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PREM 19/277

PART 7

M1

Confidential Filing

Internal Situation

Sanctions against Iran

IRAN

PART 1: May 1979

PART 7: MAY 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
15.5.80							
2.5.80							
8.5.80							
12.5.80							
15.5.80							
16.5.80							
19.5.80							
20.5.80							
22.5.80							
27.5.80							
27.5.80							
27.5.80							
PREM 19/277							
ENDS							

● PART 7 ends:-

Trade to NJS of 27.5.80.

PART 8 begins:-

Trade to FCO of 28.5.80.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(80) 18 th Conclusions, Item 2	01/05/80
L(80) 36	02/05/80
OD(80) 41	04/05/80
OD(80) 13 th Meeting, Minutes	07/05/80
L(80) 13 th Meeting, Item 1	07/05/80
CC(80) 19 th Conclusions, Item 2 (Extract)	15/05/80
CC(80) 20 th Conclusions, Item 2 (Extract)	22/05/80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *D. Wayland*

Date 27 May 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard
Columns 30-48

19 May 1980
Iran

House of Commons Hansard
Columns 254-263

20 May 1980
Iran (Sanctions)

Signed Wayland Date 27 May 2010

PREM Records Team



From the Secretary of State

Nick Sanders Esq
Private Secretary
10 Downing Street
London, SW1

27 May 1980

Dear Nick,

IRAN SANCTIONS

My Secretary of State has asked me to send you copies of the
.... two Orders, one under the 1980 Act and one under the 1939 Act,
implementing trade sanctions against Iran. The Orders put into
effect the decisions recorded in Mr Nott's minute of 22 May to the
Prime Minister, which are as far as we can go in carrying out the
letter of the UN Resolution.

The Order in Council under the 1980 Act is to be made on 29 May.
The Order under the 1939 Act will be made by the Department of
Trade on the same day. Both will be laid before Parliament on
that day and will come into effect on the following day.

I am sending copies to the Private Secretaries to Sir Ian Gilmour,
Mr Hurd and Lord Trenchard.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary

Prime Minister

(2)

Print - 2/2

mt

THE IRAN SANCTIONS ORDERS

... I attach copies of the final drafts of the two Orders: one under the Iran (Temporary Powers) Act 1980 and the other under the Import, Export and Customs Powers (Defence) Act 1939. The drafts reflect the decisions taken by Ministers on 22 May and recorded in the Secretary of State for Trade's minute to the Prime Minister.

2 The Orders are now being printed. It is therefore essential that, if any department has any comments of substance, they should inform us as quickly as possible today.

3 The Orders are to be made and laid before Parliament on 29 May and will come into effect on Friday 30 May.

O H Kemmis

O H Kemmis
AS/CRE5
Rm 340 V/Street
215 3391
27 May 1980

Order in Council laid before Parliament under the Iran (Temporary Powers) Act 1980, section 1, for approval by resolution of each House within twenty-eight days beginning on the day on which the Order was made, subject to extension for periods of dissolution, prorogation or adjournment for more than four days.

S T A T U T O R Y I N S T R U M E N T S

1980 No.

IRAN

The Iran (Trading Sanctions) Order 1980

Made 29th May 1980

Laid before Parliament May 1980

Coming into Operation May 1980

At the Court of Saint James, the 29th day of May 1980

Present,

The Counsellors of State in Council

Whereas Her Majesty, in pursuance of the Regency Acts 1937 to 1953, was pleased, by Letters Patent dated the day of May 1980, to delegate to the six Counsellors of State therein named or any two or more of them full power and authority during the period of Her Majesty's absence from the United Kingdom to summon and hold on Her Majesty's behalf Her Privy Council and to signify thereat Her Majesty's approval for anything for which Her Majesty's approval in Council is required:

Now, therefore, Her Majesty Queen Elizabeth The Queen Mother and Her Royal Highness The Princess Anne, being authorised thereto by the said Letters Patent, and in pursuance of the powers

conferred by section 1 of the Iran (Temporary Powers) Act 1980(a) and of all other powers enabling Her Majesty, and by and with the advice of Her Majesty's Privy Council, do on Her Majesty's behalf order, and it is hereby ordered, as follows:-

Citation, commencement and extent

1.-(1) This Order may be cited as the Iran (Trading Sanctions) Order 1980 and shall come into operation on May 1980.

(2) This Order shall extend to the United Kingdom, the Channel Islands, the Isle of Man and the scheduled territories so as to be part of the laws thereof.

Interpretation

2.-(1) In this Order -

"commander", in relation to an aircraft, means the person designated as commander of the aircraft by the operator thereof, and includes any person who is for the time being in charge or command of the aircraft;

"embargoed goods" means all goods other than -

- (a) those of a description set out in column 2 in Part I of Schedule 1 to this Order falling within the heading of the Common Customs Tariff of the European Economic Community(b) set out in

(a) 1980 c. . . (b) See Council Regulation (EEC) No. 3000/79 (O.J. No. L342, 31.12.1979) amending Regulation (EEC) No. 950/68.

column 1 of that Part of the Schedule; and

- (b) those of a description set out in column 2 in Part II of that Part of Schedule 1 to this Order falling within the heading of the Common Customs Tariff of the European Economic Community set out in column 1 of that Part of the Schedule and sold or supplied for use solely or mainly for medical or surgical purposes;

"master", in relation to a ship, includes any person (other than a pilot) for the time being in charge of the ship;

"operator", in relation to an aircraft or to a land transport vehicle, means the person for the time being having the management of the aircraft or the vehicle;

"owner", in relation to a ship, means the person for the time being registered as the owner of that ship;

"person in Iran" includes the Government of Iran, and any department, organ or agency of that Government, in Iran and any body of persons, whether corporate or unincorporate, in Iran;

"prohibited services" means industrial, scientific or technological services supplied directly in connection with a project for the installation of industrial plant or facilities in Iran where the installation has commenced after the date on which this Order comes into operation, other than plant or

4

facilities designed to promote or safeguard health or to be used for medical, dental or surgical care or research;

"Scheduled territory" means a territory specified in Schedule 2 to this Order.

(2) In this Order, references to a contract made before the date on which this Order comes into operation include a reference to such contracts the terms of which have been modified, amplified or extended after the date on which this Order comes into operation, and also include a reference to a contract made in continuation of a course of business dealing which existed immediately before the date on which this Order comes into operation.

(3) In Schedule 2 to this Order, references to chapters and headings are references to chapters and headings in the Common Customs Tariff of the European Economic Community and accordingly -

(i) where any such reference is preceded by the word "ex" the relevant entry shall be taken to comprise all goods which would be classified under an entry in the same terms constituting a subheading; and

(ii) all other entries shall be taken to comprise all goods which are classified in the chapter or heading mentioned in column 1 of the said Schedule.

Contracts for the supply of goods to Iran

3.-(1) Subject to paragraph (2) of this Article and except under the authority of a licence granted by the Secretary of State, or, as the case may be, the Governor of a scheduled territory, no person shall enter into or perform a contract for the sale or supply to, to the order of or for the purposes of any person in Iran any embargoed goods which are in the United Kingdom or in any territory to which this Order extends.

(2) Nothing in paragraph (1) of this Article shall apply to the sale or supply of goods made pursuant to or in furtherance of a contract made before the date on which this Order comes into operation.

(3) Any person who knowingly contravenes paragraph (1) of this Article shall be guilty of an offence against this Order.

(4) Nothing in this Article shall be construed so as to prejudice any other enactment or provision of law prohibiting or restricting the sale or supply of any goods to Iran.

(5) The exportation of any goods in performance of a contract of sale or supply prohibited by this Article is prohibited.

Contracts for the transport of goods to Iran

4.-(1) No person shall enter into or perform a contract for the transport of any embargoed goods (other than the personal effects and professional equipment of passengers) by means of a ship or

aircraft to which this Article applies, or by means of any land transport vehicle, from any place in the United Kingdom, or any territory to which this Order extends, to any destination in Iran.

(2). Nothing in paragraph (1) of this Article shall apply to any contract made, or any transport undertaken pursuant to or in furtherance of a contract made, before the date on which this Order comes into operation.

(3) This Article applies to ships and aircraft registered in the United Kingdom or in any territory to which this Order extends.

(4) Any person who knowingly contravenes paragraph (1) of this Article shall be guilty of an offence against this Order.

(5) Nothing in this Article shall apply to contracts for the transport of goods in respect of which a licence granted by the Secretary of State or the Governor of a scheduled territory is in force under any provision of this Order or under any Order, relating to the control of exports made by virtue of the powers conferred by section 1 of the Import, Export and Customs Powers (Defence) Act 1939(a), or, as the case may be, any Order in Council or other law relating to the control of exports in force in a scheduled territory.

(a) 1939 c.69.

Services to Iran

5.-(1) Subject to paragraph (2) of this Article and except under the authority of a licence granted by the Secretary of State or, as the case may be, the Governor of a scheduled territory no person shall enter into or perform a contract for the supply of any prohibited services to any person in Iran.

(2) Nothing in paragraph (1) of this Article shall apply to services provided in furtherance of or pursuant to a contract for such services made before the date on which this Order takes effect.

(3) Any person who knows or has reasonable cause to believe that he is acting in contravention of paragraph (1) of this Article shall be guilty of an offence against this Order.

Proceedings, penalties and jurisdiction

6.-(1) Any person guilty of an offence against this Order shall be liable -

(a) in the United Kingdom or a scheduled territory:-

(i) on summary conviction, to a fine not exceeding the statutory maximum; and

(ii) on conviction on indictment, to a fine;

(b) in Jersey, to a fine;

(c) in the Bailiwick of Guernsey:-

(i) on summary conviction to a fine not exceeding £500; and

(ii) on conviction on indictment, to a fine; and

(d) in the Isle of Man:-

(i) on summary conviction, to a fine not exceeding £1000; and

(ii) on conviction on information, to a fine.

(2) Where a contract prohibited by Article 4 is entered into/by a person who is at that time the owner or master of a ship, or as the case may be the operator or commander of an aircraft, registered in the United Kingdom or any territory to which this Order extends, he shall be guilty of an offence wherever the contract is entered into or performed.

(3) No proceedings for an offence against this Order shall be instituted in England, Wales, Northern Ireland, Jersey or in the Isle of Man except by the Secretary of State or with the consent of the Attorney General or, as the case may be, the Attorney General for Northern Ireland, Jersey or the Isle of Man

and no such proceedings shall be instituted in a scheduled territory except by or with the consent of the principal public officer of the territory having responsibility for criminal prosecutions.

(4) Proceedings against any person for an offence against this Order may be taken before the appropriate court in the United Kingdom, the Channel Islands or the Isle of Man having jurisdiction in the place where that person is for the time being.

(5) In paragraph (1) above "the statutory maximum" means -

(a) in England and Wales and Northern Ireland, the prescribed sum within the meaning of section 28 of the Criminal Law Act 1977(a) (at the coming into operation of this Order £1000);

(b) in Scotland, the prescribed sum within the meaning of section 289B of the Criminal Procedure (Scotland) Act 1975(b) (at the coming into operation of this Order £1000);

and for the purposes of the application of this subsection in Northern Ireland the provisions of the said Act of 1977 relating to the sum mentioned in paragraph (a) shall extend to Northern Ireland;

(c) in a scheduled territory, such sum as may be prescribed by or under the law thereof as the maximum fine that may be imposed after summary

(a) 1977 c.45. (b) 1975 c.21.

conviction for offences generally, or if no such sum is so prescribed, such sum as in the currency of the territory is equivalent to £1000.

Clerk to the Privy Council

SCHEDULE 31

PART I

Common Customs Tariff Chapter or Heading No.	Description of Goods
(1)	(2)
Chapters 1 to 23	<p><u>A. FOODSTUFFS</u></p> <ul style="list-style-type: none"> - Live animals; animal products - Vegetable products - Animal and vegetable fats and their cleavage products; prepared edible fats; animal and vegetable waxes - Prepared foodstuffs; beverages, spirits and vinegar - Raw materials for food and drink - Casein, caseinates and other casein derivatives, for use in foodstuffs
ex 33.04	
ex 35.01	
	<u>B. MEDICAL PRODUCTS</u>
ex 29.16	- Acetylsalicylic acid and its salts
29.36	- Sulphonamides
29.38	- Provitamins and vitamins, natural or reproduced by syntheses (including natural concentrates), derivatives thereof used primarily as vitamins, and intermixtures of the foregoing, whether or not in any solvent
29.39	- Hormones, natural or reproduced by synthesis; derivatives thereof, used primarily as hormones; other steroids used primarily as hormones

Common Customs Tariff Chapter or Heading No.	Description of Goods
(1)	(2)
29.44	- Antibiotics
Chapter 30	- Pharmaceutical products
ex 33.06	- Products for cleaning and fixing dentures
ex 34.01	- Medical soaps
ex 34.07	- Preparations known as "dental wax" or as "dental impression compounds"
ex 38.11	- Disinfectants intended to destroy pathogenic germs
ex 38.19	- Preparations for pharmaceutical and surgical uses
ex 39.06	- Heparin
ex 40.12	- Pharmaceutical articles of unhardened vulcanized rubber
ex 40.13	- Surgical gloves of unhardened vulcanized rubber
ex 60.06	- Knitted or crocheted elastic or rubberized stockings and other pharmaceutical articles (e.g. elastic knee-caps and belts)
ex 70.10	- Test-tubes and similar containers for the conveyance or packing of tablets
ex 70.17	- Pharmaceutical glassware
ex 70.18	- Blanks for corrective spectacle lenses
ex 84.17	- Medical and surgical sterilizing apparatus
87.11	- Invalid carriages, whether or not motorized or otherwise mechanically propelled
ex 87.12	- Parts of invalid carriages, falling within heading No. 87.11
ex 90.01	- Contact lenses, spectacle lenses
90.03	- Frames and mountings and parts thereof, for spectacles

Common Customs Tariff Chapter or Heading No.	Description of Goods
(1)	(2)
ex 90.04	- Corrective spectacles
90.17	- Medical, dental, surgical and veterinarian instruments and appliances
90.18	- Mechano-therapy appliances (excluding gas masks and similar respirators)
90.19	- Orthopaedic appliances
90.20	- Apparatus based on the use of X-rays
ex 90.23	- Clinical thermometers
94.02	- Medical, dental, surgical or veterinary furniture; dentists' and similar chairs with mechanical elevating, rotating or reclining movements; parts of the foregoing articles

PART II

Common Customs Tariff Chapter or Heading No.	Products which can be used for Medical Purposes
(1)	(2)
27.12	- Petroleum jelly
27.13	- Paraffin wax
Chapter 28	- Inorganic chemicals
Chapter 29	- Organic chemicals (other than products in Part I of this Schedule)
ex 32.04	- Sunflower seed extracts
ex 32.09	- Dyes for microscope slides
ex 37.01	- Plates and film in the flat for radiography
ex 37.02	- Sensitized film for radiography
37.05	- Plates, unperforated film
37.07	- Cinematograph film
ex 38.11	- Preservative articles
ex 38.16	- Prepared culture media
ex 38.19	- Preparations of vitamins
ex 48.01	- Cellulose wadding
ex 48.21	- Sanitary towels and tampons
ex 59.01	- Wadding for bandages
ex 70.10	- Medical containers for conveyance or packing of goods
ex 84.17	- Machinery and equipment for distilling
ex 85.11	- Incubation furnaces and ovens
ex 90.12	- Microscopes and parts thereof
ex 90.13	- Magnifying glasses
ex 90.15	- Analytical balances and parts and accessories thereof
ex 90.28	- Electrical or electronic instruments and apparatus

SCHEDULE 2

Territories to which the Order extends

British Antarctic Territory
Belize
Bermuda
British Virgin Islands
Cayman Islands
Falkland Islands Colony and Dependencies
Gibraltar
Hong Kong
Montserrat
Pitcairn Islands
Saint Helena and its Dependencies
Sovereign Base Areas of Akrotiri and Dhekelia
Turks and Caicos Islands

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order prohibits the entry into or performance of contracts for the sale, supply or transport of embargoed goods from the United Kingdom, or from any territory to which the Order extends, to Iran.

All goods are embargoed except specified foodstuffs, medical products and other specified products if sold or supplied for medical or surgical purposes.

The Order also prohibits the entry into or performance of contracts for the supply of services in connection with new industrial projects in Iran, other than those related to health.

Contracts made before the date on which the Order comes into operation are excluded from these restrictions.

 S T A T U T O R Y I N S T R U M E N T S

1980 No.

CUSTOMS AND EXCISE

The Export of Goods (Control)(Iran Sanctions) Order 1980

<u>Made</u>	1980
<u>Coming into Operation</u>	1980

The Secretary of State, in exercise of powers conferred by section 1 of the Import, Export and Customs Powers (Defence) Act 1939(a) and now vested in him(b), and of all other powers enabling him in that behalf, ^{hereby} makes the following Order:-

Citation, operation, interpretation

1.-(1) This Order may be cited as the Export of Goods (Control) (Iran Sanctions) Order 1980 and shall come into operation on 1980.

(2) In this Order -

"embargoed goods" means all goods other than -

(a) those of a description set out in column 2 in Part I of the Schedule to this Order falling within the heading of the Common Customs Tariff of the European Economic Community(c) set out in column 1 of that Part of the Schedule; and

(a) 1939 c.69. (b) See S.I. 1970/1537. (c) See Council Regulation (EEC) No. 3000/79 (O.J. No. L342, 31.12.1979) amending Regulation (EEC) No. 950/68.

(b) those of a description set out in column 2 in Part II of the Schedule to this Order falling within the heading of the Common Customs Tariff of the European Economic Community set out in column 1 of that Part of the Schedule and sold/^{or supplied} for use solely or mainly for medical or surgical purposes;

"hovercraft" has the same meaning as in section 4(1) of the Hovercraft Act 1968(a);

"importation" and "exportation" in relation to a ship or aircraft includes the taking into or out of the United Kingdom of the ship or aircraft notwithstanding that the ship or aircraft is conveying goods or passengers, and whether or not it is moving under its own power, and cognate expressions shall be construed accordingly;

"ship" includes the hull or part of the hull of a ship.

(3) In this Order references to a contract made before the date on which this Order comes into operation include a reference to such contracts the terms of which have been modified, amplified or extended after the date on which this Order comes into operation, and also include a reference to a contract made in continuation of a course of business dealing which existed immediately before the date on which this Order comes into operation.

(a) 1968 c.59.

(4) In the Schedule to this Order, references to chapters and headings are references to chapters and headings in the Common Customs Tariff of the European Economic Community and accordingly -

- (i) where any such reference is preceded by the word "ex" the relevant entry shall be taken to comprise all goods which would be classified under an entry in the same terms constituting a subheading; and
- (ii) all other entries shall be taken to comprise all goods which are classified in the chapter or heading mentioned in column 1 of the said Schedule.

Prohibition on exportation to Iran

2. Subject to Article 3 of this Order embargoed goods are prohibited to be exported to any destination in Iran for delivery to a person in Iran.

Exceptions

3.-(1) Nothing in Article 2 of this Order shall prohibit the exportation of -

- (a) any goods under the authority of a licence granted by the Secretary of State under this Order provided that all conditions attaching to the said licence are complied with;

- (b)(i) any aircraft which is being exported after temporary importation into the United Kingdom, provided that there has been no change of ownership or registration since such importation;
- (ii) any aircraft engaged on a scheduled journey;
- (c) hovercraft engaged on a scheduled journey;
- (d) any ship registered or constructed outside the United Kingdom which is being exported after temporary importation into the United Kingdom;
- (e) any goods pursuant to or in furtherance of a contract made before the date on which this Order comes into operation.

(2) Paragraph (1) of this Article shall not permit any goods to be exported which are prohibited to be exported under any enactment or provision of law other than one contained in this Order.

Enforcement

4. Articles 4, 5 and 6 of the Export of Goods (Control) Order 1978(a) (customs powers for demanding evidence of destination, offences in connection with applications for licences and powers of search) shall apply for the enforcement of the provisions of this Order as they apply for the enforcement

(a) S.I. 1978/796.

of the said Order of 1978.

Modification and revocation of licences

5. Any licence granted by the Secretary of State in pursuance of Article 3(1)(a) may be modified or revoked by him at any time.

May 1980.

An Under-Secretary
Department of Trade

SCHEDULE

[as Schedule 1 to Iran (Trading Sanctions) Order]

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order prohibits, subject to certain exceptions set out in Article 3, the export of embargoed goods to Iran for delivery to a person in Iran.

All goods are embargoed except specified foodstuffs, medical products and other specified products if sold or supplied for medical or surgical purposes.

The principal exceptions are goods exported pursuant to or in furtherance of a contract made before the date on which the Order comes into operation, ships and aircraft on scheduled journeys or exported after temporary importation, and goods licensed under the Order.

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27 MAR 1960



File

10 DOWNING STREET

From the Principal Private Secretary

27 May 1980

IRAN SANCTIONS

Thank you for your letter of 20 May 1980 about sanctions against Iran.

I have shown this to the Prime Minister who has taken note of it.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Wiggins (H.M. Treasury), Ian Ellison (Department of Industry), John Stevens (Office of the Chancellor of the Duchy of Lancaster), Richard Prescott (Paymaster General's Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

C. A. WHITEHORE

Stuart Hampson, Esq.,
Department of Trade.

CONFIDENTIAL

KRB

PS
PS/SIR I. GILMOUR
PS/MR HURD
PS/PUS
SIR D MAITLAND
MR J C MOBERLY
LORD BRIDGES
LORD N G LENNOX
MR EVANS
MISS BROWN

DESKBY 231100Z
ADVANCE COPY
IMMEDIATE

PS NO 10 DOWNING ST
SIR R ARMSTRONG)
ASSESSMENTS STAFF)
MR R WADE GERY) CABINET
MR LE CHEMINANT) OFFICE
MR W N WENBAN SMITH)
DIO)

HD/MED
HD/FRD
HD/NEPAD
HD/UND (2)
HD/OID
HD/DEF DEPT
HD/N AM D
HD/ES & SD (2)
HD/PUSD (2)
HD/NEWS DEPT
HD/ECD (E)
HD/CONS DEPT
RESIDENT CLERK
CONSULAR EMERGENCY UNIT

PS/CHANCELLOR)
MR F R BARRATT) TREASURY
MR R G LAVELLE)
MR C W McMAHON) BANK OF
MR P B EDGLEY) ENGLAND
MR R WILLIAMS CRE5 DOT
MR W KNIGHTON DEPT OF TRADE
MR C BENJAMIN DOI
MR D LE B JONES) DEPT OF
MR C LUCAS) ENERGY

CONFIDENTIAL

DESKBY FCO 231100Z

FM TEHRAN 230630Z MAY
TO IMMEDIATE FCO
TELEGRAM NUMBER 519 OF 23 MAY 80
INFO IMMEDIATE WASHINGTON.

MS

US/IRAN.

I HAVE HEARD FROM TWO DIFFERENT SOURCES THAT ON 20/21 MAY THE SWISS EMBASSY, ON INSTRUCTIONS FROM WASHINGTON, SUMMONED ALL US CITIZENS STILL HERE, INCLUDING DUAL NATIONALS, AND WHEN THEY REPORTED, ADVISED THEM TO LEAVE IRAN FORTHWITH. TICKETS WOULD BE PROVIDED IF NECESSARY. THOSE WHO DECIDED TO STAY WERE REQUIRED TO SIGN A WAIVER OF ANY CLAIM AGAINST THE US GOVERNMENT. THESE REPORTS HAVE BEEN BROADLY CONFIRMED BY A SOURCE IN THE SWISS EMBASSY.

2. THIS COULD MERELY BE A ROUTINE, THOUGH DELAYED, FOLLOW-UP TO THE US ORDER OF A FEW WEEKS AGO PROHIBITING TRAVEL TO IRAN BY US CITIZENS ; OR PERHAPS A PRECAUTION AGAINST RETALIATION, FOLLOWING THE SUPREME COURT'S DECISION THAT ACTION TO DEPORT IRANIAN STUDENTS FROM THE US IS NOT UNCONSTITUTIONAL. BUT NATURALLY OTHER MORE DRAMATIC EXPLANATIONS COME TO MIND ALSO.
GRAHAM

IRAN: ADVANCE COPIES 33

PS
PS/SIR I. GILMOUR
PS/MR HURD
PS/PUS
SIR D MAILLAND
MR J C MOBERLY
LORD BRIDGES
LORD N G LENNOX
MR EVANS
MISS BROWN
HD/MED
HD/FRD
HD/NEPAD
HD/UND (2)
HD/OID
HD/DEF DEPT
HD/N AM D
HD/ES & SD (2)
HD/PUSD (2)
HD/NEWS DEPT
HD/ECD (E)
HD/CONS DEPT
RESIDENT CLERK

PS NO 10 DOWNING ST
SIR R ARMSTRONG)
ASSESSMENTS STAFF)
MR R WADE GERY) CABINET
MR LE CHEMINANT) OFFICE
MR W N WENBAN SMITH)
DIO)

PS/CHANCELLOR)
MR F R BARRATT) TREASURY
MR R G LAVELLE)

MR C W MCMAHON) BANK OF
MR P B EDGLEY) ENGLAND

MR R WILLIAMS CRE5 DOT
MR W NIGHTON DEPT OF TRADE
MR C BENJAMIN DOT

MR D LE B JONES) DEPT OF
MR C LUCAS) ENERGY

GRS 220

CONFIDENTIAL
DESKBY FCO 240900Z

FM WASHINGTON 230053Z MAY 80
TO IMMEDIATE F C O
TEL NO 1995 OF 23 MAY 1980
INFO PRIORITY TEHRAN.

YOUR TELEGRAM NO 987 AND TEHRAN TELEGRAM NO 519:

US/IRAN.

1. FRETWELL SPOKE ABOUT THIS TO CONSTABLE, DEPUTY ASSISTANT SECRETARY, WHO WAS THE SENIOR OFFICIAL AVAILABLE IN THE STATE DEPARTMENT ON IRANIAN MATTERS. CONSTABLE SAID THAT THE STATE DEPARTMENT HAD JUST HEARD A SIMILAR STORY FROM NDC WHO HAD OBTAINED IT FROM A GREEK SOURCE. CONSTABLE HAD NO IDEA WHAT LAY BEHIND IT. HE HAS INITIATED ENQUIRIES THROUGH THE SWISS EMBASSY AND WILL LET US KNOW IF HE GETS AN EXPLANATION.

2. IN THE MEANTIME CONSTABLE COULD ONLY SPECULATE THAT THE SWISS
IN TEHRAN HAD TAKEN TOO ENERGETICALLY ON A RECENT MESSAGE

2. IN THE MEANTIME CONSTABLE COULD ONLY SPECULATE THAT THE SWISS
EMBASSY IN TEHRAN HAD ACTED TOO ENERGETICALLY ON A RECENT MESSAGE
FROM THE STATE DEPARTMENT AUTHORIZING THEM TO PAY THE REPATRIATION
COSTS OF ANY AMERICAN WHO WISHES TO LEAVE. THIS AROSE BECAUSE ONE
U.S. CITIZEN HAS BEEN PREVENTED FROM LEAVING FOR SOME MONTHS
BECAUSE OF IRANIAN ALLEGATIONS OF UNPAID DEBTS. THE SWISS WERE
AUTHORISED TO DEAL WITH SUCH CASES IN FUTURE.

3. CONSTABLE SAID CATEGORICALLY THAT NOTHING DRAMATIC WAS AFOOT.

HENDERSON

NNNN

AS 100000

CO L 3 10 100000000000

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CONFIDENTIAL
STAFF IN CONFIDENCE

[Handwritten signature]



10 DOWNING STREET

From the Private Secretary

23 May 1980

The Prime Minister has seen your letter to me of 21 May about staff movements relating to our mission in Tehran. She has taken note of its contents.

M. O'D. B. ALEXANDER

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

KRW

Await FLO advice

MAA,

GR 125

RESTRICTED

RESTRICTED

FM TOKYO 230100Z MAY

TO PRIORITY FCO
TELNO 331 OF 23 MAY.

FOR PRIVATE SECRETARY

THE P.M.'S LETTER OF 2 MAY ADDRESSED TO MR OHIRA REACHED TOKYO LATE ON 22 MAY. IT BEARS COMPLIMENT SLIPS FROM MICHAEL ALEXANDER AND FROM YOU. THE THIRD PARAGRAPH ON IRAN SANCTIONS DOES NOT READ WELL IN THE LIGHT OF RECENT EVENTS. WOULD THE P.M. WISH TO REVISE IT AND PERHAPS INCLUDE SOME REFERENCE TO THE FACT THAT MR OHIRA IS NOW INVOLVED IN A GENERAL ELECTION ?

2. IF IT IS DECIDED TO REVISE I SUGGEST THAT THIS TIME THE TEXT IS TELEGRAPHED WITH CONFIRMATORY COPY TO FOLLOW.

WILFORD
FIVES
MIED
FED
PS
PS/HRS

PS/MR HURD
PS/MR BLAKER
PS/DUS
SIR D. MANTLAND
MR J.C. MOBERKY
MR MURRAY
MR DONALD

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FM TEHRAN 240530Z MAY

TO IMMEDIATE FCD

TELEGRAM NUMBER 528 OF 23 MAY 80.

INFO IMMEDIATE WASHINGTON.

YOUR TELNO 326 : US/IRAN.

I HAVE THE FOLLOWING COMMENTS :

(A) YOUR PARA 3. THERE IS SOME RISK THAT WHAT I SAY WILL BE USED OUT OF CONTEXT. BEHESHTI CHOSE, FOR EXAMPLE, IN THE COURSE OF A TV INTERVIEW, TO INTERPRET AS A THREAT MY WARNING TO HIM WHEN I SAW HIM ON 21 APRIL THAT AMERICAN PATIENCE COULD NOT BE EXPECTED TO LAST FOREVER AND THAT THEY WOULD EVENTUALLY FEEL DRIVEN TO TAKE MILITARY MEASURES. THE TIMING, FOUR DAYS BEFORE THE RESCUE ATTEMPT, WAS UNFORTUNATE. THE TROUBLE IS HOWEVER THAT FOR HIM THE HOSTAGES ARE A TOOL IN HIS STRUGGLE WITH BANI SADR AND WILL NOT BE GIVEN UP UNTIL HE THINKS THEY NO LONGER SERVE A PURPOSE IN THAT. NEVERTHELESS I SHALL TRY TO SEE HIM IN THE COURSE OF THE NEXT FEW DAYS, AS PART OF MY FAREWELL CALLS. BAHONAR HAS ALWAYS DECLINED TO SEE ME. I MIGHT TRY RAFSANJANI.

(B) PARA 4. I DOUBT IF I CAN DO MUCH USEFUL HERE. CAPUCCI PERSONALLY CARRIES WEIGHT BUT BEHESHTI HAS SOME STORY THAT THE PLO PROPOSED IN ISLAMABAD THE RECOGNITION OF THE AFGHAN REGIME, WHICH MAY UNDERMINE HIM.

(C) PARA 5. I BELIEVE A STATEMENT OF THIS KIND COULD BE USEFUL. EITHER THE OPENING OF THE ASSEMBLY ON 23 MAY OR THE SWEARING IN OF THE NEW PRIME MINISTER MIGHT BE APPROPRIATE OCCASIONS. I SUGGEST THAT THE FOLLOWING POINTS SHOULD BE MADE:

- (I) THE US GOVERNMENT REPEATS ITS RECOGNITION OF THE RIGHT OF THE IRANIAN PEOPLE TO INDEPENDENCE UNDER A GOVERNMENT OF THEIR OWN CHOICE.
- (II) IT CONGRATULATES THE IRANIAN PEOPLE ON THE ACCOMPLISHMENT OF THEIR REVOLUTION AS EXEMPLIFIED BY THE INAUGURATION OF THE ASSEMBLY AND THE APPOINTMENT OF A GOVERNMENT.
- (III) THE U.S. PLEDGES ITSELF, ONCE THE HOSTAGES HAVE BEEN SAFELY RELEASED, TO FOSTER GOOD RELATIONS WITH IRAN ON THE BASIS OF EQUALITY AND MUTUAL RESPECT, WITHOUT INTERFERENCE IN THE INTERNAL AFFAIRS OF EITHER PARTY.

