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PREM 19/858

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Confidential Filings

Follow up action to PM's visit to Oman

OMAN

May 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
6-5-81							
13-5-81							
20-5-81							
8-6-81							
20-10-81							
26-10-81							
29-10-81							
24-11-81							
8-2-82							
1-2-82							
5-2-82							
10-3-82							

PREM 19/858

COMMERCIAL IN CONFIDENCE

MFJ

Oman

10 March 1982

Scorpion Tanks for Oman

Thank you for your letter of 8 March,
the contents of which the Prime Minister has
noted.

JC

Mick Evans Esq
Ministry of Defence

COMMERCIAL IN CONFIDENCE

(2)

Prime Minister



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

A.J.C. 9.3

Telephone 01-~~920 7022~~ 218 2111/3

MO 5/4

8th March 1982

ms

Dear John,

David Omand wrote to Clive Whitmore on 2nd February explaining the position over Alvis' bid to sell Scorpion tanks to Oman, and said that the Tender Board was due to meet at an early date.

The Prime Minister may be interested to know that the Tender Board's recommendation went in the event to Scorpion, and the Sultan has now ratified this decision. Apparently the MOD's offer of reduced charges for training in support of the sale which my Secretary of State described in his note to the Prime Minister of 2nd March, was most helpful in securing the success of Alvis' bid.

This order represents a significant boost for the Scorpion range. It could also lead on to a further Omani purchase from Alvis if the defence equipment funding recently pledged to Oman by her Gulf Cooperation Council partners materialises.

Yours sincerely

Nick Evans

(N H R EVANS)

A J Coles Esq

COMMERCIAL IN CONFIDENCE

9 MAR 1982

9 8 7 6
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MIL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1



CONFIDENTIAL

File

BK



cc: LPS
LPO
CDL
HMT
FCO
LCO
HO
TRADE

10 DOWNING STREET

From the Private Secretary

5 March 1982

Military Assistance and Training Charges

The Prime Minister has asked me to say that she was most grateful for your Secretary of State's minute of 1 March on the above subject and is much relieved that it has proved possible to devise such positive proposals on this subject which has presented difficulties for so long. She strongly welcomes the proposals, subject to the views of other members of OD.

Insofar as they affect Oman, she thinks it most important that Sultan Qaboos is given the good news at the time of his State Visit on 16 - 19 March. If there is any difficulty, and the Prime Minister very much hopes there will not be, she will wish to discuss the matter with the Ministers immediately concerned in good time before the visit.

I am copying this letter to the Private Secretaries to the other members of OD.

A. J. COLES

David Omand, Esq.,
Ministry of Defence

CONFIDENTIAL

BK

CONFIDENTIAL

file

BK

Omand

BK for visit

5 March 1982

Military Assistance and
Training Charges - Oman

The Prime Minister has seen the minute of 2 March by your Secretary of State on the above subject. She is most grateful to Mr. Nott.

She has commented that the contents of the minute constitute welcome news for the State Visit by Sultan Qaboos, a prominent friend of Britain.

I have written to you separately about Mr. Nott's minute of 1 March on the general subject of Military Assistance and Training Charges.

A J COLES

David Omand, Esq.,
Ministry of Defence

Sky

CONFIDENTIAL



10 DOWNING STREET

Prime Minister

Military Assistance and Training Charges

2 minutes from Mr. Nott

(a) on the general problem

(b) on Oman.

2. Other members of OD, especially the Chancellor, may have comments.

3. Would you like me to say that you welcome these proposals, subject to the views of other members of OD, that you think it important that Qabus is given this good news at the time of his visit and that, if there is any difficulty, you will wish to discuss with Ministers immediately concerned in good time before that visit? Yes A.F.C. $\frac{3}{8}$



MO 5/4

PRIME MINISTERMILITARY ASSISTANCE AND TRAINING CHARGES - OMAN

1. I have minuted you today about the general subject of military assistance and training, but given the imminence of the State Visit by Sultan Qaboos, I thought I should let you know separately how Oman stands to benefit from the new approach.
2. The gradual changeover from Loan Service to Secondment terms for our personnel serving in the Armed Forces of other countries will be of considerable benefit to Oman. There are at present 166 Loan Service Personnel (LSP) in Oman for whom the Sultan would pay around £7M during Financial Year 1982/83 under present arrangements. The cost to him of the same number of Seconded Personnel would be between £5.5M and £6M, which would represent a saving of £1M - £1.5M. There are proposals to increase the number of our personnel serving in the Omani forces to 216, and if these proposals are implemented, the eventual saving to the Sultan of the reversion from Loan Service to Secondment terms will be between £1.5M and £2M. This change will have to be implemented gradually, but the end result will be a significant saving to Oman.
3. Oman also stands to benefit from concessions financed by the Defence Sales and Defence Policy Funds. Concessions on sales grounds will be related to specific purchases, and the training and assistance we provide in support of them. For example, we have already agreed to reduce the charges for training in the UK of Chieftain maintenance crews, drivers/loaders, and commanders/gunners from a total of £600,000 to £380,000. Similarly, we are offering training in the UK at no cost of drivers, maintenance crews, and gunnery instructors in connection with the prospective sale of Scorpion which will be a saving to Oman of £160,000. There will doubtless be other similar concessions as and when Oman turns to us for significant purchases of defence equipment.

Thank you very much - welcome news for the State visit and for a friend of Britain etc.



4. We shall shortly be considering proposals for allocations from the Defence Policy Fund in 1982/83. For the most part, we shall favour a discretionary approach, making significant reductions in the charges for assistance and training related to particular capabilities which need enhancing, e.g mine-counter-measures in the case of Oman, rather than a general reduction in charges across the board. My staff are consulting General Creasey to establish where this assistance could make most impact. Detailed consideration of allocations from the Fund is proceeding as fast as possible but as I said in my minute on the general policy issues, a number of factors have to be taken into account before allocations are made. It will be some weeks before we can say exactly how much this will be worth to Oman. However, her strategic importance and the nature of our defence relationship with her will make her an obvious candidate for such concessions and I expect she would benefit by a further £150,000 to £200,000, in addition to the £100,000 she will receive from UKMTAS for the coming year.

5. Oman will also benefit in time from the more business-like approach which we intend to adopt to deriving standard charges for our training courses in the UK, and which will result in charges more sensitive than in the past to the demand for particular training, and the extent to which it suits us administratively to provide it. Meanwhile, we intend to restrict increases in charges for 1982/83 to a maximum of 10%, and the charges for a number of courses will actually reduce. Last year, 238 Omanis trained in the UK, which was an increase of nearly 100 over the previous year. The number looks likely to increase again this year, which is further evidence of the Omanis' desire to train with us, and the priority which we accord to finding places for their students.

Ministry of Defence
2nd March 1982



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12

25 MAR 1982

COMMISSIONER



MO 5/4

PRIME MINISTER

MILITARY ASSISTANCE AND TRAINING CHARGES

I am absolutely delighted with this paper.

Send - at least on

this subject! I think the

Treasury should provide half the

cost as it is their rules which have

caused the difficulty. - i.e. £5 million. And

Please tell the Treasury not

I have been reviewing our approach to Military Assistance and Training.

to agree! A

goodwill gesture for them is very important.

2. This activity principally takes the form of:

- Consultancy and advisory visits by MOD experts (visits to 29 countries in 1981);
- Training of Foreign and Commonwealth students on Service courses in the UK (about 1,300 students from NATO countries and 3,500 students from non-NATO countries in 1981); and
- Personnel on loan or secondment to the Armed Forces of Foreign and Commonwealth countries (currently some 750, including over 100 in each of Brunei, Kuwait, Oman and Zimbabwe and about 50 in both Nigeria and Saudi Arabia).

not.

discuss.

ADL 5/5.

The MOD charges for this activity in accordance with the Treasury guidance. This results in charging extra costs for most short consultancy visits, slightly more than extra costs for most courses, and full costs for personnel on loan or secondment.

This activity therefore produces valuable receipts to the Defence Budget. We estimate receipts in 1981/82 of £25 million from LSP and £23 million from training in this country but the current level of charges is in danger of creating diminishing returns.

3. Successive Governments have recognised that providing help of this kind is valuable in the context of our bilateral relations with many countries, and can promote British interests and influence generally. The FCO administers the UK Military Training Assistance



Scheme (UKMTAS) which in FY 80/81 disbursed £9.3M to finance this help to 45 countries. In January last year, OD reviewed the purposes, administration and financing of UKMTAS and agreed that it should continue at a level sufficient to sustain the same volume of training as in 1980/81. This decision was intended to sustain a constant level of activity and took account of the basis of MOD charges. The UKMTAS allocation for 1982/83 will be £11.76M.

