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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 26/9/19

Prime Minister (2)
[Handwritten initials]

PRIME MINISTER

TANKS FOR JORDAN

We have made good progress on the sale of tanks to Jordan since you told HM King Hussein on 20th September of our readiness in principle to sell, subject to the negotiation of satisfactory terms. A draft contract was drawn up during a visit to Amman in early October by representatives of IMS Ltd, the Ministry of Defence and Royal Ordnance Factories, and last week officials agreed the terms of a government-to-government Memorandum of Understanding which sets out HMG's support for the project and our relationship with IMS Ltd.

2. Lieutenant General Abdul Hadi al Majali, the Chief of the General Staff of the Jordanian Army, arrives in London tomorrow for the final stages of negotiation and, if all goes well, I expect the Chief Executive of IMS to sign the main contract for the supply of 274 "Khalid" main battle tanks and Euan Strathcona to sign the MOU with the Jordanians on 28th November. Further contracts for spares, support equipment etc and for 21 Armoured Recovery Vehicles and 5 Bridgelayers are expected to be signed in the New Year.

3. The financial terms of the contract are summarised at Annex. Officials in other Departments have been kept in touch with progress of the MOU and contract negotiations. A price per tank of £820,000 (including radios) had essentially been agreed before your meeting with the King.

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The Jordanians had subsequently declined to meet inflation increases on the quarter of the value of the contract covered by a downpayment. However, later negotiations have provided for the recovery of the greater part of this loss of income by means of three substantial progress payments.

4. In his letter of 1st October John Biffen referred to the risk of cancellation by the Jordanians in the event of excessive design delays and to possible losses through cost escalation. We now expect the contract to provide no right of termination but to require the payment of our full costs if the contract were to be terminated. This effectively deals with the first risk. As regards cost escalation we have found a way of offsetting most of the potential additional costs for which we would have thought ECGD cover appropriate. The risk of the Jordanians backing out has been reduced by the contractual funding arrangements and ECGD insurance is available to cover this risk. The cash flow for this project is such that, taking account of Jordanian advance payments, there should be no funding requirement from the ROF Trading Fund until the end of 1981 at the earliest, and the cash flow until then will be of benefit by way of advances held and interest earned. This contract is worth £ 266 M at current prices.

5. On the above terms, I believe that the benefits of this deal are such as to justify the acceptance of the residual risks on the defence programme, particularly in the light of the benefits for the defence industry and the development of future sales to Jordan and other Arab states. It may be possible to simplify the conditions of the main contract during the coming week's negotiations, but I do not expect any other significant alterations. If any serious difficulties were to arise, I would of course consult you and colleagues before the deal was concluded.

6. I am copying this minute to our OD colleagues, to the Secretaries of State for Industry and Employment, and to Sir Robert Armstrong.

22nd November 1979

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ANNEX

The Khalid Main
Battle Tank*



1. The total Contract Price will be £266 M.
2. A down payment of £56.170 M will be paid by direct transfer within 30 days of signature of contract in November 1979.
3. Progress payments of £20 M will be due on:
 - (a) 1st May 1980
 - (b) 1st September 1980
 - (c) 1st March 1981;and each will be payable within two weeks and will be made by direct transfer.
4. A confirmed irrevocable Letter of Credit for the remaining £149 M will be opened in April 1980.
5. Escalation at 8% compound will be calculated on a quarterly basis in accordance with deliveries.
6. The value of progress payments once made will carry escalation but only at two-thirds of the 8% from the date they are made.

* The Jördanian Government has named their new tank after one of the major Arab military commanders in the 7th century AD - Khalid ibn al Waleed. The name has not yet been officially promulgated in Jordan but is widely known.

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Reference

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

*NBPN**Am - 23/x1*

22 November 1979

Dear Francis,

BRITISH TANKS FOR JORDAN

I understand that a Jordanian delegation will be arriving in London this week for final negotiations on the sale of tanks and that the contract is to be signed on 28 November. In my letter of 1 October I said that I had no objection to this deal provided that you were able to assure me that in the event of any losses resulting either from delays caused by design problems or from cost escalation, the net costs arising would be a charge on the Defence Budget within the ceilings fixed for the relevant year. My concern was and is to avoid any increase to total public expenditure. I should be grateful if you would confirm that you accept that if the deal is now completed it is on this basis.

I am copying this to the Prime Minister, other members of OD, the Secretary of State for Trade and the Secretary of the Cabinet.

*Jans**John Biffen*

JOHN BIFFEN

FILE

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FCO
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D/T
D/I
D/M

Defence

10 DOWNING STREET

From the Private Secretary

26 November 1979

Tanks for Jordan

The Prime Minister has seen the Secretary of State for Defence's minute of 22 November on this subject and has noted its contents.

I am sending copies of this letter to Private Secretaries to other members of OD, to Ian Ellison (Department of Industry) and Ian Fair (Department of Employment).

M. O'D. B. ALEXANDER

B. M. Norbury, Esq.,
Ministry of Defence.

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Defence

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
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MO 26/9/19

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FOREIGN AND COMMONWEALTH SECRETARY

TANKS FOR JORDAN

In your minute of 23rd October you drew attention to the importance of our meeting the delivery dates for the Jordanian tank programme. I agree that we must not fall behind schedule both for the political reasons that you emphasise and because there are significant financial penalties if we do. The Jordanians have insisted on a contract price that contains a fixed element for inflation up to the date of scheduled delivery.