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(IV)

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- (IV) THE US HAS NO QUARREL WITH THE IRANIAN PEOPLE BUT ACCEPTS THAT TIME WILL BE REQUIRED FOR WOUNDS TO HEAL AND THAT THE FORMAL RESTORATION OF RELATIONS MUST WAIT ON THAT PROCESS (IT IS A MISTAKE HERE TO PROMISE THAT ALL WILL BE FORGIVEN AND FORGOTTEN, AS THE IRANIANS SEE THEMSELVES AS THE AGGRIEVED PARTY, HOWEVER INCREDIBLE THIS MAY SEEM).
- (V) NEVERTHELESS THE US HAS NO DESIRE FOR RETRIBUTION OR REVENGE, AND, ONCE THE HOSTAGES ARE RELEASED, WILL DO ALL IN ITS POWER, IN CONSULTATION WITH IRAN AS NECESSARY, TO BRING TO AN END THE DAMAGING CONSEQUENCES OF THE SEIZURE OF THE EMBASSY INCLUDING THE MEASURES TAKEN BY THE US AGAINST IRAN. THE IRANIANS UNDOUBTEDLY EXPECT THEIR FUNDS TO BE UNFROZEN AND THAT THINGS WILL IMMEDIATELY RETURN TO THE STATUS QUO ANTE: A SUGGESTION THAT THERE MIGHT HAVE TO BE A JOINT COMMITTEE ON THIS, IMPLYING THAT THERE COULD BE ANY PROBLEM, WOULD GO DOWN BADLY ALTHOUGH I AM WELL AWARE THAT THE MATTER IS BY NO MEANS SIMPLE)

(D) PARA 6. I BELIEVE THE INITIATIVES ARE COORDINATED. INDEED THE INITIATIVE FOR THE NON ALIGNED MEETING WAS BANI SADR'S FOLLOWUP UP A MESSAGE FROM THE IMAM, WHILE QOTBZADEH WAS ABROAD. INCIDENTALLY, I LEARNT ON 22 MAY THAT INVITATIONS TO GOVERNMENTS TO ATTEND THIS HAVE NOW BEEN WITHDRAWN AND THAT ONLY NON-GOVERNMENTAL BODIES (INCLUDING LIBERATION MOVEMENTS) ARE NOW LIKELY TO BE INVOLVED.

(E) PARA 7. I HAVE IT IN MIND TO CALL ON YAZDI BEFORE I LEAVE. I WILL LOOK THROUGH THE LIST TO SEE IF THERE ARE OTHERS WHO MIGHT BE HELPFUL. THOUGH NO DOUBT SUSPECT WHATEVER I SAY (BEHESHTI REMARKED ON 22 MAY THAT THE WEAKENING OF THE EC'S MEASURES AGAINST IRAN WAS BECAUSE "THEY WANTED TO SHOW THAT THEY ARE NOT 100 PERCENT SERVANTS OF THE US BUT ONLY 50 PERCENT"), I SHALL BASE MYSELF ON THE ARGUMENT THAT THE CONTINUED HOLDING OF HOSTAGES PREVENTS THE EC AND INDEED MUCH OF THE REST OF THE WORLD FROM ENJOYING THE GOOD RELATIONS WITH IRAN THEY DESIRE AND THAT, REGARDLESS OF US INTERESTS, THEIR RELEASE WOULD HELP IRAN AND THE REST OF US.

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PRIME MINISTER

PM

The Secretary of State for Trade, the Lord Privy Seal and Douglas Hurd have discussed the laying of an Order relating to the trade sanctions to be taken against Iran. They have agreed Orders should be made under the 1980 Act and under the 1939 Act. The detailed reasons are set out in a minute which will be in your box tomorrow evening.

They have also agreed that it would be both difficult and unnecessary to make the Orders tomorrow. Subject to your agreement, they would like to make them either next Wednesday or next Thursday. However they would like to make an announcement immediately to the effect that the Orders "would be laid as soon as possible and in any case no later than next Thursday". They would also like to instruct an official to make this known to the Community in Brussels tomorrow morning.

It would be helpful to know this evening whether you are content that such a statement should be issued.

MICHAEL ALEXANDER

22 May 1980

PM yes

PM 24/5

(but there must be a debate)

GRS 365

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FM F C O 221749Z MAY 80

TO IMMEDIATE TEHRAN

TELEGRAM NUMBER 306 OF 22 MAY

INFO PRIORITY WASHINGTON

*Sen. V. Graham's reply is
attached.*

IRAN/US

1. PRECHT AND SAUNDERS CALLED ON HAITLAND AND MOBERLY TODAY. THEY DISCUSSED HOW BEST TO MAKE PROGRESS ON THE AMERICAN HOSTAGES. THE AMERICANS HAD FEW SPECIFIC NEW IDEAS.

2. WE AGREED TO CONSULT YOU ON FIVE PARTICULAR POINTS.

3. FIRST, PRECHT ATTACHED IMPORTANCE TO PREVENTING THE LEADING AYATOLLAHS OPPOSED TO BANI SADR SABOTAGING ANY FURTHER ATTEMPT TO SECURE THE HOSTAGES' FREEDOM. PRECHT SUGGESTED THAT YOU MIGHT DISCUSS WITH AS MANY OF THE LEADING CLERICS IN THE REVOLUTIONARY COUNCIL (RC) AS YOU FELT ABLE (AND ESPECIALLY BAHONAR AND BEHESHTI) THEIR PRESENT VIEWS ON THE HOSTAGES' RELEASE AND URGE THEM NOT TO SABOTAGE THIS. AS REGARDS ARGUMENTS TO BE USED TO ACHIEVE THIS, ONE IDEA COULD BE TO POINT TO THE WANING POPULAR INTEREST IN HOLDING THE HOSTAGES AND THE FACT THAT THE PSYCHOLOGICAL GAINS FROM THEIR INITIAL SEIZURE WERE NOW LARGELY SPENT. ANOTHER POSSIBILITY MIGHT BE TO IDENTIFY AND CONTACT THOSE MOST CLOSELY INVOLVED WITH THESE AYATOLLAHS. WE SHOULD WELCOME YOUR COMMENTS ON THESE IDEAS.

4. SECONDLY, THE AMERICANS SAID THEY WERE NOW TRYING TO CONTACT CAPUCCI, WHOSE INFLUENCE ON LEADING FIGURES COULD BE HELPFUL. THEY ASKED THAT YOU MIGHT GIVE DISCREET SUPPORT TO HIS EFFORTS.

5. THIRD, THE AMERICANS REITERATED THEIR READINESS TO MAKE A NUMBER OF MOVES DESIGNED TO ASSIST THE IRANIANS ACTUALLY TO RELEASE THE HOSTAGES. THESE INCLUDE A STATEMENT THAT THEY WOULD RECOGNISE THE REALITY OF THE REVOLUTION; THAT THEY WOULD RECOGNISE THE NEW GOVERNMENT; THAT THEY WOULD PLEDGE NON-INTERFERENCE; AND THAT THEY WOULD BE WILLING TO TAKE PART IN A JOINT COMMISSION TO DEAL WITH IRANIAN ASSETS FROZEN AT PRESENT. THESE STATEMENTS COULD BE IMPORTANT ELEMENTS IN A SCENARIO LEADING TO THE RELEASE OF THE HOSTAGES. THE AMERICANS WOULD WELCOME YOUR ADVICE AS TO THE PRECISE POINT AT WHICH THESE CARDS MIGHT BE PLAYED.

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6. FOURTHLY, THE AMERICANS WOULD WELCOME YOUR VIEWS ON THE EXTENT TO WHICH THE INITIATIVES BOTBZADEH AND BADI SADR HAVE MENTIONED TO YOU AND YOUR ITALIAN COLLEAGUE (YOUR TELNOS 470 AND 483) ARE COORDINATED. ARE THEY COMPLEMENTARY OR COULD ONE IMPEDE THE OTHER ?

7. FINALLY, THE AMERICANS ASKED IF YOU COULD IDENTIFY SIGNIFICANT FIGURES IN THE MAJLIS WHO COULD BE INFLUENCED ON THE HOSTAGE ISSUE.

GARRINGTON

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FM TEHRAN 220700Z MAY 80

TO PRIORITY FCO

TELEGRAM NUMBER 518 OF 22 MAY 80

INFO PRIORITY CABINET OFFICE (D10) MODUK (D14 AND DS11). CRES,
WASHINGTON, UKMIS NEW YORK, ABU DHABI, ANKARA, BAGHDAD, BAHRAIN,
DOHA, DUBAI, KUWAIT, MOSCOW, MUSCAT, NEW DELHI, ROME, PARIS,
BRUSSELS, BONN.

MY TELNO 501: SITUATION IN IRAN.

1. SINCE MOVING HOUSE (SEE TUR) KHOMEINI HAS BEEN MARKEDLY MORE ACTIVE, RECEIVING A STREAM OF VISITORS AND MAKING A NUMBER OF PUBLIC STATEMENTS. ON 20 MAY HE ATTACKED GROUPS HE ALLEGED TO BE LINKED TO THE SHAH'S REGIME, THE USA AND USSR. HE SINGLED OUT THE (MARXIST) FEDAYANE KHALQ, WHOM HE ACCUSED OF ATTEMPTING TO OVERTHROW ISLAM BY SETTING OFF BOMBS, BLOWING UP OIL PIPELINES, BURNING CROPS (SEE TUR) AND PREVENTING FACTORIES FROM WORKING. THEY SHOULD, HE SAID, BE SUPPRESSED BY FORCE AND SENTENCED TO DEATH AS "CORRUPT ON EARTH". ON 21 MAY KHOMEINI CALLED FOR A THOROUGH ISLAMICISATION OF THE RADIO AND TV ORGANISATION, SAYING THAT ALTHOUGH HE DID NOT ADVOCATE CENSORING, "WESTOXICATED" INTELLECTUALS SHOULD NOT BE ALLOWED TO SPREAD THEIR POISON AND UNDERMINE THE REVOLUTION; LEFTISTS IN THE ORGANISATION SHOULD BE PURGED.
2. THE NEWSPAPERS ALSO BLAME THE LEFT FOR MUCH OF THE TROUBLE IN KURDESTAN. THE PASDARAN IN SANANDAJ HAVE ACCUSED THE (MOIST) KOUMALEH PARTY OF TORTURING AND BURYING ALIVE INJURED PRISONERS. THOUGH THE PAPERS ARE FULL OF PHOTOGRAPHS OF GOVERNMENT FORCES IN SANANDAJ, FIRING CONTINUES THERE ROUND THE CLOCK AND THE KURDS CONTROL THE ACCESS ROADS TO THE TOWN. A BBC TEAM THERE THIS WEEK FOUND THE PASDARAN OPENLY CONTEMPTUOUS OF THE ARMY FOR ALLEGEDLY ARRIVING ONLY WHEN THE MAIN FIGHTING WAS OVER.
3. THE GARRISON AT BANEH IS STILL UNDER KURDISH SIEGE (SEE TUR) AND FIGHTING CONTINUES IN A NUMBER OF OTHER TOWNS, DESPITE THE GOVERNMENT'S CLAIMS (EG SEE PARA 11 OF TUR) THAT WITH THE RECAPTURE OF SANANDAJ THE CACKBONE OF KURDISH RESISTANCE HAD BEEN BROKEN, AND THAT OTHERS ATTEMPTING ARMED RESISTANCE WOULD, LIKE THE KURDS, BE CRUSHED.
4. TWO AFGHAN HELICOPTERS ARE REPORTED TO HAVE ENTERED IRANIAN AIRSPACE AND FIRED ON A VILLAGE IN SEPARATE INCIDENTS ON 20 AND 21 MAY. ONE MAN WAS KILLED. THE PRESIDENT'S PRESS ADVISER, GARMAROUDI, SUGGESTED THAT THE FIRST INCURSION MAY HAVE BEEN INADVERTENT AS THE HELICOPTERS PURSUED AFGHAN GUERRILLAS, BUT CONDEMNED THIS PURSUIT AS AN UNJUST AGGRESSION AGAINST IRAN'S AFGHAN BROTHERS.

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/S. BANI

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5. BANI SADR CONTINUES TO TOUR THE PROVINCES. HE HAS MADE NO FURTHER REFERENCE TO THE APPOINTMENT OF A PRIME MINISTER (MY TELNO 495) BEFORE THE MAJLES MEETS. THIS BODY IS DUE TO CONVENE FOR AN INTRODUCTORY MEETING ON 25 MAY AND TO MEET FORMALLY ON 28 MAY.
6. 28 MEN WERE EXECUTED ON 21 MAY FOR DRUG SMUGGLING, AFTER TRIAL BY KHALKHALI.
7. A GROUP OF DEPORTEES FROM IRAQ (NOW REPORTED TO NUMBER 35,859) HAVE BEEN SITTING OUTSIDE THE TUNISIAN EMBASSY FOR SOME DAYS TO DRAW ATTENTION TO THEIR PLIGHT. ON 28 MAY THEY STAGED A SIT-IN AT THE UN OFFICES APPARENTLY BECAUSE THEY HAD NOT HAD AN ANSWER TO A LETTER TO THE UN SECRETARY-GENERAL DEMANDING THAT HE SEND AN INTERNATIONAL COMMISSION TO IRAN TO STUDY THEIR POSITION, PREVENT FURTHER DEPORTATIONS, FREE YOUTHS IMPRISONED IN IRAQ, GUARANTEE THE SAFETY OF THEIR FAMILIES STILL IN IRAQ, RETURN ALL EXILES THERE, AND RESTORATION OF THEIR PROPERTY. THEY HAVE SENT SIMILAR LETTERS TO AMNESTY INTERNATIONAL, THE ICRC, UNRWA, AND VARIOUS POLITICAL LEADERS INCLUDING THE PRIME MINISTER (BY BAG TO MED, WASHINGTON, BAGHDAD).
8. FOLLOWING THE ANNOUNCEMENT OF THE BUDGET (SEE TUR AND MY TELNO 489, NOT TO ALL), THE FINANCE MINISTER ON 21 MAY ASKED ALL MINISTRIES TO REDUCE STAFF AND ENCOURAGE OFFICE WORKERS TO WORK IN FACTORIES. HE SAID THE BUREAUCRACY WAS OVERSTAFFED AND UNPRODUCTIVE AND PROPOSED THAT SALARIES AND BENEFITS SHOULD BE CUT TO MAKE WORKING FOR GOVERNMENT ORGANISATIONS UNATTRACTIVE. HE GAVE NO FIGURES FOR THE EXTENT OF THE PROPOSED CUTS.

GRAHAM

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[THIS TELEGRAM WAS NOT ADVANCED]



PRIME MINISTER

IRAN SANCTIONS

Ian Gilmour, Douglas Hurd, Tom Trenchard and I met this afternoon to discuss the detail of the trade sanctions to be taken against Iran.

Our main objective is to present a credible demonstration of support for the Americans whilst not doing lasting damage to our trade. In particular, we should do no more than our European partners. At the meeting in Brussels yesterday all the other Member States said that they would be implementing today the sanctions against Iran in accordance with the Naples decision. They will act retrospectively in the case of contracts signed since 4 November. There is, however, a real risk that the other Member States will talk tougher but will use administrative discretion to operate the ban with total flexibility.

Our conclusion was that the sanctions order should prohibit the sale or supply of embargoed goods to Iran with two exceptions:

- a) exports made under contracts entered into before the date on which the order takes effect;
- b) goods exported "pursuant to a course of business dealing" existing immediately before the introduction of sanctions.

This second exemption will require us to explain in notes for guidance what is meant by "a course of business dealing". We are thinking of traders who have regularly and for a significant period been supplying an Iranian customer with goods. We considered whether to remove any

*I hope the chief-ship
has been consulted
Prime Minister*

(2)

*MT. Phil
This minute was copied to him.*

19. Phil 27/5



uncertainty on this point by requiring pre-export licensing but decided that the administrative burden and disruption to our trade that would be involved was not acceptable. Instead we shall rely on exporters making Customs declarations that the export of the goods is in conformity with the order. Customs will carry out spot checks on a sample at some time after the goods have been exported and will seek documentary evidence to prove that there is an existing contract or that a course of business dealings really is established. In cases where there are grounds for believing that abuse is taking place the Department will carry out further investigation and consider whether prosecution is appropriate. This will require only a small addition to our export licensing staff.

We considered whether it was sufficient to introduce a single order under the 1980 Act or whether we should also make an order under the 1939 Act. My initial view was that a single order under the new powers was adequate but this does leave the loophole through which goods could be purchased for delivery in the UK and subsequently exported by the buyer as his property. I am also conscious that a decision not to use the 1939 Act would make it appear to the House that earlier references to using this Act showed that we had intended all along to apply sanctions retrospectively. It would be possible to introduce as a first step an order under the 1980 Act and to keep the 1939 powers in reserve in case abuse through the loophole I have described proved significant, but we concluded that the balance of argument was for using both Acts and taking both orders at the same time.



Food, medicine and supplies strictly for medical purposes are excluded from sanctions as provided for in the UN resolution. We have decided that we should also exclude trade where the contract is made in the UK but the goods or services themselves are supplied from outside the UK (the main examples are the commodity markets and cross-trading by UK ships). We have the preponderant interest in the Community in this type of trade and sanctions would hurt us much more than our partners.

Officials of this Department and of the FCO will now prepare the two orders. Subject to your agreement I would propose that we should not rush to make them at a special meeting of the Privy Council tomorrow but that rather we should make an announcement immediately that the orders will be made next Thursday. It was clear at the Brussels meeting yesterday that the Eight would be content if we were able to commit ourselves today to an implementation date next week. I would expect Ministers of this Department to take responsibility for the orders in Parliament.

*Lord Carrington
hopes it will
be possible to
act on
Wednesday.
And*

I am sending copies of this minute to all members of OD, to Keith Joseph, Michael Havers, Norman St John Stevas, Michael Jopling and to Sir Robert Armstrong.

SN

J. N.



22 JAN 1960



IRAN: ADVANCE COPIES 43

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MR C LUCAS) ENERGY

GRS 26φ

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FM PARIS 22141φZ MAY 8φ

TO PRIORITY FCO

TELEGRAM NUMBER 471 OF 22 MAY 198φ

INFO SAVING EC POSTS, TEHRAN, WASHINGTON, OTTAWA AND TOKYO

SANCTIONS AGAINST IRAN: FRENCH PRESS COVERAGE

1. THE FRENCH PRESS TODAY GIVES EXTENSIVE, BUT NOT FRONT-PAGE, COVERAGE TO THE BRITISH GOVERNMENT'S CHANGE OF PLAN OVER RETRO-ACTIVITY, WHICH IS CONTRASTED SHARPLY WITH THE FRENCH DECISION TO STICK TO THE DATE AGREED AT NAPLES.

2. THE FRENCH PRESS PORTRAYS THE ISSUE AS A FURTHER EXAMPLE OF A MAJOR COMMUNITY ISSUE ON WHICH BRITAIN IS ISOLATED IN AN 8-1 LINE-UP. THE HEADLINE IN FIGARO " FURTHER BRITISH SHILLY-SHALLYING" SETS THE TONE. LE MONDE AND LES ECHOS ARGUE THAT THE OUTCOME IS PARTICULARLY IRONIC IN VIEW OF BRITAIN'S VIGOROUS ADVOCACY OF SUPPORT FOR THE US ADMINISTRATION AND PRESS SPECULATION ABOUT FRANCE'S SOLIDARITY. LES ECHOS SUGGESTS THAT THE DECISION WILL CAUSE CONCERN IN THE UNITED STATES BUT HAS COME AS NO SURPRISE TO BRITAIN'S PARTNERS IN EUROPE. THE STATEMENT OF REGRET OVER BRITAIN'S ACTION BY CHANCELLOR SCHULTZ'S SPOKESMAN IS QUOTED

CAUSE CONCERN IN THE UNITED STATES BUT HAS COME AS NO SURPRISE TO
BRITAIN'S PARTNERS IN EUROPE. THE STATEMENT OF REGRET OVER
BRITAIN'S ACTION BY CHANCELLOR SCHMIDT'S SPOKESMAN IS QUOTED.

3. ANALYSING THE DEBATE IN PARLIAMENT, FRENCH PRESS YESTERDAY
CONCLUDED THAT WHILE MPS WERE CONCERNED CHIEFLY OVER THE ECONOMIC
EFFECT OF SANCTIONS, THEY WERE ALSO REFLECTING THE GROWTH OF
ANTI-EUROPEAN FEELING IN BRITAIN, ESPECIALLY OVER THE COMMUNITY
BUDGET ISSUE, AND (LE MONDE) "AN INTENSE NATIONALISM, SIMILAR TO
A KIND OF GAULLISM, STIMULATED BY MRS THATCHER AND GIVING TOTAL
PRIORITY TO THE DEFENCE OF NATIONAL INTERESTS."

4. TODAY'S OFFICIAL JOURNAL CARRIES THE FRENCH GOVERNMENT'S DECREE
WHICH IS THEREFORE NOW IN FORCE. THE TEXT IS IDENTICAL TO THE COPY
SENT BY LAST NIGHT'S BAG TO MIERS (MED).

FOO PLEASE PASS SAVING TO BONN BRUSSELS COPENHAGEN DUBLIN ROME
LUXEMBOURG THE HAGUE UKREP BRUSSELS TEHRAN WASHINGTON OTTAWA AND
TOKYO

JAMES.

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FM ISLAMABAD 221545Z MAY 80.

TO IMMEDIATE FCO

TELNO 668 OF 22 MAY

REPEATED FOR INFO PRIORITY WASHINGTON AND MOSCOW.

SAVING TO UKMIS NEW YORK, KABUL, DELHI, TEHRAN, UKDEL NATO, UKREP
BRUSSELS AND JEDDA.

M I P T

ISLAMIC CONFERENCE.

1. IT WILL TAKE A FEW DAYS TO COLLECT THE IMPRESSIONS OF THE PARTICIPANTS AND TO FIND OUT WHAT WENT ON BEHIND THE SCENES. MY INITIAL COMMENTS ARE THAT THE CONFEREED HAYJGONE AS WELL AS WE COULD HAVE HOPED AND CERTAINLY VERY MUCH BETTER THAN THE GLOOMY FOREBODINGS OF THE PAKISTANIS AND OTHERS BEFOREHAND. THE STEADFAST FRONT CLEARLY PUT UP A STERN RESISTANCE TOWARDS THE END BUT THEY WERE, AS IN JANUARY, OUTNUMBERED AND QOTBZADEH HAD CLEARLY DECIDED TO TAKE PUBLIC LEAD IN THE ANTI-RUSSIAN CAMPAIGN AND INSPIRED OTHERS TO DO THE SAME (DENKTASH AT A PUBLIC MEETING PRODUCED THE EMOTIONAL APPEAL TO THE WORLD NOT TO FORGET THE TRAGEDY OF AFGHANISTAN). GENERAL ZIA HAD SET A SIMILAR TONE IN HIS OPENING SPEECH AND PAKISTAN APPEARS TO HAVE PLAYED LESS OF A NEUTRAL ROLE THAN IN JANUARY: SOME OF THE KEY RESOLUTIONS, INCLUDING AFGHANISTAN, WERE DRAFTED BY PAKISTAN. THE SAUDIS AND OTHERS, INCLUDING THE SECRETARY GENERAL, CHATTY, KEPT A LOW PROFILE IN PUBLIC, NO DOUBT OPERATED POWERFULLY BEHIND THE SCENES.

2. THE AFGHAN RESOLUTION IS AS ROBUST AS WE COULD HOPE FOR, BUT IT IS A DISAPPOINTMENT THAT THE MINISTERIAL COMMITTEE CONSISTS ONLY OF PAKISTAN, IRAN AND THE SECRETARY GENERAL INSTEAD OF THE MORE BROADLY BASED GROUP WHICH HAD ORIGINALLY BEEN TALKED OF AND WHICH WOULD NO DOUBT HAVE CARRIED MORE WEIGHT WITH THE RUSSIANS: THE STEADFAST FRONT WAS RESPONSIBLE FOR THIS. THERE IS NO MENTION ANYWHERE OF OUR NEUTRALITY PROPOSALS BUT CHATTY WILL NO DOUBT USE THEM IN ANY NEGOTIATIONS WHICH THE COMMITTEE ARE NOW TO UNDERTAKE. AT THE PRESS CONFERENCE WHICH FOLLOWED THE CONCLUDING SESSION, AGHA SHAHI SAID THAT THE COMMITTEE OF MINISTERS HAD BEEN GIVEN BY THE CONFERENCE A

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/ FREE HAND

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FREE HAND TO TALK TO ALL PARTIES CONCERNED INCLUDING BABRAK KARMEI'S REGIME AND THE FREEDOM FIGHTERS, BUT THIS WOULD NOT CONSTITUTE RECOGNITION OF EITHER.

3. THE RESOLUTION ON IRAN COULD HAVE BEEN WORSE. STRONG CONDEMNATION OF THE AMERICANS AND ALSO OF ECONOMIC SANCTIONS WAS INEVITABLE, BUT IT IS SATISFACTORY THAT THE HOSTAGES ARE MENTIONED AND THAT THERE IS RENEWED CALL TO IRAN (SUBSCRIBED TO BY QOTBZADEH) TO SOLVE THE PROBLEM.

4. FCO PLEASE PASS SAVINGS TO UKMIS NEW YORK, KABUL, DELHI, TEHRAN, UKDEL NATO, UKREP BRUSSELS AND JEDDA.

FORSTER.

[REPEATED AS REQUESTED]

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GR 700.

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DESKBY 221700Z

FM ISLAMABAD 221530Z MAY 80.

TO IMMEDIATE FCO

TELNO 667 OF 22 MAY

REPEATED FOR INFO PRIORITY WASHINGTON, MOSCOW.

SAVING TO UKMIS NEW YORK, KABUL, DELHI, TEHRAN, UKDEL NATO, UKREP BRUSSELS AND JEDDA.

MY TELNO. 663 : ISLAMIC CONFERENCE. *MS*

1. THE 11TH SESSION OF THE ISLAMIC CONFERENCE OF FOREIGN MINISTERS WAS HELD IN ISLAMABAD FROM 17 TO 22 MAY AND WAS ATTENDED BY 39 COUNTRIES, MAINLY AT FOREIGN MINISTER LEVEL, AS WELL AS A NUMBER OF OBSERVERS. A GREAT NUMBER OF RESOLUTIONS, MANY CONCERNED WITH ECONOMIC AND CULTURAL MATTERS, HAVE BEEN PRODUCED, COPIES OF WHICH AS WELL AS THE FINAL COMMUNIQUE, WILL FOLLOW BY BAG WHEN AVAILABLE. THERE WERE THREE KEY RESOLUTIONS ON AFGHANISTAN, IRAN AND PALESTINE; OPERATIVE SECTIONS OF THE FIRST TWO ARE BEING TELEGRAPHED SEPARATELY

AFGHANISTAN.

2. THE RESOLUTION REAFFIRMS THE RESOLUTIONS OF THE JANUARY CONFERENCE, EXPRESSES DEEP CONCERN AT THE CONTINUED RUSSIAN MILITARY PRESENCE IN AFGHANISTAN AND CALLS FOR THE IMMEDIATE, TOTAL AND UNCONDITIONAL WITHDRAWAL OF ALL SOVIET TROOPS. IT REAFFIRMS THE RIGHT OF THE AFGHAN PEOPLE TO DETERMINE THEIR FORM OF GOVERNMENT WITHOUT OUTSIDE INTERFERENCE, CALLS FOR ASSISTANCE TO THE AFGHAN REFUGEES AND FOR THE CREATION OF THE RIGHT CONDITIONS TO PERMIT THEIR EARLY RETURN. A COMMITTEE CONSISTING OF THE PAKISTAN AND IRANIAN FOREIGN MINISTERS AND THE SECRETARY GENERAL OF THE CONFERENCE IS TO BE SET UP TO SEEK WAYS AND MEANS OF GIVING EFFECT TO THE RESOLUTION BY APPROPRIATE CONSULTATIONS AS WELL AS THE CONVENING OF AN INTERNATIONAL CONFERENCE, POSSIBLY UNDER U N AUSPICES.

IRAN.

3. THE RESOLUTION STRONGLY CONDEMNS THE RECENT U.S. MILITARY AGGRESSION AND "FIRMLY CONDEMNS" ANY THREAT OF FORCE OR OTHER FORM OF INTIMIDATION INCLUDING "ECONOMIC SANCTIONS BY ANY COUNTRY OR GROUPS OF COUNTRIES INDIVIDUALLY OR OTHERWISE" AGAINST IRAN. IT EXPRESSES OUTRAGE AT THE ASSISTANCE TO U.S. ARMED AGGRESSION GIVEN BY SOME COUNTRIES OF THE AREA AND DEPLORES THE ESCALATION OF NAVAL ACTIVITIES AND THE MILITARY PRESENCE OF THE GREAT POWERS IN THE INDIAN OCEAN AREA AS WELL AS THEIR ATTEMPTS TO ACQUIRE AND EXPAND MILITARY BASES IN THE INDIAN OCEAN. AFTER EXPRESSING ITS SOLIDARITY WITH THE IRANIAN REVOLUTION, THE RESOLUTION APPEALS TO IRAN "TO CONTINUE TO WORK TOWARDS THE SOLUTION OF THE QUESTION OF THE HOSTAGES IN THE SPIRIT OF ISLAM" AND TO THE U.S. TO REFRAIN FROM ANY ACTION WHICH MIGHT HAMPER THE SOLUTION OF THE HOSTAGE PROBLEM.

/ PALESTINE

PALESTINE.

4. THERE ARE A SERIES OF RESOLUTIONS MOSTLY IN CONVENTIONAL TERMS. THE MOST URGENT ONE IS ON AL QUDS (JERUSALEM) AND CALLS ON THE SECURITY COUNCIL TO CONVENE IMMEDIATELY TO ANNUL THE ISRAELI DECISION TO MAKE JERUSALEM THE CAPITAL AND TO "IMPOSE THE SANCTIONS STIPULATED IN ARTICLE 7 OF THE CHARTER OF THE UNITED NATIONS". IT CALLS ON ALL ISLAMIC COUNTRIES TO SEVER RELATIONS WITH ANY COUNTRY WHICH SUPPORTS THE ISRAELI DECISION TO MAKE JERUSALEM THE CAPITAL OR MOVES ITS EMBASSY THERE AND CONDEMNS THE AMERICANS FOR ENCOURAGING THE ISRAELIS TO ESCALATE THEIR AGGRESSION. AN EXTRAORDINARY SESSION OF THE ISLAMIC CONFERENCE WILL BE HELD WITHIN THREE MONTHS IF ISRAEL PERSISTS IN ITS DECISION TO MAKE JERUSALEM THE CAPITAL. ANOTHER RESOLUTION CALLS ON ALL ISLAMIC STATES TO SEVER DIPLOMATIC AND ECONOMIC RELATIONS WITH EGYPT.

5. AMONGST THE OTHER RESOLUTIONS ON POLITICAL SUBJECTS ARE :-

(I) A CALL ON ALL MUSLIM COUNTRIES TO REMAIN ON GUARD AGAINST EFFORTS TO ESTABLISH FOREIGN MILITARY BASES ON THEIR TERRITORIES OR FURNISH FACILITIES OF FOREIGN ARMED FORCES.

(II) THE ESTABLISHMENT OF AN EXPERT GROUP TO RECOMMEND CONCRETE MEASURES FOR THE STRENGTHENING OF SECURITY OF THE ISLAMIC COUNTRIES (GENERAL ZIA'S IDEA AT THE LAST MEETING).

(III) CONSIDERATION OF MEASURES TO COUNTER PROPAGANDA AGUCFYT ISLAM (NO MENTION OF THE DEATH OF A PRINCESS).

(IV) THE ESTABLISHMENT OF NUCLEAR WEAPON FREE ZONES IN AFRICA, THE MIDDLE EAST AND SOUTH ASIA AND THE STRENGTHENING OF THE SECURITY OF NON-NUCLEAR WEAPON STATES AGAINST THE USE OR THREAT OF NUCLEAR WEAPONS.

