



Defence

CG RT
②Prime Minister

From the Secretary of State

Department are now agreed
about the credit terms for this
project.

A.J.C. 15/2

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The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

15 February 1983

Dear Secretary of State,

SALE OF TORNADO TO GREECE: CREDIT TERMS

You wrote to me on 9 February requesting improvements in the present ECGD guaranteed credit terms for the above business.

I entirely agree with you about the importance of gaining this order for Britain. With this in mind, I have now authorised ECGD to increase the credit portion to 85% in line with what our German and Italian partners have said they are prepared to do. This, together with the remaining 15% being financed from commercial sources, should meet the Greeks' wish for 100% financing.

The question of the interest rate is more difficult. My earlier decision was to allow the previous fixed rate of 11% to continue until the end of 1982 and to apply the revised Consensus rate from then on. It was difficult to justify providing more official support for arms business than is given for civil business, particularly to a country such as Greece which is classified as relatively rich under the Consensus. To drop our fixed rate for sterling finance from 12.15% to 11.0% would involve a significant cost. But, subject to the Chancellor's agreement, I would be content to allow ECGD to reduce to 11.5%.

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From the Secretary of State

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Alternatively, if the commercial parties wish, ECGD may agree finance at floating rates in any acceptable currency such as dollars, deutschmarks or, indeed, sterling.

I am copying this letter to the recipients of yours.

Yours sincerely,
H. Lord Cockfield

H^o LORD COCKFIELD

[Approved by the Secretary of
State and signed in his absence.]

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Defence
Sales, p93

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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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15 February 1983

The Rt Hon The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

mt

Prime Minister

for information.

Dear Arthur,

A.D.C. 4/2

SALE OF TORNADO TO GREECE - CREDIT TERMS

I have seen a copy of Michael Heseltine's letter to you of 9 February, concerning the sale of Tornado to Greece. I am writing to express my strong support, on industrial grounds, for his request for improved credit terms.

2 The British Aerospace management have made it clear to me that export sales of Tornado will be essential to carry them through the period until decisions are reached on the next generation of advanced combat aircraft. The production of Tornado for the RAF and for the armed forces of the other Tornado partner countries, is now reaching its peak. As this work begins to tail off, there will be an urgent need for replacement work at British Aerospace's major Warton facility. The Experimental Aircraft Programme which is being partially funded by MOD will enable us to have a better basis for future procurement decisions: but without an additional tranche of production loading, which only the Tornado can provide in the short-term, a significant diminution in productive capacity at Warton is inevitable. There could also be significant implications for BAe's ability to sustain an adequate development programme on the civil side.

3 Numerous British suppliers of equipment and avionics are likewise heavily reliant upon Tornado work and face the same problem as British Aerospace over production loading.

4 I thus think it is most important that, in relation to this very important Greek order, the Tornado consortium should be placed on at least as favourable a footing as their competitors.

5 I am copying this letter to the Prime Minister, Geoffrey Howe and Michael Heseltine.

Your ever
Patrice

Dependence: Sales Pt 3

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cc R J
Await reply from Lord

Cockfield.

A.J.C. 15
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p.a.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

15th February 1983

Dear Michael,

SALE OF TORNADO TO GREECE: CREDIT TERMS

You sent me a copy of your letter of 9 February to Arthur Cockfield in which you sought an improvement in the amount of credit and in the interest rate to be charged for the proposed sale of Tornado to Greece.

In the case of the amount of credit we have, as you know, resisted offering 85 per cent to support this sale because there has been no firm evidence of competitors offering such terms. While this is still formally the case it does now seem increasingly likely that the French will be offering this much. If therefore you are satisfied that a larger amount of credit will be required to win this sale, and Arthur Cockfield is content, I am prepared to agree that you may offer up to 85 per cent as you propose.

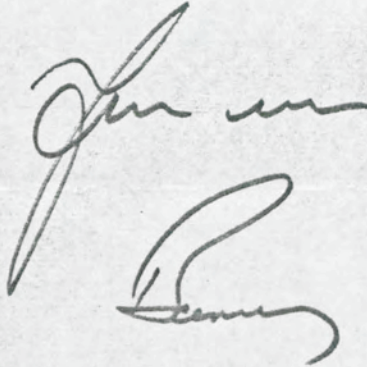
The interest rate is more difficult since what you suggest cuts across our general policy that terms for defence sales should be no more favourable than under the Consensus and would involve a higher potential public expenditure cost in interest subsidy. However, I understand the importance of offering attractive terms and therefore I suggest that you should consider offering credit at variable interest rates, based on the short-term market cost of funds provided on a roll-over basis, as both our partners have done. Variable rate financing could be offered in dollars, Deutschmarks or Sterling. In the case of dollars the present interest rate would be in line with that quoted by the Italians or a bit less. However, if a fixed rate sterling option is thought to be essential, I would be prepared, subject to Arthur Cockfield's

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views, to agree that you may offer as a last resort a rate of 11.5 per cent for this deal, as a compromise between the previous 11 per cent rate and the 12.15 per cent which should now apply.

I am sending copies of this letter to the Prime Minister, Patrick Jenkin and Arthur Cockfield.

A handwritten signature in dark ink, appearing to read 'Barney Hayhoe', written in a cursive style. The signature is positioned above the typed name 'BARNEY HAYHOE'.

