

2/6

MT

CONFIDENTIAL FILING

BAE; bid for the ARAB COMMUNICATIONS  
SATELLITE (ARABSAT) contract.

AEROSPACE

APRIL 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>29.4.81</del>							
<del>11.5.81</del>							
18.5.81							
PREM 19/386							

CONFIDENTIAL

Aerospace



mf

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902  
SWITCHBOARD 01-212 7676

From the  
Parliamentary Under Secretary of State's office

T Lankester Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON SW1

Prin Amrith

18 May 1981

in Mr. Higham

I believe the Arabs  
treated us very shabbily  
over time. But I doubt  
if there is anything  
else that can be done.

Dear Tim,

ARABSAT

R

Flay A

Thank you for your letter of 11 May.

18/5

We had in fact already taken action on the lines suggested by the Prime Minister. In FCO telegram number 245 of the 23 April to Jedda on the revision of the ECGD terms, we said "If an opportunity became available, we hope that you would make the point that the Prime Minister is taking a personal interest in this project. Following her direct intervention, the Government has considered whether further channels exist to assist the consortium to cut its price. We have been able to help and as a result the Arabs will be receiving a revised price package". Later, after the bid price had been further reduced to \$125 million, we said in FCO telegram number 270 of 1 May to Jedda "We hope that you will be able to make the following point to Faisal Zaidan. This further reduction is the result of a request by the Prime Minister to review the situation and has been arranged in the spirit of the recent discussions between her and Arab Ministers". This message was conveyed to Faisal Zaidan on 3 May who "listened patiently and then told me that subject to final negotiation, the contract had already been awarded to Aerospatiale/Ford on Wednesday 29 April in Amman".

On 9 May, BAe's letter announcing their price reduction to \$125 million was handed to Faisal Zaidan (Saudi Arabian Deputy Minister and Chairman of Governors) who, although accepting it, could not consider it as a tender in view of the selection of Aerospatiale for final negotiations.

We have nonetheless advised our Posts to use such suitable opportunities as present themselves to let all the other ARABSAT Member States know of the

CONFIDENTIAL

CONFIDENTIAL



existence of the new price. In the light of the repeated invitations to submit prices by the Arabs, it is particularly irksome that BAe's final offer was, in the event, too late to be considered. As I said to you, we now understand that the contract was awarded to Aerospatiale/Ford (subject to final negotiations) on the very day we received information from BAe's representative in Riyadh that BAe still had an opportunity to submit a revised bid. This information was, we assume, misleading and consequently it seems BAe reduced their price to \$125 million to no avail.

Although we shall continue to make what representations we usefully can, I would not wish to leave you with the impression that hopes of success are high, for all the indications we are receiving point to the fact that Aerospatiale/Ford are likely to meet ASCO's conditions by 20 May.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

*Yours ever,*

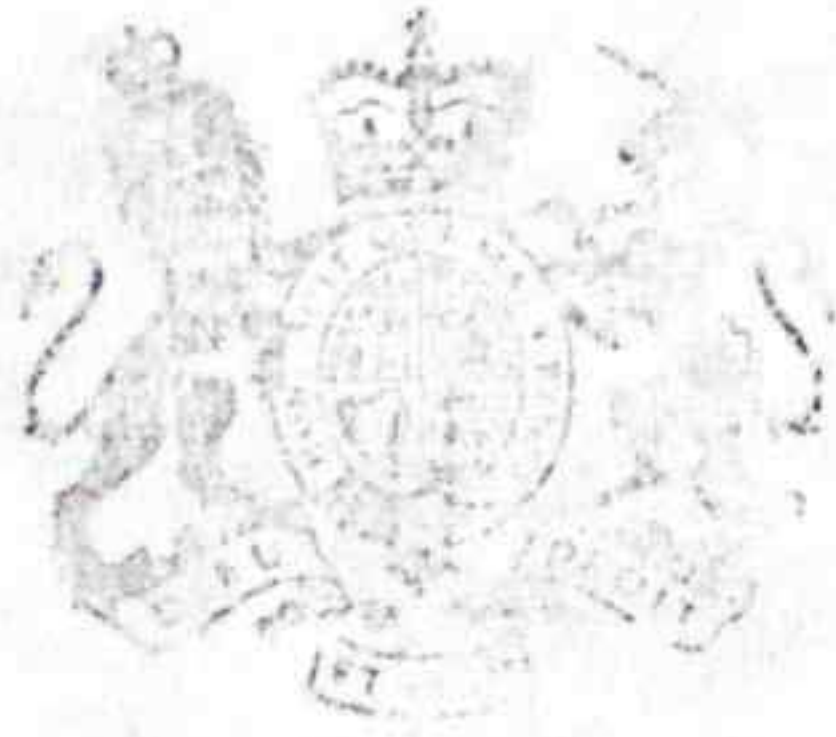
*Frances Nieduszynska*

MRS FRANCES NIEDUSZYNSKA  
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

A VLS



FILE

cc FCO

10 DOWNING STREET

*From the Private Secretary*

11 May 1981

22.5.81

We spoke at the end of last week about the state of play on the Arabsat Contract. The Prime Minister is now aware that British Aerospace were able to reduce their price to \$125 million as demanded by the Arabs, yet they have been informed that the contract has been awarded to the Aero-spatiale/Ford Consortium. She is of course very disappointed that the contract appears to have been awarded to Aerospatiale/Ford even though British Aerospace complied fully with the request to put in a revised bid at \$125 million. Assuming that the contract is confirmed - and I understand this is likely to be on 20 May - the Prime Minister has suggested that we might make the point officially that, following her visit to Riyadh, we did everything (and more) that we had promised orally to do.

