The Government of Jordan have recently informed us that after reviewing their financial commitments in the light of the current economic situation in Jordan, they would like to postpone negotiations until more favourable circumstances prevail. This has been agreed".

JA1ABF

DGFGNCG! Sale PT12



CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SIR ROBIN BUTLER

TORNADO

Thank you for your minute of 22 March about the origin of the letter of 20 February sent to Herr Genscher making certain allegations about the sale of Tornado to Jordan. I note that in the event the Observer did not risk publishing the letter. I agree that no further action is needed.

CHARLES POWELL

23 March 1989

CONFIDENTIAL

CONFIDENTIAL

FCO
Stm/DA
bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 March 1989

Dear Steve,

OMAN

Thank you for your letter of 22 March suggesting that the Prime Minister should write to Professor Roland Smith about Oman's cancellation of its Tornado contract.

The Prime Minister has done so and I enclose her letter. It is altered in some material respects from the draft with your letter. You will wish to ensure before despatch that you are content with it.

I am sure that the Prime Minister would be content for the Home Secretary to speak to the Sultan in her name on the lines proposed in your letter.

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

Yours sincerely,

(C.D. POWELL)

Steve McCarthy, Esq.,
Ministry of Defence.

CONFIDENTIAL

CONFIDENTIAL

SMAQT

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

23 March 1989

Dear Professor Smith,

You will, I am sure, know of the problems which have arisen over Tornado for Oman. Despite the very favourable terms which we offered to help in refinancing this project, the Sultan has let me know that the financial burden of Tornado is too great for Oman in the light of the reduced financial resources available to it. The Sultan therefore wishes to cancel the Tornado contract and replace it with a new, and more modest, equipment package, including two Hawk 100 and twelve Hawk 200 aircraft.

This is disappointing. But in view of Oman's current economic circumstances, it is the best we can hope for. The proposal to purchase Hawk is one that we should encourage if we are to rein in any inclination on the part of the Omanis to reconsider the American F16 (which would undoubtedly be available on very favourable terms).

The Sultan has asked for my personal support on two issues: firstly, that BAe waive cancellation charges on the Tornado contract, and secondly, that the down payment already made as part payment for the Tornados should be utilised for Hawk. I am sure you will agree that it is important from the point of view of BAe's future relations with Oman that the

SA

company should be as helpful as possible on these points. I should like, if you agree, to reply to the Sultan offering very early consultations with officials and representatives of BAe.

Yours sincerely

Margaret Thatcher

Professor Roland Smith

CONFIDENTIAL

(2)

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

MO 6/19/7E

22nd March 1989

Dear Charles

MALAYSIA - DEFENCE PACKAGE

The Prime Minister may wish to be aware that, following the resolution of the air frequencies question, the Malaysian Finance Minister has written to Sir Colin Chandler confirming that negotiations on the defence package can proceed. I attach a copy of his letter for information.

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

Yours ever

(S McCARTHY)
Private Secretary

Charles Powell Esq
No 10 Downing Street

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The National Archives

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PRIME MINISTER

TORNADOS FOR OMAN

The Defence Secretary (letter attached) recommends that you should write to Professor Smith of BAe to urge him to look favourably on the Sultan's problems over Tornado by waiving cancellation charges on the contract and allowing Oman's deposit on Tornado to be transferred to the purchase of Hawk. I think this is right and attach a letter.

Agree to sign?

pp CHARLES POWELL
22 March 1989

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

MO 6/17/6L

22nd March 1989

Dear Charles

OMAN flat

You wrote to Bob Pierce on 14th March about the Sultan of Oman's decision to negotiate a modified defence package including Hawk aircraft instead of Tornado. You will since then have seen Muscat Telno 125 of 21st March containing the text of the Sultan's letter confirming this.

As the Prime Minister has already noted, this seems a sensible decision. The proposed new package is operationally logical in that it meets The Sultan's known priority of improving Oman's air defence capability. In particular, the Javelin package meets a long-standing Omani requirement. It will additionally be very welcome to Short Bros (and to Northern Ireland) at a critical time. The decision to buy Hawk also precludes the possibility of Oman reconsidering the F16.

The package also makes economic sense. The operating costs of Tornado would have been substantial and were not yet budgeted for. The operating costs for Hawk, however, would be similar to those for Hunter (which the Hawk would replace) and which are already planned. In short, therefore, whilst recognising that there are difficult matters yet to be agreed, I am sure that the proposals would have the strong support of my Secretary of State.

Before replying formally to the Sultan's letter, we shall need to obtain the cooperation of BAe in ensuring that the proposed equipment package is negotiated on the most favourable terms. In order to achieve this quickly we recommend that BAe be apprised of the situation at the highest level, and a draft letter to Professor Roland Smith is enclosed for the Prime Minister's consideration.

Charles Powell Esq
10 Downing Street

In the meantime HMA Muscat has asked that the Prime Minister sends the Sultan a message assuring him that we understand the circumstances which have impelled him to reconsider and the reasons for his decision, and that we very much appreciate the commitment to continue to work closely with the UK in meeting Oman's equipment needs. As you are aware Mr Hurd is visiting Oman shortly and if the Prime Minister is content, this might provide a suitable opportunity to deliver such a message.

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

Yours Sincerely

(S McCARTHY)
Private Secretary

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 March 1989

TORNADO FOR JORDAN

The Prime Minister has seen Amman telegrams numbers 155 and 156 reporting King Hussein's decision to seek postponement of the Tornado contract. She has commented that it is the only possible decision for Jordan.