4. It is clear to me that this activity can also serve purely defence interests by helping:

- a. To project an appropriate and acceptable British defence presence in regions of strategic importance outside the NATO area;
- b. To enhance or sustain the defence capability of friendly states in those regions;
- c. To create a favourable climate for British defence sales and to support specific sales.

These aims represent one of the most effective and appropriate contributions we can make to the West's defence posture outside the NATO area, and as such could be described as the "Fifth Pillar" of our Defence Policy. I think our approach should recognise this, and I propose, therefore, to find money from the defence budget to finance some military assistance and training. A Defence Sales Fund of £5M a year will finance reductions in our charges on defence sales grounds; and a Defence Policy Fund of £5M will finance reductions in our charges on defence policy grounds.

5. We shall need to employ strict criteria in disbursing these sums. From the Sales Fund, we will finance concessions on our charges for assistance and training related to a specific project, where the Head of Defence Sales considers that such concessions can help to secure an important sale. From the Defence Policy Fund,



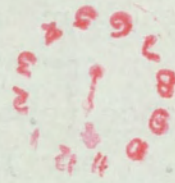
we will finance concessions on our charges to non-NATO countries where our strategic interests and our defence involvement might cause us to respond positively in certain circumstances to a request for operational assistance (e.g. Oman); where we enjoy valuable defence facilities (e.g. Kenya); or where we retain formal defence commitments and links (e.g. the remaining Associated States and Dependencies in the Caribbean, and certain other Commonwealth countries). We will have it in mind that properly directed military assistance can help strengthen the forces of particular states to the point that they would be less likely to require operational assistance from us in a crisis. I would propose that the Policy Fund should be administered in consultation with the FCO, not least to ensure that its operation does not duplicate or conflict with UKMTAS.

6. As to the standard charges we raise for this activity, I am taking a number of steps which will help to reduce or keep down charges to all our customers, such as cutting the costs of our courses and making maximum use of the flexibility on charges allowed under the present Treasury rules for repayment activities, where to do so makes good economic sense.

7. I also intend to revert wherever possible to secondment terms for our people serving with the Armed Forces of other countries, since under these terms our people are relieved of their UK income tax obligation and the receiving government pays from 15 to 20 percent less. Oman will be the main beneficiary from this change.

8. In summary, I intend to adopt a more purposive approach to military assistance, devoting some defence money to finance it, and ensuring that our effort is concentrated on the countries where it can do us and them most good, and takes the form most likely to be effective.

9. I am copying this minute to the other members of OD.



3 MAR 1962

COMMUNICATIONS



cc FCO ^{Oman} HU
Caroline

10 DOWNING STREET

From the Private Secretary

15 February 1982

Loan Service Personnel and other military training costs in Oman

Thank you for your letter of 12 February.

The Prime Minister considered this matter over the weekend. She is most anxious that decisions should be taken before the Sultan of Oman arrives here on 16 March. She would therefore be grateful if your Secretary of State could consider the final proposals to which you referred and report to her on the outcome by the end of February. The Prime Minister will then wish to consider whether it is necessary to hold an early Ministerial meeting.

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

A. J. COLES

S

David Omand, Esq.,
Ministry of Defence



10 DOWNING STREET

Prime Minister

Oman: Costs of Loan Service
Personnel and other military training.

Please see the attached RO's
letter.

Would you like:-

(a) either to hold a meeting with
Defence, Foreign and Treasury
Ministers on Tuesday at 12.00

(b) or me to ask that Mr. Nott
complete his work on the new proposals
and report to you by the end of this
month (Qabus arrives on 16 March).
No Amend - as we are very busy
this week. A.S.C. $\frac{12}{2}$.

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~XXXXXX~~ 218 2111/3

MO 5/4

12th February 1982

Dear John,

Thank you for your letter of 8th February which called for a report on the present position concerning the charges we raise for Loan Service Personnel and other military training which we provide to Oman.

Jonathan Dawson's letter to Michael Alexander of 15th June 1981 explained that the Defence Secretary had put in hand a wide ranging review of our military assistance activity and the charges we raise for it, and identified the main elements of what we intended to be a new approach. These included the reversion where possible from Loan Service to Secondment terms for our personnel serving with the Armed Forces of other countries; the abatement of our charges for both personnel and training where to do so would clearly help to secure important defence sales, or serve defence policy objectives; and a rigorous scrutiny of the cost of our military training in the United Kingdom with a view to achieving reductions in those costs which would subsequently be reflected in the charges we raise for overseas students.

Much of this work will only show results in the medium and long term. In the course of the review, which is almost completed, our proposals for change have developed. The direction in which my Secretary of State is working is to establish two Funds which would finance reductions in our charges for military assistance and training respectively on defence policy and defence sales grounds. (An example of the latter would be the commitment reported in my letter to Clive Whitmore of 2nd February to provide instructor training courses for four crews in the UK free of charge in connection with the possible sale of Scorpion to Oman.) This approach to flexing our charges will ensure that decisions on which countries to help are taken in a considered and rational way, and on the basis of sensible and understood criteria.

On charges for training in this country, we shall adhere to our current practice of calculating charges in accordance with Treasury guidelines, but we shall be adopting a more business-like approach, which should result in charges more sensitive than in the

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A J Coles Esq

CONFIDENTIAL



past to the demand for particular training, and the extent to which it suits us to provide it. As part of this approach, we will move away from the concept of a blanket surcharge for non-NATO students.

As to Loan Service Personnel, we shall approach the possibility of reversion to secondment terms on a case by case basis. This should ensure that our personnel do not suffer either financially, or from poor administration by the receiving government. Under secondment terms, which already apply to our training team in Kuwait, our personnel have no UK income tax obligation, and their incentive pay can therefore be adjusted without financial loss to the individual. Also, elements of our current LSP charge do not apply, and the total effect is to reduce the cost to the receiving government by between 15 and 20 per cent in comparison with the cost of LSP. We intend to negotiate this change with the government of Oman, where it will be particularly appropriate, and to suggest that it should be introduced progressively from 1st April this year. General Creasey is generally aware of our intentions.

It remains to be seen whether the charges we raise from Oman for either training in this country or Loan Service and Secondment Personnel can be reduced still further by the application of money from one or other of the two Funds mentioned above. However, Oman will be a candidate to benefit under the criteria which are likely to be agreed for the Defence Policy Fund and the precedent of free training for Scorpion crews suggests that the Omanis could also benefit from the Sales Fund.

The Defence Secretary is due to consider final proposals for our new approach to all of this within the next couple of weeks. The submission of these proposals has been delayed until the position of estimates for 1982/3 was resolved and it was clear how much money could be made available to the two Funds. This letter represents, therefore, only a partial response to the Prime Minister's question; but I hope that it makes clear the general direction in which our proposals for change will work and the extent to which Oman is likely to benefit.

Yours ever,
Dain Omand

(D B OMAND)



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CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

8 February, 1982.

Loan Service Personnel Costs: Oman

During a meeting here on another matter, at the end of last week, the Prime Minister asked whether the issue of Loan Service Personnel Costs for Oman had been settled. Mr. Douglas Hurd, who was present, explained that this had not yet proved possible.

The Prime Minister made it plain that she wished to see a very early decision. (You will recall from my predecessor's letter of 6 May to Francis Richards in the FCO that the Prime Minister then directed that our policy on the matter should be reconsidered.) It may be necessary to hold an early Ministerial meeting, but as a first step I should be grateful if you could let me have a report on the present position by the end of this week so that the Prime Minister can consider the question next weekend. It clearly needs to be pursued with some urgency in view of the State Visit by Sultan Qaboos next month.

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

The Prop has been considered and indicated. It will only be settled with a meeting. JHP

Prime Minister

before you consider whether a meeting will be useful & suggest you see the report from the ROA which the letter commissions. Content?

David Omand, Esq.,
Ministry of Defence.

CONFIDENTIAL

Training cost not

A.J.C. 5/2



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~8307022~~ 218 2111/3

MO 5/4

2nd February 1982

Dear Clive,

You asked me for a note on the effort being made by United Scientific Holdings to sell Scorpion to Oman.

Following the evaluation of vehicles from the UK (Alvis), France (Panhard and Renault) and Austria (Daimler Steyr Puch) in the course of last year, the Alvis Scorpion and Renault VAB 90 were short listed by MOD Oman to meet a requirement to replace their ageing Saladin vehicles. (Brazil (Engesa) were not invited to participate in the evaluation phase.)