2. As Douglas Hurd learned from the IMS team that was in Jordan during his visit the principal uncertainty lies in the performance of the gearbox. It is of an advanced design and several problems were encountered during the development phase. Most of these have now been solved and we believe that a modified box which is due to be delivered for trials at the end of next month will prove satisfactory. I attach a technical Annex on the gearbox so that you and your officials will be fully aware of the difficulties. Incidentally the gearbox is not only an important aspect of the Jordanian programme it is also essential to the future tank programme for the British Army although in a slightly later timescale.

3. The Military Vehicles Experimental Establishment is confident that all will be well when the modified gearbox undergoes its trial and that it will be cleared for

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production to the timescale required by the Jordanian contracts. We are doing all we can by way of management effort and by speculative funding of materials to achieve this objective.

4. I am receiving regular reports of progress and I will certainly let you and other colleagues know if any problems arise.

5. I am sending copies of this minute to the Prime Minister and to Sir Robert Armstrong.

J.F.

2nd November 1979

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Note on TN 37 Development

The TN 37 transmission is a complex equipment the development of which was put in hand (from the drawing board stage) to a tight timescale for Project 4030.

2 Such equipments of necessity incorporate complicated lubrication circuits, clutches in the range change pack which depend upon friction properties, hydrostatic components, as well as numerous gear trains, bearings, etc.

3 The TN 37 performs very well but as yet it does not have adequate reliability. No trouble has been experienced with any gears and only very minor trouble with one bearing. However considerable troubles have arisen with those aspects which are difficult to design and produce accurately and which always have to be "developed out" of equipments of this type. These aspects are friction materials and patterns for clutch plates and brake plates, special surface finishes for adequate wearing properties in swash plates and pistons in pumps and detailed lubrication path performance.

4 Such problems are investigated in separate rig tests but cannot be fully cleared until representative durability running is done in a vehicle.

5 Various problems of this type have been encountered and overcome both in test rigs and finally in vehicle running. These have involved materials and surface finishes for adequate wear properties in components of the hydrostatic steer units, of the brakes (internal to the transmission) of the many clutches incorporated in the transmission.

6 The present criterion for acceptance is a 2000km (100 hours) vehicle running trial.

7 In early 1979 a transmission completed 940km of the trial before failure. This transmission was found to be in very good condition except for the premature failure of one clutch with signs of deterioration in another. Signs of similar failures had been obtained in rig tests but at much longer equivalent life. As a result designs for suitable modifications had been put in hand. These designs are known as the Stage 2 modifications.

8 Due to the intervening repudiation of the Iranian contract and consequent cancellation of contracts in UK the next transmission to undergo the 100 hour test (with Stage 2 modifications) will not be ready until end November 1979.

9 If all goes well the 100 hour trial will be completed in February/March 1980. In view of the previous good condition of the remainder of the transmission confidence in this design proving successful is good.

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However as an insurance and to improve further the durability of the transmission the design of a further improved lubrication system together with other desirable improvements has been started. This is known as Stage 3 but could not be tested until the Autumn 1980.

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SECRETARY OF STATE FOR DEFENCE

Tanks for Jordan

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Prime Minister
Are the tanks
kept much at Paul?
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establishment
of so - kind
the number
to Francis
ref.*

1. As you may know Douglas Hurd visited Jordan from 9 - 11 October, and his visit coincided with that of the IMS mission negotiating the sale of Shir tanks to Jordan.

2. It was clear from Douglas's conversations there that King Hussein himself is deeply committed to this deal and that he sees its success as a touchstone for Anglo/Jordanian relations.

3. One of the residual problems in these negotiations is, as you know, the delivery schedule for the tanks and it was the King himself who intervened in the negotiations last week to press for deliveries to begin in the first, rather than the second, quarter of 1981. He feels himself to be under pressure to meet the expectations of the Army and his Arab backers to obtain early delivery. You will also recall that late delivery was one of the reasons he gave publicly for not preferring the American M60 tanks. It now seems likely that the King will be prepared to accept the later delivery dates we have offered. But if so it will clearly be most important that these dates do not slip.

4. I understand that the principal uncertainty lies in design problems encountered in the gearbox for the Shir I tank and that, if the delivery schedule is to be met, these will have to be overcome by February or March of next year. There would be major financial penalties if this deadline were not met. But I think I should emphasise that, quite apart from this the King's personal commitment is such that even a relatively short delay could have wider and damaging implications for our political and commercial relations with Jordan.

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5. As you know the reasons for embarking on this deal were not primarily political. But once it is concluded, it will be essential from the political as well as from the industrial and commercial standpoint that the equipment should be supplied promptly and without serious defects. If we were to fall down on this contract the consequences would be felt beyond the frontiers of Jordan. I know I can look to you to keep a close eye on the matter.

6. I am sending a copy of this minute to the Prime Minister and to Sir John Hunt.

A handwritten signature, appearing to be 'C', written in dark ink.

(CARRINGTON)

Foreign and Commonwealth Office

23 October 1979

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Defence

(2)



Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

*I managed that
we can manage to
make a hell out of it*

*Pratt
Christie
John, Mike*

1 October 1979

Dear Francis,

*La
Pratt*

BRITISH TANKS FOR JORDAN

I have seen your minute of 21 September about the negotiation with the Jordanians. My officials have been in touch with yours. This letter is to confirm the points which have been put.

The Prime Minister told King Hussein on 20 September that HMG are prepared to supply the tanks at cost price. As my officials have told yours, I am concerned at the possibility that they may in fact be sold not at cost price but at a loss. In his letter of 6 August to Euan Strathcona, Geoffrey Howe had already expressed concern at this possibility, and indicated his wish that public expenditure implications should be fully considered.

For the Treasury the crucial point is that this transaction should not result in a net increase in public expenditure. I therefore seek your assurance that any net costs arising will be met from within whatever ceiling is set for the Defence Budget in the relevant year.

