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D/MIN/GP/3/7

February 1984

*Don't*

For some years the Kenyan Government has had a requirement for new fast patrol craft to replace some earlier boats, purchased from Britain, which have come to the end of their useful lives. In 1980 Vosper Thornycroft (UK) Limited (VT) was selected by the Kenyan Navy as the preferred supplier of a new class of up to four fast patrol craft. ECGD supported credit was offered on very attractive terms but because of economic down-turn in Kenya no contract was signed.

During the Royal Naval Equipment Exhibition held at Portsmouth last September the Kenyan delegation said that the patrol boat requirement was to be accorded high priority. VT have since put forward proposals for the supply of up to 4 x 56m patrol craft with associated spares and support. I understand that the company have been told that, provided an attractive UK credit package can be put forward, a contract will be placed with them within the next three months. Failing this recent proposals from Singapore, France, Germany and Israel will be considered. The total contract value for four boats is £139M and the great majority of the installed equipment would be of British origin.

/ VT ...

The Rt Hon Peter Rees QC, MP

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VT applied to ECGD for credit in mid-December but their request has been turned down by both ECGD and the Treasury, but I believe there are a number of reasons for supporting this proposal. In the first place, support of this kind may be the most economical way of maintaining warship building capability as well as avoiding major redundancies; these could be difficult to cope with at a time when we are seeking privatisation of the more attractive yards and further unemployment in the Portsmouth area would follow on closely the rundown in Portsmouth Dockyard. Reduction in orders for ships for the Royal Navy has already led to some redundancies in the company and work currently in hand in the two Portsmouth yards will be finished by October 1984.

Further, Kenya is important to us as a defence market. We have supplied much of her equipment in the past but we are now under pressure from the French and loss of our pre-eminent position could weaken our efforts in the area. On wider military grounds we also have considerable interests in Kenya; we have access to very valuable infantry and engineer training facilities there which we use extensively at virtually no cost: and the Royal Navy makes use of facilities at Mombasa and the main airports are important as staging posts for RAF aircraft involved in a number of contingency plans. Supply of these boats to Kenya, together with the related Treasury package, would do much to further our longstanding co-operation with the Kenyan Forces. Bilateral defence relations have been good in the past, but currently we are experiencing problems due to the attitude of one or two key personalities in the Kenyan Ministry of Defence, and they would no doubt seize on any further opportunity to make difficulties for us.

Our experience is that the Kenyans approach their external financial position cautiously and responsibly and all projects are scrutinised carefully by the authorities to keep within the existing IMF guidelines. Indeed I understand that despite an unfavourable debt service ratio Kenya has not so far defaulted.

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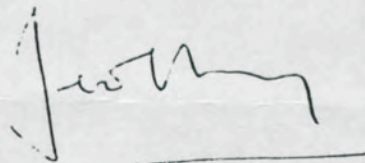
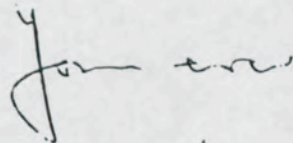
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This is important since I am told that when considering the company's proposal ECGD felt that with the high debt service ratio for 1984 and 1985 rescheduling could not be ruled out, and that this external position would not support any increase in the current market limit where there is little headroom even in Section 2 terms.

The information that we now have that the initial order is likely to be for only two boats, supports the view that the Kenyans are acting responsibly. We have also been able to establish that the requirement is supported at the highest level in Kenya. Against this background, the priority offered to this project and the choice of Vosper Thornycroft as the preferred supplier, the harm to our bilateral relations should support for this sale be refused and the domestic advantages for a hard pressed industry, I believe that we should offer to support credit for an initial order of two boats on terms which are at least as good as those being offered to Egypt for similar craft. I hope we can reach early agreement on this as VT have now fully agreed the specification with the customer and hope to resume negotiations on commercial aspects within the next two weeks.

I am copying this letter to Malcolm Rifkind, Paul Channon, Norman Lamont, Peter Morrison and to Sir Robert Armstrong.



Geoffrey Pattie

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8 MAR 1984

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