I would be grateful if, in consultation with the FCO, you would consider the Prime Minister's suggestion; and let me know the outcome.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

T. P. LANKESTER

Mrs. F. Nieduszynska,  
Department of Industry.

CONFIDENTIAL

PP TRIPOLI

PP TUNIS

mb

2

GR 135  
CONFIDENTIAL  
DESKBY 040900Z  
FM JEDDA 031045Z MAY 81  
TO IMMEDIATE FCO  
TELNO 328 OF 3 MAY  
AND TO IMMEDIATE DESKBY PARIS  
PRIORITY AMMAN, ABU DHABI, BAGHDADGN DUBAI, KHARTOUM, KUWAIT,  
TRIPOLI, TUNIS.

Premi Amrit

British Aerospace have now reduced their bid to £125m as demanded by the Arabs. But it now (see below) emerges that they had already awarded the contract to the French. They

did this on the same day that they asked BAe to drop their price.

YOUR TELNO 270: ARABSAT

1. IN ACCORDANCE WITH YOUR INSTRUCTIONS, I RANG FAISAL ZAIDAN THIS MORNING. HE LISTENED PATIENTLY AND THEN TOLD ME THAT SUBJECT TO FINAL NEGOTIATION THE CONTRACT HAD ALREADY BEEN AWARDED TO AEROSPATIALE/FORD, ON WEDNESDAY 29 APRIL IN AMMAN. DIRECTOR-GENERAL OF THE SAUDI BRITISH ECONOMIC COOPERATION OFFICE, WHO CALLED ON ZAIDAN IN RIYADH SHORTLY BEFORE MY CONVERSATION, WAS GIVEN THE SAME INFORMATION AND TOLD THAT THE AEROSPATIALE/ FORD CONSORTIUM HAD BEEN GIVEN UNTIL 20 MAY TO SIGN A FINAL AGREEMENT. ZAIDAN SAID HE WAS NEVERTHELESS GRATEFUL FOR THE MESSAGE WHICH LELLO HAD GIVEN HIM (PARAS 2 AND 3 OF YOUR TUR): IT MIGHT PROVE USEFUL IF, BY SOME CHANCE, NEGOTIATIONS ON THE FRENCH/US BID DID NOT SUCCEED, BUT IT COULD NOT/NOT FOR THE MOMENT BE ACCEPTED AS A TENDER.

Faisal Zaidan has agreed to see BAe reps. on Saturday, but the prospects don't look good.

CRAIG

DL

NNNN

2/5

We might make the point officially that following my visit we did everything (or more) that we had promised orally to do.

mb

E. R.

Aerospace

MS

PRIME MINISTER

ARABSAT

British Aerospace have now decided to reduce the price of their own bit of the British Aerospace/Matra bid by \$13 million. They are confident that Matra will reduce the price on their part of the contract by at least \$3 million - which would bring the total price down from \$141 million to \$125 million, the figure which the Arabs have demanded if British Aerospace/Matra are to get back into the running. Matra may be prepared to offer a bigger reduction than \$3 million; in that case, British Aerospace will reduce their bid by less than \$13 million of course.

British Aerospace have received a very vague assurance that they will be given the defence satellite contract; but I understand that - simply because the assurance was so vague - this was not a major reason for their decision to reduce the price. The main reason seems to have been a re-assessment of the deal on their part, and pressure from the Department of Industry to think again.

A revised, formal bid will be submitted next Wednesday - which is the final date laid down by the Arabs. In the meantime, the Department are sending a cable to our Ambassador in Jeddah indicating that the revised bid is being prepared; and our Embassy in Paris is being asked to put pressure on the French Government to make sure that Matra come up with their part of the deal.

So far so good. A revised bid of \$125 million will not mean that we will necessarily get the contract; but at least we are back in serious contention.

1 May 1981

12.

1/5/81



Prime Minister

CF - I have asked

DoI for a further report

before the weekend. Pls chase

tomorrow evening.

TL

(Oral report direct to TP2)  
1/5/81

ARABSAT

You will wish to be aware of the latest developments reported to us by our Embassy in Amman based on information they have in turn received from British Aerospace representatives.

We are informed that the ASCO Board has virtually decided on the joint French-US bid from Aerospatiale-Ford on grounds of price. The bids are close with Hughes at \$143 million, BAe/MATRA/Thompson at \$141 million and Aerospatiale-Ford at \$132 million. The various forms of Department of Industry and ECGD support offered have therefore enabled the Anglo-French consortium to submit a lower bid than Hughes, whom we regarded as the main threat, although the consortium is significantly less attractive in price than Aerospatiale-Ford, even though neither they nor Hughes made further reductions in prices put forward in Washington.

British Aerospace have said the amount of the reduction they were able to make to their earlier bid following re-negotiations of ECGD terms, was in fact less than \$10 million suggested when this matter was raised with you in Riyadh. BAe claim that the reduction is only \$2.8 million for their share of the contract and this is due to ECGD basing their guarantees on forward rather than current sterling-dollar exchange rates.



The latest position is that the Anglo-French consortium has been given an opportunity to come forward with a reduced bid by 3 May latest. The options are said to be a straight reduction from \$141 to \$125 million or a reduction to \$130 million coupled with certain changes to make the bid fully compliant.

These changes are estimated to cost \$8 million (which would have to be included in the \$130 million so this is financially the more onerous option).

