

(A) ✓ (C)
(1)



CR2.

will wait - I am
hesitant to intervene - we
are desperately seeking
orders for Tornados and I
MO 5/4

16th May 1985

am very worried that we are
not getting enough jobs for
Prime Minister. The defence secretary proposes the
purchase of "Jordanian" Tornados. The
offer of purchase of Tornados. The
Chancellor is likely to oppose
strongly. Do you wish to intervene
at this stage? Or wait
and arbitrate later? C.D.P. 15/5

TORNADO FOR OMAN

The Omanis have been considering for some time the purchase of the air defence variant (ADV) version of Tornado, and they have held fast to their intention in the face of pressure in favour of alternative aircraft from their Gulf Co-operation Council partners and from the Americans. British Aerospace has been engaging in continuing commercial discussions, but final negotiations are now approaching and we hope to have a contract signed later this year.

2. This contract is very important. It would be the first export order for Tornado and would help to establish the aircraft in the market where there is increasing interest. But it would also bring into focus the special relationship between Britain and Oman. At its most basic level this has resulted in a large amount of business, both civil and military, being placed in Britain as a deliberate act of policy. But the relationship is coming under strain. There was a spate of bad publicity for Britain in the Sultanate last year, and this was taken very seriously by the Sultan and his closest advisers: there is increasing Gulf Co-operation Council pressure to break away from traditional relationships; and American efforts to establish an influence through attractive proposals are becoming harder to ignore in Muscat. The Omanis have made it clear to our Ambassador and others



that they are looking to the deal for a demonstration of our belief in the traditional relationship: indeed they have said that the sale will not go ahead unless the financial terms are favourable. The Sultan is certainly under some financial pressure and has just conducted a stringent defence review; further, because of the close links between the ruling families, the Omanis are well aware of the terms of the offer to the Jordanians in our recent package and are seeking something equally good.

3. The concessions which I believe we should make to the Omanis are an extension of the grace period for loan repayment from 3½ to 5 years; the final repayment period to be increased from 11½ to 15 years; the provision of supported finance in United States dollars for the German element we have agreed to cover; and, most crucially, a reduction in the loan interest rate from 11.2% to 9.5% to match the offer to Jordan.

4. Officials have discussed these proposals but, apart from an increase in the credit from 80% to 85% of the total sale price, which we welcome, your officials have not agreed to any other concessions. While what I have proposed does indeed represent a considerable package, anything less will I believe cause the Omanis to drop Tornado. We cannot afford to lose this market or our influence in Oman and I should therefore be pleased to have your agreement to offer the full package.

5. We also need to settle the question of how the subsidy of interest rate is to be dealt with. Your officials are suggesting in this and other cases that the costs should fall to the sponsoring department, thus burdening the defence budget with the costs of achieving the national advantages from securing this sale as well as with the loss of military capability arising from the diversion to export of aircraft ordered for the Royal Air Force. I cannot accept this approach which seems to undermine much of the value and rationale of the ECGD scheme which we run. I know that we shall have an opportunity to discuss this issue in our later consideration of the wider

CONFIDENTIAL



ECGD issues on which papers are being prepared. But the Omani decision needs to be made quickly and we cannot wait for the more general discussion before making up our minds.

6. I am sending copies of this letter to the Prime Minister, other members of OD and to Sir Robert Armstrong.

95 lu

Michael Heseltine