

CONFIDENTIAL

Prime Minister (2)

CDP
6/2FROM: CHIEF SECRETARY
DATE: 5 February 1985

PRIME MINISTER

COVER FOR ARMS SALES

Michael Heseltine sent you a minute on 10 December 1984 enclosing the Quarterly Report on Defence Sales Prospects and setting out the main priority areas for DSO activity.

2 That Report has now been discussed interdepartmentally as part of new arrangements instituted last Summer to identify at a sufficiently early stage defence sales contracts which would demand export credit cover beyond what was prudent in the light of ECGD's deteriorating finances, or which would compete for cover with civil sales. A number of recent cases have given rise to such problems and Norman Tebbit, together with Michael Heseltine and myself are considering them in response to an OD remit.

3 In the meantime, the Export Guarantee Committee, which the Treasury chair, did identify in the latest Quarterly Report a number of cases (Brazil, Oman) which would give rise to ECGD cover problems or would need further consideration, and others (Egypt, Jordan) where the absence of a time limit on a large reservation of cover for defence business was impeding civil business or might do so in future. Michael's officials have taken note of these.

4 These arrangements should prove useful, in saving time on future cases. I record them now, so that the Ministers concerned recognise the problems in advance, and do not seek urgent decisions until those problems have been clarified at official level.

5 I am copying this minute to Geoffrey Howe, Norman Tebbit and Michael Heseltine, and to Sir Robert Armstrong.

PETER REES

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DEFENCE
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