

GRS 620

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PERSONAL

FM JEDDA 050615Z MAY 85

TO PRIORITY F C O

TELEGRAM NUMBER 252 OF 5TH MAY 1985

INFO PRIORITY TUNIS (FOR SIR PATRICK WRIGHT).

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PERSONAL FOR EGERTON.

YOUR TELNO 195: ECGD COVER FOR SAUDI ARABIA.

Copy: Mr S. Khanna DT4
Full 3 Arabia / EGC

1. IN OUR VIEW DOWNGRADING SAUDI ARABIA TO CATEGORY B IS NOT (NOT) THE RIGHT RESPONSE TO DEVELOPMENTS IN THE MARKET. THERE IS NO REASON TO BELIEVE THAT THE PROSPECTS FOR PAYMENT ON LONGER-TERM UK BUSINESS (WHICH MEANS MAINLY BUSINESS IN THE PUBLIC SECTOR) SHOULD WORSEN OVER THE NEXT FEW YEARS. THE SAUDI GOVERNMENT IS TAKING VERY GREAT CARE NOT TO ALLOW PROJECTS TO PROCEED WHICH DO NOT HAVE AN ASSURED BUDGETARY ALLOCATION (IF CANCELLED, LIKE THE QASIM REFINERY, COMPENSATION WILL BE PAYABLE). THE NUMBER OF PROJECTS IN ITSELF WILL BE HISTORICALLY LOW, THE COMPETITION WILL BE INTENSE AND THE UK WILL WIN FEW. THIS IS NOT A REASON FOR BELIEVING THAT PAYMENTS DIFFICULTIES WILL INCREASE. IT HAS ALWAYS BEEN THE CASE THAT TROUBLE MUST BE TAKEN TO ENSURE A SMOOTH RELATIONSHIP WITH THE CLIENT AND COMPLIANCE WITH THE TERMS OF BUSINESS; IT IS IN THIS AREA THAT DELAYS IN COMPLETING CONTRACTS OCCUR. ACTUAL NON-PAYMENT HAS ALWAYS BEEN EXTREMELY RARE IN THE PUBLIC SECTOR.

(1) LEGAL papers

2. WE ARE WORRIED ABOUT TWO POSSIBLE CONSEQUENCES OF A DOWNGRADING:

(A) THAT BRITISH COMPANIES IN GENERAL WILL READ THE CHANGE AS A LESSENING OF HMG'S INTEREST AND CONFIDENCE IN THE SAUDI MARKET IN THE MEDIUM TERM AND WILL USE THIS AS AN ADDED PRETEXT FOR AVOIDING A MARKET WHICH THEY FIND OFF-PUTTING. IN FACT THERE ARE SIGNIFICANT OPPORTUNITIES FOR A RANGE OF BRITISH COMPANIES IN SPECIFIC AREAS WHICH THE DTI AND THE EMBASSY ARE ENGAGED IN IDENTIFYING AND FOLLOWING UP.

(B) THAT THE SAUDIS WILL SEE THE MOVE (ESPECIALLY IF THE EXPORT INSURANCE AGENCIES OF OUR COMPETITORS DO NOT DO LIKewise) AS A REDUCTION IN BRITISH COMMITMENT TO THE MARKET, ABOUT WHICH IN SPITE OF OUR PROTESTATIONS, THEY ARE ALREADY SUSPICIOUS. THE IMAGE OF BRITAIN AS A MAJOR SUPPLIER AND AN IMPORTANT SOURCE OF NEW TECHNOLOGY, WHERE MANY OF THE OPPORTUNITIES IN (A) ABOVE LIE, WILL BE DAMAGED. THERE COULD ALSO BE EFFECTS ON THE DEFENCE FIELD. THESE CONSEQUENCES ARE INDIRECT AND UNQUANTIFIABLE, BUT IMAGE MATTERS HERE.

3. I BELIEVE THAT ECGD'S CONCERN HAS BEEN GENERATED BY PARTICULAR DIFFICULT CASES, NOTABLY AMES GROSTA BABCOCK (MIN OF AG), W S ATKINS

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(MIN OF COMMS) AND, IN THE PRIVATE SECTOR, AL SHAMMARY. IN THE FIRST TWO INSTANCES WE BELIEVE THAT SETTLEMENTS WILL COME ABOUT EVENTUALLY. AS A PROPORTION OF OVERALL BUSINESS WITH THE KINGDOM (PROBABLY EXCEEDING £2 BILLION INCLUDING INVISIBLES), THE LOSSES DO NOT SEEM HIGH, THOUGH I AM AWARE OF THE BACKGROUND TO ECGD'S CONCERN AND WE CANNOT, OF COURSE, SAY THAT AWKWARD CASES OF THE AMES CROSTA KIND WILL NEVER RECUR.