(V) A REAFFIRMATION OF THE RESOLUTION OF THE LAST MEETING AGAINST THE PRESENCE OF RUSSIAN AND OTHER ALLIED FORCES IN THE HORN OF AFRICA AND THE CONTINUED AGGRESSION AGAINST SOMALIA : THE RESOLUTION CALLS FOR THE IMMEDIATE, TOTAL AND UNCONDITIONAL WITHDRAWAL OF THESE FORCES AND DECIDES TO GIVE MORAL, POLITICAL AND MATERIAL HELP TO SOMALIA.

6. SEE MIFT.

7. FCO PLEASE REPEAT FURTHER AS NECESSARY.

8. FCO PLEASE PASS SAVING TO UKMIS NEW YORK, KABUL, DELHI, TEHRAN, UKDEL NATO, UKREP BRUSSELS AND JEDDA.

FORSTER

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Foreign and Commonwealth Office

London SW1A 2AH

P.N. informed + limited

K. Paul = 23/5

22 May 1980

Dear Michael,

Iran: Sanctions

Lord Carrington has not yet seen Mr Nott's minute of 22 May to the Prime Minister. He has, however, suggested that the terms of the announcement we make on sanctions should not say specifically that the orders will be made next Thursday, but rather than the orders will be made not later than Thursday 29 May and if possible, sooner. Lord Carrington believes that this formulation is likely to be more welcome to our European partners. He also understands that it may be feasible to lay the orders on Wednesday 28 May. If so, he would see advantage in doing so.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for Industry, the Attorney-General, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Secretary to the Cabinet.

Yours etc

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

23 MAY 1980





ms

10 DOWNING STREET

Prime Minister -

(1)

The Americans have little
idea of the meaning of words.

Given other matters that are
under discussion with the U.S.
at present + on which Pres Carter's
goodwill is important, you may
wish to have a word with him
on the 'phone to-morrow.

It seems to me important that
we lay our order as soon as possible.
The other eight are taking action
to-morrow and, it is said, are steering
to 4 Nov as the starting date. You
may like to say in Cabinet that the
order should be laid on Friday even
tho' it is a holiday.

21.5.80

Am

OUT TELEGRAM

Classification and Caveats
CONFIDENTIAL

Precedence/Deskby
IMMEDIATE

1 ZCZC
 2 GRS
 3 CONFIDENTIAL
 4 **DEDIP PERSONAL FOR AMBASSADOR FROM PRIVATE SECRETARY**
 5
 6 FM FCO 212030Z MAY 80
 7 TO IMMEDIATE WASHINGTON
 8 TELEGRAM NUMBER
 9 IRAN
 10 1. Mr Muskie telephoned the Secretary of State this evening.
 11 He said that the President had asked him to pass on his sharp
 12 displeasure over the United Kingdom's action on sanctions. Mr
 13 Muskie himself was also concerned. He had taken to heart the
 14 Secretary of State's and Monsieur Francois-Poncet's suggestion
 15 that he should put as positive a construction as possible on the
 16 decision of the Nine and he had done so at his first Press
 17 Conference afterwards. The President had not been altogether
 18 happy at this. The British action was disturbing in that he
 19 would now be forced to retreat from this position.
 20 2. He was in addition concerned about the effect on the
 21 attitude of the rest of the European Community and on Japan. The
 22 Japanese, having previously expressed support for the action of
 23 the Nine over sanctions, now seemed to be holding back. It would
 24 be hard to maintain the unity of the United States with its allies
 25 in these circumstances. There was in addition the problem of

h.c. Hurd 23/s

[Handwritten signature]

NNNN ends telegram	BLANK	Catchword the Olympics
File number	Dept Private Office	Distribution Files <i>PS</i> PS/LPS PS/Mr Hurd PS/PUS PS/Sir D Maitland Mr Bullard Mr J Moberly Mr Fergusson, <i>Head of MEI</i> Mr Alexander (No 10)
Drafted by (Block capitals) P Lever		
Telephone number 233 4831		
Authorised for despatch <i>PC 21/5/80</i>		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
CONFIDENTIAL

Page
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1 <<<<

2 the Olympics where the situation seemed to be on the point of
3 collapse in the perception of American public opinion. In
4 addition Mr Muskie's own personal position was at stake: he might
5 be represented as having returned from Europe with less than when
6 he set out.

7 3. The Secretary of State replied that sharp displeasure was not
8 an expression which he cared for. The British Government had
9 tried to ~~go along with~~ ^{support} the United States as much as it could.
10 This was the spirit in which he had gone along with the decision
11 at Naples. However, on his return to London it had become clear
12 that the decision was not sustainable in Parliament. Mr Muskie
13 with his long experience of Congress ought to understand this.
14 The House of Commons had erupted when it had heard the details
15 of the decision. The Government's Chief Whip had estimated that
16 the Government would probably lose the vote by over 100. The
17 Government had therefore had to decide whether it was better to
18 be seen to be rebuffed in Parliament by such a huge vote or to
19 change the terms of the decision. To have suffered a defeat in
20 Parliament would have called the whole sanctions policy into
21 question and might have severely prejudiced solidarity with the
22 United States. This would have been a worse disservice to the
23 Americans.

24 4. Lord Carrington added that he had not enjoyed having to
25 reverse the decision. It was he who had agreed to the statement
26 of the Nine in Naples. All however that the Government was
27 unable to do was to preclude contracts signed between 4 November
28 and now. Only one contract of any significance was involved,
29 a Hawker Sideley deal for turbines. In practical terms the
30 change in the Government's position was nothing, though Lord
31 Carrington recognised that it had a psychological importance.
32 It seemed moreover that the other Eight would go ahead with
33 the original decision. He did not know about the Japanese
34 decision but they had been robust up till now. The United

NNNN ends
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Catchword

Kingdom

OUT TELEGRAM (CONT)

Classification and Caveats
CONFIDENTIAL

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2 Kingdom would thus be the odd man out in Europe. He did not
3 relish this one bit. But, he repeated, sharp displeasure was a
4 little extravagant as an expression in the light of the support
5 which the British Government had been giving the Americans.

6 ~~5~~ Mr Muskie said that this was an expression used by President
7 Carter in commenting on a note on the problem which Mr Muskie
8 had sent him. ~~5~~ Lord Carrington added that it was not the
9 particular contracts involved which were important in Parliamen-
10 tary terms but the element of retrospection. This was a red rag
11 to a bull in the British constitution and Parliament was simply
12 not prepared to wear it.

13 6. Mr Muskie said that he thought that he might be able to
14 reassure the President somewhat having heard this explanation.
15 He himself had no doubts on a personal basis about the Secretary
16 of State's commitment to support. He asked whether there was
17 any hope of improving the position over the Olympics. Lord
18 Carrington said that the Prime Minister had written to the
19 Chairman of the British Olympic Association and that he himself
20 had made a speech on the subject the previous day. He, or
21 another Cabinet colleague, would be seeing the Chairman of the
22 various sporting Federations shortly. There had also been some
23 useful comments in the press from Soviet defectors. But the
24 decisions of the Belgians, Irish and Dutch Olympic Committees
25 would not help. Mr Muskie said that the Americans were putting
26 pressure on the Japanese.

27 7. Muskie also asked about the flavour of the Secretary of
28 State's talks with Gromyko. Lord Carrington said that you had
29 already given an account of them to Newsom and that they seemed
30 to tally, with one exception, which seemed of doubtful
31 significance, with Mr Muskie's own conversation with Gromyko.
32 Gromyko had seemed more courteous than last time and seemed to
33 be looking for a political settlement though not at a price which
34 the West could possibly accept. Mr Muskie said that President

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Catchword

/Giscard

OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

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2 Giscard seemed to have received the same impression from
 3 President Brezhnev. Lord Carrington agreed, adding that the
 4 only new element seemed to be the idea for some kind of summit
 5 meeting.

6

7 CARRINGTON

8 NNNN

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Catchword

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FM WASHINGTON 211700Z MAY 80

TO PRIORITY F C O

TELEGRAM NUMBER 1957 OF 21 MAY 1980,

INFO ROUTINE TEHRAN, E C POSTS, UKMIS NEW YORK, B I S NEW YORK.

MY TELNO 1946: AMERICAN PRESS REACTION TO H M G'S DECISION ON IRAN SANCTIONS.

1. WASHINGTON POST FRONT PAGE REPORT UNDER PROMINENT HEADLINE "BRITAIN BACKS OFF PLANNED CURBS ON TRADE WITH IRAN", AND FULL REPORT ON INSIDE PAGE OF NEW YORK TIMES "BRITAIN MODIFIES SANCTIONS ON IRAN, LIMITS BOYCOTT TO FUTURE CONTRACTS" TYPIFY COVERAGE TODAY.

2. DOWNIE (WASHINGTON POST) SAYS THE EUROPEAN COMMITMENT TO IMPOSE LIMITED SANCTIONS HAS BEEN THROWN INTO CONFUSION AND DOUBT BY THE BRITISH DECISION. BRITAIN'S SUDDEN RETREAT MEANS THAT SANCTIONS WILL HAVE VIRTUALLY NO IMMEDIATE EFFECT ON ITS RAPIDLY GROWING TRADE WITH IRAN. BRITISH POLITICIANS WERE CLAIMING THAT MANY BUSINESSMEN WERE PREPARING TO GET ROUND SANCTIONS ANYWAY BY SENDING GOODS THROUGH TURKEY OR EASTERN EUROPE, AND THAT THE MAJOR CASUALTIES OF CUTTING OFF EXISTING CONTRACTS WOULD BE BIG EXPORTERS WHO COULD NOT EASILY DO THIS SUCH AS TALBOT WHERE SEVERAL THOUSAND JOBS WOULD BE LOST. "BRITAIN'S TRADE WITH IRAN HAS BOUNCED BACK TO MORE THAN DOLLAR'S 100 MILLION A MONTH, NEARLY AS HIGH AS BEFORE THE REVOLUTION". DOWNIE SAYS THE RETREAT LEAVES BRITAIN IN AN EMBARRASSING POSITION IN ITS RELATIONSHIP WITH THE U S AND THE E C. BRITAIN HAD BEEN GAINING INFLUENCE IN THE CREATION OF COORDINATED EUROPEAN POLICIES ON IRAN, AFGHANISTAN AND THE MIDDLE EAST, WHILE FIGHTING TENACIOUSLY FOR A BETTER FINANCIAL DEAL IN THE E C. BRITAIN WAS THE MOST OUTSPOKEN PROponent FOR STRONG EUROPEAN ACTION AGAINST MOSCOW, BUT IN THE END VERY LITTLE BRITISH TRADE WITH THE SOVIET UNION WAS INTERRUPTED AND THE B O C VOTED OVERWHELMINGLY TO TAKE PART IN THE MOSCOW OLYMPICS.

3. APPLE (N Y T), STRESSING THAT THE GOVERNMENT'S DECISION WAS IN RESPONSE TO AN UNEXPECTED PARLIAMENTARY REVOLT, SAYS THE RESULTING EUROPEAN DISARRAY REPRESENTS YET ANOTHER SETBACK FOR CARTER'S LONG AND FRUSTRATING CAMPAIGN TO WIN SUPPORT FROM THE ALLIES. IT NOW SEEMS UNLIKELY THAT SANCTIONS OF ANY SORT CAN GO INTO EFFECT BY THURSDAY AS ORIGINALLY CONTEMPLATED. APPLE QUOTES THE C B I AS SAYING THAT THEY WOULD BE SURPRISED IF MUCH MONEY WAS INVOLVED IN THE DECISION NOT

/TO

TO MAKE SANCTIONS RETROACTIVE. BUT APPLE SAYS THE DECISION WAS A SPECIAL EMBARRASSMENT BECAUSE THE PRIME MINISTER AND THE FOREIGN SECRETARY HAD REPEATEDLY TOLD THEIR EUROPEAN PARTNERS THAT THE TOUGHNESS OF THE SANCTIONS WAS A SYMBOL OF EUROPE'S SOLIDARITY WITH THE U S. DESCRIBING THE BACKGROUND TO THE GOVERNMENT'S DECISION, APPLE SAYS IT APPEARED POSSIBLE THAT THE GOVERNMENT WOULD HAVE BEEN DEFEATED ON A FOREIGN POLICY QUESTION WHICH WOULD HAVE BEEN A GRAVE AND HIGHLY UNUSUAL STEP. APPLE QUOTES AN F C O SPOKESMAN, "WE ARE ABSOLUTELY UNAPOLOGETIC ABOUT NAPLES. WE THOUGHT IT REPRESENTED THE BEST POLICY. WE NOW MUST LIVE WITH A SECOND-BEST POLICY. THERE IS NOTHING FOR US BUT TO DO IT AS CAREFULLY AS POSSIBLE AND TO LIMIT BIFURCATION WITH EUROPE TO THE DEGREE POSSIBLE".

4. SCATHING COMMENTS FROM GOVERNMENT SPOKESMEN IN BONN AND PARIS ARE WIDELY REPORTED.

5. NO EDITORIAL COMMENT SO FAR. BUT THE DECIBEL LEVEL OF TELEPHONE COMPLAINTS TO THE EMBASSY HAS RISEN SHARPLY. PUBLIC REACTION RANGES FROM VITRIOLIC TO ONE OF DISAPPOINTMENT THAT THE U S HAS BEEN "LET DOWN". AND WE ARE NOW BEING LUMPED TOGETHER WITH THE FRENCH FOR FAILING TO SHOW ALLIANCE SOLIDARITY.

HENDERSON.

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TO IMMEDIATE FCC

TELEGRAM NUMBER 407 OF 21 MAY

INFO PRIORITY UKREP BRUSSELS, WASHINGTON

INFO ROUTINE TO OTHER EC POSTS, TOKYO

MY TELNO 405 (NOT TO ALL): SANCTIONS AGAINST IRAN.

MIPT

1. THIS COMMENT IS REMARKABLY UNIFORM, HOSTILE AND WELL ORCHESTRATED. APART FROM THE PUBLIC REMARKS BY LAMSDORFF AND OTHERS THE PRESS HAS CLEARLY BEEN BRIEFED BY THE AUSWAERTIGES AMT, THE FEDERAL MINISTRY OF ECONOMICS, AND POSSIBLY THE CHANCELLOR'S OFFICE.

AS A RESULT THEY HAVE HAD A FIELD DAY AT BRITISH EXPENSE.
2. THE GERMAN REACTION TO THIS PROBLEM OF LIMITED IMPORTANCE AND EFFECT ARISING FROM GENUINE PARLIAMENTARY DIFFICULTY CONTRASTS WITH THE RETROSPECTIVE WELCOME GIVEN BY GOVERNMENT AND PRESS HERE TO GISCARD'S INDEPENDENT INITIATIVE IN MEETING BREZHNEV IN POLAND. IT IS ANOTHER CLASSIC EXAMPLE OF DOUBLE STANDARDS. WE SHALL BE TAKING SUITABLE OPPORTUNITIES TO RUB THIS POINT HOME.

3. THERE IS ALSO AN ELEMENT OF HYPOCRISIS IN THE GERMAN ATTITUDE GIVEN THAT THEIR OWN POSITION ON SANCTIONS AS APPLIED TO CONTRACTS CONCLUDED SINCE 4 NOVEMBER IS FAR FROM CAST IRON, AND IT REMAINS TO BE SEEN HOW DETERMINED THE FEDERAL GOVERNMENT WILL PROVE TO BE IN PRACTICE WHEN IT COMES TO REVOKING EXPORT LICENCES (MY TELNO 403).

4. ONE MUST THEREFORE LOOK FOR REASONS FOR THIS OUTBURST OTHER THAN THE IMMEDIATE DIFFICULTY WHICH OUR DECISION MAY CREATE FOR THE GERMANS OVER THEIR OWN SANCTIONS POLICY. PART OF THE CAUSE MUST LIE IN THE PENT UP IRRITATION WHICH FEDERAL MINISTERS AND OFFICIALS HAVE HARBOURED AGAINST THE UK EVER SINCE DUBLIN, COMPOUNDED BY OUR IMMEDIATE REACTIONS TO AFGHANISTAN (EG OVER OLYMPICS) AND MORE RECENTLY BY LUXEMBOURG. IN THE SANCTIONS ISSUE THEY HAVE FOUND A TARGET WHICH, AS THEY SEE IT, EMBODIES A SPECTRE OF OUR POLICIES WHICH MOST ANNOY THEM AT PRESENT: STRONG WORDS BUT WEAK ACTION, AND A READINESS TO DEBERT A COMMON COMMUNITY LINE AS SOON AS THE GOING GETS ROUGH.

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/5. THE PRESS

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5. THE PRESS HAS SUGGESTED THAT THE SANCTIONS ISSUE IS BOUND TO HAVE AN ADVERSE EFFECT ON MOVES TOWARDS A SETTLEMENT OF THE COMMUNITY BUDGET ISSUE. THIS MAY BE CORRECT. GERMAN UNWILLINGNESS ACTIVELY TO LOOK FOR WAYS OF REACHING A FINAL SETTLEMENT HAS BEEN MADE VERY CLEAR AT ALL LEVELS IN THE PAST 2 WEEKS. DOHNANYI IS AN EXCEPTION (MY TEL 398). THE RETREAT ON A LIMITED ASPECT OF THE SANCTIONS PROBLEM MAY BE CITED AS A FURTHER EXAMPLE OF OUR LACK OF COMMUNITY MINDEDNESS. ON THE OTHER HAND, THE RELEASE OF GERMAN FEELING ON THIS ISSUE, WHICH IS ONLY TENOUSLY RELATED TO THE BUDGET PROBLEM, COULD HAVE A CATHARTIC EFFECT. WE MUST HOPE SO.

WRIGHT

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TO IMMEDIATE FCO

TELEGRAM NUMBER 406 OF 21 MAY

INFO PRIORITY UKREP BRUSSELS, WASHINGTON,

INFO ROUTINE OTHER EC POSTS, TOKYO

MS
P S TO P M NO10 DOWNING ST

3 tele: had a full

I have. Napier was a key edly not.

MY TELNO 405 (NOT TO ALL): SANCTIONS AGAINST IRAN

1. THE HIGHLY CRITICAL REMARKS BY LAMBSDORFF AND RODENSTOCK ABOUT HIG'S DECISION NOT TO IMPLEMENT FULLY THE ARRANGEMENTS AGREED AT NAPLES TOGETHER WITH OTHER ADVERSE COMMENT FROM POLITICAL AND OFFICIAL CIRCLES HERE HAVE BEEN PICKED UP BY VIRTUALLY ALL LEADING NEWSPAPERS IN THE FEDERAL REPUBLIC. THE RESULT IS AN ALMOST UNIVERSALLY HOSTILE BARRAGE OF REPORT AND COMMENT, MUCH OF IT ON THE FRONT PAGES AND WITH BANNER HEADLINES. LAMBSDORFF IS REPORTED TO HAVE SAID THAT THIS ACTION FITS IN WITH A NUMBER OF STRONG BRITISH PRONOUNCEMENTS AND WEAK ACTIONS. THE FOREIGN POLICY SPOKESMAN OF THE FDP PARLIAMENTARY PARTY, SCHAEFER, IS QUOTED AS SAYING THAT MRS THATCHER WAS TURNING OUT TO BE AN IMPEDIMENT TO A COMMON EUROPEAN COMMUNITY COURSE. IN SOME CONTRAST BOELLING, THE FEDERAL GOVERNMENT SPOKESMAN, REPORTEDLY SAID ON THE RADIO YESTERDAY THAT THE BRITISH ACTION WAS TROUBLESOME (STOEREND) BUT IT WAS NOT UP TO THE GERMANS TO CRITICISE, WHILE THE FRANKFURTER ALLGEMEINE ZEITUNG REPORTED THAT THE BRITISH WERE RELIEVED THAT THE EUROPEAN CRITICISM WAS NOT TOO HARSH.

2. COMMENT IS CRITICAL THROUGHOUT AND DIE WELT'S LEAD SENTENCE QUOTE THATCHER OF ALL PEOPLE UNQUOTE UNDER A FRONT PAGE HEADLINE QUOTE IRON LADY HOISTED THE WHITE FLAG UNQUOTE IS REPRESENTATIVE OF THE MOOD. THE FRANKFURTER RUNDSHAU CHARACTERISTICALLY COMMENTS THAT QUOTE THE BEHAVIOUR OF THATCHER'S GOVERNMENT IS HARD TO UNDERSTAND. THIS STEPPING OUT OF LINE IS NEW PROOF THAT MANY PEOPLE IN BRITAIN DO NOT TAKE EUROPE VERY SERIOUSLY - AND NOT AT ALL WHEN THEIR OWN INTERESTS ARE INVOLVED UNQUOTE. HANDELSBLATT SUGGESTS THAT WHEN AFTER THE SUCCESSFUL PARLIAMENTARY REVOLT THE TORIES SEE THAT THE BRITISH ARE ULTIMATELY DENIED A SETTLEMENT OF THE EC BUDGET ISSUE, MRS THATCHER MIGHT BE FORCED BY HER OWN INCREASINGLY NATIONALISTICALLY ORIENTED PARTY TO ANTI-EUROPEAN ACTION THAT SHE DOES NOT WANT. THERE IS ALSO EXTENSIVE COMMENT TO THE EFFECT THAT THE EPISODE WILL HAVE REDUCED EVEN FURTHER OUR PARTNERS' READINESS TO SETTLE THE UK BUDGET PROBLEM.

3. SEE MIFT.

WRIGHT

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Prime Minister

*A number of points to
Mr. Wyatt is a sensible
man & Goodison an able one.*

Foreign and Commonwealth Office

London SW1A 2AH

You met Mr Simpson-Orlebar yesterday. 21 May 1980

RM 2/5

MI

Dear Richard,

A As you will know (my letter to you of 21 April) Lord Carrington proposes that Sir J Graham should shortly return from Tehran to take over supervisory responsibilities at Deputy Under Secretary level in the FCO for the Middle East and Southern Asia.

B Lord Carrington has approved the appointment of Mr A C Goodison, at present Minister in Rome, to succeed Sir J Graham in Tehran. He also proposes that the post of C Ambassador in Tehran should be down-graded to Grade 3.

D It is proposed that Sir J Graham should leave Tehran in early June, subject of course to any unforeseen developments over the hostages. For operational reasons connected with the State Visit to Italy in October it is difficult for Mr Goodison to take up his new appointment before late autumn. Lord Carrington sees no difficulty about an interval of this length, particularly as the post at Tehran will be in the hands of an experienced Charge d'Affaires, the present Counsellor, Mr A H Wyatt. He considers however that, unless the Iranians should react to the Nine's decision to impose sanctions by seeking to reduce contact through the diplomatic channel, there is much to be said in the interest of maintaining continuity in our relations with the Iranian Government in having Sir J Graham initiate the process of seeking E Agreement for his successor before he himself leaves Tehran, in accordance with normal custom. In order that we may be in a position to follow this course, if circumstances should make it desirable, Lord Carrington wishes to complete the Whitehall formalities for Mr Goodison's nomination now.

F You may also wish to inform the Prime Minister that the Foreign and Commonwealth Secretary has approved the appointment of Mr M K O Simpson-Orlebar to succeed Mr A C Goodison as Minister at Rome.

G H Walden

(G G H Walden)

M O'D B Alexander Esq
10 Downing Street

MB

GRS 150
UNCLASSIFIED
FM BONN 201428Z MAY 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 405 OF 20 MAY
INFO PRIORITY UKREP BRUSSELS, WASHINGTON

IRAN: SANCTIONS

1. ADDRESSING THE ANNUAL MEETING OF THE FEDERATION OF GERMAN INDUSTRIES (BDI) IN MAINZ THIS MORNING, GRAF LAMBSDORFF, EXPRESSED DISAPPOINTMENT AT THE LONDON DECISION NOT TO IMPLEMENT FULLY THE ARRANGEMENTS AGREED AT NAPLES. THIS WAS ALL THE MORE REGRETTABLE, HE SAID, IN VIEW OF THE COMFORTABLE MAJORITY THE BRITISH GOVERNMENT ENJOYED IN THE HOUSE OF COMMONS. HIS REMARKS DREW SOLID APPLAUSE FROM THE LARGE AUDIENCE OF SENIOR GERMAN INDUSTRIALISTS.
2. PROFESSOR RODENSTOCK, PRESIDENT OF THE BDI, SPEAKING BEFORE LAMBSDORFF, ALSO NOTED THAT IN CONTRAST TO OTHER EC MEMBERS THE UK WAS NOT GIVING FULL SUPPORT TO COMMUNITY SANCTIONS POLICY. THIS SUBJECT WAS A MAIN TOPIC AT THE PRESS CONFERENCE WHICH FOLLOWED THE SPEECHES. ~~THE BDI REJECTED THE SUGGESTION THAT GERMAN INDUSTRY MIGHT NOW ALSO SEEK FOR ITSELF AN AMELIORATION OF THE AGREED COMMUNITY MEASURES: QUOTE WE SHALL NOT RIDE BEHIND THE BRITISH UNQUOTE.~~

WRIGHT

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TELEGRAM NUMBER 403 OF 20 MAY

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TOKYO CANBERRA UTTAWA

MIPT: SANCTIONS AGAINST IRAN: FRG ENABLING LEGISLATION

1. FRG'S ACTION IS BASED ON THE EXTERNAL ECONOMIC LAW (AUSSENWIRTSCHAFTSGESETZ), ORIGINALLY OF 1961. CHAPTER 7 (1) OF THE LAW STATES AS FOLLOWS (OUR UNOFFICIAL TRANSLATION):

QUOTE LEGAL TRANSACTIONS AND BUSINESS IN FOREIGN ECONOMIC TRADE CAN BE LIMITED IN ORDER TO:

- 1) GUARANTEE THE SECURITY OF THE FEDERAL REPUBLIC OF GERMANY;
- 2) PREVENT A DISRUPTION OF THE PEACEFUL EXISTENCE OF THE PEOPLES;
- 3) PREVENT THE SIGNIFICANT DISRUPTION OF THE FOREIGN RELATIONS OF THE FEDERAL REPUBLIC OF GERMANY UNQUOTE.

2. ON 23 APRIL THE FEDERAL CABINET IN PRINCIPLE AGREED 3 ORDINANCES UNDER THE AUSSENWIRTSCHAFTSGESETZ, LEAVING OPEN THE DATE ON WHICH THESE WOULD COME INTO EFFECT. THESE PROVIDE FOR TRADE WITH IRAN TO BE SUBJECT TO EXPORT LICENCES.

3. THE FEDERAL CABINET IS EXPECTED TO APPROVE ON 21 MAY A FURTHER ORDINANCE GIVING IMMEDIATE EFFECT TO THESE 3 ORDINANCES. THEY WOULD THEN TAKE EFFECT FROM THE DATE OF PUBLICATION, PROBABLY 22 OR 23 MAY. HENZE HAS TOLD US IN CONFIDENCE THAT THE EFFECT OF THE PACKAGE OF ORDINANCES APPROVED ON 21 MAY WILL BE TO REQUIRE EXPORT LICENCES EITHER:

- A) FOR ALL TRADE WITH IRAN EXCEPT FOOD AND MEDICINES;
- OR B) FOR ALL TRADE WITH IRAN EXCEPT FOOD AND MEDICINES UNDER CONTRACTS COMPLETED AFTER 4 NOVEMBER 1979. EXPORTERS CLAIMING EXEMPTION FROM THE LICENCE REQUIREMENT WOULD BE OBLIGED TO PROVIDE PROOF THAT THE CONTRACT CONCERNED WAS COMPLETED BEFORE 4 NOVEMBER 1979.

4. IN EITHER CASE IT WILL BE FOR THE GOVERNMENT TO DECIDE WHETHER TO GRANT A LICENCE. LICENCES WILL NORMALLY BE GRANTED FOR EXPORTS UNDER PRE-4 NOVEMBER CONTRACTS. HENZE EMPHASISED THAT THE GOVERNMENT INTENDED TO STICK FIRMLY TO THE NAPLES' DECISION AND THEREFORE DID NOT (NOT) EXPECT TO GRANT LICENCES FOR EXPORTS UNDER POST-4 NOVEMBER CONTRACTS.

5. BUT THE GOVERNMENT HAS STILL NOT REACHED ANY DECISION ABOUT THE PAYMENT OF COMPENSATION FOR BANNED EXPORTS UNDER POST-4 NOVEMBER CONTRACTS. THE DIFFICULTIES ARE OUTLINED IN EATON'S LETTER OF 29 APRIL TO LAMPORT (MED). WE UNDERSTAND THAT THEY NO LONGER INTEND TO BRING IN NEW PRIMARY LEGISLATION, AT LEAST FOR THE TIME BEING. INSTEAD THEY SEEM LIKELY TO WAIT AND SEE HOW BIG THE PROBLEM

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IS AND POSSIBLY TO AWAIT A TEST CASE IN THE COURTS. ACCORDING TO HENZE, THE PREVAILING VIEW IS THAT EXPORT CONTRACTS HAVE INHERENT RISKS; AND THAT SINCE AN EXPORTER CAN NEVER BE ABSOLUTELY SURE THAT HIS CONTRACT CAN BE FULFILLED, NO COMPENSATION IS WARRANTED. BUT HENZE EMPHASISED THAT THE ARGUMENT WAS STILL CONTINUING. MOREOVER THERE IS LIKELY TO BE CONSIDERABLE PRESSURE FROM INDUSTRY.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 454 OF 20 MAY 1980

INFO IMMEDIATE UKREP BRUSSELS, ROME AND BONN

INFO ROUTINE OTHER EC POSTS.

INFO SAVING TO TEHRAN, WASHINGTON, TOKYO, CANBERRA AND OTTAWA.

YOUR TELEGRAM NO 554 TO UKREP BRUSSELS: SANCTIONS AGAINST IRAN

1. FINANCIAL COUNSELLOR SPOKE AS INSTRUCTED TO MUSEUX, GUILLAUME'S DEPUTY IN THE QUAI D'ORSAY. MUSEUX SAID THAT THE FRENCH GOVERNMENT INTENDED TO ENACT A DECREE TO IMPLEMENT THE MEASURES AGREED AT NAPLES, QUOTING ARTICLES 21 AND 23 OF THE CUSTOMS CODE OF 1948 AND THE IMPORT AND EXPORT LAW OF 30 NOVEMBER 1944. THIS WAS EXPECTED TO BE APPROVED BY THE COUNCIL OF MINISTERS AT THEIR MEETING TOMORROW MORNING AND TO BE PUBLISHED IN THE OFFICIAL JOURNAL ON THURSDAY. THE TEXT HAD STILL NOT BEEN FINALISED, BUT ACCORDING TO MUSEUX, PRESENTLY COVERED ALL THE MEASURES AGREED AT NAPLES.

2. APPELEYARD EXPLAINED THE BACKGROUND TO THE BRITISH GOVERNMENT'S DECISION ON RETRO-ACTIVITY. MUSEUX SAID THAT THE PARLIAMENTARY CONSTRAINTS WERE WELL UNDERSTOOD. HOWEVER THE FRENCH GOVERNMENT'S AGREEMENT AT NAPLES TO IMPLEMENT COMMON MEASURES WAS BASED ON THE UNDERSTANDING THAT ALL OTHER MEMBER STATES WOULD TAKE PARALLEL ACTION. HE PERSONALLY THOUGHT THAT THE FRENCH GOVERNMENT WOULD NOW FOLLOW BRITAIN'S EXAMPLE ON RETRO-ACTIVITY. THIS WAS ALL THE MORE LIKELY IN HIS VIEW SINCE THE FRENCH GOVERNMENT HAD EARLIER HAD CONSIDERABLE MISGIVINGS OVER THE VULNERABILITY OF THIS ASPECT OF THEIR MEASURES TO CHALLENGE IN FRENCH COURTS. MUSEUX SAID THAT HE WOULD CONSULT THE PRIME MINISTER'S OFFICE AND TRY TO LET US HAVE A CONSIDERED VIEW LATER TODAY.

