

**British Aerospace**  
PUBLIC LIMITED COMPANY

From the Chairman,  
SIR AUSTIN PEARCE, CBE

*Original with  
CROBY briefing*

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21st September, 1981.

*Dear Prime Minister*

I wrote to you on the 8th April prior to your tour of the Middle East, seeking your help in the promotion of sales in prospect in the various countries you were to visit. Following your tour the results were most gratifying: a £41M order for 8 Hawks in Dubai and activation of negotiations in Abu Dhabi for a quantity of Hawks. Your visit to Saudi Arabia, and the subsequent State visit of King Khalid to the UK, stimulated interest in the Nimrod AEW (Airborne Early Warning) aircraft, the Tornado, and possible participation in the development of new combat aircraft such as the P110. The sale of Hawk trainers to the Royal Saudi Air Force has also become a possibility.

I am also pleased to report that we appear to be making progress in the Middle East states in advancing our P110 project in relation to the French competitor product, the Mirage 4000. We have been greatly helped by Sir Ronald Ellis and the Defence Sales staff, but if we are finally to succeed we shall require continued top level political support in view of the very hard promotion of the Mirage 2000 and 4000 by the French Government. The benefits to the UK and the aerospace industry in particular is immense, since conservatively we see exports exceeding £4,000M and the creation of 25,000 jobs in high technology areas, equivalent to 300,000 man-years of employment.

We should be most grateful for similar assistance in your forthcoming tour - particularly in Kuwait, Australia and Pakistan - Bahrain is unlikely to yield orders of any significance, other than in association with Saudi Arabia.

If I may now turn to our interest in the specific countries you are to visit:

Kuwait Apart from a keen interest in an air defence system based on Rapier, Kuwait is now showing interest in the P110 and formal invitations have been made for the Kuwait Air Force to evaluate the Tornado. We also believe that there is the possibility of the sale of 15 to 20 Hawks. We have not been successful in this market for a number of years, but your presence could provide the necessary impetus to break the stalemate.

Bahrain There is interest in the purchase of a small quantity of Hawks, but most likely as a gift from Saudi Arabia should the Hawk be selected by them.



Australia

Australia has been a fairly dull market in recent years, but I believe could to some degree redirect attention to the UK for defence equipment and civil aircraft. We have a small subsidiary company in Australia manufacturing electronic and precision equipment and generally supporting our activities; we have sold Rapier to the Army. We are trying to sell the Sea Skua (an anti-ship missile launched from a helicopter) and, possibly, a version of the Sea Dart (a shipborne anti-aircraft missile) to the Navy. We believe there is also a good possibility of selling the Sea Harrier to the RAN, particularly if they acquire a new British carrier.

There is renewed interest in the Tornado in Australia to meet their requirement for a replacement fighter aircraft - this is a very sizeable programme for the Royal Australian Air Force. Although the Tornado was not included in the short-list until recently, we understand that there is growing disenchantment with the first favoured aircraft - the American F.16 and F.18 fighters. The latest unsolicited Tornado proposal was welcomed.

We are most anxious to see our new BAe 146 80-100 seat feeder aircraft operating in Australia and we are principally pursuing Ansett ANA in which Mr Rupert Murdoch and Sir Peter Abeles are the leading figures. You may know that the BAe 146 made its maiden flight on 3rd September 1981 and is continuing to make satisfactory progress. Anything you are able to do to influence the adoption of the 146 in Australia would be particularly welcome.

Pakistan

This is another country where for many years we have been unable to penetrate with BAe products partly due to our substantial conflicting interests in India. Pakistan is dependent on financial aid from Saudi Arabia and other Gulf states for its aerospace purchases. Of direct interest is the Rapier missile which is currently under consideration. At the request of the Pakistan Air Force we made presentations on the Hawk, and we believe this requirement is for about 70 aircraft, which probably would be coupled with a Saudi Arabian interest.

As a footnote I should like to remind you of our 20% stake in Airbus Industrie, and that we have the design and manufacturing responsibility for all Airbus wings. The Airbus has been ordered by Kuwait Airways and Pakistan International Airlines.

I hope you have a most successful tour and I should be grateful to hear of any follow-up action we can take.

*John ...*  
*F. S. ...*

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



for Holbyfile

Originals with  
20/06/81 Briefing

029

CONFIDENTIAL: fco

21 September 1981

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I enclose a copy of a letter which the Prime Minister has received from the Chairman of British Aerospace about defence sales prospects in the countries she will be visiting during her visit to and from Australia.

