



For Information

MR Baker

PEP

MINISTRY OF DEFENCE

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MO 5/3/3V

PS/mte  
PS/SURBH  
MR Roberts  
PS/SEC EC&D  
MR Benjamin  
MR Mitchell AUL

26th September 1985

Dear Charles

SALE OF AIRCRAFT TO SAUDI ARABIA

Further to my letter of 25th September enclosing briefing for the Prime Minister's meeting with Prince Sultan, I can now confirm that, as I told you over the telephone, a formal Understanding was signed at lunchtime for the sale of 48 Tornado IDS aircraft, 24 Tornado ADV aircraft, 30 Hawk aircraft and 30 PC9 trainers.

The Saudis introduced at a very late stage the question of offset. I attach the record of the Defence Secretary's meeting this morning which covers this point. I am also attaching a copy of the letter he is sending to Prince Sultan which is couched in very general terms.

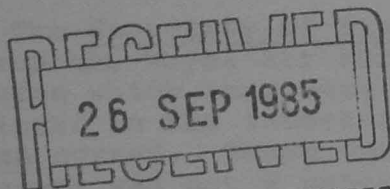
Finally, I should record that we have put proposals to the Saudis on payment methods (copy attached), which have been agreed at official level with the Department of Energy.

I am copying this letter and the attachments to the Private Secretaries to the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Energy, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment and the Secretary of the Cabinet.

Yours etc.

Richard Mottram

(R C MOTTRAM)



Mr MaRoney PEP2A.

cc Mr Benjamin (w/a)  
Mr Titchener  
Mr Field  
GP3.

This is the first we have heard from MOD about offset as distinct from "oil for aircraft".

At EGC on 20 Sept Mr Owen and I joined HMT in pressing Knapp (DG/Marketing) for early advice on how the deal was to be tied up. ECGO

were assured no credit cover would be needed.

C Powell Esq  
No 10 Downing Street

Ans.  
27/9.

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NOTE FOR THE RECORD OF A MEETING WITH HIS ROYAL HIGHNESS PRINCE  
SULTAN BIN ABDULAZIZ AL SAUD AT 1130 ON THURSDAY 26TH SEPTEMBER

Present:

|   |  |
|---|--|
| The Rt Hon Michael Heseltine MP<br>Secretary of State for Defence   | HRH Prince Sultan Bin Abdulaziz<br>Second Deputy Prime Minister<br>and Minister of Defence and<br>Aviation |
| Mr Norman Lamont MP<br>Minister of State for Defence<br>Procurement | HRH Prince Bandar Bin Sultan<br>Bin Abdulaziz Al Saud<br>Saudi Ambassador to the USA                       |
| Air Chief Marshal Sir Keith<br>Williamson<br>Chief of the Air Staff | HE Mr Ali Al-Shaar<br>Minister of Information  |
| Sir Patrick Wright<br>British Ambassador, Saudi<br>Arabia           | HE Sheik Nasser H Almanqour<br>Saudi Ambassador to the UK  |
| Mr Colin Chandler<br>Head of Defence Export<br>Services             | HE General Ahmed Buhairi<br>Director of Operations RSAF  |
| Mr A D Harris, RMD 1  | Colonel Saleh Mohamed Haja<br>Saudi Defence Attache  |
| Mr R C Mottram<br>PS/Secretary of State for<br>Defence              |  |

Sale of Aircraft to Saudi Arabia

1. The Secretary of State referred to the long co-operation between the Royal Air Force and the Royal Saudi Air Force. The decision which they were reaching today would enable that to be continued in the interests of both of their countries. Prince Sultan agreed. There was one point he wished to emphasise. The agreement was not a reaction to problems in Saudi Arabia's relationship with the United States, as had been suggested in the press. His Government had taken the decision over two years ago to buy aircraft from Great Britain which reflected their judgement on the quality of the Tornado aircraft. This purchase was a gesture for peace. It was part of a wider friendship and co-operation between their two countries. The Secretary of State said that it was a decision not just for today but for

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co-operation for the next 20 years. Prince Sultan agreed. He said that he hoped that it would lead to a programme which would cover all areas of interest to Saudi Arabia including safety and the guaranteed supply of spare parts. The Secretary of State said that he would be taking a personal interest in the fulfillment of their agreement and he hoped that Prince Sultan would not hesitate to bring matters to his personal attention.

2. Prince Sultan said that he hoped too that their understanding on the supply of aircraft could be set in a wider economic context of the development of industrial collaboration between Britain and Saudi Arabia including the sharing of technology. Prince Bandar said that what was being sought today was agreement in principle to co-operate in order to achieve a mutually agreeable offset programme. The Secretary of State said that, as had been discussed, he was very happy to provide a letter of general intention to explore the opportunities for such co-operation as part of their understanding on the sale of aircraft. He appreciated that where large sums of money were involved, as in the present order, the government concerned would look for such co-operation both for financial reasons and in order to enhance their technological capability. He recognised that perhaps not enough had been done in the past to ensure the full participation of Saudi nationals in programmes of this kind. Prince Sultan suggested that an understanding on co-operation should be incorporated in the agreement they were to initial. The Secretary of State said that we would prefer to recognise the general principle in a letter and to follow it up in detailed discussions. Prince Sultan said he was content to proceed in this way.