3. MUSEUX COULD NOT GIVE AN IMMEDIATE ANSWER ON A FURTHER MEETING OF THE COORDINATING GROUP ON IRAN IN THE ABSENCE OF GUILLAUME UNTIL THIS AFTERNOON. HE AGREED TO CONSULT THE PRIME MINISTER'S OFFICE TO SEE WHETHER AT LEAST A COPY OF THE TEXT COULD BE GIVEN TO THE EMBASSY TOMORROW FOR TELEGRAPHING TO LONDON. HE UNDERTOOK TO CALL BACK ON BOTH THESE POINTS LATER TODAY. FOO PLEASE PASS SAVING TO TEHRAN, WASHINGTON, TOKYO, CANBERRA AND OTTAWA.
JAMES.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 333 OF 20 MAY

INFO IMMEDIATE UKREP BRUSSELS.

YOUR TELNO 554 TO UKREP BRUSSELS: SANCTIONS AGAINST IRAN

1. BUCCI, DIRECTOR OF ECONOMIC AFFAIRS IN THE MFA, MADE CLEAR TO ME THIS MORNING THAT THE ITALIANS WERE UPSET BY OUR CHANGE OF POSITION. THEY HAD NO GREAT ENTHUSIASM THEMSELVES FOR RETROSPECTIVE SANCTIONS. HAVING GONE ALONG WITH US ON THIS, THEY NOW FOUND THE GROUND CUT FROM UNDER THEM. BUCCI THOUGHT THAT ALTHOUGH THE ITALIANS AND THE FRENCH WOULD PROBABLY IN THE END ACCEPT OUR DECISION PHILOSOPHICALLY, IT MIGHT CAUSE REAL DIFFICULTIES FOR THE GERMANS.
2. AS REGARDS ITALIAN LEGISLATIVE INTENTIONS, THE ITALIAN COUNCIL OF MINISTERS AGREED ON 19 MAY ON A SERIES OF DIRECTIVES TO INDIVIDUAL MINISTERS TO PREPARE TEXTS OF LEGISLATION COVERING (A) EXPORTS, (B) FINANCIAL ASPECTS AND (C) TRANSPORT OF GOODS. LEGISLATION IS LIKELY TO BE INTRODUCED BY DECREE LAW (WHICH TAKES IMMEDIATE EFFECT BUT HAS TO BE RATIFIED BY PARLIAMENT WITHIN 60 DAYS). PRECISE TEXTS ARE NOT YET AVAILABLE SINCE THEY HAVE NOT YET BEEN FINALISED.
3. I STRESSED OUR HOPE FOR AN EARLY MEETING OF THE CO-ORDINATING GROUP TO COMPARE TEXTS OF LEGISLATION. BUCCI TOOK NOTE, BUT SAID HE WOULD HAVE TO CONSULT MINISTER COLOMBO ABOUT THIS. HE COMMENTED THAT THE UK DECISION HAD ADDED A NEW ELEMENT WHICH WOULD NEED TO BE DISCUSSED BY THE NINE. BUT HE DOUBTED THE PRACTICALITY OF COMPARING TEXTS, AT LEAST SO FAR AS THE ITALIANS WERE CONCERNED, BECAUSE OF THE MULTIPLICITY OF TEXTS.
4. FCO PLEASE REPEAT FURTHER AS NECESSARY.

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From the Secretary of State

Clive Whitmore Esq
Private Secretary
10 Downing Street
Whitehall
SW1

Dear Clive.

IRAN SANCTIONS

My Secretary of State has been concerned at the suggestion that this Department acquiesced last week in the proposal for sanctions to apply to goods under contracts entered into after 4 November. He has asked me to write to you to clarify the Department's involvement in the consideration of the paper by the Italian Presidency which was discussed at the meeting of Foreign Ministers of the Nine on 17 May.

The Italian paper was tabled at a meeting held in Brussels on 13 May of officials of the Nine. The UK was represented by the FCO. (The DOT officials concerned with Iran were involved in the debates on the same day on the Iranian Sanctions Bill and were unable to attend the Brussels meeting). The Italian paper was unsatisfactory in a number of important respects; it envisaged for example legislation to impose financial sanctions, and discussed unsatisfactory criteria for excluding existing contracts, including a cut-off date of 4 November. The UK representative referred to Ministerial commitments on sanctions and entered a UK reserve specifically on the proposals relating to existing contracts for the supply of goods. Reserves were also entered by France and Belgium. Officials in this Department saw the report of the meeting in UKREP Brussels telegram no 2396 of 13 May.

The Italian paper was later distributed by the UK Permanent Representative in Brussels, but copies did not reach those concerned in the Department of Trade until Monday 19 May. DOT officials did not see any need to comment further on the paper in view of the entirely satisfactory reserve which had been entered in Brussels. We are not aware of any other meeting in Whitehall or elsewhere to discuss the Italian paper.

We were then consulted about the Foreign Secretary's briefing for the Naples meeting. This recommended a graduated implementation of sanctions, the details to be worked out by officials at further meetings. Any action on exports of goods was to be taken last of all. This was of course satisfactory to us - and in accordance with the decision of OD Committee.

Prime Minister.

To see.

AKH

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I'm afraid we have taken all the blame - particularly me - by the Foreign Meeting. 20 May 1980



I am copying this letter to Paul Lever (FCO), John Wiggins (Treasury), Ian Ellison (Industry), John Stevens (Chancellor of the Duchy's Office), Richard Prescott (Paymaster General's Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

20 MAY 1960



Top Copy:
United Nations, May 79
Visit of Sec General to Iran

Record of a Conversation between the Prime Minister and
the Secretary - General of the United Nations at No 10 on
Tuesday 20 May at 1630hrs

Iran

2. Dr Waldheim said he had wanted to resume direct talks with Iran. It was necessary to revive the negotiating process in order to avoid another military effort: such efforts would not solve the problem. He had telephoned Mr Bani Sadr and Mr Qotbzadeh from New York and talked to the latter in Belgrade. Mr Qotbzadeh was very receptive but wanted the Commission to present its report. When the Iranian Parliament convened, it could act on the basis of this report. Dr Waldheim had explained that the Commission could not present its report until the second part of its mandate had been fulfilled. The plan had been that the Commission would see the hostages and obtain their transfer out of the US Embassy compound to the authority of the Iranian Government, along with the 3 hostages in the Ministry of Foreign Affairs; after that, they would have been sent back to the United States. The plan had failed because the Ayatollah had not supported Mr Bani Sadr.

3. Dr Waldheim had explained that, if the Iranians wanted a report, the Commission would have to return to Iran; he had suggested he should first send a confidential emissary to prepare for their return and had chosen the Syrian member, Mr Adib Daoudi (a Sunni) in whom both sides had confidence. Mr Qotbzadeh had now said in public that Mr Daoudi

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should visit Iran only to deal with the report, not to discuss the hostages issue.

4. Dr Waldheim realised he had to protect himself against criticism from the radicals by not appearing too conciliatory and did not intend to make an issue of this unless it was exploited against him. In reality, it had been agreed that Mr Daoudi could prepare the ground in private with Messrs Bani Sadr and Qotbzadeh and with Ayatollah Beheshti. He had kept closely in touch with Mr. Muskie and agreed the text of his statement with him. Mr. Qotbzadeh had assured him the hostages were fit and healthy; some were still in the compound. But he was afraid of what would happen if even one of them were to come to harm.

5. The Prime Minister assumed that Beheshti was now dominating Khomeini. Dr. Waldheim agreed that the Ayatollah's religious entourage were making the decisions. He would be giving Mr. Daoudi his instructions in Geneva on Saturday and sending a personal message to Beheshti, pleading for his co-operation. After his own experience of Tehran he did not expect too much from this initiative, but it was another effort to break the ice. If no concessions were promised, such as an offer to reassemble the hostages in Tehran under the Iranian Government's authority he would think twice about sending the Commission back.

6. The Prime Minister said that, as a Parliamentarian, she would be surprised if the Majles' first act were to order the release of the hostages. This did not ring true. She would expect them to begin with something very nationalistic. Since Beheshti controlled over 50% of the seats, a decision of the Majles was unlikely to be helpful. What incentive was there for the Iranians to give up the hostages, apart from recovering international respectability? Was this a high priority? The UK had bought no Iranian oil since the beginning of April. BP and Shell had declined to buy at the new price of \$35 per barrel, provided the Federal Republic and Japan did the same. Iran could find alternative markets in Eastern Europe, but this gave them no hard currency. This was hurting most of all. Sanctions were being applied on arms, spare parts and future contracts - this was all the British Parliament would accept - and we were quietly doing quite a bit financially. Sanctions would not

release the hostages, but solidarity with the United States was important for us. She had no intention of criticising the Americans for their rescue operation. But if the Americans attempted military action, e.g. any mining of the Straits or a blockade, they would not keep the support of Europe, because of the repercussions elsewhere. But it was hard to criticise without offering an alternative. She agreed that Mr. Daoudi should not go to Tehran unless he could do a proper job. It might be easier to solve the problem if it could be forgotten for 6 months. The wives of the hostages, who had visited her 24 hours before the rescue attempt, were a stabilizing force. Their attitude was very sensible. They were prepared to wait, rather than jeopardise their husbands' lives.

7. Dr. Waldheim said that, so long as the power struggle continued in Iran, he expected no solution before the late summer, or even later. Agreeing, the Prime Minister considered the prospect of the internal disintegration of Iran very worrying. The siege of the Iranian Embassy in London had highlighted the bad deal which Arabistan was getting from Khomeini. This fertile ground for subversion was being exploited by Iraq. The hostages might be regarded as a unifying factor: this was one reason why they continued to be held. Hatred unified. We must continue with our diplomatic initiatives, but not so as to court a rebuff. Unless we were seen to be active, the pressures on President Carter to take military action would increase.

8. Sir A. Parsons commented that, in speaking to audiences all over the United States, he had in general encountered an eagerness to settle the affair quietly and peacefully. The pressures in Washington were self-induced. Dr. Waldheim agreed: the American people understood the difficulties and saw that military operations could not solve the problem. If Mr. Daoudi reported no change in the Iranian position, he agreed that the Commission should not go back. The Prime Minister said it would then be necessary to think of something else. Sir D. Maitland commented that the Red Cross and others had played a role, but the Commission looked the best bet. Dr. Waldheim said that Archbishop Capucci and Mr. MacBride had tried, but the latter's idea of a Nuremberg-style tribunal would not solve the problem. He had been disappointed to hear that Mr. MacBride was now being invited by Mr. Bani Sadr, along with other leftist representatives, to a meeting on 2-5 June.

(This was

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This was likely to end up with a resolution accusing the US and would produce no results.

20/5/90.

AFTER MY STATEMENT YESTERDAY ABOUT DECISIONS TAKEN ON THE IMPLEMENTATION OF SANCTIONS AGAINST IRAN BY FOREIGN MINISTERS OF THE EUROPEAN COMMUNITY MEETING INFORMALLY IN NAPLES OVER THE WEEKEND, THE HOUSE MADE ITS VIEW VERY CLEAR THAT THE INCLUSION OF RETROSPECTION, HOWEVER LIMITED, WAS UNACCEPTABLE.

THE GOVERNMENT HAS THEREFORE DECIDED THAT SANCTIONS WILL NOT BE RETROSPECTIVE. NO ORDERS WILL BE LAID BEFORE THE HOUSE WHICH BAN THE SUPPLY OF GOODS UNDER ARRANGEMENTS ASSUMED BEFORE THE DATE ON WHICH THOSE ORDERS WERE LAID. AND LAST NIGHT WE INFORMED OUR EC PARTNERS AND THE GOVERNMENT OF THE UNITED STATES THAT, IN VIEW OF THE OPPOSITION OF THIS HOUSE TO RETROSPECTION, WE WOULD NO LONGER BE PREPARED TO PROCEED TO APPLY ANY ELEMENT OF RETROSPECTION AMONG THE DECISIONS WHICH WE AGREED TO AT THE MEETING IN NAPLES. ARRANGEMENTS WHICH BAN THE SUPPLY OF ARMS CONTINUE IN FORCE.

THE RESULT OF THE GOVERNMENT'S DECISION NOT TO GO AHEAD WITH THE RETROSPECTIVE ELEMENT IN THE DECISION OF THE NINE WILL NOW BE THAT THE ORDERS IN COUNCIL WHICH WILL BE LAID BEFORE THE HOUSE TO IMPLEMENT SANCTIONS WILL NOT APPLY TO THE EXPORT OF GOODS UNDER CONTRACTUAL OBLIGATIONS ENTERED INTO BEFORE THE DATE OF THESE ORDERS. THE GOVERNMENT HOPES TO MAKE THESE ORDERS AS SOON AS POSSIBLE. BUT IT IS OUR INTENTION TO MAKE SURE THAT THESE ORDERS COVER THE SAME GROUND AS THE PARALLEL ORDERS WHICH OUR PARTNERS IN THE NINE WILL BE MAKING TO GIVE EFFECT TO THE SANCTIONS MEASURES TO WHICH WE HAVE ALL AGREED. I AM SURE THE HOUSE WILL AGREE THAT IT IS IMPORTANT TO MAKE SURE THAT WE ALL GO ALONG THIS ROAD AT THE SAME PACE AND THAT WE COVER THE SAME GROUND. THE NECESSARY PROCEDURES FOR COORDINATING WITH OUR PARTNERS ARE ALREADY IN HAND.

I CAN ALSO ASSURE HON MEMBERS THAT, WHEN THE ORDERS ARE LAID BEFORE THE HOUSE, THERE WILL BE AN OPPORTUNITY FOR THE HOUSE TO DEBATE THEM. AS EXPLAINED TO THE HOUSE DURING THE DEBATE ON THE IRAN (TEMPORARY POWERS) ACT ANY ORDERS MADE UNDER THE ACT WILL LAPSE IF THE HOUSE DOES NOT APPROVE THEM WITHIN 28 DAYS. THE HOUSE WAS ALSO GIVEN AN ASSURANCE THAT ORDERS MADE UNDER THE 1939 ACT WILL ALSO BE MADE SUBJECT TO A PARALLEL PROCEDURE. THIS IS TO SAY THAT, ALTHOUGH THE 1939 ACT DOES NOT PROVIDE FOR ORDERS MADE UNDER IT TO BE SUBJECT TO A RESOLUTION BY THE HOUSE, NEVERTHELESS IN THIS CASE BECAUSE OF THE EVIDENT IMPORTANCE OF THE QUESTION AND IN VIEW OF THE CLEARLY EXPRESSED VIEWS OF THE HOUSE, THE GOVERNMENT HAVE UNDERTAKEN TO REVOKE ANY ORDERS MADE UNDER THE 1939 ACT IF THE APPROVAL OF THE HOUSE FOR SUCH ORDERS IS NOT FORTHCOMING.

THIS HOUSE HAS BEEN UNITED IN ITS CONDEMNATION OF THE ILLEGAL DETENTION OF THE AMERICAN HOSTAGES IN IRAN. THE GOVERNMENT THOUGHT IT RIGHT TO PLAY A LEADING PART IN WORKING TOWARDS THEIR RELEASE. ONE OF THE MEASURES DECIDED UPON, IN CONJUNCTION WITH OUR EUROPEAN PARTNERS, WAS THE IMPLEMENTATION OF THE SANCTIONS PUT FORWARD IN THE VETOED SECURITY COUNCIL RESOLUTION. WE CONTINUE TO BELIEVE THAT THE POLICY OF APPLYING SANCTIONS, THOUGH WE RECOGNISE THAT THEY ARE OF LIMITED VALUE, IS RIGHT UNDER THE CIRCUMSTANCES, TO DEMONSTRATE OUR SOLIDARITY WITH OUR FRIEND AND ALLY, AND WITH THE LIMITED OBJECTIVE OF SECURING THE RELEASE OF THE HOSTAGES. OUR COMMUNITY PARTNERS HAVE HITHERTO TAKEN THE VIEW THAT THE APPROPRIATE WAY OF SHOWING SUCH SOLIDARITY WOULD BE TO APPLY SANCTIONS TO CONTRACTS CONCLUDED AFTER 4 NOVEMBER 1979. BUT WE ACCEPT THE VIEW OF THE HOUSE THAT SANCTIONS APPLIED IN THE UK SHOULD NOT BE RETROSPECTIVE. WE SHALL CONTINUE TO WORK FOR THE RELEASE OF THE HOSTAGES THROUGH WHAT MEANS WE HAVE, THROUGH QUIET DIPLOMACY AND PERSUASION AS WELL AS THROUGH THE OPERATION OF SANCTIONS; AND WE HOPE THAT OUR EFFORTS AND THE EFFORTS OF OUR PARTNERS MAY HELP TO BRING ABOUT AN EARLY RELEASE OF THE HOSTAGES.

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TO IMMEDIATE F C O
TEL NO 1925 OF 19 MAY 1980.

IRAN SANCTIONS: MUSKIE'S ATTITUDE TO NAPLES DECISION.

1. PLEASE SEE MY IMMEDIATELY PRECEDING TELEGRAM.
2. MUSKIE'S EXPRESSION OF DISCONTENT ON THE NAPLES SANCTIONS DECISION WAS CONVEYED IN RESPONSE TO A QUESTION. I DO NOT THINK THAT HE WAS INTENDING TO MAKE A DEMARCHE ON THIS SUBJECT.
3. NEVERTHELESS IT WAS REVEALING AND IS POTENTIALLY UNHEALTHY. I THINK THAT WE ARE GOING TO HEAR MORE NOW ABOUT THE DERELICTION OF THE EUROPEANS IN GOING BACK ON THEIR DECISION OF 22 APRIL. WE SHOULD, I SUGGEST, ARM OURSELVES IMMEDIATELY WITH A CONVINCING ARGUMENT ON THIS POINT AND I WOULD LIKE TO GET THIS ACROSS AS SOON AS POSSIBLE TO THE AMERICANS TO TRY TO PREVENT THE GENERATION OF UNNECESSARY FRICTION, WHICH COULD DO THEM NO MORE GOOD THAN IT COULD DO US.
4. WHAT I SUGGEST WE SAY IS MORE OR LESS AS FOLLOWS. THE EUROPEAN POWERS WERE ALWAYS SCEPTICAL ABOUT SANCTIONS. THEY TOOK THE DECISION ON 22 APRIL TO GO ALONG WITH THE VETOED SECURITY COUNCIL RESOLUTION ON SANCTIONS IN ORDER TO MANIFEST SOLIDARITY WITH THE AMERICANS. THE AMERICANS WERE IN A PARTICULARLY DIFFICULT MOMENT THEN BECAUSE OF THE FAILURE OF WHAT LOOKED LIKE A PROMISING ROUND OF NEGOTIATIONS ABOUT THE HOSTAGES AND THEY WERE EAGER FOR EUROPEAN SUPPORT. INDEED MUCH WAS BEING PUT OUT ABOUT THE NEED FOR THIS SUPPORT IF MILITARY ACTION WAS GOING TO BE AVOIDED. THE FACT THAT THE AMERICANS THEREUPON UNDERTOOK THE RESCUE OPERATION WAS INDICATION ENOUGH OF THEIR DOUBTS ABOUT THE EFFICACY OF SANCTIONS TO BRING ABOUT THE RELEASE OF THE HOSTAGES. THE EUROPEANS NOW HAVE SHOWN THAT THEY WISH TO GIVE THE AMERICANS THE INTERNATIONAL BACKING THEY ASK FOR BUT THEY MUST BE ALLOWED TO HAVE SOME SAY IN HOW THIS CAN BEST BE DONE, PARTICULARLY AS REGARDS THE APPLICATION OF SANCTIONS, ADMITTED BY ALL TO BE HIGHLY CONTROVERSIAL. THE NAPLES DECISION DOES NOT PRECLUDE THE FURTHER EXTENSION OF SANCTIONS. THE IMPORTANT COURSE FOR BOTH THE U.S. AND ITS ALLIES IS ABOVE ALL TO DEMONSTRATE SOLIDARITY. THE MOST COUNTER-PRODUCTIVE SIGNAL THAT CAN BE SENT TO THE IRANIANS AT THE PRESENT TIME IS FOR THE AMERICANS TO INDICATE DISCONTENT, PARTICULARLY WHEN THEY HAVE BEEN ASSURING US ALL ALONG THAT WHAT MATTERED TO THEM MOST WAS TO SECURE A COLLECTIVE EUROPEAN VIEW RATHER THAN THE DETAILS OF SANCTIONS.

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5. I SHOULD ADD THAT BLACKWILL IN THE NSC TOLD FRETWELL TODAY THAT THE PRESIDENT HAD DECIDED THAT THE EC SANCTIONS WERE TO BE REGARDED AS AN ADEQUATE RESPONSE AND THAT THERE WAS TO BE NO BACK-BITING OVER THEM WHATEVER PRIVATE DOUBTS MIGHT BE HARBOURED. THE LINE TAKEN BY THE STATE DEPARTMENT SPOKESMAN REFLECTS THIS - SEE N.I.F.T. BUT WE SHALL STILL NEED A DEFENSIVE LINE FOR USE WITH CRITICS IN THE PRESS AND ON THE HILL.

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NOTE FOR THE RECORD

Sanctions Against Iran

The Prime Minister held a meeting this afternoon in her room at the House to discuss the situation with regard to the application of sanctions by HMG against the Government of Iran. The meeting was attended by the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Secretary of State for Trade, the Secretary of State for Industry, the Chief Whip, the Chancellor of the Duchy of Lancaster, the Attorney General and Mr Douglas Hurd.

It was agreed that, in the light of the reception given in the House of Commons to the Lord Privy Seal's statement earlier in the afternoon, the Government faced a difficult choice. On the one hand they were publicly committed by the agreement reached by the Foreign Ministers of the Nine in Naples the previous day to include within the scope of any sanctions order contracts signed since 4 November. On the other hand it seemed clear that any attempt to introduce retrospection into an order would risk defeat in the House, either immediately or when the affirmative order was placed before it. A motion of censure was also a possibility.

In subsequent discussion it was agreed that while the Minister of State had been careful to leave open during the debate in the House the previous week the possibility of action under the 1939 Act which would have applied to existing contracts, the implication of much of what had been said was that there would be no retrospection. The Government might be able to defend itself on the letter of what had been said but would clearly be in breach of the spirit of the debate in taking 4 November as the starting point. The door might have been kept open but no-one had expected to have to use it.

There was some discussion as to whether it would be possible to lay an order dealing with new contracts while adding that if our partners made it clear that they were going to back-date their legislation, we would lay a draft order before the House on similar lines. However, it was pointed out that the problem lay with the principle of retrospection. It made little difference whether the Government laid an order at once or merely kept open the possibility of doing so.

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If the Government failed to give a clear undertaking that there would be no retrospection, it was likely to be defeated however the matter was presented.

The meeting therefore concluded that it was faced with the choice of either abandoning the attempt to cover contracts concluded between 4 November and mid-May or to press ahead with the attempt in the knowledge that it would be defeated. The Foreign and Commonwealth Secretary said that in this situation he thought it better to abandon the attempt. He did not like doing this but he thought the situation in Brussels could be handled.

The Prime Minister said it had been agreed that an order would be made making it clear that sanctions would be applied only to contracts entered into from the date of the order. In announcing this it would be made clear that the Government had taken account of the attitude of the House of Commons and in particular of Members' strong feeling that retrospective action against contracts entered into since 4 November would be in conflict with the spirit of the previous week's debate. The Foreign and Commonwealth Secretary said that he would take action immediately to inform our European partners and the US Government of the Government's decision.

Paul
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19 May, 1980

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 MR P B EDGLEY) ENGLAND
 MR R WILLIAMS CRE5 DOT
 MR W KNIGHTON DEPT OF TRADE
 MR C BENJAMIN DOI
 MR D LE B JONES) DEPT OF
 MR C LUCAS) ENERGY

UNCLASSIFIED

FM TOKYO 190240Z MAY 80
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 318 OF 19 MAY
 INFO PRIORITY WASHINGTON

ant

IRAN SANCTIONS

1. THE FOREIGN MINISTER ISSUED A STATEMENT ON IRAN SANCTIONS IN THE EARLY MORNING OF 19 MAY. THE MAIN POINTS ARE AS FOLLOWS:--

A. IT HAS BEEN THE BASIC POLICY OF THE JAPANESE GOVERNMENT TO WORK IN CONCERT WITH THE EC COUNTRIES FOR A PEACEFUL SOLUTION OF THE HOSTAGE PROBLEM.

B. THE JAPANESE GOVERNMENT HAVE TAKEN MEASURES IN RESPONSE TO THOSE DECIDED BY THE EC ON 22 APRIL AND HAVE BEEN CONSIDERING FURTHER SPECIFIC MEASURES:

C. NOW THAT THE EC FOREIGN MINISTERS' MEETING AT NAPLES HAS DECIDED ON 18 MAY TO PUT INTO PRACTICE IMMEDIATELY THE MEASURES CONTAINED IN THE UN SECURITY COUNCIL'S DRAFT RESOLUTION OF 18 JANUARY, THE JAPANESE GOVERNMENT, WHOSE APPRECIATION OF THE SITUATION IS SIMILAR, WILL INTRODUCE THE NECESSARY MEASURES IN ACCORDANCE WITH THEIR BASIC POLICY DESCRIBED ABOVE:

D. JAPAN CONSIDERS THAT THE PEACEFUL RESOLUTION OF THE PROBLEM IS OF THE UTMOST IMPORTANCE AND TO THIS END IS DETERMINED TO CONTINUE

BASIC POLICY DESCRIBED ABOVE

D. JAPAN CONSIDERS THAT THE PEACEFUL RESOLUTION OF THE PROBLEM IS OF THE UTMOST IMPORTANCE AND TO THIS END IS DETERMINED TO CONTINUE ITS EFFORTS IN CONCERT WITH THE EC AND OTHER COUNTRIES. JAPAN ALSO HOPES STRONGLY THAT INTERNATIONAL EFFORTS, PARTICULARLY BY THE UN, TO SOLVE THE PROBLEM WILL QUICKLY PRODUCE RESULTS;

E. JAPAN HAS HAD CLOSE AND FRIENDLY RELATIONS WITH IRAN AND SINCERELY HOPES TO MAINTAIN SUCH RELATIONS IN THE LONGER TERM. FOR THIS REASON AND OTHERS IT IS JAPAN'S STRONG WISH THAT THE IRANIAN GOVERNMENT RECOGNISE THE GRAVITY OF THE SITUATION AND RELEASE THE HOSTAGES AS QUICKLY AS POSSIBLE.

2. THE JAPANESE PRESS ON 19 MAY REPORTS THAT JAPAN'S POLICY WILL BE DECIDED AT A CABINET MEETING ON 20 MAY. THE PRESS PREDICTS THAT THE TRADE CONTROL AND FOREIGN EXCHANGE CONTROL ORDINANCES WILL BE REVISED APPROPRIATELY WITH EFFECT FROM 23 MAY, AND THAT EXPORT AND SERVICE CONTRACTS MADE BEFORE 4 NOVEMBER 1979 WILL NOT BE AFFECTED.

WILFORD

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DESKBY FCO 134998Z
ON IMMEDIATE TELERAN
TO IMMEDIATE FCO

TELEGRAM NUMBER 499 OF 19 MAY 80
INFO IMMEDIATE WASHINGTON
INFO PRIORITY UKMIS NEW YORK
INFO ROUTINE PARIS AND BONN.

WASHINGTON TELNO 1893 TO YOU (NOT TO UKMIS NEW YORK):

US/IRAN.

1. I MARKED MY TELEGRAM NO 483 ECLIPSE BECAUSE BOTH THE DUTCH AND ITALIAN AMBASSADORS WERE SO INSISTENT ON CONFIDENTIALITY. NEVERTHELESS IT SHOULD BE POSSIBLE TO GIVE THE AMERICANS A FAIR IDEA OF HOW BANI SADR AND QOTBZADEH ARE THINKING OF PLAYING THINGS IN THE NEXT THREE WEEKS BY DRAWING ON MY OWN DISCUSSIONS WITH THEM (MY TELS NOS 472, 479 AND 494). IN PARTICULAR QOTBZADEH MADE CLEAR TO ME THAT HE INTENDS TO USE THE REPORT OF THE UN COMMISSION AND THE PROCEEDINGS AND RESOLUTIONS OF THE INTERNATIONAL CONFERENCE ON AMERICAN INTERVENTION IN IRAN - IF HE CAN PULL OFF EITHER - TO ENABLE HIM TO SAY TO THE ASSEMBLY THAT IRAN'S GRIEVANCES AGAINST THE US HAD BEEN RECOGNISED BY THE WORLD, SO THAT IRAN'S POINT HAD BEEN MADE; BUT SINCE BOTH BODIES HAD CRITICISED IRAN FOR HOLDING THE HOSTAGES, IT WOULD BE RIGHT FOR THE ASSEMBLY TO DECIDE ON THEIR RELEASE. FOR HIS PART BANI SADR IS WORKING FOR A MESSAGE FROM KHOMEINI TO MARK THE INAUGURATION OF THE ASSEMBLY, WHICH WOULD STRESS THE COMPLETION OF THE INSTITUTIONS OF THE ISLAMIC REPUBLIC AND, THEIR ROLE HAVING BEEN PERFORMED, WOULD CALL FOR THE RELEASE OF THE HOSTAGES. (THE ANNOUNCEMENT HERE THAT THE ASSEMBLY WILL GET DOWN TO BUSINESS ON 28 MAY IS ENCOURAGING.) IN SPEAKING TO THE ITALIAN AMBASSADOR, BANI SADR SAID THAT HE WOULD HOPE TO OBTAIN IN RETURN ASSURANCES FROM THE US THAT THERE WOULD BE NO RETALIATION, OR DEMANDS FOR COMPENSATION AND THAT IRANIAN FUNDS WOULD BE UNBLOCKED. LAINGEN HAS SENT A MESSAGE TO THE IRAN WORKING GROUP IN WHICH INDEPENDENTLY HE HAS WORKED OUT A SIMILAR SCENARIO.

2. THE MERIT OF THIS APPROACH IS THAT IT DOES NOT REQUIRE THE US TO DO ANYTHING IN PUBLIC UNTIL THE HOSTAGES ARE RELEASED, ALTHOUGH BANI SADR ALMOST CERTAINLY WOULD WANT THE UNDERTAKINGS ABOUT RETALIATION, ETC. PRIVATELY IN ADVANCE. THE BEST COURSE MEANWHILE FOR THE AMERICANS AND THEIR ALLIES IS IN FACT TO DO AS LITTLE AS POSSIBLE, LETTING THE ISSUE SLIP FROM THE HEADLINES AND IN PARTICULAR AVOIDING ACTIONS WHICH WILL RALLY NATIONALIST OPINION HERE BOTH IN THE COUNTRY AND, IN PARTICULAR, IN KHOMEINI. HE IS THE KEY, IN MY VIEW. WITHOUT A CLEAR MESSAGE FROM HIM, IN THE RIGHT SENSE, I DOUBT IF QOTBZADEH'S DOSSIER OF THE UN COMMISSION'S REPORT OR THE CONFERENCE RESOLUTIONS WILL BE ENOUGH

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/To

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TO PERSUADE THE ASSEMBLY OR STEER IT AWAY FROM THE IDEA OF TRIALS. MOREOVER ONLY A CLEAR MESSAGE FROM KHOMEINI STANDS MUCH CHANCE OF PREVENTING BEHESHTI FROM CONTINUING TO USE THE ISSUE AGAINST BANI SADR, EVEN THOUGH I AM REASONABLY CONFIDENT THAT IF (SOME NOW WOULD SAY WHEN) BEHESHTI ACHIEVES POWER (THROUGH A NOMINEE PRIME MINISTER) HE ALSO WILL BE COMPELLED SOONER OR LATER TO ACCEPT THAT IRAN'S INTERESTS REQUIRE THE HOSTAGES' RELEASE. MEANWHILE I AM DOUBTFUL IF THERE IS MUCH PROSPECT OF WESTERN AMBASSADORS HAVING MUCH EFFECT ON HIM: AN ISLAMIC CONTACT GROUP MIGHT, THE SYRIANS BEST OF ALL.

