



FCS/85/143

CHANCELLOR OF THE EXCHEQUERTornado for Oman

1. I have seen Michael Heseltine's letter MO5/4 of 16 May and support his proposals for a credit package. If we can secure a first export order for Tornado to Oman, this may help us in our bid to sell the aircraft to Saudi Arabia. But the sale hangs on offering the Sultan credit terms that he can accept. Relations between Sultan Qaboos and King Hussein are indeed very close and I have no doubt the Omanis expect terms similar to those in the Jordanian offer.

2. Michael Heseltine makes a strong political case for the sale to Oman in his second paragraph. We certainly cannot take our special relationship with Oman for granted, both in view of our occasional own goals (to which he refers) and the growing competition from the Americans to our dominant role in Oman. It seems the Sultan has already given a commitment to buy American F16s, which will probably be offered on preferential terms. If we now fail to match the offer we have made to the Jordanians, we shall undoubtedly strengthen the hand of those of the Sultan's advisers who would prefer him to buy the F16 exclusively. The evidence suggests that the Americans are engaged in a long-term and potentially substantial build-up in the Gulf area and, with Saudi Arabia already compliant, Oman is the main target. I believe it is not only in the UK interest but also that of the West in general that the US defence industry should not lever us out of the position of Oman's leading defence supplier and adviser. The Americans have neither the subtlety nor the

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necessary discretion, and a major incursion of US personnel such as would follow a large aircraft order could only make Sultan Qaboos and his government a target for anti-American and nationalistic emotions. I suspect there are not a few Americans in the State Department, aware of the Iranian precedent, who might privately support this view.

3. None of us could question the commercial importance to us of Oman. I have just seen the 1983 figures for our share of foreign countries' import markets. In Oman, we achieved a remarkable 27% of the market (fourth highest percentage in the world). This is without doubt a reflection of the fact that the Omanis often put business our way, both military and civil, on a negotiated basis, without going to tender. They discriminate consistently in our favour. They do so because they feel an historical affinity for Britain, because they see continuing links with us as serving their long-term interests and because they continue to have faith in the quality of British goods and services. But they expect the occasional quid pro quo. The Sultan has cut back a number of major projects and he will therefore be looking very closely at credit terms for this major purchase. It seems to me that this is an occasion where we should demonstrate a measure of self-interested generosity at the same time as securing an export deal which would be profitable in itself and will secure our dominant position in the Oman defence field.

4. The Sultan arrived in London over the weekend and will lunch at Chequers on 29 May. The Tornado sale is bound to be an important topic in the Prime Minister's talks.

5. On the financial point raised by Michael Heseltine, I have to say that there are simply no funds available in the small and overstretched FCO budget to enable me to bear any of the costs which the Treasury wishes to see allocated between the sponsoring department and the exporter, British Aerospace.

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

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
21 May 1985

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reference: Sales P+S

21 MAY 1985

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