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OPS & MASTER

SUBJECT: DEFENCE: Sales

Pt 3



10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S

25 August, 1983

PERSONAL MESSAGE

SERIAL No. T 119/83

My dear Cherullo,

For many months now our Governments have been working together very closely in an attempt to secure the first export order for the Tornado aircraft from Greece. We know that the final presentations have now been made to Mr. Papandreou and a decision is imminent. It has therefore been arranged for my Defence Secretary, Michael Heseltine, to fly to Athens on 2 September to make final representations in support of Tornado.

The Greek Government has made it clear that we stand no chance of obtaining this order unless we can offer credit at a fixed rate of interest below 9%. This is what the French are offering and because of the weakness of the Franc, the Greeks will find the French offer very attractive. For the British element of the credit package, special arrangements are being made to finance a loan in Deutschmarks at an interest rate of 8.95% inclusive of all charges and the British Government stands ready to provide financial support for this offer from public funds if commercial interest rates exceed this figure over the period of the loan. I know that there is no general scheme for subsidising interest rates in Germany, but I understand that special arrangements are being considered to support the German interest rate from public funds up to a maximum of 11.2%, leaving the Greeks to carry most of the risk thereafter. The risk of German interest rates exceeding 11% may be remote but in our view this scheme would still be most unattractive to the Greeks, in comparison with the French offer, and could well lose us the order. Moreover, Michael Heseltine would find it very difficult to explain such a scheme on

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behalf of the German Government when he sees Mr. Papandreou on 2 September. I must therefore urge that, as an exceptional measure, the German authorities be asked to support a fixed rate of 8.95% without any special conditions or restrictions in order to meet the Greek requirement. As I understand it, this does not require any immediate subsidy but only a potential and unquantifiable commitment to support interest rates if they rise significantly over the period of the loan.

I understand that this matter is to be considered at a meeting in Bonn on 29 August. This gives us very little time to compare notes before Michael Heseltine leaves for Greece on 1 September. I hope that you will be able to give us early confirmation of a favourable decision.

Warm regards,

Yours sincerely

Papandreu

His Excellency Herr Dr. Helmut Kohl