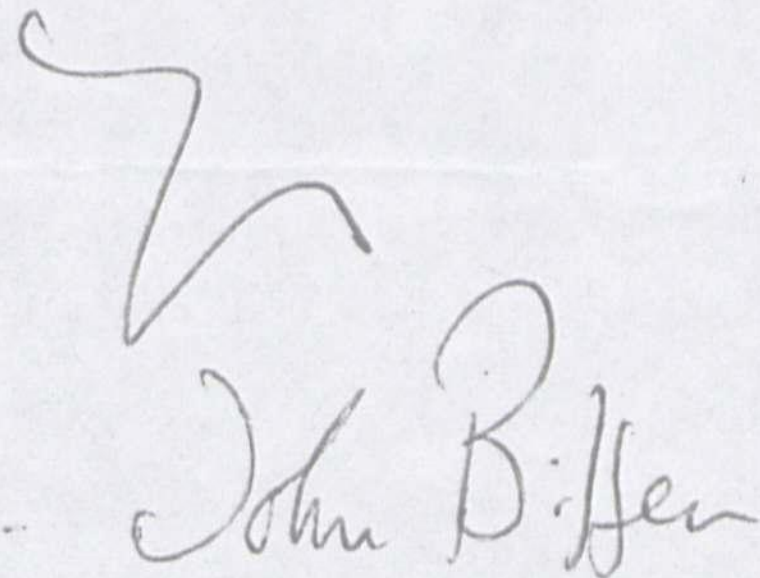
I am advised that, on the terms currently envisaged, net costs could arise in two ways, which our officials have discussed. First, if as a result of design problems the programme became seriously delayed, the Jordanians would have the right to cancel the deal and have their payments refunded. If this were to happen at the time of maximum commitment, the cost could be some £150 million.

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Second, losses could arise as a result of cost escalation. I understand that the Jordanians have said that they would not be prepared to pay escalation on the 25 per cent down payment, but that your negotiators hope to offset costs on this score by adjustments to the schedule of subsequent payments. However, the Jordanians also insist that they will not pay more than a fixed escalation rate of 8 per cent per annum on the balance: thus if the cost of the tanks rises by more than 8 per cent per annum the bill for the difference would have to be picked up in London. It might amount to some £30-40 million. It has been suggested that ECGD cost escalation cover might be made available to this extent. But the provision of such cover would result in a corresponding, and in my view unacceptable, increase in the totality of public expenditure. To avoid this, any losses under this head also will have to be a charge on the Defence Budget, within the ceilings fixed.

I make no objection to conclusion of the Jordanian deal on the terms envisaged, provided that you give me these assurances so as to ensure that, if losses in fact result, total public expenditure will not thereby be increased.

I am sending copies of this letter to the Prime Minister, to the other recipients of your minute of 21 September, and to John Nott, who of course has a major interest in the cost escalation question.



John Biffen

JOHN BIFFEN

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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MO 26/9/19

Prime Minister

MS

Ants 2/5

PRIME MINISTER

BRITISH TANKS FOR JORDAN

Following your extremely helpful talk with King Hussein last evening, we had highly productive discussions in the Ministry of Defence today with the Jordanian Commander-in-Chief. I was able to repeat to Sherif Zeid bin Shaker the assurance you gave the King, that we were anxious to see the negotiation on the sale to Jordan of 274 Shir I tanks successfully completed.

2. We have agreed in principle with the Jordanians that we will conclude a deal; and Sir Ronald Ellis has secured agreement on price; cost escalation; and specifications. What remains essentially to be worked out is a schedule for the Jordanians to make payments, but the small team from IMS Limited, which the Jordanians have agreed to receive in Amman next week, should secure agreement also on this.

3. I also told General bin Shaker that we would certainly like to help if we could in providing assistance in training the Jordanian Armed Forces, particularly since we, like the Jordanians, would like to reaffirm the traditional friendship between the Armed Forces of both countries; we have suggested that an officer should go out from the Ministry of Defence to try to refine the requirement on the spot.

4. I am sending copies of this minute to the Foreign and Commonwealth Secretary, our other OD colleagues and the Secretary of the Cabinet.

Handwritten signature

21st September 1979

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Subject on Jordan: June 79
Visit to London by King Hussein file 100



10 DOWNING STREET

From the Private Secretary

20 September 1979

Dear Brian,

King Hussein's Call on the Prime Minister

You wrote to me earlier today giving an amended line for the Prime Minister to use with King Hussein in respect of the possible sale of British tanks to Jordan.

The Prime Minister raised the question with King Hussein. I enclose a copy of the relevant extract from the record.

The Prime Minister was inclined to think that even the revised line contained in your letter displayed too much reluctance on our part. She has asked me to ensure that the Defence Secretary is aware of her wish that the deal should be concluded. She does not agree that the question of the application of cost escalation to down payments should be allowed to cause difficulties.

The Prime Minister also hopes that we will be able to respond favourably to the request made by the Jordanian Commander-in-Chief for assistance in training the Jordanian armed forces.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

Yours ever

Richard Alexander

SL

B.M. Norbury, Esq.,
Ministry of Defence.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022

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20th September 1979

MO 26/9/19

For Pym 20/9

Dear Richard,

KING HUSSEIN'S CALL ON THE
PRIME MINISTER

You told me this morning that the Prime Minister wished to take a more forthcoming line with King Hussein in respect of the possible sale of tanks to Jordan than was envisaged in the brief sent you by Paul Lever (Foreign and Commonwealth Office) under cover of his letter of 19th September. We have now secured a copy of Paul's letter; and I have consulted my Secretary of State.

