

From: Mr P Curry, International Finance Adviser, Defence Export Services Organisation

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*AS R/S 20/11/86*  
*③ file Saudi Tomados*



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Mr R E Adams  
Treasury Chambers  
Parliament Street  
London  
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7 November 1986

PROJECT AL YAMAMAH

1. Thank you for the copy of your letter of 5 November 1986 to Peter Henley. Thank you also for agreeing to ECGD coverage of the risks as set out in their letter of 23 October.
2. However I must register a strong appeal against your refusal to cover the exporter against loss of up to £300M in the event of termination. I have spoken to BAe who are formally protesting to ECGD about this decision.
3. I think perhaps the reasons you put forward for refusing to cover BAe are not strictly valid. BAe's potential negative cash flow position in the event of a termination is definitely none of their doing as might be implied in your paragraph 6.
4. You will recall under the original Lloyds proposal that Treasury agreement was obtained for ECGD cover of £1 billion - allowing for a loan of £1.5 billion. This loan would have avoided a negative cash flow. When the Saudis were unwilling to accept an explicit cash repayment obligation, we had to revert to a formula whereby the oil risk (and interest risk) were taken by the banks. However it was judged only possible to raise a loan of \$1 billion on the basis of the partial ECGD guarantee allowing for a total loan of \$1.5 billion, hence BAe's predicament. All we are now asking for is that the "excess" ECGD cover be utilized in a different form to assist BAe in event of termination.
5. We believe that even with £300M termination cover ECGD will still be less exposed than would have been the case under the original Lloyds' proposal. Originally ECGD were covering the failure of the Saudis to reduce outstandings in accordance with a pre-determined schedule.

*Accidental  
claploaf*

*That's fine  
but the Saudis  
wouldn't commit themselves*



*True*

6. Should the price of oil fall dramatically, in order to achieve the required reduction the Saudis would have had to pump much greater volumes, which in turn would depress the price further. Given OPEC constraints there was a real risk that Saudi would be unable to do this, thus automatically triggering ECGD's liability. Now however we have a situation whereby so long as Saudi pumps the necessary 300,000 barrels a day (which they more than anybody else are capable of doing) even if the price of oil is one dollar a barrel ECGD's liability is not callable.

*is it*

7. I should just finally make the point that this form of cover given to BAe in the event of a major termination of their cash contracts is perfectly standard ECGD cover, and is contained within an overall limit already accepted by the Treasury.

8. The granting of cover to BAe is so important in relation to Project Al Yamamah that may I strongly urge that you reconsider your decision? If it is necessary I would request an urgent meeting of the EGC early next week to attempt to reach a conclusion.

Your Philip Curry

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Copy to:

T J H Downing	-	BOE
P Sullivan	-	FCO
R A Ludford	-	ODA
D Jones	-	MOD
J Hibberd	-	Cabinet Office
C Blundell	-	DTI (PEP)
W A Pedder	-	DTI ✓
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