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JM  
cc. Mr Khanna 074/1

BANK OF ENGLAND  
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8 December 1986

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09 DEC 1986

Previous papers attached  
AT 10/12/86

Dear Peter.

SAUDI ARABIA: YAMAMAH PROJECT

I am writing to confirm the comments Charles Dudeney passed to Tegid Jones by telephone today regarding the draft submission to the Secretary of State (Trade and Industry) and the draft Ministerial letter to the Chancellor of the Exchequer, which were circulated under cover of Peter Henley's letter of 1 December.

We felt that, while these draft submissions were generally clear and explicit, there were one or two points that could usefully be clarified. We would in particular prefer to see a clearer definition of the "delivery" of the oil, which does after all seem to be the most important detail in this deal, and which therefore needs to be crystal clear. Does this refer to delivery into BP/Shell's hands at the oilfield? Or to a suitable Saudi port? Or to a tanker?

Furthermore, who would be at risk if transportation from Saudi Arabia were to be blocked by factors beyond Saudi control? War risks cover is said only to apply in Saudi Arabia. Would the closure of the Straits of Hormuz trigger a claim on ECGD if the Saudis were not willing or able to deliver elsewhere (ie to other ports) eg because of pipeline capacity constraints?

There is a further doubt in our minds on this latter point as paragraph 9 of the submission talks about a Saudi "offer for delivery", but paragraph 9 of the draft letter refers to "the delivery and loading of the oil in Saudi Arabia". There is a worrying distinction here!

We also had a query on the last sentence of paragraph 9 of the submission. Does the number of barrels per day affect ECGD's maximum liability? If the Saudis fail to deliver on day 1, would it make any difference if 100,000, 300,000 or 400,000 bpd were involved? On a separate but related point, could the volume be changed without the agreement of the banks?

I am copying this letter to Charles Blundell (DTI), Philip Curry (MoD), Reg Ludford (ODA), Peter Sullivan (FCO) and Peter Henley (ECGD).

*Wanslow*

*T J H Downing*

T J H Downing

I'm what I'd like them to be