We are exploring urgently with British Aerospace what more might be done. We shall, of course, wish to probe the company fully about the extent of the reductions they have made in their price in the light of the very considerable assistance that has been offered by the UK and French Governments. We have as you know, already offered up to \$12½ million from my Department and even if we accept the benefit from the ECGD change as \$2.8 million, these sums matched by the French amount to nearly \$31 million. This is a formidable subsidy for an order of this magnitude.

So far as the re-negotiations of the ECGD guarantee is concerned I understand that ECGD did what was asked of them by the company ie to replace the October exchange rates schedule which formed the basis of their earlier guarantee with a current exchange rates schedule. BAe estimates of potential savings from this change were either over-optimistic or they did not fully understand the nature of the ECGD scheme. We shall, however, probe this point as well.

Our objective now will be to see if a more acceptable package can be put together for submission by 3 May but I do not believe there is much scope for further subventions from public funds. I will of course keep you informed. Copies of my minute go to Cecil Parkinson, Douglas Hurd and Leon Brittan.

MICHAEL MARSHALL

29 April 1981



V

CONFIDENTIAL

DESKBY 231200Z

FM DOT 231056Z APR 81

TO IMMEDIATE JEDDA (PSE PASS RIYADH) (FOR HOC/OR CS)

TELEGRAM NO CREDA 34 OF 23 APR

AND TO IMMEDIATE PARIS SALALAH (FOR LANKESTER, PS/PRIME MINISTER)

ARABSAT

1. YOUR TELNO 12 OF 21 APRIL. ECGD HAVE RECONSIDERED BAE'S REQUEST THAT THE TERMS OF TTC COVER BE AMENDED BY REPLACING THE EXISTING EXCHANGE RATE SCHEDULE WITH ONE BASED ON CURRENT RATES. MINISTERS HAVE NOW AGREED THAT THIS CONCESSION SHOULD (SHOULD) EXCEPTIONALLY BE OFFERED, ALTHOUGH IN NORMAL CIRCUMSTANCES THE CASE WOULD BE UNATTRACTIVE.

2. PLEASE INFORM BAE REPRESENTATIVE SOONEST.

NNNN

Aerospace

April 81

CONFIDENTIAL

DESKBY 240600Z

FM FCO 231500Z APRIL 81

TO IMMEDIATE SALALAH

TELEGRAM NUMBER 4 OF 23 APRIL

FOR PS/PM

ARABSAT

1. TREASURY HAVE AGREED TO EXCEPTION BEING MADE IN BAE'S CASE. THE COMPANY ARE NOW CONSULTING URGENTLY WITH THEIR FRENCH PARTNERS. THEY EXPECT TO BE IN A POSITION TO PUT FORWARD REVISED BIDS SHOWING CONSIDERABLE REDUCTION IN PRICE TO ARABSAT BOARD OF GOVERNORS WHO ARE DUE TO MEET IN AMMAN ON 25 APRIL.

CARRINGTON

NNNN

GR210

CONFIDENTIAL

FROM RIYADH 210817Z APR 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 12 OF 21 APRIL

INFO IMMEDIATE ABU DHABI, PARIS, DOT (CREDA), DOI (INDUS).

FPCM LANKESTER, PS/PRIME MINISTER.

ARABSAT.

1. WHITEHEAD, VISITING BAE OFFICIAL, HAD PRIVATE DISCUSSION YESTERDAY WITH FAISAL ZAIDAN, SAUDI DEPUTY MINISTER OF PTT AND CHAIRMAN OF ASCO. ZAIDAN SAID THAT BAE/MATRA/THOMSON WOULD HAVE TO TRIM THEIR BID SIGNIFICANTLY IF THEY WERE TO HAVE A CHANCE OF WINNING THE CONTRACT.

2. WHITEHEAD RANG HICKMAN AND LYGO, RESPECTIVELY MANAGING DIRECTOR AND CHAIRMAN OF BAE (SPACE). THEY SAID THAT SOME DOLLARS 10 MILLION COULD BE CUT FROM THE BID PRICE IF ECGD WERE PREPARED TO RENEGOTIATE THE PREMIUMS QOTED FOR ITS FINANCIAL GUARANTEES. WHEN THE BID WAS PUT TOGETHER BOTH STERLING AND THE FRENCH FRANC WERE VALUED HIGHER AGAINST THE DOLLAR THAN NOW: THE FRENCH FRANC IN PARTICULAR HAS LOST MUCH GROUND IN THE INTERIM. BAE CLAIM THAT IF THE BID WERE BEING CONSTRUCTED NOW, ECGD AND COFACE WOULD QUOTE PREMIUMS LOWER BY AT LEAST DOLLARS 10 MILLION. BUT ECGD WILL NOT NORMALLY RENEGOTIATE QUOTATIONS ON SUCH GROUNDS UNLESS THEY ARE PERSUADED THAT THE CASE IS SPECIAL: AND COFACE HAVE TOLD THE CONSORTIUM THAT THEY WILL NOT AGREE TO RENEGOTIATE UNLESS ECGD DOES.

3. WE HAVE DISCUSSED WITH THE PRIME MINISTER WHO HAS SAID THAT ECGD SHOULD BE ASKED TO CONSIDER THIS A SPECIAL CASE. SHE WILL WANT A REPORT ON THIS SENT TO HER IN ABU DHABI TOMORROW.

