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From the Minister of State  
for Industry and Information Technology

GEOFFREY PATTIE MP

F. Hasler  
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Rt Hon Peter Rees QC MP  
Chief Secretary to the  
Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

28 May 1985

Dear Chief Secretary,

TORNADOS FOR OMAN

I am writing in the absence of Norman Tebbit and Paul Channon on the need for further improvements to the finance package for this contract.

I agree fully with the comments in Michael Heseltine's letter of 16 May and Geoffrey Howe's letter of 20 May on the importance of this order for our overall trade relationship with Oman. UK civil engineering contractors have been given favoured treatment in their pursuit of major project business in Oman which has become their most important market in the Middle East. While the Sultan has cut back on a number of projects, the market will offer significant opportunities in the medium term.

As you and colleagues are already aware, the workforce at British Aerospace's factory at Warton is faced with severe contraction from the end of 1987 if the company is unable to secure further orders for Tornado from the RAF or from export customers. You will recall from our recent deliberations on the EFA project that, on current projections, work on the new programme would not start until 1991 thereby leaving a potential production gap of four years. Although an order for eight aircraft would only go some way towards filling this gap, it would create an additional 8,500 man years of work for the UK aerospace industry of which some 1,300 man years would fall to the Warton workforce at the same time extending the production of Tornado into 1989. It would be the first export order for Tornado and would undoubtedly enhance its international reputation and should help to boost BAe's efforts to achieve further sales, including the vital sale to Saudi Arabia.

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ECGD has now been provided with a revised delivery programme by British Aerospace. Assuming a contract is agreed in June 1985, this would give rise to a grace period before repayments start of  $4\frac{1}{2}$  years. While a repayment period of  $8\frac{1}{2}$  years is the normal maximum for fighter aircraft, I am willing in the circumstances to agree to a 10 year repayment period. These revised elements when combined would give rise to a  $14\frac{1}{2}$  year loan period. I hope that these are sufficiently close to the 15 year period sought by Michael Heseltine to be acceptable.

As you recognise in your letter of 22 May, support for an interest rate of 9.5% on both the UK and German elements raises difficult issues, given the implications for public expenditure. I am also concerned that the Omanis might seek to use any agreement to such a rate as a precedent for future civil business, although it should be distinguishable. However there are, as the correspondence has shown, strong arguments in favour of the sale. I accordingly hope Michael Heseltine will be willing to agree to your suggestion that, as a last resort, and on the basis that it is needed to win the order, the cost of the interest rate reduction should be borne by MOD programmes. I regret that the cash management position on DTI's budget is inconsistent with the acceptance of contingency risks of this kind. If the interest rate does create a precedent for future buyers of defence equipment in the Gulf I assume that Michael would be willing to provide support in the same way.

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

*Yours sincerely*

*Timothy Abraham*

GEOFFREY PATTIE

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