

CONFIDENTIAL



Treasury Chambers
Parliament Street London SW1P 3AG

Telex 262405

Telephone Direct Line 01-233 7495CC 0+4.
Switchboard 01-233 3000

① J.M.
② J.S.
③ Mr. Saudi Tomados

cc Mr. [unclear]
@ [unclear]

P Henley Esq
ECGD
PO Box 272
Export House
50 Ludgate Hill
London EC4M 7AY

Your reference

Our reference

Date

9 December 1986

DEAR PETER

SAUDI ARABIA : YAMAMAH PROJECT

I am replying to your letter of 1 December to Peter Mountfield. As you know, I have discussed your letter with Peter and this letter confirms the points which I made in our telephone conversation earlier today.

2. We are generally content with the drafts and have no substantive comments. I have discussed with you and Charles Dudeney the comments from the Bank of England, which are now confirmed in Tim Downing's letter of 8 December. You agreed to amend the drafts to reflect the comments from the Bank of England and the Ministry of Defence.

3. The request from BAe for additional cover against non-receipt of payment by the Saudis in the circumstances which apply to the cover you propose to give to BIS, has been discussed on a number of occasions. We would prefer that the reduction in ECGD exposure from the original £1.5 billion to the current \$1 billion should properly reflect the deteriorating Saudi economy. The economic situation and the nature of the financing arrangement is acknowledged in the reduced facility now by the Banque Indosuez. However, we recognise that because of the reduced principal and the greater claim by other parties for their portions of the receipts, BAe will be exposed to a larger extent than previously. We are, therefore, prepared to agree that you may extend cover to BAe of up to £300 million. The cover for the \$1 billion loan and the cover for BAe of £300 million will be contained within the limit approved earlier by Ministers of £1 billion.

being
Hated

4. You attached to your letter a copy of a Department of Energy letter of 25 November, which we had not previously seen. The Department of Energy is concerned that the Saudis might seek to renegotiate the netback contracts with Shell and BP in the context of the Yamamah project. As you know,

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the Saudis are reported to be in support of reducing output in order to increase the price of oil. This issue is included on the agenda for this week's OPEC conference. You will no doubt consider any implications of the outcome of the OPEC meeting for the clause in the MODUK and MODA agreement for adjusting the quantity of oil to be made available.

5. I am sending a copy of this letter to the copy recipients of your letter.

Yours sincerely
Tegid Jones

G T W JONES