



19
Pmt

(1)

CONFIDENTIAL

Prime Minister: (may have to resubmit these papers on the issue of just how the credit terms should be improved (the Chancellor has views).

PM/80/76

PRIME MINISTER

Yes - it is necessary we must help with a credit guarantee scheme of Hawk Aircraft to Egypt. This is essential for us to be able to approach our own leaders to help with the issue.

1. We are in serious danger of losing a major arms contract in Egypt to French competition.
2. The Egyptians have for some years been seeking an advanced trainer and ground attack aircraft for their Air Force. Since 1976 the British Aerospace Hawk Aircraft has been in the running to fill this need. It is widely held to be a better aircraft than its main competitor, the French Alpha Jet. Nevertheless, an Egyptian decision is believed to be imminent and the French appear to be poised to sign a contract for about 30 aircraft. The sale to Egypt has great significance for future sales throughout the region. In these circumstances, I am sure you will agree that we should do all we can to help British Aerospace secure this contract which would be worth over £120 million.
3. My officials are looking with the Ministry of Defence at ways in which we could support the Company, for example by offering attachments to RAF Squadrons if the sale of Hawk were to go through. Nevertheless it is the opinion of the Company and of our Ambassador in Cairo that what is really needed is a message from you to President Sadat indicating the political importance we attach to British Aerospace securing this contract. I support this view and very much hope that you will be prepared to send the President a message. Attached to this minute is a draft for your consideration.
4. One area of crucial importance will be the credit terms that ECGD will allow British Aerospace to offer the Egyptians. The Egyptians have consistently claimed that the French company, Dassault, have offered very generous terms indeed, but COFACE, the French credit agency whom we are obliged to consult about credit offers under consensus rules, have denied this. The Egyptians clearly have an interest in extracting the best possible terms out of their suppliers by fostering competition

/on terms

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on terms between them, but there seems a possibility that the French manufacturers have assured the Egyptians that they will be able to secure the agreement of the French Government to their offer as soon as the contract is signed. These circumstances present ECGD with great difficulties. If they stick to the consensus rules they cannot match terms that have not been approved by COFACE but if they fail to match a Dassault offer we could lose out. I attach great importance, therefore, to our ensuring that the Egyptians realise that our credit arrangements are still negotiable. We clearly cannot offer to match any terms the French might produce, particularly if they provided aid for the contract, but a message to Sadat could make clear that we will support the Company in offering attractive and competitive terms. This aspect of the draft message has been cleared with ECGD.

5. I am sending a copy of this minute to the Secretary of State for Defence, the Chancellor of the Exchequer and the Secretary of State for Trade.

A handwritten signature in blue ink, consisting of a stylized 'C' with a horizontal line underneath it.

(CARRINGTON)

Foreign and Commonwealth Office
6 November 1980

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DRAFT MESSAGE FROM PM TO PRESIDENT SADAT

'I hope you will allow me, at a time when you like all of us must be greatly preoccupied with events in the Middle East, to take up some of your time with a bilateral problem in which I have been taking a close interest.

As Vice President Mubarak may have told you, during his very interesting and useful visit to Britain in September he discussed with Government and industry Egypt's requirement for a new trainer and ground-attack aircraft, for which British Aerospace are offering the Hawk. He also saw the aircraft in a flying display at the Farnborough Air Show. I understand that it made a favourable impression on Vice President Mubarak and also on the senior personnel of the Egyptian Air Force who have flown and evaluated the aircraft. For our part, we are convinced that Hawk is a better aircraft than its rivals: it is not just a trainer but an effective and hard hitting ground attack aircraft too, and it has proved its qualities in service with the RAF. Moreover, I can assure you that British Aerospace with the backing of my Government, will be able to offer competitive and attractive credit terms. I also believe that the British Aerospace proposals for co-operation in Egypt are realistic as well as imaginative, and will enable Egypt to build up the expertise and skills required for a modern aircraft industry. I have instructed my officials that the Royal Air Force should prepare a programme of attachments for the Egyptian Air Force to RAF stations which operate Hawk. This would help to familiarise your pilots with the tactical operation of the aircraft and would supplement the pilot conversion and engineering training that British Aerospace will be providing under contract.

I am sending this message to you direct because I wanted

/to make it clear



to make it clear that the British Government consider this contract to be of very great importance, not only to Britain but to Egypt and to our future bilateral relations. I believe that it would become a unique and significant milestone in the fruitful process of collaboration in the defence field which has developed between our two countries in recent years.'