Formal proposals were called for in November, and it was at that stage that it became apparent that Alvis' lead on Renault was at risk. This was due to the fact that the price submitted by Alvis in November - which was a firm price for delivery in January 1983 - was some £46,000 more than the price quoted earlier in the year but which had been quoted on a different basis and subject to escalation. Although the firm price was consistent with the figures quoted earlier, taking escalation into account, the increase was badly presented in Oman. Given also certain other attractive features of the Renault offer, the Scorpion was at that point considered to have lost its lead.

When this was realised at the end of 1981 by senior management, and in particular Mr Peter Levine, immediate steps were taken to try to recover the position. An offer to buy back the Saladin vehicles at inflated prices and to provide training free of charge was submitted on 3rd January 1982 which had the effect of reducing the price in real terms below that of the price given in March 1981. Concurrently with this offer MOD Sales have offered instructor training courses for four crews in the UK free of charge.

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C A Whitmore Esq

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE



There is no doubt that this order for 40 vehicles is required badly by United Scientific Holdings and Peter Levine is determined to obtain it. The criticism about the effect of the take-over of Alvis by USH on this sales prospect no doubt owes its origin to the misunderstanding which took place in Oman following the submission of the formal proposals in November and the delay in submitting the offer to buy back the Saladin vehicles. Peter Levine is ready to admit that the company did not handle their proposals as well as they should have done in November but there is no doubt that once the matter had been brought to his attention he took immediate action to put it right. In doing so we believe there is a good prospect that the company has regained the initiative and that they stand a good chance of winning the order for 40 vehicles (worth approximately £9M) when the tender board meets in the very near future.

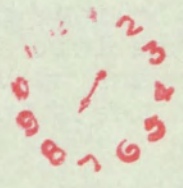
Yours ever,

David Omand

(D B OMAND)



- 2 FEB 1932



[Faint handwritten mark]

COMMUNICATIONS

Oman

(2)

f.s.

Prime Minister:

This was the contract for which you decided not to write to Sultan Qaboos. (Clearly a correct decision.)



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

Print 30/x/1

ms

27th November 1981

Dear Stephen,

Your Secretary of State has been following, I know, with great personal interest the progress of Brooke Marine's tender for the construction of a Landing Ship Logistic for the Sultanate of Oman. I thought I should write to enable you to inform your Secretary of State, that we have just heard from British Shipbuilders that the Sultan of Oman has directed that a contract should be placed with Brooke Marine for the LSL. I gather that we have been asked not to announce the order at this stage: we shall have to await the Omanis' agreement.

[Handwritten signature]

[Handwritten signature]

(J D S DAWSON)

S W Boys Smith Esq

30 NOV 1981

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CK X *[Handwritten signature]* Oman

29th October 1981

I am writing to thank you for your letter of 9th October addressed to Tim Lankester, about Brooke Marine Ltd.

Tim Lankester has been seconded to Warburgs for two years and this is why he is not replying himself.

The Prime Minister does, of course, understand the reasons why Mr Preuten wrote to you on 7th October.

The Prime Minister is being asked to write letters to an ever-increasing number of Heads of State and Government in relation to contracts. She is concerned lest, by using them too frequently, we debase the value of letters at Head of Government level. Such communications ought to be seen by the recipient as something altogether exceptional.

The Prime Minister is always prepared to mention individual contracts during meetings with her opposite numbers. However, she feels that a letter "out of the blue" such as you propose, ought to be sent only in relation to contracts of major importance - ie. those whose value is in excess of £50 million.

However, on the Prime Minister's instructions I have sent a copy of your letter and its enclosure to John Nott, in case he considers it appropriate to write, himself, to the Sultan Qaboos.

Ian Gow
Parliamentary Private Secretary

The Rt Hon James Prior MP

cc. The Rt Hon John Nott MP



via PD
TRADE
CO

STH

10 DOWNING STREET

From the Private Secretary

27 October 1981

Dear Jonathan,

Landing Ship Logistic - Sultan of Oman's Navy

The Prime Minister has seen your letter to Mike Pattison of 19 October and the attached draft. As you are already aware, she has declined to write to Sultan Qaboos. You may think that the Secretary of State for Defence could usefully write instead.

The Prime Minister's reason for not writing is a feeling that she is being asked to write similar letters to an ever-increasing number of Heads of State and Government in relation to contracts of diminishing value. The Prime Minister is concerned to ensure that we do not, by using them too frequently, debase the value of letters at Head of Government level. Our aim must be to ensure that such communications are seen by the recipients as something altogether exceptional.

The Prime Minister is quite prepared to mention contracts during meetings with her opposite numbers and, if necessary, to have such references followed up subsequently. But she feels that a letter "out of the blue", such as that which you proposed, should be sent only in relation to contracts of major importance - say, those whose value is in excess of £50 million.

I am sending copies of this letter to Roderic Lyne (Foreign and Commonwealth Office) and, since it is a problem on which EX(O) might care to focus, to John Rhodes (Department of Trade) and to David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

Jonathan Dawson, Esq.,
Ministry of Defence.

CONFIDENTIAL

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One

26 October 1981

Qaboos University

Thank you for your letter of 20 October on this subject. I have drawn it to the Prime Minister's attention. I have not, for the moment, discussed it with the Prime Minister's Press Secretary but will of course brief him if HM Ambassador's fears are realised.

MA

CS

Brian Fall, Esq.,
Foreign and Commonwealth Office.



(3)

10 DOWNING STREET

Prime Minister.

The prime reason for sending this letter is the Prime's anxiety to ensure that Brooke Raine get the contract. It may be that this will seem to you a sufficient reason.

However I am becoming concerned at the frequency with which you are being asked to sign letters like this. There is an increasing risk of debasing the currency so that when you wish to weigh in on a major contract your intervention will have less impact than it should. There should be a rule of thumb that you only intervene when contracts worth more than, say, £30 million are at issue.

If



10 DOWNING STREET

You decide to write, you should
begin

'Your Majesty'.

If you would prefer to resume
your fri, I am sure that the
Deputy Secretary would be
prepared to write instead.

And

Richard. - I can't
write for every single
contact. I am quite
impressed to mention them
when I am there or passing
a log with and then to let
to follow up of the cards but
not out of the line except for

very big contrast.



10 DOWNING STREET

THE PRIME MINISTER

I was delighted to learn from our Embassy in Muscat that Brooke Marine Limited have been shortlisted to meet your requirement for a Landing Ship Logistic.

Brooke Marine as you know are a company of international standing with considerable experience in building these particular types of vessels and have recently completed an order for similar vessels for the British Army. They consider that they have submitted a highly competitive proposal, one which complies with the specification issued and which they believe has been well received by your Navy. I have every confidence that should your Navy recommend that Brooke Marine should build this ship for them they would be well served, and for Brooke Marine, in these times of high unemployment in the Shipbuilding Industry, this order would be most welcome.

I am firmly convinced that for the ship to be built in the United Kingdom would be to our mutual advantage and would add to our excellent relations in the defence field.

/I need hardly

I need hardly say that should you opt for the vessel to be built in this country the company will have the full support of my Government.

His Majesty Sultan Qaboos bin Said, GCMG, GCVO.



Foreign and Commonwealth Office

London SW1A 2AH

20 October 1981

Dear Michael,

Qaboos University

As you know, when the Prime Minister was in Oman in April, the question of Qaboos University was discussed and opportunities arose for the Omanis to be urged to award the contract for building the university to a British firm.

An agreement was subsequently reached for the contract to be awarded to Cementation. A contract has been signed, although this in effect does not constitute much more than an agreement in principle between the Omani Government and Cementation for Cementation to do work up to a certain figure, since preparatory work on the design of the university has not yet been completed and it is therefore not possible to draw up a detailed contract.

Our Ambassador in Oman has reported that the Qaboos University project is the subject of a good deal of political in-fighting in Oman. The Minister of Education and his Under-Secretary have fallen out over the project and it is possible that this may lead to recriminations by those worsted in this in-fighting about the way the Omani Government has been proceeding with the project.

The purpose of this letter is to warn you that, as a result of this, HM Ambassador in Muscat fears that there may be ill-informed or malicious gossip in Oman related to the award of the contract to Cementation. Since the Prime Minister is known to have taken a personal interest, it seems to us possible that publicity in Oman may spill over into the British press and that the Prime Minister's involvement may be mentioned. You may wish to draw the attention of the Prime Minister's Press Secretary to this possibility.

