



Middle East

Ref. A04240

PRIME MINISTER

Tornado - Export Sales

(OD(81) 8)

see Defence Sales Dept 80

BACKGROUND

When OD discussed defence sales on 3rd December, they invited the Foreign and Commonwealth Secretary and Secretary of State for Defence to exploit all possible opportunities to extend overseas markets for defence sales. Tornado is the single largest defence project in which this country is at present engaged. It has become urgent to decide upon overseas sales policy for it, because a party of Saudis is seeking a sales demonstration at the end of this month, the West Germans are currently reviewing their present policy of export of defence equipment, and the French are preparing to move into the Middle East market with their Mirage 2000 and 4000. Because Tornado is a joint project, we cannot market the aircraft without first reaching agreement with our German and Italian partners. We also need to consult the Americans, because Tornado includes American equipment; and we must face the fact that to a large extent a market in the Middle East will exist for this aircraft only if either the Americans decide not to supply their own very good and cheaper aircraft or the Arab states concerned decide that they do not wish to deal with one of the super- powers. The preservation of the Arab/Israeli balance is of course a very important consideration to the Americans, and indeed to us too.

2. The Secretary of State for Industry wishes to stay for this discussion.

HANDLING

3. You may care to invite the Foreign and Commonwealth Secretary followed by the Secretary of State for Defence to introduce their paper. Points to cover in subsequent discussion are as follows -

- (a) Which particular countries in the Middle East are regarded as the best prospect for export sales of Tornado? In terms of quantities the best prospects appear to be Saudi Arabia, Iran, Iraq and possibly Egypt.

Different political considerations apply to each market, and some of them are mutually incompatible. How valuable are the potential engine sales to Israel?

- (b) Could we in practice refuse to sell the whole aircraft to Israel, if we had already sold it to a major Arab country?
- (c) Does the Tornado have a realistic prospect of overseas sales in direct competition on price and performance with available American aircraft? If the only real superiority enjoyed by the Tornado lies in its avionics, and if these have to be modified or removed on security grounds, is there much real chance of selling the aircraft?
- (d) Can the Foreign and Commonwealth Secretary say what is the likely outcome of the current German review of their overseas defence sales policy? How are they likely to react to such an approach from us on Tornado, particularly if it is unwelcome to the French?
- (e) If the Americans eventually refused to sanction the sale of their components in the Tornado, could these be replaced by British components which do not degrade the performance (or increase the cost) of the aircraft too badly?
- (f) In regard to the position of PANAVIA, what does the Foreign and Commonwealth Secretary see as the political and commercial arguments which might be used to persuade the Germans to allow the United Kingdom to take the lead in Tornado sales through British Aerospace and Rolls-Royce?
- (g) How important, in the Secretary of State for Industry's view, are the sales prospects for the firms involved?
- (h) Does the Secretary of State for Defence consider that there is a risk that substantial export sales of Tornado might interfere with planned deliveries to the RAF, with implications for our NATO contribution? (A report in the Daily Telegraph of 11th February suggests that Saudi Arabia might want up to 100 Tornados which would be given priority over domestic requirements.)

— attached



CONCLUSIONS

4. Subject to points made in discussion, you might lead the Committee to -
- (i) Agree in principle to sell Tornado to overseas customers.
 - (ii) Agree to an approach to the German Government about relaxing their present stance on sales and on the present marketing function of PANAVIA.
 - (iii) Agree to a later approach to the Americans to seek their agreement to our ~~export sales~~ export sales policy for Tornado.
 - (iv) Invite the Foreign and Commonwealth Secretary and the Secretary of State for Defence to make every effort to keep the Tornado sales prospect in front of potential Middle East customers to prevent pre-emption of this market by the French.
5. If there is a risk at the meeting of OD on 12th February that this item will be squeezed off the agenda for lack of time, you could suggest that it be cleared by correspondence in view of its urgency. (The other two items are equally urgent and less susceptible of clearance out of Committee.)

RIA

ROBERT ARMSTRONG

11th February, 1981