/ Mr Pym strongly supports the Prime Minister's desire to be as positive as possible with King Hussein; and I attach a revised line to take which has been agreed between FCO and MOD officials accordingly. You will note that the Prime Minister is now being advised to express HMG's willingness to conclude a deal provided that we are not asked for further concessions on price, and to seek the King's agreement to further negotiations to re-arrange the proposed financial package in a form more acceptable to Jordan, and still acceptable to us in terms of the eventual financial return.

Mr Pym has asked me to add that in his view this is an important deal that could show substantial long term

/ profits ...

M O'D B Alexander Esq.,
10 Downing Street

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profits. This sale presents the first opportunity for many years to get a commercial foothold in Jordan, with all the advantages that could give us, and while there remain a number of problems to be resolved, Mr Pym believes that we have the basis of a deal on the price and conditions under discussion.

Mr Pym would propose to speak in similar terms to the Jordanian Commander in Chief when the latter calls on him tomorrow morning; I should accordingly be most grateful for urgent advice on the outcome of the Prime Minister's discussion with King Hussein.

I am sending copies of this letter to Paul Lever (FCO); the Private Secretaries to the other members of OD, and to the Private Secretaries of the Secretaries of State for Industry and Employment; and to Martin Vile (Cabinet Office).

Yours sincerely
Brian Norbury

(B M NORBURY)

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KING HUSSEIN'S CALL ON THE PRIME MINISTER
ON 20TH SEPTEMBER

Points to Make

Tanks

I assure you that we have every intention of concluding the sale of these 274 Shir I tanks to you.

However, this cannot be at the expense of the British taxpayer.

~~The concessions on price so far amount to £260m and there is no room for any more.~~

But, we stand ready to negotiate on the overall financial arrangements to make these more acceptable to you.

I hope you can agree that our people should now get together quickly to resolve these final details of the deal on this basis.

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UK EYES ALPHA

DESKBY 170930Z FCO

FM AMMAN 151045Z SEP 79

TO IMMEDIATE FCO

TELNO 361 OF 15 SEP 79

INFO MODUK (FOR HDS AND DI 4) AND WASHINGTON

MY TELNO 357 OF 13 SEPTEMBER (NOT TO WASHINGTON):

TANKS FOR JORDAN

- DeJener*
Promie Amster
Ls *Amst*
nr
1. I SAW THE COMMANDER-IN-CHIEF THIS MORNING AT HIS REQUEST. GENERAL SHAKER CONFIRMED THAT, AS KING HUSSEIN HAD ALREADY TOLD ME, THE PURPOSE OF HIS OWN VISIT TO LONDON WAS TO TRY TO CONCLUDE THE TANK DEAL AS SOON AS POSSIBLE AND THAT HE WOULD BE RETURNING TO JORDAN AFTER HIS TALKS IN LONDON.
 2. GENERAL SHAKER SAID THAT HIS OWN CLEAR PREFERENCE AND THAT OF HIS HEADQUARTERS WAS TO BUY BRITISH TANKS, BUT THAT HE WAS UNDER GREAT PRESSURE FROM KING HUSSEIN TO BRING MATTERS TO A RAPID CONCLUSION. WITH NO DELIVERY POSSIBLE UNDER 31 MONTHS, US TANKS WERE NOT REALLY A SERIOUS ALTERNATIVE. BUT AS HHE HAD ALREADY TOLD SIR RONALD ELLIS, THE RUSSIANS WERE PUTTING CONSIDERABLE PRESSURE ON THE JORDANIANS TO BUY T72S AND OFFERING AN ATTRACTIVE PRICE WITH A PROSPECT OF FURTHER REDUCTIONS IF THE DEAL WENT THROUGH. NEITHER HE NOR KING HUSSEIN WANTED TO TURN TO THE RUSSIANS IF THEY COULD HELP IT. I TOLD GENERAL SHAKER THAT I WAS VERY GLAD TO HEAR THIS. IF I WERE THE RUSSIANS, I WOULD GIVE THE TANKS TO THE JORDANIANS FREE OF CHARGE BECAUSE OF THE DAMAGE THEIR SALE WOULD CAUSE JORDAN'S RELATIONS WITH THE US, PARTICULARLY IN THE CONGRESS SEMICOLON THE VERY KEENNESS OF THE RUSSIANS TO SELL TO JORDAN SHOULD BE SUFFICIENT TO MAKE THE JORDANIANS EXTREMELY WARY OF THEIR MOTIVES. GENERAL SHAKER PROFESSED AGREEMENT WITH THIS, BUT SAID THAT JORDAN'S POSITION WAS ALSO DIFFICULT WITH T72S ALREADY DELIVERED TO LIBYA AND IN THE PIPELINE TO BOTH SYRIA AND IRAQ.