Subject to any views you and Francis Richards, to whom I am copying this letter and its enclosure, may have, I propose to include Sir Austin Pearce's letter in the Prime Minister's briefing.

M. O'D. B. ALEXANDER

David Omand, Esq.,  
Ministry of Defence.

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DESKBY FCO 231300Z

DESKBY SALALAH 231300Z

FM BONN 230915Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 279 OF 23 APRIL

INFO IMMEDIATE SALALAH (FOR PRIVATE SECRETARY) MODUK DOHA

INFO PRIORITY JEDDA ABU DHABI

INFO SAVING WASHINGTON

ABU DHABI TELNO 137 AND TELECON GILLMORE/HUNTER: PRIME MINISTER'S VISIT TO SAUDI ARABIA: BRIEFING FOR FEDERAL CHANCELLOR

*Saying that Ch. shd be told that we had mentioned interest among other Arab states & Jordan in Tornado & Hawk. That it was early days but we hoped that even if Ch. Schmitt could not give agreement, at least he would not close door.*

A. 1. I TOOK ACTION ON 22 APRIL WITH VON DER GABLENTZ IN THE CHANCELLOR'S OFFICE, DRAWING (AFTER CHECKING WITH FCO, TELECON HUNTER/VEREKER) ON RIYADH TELNO 10, JEDDA TELNO 305 AND ABU DHABI TELNO 138 ON TORNADO. I ALSO DICTATED THE PASSAGE IN PARAGRAPH 2 OF TUR.

B 2. VON DER GABLENTZ SAID THE CHANCELLOR WOULD BE EXTREMELY GRATEFUL FOR THIS INFORMATION, WHICH HE WOULD ARRANGE TO HAVE PASSED TO HIM IN HAMBURG IMMEDIATELY. THE CHANCELLOR WOULD ALSO BE MOST GRATEFUL FOR ANYTHING FURTHER THAT WE COULD TELL HIM AFTER THE PRIME MINISTER HAD COMPLETED HER VISITS. HE WOULD BE AVAILABLE TO RECEIVE ANY MESSAGES ON SUNDAY EVENING: THE CHANCELLOR LEAVES FOR SAUDI ARABIA ON MONDAY MORNING, 27 APRIL.

FCO PLEASE PASS SAVING TO WASHINGTON

TAYLOR

NNNN

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DESKBY 231200Z

FM DOT 231056Z APR 81

TO IMMEDIATE JEDDA (PSE PASS RIYADH) (FOR HOC/OR CS)

TELEGRAM NO CRED A 34 OF 23 APR

AND TO IMMEDIATE PARIS SALALAH (FOR LANKESTER, PS/PRIME MINISTER)

ARABSAT

1. YOUR TELNO 12 OF 21 APRIL. ECGD HAVE RECONSIDERED BAE'S REQUEST THAT THE TERMS OF TTC COVER BE AMENDED BY REPLACING THE EXISTING EXCHANGE RATE SCHEDULE WITH ONE BASED ON CURRENT RATES. MINISTERS HAVE NOW AGREED THAT THIS CONCESSION SHOULD (SHOULD) EXCEPTIONALLY BE OFFERED, ALTHOUGH IN NORMAL CIRCUMSTANCES THE CASE WOULD BE UNATTRACTIVE.

2. PLEASE INFORM BAE REPRESENTATIVE SOONEST.

NNNN



TDWGCO

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FM FCO 231100Z APR 1981  
TO IMMEDIATE SALALAH  
TELEGRAM NUMBER 3 OF 23 APRIL  
AND TO IMMEDIATE DOHA, BONN.

FOLLOWING FOR PRIME MINISTER'S PARTY.

FCO TELNO 130 TO ABU DHABI: PROPOSED MESSAGE FROM PRIME  
MINISTER TO HERR SCHMIDT.

1. GERMAN EMBASSY HAVE NOW INDEPENDENTLY APPROACHED US ABOUT  
DESIRABILITY OF MESSAGE, WITH SPECIAL REFERENCE TO TORNADO AND  
SAUDI ENERGY POLICY. HOWEVER SIR J TAYLOR HAS NOW CARRIED OUT  
THE INSTRUCTIONS ON TORNADO IN ABU DHABI TELNO 137, IN ADDITION  
TO DELIVERING THE LETTER ON THIS AOPROVED BY THE PRIME MINISTER.  
ANY FURTHER SUBSTANTIVE MESSAGE ON TORNADO WOULD CLEARLY RISK  
CONFUSING THE GERMANS, SO ANY MENTION OF IT IN THE PRIME  
MINISTER'S NEW MESSAGE SHOULD IDEALLY JUST REFER TO THE TWO  
EARLIER COMMUNICATIONS.