3. In further discussion of economic co-operation, Prince Sultan said that his government envisaged co-operation between the British and Saudi private sectors. This would be in the mutual interest of their two countries. These joint ventures would open up opportunities for contracts with the Gulf countries and in the Far East. It was not simply a matter of co-operation between two governments: it was a question of co-operation between two peoples. The Secretary of State said that machinery should be established to work out with great care the opportunities. Prince Sultan referred to the success of the "Peace Shield" programme of co-operation which had been organised for similar reasons. At their first meeting to pursue co-operation the Saudis could explain in great detail how this was working out. Sir Patrick Wright commented that a high level mission from British industry had visited Saudi Arabia a year ago to look at the prospects for joint ventures. The concept was well understood. Prince Sultan said that he appreciated this. The earlier initiative lacked the support which would now be available. The Secretary of State said that he would incorporate the importance of economic co-operation in his statement to the press.



4. Prince Sultan asked for an assurance that EW equipment of Swedish and American origin would be included in the sale of aircraft and Mr Chandler confirmed that these items had been cleared by the governments concerned. He also asked that the first delivery of six aircraft should be brought forward to March/April 1986 rather than June. He hoped for a response before he left for New York. Finally, he emphasised the Saudi desire to conclude the detailed agreements as quickly as possible, by not later than 31st March next year rather than on 31st March as the Arabic text of the Understanding implied.

#### Naval Co-operation

5. The Secretary of State said that he understood that two instructors from the Royal Navy had now joined the Saudi Naval Academy. He wanted to be assured that the assistance we were providing met all Saudis requirements. Prince Sultan said that his understanding was that we were doing a splendid job. He would be reviewing the Navy's requirements when he returned to the Kingdom. The Secretary of State said that he would wait to hear whether there were any further actions he should be taking.

#### Sale of Armoured Vehicles

6. The Secretary of State said that he understood that the trial of the Challenger tank and MCV80 had been completed and he wondered if there was any Saudi reaction. Prince Sultan said that the report was not yet complete and he would be looking at it on his return.

#### Initialling of Formal Understanding

7. The meeting ended at 1250 when the Secretary of State and Prince Sultan travelled to Lancaster House. There they initialled a Formal Understanding that the Government of the Kingdom of Saudi Arabia will purchase and the Government of the United Kingdom will supply 48 Tornado IDS aircraft, 24 Tornado ADV aircraft, 30 Hawk aircraft and 30 PC9 basic trainers together with associated support services, equipment, weapons, ammunition and electronic warfare systems for the use of the Royal Saudi Air Force. The total cost of the programme will (the Understanding states) be of the order of £3-4 billion.

Rm

26th September 1985

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2ND

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EXTERNAL: As covering letter

Plus Sir Patrick Wright,  
 HM Ambassador, Jedda

Following discussions between our representatives, I am  
 pleased to confirm that, within the context of the Understanding  
 signed today, the Government of the United Kingdom shares with  
 the Government of the Kingdom of Saudi Arabia a desire that the  
 industries of both countries shall develop arrangements for  
 industrial collaboration and the transfer of technology.

As a preliminary step in this process, the Government of  
 the United Kingdom will arrange for a delegation consisting of  
 representatives of appropriate British companies to visit the  
 Kingdom of Saudi Arabia for discussions on possible  
 cooperation, at a time to be agreed.



**MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB**

TELEPHONE 01-218 9000

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MO 5/3/3V

26th September 1985

It gives me great personal pleasure to see you in this country on such an auspicious occasion and as you will hear from the Prime Minister, Her Majesty's Government is delighted by the decision of the Government of the Kingdom of Saudi Arabia to

Following discussions between our representatives, I am pleased to confirm that, within the context of the Understanding signed today, the Government of the United Kingdom shares with the Government of the Kingdom of Saudi Arabia a desire that the industries of both countries shall develop arrangements for industrial collaboration and the transfer of technology.

As a preliminary step in this process, the Government of the United Kingdom will arrange for a delegation consisting of representatives of appropriate British companies to visit the Kingdom of Saudi Arabia for discussions on policy and objectives, at a time to be agreed.

Michael Heseltine

His Royal Highness Prince Sultan Bin Abdulaziz Al Saud



**MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB**

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 5/3/3M

26th September 1985

It gives me great personal pleasure to see you in this country on such an auspicious occasion and as you will hear from the Prime Minister, Her Majesty's Government is delighted by the decision of the Government of the Kingdom of Saudi Arabia to acquire Tornado, Hawk and PC-9 aircraft from us. This project will greatly strengthen the traditional ties between our two countries on defence matters and we in the Ministry of Defence will bring our best efforts to bear to meet our responsibilities under the Memorandum of Understanding and subsequent Contracts and Understandings to be agreed between us.

In the Memorandum of Understanding entered into today, reference is made in general terms to the subject of the method of payment. The purpose of this letter is to provide more detailed information for consideration by the Government of the Kingdom of Saudi Arabia.