3. IT IS INEVITABLY A GAMBLE. IF IT DOES NOT COME OFF, WE SHALL HAVE LOST 4 OR 5 WEEKS, WHICH IS THE MOST THAT WE OUGHT TO ALLOW BEFORE FURTHER TIGHTENING THE SCREW, EG BY PREVENTING DELIVERIES UNDER EXISTING CONTRACTS, OR BY BLACK-LISTING SHIPPING CALLING AT IRANIAN PORTS. AND BY THAT TIME WE MAY KNOW WHETHER BANI SADR IS FINISHED AS AN INDEPENDENT FORCE OR NOT.
4. ONE OBVIOUS RISK IS THAT BEHESHTI AND CO PREVAIL IN HAVING A NEW GOVERNMENT NOMINATED AND SUBMITTED TO THE ASSEMBLY BEFORE THE HOSTAGE ISSUE IS TACKLED. THERE ARE REASONABLE CONSTITUTIONAL ARGUMENTS FOR THIS AND IT IS VERY MUCH BEHESHTI'S TACTIC TO EXPLOIT SUCH ARGUMENTS. BUT A NEW GOVERNMENT, PERHAPS WITH A NEW FOREIGN MINISTER, WOULD HAVE TO READ ITSELF IN AND MIGHT BE RELUCTANT, LIKE THE ASSEMBLY, TO GRASP THIS NETTLE. HENCE THE IMPORTANCE OF KHOMEINI'S MESSAGE.

GRAHAM

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1/11/80

THE SPEAKER HAS GRANTED
A STANDING ORDER 9 DEBATE
TOMORROW ON THE IRANIAN
SANCTIONS POSITION ON THE
APPLICATION OF TAM DALTELL.

Jim

19/11/1980


PRIME MINISTER

IAN GILMOUR'S STATEMENT

As you have already heard, Ian Gilmour's Statement went badly. There was support for him from the Government side only from Peter Bottomley and hostility - explicit or implicit - from everyone else who spoke.

Peter Shore said that the Statement was very unsatisfactory. Recent events in Iran strongly reinforced the case for a measured delay. The House and country were now totally confused. In the debate last week, Government speakers had clearly said that existing contracts would be unaffected. To introduce retrospective sanctions now made a complete nonsense of the Bill which had been passed. He demanded a very early debate, and complained that Ian Gilmour had said nothing about the other topics of conversation at Naples.

The Lord Privy Seal quoted from Douglas Hurd's speech in the Second Reading Debate on the Iran Bill, which left all the options open. He said that the timing of a debate would be decided in conjunction with our partners and through the usual channels. He said that it was not the custom to make a Statement after informal meetings of Community Foreign Ministers.

Julian Amery said that sanctions posed an awkward dilemma: if they failed, our authority would be still further weakened and if they succeeded, they would strengthen the hand of opponents of the present Iranian Government. The Lord Privy Seal said that most people were against sanctions because they normally did not work. The Government made their reasons clear in the House for going ahead with them in this case.

Tam Dalyell asked what on earth had changed in the last 72 hours. The Lord Privy Seal said that nothing had changed. We could not rely on the 1939 Act solely, because it did not deal with service contracts or transport.

/ Sir Derek Walker-Smith

Sir Derek Walker-Smith said that he understood there were legal difficulties in Germany and Italy over retrospection. He asked how we differed from them. The Lord Privy Seal said that it was beyond his competence to answer that question. We aimed to act simultaneously and with the same degree of severity as our partners.

David Winnick said that the Government had cheated over the sanctions debate. The people who would actually suffer would be those with jobs in this country. Sanctions would be a futile and farcical gesture and would not help to release a single hostage. The Lord Privy Seal said that Mr. Winnick was totally wrong.

David Ennals said that the Government were going against the will of the House. The debate last week had been held on the clear understanding that sanctions would not be applied retrospectively.

Sir Nicholas Bonsor said that he was not aware that the legislation would be retrospective. It would do enormous damage to British industry.

Hal Miller said that the position was very confusing and disturbing for the motor industry. He wanted to know why back-dated powers had to be invoked.

Tony Marlow said that President Giscard did not seem to be acting in a coordinated way with his partners, and he feared the consequences of the sanctions decision for Talbot cars.

Bowen Wells said that the retrospective element was not made plain to the House. The Government would have to compensate those affected by it.

In answer to all of this the Lord Privy Seal said that the date of 4 November had been chosen because it was the date when the hostages were taken. Compensation was an important issue but there was no precedent for it in sanctions cases. The Government Front Bench had always kept open the possibility of retrospection.

Jack Straw said that hundreds of firms and thousands of work people would feel deceived by the Government's decision. Several Members asked how many workers would be involved, and the Lord Privy Seal confessed that he did not know. He said that every relevant matter would be considered and that he would certainly make enquiries to find out how many people were affected.

Les Huckfield said that the House had been misled. Sam Silkin said that great emphasis had been laid on the non-retrospective character of the Iran Bill.

Leslie Spriggs said that Members who had supported the Bill had been let down. He had not supported it because he did not trust the Government and he had been justified in that attitude.

After quite a lot more of this sort of thing, Peter Shore said that the Lord Privy Seal had not satisfied the House, in particular on retrospection. He called for a further Statement tomorrow on wider issues.

Tam Dalyell then immediately moved an S09 application, saying that a lot of firms had signed contracts since November and that the matter was therefore urgent. He said that people were now having to make decisions to reflect the Government's change of stance. He said that some people would now say that the Government were creatures of the Americans, subject to every pressure from Washington. There was great confusion between the Opposition Back-Benchers, the Speaker and the Lord Privy Seal about whether the Government were committed to a debate on the 1939 Act powers before they came into force or not. When it became clear that the Lord Privy Seal could not give that assurance, the Speaker granted an S09 debate for tomorrow.

MS

STATEMENT ON IRAN

Mr Speaker

With permission, I shall make a statement on Iran following the decisions taken during the informal meeting of Foreign Ministers of the Nine in Naples on 17/18 May. A copy of the statement issued by the Foreign Ministers of the Nine will be printed in the official report.

They
~~He~~ reviewed the latest developments in Iran. There were some grounds for encouragement, but nothing which constituted decisive progress leading to the hostages release.

Accordingly, as agreed in ^{*their*} our declaration of 22 April, ~~we~~ ^{*they*} decided to proceed without delay with the economic sanctions set out in the Security Council Draft Resolution of 10 January. ^{*has made*} The necessary Orders will now be drawn up. ~~It is the intention that these will enter into effect as soon as possible, and perhaps as early as Thursday 22 May.~~ There is agreement that the conditions and circumstances of application to be followed will be decided in common with our partners. It is accordingly our intention to

intention to act simultaneously with our partners on the basis of legal instruments co-ordinated to achieve parallel effect.

The House will have the opportunity to debate the Orders after they have been laid. As was made clear at the time when the House was considering the Iran (Temporary Powers) Act 1980, the Government intend to follow a variation of the "affirmative resolution" procedure for Orders made under this Act. This means that such Orders will lapse unless approved by the House within 28 sitting days. A parallel procedure will be following for Orders made under the Import, Export and Customs (Defence) Act 1939.

On the question of existing contracts, it was agreed that contracts for the export of goods to Iran entered into after 4 November 1979 would be affected by the sanctions. Export of goods under such contracts would be prohibited under the 1939 Act. However, service contracts will not be affected, except for new service contracts in support of industrial projects which will be banned as from the date of the entry into force of the appropriate /Order-in-Council.

Order-in-Council. We shall be co-ordinating closely with our Community partners to achieve parallel effects on these questions.

HOW CAN WE ACT AGAINST CONTRACTS SIGNED AFTER
4 NOVEMBER UNDER THE NEW IRAN ACT?

The new legislation supplements existing powers already available to the Government under the Import, Export and Customs (Defence) Act 1939. The Iran (Temporary Powers) Act cannot apply to contracts made before the date of the making of any Order-in-Council. By the 1939 Act, the Government is empowered to prohibit the import or export of any kind of goods. Exports of goods relating to contracts signed after 4 November last could, therefore, be stopped under this Act.

WHY WAS IT DECIDED TO STOP CONTRACTS MADE AFTER 4 NOVEMBER?

As the Naples declaration makes clear, the measures that have been decided upon are specifically related to securing the release of the US diplomats, who were taken hostage on 4 November. But the full details of how this will apply to existing contracts are still to be worked out, in conjunction with our Community colleagues

WHAT ABOUT CONTRACTS SIGNED SINCE 4 NOVEMBER?

This is an area where it will be particularly important that the measures which will be adopted by all Community member states should have parallel effect.

WHAT ABOUT COMPENSATION BY THE GOVERNMENT?

As was made clear in the House, there is no precedent for the payment of compensation.

MEETING OF IRANIAN PARLIAMENT

It was announced in Tehran yesterday that the Revolutionary Council had decided that the new Iranian Parliament will hold its formal opening session on 28 May.

NOTE FOR SUPPLEMENTARIES

POSITION OF CONTINUING CONTRACTS AND/OR NEW ARRANGEMENTS
CONCLUDED WITHIN AN EXISTING CONTRACTUAL FRAMEWORK.

1. No decisions were taken on the details. When we do so, we shall coordinate closely with our partners in the Community and shall seek to respect the strong views that have been expressed in the House concerning new arrangements within an existing contractual framework. The Government considers that it would be in conformity with the Naples decision that continuing arrangements essentially concluded before November last should be exempted.

DATE OF IMPLEMENTATION

2. We agreed to implement the decisions as soon as possible. 22 May is a target date. It is important to ensure that the Orders to be made by each country will have the same effect and detailed coordination procedures will be necessary.

WAS THE HOUSE MISLED ABOUT THE TIMING OF SANCTIONS?

(See attached cutting from today's Guardian)

No. The Government have always pointed out that the 1939 Act gave powers to ban exports under existing contracts, and that a decision on whether or not to use this would be made in the light of what sanctions our European colleagues were prepared to apply.

MPs angry at backdated start to trade curbs

Government to face furore on Iran sanctions

By Ian Aitken,
Political Editor

The Government is to face a renewed outcry in Parliament on sanctions against Iran. Labour MPs insisted last night that the sanctions plan agreed by European foreign ministers in Naples yesterday broke assurances given to the Commons last week.

The proposals endorsed in Naples entail a partial ban on trade with Iran under contracts signed after the seizure of the United States embassy on November 4.

But MPs now argue that the Commons was told that the sanctions plan would not apply retrospectively, and that existing contracts would not be affected.

Mr Peter Shore, the shadow Foreign Secretary, insisted last night that the bill which had been rushed through the Commons in two prolonged sittings had explicitly exempted existing contracts.

He added: "The Government does not seem to know what it is doing. If it had been their intention all along to operate sanctions with retrospective effect from November 4, then I don't understand why they look up the time of Parliament last week passing a bill which explicitly rules out retrospective contracts and which can only operate on contracts which are yet to be signed."

Mr Shore was one of the shadow ministers who more or less reluctantly voted for the emergency bill last week. But Mr Tom Dalyell, the Labour MP whose opposition to the bill ran to five hours of speeches in the course of a debate which lasted until breakfast time, was even more forthright.

Speaking in his West Lothian constituency, he insisted that Ministers had gone to great pains during the discussion of the bill to underline that current contracts would not be affected.

He added: "Even after 20 hours of debate, it was still far from clear as to the definition of a new contract, or what constituted an existing contract, or what was the renewal of an existing contract."

"Yet renewed contracts are a crucial ingredient in most Anglo-Iranian business in the chemical, motor and other industries."

Mr Dalyell insisted that, at the very least, the Government should now table amendments to the bill in order to legitimise the retrospective sanctions agreed in Naples.

The explanation offered in Whitehall last night for the choice of November 4 as the threshold date was that it emphasised the direct link between the imposition of sanctions and the seizure of the American hostages.

But Labour MPs suspect that it was a half-hearted European response to the intensive pressure being brought to bear on the EEC governments by President Carter and his new Secretary of State, Mr Edmund Muskie.

The Government must, as a minimum, table Orders in Council within the next few days if the sanctions are to come into force on Thursday—the date fixed by the European ministers.

But Shadow Ministers are well aware that the Government already possesses extensive powers to ban trade under an act passed in 1939 at the start of the Second World War. That act is still in force.

NOTES FOR SUPPLEMENTARIES

MIDDLE EAST

1. We discussed the urgent need for progress towards a comprehensive settlement and agreed that there could be a role for the Nine in keeping up the momentum of peace efforts. The European Council will consider this in Venice.

PLO (See Times report of 19 May attached)

2. Reports that the Nine will officially recognise the PLO are wide of the mark. We recognise states not organisations. We do not accept the PLO's claim to be the sole legitimate representative of the Palestinians but believe the organisation is an important political factor which will at some stage have to be associated with peace efforts.

nerf- Front President Ambassador
was Bani-Sade of Iran
the On the Middle East, Lord
the Carrington and his colleagues
Iran apparently intend to press for-
ward with the formulation of
r of a new policy position, which is
the expected to be made public at
the next EEC summit meeting
in Venice. It is understood that
sale this will amount to a recogni-
tion of the Palestine Liberation
Organization as the representa-
tive of the Palestinian people.
ing There was also agreement

Pt
hg
I

BUDGET SUBSTANCE?

1. We had a useful discussion of the UK budget problem. There was a measure of understanding for our need for a solution to last at least three years.

PROCEDURE?

2. The Presidency will now consider arrangements for Council meetings in the next few weeks, including a possible meeting of Finance Ministers to consider the latest estimates of the net budget positions of Member States over the next three years, and a meeting of the Foreign Affairs Council at the end of May or beginning of June to take matters forward.

VENICE EUROPEAN COUNCIL?

3. We remain determined to get agreement before the European Council on 12/13 June if possible.

GAP WIDENED?

4. Not helpful to discuss detailed negotiating positions. A gap remains. We believe that, with good will all round, it can be bridged.

FOREIGN MINISTERS COUNCIL. WHEN?

5. It is not yet clear whether the next Council will meet as planned on 2/3 June or whether it will be brought forward to the week of 26-30 May.

/ARE FIGURES FOR 1981/1982 ...

L. Spriggs. Letting down those who supported bill.
H. C. Campbell - putting.

R. Backeman - What consideration given to companies
in contracts. Lack of precedent matters
stand in way of enforcement.

(Campbell - says ?) Loss of jobs.

P. Shore. LPS has not satisfied house - on retrojection
N on manner of statement.

Salzell - Statement to - m. w.
Shows adjournment.

ARE FIGURES FOR 1981/1982 LIKELY TO SHOW THAT 1% VAT CEILING WILL HAVE TO BE BREACHED TO ACCOMMODATE UK SOLUTION?

6. It will be very difficult for the Commission to produce accurate estimates of the size of the Community budget in 1981. We attach importance to maintaining this 1% VAT ceiling and to restraining agricultural spending.

CAN THE FRENCH INTRODUCE NATIONAL AIDS?

7. If they wish, but these must be compatible with the Treaty of Rome and must not distort competition. A decision to introduce national aids on a large scale would represent a move away from one of the basic principles of the CAP-financial solidarity - to which the French have in the past said they are strongly committed and would not make it easier to find a solution to the problem.

WHAT SORT OF REVIEW ARE WE SEEKING AT THE END OF THE PROPOSED 3 YEAR ARRANGEMENT?

8. The need for continuing special measures will depend on success in changing the balance of Community policies and expenditure. Clearly we would expect others to accept that in certain circumstances further measures might be necessary. However, before that stage is reached the problem of the impending exhaustion of own resources with the approach of the 1% VAT ceiling is likely to give rise to a major review of the present operation of the Community budget.

/CAP PRICES, FISH, SHEEPMEEAT?

Hal Keller

Why have '89 Act been missed
why exacerbated. What is a new
incentive.

Vomping + disturbing. (Pain industry)

LPS No decisions on details.

Bob Coyer.

Any estimate of no jobs lost. "Am I wrong"
Is retrospective legislation envisaged. "No answer"
Complexity of the question?

Pinkus.

Couldn't believe policy except as part of
to-adjusted European policy. Why biscuits.

D. Tang,

That as accountable for informal

?

Retrospective element not made plain.
They must be ~~made~~ ^{formed} to compensate their inefficiency.
"No precedent for compensation"
"Poss of ~~retrospective~~ ^{retrospective} kept open".

J. Shinn.

Intents of keeping things open quite different.
Hundreds of firms have been secured.

Ken Lewis.

No ECOS were
No compensation.
Finds out how many firms accept
+ keep them in business -

B. Hinkley.

Support.

L. Humphreys.

He were misled.

I was assured that good policy could only with
further incentives (by C. Lawrence)

S. Schinn

If it was intention to use '89 Act retrospectively
Why was '80 Act not retrospective.

Taylor.

How will we keep Frankfurt to the man: Salzburg
precedent.

CAP PRICES, FISH, SHEEPMEAT?

9. No agreement yet reached. We were not the first to make a link. Some of our partners have linked settlement of the budget problem to certain other issues, especially CAP prices and sheepmeat. I find it very hard to believe that progress on these other issues will be possible until the budget problem has been settled.

WITHHOLDING

10. My right hon Friend the Prime Minister has already made it clear that we would only consider withholding VAT payments as an absolutely last resort. Naples was only a stage in the negotiating process. We certainly do not believe we are at the last resort yet.

WHAT WOULD YOU EXPECT ON AMOUNT AND DURATION?

11. The House will not expect me to give a precise answer to this question. As the Government has repeatedly made clear, we have approached all negotiations in a spirit of compromise. That remains our position.

WHAT ABOUT PRESIDENT GISCARD'S IDEAS ON REVIEWING 'OWN RESOURCES'?

12. President Giscard has raised certain ideas of a more fundamental nature. If they are formally put to the Community, we will be ready to discuss them. But this should not stand in the way of a settlement of our immediate budget problem.

P. Stone: V. unsatisfactory)
Same Sader official: increased delay.

Govt: wholly confused.
+ bumpy.
Complete nonsense of the bill.

Regul & V early debate.
Other subjects?

LPS Other contacts with him is not constitute because proper.
Order 92
Will submit order as soon as possible

JA Dilemma - if someone fail ...
succeed ...

R. Johnston What on the grounds of emergency.
Simultaneity.

Dalyell Supra of 30 Oct.

Walker Smith Retrospective & France & Germany.
Breach of contract stipulations

"Determinant to get position behind our partners"

Whinnell Govt cheating.

[Peter Ruffell / Boris Representative at trial]

Emmells Statement goes against the will of the house
Clear to all that legislation was meant to apply
from Day only.

J. Aitken. Grand / Supra.

John Evans. Amending legislation?

N. Brown. Support for sanctions.

We aware that it would be retrospective (Keayhear)
Don't believe that it was intended.

Deane Douglas. Results for influence of EEC.
How do I propose to minimize implementation: 'Two early Govt visits'
How many will be affected: "btp matter"

DECLARATION BY THE FOREIGN MINISTERS OF THE NINE CONCERNING
IRAN

1. At their meeting in Naples on 17 and 18 May 1980, the Foreign Ministers of the Nine Member States of the European Community reconsidered, in accordance with their declaration of 22 April, the situation resulting from the detention of the American hostages in Iran, which constitutes a flagrant violation of international law.
2. The Ministers examined the information emanating from Iran. While noting that there were a number of developments which could be important for the release of the hostages, in particular the completion of the second round of Parliamentary elections and the forthcoming convening of the Majlis, they were obliged to recognise that no decisive progress leading to the release of the hostages had been made since 22 April last.
3. Consequently, they decided immediately to apply the measures provided for in the Security Council draft resolution of 10 January 1980, according to jointly agreed conditions and procedures. They agreed, in particular, that all contracts concluded after 4 November 1979 will be affected by these measures. They will continue to consult closely pursuant to Art 224 of the Treaty of Rome.
4. The sole purpose of these measures is to hasten the release of the hostages. At the same time, the Ministers reaffirmed their intention to respect the independence of Iran and the right of the Iranian people to determine their own future.

5. The Ministers expressed great satisfaction at the decision of the UN Secretary-General to entrust to Mr Adib Daoudi, member of the UN Commission of Inquiry, the task of entering into contact with the Iranian Government in order to enable the Commission to resume its work and to secure the resolution of the crisis. They fully support the Secretary-General and will remain in constant touch with him in order to establish whether the progress of the UN mission is such as to enable them rapidly to suspend the measures taken in respect of Iran.

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Ref. A02184

MR. ALEXANDER

7 May
Iranian Oil Prices

The Secretary of State for Energy has copied to the Prime Minister his letter of 14th May to the Foreign and Commonwealth Secretary on this subject. He explains the difficulties that Shell would face if they did not pay \$35 per barrel for the two ship loads lifted in April and he outlines the line he proposes to take in response to possible criticism by the American Energy Secretary next week.

2. You will recall that the question of Shell's oil liftings in Iran were discussed by OD on 24th April. On that occasion the Committee got a rather different picture of the situation than the one which emerges from the Secretary of State for Energy's latest letter. This makes me uneasy that we still do not have the whole story.

3. Although the United States administration is likely to be sensitive to what they might choose to construe as further European and Japanese backsliding, the contractual obligations on the oil companies, their refusal to make subsequent liftings, and the absence so far of any obvious sign that the Americans could make good the short-fall in supplies give us a reasonable defence. Shell have said they will delay their payments until the last possible moment (1st June and 2nd June) by which time the Japanese should have made theirs. The Japanese should then be deprived of any ground for claiming that their initial acceptance of the \$35 price was the result of our breaching the dyke.

4. I understand that the Secretary of State for Energy's proposals are likely to be acceptable to the Foreign and Commonwealth Secretary, subject to further consideration in two possible circumstances:

- (i) that the United States make a major issue of our proposed line;
- (ii) that the Japanese companies discover some way of meeting their debts without acknowledging the \$35 selling price.

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5. I recommend that the Prime Minister should agree to what Mr. Howell proposes, subject to any caveats the Foreign and Commonwealth Secretary may make of the kind just described. Although the situation is not altogether satisfactory, a refusal to allow Shell to meet their obligations would almost certainly make matters worse. The latest increase in Saudi Arabian oil prices (backdated to 1st April) which has just been announced will help to confuse the situation by the time Shell pay for these liftings at the beginning of June.

RA

(Robert Armstrong)

16th May, 1980



STANDARD

16 MAY 1960

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FILE

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- 15 May 1980

LD Pres

LD Privy Seal

OTrade

+ CO

Iranian Oil Prices

The Prime Minister has seen the Secretary of State for Energy's letter to the Foreign and Commonwealth Secretary of 14 May on this subject. She has taken note of the line he proposes to take with Shell and with the Americans.

I am sending copies of this letter to the Private Secretaries of members of OD and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

W J Burroughs, Esq
Department of Energy

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FCS/80/91

SECRETARY OF STATE FOR ENERGY

Iranian Oil Prices

1. Thank you for your letter of 14 May. I agree with the line you propose to take. But it is important that Shell delay payment until the end of the 60 day period, by which time some of the Japanese companies will presumably have had to settle the matter one way or the other. It will also be helpful if Shell can make a lump sum payment rather than issue revised letters of credit specifying the new selling price.

2. We may have to look at the question again if, despite the arguments you propose to use with Duncan, the Americans make a major issue of it; or if, as the Americans are claiming (Washington telegram no 1869, copy attached), the Japanese settle on terms different from those we are envisaging.

3. I am copying this minute to the Prime Minister, members of OD and to Sir Robert Armstrong.

Foreign and Commonwealth Office (CARRINGTON)

15 May 1980

OO F.C.O. (DESKBY 150930Z)

76

OO TOKYO

ADVANCE COPY

PP THE HAGUE

RC

RR UKDEL OECD

HD/ESSD

RR BONN

Mr Kelly Dept of Energy
say p. 17 HIL...
Lord Bridge
Miss Brown

RR PARIS

RR BRUSSELS

CONFIDENTIAL

DESKBY 150930Z

FM WASHINGTON 142205Z MAY 80

TO IMMEDIATE F.C.O.

TELEGRAM NUMBER 1869 OF 14 MAY.

INFO IMMEDIATE TOKYO, PRIORITY THE HAGUE; ROUTINE UKDEL OECD, BONN,
PARIS, BRUSSELS, UKREP BRUSSELS, ROME.

YOUR TELMO 919 : IRAN OIL PRICES.

1. WE HAVE NOW SPOKEN AGAIN TO THE STATE AND ENERGY DEPARTMENTS AND MADE THE POINTS IN YOUR TUR. BOTH WELCOMED THE ASSURANCE THAT IT WAS STILL THE POSITION THAT SHELL AND BP HAD REJECTED THE INCREASE IN THE IRANIAN PRICE TO DOLLARS 35 AND THAT NEGOTIATIONS REMAINED SUSPENDED. THEY APPEARED TO ACCEPT, WITH SOME DISPLAY OF RELUCTANCE, OUR POSITION THAT ANY OFFER BY THE IRANIANS TO REDUCE THEIR ASKING PRICE WOULD HAVE TO BE CONSIDERED AT THE TIME.

2. WE ALSO MADE IT CLEAR THAT THE BRITISH COMPANIES WERE LIKELY TO REGARD AS UNREALISTIC ANY REQUEST THAT THEY SHOULD SEEK AN EFFECTIVE PRICE REDUCTION. THE DEPT OF ENERGY (GOLDMAN) SAID THAT THIS REACTION WAS NOT UNEXPECTED BUT REAFFIRMED THE U.S. VIEW THAT

150930Z

OTHER WORLD CRUDE OILS THE PRICE OF IRANIAN OIL SHOULD NOT EXCEED DOLLARS 31, WHICH CORRESPONDED TO A TOTAL PRICE OF DOLLARS 32.50 WHEN THE VALUE OF OTHER CONTRACT ELEMENTS WAS TAKEN INTO ACCOUNT. THE FACT THAT THE SAUDIS HAD NOW INCREASED THEIR PRICE TO DOLLARS 28 WITH EFFECT FROM 1 APRIL DID NOT CHANGE THIS.

3. STATE DEPARTMENT (HINTON) ARGUED MORE STRONGLY THAT THE U.S. ATTITUDE ON THIS LAST POINT WAS FULLY JUSTIFIED. IT WAS INDEED THE PRESIDENT'S OWN VIEW. THE U.S. COULD HAVE REQUESTED ITS ALLIES TO EMBARGO IRANIAN OIL TOTALLY BUT HAD DECIDED THAT THIS WOULD BE ASKING TOO MUCH. THE PERSISTANCE TO THE PRICE INCREASE HAD BEEN SUCCESSFUL AND WAS CLEARLY HURTING IRAN. IF THE COMPANIES COULD NOW GO BEYOND THIS AND FORCE THE IRANIAN PRICE DOWN THAT SHOULD HAVE A SALUTORY EFFECT IN IRAN AND ON OPEC PRICE DECISIONS IN JUNE.

4. WE ALSO EXPLAINED TO THE DEPARTMENTS THE PROBLEM OVER SHELL'S APRIL LIFTING AND THE PAYMENT WHICH THE COMPANY MIGHT HAVE TO MAKE. BOTH SAID THAT THE JAPANESE HAD NOW ASSURED THEM THAT THEIR COMPANIES WOULD PAY FOR THESE CARGOES, (AND IN SOME CASES ALREADY HAD DONE SO) AT THE FIRST QUARTER RATE OF DOLLARS 32.50, LEAVING THE IRANIANS TO SUE IF THEY CHOSE TO FOR THE EXTRA MONEY REPRESENTED BY THE PRICE INCREASE. THE U.S. WOULD THEREFORE BE GRATEFUL IF WE COULD RECONSIDER WHETHER WE SHOULD ADVISE SHELL TO TAKE THE SAME LINE. GOLDMAN ARGUED THAT SHELL MIGHT BE ABLE TO USE THIS DISPUTE AS A LEVER IN THE WIDER PRICE NEGOTIATIONS, PARTICULARLY SINCE THERE WERE NO CURRENT LIFTINGS TO JEOPARDISE. WE POINTED OUT THAT THIS IGNORED THE LEGAL ISSUE BUT UNDERTOOK TO REPORT THE U.S. REQUEST AND THEIR UNDERSTANDING OF THE JAPANESE POSITION. (THIS CLEARLY CONFLICTS WITH THE ACCOUNT OF THE JAPANESE POSITION REPORTED IN TOKYO TELNO 297, COULD THIS HAVE PREDATED THE JAPANESE ASSURANCES WHICH THE AMERICANS NOW CLAIM HAVE BEEN GIVEN TO THEM?)

5. THROUGHOUT THESE CONVERSATIONS IT WAS CLEAR THAT THE U.S. POSITION IS STILL BASED ON A MIXTURE OF ECONOMIC AND WIDER POLITICAL ARGUMENTS. THEY MAY WELL BE RIGHT IN ASSERTING THAT THE NEW SAUDI INCREASE STILL LEAVES THE IRANIAN PRICE OF DOLLARS 35 OUT OF LINE WITH OTHER SIMILAR CRUDE OILS. BUT EVEN IF (AS SOME U.S. OFFICIALS SEEM TO EXPECT) THE SAUDIS GO UP TO DOLLARS 30 IN JUNE, AND OTHER PRODUCING COUNTRIES INCREASE PRICES THEN OR EARLIER, THE AMERICANS WOULD NO DOUBT STILL PRESS FOR REJECTION OF THE CURRENT IRANIAN ASKING PRICE. THEY WOULD THEN OF COURSE HAVE TO ARGUE THE CASE ENTIRELY ON POLITICAL GROUNDS.

6. PLEASE ADVANCE TO KELLY (DEPT OF ENERGY) AND FALL (ESSD).

HENDERSON

NNNN

115 MAY 1960



GR 610

CONFIDENTIAL

CONFIDENTIAL

DESKBY FCO 151100Z

FM TEHRAN 150500Z MAY

TO IMMEDIATE FCO

TELEGRAM NUMBER 494 OF 15 MAY 80

INFO IMMEDIATE WASHINGTON AND UKMIS NEW YORK

INFO SAVING EC POSTS.

MW

YOUR TELNOS 291 AND 292 : US/IRAN.

1. I AM AFRAID THAT I WAS ALREADY AT THE PRESIDENT'S OFFICE WHEN THE RESIDENT CLERK TELEPHONED INSTRUCTING ME NOT TO ACT ON FIRST TUR. HOWEVER, I DO NOT THINK THAT ANY HARM HAS BEEN DONE. ON RECEIPT OF IT I HAD IMMEDIATELY TELEPHONED TAGHAVI (CHEF DE CABINET) WHO SAID IT WOULD BE VERY DIFFICULT TO FIT IN A MEETING WITH THE PRESIDENT BUT THAT HE COULD SEE ME. AFTER TALKING TO HIM AND GARMAROUDI (PUBLIC RELATIONS ADVISER) IT WAS AGREED THAT I OUGHT TO PUT THE POINTS TO THE PRESIDENT HIMSELF AND I SAW HIM FOR ABOUT 10 MINUTES.
2. I SAID THAT THE EUROPEAN COMMUNITY WAS COMMITTED TO ACTION OF SOME KIND ON 17 MAY. IT WOULD, HOWEVER, HELP IF THE IRANIAN GOVERNMENT COULD MAKE SOME PUBLIC SIGN WHICH COULD BE INTERPRETED AS PROGRESS. I HAD ALREADY SUGGESTED THROUGH HIS OFFICE THE NAMING OF A DATE, PREFERABLY SOON, FOR THE INAUGURATION OF THE ASSEMBLY AND I STILL BELIEVED THIS WOULD HELP. OTHER MEASURES MIGHT BE A STATEMENT THAT THE HOSTAGE ISSUE WOULD BE TAKEN EARLY BY THE ASSEMBLY AND ANOTHER VISIT TO THE HOSTAGES BY THE ICRC. WE HAD TREATED HIS PRIVATE STATEMENTS OF HIS INTENTIONS TO ME AND TO OTHER REPRESENTATIVES OF THE EUROPEAN COMMUNITY AS CONFIDENTIAL. WAS HE IN DIRECT TOUCH WITH THE AMERICANS AND HAD HE CONVEYED HIS THINKING TO THEM ?
3. BANI SADR SAID THAT IT HAD JUST BEEN DECIDED AND WAS BEING ANNOUNCED TO-DAY THAT THE ASSEMBLY WOULD MEET ON 7 KHANDAD, IE 28 MAY. (ON REFLECTION AFTERWARDS I THINK THERE MAY HAVE BEEN CONFUSION HERE BETWEEN PERSIAN AND EUROPEAN MONTHS BUT SEPARATELY HE SPOKE OF THE ASSEMBLY MEETING IN "ABOUT 12 DAYS" SO THAT THE EARLIER DATE IS INDICATED. WE WILL CHECK THE TEXT AS SOON AS IT APPEARS.)
4. CONTINUING, HE SAID THAT HE WAS "ALMOST CERTAIN" THAT THE IMAM'S MESSAGE TO THE ASSEMBLY ON INAUGURATION WOULD INSTRUCT THEM TO GIVE PRIORITY TO THE HOSTAGE QUESTION. HE DISCOUNTED A REPORT IN TODAY'S PAPERS THAT BEHESHTI WAS ARGUING FOR A

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/SLOWER TIMETABLE.