4. IN THESE CIRCUMSTANCES A PREFERABLE APPROACH MIGHT BE FOR ECGD TO BE MORE GUARDED ABOUT THEIR COVER IN PARTICULAR AREAS, EG. THE MINISTRIES OF AGRICULTURE, COMMUNICATIONS, PTT (IDEALLY NOT DEFENCE ALSO, THOUGH MODA'S RECORD IS NOT GOOD) AND THE CONSTRUCTION SECTOR GENERALLY. I REALISE THAT THE ECGD SYSTEM DOES NOT YET EASILY ALLOW THIS KIND OF FLEXIBILITY, BUT IT WOULD BE A MORE PRACTICAL RESPONSE TO THE PROBLEMS.

5. THE SAUDI PRIVATE SECTOR PRODUCES DIFFICULTIES OF A DIFFERENT KIND, MAINLY RELATED TO THE QUALITY OF CREDIT INFORMATION AND THE NATURE OF SAUDI FAMILY-OWNED COMPANIES. I ASSUME THAT IF NO CHANGES ARE BEING RECOMMENDED IN SHORT-TERM COVER THESE DIFFICULTIES CAN BE TOLERATED FOR THE PRESENT.

6. I HAVE DISCUSSED THIS WITH CHANCERY, BUT SIR P. WRIGHT MAY WISH TO COMMENT FURTHER ON HIS RETURN.

GREENSTOCK

LIMITED

MED

TRED

NENAD

PS/MR LUCE

MR FERGUSSON

MR MAUD

MR EGERTON

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FM ECGD 101545Z MAY 85

TO PRIORITY JEDDA

TELEGRAM NUMBER EXCED 009 OF 10 MAY

FOR GREENSTOCK FROM BREACH

ECGD COVER FOR SAUDI ARABIA

YOUR TELNO 195 TO EGERTON REFERS.

2. THE ECGD ADVISORY COUNCIL DISCUSSED THE QUESTION OF COVER FOR SAUDI ARABIA ON 8 MAY. IT WAS AGREED THAT ECGD'S EXPERIENCE AND FINANCIAL OUTTURN ON THE COUNTRY FULLY JUSTIFIED THE CHARGING OF HIGHER PREMIUM RATES, WHICH WOULD BE ACHIEVED BY A REGRADING FROM A TO B.

3. THE COUNCIL APPRECIATED THE PROBLEMS WHICH SUCH A MOVE WOULD BRING ON THE COMMERCIAL AND POLITICAL FRONTS. THEY CONCLUDED THEREFORE THAT WHILST IN VIEW OF ECGD'S EXPERIENCE THE REGRADING WAS NOW APPROPRIATE, IMPLEMENTATION OF SUCH A MOVE SHOULD BE DELAYED FOR 2-3 MONTHS. DURING THIS PERIOD WE WILL CARRY OUT FURTHER ANALYSIS OF CLAIMS PAID, POTENTIAL CLAIMS AND CONTRACTS MOST AFFECTED IN ORDER TO ASSESS THE POSSIBILITY OF INTRODUCING HIGHER PREMIUM CHARGES ON A SELECTIVE BASIS IN SECTORS WHERE EXPERIENCE HAS BEEN POOREST. SUCH SELECTIVITY DOES NOT HOWEVER FIT WITHIN OUR CURRENT PROCEDURES AND SYSTEMS AND I MUST STRESS THAT IF THIS APPROACH DOES NOT ENABLE US TO ACHIEVE AN ACCEPTABLE BALANCE BETWEEN PREMIUM INCOME AND CLAIMS LOSSES WE SHALL HAVE NO ALTERNATIVE BUT TO INSTITUTE A REGRADING.

4. WE SHALL THEREFORE BE CARRYING OUT FURTHER ANALYSIS. WE SHALL ALSO WISH TO CONSIDER THE EXTENT TO WHICH FURTHER ACTION VIA YOURSELVES AND THE FCO MAY BE NECESSARY TO EXERT PRESSURE ON THE SAUDIS TO IMPROVE PAYMENTS OF OUTSTANDING PUBLIC SECTOR DEBTS: WE CAN HARDLY JUSTIFY IN PUBLIC DEBATE OUR CARRYING SUCH AN ADVERSE BALANCE ON A MARKET OF SAUDI'S CALIBRE (BE IT GRADED A OR B) AND WILL WISH TO USE EVERY AVENUE OPEN TO US TO BRING ABOUT AN IMPROVED PAYMENTS POSITION.

ECGD

date 15/5

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cc. Mr Watson 074/13.

Telephone 01 382 7000
Direct 01 382
Fax 01 382 7649
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Re: Saudi Arabia | EGC.

S Egerton Esq
Foreign and Commonwealth Office
Whitehall
London SW1A 2AH

Your reference

Our reference

Date *14* May 1985

Dear Mr Egerton

ECGD COVER FOR SAUDI ARABIA

I have already spoken to you about the outcome of our discussion at last week's Advisory Council.

