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PRIME MINISTER

Mr. Tebbit seeks agreement to matching the Belgian offer,
breaking the OECD rules if necessary.

Treasury raise no objection to the extra aid (£21 million
over three years), nor to the exhaustion of ECGD cover as
Thailand is a good enough risk to justify a higher ceiling.
But they oppose putting ourselves in the wrong with OECD.

However, they believe that with the help and connivance of
the Thais a matching counter offer can be made which maintains
the appearance of adhering to the consensus. The Bangkok
Embassy is being asked for advice - see attached telegram.

(i) Agree a matching offer if Bangkok advise the risk
of exposure can be taken? Yes

(ii) If there is a risk of exposure reconsider in margins
of OD on Tuesday morning? Yes not AT

(ANDREW TURNBULL)

3 May 1985

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GRS 336
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DESKBY 040200Z
FM FCO 032132Z MAY 85
TO IMMEDIATE BANGKOK
TELEGRAM NUMBER 90 OF 3 MAY
FROM RESIDENT CLERK

LEYLAND BUSES

FOLLOWING MIPT OFFICIALS HAVE BEEN CONSIDERING A POSSIBLE ARRANGEMENT WHICH MIGHT SECURE THE THAI DEAL. THE BASIS OF THIS ARRANGEMENT WILL BE PUT TO MINISTERS OVER THE WEEKEND. YOUR ADVICE IS THEREFORE URGENTLY SOUGHT.

HMG COULD MAKE AN AID OFFER TO THE THAIS WHICH MATCHED THE SUBSIDY ELEMENT OF WHAT WE BELIEVE THE BELGIANS ARE OFFERING. PUBLICLY, THE OFFER WOULD INVOLVE AN ATP GRANT OF SOME POUNDS STERLING 21 MILLIONS AGAINST A CONTRACT WORTH POUNDS STERLING 80 MILLION. BUT OUR OFFER WOULD BE CONDITIONAL ON THE THAIS EFFECTIVELY COMMITTING THEMSELVES TO AN AGREEMENT THAT THE POUNDS STERLING 370 MILLION BALANCE WOULD BE AWARDED TO LEYLAND AS A SEPARATE CONTRACT, OR CONTRACTS, ON NO-AID TERMS. THUS, IN EFFECT, OUR POUNDS STERLING 21 MILLION AID WOULD NEED TO SECURE THE ENTIRE POUNDS STERLING 450 MILLION BUSINESS.

THE OFFER HAS TO BE STRUCTURED IN THIS WAY IF WE ARE TO AVOID BREAKING OECD ASSOCIATED FINANCE RULES WHICH DEMAND A MINIMUM 25 PER CENT SUBSIDY LEVEL. IT ALSO HAS TO BE ON THE STRICT UNDERSTANDING THAT THE CONDITIONAL LINKING OF CONTRACTS REMAINS CONFIDENTIAL BETWEEN HMG AND THE THAI GOVERNMENTS SINCE SUCH LINKING IS CONTRARY TO OECD RULES.

OUR PROPOSAL MIGHT ALLOW THE THAIS OPPORTUNITY TO TRY TO POCKET THE POUNDS STERLING 21 MILLION IN EXCHANGE FOR ONLY AN

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POUNDS STERLING 80 MILLION CONTRACT. THEY MIGHT ALSO CHOOSE TO LEAK THE UNDERSTANDING AS A MEANS OF FURTHER ERODING THE NO-AID AGREEMENT AND HOPE THEREBY TO OPEN UP AN INTERNATIONAL AID AUCTION.

WE WOULD THUS BE GRATEFUL FOR YOUR URGENT ADVICE NO LATER THAN MONDAY, 6 MAY 18.00Z:-

1. WHETHER A DEAL ALONG THE LINES IN PARA 2 MIGHT CLINCH THE BUSINESS,
2. WOULD THE THAIS RESPECT ABSOLUTE CONFIDENTIALITY OF THE UNDERSTANDING, AND
3. YOUR BEST JUDGEMENT OF THE TRUE DEADLINE BEYOND WHICH LEYLAND MIGHT LOSE THEIR LEAD POSITION

YOU SHOULD NOT CONSULT EITHER THE LEYLAND REPRESENTATIVES OR THE THAI GOVERNMENT.

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