

① file 2/15

Reference.....

To: Mr Benjamin
Mr Baker ✓

cc Mr M G Petter OT4
Mr M Richard PPR

From: W A Pedder
PEP2A
Rm 264 1 V/S
215 4876

Exp

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1. I wonder if X is really possible.
2. If the syndicate have full recourse to BAe that will certainly reduce the excessive "draft" the BAe company are going to enjoy under the original proposal.

SAUDI TORNADO DEAL

Summary

The contractual relationships on this deal have changed substantially. ECGD can still underwrite dollars lbn, but Twyford wishes to get Ministerial clearance. In the process he will counter Treasury's snide remarks on contingent liabilities and ECGD's general role.

Detail

2 The Saudi's have objected to the concept of an overdraft, let alone paying interest on it. The deal has been restructured so that the Lloyds' syndicate will lend direct to BAe, and the Saudi commitment will be two-fold:-

- 1. To adjust oil liftings as necessary to meet the cash shortfall. This will result in an immediate increase to 600,000 BPD. Adjustments will take place six monthly.
- 2. To pay any cashflow shortfall in cash at specific adjustment dates. These cash payments would include "finance charges" (interest).

3 With great enterprise, ECGD does believe it has an insurable interest, in the form of the Saudi's commitments to pay oil and cash. (Interestingly, this is counter to ECGD's normal policy of declining to ensure any countertrade commitments). Twyford is more concerned about the banks' position, in that the Saudi relationship to them is tenuous in the extreme - but I dare say they will try for full recourse to BAe.

4 MOD are trying to sign the deal on Tuesday next week, and ECGD will circulate a paper probably 1 May.

W A Pedder
Financial Adviser