Yours ever,

(B J P Fall)
Private Secretary

M O'D B Alexander Esq
10 Downing Street



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-236-7622 218 2111/3

MO 5/4

19th October 1981

1. MODBA to see: if content
2. GA to type for PM, & submit with this letter + Mr Prior's.

Dear Mike,

MA 207 x

LANDING SHIP LOGISTIC - SULTAN OF OMAN'S NAVY

Thank you for your letter of 14th October.

As you will know, two British companies have been competing against strong international competition for an order for a Landing Ship Logistic for the Sultan of Oman's Navy (an order now reduced for budgetary reasons from two ships to one). A shortlist consisting of Brooke Marine of Lowestoft and Vosper Private of Singapore has now been published. We understand that Brooke Marine are favourably placed in terms of specification, price and delivery but you will readily understand that the competition is still open.

We believe that a letter from the Prime Minister - I attach a suggested draft - would enhance considerably Brooke Marine's chances of receiving this order, which is vital to their immediate future and employment in the Lowestoft area. Mr Prior has already mentioned to the Prime Minister the fragile state of Brooke Marine's order book (his letter of 7th October).

If the Prime Minister agrees to write along these lines, I shall arrange for the letter to be delivered and for the text to be telegraphed ahead to Muscat.

I am copying this letter to Roderic Lyne (FCO).

Yours sincerely

Ruthen Dawson

(J D S DAWSON)

M A Pattison Esq

LSL FOR OMAN

I was delighted to learn from our Embassy in Muscat that Brooke Marine Limited have been shortlisted to meet your requirement for a Landing Ship Logistic.

Brooke Marine as you know are a company of international standing with considerable experience in building these particular types of vessels and have recently completed an order for similar vessels for the British Army. They consider that they have submitted a highly competitive proposal, one which complies with the specification issued and which they believe has been well received by your Navy. I have every confidence that should your Navy recommend that Brooke Marine should build this ship for them they would be well served, and for Brooke Marine, in these times of high unemployment in the Shipbuilding Industry, this order would be most welcome.

I am firmly convinced that for the ship to be built in the United Kingdom would be to our mutual advantage and would add to our excellent relations in the defence field. I need hardly say that should you opt for the vessel to be built in this country the company will have the full support of my Government.

Faint header text at the top of the page, possibly including a date or reference number.

LETTER

I was delighted to learn from your message in recent days
of the kind of interest you have in our company and your
interest in our products.

19 OCT 1981
10 11 12 1 2 3 4 5 6 7 8 9

It is our pleasure to have you as a customer and we
will do our best to meet your requirements. We
are confident that our products will meet your
needs and we will be glad to provide you with
the best service possible. We will be glad to
provide you with the best service possible.

We are confident that our products will meet your
needs and we will be glad to provide you with
the best service possible. We will be glad to
provide you with the best service possible.

Sincerely,
[Signature]

FILE

VLB

James PRIOR TTP

23/10

14 October 1981

I enclose a copy of a letter which we have had from Mr. James Prior, M.P., together with a copy of one from Brooke Marine Limited about their efforts to win an order in Oman.

I should be grateful for urgent advice about the suggestion that the Prime Minister should write to Sultan Qaboos on the subject of this contract, together with a suitable draft if you recommend that she should write. It would be helpful to have something from you by 23 October.

I am sending a copy of this letter and enclosure to Roderic Lyne (Foreign and Commonwealth Office).

M A PATTISON

D. T. Piper, Esq.,
Ministry of Defence.

DSG

FILE

VLB

14 October 1981

Thank you for your letter of 9 October, about Brooke Marine's hopes of obtaining an order for Naval ships from Oman.

I will place this before the Prime Minister when she returns from Blackpool.

M A PATTISON

The Rt. Hon. James Prior, M.P.

DJP

Michael

Jim Prior's Secretary
says that he has not written
to No. 10 on this subject
before, so we have no
previous papers - as far as we
know.

One can only assume that
JP has spoken to Tim
personally at some stage.
I telephoned ~~Tim's~~ home earlier,
but he is out until this
afternoon.

eWell



HOUSE OF COMMONS
LONDON SW1A 0AA

9th October 1981

Dear Tim

You will know that I have tried to help Brooke Marine of Lowestoft obtain an order for two Naval ships for Sultan Quaboos of Oman. At one time there were a number of countries and companies involved but now only one ship is to be built and Vosper Singapore are the only other company involved.

I enclose a letter I have had from Brooke Marine and hope very much that the Prime Minister will write to the Sultan accordingly.

Tim

Tim Lancaster, Esq.,
Private Secretary,
10 Downing Street,
London, SW1.

? GR/Political office?

Rec'd in C/F
14/10/81

BROOKE MARINE LIMITED

Established in 1874

SHIPBUILDERS AND ENGINEERS

A Member of British Shipbuilders

HEATH ROAD,
LOWESTOFT, SUFFOLK,
ENGLAND. NR33 9LZ

Telephone: Lowestoft (0502) 65221

Cables: Brookcraft, Lowestoft.

Telex 97145

Our Ref : AFP/SMS

7th October, 1981

The Rt. Hon. James Prior M.P.,
House of Commons,
LONDON,
SW1A 0AA.

Dear Jim,

Many thanks for your note of 25th September, confirming that you have made contact with Tim Creasey in Oman.

The latest situation is that they have now asked us to quote them for one ship only. This was not unexpected as we had heard that because of the massive expenditure involved in their new naval base they felt they could really only afford one ship at this time with the order for the second ship following in perhaps nine months time.

Unfortunately this new tendering exercise, for one ship only, will give Vosper Singapore an opportunity to reduce their price, they were much higher than our price for two ships and will know this in the same way that we know their price. However, I think we can still beat them.

Since we are the only UK company now involved it has become very important that Margaret Thatcher should write to Sultan Quaboos as was suggested earlier but at that time I.M.S. (Yarrow) were still in the game. Our new offer will be submitted to Oman on 14th October, and will remain valid for acceptance up to 30th November. We have spoken to MOD(Sales) in London and they have promised that the letter from Margaret Thatcher will be despatched to Oman by telex through our Ambassador but anything you can do to ensure this is done will be greatly appreciated.

I will keep you informed of our progress.

*Yours ever,
Allan*

DIRECTORS: A. F. PROUTEN C. BENTON F. M. HENDERSON BRIG. J. R. ANDERSON
C.ENG., F.R.I.N.A. C.ENG. M.R.I.N.A. BSc. (ECON), A.C.I.S. C.B.E.
M.I.E.S., M.I.MAR.E.
EXECUTIVE CHAIRMAN

Original filed on
Defence Budget 1986.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~2207022x~~ 218 2111/3

MO 24/4

15th June 1981

(1)

Prime Minister

Dear Michael,

As you will see Mr Nott is trying to do something to reduce these charges. Shall I ask for a progress report in, say, September? If the results seem unsatisfactory, you would hold

MOD CHARGES FOR TRAINING AND ASSISTANCE TO OVERSEAS GOVERNMENTS a ministerial discussion?

Yes not

And

In the light of your letter of 29th May, and subsequent discussion, Mr Nott has asked me to write to you forwarding a note on MOD's current charging policy for training and other military assistance. The note describes the basis and composition of our charges and mentions the existing arrangements for waiving or reducing charges in particular cases. This is a revised and slightly expanded version of a MOD Note provided for MISC 42, whose report was considered by Ministers early this year. Mr Nott has asked me to draw your attention to para 4 below and the various propositions affecting charges for military training assistance which he is considering.

There have been complaints from overseas Governments (both NATO and non-NATO) in recent years that our training and other assistance have become too expensive. There has also been a decline in the number of overseas students attending courses in this country (a reversal of the upward trend a few years ago). It is difficult to be sure of the reasons for this, since there have been special factors at work, such as the strength of the pound, a world-wide recession, tighter Defence Budgets in customer countries, and the cut-off, for different reasons, of training for Iran and Nigeria (formerly two of our largest customers).

Nevertheless, many traditional and potential customers perceive our charges to be high, and further sharp increases could encourage a fall-off in demand. We therefore need to consider our own interests carefully. The provision of military training and assistance, particularly to countries outside the NATO area, can be an effective way:

- of contributing to stability in parts of the world where we have a strategic or economic interest;

M O'D B Alexander Esq

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- of demonstrating a degree of military involvement which is neither expensive nor implies major defence commitments, but which nevertheless is visible both locally and to the Eastern bloc;
- of gaining influence with the armed forces of Third World countries, and promoting the sale of British defence equipment.

