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TO <i>Mr Seymour</i>	COPIES TO
FOR ADVICE (AND <i>REPLY</i>)	<i>PS Sir BH</i>
DRAFT REPLY IF APPROPRIATE)	<i>Mr Roberts</i>
PLEASE BY: <i>ACAP</i>	<i>Mr Cull</i>
IF DEADLINE	<i>Mr Tikhonov</i>
CANNOT BE MET	<i>Mr Pette</i>
PLEASE PHONE <i>215 5422</i>	<i>Mr Tawford</i>
<i>SWIP 3AC</i>	<i>Mr Baker PEP</i>
	<i>Mr Bowler AIR</i>

1. WJP
6B88
MB o/r
3
4 file Saudi Tornado

MAY 1986

Treasury Chambers, Parliament Street,
 The Rt Hon George Younger TD MP
 Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 London
 SW1

Dear Secretary of State,

2 May 1986

SAUDI AIRFORCE PROJECT - ECGD GUARANTEE

Thank you for your letter of 30 April about the revised arrangements for the ECGD guaranteed overdraft to support the sale of Tornado and other aircraft and equipment to Saudi Arabia. I have also seen Paul Channon's letter of 2 May.

I maintain my view, shared I see by Peter Walker, that this is a project with considerable risks attached. I have already expressed concern about the extent to which the Exchequer is being drawn inexorably into financial commitments on this deal. The latest development could be argued to take this a step further by apparently distancing the Saudis from the borrowing associated with this deal.

My officials have not been consulted on the details of the revised arrangements. I must therefore rely on Paul Channon's assurance that the new arrangements do provide a clear cut obligation on the Saudi Arabians to pay which will ensure that ECGD's position remains fully protected. Although he does not say so explicitly in his letter, I assume that this assurance is based on clear legal advice that the obligations will be enforceable. Your officials have also assured mine that these revised arrangements will give rise to no call, contingent or otherwise, on MOD votes. On that basis I am reluctantly prepared to accept what is proposed.

These revised arrangements however will increase MOD's profile in connection with this deal and in the event of a Saudi default, it must be realised that ECGD will want

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W. Letter
decide by 07/11

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to direct MOD's actions so as to minimise ECGD's losses.

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

Yours sincerely,

John MacGregor

JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence).

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