



14 APR

FCS/86/093

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Mr Simpson

COPIES TO

FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)

PLEASE BY: 15-4-88 IF DEADLINE CANNOT BE MET PLEASE PHONE 25 5422

AS MFT
AS Sir BA
Mr Roberts
Mr Cull
Mr Titchener
Mr Eversatt Oth ca

Handwritten notes and stamps:

Handwritten: Saudi, LSP, tPA

Stamp: RECEIVED 8 APR 1988

Handwritten: Mr Pitter, Mr Baker PEP

Export Credits Guarantee Department: £5bn
Defence Deal with Saudi Arabia

1. Thank you for sending me a copy of your letter of 25 March to Nigel Lawson.

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2. The fact is that King Faud of Saudi Arabia is committed to the Tornado deal. I, like you, believe that King Faud will not want it to fail: and that the current political structure in Saudi Arabia will survive the next few years, although, like you, I believe that the period which lies ahead will be difficult. We are in effect being invited to take a risk - balancing all the advantages that flow from the Tornado contract against the possibility of Saudi Arabia being unable - or, more likely in view of their huge assets, slow - to pay. I believe that the political risk of providing ECGD cover for the Tornado deal is a reasonable one and I support your view that ECGD should proceed as you propose.

3. Although there are grounds for reasonable confidence in the political stability of Saudi Arabia, I am concerned about the lack of evidence that Saudi Arabia is adjusting quickly enough to falling oil prices. As long as the combination remains of weak oil prices and inadequate management of the economy, I believe that we should try to avoid getting into the position where the Saudis look to us for further large credit facilities for major projects. I therefore hope that in future, major contracts in which HMG is involved can be structured to ensure that payment by Saudi Arabia runs ahead of commitments entered into in the United Kingdom.



4. I note that you are looking at ECGD cover for other business in Saudi Arabia. I think it is important that support for the Tornado deal should not get in the way of support for other business. The Saudis are likely to take political exception to downgrading to 'B' for premium charging purposes (I believe this is likely to be revealed in the press this week). It is therefore all the more important that we should be able to demonstrate that we are intending to conduct business as usual in all other respects with this market.

5. I am copying this letter to the Prime Minister, other members of OD, Peter Walker and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

4 April 1986