BARNEY HAYHOE

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Reference,
Sales, A3

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

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9th February 1983

Prime MinisterTo note, pending a reply from Lord
Cockfield.

A.T.C. 10/2.

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SALE OF TORNADO TO GREECE - CREDIT TERMS

John Nott corresponded with you in the Autumn on the credit terms to be offered in support of the prospective sale of Tornado to Greece and this correspondence rests with your letter of 4th November. Since then there have been a number of further developments and the timescale for the Greek decision between the 4 competing aircraft has slipped. They originally hoped to take a decision by the end of the year. However, the revised timetable calls for best and final offers on 21st February with no provision for submitting improved terms thereafter. Once the final bids are evaluated, the Greek Government is expected to make its decision by the end of March.

There is no doubt that the Hellenic Air Force, who have been conducting an intensive evaluation of the 4 competitive aircraft, are greatly impressed by Tornado. They have spent a good deal of time on the technical aspects of the aircraft and have specified a design which involves a certain amount of development from the version used by Germany. We do not think that they would have gone to this trouble unless they regarded Tornado as a very serious contender and it is our belief that they would like to purchase Tornado if the financial terms are sufficiently attractive. A first export



order for this aircraft is critically important, after disappointments in Canada and Australia. As a fellow member of NATO, Greece is one of the few prospective markets which poses no political problems for the Germans. Moreover, an order from Greece could lead to a further order from Spain which, on the instructions of the new Socialist Government, has decided to evaluate Tornado alongside the F18. Conversely failure in Greece would make it very difficult to succeed in Spain.

An order for 60 Tornado from Greece would be worth some £500M to the UK with the prospect of follow on orders for spares and support over a considerable period. It would provide continued employment for some 2000 workers at BAe Warton at a time when the programme would otherwise be beginning to run down substantially. An early export order for Tornado is therefore critical to the preservation of an advanced military aircraft industry in this country at a time when we are not ready to order the next generation of military aircraft for our own use.

Against this background I must return to you to seek further improvements in the credit terms which we are offering since these will clearly be a key factor in the Greek decision. There are 2 points at issue. The first is the extent of the credit cover to be provided. The Greeks have asked for 100% Government backed credit since they are anxious to reduce to the minimum the impact of this project on their normal commercial borrowing limits. Although the French have, through official channels, only admitted to 60% credit cover, we have learned in Athens that they will be offering 85% credit from the normal Government institutions and that 3 of the main contractors for the Mirage bid, Dassault, Snecma and Thomson CSF will be guaranteeing the remaining 15% on the grounds that they are firms owned in whole or in part by the French Government. The Tornado consortium cannot adopt this ploy but I feel most



strongly that we should now raise the proportion of ECGD credit on the UK share of the package to 85%. The Germans have confirmed that they are prepared to do this if we do and the Italians have said that they will fall into line with whatever the other 2 partners agree. I hope that you will now be able to accept this extension in cover but I should point out, since there was some misunderstanding on this point in earlier correspondence, that the balance of the credit package is available from commercial sources.

The second issue is the interest rate which ECGD can offer. When we expected the competition to be concluded in December, you agreed that a fixed rate of 11% could be held until the end of the year. However, the date for final bids has slipped by 2 months and I understand that the interest rate must be increased to 12.15% in line with consensus agreements. This seems to me an unnecessary move since defence contracts are not covered by the consensus arrangements and market rates have recently been moving downwards. We have no intelligence on what the French interest rate will be but we can be quite certain that they will not be observing consensus rates for a defence project of this importance. Moreover, our partners in the Tornado consortium will be offering significantly lower rates, albeit in different currencies. We understand that the Germans will be offering 9¼% variable or 8½% fixed in DM while the Italians will be offering a variable rate of 10¼% in US dollars. Against this 12.15% in sterling will not look particularly competitive and I would hope that you can agree to hold the rate at 11% until the end of February.

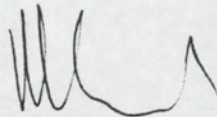
Time is now very tight. We must give the Tornado consortium clear directions on credit no later than 15th February to allow them to present their final bids on Monday 21st February. I have not been able to write to you earlier since, in a competitive situation of this kind, we have been unable to obtain firm evidence of the

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intentions of our competitors or our partners. However, I would be most grateful for a favourable decision on these 2 points as early as possible.

I am copying this letter to the Prime Minister (with previous correspondence), Geoffrey Howe and Patrick Jenkin.

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Michael Heseltine

Papers attached to S/S MOD to S/S Trade

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put in box 10/2



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Nott MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

15 November 1982

Dear John,

SALE OF TORNADO TO GREECE

51 - Arthur Cockfield sent Geoffrey Howe a copy of his letter of 4 November about credit terms for the proposed sale of Tornado aircraft to Greece.

I agree that in the absence of competitors offering better terms there is no justification for providing a larger proportion of cover than already offered. I am however quite content for ECGD to hold the 11 per cent interest rate until the end of the year and for the exporter to provide finance for a further 10 per cent of the purchase price, provided that this is funded from commercial sources at market rates without any official support or ECGD cover.

I am sending a copy of this letter to Arthur Cockfield.

John
Barney

BARNEY HAYHOE

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