



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-230 7622 218 2111/3

MO 5/3/3

13th February 1984

Prime Minister⁽²⁾

You enquired about reports of
 a major France/Saudi Arabia
 arms deal.

Dear John,

Dms
14/2ARMS SALES TO SAUDI ARABIA

In your letter of 18th January, you asked for an analysis for the Prime Minister of the content and significance of the new French contract for the supply of arms to Saudi Arabia. I have delayed replying to your letter until we could also incorporate information on the outcome of Mr Heseltine's recent visit to Saudi Arabia.

The French Contract

This programme is a continuation of the French Crotale contract commenced in 1975 but it is genuinely new business. Although the full programme if completed would be worth £3Bn, the Saudis have not committed themselves to that extent. Information about the deal was released and manipulated by the French partly in response to the down-turn in their 1983 defence sales figures compared with those for 1982 (a 25% fall in real terms). We do not know the value of the initial contract but it will be certainly far less than that of the total programme if completed. We understand that it was signed on 11th January between M. Hernu and Prince Sultan. Rumours of a deal were circulated before Christmas but we had no firm information until the recent press reports. The secrecy adopted is comparable to that surrounding the signature of the major naval contract between the French and Saudis several years ago. Sources within Saudi Arabia are unusually scathing about the possible 'personal gains' involved.

The new programme appears to embrace a low level air defence system based on Crotale missiles (manufactured by Matra but developed with Saudi money from 1975 onwards) which has since been named Shahine. The Saudis already have 36 Shahine 1 systems. The new programme could involve 100 Shahine 2 systems complete with radars and an integrated command, control and communications system. Thomson-CSF will be lead contractor. Deliveries would be spread over 8-10 years.

A J Coles Esq



The ability of the Saudi defence budget to absorb a contract of this magnitude is doubtful. We anticipate considerable downward pressure on their defence equipment programme because of their declining oil revenues. However we are informed that this contract would be an arms-for-oil deal and that the Saudis may be producing an additional ten million barrels of oil in the first part of 1984 to supply to France as part payment.

British Sales Prospects

M When the Defence Secretary met Prince Sultan (the Saudi Defence Minister) on his visit to Saudi Arabia at the end of last month it was agreed that we would make formal proposals to sell Saudi Arabia Tornado IDS aircraft and Hawk aircraft. Officials are in Saudi now framing the basis of these proposals with the Royal Saudi Air Force and we hope to go forward with British Aerospace to the negotiating stage quickly: Prince Sultan suggested that good financial offers, including buy back of existing British aircraft, could persuade him to override 'for higher political reasons' the Air Force's wish to standardise on the US F15 aircraft. These political reasons almost certainly include concern that purchase of a ground attack fit for the F15 would have to be cleared by the US Congress and Prince Sultan would not wish the embarrassment of another close-run Senate vote which in this case might go against him. We for our part will need to carry the Germans with us over a sale of Tornado IDS.

Prince Sultan also asked to be kept aware of our latest thinking on Airborne early Warning aircraft and an expert team will be visiting Saudi soon about this. Prince Sultan was dismissive of the possibility of our selling Challenger although he agreed that it had trialled well in Abu Dhabi; but he and his officials were encouraging over the prospects for naval equipment sales and training and for Electronic Warfare equipment for the Army.

I should also mention that there was strong criticism of the MOD's management of the SANGMED and SANGCOM projects (together worth some £170M pa) by officials of the National Guard. The Defence Secretary agreed to look personally at these criticisms and intends to respond to Crown Prince Abdullah, during his visit to the UK from February 20th.

I am copying this letter to Peter Ricketts, FCO.

*Yours ever
Nich. Evans*

for (R C MOTTRAM)

MIDDLE EAST: Army Sales Pt 3



114 FEB 1984



COMMUNICATIONS