CARRINGTON

NNNN

*I submit a draft*

*JAD Graham*  
*23/4.*



GR 310

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FM ABU DHABI 21<sup>1726</sup>~~526Z~~ APRIL 81

TO IMMEDIATE FCO

TELNO 137 OF 21 APRIL 1981

AND TO IMMEDIATE MOD ( FOR DEFENCE SALES )

INFO IMMEDIATE TO BONN,

INFO PRIORITY JEDDA

SAVING INFO WASHINGTON

FOLLOWING FROM GRAHAM, PRIME MINISTER'S PARTY.

[10?]

RIYADH TELNO 103 - PARA 7 : TORNADO

1. PRINCE SULTAN TOLD THE PRIME MINISTER ON 21 APRIL WHEN THE TOPIC CAME UP BRIEFLY, THAT PRINCE FAHD HAD BEEN GRATEFUL FOR THE EXPLANATION GIVEN BY THE PRIME MINISTER THE PREVIOUS DAY. SAUDI ARABIA WAS HAPPY THAT THE UK WERE THINKING OF A NEW DEVELOPMENT FROM THE TORNADO. THEY WHOLE-HEARTEDLY SUPPORTED THE IDEA. THE PRIME MINISTER SAID THAT WE HOPED TO BE ABLE TO PERSUADE CHANCELLOR SCHMIDT TO AGREE TO THE RELEASE OF TORNADO AND ROLLS ROYCE TECHNOLOGY FOR THE NEW AIRCRAFT.

2. THE PRIME MINISTER WOULD LIKE SIR J. TAYLOR TO SPEAK TO CHANCELLOR SCHMIDT'S OFFICE, DRAWING ON THE TUR GENERALLY, BUT WITH PARTICULAR REFERENCE TO TORNADO. SUBJECT TO YOUR VIEWS, HE SHOULD SAY THAT WE HAVE EXPLAINED TO THE SAUDIS, THE CROWN PRINCE AND PRINCE SULTAN, OUR LATEST THINKING ON A DEVELOPMENT OF TORNADO, AS DESCRIBED IN SIR J. TAYLOR'S LETTER TO THE CHANCELLOR : THAT WE ENVISAGE THIS AS A NEW ENDEAVOUR BASED ON CONSULTATION WITH PROSPECTIVE PURCHASERS AT THE DESIGN STAGE ; AND THAT THE INTEREST IN THE AIRCRAFT SEEMS TO COME PRINCIPALLY AT THIS STAGE FROM SOME OF THE GULF STATES AND JORDAN. THE SAUDIS HAD WELCOMED THE IDEA. IT IS STILL EARLY DAYS AND THE SUBJECT MAY NOT COME UP IN SCHMIDT'S TALKS WITH THE SAUDIS ; BUT IF IT DOES, WE HOPE HE WILL FEEL ABLE MERELY TO TAKE NOTE OF SAUDI INTEREST ( ON THE ASSUMPTION THAT HE WILL NOT FEEL ABLE TO GIVE FRG AGREEMENT STRAIGHTAWAY ) AND TO AVOID COMMITTING HIMSELF TO A REFUSAL.

3. PLEASE REPEAT TUR TO BONN.

FCO PLEASE PASS SAVING WASHINGTON

ROBERTS

(REPEATED AS REQUESTED)

LIMITED  
JEF. D  
ACDD  
MED.  
NEUAD  
WED.  
PS  
PS/LPS  
PB/74 HURD

15/PWS  
SIA A AGLAND  
74 P. TOBERLY  
74 J. TOBERLY  
74 FERGUSSON

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NO. 10 DOWNING STREET

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EXTRACT FROM THE PRIME MINISTER'S PRESS CONFERENCE

Riyadh - 21 April

Q. (Nick Moore, Reuters)

You have said what a fine aircraft Tornado is - did you indeed discuss that aircraft?

