



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

PRIME MINISTER

TORNADOS FOR TURKEY

I have seen Norman Tebbit's minute to you of 10 August in which he suggests that for industrial reasons ECGD should be instructed to take on a commitment to support the sale of Tornados to Turkey well beyond what the Department consider prudent. The commitment to provide up to £200 million of cover would be contingent on the private sector providing the remaining credit on an unguaranteed basis. I have also seen Michael Heseltine's minute of 13 August setting out the defence arguments (which I do not contest) for selling Tornados to Turkey.

2. I expressed my doubts about this case in my letter to Norman of 11 May. I do not think such a course could be justified in terms of our policy of limiting ECGD's exposure in the most risky markets or in the light of ECGD's own precarious financial position, abundantly confirmed by last week's trading results. Even the more modest proposal now before us would involve a 200 per cent increase in the market limit which Departments have agreed to be appropriate. Recent developments in Turkey confirm the need for a cautious approach. I would not object to the provision of normal ECGD cover for this BAe proposal - ie the £50 million mentioned in Norman's minute on the same first come, first served basis as has been offered to other major companies for exports to Turkey - but that must be the limit.

3. Quite apart from these compelling financial considerations, the industrial argument is less strong than Norman indicates. He assumes that a Turkish order will bridge a gap in BAe's order book until the European Fighter Aircraft goes into production. But we are a long way yet from commitment to the EFA which would be the single most costly defence equipment decision since Trident. We have agreed to a collaborative feasibility study, but that is all, and we must see full assessment of the operational need and the options available before taking the next step. It cannot be assumed that the EFA programme is a foregone conclusion.



4. Finally, if at the end of the day we were to decide to overrule ECGD and instruct them to underwrite the business, the accounting questions would need careful consideration. The business would obviously fall under Section 2 - the national interest section - but, as Peter Rees' minute to you of 1 August makes clear, the Treasury would not be prepared to see Exchequer risk attributed to accounts, whether in the name of ECGD or other Departments, which were not subject to the same degree of financial discipline as ECGD's trading accounts. But I very much hope it will not come to this.

5. I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

Judith Simpson

N.L.

21 August 1984

*approved by the Chancellor &
signed in his absence.*

Reference Sales Pt 4



22 AUG 1984



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Keep for OD meeting

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PRIME MINISTER

JS

Mr. Tebbit (Flag A) proposes that ECGD should take a
substantially greater commitment than normally available on
the prospective sale of 40 Tornados to the Turkish airforce.

Mr. Heseltine and Lady Young agree (Flags B & C). The
Chancellor does not, however, believe that such a course
could be justified (Flag D).

Do you agree that this will need to be aired at OD?

Yes not

A

23 August 1984

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*Awaiting Treasury**DWB
15/8*PRIME MINISTERTORNADO FOR TURKEY

I have seen Norman Tebbit's minute of 10th August seeking your agreement to British Aerospace pursuing risk-sharing arrangements involving both Government and industry in their attempt to sell Tornado to Turkey.

2. I hope that you and colleagues will be able to agree to this proposal which, subject only to the Company negotiating a delivery programme which can be reconciled with the Royal Air Force's requirements, has my full support. The sale of Tornado to Turkey would be important, not only for the industrial reasons which have been referred to, but also because of the significant benefits which would accrue to NATO.

3. Turkey faces a strong ground, maritime and air threat in what is a strategic part of NATO's Southern Region. A significant force of Tornado aircraft would strengthen considerably her ability to counter the Warsaw Pact's increasing capability for operating at night and in bad weather. Additionally, the installation in Turkey of the infrastructure necessary to support Tornado would markedly increase the flexibility for the deployment of other nations' aircraft to the Region and would produce significant benefits in terms of standardisation and interoperability. Economies resulting from the increased numbers of Tornado in service could also benefit the RAF and other allies. These latter economies could be further enhanced by the additional Tornado sales that might be encouraged by a Turkish order.



4. Whilst I can see that there may be financial arguments which could be raised against allowing British Aerospace to proceed in the way proposed, I believe that they are outweighed in this case by foreign policy, defence and domestic industrial considerations. We should do all we can to assist British Aerospace to promote this aircraft sale.

5. I am sending copies of this minute to the other members of OD, to Tom King and to Sir Robert Armstrong.

[Handwritten signature]

Ministry of Defence
13th August 1984

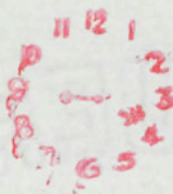
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DEFENCE: Sales

Pt 4



5 AUG 1984



COMMUNICATIONS

LONDON



PRIME MINISTER

TORNADOS FOR TURKEY

You will recall that there is a prospective sale to the Turkish airforce of 40 Tornados. The UK share of this £750m order would be worth some £435m. This would be the first export order for Tornado. It would have important defence and foreign policy implications as well as substantial industrial and commercial benefits.

2 The difficulty is the provision of finance to support the order. The Turks are prepared to pay up to 15% in cash but are looking for credit for the remainder. BAe originally approached me with a request for ECGD support for the whole of this, involving a total exposure (including interest) of some £600m. Following inter-Departmental consultation, and in view of the guidelines we have agreed on restraining exposure in markets of doubtful creditworthiness, I told BAe that support of this order of magnitude could not be contemplated. However, in view of the importance of the potential order, I said that if a finance package could be developed with a very different

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balance of private and public risk, we would consider it further.

