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PRIME MINISTER

DEFENCE SALES TO JORDAN

*in lang Hussein
meeting folder*
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I refer to Michael Heseltine's minute to you of 3 June which seeks an increase from £300 to £375 million in ECGD's maximum liability agreed in OD last October for defence sales to Jordan, and an improvement in the credit terms.

2 You have instructed ECGD to be more rigorous in its approach to country risk. ECGD's present potential exposure on Jordan, on both its commercial and national interest accounts, is £520 million. There are grounds for caution about the future performance of the economy.

3 Cover for civil exports is already under considerable pressure as a result of the existing commitment of £300 million to this defence sale. I would be willing to propose a modest increase of £30 million in ECGD's section 2 exposure to £475 million (including £25 million from Section 1 subject to the approval of ECGD's Advisory Council). This would be sufficient to enable an indication of cover to be maintained on the Yarmouk University Teaching Hospital project. However, an increase in £75 million in the defence commitment would result in there being no ECGD cover



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for civil project business, including Yarmouk and a number of medium sized contracts which UK exporters are actively pursuing, and only limited cover for traditional exports.

4 In OD I was invited to review, in consultation with Michael Heseltine and Peter Rees, the arrangements for meeting the large credit requirements arising on major defence sales. There are no easy answers to this problem but the topic is covered in the Review of the Management and Organisation of ECGD due to be published next week. The implications of that review will be dealt with, together with the financial outlook for ECGD, at the E(A) meeting scheduled towards the end of July. Pending the outcome of this discussion, I cannot agree that ECGD's normal operations should be distorted by an increase in exposure beyond £550 million or that continuing civil project prospects should be brought to an immediate halt.

5 I understand that discussions have not yet been held with the private sector to establish whether it would be able to take the risk over and above the £300 million already agreed. While this may offer a potential solution I appreciate time does not permit this option to be explored before your meeting with King Hussain on 7 June.

6 I would be opposed to the improvements on the generous credit terms agreed in OD which are being sought by Michael Heseltine. These improvements are not only reflected in part in his request



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for an increase in ECGD exposure, but would be contrary to well established principles that apply to civil business under the Consensus (limiting credit cover to 85% and linking grace periods to delivery) and which are generally applied by ourselves and other OECD countries on defence business. While I appreciate that Michael Heseltine is willing to accept the further subsidy consequences on his budget, I am concerned that precedents would be established which could be used against us on civil exports elsewhere.

7 I am copying this minute to members of OD and to Sir Robert Armstrong.

A handwritten signature consisting of the letters 'N' and 'T' in a stylized, cursive font, with a horizontal line underneath.

N T

7 June 1985

Department of Trade and Industry

Defence; Sales.

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