



PRIME MINISTER

TORNADOS FOR TURKEY

I minuted you on 10 August on difficulties arising for us in providing export credit support for the prospective sale to the Turkish airforce of 40 Tornados. Nigel Lawson, Quintin Hailsham, Michael Heseltine, Janet Young and Arthur Cockfield have all commented. The problem arises essentially from the large payment risk exposure that would arise which cannot be accepted by ECGD as a normal Section 2 operation, even on the basis of risk sharing with the private sector.

2 When I wrote before, we were looking at a potential UK order of about £435m (which would have meant an exposure taking into account interest etc of about £600m). BAe have since revised their estimates and have told us that, with cost escalation, spares etc, and with the private sector being unable to support more than 60% of the risk, the

CCND

Prime Minister

The Chancellor strongly opposed this even at a lower level of exposure. MOD, FCO & Lord Cockfield were in favour. No chance of getting it by correspondence. Agree to OD discussion?

Yes not CJD
- 26/9

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figures would work out significantly higher, as follows:

	£m
Total contract value	985
UK share (58%)	571
UK credit (85%)	485
<u>Total exposure (including interest etc)</u>	<u>860</u>
of which: ECGD exposure (40%)	344
Private sector (60%)	516

The Turkish Defence Minister has told Michael Heseltine that they will award us the contract for this sale now provided we can offer finance, and BAe are under pressure to come up with credit proposals. However, there is no evidence that the Turkish Ministry of Finance has yet approved the deal. The Turks have emphasised that for operational reasons the order cannot be reduced in size. Although ECGD's exposure would be very large, the balancing share to be carried by the commercial banks and BAe and its principal sub-contractors has also increased substantially. BAe

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believe there is a reasonable prospect of this risk sharing arrangement being taken by the private sector, although in ECGD's view this is doubtful and it is almost certain that the later maturities will fall to HMG to support.

3 I realise that the arguments are carefully balanced here. Those in favour of giving the HMG support necessary to secure the order are as follows:

a) The industrial case is strong, as I made clear in my minute of 10 August. I accept Nigel Lawson's point that there is no commitment to the EFA programme at present. This makes export orders for Tornado still more significant industrially. Besides Turkey, I understand that there are also export prospects in Saudi Arabia and Oman (initially 20 and 8 aircraft respectively). Both are going to be difficult and are likely to be strongly influenced if we can secure the Turkish order. Taken together, these three possibilities offer an opportunity for the UK to improve its disappointing record in large defence export contracts (as compared for example with the French). Some measure of the industrial importance of the Turkey sale can be gauged from BAe employment

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projections. There are 4000 direct production staff at Warton. BAe estimate that these will reduce to 2500 by 1990 even if the Saudi and Oman orders are won. The Turkish order alone would enable an additional 500 production staff to be maintained through to 1990;

b) The Tornado programme is also of great significance to the aero engine and equipment industries. Rolls Royce's share of the Turkish order is estimated to amount to £60 million initially, plus a further £60 million in spares business;

c) The main repayments on any credit for Tornados would not commence until around 1987/88;

d) We must recognise that the Turks place great importance on the purchase of these aircraft from us and our partners. A refusal to provide finance may damage relations with a country which, as Janet Young points out, is one of our closest allies. On the other hand, the Greeks can hardly complain, since we offered them the aircraft as well and they rejected it;

e) If the UK does not supply these aircraft the Turks

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will probably buy them elsewhere. The USA or France will be only too ready to displace us, and can be expected to have fewer difficulties in offering finance on favourable terms; and

f) The Turks have scrupulously met their obligations to date on BAe's existing sales of Rapier and Sea Skua missiles (which were mainly for cash).

4 The main arguments against HMG support are:

(a) The risk exposure now proposed of about £350m is far above ECGD's existing market limits for Turkey, which will be facing difficult debt servicing problems from 1985 onwards as previously rescheduled debts fall due for payment again;

(b) Although Turkey's recent record on military debts has been satisfactory, Turkey has rescheduled its civil debts on many occasions, and ECGD is still owed some £120m which will not be repaid finally until 1992;

(c) BAe have already had the benefit of almost all of the new medium term ECGD cover for Turkey allocated so

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far (some £77m for Rapier and Sea Skua missiles); normal commercial exports have increased by 40% in the first seven months of 1984 and are currently running at an annual rate of £330m; if support on the scale proposed is agreed this would pre-empt any capacity to give cover for other project business (which would undoubtedly cause vigorous protests from many UK companies, currently negotiating in Turkey); and

(d) There must be doubts about the ability of the private sector to carry its share of the exposure and so there is a risk that BAe will ask for more HMG support later.

