MINISTRY OF DEFENCE
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29th May 1981

Prime Minister

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Dear Michael

DEFENCE CONTRACTS WITH SAUDI ARABIA

I agreed to reply to your letter of 28th April to John Rhodes at the Department of Trade concerning Prince Sultan's complaints about UK contracts with Saudi Arabia, as we think that Prince Sultan's observations relate primarily to defence contracts. I have, however, deferred replying until the outcome of the negotiations on the Medical Services Project for the National Guard was known. You will, of course, know that these were successfully concluded on 24th May.

In our experience the Saudis are persistent and accomplished negotiators who never miss an opportunity to strengthen their position in any discussions which are in train. We believe that Prince Sultan's remarks to the Prime Minister should be seen in this context and, whilst we must clearly take note of Saudi concern over price and contracting procedures, we should recognise that the expression of this concern is in part a negotiating tactic. Our officials have examined the various contracts and agreements currently under discussion and they cannot find any justification for the criticisms which Prince Sultan makes.

The one major project which is of direct concern to Prince Sultan is the extension of the Saudi Arabian Air Defence Assistance Project for a further three years beyond 1982. Negotiations are currently in hand but, although the project is currently worth approximately £200M per annum, the basic agreement between the two Governments is a simple one containing only 20 clauses. It has never so far been criticised for its complexity. On price we believe that our costs are significantly less than those of comparable American contractors

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(Lockheed, Northrop, and McDonell-Douglas) but, because the arrangements involve a back-to-back contract between MOD and British Aerospace (which the Saudis do not see), we seek to ensure that UK Government funds are not at risk and that we are covered against all possible commitments by payment in advance.

The two other major projects on which we are engaged with Saudi Arabia concern the National Guard for which Prince Abdullah is responsible. The Prime Minister was informed by Prince Abdullah that there are no further problems on the communications project for the National Guard (SANGCOM) which has now been running for two years. On the Medical Services Project (SANGMED) the question of jurisdiction, which was raised during the Prime Minister's visit has been resolved and the agreement - worth £150M over two years for the first stage - was signed on 24 May. This success represents the culmination of two years hard bargaining in the face of intense competition from the Belgians, French and Americans and clearly indicates that our prices and contractual conditions are fully competitive with those of other countries.

In summary we believe that there are no serious grounds for the criticisms raised by Prince Sultan in any of the major Government-to-Government projects currently under discussion. However, the Saudis are hard bargainers and negotiating with them can be a long drawn-out business requiring a firm but patient approach. The various negotiating teams from the Defence Sales Organisation have made frequent visits to Saudi Arabia, often involving long periods in the country. We have achieved a significant success on SANGMED but we will, of course, continue to bear in mind the points raised by Prince Sultan - but without giving too much away.

I am copying this letter to Francis Richards (FCO) and John Rhodes (DOT), and David Wright (Cabinet Office).

Yours ever
Jonathan Dawson

(J D S DAWSON)