FCO PLEASE PASS ALL

CRAIG

[PASSED AS REQUESTED]

LIMITED  
MED  
ES&SD  
TRED  
NAD  
SIR J. GRAHAM  
MR. J. C. MOBERLY  
MREVANS  
MR URE

COPIES TO  
CREDA, DOT  
DOI

COPIES SENT TO  
DOWNING STREET

CONFIDENTIAL

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND PRINCE FAHD,  
DEPUTY PRIME MINISTER OF SAUDI ARABIA, IN RIYADH ON 20 APRIL 1981  
at 1815

---

Present:

Prime Minister	HRH Prince Fahd
The Hon. Douglas Hurd, CBE, MP	HRH Prince Abdullah
HE Sir James Craig, KCMG	HRH Prince Sultan
Sir John Graham, KCMG	HE Shaikh Nasir bin Manqur
Mr. M.O'D.B. Alexander	HE Dr. Rashad Pharaon
	HE Shaikh Ma'moun al Qabbani
	HE Shaikh Abdurrahman Mansouri

Prince Fahd said that these days of the Prime Minister's visit were among the happiest during his time in the Government. He saw them as an opportunity to try to reshape the basis of the relationship between Saudi Arabia and the United Kingdom. If a new bilateral accord could be developed, it would have an effect on the international situation generally. The Prime Minister said that she was greatly enjoying her visit.

Yemen Arab Republic (YAR)

As regards the content of this second discussion with Prince Fahd, she wanted to touch briefly on some bilateral issues and to talk about the situation in the YAR and in the Sudan, in both of which countries there was the possibility of further Soviet expansion. Friendly countries must not stand back. If they did so, they would regret it. She knew of the Saudi Government's generosity towards the YAR. However, the Soviets were also giving aid. They had offered to build a naval base for the YAR Government. If they were allowed to do so, it would radically alter the balance of power in the region. Britain had carried out a study of the issues relating to the construction of a naval base. If there was to be such a base, Britain would like to be involved. We were conscious that one could not interfere in the YAR. But there would be a real reason for concern if the YAR went down the same path as the People's Democratic Republic of Yemen (PDRY).

CONFIDENTIAL

/ Prince Fahd

Prince Fahd said that he entirely agreed about the YAR. Happily the Government there was no longer inclining so strongly towards the Soviet Union. The Saudis had told them that it would be against their interests to pursue such a course. The Government of the YAR should study carefully what had happened in PDRY, where the people were suffering under a leftist government. As regards the naval base, the Saudi Government would welcome any step to help in the way suggested which was taken by a friendly country. If the Soviet Union were to do it, they would undoubtedly ensure that they became well established with both men and equipment. The Prime Minister said that the naval base study was a preliminary one and had not been costed in any detail. Nor was it easy to keep in touch with those responsible in the YAR. She was always on the watch for possible new victims of Soviet subversion. She hoped that it would be possible to strengthen those in the YAR who were opposed to communism. Prince Fahd asked the Prime Minister whether she was saying that if the Soviet Union built the base, they would benefit from it and that there would be consequent dangers to the area. The Prime Minister said that the construction of the base by the Soviet Union would be a very regrettable development. Prince Fahd said that he agreed that if the YAR became a Soviet satellite, there would be considerable new dangers. This would be true whether or not a naval base was built. The majority of the Yemenis were opposed to communism. But there was no reason for complacency.

#### Sudan

The Prime Minister said that anything that happened in a country in the region affected all the others. The Sudan appeared to be in deep trouble. President Nimeiri was not very well. There was concern lest the country should have more trouble internally and become de-stabilised. If this were to happen, it would create difficulties for Egypt and for the region in general. It was not for her to say what should be done, but she knew the Sudan Government was seeking additional training facilities, including <sup>the</sup> procurement of the Strikemaster aircraft. Anything that could be done to help the Sudan would be of considerable importance.

CONFIDENTIAL

- 3 -

### Tornado

The Prime Minister said that when Chancellor Schmidt visited Riyadh shortly, he might well mention Tornado. She was well aware that Saudi Arabia did not need Tornado at present but Prince Fahd might find some background useful. The Tornado was a joint Anglo/German/Italian project. All three countries had to agree to any sale. There would be no difficulty with Italy about sales in the Gulf area. The Prime Minister said that she hoped and expected that an accommodation could be reached with the Federal Republic. There were aspects of the technology in Tornado which would be needed for the development of the next generation of aircraft. As for a sale of the present aircraft, the release of these aspects would also need the agreement of the German Government.

The Prime Minister said that Britain wished to develop a new generation of aircraft based on Tornado for use in the 1990s. We had had enquiries from friends in the Gulf about such an aircraft. It would be designed not only for the British market but also in consultation with our friends in order to meet their requirements. Hitherto we had developed weapons systems for our own use and then adapted them for sales overseas. Those days were gone. In future we would have to design, in conjunction with those interested, weapons systems for wider use. We were already considering a design based on Tornado. This would <sup>include</sup> the most advanced features of that aircraft, notably the engine. The Prime Minister was mentioning it now so that if any of our friends who were interested in the aircraft mentioned it to Prince Fahd, he would be familiar with the background. It might seem a long way ahead, but in designing aircraft one had to think up to 10 years ahead.

### Hawk

In the meantime, the Prime Minister said she hoped that the Hawk aircraft might find favour with the Saudi Government. It was more advanced than the Strikemaster already used by the Saudi Armed Forces. Hawk was the most advanced training aircraft flying. It was being adapted for a ground attack role.

