



File 200
COPT

10 DOWNING STREET

THE PRIME MINISTER

21 November 1984

Dear Sir Austin,

Thank you for your letter of 30 October about the potential sale of 40 Tornados to Turkey. I well understand the significance of this sale to British Aerospace and other companies.

As you will I think be aware, we have nevertheless concluded that the financial risks for the Government in supporting this even with private sector support for a substantial proportion of the credit, are unacceptably high. I can assure you that the points you have made were fully taken into account in reaching this decision.

I am sorry to give you such a disappointing reply but I can assure you that we examined the case very carefully indeed.

Yours sincerely

Margaret Thatcher

Sir Austin Pearce, CBE

KB



2 letters attached to see GR

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
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PS/
Secretary of State for Trade and Industry

16 November 1984

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

PP seen

Dear Charles,
TORNADOS FOR TURKEY

October!

You wrote to me on 30 November 1984, and Tim Flesher wrote to me on 1 and 12 November enclosing letters to the Prime Minister on this subject from:

- (a) Sir Austin Pearce as Chairman of British Aerospace
- (b) Sir Raymond Lygo as President of the SBAC
- (c) John Wilkinson MP ✓
- (d) Kenneth Warren MP ✓

... I enclose draft replies for the Prime Minister to send to these letters in light of the Cabinet decision that support should not be given for this sale.

2 You have also sent us a number of telegrams, addressed to the Prime Minister and other Ministers, from British Aerospace subcontractors, in support of the sale. Mr Channon is replying to these and copies will be sent to you.

3 I am sending a copy of this letter and enclosures to Richard Mottram (Ministry of Defence), Colin Budd (Foreign and Commonwealth Office), David Peretz (HM Treasury) and David Normington (Department of Employment).

Your ans.
A. M. Hardy

PP RUTH THOMPSON
Private Secretary

Encls

JH1BMI

AAW

Sir Austin Pearce CBE
Chairman
British Aerospace PLC
100 Pall Mall
London
SW1X 5HR

TORNADO SALE TO TURKEY

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CPH

AAX

Admiral Sir Raymond Lygo KCB

President

The Society of British Aerospace Companies Ltd

29 King Street

St James's

London

SW1Y 6RD

TORNADO SALE TO TURKEY

Thank you for your letter of 30 October about the potential sale of Tornados to Turkey. The outstanding record of the aerospace industry in exports, as well as the commercial and industrial significance of this particular order, are well understood by the Government. Nevertheless, in considering requests for credit support, for military as much as for civil business, the Government is bound to have regard to the economic circumstances and capacity to pay of the purchaser. In this case, and even with the private sector taking a substantial share of the risk as you proposed, we have concluded that the financial risks for the Government are unacceptably high.

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British Aerospace

PUBLIC LIMITED COMPANY

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Telephone: 01-930 1020
Telegrams: Britair London
Telex: 24353

From the Chairman,
SIR AUSTIN PEARCE, CBE

The Rt Hon Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, S.W.1.

30th October, 1984.

Dear Prime Minister

I understand that decisions relating to ECGD support for a sale of 40 Tornados to Turkey are imminent and while I understand HMG's concern for the risks involved, I am writing in order to emphasise the importance to British Aerospace of ECGD support for the supply of these aircraft.

We believe the following points are particularly significant.

- (a) This is the first export sale for Tornado in which we are in a strong position to beat the competition.
- (b) The Turks have stated that they regard the logistic overheads associated with fewer than 40 aircraft to be uneconomic. They have, however, said that in order to secure the supply of 40 Tornados they would be prepared to consider increasing the cash element of the purchase price from 15% to 25%.
- (c) The major clearing banks have been approached, and whilst no commitment can be made at present, if appropriate ECGD cover is available it is our assessment that they would give serious consideration to the proposal. Discussions with the Governor have indicated that the Bank of England would not oppose such a commercial consideration.
- (d) We have the support of the other main industrial companies involved, which together with (b) and (c) means we are prepared to increase the Private Sector cover to 70% thus considerably reducing the ECGD exposure.

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- (e) We are making a competitive offer and there has been no change in the price of the aircraft or spares since the offer was first made 18 months ago. Any apparent change results from the application of estimates of escalation and interest.
- (f) The order represents some 3,300 man years of employment for British Aerospace alone without taking account of the continuing sales of spares over the life of the aircraft.
- (g) The Turkish military have never defaulted on a contract. In the case of the Rapier and Sea Skua contracts they have already paid us \$M100 out of a total of \$M200 in advance of deliveries.
- (h) We have an opportunity of beating the French to an important NATO contract soon after their apparent success in Greece.
- (i) We are confident that if we are seen to take the lead our German and Italian partners will follow.

In short, this order is of extreme importance to British Aerospace and we hope we can count on your support.

Yours sincerely,