Against this background, Mr Nott is considering a number of changes which should have the effect of making British military training assistance more attractive to those countries whom we wish to help in this way:

a. Loan Service Personnel. Officials are considering a new scheme for the provision of advice and training in-country, which would reduce the charge to the receiving Government quite considerably, but preserve HMG's ultimate control over the personnel. Some of the reduction in charge might be found by arranging for payment to be direct and in local currency by the receiving Government to the Servicemen on loan, which would relieve the latter of their income tax obligations to HMG.

b. Flexing of Charges. Mr Nott has decided that we should be prepared to abate our charges in certain cases where to do so would help secure important defence sales or serve defence policy objectives. This might be done by setting up a fund, perhaps financed partly from industry and partly from the Defence Budget, which would establish a defined capability to quote concessionary prices, whilst maintaining a discipline to keep costs down where assistance and training are not subsidised. A fund established thus might deny resources to other defence activities. Furthermore, we should have to be careful to co-ordinate this with the help given from the FCO's UKMTAS budget for wider political and foreign policy reasons.

c. Training Costs. It is clear from the attached note that our present charges for courses in this country recover well below our full costs and little more than the direct costs incurred in the majority of cases. There is considerable evidence that, where valid comparisons can be made, the cost of our training (to Defence Votes

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and the UK taxpayer) is significantly higher than that of our allies or that provided by the civilian sector in the UK. Mr Nott has, therefore, called for urgent action to reduce the cost of our training, and reductions would be reflected in the charges we levy on overseas students. Meanwhile, officials are scrutinizing the costs of individual courses to see whether some planned or possible reduction in the consumption of expensive items such as ammunition would justify a lower charge than that published for this year.

I am copying this letter to Francis Richards (FCO), Peter Jenkins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely
J D S Dawson

(J D S DAWSON)

DEFINITION OF COSTS AND DETAILS OF
COST ELEMENTS INCLUDED IN MOD CHARGES - NOTE BY THE
MINISTRY OF DEFENCE

Definitions

1. The definitions of full and marginal costs promulgated by the Treasury are as follows :-

a. Full Costs

"The assessment of full cost is intended to ascertain the level of charges to be made which, if they were to be recovered in full, would result in no profit and no loss on the total costs which have been borne on the Vote of the Department making the assessment, on any other Vote, or are appropriate as notional charges in respect of, eg interest on capital, superannuation, insurance, etc."

(Source: Government Accounting Pl6)

b. Marginal Costs

"Marginal costs are the amounts at any given level of activity by which the total costs are changed if the level is increased or decreased by one unit of output."

(Source: Treasury Guide to Fees and Charges
Annex A para 4)

Cost Elements included in MOD charges

2. At present the MOD charges full costs for loan service personnel, whether funded by the host country or the FCO, on the grounds that UK Servicemen seconded overseas represent a long term loss of trained manpower and that an increase in the size of the Services is required to meet the commitment. The standard elements of charge are as follows:

Pay

Pension and Gratuity Liability

ERNIC

Loan Service Pay

Separation Allowance (unaccompanied stations only)

Outfit Allowance

Clothing

LOA

Education Allowance

Disturbance, Subsistence, Removals and Storage charges

Movement costs

Unaccompanied Baggage

Postal Concession Charges)

Medical, Dental and Optical Facilities)

(where MOD provides)

Higher Formation Charges

- * Loss of Interest on Working Capital (now 6%) (representing average delays in payment).

- The majority of these elements constitute payments to the individuals on loan.

3. From 1 April 1980 the following further elements have been included as part of the standard charge -

Entertainment Allowance

- * Amortised Ground Training charges

- * Amortised Flying Training charges

5% Treasury Contingency

In addition, the following elements are also charged separately where applicable -

Language Training and Awards

General Duty Flying Clothing

Flying Risk Insurance Premium Refund

4. For training carried out in the UK the MOD charges are pitched between marginal cost and full cost. The basic rate applicable to NATO students represents the direct running costs of a course per student head. This is a figure which broadly represents marginal costs, though it may exceed or fall below true marginal costs in particular instances. For non-NATO students a 30% enhancement is added to the basic rate in accordance with Government policy of moving towards a full cost charge. These rates are estimated to be approximately 40% of full costs for NATO, and 50% of full costs for non-NATO students. This enhancement makes a partial contribution to overheads.

5. For ground training the elements of cost making up the basic rate are as follows -

Pay, Pensions and Allowances of Instructional Staff

Consumable Stores (including ammunition)

Public Utilities

* Starred items introduced under pressure from the Exchequer and Audit Department and the Public Accounts Committee

Maintenance of Instructional Equipment

* Loss of Interest on Working Capital (representing average delays in payment)

5% Contingency

6. For flying training the following additional elements are included in the charge -

Aircraft write off wastage

1st and 2nd line spares

3rd and 4th line spares

Labour costs of maintenance

Petrol, Oil and Lubricants (POL) - excluding duty

Third-party compensation (nominal)

Ground personnel (excl training costs)

Maintenance and operation of associated ground equipment

Aircrew

Aircraft Depreciation

Starter cartridges and braking parachutes

7. In both cases the following elements would need to be included to bring the present charges up to full costs:

Administrative Staff

High Formation Costs

Equipment Support

Depreciation of Buildings

Amortised Training Costs of Instructors

Interest on Capital

GENERAL

8. All costs are calculated by professionally qualified accountants on a standard accountancy basis.

REVENUE

9. Receipts by MOD in respect of training and LSP in 1981/2 are estimated at £60M. This is not 'profit'. It broadly covers costs, plus a small contribution towards MOD overheads. A reduction in these receipts without any compensating increase in the Defence Budget would require offsetting savings to be made.

EXISTING ARRANGEMENTS FOR WAIVER OR REDUCTION OF MOD CHARGES

10. The bulk of the training provided by the MOD is charged to recipient countries. However, the FCO funds some or all of the training provided for certain poorer countries under the UK Military Training Assistance Scheme (UKMTAS), for which provision is made annually on FCO Votes. In addition, the MOD has delegated authority from the Treasury to waive or reduce charges for training related to a specific defence sales contract (where the revenue to MOD Votes equals or exceeds the amount waived).

MINISTRY OF DEFENCE

June 1981

CONFIDENTIAL



file B
Oman

10 DOWNING STREET

From the Private Secretary

8 June 1981

Oman: Credit for Defence Equipment

The Prime Minister has seen your letter to me of 4 June on this subject and is entirely content with the proposals contained in it.

I am sending copies of this letter to Francis Richards (FCO), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J.D.S. Dawson, Esq.,
Ministry of Defence.

df

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MO 5/4

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~230 7922~~ 218 2111/3

4th June 1981

Dear Michael,

Prime Minister

Went with them Yes
arrangements? excellent MB.
Phut - 5/8

OMAN - CREDIT FOR DEFENCE EQUIPMENT

One of the subjects raised with my Secretary of State and also the Prime Minister during their visits to Oman was the establishment of a line of credit to cover defence equipment purchases from the UK.

One of our officials has recently returned from Oman where he discussed the provision of credit terms to Oman. Subject to approval from Ministers, officials have agreed that a line of credit can be made available to cover the financing of purchases of British manufactured defence equipment. The line of credit would be supported by ECCD and provided by a British Bank (to be nominated by Oman) up to a limit of £120M (80% of the contract price) for a period of 18 months. The loan would be repayable by half yearly instalments over 5 years from delivery. The balance of 20% of the contract price would be payable by Oman to the companies concerned as part of the negotiated contract arrangements. A fixed interest rate would be determined for each contract in line with the international convention governing these matters. - the current minimum interest rate is 8% per annum.

The Omanis are also interested in the purchase of logistic support ships, for which IMS have made proposals, based on 2 of the ex-Iranian vessels built by Yarrows. It is possible to offer slightly more favourable credit terms for ships (because of a preferential arrangement in respect of shipbuilding exports) and the terms would be a loan of up to 80% of contract price but with repayments spread over 7 years from delivery.

1

M O'D B Alexander Esq

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My Secretary of State understands that the Omanis are generally pleased with these credit arrangements (which have the support of the ECGD which will adequately cover the Chieftain contract due to be signed soon and the prospective purchase of Scorpion and Armoured Personnel Carriers later in the year; and, subject to the Prime Minister's views he proposes to write to Qais Zawawi (the Omani Deputy Chairman of Financial Affairs and Minister of State for Foreign Affairs) to inform him of the credit terms.