His Royal Highness Prince Sultan Bin Abdulaziz Al Saud



Following acceptance by the British Government of payment by means of an oil trading scheme, preliminary discussions have been held with the British Oil Companies, BP and Shell. These two companies are prepared in principle to handle the oil trading scheme subject to the agreement of satisfactory terms and conditions. They will form a Consortium, to be led by BP.

In outline, the main principles of the oil trading scheme are proposed as follows:

- a. Volume. 200,000 barrels per day. Subject to detailed discussions and confirmation of complete freedom of disposal, the volume deliverable until 31st March 1986 could be increased to 300,000 barrels per day.
- b. Period. For such time as it takes to lift the agreed value of the aircraft contracts. Currently, this value is of the order of £3 billion to £4 billion pounds sterling, ie a period of approximately 2½ to 3 years.
- c. Commencement. Liftings could commence 20 days after signature of the oil trading agreement.
- d. Price. Will be determined by means of a formula (copy attached).





e. Disposal. No deliveries will be made to either South Africa or Israel but otherwise the Consortium would require the complete freedom of disposal mentioned in sub-paragraph a. above.

f. Other Terms and Conditions. To be agreed but to be generally in accordance with established international practice.

We respectfully suggest that the scheme outlined above would be in the best interests of the Kingdom of Saudi Arabia and the United Kingdom and we recommend that negotiations are commenced as soon as possible with particular emphasis being placed on the need for freedom of disposal.

As Your Royal Highness will appreciate, some Tornado aircraft already in production will be diverted from the Royal Air Force to meet the requirement of the Kingdom of Saudi Arabia for early delivery. These arrangements give rise to the need for early detailed agreement on the method of payment and I will ensure that our expert representatives are available for discussion at short notice.



ATTACHMENT

Price/Unit

Price/Unit for each cargo shall be determined by the following formula:

QW

Please be assured of my best attention at all times and of my own continuing personal involvement in this most important project between our two countries.

above

QW

QW is the product calculated by applying the formula of percentage QW at maximum QW to the QW of cargo and the QW of cargo is divided by the QW of cargo (QW of cargo) divided by 1.333.

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These values will apply for any cargo for which the API gravity is recorded as the API gravity is within the range 11.3-14.3. If for any cargo the API gravity is outside this range then:

1. If the API gravity is below 11.3, for each full 0.1° below 11.3 the QW will percentage will be reduced by 0.25 and the HCV percentage increased by 0.25.

2. If the API gravity is above 14.3, for each full 0.1° above 14.3 the QW will percentage will be increased by 0.25 and the HCV percentage reduced by 0.25.

Price Formula

Price/bbl for each cargo shall be determined by the following formula:

|      |                |
|------|----------------|
|      | GPW            |
| less | PROCESSING FEE |
| less | FREIGHT        |
| less | INSURANCE      |

where

GPW:

GPW is the product realisation in NWE calculated by applying the yields and product prices set out below, divided by bbl/MT conversion factor of 7.342.

Yields in percent weight:

Arabian Light (33.3 - 34.3° API)

Naphtha 15.0

Jet 10.0

Gas Oil 32.0

HSFO 39.0

Fuel and Loss 4.0

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100.0

These yields will apply for any cargo for which the API gravity as recorded on the Bill of Lading is within the range 33.3-34.3°. If for any cargo the API gravity is outside this range then:

1. If the API gravity is below 33.3, for each full 0.1° below 33.3 the Gas oil percentage will be reduced by 0.25 and the HSFO percentage increased by 0.25.
2. If the API gravity is above 34.3, for each full 0.1° above 34.3 the Gas oil percentage will be increased by 0.25 and the HSFO percentage reduced by 0.25.

Prices:

Average of the ten publications of Platt's following the 50th day from bill of lading date.

|     |              |     |             |
|-----|--------------|-----|-------------|
| NWE | Cargoes Mean | CIF | for Naphtha |
| NWE | Cargoes Mean | CIF | for Jet     |
| NWE | Cargoes Mean | CIF | for Gas Oil |
| NWE | Cargoes Mean | CIF | for HSFO    |

Processing Fee:

Fee is \$4/MT.

Freight:

A freight charge will be made to reflect the cost of spot freight in VLCC's for the voyage Ras Tanura to Rotterdam. Towards the end of August the appropriate rate would have been WS25. Currently the appropriate charge would be WS34. It is proposed that a WS rate be fixed at the outset, subject to review at the request of either party given one month prior to any quarter in respect of the quarter in question, if the requesting party feels the then applicable rate is materially out of line with market rates. In the event of any dispute on the rate to be applied reference will be made to the London Brokers Panel whose award will be binding on both parties.

Insurance:

A charge based on market rates for cargo insurance for the voyage to Rotterdam from the loading port in question will be made. At the time hereof the appropriate charge for loadings ex Ras Tanura is approximately 5 cents/bbl. This charge will continue to apply subject to review at the request of either party given one month prior to any quarter in respect of the quarter in question, if the requesting party feels the then applicable rate is materially out of line with market rates. In the event of any dispute on the rate to be charged a reference will be made to a mutually acceptable expert whose decision will be binding on both parties.