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FM RIYADH

TO DESKBY 060930Z MODUK

TELNO ZMC/ZOK/Z8G/A2P

OF 060535Z JANUARY 86

INFO PRIORITY FCO, DEPT OF ENERGY, DOT

FOR PS/S OF S, PS/MINISTER/DP, PUS, CA, DG MKTG, AUS(DES ADMIN),
RMD1 AND PS/HDES

FCO FOR EGERTON, DOT FOR TWITCHENER.

DESKBY 060930Z JAN 86

FROM HDES

TORNADO PROJECT - COMMERCIAL NEGOTIATIONS

1. SUMMARY

SUBSTANTIAL AND SIGNIFICANT PROGRESS WAS ACHIEVED ON 5 JANUARY IN A VERY FRIENDLY MEETING WITH PRINCE SULTAN. PRICES FOR ALL OF THE AIRCRAFT (TORNADO, HAWK AND PC-9) WERE AGREED TOGETHER WITH ACCORD BEING REACHED ON PLACING A TOTAL VALUE OF FIVE BILLION POUNDS ON THE PROJECT FOR ALL OF THE AIRCRAFT AND THE ANCILLARY EQUIPMENT AND SERVICES REQUIRED FOR THE THREE YEAR PERIOD COMMENCING 15TH FEBRUARY 1986. WE ALSO AGREED THE PRICES FOR BUYING BACK THE LIGHTNING AND STORMMASTER AIRCRAFT. THE DISCUSSIONS ALSO COVERED THE NEED FOR A LETTER LINKING THE OIL DEAL TO THE AIRCRAFT PROJECT AND FOR A FACILITY TO PROVIDE FINANCING OF IMBALANCE BETWEEN THE NEEDS OF THE PROJECT AND THE FUNDS TO BE GENERATED BY THE OIL DEAL. OUR ONE CURRENT ANXIETY REMAINS THE LACK OF RECEIPT OF THE PROMISED ADVANCE PAYMENTS BUT SULTAN PROMISED TO ACHIEVE PAYMENT OF THE FIRST POUNDS STERLING 50 MILLIONS WITHIN TWO DAYS AND THE SECOND IN EARLY FEBRUARY.

2. DETAIL

A. ACCOMPANIED BY HMA, DG/SAP AND DIXSON OF BAF, I MET PRINCE SULTAN ON 5 JANUARY. HE WAS ACCOMPANIED BY GENERALS BOHAIRY AND EDREES OF THE RSAF (IT WAS NOTABLE THAT THE COMMANDER RSAF GENERAL HAMDAN WAS ABSENT ON UNSCHEDULED LEAVE). THE MEETING WAS BUSINESSLIKE AND CONDUCTED IN A CORDIAL ATMOSPHERE WITH TOUCHES OF HUMOUR FROM TIME TO TIME. IT WAS THE CLIMAX OF A NUMBER OF MEETINGS BOTH FORMAL AND INFORMAL.

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1B.

B. PRICES (ALL IN POUNDS STERLING) WERE AGREED FOR THE AIRCRAFT AS FOLLOWS:

- FIRST 20 IDS TORNADOS, TWENTY ONE POINT FIVE MILLION EACH.
- IDS TORNADOS, 21 TO 48 INCL, TWENTY FIVE POINT TWO MILLION EACH.
- 24 ADV TORNADOS, TWENTY FIVE POINT TWO MILLION EACH.
- 30 HAWK MK 65, FIVE POINT THREE MILLION EACH.
- 30 PC9, TWO POINT EIGHT MILLION EACH.

THIS PACKAGE TOTALS ONE BILLION NINE HUNDRED AND EIGHTY THREE MILLION POUNDS APPROXIMATELY. FOR ROLE EQUIPMENT, SPARES, WEAPONS, TRAINING, UKMOD/DE'S AT 2 PER-CENT AND EARLY CONSTRUCTION WORK, WE HAVE AGREED TO LIMIT THAT REQUIRED TO BE SPENT AND COMMITTED DURING THE THREE YEAR PERIOD FROM 15 FEB 86 TO A FIGURE OF THREE BILLION AND SEVENTEEN MILLION POUNDS GIVING A TOTAL FOR THE PROJECT OF FIVE BILLION POUNDS. THE SCALING REQUIRED TO ACHIEVE THE THREE YEAR FIGURE IS ACCEPTABLE TO THE RSAF.

