



CC PC ① A

Prime Minister

MO 26/9/19

Charles - look at the 'green' period. I hope it had gone for 14 months to 3 years. That is what we are talking about.

Defence Secretary is prepared to take the risk on his budget.

PRIME MINISTER

DEFENCE SALES TO JORDAN

Agree to improved terms if necessary?
CDP
3/6

Although the Jordanians were slow to begin talks on the major package of defence equipment on which we have offered credit of £300 million, active negotiations are now underway as foreshadowed in my last Quarterly Report. Indeed the Jordanians now seem very keen to conclude the business and are talking of an intergovernmental MOU being signed by the end of June with contracts soon after.

2. Perhaps not surprisingly the Jordanian negotiators have emphasised their straitened economic circumstances and have indicated that the cost of our equipment, together with the other credit charges, will make substantial purchases from us under the existing terms difficult. They have not claimed that the French have offered anything better, but have pointed again to the very advantageous Russian terms which remain on the table and the fact that they may have to turn to them again for much of the equipment they were hoping to buy from us.

3. There is no doubt an element of negotiating tactics in all this. Nevertheless the risk that the Jordanians will turn to the



Soviet Union is a real one which will not be in the Western interest nor to our economic advantage. I have no doubt the King will be giving the same message during his trip to Washington in the hope of securing a favourable American package which will put us under more pressure. I am not suggesting any reduction in the 9.5% interest rate which we have offered, which is generous by our normal standards and in any case would have an unfortunate knock-on effect in our dealings with Oman. But if necessary I believe we should be prepared to extend the credit cover to a full 90% and to give a further year's grace for the starting date of repayments beyond the 18 months from date of contract effectively offered at present. Both these should help to meet the Jordanians' main problem of particular pressure on their budgets in the early years and we shall continue to talk with the banks about other measures which may help.

*I thought
this had
gone to
3 years*

4. The original credit package which we agreed was for a maximum ECGD liability of £300 million which, taking into account interest, would allow equipment purchases of some £230 million. Unfortunately the Jordanians have, deliberately or otherwise, misinterpreted the figures and believe they have full contract coverage for £300 million. They are now talking about orders up to £270 million which at the rates and cover we are proposing would involve a maximum ECGD liability of about £375 million. I think it unlikely that the Jordanians will in fact reach this figure with us; but I am unwilling to see the momentum of these negotiations break down now that they have started so



successfully and I believe that, given the background to our offer, we cannot refuse to at least discuss orders up to the level that the Jordanians are now putting forward.

5. I am aware that the ECGD country limit for Jordan is under pressure and that the extra £75 million likely to be available is earmarked for the Yamouk University Teaching Hospital. We shall do our best during discussions to keep within reasonable limits our exposure in the country on this defence deal, although much of this business is important to us with some seventy different British manufacturers involved. Nevertheless there is a contingent risk beyond the current £300 million currently agreed for which we need to have cover to continue our present discussions.

6. You know that exceptionally in this case (and in the case of Oman - my minute of 24th May) I have accepted that defence resources will meet the consequences of subsidising the interest rate, and I am prepared also to accept the increases arising from these improved terms for Jordan. I therefore hope that you will be able to agree that we may offer, if necessary, increased cover up to 90% and a one year extension to the grace period for repayment; and that a potential increase in the country limit to £375 million can be accepted.

7. A sales team is leaving for Jordan on 5th June, and I understand you are yourself seeing the King on 7th June so an



early indication of colleagues' agreement to what is proposed would be helpful.

8. I am sending copies of this minute to other members of OD and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "R. A. Armstrong".

Ministry of Defence
3rd June 1985



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