



Prime Minister *Ray*
To note
M 26

From the Secretary of State

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*Iran: Situation: Pt 9. A.J.C. 3/5
f.a.
Imp: Agg / Iraqi
Relation*

The Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London, SW1A 2HB

26 February 1982

Dear John,

TRADE WITH IRAN AND IRAQ

I was concerned at the leak, originating with the International Defence Review in Switzerland and picked up by the British Press on 23 February, of information on our imminent contract to repair captured Iranian Chieftain tanks in Iraq. My concern is based on both immediate and long-term considerations.

The immediate problem is that since OD last discussed this subject the Talbot car contract with Iran, on which some 6,000 British jobs and £100m worth of annual exports depend has been put into jeopardy. After great difficulty, senior executives from Talbot have at last obtained their visas, and should be going to Tehran for decisive talks on 25 February. There is a clear danger that their political enemies in the Iranian government will use this leaked story to reject their approach for a renewal of the contract. If this happens, I very much hope that you could be ready with some quick and conciliatory message to the Iranians on their own request for tank spares and other non-lethal military equipment, emphasising our willingness to treat them even-handedly with the Iraqis, and playing down the traditional link with the settlement of outstanding claims. British industry in general, and IMS in particular, have done very well out of Iran in the Shah's time and could, I am confident, do so again. But

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we know that the Iranians are suffering an acute financial shortage at present, and there seems a real danger that an excessively tight linkage between the claims and future supplies could damage our prospects quite widely in the longer term.

I have not opposed our de facto tilt towards Iraq, discussed frequently in OD in recent months, since it is clear that the immediate prospects for hard cash sales are much more promising in that country, which, as you know, I visited last October, and from which Peter Rees has just returned. Nonetheless, the recent press leak makes me uneasy about the risk that we may carry this damagingly far. Iran's population is after all three times that of Iraq. Its natural resources are comparable. Before the revolution, its level of industrialisation was much higher. And in the last year for which we have trade figures (1980) our exports to Iran were some £400m compared with some £320m for Iraq. Although Iraq will have overtaken Iran in this respect in 1981, and probably in 1982 as well, Iran nonetheless remains in the long-term the more promising market. Very recent reports indicate, for instance, that the Iranians are determined to raise their foreign exchange earnings by selling their oil at a price as low as necessary, regardless of any considerations of OPEC solidarity. Such a policy could greatly ease their foreign exchange problems in a relatively short period. On the other hand, the Iraqis have already found themselves over-extended and are, sensibly enough, cutting back on spending.

Despite the fact that Iran currently gets a much worse press than Iraq (for reasons which do not necessarily reflect a real difference in the relative attractiveness of the regimes), I am convinced that we must continue to take the commercial potential of Iran very

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seriously, and not allow ourselves to let the immediate gleam of gold in Iraq blind us to our long-term interests in their neighbour.

I am sending copies of this letter to Members of OD, Patrick Jenkin and Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

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