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3. GENERAL SHAKER SAID THAT KING HUSSEIN, WHILE ANXIOUS TO CONCLUDE THE DEAL DURING HIS VISIT TO LONDON, WAS VERY RELUCTANT TO BECOME PERSONALLY INVOLVED IN A HAGGLE OVER PRICE. I SAID I UNDERSTOOD THAT SIR RONALD ELLIS HAD ALREADY DEMONSTRATED TO GENERAL SHAKER THE VERY CONSIDERABLE CONCESSIONS ON PRICE WE HAD MADE TO THE JORDANIANS AND I DID NOT THINK WE COULD OFFER MUCH MORE SEMICOLON ALREADY THERE WAS A RISK THAT WE MIGHT ACTUALLY LOSE MONEY ON THE DEAL. GENERAL SHAKER SAID HE UNDERSTOOD OUR POSITION, BUT THAT WE MUST ALSO UNDERSTAND THEIRS: THE CONTRACT HAD TO BE CLEARED BOTH INTERNALLY WITHIN THE JORDANIAN GOVERNMENT (THE PRIME MINISTER IN PARTICULAR WAS BEING EXTREMELY STICKY OVER IT) AND ALSO WITH OTHER ARAB COUNTRIES WHO WERE CONTRIBUTING TO THE COST OF THE TANKS. IF THE CONTRACT SHOWED THAT THE JORDANIANS WERE BEING CHARGED A PERCENTAGE FOR ESCALATION ON MONEY THEY HAD ALREADY DEPOSITED WITH THE UK AS A DOWN PAYMENT, THEY WOULD BE HELD UP TO RIDICULE. I SAID WE HAD UNDERSTOOD THE PRIME REQUIREMENT ON THE JORDANIAN SIDE WAS TO KEEP THE ESCALATION PERCENTAGE FIGURE AS LOW AS POSSIBLE AND THE SPREADING OF THE COST ESCALATION FIGURE ACROSS THE WHOLE PACKAGE HAD BEEN A DEVICE TO DO JUST THIS. IF THIS WAS UNACCEPTABLE TO THE JORDANIANS, COULD GENERAL SHAKER SUGGEST OTHER WAYS IN WHICH THE PACKAGE MIGHT BE REARRANGED SO THAT IT WERE PRESENTATIONALLY DOORE ACCEPTABLE? FOR EXAMPLE, COULD THE INITIAL DEPOSIT BE INCREASED OR FURTHER PAYMENTS ACCELERATED, OR WOULD THE JORDANIANS BE PREPARED TO CONTEMPLATE A HIGHER PERCENTAGE FIGURE TO COVER ESCALATION? PROVIDED THAT WE WERE NOT FINANCIALLY THE LOSERS, I FELT SURE THAT THE MINISTRY OF DEFENCE WOULD DO EVERYTHING POSSIBLE TO SHOW FLEXIBILITY IN HELPING TO MEET JORDANIAN REQUIREMENTS. GENERAL SHAKER DID NOT GIVE ME ANY DIRECT ANSWER ON THIS, OTHER THAN TO REITERATE HIS OWN WISH TO COME TO AN AGREEMENT IF AT ALL POSSIBLE DURING HIS VISIT TO LONDON AND THE HOPE THAT WE COULD GO A LITTLE FURTHER TOWARDS THE JORDANIANS ON PRICE.

4. GENERAL SHAKER SAID HE UNDERSTOOD FROM THE JORDANIAN AMBASSADOR IN LONDON THAT HE WOULD BE SEEING SIR RONALD ELLIS FIRST AND WOULD THEN BE HAVING A MEETING WITH THE SECRETARY OF STATE FOR DEFENCE. I SUGGESTED THAT EVEN IF IT DID NOT PROVE POSSIBLE AT THESE MEETINGS TO CLOSE THE GAP, SIR RONALD ELLIS MIGHT BE ABLE TO COME OUT TO JORDAN AGAIN TO CLEAR UP ANY FINAL DETAILS. GENERAL SHAKER AGREED, BUT REITERATED THAT HE MUST CONCLUDE THE BUSINESS QUICKLY.

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5. GENERAL SHAKER SAID THAT HE WOULD ALSO WISH TO RAISE WITH MR PYM THE POSSIBILITY THAT BRITISH SERVICE TRAINING TEAMS MIGHT COME OUT TO JORDAN FOR PERIODS OF 3-6 MONTHS IN CERTAIN SPECIALIST FIELDS. HE WANTED BOTH TO INCREASE EFFICIENCY IN THE JORDANIAN ARMED FORCES AND TO BRING IN SOME NEW THINKING. WHAT HE HAD IN MIND WAS SMALL SPECIALIST TEAMS TO HELP IN A FEW KEY AREAS AND EMPHASISED THAT THIS WAS SEPARATE FROM ANY TECHNICAL ASSISTANCE WHICH MIGHT BE REQUIRED FOR THE TANKS. I TOLD HIM THAT I WOULD WARN THE MINISTRY OF DEFENCE OF HIS INTENTION TO RAISE THIS MATTER AND FELT SURE THAT THEY WOULD LOOK AT IT SYMPATHETICALLY.

URWICK

[COPIES SENT TO NO 10 DOWNING ST]

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SIR A. DUFF
MR J.C. MOBERLY
MR P. H. MOBERLY

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ASSESSMENTS STAFF
CABINET OFFICE

DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Telephone 01-215 7877

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to see Chie & American
papers. MAP 8/10



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From the Secretary of State

Lord Strathcona
Minister of State for Defence
Ministry of Defence
Whitehall
SW1

6 August 1979

Dear Minister

SALE OF TANKS TO JORDAN

Thank you for your letter of 3 August following Francis Pym's minute of 31 July. I have also seen Ian Gilmour's minute of 2 August. I think that before we can take any decision about the use of the ECGD Cost Escalation Scheme we must first decide whether it is desirable to commit a significant amount of public expenditure to this sale. On the figures currently available to ECGD, the contingent cost to public funds of providing support to enable the kind of fixed price deal you suggest to be offered could be in the region of £35-£45 million. Public expenditure would arise to the extent that actual cost increases incurred during the manufacturing period rose above the price variation provisions the Jordanians had accepted in the contract. I think that any decision about the desirability of making a sale at the kind of prices Ian Gilmour quotes needs to be considered against the background of these figures. I confess to some doubt about this and also about the precedent which fixed price contracts with unrealistic escalation provisions might set for Arms sales generally.

