

SUBJECT

cc MASTER
OPS



FILE

JA

10 DOWNING STREET

THE PRIME MINISTER

**PRIME MINISTER'S
PERSONAL MESSAGE**
SERIAL No: T 83/83

cc: FCO
MOD
HM

6 June, 1983

Dear Prime Minister,

Thank you for your letter of 12 May about the Tornado weapon system. We regard this aircraft as a most successful example of European collaboration and foresee significant benefits for Greece in participating in this well-proven advanced technology programme. Partnership in this venture, alongside the three current members of the consortium, would lead not only to immediate operational, logistic and industrial advantages for Greece, but also to longer term co-operation in the defence, political and economic spheres.

Your comments on Panavia's offset proposals have been passed to the company who are now submitting further provisions which I hope you will find satisfactory. The major British companies concerned, British Aerospace and Rolls Royce, both have excellent records in fulfilling their offset obligations to overseas customers but I can assure you that the British Government will be taking a close interest in the performance of the British companies involved, both with regard to their offset undertakings and to their successful implementation of the contract. As a Government we shall also be looking for opportunities to increase defence purchases from Greece. Indeed, we have already arranged for Hellenic Aircraft Industries to be invited to tender for engine overhaul work on our further purchase of Phantom aircraft.

On credit the British Government has taken careful note of the points made in your letter and fully recognises the importance of

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submitting an attractive offer in support of Tornado. We are currently discussing a revised credit package with our partners which we hope will meet your overall requirements and prove fully competitive. The terms will be communicated to your authorities as soon as the final details are agreed.

Finally, I would reaffirm that the Government's co-operating in the Tornado programme consider that this aircraft provides excellent value for money in terms of capability and performance and would make a unique contribution to the capability of the Hellenic Air Force.

Yours sincerely
Raymond Stalder

His Excellency Mr. Andreas Papandreou

~~CONFIDENTIAL~~

From: S R Douglas, Private Secretary

C. V. D.



Minister of State
for Defence Procurement

MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/GP/3/11

10th June 1983

*Encl.
AR 13-6*

Dear John,

TORNADO FOR GREECE

I attach a copy of the telegram from HM Ambassador Athens confirming that Mr Papandreou has received the text of the Prime Minister's recent letter and reporting that Mr Papandreou would like to discuss this subject with the PM at the Stuttgart Summit next week.

We will produce a brief for the PM to use at Stuttgart and it will be necessary to co-ordinate work on this with German and Italian officials. I should be grateful if you would let me know your deadline for the receipt of briefing material for Stuttgart.

Yours sincerely

Stephen Douglas

John Coles Esq.,
10 Downing Street

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FM ATHENS 061420Z JUNE 83

TO IMMEDIATE NODUK

INFO IMMEDIATE FCO (FOR SED)

INFO PRIORITY BONN AND ROME

MY TELEGRAM NO SIC 200 060950Z JUNE 83: TORNADO.

1. MAHAIRITSAS HAS NOW TELEPHONED TO CONFIRM THAT PAPANDREOU HAS RECEIVED AND STUDIED THE PRIME MINISTER'S MESSAGE. PAPANDREOU ASKED ME TO THANK THE PRIME MINISTER FOR THE MESSAGE WHICH HE SAID WOULD BE TAKEN INTO ACCOUNT IF THERE WERE A QUICK DECISION ON TORNADO. HE DID NOT HOWEVER EXPECT A QUICK DECISION SEMI-COLON AND LOOKED FORWARD TO HAVING A WORD ABOUT THIS WITH MRS THATCHER AT STUTTGART. - *S.M.A.Y 16/17JUN*

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

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Tim Flesher Esq
No 10 Downing Street
LONDON SW1

6 June 1983

Dear Tim,

TORNADOES FOR GREECE

TPM - with TFP

The Chancellor has seen the letter of 2 June on this subject from the Private Secretary to the Minister of State for Defence Procurement. The Chancellor has no objection to the proposed reply to Mr Papandreou, but has asked me to emphasise that we may not be out of the wood yet on credit terms. The Chancellor is concerned at the suggestion in the MOD letter that it may be necessary to offer still further concessions to the Greeks in the light of any new proposals from the French. Outbidding the French in a credit race of this sort could be an expensive business. The Chancellor hopes that very careful consideration will be given to any proposals to offer concessions going still further than those already made by Mr Pattie to the Greeks.

Whatever concessions are finally offered, the Chancellor believes it will be essential for the subsidy cost to be divided equitably between the three Tornado partner countries. It would be absurd for the UK taxpayer to end up footing the bill for the subsidy costs of German and Italian exports. Nominal interest rates by themselves do not tell the whole story, because they leave out of account the exchange rate risk for the borrower, which is arguably more important. We understand that the Germans are likely to offer a DM market rate of 8.75 per cent, whereas for the UK part of the contract we have been thinking in terms of a dollar rate of 10 per cent. This implies a significant potential subsidy commitment on our part. It would be inequitable for the UK to have to offer a supported rate if the Germans are not prepared to do likewise for their share of over 40 per cent of the business.

