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Await comment
from STEPS.



D/MIN/GP/3/8

20 July 1984

Dear Secretary of State,

FRIGATES FOR PAKISTAN

As you know, the Pakistan Chief of Naval Staff, Admiral T K Khan called on me yesterday to discuss the prospects for the sale of three Type 21 frigates to Pakistan. Admiral Khan emphasised how determined the Pakistan Navy were to preserve their links with the Royal Navy and referred to the letter of 5th July to the Prime Minister (copy attached) that Admiral Khan had delivered to the Foreign Office on behalf of President Zia.

Admiral Khan said that however decided the Pakistan Navy was on its choice, the final decision, which would be taken before 15th August, rested with the Ministry of Finance. The question of finance, and more particularly of credit, was therefore crucial. He asked if we would increase our ECGD-backed credit cover, in order to make sure of the deal (worth £300m).

Admiral Khan quoted the French and German offers which according to him were better than ours. On the other hand he admitted that the German offer (reportedly 85% of the cost of

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The Rt Hon Norman Tebbit MP

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three frigates at 9% over seven years from mean delivery) was in Deutchmarks which in the longer term would prove a more expensive loan than a commercial rate quoted in sterling. He said that the French offer was 90% of the cost of three ships at 9.5%, and therefore more generous than our own proposal of £180m at 9.5%, or 60% of the total cost of the deal (which, you will recall, was agreed at the meeting of OD on 28th March). ECGD's information is that the French offer is in fact 70% of the cost of two frigates plus 20% at commercial rates. It is very possible, however, that the French may have increased their offer in the past few days to cover three ships.

Having met Admiral Khan, I believe that a token gesture to meet the Pakistan Navy's wishes would secure this valuable deal for Vosper Thornycroft. Another £20m of UK credit, raised either through an extension to £170m of the present ECGD offer or by means of private finance at a subsidised rate of interest, would take the UK offer to £200m and, in my view, have great presentational advantage. Moreover, it would enable the Prime Minister to reply positively to President Zia.

Accordingly, in Michael Heseltine's absence, I am writing to seek your agreement to an increase in the level of UK credit to £200m. I also attach a draft reply from the Prime Minister couched in appropriate terms which, if colleagues agree, Admiral Khan could take back with him to Islamabad at the end of his visit (about 26th July).

The importance of this deal is considerable, principally on account of the export work it would bring to Vospers' yards, the involvement of a wide range of British manufacturers, the long term consequences for the orientation of the Pakistan Navy and for the prospects for British equipment sales to the Gulf region as a whole (which is heavily dependent on Pakistani

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military assistance). I believe that we should not let this opportunity slip given the genuinely favourable disposition of the Pakistanis, as illustrated by President Zia's letter.

I am copying this letter to the members of OD and to Sir Robert Armstrong in the hope that we can reach a speedy agreement on the terms of the attached draft.

Atankemp

ps / Geoffrey Pattie

(Approved by the Minister
and signed in his absence)



MINISTER OF STATE FOR DEFENCE
PROCUREMENT

D/MIN/GP/3/8

20th July 1984

Note of a meeting held in the office of
the Minister of State for Defence
Procurement at 10.45am on
19th July 1984

Present:

Mr Geoffrey Pattie MP
Minister of State for
Defence Procurement

Admiral T K Khan NI(M)
Chief of the Naval Staff,
Pakistan Navy

Mr A Harris
Regional Marketing
Director 1

Captain M F A Khan
Naval Attaché
Pakistan Embassy, London

Dr A S Kemp
PS/Minister (DP)

Admiral Khan said that, following his official visit, he was having more detailed talks on the Pakistan Navy's (PN) requirement for three frigates, for which there was a competition between the United Kingdom, France and Germany.

2. The Admiral explained that following Vospers' impressive presentation in Pakistan of the Type 21, both the French and the Germans had sought to undermine the British position. They had called into question the stability and structural integrity of the Type 21 and had made attractive financial offers for their own designs. This was worrying for the PN which continued to favour the British ship, but which recognised that the choice of vessel lies ultimately with the Pakistan Finance Ministry. Speaking candidly, the Admiral said that the French and Germans had been more imaginative in their marketing and in particular in their approach to finance. In comparison, the UK seemed slow and traditional; neither the French nor the Germans expected, for example, Pakistan to sign a Letter of Intent before making their best offers. Admiral Khan said that he had made these points both to CNS and HDS. In

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2

In summary, as a result of his visit so far, the UK had been able to provide the ammunition necessary for the PN to defeat the technical criticisms which had been made of the Type 21, which were largely unfounded, but he remained concerned at our relative inflexibility over finance.

3. Responding, Minister (DP) said that the PN could rely upon the MOD to provide all the technical and overseeing assistance required to ensure that the Type 21 entered service satisfactorily. He also believed that the UK would be able to put together an attractive training package. (Admiral Khan made it clear that he valued highly the involvement of the MOD in this way and asked for a suitable MOU to be established. This was agreed). However, Mr Pattie said that he could not pretend that it would be easy to improve the present, very attractive, ECGD-based terms which were being offered on the Type 21s. The UK, he said, remained as keen as ever for the sale to go ahead. The Prime Minister, as she had indicated to President Zia, was taking a personal interest. Clearly, it was important to develop relations between two highly professional Navies; there was no better way of promoting this than through the use of common equipment, approaches to training and tactical doctrine. All that said, he believed the UK was approaching the limits of what could be offered financially, although he would be prepared to examine with colleagues whether anything more might be done.

4. Admiral Khan said that he appreciated this, adding that he was genuinely fearful that, if the order went to France, his Navy would be wholly dependent on the French upon whom, following the decision by the Wilson Government in 1966 not to sell Oberon submarines to Pakistan, the PN was already heavily dependent.

5. Mr Pattie said that this would indeed be regrettable, but hoped this would not be allowed to happen.

Alan Kemp

(A S Kemp)
PS/Minister)(DP)

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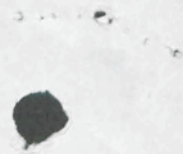
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