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SLOWER TIMETABLE. A VISIT BY THE ICRC MIGHT BE POSSIBLE BUT FOR STRATEGIC REASONS HE WAS INCLINED NOT TO FAVOUR THIS OR THE RELEASE OF ONE OR TWO HOSTAGES ON WHATEVER GROUNDS, SINCE SUCH MOVES WOULD TEND TO STIR UP OPINION AGAIN AND MIGHT PRODUCE A REACTION; HE WOULD MUCH PREFER TO RESOLVE THE PROBLEM AS A WHOLE BY RELEASING ALL OF THEM (I THINK HE IS RIGHT ABOUT THIS).

5. FINALLY HE SAID THAT HE WAS NOT IN CONTACT WITH THE US GOVERNMENT. HE HAD NO CONFIDENCE IN THEM. HE ACCEPTED THAT EUROPE AND IRAN HAD A COMMON INTEREST IN SETTLING THE HOSTAGE QUESTION BUT HE WAS BY NO MEANS CONVINCED THAT THE AMERICANS WERE NOT USING THE ISSUE FOR THEIR OWN INTERNAL POLITICAL ENDS. WE STARTED TO DEBATE THIS BUT AS TIME WAS LIMITED I THOUGHT IT BETTER TO CUT IT SHORT AND CONCENTRATE ON THE FUTURE.

6. TO SUM UP, BANI SADR BELIEVES THAT HE IS ON COURSE. HE DOES NOT APPEAR TO BE WAVERING IN HIS DETERMINATION (AND GARMAROUDI SPOKE VERY FIRMLY BUT BEGGED ME NOT TO QUOTE HIM, TO THE EFFECT THAT THE HOSTAGE ISSUE HAD EXHAUSTED SUCH USEFULNESS AS IT EVER HAD : IRAN REGARDED THE US AS ITS ENEMY BUT THE HOSTAGES WERE IRRELEVANT). HE IS PREPARED FOR SOME MEASURES TO BE DECIDED BY THE EUROPEAN COMMUNITY ON 17 MAY AND I THINK CAN LIVE WITH THEM, BUT DOES NOT SEE HIS WAY TO MAKING ANY FURTHER PUBLIC GESTURES OF CONVEYING ANY PRIVATE ASSURANCES TO THE AMERICANS.

FCO PLEASE PASS SAVING TO EC POSTS.

GRAHAM

[REPEATED AS REQUESTED]

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TEHRAN SPECIAL

②

Prime Minister

Rmt

01 211 6402

The Rt Hon The Lord Carrington
 Secretary of State for Foreign and Commonwealth Affairs
 Foreign and Commonwealth Office
 Downing Street
 LONDON SW1A 2AL

14 May 1980

Dee Peter

rmt

IRANIAN OIL PRICES

Shell lifted two tanker loads of oil from Iran at the beginning of April in disputed circumstances. They maintain that they did not know that the Iranians had increased the Government Selling Price when the first tanker was being loaded; and that they protested about the new price (£35 a barrel) and were offered negotiations. Once it was clear that the Iranians were standing firm on the £35, Shell made no further loadings, and the Company also preferred not to proceed with the third tanker deal which OD discussed at its twelfth meeting.

Now Shell want to settle for the two tanker-loads that were lifted, because they believe themselves contractually bound to do so, and because their commercial standing would suffer if they left debts unsettled. They have told my officials that they will try to arrange matters by a lump sum payment rather than by issuing revised letters of credit specifying the new selling price, and that they will delay payment to the end of the 60-day delay allowed. However, while the Company have kept my Department informed, they have also made it clear that they would not welcome any attempt by HMG to stop them paying their debts.

Certain Japanese companies are similarly placed except that they lifted many loads of Iranian oil before April 20th and that some of their payments are due before Shell's. Although these companies, in response to government pressure, are now resisting the higher price, they wish to pay for the liftings made. However, when the US Administration learnt of this they objected strongly, and told the Japanese that such a settlement would be "symbolically devastating". The Americans also know that Shell made some liftings, and have urged us not to concede the £35. The Americans have additionally asked the Japanese and ourselves not to pay more than £32.50 a barrel (all extras included) for Iranian oil which would represent less than our companies were paying in the first quarter (with HMG's acceptance). The American position sounds as though it is inspired partly by political attitudes towards Iran.

Notwithstanding the Americans, I propose, subject to reactions to this minute, not to seek to stop Shell from settling their debts. If Secretary Duncan refers to the matter when I see him next week, I

(2)

would emphasise that the main point, in our view, is that BP discontinued liftings from Iran in response to HMG's urgings, and that Shell did so when they realised they could not ride the Iranians off the \$35 price. I would also propose to invite Mr Duncan's attention to the significant loss of supply which our companies are suffering in Iran, and the reprisals they may suffer because of sanctions; and to press him for some tangible American help.

I am copying this minute to the Prime Minister, Members of OD, and to Sir Robert Armstrong.

D A R Howell

Howell

Daird

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14 MAY 1980

[Departmental]

IMMEDIATE

ADVANCE COPY

IRAN: ADVANCE COPIES 44

PS
 PS/SIR I GILMOUR
 PS/MR HURD
 PS/PUS
 SIR D MAITLAND
 MR J C MOBERLY
 LORD BRIDGES
 LORD N G LENNOX
 MR EVANS
 MISS BROWN
 HD/HED
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PS NO 10 DOWNING ST
 SIR R ARMSTRONG)
 ASSESSMENTS STAFF)
 MR R WADE GERY) CABINET
 MR LE CHEMINANT) OFFICE
 MR W N WENBAN SMITH)
 DIO)

PS/CHANCELLOR)
 MR F R BARRATT) TREASURY
 MR R G LAVELLE)

MR C W McMAHON) BANK OF
 MR P B EDGLEY) ENGLAND

MR R WILLIAMS CRE5 DOT
 MR W KNIGHTON DEPT OF TRAD
 MR C BENJAMIN DOI

MR D LE B JONES) DEPT OF
 MR C LUCAS) ENERGY

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FM TEHRAN 140600Z MAY

TO IMMEDIATE FCO

TELEGRAM NUMBER 439 OF 14 MAY 83

INFO ROUTINE WASHINGTON, UKMIS NEW YORK, UKDEL NATO (FOR PRIVATE SECRETARY)

INFO SAVING TO EC POSTS.

MY TELNO 484 : THE IRANIAN BUDGET.

- SOME PROPOSED BUDGET FIGURES HAVE BEEN PUBLISHED FOR THE CURRENT IRANIAN YEAR 1359 (20 MARCH 1980 - 21 MARCH 1981), BUT ACCORDING TO THE PRESS THE BUDGET HAS STILL TO BE APPROVED BY THE REVOLUTIONARY COUNCIL AND MAY BE HELD OVER TILL THE ASSEMBLY MEETS. EVEN THE PROVISIONAL ALLOCATION

OF ONE TWELFTH OF LAST YEAR'S BUDGET HAS NOT BEEN APPROVED FOR THE CURRENT MONTH. SUBJECT THEREFORE TO THE PROVISIO THAT NOTHING HAS YET BEEN SETTLED, THE PROVISIONAL FIGURES GIVE CAUSE FOR ANXIETY.

2. TOTAL PLANNED EXPENDITURE AMOUNTS TO 2600 BILLION RIALS (DOLLARS 37.1 BILLION), OF WHICH 950 BILLION RIALS (DOLLARS 13.5 BILLION) IS DESIGNATED FOR "DEVELOPMENT" (IE CAPITAL EXPENDITURE), AND 1,650 BILLION RIALS (DOLLARS 23.5 B) FOR CURRENT EXPENSES, INCLUDING DEFENCE, ADMINISTRATION AND WELFARE OF WHICH 90% IT IS SAID GOES ON WAGES AND SALARIES. A SUM OF 20 BILLION RIALS IS SET ASIDE FOR THE REPAYMENT OF GOVERNMENT BORROWINGS.

3. REVENUE IS ESTIMATED AT 2,225 BILLION RIALS (DOLLARS 31.75 B) OF WHICH 600 BILLION RIALS (DOLLARS 5.4 B) IS ATTRIBUTED TO TAXES AND 1,625 BILLION RIALS (DOLLARS 23.2 B) TO OIL. IN ADDITION THERE WILL BE REVENUE, IT IS HOPED, FROM GOVERNMENT CORPORATIONS TO MAKE UP MOST OF THE DIFFERENCE BUT THERE IS A BUDGETED DEFICIT OF 363 BILLION RIALS (DOLLARS 5.2 B).

4. SKETCHY AS THESE FIGURES ARE, IT IS CLEAR THAT THE IRANIAN GOVERNMENT IS COUNTING ON REVENUE FROM OIL ON THE BASIS OF EXPORTS OF APPROXIMATELY 2 MILLION B/D. EXPORTS ARE NOW RUNNING AT UNDER 1 MILLION B/D. IF CONTINUED THROUGHOUT THE YEAR THIS, BARRING A SIGNIFICANT RISE IN PRICE, WOULD PRODUCE A SHORTFALL OF SOME DOLLARS 12 BILLION, TO BE ADDED TO THE ALREADY BUDGETED DEFICIT, THE PROBLEMATIC CONTRIBUTION FROM THE GOVERNMENT CORPORATIONS, WHICH IS MORE LIKELY TO BE NEGATIVE THAN POSITIVE, AND THE INEVITABLE SHORTFALL IN INCOME TAX AND CUSTOMS DUTY GIVEN THE LOW LEVEL OF ECONOMIC ACTIVITY. IRAN'S RESERVES AMOUNT TO MORE THAN DOLLARS 15 BILLION, BUT SOME DOLLARS 3 BILLION IS FROZEN IN THE UNITED STATES AND MORE IS TIED UP IN LITIGATION ARISING OUT OF THAT FREEZING. MOREOVER, NOT ALL THESE RESERVES WILL BE AVAILABLE TO MEET EXPENDITURE EVEN IF THE GOVERNMENT COULD CONTEMPLATE RUNNING THEM DOWN FOR THIS PURPOSE. EVEN IF IT WERE POSSIBLE DRASTICALLY TO REDUCE PLANNED CAPITAL EXPENDITURE (AND IN PRACTICE ACTUAL EXPENDITURE WILL RUN WELL BELOW FORECAST), A SIGNIFICANT SHORTFALL ON OIL REVENUE WOULD COMPEL THE GOVERNMENT EITHER TO LAY OFF EMPLOYEES ON A LARGE SCALE, TO BORROW HEAVILY IN THE DOMESTIC MARKET, WHICH MIGHT NOT BE EASY, OR TO DRAW ON ITS RESERVES.

5. THESE FIGURES PERHAPS EXPLAIN WHY BANI SADR IS MORE ALARMED THAN OOTBZADEH AT THE PROSPECT OF CONTINUING ECONOMIC

THAN QOTBZADEH AT THE PROSPECT OF CONTINUING ECONOMIC MEASURES AGAINST IRAN, IN PARTICULAR AT THE PROSPECT OF CONTINUED ABSTENTION BY THE MAJOR WESTERN PURCHASERS FROM BUYING IRANIAN OIL. THIS THEREFORE, IN MY VIEW IS THE SINGLE MOST EFFECTIVE MEASURE WE CAN APPLY. IT HAS THE ADVANTAGE THAT IN THE PRESENT OIL MARKET, IT IS NOT TOO DAMAGING TO US. HOWEVER ONCE THE HOSTAGE PROBLEM HAS BEEN SOLVED, IT SEEMS LIKELY THAT THE IRANIAN AUTHORITIES WILL EXPECT WESTERN AND JAPANESE OIL COMPANIES TO RETURN TO THEIR MARKET AND, ALTHOUGH THEY MAY BE WILLING IN NEGOTIATION TO AGREE CONCEALED DISCOUNTS, THEY WILL BE VERY UNLIKELY TO BE PREPARED FORMALLY TO NEGOTIATE A LOWER PRICE EVEN THOUGH THE INDICATIONS ARE THAT THEY HAVE HAD CONSIDERABLE DIFFICULTY IN FINDING ALTERNATIVE BUYERS.

6. NO DOUBT IN ANTICIPATION OF PAYMENTS PROBLEMS, NIOC, IT IS RUMOURED HERE, YESTERDAY ASKED BUYERS TO MAKE PAYMENT BY LETTERS OF CREDIT ON SWEDISH, SWISS, AUSTRIAN OR INDIAN BANKS ONLY.

FCO PLEASE PASS SAVING TO EC POSTS.

GRAHAM

NNNN

IMMEDIATE



With the compliments of

THE PRIVATE SECRETARY

For information.

**FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH**

CONFIDENTIAL

L. Motandar
10, Cassing St.
[Briefing notes prepared
for Mr. Howard].

Iranian Sanctions.

Heinrich Paul

POSITION OF THE NINE

FRANCE

Speaking Note

1. "We understand that implementing regulations are to be approved by the Council of Ministers on Wednesday on the basis of Articles 21 and 23 of 1948 Customs code and the Import and Export Law of 30 November 1944."

[Not for Use]

2. Intend to enact a decree to implement measures agreed at Naples. Text still not finalised. French unofficial view that all partners must do the same; no retroactive sanctions if UK does not impose them.

GERMANY

Speaking Note

3. "A Foreign Ministry spokesman has said this morning that Germany would stick to the decision to backdate sanctions, despite Britain's own decision. We understand the German Government intends to act by ordinances under 1961 External Economic Law. Ordinances have been agreed in principle, but no date fixed for their coming into effect."

[Not for Use]

4. No decision yet on compensation for exports under post-4 November contracts. Government no longer intends to bring in new primary legislation for the time being.

BELGIUM

Speaking Note

5. We understand Belgium has already introduced licensing for trade with Iran by an administrative decree, based on a law of 1962, which was published in the official gazette on 17 May.

NETHERLANDS

Speaking Note

6. We understand control of the export of goods from the Netherlands will

/be

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be covered by a ministerial decree issued under the 1962 Import and Export Act. Other sanctions would be enacted under a 1980 Sanctions Law.

[Not for Use]

7. No decisions yet on applicability to trade based on contracts made since 4 November.

IRELAND

Speaking Note

8. Powers to restrict exports by licensing are available under the existing 1956 Control of Exports legislation.

LUXEMBOURG

Speaking Note

9. No legislation action required.

[Not for Use]

10. Ministry of Foreign Affairs' intention that detailed circulars to be issued by government organization will adhere to Naples decision on contracts concluded after 4 November.

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GR 1100

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FRAME EXTERNAL

DESKBY 140030Z

FM UKREP BRUSSELS 131930Z MAY 68

TO IMMEDIATE FCO

TELEGRAM NUMBER 2396 OF 13 MAY

INFO PRIORITY ROME PARIS BONN WASHINGTON TOKYO TEHRAN ROUTINE BRUSSELS COPENHAGEN THE HAGUE DUBLIN

INFO SAVING LUXEMBOURG

IRAN WORKING GROUP 13 MAY

SUMMARY.

1. THE DRAFT DOCUMENT CIRCULATED BY THE PRESIDENCY ON 5 MAY WILL BE SUBMITTED, WITH AMENDMENTS, TO MINISTERS ON 17 MAY. THERE WERE PARTICULAR DIFFICULTIES ON THE PROBLEMS OF CONTROLLING SERVICE CONTRACTS WHICH DID NOT INVOLVE THE SUPPLY OF GOODS, AND SEVERAL RESERVES, INCLUDING UK, ON THE SECTION ON EXISTING CONTRACTS FOR THE SUPPLY OF GOODS. THE PRESIDENCY WILL REPORT ORALLY TO THE MINISTERS THE PROBLEMS WHICH MIGHT ARISE FROM IRANIAN REPRISALS IN TWO AREAS, VIZ. AGAINST MEMBER STATES AIRLINES WHILE THEIR NATIONALS ARE STILL IN IRAN, AND BY CALLING IN OUTSTANDING PERFORMANCE AND SIMILAR BONDS IN RETALIATION FOR ACTION AGAINST EXISTING CONTRACTS.

DETAIL.

2. SUPPLY OF GOODS.

THE COMMISSION ARE PREPARING A REVISED LIST, OF EXEMPTED GOODS (FOOD AND MEDICINE) AND A FURTHER LIST OF SUPPLIES WHICH MIGHT BE USED FOR MEDICAL PURPOSES. ON THE LATTER, IT WOULD BE FOR GOVERNMENTS TO CHECK THAT THE GOODS SUPPLIED WERE ACTUALLY INTENDED FOR MEDICAL END USE.

3. TRANSPORT IN MEMBER STATES SHIPS AND AIRCRAFT AND ACROSS THEIR TERRITORY.

THERE WAS MUCH DISCUSSION OVER WHAT EXACTLY THIS PARAGRAPH WAS INTENDED TO COVER. IT WAS EVENTUALLY AGREED THAT SHIPS PURELY IN TRANSIT WOULD NOT BE COVERED. ITALY HAD TREATY OBLIGATIONS CONCERNING THE TRANSIT OF GOODS FROM LANDLOCKED STATES SUCH AS SWITZERLAND. WE SAID THAT OUR LEGISLATION WAS INTENDED TO PROVIDE FOR A BAN ON BRITISH SHIPS AND AIRCRAFT TAKING GOODS FROM THIRD COUNTRIES TO IRAN; BUT IT WAS IMPORTANT THAT THERE SHOULD BE COMMUNITY AGREEMENT ON THIS MATTER. FRANCE AND GERMANY REFUSED TO CONFIRM THAT THEIR LEGISLATION WOULD COVER THEIR FLAG SHIPS AND AIRCRAFT, AND DID NOT WISH TO MODIFY THE EQUIVOCAL WORDING IN THE PRESENT DRAFT. THEY SAID THE REASON WAS THAT THEY FEARED RETALIATION BY IRAN AGAINST THEIR MEANS OF TRANSPORT, WHICH WOULD HAVE SERIOUS IMPLICATIONS FOR THEIR NATIONALS STILL RESIDENT IN IRAN. THE PRESIDENCY WILL REPORT ORALLY TO THE MINISTERIAL MEETING ON THIS ASPECT.

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/ CREDITS.

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CREDITS.

4. WE SAID THAT WE WERE ALREADY IMPLEMENTING THE MEASURES SPECIFIED IN THE SECURITY COUNCIL RESOLUTION THROUGH ADMINISTRATIVE GUIDANCE GIVEN BY THE BANK OF ENGLAND. WE COULD THEREFORE NOT NECESSARILY MODIFY THESE MEASURES AS A RESULT OF ANY NEW DECISIONS BY THE NINE. WE WERE SUPPORTED BY THE NETHERLANDS. AFTER PROLONGED DISCUSSION THE TEXT CIRCULATED IN ADVANCE WAS CONSIDERABLY SHORTENED AND MADE MORE GENERAL. THE PRESIDENCY CLARIFIED THAT THIS WAS NOT INTENDED AS A DETAILED INSTRUCTION, BUT AS GENERAL GUIDANCE. BECAUSE OF THE SENSITIVITY OF ANY WRITTEN REFERENCE TO POSSIBLE IRANIAN REPRISALS BY THE CALLING OF PERFORMANCE AND SIMILAR BONDS IN RESPONSE TO THE INTRODUCTION OF SANCTIONS, IT WAS AGREED THAT THE PRESIDENCY WOULD REFER TO THIS ORALLY IN INTRODUCING THE PAPER. BELGIUM WAS VERY CONCERNED THAT MEMBER STATES SHOULD ACT QUICKLY TO PREVENT THE CALLING OF BONDS, BUT THE FINAL DECISION WAS SIMPLY THAT IF NECESSARY, THE PROBLEMS OF SUCH BONDS BEING CALLED COULD BE THE OBJECT OF MEASURES SUSPENDING THEIR EXECUTION. IF THE PROBLEM AROSE, THERE WOULD BE RAPID CONSULTATIONS.

IRANIAN VESSELS AND AIRCRAFT.

6. WE POINTED OUT THAT THERE WAS A DIFFERENCE IN EFFECT BETWEEN THIS PARAGRAPH OF THE DRAFT UN RESOLUTION AND PARAGRAPH 2(A) WHICH CONCERNED SIMPLY THE SUPPLY OF GOODS TO IRAN. NO OTHER DELEGATION WISHED TO MODIFY THE DRAFT, EXCEPT BY A COSMETIC AMENDMENT THAT IRANIAN SHIPS AND AIRCRAFT MIGHT BE PRESUMED TO BE GOING TO OR FROM IRAN.

SERVICE CONTRACTS.

7. THE CONTROL OF SERVICE CONTRACTS WHICH DID NOT INVOLVE THE SUPPLY OF GOODS RAISED DIFFICULTIES OF A CONSTITUTIONAL NATURE FOR IRELAND, OF A LEGAL NATURE FOR LUXEMBOURG, AND OF A PRACTICAL NATURE FOR BELGIUM. OTHERS WERE WILLING TO LEGISLATE IN THE KNOWLEDGE THAT ENFORCEMENT WOULD BE PATCHY. IT WAS AGREED THAT THE DIFFICULTIES WOULD BE REFERRED TO IN THE REPORT TO MINISTERS.

EXISTING CONTRACTS.

8. FRANCE WISHED TO MODIFY THE EXEMPTION FOR EXISTING CONTRACTS ON WHICH THE EXPORTER HAD ALREADY SPENT ONE THIRD OF THE TOTAL AMOUNT INVOLVED, BY CHANGING THE PROPORTION TO ONE QUARTER, AND TO MODIFY THE REQUIREMENT FOR A QUARTERLY REPORT. DENMARK COULD ACCEPT NO WEAKENING IN THIS WAY, AND WISHED TO INCREASE THE PROPORTION TO ONE HALF. BELGIUM HAD A POLITICAL RESERVE ON THE WHOLE QUESTION OF ALLOWING EXISTING CONTRACTS TO BE EXEMPTED. UK REFERRED TO MINISTERIAL COMMITMENTS ON SANCTIONS, AND POINTED OUT THE DIFFICULTIES OF OPERATING THE RULE WHICH PERMITTED EXCEPTIONS BASED ON PROPORTION OF EXPENDITURE. GERMANY SAID THAT THE IMPORTANT PHRASE WAS THAT REFERRING TO THE OBJECTIVES OF SANCTIONS, WHICH PERMITTED A CERTAIN LATITUDE IN THE GRANTING OF EXCEPTIONS. THE SUGGESTED PROPORTIONS WERE INTENDED AS A MINIMAL INTERNAL GUIDELINE. NOT ALL CONTRACTS MEETING THE CRITERIA NEED BE EXEMPTED. FINALLY IT

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WAS AGREED THAT THE SECTION SHOULD GO FORWARD WITH A DRAFTING AMENDMENT ONLY CONCERNING THE BASIS ON EXCEPTIONS WOULD BE ALLOWED, AND WITH THE DELETION OF THE WORD "IMMEDIATE" IN THE REQUIREMENT FOR REPORTING CASES IN WHICH EXCEPTIONS WERE PERMITTED BY MEMBER STATES. BUT THERE WERE GENERAL RESERVES FROM FRANCE, BELGIUM AND UK.

ENTRY INTO FORCE.

9. AT THE REQUEST OF BELGIUM, THE PRESIDENCY CLARIFIED THAT IF MINISTERS DECIDED TO APPLY SANCTIONS, IT WAS INTENDED THAT THEY WOULD ENTER INTO FORCE AS SOON AS POSSIBLE. NO DELEGATION DISSENTED.

PROCEDURE.

10. THE PRESIDENCY WILL CIRCULATE TOMORROW A FINAL VERSION OF THE PAPER FOR MINISTERS. THERE WILL BE NO FURTHER FORMAL PREPARATION.

FCO ADVANCE TO:

FCO - BULLARD BRIDGES MOBERLY MIERS FITZHERBERT WILLIAMS (MED)
MRS DENZA
CAB - FRANKLIN ELLIOTT
IDI - INGRAM
IDT - GRAY KEMMIS AYLING (SOLS)
LAW OFFICERS - MALLINSON
ECGD - STEPHENS

BUTLER

[ADVANCED AS REQUESTED]

[REPETITION TO TEHRAN REFERRED FOR DEPARTMENTAL DECISION, REPEATED AS REQUESTED TO OTHER POSTS]

FRAME EXTERNAL

ECD (E)

cc: Miers - DE/TKO
William - DE/TKO
P. H. Hebel - Eco/E, Eco
Do. Denz - Legal
Adams, TKO
Kemmin - DoT, CR&K
Pyling - DoT, Sols
+ 2 Pitt 14/5.

Brussels, 13 May 1980 (14.05)

VERY CONFIDENTIAL

MEMORANDUM FROM THE PRESIDENCY

h⁴ *Am*

Subject: Outcome of the proceedings of the Working Party on IRAN

1. The discussions took the form of consultation under Article 224 on the measures to be taken by Member States pursuant to the decisions adopted by the Foreign Ministers on 22 April 1980.
2. The aim was to reach joint guidelines which would ensure that, while retaining a national character and without necessarily being identical, the measures to be taken by Member States would nevertheless produce roughly equivalent practical results.
3. A summary of the outcome of these proceedings is annexed, it being understood that this reflects a broad consensus within the Working Party as regards the technical arrangements - of which a final political appraisal can only be given at Ministerial level - likely to be adopted for implementing sanctions.

- Re point 2.(a) of the draft resolution submitted to the Security Council by the United States [sales and supplies]

(i) There is broad consensus on the following points:

- the basic aim is to prevent sales and supplies of goods from being executed; if the legislation of certain Member States covers the contracts themselves, it is acknowledged as sufficient for the legislation of other Member States simply to prevent the physical execution of such contracts (export);
- the legislation of a number of Member States will also apply to nationals resident in other countries; however, this is not being contemplated by all Member States.

It is, however, recognized that it is not necessary for the laws of Member States to be uniform on this point, having regard to the practical consideration that Member States cannot exercise direct control over the activities of nationals resident abroad;

- the embargo must also cover goods in transit through third countries before being carried to their final destination, Iran, to the extent that this final destination is known at the time of dispatch of the goods from the Member State concerned;
- definition of foodstuffs, medicines and supplies intended for strictly medical purposes on the basis of CCT chapters; (see lists A/B and C attached, to which minor amendments may be made if necessary);
- definition of the concept of "territory" along the lines of "geographical territory of each Member State".

- Re point 2.(b) [transport]

It is established that this paragraph covers two categories:

- shipments of goods under embargo from a Member State and land transit through a Member State from a third country;
- the transport of goods under embargo from a third country to Iran not passing through Member States.

It became evident that this second category gives rise to quite intricate problems; the measures likely to be taken in this area should be analysed on the basis of a number of criteria such as: country of registration of the means of transport, nationality of the owner or of the person chartering him, the relevant provisions laid down by international convention.

However, the exchange of views showed that implementing these measures should not give rise to any problems at Community level even if the measures taken by the various Member States were not necessarily identical.

Re point 2.(c) [credits]

- (i) The measures embrace both the private sector (banks, insurance companies, exporters) and the public sector.
- (ii) It is forbidden to grant, directly or indirectly, any new credits or loans whether from public or private funds, tied or untied, guaranteed or otherwise.
- (iii) With regard to bank deposits, the following are banned:
 - opening of all new accounts;
 - substantial increases in existing non-dollar deposits from a date to be determined at national level and no later than on the date of entry into force of the embargo measures.
- (iv) The measures set out above do not apply to the financing of transactions not covered by the embargo.
- (v) More favourable terms of payment than customarily used in international commercial transactions and not in keeping with business usage are forbidden.

- Re point 2.(d): [Iranian means of transport]

It was noted that this text may be considered to cover only those measures already referred to in point 2.(a).

- Re point 2.(f): [service contracts]

It is noted that the projected measure is confined to new service contracts in support of industrial projects in Iran (other than those for the provision of medical care).

Consequently, the measure will not affect:

- earlier service contracts
- new service contracts not in support of industrial projects in Iran

One specific question was raised in this context: the attitude to be adopted regarding service contracts not covered by the ban which involve the incidental supply of goods. It was pointed out that the specific provision contained in point 2.(f) was an exception to the general rule formulated in point 2.(a) and that as a result supply of the goods in question should remain possible.

It should further be noted here that one Member State announced that, in the absence of any Community rules, it was unable, for constitutional reasons, to introduce national legislation banning service contracts.

- Re point 2.(g): for the record.

3. (Existing contracts)

Member States are in agreement that all existing contracts should be covered by the embargo provided for in the Ministers' decision of 22 April 1980.

Member States may nevertheless grant exceptions having regard to the aims pursued by the sanctions.

These exceptions are based on the fact that a contract was concluded before 4 November 1979 and that the expenditure already incurred by the exporter ~~for export to Iran~~ represents at least one third of the total amount of the contract on the date of entry into force of the embargo measures.

Member States will inform the other Member States and the Commission of any instance where they have applied these criteria. If they consider it necessary, Member States will call for consultation under Article 224, without prejudice to the application of Article 225.

Application of paragraph 3 to the various measures in paragraph 2 does not concern point 2.(f), which contains a special rule.

A. LIST OF FOODSTUFFS

CCT chapter or heading No	Description
Chapters 1 to 23 ex 33.04 ex 35.01	<ul style="list-style-type: none">- Live animals; animal products- Vegetable products- Animal and vegetable fats and their cleavage products; prepared edible fats; animal and vegetable waxes- Prepared foodstuffs; beverages, spirits and vinegar- Raw materials for food and drink- Casein, caseinates, etc. for use in foodstuffs

B. LIST OF PRODUCTS WHICH CAN BE RECOGNIZED AS BEING INTENDED SOLELY OR MAINLY FOR MEDICAL PURPOSES

CCT chapter or heading No	Description
29.36	Sulphonamides
29.38	Provitamins and vitamins, natural or reproduced by synthesis (including natural concentrates), derivatives thereof used primarily as vitamins, and intermixtures of the foregoing, whether or not in any solvent
29.39	Hormones, natural or reproduced by synthesis; derivatives thereof, used primarily as hormones; other steroids used primarily as hormones
29.44	Antibiotics
Chapter 30	Pharmaceutical products
ex 33.06 A II	Products for cleaning and fixing dentures
ex 34.01	Medical soaps
ex 34.07	Preparations known as "dental wax" or as "dental impression compounds"
ex 37.05	Plates, unperforated film ... (*)
ex 37.07	Cinematograph film ... (*)
ex 38.11	Disinfectants intended to destroy pathogenic germs
ex 38.19	Preparations for pharmaceutical and surgical uses
ex 39.06	Heparin
ex 40.12	Pharmaceutical articles of unhardened vulcanized rubber
ex 40.13	Surgical gloves of unhardened vulcanized rubber
ex 60.06	Knitted or crocheted elastic or rubberized stockings and other pharmaceutical articles (e.g. elastic knee-caps and belts)
ex 70.10	Test-tubes and similar containers for the conveyance or packing of tablets
ex 70.17	Pharmaceutical glassware
ex 70.18	Blanks for corrective spectacle lenses
84.17 E	Medical and surgical sterilizing apparatus
87.11	Invalid carriages, whether or not motorized or otherwise mechanically propelled
ex 87.12	Parts of invalid carriages, etc. falling within heading No 87.11

(¹) Only if of an informative and documentary nature, including demonstration equipment for medical purposes

LIST B. (continued)

CCT chapter or heading No	Description
ex 90.01	Contact lenses, spectacle lenses
ex 90.03	Frames and mountings for spectacles
ex 90.04	Corrective spectacles
90.17	Medical, dental, etc. instruments and appliances ...
90.18	Mechano-therapy appliances ... (without gas masks and similar respirators)
90.19	Orthopaedic appliances ...
90.20	Apparatus based on the use of X-rays ...
ex 90.23	Clinical thermometers
ex 94.02	Medical, dental, surgical or veterinary furniture

C. LIST OF PRODUCTS WHICH CAN BE USED FOR MEDICAL PURPOSES

CCT chapter or heading No	Description
27.12	Petroleum jelly
27.13	Paraffin wax ...
Chapter 28	Inorganic chemicals ...
Chapter 29 (*)	Organic chemicals ...
ex 32.04	Sunflower seed extracts
ex 32.09	Dyes for microscope slides
ex 37.01	Plates and film in the flat for radiography
ex 37.02	Sensitized film for radiography
ex 38.11	Preservative articles
ex 38.16	Prepared culture media ...
ex 38.19	Preparations of vitamins
ex 48.01	Cellulose wadding
ex 48.21	Sanitary towels and tampons
ex 59.01	Wadding for bandages
ex 70.10	Medical containers for conveyance or packing of goods
ex 84.17	Machinery and equipment for distilling
ex 85.11	Incubation furnaces and ovens
ex 90.12	Microscopes and parts thereof
ex 90.13	Magnifying glasses
ex 90.15	Analytical balances and parts and accessories thereof
ex 90.28	Electrical or electronic instruments and apparatus

(*) Excluding the products in list B.