I am copying this letter to OD colleagues, to the Secretaries of State for Industry and Employment, to the Attorney General and to Sir John Hunt.

Yours sincerely
J Dynes

pp JOHN NOTT
(approved by the Secretary of State and
signed in his absence)

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CS
FST
MST (C)
MST (L)
✓ MAP
SIR D. WASS
SIR K. COLENS
SIR A. RAWLINGS
MR BARRAN
MR HANSFORD
MR WOODP
MR LOWON
MR R. WAT
MR BENT
MR W. G. W. P.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 August, 1979

Dear Euan

SALE OF TANKS TO JORDAN

I have seen your letter of 3rd August to John Nott urging him to agree at once that cost escalation cover should be given to this order, so that the Head of Defence Sales might immediately be authorised to conclude a deal while on his present visit to Jordan.

I understand that ECGD estimate that to grant cost escalation cover on the terms being proposed by IMS Ltd might cost in the region of £45 million between now and 1985. This figure is highly uncertain but it is a measure of the extent of the loss that might arise on the deal. Any such loss would be a cost to the Government whether it was covered by ECGD insurance or was met directly by IMS and/or your department.

This puts a new complexion on the proposal. When we considered the matter in OD on 11th June we did not consider the possibility that the tanks would be sold to Jordan at a loss. I would certainly not be prepared to agree to such a proposal until officials had been able to consider its implications more fully, in particular the consequences for public expenditure.

I do not think, therefore, that there can be any question of our giving the Head of Defence Sales the authority you seek to conclude a deal on his present trip to Jordan. It will, however, be useful if he is able to get a clearer idea of the likely price range that the Jordanians may be prepared to accept. In particular, he may be able to discover whether there is really no chance of persuading the Jordanians to accept a variation of price contract of the kind that IMS and the Royal Ordnance Factories normally seek for deals of this nature. It is largely the fixed price element in what

/ is

Lord Strathcona
Minister of State for Defence

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is at present being proposed which causes the public expenditure difficulties and which, incidentally, could set a very undesirable precedent. On the basis of his report of the Jordanian position, and of further clarification by officials of the options and their implications, we will be able to decide whether or not to go ahead with the deal.

I am copying this letter to the recipients of yours.

A handwritten signature in dark ink, appearing to read "Geoffrey Howe", written over a horizontal line.

(GEOFFREY HOWE)

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CONFIDENTIAL

NBPM yet
Dance
MAJ



MINISTER OF STATE FOR DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/ES/3/1

CONFIDENTIAL

3 August 1979

Dear John.

You have received a copy of Francis Pym's minute of 31 July to his OD colleagues and are aware that officials have been discussing the question of cost escalation cover for which IMS have applied to ECGD.

Unless it proves possible to limit the escalation of the basic price of the 4030/2 tank to a figure of about 8% per annum it is very unlikely that the Jordanians will regard the tank as a sufficient improvement on the American M60-3A which is on offer at about half the price of the 4030/2.

It has been established in the discussions between officials:

- a. that IMS Ltd are in principle eligible for the grant of cover;
- b. that, notwithstanding Jordan's normally low rating for Schedule 2 cover, insurance against customer default could be granted provided the deal is underwritten by the Arab State which is funding the purchase;

/c.

The Rt Hon John Nott MP
Secretary of State
Department of Trade

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c. that, in terms of value and delivery time, the project qualifies under the provisions of the legislation.

I understand that, given the above, the grant of cover is at your discretion.

The background to this sale, which is taking place in the wake of the collapse of the original tank project with Iran was set out in the papers which Ministers considered at the meeting of OD on 11 June 1979 (OD(79)2nd Meeting). There is little doubt that King Hussein and his senior Army officers are attracted by the British tank and the King has said as much both to British Ministers of the previous Administration and to his Arab allies. He is thus, to a considerable extent, personally committed to a purchase from Britain and is likely to regard the quotation of too high a price as an indication that we have political reservations against selling him tanks.

For all these reasons and for the simple commercial reason that this project, which is itself worth some £380M, will bring with it future sales of spares, ammunition etc worth several millions of pounds a year, I am most concerned that the sale should succeed. It will serve to re-establish our position, which we have lost to the Americans in recent years, as the traditional supplier of defence equipment to Jordan. This is extremely important at this time when Jordan is being provided with substantial funds by her rich Arab neighbours.

The Head of Defence Sales has now ^(today!) gone to Jordan and in the absence of approval to offer a price based on the provision of cost escalation cover, will be limited to discussing a range of prices with the Jordanian Commander-in-Chief against the background that he will need to seek Ministerial approval before firmly agreeing a price. It would clearly strengthen his negotiating position immeasurably if he had authority to

/conclude

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conclude a deal and I hope it may be possible to have your approval to cost escalation cover later today so that this can be conveyed to Amman in time for the negotiations. The Head of Defence Sales will, of course, be making it plain to the Jordanians that these arrangements will depend on the provision of underwriting by the benefactory country.

I apologise for this haste, but I only became aware late yesterday afternoon that the question of ECGD cover would need to be referred personally to you.

I am copying this to members of OD, to the Secretaries of State for Industry and Employment, to the Attorney General and to Sir John Hunt.

Yours
Euan

Lord Strathcona

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Defence



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

CONFIDENTIAL

MO 26/9/19

FOREIGN AND COMMONWEALTH SECRETARY

SALE OF TANKS TO JORDAN

At its meeting on 11th June OD agreed in principle that negotiations to sell tanks to Jordan should proceed, but in view of the uncertainty over price, the possible complications created by Iranian prefunding, and the risk of reaction by other Middle East states, the Committee asked to be informed of the outcome of the negotiations before the sale was completed.