5 As I mentioned in my previous minute, if ECGD were to be instructed to take a commitment of this order, it would be necessary for this to be announced to Parliament and for the commitment to be taken outside ECGD's trading accounts.

6 This is a difficult decision. On the one hand there is concern at Turkey's economic prospects. On the other hand, the case is strong on strategic, political and industrial grounds. On balance I recommend that Government ought to find some special way of providing the support being

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requested, subject to BAe being able to arrange the private sector share of the risk. It would, of course, be necessary for BAe's German and Italian partners to be prepared to take their share of credit risks, but I believe that they would be likely to do so given a lead from the UK.

7 I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

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26 September 1984

Department of Trade and Industry

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Defence PT 4

Sales



26 SEP 1984

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10 DOWNING STREET

From the Private Secretary

27 September 1984

TORNADOS FOR TURKEY

The Prime Minister has considered your Secretary of State's undated minute on the provision of export credit support for the prospective sale of Tornados to the Turkish Air Force. She would like the matter to be discussed in OD. I shall ask the Cabinet Office to arrange a meeting as soon as possible.

I am copying this letter to the Private Secretaries to members of OD, David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

CHARLES POWELL

Callum McCarthy, Esq.,
Department of Trade and Industry.

RB

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MO 6/12

Please bring
 forward day
 before OD
 meeting.
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PRIME MINISTERTORNADOS FOR TURKEY

I have seen Norman Tebbit's recent minute to you on this subject. Unfortunately, I shall be out of the country when the subject is to be considered in OD, and Adam Butler will represent me at the meeting. I should put on record, however, that my view of the balance of risks and advantages on this matter coincides with that of Norman Tebbit.

2. I also agree with Norman's conclusion that the Government ought to find some special way of providing the credit support being requested, subject to British Aerospace being able to arrange the private sector share of the risk. As I said in my minute to you of 13th August, quite apart from the industrial arguments in favour of Government support, Turkey's position on NATO's flank makes the Tornado deal of particular military significance to the Alliance as a whole.

3. I am sending copies of this minute to other members of OD, to Tom King and Sir Robert Armstrong.

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Ministry of Defence
3rd October 1984

DEFENCE : Sales Pt4



- 4 OCT 1984

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LONDON

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

cc/lt



HOUSE OF LORDS,
SW1A 0PW

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Prime Minister

Tornados for Turkey

1. I have seen Norman Tebbit's minute of 10 August 1984 supporting the British Aerospace proposals for risk sharing between the Government and industry on the prospective sale of 40 tornados to Turkey. I have also seen subsequent letters from Michael Heseltine, Janet Young, Nigel Lawson and Anthony Cockfield.

2. I want only to emphasise a point which Janet Young mentioned. I do not think we should underestimate the resentment this proposal would generate amongst our Greek allies. It would be difficult to assess the extent of this resentment. But the Greeks are genuinely afraid that the Turks are more likely to fight them than the Soviets.

3. I am copying this to members of OD, to Tom King and to Sir Robert Armstrong.

H. of St. M.

*NBP 17.
DTI are considering next
near step at a meeting on
17 September.*

*CDP
14/9*

12 September, 1984

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Defense: Sales R7 4

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PRIME MINISTER

*Pl. bring forward
for OD on 22
October
OD.*

ECGD COVER: TURKEY AND PAKISTAN

1. You have called a meeting of OD next week to discuss Tornados for Turkey. This case gives rise to similar issues on ECGD cover for major defence business in difficult markets that were considered on the sale of frigates for Pakistan and which we are also considering for Jordan tomorrow. I am minuting you separately about the Jordan case. You will recall that the OD meeting on 28 March which agreed exceptionally to increased cover for the Pakistan proposal asked Peter Rees and Norman Tebbit to determine how this could be provided without detriment to ECGD's support of other potential business with Pakistan. They have been in correspondence since then, the correspondence resting with Peter Rees' minute to you of 1 August.

2. Norman Tebbit's proposal was that OD's wish could best be achieved by transferring off ECGD's trading account the cover for the sale. Peter Rees has not felt able to agree to this. So support for other potential business is not available.

3. If OD decides that cover should be provided for the Tornado sale, or if the Jordan case goes ahead as Michael Heseltine proposes, then the same issue will arise. If you agree, I would hope that we could review the whole position of cover in cases like this at the OD Meeting on 22 October so that we do not lose other good potential business.

4. I am copying this minute to Members of OD.

P.C.

PAUL CHANNON

15 October 1984

DEFENCE: Salvo



15 OCT 1984



CORRESPONDENT