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

(CHARLES POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

CONFIDENTIAL

056116
MDHIAN 7613

CONFIDENTIAL
FM AMMAN
TO FLASH FCO
TELNO 160
OF 211020Z MARCH 89
INFO FLASH MODUK
INFO IMMEDIATE BONN, ROME

SIC ZMC

INFO MODUK FOR CHANDLER, HDES

BONN, ROME, PERSONAL FOR AMBASSADORS

MY TELNO 155 AND 156 (NOT TO ALL): TORNADO

1. I CALLED ON THE HEAD OF THE ROYAL COURT THIS MORNING. ADNAN ABU ODEH, THE KING'S ADVISER, WAS ALSO PRESENT.

2. I EXPLAINED THAT I WAS WITHOUT INSTRUCTIONS BUT THAT I THOUGHT IT IMPORTANT TO ESTABLISH AS SOON AS POSSIBLE WHETHER THE JORDANIAN GOVERNMENT WAS INTENDING TO MAKE ANY STATEMENT ABOUT THE POSTPONEMENT OF THE TORNADO CONTRACT. ZAID BIN SHAKER SAID THAT HE HAD JUST BEEN INSTRUCTED BY THE KING TO CONSULT ME ON THIS POINT. THE GOVERNMENT HAD IT IN MIND TO ARRANGE FOR A PLANTED QUESTION ON THIS SUBJECT TO BE ANSWERED BY THE PRIME MINISTER. BUT THEY WERE VERY ANXIOUS TO STAY IN STEP WITH US AND TO ENSURE THAT WHAT WAS SAID IN PUBLIC WAS CONSISTENT WITH OUR OWN LINE. THEY WERE CONCERNED TO KNOW AS SOON AS POSSIBLE HOW MRS THATCHER HAD REACTED TO THE KING'S MESSAGE AND WHAT SHE WOULD BE LIKELY TO SAY ON THE SUBJECT IN PUBLIC.

3. BIN SHAKER SAID THAT THE JORDANIANS WERE ''DISAPPOINTED'' THAT THE NEGOTIATIONS OVER THE CONTRACT HAD DRAGGED ON FOR SO LONG: AND THAT AN ARTICLE HAD NOW BEEN PUBLISHED IN THE OBSERVER OF 19 MARCH MAKING ALLEGATIONS ABOUT COMMISSIONS TO JORDANIANS. IT WAS PARTICULARLY UNFORTUNATE THAT THE BBC HAD TAKEN UP THIS ARTICLE AND QUOTED FROM IT EXTENSIVELY, INCLUDING (HE MAINTAINED) THE ALLEGATION THAT HEADS OF GOVERNMENT WERE INVOLVED IN TAKING COMMISSIONS. THAT WAS CERTAINLY NOT THE CASE AS FAR AS JORDAN WAS CONCERNED. THE JORDANIANS STRONGLY SUSPECTED THAT ISRAELI INTELLIGENGE HAD BEEN INVOLVED PARTICULARLY

IN STIRRING UP THE GERMANS. ZAID BIN SHAKER MADE IT CLEAR THAT THE POSSIBILITY OF POSTPONING THE CONTRACT HAD BEEN UNDER CONSIDERATION FOR SOME TIME AND WAS NOT A DIRECT RESULT OF THE OBSERVER ARTICLE. IT IS HOWEVER CLEAR THAT THE ARTICLE HAS CAUSED GREAT EMBARRASSMENT TO THE JORDANIAN GOVERNMENT. ALL COPIES OF THE OBSERVER HAVE BEEN IMPOUNDED HERE.

4. EMPHASISING THAT I WAS SPEAKING PERSONALLY, I SAID THAT I ASSUMED THAT IN ANY PUBLIC COMMENT ON OUR PART, WE WOULD WANT TO MAKE CLEAR THAT THE INITIATIVE HAD COME FROM THE JORDANIAN SIDE, THAT THE REQUEST WAS FOR POSTPONEMENT AND NOT CANCELLATION, AND THAT WE STOOD READY TO CONTINUE THE NEGOTIATIONS IN DUE COURSE. ABU ODEH SAID THAT IT WOULD BE VERY HELPFUL IF WE COULD INCLUDE SOME WORDS IMPLYING THAT THE JORDANIAN DECISION HAD NOT BEEN TRIGGERED BY THE OBSERVER ARTICLE. I UNDERTOOK TO CONSULT YOU URGENTLY.

5. I NOTE THAT MOD ARE TAKING THE LINE OVER THE OBSERVER ARTICLE THAT WE DO NOT COMMENT ON INDIVIDUAL DEALS. NEVERTHELESS, ON THE ASSUMPTION THAT WE SHALL NOT BE ABLE TO AVOID SOME PUBLIC COMMENT AT SOME POINT (IF ONLY BECAUSE THE JORDANIANS WILL WANT THEIR DECISION TO BE KNOWN), I SUGGEST THAT THE FOLLOWING LINE MIGHT BE APPROPRIATE:

> ''NEGOTIATIONS FOR THE SALE OF EIGHT TORNADO AIRCRAFT TO JORDAN HAVE BEEN IN TRAIN FOR SOME TIME. THE GOVERNMENT OF JORDAN HAVE RECENTLY INFORMED US THAT AFTER REVIEWING THEIR FINANCIAL COMMITMENTS IN THE LIGHT OF THE CURRENT ECONOMIC SITUATION IN JORDAN THEY WOULD LIKE TO POSTPONE FOR THE TIME BEING FURTHER NEGOTIATIONS LEADING TO FINAL SIGNATURE OF THE CONTRACT. WE HAVE MADE IT CLEAR THAT WE STAND READY TO RESUME NEGOTIATIONS WHEN THE GOVERNMENT OF JORDAN REQUEST THIS.''

6. I HAVE NOT TRIED OUT THIS FORMULA ON ZAID BIN SHAKER. SINCE I ASSUME YOU WILL NOT WISH TO BE MORE EXPLICIT THAN THE JORDANIANS, I HOPE I MAY BE AUTHORISED TO CONSULT HIM BEFORE WE MAKE ANY PUBLIC COMMENT.