We naturally appreciate the importance of the Saudi market to the UK and the political and commercial difficulties which would arise from a regrading of Saudi Arabia for premium purposes. On the other hand we cannot ignore the financial outturn of our operations in the market. As I explained to you, the Council were unanimous in their view that we could no longer continue to support Saudi business at the present premium levels. In order however to see whether alternative methods might be used to achieve the same end they have agreed to hold back a regrading for 2-3 months whilst we carry out a further analysis of our claims experience. I have set this out in my attached cable to Jeddah.

We will let you know of the results of our further assessment of the position and may then wish to consider with you what action FCO and the Post might take to bring home to the Saudis the adverse impact of their present payments record.

Yours sincerely

Roger [Signature]

for G BREACH

cc Mr P Crawford PEP ✓

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File: S. Arabia/EGC

1985 2015.



Foreign and Commonwealth Office

London SW1A 2AH

17 May 1985

cc: Mr. Watson,
OTY.

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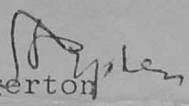
Dear Jerry,

ECGD COVER FOR SAUDI ARABIA

1. Many thanks for your letter of 14 May and the information it contained about the Advisory Council's interim finding. I am most grateful to the Council for its agreement to consider the possibility of selectivity in the imposition of higher premium charges and we shall be glad to collaborate in due course, as you suggest, in considering how to persuade the Saudis to improve their record of payment of public sector debts.
2. Let me know how your further studies of your claims experience in Saudi Arabia proceed.

Best wishes,

Yours ever,


S L Egerton

cc

P Crawford Esq, PEP, DTI

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Mr A R Taylor
PEP2A
V243A

1. PC
2. AS

*1. Have minutes by Khanna
separately on the outcome*

12/9

SAUDI ARABIA: EXPORT GUARANTEES ADVISORY COUNCIL - EGAC (85) 36

1 Partly as a result of resistance from the DTI and FCO the Advisory Council deferred in May 1985 a decision on the ECGD proposal to downgrade Saudi Arabia from a to b on the grounds of poor claims experience. The situation has not improved since then. The current paper therefore restates the recommendation, and also suggests additional steps to reduce ECGD losses.

2 The economic and political assessment in the paper is generally accepted in Whitehall. Indeed the IMF projections are considered to be too generous. Against this however one needs to take into account the emerging business environment.

Points to Make.

The following points could be made in discussion:

- a) Agree with the economic assessment in the paper. We would expect real price of oil to fall slowly over next few years with consequent effect on Saudi Arabia's income.
- b) However with the coming on stream of petrochemicals industries some compensating income will be derived from this source.
- c) Belt tightening, lowering of expectations, and tighter controls over budgets will lessen impact on economy.
- d) The period of review covered by ECGD in the paper, particularly summer 1983 - summer 1985 represent period of greatest readjustment and difficulties with controlling/limiting government expenditure. It was therefore to be expected that claims experienced would be worse.

- e) We should expect the situation to improve.
- f) UK exports January - July 1985 were £812 million, a drop of 1.7% over the corresponding period 1984. US exports dropped 20% in first six months of this year compared with first six months of 1984. We should not do anything to undermine our comparatively improving export position.
- g) As an alternative to downgrading we would prefer if in three months time an assessment of the results of other measures suggested in paragraph 18 is made - tighter underwriting conditions, pressure for debt recovery - and then a decision taken on regrading.
- h) In any event exports of medical supplies should not be made more difficult (para 15b) as this is one of the growth sectors.
- i) If the consensus in the EGAC is to downgrade now, we would reluctantly go along with it.

S K Khanna

S K Khanna OT4/1A
V122A
215-3419

10 September 1985



MR KHANNA - OT4/1A

cc Mr Crawford

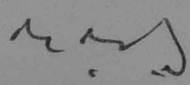
SAUDI ARABIA: EGAC (85)38

In EGAC yesterday afternoon there was a strong body of opinion in favour of ECGD's recommendation to down-grade Saudi Arabia to Category B.

I drew on your minute of 10 September to suggest that it might be better to wait until we could assess the results of the measures proposed in paragraph 15 of the paper before taking a decision to down-grade. ECGD's response was that it would take a year or more for these to take effect. They had looked at the possibility of selective downgrading to avoid an across the board increase in premium rates but had concluded that there was no real alternative to moving now to Category B.

Those Members of the Advisory Council who spoke (including the Chairman) were quite clear that the time had come to react to the considerable difficulty involved in getting money out of Saudi Arabia. Downgrading in the absence of other effective action to date was the right way to react to a thoroughly unsatisfactory situation in which large sums were outstanding.

Let us hope that, as you expect, the claims situation improves.


M M BAKER
Head of PEP2
Room 254, 1 Victoria St
215 3667

12th September 1985

