

172/12

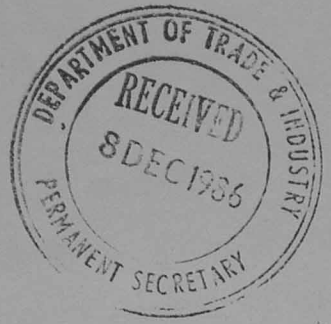
172
OAM 15/12
D J Hodges
3 File Saudi Tomado's



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2193 (Direct Dialling)
01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE
SIR CLIVE WHITMORE KCB CVO

PUS/L86/1108
9/23



→ cc Mr Henley ECGD
→ Mr Ledger PEP
FOR INFORMATION → Miss Woods
Mr Mitchell AIR Saudi's
Mr Titchener O/T Tomado's files

10/12
1a Mr Keupe + cc file
4 December 1986
Mr Bowden
1. Mr Whithead
2 Miss Davis
To see X.

Dear Peter,

SAUDI AIRCRAFT DEAL

Thank you for your letter of 25 November.

2. You should be aware that on 10 November Colin Chandler, the Head of Defence Export Services, drew the attention of the Saudi Defence Minister, Prince Sultan, once again to the financing needs of the aircraft project. As a result, Prince Sultan said that he would write to the Saudi Oil Minister recommending a continuation of the level of lifting at 400,000 barrels per day, and an extension of the oil agreement for another two years (ie to February 1991). This has yet to lead to an invitation to Shell and BP to visit Saudi Arabia for negotiations, and there is indeed no sign of this yet or of any Saudi pressure on the two companies. But the ball is in the Saudi court.

3. It is quite true that, as you say, the ECGD-backed financing package does not demand any change to the oil agreement. But the banks do not see the oil agreement as it stands as giving them security beyond February 1989; so that while the financing facility will make \$1.5 billion available to BAe, the majority of the expected receipts under the oil agreement will need to go to paying off the banks by then, and BAe will get relatively little of them. Accordingly BAe's cash flow difficulties will remain severe, albeit less so than now. At an assumed \$15 a barrel the loan will be repaid by February 1989, but funding of phase 1 of the project would not be complete before September 1989, 8 months into phase 2 of the project, and there would still be a shortfall to BAe of almost £600M in the first quarter of 1987 rising to a maximum of about £850M in the third quarter of 1988. An extension of the oil agreement, given which the banks will be content to be repaid more slowly, is therefore very important for project financing reasons.

4. We regard what we are looking for as no more than a formalisation of the position that Colin Chandler discussed with

under
but Peter
what will
bank of
that!

X

JMB

10/12

Bryan Emmett early in August - with which your Department appeared content - an arrangement to underpin the Saudi obligation to pay the total costs of the project through the sale of oil at a rate of at least 300,000 barrels per day for as long as is necessary to meet the payment obligations and recognising the agreed mutual aim of maintaining the rate of 400,000 barrels per day throughout the life of the project.

5. Since we were not proposing to depart from this position, we did not consult you before Colin Chandler saw Prince Sultan last month. None of us was of course aware at the time of the message from King Fahd which, we understand, Prince Bandar subsequently conveyed orally to the Prime Minister (and of which Chandler forewarned Bryan Emmett after seeing Prince Bandar the previous evening). If there is, in the future, any suggestion that the oil agreement should be changed, we will certainly consult you at once.

6. I am sending copies of this letter to Robert Armstrong, Peter Middleton and Brian Hayes.

Yours truly,

Amre .

P L Gregson Esq CB
Department of Energy
Thames House South
Millbank
London SW1