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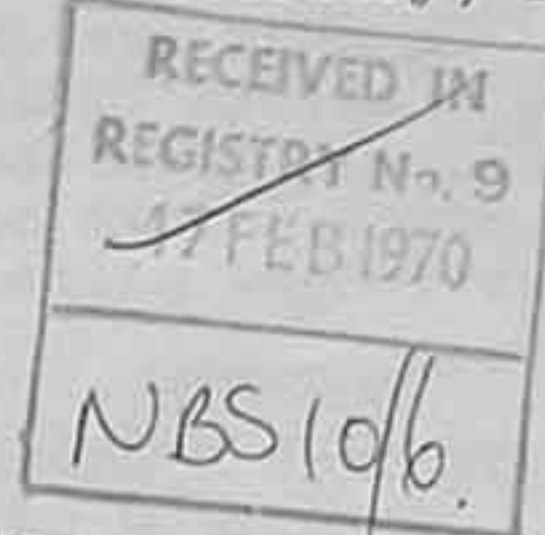


BRITISH EMBASSY,

JEDDA.

10/5

11 February, 1970.



Dear Suffield,

Arms Sales to Saudi Arabia

When we met at Ray Brown's last September, it was I believe your first day in the Ministry of Defence; but I am sure that by the end of lunch you were already aware that selling arms to Saudi Arabia is not simple. It is certainly not getting any simpler.

2. In a letter of 15 October to Hubert I promised that we would try to take a general look at prospects. We have since been corresponding with your department and the F.C.O. about various possible purchases on which there has been activity stirring (notably tanks and the navy). But we have now produced for you and the F.C.O. (and enclose with this letter) a comprehensive paper in which we have tried to set out and discuss all the main considerations concerning the sale of arms to Saudi Arabia. Annexed to it are (A) a table setting out all the information we have been able to gather about present commitments and future plans for arms purchases; and (B) a note giving the factual background (insofar as we can get at the facts) to present troubles over sales to the National Guard, as an illustration of what can happen when there is inadequate consultation between your department and us.

3. The question of corruption is obviously crucial and I have therefore dealt with it frankly and at some length: for this reason, I hope the circulation of the paper will be restricted. One possible course of action not mentioned in the paper is that we should go to King Feisal, tell him what is happening, and ask him to intervene. We have considered this before and rejected it on the grounds that we would be unlikely to succeed, and that in failing we would antagonise both him and his brothers. The compromise (in all senses

/of

H. J. L. Suffield, Esq.,
Head of Defence Sales,
Ministry of Defence,
Whitehall,
London, S.W.1.

*This is an admirably
clear & comprehensive
survey of the complications.*

*in Fullerton
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should see*

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of the word) that we recommend is however very much a pis aller. Commercially and politically the "system" is at best an infernal nuisance, and it is potentially explosive - a time bomb under the regime I have called it elsewhere. If there were a practicable way of extricating ourselves, we should take it.

4. Since I started this exercise (and started drafting this letter) I have heard that the Saudi Arabian Government has decided to hold a "defence review", and invited the Americans to assist in it; and that the Americans hope to have a team coming in about two months' time. At first sight, this looks like a nimble move by King Feisal to postpone a bit longer decisions on arms purchases. It may, of course, be to provide a sectoral plan for the Five Year Development Plan by which future capital expenditure is to be guided. Either way, the defence review should in theory clear up much of the confusion set out in our memorandum; but I am very sceptical of the possibility that it will. We shall keep F.C.O. and you informed as we hear more about this.

Yours sincerely,
W. Morris

(W. Morris)

Copy to:

A. A. Acland, Esq., Arabian Department, F.C.O.

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with

NBS 14/6

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Memorandum by H.M. Ambassador, Jedda

Arms Sales to Saudi Arabia

... The attached table sets out the information we have been able to gather about present commitments and ideas for the purchase of arms by the Saudi Arabian Government between now and June 1975 (the end of the Saudi budget year 1394-1395). The totals for the period under the heads "actual", "imminent/desirable", "favoured" and "germinating" are respectively £199m., £37.9m., £159m., £108m.: a total of about £500m., £300m. of it uncommitted. I start with the assumption that, "other things being equal", we would like to see as much as possible of any new expenditure that materialises spent on British equipment. But what are the "other things", and how equal are they? The relevant considerations seem to me to divide into (a) political; (b) financial; (c) the British reputation; (d) Saudi absorptive capacity; (e) local practice in the arms business. I will comment on these separately:-