PM. The point with the Tornado is this - one is already considering the next generation of aircraft for about the 1990s. The days are gone when we can design aircraft just for the use of the British Air Force. And indeed we already have some collaborative arrangements as in the Tornado with the Germans and Italians. We now have to consider designing an aircraft for wider use. What we are considering is the next generation after the Tornado, designing it not only for European use but also for use in other areas. For that purpose, we need to use two or three pieces of technology in Tornado. We need to get the co-operation on design at the outset. That is the point as far as Saudi Arabia is concerned about the next generation following the Tornado using some of the technology of the Tornado. It is a new departure for Britain to design with wider uses in mind.

cc By phone to No.10 Press Office and Private Office (to pass on to Press Office MOD and ECO)

Sir Ronald Ellis

Mr. Alexander

Mr. Ingham

PS/Mr. Hurd



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Telephoned to Naito.

MR. PATTISON

(dam Cloral)

The Prime Minister is content with the draft  
letter about Tornado sales to Arab countries.

T.P.L.

16 April 1981



*Agree draft letter*PRIME MINISTERTornado Sales to Arab Countries

Lord Carrington has seen a copy of Dawson's letter to me of 10 April with the enclosed annexes on the Tornado 'family' and revised briefs for the Prime Minister's visit to the Gulf States. These papers indicate that our main objective now is the sale to Arab customers of a completely new aircraft (the P110) available towards the end of the decade, specifically designed for the Middle East and incorporating modern technology developed during the AST 403 studies combined with major components of the Tornado. The Tornado itself in its IDS or ADV versions, would be supplied to Arab customers in three or four days time to fill the gap.

Your message of 16 February to Chancellor Schmidt referred solely to the question of sales of the two existing versions of the Tornado itself. In light of latest developments, and of Herr Schmidt's own visit to Jeddah a few days after the Prime Minister's, Lord Carrington believes it important that we should give the Federal Chancellor's Office an up-to-date and comprehensive account of the way our thinking is progressing. He sees a risk that, unless we do so, the Germans may feel that we have been less than wholly frank and consistent in what we have said to them.

When Sir Jock Taylor paid his introductory call on Chancellor Schmidt, the latter expressed scepticism about the seriousness of our proposal to sell Tornado to the Arabs; he said he thought our proposals were merely a political gesture. Sir Jock put matters straight. But, because the interview had to be cut short, Herr Schmidt invited him to write to the Chancellery on any further points he wished to cover. Lord Carrington considers that this provides a useful opportunity to keep the Chancellor informed of the latest developments on Tornado and the P110 as well as to deal with the security question which the Chancellor mentioned.



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- 2 -

I attach a draft text which the Secretary of State wishes to instruct Sir J. Taylor to include in his letter to the Chancellor's Office. This takes account of comments from the Embassy in Bonn on an earlier MOD draft.

In addition, Lord Carrington believes it would be helpful if further word could be sent to the Chancellor about any talks on Torpedo which you may have in Jedda, before Herr Schmidt leaves Bonn on 27 April.

*RM*

15 <sup>April</sup> March, 1981



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DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret  
Secret  
Confidential  
Restricted  
Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

DRAFT TEXT OF LETTER FROM HM AMBASSADOR BONN TO THE  
FEDERAL CHANCELLOR'S OFFICE

STATEMENT.....

1. In the course of my discussion with the Chancellor on 7 April, I undertook to provide further information on the security implications of selling Tornado in the Middle East. I would, however, like also to take this opportunity of bringing you up to date with the latest developments in our discussions with Arab countries and of filling in some background detail to the Prime Minister's message of 17 February.

2. In her message, the Prime Minister stressed the political importance of strengthening the Arab states by encouraging them to stand on their own feet in military terms. It is for this reason, and because of the importance which HMG attach to the industrial and technological arguments, that we have been so anxious to ensure that the option of a purchase of Tornado, and of a derivative of this aircraft, was kept fully open while the Arab countries considered their future requirement for an advanced technology fighter. We therefore regard the prospect of Tornado

Enclosures—flag(s).....

/sales



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sales as much more than a political gesture and believe it important to encourage any interest which the Arab states show in the aircraft.

