



MO 11/10/4

PRIME MINISTER

DEFENCE SALES TO JORDAN

In advance of the recent negotiations with the Jordanian team, colleagues agreed that the Defence allocation of credit cover for Jordan could be increased to a maximum liability of £326 million but no more. I am pleased to report that the Head of Defence Sales has successfully reached an agreement ad referendum with the Jordanian Minister of Finance and his team that provides for the sale of £270 million worth of defence equipment. We have been able to keep within the £326 million liability ceiling by sharing the risk with the Banks who I am glad to say responded extremely positively to the challenge this presented them.

2. The Jordanians were not entirely happy at the prospect of anything less than full Export Credits Guarantee Department backed credit and to get them to accept this it was necessary for our negotiators to offer to support up to 90% cover at a 9.5% interest rate (that is the limit you proposed we should be



prepared to go to). The Jordanians pressed hard for a grace period following delivery. We managed to resist this although we had to concede a somewhat slower timetable than we would have wished for the placing of contracts in order to ensure that the first repayment of the loan did not fall due until the beginning of 1989. The available ECGD cover has been used to guarantee £212.5 million (78.7%) of the loan with the Banks providing the other £57.7 million (21.3%) at their own risk with the subsidised 9.5% interest rate applying to 90% of the total.

3. I am satisfied that the concessions made were necessary to secure this important sale which in addition to benefiting the 70 defence manufacturers involved will further strengthen United Kingdom/Jordanian relations and prevent King Hussein turning again to the Soviet Union for equipment. I have agreed that the subsidy over and above the normal ECGD interest make up will be met from the Defence Budget, and I understand that at official level other Departments are content with the terms negotiated.

4. The terms of the agreement with the Jordanians have been incorporated into a Memorandum of Understanding (MOU). It has been suggested that it might be appropriate for you to sign this during your planned visit to Amman in September. A small ceremony might be arranged for simultaneous signature of the MOU, the Loan Agreement and the contract under which International Military Services Ltd will manage the procurement for the Jordanian Government. If you approve this HM Ambassador at Amman



will suggest this to the Jordanians. The delay in signature need not hold up matters. We could arrange for the Memorandum of Understanding to be initialled now as a safeguard against requests for further changes and the various activities which it provides for could then get under way.

5. You owe King Hussein a reply to his request on 7th June for an improvement in our credit terms. I attach a draft letter confirming what has now been agreed and our readiness to sign the Memorandum of Understanding.

6. I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "M. H. H.", is located above the typed text.

Ministry of Defence

8th July 1985

s/3ajg

DRAFT LETTER FROM THE PRIME MINISTER TO KING HUSSEIN

When we met on 7th June, you asked me to consider what improvements we could make to the credit terms for the package of defence equipment under negotiation between our two countries. My colleagues and I have ~~looked at this question very carefully.~~ ^{gave very careful consideration to}

this and

I understand that a number of options have been discussed recently between Dr Hanna Odeh and our Head of Defence Sales, Mr Colin Chandler, and I am pleased to say that, ~~from the United Kingdom's point of view,~~ ^{our respective} the negotiators have ~~constructed a~~ ^{now found a} package which is entirely acceptable to us, and which I hope commends itself to Your Majesty. I also understand that they negotiators have ^{also} agreed a mutually satisfactory timetable for repayment of the loan. ^{which is satisfactory to both sides.}

~~that outcome~~ ~~that outcome~~ ^{that the outcome is}

The new package is, I believe, a considerable improvement on our original offer. ^{and in} We have been prepared, exceptionally, and in ^{reflects our wish to do everything possible to maintain the} the spirit of our already close relationships, to go this far in ^{very close relations between Britain & Jordan.} order to help Your Majesty's country to acquire the military equipment that you need for your defence.

The precise terms agreed ad referendum between ^{our} ~~Dr Odeh and~~
~~Mr Chandler~~ ^{representatives} have been incorporated into a Memorandum of
Understanding and I understand that Dr Odeh is submitting this to
your Cabinet for their approval. I am pleased to confirm to Your
Majesty that the British Government accepts the terms set out in
the Memorandum of Understanding and that we are willing to sign
this whenever the Jordanian Government is ready.

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10 DOWNING STREET

From the Private Secretary

9 July 1985

Dear Richard,

The Prime Minister has considered the Defence Secretary's minute of 8 July about defence sales to Jordan to which he attached a draft message to King Hussein.

The Prime Minister has approved the message in slightly amended form and I am sending the top copy to the Foreign and Commonwealth Office for despatch to Amman.

I am sending copies of this letter and enclosure to Colin Budd (Foreign and Commonwealth Office), to the Private Secretaries to the other members of OD, and to Richard Hatfield (Cabinet Office).

Yours sincerely,
Charles Powell

(Charles Powell)

Richard Mottram, Esq.,
Ministry of Defence.

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cc CO WCO
CAZ FCO
DTI
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HMT