-6 NOV 1980





Prime Minister.

①

MO 26/9/13

PRIME MINISTER

Yes not

1 said I would submit this minute
with comments from Trade & Treasury.
These I attach. As you will see BAE
has authority to make the French. On
present evidence there is no need to take the
initiative i.e. "offering the ante". Agree to pause

SALE OF HAWK AIRCRAFT TO EGYPT for the moment & see what
after your message to Sadat has?

I have just seen Peter Carrington's minute to you of today.

Am

2. I too am deeply concerned at the danger that we may lose the Egyptian order to the French. I have seen a telegram of yesterday from HM Ambassador Cairo (extract attached) and I believe that we must act now to allow British Aerospace to offer to the Egyptians the terms agreed earlier by ECGD but withdrawn when the French authorities denied Government backing for Dassault's improved credit terms. (In this context the current visit to Cairo by the French Minister of Economy is highly relevant).

3. I understand that ECGD's revised credit terms were 80% credit over 10 years from final delivery at 7%. Dassault's were 90% credit over 9½ years (including a two year moratorium) at probably the same rate of interest offered by ECGD.

4. I agree with Peter that the time is ripe for you to send a message to President Sadat and in the terms he recommends. But if Geoffrey Howe and John Nott agree I believe that British Aerospace should be authorised to go ahead and make an early offer of improved credit to the Egyptians in the terms described in paragraph 3.

5. I am copying this minute to the Foreign and Commonwealth Secretary, to the Chancellor of the Exchequer, to the Secretaries of State for Industry, for Employment and for Trade, and to Sir Robert Armstrong.

Ministry of Defence

6th November 1980



EXTRACT FROM TELEGRAM 051020Z
from HM Ambassador, Cairo

BAe's agent has been told by Helmi (Egyptian Air Force) that the deadline for the submission of revised final proposals is 10 am on Saturday 8th November. He added that the BAe offer was very satisfactory on co-production, but that they must improve their credit terms. BAe believe that on overall price their offer is already better than the French.

It may unfortunately be relevant that the French Minister of Economy, M Monory arrives in Cairo today on a three day official visit As Monory is quoted in Paris tel No 899 as the ultimate authority on credit terms for Alphajet there is presumably a risk that he will intervene on the spot to agree the favourable terms which the French have denied offering. I hope ECGD will agree that we must pre-empt this risk.



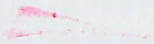
UNITED STATES DEPARTMENT OF DEFENSE
OFFICE OF THE SECRETARY

MEMORANDUM FOR THE SECRETARY
SUBJECT: [Illegible]

1. [Illegible]

2. [Illegible]

3. [Illegible]



NOV 6 1988

CONFIDENTIAL

cc FCO
HMT
D/T
DII
Demp
CO

H8

Egypt



10 DOWNING STREET

From the Private Secretary

10 November 1980

Sale of Hawk aircraft to Egypt

The Prime Minister has seen the Defence Secretary's minute to her of 6 November about the credit terms for the possible sale of Hawk aircraft to Egypt. She has also seen the letters from John Wiggins and Stuart Hampson to me of 7 November on the same subject.

The Prime Minister would prefer to wait and see what effect her message to President Sadat has on the negotiations before taking a view about the offer of improved credit terms. She would in general prefer that we should limit ourselves to matching whatever terms the French offer.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Wiggins (H.M. Treasury), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Brian Norbury, Esq.
Ministry of Defence

CONFIDENTIAL

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

7 November 1980

M. O'D.B. Alexander, Esq.,
No.10, Downing Street,
LONDON S.W.1

Dear Michael,

SALE OF HAWK AIRCRAFT TO EGYPT

The Chancellor has seen the minutes to the Prime Minister of 6 November from the Foreign and Defence Secretaries. He was very content with the draft message to President Sadat, which I understand has now been sent.

As to the question of credit terms, the Chancellor's understanding is that the terms offered by British Aerospace (BAe) and their French competitors have hitherto been comparable, and less generous than suggested in paragraph 3 of Mr. Pym's minute. The Chancellor would be content for BAe to match whatever the French offer, but he does not think that it would be appropriate at this stage for BAe to make a preemptive strike in offering more generous terms than the French. Such a course would be directly counter to our current policy and would prejudice our international stance on export credit terms.

