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11th December 1981

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Prime Minister
To write
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Dear John .

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I visited Egypt last September and, as you may recall from my minute of 8th October, the Egyptians laid great stress on the provision of extended credit, if we wished to secure significant defence orders from them.

In recent years we have not achieved significant defence business - partly through the collapse of the Arab organisation for industrialisation and also because American influence in Egypt supported by their military assistance and credit programme is now massive. The French also have been active and last year won the trainer aircraft order against the Hawk.

General Abu Ghazala, the Minister of Defence, pressed me hard on two particular aspects of credit support; an open credit allocation to be used as they wanted, and also specific cover for six new corvettes, (which would be based on an existing Vosper Thornycroft design already in service with the Egyptian Navy). I undertook to consider both requests, but in the light of what my officials advise me in respect of Egypt's current credit position, I accept that the first of Abu Ghazala's proposals is not practicable.

I gather from my officials that there appears some dispute within the Egyptian Defence Ministry over what vessels to acquire.

The Rt Hon John Biffen MP



Abu Ghazala continues to be convinced, as he told me, that the Navy should have corvettes; but at least one faction in the Navy would prefer to buy two frigates. Vosper have also been asked, therefore, to put forward separate proposals based on their Type 15 design in competition with France, Italy and Spain. Either way there are good prospects for a sale.

There are strong reasons for making credit available for this sale. First, I am anxious that we make a clear demonstration of our political support for President Mubarak's new Government. There are also excellent future prospects for defence sales to Egypt if we can secure this promising foothold. The Egyptians have expressed great interest in Challenger tanks and Rapier missiles (and have also indicated that with the warships may go an associated helicopter order). The funding for these later projects will to some extent depend on a rapprochement with the rest of the Arab world; but our prospects will be greatly boosted by demonstrating our willingness now to help Abu Ghazala.

There are also good industrial arguments for making this credit available. Vospers claim that an order will assist employment in either their Southampton or Portsmouth yards - and would be particularly welcome to Vospers at this time in view of the contractions we are making in the Royal Naval warship building programme; and we are also running down Portsmouth Naval Dockyard, with a consequent loss of job opportunities in the area.

My officials have discussed this credit proposal with yours, but have been unable to secure approval, against the background of the current level of credit cover available to Egypt. There seems no prospect of making credit available for the warships within the section 2 limit of £500M (of which I gather some £400M is already taken up). I should like to propose, therefore, the provision of a special credit allocation of £250M. This would



cover either the six corvettes or the two frigates, whose cost is roughly the same. There is a precedent for this, in that last year a similar provision was made outside the ECGD ceiling, with a time limit, in support of the proposed Hawk aircraft deal. I am convinced that it is important we should consolidate the good start we have made in Egypt in re-establishing our defence equipment relationships with them. I hope, therefore, that you can agree to this special allocation of credit (on the normal consensus terms) on this key warship order, which would give a valuable boost to our warshipbuilding industry.

I am copying this letter to the Prime Minister, to Peter Carrington, Geoffrey Howe, Patrick Jenkins and Norman Tebbit; and to Sir Robert Armstrong.

Yours ever
John

P.S. If you would like a word, I am
happy to come & see you.

John Nott

JN

15 DEC 1981