2. The Head of Defence Sales (HDS) has now been asked to return to Amman on 3rd August to resume negotiations. He will be accompanied by the Chief Executive of International Military Services Ltd (IMS) who will be prime contractor for this project. Officials are considering the basis of our negotiating position, and a number of pricing options based on current prices have been established. Ideally we would wish a sales agreement to provide for price escalation to take account of inflation through an agreed formula, but it is likely that the Jordanians will seek a firm price with no provision for escalation. IMS are therefore discussing with ECGD the possibility of covering excess inflation by insurance. This would enable Head of Defence Sales to offer a firm price. It is likely, however, that the Jordanians will still find this price higher than they can afford and HDS will then need to be able to make further concessions. We know that they have received quotations from the Americans and it is believed that the price being quoted for the American M.60-3A is approximately half of the firm price of very nearly £1M which we shall need to quote. It can also be assumed that the Russians will be ready to make an attractive offer..

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3. The firm price we shall begin by quoting contains provision for the repayment to Iran of all the money advanced by the previous Iranian Government in respect of materials and production work for the first 125 Shir I tanks - a total of £44M. However, legal opinion is that under the terms of the contract with Iran we have no obligation to make any refund, and I would therefore propose to authorise the Head of Defence Sales to eliminate this compensation from the price quoted to the extent necessary to complete a sale. This would mean that the selling price would be negotiated on a commercial basis as far as possible.

4. The question of giving Iran a greater measure of compensation than their legal entitlement, for political reasons, should be considered separately if need arises.

5. I am not aware of any adverse reaction to these proposals from other states in the Middle East, and I would therefore be grateful for your agreement to authorise negotiations on the lines indicated above and for a similar Letter of Intent to be concluded if that stage can be reached.

6. I am sending copies of this minute to OD colleagues, to the Secretaries of State for Industry and for Employment, to the Attorney General, and to Sir John Hunt.

JF

31st July 1979

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SRS 330

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FM TEL AVIV 100800Z JULY

TO TOUTINE FCO

TELNO 321 OF 10 JULY

INFO AMMAN, CAIRO, DAMASCUS, WASHINGTON, MODUK (DS13), MODUK

(D SALES 1).

2 Defence

Prime Minister

by 1/1

YRTEL 128 SALE OF TANKS TO JORDAN.

1. THE ISRAEL MINISTER OF DEFENCE SUMMONED ME ON 9 JULY. SPEAKING, HE SAID, ON THE PRIME MINISTER'S AND THE FOREIGN MINISTER'S BEHALF AS WELL AS HIS OWN, MR WEIZMAN EXPRESSED TO ME HIS DEEP CONCERN AND DISPLEASURE THAT THE UK WERE PROPOSING QUALITATIVELY TO STRENGTHEN THE JORDANIAN ARMED FORCES BY THE SUPPLY TO THEM OF A DIVISION OF CHIEFTAIN TANKS. HE SAID THAT THE ISRAEL GOVERNMENT FELT DEEP UNEASINESS LEST THE PROVISION OF THESE TANKS MIGHT TEMPT KING HUSSEIN INTO A MORE ADVENTUROUS POSTURE VIS-A-VIS THE ISRAELIS. THEY FORESAW THAT THEY MIGHT BE USED IN THE FUTURE, IN CONJUNCTION WITH SYRIAN AND IRAQI FORCES, TO MENACE ISRAEL'S SECURITY. MR WEIZMAN, HOWEVER, DID NOT ASK THAT WE SHOULD RECONSIDER OUR DECISION TO SELL THE TANKS.

2. IN REPLY, I COVERED ALL THE GROUND PERMITTED TO ME IN T U R, EMPHASISING IN PARTICULAR WHY WE HAD NOT BELIEVE THAT THE SUPPLY OF THESE TANKS WOULD BE A THREAT TO ISRAEL. I WENT ON TO SAY THAT KING HUSSEIN HAD A RIGHT TO MODERNISE HIS ARMED FORCES: IF WE DID NOT SUPPLY HIM WITH MODERN TANKS, HE MIGHT BE DRIVEN INTO THE ARMS OF THE RUSSIANS. I ADDED THAT, SPEAKING PERSONALLY, IT SEEMED TO ME THAT KING HUSSEIN WANTED THE TANKS AT LEAST AS MUCH FOR POSSIBLE USE AGAINST SYRIA AND IRAQ AS AGAINST ISRAEL.

3. I TOLD MR WEIZMAN THAT WE MUCH HOPED THAT THE INFORMATION WHICH HAD COME INTO HIS HANDS (FROM WHAT SOURCE I DID NOT ENQUIRE) SHOULD NOT ALSO FALL INTO THE HANDS OF THE PRESS. MR WEIZMAN SAID THAT HE HAD NO INTEREST IN HAVING THE PROPOSED SALE PUBLICISED, AND WOULD DO HIS BEST TO ENSURE THAT IT WAS NOT.

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1/4. IT WAS VERY

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4. IT WAS VERY HELPFUL TO ME TO HAVE THE FULL INFORMATION IN T U R FOR DEPLOYMENT WITH MR WEIZMAN. I SHOULD BE GRATEFUL TO BE KEPT FULLY ABREAST OF DEVELOPMENTS, SO THAT I CAN SPEAK AGAIN WITH AUTHORITY SHOULD MR WEIZMAN REVERT TO THE MATTER IN THE FUTURE.

M A S O N

FILES

NENAD

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DEFENCE D

NEWS D

NAD

MR J MOBERLY

[COPIES SENT
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2

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Hussein is here on 18 June.