(a) Political

2. It is in HMG's interests that the present régime in Saudi Arabia should last for the next few years; and this interest outweighs any likely profit from arms sales. Since lavish expenditure on arms is likely to reduce the chances of survival, it is in our interest that the Saudis should restrain their expenditure on arms. It is arguable (though less and less arguable as the Air Defence Scheme staggers along its disastrous way) that there is a marginal political advantage in the Saudis buying from us rather than others, but the weight of the argument for our selling is overwhelmingly commercial. Thus (a) our political interest is against stimulating the appetite for arms; (b) our commercial interest lies in selling at a profit anything the Saudis decide to buy.

This is an important point concerning sales for sales sake rather than for profits in principle. JMS

3. I take it that although HMG are in favour of a total arms embargo on the supply of arms to (unspecified) countries in the Middle East, this general aspiration ^{may} not affect our general willingness to supply whatever the Saudis are prepared to buy from us: unlike, e.g. the U.S. Government who for reasons of internal and external politics actively discourage Saudi interest in arms purchases.

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4. The disappearance of the "Chieftans for Israel" theme from the Arab press and radio has removed a potential block to all arms sales, and I do not think the recurrent publicity for Centurion sales to Israel has much effect here. But there is no question that the pro-Arab bias of French Middle East policy gives the French a head start politically in competing for arms orders. Although the only concrete result seen so far has been the sale of Panhard armoured cars, we should expect further French successes in some field. The Saudis share the general Arab sense of obligation to the French for their policy and of the need to keep it the way it is.

5. The Saudi Ambassador in London harps on the theme that we ought to sell our arms here offering a political "quid pro quo", i.e. by adopting policies in the Arabian Peninsula which appeal to King Feisal. For reasons set out in para.3 (iii) of my letter number 10/22 of 2 December to McCarthy about Vickers tanks, this means very little. Without a complete reversal of our policy of military disengagement, the disenchantment of King Feisal with HMG over Aden and the Persian Gulf will continue to set the tone; all we can expect to do is to mitigate it.

6. Another kind of political consideration is relevant. In the light of events during the past twelve months, we believe that the odds against a successful military coup here have perceptibly shortened. We still reckon that the régime is probably good for another five years; but there are risks which now appear to us greater than a year ago. If there were a coup, then the quantities of arms already in service would make it difficult for the Saudis to shift their sources of supply suddenly or drastically: they are far more deeply committed than Libya. But I am quite sure that a main subject of revolutionary interest and fervour would be past arms purchases and the corrupt dealings surrounding them. The moral of this is that commitments are to be avoided if possible which are either extended in time for much beyond five years, or which during that time leave firms heavily out of pocket at any point.

(b) Financial

7. Saudi defence expenditure has doubled in the past seven years. But this expansion took place at a time when Saudi revenues were expanding at corresponding rate (oil revenues increased by 50% between 1964 and 1968). For the first time /since



since Feisal took over the current budget shows a deficit - of SR.412m. - and according to confidential information from the Arabian American Oil Company (ARAMCO) the Saudi foreign exchange holdings have been declining sharply and are now down to SR.2 billion (U.S.).* Meanwhile, oil revenues have levelled off. ARAMCO are being pressed to do better: but so are the oil companies in Iran, Kuwait, Libya etc. The market is limited, and there is no prospect of a return to the spectacular rate of increase of recent years.

7e // 8. Moreover, the Saudi Central Planning Organisation (or rather, their American consultants) are writing a five-year development plan which is supposed to be put into operation from September next year. This will call for decisions on a division of the Saudi national cake between security and development. It assumes a rate of growth of the economy which is probably over optimistic. There is no doubt in our minds that a prudent monarch would choose development expenditure over security expenditure, for various reasons which I will not go into. We think that he will probably do the opposite. Nevertheless, there will be conflicting pressures; and these will be reflected in pressure for cuts in prices, and extended credit terms, for any arms purchased. The Saudis will also no doubt try to conduct Dutch auctions among prospective suppliers. With the Air Defence Scheme in mind, I hope that any of our firms which become involved will have anticipated this and stick to their bottom price. The bottom price should also take full account of local operating conditions. As said above, the justification of arms sales is almost wholly commercial; and a lost contract is therefore preferable to a losing contract. I doubt if "loss leaders" here will lead to anything but fresh losses.