3. At present the degree of interest varies from state to state. Different countries have different aircraft requirements in different timescales. Jordan, which has the most effective Arab airforce in the Middle East, appears to be taking the lead in advising a number of other Arab states on a joint purchase of some 300 advanced combat aircraft. Once the Jordanian evaluation is complete it will be discussed with other Arab nations at a technical conference. The United Kingdom first learnt of this intention at the time of the Amman Summit in the autumn. Just before the Taif Summit in February we discovered that King Hussein was on the point of putting a recommendation to his colleagues. We were told that Tornado had not been considered because of doubts about its availability for the Middle East. We judged that a decision in favour of an alternative aircraft would cause long term damage to the advanced aircraft industry in the three partner countries. ~~It was for this reason, as much as for political reasons,~~ <sup>accordingly</sup> that the Prime Minister sent a personal message to King Hussein asking that the Tornado should also be considered. This message appears to have averted an immediate decision in favour of an alternative aircraft. The Omanis also expressed an interest in Tornado but it appears that the Saudis have taken no firm position at this stage.

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we have continued to make

4. ~~in the light of our subsequent~~ soundings among potential Arab customers, ~~and with our own industry,~~ although the situation is still fluid, our thinking has, ~~however,~~ developed a good deal since the Prime Minister's message. You may find it helpful if I were to set out the position in detail. There are some indications It is now clear <sup>may be mainly</sup> ~~are looking~~ interested in for an advanced air superiority fighter aircraft, available towards the end of the 1980s. There would be an obvious attraction for them if this new aircraft could be the latest in a "family" of aircraft, earlier generations of which might be available for them in the mid 1980s. We are therefore now <sup>beginning to</sup> ~~thinking~~ of a new design, based on Tornado technology and using Tornado components, which would be specifically developed in the United Kingdom for the Arabs as a partnership venture involving Arab funding. We hope that a longer-term project of this nature will not give rise to serious political difficulties in the Federal Republic. Nevertheless, in the shorter term the Arab countries may want to procure some of the existing IDS and ADV versions of the existing Tornado in order to fill the gap before the new aircraft is available. HMG consider that a proposal of this nature has considerable appeal to potential Arab customers and offers the possibility of significant benefits to the industries of the three partner countries by building on our achievement, and safeguarding our future capability in this area of high technology.

5. We therefore believe it important to counter the reservations which the Arabs continue to express about

/our



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our reliability as a secure source of supply, and have taken certain measures to sustain Arab interest. King Hussein has asked to fly an RAF Tornado in the course of a private visit which he is currently making to the United Kingdom and we have made arrangements for him to do so. This will be followed by a similar flight for an Omani pilot and a similar invitation has been offered to Saudi Arabia. I hope these measures, which the United Kingdom has taken on its own responsibility, indicate the importance we attach to maintaining Arab interest. I should stress, however, that discussions are still at a very early stage and we do not yet know whether the Arabs will decide in favour of Tornado and, if so, what configuration of aircraft they will choose and in what timescale.

6. Finally, I should like to deal with the important problem of security which the Chancellor mentioned to me. The United Kingdom is just as concerned as the FRG that the essential characteristics of our main front line aircraft should not be compromised. If the Arabs decide on an entirely new advanced combat

aircraft <sup>this should overcome our</sup> ~~we do not anticipate any security difficulties~~ <sup>about security.</sup>

We have, however, discussed the security <sup>problem</sup> ~~difficulties~~ on the current IDS Tornado with officials at the Federal Ministry of Defence. It was agreed that there are only four areas of particular sensitivity and these could be safeguarded in the following ways:

- a) the nuclear weapons panel - this would be deleted from any aircraft sold to the Middle East;
- b) the characteristics of the terrain-following radar - these could be altered by design changes;



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- c) electronic warfare equipment - this is always re-designed for export aircraft;
- d) the weapons fit - no commitments have been made to the Arab states on weapons.

Apart from these four areas, where safeguards can be devised, we do not expect that any part of the existing aircraft will need to be classified above confidential. The United Kingdom would take similar steps on the air defence variant. We would of course wish to hold further discussions on security with the appropriate German authorities once we know what sort of aircraft the Arabs wish to purchase.

7. In the meantime the immediate problem is to convince the Arabs that we are serious and that both political and security problems can be overcome.