REEVE

YYYY

056126
MDHIAN 7614

SECRET
FM MUSCAT
TO IMMEDIATE FCO
TELNO 125
OF 210620Z MARCH 89
AND TO IMMEDIATE MODUK (FOR HDES)

SIC Z8G
PERSONAL FOR GORE BOOTH AND YOUNG (MED)
MY TELNO 117: OMANI ARMS PURCHASES

1. I HAVE THIS MORNING RECEIVED THE FOLLOWING LETTER ADDRESSED TO THE PRIME MINISTER FROM THE SULTAN.
TEXT BEGINS:

WE HAVE NOW COMPLETED OUR FINANCIAL REVIEW AND HAVE GIVEN CAREFUL CONSIDERATION TO THE PROPOSED FINANCIAL ARRANGEMENTS. WHILST WE APPRECIATE THE VERY SPECIAL EFFORTS MADE BY YOU, PRIME MINISTER, WE HAVE RELUCTANTLY COME TO THE CONCULSION THAT, IN VIEW OF THE FINANCIAL BURDEN THE TORNADO CONTRACT WOULD PLACE ON THE REDUCED FINANCIAL RESOURCES AVAILABLE TO THE SULTANATE, IT WOULD BE PRUDENT FINANCIALLY AND ECONOMICALLY TO ASK FOR CANCELLATION OF THE CURRENT TORNADO CONTRACT.

HOWEVER, IN VIEW OF THE CONTINUED NEED TO ENHANCE THE CAPABILITIES OF THE ARMED FORCES, WE WOULD LIKE TO ENTER INTO NEGOTIATION WITH YOUR ESTEEMED GOVERNMENT FOR A MODIFIED ARMS PACKAGE TO INCLUDE THE PURCHASE OF TWO HAWK 100 AND TWELVE HAWK 200 FIGHTER AIRCRAFT IN ADDITION TO 48 JAVELIN LAUNCHERS TOGETHER WITH 250 MISSILES AND OTHER ASSOCIATED EQUIPMENT. OUR DECISION TO POSTPONE THE ACQUISITION OF ADVANCED TORNADO TYPE AIRCRAFT UNTIL THE LATER PART OF THE 1990S WILL BE SOMEWHAT OFFSET BY THE PURCHASE OF A LESS SOPHISTICATED ALL-WEATHER FIGHTER NOW, TO REPLACE THE AGEING HUNTER AIRCRAFT FLEET AND INTRODUCE A CAPABILITY REQUIRED BY OUR AIR FORCE WHILST EXERCISING PRUDENT ECONOMIC MANAGEMENT.

IN THE LIGHT OF THIS INTENTION, WE SHOULD BE GRATEFUL IF THE BRITISH GOVERNMENT WOULD USE ITS GOOD OFFICES WITH BRITISH AEROSPACE TO WAIVE CANCELLATION CHARGES ON THE TORNADO CONTRACT AND TO UTILIZE THE DOWN PAYMENT ALREADY MADE UNDER THE CONTRACT AS PART PAYMENT FOR THE HAWK FIGHTERS.

YOUR PERSONAL SUPPORT TO EXTEND THE EXCEPTIONAL FINANCIAL PROPOSAL AND FAVOURABLE INTEREST RATE SET OUT IN YOU LETTER OF 31ST JANUARY 1989 TO THIS NEW PACKAGE WOULD BE GREATLY APPRECIATED.

WITH WARM REGARDS.

056126
MDHIAN 7614

TEXT ENDS.

2. FCO PLEASE PASS TO PS/NUMBER 10.

ALSTON

YYYY

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PS/MR WALDEGRAVE
MR TOMKYS
MR BAYNE
MR GORE-BOOTH

ADDITIONAL 8

~~PS/NO.10 DOWNING ST~~
G.T.W. JONES, HMT
OT4/IA DTI VICT ST

MR K COCKWOOD ECGD
MR LST SMITH B OF E

NNNN

PRIME MINISTER
PERSONAL MESSAGE
SERIAL No. T57d/89

SUBJECT cc Market OPS

Amman

20 March, 1989

Dear Prime Minister,

I have given a lot of thought, since our last meeting, to the sale of the Tornado aircraft to Jordan. I weighed very carefully all the pros and cons of proceeding with the purchase at this time. I reached the conclusion that it might be in your and our best interest to postpone the procurement of this class of aircraft until more favourable circumstances prevail. It is with regret that I seek your agreement to this end.

I am sure you appreciate all the reasons for my decision, but I must admit to you that I am genuinely distressed at this outcome as Jordan has a genuine requirement for Tornados to modestly enhance its legitimate self-defence capabilities, and to advance its Air Force's experience in the operational employment of the products of modern aviation technology available, without exception, to all Jordan's neighbours and others in this part of the world. As I said, I am deeply and genuinely distressed at this outcome as I also know how much effort and support you so kindly gave to make the purchase possible against unfair, unethical and untold opposition. I shall always remember with appreciation and sincere gratitude your kind support in this regard and will ever cherish with pride our friendship.

Please accept with my highest esteem my respects, regards, repeated thanks and sincere best wishes.

I am,

Your Sincere friend,

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister of Great Britain & Northern Ireland
10 Downing Street
London SW1
England

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 57c/89

بسم الله الرحمن الرحيم

SUBJECT
cc MASTER
OPS

Al Husn Palace

قصر الحصن

The Rt. Hon. Margaret Thatcher MP
Prime Minister
United Kingdom of Great Britain and Northern Ireland
10 Downing Street
LONDON SW1.

20th March 1989

After Compliments,

We have now completed our financial review and have given careful consideration to the proposed financial arrangements. Whilst we appreciate the very special efforts made by you, Prime Minister, we have reluctantly come to the conclusion that, in view of the financial burden the Tornado contract would place on the reduced financial resources available to the Sultanate, it would be prudent financially and economically to ask for cancellation of the current Tornado contract.