3 Sir Raymond Lygo has now asked for an indication of HMG's attitude to a package which would involve Government support for about a third of the total exposure (£200m), to be matched by the commercial banks, with BAe and its principal subcontractors carrying the remainder of the risk themselves. While he is not looking for a final commitment at this stage, he needs the assurance that we are likely to look favourably on playing our part, if he can obtain the matching commitments from the private sector. It will also be necessary for our German and Italian partners to support their share of the sale, but this is considered likely to follow once the UK portion of the finance (58% of the total) is in place.

4 In this proposal, the balance of risk has been moved substantially towards the private sector, and I doubt whether it would be possible to move it much further. However, ECGD consider this reduced risk still to be well in excess of their capacity, particularly in their current financial circumstances, to take risk on the still fragile Turkish economy which has a high level of indebtedness (some

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owed to ECGD). It would also pre-empt any capacity to give cover for other business at a time when market prospects for our exporters are improving.

5 Nevertheless, the industrial case for this order is of great importance at this stage of the Tornado programme, which is our major current military aircraft programme. Without export orders for Tornado, BAe Wharton faces severe contraction from 1986 onwards, and orders like this would fill a gap before full scale production of the proposed European Fighter Aircraft comes on stream in the early 1990s. The order is high technology, high value-added business, which is not only important for BAe's profitability, but also for that of Rolls-Royce - which would be providing some 100 RB-199 engines. Therefore I consider that the Government should play its part, particularly as BAe are prepared to try to increase the proportion of the credit risk which would be carried by the private sector. I also consider that the Turks should be pressed both to increase the cash element and to consider scaling down the order: on the former, we can take heart from the fact that, in the end, Turkey paid cash for the Rapiers they purchased from BAe in 1983. But it should be noted that if HMG support is given by way of normal ECGD

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cover, the maximum exposure available (as matters stand at present) would be £50m; if eventually ECGD were instructed to take a commitment of about £200m, it would be necessary for this to be announced to Parliament and for the commitment to be taken outside its trading accounts. We should, therefore, be prepared for this, or to consider alternative arrangements of the kind I have suggested in the case of the sale of frigates to Pakistan, depending on the final shape of the financial package.

6 If you agree this I will advise BAe to pursue their risk-sharing proposals on this basis.

7 I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

McCarten

*(Seen and approved by the Secretary of State,
and signed in his absence)*

N T

10 August 1984

*Turkey - debt raise
35%
sold capital
Carnegie*

Department of Trade and Industry

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Chancellor of the Duchy of Lancaster

PRIME MINISTER

TORNADOS FOR TURKEY

This is a well structured package. If we are to have an innovative defence industry, we need to have the ability to sell abroad as well as to the Ministry of Defence. The comments in the Acard Review of Government Funded Research and Development are very relevant in this connection (see paragraph 11 of Acard's "Observations" on the Report). All this inevitably means that we will be selling to people whose capacity to pay may at times be questionable. Clearly we must limit the risk by ensuring that we do not shoulder all the potential losses while the contractors or those standing behind them take the profits. The present formula does secure that objective.

I am sending copies of this minute to members of OD, to Tom King and Sir Robert Armstrong.

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29 August 1984

Deference

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Sales



PRIME MINISTER

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TORNADOS FOR TURKEY

1. I have read with interest Norman Tebbit's minute of 13 August commending BAe's proposals for Government support for the prospective sale of 40 Tornados to the Turkish airforce.

2. As the United Kingdom is one of Turkey's closest friends and allies and given Turkey's importance as a member of NATO on the strategically vital south-eastern flank, there are strong political and military arguments for providing BAe with the cover necessary to enable them to conclude this important contract.

3. The Ministry of Defence are best placed to rehearse the military arguments. But it is clear that despite the significant size of the Turkish armed forces, their ability to fulfil their NATO role is inhibited by the obsolescence of much of their military hardware including aircraft. The purchase by Turkey of Tornados will contribute towards the full modernisation of their airforce and provide long range strike capability to complement their purchase of the F16 fighter.

4. Turkey has in the past nine months made significant strides towards the full restoration of democratic institutions and

/practices.



practices. National elections were held in November 1983 and Turkey is now once more governed by a civilian government answerable to an elected Parliament. I believe it is important to encourage Turkey's progress and help to decrease her sense of isolation and even alienation. An effective way of doing this, which is at the same time beneficial to exports and jobs and strengthen NATO's defences, is by defence sales such as Tornado. We would no doubt have to face criticism from human rights activists if we gave Government support to Turkey on the scale proposed; and the Greeks and Greek Cypriots would look askance. But in terms of our foreign policy interests, the advantages outweigh the disadvantages.

5. In scaling down their request for ECGD support, BAe would be looking for matching commitments from the private sector and would be carrying some of the risk themselves. They would also expect that our German and Italian partners in Tornado would play their part in supporting this sale. While noting what Norman Tebbit has said about the constraint of ECGD's capacity, and how this might need to be addressed, I agree with him that BAe should be encouraged to pursue their risk-sharing proposals.

6. I am sending copies of this minute to the other members of OD, to Tom King and to Sir Robert Armstrong.

Baroness Young

20 August 1984

Baroness Young

Deference Sales: DEFERENCE Pt 4.

20 AUG 1984

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