Original in GR.

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Iran

cc:co

10 DOWNING STREET

THE PRIME MINISTER

13 May 1980

Dear Mr. Huckfield.

Thank you for your letter of 22 April about protection for Talbot workers and the effect on Chrysler UK if trade sanctions are imposed on Iran.

I am keenly aware of the seriousness of such steps and of the detrimental effect they may have on British firms with trading interests in Iran. However, the situation is so grave that the Government, in conjunction with our European Community colleagues, have felt obliged to decide on a range of measures, including the threat of trade sanctions, in an attempt to bring pressure on the Iranian authorities to secure the release of the American hostages. The Iran (Temporary Powers) Bill now before the House together with the 1939 Act are enabling measures to give the Government powers to impose sanctions on Iran. The Bill is expected to come into force by 16 May. No actual orders to put into effect any sanctions measures will be made until after 17 May when the EC Foreign Ministers will be deciding on the most appropriate steps to take in the light of the situation in Iran.

I shall naturally consider carefully the likely effect of proposed measures on British firms whose interests may be affected before any announcement is made of the scope of sanctions against Iran. We are working closely with our community partners and the Japanese in arriving at these decisions with the objective of presenting a united front.

Yours sincerely

James Callaghan

Leslie Huckfield, Esq., M.P.

RH

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L.A.
(with H's on R. Evans's letter
7.29 April).

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PRIORITY CANBERRA
TELEGRAM NUMBER 232 OF 13 MAY.
PRIORITY WASHINGTON

CALL BY THE AUSTRALIAN FOREIGN MINISTER

1. ANDREW PEACOCK CALLED ON ME FOR HALF AN HOUR YESTERDAY, ACCOMPANIED BY THE AUSTRALIAN HIGH COMMISSIONER. HE HAD COME TO BRIEF HIMSELF ON OUR RECENT AND FORTHCOMING DISCUSSIONS WITH OUR ALLIES ABOUT AFGHANISTAN AND THE MIDDLE EAST. HE SAID THAT HE MIGHT BE RETURNING TO EUROPE AT THE BEGINNING OF JUNE FOR THE OECD MEETING (I TOLD HIM I WOULD NOT BE ATTENDING), AND PEACOCK MIGHT ALSO ATTEND THE UN MEETING ON CAMBODIA AT GENEVA. HE WOULD PERHAPS TRY TO COME TO LONDON IN THE COURSE OF THE TOUR TO SEE ME AGAIN.

2. THE SUBJECTS COVERED WERE AS FOLLOWS:-

(A) MY VISIT TO WASHINGTON: PEACOCK AGREED THAT MUSKIE'S WAS A GOOD APPOINTMENT. I SAID THAT I WOULD BE SEEING HIM LATER THIS WEEK IN VIENNA. BOTH MUSKIE AND I WOULD BE HAVING BILATERAL MEETINGS WITH GROMYKO IN VIENNA.

MY OVERRIDING IMPRESSION IN WASHINGTON WAS THAT THE US GOVERNMENT WERE VIEWING THE PROBLEMS OF IRAN, AFGHANISTAN AND THE ARAB/ISRAEL DISPUTE IN SEPARATE COMPARTMENTS. I HAD DONE MY BEST TO COUNTER THIS TENDENCY. PEACOCK AGREED THAT THE PROBLEMS WERE INTERWOVEN, BUT THAT THE AMERICANS HAD BEEN VERY SLOW TO RECOGNISE THIS.

(B) IRAN: I SAID THAT I HAD TOLD THE AMERICANS THAT THE EUROPEANS COULD NOT SUPPORT ANY US MILITARY ACTION AGAINST IRAN WHICH DID NOT LEAD TO THE RELEASE OF THE HOSTAGES, AND THAT WE WERE WORRIED ABOUT THE WIDER CONSEQUENCES OF ANY FORM

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OF MILITARY ACTION. I DESCRIBED OUR PRESENT POSITION ON SANCTIONS, AND SAID THAT IT DID NOT SEEM LIKELY THAT ANY OF THE EUROPEANS WOULD SUSPEND EXISTING CONTRACTS WITH IRAN. THEY WERE NATURALLY RELUCTANT TO TAKE ACTION MORE DAMAGING TO THEMSELVES THAN TO THE IRANIANS: AND HAD MUCH MORE TO LOSE THAN THE AMERICANS.

PEACOCK SAID THAT MALCOLM FRASER HAD TOLD HIM ON THE TELEPHONE THAT THE AUSTRALIAN GOVERNMENT WERE NOW READY TO IMPOSE SANCTIONS AGAINST IRAN ON 17 MAY. PEACOCK THOUGHT THAT HIS GOVERNMENT'S PRESENT PLANS INCLUDED THE SUSPENSION OF EXISTING CONTRACTS, BUT SAID THAT HE WOULD LOOK INTO THIS AGAIN IN THE LIGHT OF THE ATTITUDE OF THE EUROPEANS. HE STRESSED THAT ANY REQUEST BY THE AMERICANS TO AUSTRALIA TO SUSPEND FOOD EXPORTS TO IRAN WOULD CAUSE MAJOR PROBLEMS (OF COURSE NO SUCH REQUEST HAD YET BEEN MADE).

(C) AFGHANISTAN: I SAID THAT THE AMERICANS NOW HAD A BETTER UNDERSTANDING OF THE VALUE OF OUR PROPOSAL FOR A NEUTRAL AND NON-ALIGNED AFGHANISTAN. WE HOPED THAT THIS CONCEPT WOULD BE TAKEN FURTHER AT THE FORTHCOMING MEETING OF THE ISLAMIC CONFERENCE IN ISLAMABAD, THROUGH THE INITIATIVE OF ITS SECRETARY-GENERAL, CHATTY. ONE RESULT OF THE CONFERENCE MIGHT BE THE PASSAGE OF A RESOLUTION TO SEND A MISSION FROM THE CONFERENCE TO MOSCOW TO EXPLORE THE NEUTRAL AND NON-ALIGNED PROPOSAL: HOWEVER, SUCH A RESOLUTION WAS NOT CERTAIN TO SUCCEED AND WOULD BE OPPOSED BY THE EXTREMIST ARAB REPRESENTATIVES.

(D) I SAID THAT THE US ADMINISTRATION'S POLICY ON THE ARAB/ISRAEL DISPUTE MADE IT IMPOSSIBLE FOR ISLAMIC COUNTRIES TO GIVE ENTHUSIASTIC SUPPORT TO THE AMERICAN POSITION OVER IRAN AND AFGHANISTAN. HOWEVER, I SAW NO PROSPECT OF ANY CHANGE IN US ATTITUDES BEFORE THE ELECTION. I HOPED THAT THE EUROPEANS COULD PLAY A PART IN HELPING TO MANAGE THE SITUATION TILL THEN, THOUGH WE HAD NOT YET FORMED A FIRM VIEW OF THE WAY IN WHICH A EUROPEAN INITIATIVE MIGHT BE TAKEN FORWARD. AN

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INITIATIVE IN FAVOUR OF THE ARABS WOULD NOT BE POPULAR IN THE PRESENT ATMOSPHERE IN THE UK, WHERE THERE HAD BEEN A STRONG REACTION TO THE RECENT ACTIVITIES OF LIBYANS, IRAQIS, IRANIANS AND OTHERS IN LONDON.

(E) CHANCELLOR SCHMIDT'S VISIT TO MOSCOW: I SAID THAT SCHMIDT WAS LIKELY TO VISIT MOSCOW BETWEEN THE VENICE SUMMIT AND THE OLYMPICS. THE AMERICANS WERE OPPOSED TO THE VISIT, BUT SCHMIDT HAD STRONG DOMESTIC REASONS FOR GOING. SCHMIDT WAS STILL IN A VERY PESSIMISTIC MOOD AND HIS RELATIONS WITH THE AMERICANS WERE STRAINED.

(F) MR FRASER'S LETTER TO THE PRIME MINISTER. I SAID THAT THE PRIME MINISTER DID NOT NOW INTEND TO SEND A WRITTEN REPLY TO MALCOLM FRASER'S LETTER OF 29 APRIL. THEY HAD DISCUSSED THE PROBLEMS WHICH IT COVERED FRANKLY ON THE TELEPHONE ON 1 MAY. ALTHOUGH THE PRIME MINISTER HAD TOLD MR FRASER THAT SHE WOULD SEND A LETTER AS WELL, SHE NOW FELT THAT IT WOULD BE DIFFICULT TO BE AS FORTHCOMING IN WRITING AS SHE HAD BEEN ON THE TELEPHONE. PEACOCK THANKED ME FOR CLARIFYING THE POSITION, AND SAID THAT HE SAW NO NEED FOR MRS THATCHER TO WRITE: HE HAD ALREADY COME TO THE CONCLUSION THAT IT WOULD BE A DIFFICULT LETTER TO DRAFT.

CARRINGTON

FILES

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MR BULLARD
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TO IMMEDIATE FCO

TELEGRAM NUMBER 484 OF 13 MAY 80

INFO IMMEDIATE WASHINGTON, UKMIS NEW YORK AND UKDEL NAT

(FOR PRIVATE SECRETARY)

INFO SAVING EC POSTS.

mb.

Read in full.

MIPT : US/IRAN.

1. I APOLOGISE FOR THE LENGTH OF THESE REPORTS. THE EC AMBASSADORS HAD A CONFUSED DISCUSSION OF WHERE THEY LEFT US. I THINK WE ARE ALL AGREED THAT BANI SADR AND QOTBZADEH ARE GENUINELY WORKING FOR THE RELEASE OF THE AMERICANS, IN THEIR FASHION, THE FORMER BOTH ON PRINCIPLE AND BECAUSE HE BELIEVES, RIGHTLY, THAT THE ISSUE PREVENTS IRAN TACKLING ITS REAL PROBLEMS, THE LATTER BECAUSE, AS FOREIGN MINISTER, HE HAS DISCOVERED THAT IRAN IS ISOLATED ON THIS ISSUE, EVEN THE ARABS AND EAST EUROPEANS UP-BRAIDING HIM IN PRIVATE, AND PERHAPS BECAUSE HE IS ALSO ALARMED BY THE OPENINGS IT GIVES TO THE COMMUNISTS. BANI SADR, THE ACADEMIC ECONOMIST, IS ALARMED AT THE PROSPECT OF SANCTIONS, SEEING THE REAL UNDERLYING DAMAGE TO IRANS ECONOMY: QOTBZADEH, THE PRAGMATIC POLITICIAN, DOES NOT MUCH CARE. BANI SADR SEES THE KEY TO THE SOLUTION IN THE IMAM, WHILE QOTBZADEH APPEARS TO BELIEVE THAT HE CAN CARRY THE ASSEMBLY. BOTH, HOWEVER, HAVE THE SAME AIM, AND DESPITE TADATABAI'S REFERENCE TO A FOUR WEEK DELAY BEFORE THE ASSEMBLY MEETS, WE DETECTED A NOTE OF URGENCY, AT LEAST IN BANI SADR'S APPROACH.
2. IF IT IS TRUE THAT AHMED KHOMEINI HAS BEEN WON OVER BY BANI SADR, IT IS A VERY IMPORTANT DEVELOPMENT SINCE HE IS PROBABLY THE MAIN FILTER OF WHAT REACHES HIS FATHER. WE DO NOT KNOW THE POSITION OF BEHESHTI, BAHONAR AND THEIR FRIENDS, BUT THE ATTEMPT TO APPOINT A PRIME MINISTER IN ADVANCE OF THE ASSEMBLY HAS GIVEN THEM AN INCENTIVE NOT TO OPPOSE ITS EARLY CONVENING, AND IF THE IMAM MAKES A DIRECT STATEMENT, THEY ARE UNLIKELY TO OPPOSE IT OPENLY IN THE ASSEMBLY. MOREOVER EVEN THEY MUST BE BEGINNING TO REALISE THAT THERE IS NOT MUCH MORE MILEAGE IN THE AFFAIR.
3. NEVERTHELESS ALL WE HAVE ARE STATEMENTS OF HOPE AND INTENT. WE HAVE BEEN DISAPPOINTED IN SIMILAR, OR MORE SPECIFIC, STATEMENTS IN THE PAST. THE CYNIC IS ENTITLED TO ARGUE THAT IT IS ONLY THE PROSPECT OF SANCTIONS BY THE EC AND JAPAN, AND THE ACTUAL MEASURES ALREADY TAKEN, ESPECIALLY THE REFUSAL TO LIFT OIL AT DOLLARS 35 A BARREL, WHICH HAS BROUGHT BANI SADR AND CO. TO THIS POINT. THE EC HAS COMMITTED ITSELF PUBLICLY TO TAKE CERTAIN MEASURES IN THE ABSENCE OF DECISIVE PROGRESS TOWARDS RELEASE (THOUGH I NOT IN YOUR ABC INTERVIEW ONE JOURNALIST DESCRIBED THE CRITERIA AS "TANGIBLE PROSPECT OF RELEASE" AND WE CANNOT SO DESCRIBE WHAT WE HAVE NOW. MOREOVER WE HAVE TO

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PERSUADE THE US GOVERNMENT AND PUBLIC THAT WE ARE NOT LETTING THEM DOWN. IT WOULD BE HARD ENOUGH TO DO THIS IF WE COULD GIVE THEM A FULL BRIEFING, BUT I BELIEVE THE THREE IRANIANS ARE RIGHT WHEN THEY SAY THAT ANY LEAK OF WHAT IS ABOUT WOULD KILL IT STONE-DEAD. THIS MAKES IT DIFFICULT TO PRESENT THE CASE TO US PUBLIC OPINION ALTHOUGH MANY RESPONSIBLE AMERICAN JOURNALISTS HERE SHARE MY VIEW ON THE NEED TO AVOID NEW AND HASTY MEASURES.

4. NEVERTHELESS I BELIEVE THAT, LIKE THE NUCLEAR DETERRENT, SANCTIONS ARE MOST EFFECTIVE IN PROSPECT, AND THAT ONCE APPLIED THEY CAN BE SAID TO HAVE FAILED. INDEED, I SUSPECT THAT QOTBZADEH IS RIGHT AND THAT THE ACTUAL IMPOSITION OF A TRADE EMBARGO, WHILE EXTREMELY DAMAGING TO US, WOULD NOT HAVE MUCH IMPACT IN THE SHORT TERM ON IRAN'S ALREADY RUN-DOWN ECONOMY AND WOULD ENGENDER A SPIRIT OF RESISTANCE WHICH COULD WELL DELAY RELEASE OF THE HOSTAGES FOR A CONSIDERABLE TIME. CERTAINLY SANCTIONS WOULD CREATE THE WORST POSSIBLE ATMOSPHERE FOR THE NEW ASSEMBLY TO CONSIDER THE MATTER. AS YOU KNOW, I DEEPLY REGRETTED THE 17 MAY DATE SINCE, ON ANY CALCULATION, IT WAS UNREASONABLE, IN IRANIAN TERMS, TO EXPECT A DECISION BEFORE THE ASSEMBLY MET AND THAT COULD NOT HAVE BEEN BEFORE 20 MAY AT THE EARLIEST.
5. RECOGNISING THEREFORE THAT I CAN ONLY SEE PART OF THE PICTURE, I STRONGLY RECOMMEND THAT WE SHOULD TAKE A FURTHER CHANCE ON BANI SADR. EC MINISTERS, I SUGGEST, COULD ISSUE A STATEMENT ON THE FOLLOWING LINES. BEGINS - MINISTERS NOTED THAT THE IRANIAN ELECTIONS WERE COMPLETE AND THAT THE ASSEMBLY WAS TO MEET SOON (IF WE COULD GET THE IRANIANS TO ANNOUNCE A DATE, PREFERABLY ONE IN MAY, THIS WOULD HELP : I SHALL GO BACK TO THE PRESIDENT ON THAT): THEY NOTED ALSO THAT IMAM KHOMEINI HAD LAID DOWN THAT THE FUTURE OF THE AMERICANS WAS TO BE DECIDED BY THE ASSEMBLY; THEY BELIEVED THAT IT WOULD BE IN THE SPIRIT OF IRAN'S LONG CULTURAL AND RELIGIOUS TRADITION TO TAKE THE STEP OF RELEASING THE AMERICANS, A STEP WHICH WOULD BE IN THE INTERESTS OF IRAN AND THE IRANIAN PEOPLE AS MUCH AS OF THE REST OF THE WORLD WHICH DESIRED NOTHING MORE THAN TO MAINTAIN AND IMPROVE RELATIONS WITH IRAN ON THE BASIS OF MUTUAL INTEREST AND RESPECT: EC MINISTERS HAD THEREFORE DECIDED, IN THE DESIRE

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TO SEE AN END TO THIS TRAGIC EMPEDIMENT TO PROGRESS, AND IN ORDER TO GIVE THE ASSEMBLY TIME TO REACH A DECISION, TO DELAY FOR A FURTHER SHORT PERIOD THE IMPOSITION OF THE ECONOMIC MEASURES THAT HAD BEEN PREPARING. ENDS. WE SHOULD NOT HOWEVER RELAX ANY OF THE MEASURES NOW IN FORCE (INCLUDING THE SELF-DENIAL OF IRANIAN OIL, EVEN PERHAPS IF THEY DROP THE PRICE) AND SHOULD CONTINUE TO PREPARE AND PUBLICISE THE PREPARATION OF THE NECESSARY LEGAL MEASURES. IT WOULD BE BEST NOT TO PLACE A DEADLINE, BUT ALTHOUGH I BELIEVE THAT TABATABAI'S DATE OF 25 JUNE IS THE MORE REALISTIC, IT COULD BE GIVEN OUT IN BRIEFING THAT THE MATTER WOULD BE REVIEWED AGAIN AT THE NEXT EC MEETING ON 2 JUNE.

FCO PLEASE PASS SAVING TO EC POSTS.

GRAHAM

[REPEATED AS REQUESTED]

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TO IMMEDIATE FCO

TELEGRAM NUMBER 478 OF 12 MAY 80

INFO IMMEDIATE WASHINGTON

INFO PRIORITY UKMIS NEW YORK

INFO SAVING EC POSTS.

Read in full
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MY TELNO 472 : AMERICAN HOSTAGES.

1. I CALLED ON 11 MAY ON THE IRANIAN FOREIGN MINISTER. WE STARTED WITH THE OCCUPATION OF THE IRANIAN EMBASSY IN LONDON FOR THE OUTCOME OF WHICH HE EXPRESSED RENEWED THANKS TO THE POLICE AND THE ARMED FORCES. HE WAS AT PAINS TO COUNTER THE CRITICISMS THAT ARE BEING MADE. FROM THE START, HE SAID, HIS STATEMENTS HAD BEEN DESIGNED, WITH AN EYE ON IRANIAN PUBLIC OPINION, TO SUPPORT US AND GIVE US A FREE HAND IN WHATEVER WE THOUGHT NECESSARY TO DO. IT WAS NOT IMPORTANT WHETHER SAMADZADEH HAD DIED AT THE HANDS OF THE TERRORISTS OR SAS: THE IRANIAN GOVERNMENT ACCEPTED THAT CASUALTIES WERE BOUND TO OCCUR. EQUALLY, EXTRADITION WAS NOT AN ISSUE BETWEEN US. HE HAD MENTIONED IT PARTLY WITH OUR OWN PROBLEMS IN MIND, SINCE HE BELIEVED THAT OUR OWN PEOPLE MIGHT BE AT RISK IF WE WERE HOLDING ONE OF THE TERRORISTS AS A PRISONER. HOWEVER, IF WE WISHED TO TRY HIM IN OUR COURTS AND HOLD HIM IN OUR PRISONS HE WAS QUITE CONTENT.
2. I THEN SAID THAT THE INCIDENT HAD UNDOUBTEDLY BROUGHT OUR TWO COUNTRIES CLOSER TOGETHER. THERE REMAINED THIS OTHER PROBLEM WHICH WE NEEDED TO GET OFF OUR BACKS. WE WERE COMMITTED WITH THE REST OF THE EUROPEAN COMMUNITY TO SOME ACTION ON 17 MAY BUT WE WANTED ABOVE ALL TO ACHIEVE THE RELEASE OF THE AMERICAN HOSTAGES AND TO BE ABLE TO HAVE GOOD RELATIONS WITH IRAN. WAS THERE ANYTHING WE ON THE ONE HAND OR IRAN ON THE OTHER COULD DO TO BRING ABOUT THIS RESULT?
3. QOTBZADEH SAID THAT HIS WISH TO SETTLE THE PROBLEM WAS THE ONLY THING THAT HAD KEPT HIM FROM RESIGNING LAST MONTH. HE WAS NOT UNHOPEFUL. HE HAD HAD A USEFUL CONVERSATION WITH DR WALDHEIM IN BELGRADE AND IT MIGHT BE POSSIBLE TO REACTIVATE THE UN COMMISSION OF ENQUIRY; IT WAS ESSENTIAL THAT THEY SHOULD BRING OUT THEIR REPORT WHICH COULD BALANCE CRITICISM OF THE US WITH CONDEMNATION OF IRAN FOR TAKING AND HOLDING THE AMERICAN HOSTAGES. SINCE THE HOSTAGES HAD NOW BEEN SEEN BY THE ICRC THAT POINT NEED NO LONGER BE AN ISSUE AND CERTAINLY, AS A DETAIL, SHOULD NOT BE ALLOWED TO OBSTRUCT THE MAIN OBJECT. SUCH A REPORT THE IRANIAN GOVERNMENT COULD USE WITH THE ASSEMBLY

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WHEN IT MET. IN THE SAME WAY HE WAS HOPING TO BE ABLE TO USE THE PROCEEDINGS AND RESOLUTIONS OF THE PLANNED SEMINAR (WHICH COULD BE BALANCED IN THE SAME WAY) TO SHOW TO THE MAJLIS THAT IRAN'S COMPLAINTS AGAINST THE UNITED STATES WERE UNDERSTOOD IN THE WORLD BUT THAT THE WORLD COULD NOT ACCEPT THE HOLDING OF HOSTAGES. HE HAD POSTPONED THE SEMINAR PARTLY SO THAT ITS PROCEEDINGS COULD PRECEDE THE SESSION OF THE MAJLIS RATHER MORE CLOSELY, AND PARTLY TO ALLOW MORE TIME FOR PREPARATION.

4. I WELCOMED HIS COMMENTS ABOUT THE UN COMMISSION AND THE PROPOSED SEMINAR BUT URGED HIM TO ANNOUNCE, IF POSSIBLE THIS WEEK, AN EARLY DATE FOR THE CONVENING OF THE ASSEMBLY. THERE WERE SUSPICIONS, HOWEVER UNJUSTIFIED, THAT THE ELECTIONS AND CONVENING OF THE ASSEMBLY HAD BEEN DELIBERATELY DRAGGED OUT: IT WOULD CONVEY SOME REASSURANCE AND IT NEED NOT BE LINKED TO THE HOSTAGE ISSUE, IF A FIRM DATE COULD NOW BE GIVEN. SIMILARLY, WE HAD BEEN ENCOURAGING SOME OF OUR FRIENDS AMONG THE NON-ALIGNED TO ATTEND THE SEMINAR AND TO USE IT CONSTRUCTIVELY ALONG THE LINES QOTBZADEH HAD DESCRIBED. (I HAD NOT AT THE TIME SEEN YOUR TELNO 79 TO ALGIERS AND FEAR I MAY HAVE GONE TOO FAR IN THIS).

5. QOTBZADEH SAID THAT I NEED HAVE NO FEAR ABOUT THE ASSEMBLY BEING FURTHER DELAYED: THE IMAM HAD REFUSED TO ALLOW ANY FURTHER POSTPONEMENT OF THE ELECTIONS, ALTHOUGH THERE WERE TECHNICAL GROUNDS FOR POSTPONEMENT, AND WAS VERY KEEN TO HAVE THE PARLIAMENT CONSTITUTED AS SOON AS POSSIBLE. NONETHELESS IT WOULD BE NECESSARY TO PREPARE THE GROUND WITH THE ASSEMBLY. HE WELCOMED ANY HELP WE COULD GIVE WITH THE NON-ALIGNED, THOUGH IT WOULD HAVE TO REMAIN ABSOLUTELY SECRET THAT HE WAS TRYING TO USE THE SEMINAR IN THE WAY HE HAD DESCRIBED: SO FAR THE ONLY ACCEPTANCES HAD COME FROM THE COMMUNISTS WHICH WAS ANATHEMA TO HIM.

6. I SAID THAT ALL THIS WAS ENCOURAGING BUT HE WOULD REALISE THAT WE WERE COMMITTED TO DO SOMETHING ON 17 MAY AND THAT, FACED WITH A CHOICE AS IT WERE BETWEEN IRAN AND THE US, WE WERE BOUND TO CHOOSE THE LATTER. QOTBZADEH SAID HE HAD NEVER DOUBTED IT. HE SHRUGGED ASIDE THE 17TH AND THE MEASURES THAT MIGHT BE TAKEN AND I THINK THAT HIS ENDEAVOUR WILL BE TO PLAY THEM DOWN.

7. I CONCLUDED THE CONVERSATION BY MENTIONING VISAS. I SAID THAT WE WERE OF COURSE COMMITTED TO REIMPOSING THEM BY THE LUXEMBOURG DECLARATION BUT, QUITE APART FROM THAT, AND ESPECIALLY AFTER THE INCIDENT AT THE IRANIAN EMBASSY, BRITISH MINISTERS WISHED TO HAVE A VISA REGIME, ON ITS MERITS, IN ORDER TO CONTROL, WE HOPED, ENTRY OF TERRORISTS, ETC. QOTBZADEH WAS QUITE RELAXED AND AGREED THAT WE SHOULD TREAT THIS AS THE FRENCH SUSPENSION OF THEIR AGREEMENT.

CONFIDENTIAL

8. IN CONVERSATION BEFORE MY APPOINTMENT WITH THE MINISTER, ZOLEYN, THE NEW DIRECTOR-GENERAL OF PROTOCOL, HAD EMPHASISED THAT EVERYBODY IN THE GOVERNMENT WAS NOW UNITED IN WISHING TO SEE THE HOSTAGE PROBLEM ENDED. QOTBZADEH HAD BEEN FRANK ABOUT THIS AT A MEETING IN THE MINISTRY THE DAY BEFORE. THE PROBLEM, HOWEVER, WAS ONE OF PRESTIGE AND FACE AND, WITHOUT THE IMAM'S POSITIVE INSTRUCTION, IT WOULD BE DANGEROUS FOR ANY LESSER INDIVIDUAL TO TAKE THE INITIATIVE. ZOLEYN'S OWN HOPE WAS THAT WE COULD PRESENT THE POSTPONEMENT OF THE SEMINAR AS A GESTURE OF MODERATION WHICH MIGHT IN TURN JUSTIFY A SLOWER APPROACH ON OUR SIDE.

9. APART FROM WHAT HE TOLD ME HIMSELF, I LEARN THAT QOTBZADEH IS IN TOUCH THROUGH CAPUCCI WITH THE FRENCH LAWYERS AND VILLALON.

FCO PLEASE PASS SAVING TO EC POSTS.

GRAHAM

[REPEATED AS REQUESTED.]

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TO PRIORITY FCO
TELEGRAM NO 1840 OF 12 MAY
INFO PRIORITY TEHRAN, UKDEL NATO, PARIS, BONN, VIENNA
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MY TELNO 1830 (NOT TO ALL): US/IRAN - SANCTIONS

1. IN AN ARTICLE IN TODAY'S NEW YORK TIMES AND ATTRIBUTING HIS STORY TO HIGH-RANKING ADMINISTRATION OFFICIALS, BERNARD GWERTZMAN WRITES THAT SECRETARY OF STATE MUSKIE WILL RAISE THE MATTER OF EUROPEAN SANCTIONS AGAINST IRAN IN HIS MEETINGS IN BRUSSELS AND VIENNA THIS WEEK. OFFICIALS QUOTED BY GWERTZMAN ARE SAID TO BE QUOTE DEEPLY DISTURBED BY SIGNS THAT WESTERN ALLIES PLAN TO RENEGE ON THEIR EARLIER PLEDGE TO BAN ALL EXPORTS TO IRAN EXCEPT FOOD AND MEDICINE IF DECISIVE PROGRESS TOWARDS RESOLVING THE HOSTAGE CRISIS IS NOT MADE BY NEXT SATURDAY UNQUOTE.

2. GWERTZMAN IS WELL-CONNECTED AND USUALLY WELL-INFORMED. ON THIS OCCASION, HOWEVER, BOTH STATE DEPARTMENT AND NSC CLAIM THAT HE IS OFF BEAM. STATE DEPARTMENT (PRECHT) HAS TOLD US THAT IF IRAN DOES COME UP AT MUSKIE'S MEETINGS IN EUROPE, THE INTENTION IS NOT TO BANG THE TABLE OR REPRIMAND THE ALLIES; AND NSC (SICK) STRESSED THAT US POLICY ON THIS ISSUE IS THAT, WHILE THEY WOULD LIKE TO SEE ALL THE SANCTIONS CONTAINED IN THE VETOED UN RESOLUTION APPLIED, THEY UNDERSTAND THE DIFFICULTIES THAT THIS COULD CAUSE SOME COUNTRIES; THE IMPORTANT THING IS THE SYMBOLIC VALUE OF DEMONSTRABLE ALLIED SOLIDARITY.

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]

[REPETITION TO TEHRAN REFERRED FOR DEPARTMENTAL DECISION, REPEATED AS REQUESTED TO OTHER POSTS]

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/ Paul

12 May 1980

Message to Mr. Fraser

Your letter to me of 8 May enclosed a draft reply for the Prime Minister to send in reply to Mr. Fraser's letter to her of 29 April. The Prime Minister met Mr. Peacock in Belgrade. Mr. Peacock told her that the Australian Government were not expecting a written reply to Mr. Fraser's letter. No further action is therefore required at present.

MICHAEL ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

TJR

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TO IMMEDIATE F.C.O.

TELEGRAM NUMBER 1830 OF 11 MAY.

INFO ROUTINE BONN, PARIS, ROME, UKREP BRUSSELS.

INFO SAVING BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, THE HAGUE, TEHRAN.

US/IRAN : SANCTIONS

1. IN ARTICLE DATED LONDON IN TODAY'S NEW YORK TIMES, JOHNNY APPLE WRITES THAT OFFICIAL SOURCES IN BRUSSELS, PARIS, BONN AND LONDON CONCEDE THAT EUROPEAN SANCTIONS WILL ALMOST CERTAINLY NOT AFFECT EXISTING CONTRACTS TO SUPPLY GOODS AND SERVICES. OFFICIALS IN LONDON ARE REPORTED TO BE SAYING THAT E.C. FOREIGN MINISTERS MAY DECIDE, DEPENDING ON THE SITUATION IN IRAN AND THE U.S., TO INTRODUCE SANCTIONS GRADUALLY. THIS, WRITES APPLE, REPRESENTS A CONSIDERABLE RETREAT FROM THE FOREIGN MINISTERS' DECISION IN LUXEMBOURG ON 22 MAY. HE ATTRIBUTES IT IN PART TO PREVIOUS DOUBTS IN EUROPE ABOUT THE EFFECTIVENESS OF SANCTIONS REASSERTING THEMSELVES NOW THAT THE U.S. APPEARS TO HAVE SHELVED THE MILITARY OPTION.

