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Prime Minister

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Agree that this question should be added to the OD(EN) agenda for

26 January?

Yes not

A.F.C. 20/1

B.06944

MR COLER

Iran/Iraq: Supply of Defence Equipment

1. In your minute of 3 January to Mr Hatfield, you said that the Prime Minister would find it helpful to have a short note summarising the issues raised in the recent correspondence between the Foreign and Commonwealth Secretary and the Defence Secretary on this subject (Sir Geoffrey Howe's minute of 20 December 1983, and Mr Heseltine's reply of 23 December 1983).

2. The background is as follows. At the time of the Iranian revolution, 74 defence contracts with Iran belonging to IMS Ltd were interrupted. In 1981, however, the Iranians approached us with a view to beginning negotiations to unravel the contractual tangles that had resulted from the interruption. Ministers agreed that such discussions should take place, but negotiations did not really get under way until May 1982. The talks have now reached the stage where agreement between the two sides has been reached on a package of some 36 contracts (list at Annex) which it is now proposed should proceed to completion. The Government, and British commercial interests, will benefit from such completion, which would also pave the way for opening discussions as to the eventual disposal of the remaining large number of contracts, six of which, including a major tank contract, could involve substantial sums in the settlements.

3. The commercial and other advantages involved in completion of the contracts have, of course, to be viewed in the light of the Government's general policy on arms sales to Iran and Iraq while these two countries are at war. This was last considered by Ministers in October 1982, when it was agreed that the previous policy of neutrality between the two belligerents should continue. As part of this policy, the United Kingdom should not sell lethal items such as ammunition to either side while hostilities continued. While lethal items were to be interpreted in the narrowest possible sense, no list of such items has been agreed. The major decision taken to date where



CONFIDENTIAL

this policy was an important factor, was that in July 1983 to refuse an export licence for the supply of 300 Main Battle Tank engines to Iran. However, another important consideration was the risk that Defence Sales would suffer disproportionately in other Arab countries, particularly Saudi Arabia, if the tank engines were supplied to Iran. Within this framework, Ministers agreed in September 1982 that the British team negotiating with the Iranians should tell them in the event of agreement being reached on settlement of the various contracts, the Government would agree to the equipments concerned being delivered to Iran, except in the case of lethal arms and ammunition.

4. The Foreign and Commonwealth Secretary's proposals, with which the Defence Secretary agrees, have been framed against this background. The two ships being completed at Yarrows are naval supply ships, and are therefore not considered to fall within the narrowly-defined range of lethal equipment. (The Prime Minister will recall that, as recorded in your letter to Mr Ricketts dated 17 November 1983, she agreed that the Government would not try to prevent the delivery of these two ships even if the rest of the package as a whole could not be successfully negotiated with Iran.) The package of contracts does, however, include a number of spares for armoured fighting vehicles. Of these, the Foreign and Commonwealth Secretary recommends that contracts for the supply of barrels for tank-mounted machine guns and tank gun spares should not be agreed, since these clearly fall within the narrowly-defined criterion of lethality. These items are in value some £460,000 out of a total of £1.1m. worth of tank spares, the remainder of which, it is judged, do not fall within the narrow definition of lethality.

What worries me is that we shall never sell any tanks if we refuse to supply spares. But when the tanks are needed

5. As you indicated in your minute of 3 January, the criterion of lethality has difficulties both from the point of view of our public line and for international relations when applied to fighting vehicles; and HM Ambassadors at Amman, Baghdad and Jeddah have advised against proceeding with the package as it is now constituted. There are particular difficulties about the tank spares. Whereas it is possible to argue, for example, that a patrol vessel can be used for a number



CONFIDENTIAL

of purposes apart from providing naval gunfire, any spares for a fighting vehicle would be likely to appear to the public as being dedicated to the narrow purpose of making its firepower available. Therefore if the completion of the proposed package of contracts with Iran is agreed, public presentation of the decision on the Chieftain and Scorpion spares will require very careful handling. The best line that we could take in these circumstances would be to stress that the decision is entirely consistent with our policy of evenhandedness in the supply of non-lethal defence equipment to Iran and Iraq; that this is not a question of new defence sales, but rather the fulfilment of existing contracts, the non-fulfilment of which has been a source of irritation to our relations with Iran. We would be doing no more than handing over to the Iranians items which, in the case of the tank spares, they have already paid for some six or more years ago.

So we can supply tanks to power to work!

6. There is also the international dimension. The Americans have already approached us, albeit orally and at a low level, with a request to consider stopping any sales of military equipment to Iran at least until a ceasefire is in place. They reminded us of this approach on 9 January. It would be necessary before any decision became public to stress to them that no change of policy is involved, and to emphasise the importance of keeping open lines of communication between Iran and at least one Western country; no other nation is as well placed to ensure this as ourselves. And we could also say that we may shortly be taking similar decisions on the supply of non-lethal items to Iraq (patrol boat engines and helicopter sights) ← ?

7. The proposed settlement of the contracts with Iran is the only issue in this area on which Ministerial decisions are required now, although for the sake of completeness, the Foreign and Commonwealth Secretary also included in his minute details of other potential sales to Iran and Iraq. Further submissions will be made on these items in due course.

8. You will be aware that the Foreign and Commonwealth Secretary is considering the way forward on this issue in the light of recent



CONFIDENTIAL

advice from HM Ambassadors in Amman, Baghdad and Jeddah and from HM Representative in Tehran (who is in favour). He plans to circulate his views before the OD(EM) meeting arranged for 26 January to consider the possible consequences of an escalation in the Gulf War, and I propose therefore, if the Prime Minister agrees, that this item should be added to the Agenda for that meeting. In view of this, I am sending copies of this note to the Offices of those Ministers attending the OD(EM) meeting on 26 January, and to Sir Robert Armstrong.

David Goodall

A D S Goodall

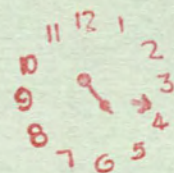
20 January 1984

Copies:

PS/Lord President of the Council
PS/Foreign and Commonwealth Secretary
PS/Chancellor of the Exchequer
PS/Secretary of State for Defence
PS/Secretary of State for Energy
PS/Chief of Defence Staff
Sir Robert Armstrong



20 JAN 1984

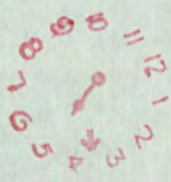
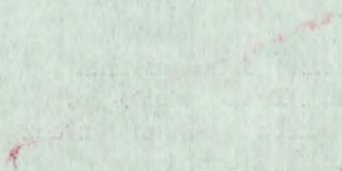
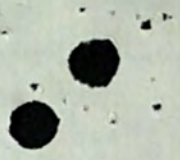


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ANNEX

<u>Number of Contracts Involved</u>	<u>Description</u>	<u>Estimated Value</u> <u>£m</u>
1	Yarrow Ships	22.9
17	Contracts covering spares for Chieftain and Scorpion Tanks for which the Iranians pre-paid £11m in 1977	11.0 (already paid by the Iranians)
1	Mobile Workshops for tank equipment maintenance in the field	0.2
15	Contracts for the supply of instructional and miscellaneous equipment, instructors and advisers to establish a Technical High School at Masjid-e-Suleiman and to provide an Ordnance Support Team and Tehran Maintenance Centre (financial settlement only outstanding)	1.9
2	Contracts covering crew training courses and technical oversight of the Kharg, built by Swan Hunter (financial settlement only outstanding)	0.02

Middle East : Arms Sales A3



20. 11. 1984