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② into Saudi Medias

WP JJ 149



Treasury Chambers
Parliament Street London SW1P 3AG

Telex 262405

Telephone Direct Line 01-233
Switchboard 01-233 3000

P Henley Esq
ECGD
Export House
50 Ludgate Hill
London EC4M 7AY

Your reference

Our reference

Date

5 November 1986

Dear Sir,

SAUDI ARABIA - YAMAMAH PROJECT

Thank you for your letter of 23 October about requests you have received for additional or extended cover for the Yamamah Project.

2. We have had comments from the Ministry of Defence and from the Bank of England.

3. We see the request for cover against the risks of interference in the transfer of the proceeds from the sale of oil as being, in principle, no more than the more precise definition of what has already been agreed may be covered. As such we can agree that you may cover these risks as you propose although you should be sure that you are in a position to minimise losses by stopping delivery possibly through administrative delay even during the 3 months required to trigger a claim as soon as it became clear that the oil lift arrangement had broken down and that there was evidence that the Saudis were not going to make payment by other means. Difficult judgements could be required here but you should always expect to be in the position to take action to minimise loss.

4. We agree with you that the period of your exposure should not be increased to 7 years as requested by BAe. This would leave the maximum period of risk to be five years from the date you issue cover.

5. We have agreed cover in this difficult and complicated case to enable finance to be raised in support of this deal. This is a novel arrangement and one where the risks are unusual and the outcome is dependent very much on the continued goodwill of the customer. The exporter is subject to similar risks to the banks and through them to yourselves over the failure by the Saudis to deliver oil as they have promised. BAe have asked that you should give them similar cover parallel to that given to the banks. This would increase your total

exposure appreciably. I am not sure that we can see the justification for such an increase in your exposure in support of this deal. The guarantee given to the banks in respect of the loans they provide is necessary to persuade them to provide the finance necessary to bring this deal to a satisfactory conclusion. BAe are already on board and indeed it is they who prescribed the original terms under which this business is being done. In these circumstances cover for the risks that they are taking do not, on present information, seem justifiable.

6. This deal and the cover related to it will need to go back to Ministers for approval. It will be necessary to have as full a description of the deal possible prior to the submission to Ministers. If there are contentious points outstanding a further meeting of EGC may be necessary to discuss them. As the Bank point out there are however a number of important issues ancillary to the export credit judgement that need to be sorted out. These include the identity of the borrower and the timing of drawdowns and the effects that these transactions will have on classification and monetary aggregates that are the concern of others. These should, I think, be pursued separately but urgently from the export credit matters that are our prime concern.

7. As you will have seen, the Bank have said that these loans may not qualify for a nil weighting for risk/asset purposes as ECGD guaranteed loans usually do because of the limited scope of the guarantee. The banks should be made aware of the problem, if they are not already, and discuss it with the Bank of England supervisors.

James
Bob Adams

R E ADAMS

cc T J H Downing - BOE
P Sullivan - FCO
R A Ludford - ODA
D Jones - MOD
L J Davidson - MOD
P Curry - MOD (DESO)
J Hibberd - Cabinet Office
C Blundell - DTI (PEP)
W A Pedder - DTI
J Bowder - DTI
W Ricketts - Dept. Energy
S Robson - HMT
J Gill - ECGD
D W Twyford - ECGD
G E Breach - ECGD