However, in view of the continued need to enhance the capabilities of the Armed Forces, we would like to enter into negotiation with your esteemed Government for a modified arms package to include the purchase of two Hawk 100 and twelve Hawk 200 fighter aircraft in addition to 48 Javelin launchers together with 250 missiles and other associated equipment. Our decision to postpone the acquisition of advanced Tornado type aircraft until the later part of the 1990s will be somewhat offset by the purchase of a less sophisticated all-weather fighter now, to replace the ageing Hunter aircraft fleet and introduce a capability required by our Air Force whilst exercising prudent economic management.

In the light of this intention, we should be grateful if the British Government would use its good offices with British Aerospace to waive cancellation charges on the Tornado contract and to utilize the down payment already made under the contract as part payment for the Hawk fighters.

Your personal support to extend the exceptional financial proposal and favourable interest rate set out in your letter of 31st January 1989 to this new package would be greatly appreciated.

With warm regards,

SULTAN OF OMAN

بسم الله الرحمن الرحيم



قصر الحصن — Al Husn Palace

دولة السيدة مارجريت تاتشر
رئيسة وزراء المملكة المتحدة وشمال ايرلندا

تحية طيبة وبعد ،

لقد انتهينا الان من مراجعتنا المالية ، ونود احاطتكم باننا قد تابعنا باهتمام بالغ الترتيبات المالية المقترحة من قبلكم وفي الوقت الذي نقدر فيه الجهود الخاصة التي بذلتموها في هذا الصدد ، الا أننا توصلنا بعد مزيد من الدراسة الى قناعة انه نظرا للاعباء المالية التي سيضيفها عقد التورنادو على موارد السلطنة المالية المنخفضة فانه من الحكمة من الناحيتين المالية والاقتصادية أن نطلب الغاء العقد الحالي لمشروع طائرات التورنادو .

ومع ذلك فانه بالنظر الى الحاجة المستمرة لرفع مستوى قدرات قواتنا المسلحة ، فاننا نرغب الدخول في مفاوضات مع حكومتكم الموقرة بشأن صفقة أسلحة معدلة تتضمن شراء عدد طائرتين مقاتلتين من نوع هوك ١٠٠ وعدد ١٢ طائرة مقاتلة من نوع هوك ٢٠٠ بالاضافة الى عدد ٤٨ قاذفة من نوع جافلين مع ٢٥٠ صاروخ والمعدات المرتبطة بها ، أن قرارنا بتأجيل الحصول على طائرة تورنادو المتطورة حتى حلول الجزء الأخير من عقد التسعينات سيتم تعويضه من خلال شراء طائرة أقل تطورا نوعا ما وتصلح لكل الأحوال الجوية وذلك لتحل محل الأسطول القديم لطائرات الهنتر ، وبهذا نكون قد أدخلنا القدرات التي تحتاجها قواتنا المسلحة وفي الوقت نفسه طبقنا أسلوب الادارة الاقتصادية الحكيمة .

يتبع.....(٢)

بسم الله الرحمن الرحيم



قصر الحصن

Al Husn Palace

وعلى ضوء هذه النية سنغدوا شاكرين لبذل الحكومة البريطانية مساعيها الحميدة مع شركة بريتش ايروسبيس لاستبعاد التكاليف المترتبة على الغاء عقد التورنادو وتحويل الدفعة المقدمة التي تمت بموجب هذا العقد لاستخدامها كجزء من الدفعة لشراء مقاتلات هوك .

أن مساندتكم الشخصية لكي يشمل هذه الصفقة الجديدة العرض المالي الاستثنائي وكذلك سعر الفائدة المشجع والوارد في رسالتكم المؤرخة ٣١ يناير ١٩٨٩ سيكون محل تقدير من قبلنا .

وتقبلوا تحياتنا،،،،،،

قابوس

سلطان عمان

حرر في : ١٢ شعبان سنة ١٤٠٩هـ
الموافق: ٢٠ مارس سنة ١٩٨٩م.

CONFIDENTIAL
FM AMMAN
TO DESKBY 201900Z FCO
TELNO 156
OF 201700Z MARCH 89
INFO DESKBY 201900Z MODUK

ADVANCE COPY

SIC ZMC

MODUK PERSONAL FOR HEAD DESO

MIPT: TORNADO

DEAR PRIME MINISTER,

I HAVE GIVEN A LOT OF THOUGHT, SINCE OUR LAST MEETING, TO THE SALE OF THE TORNADO AIRCRAFT TO JORDAN. I WEIGHED VERY CAREFULLY ALL THE PROS AND CONS OF PROCEEDING WITH THE PURCHASE AT THIS TIME. I REACHED THE CONCLUSION THAT IT MIGHT BE IN YOUR AND OUR BEST INTEREST TO POSTPONE THE PROCUREMENT OF THIS CLASS OF AIRCRAFT UNTIL MORE FAVOURABLE CIRCUMSTANCES PREVAIL. IT IS WITH REGRET THAT I SEEK YOUR AGREEMENT TO THIS END.

I AM SURE YOU APPRECIATE ALL THE REASONS FOR MY DECISION, BUT I MUST ADMIT TO YOU THAT I AM GENUINELY DISTRESSED AT THIS OUTCOME AS JORDAN HAS A GENUINE REQUIREMENT FOR TORNADOS TO MODESTLY ENHANCE ITS LEGITIMATE SELF-DEFENCE CAPABILITIES, AND TO ADVANCE ITS AIR FORCE'S EXPERIENCE IN THE OPERATIONAL EMPLOYMENT OF THE PRODUCTS OF MODERN AVIATION TECHNOLOGY AVAILABLE, WITHOUT EXCEPTION, TO ALL JORDAN'S NEIGHBOURS AND OTHERS IN THIS PART OF THE WORLD. AS I SAID, I AM DEEPLY AND GENUINELY DISTRESSED AT THIS OUTCOME AS I ALSO KNOW HOW MUCH EFFORT AND SUPPORT YOU SO KINDLY GAVE TO MAKE THE PURCHASE POSSIBLE AGAINST UNFAIR, UNETHICAL AND UNTOLD OPPOSITION. I SHALL ALWAYS REMEMBER WITH APPRECIATION AND SINCERE GRATITUDE YOUR KIND SUPPORT IN THIS REGARD AND WILL EVER CHERISH WITH PRIDE OUR FRIENDSHIP.

