

3/28/1.

2-1-12



*M. Twyford*

*cc M. Kemp*

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ  
01-211 4391

From the Permanent Under-Secretary of State  
P L Gregson *ca*

Sir Clive Whitmore KCB CVO  
Ministry of Defence  
Main Building  
Whitehall  
SW1

25 November 1986

*Dear Sir,*

**SAUDI AIRCRAFT DEAL**

You will no doubt have been following recent developments in Saudi oil policy, especially in the aftermath of Yamani's dismissal. King Fahd has now stated his wish to return to a fixed price of \$18 per barrel, and has written a personal message to the Prime Minister urging our co-operation.

2. We have been considering the implications of this for the Tornado deal. And our conclusion is that we must now be particularly careful to avoid suggesting any change in the current oil agreement. I felt I should register this concern, even though you are well aware that My Secretary of State wishes to be consulted before any change in the oil agreement is suggested.

3. It is of course not at all clear how the Saudis intend to achieve a price of \$18 pb without cutting production. But if they are to make any progress towards a fixed price, they will have to dismantle all their current netback contracts, including those with Shell and BP. The current oil agreement gives Shell and BP some protection against this because it entitles them to a netback deal so long as any other company has one. Theoretically, they should therefore be the last of the companies to face renegotiation of their netback contract.

4. However, it would obviously be of enormous advantage to the Saudis if they could negotiate a fixed price contract with Shell and BP, so setting a precedent. They could be

...tempted



tempted to use the Tornado deal for this purpose. And it would be much easier for them to do so if it was the UK that proposed some change in the current oil agreement, for whatever reason.

5. For these reasons, I think it is most important that we resist the temptation to make any such proposal. Certainly my Secretary of State would wish to be informed if anything of the kind were even contemplated.

6. I am copying this letter to Brian Hayes since I am aware of the negotiations on an ECGD-backed financing package for the aircraft deal. We have seen no suggestion that this package requires any change to the oil agreement, and we welcome that. But if there were any suggestion that such a change might be necessary for the success of the financing package, we would of course wish to be consulted. As you can imagine, we feel it is most important that no such suggestion should be put to the Saudis.

7. I am also copying this to Robert Armstrong and Peter Middleton.

*Yours ever*

*Peter*