



NO 26/9/15

Prime Minister.

You should be aware of this
 authorized case - but you may
 wish to await colleagues views
 before intervening. Yes m/s.

A.J.C. 23/3.

Await other views.

A.J.C. 26/3.

SUPPLY OF NAVAL EQUIPMENT TO IRAN

An urgent decision is required on whether to grant Wallop Industries an export licence to honour a contract which they have won to supply their naval chaff decoy system, known as Barricade, to Iran. The firm was given approval last year to supply this equipment and negotiated a contract in good faith. They were given no indication before February of this year that a licence might be refused. They have committed considerable sums to this order in the expectation of receiving an export licence and will go bankrupt very shortly if one is not granted. Against this the situation in the Gulf has deteriorated and we now have to face the fact that supply of this equipment would enhance the capability of the Iranian navy at a time when the possibility of deploying Western naval forces to keep open the Straits of Hormuz is under consideration.

2. Wallop Industries were given initial approval to supply Barricade to Iran in April last year. On this basis they negotiated a contract in December 1983 worth £7.85M to supply and fit 15 systems and immediately applied for an export licence. Initial approval does not guarantee that an export licence will be granted but the firm, which is a small one employing only 180 people in all, provided the Iranians with a performance bond of £400,000 and started work on the order since deliveries were due to commence in March 1984. They have now manufactured just over one quarter of the whole order valued at some £2.0M and have committed £4M to the contract altogether. There is no question that they were justified in doing this, given the indications they had been given that export would be allowed. There is little doubt that the firm would go bankrupt within a matter of days if an export licence was withheld.



3. Barricade is a private venture, passive decoy system designed to counter a missile attack. It is not used by the Royal Navy which has more sophisticated systems. As such no objections were raised when Wallop Industries first applied for approval to supply to Iran early in 1983. The system is of little use to ships of frigate size and above but could, when deployed in an intelligent and timely way on smaller ships, such as the fast attack craft of the Iranian navy, limit the effectiveness of our own missiles against these craft. This led to concern being expressed in February, that given the escalation of the Gulf war, there was a possibility that Western Naval forces might be required to engage Iranian forces in the Straits of Hormuz. In this eventuality it would be difficult to justify the fact that we had supplied Iran with even a relatively unsophisticated decoy system. On the other hand, there is little doubt that the Iranians would be able to obtain similar equipment from elsewhere without very much delay if we withheld an export licence from Wallop Industries.

4. In the last few days we have examined a number of possible solutions to this problem, but none seems to offer an easy way out. The Royal Navy have no requirement for the Barricade system and would not be prepared to purchase this equipment from Wallop Industries. There is no other defence work which we can bring forward to assist the firm in their immediate difficulties, nor are there any other export orders in prospect which would assist them in the required timescale. It has been suggested that the firm should be allowed to export the equipment but not to install it (the installation programme would run from mid-summer to the autumn). But the Government has no powers to prevent installation, the firm would lose its performance bond and the Iranians could probably get the system fitted relatively easily by a third party.

5. We are therefore left with a difficult political choice to make. On the one hand Wallop Industries is virtually certain to go bankrupt if the export licence is refused and, whilst this could be defended in the light of the deteriorating situation in the Gulf,



our decision would arouse considerable controversy. The firm would have very justifiable cause for complaint in view of the assurances they had been given. On the other hand there is the prospect, which is far from certain, that our own forces and those of our allies could be deployed in the Gulf against small patrol craft of the Iranian Navy whose capability would be improved by the supply of British equipment. There would be considerable criticism from the Americans although this could be deflected by pointing to the limitations of the system, the fact that it will not be fully fitted for some six months and that the Iranians could easily obtain something similar from elsewhere if we refuse supply.

6. This is a very balanced decision. There are powerful arguments in favour of withholding the licence and I should tell my colleagues that there is strong military advice that it should be refused. On the other hand, as Barricade is a defensive system, a decision to grant a licence would not be inconsistent with our policy on the supply of other non-lethal equipment. Having regard to the fact that there is no alternative means available to the firm of disposing of the equipment I am on balance inclined to take the view that we should agree to supply. If colleagues felt that we could not proceed and, in view of the fact that the company were justified in proceeding with the order on the basis of the indications they had been given, I believe that it would be necessary to consider compensation. I should be grateful for your very early views.

*I incline
to agree
subject
to other
views
NB*

7. I am copying this minute to our colleagues in OD and to Sir Robert Armstrong.

Mitcham, private secretary

[Draft approved by the Secretary of State]

Ministry of Defence

23rd March 1984

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