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CCMA
DTI

10 DOWNING STREET

THE PRIME MINISTER

11 December 1984

Dear Kenneth,

Thank you for your letter of 26 November. I have also seen your further letter of 3 December, to which I will be replying shortly.

I must reassure you that all the key factors relevant to this case were taken into account when we reached our decision on the potential sale of Tornados to Turkey.

There is no question of our using double standards for ECGD exposure in any given market. The difference in response on Tornados, as opposed to that on Airbus, relates to the different amount of business involved. As I said before, we considered that the amount involved for the Tornados deal was quite out of scale with the amount of cover considered appropriate for Turkey in present circumstances. Incidentally, the figure of nearly £1 billion quoted in my letter of 20 November was that furnished to us by the company at the time. But even if the total figure were to be reduced to the £750 million which you have mentioned, the answer would have been the same. We were not prepared to agree to put at risk the kind of sums involved in the Tornados sale to Turkey - with or without the Airbus business.

I fully appreciate the prestige value for the UK in defence exports - and for that matter in civil exports as well. My prime consideration is that they should be paid for. But I do recognise that the size of some potential

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defence sales poses special problems which are handled differently by some of our competitors. I had already asked officials to study all the issues involved and possible options open to us and to report back to me.

Your letter mentioned four specific issues for consideration. Let me deal with each of these in turn. We have indeed noted the remarkable gains in the Turkish economy; but the Turks still have a high level of outstanding debt and they will face problems next year when the bulk of their re-scheduled arrears start to become due for payment. The improvement in the economy had been tangibly recognised by the restoration of ECGD cover during the course of last year after a lapse of some time. But in view of the uncertainties, this exposure must be limited. Should the Turks unhappily experience further problems, then amounts outstanding on arm sales would be at risk just as much as those for civil sales. If, on the contrary, the Turks were to insist on meeting their arm sales payments at the expense of other debts, then ECGD would suffer risks against the civil business which they are covering.

It is true that the diversion of Tornado aircraft to Turkey would relieve pressure on RAF expenditure in the next few years but it would also delay the build-up of the RAF front line and could entail a temporary shortfall in our declared annual commitment of forces to NATO.

You say that the risk at any one time relates only to work in progress. This may well be the case when payments are completed on delivery of goods, but in an export sale on extended credit terms of payment as was proposed for the Tornados, it is clear that payments outstanding can in the first few years after delivery represent the major portion of the total contract value.

I do not regard a potential sale where payment is doubtful as an "easy catch" and we took the decision in this case that the risks were too great. That remains my view.

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Raycut

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Kenneth Warren, Esq., M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

26 November 1984

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PS

My dear Margaret,

Tornados for Turkey

Thank you for your letter of the 20 November. I would not trespass further on your valuable time on this subject if I did not sense from the third paragraph of your reply the omission of a number of key factors within the advice tendered to you on which the decision was made to refuse ECGD support.

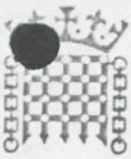
Whereas I agree with your statement that 'a cautious approach be adopted to increasing ECGD's exposure on military or civil business', I hope you will agree in turn that when the customer is the same for both military and civil business then only one ECGD standard can apply at one time to that customer.

Whilst you are being advised to turn down support for Tornados to Turkey, ECGD is simultaneously eager to support the sale of the Airbus 310s to Turkish Airlines, owned by the same customer, the Turkish Government!

If the UK and West Germany, together majority partners on Airbus, think the Turkish Government is a good customer, I find it impossible to understand how, when we are also majority partners on Tornado, the same customer can be treated differently. I trust it is not because the French have cleverly forced our hand by quietly getting ECGD committed to supporting the lesser value (£130m compared with £750m - these are the accurate figures), of the Airbus to our industry, so leaving us without resources to cover the Tornado sale? This would let in their Mirage 2000 fighter.

To the French and American governments aviation exports are regarded as great opportunities for the projection of their foreign policies. Of secondary value to them is the gaining of market shares, commercial success and the promotion of new technologies.

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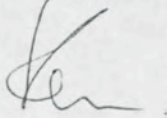
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Whereas you are a wonderful promoter of British exports I am concerned to ensure that during consideration of ECGD support for this contract, you were appraised of four key factors. Firstly, the remarkable gains in the Turkish economy, cutting inflation and its balance of payments deficit in half and producing a 5.7% growth rate. Secondly, the excellent reliability of the Turkish Government's payments to UK defence equipment suppliers. Thirdly, the value of the order in easing the current strong strain on the rate of RAF expenditure by diverting RAF Tornado deliveries to Turkey, thus enabling us to stretch the time scale on deliveries to the RAF without the usual penalty of increased unit costs. Fourthly, the actual risk at any one time, is not the total value of the contract, but only the instantaneous value of 'work in progress', - which can be further reduced by progress payments from the customer.

If these factors were considered and rejected as of insufficient merit to justify support, one wonders what else can be done to prove an ally is worthwhile as a customer. If ECGD's track record is bad then of course they must find better sources of advice, but that is no reason, I respectfully submit, to throw away this easy catch.

I hope this additional information will cause you to call for a review of the Government's position on this contract which is being viewed inside Parliament and outside in industry and the City as a litmus test of our ability to promote industrial success.

Kenneth Warren

Yours truly


Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW1
PAMAAZ



2 letters to see attached GR

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1-19 VICTORIA STREET
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SWITCHBOARD 01-215 7877

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

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.

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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