

PRIME MINISTER

DEFENCE SALES TO JORDAN

King Hussein raised with you today the possibility of some improvements in the terms on offer to Jordan for defence sales.

- A You saw the Defence Secretary's proposals for this.
B His suggestions have been supported by the Foreign Secretary
C but opposed rather firmly by the Chief Secretary and by Norman
D Tebbit. This leaves you with a very difficult situation.

The King put the emphasis on a reduction in the interest rate but I really cannot see that we can agree to that and Michael Heseltine did not suggest it. The possibilities are therefore:

- an increase in the credit cover to 90 per cent
- a further year's grace
- an increase in the country limit.

The Chief Secretary and Norman Tebbit are prepared to envisage some increase in the country limit. It might be possible to persuade the private sector to take some additional risk and an extension of the grace period would probably be what the Jordanians would appreciate most (apart of course from a reduction in the interest rate). Michael Heseltine is prepared to take the cost of improved terms on to his budget.

If you agree I can explore next week whether there was likely to be a consensus on some modest improvements covering these elements. But if this fails, you would have to hold a meeting.

C.D.P.

The grace period seems
the best bet. me

(C.D. POWELL)

7 June 1985



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BEM AP2

10 DOWNING STREET

From the Private Secretary

10 June 1985

DEFENCE SALES TO JORDAN

The Prime Minister has considered the Defence Secretary's minute of 3 June proposing some further relaxation in the already favourable credit terms offered to Jordan for arms purchases from the United Kingdom. As you know, the matter was raised with the Prime Minister by King Hussein.

The Prime Minister is clear that we cannot accede to King Hussein's request for a further reduction in the interest rate. She does, however, believe that we should be able to offer some marginal improvement in the terms on offer, and hopes that the private sector will be persuaded to play a part in this.

The Prime Minister notes that the Trade and Industry Secretary and the Chief Secretary are prepared to envisage an increase in ECGD's Section 2 exposure to a total of £475 million. She proposes that in addition we should offer to increase the contract cover from 85 per cent to 90 per cent, provided that the private sector are also ready to take a greater share of the risk. This would have the effect of increasing ECGD's exposure to some £495 million.

Boff
The Prime Minister hopes that the Defence Secretary will discuss this urgently with the companies so that a reply can be sent promptly to King Hussein.

I am copying this letter to the Private Secretaries to members of OD and to Sir Robert Armstrong.

(C.D. Powell)

Richard Mottram, Esq.,
Ministry of Defence