/ Arabsat

CONFIDENTIAL

Arabsat

The Prime Minister said that there was an Anglo/French bid in for the construction of Arabsat. She understood that the decision was to be made shortly. She only wished to make one point. The European countries were frequently told that they should not rely on the United States but should try to do things on their own. The Anglo/French tender for Arabsat met this requirement. It was a wholly European effort. The Prime Minister added that British industry was now in better shape than it had been for a long time. When British Aerospace had been de-nationalised recently, the shares on offer had been over-subscribed. She hoped that in future our bids for major contracts would be fully competitive. If anything was being done that was not right, she very much hoped that Prince Fahd would let her know.

YAR and PDRY

Prince Fahd said that the Saudi Government were following events in both countries closely. They hoped to be able to do the right thing vis a vis both of them. Their information was that the PDRY had more military equipment than it could use. There was also manpower present in the country from many communist states. Sometimes he wondered who all this was to be used against. It was well known that the PDRY was in part a base for the Soviet Union. The latter would not be accumulating weapons in the PDRY unless they intended to use those weapons to further their own interests, eg against states of the Gulf and against Sudan.

The Saudi Government was therefore considering the best way to make the PDRY less dependent on the Soviet Union. They were thinking of proposing to the PDRY Government development projects which would benefit the country's people, eg hospitals, schools, roads and the like. This would point up the contrast between what Saudi Arabia offered and what the Soviet Union offered. It would show who were the country's friends and who were its enemies. The Soviet Union of course was warning the PDRY against talks with neighbouring governments. The argument used was that if the PDRY took help from Saudi Arabia, the smaller country would become a satellite. But neither the Soviet Union nor the PDRY Government would in fact prevent the projects from being carried through.

CONFIDENTIAL

- 5 -

When Prince Fahd had seen the PDRY President, the latter had been friendly and encouraging. He would now have to give proof of his intentions. If he refused to agree to the projects, his friendliness would have been shown to be mere words. If, on the other hand, he agreed to allow the projects to go forward, it would be clear that he had realised the gains to be won from friendship with Saudi Arabia and the losses involved in associating with the Soviet Union. Prince Fahd stressed that the Saudi Government was approaching the problem with great care, watching the reactions of those involved.

As for the YAR, Saudi Arabia gave a great deal of help. The YAR Government knew that without this help, it could not achieve even a moderate standard of living. Up until recently, President Saleh had been suspicious of Saudi Arabia. He had been surrounded by advisers who accused the Saudi Government of trying to interfere. The Saudi Government had not denied the charge; they had preferred to let the facts speak for themselves. The President had indeed realised that the earlier accusations had been false. The activities of the Democratic Front, which was connected with the PDRY, had been exposed.

However, difficulties remained. Prince Fahd had met President Saleh in Taif in the previous summer. The President had assured him that the YAR would never become communist. He had said that he would have nothing more to do with the Soviet Union. Prince Fahd had advised him to get rid of his existing commitments to that country, his Soviet advisers, etc. and to turn to the West. Since Saudi Arabia had already bought and paid for arms and aircraft for the YAR from France and the United States, it seemed pointless to turn to the Soviet Union for arms for which the YAR would itself have to pay. In spite of his assurances, President Saleh had already bought and paid for \$250 million worth of arms from his own budget. The value of the whole deal would amount to \$640 million. All this suggested that, in spite of Saudi efforts, there were still elements close to President Saleh who were trying to fuel his suspicions. They were arguing that the Saudi Government expected something in return for what it had given. Nonetheless, the Saudi Government intended to continue with its explanations. There were signs that President Saleh had realised in recent months / that his

CONFIDENTIAL



**CONFIDENTIAL**

- 6 -

that his troubles came from the PDRY. The Saudi Government intended to be consistent and to be cautious. They had had a similar experience in Somali where it was only after two years' effort that they had persuaded the Somali Government to distance themselves from the Soviet Union.

#### Sudan

The danger to the Arabs and to Africa from a collapse in the Sudan would be considerable. Saudi Arabia was giving the Sudanese Government substantial assistance. But the Sudan was a big country and the Government there was not, and had not been for some time, a stable one. Fortunately President Nimeiri was coming to realise that the Soviet Union was his principal enemy. His efforts to create friendly relations with Ethiopia, whose Government was of course pro-Soviet, seemed to have failed. It was very important that friendly Governments should assist President Nimeiri to ward off both the external and internal threats to his Government. He faced numerous problems. The economic situation in the country had deteriorated significantly, there had been a recent coup attempt, and there was the crisis with Libya.

#### Somali

Prince Fahd said that the Saudi Government had been trying to help Somalia both with project aid and with food. They had also been active in an attempt to achieve a rapprochement between Somalia and Kenya. If those problems could be cleared up, it would help to stabilise the situation in East Africa. The Presidents of the two countries had met in Taif last year at the invitation of the Saudi Arabian Government to discuss their differences. But the suspicions persisted. A member of the Somali Government had recently told Prince Fahd that it might help to bring the two Presidents together again. President Said Barre had said he would think about it. He had so far not refused. The Saudi Government still hoped that agreement between the two countries would be possible.

/ Tornado

**CONFIDENTIAL**

Tornado

Prince Fahd said he was grateful for the Prime Minister's briefing. If Chancellor Schmidt raised the question, he would be in the picture. It pleased him that the Gulf States were interested in buying Tornado. He preferred them to make their purchases from friendly countries. The Arabs lived in an area of turmoil but with the help of friends like the United Kingdom and the United States, he hoped that good solutions could be found.

