

01 MAY 1986



MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

W. Letter

If you decide to advise Private Office of OT4/1's interest in Saudi Airforce you may also like to point out that this arrived in my ~~own~~ enter office in a single ad unsealed envelope (keep w/rt shredded)!

MO 5/3/3

TELEPHONE 01-218 8000

30 April 1986

DIRECT DIALING 01-218 2111/3

Mr Khanna OT4/1A

cc Mr Baker PEP 2

Mr Bowden Air

I see no need for OT4/1 comment, have asked SOS office to amend Dear Chief Secretary, ^{in distribution} of Mrs AP. M/2/S

TO <u>Mr Targford</u>	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	PS MFT
PLEASE BY: <u>9-5-86</u>	PS Sir AH
IF DEADLINE	Mr Roberts
CANNOT BE MET	Mr Cull
PLEASE PHONE	Mr Titchener
215 5422	Mr Everett
<u>GUARANTEE</u>	Mr Simpson

SAUDI AIRFORCE PROJECT - ECGD

In his letter of 25th March 1986 to Nigel Lawson, Paul Channon sought the approval of colleagues to an ECGD guaranteed loan of £1 billion to the Saudi Arabian Government in support of the Saudi Airforce project. Colin Chandler, my Head of Defence Export Services, has discussed the form of this agreement with the Saudi authorities at the highest level and it has become clear that the Saudis are most reluctant to be seen as the borrower.

Officials have discussed a revised arrangement which would take on many of the aspects of a supplier credit but under which there would be a firm obligation for the Saudis to pay cash if oil revenue turned out to be insufficient to both pay off the loan and meet all the other payments due under the terms of the programme which is currently under negotiation.



In all other essentials the project would remain the same:-

a. The Saudis do not wish to reduce the scope of the project nor to slow down deliveries.

b. The Saudis remain firmly committed to generate sufficient oil revenue to meet the full project costs and they are already considering increasing oil liftings to effect this.

c. The overall size of the loan remains at £1.5 billion (£1 billion guaranteed by ECGD and £0.5 billion taken by the banks on commercial risk).

d. The Saudis have accepted the liability for interest payments and other bank charges.

We propose to obtain the necessary undertakings from the Saudi authorities by means of a formal exchange of letters. My visit next week to Saudi Arabia provides an excellent opportunity for doing this before the onset of Ramadan and provided Colin Chandler can reach agreement on the form of the letters with the Saudi authorities in the next few days, and subject to your views and those of colleagues, I would propose to sign the agreement on behalf of the United Kingdom Government.

CONFIDENTIAL



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

Yours sincerely,

J. S. Dargatzis

(Approved by the Defence Secretary and signed in his absence)

George Younger