PLEASE ACCEPT WITH MY HIGHEST ESTEEM MY RESPECTS, REGARDS, REPEATED THANKS AND SINCERE BEST WISHES.

I AM,

C 270
MDADAN 1901

YOUR SINCERE FRIEND,

HUSSEIN BIN TALAL

REEVE

YYYY

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HD/ERD

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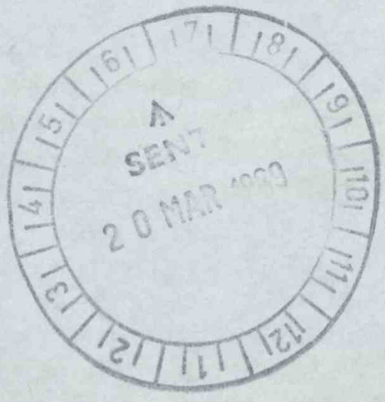

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OF 201700Z MARCH 89
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MODUK PERSONAL FOR HEAD DESO

TORNADO

The only possible decision. I thought that a contract had NOT been signed? MT

1. MIFT CONTAINS THE TEXT OF A MESSAGE FROM KING HUSSEIN TO THE PRIME MINISTER SEEKING POSTPONEMENT OF THE TORNADO CONTRACT ''UNTIL MORE FAVOURABLE CIRCUMSTANCES PREVAIL''.

2. MUCH AS I REGRET IT, THIS DECISION HAD BECOME VIRTUALLY INEVITABLE IN THE PRESENT ECONOMIC SITUATION. THE FACT THAT IT IS THE JORDANIANS, AND NOT WE, WHO HAVE SOUGHT POSTPONEMENT SHOULD AT LEAST HELP US TO LIMIT ANY ADVERSE CONSEQUENCES FOR WIDER BRITISH INTERESTS IN JORDAN.

3. NO DOUBT THE PRIME MINISTER'S REPLY WILL EXPRESS UNDERSTANDING OF THE KING'S POSITION AND OFFER TO EXPLORE THE POSSIBILITIES FOR RESUMING NEGOTIATIONS IN DUE COURSE (THOUGH THE FACT THAT THE KING'S LETTER MAKES NO MENTION OF THIS SEEMS RATHER OMINOUS). IN ADDITION, I HOPE THAT THE PRIME MINISTER WILL TAKE THE OPPORTUNITY TO SET OUT THE DIFFICULTIES WE ARE FACING OVER THE PDS STG 300 MILLION DEFENCE PACKAGE. CONTRARY TO WHAT ZAID RIFA'I TOLD YOU IN LONDON, THE JORDANIANS ARE CLEARLY IN DEFAULT IN THEIR REPAYMENTS OF BOTH PRINCIPAL AND INTEREST. FOR EXAMPLE A PAYMENT DUE ON 6 MARCH (FOR PDS STG 12MILLION PRINCIPAL AND PDS STG 6 MILLION INTEREST) WAS NOT MADE AT ALL. I UNDERSTAND THAT SOME OF OUR DEFENCE CONTRACTORS HAVE SUSPENDED WORK BECAUSE OF NON-PAYMENT BY THE BANKS AND THAT SOME OF THEM ARE IN FINANCIAL DIFFICULTY. IT IS IN MY VIEW THAT KING HUSSEIN SHOULD BE FULLY AWARE OF THIS SINCE I BELIEVE THAT RIFA'I MAY NOT HAVE GIVEN HIM AN ACCURATE PICTURE. THE POSTPONEMENT OF THE TORNADO CONTRACT MAKES IT DOUBLY IMPORTANT THAT THE DEFENCE PACKAGE SHOULD BE PUT BACK ON THE RAILS QUICKLY IF AT ALL POSSIBLE.

REEVE

YYYY

DISTRIBUTION 2

ADVANCE 2

HD/NENAD HD/ERD

PS/NO 10 DS

NNNN

DEFENCE: SALE Pt 2

EMBASSY OF THE HASHEMITE
KINGDOM OF JORDAN
LONDON

The Ambassador

17/3

March 16th 1989.

Dear Mr. Powell,

I have the honour to enclose herewith a letter from His Majesty King Hussein addressed to The Rt. Hon. Mrs. Margaret Thatcher, M.P., Prime Minister of the United Kingdom of Great Britain and Northern Ireland.

I do appreciate your kind assistance in passing this communication to the Prime Minister.

Yours sincerely,

Issa Dabbah (Dr.)
Charge d'Affaires a.i.

Mr. C.D. Powell,
Private Secretary to the Prime Minister,
Prime Minister's Office,
10, Downing Street,
LONDON S.W.1.

MINISTER OF FINANCE MALAYSIA

PMK/S/53

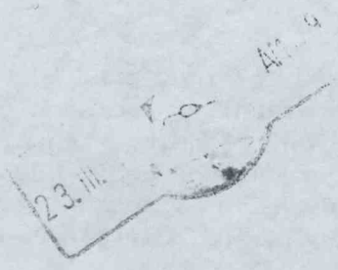
March 13, 1989

Sir Colin M. Chandler
Defence Export Services Organisation
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

Sir Colin,

I have been informed that MAS and British Airways have successfully concluded negotiations on the sixth and seventh landing rights. Negotiations on the purchase of defence equipment under the Memorandum of Understanding signed between the Prime Ministers of Britain and Malaysia can now proceed.