Should the order be followed up with
him directly (he is keenly interested)
or left to Defence Sales? There
could be some mileage in giving
the first news to him: ✓ then
leaving Defence Sales to follow up
the negotiations.

See J Hunts note
in O D order for 11/6/79

Ref: B05751

PRIME MINISTER

Sale of Tanks to Jordan
(OD(79) 6 and 8)

The Defence Secretary is seeking in his memorandum the approval of OD to the sale to Jordan of up to 274 Shir I tanks and 26 other armoured vehicles with the possibility of a further order from Jordan later. In OD(79) 8 the Foreign and Commonwealth Secretary supports this recommendation but points out the political problems which will be created by the sale. He concludes that the sale to Jordan "should be exceptional" and that the Committee's approval should be sought for the supply of any additional tanks to Jordan.

2. The importance of this sale in industrial terms derives from cancellation by the Iran Government of their major tank order and the consequential need to find alternative work for the Royal Ordnance Factory Leeds, so as to preserve its capability to meet the requirements of the British Army in the early 1980s for its next generation of main battle tanks (MBT 80). As a first step towards this the Defence Secretary intends (paragraph 2 of OD(79) 6) to switch to Leeds an order for 77 Chieftains for BAOR which was to have been placed with Vickers, Newcastle. The Secretary of State for Employment has expressed concern at this (his letter of 5th June to the Defence Secretary) and has asked that it should be discussed in OD at the same time as the proposed sale to Jordan. He has been invited to attend.

HANDLING

3. I suggest you should first ask the Defence Secretary to introduce this subject and that the Foreign and Commonwealth Secretary should be invited to speak next. The discussion might then concentrate first on the practical points raised in the Defence Secretary's paper and by the Secretary of State for Employment, and then deal with the wider political considerations raised by the Foreign and Commonwealth Secretary.

4. The following points might be covered:

- a. If the sale to Jordan is concluded, will this provide the assurance of continuity to ROF Leeds or will further overseas sales be necessary to fill the remaining gap before MBT 80 comes into production?

D.S.
F.C.



M.B. fo.

b. How firm is the Jordanian intention to complete the sale? Is the price they are likely to pay one which can be easily defended in public as a fair one in view of the fact that they are obviously in a very strong bargaining position?

c. Does the fact that Iran has prefunded the production of these tanks give them any basis for a claim against the United Kingdom if we sell the tanks to another customer? The Iranian position as set out in the Defence Secretary's letter of 7th June to the Foreign and Commonwealth Secretary suggests that the answer is no, but you may wish to ask Mr Pym to confirm this.

d. If the Jordanian sale does not go through, what other export markets for these tanks are likely to be found? If none can be found, how can the capability of ROF Leeds be preserved? How important is the switch of the BAOR order from Newcastle to Leeds in this context, given the employment problem in Newcastle to which Mr Prior has referred?

5. The Foreign and Commonwealth Secretary argues that we could sustain a case for selling tanks to Jordan and refusing to sell to other Arab States and Israel. The Americans will probably welcome a sale to Jordan as a means of maintaining Jordan's links with the West. It should not be difficult to refuse Syria. But given our support for the Egypt/Israel Treaty would it really be easy to deny them the same treatment as Jordan, which has joined the opponents of the Treaty? Surely refusal of a subsequent Israeli or Egyptian request could seriously damage our relations with those countries and we might then be forced to reconsider the decision. In order to forestall this, is there not a case for explaining to both why we are selling to Jordan and why we do not think it appropriate to sell to them? Of course before doing this we should need to be sure of the Jordan contract and determined that no objections from Israel or Egypt would cause us to reconsider it. This may be a difficult line to put across but you may wish to ask the Foreign and Commonwealth Secretary for his views.



CONCLUSIONS

6. Subject to the discussion you might guide the Committee to conclude that:

- i. negotiations for the sale of the 274 tanks and 26 other armoured vehicles to Jordan should go ahead;
- ii. this should not be regarded as a precedent for sales to other Arab countries or Israel;
- iii. the Committee's approval should be sought before any commitment is accepted to supply additional tanks to Jordan;
- iv. the order for Chieftains for BAOR should be placed with ROF Leeds.

If the Foreign and Commonwealth Secretary agrees that there would be advantage in saying something to Egypt and Israel (paragraph 5), the Committee may wish to invite him to proceed accordingly, in consultation with the Defence Secretary.

8th June 1979

CLIVE ROSE

Ref. A09728

MR. CARTLEDGE



Prime Minister

Agree X?
 Yes sub.
 GJM
 6/6

Invitees for OD

At its meeting next Monday OD is to consider two items - Defence Sales to China and Tanks for Jordan. The Prime Minister has already agreed that the Secretary of State for Industry should be invited for the first item. There is also a strong industrial interest in the second item, where one of the issues is whether some of the tank manufacture should be done in the public sector in Leeds (Royal Ordnance factory) or by the private sector (Vickers) in the North East. You will also have seen the Secretary of State for Employment's letter of 5th June to the Secretary of State for Defence in which the former is concerned about the employment implications of decisions on whether work on the tanks should be done in Newcastle or Leeds, and has asked if he may attend the OD discussion.

[Vile]

yes X

I would be grateful if you would let me know if the Prime Minister is content for the Secretary of State for Industry to be invited for both items, and for the Secretary of State for Employment to be invited for Tanks for Jordan.

I should add that although the Prime Minister agreed to the Chief Secretary attending this meeting in place of the Chancellor of the Exchequer in view of the fact that the Budget is on the following day, the Chancellor has said that he wishes to attend himself, and will be so doing.

MJV.

(M.J. Vile)

6th June, 1979

Cabinet Office
 informed.
 GJM

P.A.
 7/6