

CONFIDENTIAL

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MO 6/13

6th August 1984

*De Home*

*Await DTI response*

*DMB  
7/8*

FRIGATES FOR PAKISTAN

I have been following closely the correspondence regarding the Pakistani frigates. My purpose in writing is to set out the position reached now as I see it, and to seek your agreement to a way forward that would permit the Prime Minister to write in positive terms in reply to President Zia's most recent letter.

Your officials will no doubt have informed you of Geoffrey Pattie's meeting with Grindlays and Vosper Thornycroft at which little hope was held out of significant further private sector finance, in the absence of corresponding Government-backed indemnity in addition to the interest subsidy you have proposed should be made available. You may also be aware that, although the latest signals from the Vosper agent in Islamabad and HMA make clear the Pakistan MOD preference in favour of Vospers, they also stress the need to "continue to work hard" to improve our financial offer if the Pakistan Finance Ministry is to be convinced of the merit of the UK's proposals.

In the light of Geoffrey's meeting, it seems clear that the only way in which we might be able to improve the British offer to £200m in a form that the banks would find acceptable would be for ECGD to provide increased indemnity. Without such an increase the distribution

The Rt Hon Norman Tebbit MP



of risk between the banks and Government would move from a position which the banks are already finding difficult to one which they would find virtually impossible.

There has been no lack of effort, or imagination in the search for commercial support but, for understandable reasons, British Shipbuilders feel unable to provide assistance and there seems little prospect at this twelfth hour of Vospers with their major sub-contractors making significant inroads on the guarantee problem. The MOD has already agreed to forgo charges on certain frigate-associated training for the Pakistan Navy and so there is little more that we can do from here to assist the sale. It is therefore apparent that the only realistic source of indemnity which would gain the support of the banks would be ECGD.

From the Defence standpoint, I can only reiterate the advantages we see from this contract. The UK largely retains its close relationship with the senior levels of the Pakistan Navy through their earlier exposure to RN equipment and training. This position has steadily eroded, following Pakistan's decision in the mid-1960s to buy French submarines as a result of the UK's unwillingness to supply, and the more recent Saudi decision to buy warships from the French. A Pakistani decision in favour of French frigates now will close the Pakistan Navy door on the UK shipbuilding and maritime equipment industry for the foreseeable future. On the other hand, because the Pakistan Navy generally, and these ships in particular, are heavily committed to the training of foreign navies, notably the Saudis, the winning of this order would go a long way towards re-establishing our influence on navies in the Gulf region. There is also, of course, the question of Vospers' bleak order book and the effect that such a contract would have on the yard's prospects and saleability.

I hope you will agree that we have explored fully the solution proposed in your letter to Geoffrey Pattie of 27th July, which the Prime Minister and Peter Rees have also favoured. In order to avoid



an entirely negative reply to President Zia's letter, the remaining option is for ECGD to be instructed to improve the UK's offer to £200m on terms that the banks can live with. On balance I believe that this is the right course to take.

I am copying this letter to OD colleagues and to Sir Robert Armstrong.

Yours  
ew

A handwritten signature in cursive script, appearing to read 'Michael Heseltine'.

Michael Heseltine



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1-19 VICTORIA STREET  
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From the Minister for Trade

The Rt Hon Michael Heseltine MP  
Ministry of Defence  
Whitehall  
LONDON  
SW1A 2HB

13 August 1984

*Dear Michael,*

*NBPM to  
to meet  
Dr.*

FRIGATES FOR PAKISTAN

You wrote to Norman Tebbit on 6 August about this subject.

While I can well understand your anxiety to secure the frigates order for Vosper Thornycroft, an increase in ECGD exposure above the £215m offer already made to the company would represent real difficulties for us and I cannot agree to it. As Peter Rees reported to the Prime Minister on 1 August, we are already in a situation where no further cover can be made available for civil exports.

In any event, I am not convinced that an improvement to the existing offer is necessary or, if it is, that the only way forward would be for an increase in the actual amount of ECGD's liability. I believe that there is no real evidence to support the Pakistani claim that they have received more favourable export credit offers from France and Germany. Moreover I believe that there are ways in which the present UK offer might be improved without significantly altering the level of HMG support which I would wish ECGD to explore with the commercial parties first. I have therefore asked ECGD to set up an urgent meeting with the commercial parties for this purpose and will advise you of the outcome.

If in the event it is not possible to improve the financial offer without an increase in the ECGD exposure then I consider that a further OD meeting will be necessary. This would then also be able to consider the questions raised by Peter Rees's minute of 1 August to the Prime Minister about the impact of this commitment on ECGD cover on ongoing civil business.



I am copying this letter to members of OD and Sir Robert  
Armstrong.

*Yours,*

*Paul*

PAUL CHANNON

*left*



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

10 August 1984

The Rt Hon Michael Heseltine MP  
Secretary of State for Defence

*Answer  
DTI  
news*

*Dear Secretary of State*  
**FRIGATES FOR PAKISTAN**

I have seen a copy of your letter to Norman Tebbit about increased ECGD cover for the sale frigates to Pakistan.

I am sorry that Norman's earlier offer, endorsed by both the Prime Minister and Peter Rees, for the payment of interest make-up on any commercially provided funds has not proved practicable. However, the market's unwillingness to provide this additional £20 million clearly reflects their assessment of the credit-worthiness of Pakistan. This confirms our assessment and I endorse the views expressed earlier by Peter Rees and Norman Tebbit that we have already gone as far as we can and that the additional £20 million now requested should not be provided.

The additional finance is not required for the sale discussed at OD last March. It is needed because of the Pakistanis' decision to buy the components for a third ship to be built in Pakistan. I understand that ECGD agreed to include this ship within the overall credit package provided that there was no increase in their exposure. Despite the efforts of those concerned this has not proved possible and I therefore see no alternative but to revert to the original two ship deal, perhaps offering to look again at the third ship when the other two have been delivered.

I am sending copies of his letter to members of OD Committee and to Sir R Armstrong.

*Yours sincerely  
D. Letz*

NIGEL LAWSON

*[ Approved by the Chancellor  
and signed in his absence ]*

Defense : Sales A4

13 AUG 1954