(DAIM ZAINUDDIN)



CONFIDENTIAL

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

MO 6/17/9E

20th March 1989

Dear Charles,

DEFENCE SALES: ARTICLE IN THE OBSERVER, 19TH MARCH 1989

You asked for a note and line to take on yesterday's Observer article on defence sales. The article has been expected for some weeks. Indeed, it repeats much of the innuendo and speculation that appeared when Al Yamamah was first signed in 1985. At the time, articles in the New Yorker, and other American, French and Middle East publications, claimed that the UK owed its success to unreasonable payments of commission, agency fees and the like activity. At the time, the Government rebutted these criticisms as "inevitable sour grapes" from those who had lost the contract, and we would advise taking the same line again.

There is little in the Observer article that is new, apart from the reference to Mr Charles Langley - which we believe is a pseudonym. Mr Langley's letter is claimed to have come from 14, Eaton Terrace (which is in fact an empty house); our best guess is that the letter has in fact come from from a disaffected member of British Aerospace (BAe). Two other documents received by the Observer under anonymous cover are believed by Observer staff to have come from a source within BAe. It is however unfortunate that these claims have been lent credibility by the recent BAe annual general meeting at which the company sought to maximise the benefit of the Al Yamamah contract in order to bolster their Military Aircraft Group profitability and thus BAe shares. We understand that Sir Raymond Lygo announced that the value of Al Yamamah would be greatly multiplied by the value of spares, weapons and services which would be an inevitable corollary of the Supply Contract. Hence the totally speculative figure of £150 billion - which is many times higher than the likely maximum total of Al Yamamah.

On the specific question of commissions and agency fees, there are (at the customer's request) very few references in the Government-to-Government contracts. The latest Formal Understanding signed in Bermuda on 3rd July 1988 did include, at Saudi request, a

Charles Powell Esq
No 10 Downing Street

paragraph in which HMG acknowledges the fact that the rules and regulations of the Kingdom of Saudi Arabia do not permit agency and agency fees in procurement of weaponry and related services. The public line that we have taken remains that Al Yamamah is a Government-to-Government contract and that accordingly neither Government requires nor needs the service of such intermediaries to conduct such business.

So far there has been no vehement or hostile reaction from our customer. Playing down the issue would therefore appear to be the best bet. As far as Jordan is concerned, the Prime Minister will know that the deal has not yet been concluded because of the problems of the Jordanian economy and thus the difficulty of securing a suitable credit package. We can therefore argue fairly that the Jordanian deal is not yet finalised and that it is too soon to comment on how such a deal could be structured or financed. We might however draw attention to the fact that if the banks and ECGD are prepared to put together a package of finance to support the Jordanian deal, there is no reason from HMG's point of view why it should not go ahead.

There are some specific claims in the article that are incorrect. Firstly on the question of taxpayer's money being put at risk. Defence Sales are eligible like any other exports for ECGD support. The level of such support is a matter primarily for ECGD who will have full regard to the risk (if any) on the contract and to the benefit to UK of supporting the sale. The extent of cover and other support to be provided takes account of these factors; artificial or unrealistic support simply to win the contract is not provided. Secondly the article implies that MOD too is receiving a discrete "commission". The payment made to MOD by the Saudi Government is no more than the standard rate of management fee which is normally payable to a UK Government for managing such projects on behalf of the customer.

I am copying this letter, and its enclosure to Stephen Wall (FCO), Neil Thornton (DTI), Carys Evans (Treasury), and to Trevor Woolley (Cabinet Office).

Yours sincerely

John Colston

(J P COLSTON)
Private Secretary

DEFENCE : Safety PT 12

The National Archives

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PC (2)

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

MO 32/10L

7th March 1989

Dear Charles

QUARTERLY REPORT TO THE PRIME MINISTER ON DEFENCE SALES AND PROSPECTS

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

In this period British Industry formally reported defence export contracts valued at £418 million (including £22M in pre-1988 contracts). The major customers were the USA (21%), Saudi Arabia (16%), Algeria (13%), Italy (4%) and Bahrain (4%). Total recorded sales in 1988 have reached £2,612 million. A list of major contracts reported in the period is attached at Annex A.

The achievements of our major competitors in the quarter include the USA (total sales $6,320M) with orders for F-18 aircraft from Kuwait ($1,900M) and Switzerland ($2,295M), joint development of the Japanese FS-X aircraft ($480M) and sales of naval surface-to-air missiles to a group of NATO nations ($360M); Israel (total sales in period $1,376M) mainly for development of airborne system to an unnamed country ($1,000M) and sale of secondhand Kfirs to Colombia ($250M); France (total sales of $742M in quarter) including lease of VIP aircraft to Australia ($215M) and sale of Super Puma helicopters to Venezuela ($86M); Italy had total sales in the period of $373M, with the majority being for a helicopter order from Belgium ($330M).

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

a. Middle East

In Saudi Arabia, a joint VSEL and Royal Navy team have just presented their proposals for a Hydrographic service to the Royal Saudi Navy (£250M). The joint Plessey and Racal consortium are awaiting a response to their recently submitted proposal to develop the Saudi Army's communication

Charles Powell Esq
10 Downing Street

system (£1,000M). IAL, a British Telecom subsidiary, are bidding for the new Bahraini air base communications package. Tripod Engineering are bidding to supply medical equipment to outfit a new aviation medical centre in Iraq (£20M), with a decision expected in the next few months. Negotiations continue in Jordan to supply Tornado aircraft, with finance still the major outstanding issue. In February 1989 Kuwait signed a £38M contract to supply 16 Shorts Tucano aircraft. Prospects still exist with the Kuwaiti Navy to supply Blackhawk helicopters (£80M), whilst Vosper Thornycroft are bidding to supply up to 8 fast patrol boats (£150M). Oman is expected to select a shipyard to produce between 4 and 6 Ocean Capable Patrol Craft (£70M), with British shipbuilders in a strong position. Interest still continues in Oman in purchasing an APC, for which the GKN Warrior is preferred. The competitions in Oman, Dubai and Abu Dhabi to upgrade their stocks of Shorts Blowpipe are all still proceeding, with the Shorts Javelin the preferred option in all three countries. Abu Dhabi signed a contract in January to purchase 18 Hawk aircraft (£180M), whilst Westlands are strongly promoting the Blackhawk in competition with the French.