Copies of this letter go to the recipients of the MOD letter of 2 June, and to John Rhodes (DOT), in view of the substantial ECGD interest in this case.

Yours ever,
John Kerr

J O KERR

Defence
Sales, pt 3

16 JUN 1984

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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/GP/19/5/22

3rd June 1983

Dear Michael,

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We spoke on the telephone this afternoon about the Prime Minister's reply to Mr Papandreou's letter of 12th May and you told me that you hoped that the Prime Minister would be able to agree the text of the letter tomorrow.

HM Embassy Athens already has a copy of the draft letter attached to my letter of 2nd June to Tim Flesher, and I have confirmed that no changes are required following today's discussions with German officials.

I should be grateful if the No 10 Duty Clerk could telephone the MOD Resident Clerk on 218-6002 when the Prime Minister has agreed the text. The Resident Clerk will then send a telegram to Athens asking the Ambassador to deliver the text of the letter to Mr Papandreou on Monday morning.

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Yours sincerely

Stephen Douglas

M C Scholar Esq.,
10 Downing Street

CONDITIO

2 JUN 1983



FOR THE SECRETARY OF STATE
MINISTRY OF DEFENCE



MINISTRY OF DEFENCE
WHITE HALL, LONDON SW1A 2JH
UNITED KINGDOM OF GREAT BRITAIN





10 DOWNING STREET

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Prime Minister

The background to this
letter is at flag A.

If you are content will
you tell the Duty Clerk
when you have signed so that
she can despatch over the
weekend? — text sent
by telegram
MCS 3/6 12 noon
4/6

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From: S R Douglas, Private Secretary



MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/GP/19/5/22

2 June 1983

Dear Tim,

In his letter of 19th May John Coles asked me to forward a draft reply for the Prime Minister to send to Mr Papandreou in response to his letter of 12th May which Mr Pattie brought back from his visit to Athens.

The main burden of Mr Papandreou's letter was that improvements were required in the credit terms offered by the Tornado consortium company Panavia and backed by the credit institutions of the three partner Governments. We have therefore delayed drafting a reply whilst consultations took place with our German and Italian partners on the basis of the proposals which Mr Pattie made to the Greeks whilst he was in Athens, ie 90% contract cover and an average interest rate of 9½% across the three currencies concerned. However, we have now received further indications that the French may be undercutting us yet again and that the Greeks may consequently be looking for additional concessions. The situation is still very fluid and further discussions are taking place with Panavia and our German and Italian partners at the Paris Air Show in the course of today and tomorrow. Nevertheless, with the imminence of the General Election and the probability that the Greek Government will be taking their final decision very shortly, it is clearly desirable that the Prime Minister should now reply without further delay.

In the circumstances we recommend that the Prime Minister should agree a holding reply to Mr Papandreou stressing the close interest which the British Government will be taking in Panavia's performance and reassuring him that we are working urgently on an improved credit package which will be communicated to the Greek authorities as soon as the final

/ terms ...

Tim Flesher Esq.,
10 Downing Street

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/ terms are agreed. The draft of such a letter is enclosed and has been cleared with FCO and Treasury officials. It is intended that this should be despatched by telegram to Athens over the weekend. This will enable us to confirm during the course of tomorrow that the Germans are content with this form of reply since Mr Papandreou has written in identical terms to Chancellor Kohl. We have so far been unable to establish whether a similar letter has been sent to the Italian Prime Minister.

I should be grateful if you could let me know as soon as the Prime Minister has agreed that this text may be sent, subject to any changes that may be required following our discussions with the Germans. We will then make the necessary arrangements in conjunction with the FCO for it to be telegraphed to Athens tomorrow evening.

I am copying this letter and enclosure to the Private Secretaries of the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

Yours ever

Stephen Douglas

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*AI type
for PM*

DRAFT LETTER FROM THE PRIME MINISTER TO MR ANDREAS PAPANDEOU,
PRIME MINISTER OF GREECE

Thank you for your letter of 12 May about the Tornado weapon system. We regard this aircraft as a most successful example of European collaboration and foresee significant benefits for Greece in participating in this well-proven advanced technology programme. Partnership in this venture, alongside the three current members of the consortium, would lead not only to immediate operational, logistic and industrial advantages for Greece, but also to longer term co-operation in the defence, political and economic spheres.

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...approval to proceed in support of ...
...revised credit package with our ...
...which we hope will meet our overall requirements and ...
...family composition. The terms will be communicated to your ...
...authorities as soon as the final details are agreed.

...I would reiterate that the Government's co-operation ...
...in the foreign exchange controls that this director provides ...
...excellent value for money in terms of capital and performance ...
...and would make a unique contribution to the stability of the ...
...economy.



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