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MINISTRY OF DEFENCE

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18th November 1983

Dear David

AM 27/11

v.a.

We spoke this morning about the need to provide briefing on the subject of credit for defence sales to India. As agreed, I now attach a briefing note in case the subject is raised while the Prime Minister is in India. This has been cleared with ECGD.

Copies go to Peter Ricketts (FCO) and Ruth Thompson (DTI).

Yours

Simon Lowe

(S H LOWE)

David Barclay Esq

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DEFENCE SALES TO INDIA: CREDIT ARRANGEMENTSDefensive BriefingLINE TO TAKE

Mr Venkataraman raised this with me in London earlier in the month, and I assured him then that we would look at this request as helpfully as possible in the light of our overall credit arrangements. I have asked my officials to commence work on this straightaway and to get in contact with your people at the earliest convenient moment. Naturally I have asked officials to advise me on what can be done as quickly as possible.

I can assure you that sufficient ECGD cover should be available to support contracts on credit terms for major capital defence items. We would also be happy to discuss with you the possibility of a general credit framework should this suit your needs better.

BACKGROUND NOTE

During his meeting with the Prime Minister in London on 7th November, the Indian Minister of Defence asked the Prime Minister to consider a Government-to-Government credit line to cover, in particular, capital equipment in the defence field as well as shorter term credit for items such as ammunition. He pointed out that without credit it was difficult for India to plan her procurement programme sufficiently far ahead.

Discussions are now in hand between the MOD, ECGD, the FCO and others on how best to meet this Indian requirement. The normal

HMG vehicle for such credits would be ECGD, operating under its Section 2 ("National Interest") account. In fact, during the last two years ECGD has supported defence sales to India of substantial proportions. Over £900m has been earmarked for supplies of Jaguar Aircraft, Sea King helicopters and Sea Eagle missiles alone. All this business has been placed on a cash basis.

Any line of credit would have to count against the Section 2 credit cover for India (currently £2500m). In order not to freeze a block of cover for a lengthy period, ECGD would prefer not to offer a line of credit - but rather to provide cover on a case by case basis. The Indians, however, are likely to press for a line of credit against which they can set future purchases. This issue will need to be resolved in discussions in London and Delhi. In the meantime, to preserve as favourable a climate as possible for further UK Defence Sales, it is important that the range of options for providing credit is left as open as possible.

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