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16 DEC 1986

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→ Min Woodward Mr Twyford
for Saudi
Tornado.
Mrs
C W Pedder
advice if required
Ps MET
Ps JH
Mr Gill
Mr Roberts
Mr Macdonald
Mr Titchener
Mr Everett
Mr Henley
Mr Mitchell
Miss Davis

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

15 December 1986

JCN/22/11
CA/11/21

Dear Paul,

ECGD: £5 BILLION DEFENCE DEAL WITH SAUDI ARABIA - YAMAMAH PROJECT

You wrote to Nigel Lawson on 11 December about the latest proposals for financing the sale of Tornado and other aircraft and weapon systems to Saudi Arabia, seeking agreement to ECGD cover for the \$1 billion loan from the banks and to a further £300 million cover for BAe.

I made clear my concern about our commitment to the Yamamah project and our contingent liability of over £1 billion, in my letter of 14 April. The risks under the revised proposals are substantial, and to the extent that the guarantee is not subject to ECGD's normal conditions, including not being legally enforceable, the risks are greater now than previously. In addition you accept that the reluctance of the Banque Indosuez to finance the deal to the previous level reflects the concern of the banks about the change in the form of repayment from cash to the proceeds from the sale of oil. ECGD's liability for any default has, it seems, been reduced to the minimum level consistent with our continuing obligation to maintain cover for this project. In the circumstances, though I do not like it, I accept that we have no alternative but to accept the revised proposals and for ECGD to provide cover for the loan on the lines described in your letter.

I also recognise that the increased exposure of BAe justifies the cover you propose of up to £300 million in respect of any losses they incur for the reasons which apply to the cover given for the main loan. This is on the understanding that the total ECGD cover remains within the £1 billion authorised originally.

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

Yours,
JH

JOHN MacGREGOR