My Secretary of State would be grateful to know if the Prime Minister is content.

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

Yours sincerely
J D S Dawson

(J D S DAWSON)

CONFIDENTIAL



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

20 May 1981

PM will now not be able to see for Ismail.

Dear Michael

Oman: Qaboos UniversityVisit of Project Co-Ordinator, 1-6 June

In your letter of 6 May you said that the Prime Minister would like to see Dr S J Ismail, the Project Co-Ordinator for the academic aspects of the new university in Oman, during his forthcoming visit as guest of the British Council. The Prime Minister also asked to see details of the programme.

The British Council tell us that they have been in direct touch with your office and that you thought it would be convenient for Dr Ismail to call at 18.30 hours on Wednesday 3 June for half an hour. I should be grateful if you could confirm this appointment.

A copy of the Council's draft programme for Dr Ismail is attached. As you will see this is consistent with the Prime Minister's view that Dr Ismail should not confine his contacts to Oxford and Cambridge. Various other universities (London, York, Southampton and Nottingham) have already been involved in the project and will feature in his programme. He has also asked to see the Institute of Science and Technology at Manchester University. It may in future be appropriate to involve other institutions but the programme now planned reflects the Omanis' objectives and interests at this stage in the project's development.

The Prime Minister also asked whether we should invite the Omani Minister of Education here to visit some of our universities. The British Council have this in mind and will probably invite the Minister on a future occasion. However the Minister is very much a figurehead and it is the Under-Secretary in the Ministry of Education who has so far been the leading light in getting the university project under way. The Under-Secretary came here in 1980 for exploratory discussions with universities in this country and the British Council remain in close touch with him.

The Prime Minister will wish to be aware of the excellent news that the Sultan has directed that the construction contract for the university should be awarded to the British firm, Cementation. This decision has not yet been announced in Muscat and our Ambassador has advised that no publicity be given to it here until it becomes official.

/If I



If I may turn briefly to the other matters covered in your letter under reference: the Ministry of Defence are reviewing the question of LSP costs and will be writing to you separately in due course; the ODA have now made provision for our aid programme to continue at its previous level.

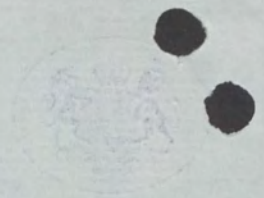
I am copying this letter to Brian Norbury (Ministry of Defence), John Rhodes (Dept of Trade) and to Mr Marten's Private Secretary (ODA).

*Yours ever,
J.P.*

(B J P Fall)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

20 MAY 1987



THE BRITISH COUNCIL

DRAFT

PROGRAMME FOR

DR SADEQ JAFFAR ISMAIL
COORDINATOR
QABOOS UNIVERSITY PROJECT

- Purposes of Visit:
- (i) to discuss with British Academic staff curricula for the Colleges of Science, Engineering and Medicine at Qaboos University; within that to discuss the formation of links and arrangements for visits to Oman by British academics for detailed work on curricula
 - (ii) to meet people responsible for short and long term university planning; to look at procedures for recruiting and dismissing university staff; to look at budgeting, resource allocation and control (including salary scales)
 - (iii) to meet people responsible for post-graduate students in universities and particularly for the admission of Omani postgraduate students to British universities

Monday 1 June

1100

Meeting at British Council to include academic staff of the Universities of Cambridge, London, Manchester, Oxford and York involved in initial consultancy stage:-

Professor F G J Hayhoe
Lukaemia Research Fund Professor
of Haematological Medicine
University of Cambridge

Sir John Butterfield
Regius Professor of Medicine
University of Cambridge

Mr J P West-Taylor
retired but recently
Registrar
University of York

Mr I A M Lucas
Principal
Wye College
University of London

(2)

Dr C S G Phillips
Lecturer
Department of Inorganic Chemistry
University of Oxford

+ 3 colleagues who went to Oman with him

1230

Working lunch at Café Royal with the above
hosted by:-

Dr Frank Thistlethwaite
Chairman
Committee for International
Cooperation in Higher Education

pm

If there is time, Mr Lucas will take Dr Ismail
back to Wye College with him, otherwise they
will have a meeting at the British Council

Tuesday 2 June

To University of Nottingham to meet:-

Professor A D M Greenfield
Dean
The Medical School

Wednesday 3 June

To University of Southampton to meet:-

Professor G A Kerkut
Dean of Science
Professor P B Morice
Department of Civil Engineering

1830

Appointment with the Prime Minister

Thursday 4 June

Visit to University of Manchester Institute
of Science and Technology - probably to see
the Dean of the College of Science

(3)

Friday 5 June

am

Free

pm

Round-up Meeting at British Council with
British Council staff; also attending, if
he is free, will be:-

Mr Yusuf Alawi
Under-Secretary
Ministry of Foreign Affairs
Oman,

who will probably be in London on that day

Dr Ismail will be accompanied by Mr C G Housden,
the British Council Representative in Oman



26 MAY 1981
11 12 11
9 8 7 6 5 4 3 2 1



DEPARTMENT OF TRADE
1 Victoria Street
London SW1H 0ET

Telephone Direct Line 01-215
Switchboard 01-215 7877

With the Compliments of
the Private Secretary
to the Secretary of State



From the Secretary of State

Francis Richards Esq
Private Secretary to the Secretary
of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

13 May 1981

Dear Francis,

OMAN: JOINT COMMISSION

My Secretary of State was interested to note from your letter of 1 May that the Omanis raised a proposal for a Joint Economic Commission during Mr Hurd's recent visit. For political reasons, the proposal was accepted. I am writing to set out the Secretary of State's views on the general principle of Joint Commissions, to help your people in drafting the terms of reference.

From the trade point of view, Oman is not a market where we would see any obvious advantage in a Joint Commission. First, it is a relatively small market; but more important, our experience is that such Commissions as we have only produce benefit to justify the effort with centralised economies such as the East Europeans or, currently, Iraq. They do not work well in less structured markets of the Omani kind. All Departments are, as you know, losing staff. On the trade side here, for instance, we are taking a 25% cut by 1984. We therefore need to use our remaining resources to best effect.

The Secretary of State is therefore glad to see that you are looking at the arrangements we have made with the UAE which embrace other subjects of bilateral interest, and is not confined to trade.

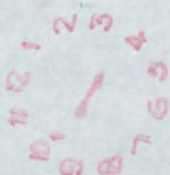
Given that we have very little aid, and little to discuss under trade, it would seem worth making quite an effort to take the "economic" out of the title of the new body.

I am copying this to Michael Alexander at Number 10.

Yours sincerely,

JOHN RHODES
Private Secretary

113 MAY 1981



4



NOTE FOR THE FILE

Oman

I spoke to Miss Moss of the British Council (930-8466, ext. 2404) about the visit of Dr. S.J. Ismail. We have agreed between us that he will pay a courtesy call on the Prime Minister on Wednesday 3 June at 1830 for half an hour. Miss Moss is writing officially. I did not mention briefing to her.

es.

13 May 1981



Oman

CF to file

10 DOWNING STREET

From the Private Secretary

6 May 1981

Oman

The Prime Minister has seen your letter to me of 1 May about the follow up to her visit to Oman. She has made a number of comments.

Loan Service Personnel Costs

The Prime Minister would like our policy on this issue to be reconsidered. She wholly disagrees with the proposition that we should assess charges for Loan Service Personnel on a full cost basis. She believes that this approach does us very great harm. She considers that we are unnecessarily upsetting friendly countries by raising "trifling matters" such as this. The Prime Minister also regards the proposition that bills should be raised from the beginning of the financial year with adjustments being made subsequently to reflect actual charges as "most unsatisfactory".

Aid

The Prime Minister believes that the aid programme should be restored to its original size i.e. £300,000.

The University

The Prime Minister would like to see the Omani Project Co-ordinator when he comes to this country next month. She would also like to see the programme prepared for his visit. She wonders whether the Omani Minister of Education should not be invited to come here to see some of our universities.

I am sending copies of this letter to Brian Norbury (Ministry of Defence) and John Rhodes (Department of Trade).

M. O'D. B. ALEXANDER

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

55-8

See the second
comments.
not

Prime Minister

①

You may well have comments Foreign and Commonwealth Office
on various points. But the only
decision arising from this letter is that
which I have marked on page 3 viz
should the Aid not be restored. 1

London SW1A 2AH

1 May 1981

Please reconsider
LSP cost
point.

Dear Michael, assume that you would wish
this to happen.

