

Com Sens -R
OS - Personal

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"Cat 9"

PERSONAL

21 April 2006

PUS

SAUDI ARMED FORCES PROJECT: LOA 13 CATEGORY 9

I have been asked to prepare for you a full written account of the background to LOA 13 Cat 9, as I understand it, and the current position.

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2. LOA13 covers a range of support services provided by BAES to the Saudis in connection with the Project. At the start of the Project, it appears that these were approved in a rather ad hoc manner on the basis of estimated costs, and charged for under a multitude of different generic headings (eg transport or KSA payroll).

3. In 1993, a settlement was reached under which all the prior year estimates were reconciled to the actual costs incurred in that period, and a net balance owed by the Saudis was invoiced. At the same time, the support services to be provided in future were defined more precisely in the text of LOA13, which was agreed and signed by the two Governments in June 1994. In LOA13, the support services are grouped into nine categories, as follows:

- Cat 1: Technical [REDACTED]
- Cat 2: Technical [REDACTED]
- Cat 3: Technical [REDACTED]
- Cat 4: Technical [REDACTED]
- Cat 5: RSAF Procurement
- Cat 6: Technical [REDACTED]
- Cat 7: Technical [REDACTED]
- Cat 8: Technical [REDACTED]
- Cat 9: Miscellaneous Contingency

4. The text of LOA13, and the back-to-back contracts with BAES, were negotiated by MODSAP contracts staff. The budget for LOA 13 expenditure is determined annually through negotiations between BAES, Saudi MOD and MODSAP contracts staff.

Miscellaneous Contingency Budget

5. In 1988, on the direction of Prince Sultan (PS), and following discussions between him, his second son Prince Bandar (PB - Ambassador in Washington), the then HDES and the then Chief Executive of BAES, a Miscellaneous Contingency Budget was established in order to meet unforeseen requirements within the Project. It seems to have been intended from the outset that expenditure from the Contingency Budget would be under the control of PB. When LOA13 was signed, the Contingency was

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incorporated within it as Category 9. PS stipulated that information about the Contingency was to be carefully protected.

6. For most of the next 15 years, payments were made to PB on a quarterly basis. The normal process was that PB would write to the HDES of the day requesting that the next instalment be paid. The HDES would instruct the MODSAP Director Commercial to take the necessary action, and he in turn would task BAES to make the payment. BAES would then submit an invoice to the Saudis for reimbursement. The quarterly instalments were usually for sums of \$^{Financial}, and made to a Saudi Government bank account in Washington.

7. In late 2003 – at around the time I took up post – the Saudis changed the procedures, on the grounds that PS wished to keep a closer personal control of the process. They now produce, each year, a document setting out the Cat 9 budget that PS has approved for the following calendar year, together with dates on which payments are to be made, and pass it to the Commercial staff in Riyadh, who forward it to BAES, with a copy to me. Since 2003 the Saudis have instructed that the payments are to be made to a Saudi Government bank account in Riyadh instead of Washington. The next instalment is due in July.

Bandar's Aircraft

8. For some years PB has been allowed the personal use of an RSAF-owned Airbus 320 aircraft, whose operations and maintenance costs are also met through Cat 9. The budget for those costs is also set annually by PS. In the past, the aircraft was based in Washington, and payments made to a bank account there until 2004; in that year, payment was switched to an account in New York. In summer 2005 PB resigned as Ambassador, and has since transferred the aircraft to the UK (it is actually kept at RAF Brize Norton at PB's expense).

9. We recently received instructions that in future these payments are to be made into a newly opened bank account in Cheltenham. I queried these instructions with PS's Advisor, on the grounds that it was not clear that they had PS's formal approval. I was assured that PS had approved the new arrangements, and on that basis I authorised the payment to be made. But in the meantime PB had complained to the Embassy in Riyadh that "some bureaucrat in London" was holding up the process.

10. We are expecting further instructions in the near future for payments to be made into this bank account.

Purpose of the Miscellaneous Contingency

11. The requirement to pay the bills for PB's aircraft is at least clear and specific. It is less clear what the quarterly payments are for, although it has been suggested that PB used them to pay for the costs of the Washington Embassy. Since the stream of AY oil revenue is under the personal control of

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PS, the view over the years seems to have been "it's his money; he can do what he likes with it", although it is not clear why he should require it to take such a convoluted route to PB. On taking up post I was briefed that the Saudis continued to be particularly sensitive about Cat 9, that I should guard information about it closely, and that I should comply with the procedures set in place by PS for its utilisation.

[Signed]

Stephen Pollard
Director Commercial, MODSAP

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