



Foreign and Commonwealth Office

London SW1A 2AH

13 October, 1982

MF Prime Minister

Dear John,

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The Sale of Hawk Aircraft to the UAE (Abu Dhabi)

The Prime Minister will recall that during her visit to the United Arab Emirates in April 1981 she obtained from Shaikh Khalifa bin Zaid, the Crown Prince of Abu Dhabi, agreement in principle that the UAE would buy Hawk. The negotiations for a contract to this effect between UAE and BAe have now reached a critical stage. It may be useful to set out the position: we may wish to ask the Prime Minister to send a personal message at short notice.

BAe have always been aware of the importance of this deal for their prospects elsewhere in the Gulf, but have found the going in Abu Dhabi painfully slow. Once the UAE had made up their minds how many aircraft - and of what type - they needed (and it was some months before even this was clear) their negotiators, who had relatively little experience, took a great deal of time to work through the technical provisions of the contract. Nevertheless, as a result of sustained efforts by BAe and MOD, all the technical details had been worked out by August, including the training to which the MOD have offered a contribution. It did not prove possible, however, to conclude negotiations on certain commercial aspects of the contract.

Mr Hurd visited the UAE in September. He reminded Shaikh Khalifa of HMG's strong interest in the deal and asked how we could help bring it to an early conclusion. Shaikh Khalifa handed over a list of remaining difficulties, notably concerning price and financial guarantees. He asked for a guarantee by HMG against BAe going bankrupt. But his remarks to Mr Hurd also suggested he wanted further reassurance of HMG's general commitment to the project.

On Mr Hurd's return to London, therefore, it was decided that Shaika Khalifa should be sent two messages. One, from Mr Hurd himself, was of a largely political nature, reminding him of the involvement throughout/the Ministry of Defence and the reiterated interest of British Ministers, including the Prime Minister. The second message, from the Head of Defence Sales, gave an authoritative and helpful response by HMG to all the points Shaikh Khalifa had raised, covering a reduction in overall price following examination by MOD procurement specialists of BAe's price structure, confirmation that prices were generally in line with what MOD would itself expect to pay, some relaxation of the end-user consultation requirement, and reassurance on certain other detailed points. We hope that this letter will enable the final round of negotiations to take place soon. We have

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offered to send out a team from the Ministry of Defence and BAe as soon as Shaikh Khalifa says they can come.

There is still a little way to go on the commercial clauses of the contract, but the longer the negotiations continue the more our competitors may be encouraged to think they can re-enter the field. We have heard that not only the French but also the Americans may try to come forward again with alternatives should the chance arise. We hope that Mr Hurd's message will convince Shaikh Khalifa of HMG's determination to back BAe and see the contract signed very soon. But we may wish to consider the option of a message from the Prime Minister to Shaikh Zaid, the Ruler of Abu Dhabi, if that seems likely to help as we move towards the final stage of the negotiations.

I am sending a copy of this to Richard Mottram (MOD).

Yours ever
J E Holmes

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