9. Of course, all the schemes listed are unlikely to come to fruition and any time-table here is merely a starting point for speculation on inevitable delays. Even the sum of £300 millions spread over 5-10 years is not all that outrageous in relation to Saudi resources. But the Saudis have already accumulated a debt burden of £200m. for past purchases of arms; and the place of every scheme that aborts is likely to be taken by a new conception.

(c) The British reputation

10. This means the Saudi Arabian Air Defence Scheme, and the objective fact to be faced about it is that at present our name stinks in the nostrils of Saudis who count for arms purchases. Whether rightly or wrongly is another matter: /the

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special
Raymond

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19. It would be useful if we could list Saudi priorities, and base our selling effort on it. But in Saudi Arabia, government does not work that way: with both Coastguard and Frontier force and the National Guard, co-ordinated programmes of expansion have been or are being drawn up: in both cases purchases have been and are likely to be piecemeal and haphazard. What then should the British sales effort concentrate on?

(A) Aircraft?

*I somehow
missed this!*

Failing a complete collapse of the Air Defence Scheme, the sale of additional Lightnings and BAC167s should be assured. For the next generation, the atmosphere is at present impropitious and one should hope that nothing comes of current interest in Phantoms and Mirage IIIs. At the present stage of development of the RSAF, talk of absorbing additional more sophisticated aircraft is on all rational grounds premature - though no doubt we must try to keep interest in the Harrier alive.

(B) Army: tanks

*especially
Raytheon?*

See my letters numbers 10/22 of 2 and 23 December to McCarthy. The keen interest the fixers have recently taken in Vickers lately suggests that Vickers stand reasonably well.

(C) Navy

See my letter number 10/11 of 9 December to McCarthy and subsequent correspondence. Emir Turki firmly rejected our overtures last month. The French interest has been prominent in the past year and it is possible that the Saudis may turn to a co-operative French/Pakistani effort. But their first choice is U.S. help; and the field may be more open when the U.S. reply on this has been given. Meanwhile, any interested firms might be encouraged to fish for themselves - the Saudis will not close the door to them even if only to put the screw on others in the field.

/ (D)

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at this level is not easy. However, it would be useful for us to have a chance to go over the ground with him.

(iii) A British Ministerial visit

22. For similar reasons, I would not favour a sales mission to Saudi Arabia only by a British minister.

(iv) Appointment of a Defence Sales Representative Middle East (Mr. Hubert's suggestion)

23. Unless HMG were prepared to negotiate commissions on behalf of firms, his role could only be to collect information and offer advice. Whatever our shortcomings as an Embassy in this field, I do not think a sales representative visiting from Beirut could add significantly to available information.

General conclusions and advice on operating methods

24. There is no single golden key (or golden fixer) to open the door to an orderly, if crooked, world of arms sales in Saudi Arabia. It is a jungle inhabited by beasts of prey in which one must move with caution and uncertainty. The magnates are (justifiably) suspicious of one another and their agents; alliances and rivalries amongst both are constantly shifting. Our efforts, therefore, should be based on the general guidance outlined in paragraph 16 above. Also: (a) firms should be encouraged to regard the Embassy as a confessional rather than a branch office. The more they tell us, the more they are likely to learn. The separate "fishing" approaches to several members of the Embassy and the "hold-my-hand all the way to X" requests should be discouraged. Firms should make their calls on Saudi officials in their own right, establishing and maintaining contact which ensures freedom of access. They should not simply wait for appointments to be made by the Embassy or others. They will not get business by the six-monthly whistle-stop tour - especially in the major deals when competitors are prepared to put in a man for months just to acclimatise himself, let alone push through a deal. By the end of that time he is more likely to be in a position to assess the local scene and personalities involved, and to have formulated the essentials for reaching agreement with local agents or "advisors";

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(b) early consideration should be given to whether a deal should be government-to-government or firm-to-government. In the former instance, this would reduce the risk of a firm getting too involved in local commitments before HMC entered the field. In the latter, their approaches could (as in the case of Vickers) be re-affirmed with a government assurance of approval for the potential sale.

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