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02 MAY 1986



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
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TO <i>Mr Tufford</i>	COPIES TO
FOR ADVICE (AND	<i>PS MET</i>
DRAFT REPLY IF	<i>PS SBH</i>
APPROPRIATE)	<i>Mr Roberts</i>
PLEASE BY:	<i>Mr Cill</i>
<i>17-5-86</i>	<i>Mr Titchener</i>
IF DEADLINE	<i>Mr Petter</i>
CANNOT BE MET	<i>Mr Simpson</i>
PLEASE PHONE	<i>Mr Baker</i>
215 5422	<i>Mr Pender</i>

The Rt Hon George Younger MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

2 May 1986

SAUDI AIRFORCE PROJECT: ECGD GUARANTEE

There is one point in your letter of 30 April to the Chief Secretary that concerns me, and that is your statement that the Saudis are considering an increase in oil liftings to generate more revenue for this project.

You will remember that, at the time the MOU was signed last September, I expressed great concern about the impact of the deal on the oil market. The large surplus of production capacity, amounting to some 20% of free world demand, was threatening to bring the oil price down sharply. It was only the remnant of restraint by the Saudis that was sustaining the price. I was anxious that the oil side of the deal might disrupt the market and that HMG would be seen as having been directly involved. In the event, it was the Saudis' decision to give up their role as swing producer and to increase production, together with the lack of any restraint elsewhere in OPEC, that precipitated the price collapse we have seen over the last six months.

I am still concerned to avoid adding to disruption and instability in the oil market. Given the importance that Saudi production levels have assumed, I have doubts about the wisdom of agreeing to any increase in liftings under the oil side of the aircraft deal. Nor would I want pressure to be put on Shell and BP to accept such an increase against their better judgement. In short, I would want to be consulted before any increase in liftings was agreed.

I am copying this to the Prime Minister, to other members of OD, to the Chief Secretary and to Sir Robert Armstrong.

PETER WALKER