b. Europe

The law in Italy has been amended to allow the Navy to operate fixed-wing aircraft, which will allow negotiations to commence on acquiring a naval derivative of the Harrier to operate from their aircraft carrier (£150M). The Netherlands Navy has selected the Singer Link-Miles submarine simulator, with a contract award expected in March 1989 (£5M), whilst an RFP has been issued for the supply of Marconi shipborne satellite communication terminals (SCOT) with a value of £30M. Norway is showing strong interest in acquiring the Marconi Stingray torpedo. Westlands continue to promote the Lynx helicopter to the Portuguese Navy, although the USA has made an offer linked to their use of Lajes base (£30M). Turkey has commenced contract negotiations with Marconi, to build its HF-SSB radio under licence. Initial value of the contract is £80M, with total requirements valued at £200M.

c. The Americas

The recent UK decision to select the Challenger 2 has given Vickers Defence Systems a boost in their efforts to promote this tank in Canada (£500M). A Canadian decision on which country of origin to select for their Submarine Acquisition Programme has still to be made, with the Canadian officials still engaged in discussions with the French and ourselves. EH Industries are continuing project

definition studies for the New Shipborne Aircraft requirement, for which the EH101 has been selected. The utility version is now also being evaluated to meet separate requirements from the Canadian Army and Coast Guard (£1,800M). In the USA, J Compton has been awarded a small contract by the US Army, to supply a number of NBC MkIV suits for evaluation; this should lead to a production order in which J Compton, Remploy and CQC, all of the UK, will compete (£8M). Shorts are actively promoting Starstreak to the US Army and US Marine Corps, with the company aiming to have the weapon evaluated under the US Foreign Weapons Evaluation (FWE) programme. The US Navy are currently looking at the Plessey NAUTIS-M mine countermeasures command and control system under the FWE programme, and this could lead to orders for up to 100 consoles (£30M). The US Air Force has now authorised $3.2M to evaluate the Plessey Watchman radar, which would be an alternative to a US system currently under development.

In Brazil, MEL are bidding to update the avionics of their S2 Tracker fleet (£71M), which is critically dependent upon ECGD cover being made available under the Special Arms Account. This is currently being considered collectively by Ministers. Westlands continue to promote the Lynx helicopter in competition with the French Dauphin, to meet Brazilian Navy requirements (£50M). In Colombia Westlands are hopeful that an order will be secured soon to supply the Navy with 2-3 helicopters (£15M).

d. Asia and Australasia

In Australia British companies continue to gain work from the submarine programme, with Singer Link-Miles selling a submarine simulator (£9M). Brunei has issued RFPs for fast jets, offshore patrol boats and maritime patrol aircraft (total £400M). BAe, Shorts, Vosper Thornycroft and Swan Hunter were included in the bidders list, with Thorn-EMI and Racal also being involved in supply of major systems for use on the platforms. The market in India remains considerable, but because of foreign exchange problems and the proximity of the General Election, no significant contracts are likely to be awarded for some time. Progress on the Malaysian defence package has been delayed whilst discussions take place over increased landing rights for Malaysian Airlines. The prospect of selling Type 23 frigates to Pakistan is fading as the cost is prohibitive. Whilst the upgrading of the two ex-RN Leanders continue, Westlands are promoting the sale of 6 Lynx helicopters. The Republic of Korea has concluded a contract for helicopter-launched Sea Skua missiles (£35M), whilst in the longer term interest is being shown in a ship-launched

derivative for the Navy. Vickers Defence Systems have been awarded a contract to supply a tank-launched bridge (£2M): following acceptance this is expected to lead to further business.

e. Africa

ECGD have refused cover for the Alvis contract with Cameroon for the supply of 39 Scorpion tanks (£44M), so the company is now trying to secure private sector finance to allow the project to proceed. There have been recent reports that China has been selected to provide Zimbabwe with its air defence system, but this has not been confirmed (£120M). However, the Zimbabwean authorities have now given a high priority to the Air Force's requirement for 5 additional Hawk aircraft, for which ECGD support is currently being sought.

I am sending copies of this report to Bob Peirce (Foreign and Commonwealth Office), Carys Evans (HM Treasury), Gareth Jones (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours ever

(S McCARTHY)
Private Secretary



ANNEX A

MAJOR CONTRACTS REPORTED IN THE PERIOD

Tarmac contract to build Gendarmerie Barracks in Algeria	£52M
IHG Hospital Services in Saudi Arabia	£42M
Rolls-Royce Adour aero engines to USA	£28M
Husband & Co construction work in Bahrain	£16M
Marconi Marksman in Finland	£10M
Rolls-Royce Spey aero engines to Italy	£10M
Taylor Woodrow contract to build Officers Mess in Oman	£7M
Royal Ordnance 105mm gun to USA	£6M
John Burrow contract to build military camp in Zimbabwe	£5M
EEC Ltd armoured vehicle simulators to Switzerland	£4M

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AMMAN FOR PS MR WALDGRAVE
MODUK FOR PS/SOFS AND DG MARKETING

TORNADO FOR JORDAN

SUMMARY

1. EXTREME CONCERN IN BAVARIAN GOVERNMENT AND LANDESBANK AT POSSIBILITY OF FAILURE OF TORNADO SALE TO JORDAN. DESCRIBED AS A POLITICAL DISASTER FOR THE CDU/CSU AND CHANCELLOR KOHL PERSONALLY. CALL ON HMG TO FIND A WAY OF ALLOWING THE DEAL TO PROCEED. NEED FOR MESSAGE TO GERMANS TO SHOW HMG'S CONCERN.