I am copying this letter to George Walden, Brian Norbury, Ian Ellison, Stuart Hampson and David Wright.

yours ever

John Wiggins

(A.J. WIGGINS)



From the Secretary of State

M Alexander Esq
Private Secretary
10 Downing Street
London, SW1

7 November 1980

Dear Michael

SALE OF HAWK AIRCRAFT TO EGYPT

My Secretary of State has seen the minutes of 6 November to the Prime Minister from the Foreign Secretary and the Secretary of State for Defence concerning the sale of Hawk aircraft to Egypt.

The position of ECGD is that for the past 10 days officials have kept in close and constant touch with their opposite numbers in the French Ministry of Economy as to precisely what the French were doing, and might be prepared to do, as opposed to what the Egyptians have been alleging they were doing. Much confusion has deliberately been introduced in this case by the Egyptians feeding both British and French with false information as to the intentions of the other. On the afternoon of 6 November M Prevel, the Senior Adviser to M Monory, told the British Embassy in Paris, who were enquiring on behalf of ECGD, that M Monory was going to Cairo but not to discuss this matter; neither had he any intention of making an offer of 10 years' credit for the Alphajets whilst there. M Prevel gave his personal assurance that in the event of Dassault taking a private initiative to offer 10 years in the belief that they would get subsequent approval of this from the Minister, he would not advise M Monory to agree. Furthermore he promised to telephone Dassault immediately to make clear to them that such tactics would not receive his support.

In the face of such assurances there seems no reason to believe that the French are not being frank with us as to their intentions in this case and there is no reason to believe that M Monory intends to offer 10 years' credit whilst in Cairo. Should he do so, however, British Aerospace would be at no disadvantage as they already have authority to match such an offer should it be made. Were permission to be given for British Aerospace to initiate the offer of 10 years' credit they would gain no ultimate advantage as their offer would undoubtedly be matched immediately by the French and would be doing no more than contributing to an unnecessary and undesirable pushing out of credit terms.



From the Secretary of State

Whilst my Secretary of State approves of the message sent to President Sadat in the terms recommended by the Foreign Secretary, he does not think that British Aerospace should be given authority to offer 10 years' credit except to match such an offer by the French. To take such an initiative in a case where there has been such close co-operation with the French could seriously harm our chances in the future of setting up agreement with them in order to prevent unnecessary competition in the escalation of credit.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, to the Secretaries of State for Defence, Industry and Employment and to Sir Robert Armstrong.

Yours sincerely

Stuart Hampson

S HAMPSON
Private Secretary



From the Secretary of State

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7 NOV 1968

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[Faint, illegible handwriting]

Private Secretary

Egypt



Foreign and Commonwealth Office
London SW1A 2AH

10 November 1980

Dear Walter,

Cluster Bombs for Egypt

Lord Carrington has seen your letter of 4 November. He is prepared to agree to supply the BL755 Cluster Bomb to Egypt in order to try to secure the Hawk contract. Lord Carrington assumes that such agreement would be part of a package and that we would not supply BL755 if the Egyptians did not in the event buy Hawk.

I am copying this letter to the recipients of yours.

Yours etc

(P Lever)
Private Secretary

J-D S Dawson Esq
Private Secretary
Ministry of Defence

cc:

Michael Alexander Esq,
10 Downing Street
Catherine Bell,
Dept of Industry
Richard Dykes Esq,
Dept of Employment
David Wright,
Cabinet Office
Pete Jenkins Esq,
Treasury
Stuart Hampson Esq,
Department of Trade

171 NOV 1981

8 7 6 5 4 3 2 1



for [unclear]

Cluster Bonds for [unclear]

I am writing this letter to you regarding the [unclear] bonds. The [unclear] bonds are being issued by the [unclear] and are being sold to you. The [unclear] bonds are being sold to you at a discount of [unclear] percent. The [unclear] bonds are being sold to you at a discount of [unclear] percent. The [unclear] bonds are being sold to you at a discount of [unclear] percent.

The [unclear] bonds are being sold to you at a discount of [unclear] percent. The [unclear] bonds are being sold to you at a discount of [unclear] percent. The [unclear] bonds are being sold to you at a discount of [unclear] percent.

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- Richard [unclear]
- John [unclear]
- David [unclear]
- Robert [unclear]
- James [unclear]
- William [unclear]
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A The National Archives

DEPARTMENT/SERIES <i>REM 19</i>	Date and sign
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Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

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eg. 28, 1079, 84/1, 107/3

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