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FROM: CHIEF SECRETARY

DATE: 5 June 1985

PRIME MINISTER

with CAP?
DEFENCE SALES TO JORDAN

Michael Heseltine sent me a copy of his minute to you of 3 June. Officials met on 4 June (in the Export Guarantees Committee, under Treasury chairmanship) to consider this case.

2 There are two issues: the proposed increase in the cover limit, and the softening of the terms for the loan.

3 On the first issue, Michael proposes an increase to a level of £375 million; but this is only for defence sales. The total would in fact be about £550 million. This is far more than I can contemplate in a market as risky, in the long term, as Jordan is. However stable the regime, the resources of the economy are not really enough to sustain debt service commitments on this scale. We should in practice be relying upon the willingness of Jordan's Arab neighbours to provide support. I am prepared to consider a more modest increase, to a total of £475 million (including £25 million to be transferred from the section 1 account, if ECGD's City Advisory Council so recommend). I do this because I recognise the political imperative of having something to offer King Hussein during his visit later this week. If the private sector (banks or contractors) were prepared to carry some of the additional risks themselves, this would obviously allow a larger volume of sales to be covered.

4 I see no justification for further softening of the terms, which are already extremely generous. Michael offers to meet the additional interest costs from the defence budget, but since most of these would arise in years for which there is no agreed defence budget, that is of little help. In any case, I am more concerned about the dangerous precedent

this would set for arms, and indeed civilian, sales in other markets. The generous terms earlier offered to Jordan have already spread to Oman. The UK interest must lie in attempting to curtail the credit race, not by accelerating it. I therefore suggest that no further concessions be offered.

5 I hope very much that, on reflection, Michael will accept these suggestions. If not, I fear there is no alternative but for Ministers to meet urgently to consider the case before the King's visit. Meanwhile, I hope he will ensure that his sales team in Jordan does not enter into any fresh commitments and that he can find ways of improving the procedures by which such cases are brought to Ministers in future. I am copying this letter to Michael Heseltine, other Members of OD and Sir Robert Armstrong.

PR

PETER REES

5 JUN 1985

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