DETAIL

2. THE CHEF DE CABINET OF STREIBL, MINISTER PRESIDENT OF BAVARIA, SPOKE YESTERDAY TO CONSUL GENERAL MUNICH. HE SAID THAT IT WOULD BE HIGHLY EMBARRASSING FOR THE BAVARIAN GOVERNMENT IF THIS DEAL FELL THROUGH, AFTER THE POLITICAL RISK AND EFFORT THEY HAD INVESTED IN ENSURING GERMAN CREDIT ARRANGEMENTS AND AFTER ALL THE CONTROVERSY IN THE FEDERAL AND BAVARIAN PARLIAMENTS AND THE MEDIA. HE URGED US TO FIND A WAY TO ALLOW THE DEAL TO PROCEED WITHOUT FUSS.
FOR HEAD OF SHIFT

3. LINSS, PRESIDENT OF THE BAVARIAN LANDESBANK WHO LEAD THE CREDIT CONSORTIUM, CONTACTED ME TODAY. I EXPLAINED THE POSITION BRIEFLY AND SAID THE NEW PROBLEM WOULD BE TAKEN VERY SERIOUSLY IN LONDON. I SAID THAT THE DELAY AT PRESENT WAS DUE TO LLOYDS AND MORGAN GRENFELL NOT ISSUING THE OFFER LETTER, BECAUSE IT WOULD NOT BE POSSIBLE TO SYNDICATE THE LOAN IN THE UK PENDING CLARIFICATION OF THE JORDANIAN POSITION. I SAID THAT THE ECGD ASPECT HAD NOT CHANGED.

4. LINSS SAID THAT THERE WOULD BE AN UPROAR IN GERMANY IF THE DEAL FELL THROUGH BECAUSE THE UK BANKS AND INDUSTRY DID NOT PROVIDE CREDIT GUARANTEE FOR THE 45 PER CENT OF THE UK WORKSHARE NOT COVERED BY ECGD. HE SAID IT WOULD BE A DISASTER FOR THE BAVARIAN GOVERNMENT, AND FOR STREIBL PERSONALLY, FOLLOWING ALL THE CRITICISM THEY HAD

FACED FOR PUTTING CREDIT ARRANGEMENTS TOGETHER AFTER THE KREDITANSTALT FUER WIEDERAUFBAU HAD WITHDRAWN AT THE FEDERAL GOVERNMENT'S INSTIGATION. LINSS THOUGHT THAT THE CSU COULD WELL LOSE SEVERAL PERCENTAGE POINTS IN THE BAVARIAN ELECTION IN SPRING 1990 IF THE DEAL COLLAPSED. IF THE UK WERE SEEN TO PULL OUT IT WOULD BE REGARDED, ALCJVYHPISNIAURGHWHURE WE HAD PUT ON THE GERMANS, AS HIGHLY INCONSISTENT. THERE WOULD BE TALK OF A SLAP IN THE FACE FOR CHANCELLOR KOHL. THERE WOULD BE JUBILATION AMONG THE OPPONENTS OF GERMAN CREDIT, AND GENSCHER WOULD HAVE A FIELD DAY AT THE EXPENSE OF THE CDU/CSU. LINSS URGED THAT ECGD COVER THE WHOLE OF THE BRITISH WORKSHARE. HE REALISED THAT THIS WOULD BE DIFFICULT, BUT IT WOULD BE THE LESSER EVIL.

COMMENT

5. IF THE SALE FELL THROUGH BECAUSE UK CREDIT ARRANGEMENTS COULD NOT BE MADE, THOSE HERE WHO OPPOSE THE DEAL, IE FDP WITHIN GOVERNMENT AND SPD OUTSIDE, WOULD INDEED HAVE A FIELD DAY CRITICISING KOHL AND THE CDU/CSU. THE LATTER'S ALREADY TARNISHED IMAGE WOULD BECOME WORSE. THE UK WOULD BE PORTRAYED AS UNRELIABLE, AND AS FAILING THE GERMANS WHEN THEY HAD BEEN PERSUADED TO PROVIDE CREDIT. THE EXPLANATION THAT JORDANIAN CREDIT WORTHINESS HAS WORSENED DRAMATICALLY IN RECENT WEEKS WOULD NOT PREVENT THIS. FAILURE OF THIS DEAL WOULD ALSO MAKE IT EXTREMELY DIFFICULT TO ACHIEVE THE AIM OF THE PRIME MINISTER'S LETTER TO KOHL OF 13 OCT TO MAKE PROPER ARRANGEMENTS FOR THE FUNDING OF FUTURE EXPORTS OF JOINTLY PRODUCED EQUIPMENT.

6. I HOPE THAT THE HARMFUL EFFECT OF FAILURE OF THIS DEAL ON ANGLO-GERMAN RELATIONS AND BRITAIN'S IMAGE IN GERMANY WILL BE A SIGNIFICANT FACTOR AS HMG CONSIDER THE WAY FORWARD.

7. IF THERE IS ANY QUESTION OF ECGD PULLING OUT I STRONGLY RECOMMEND THAT THE PRIME MINISTER WRITE TO CHANCELLOR KOHL IN ADVANCE TO EXPLAIN THE REASONS. THERE IS ALSO AN IMMEDIATE NEED TO SPEAK TO THE FEDERAL GOVERNMENT TO SHOW OUR CONCERN AT THE NEW POSITION. I RECOMMEND THAT I BE INSTRUCTED TO SPEAK TO FEDERAL MINISTER SCHAEUBLE ON THE LINES OF PARA 3 ABOVE AND ANY POINTS YOU CAN ADD.

MALLABY

YYYY

PART 11. ends:-

HMT to MOD. 28.2.89

PART 12 begins:-

Bonn Tel No. 277. 3.3.89


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