Oman

Andy S/S

You asked for a report by the end of this week on the action taken to follow up a number of bilateral points which arose during the Prime Minister's visit to Oman. These were dealt with in detail in Mr Hurd's meeting with the Omani Minister of State for Foreign Affairs (record attached) and also in the Prime Minister's tete-a-tete with the Sultan. This letter brings everything together for convenience but action in many cases lies with other Departments in Whitehall. We have been in touch with all those concerned.

The first matter is the proposal put forward by Qais Zawawi for a Joint Economic Commission. We have agreed to this in principle, subject to further discussion of the details. Although reference was made in the discussion to the UK/UAE Joint Commission, the Omanis clearly envisage something more on the lines of the recently set up Oman/US Economic Commission with Yusuf Alawi and the American Ambassador as co-chairmen. This Commission is intended to identify development projects (such as water exploration and conservation) to be financed from the soft loans which form part of the wider military/economic package agreed between the US and Oman last year. Unfortunately a similar Omani-British Commission might compare unfavourably with the American arrangement in view of the very limited resources available for us for aid to Oman. There is, however, certainly scope for a Commission with a more general remit similar to the one with the UAE, which could provide for a series of sub-committees to cover detailed aspects of our relations (trade, British Council and other cultural matters, hospital co-operation etc). We do not, however, think it would be appropriate to include defence matters. These are better dealt with in the framework of the regular contact at Ministerial and other levels which has already been established and which we and the Omanis agreed during Mr Nott's visit to intensify through the institution of regular 'staff' talks which we hope will in practice cover the whole range of defence co-operation. We would not wish these to be tied to the irregular Joint Committee meetings and should prefer to keep them separate and unstructured. We are now drawing up draft terms of reference for the Joint Commission in consultation with the Department of Trade and others and will put them to the Omanis shortly.

The next issue is the perennial one of Loan Service Personnel (LSP) costs. Ministers agreed as recently as January this year that we should continue to assess charges

/.

/on



I thoroughly disagree. This approach does us no benefit here. These people are our true friends

on a full cost basis, which means that an element is included to defray the cost that has gone into training the individual concerned. The Defence Secretary has, however, agreed that we should be able to reassess the fees in individual cases where there are good reasons or defence grounds, including defence sales. The Ministry of Defence are studying how this should be done and the appropriate machinery should be established by June. The Ministry of Defence will be reporting to you direct.

and we look them back by helping matters such as this.

Zawawi also complained of sudden retrospective increases in LSP charges. It is true that these have had to be made in the past. This is because costing data, on which LSP charges are based, do not become available until the latter part of August each year. In the interim, bills are calculated on the basis of the previous year's costs. In order to avoid retrospective charges, MOD will as from April this year, be increasing bills at the outset and will make adjustments to reflect actual charges when up-to-date costs become available.

This is most unwise

The Omanis raised the question of a line of credit for military sales, drawing a comparison with American arrangements. The Ministry of Defence are looking at this question and will be writing to you direct. There is no doubt that while ECGD's terms are comparable with those of most of our Western allies, they are distinctly inferior to those offered by the Americans under FMS, which are more akin to aid. On the general question of our military assistance to Oman, it is for consideration whether we should make clear to the Americans that their activities in this field to some extent have the effect of undercutting ours, both on sales of defence equipment and the provision of assistance and training. The Americans consistently affirm that we should maintain our position in Oman and they should be prepared to help us do so.

The Prime Minister has asked that the cut in our aid programme to Oman should be looked at again. The problem is that Oman's comparative economic wealth should preclude our providing any financial support at all at a time when we are having to give priority to those countries in direst need and lacking resources of their own. Such aid as we now give is really only justified on political grounds and because of the close historical links. Ministers concurred last year in the Aid Framework Proposals which identified Oman as a country for which we should run down our aid, with a view to eventual termination. Following that decision, negotiations were put in hand with the Omanis and we agreed with them in March that posts financed in part by ODA would be phased out gradually over the next two and a half years to cause the least inconvenience. Meanwhile the Omani contribution was

and strategic



1 think a gesture such as this is needed and should be made.

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to remain at the lower level of Oman Rials 500 per month for each expert (not Rs.0 800 quoted by Zawawi to Mr Hurd). Our involvement would not cease when financial responsibility for TCOs ends in 1983. We should continue to provide training in Britain and pay for short visits by advisers. And, apart from the TCO aspect, the British Council's important work would continue. It would, of course, be possible to restore the aid programme to the original £300,000 if the Prime Minister wished this. It would be a political gesture and we hope it would be seen by the Sultan as a direct result of his intervention with the Prime Minister. The money would come from the contingency reserve, which Lord Carrington has wished to keep for genuine contingencies, but he agrees that this sum will not make a significant reduction. If this is agreed we shall reopen negotiations with the Omanis about the spending of the money.

Zawawi, who did not ask for reconsideration of the cuts, asked Mr Hurd whether HMG could help recruit personnel for direct appointment by the Oman Government. We have looked into this and can agree for the period up to 1984 to meet the recruitment costs charged by British Council and/or Crown Agents in respect of British experts recruited on direct contract to the Government of Oman to fill agreed key posts in the Omani Government's administration. On the basis that the aid cut is not restored we should have to limit our commitment to £15,000 in any one year, the costs to be a first charge on such aid money as the British Government makes available to Oman. If, however, the aid is restored to £300,000, we could cover a larger recruiting cost.

The Prime Minister told Sultan Qaboos of our interest in the new university which is planned. The contacts which have already been made through the British Council with universities in this country put us in on the ground floor in assisting with the academic development of the university and the number of British consultants and construction companies operating in Oman itself offers a similar advantage on the engineering side. We are pursuing the question of whether the various British interests should be pulled together in a consortium either now or at a later date. In the meantime, the Omani Project Co-ordinator for the academic development of the university has been invited to this country in June by the British Council, when he will have further discussions with universities and institutions. In preparing the programme for the visit, the British Council will bear in mind the Sultan's wish that the university should concentrate on science and technology. The Council have noted the Prime Minister's view that institutions other than Oxford and Cambridge should be involved.

I should like to see him and see the proposals prepared for him.

The Sultan and I had a long discussion.

3. Can the Ministry of Education be initially invited here for a visit to see several similar universities.

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Finally, Zawawi raised the question of the BBC relay station at Mairah. The Americans have recently suggested that its transmissions are a radiation hazard to USAF operations in its vicinity which could also concern the Omani Air Force. American engineers, assisted by British experts, carried out a technical study of the problem in March. We have now heard (Washington tel 1320 attached) that the report considers there may be a problem. The Americans have proposed a meeting in May in London, and we are instructing our Embassy in Washington both to obtain a copy of the report urgently and to press the Americans for the earliest possible meeting.

I am copying this letter to Brian Norbury (MOD) and John Rhodes (DOT).

Yours ever,

A handwritten signature in cursive script that reads "Francis Richards".

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON
SW1

4.

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RECORD OF A MEETING BETWEEN THE MINISTER FOR FOREIGN AND COMMONWEALTH
AFFAIRS AND THE OMANI MINISTER OF STATE FOR FOREIGN AFFAIRS IN SALALAH
ON THURSDAY 23 APRIL 1981 AT 1815 HOURS

Present:

The Hon Douglas Hurd, CBE, MP
Sir John Graham, KCMG
Sir Ronald Ellis
Mr. Charles Humfrey

HE Qais Zawawi
Yusuf Alawi, Under Secretary of
State for Foreign Affairs
Salem Ghazali, Under Secretary
for Defence

1. Zawawi said that he had a few bilateral points which he wished to raise separately with Mr. Hurd. The first was an Omani proposal to set up a joint UK/Omani economic commission similar to that which the UK had with the UAE. He referred to the Joint Commission which Oman had started with the US and which he said assisted Oman in carrying out surveys of projects for their five-year plan. He handed over a copy of the latest five-year plan and referred to the section on "main projects" which he said provided for US technical aid and assistance, one of the initial priorities being the development of water resources. Mr. Hurd suggested that this concept for a committee differed from the existing UK/UAE Joint Committee in that it appeared to be more specifically directed towards aid rather than a forum for general discussion between the two governments. There was a limit to the amount of technical cooperation the UK was able to give. Nevertheless, his initial reaction was to favour establishment of such a committee with perhaps somewhat wider terms of reference which could take the form of a main Ministerial committee with smaller sub groups. He undertook that we would prepare draft terms of reference for such a committee and put these to the Omanis.