Lebanon

Prince Fahd said that the situation in the Lebanon was very discouraging.

Pakistan

The problem of Pakistan was both large and complicated. It involved relationships with India, Afghanistan and the Soviet Union. The immediate problem was that posed by the Afghan refugees. The Saudi Government gave the Pakistan Government help in coping with them. Prince Fahd understood the United States was reviewing its policy towards Pakistan. He hoped they would adopt a better policy. If Pakistan was strong, it could withstand a sudden attack for a period until help arrived. A weak Pakistan would not be able to do this. Prince Fahd said that he was always surprised by the fact that India regarded Pakistan as a threat and an enemy. If there were attempts by India to divide Pakistan any further, there would be very serious problems.

North West Africa

Prince Fahd said that the attempt by the Libyans to create a union between Polisario groups and Mauritania would create new crises in North Africa and would result in a further deterioration in the situation there. The crisis which already existed as a result of Libyan action in Chad was not to be taken lightly. If Colonel Qadhafi got away with the intervention in Chad, he would try his hand elsewhere. Everything he did was done at the instigation of the Soviet Union.

/ Conclusion

CONFIDENTIAL

- 8 -

Conclusion

Prince Fahd said that all these matters were vital and important. He was always pleased to discuss them. He hoped that such discussions could continue in order that both countries would be, as the Prime Minister had said, aware of danger before it struck. The Prime Minister expressed her gratitude for the time that Prince Fahd had devoted to talks. She said that she agreed with much of what he had said.

The discussion ended at 1940 hours.

*Fahd*

21 April 1981

CONFIDENTIAL

Confidential

Immediate  
08/19.

DRAFT TELEGRAM

~~FROM AMBASSADOR TO~~ FCO

ARABSAT

Immediate  
fi/Amman, Paris  
routine Kuwait, Abu Dhabi, Algiers

1. I called this morning, accompanied by my French colleague, on Shaikh Faisal Zaidan, Deputy Minister ~~(Telephones)~~ in the Ministry of PTT who is also the Chairman of the Arab-satellite Communications Organisation (ASCO).
2. By agreement with my French colleague I ~~opened~~ <sup>I said</sup> ~~and emphasised~~ <sup>came</sup> to Zaidan that we had ~~called on him~~ on instructions from our two governments in order to emphasise the close and continuing interest which ~~those two governments~~ <sup>we took</sup> had in the outcome of the competition for the ARABSAT project. I went through the points in the <sup>agreed note</sup> ~~aide memoire~~ (reference ~~.....~~) emphasising that we saw this as a symbol of European/Arab co-operation. I then handed over ~~the aide memoire~~ <sup>the note</sup> (in English and Arabic) and a paper containing technical notes (in English only).
3. Zaidan replied that he was very happy to have this evidence of the ~~close and continuing~~ support <sup>of</sup> by the British and French governments for the Franco-British Consortium. The discussions in Washington had demonstrated the closeness of <sup>Anglo-French</sup> ~~the~~ collaboration ~~between the French and British sides~~ and there was no hesitation on the part of ASCO in now accepting the technical <sup>and</sup> ~~or~~ broad commercial details of the Franco-British offer. The problem now was one of a ~~decision on~~ prices.
4. At this point I interposed a statement (acting on information given to me by ~~Alan~~ Whitehead, BAE's consultant on this  
/project

project ~~(to~~ whom I <sup>now</sup> spoke yesterday ~~)~~ (afternoon) that the Franco-British Consortium's final price had not yet been submitted; this would be done in a sealed envelope at the forthcoming meeting in Amman,

5. Zaidan said ~~that~~ he <sup>lowered this</sup> ~~understood that that would be the~~ ~~case~~, adding that he hoped that the two governments would do everything they could to help the Consortium to achieve the lowest possible price,

6. Zaidan said that ASCO would need some justification (by which he meant a substantial lowering of price) before accepting the Franco-British offer. He said that all three contenders had a satisfactory technical submission but that in comparing the prices the Committee used bids which were as close as possible to "the baseline of the ASCO request for proposals". On this basis the Consortium bid was the highest price. Even the Consortium's bid to European standards was very close to the other bidders' prices for the baseline.

7. My French colleague <sup>said the</sup> ~~put the point to Zaidan that the~~ French understood that ASCO's consultants (COMSAT) had put in a price for their job which would be <sup>considerably</sup> ~~US\$5 million~~ higher if the supplier were to be European rather than US. Zaidan replied that COMSAT had suggested a price ~~(US\$4 million higher)~~ for working in Europe which reflected the extra cost to them of working outside their home base of the US. ASCO had, however, not accepted this basis but had written the contract at the higher price and would reduce the payments to COMSAT if the work were in fact to be carried out in the US.

8. The next steps, according to Zaidan, are a preliminary meeting of the (5 man) Committee which considered the bids in Washington. This will take place in Amman on the morning of 25 April and the hope is that a recommendation can be submitted to the (9 man) ASCO Board of Governors which will begin meeting ~~on p.m. 25 April~~ <sup>the same day</sup> and go through to 27 April. The hope is <sup>but</sup> that that Board of Governors can make a decision/if that is not possible then the matter will have to be referred to the "General Assembly" which will open in Amman on 28 April.

