



MINISTRY OF DEFENCE
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*DN no note
to details of
the oil trading
scheme in
Annex. Agreed*

MO 5/3/3V

26th September 1985

*with Dg En.
CDP.
27/9.*

Dear Charles

SALE OF AIRCRAFT TO SAUDI ARABIA

Further to my letter of 25th September enclosing briefing for the Prime Minister's meeting with Prince Sultan, I can now confirm that, as I told you over the telephone, a formal Understanding was signed at lunchtime for the sale of 48 Tornado IDS aircraft, 24 Tornado ADV aircraft, 30 Hawk aircraft and 30 PC9 trainers.

The Saudis introduced at a very late stage the question of offset. I attach the record of the Defence Secretary's meeting this morning which covers this point. I am also attaching a copy of the letter he is sending to Prince Sultan which is couched in very general terms.

Finally, I should record that we have put proposals to the Saudis on payment methods (copy attached), which have been agreed at official level with the Department of Energy.

I am copying this letter and the attachments to the Private Secretaries to the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Energy, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment and the Secretary of the Cabinet.

Yours etc.

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SAUDI ARMS DEAL

JOHN:

Britain and Saudi Arabia have this morning in London formally initialled an agreement for ^a huge arms deal worth three thousand million pounds. Under the contract Britain will supply the Saudis with 132 aircraft, including 48 Tornado fighter bombers produced by British Aerospace in partnership with Italy and West Germany. And that of course is immensely good news for Britain's aircraft industry. But the competition for the Saudi contract has been quite ferocious. The French were contenders. And but for the intervention of the powerful Israeli lobby the deal might have been wrapped up by the United States. I've been talking to Anthony Sampson, author of The Arms Bazaar and editor of the Sampson Letter. How important are arms sales to countries like Britain and France and the United States.

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ANTHONY SAMPSON - ARMS DEALS

SAMPSON: I'm afraid they've become a crucial part of the economy of Western Europe, because particularly in a time of high unemployment and of desperate need for this type of technological job. It's the arms sales that really provide extra employment and extra revenue which governments increasingly are determined to get. So the competition gets much greater, and role in the economy gets greater.

JOHN: So we can imagine some fairly desperate months behind the scenes while this was being fought out?

SAMPSON: This particular deal has perhaps been the most desperate of all on both sides. The French and British have been determined to get it. Of course the British are in partnership with the Italians and the Germans on this Tornado deal, but the British have made the running. The French were desperately trying to sell the Mirage and the competition, both in terms of official bargains and official offers, and in terms of unofficial commissions and arrangements behind the scenes, has been probably more intense than for any other big deal in the Middle East, which says quite a lot.

JOHN: Unofficial arrangements behind the scenes. What do you mean by that?

SAMPSON: Well, what's happening more and more of course, particularly in Saudi Arabia and the big spenders, is that the commissions

that go with the arms deals have taken over a life of their own. So that very often the big deals are not really so much about hardware, they're about the commissions that go with them, and in the case of Saudi Arabia there's not doubt that the size and the scale of the commissions is very close to being out of hand

JOHN: That would be, making a few guesses? And who gets it?

SAMPSON: Well, the problem is that who gets it seems to be very close to the Royal Family, and so the actual power centre is more and more involved in the commissions, and it gets more and more difficult to cut down the arms spending as a result.

JOHN: Where are the richest pickings in arms deals these days? The Middle East still?

SAMPSON: The Middle East still remains by far the biggest region for this kind of Third World arms deal. It's the superpowers who are the biggest spenders of all, but in terms of the actual buyers of other peoples weapons the Middle East remains the biggest picking. And Saudi Arabia is now the most important of all. They took over from Iran really after the Iranian Revolution. But of course there are other big spenders: the Iran/Iraq war has been a tremendous boom for the arms business and has created a totally new kind of market and Iraq only this week made clear they were going to buy some French Mirage fighters, which is some kind of compensation.

But that war has been of course the greatest boom of all.

JOHN: How much does one arms deal like this with the Saudis provoke another, because the Israelis have already been complaining about the deal?

SAMPSON: Well, of course, it's part of the whole technique of arms selling. You build up this danger round both sides. You go to each side and look at what the other's doing so that you can escalate the whole business in a very profitable way. This has been happening for some time in the Middle East. But in fact when you look at it the real perceived danger for these countries doesn't look like having much relationship to the kind of arms buying which is why the arms commissions are so obviously important. It is very difficult I believe, to understand how the Saudis can, in fact, deploy those 48 Tornados, let alone another 24 that they're now talking about in a really effective way and exactly what kind of enemy they have in mind. Deals have much more to do with national prestige in the first place and the desire to spend in this direction, than they do with a serious military danger.

JOHN: And outside the Middle East in the developing world. What's the picture there?

AMPSON: Well, of course the Middle East has set a sort of pace for other countries. That's certainly true, including poor countries in Africa which really cannot afford it all and where their capacity to use the weaponry is very limited. The real wars of course still tend to be fought with conventional weapons, with rifles, machine guns and the traditional form of man-to-man fighting. So that a lot of this fancy weaponry, over which they've spent most money is very often entirely unused, as is quite clear, of course, after the Iranian Revolution, where all the weapons that the Shah bought tended to be useless in terms of his own survival as a Head of State.

ENDS