Zawawi agreed and said that the Omanis would provide details of the terms of reference of the US/Omani Joint Committee as a guide in the drafting. There was a discussion about what might be said to the press. Mr. Hurd said that there would be no objection to the Omanis saying that the UK side agreed to give the idea of a joint commission favourable consideration.

2. Zawawi turned next to bilateral relations in defence and security and said that there were two questions which he wished to raise. The first was to ask for a reduction in the cost of Loan Service Personnel supplied by the UK and the second to repeat the request which he had made earlier to Mr. Nott for better credit facilities for purchases of military equipment from the UK. Mr. Hurd said that the question of credit facilities had been considered by Mr. Parkinson who had asked him to explain that under the British

system it was difficult for us to open a line of credit as the US had done. At the same time, we wanted to ensure that the Omanis got the best available terms and would like to handle this through the ECGD flexibly case by case. If for a particular contract Oman considered that the terms were too tough then they should let us know and Mr. Hurd would personally try to ensure that they got the best available terms.

3. Zawawi stressed the advantages which FMS credit from the US gave Oman in the form both of government to government credit facilities and by involving the US Government in all defence purchases from the US. Sir Ronald Ellis explained that the UK had never given any country military credit like that available under FMS. We always gave credit only for an individual sales package. However, the memoranda of understanding which we had signed on occasion with certain countries gave opportunities for government to government consultation similar to that embodied in the FMS system. We had also set up special joint commissions with particular countries, for example Yugoslavia which provided an opportunity for consultation between governments free of any contractual obligations.

4. Zawawi and Ghazali explained that the Omanis were looking for more than an opportunity for government to government consultations in this field. Ad hoc consultation already took place with MOD. The FMS system had the additional advantages of better credit and of rolling over the credit available. The present UK arrangements for credit were an obstacle to purchasing from the UK and Oman was hoping for regular credit facilities which would allow it to continue to buy from the British market. Mr. Hurd said that it would be difficult for us to follow exactly the FMS system but he was prepared to look at the question again and for us to do our best to accommodate Omani concerns. Mrs Thatcher had said that we were anxious to facilitate Omani defence purchases in the UK. Sir John Graham suggested that the terms of reference of a joint UK/Oman commission which had been discussed earlier might be broadened to include a section on defence matters. This was accepted by the Omani side and Mr. Hurd concluded that we would look into the general question of credit and meanwhile try to accommodate the Omanis on specific credit problems case by case.

5. Sir Ronald Ellis, replying to Zawawi's concern about the cost of Loan Service Personnel, explained that the Ministry of Defence were in the process of reviewing costs. Ghazali said that the Omani concern was caused by the need for more LSP to handle new equipment on order. The matter had been

/ raised during

raised during Mr. Nott's visit. Mr. Hurd confirmed that Mr. Nott had ordered a review of costs, and he would pass on this further appeal to Mr. Nott. We considered that the charges for LSP could be defended. Ghazali stressed that there was a strong feeling on the Omani side that Oman should be treated differently by the UK because of the special defence relationship between the two countries. As cooperation became clearer, more LSPs were needed and this problem became more acute. He complained that for example Oman had to pay 3,172 rials a month for a British LSP colonel. But the colonel himself received only 1,732 rials from the Ministry of Defence in pay, and a British colonel on contract terms would be paid only 1,111 rials. Mr. Hurd explained that the costs charged included provision for having trained the colonel to his present position and that the UK made no profit on the arrangement. Ghazali disputed this, however, saying that it could be looked at in a different way. For example the British LSP flying Jaguars had the benefit of flying experience while they were in Oman, something which should be taken into account. Mr. Hurd said that he understood the Omani concern and that he would certainly look at it carefully in the context of the review under way. Zawawi added that one further problem on charges was that the Ministry of Defence gave Oman no advance notice before making sudden retroactive increases in the charges. Mr. Hurd undertook to take this point into account also.

6. Zawawi raised the question of the BBC relay station in Masirah. Sir John Graham said that we had wanted to have a joint US/UK technical team look into the problem which the station might pose for the planned US facilities in Masirah. A team had been to Masirah, but we had not yet received a report. There had been a delay on the US side in getting the team out. Zawawi said that he thought that the US and UK teams had done their investigations independently. He understood that the US team had returned to the US to evaluate its findings before making a report. Mr. Hurd said that it was an important problem both for Oman and the UK. It would be expensive to move the BBC station, and he hoped that a satisfactory technical answer could be found to avoid this. Sir J. Graham undertook to pursue the matter in London.

7. Zawawi raised the question of British technical assistance. Oman had an agreement on such assistance with the UK, but had discovered that it was

/ not

not being adhered to, particularly as far as the salaries of technical assistance personnel were concerned. The UK had recently asked for an increase in the salaries of such personnel, first from 250 rials per month to 500 rials and now to 800 rials. Yusuf Alawi said that total UK assistance was apparently going to be decreased by 1983 from £300,000 a year to only £50,000. This did not appear to be in line with the agreement. If Oman recruited personnel in the open market it would cost less than it did at present, and in any case the Ministries concerned had no budgetary allocation to meet the increased costs. An official ODA team, following their visit to Oman, had proposed that there should be a reduction in the number of personnel so that their cost could be accommodated within the new aid total. Zawawi said bluntly that Britain was no longer offering technical assistance since Oman was paying for what it received. Oman already provided a great deal for the technical assistance personnel which it received, and now it was being asked to pay large increases in salary. As an alternative the British Government could have one of its Departments recruit such personnel for Oman so that they entered into direct contacts with the Omani Government. He had wanted simply to raise the matter on this occasion, so that it could be taken up again at a later date. Mr. Hurd indicated that he would give the question further consideration.

(note)

24 April, 1981.

CONFIDENTIAL

FM WASHINGTON 282235Z
 TO PRIORITY F C O
 TELNO 1320 OF 26 APRIL 1961,
 INFO MUSCAT.

YOUR TELNO 550: BBC TRANSMITTERS AT MASIRAH

1. LUMSDEN (STATE DEPARTMENT) TOLD US TODAY THAT THE REPORT FROM USAF PATERSON WAS NOW WITH THE DEPARTMENT OF DEFENSE. THE STATE DEPARTMENT EXPECTED TO INSTRUCT THE US EMBASSY IN LONDON SHORTLY TO SEEK A MEETING ON EITHER 11 OR 25 MAY IN LONDON AT WHICH THE REPORT WOULD BE HANDED OVER. DOD ARE CONCERNED LEST THE REPORT SHOULD BE MISINTERPRETED BY NON-EXPERTS, ESPECIALLY PERHAPS BY THE OMANIS, AND BECOME A SUBJECT OF CONTROVERSY: THEY WOULD THEREFORE PREFER THEIR REPRESENTATIVES TO HAND IT OVER AND TO COMMENT ON IT PERSONALLY.
2. LUMSDEN APPEARED EMBARRASSED TO OFFER THIS LAME EXPLANATION FOR THE DELAY. WE URGED HIM TO DO WHAT HE COULD TO ENSURE THAT THE REPORT WAS MADE AVAILABLE AS SOON AS POSSIBLE SO THAT IT COULD BE STUDIED BY OUR EXPERTS BEFORE ANY MEETING. LUMSDEN AGREED TO PURSUE THIS FURTHER WITH DOD.
3. LUMSDEN (PLEASE PROTECT) GAVE US IN STRICT CONFIDENCE A SUMMARY OF THE REPORT'S FINDINGS (HE HAS SEEN ONLY A SYNOPSIS OF THE REPORT). HE SAID THAT THERE WAS A LIMITED PROBLEM CONCERNED WITH THE PROPOSED THIRD GENERATION AIRCRAFT SHELTERS AND THE ARM/DISARM PAD LOCATED AT THE NORTH END OF THE MAIN RUNWAY. DURING BERS TRANSMISSIONS THERE IS A POTENTIAL HAZARD TO MUNITIONS IN THESE AREAS. ONCE THE MUNITIONS ARE "UPLOADED" THE HAZARD DIMINISHES. SO FAR AS LUMSDEN IS AWARE, THE REPORT MAKES NO RECOMMENDATIONS FOR TACKLING THIS PROBLEM, BUT, HE IMPLIED THAT DOD MIGHT BE THINKING IN TERMS OF REMOVING THE BERS TRANSMITTERS.
 HENDERSON

LIMITED
 INFORMATION D (VISITS)
 CED
 MED
 DEFENCE D
 LORD NG LENNOX
 MR MILLS

THIS TELEGRAM
 WAS NOT
 ADVANCED

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