Conclusion

9. If we are to believe Zaidan (and I am inclined to do so) then this will all come down to a matter of price and on a fully compliant bid the BAE/French Consortium is ~~well~~ <sup>at present</sup> out of the running. The Consortium's alternative proposal (to European standards) can only seriously engage ASCO's interest if it shows a considerable financial saving; and to do that the price will have to be reduced ~~very~~ considerably. The Consortium's third (and cheapest) bid does not seem to figure in ASCO's thinking to any serious extent.

no pre pass all

JC  
19/4

CONFIDENTIAL  
FROM RIYADH 192018Z APR 81  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 007 OF 19 APRIL  
INFO IMMEDIATE AMMAN, PARIS.  
INFO ROUTINE KUWAIT, ABU DHABI, ALGIERS.

ARABSAT.

1. I CALLED THIS MORNING, ACCOMPANIED BY MY FRENCH COLLEAGUE, ON SHAIKH FAISAL ZAIDAN, DEPUTY MINISTER IN THE MINISTRY OF PTT WHO IS ALSO THE CHAIRMAN OF THE ARAB-SATELLITE COMMUNICATIONS ORGANISATION (ASCO).
2. BY AGREEMENT WITH MY FRENCH COLLEAGUE I OPENED. I SAID THAT WE HAD COME ON INSTRUCTIONS FROM OUR TWO GOVERNMENTS IN ORDER TO EMPHASISE THE CLOSE AND CONTINUING INTEREST WHICH WE TOOK IN THE OUTCOME OF THE COMPETITION FOR THE ARABSAT PROJECT. I WENT THROUGH THE POINTS IN THE AGREED NOTE EMPHASISING THAT WE SAW THIS AS A SYMBOL OF EUROPEAN/ARAB CO-OPERATION. I THEN HANDED OVER THE NOTE (IN ENGLISH AND ARABIC) AND A PAPER CONTAINING TECHNICAL NOTES (IN ENGLISH ONLY).
3. ZAIDAN REPLIED THAT HE WAS VERY HAPPY TO HAVE THIS EVIDENCE OF THE SUPPORT OF THE BRITISH AND FRENCH GOVERNMENTS FOR THE FRANCO-BRITISH CONSORTIUM. THE DISCUSSIONS IN WASHINGTON HAD DEMONSTRATED THE CLOSENESS OF ANGLO-FRENCH COLLABORATION AND THERE WAS NO HESITATION ON THE PART OF ASCO IN NOW ACCEPTING THE TECHNICAL AND BROAD COMMERCIAL DETAILS OF THE FRANCO-BRITISH OFFER. THE PROBLEM NOW WAS ONE OF PRICES.
4. AT THIS POINT I INTERPOSED A STATEMENT (ACTING ON INFORMATION GIVEN TO ME BY WHITEHEAD, BAE'S CONSULTANT ON THIS PROJECT WHOM I SAW YESTERDAY) THAT THE FRANCO-BRITISH CONSORTIUM'S FINAL PRICE HAD NOT YET BEEN SUBMITTED: THIS WOULD BE DONE IN A SEALED ENVELOPE AT THE FORTHCOMING MEETING IN AMMAN.
5. ZAIDAN SAID HE KNEW THIS ADDING THAT HE HOPED THAT THE TWO GOVERNMENTS WOULD DO EVERYTHING THEY COULD TO HELP THE CONSORTIUM TO ACHIEVE THE LOWEST POSSIBLE PRICE.
6. ZAIDAN SAID THAT ASCO WOULD NEED SOME JUSTIFICATION (BY WHICH HE MEANT A SUBSTANTIAL LOWERING OF PRICE) BEFORE ACCEPTING THE FRANCO-BRITISH OFFER. HE SAID THAT ALL THREE CONTENDERS HAD A SATISFACTORY TECHNICAL SUBMISSION BUT THAT IN COMPARING THE PRICES THE COMMITTEE USED BIDS WHICH WERE AS CLOSE AS POSSIBLE TO "THE BASELINE OF THE ASCO REQUEST FOR PROPOSALS". ON THIS BASIS THE CONSORTIUM BID WAS THE HIGHEST PRICE. EVEN THE CONSORTIUM'S BID TO EUROPEAN STANDARDS WAS VERY CLOSE TO THE OTHER BIDDERS' PRICES FOR THE BASELINE.
7. MY FRENCH COLLEAGUE SAID THE FRENCH UNDERSTOOD THAT ASCO'S CONSULTANTS (COMSAT) HAD PUT IN A PRICE FOR THEIR JOB WHICH WOULD BE CONSIDERABLY HIGHER IF THE SUPPLIER WERE TO BE EUROPEAN RATHER THAN US. ZAIDAN REPLIED THAT COMSAT HAD SUGGESTED A PRICE FOR WORKING IN EUROPE WHICH REFLECTED THE EXTRA COST TO THEM OF WORKING OUTSIDE THEIR HOME BASE OF THE US. ASCO HAD, HOWEVER, NOT ACCEPTED THIS BASIS BUT HAD WRITTEN THE CONTRACT AT THE HIGHER PRICE AND WOULD REDUCE THE PAYMENTS TO COMSAT IF THE WORK WERE IN FACT TO BE CARRIED OUT IN THE U.S.
8. THE NEXT STEPS, ACCORDING TO ZAIDAN, ARE A PRELIMINARY MEETING OF THE (5 MAN) COMMITTEE WHICH CONSIDERED THE BIDS IN WASHINGTON. THIS WILL TAKE PLACE IN AMMAN ON THE MORNING OF 25 APRIL AND THE HOPE IS THAT A RECOMMENDATION CAN BE SUBMITTED TO THE (9 MAN) ASCO BOARD OF GOVERNORS WHICH WILL BEGIN MEETING THE SAME DAY AND GO THROUGH TO 27 APRIL. THE HOPE IS THAT THE BOARD OF GOVERNORS CAN MAKE A DECISION BUT IF THAT IS NOT POSSIBLE THEN THE MATTER WILL HAVE TO BE REFERRED TO THE GENERAL ASSEMBLY WHICH WILL OPEN IN AMMAN ON 28 APRIL.