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C. THROUGHOUT THESE RECENT DISCUSSIONS, I HAVE INSISTED THAT THE 132 AIRCRAFT ARE THE CORNERSTONE OF THE AGREEMENT BETWEEN THE TWO GOVERNMENTS AND THAT THESE HAVE TO BE INCLUDED WITHIN THE FIVE BILLION FIGURE. THE ACCEPTANCE OF THIS ARGUMENT BY SULTAN HAS OBVIOUS IMPLICATIONS FOR INCREASES TO THE TOTAL PRICE OF THE PROJECT FROM TIME TO TIME.

D. WE AGREED THE NEED FOR AN EXCHANGE OF LETTERS TO RECORD THE ABOVE AND THIS IS IN HAND FOR DELIVERY 7 JAN. WE HAVE ALSO AGREED A TARGET DATE OF 15 FEB 86 FOR SIGNATURE OF LOAS 1 AND 2 (AIRCRAFT, ROLE EQUIPMENT AND SPARES) AND WE WILL ALSO WORK TO ENSURE THAT LOAS 3, 6 AND 10 ARE READY FOR SIGNATURE ON THAT DATE.

E. SULTAN ACCEPTED THE NEED FOR A LETTER LINKING THE OIL DEAL TO THE AIRCRAFT PROJECT. WE WILL TABLE A DRAFT ON 6 JANUARY SUBSTANTIALLY IN THE FORM AGREED WITH SHELL AND BP AND WHICH HAS BEEN SEEN BY THE SAUDI MINISTRY OF PETROLEUM.

F. DISCUSSIONS CAN NOW BE COMMENCED ON A FINANCING FACILITY TO COVER OIL DEAL/ AIRCRAFT PROJECT IMBALANCES (IN EFFECT AN OVERDRAFT FACILITY). WE WILL MAKE APPROPRIATE ARRANGEMENTS FOR THESE ON 6 JAN.

G. AFTER SOME GOOD HUMOURED BARGAINING WE AGREED TO BUY BACK THE LIGHTNINGS FOR ONE POINT FIVE MILLION POUNDS EACH AND THE STRIKEMASTERS FOR TWO HUNDRED THOUSAND POUNDS EACH. WE HAVE ALSO AGREED TO SHARE ANY PROFITS ARISING FROM SUBSEQUENT RE-SALE AND TO AGREE A SEPARATE FIGURE FOR SPARES AND GROUND EQUIPMENT IN DUE COURSE. THIS DEAL IS NOT MATERIALLY DIFFERENT FROM THAT WHICH MY PREDECESSOR AGREED IN MAY 84.

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3. CONCLUSION

AFTER THE PAST FEW MONTHS OF BARGAINING, WE CONSIDER THE ABOVE TO BE A SATISFACTORY OUTCOME ESPECIALLY AS WE HAD TO WORK AWAY FROM THE AGREEMENT REACHED IN MAY 84 OF SIXTEEN POINT THREE MILLION POUNDS FOR EACH OF 20 IDS TORNADOS AND FOUR MILLION POUNDS FOR EACH OF 24 HAWKS. OUR MAIN TASK NOW IS TO ARRANGE SATISFACTORY FUNDING FOR THE PROJECT AHEAD OF THE FIRST RECEIPTS DUE FROM THE OIL DEAL IN MID TO LATE FEB 86.

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MED

NENAD

DEF. D

PS

PS/HR RENTON

PS/PUS

HR VERGUSSON

HR EGERTON

HR SAUNT

COPIES TO:

PS/NO 10 DOWNING ST.

HR FITCHNER - DTI

DEPT. OF ENERGY

-3-
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