

02 MAY 1986



TO	<i>Mr. Simpson</i>	COPIES TO	
FOR ADVICE (AND		PS MFT	
DRAFT REPLY IF		PS Sir BH	
APPROPRIATE)		Mr Roberts	
PLEASE BY:		Mr Cull	
17-5-86		Mr Titchener	
DEADLINE		Mr Petter	
CANNOT BE MET		Mr Turgill	
PLEASE PHONE		Mr Baker PEI	
		Mr Bowden	
		MR	

17 MAY 1986

1. *WOPHM*  
 2. *M. B. O. T. A. + P. A.*  
*Y/S/86*

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2nd May 1986

*Dee Secretary of State,*

SAUDI AIRFORCE PROJECT - ECGD GUARANTEE

Thank you for your letter of 2nd May.

I regard it as of the highest importance to the Saudi Airforce project that I take the opportunity of my visit to commit the Saudis to the arrangements necessary for the project to go ahead as planned.

I am most anxious not to prompt a limitation to the scope of the project or the rate of deliveries. The Saudis have made very clear that they don't want this either, not least after recent events in Libya and in view of their growing concern about the conflict between Iran and Iraq. To force it upon them could prejudice the project as a whole.

To continue as planned British Aerospace need very substantial funds quickly. We cannot wait till after Ramadan to make arrangements. The limit we have agreed to the amount of the overdraft leaves a substantial gap, and we cannot put ourselves in the position of seeming to try to prevent the Saudis, who themselves do not want a bigger overdraft, from bridging this. Given the Saudi perception of this country's part in the recent decline in oil prices - which is what has led to the present problem - they would find this particularly difficult to stomach.

The Rt Hon Peter Walker MBE MP



Whether the Saudis will in fact wish to pump more oil remains to be seen. They may see no alternative, at any rate in the short term, but to divert revenue to the project from existing oil liftings.

Which companies would be involved has not yet been addressed, and that could I think be left to later discussion here if the Saudis propose that Shell and/or BP should take more than they are currently contracted for. I am certainly in no position to commit either company, nor would I give the Saudis the impression that I was.

In the circumstances I would not propose to register the possibility of HMG frustrating what the Saudis may see as a precondition for the project to go ahead.

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

*Yours sincerely,*

*John Howe*  
(private secretary)

for  
George Younger

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