CONCLUSION.

9. IF WE ARE TO BELIEVE ZAIDAN (AND I AM INCLINED TO DO SO) THEN THIS WILL ALL COME DOWN TO A MATTER OF PRICE AND ON A FULLY COMPLIANT BID THE BAE/FRENCH CONSORTIUM IS AT PRESENT OUT OF THE RUNNING. THE CONSORTIUM'S ALTERNATIVE PROPOSAL (TO EUROPEAN STANDARDS) CAN ONLY SERIOUSLY ENGAGE ASCO'S INTEREST IF IT SHOWS A CONSIDERABLE FINANCIAL SAVING; AND TO DO THAT THE PRICE WILL HAVE TO BE REDUCED CONSIDERABLY. THE CONSORTIUM'S THIRD (AND CHEAPEST) BID DOES NOT SEEM TO FIGURE IN ASCO'S THINKING TO ANY SERIOUS EXTENT.

FCO PLEASE PASS TO ALL.

CRAIG

NNNN



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902  
SWITCHBOARD 01-212 7676

*From the  
Parliamentary Under Secretary of State's office*

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

13 April 1981

*Dear Tim,*

ARABSAT

In his minute of 6 April, Mr Marshall promised to relay from Washington any further information he could glean about BAe's Arabsat prospects.

Mr Marshall has now telephoned to say that he has talked to Dr Ali Mashat, the Direct General of the Arab Satellite Communications Organisation, who has advised us to ensure that BAe emphasise the television part of their bid. (BAe have been requested to do this).

Mr Marshall adds that this view fits in well with the line he adopted during his visit to Saudi Arabia when he explained how the UK could offer a total package including television and BBC expertise.

In Saudi Arabia, Prince Abdullah is said to be the Minister mainly concerned with this issue.

*Yours*

*Barbara Kusta*

pp MRS FRANCES NIEDUSZYNSKA  
Private Secretary





Prime Minister

(4)

*Prime Minister*  
*r f/w briefs.*

THE ARAB COMMUNICATIONS SATELLITE

You know of the commercial opportunities which the CPRS highlighted and which it is widely recognised will flow from the use of satellites for communication purposes and television. The Arab Communications Satellite is the first opportunity for British Industry to secure a significant overseas order for satellites and this contract could be a prelude to greater commercial success. It is for this reason that I wish to draw the matter to your attention.

We have been supporting the development of communications satellites through the European Space Agency for nearly 10 years. British Aerospace has won prime contractorship in ESA for the development of these satellites. We now wish to see the fruits of our support and industry's efforts. Success here would be the first non-US commercial sale to an overseas customer and we can expect the competition to be disproportionately severe in order to keep us out of the market.

A communications satellite serving all the Arab States does have a pervasive significance which few other sorts of business, even though they may secure much larger orders, can have.



Winning the order would represent a splended advertisement for British industry generally among the participating Arab States. A measure of the importance we attach to this order is our willingness to provide £12.5 million by way of support with the French providing a similar amount. We have also been providing both Ministerial and diplomatic support.

Three competitors remain - Hughes (USA), Aerospatiale/Ford (France/USA), and BAe/Matra (UK/France). The outcome of the recent Arab Board of Governors meeting in Washington is not known but they will be making a recommendation to the Arab Minister's Meeting in Amman on 28 April to decide the award of the contract. The timing of your visit is therefore particularly opportune.

You have received some background briefing from my officials but I would like to emphasise some of the points you might make. These are:-

- (i) Britain's aerospace industry is successful in spite of difficult world-wide trading conditions, is currently performing profitably and well;
- (ii) British Aerospace is sharing fully in this success;



- (iii) British Aerospace has long standing links and commercial relations with Arab countries;
- (iv) the strength of British Aerospace has been demonstrated by the success of the recent flotation of their shares;
- (v) the Government does nevertheless maintain close interest in British Aerospace's affairs and is wholly supportive of their space effort (the financial support cannot, of course, be mentioned);
- (vi) British Aerospace has demonstrated its ability to win prime contractorships in the bids for European Space Agency work;
- (vii) British Aerospace is dedicated to making a success of the Arab communications satellite and both we and the French Government are equally dedicated to backing them;
- (viii) the bid is unique in offering ESA expertise for the training of personnel;



- (ix) it is in the interests of the Arab States to diversify their resources of supply for strategic goods and we hope the Arabs will award this contract to BAe. We shall, of course, be glad to help and advise with consultancies and training.

The Arabs are playing things very close to the chest and there is still (7 April) no official word on the relative standing of the three firms. I hope to get a clearer picture if I am able to meet the Arabsat team in Washington later this week. If we have any further information we will ensure that you have it before you leave for India.

This particular project, and your own involvement, should be seen in the light of an arranged PQ which David Price will put down for answer when Parliament reassembles on 27 April. This reflects the fast moving space scene in which we hope to see significant opportunities and successes for British industry during 1981.

I am copying this to the Foreign Secretary and to the Secretary of State for Trade.

MICHAEL MARSHALL  
Department of Industry  
7 April 1981

