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196/12

MB
These will be
problems on their
before long!

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10 DOWNING STREET

From the Private Secretary

5/3/3

22 November 1985

JJ149

Dear Richard,

attached

The Prime Minister has seen Riyadh telegram no. 251 about the discussions on Tornado. She has commented that she finds the delays and indecision very worrying. She hopes that the Defence Secretary is following discussions very closely indeed to ensure that the order is not allowed to slip from our grasp.

It will be helpful to have the Defence Secretary's assessment of the problems which have arisen and what action, if any, is needed to overcome them.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office).

Yours sincerely,

(Charles Powell)

Richard Mottram, Esq.,
Ministry of Defence.

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For Information

- Mr Baker PEP
- PS/MFT
- PS/Sir B Hayes
- Mr Roberts
- Mr Gill EGO
- Mr Benjamin PEP
- Mr Nicholl Air

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PRIME MINISTER

TORNADO FOR SAUDI ARABIA

1. Charles Powell's letter of 22nd November to my Private Secretary registered your concern that all might not be going well on the deal for Tornado to Saudi Arabia. This was prompted by Patrick Wright's telegram number 251 of 20th November.
2. I believe that Patrick may be being over-pessimistic - but I am glad that he is taking such a close interest in the project.
3. The present position is that two months after the signature of our formal understanding with the Saudi Minister of Defence, Prince Sultan, the project is going well. There is only one important exception to this generally favourable situation, the question of funding, but I believe that we are on the way to solving that.



4. The project is now fully underway. Saudi crews are being trained in this country and the first batch of aircraft which are due to be delivered to the Kingdom in March are being converted to Saudi specifications. Mr Chandler, the Head of Defence Export Services, is having regular meetings with Prince Sultan to preview progress; his next one is scheduled for 15th December. At their last meeting on 26th November, Prince Sultan expressed his pleasure at the progress that the two air forces had made thus far and left Mr Chandler in no doubt of Saudi determination to proceed with the project.

5. Within the Ministry of Defence, we have now had since early last month a project team in operation headed by a serving 2-star RAF officer with an Assistant Secretary as his deputy. The full intergovernmental MOU and the outline contracts covering the various elements of the package are in preparation and we shall be discussing these with the Saudis this month, although they have only just nominated their negotiators. The specification of the aircraft and weapons systems are now more or less agreed.

6. The only fly in the ointment so far is the lack of any funding mechanism. Prince Sultan went so far as to apologise to Mr Chandler for this at their last meeting; he also said that he expected that something could be done to solve the problem within a few days. Our oil negotiators (from Shell and BP) are ready to resume discussions with the Saudi Ministry of Petroleum



as soon as the Saudi Government (which effectively means the King and Prince Sultan) have decided on the way ahead. Prince Sultan told Mr Chandler that he hoped to be able to make an initial cash payment in addition to arrangements for a long-term oil lifting arrangement in our favour. We hope to hear more details on 15th December.

7. Industrial collaboration, which as you know formed part of the original Saudi demands at the time of the signing of the formal understanding, is not something to which the Saudis have subsequently reverted. But we are alert to the opportunities which the Saudi market may provide, particularly from spin-offs to the Tornado deal. Departments are looking at possible projects that could be established as joint ventures and thereby attract concessionary Saudi finance. I am advised that British companies themselves are cautious about the Saudi market; many of them have attempted to set up joint ventures in Saudi Arabia in recent years and few have been successful. But all are agreed that it should be possible to use the Tornado project, and the real desire for co-operation between our two countries, as a vehicle for expanding trade in both directions. I hope to lead a top level Trade Mission to Saudi Arabia some time in the Spring to reinforce this point.

WMS

Ministry of Defence

4th December 1985