

File

Reference.....

JJ. 149.

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TO:
PS/MR CLARK

CC
PS/Mr Pattie
PS/Sir Brian Hayes
Mr Gill, ECGD
Mr Macdonald
Mr Baker, PEP
Mr Bowder, Air
Mr Petter, PEP

FROM:
MICHAEL GILBERTSON
PS/Secretary of State for
Trade & Industry
Room 803
1 Victoria Street
215 5422

25 March 1986

26/3 Agreed with Petter in action on this. It's for ECGD to rework their draft on info we've already fed in to them

£5 BILLION DEFENCE DEAL WITH SAUDI ARABIA;

Following your Minister's note of 19 March the Secretary of State held a meeting on 21 March to discuss Mr Henley's submission of 18 March. Your Minister was present, together with Sir Brian Hayes, Mr Gill, and Mr Macdonald.

2 The Secretary of State said that this deal had never been easy, but it was agreed that we could not allow it to fall through, particularly in view of the vigorous French competition.

3 The Secretary of State asked about the possible objections in Islamic law to paying interest on the proposed overdraft. Mr Gill said that the overdraft would be in the name of the kingdom of Saudi Arabia, and the arrangements would be signed by Prince Sultan. It would be governed by English law and the Saudis would therefore be committed to paying interest. He acknowledged that there would be a residual risk if the Saudi regime changed. Sir Brian suggested that it would be possible to call the interest payments a "penalty for late payment", for example. Mr Gill agreed that a form of words would be able to be found to get round the difficulty, though some risk would remain.

4 Mr Clark that we could not back out of the deal, but he was particularly concerned about the proposal that UK companies would invest in Saudi Arabia in return for the award of the contract. He suggested that this condition would be very difficult to fulfil, and that failure to do so could be used by the Saudis as a pretext to withhold payment on the deal.

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5 Mr Macdonald asked what would happen to the Saudis ability to pay if the oil price fell to as low as, say, \$8 a barrel. Mr Gill said that this had not been explored, but that if the oil price did fall that far, of all the oil producers, the Saudis would be best placed to survive, because of their huge capacity.

6 Mr Gill said that all Ministers concerned appeared to support the deal as constituted, although the position of the Secretary of State for Energy was still unclear.

7 It was agreed that the draft would be amended to include a passage recognising the difficulties which the deal presented, but concluding that we should nonetheless proceed, and the point that the inward investment proposals would be very difficult to fulfil. It was also agreed that we should seek to find out exactly what commitment had been given to the Saudis in terms of inward investment.

8 More generally, it was agreed that we should seek to ensure that MOD did not in future give commitments such as the one they had given on inward investment, without first consulting DTI.

Michael Gilbertson

MICHAEL GILBERTSON

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