Mr Nott took every opportunity to make this point, without prejudicing the position of our partners, in the course of his recent visit to the Middle East and the Prime Minister will follow this up during her own visit. If any <sup>useful</sup> further information which becomes available, <sup>himself</sup> will be fed back to you before the Chancellor

leaves for Saudi Arabia, ~~on 27 April~~. Thereafter we anticipate that a <sup>an</sup> ~~very~~ early decision in principle will be required to continue the dialogue with the Arabs, ~~that has already begun~~.

during the Prime Minister's visit, we will try to arrange for it to

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TRK

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Mr Moberly

Private Secretary

cc PS/PUS  
Sir A Acland  
Sir J Graham  
Mr J Moberly

Mr Fergusson  
MED  
NENAD  
WED

TORNADO SALES TO ARAB COUNTRIES

Problem

1. When Sir J Taylor paid his introductory call on Chancellor Schmidt, the latter displayed great scepticism about the seriousness of our proposal to sell Tornado in the Arab world. The Chancellor said that he thought our efforts were merely a political gesture. The Ambassador explained that this was not so. But his conversation with the Chancellor was cut short and Herr Schmidt invited him to put any further points to the Kanzleramt in writing. Should we take this proffered opportunity to stress to the Chancellor the seriousness of our sales effort with the Arabs and also to give him an up-to-date account of our thinking?

Recommendation

2. I recommend that, subject to clearance with No 10, we should instruct Sir J Taylor to do so. I submit a draft text for inclusion in a letter from Sir J Taylor and a draft covering letter to No 10. If it is not possible to get these to No 10 before the Prime Minister's departure this afternoon for India, I recommend that we should send the drafts telegraphically.

Background

A 3. The background to our first contacts on Tornado with the Arabs  
and the Germans is set out in my submission of 26 March. Since then,  
the Prime Minister has replied to King Hussein's message following  
B the Taif Summit (text in FCO telno 113 to Amman). This, for the  
first time, referred to "a new aircraft based on Tornado technology"  
adapted to Arab requirements available by the late 1980's. The  
message also mentioned the possible supply of Tornados as a "gap-  
filler" available in 3/4 years' time.

4. Our original understanding was that this "new" aircraft would  
in fact be very similar to Tornado, but with adaptations (and  
/perhaps



perhaps an Arab name) as a 'selling point' to make it look like a special development for the Arab customers. We learnt, however, only on Friday that the MOD are thinking of a more radical solution.

C The attachment to Mr Dawson's letter of 10 April to No 10 (sent at the Prime Minister's request following a meeting with Mr Nott and the CDS at which she had apparently been somewhat confused by what the MOD was proposing) refers to a new aircraft (the P110) of 'completely new design incorporating the latest technology combined with major components of the Tornado' developed to meet Middle East requirements. The Annex makes clear that this would be undertaken with Arab participation in the development and the funding.

5. In the light of this, we asked the Embassy in Bonn for their views on an MOD draft of a text of the letter from Sir J Taylor to the Kanzleramt (FCO telnos 132 and 133). Bonn's reply suggested changes in the MOD draft making it clearer that we were now thinking of a new UK/Arab aircraft, a point which had not been made at all in the Prime Minister's original message of 16 February to the Chancellor.

Argument

6. These recent changes in what the MOD are proposing have complicated the position with the Germans. It is not surprising that Dr Apel expressed astonishment when Mr Nott told him on 8 April that we were not now thinking of an 'immediate sale of the current version of Tornado' (Mr Norbury's minute of 8 April). Indeed, this is in contradiction with the MOD note of 10 April (see paragraph 4 above) which, while emphasizing that the long-term objective is to sell the new aircraft, says specifically that existing versions of the Tornado would be supplied to fill the gap in the meanwhile.

7. There is a further inconsistency between, on the one hand, the points, heavily stressed in the MOD draft for Sir J Taylor's letter, that the industries of the three partner countries badly need to make overseas sales of Tornado, and, on the other hand, the argument, again referred to by Mr Nott in his talk with Herr Apel and taken up in the MOD draft of the letter to the Kanzleramt, that we are aiming at a new aircraft 'specifically developed in the UK'. It is not clear what the Germans could expect to gain from the export

/of such



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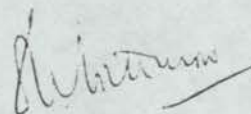
of such an aircraft. They might be involved in the construction of certain components; but the more they are involved the more politically difficult it becomes for them to agree to exports to the Middle East.

8. There are two further potential problems:

a. we have seen worrying indications that, while the Saudis may not be particularly interested in a new aircraft or in Tornado, the Iraqis probably are. Indeed it may be the Iraqis who are stimulating King Hussein. If the Germans have difficulties over supply to Saudi Arabia, it is a fair guess that the problems with Iraq would be even greater. I do not believe that we can tell the Germans much about this aspect now, if only because the picture is not clear. But we must come clean with them as soon as we are in a position to do so;

b. the MOD's note referred to in paragraph 4 hints (but does not say specifically) that there may be some RAF interest in procuring a version of the P110, whose technology will be based in part on AST 403, the now moribund Anglo/German/French project for an advanced fighter. If the RAF are interested, it is far from clear whether there is any possibility of using Saudi money to develop the aircraft or whether the necessary budgetary input in the UK side has been properly examined in the context of the current/<sup>MOD</sup> review of programme and budget.

