



MO 5/20

Prime Minister:

If you agree with Mr Heseltine that a message to Chancellor Kohl, needed, a draft is attached for your signature.

PRIME MINISTERTORNADO FOR GREECE - GERMAN INTEREST RATES

A

25/8

As you know, the Greek decision on a New Fighter Aircraft is now very close and I shall be visiting Athens on 2nd September to make final representations in support of Tornado. I will take with me the personal message to Mr Papandreou which you have already signed.

2. The Greeks have made it clear that we stand no chance of obtaining this order unless we can offer credit at a fixed rate of interest below 9%. This is what the French are offering and, because of the weakness of the franc, the Greeks will find their terms very attractive. For the British element of the loan a scheme has been agreed with the Treasury whereby the credit is financed in Deutschmarks at less than 9% and the normal provisions for interest rate support can be invoked to allow a fixed rate to be offered for the period of the loan. However, the Germans do not have an interest support scheme similar to our own. Their only experience of subsidising interest rates for export credit has been on Airbus. This has proved very expensive and they are most reluctant to embark on anything similar for Tornado. Moreover, they are required to identify the extent of potential subsidies in advance and publish them in Government accounts. They are therefore extremely doubtful whether they can meet the Greek requirement for a fixed rate of interest at less than 9%, and they are proposing instead a scheme which would limit their support to movements in interest rates, inclusive of charges, between 8.95% and 11.2%, leaving the Greeks to carry most of the risk thereafter.



3. Although the risk of German interest rates rising above 11% may be remote, in our view this scheme will be quite unacceptable to the Greeks in comparison with the French offer and, unless it is amended I shall be placed in the invidious position of explaining a complex German scheme to Mr Papandreou which does not meet their requirements. I have therefore concluded that we should try to bring maximum political pressure to bear on the Germans, before their meeting on 29th August, to support a fixed rate of interest at 8.95% without any conditions or restrictions. I have spoken this afternoon to Herr Wurzbach (his deputy who will be representing him at the meeting) in the absence of Herr Woerner on holiday, and our Ambassador in Bonn will be calling at the Chancellor's office to underline our concern.\* However, the final decision will rest with Chancellor Kohl and I strongly recommend that you should send the enclosed message to him on Friday 26th August.

4. I am copying this letter and enclosure to Nigel Lawson, Geoffrey Howe, Cecil Parkinson and to Sir Robert Armstrong.

*Wright*

Ministry of Defence  
24th August 1983

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Unofficially Herr Wurzbach  
has since told me that  
he would welcome a letter  
from you to Kohl.



Wides in box

DRAFT MESSAGE FROM THE PRIME MINISTER TO CHANCELLOR KOHL

For many months now our Governments have been working together very closely in an attempt to secure the first export order for the Tornado aircraft from Greece. We know that the final presentations have now been made to Mr Papandreu and a decision is imminent. It has therefore been arranged for my Defence Secretary, Michael Heseltine, to fly to Athens on 2 September to make final representations in support of Tornado.

The Greek Government has made it clear that we stand no chance of obtaining this order unless we can offer credit at a fixed rate of interest below 9%. This is what the French are offering and because of the weakness of the Franc, the Greeks will find the French offer very attractive. For the British element of the credit package, special arrangements are being made to finance a loan in Deutschmarks at an interest rate of 8.95% inclusive of all charges and the British Government stands ready to provide financial support for this offer from public funds if commercial interest rates exceed this figure over the period of the loan. I know that there is no general scheme for subsidising interest rates in Germany, but I understand that special arrangements are being considered to support the German interest rate from public funds up to a maximum of 11.2%, leaving the Greeks to carry most of the risk thereafter. The risk of German interest rates exceeding 11% may be remote but in our view this scheme would still be most unattractive to the Greeks, in comparison with the French offer, and could well lose us the order. Moreover, Michael Heseltine would find it very difficult to explain such a scheme on behalf of the German



Government when he sees Mr Papandreou on 2 September. I must therefore urge that, as an exceptional measure, the German authorities be asked to support a fixed rate of 8.95% without any special conditions or restrictions in order to meet the Greek requirement. As I understand it, this does not require any immediate subsidy but only a potential and unquantifiable commitment to support interest rates if they rise significantly over the period of the loan.

I understand that this matter is to be considered at a meeting in Bonn on 29 August. This gives us very little time to compare notes before Michael Heseltine leaves for Greece on 1 September. I hope that you will be able to give us early confirmation of a favourable decision.

SUBJECT

cc Matis  
+  
Ows.



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. 124A/83

10 DOWNING STREET

THE PRIME MINISTER

My dear Prime Minister,

I am sorry that I did not get the opportunity to discuss your letter of 12 May about the Tornado weapons system at the Stuttgart Summit in June, but I understand that Chancellor Kohl reaffirmed our strong support for the selection of this aircraft for the Hellenic Air Force and the importance which we attach to this decision. The tri-national company PANAIA and the three partner governments in the Tornado consortium have studied your letter in detail and we believe that all the points you raised have now been satisfactorily resolved in discussion with the Hellenic Air Force.

Michael Heseltine, with whom I have discussed this, will be able to explain to you the unique advantages of the offer that has now been put forward. The much improved financial terms include a fixed price and a revised credit package.

The main point that I would like to stress about Tornado is that it is a proven success already in large scale production. 250 Tornados have already been delivered to the Armed Forces of three European countries, and this figure will have risen to 425 by the time of the first delivery to Greece. The experience that this represents would be a major plus for Greece as the new Tornado partner. It is a magnificent aircraft, which, particularly if you decide to undertake the final assembly in Greece, will provide a valuable transfer of high technology to your country.

/ Chancellor Kohl

Chancellor Kohl and the Government of Italy share with me the view that the purchase of Tornado is of major importance in cementing the defence, political and commercial links between Greece and three of her major European partners. It would be an excellent basis for the future development of these ties.

Yours sincerely

Margaret Thatcher

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His Excellency Mr. Andreas Papandreou.

SUBJECT

cc Matis  
+  
Ows.



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His Excellency Mr. Andreas Papandreou.