9. This is an unsatisfactory situation in which to have to take quick decisions. Nonetheless I believe that we cannot leave matters as they stand with the Germans. It will clearly be important for the Prime Minister to send a report to the Chancellor in the short period after her visit to Saudi Arabia and his own visit (21-27 April). In the meantime however I see no alternative but to instruct Sir J Taylor to write to the Kanzleramt on the lines of the attached draft. We owe it to the Germans to be as frank as we can. As things stand at present I fear they might with some justification feel that we were not being entirely open (let alone consistent).



D H Gillmore  
Defence Department

14 April 1981

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1. There has been a shift in MOD thinking since the idea of selling Tornado to the Arabs was first agreed. It is important to explain to the Federal Chancellor how matters now stand, not least because of Herr Schmidt's own visit to Jedda a few days after the Prime Minister.
2. Mr Gillmore rightly calls attention to potential inconsistencies in the line we have been taking. Although the suggested message to the Chancellor's office deals skilfully with these, we shall need to continue keeping a very close eye on the way in which the Tornado sales campaign is developed.
3. MOD officials are content that the letter to No 10 with the draft letter from Sir J Taylor should go forward.

P H Moberly

14 April 1981

c.c.

PS/Lord Privy Seal  
PS/Mr Hurd



11. (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PS

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Private Secretary  
Number 10

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

Copies to:

PRIVACY MARKING

SUBJECT: TORNADO SALES TO ARAB COUNTRIES

.....In Confidence

Lord Carrington has seen a copy of Dawson's letter  
*to me of 10 April*  
~~of 10 April to No 10~~, with the enclosed annexes on the  
 Tornado 'family' and revised briefs for the Prime  
 Minister's visit to the Gulf States. These papers  
 indicate that our main objective now is the sale to  
 Arab customers of a completely new aircraft (the P110)  
 available towards the end of the decade, specifically  
 designed for the Middle East and incorporating modern  
 technology developed during the AST 403 studies  
 combined with major components of the Tornado. The  
 Tornado itself in its IDS or ADV versions, would be  
 supplied to Arab customers in three or four years time  
 to fill the gap.

CAVEAT.....

*and of Hen Schmidt's  
 own visit to Jordan a  
 few days after the  
 Prime Minister's*

*to Chancellor Schmidt*

*You*  
 The ~~Prime Minister's~~ message of 16 February /referred  
 solely to the question of sales of the two existing  
 versions of the Tornado itself. In light of latest  
 developments, Lord Carrington believes it important that  
 we should give the Federal Chancellor's office an up-to-  
 date and comprehensive account of the way our thinking  
 is progressing. He sees a risk that, unless we do so,  
 the Germans may feel that we have been less than wholly

Enclosures - flag(s).....

/ frank



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frank and consistent in what we have said to them.

When ~~our Ambassador in Bonn~~ <sup>Sir Soule Taylor</sup> paid his introductory call on Chancellor Schmidt, the latter expressed scepticism about the seriousness of our proposal to sell Tornado to the Arabs; he said he thought our proposals were merely a political gesture. Sir ~~J Taylor~~ <sup>Soule</sup> put matters straight. But, because the interview had to be cut short, Herr Schmidt invited him to write to the Chancellery on any further points he wished to cover. Lord Carrington considers that this provides a useful opportunity to keep the Chancellor informed of the latest developments on Tornado and the P116 as well as to deal with the security question which the Chancellor mentioned.

I attach a draft text which, ~~subject to the Prime Minister's views~~, the Secretary of State wishes to instruct Sir J Taylor to include in his letter to the Chancellor's office. This takes account of comments from the Embassy in Bonn on an earlier MOD draft.

In addition, Lord Carrington believes it would be helpful if further word could be sent to the Chancellor about any talks on Tornado which ~~the Prime Minister~~ <sup>you</sup> may have in Jedda, before Herr Schmidt leaves Bonn on 27 April.

I am ~~sending~~ a copy of this letter to Brian Norbury.

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