2. APPLE ALSO CITES, AS TOUCHING ON ONE MAJOR REASON FOR THE SOFFENING OF EUROPEAN RESOLVE, A BBC RADIO INTERVIEW IN WHICH YOU ARE REPORTED TO HAVE SAID : "THE ONLY WAY TO GET THE HOSTAGES RELEASED IS BY INTENSE DIPLOMATIC ACTIVITY. THE ECONOMIC SANCTIONS ARE MORE A POLITICAL GESTURE, QUOTE FRANKLY"

3. APPLE INTERPRETS THE IRAN (TEMPORARY POWERS) BILL AS INDICATING THE POSSIBLE SHAPE OF SANCTIONS, NOTING THAT IT "EXCLUDES ALL EXISTING EXPORT AND SERVICE CONTRACTS AS WELL AS CURRENT AND FUTURE BANKING AND FINANCIAL SERVICES." APPLE ACKNOWLEDGES THAT THE 1939 ACT GAVE THE GOVERNMENT THE POWER TO ABROGATE EXISTING CONTRACTS, BUT ADDS THAT THE CABINET IS UNWILLING TO STRETCH THAT LAW TO COVER WHAT IS NOT A WARTIME SITUATION.

4. THE VALUE OF U.K. EXPORTS TO IRAN IS NOW REGULARLY CITED IN THE U.S. PRESS AS RUNNING AT THE RATE OF DOLLARS 1 BILLION PER ANNUN (DOLLARS 3 BILLION FOR ITALY).

FCO PASS SAVING BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, THE HAGUE, TEHRAN.

HENDERSON

[REPEATED AS REQUESTED]

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YOUR TELEGRAM NO 901: SANCTIONS AGAINST IRAN: ENABLING LEGISLATION.

1. FRETWELL SPOKE ACCORDINGLY TO SAUNDERS (ASSISTANT SECRETARY STATE DEPARTMENT) AND THOMAS GAVE THE SAME MESSAGE TO MOOSE (EXECUTIVE ASSISTANT TO COOPER WHO IS IN PARIS FOR ECSS MEETING). SAUNDERS' ONLY COMMENT WAS THAT IF THERE WERE DIFFICULTY OVER CANCELLATION OF EXISTING CONTRACTS HE THOUGHT THAT IN SOME CASES AT LEAST IT SHOULD BE POSSIBLE TO TAKE ACTION IN RESPECT OF QUOTE ADD ON UNQUOTE ARRANGEMENTS DERIVING FROM SUCH CONTRACTS E.G. EVEN IF ORIGINAL CONTRACTS REMAINED IN FORCE ONE MIGHT BLOCK THE DELIVERY OF ADDITIONAL SPARES OR THE SIGNATURE OF NEW SUB-CONTRACTS OR ARRANGEMENTS FOR FURTHER SERVICES, ETC. HE SAID THAT COOPER MIGHT BE PURSUING SOME OF THESE IDEAS WHILE HE IS IN EUROPE.

2. MOOSE SAID THAT HENRY OWEN (NSC) HAD BEEN VERY EXERCISED BY THE PRESS REPORTS HE HAD SEEN ABOUT OUR DECISION YESTERDAY (SEE MIFT) AND WAS PLANNING TO MAKE REPRESENTATIONS TO US ABOUT IT. MOOSE WAS ABLE TO PUT HIM RIGHT ON THE FACTS, BUT SUBSEQUENTLY CAME BACK TO US TO SAY THAT OWEN WAS INSTRUCTING THE U.S. EMBASSY IN LONDON TO SEEK A CLARIFYING STATEMENT.

3. I AM CONCERNED THAT WHATEVER BRIEFING WAS GIVEN APPEARS TO HAVE HAD THE REVERSE OF THE DESIRED EFFECT, AT LEAST ON AMERICAN OPINION. RATHER THAN PREPARING OPINION FOR LESSER MEASURES THAN THE AMERICANS ANTICIPATED, AS SEEN FROM HERE THE MAIN OBJECTIVE IN BRIEFING AMERICAN CORRESPONDENTS SHOULD BE TO BRING OUT THE MEASURES WE ARE TAKING TO ENABLE US TO GIVE THE MAXIMUM LEVEL OF SUPPORT THAT CAN BE AGREED WHILST AVOIDING GOING INTO TOO MUCH DETAIL ABOUT WHAT MAY OR MAY NOT BE AGREED AT NAPLES. INsofar AS THERE ARE SEVERE DIFFICULTIES AMONG THE EUROPEAN CAPITALS, IT IS DESIRABLE TO LET THEM EMERGE FROM BRUSSELS AND OTHER CONTINENTAL CENTRES.

4. OUR MAIN OBJECTIVE IN AMERICAN TERMS SHOULD BE TO MAINTAIN THE APPEARANCE OF DELIVERING AS MUCH AS WE CAN BY WAY OF EUROPEAN SUPPORT FOR THE MEASURES THE US HAVE REQUESTED.

5. MINISTERS WILL NO DOUBT HAVE THIS ANGLE IN MIND IN SPEAKING IN PARLIAMENT AS THE DEBATE ON THE SANCTIONS LEGISLATION CONTINUES.

F.C.O. PASS SAVING POSTS.

HENDERSON

[PASSED AS REQUESTED]

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IRAN

It is hoped that the attached notes will be useful for the debates on the Iran (Temporary Powers) Bill on 12th and 13th May, 1980.

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- 1) Introduction
- 2) The various American measures against Iran
- 3) The Allied Response
- 4) The Abortive Rescue Mission
- 5) The siege of the Iranian Embassy in London
- 6) The Iran (Temporary Powers) Bill
- 7) Arguments in favour of the Bill

Conservative Research Department,
32 Smith Square,
London SW1

RT/CDE
9th May, 1980



IRAN

1) Introduction

On 4th November 1979, Iranian terrorists seized the United States Embassy in Teheran and took the 49 diplomats there as hostages, whom they said would only be released if the Shah, then in the United States and receiving treatment for cancer, was returned to Iran to face trial for alleged crimes during his reign. Ever since then, the American Government has tried by various means to induce the various and diffuse centres of power in revolutionary Iran to agree to the release of the hostages.

2) The various American measures against Iran

On 12th November, President Carter banned the import to the United States of all oil imports from Iran and, two days later, he froze all official Iranian government assets in America (estimated at 8 billion dollars). Then, when it was apparent that these measures were not having any effect, the United States began to seek agreement on mandatory United Nations economic sanctions against Iran. On 13th January, a sanctions resolution received the necessary two thirds majority in the Security Council, but was vetoed by the Soviet Union.

At first, the Americans did not continue to seek punitive action against Iran, but instead initiated a prolonged period of diplomatic activity, principally conducted through a United Nations mission. During this period, the newly elected President of Iran, Bani Sadr, appeared to want to reach a solution to the crisis, but he proved powerless when faced with the intransigence of the terrorist "students" in the Embassy, the clergy-dominated Revolutionary Council and above all the Ayatollah Khomeini, who declared that it would be for the Iranian Parliament to decide the fate of the hostages. The first round of the elections for this Parliament in March indicated strong support for the ultra clerical and hardline Islamic Republican Party. The second round of the elections is taking place on 9th May. It is uncertain when the Parliament will actually meet.

By April, it was apparent that the diplomatic moves were having no effect and on 7th April, President Carter announced that the United States was breaking off diplomatic relations and imposing wide ranging economic sanctions on Iran. All trade with Iran except food and medical supplies would be banned. An inventory of the frozen Iranian assets would be made with a view to providing compensation for hostages, their families and others. Subsequently, President Carter asked the Western allies to impose equivalent economic and diplomatic sanctions.

3) The Allied Response

In a preliminary reaction to the American initiative, the EEC Foreign Ministers meeting in Lisbon on 10th April condemned the continuing holding of the hostages and agreed to instruct their ambassadors in Teheran to demand from the Iranian Government "precise information and assurances concerning the date and the procedures for the hostages' liberation". In the next few days, President Carter indicated his disappointment with the response of the allies and pressed them to take more drastic action.

On 14th April, the Prime Minister made the following statement:

"The United States Administration have put up with the flouting of international law and established diplomatic practice by Iran for several months in the hope of securing the release of the hostages. Naturally, they now feel obliged to demonstrate that the continued detention of their people will carry increasing penalties. They understandably expect solidarity from their allies and we, for our part, have been giving and will continue to give them our utmost support ...

.../... We are

... We are now in close and urgent consultations with our European partners as well as with other friendly countries about how best we can together respond to President Carter's appeal to us to intensify our efforts." (Hansard, Col. 790-91)

On 22nd April, the EEC Foreign Ministers, meeting in Brussels decided on a two-stage plan to bring pressure on the Iranian Government.

The first stage, to take place immediately, would consist of:

- a) a reduction in their Embassy staffs in Teheran
- b) a reduction in Iranian diplomatic staff in the capitals of EEC member states
- c) the introduction of a visa system for Iranians travelling to EEC countries
- d) the withholding of permission for the sale or export of arms or defence related equipment to Iran.

The second stage, to take effect on 17th May unless there is decisive progress leading to the release of the hostages by then, would consist of economic sanctions against Iran.

Announcing these decisions in the House of Commons on 23rd April, Mr. Douglas Hurd, Minister of State at the Foreign Office, said:

"These are decisions of great gravity. If it becomes necessary to implement them, a wide range of commercial activities will be affected. It is, of course, our hope that, at this eleventh hour, the Iranian authorities will draw the inescapable conclusion that the continued detention of the hostages is not in Iran's own interest and should be brought to an end without delay" (Hansard, Col. 465).

He agreed that there would:

"be little enthusiasm for sanctions in this country ... (but) there would have been even less enthusiasm for returning a refusal to the President of the United States and allowing the United States to draw the conclusion that we were only fair weather friends" (Ibid. Col. 471-2).

Speaking on behalf of the Labour Party, Mr. Peter Shore said:

"The Opposition have already made clear their view that the unlawful six month's detention of United States diplomats in Teheran is unacceptable and that the international community should join in diplomatic, political and economic, but not military, measures to bring about their early release. We reaffirm that view now." (Ibid. Col. 465-6).

It was however apparent that not all Labour MPs supported him. The Liberal spokesman, Mr. Stephen Ross, supported the Government.

4) The Abortive Rescue Mission

On 24th April, the United States began to launch a mission to rescue the hostages from Teheran. However, because 3 of the 8 helicopters had broken down by the time the rescue force reached a desert staging post, President Carter was obliged to cancel the mission. 8 American Servicemen were killed when two aircraft collided while the force was withdrawing from Iran. In a statement soon after the failure of the rescue attempt was made public, Sir Ian Gilmour confirmed that Britain was not involved. The Prime Minister sent a message to President Carter expressing "the greatest admiration for the courage you have shown" (Daily Telegraph, 26th April 1980). According to an opinion poll, a majority of

British opinion thought that President Carter was right to use military action to try and release the hostages - 53% Yes - 42% No (Sunday Times, 27th April 1980). The same poll also indicated support for British economic sanctions against Iran by a majority of 55% to 38%.

Speaking to Parliament on 29th April, the Prime Minister made it clear that the Government would be opposed to future American military action, such as mining or blocking the Straits of Hormuz.

5) The siege of the Iranian Embassy in London

On 30th April, a group of Iranian terrorists seized the Iranian Embassy and held the occupants as hostages. After 5 days of inconclusive negotiations, the terrorists said that they would shoot a hostage every half hour until their demands were met. After they had shot the first hostage, the Home Secretary approved an attack by the SAS on the Embassy. This was entirely successful and the hostages were released and five out of the six terrorists were killed.

Speaking on 6th May the day after the attack, the Prime Minister said:

"I sent a message to President Bani Sadr (of Iran) ... defining what I understand and believe to be the legal responsibilities of each and every Government to look after the safety of diplomats on their territory. I believe that the way the operation was carried out in this country will have an effect on the future position of American hostages in Iran. ...We should now consider how we can turn this superb operation in Britain to best advantage for the American hostages" (Hansard, Col. 23).

6) The Iran (Temporary Powers) Bill

This Bill was published on 8th May.

Clause 1 takes enabling powers to ban future Iranian contacts, whether for services or for the sale, supply or transport of goods, other than contracts for financial or banking services. This clause also limits the cases in which extra-territorial offences can be created. Any Order in Council exercising such powers will lapse after 28 days unless approved by resolution of both Houses of Parliament.

Clause 2 provides for the Bill to come into force on 17th May and for Clause 1 to be terminated by Order in Council.

The decision of the EEC Foreign Ministers of 22nd April committed the United Kingdom to having the powers by 17th May to implement the United Nations Security Council Resolution, vetoed on 13th January. Certain measures in this Resolution, particularly the physical export of goods can already be blocked under the 1939 Import, Export and Customs Powers (Defence) Act. These can be brought into effect by Order in Council.

The Iran (Temporary Powers) Bill is necessary to cover those aspects of the Security Council Resolution which cannot be brought into force under the 1939 Act, that is: future service contracts in support of industrial projects; the use of British ships to transport goods from Third Countries to Iran and the signature of contracts (as opposed to physical export of goods) to supply forbidden goods to Iran.

The Bill does not cover the financial measures referred to in the vetoed Security Council resolution (withholding new credits, loans, deposit facilities etc.), because these can be effected by administrative and other measures inherent in the UK banking system, if this is deemed necessary.

The Bill will not empower the Government to make orders that .../will render

will render past contracts illegal. But the Government will still have powers under the 1939 Act (see above) to prevent the physical shipment of goods to Iran under existing contracts. No decision on how the Government will use these powers has yet been taken. It is important to harmonize any action with our Community and other partners.

7) Arguments in favour of the Bill

a) The primary objective of the Government is to preserve the solidarity of the Western Alliance, upon which our security and freedom depends. The United States has asked for the support of its European allies and the latter gave that support on 22nd April, when they agreed to impose sanctions on 17th May unless there was decisive progress towards the release of the hostages. There has been no such progress and this Bill will enable the Government to fulfil its promise.

b) Iran has flagrantly violated one of the oldest established rules of international law. This affects all states who are party to the Vienna Convention on diplomatic relations irrespective of their bilateral relations with Iran and is sufficient basis for collective reprisals by all the parties to the Convention. By its firm and decisive action to end the siege of the Iranian Embassy in London, the British Government has set an example, which Iran should follow.

c) The United States has shown great patience under the most extreme and outrageous provocation. Provided that she feels that she is receiving proper support from her European allies, she is less likely to proceed to more radical measures against Iran, which could have very dangerous political and economic consequences for the whole world.

d) It should be recalled that, although the UN Security Council resolution, seeking to impose sanctions on Iran in January was vetoed by the Soviet Union, another earlier resolution, calling for the hostages to be released, was approved unanimously on 4th December. Thus the Iranian Government has now defied the wishes of the Security Council for more than five months.

e) The Iranian authorities must be shown that the United States is not alone, but rather has the support of the whole free world, in its determination to secure the release of the hostages. Iran must be made to realise that she will not be able to have good relations with the Western world and the European Community in particular, until it respects the rules of civilized international conduct.

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DUBLIN, AND WARSAW.

MYTELNO 463 : SITUATION IN IRAN.

ELECTIONS.

1. THE SECOND ROUND OF THE ELECTIONS FOR THE MAJLES WILL TAKE PLACE TOMORROW, DESPITE A SUGGESTION BY BANI SADR THAT THEY MIGHT BE POSTPONED FOR A WEEK TO ALLOW THE INVESTIGATING COMMISSION TO REPORT (SEE TUR). 378 CANDIDATES WILL CONTEST 189 SEATS OUTSIDE TEHRAN AND 24 CANDIDATES THE 12 SEATS IN THE CAPITAL NOT DECIDED IN THE FIRST ROUND. IN SOME AREAS (EG TABRIZ AND PAVEH) LOCAL CONDITIONS MAY PREVENT POLLING.

2. BANI SADR'S OFFICE HAS STATED THAT THE PRESIDENT WILL NOT BE ENDORSING CANDIDATES. BAZARGAN HOWEVER HAS ENDORSED AMONG OTHERS RAJAVI OF THE MUJAHEDDIN KHALQ. THE MARXIST FEDAYAANE KHALQ HAVE SAID THEY WILL PARTICIPATE IN THE ELECTIONS BUT WILL SUPPORT THE MOJAHEDDIN RATHER THAN FIELD THEIR OWN CANDIDATES. KHOMEINI HAS CALLED ON VOTERS TO REFRAIN FROM SUPPORTING THOSE WITH "LEFTIST OR RIGHTIST LEANINGS".

3. THERE HAS BEEN LITTLE CAMPAIGNING, AND POLULAR ATTENTION HAS FOCUSED ON THE US RESCUE BID AND THE LONDON SEIGE RATHER THAN THE ELECTION.

4. THERE ARE REPORTS THAT BANI SADR HAS SECURED KHOMEINI'S AGREEMENT THAT HE SHOULD APPOINT A PRIME MINISTER TO FORM A CABINET BEFORE THE MAJLES MEETS. BANI SADR'S BROTHER IS BELIEVED TO HAVE APPROACHED MADANI THE RUNNER-UP IN THE PRESIDENTIAL ELECTION. MADANI SAW KHOMEINI ON 7 MAY BUT HAS APPARENTLY INSISTED ON CONDITIONS IF HE IS TO TAKE THE JOD WHICH KHOMEINI MAY FIND DIFFICULT TO ACCEPT. IF HOWEVER KHOMEINI DOES ENDORSE EITHER MADANI OR ANOTHR NOMINEE OF BANI SADR'S, THE PRESIDENT WILL HAVE TAKEN A MAJOR STEP IN STRENGTHENING HIS OWN POSITION IN THE FACE OF ATTEMPTS BY BEHESHTI AND THE IRP TO UNDERMINE HIM. THE IRP HAVE BEEN SUGGESTING THAT THE MAJLES, WHICH THEY TO CONTROL, SHOULD HAVE A GREATER ROLE IN GOVERNMENT APPOINTMENTS THAN SIMPLE APPROVAL OF BANI SADR'S NOMINEES. BUT ENDORSEMENT OF THESE BY KHOMEINI WILL BE HARD TO BEAT.

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15. IRANIAN

5. IRANIAN EMBASSY. HABIBI, THE REVOLUTIONARY COUNCIL SPOKESMAN, ANNOUNCED AFTER A MEETING OF THE RC ON 7 MAY THAT IRAN WOULD SEEK THE EXTRADITION OF THE TERRORIST ARRESTED AT THE IRANIAN EMBASSY WHEN HIS NAME WAS KNOWN. NO FORMAL REQUEST HAS YET BEEN MADE.

6. US HOSTAGES. BEHESHTI TOLD NEWSWEEK ON 7 MAY THAT THE IRANIAN PEOPLE WANTED TRIALS OF THE HOSTAGES AND THAT THESE WOULD BE HELD. THEY DID NOT WANT THE HOSTAGES PUNISHED, AND THE IRP DID NOT CONSIDER PUNISHMENT IMPORTANT. BEHESHTI IN A BROADCAST ON 7 MAY ALSO SAID THAT THE SIEGE IN LONDON WOULD NOT ACCELERATE THE RELEASE OF THE US HOSTAGES: THE MAJLES WOULD NOT DEBATE THEIR FATE UNTIL MID-JUNE. THE HOSTAGES ARE NOW REPORTED TO BE HELD IN 13 DIFFERENT TOWNS.

7. INTERNAL. THERE ARE UNCONFIRMED REPORTS THAT 1500 SOLDIERS HAVE DESERTED IN TABRIZ RATHER THAN FIGHT IN KURDESTAN. THE ARMY AND REVOLUTIONARY GUARDS ADMIT HEAVY CASUALTIES IN THE REGION. THE REVOLUTIONARY GUARDS ARE DOING MOST OF THE FIGHTING; THE KURDS FEED THE BBC CORRESPONDENT, WHO HAS BEEN WARNED BY THE MINISTRY OF NATIONAL GUIDANCE THAT HE WILL BE EXPELLED IF HIS REPORTING DOES NOT "IMPROVE", WITH A STEADY STREAM OF ATROCITY STORIES.

8. MRS FARROKHROW PARSA, MINISTER OF EDUCATION UNDER THE SHAH AND A BAHAI', AND SEVEN OTHERS HAVE RECEIVED THE DEATH SENTENCE FOR ALLEGED CRIMES AGAINST THE PEOPLE BEFORE THE REVOLUTION.

9. IRAN/IRAQ. QOTBZADEH ON 7 MAY REJECTED ANY MEDIATION IN THE DISPUTE BETWEEN IRAN AND IRAQ, INCLUDING THAT OF THE PLO.

10. A POLISH TRADE DELEGATION SIGNED A PROTOCOL ON 6 MAY FOR COOPERATION OVER PETROCHEMICALS, SHIPBUILDING, CHEMICALS, MANUFACTURING OF AGRICULTURAL AND ROAD BUILDING MACHINERY, AND TRAINING OF TECHNICIANS.

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Read in full

YOUR TELNO 282 : AMERICAN HOSTAGES.

BANI SADR RECEIVED ME ALONE AT 1215 PM TO-DAY. I BEGAN BY EXPRESSING THE BRITISH GOVERNMENTS DEEP REGRET OVER THE ATTACK ON THE IRANIAN EMBASSY AND THE DEATH OF TWO MEMBERS OF THE STAFF. THANK GOD, HOWEVER, THE GREAT MAJORITY HAD BEEN RESCUED SAFE AND SOUND. I THEN GAVE HIM AN ACCOUNT OF THE SIEGE, INCLUDING THE STATE OF HEALTH OF DR AFROUS AND DR DADGA AND THE PROBLEM OF THE MEDIATION BY ARAB AMBASSADORS. I PAID TRIBUTE TO THE IRANIAN GOVERNMENT'S REJECTION ON PRINCIPLE OF ANY CONCESSION AXB SAID THAT WE HELD THE SAME POSITION ON THE QUESTION OF SAFE CONDUCT. FINALLY I REFERRED TO BANI SADR'S MESSAGE TO THE PRIME MINISTER WHICH HAD BEEN MUCH VALUED. *ms*

2. I THEN GAVE HIM THE MESSAGE IN THE TUR, EXPLAINING THAT THIS WAS INTENDED TO BE ENTIRELY PRIVATE, WAS PUT FORWARD IN THE HOPE THAT, THE EVENTS OF THE LAST FEW DAYS HAVING DRAWN OUR COUNTRIES CLOSER TOGETHER, IT WAS POSSIBLE TO SPEAK FRANKLY WITHOUT CAUSING OFFENCE. IF HE FELT THE LETTER COULD MAR THE ATMOSPHERE, I HAD AUTHORITY TO WITHDRAW IT.
3. BANI SADR READ THE LETTER CAREFULLY. HE PUT IT ASIDE AND PATTED IT. AS I WOULD KNOW, HE SAID, HIS CONTINUING DESIRE WAS TO RESOLVE THE AMERICAN HOSTAGE PROBLEM. IN REALITY IT WAS THE IRANIAN PEOPLE WHO WERE HELD HOSTAGE BY IT AND PREVENTED FROM TACKLING OTHER ISSUES. BUT HE SOMETIMES WONDERED IF PRESIDENT CARTER WANTED IT SOLVED. WHY ELSE HAD HE EMBARKED ON THE IRRESISTIBLE ATTEMPT AT RESCUE. WHAT WAS NEEDED WAS A PERIOD OF TRANQUILITY IN WHICH HE (BANI SADR) COULD BRING THE IRANIAN PEOPLE ROUND AND WORK ON THE IMAM. THE IMAM LOVED A FIGHT AND REACTED TO EACH NEW CHALLENGE. MOREOVER HE WAS RESISTANT TO THE PROPOSALS OF OTHERS: IT WAS NECESSARY TO PERSUADE HIM IN SUCH A WAY THAT HE BELIEVED THE PROPOSAL CAME FROM HIMSELF.
4. I SAID THAT IT WAS PARTLY WITH THAT IN MIND THAT THE PROPOSAL IN THE PRIME MINISTER'S LETTER HAD BEEN MADE, IN THE BELIEF THAT THE IMAM MIGHT FIND IT POSSIBLE TO MAKE A GRAND AND MAGNANIMOUS GESTURE - NOT TO THE AMERICANS WITH WHOM WE HAD NOT DISCUSSED THE APPROACH, BUT TO US. WOULD IT HELP IF I WERE TO SEE THE IMAM MYSELF TO PLEAD WITH HIM?

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/s.

5. BANI SADR SAID THAT HE WOULD HIMSELF FOLLOW UP THE DEMARCH. HIS MANNER SUGGESTED THAT HE MIGHT WELL USE THE IDEA IN THE PRIME MINISTER'S LETTER WITH THE IMAM, THOUGH HE DID NOT RULE OUT MY MEETING THE IMAM. WHEN I ASKED WHETHER A DECISION MUST AWAIT THE PARLIAMENT, HE SAID THAT PARLIAMENT WAS NOT IMPORTANT: IT WAS THE IMAM. WHEN THE INSTITUTIONS OF THE CONSTITUTION WERE IN PLACE, OR PERHAPS BEFORE, THE IMAM COULD WELL ISSUE A STATEMENT THAT IT WAS TIME TO RELEASE THE AMERICANS AND TO TURN TO OTHER MATTERS. BUT IT WAS NECESSARY TO KEEP THINGS QUIET: THAT WAS THE MESSAGE WE SHOULD BE GIVING THE US.

6. IN REPLY TO QUESTIONS, THE FOLLOWING POINTS EMERGED:

(A) THE ELECTIONS ARE CONFIRMED FOR TOMORROW AND PARLIAMENT COULD BE EXPECTED TO MEET BY THE END OF MAY AND TO GET DOWN TO BUSINESS ABOUT A WEEK LATER (BUT THE IMAM MIGHT BE PERSUADED TO ACT BEFORE THAT - SEE PRECEDING PARA)

(B) THE ACTIONS FORECAST IN THE LUXEMBOURG DECLARATION OF 22 APRIL, COULD DELAY THE PROCESS OF THE IMAM'S CONVERSION. IT WOULD BE BETTER IF NOTHING WERE DONE, OR THE PROGRAMME EXTENDED. (I WARNED BANI SADR ABOUT THE INTRODUCTION OF ENABLING LEGISLATION IN THE UK NEXT WEEK, BUT STRESSED THAT ACTION WOULD ONLY FOLLOW AN ORDER BY A MINISTER.)

(C) THE MEETING TO WHICH REPRESENTATIVES HAD BEEN INVITED FROM THE NON-ALIGNED, THE EUROPEAN PARLIAMENT, VARIOUS POLITICAL PARTIES ETC HAD BEEN POSTPONED TILL 15 TO 17 MAY. HE DID NOT KNOW HOW MANY HAD ACCEPTED AS REPLIES WERE GOING TO THE MFA. IT COULD WELL BE THAT THE MEETING, OR A COMMISSION FORMED UNDER IT, COULD PRODUCE A REPORT OR RESOLUTION RECOGNISING IRAN'S GRIEVANCES, THE MISDEEDS OF THE SHAH ETC, WHICH MIGHT BE USEFUL IN PARLIAMENT WHEN THE RELEASE OF THE HOSTAGES CAME UPGM. HE SAID THAT HE HAD PLANS FOR A SOLUTION, BUT HE WAS SECRETIVE ABOUT THE DETAILS.

7. IT WAS LEFT THAT IF THERE WAS ANYTHING BANI SADR THOUGHT I COULD DO, HE WOULD GET IN TOUCH. I SAID THAT IF ASKED BY THE PRESS I PROPOSED TO SAY MERELY THAT I HAD CALLED TO GIVE A REPORT ON THE SEIGE OF THE IRANIAN EMBASSY. HE NODDED.

GRAHAM

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Foreign and Commonwealth Office

London SW1A 2AH

Type for signature
(as amended)

Paul

8 May 1980

Dear Michael,

Reply to Mr Fraser

I attach a draft letter that the Prime Minister might send to the Prime Minister of Australia in reply to his of 29 April (forwarded by you on 30 April). This takes account of Mr Fraser's discussion with the Prime Minister on 1 May.

John Hill
in Bolgrade

Given prevailing views on a four-power summit, and the need to deny the Australians knowledge of Quadripartite consultations at official level, we see no way of giving Mr Fraser satisfaction on his proposals for a summit and for consultative machinery. We have therefore focussed the draft mainly on the wider political themes in the Australian Prime Minister's letter.

If the Prime Minister agrees, we would propose to transmit her reply through the High Commission in Canberra.

Yours own

Paul

(P Lever)
Private Secretary

M O' D B Alexander Esq
10 Downing Street
LONDON

DSR 11 (Revised)

SECRET

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

Prime Minister of
Australia

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

[My Dear Malcolm,

follow your valuable letter of 29 April, was

CAVEAT.....

Your telephone call on 1 May, ~~gave us~~ a welcome opportunity to discuss the need for closer consultation and greater coherence of strategy among friends and allies.

As you will know from that discussion, I, ~~the~~ ^{*you share*} ~~you share~~ ^{*the*} ~~continue to take a very serious view of~~ the international situation. ~~It was valuable to have the benefit of your thinking as set out in your letter of 29 April~~

I agree with you that the importance of cohesion among friends and allies has never been greater.

I am encouraged by the large measure of agreement there has been amongst the allies on the ^{*significance the*} ~~nature~~ of Soviet action in Afghanistan, the threat that it poses to our interests in the Gulf and South Asia, and the need to leave the Soviet Union in no doubt ^{*about*} ~~as to~~ the importance we all place on maintaining access to Gulf oil. There has,

Enclosures—flag(s).....

*it is true,
indeed*

~~It is true,~~
~~indeed~~ been some divergence on how best to bring home to
 the Soviet leaders ~~just how~~ ^{the} serious ~~to~~ ^{run with which} we view their
 invasion of Afghanistan and ~~how best~~ ^{on the means of deterring} to deter them from
 further aggression. ~~It is hardly~~ ^{but it would be} surprising ~~that~~ ^{if} medium-
 sized powers in Western Europe, some of them deeply involved
 in trade with the Soviet Union, and one (West Germany)
 concerned to maintain and develop personal contacts within
 a divided nation, ~~have a somewhat~~ ^{did not on some times have a} different perspective
 from ~~the American superpower which is geographically~~ ^{that of United States.}
~~remote from the Soviet Union, and whose trade with that~~
~~country is of lesser importance to its economy.~~ We must
 work to reduce the divergence of view to which these
 differences of perspective give rise. ~~But I think you will~~
~~agree that it would be~~ ^{is probably} unrealistic to expect to eliminate
 them altogether. There has seldom been unanimity among
 the allies. ~~But~~ ^{undoubtedly} that has not in the past ~~destroyed~~
 essential cohesion of our relations, and I do not believe
 it will ~~destroy it~~ ^{do so} now.

As well as being an outrage against the United States,
~~the Iranian~~ ^{the} detention of American diplomats as
 hostages in Iran is ~~a serious blow to the~~ ^{putting a serious stain on the entire fabric of} international
~~relations.~~ ~~relations mechanism as a whole, as well as an outrage~~
~~against America, and, as you noticed from the Luxembourg~~
~~statement by the European Council, Britain, France and~~
~~Germany~~ ^{were} ^{in Luxembourg} ~~are~~ concerned ^{to} show solidarity with the ~~United~~ ^{Americans}
~~States Government and people~~ on this as on other issues.
 But ~~I think it is~~ ^{is} important to distinguish the issue of
 the hostages from the external threat to the Gulf oil
 supplies. It is important also to distinguish between
 economic, political and military aspects of the situation
 in the Gulf, ~~and to look at the actions of Western nations~~
~~under these three headings.~~ As you know, we in Europe have
 supported the use of non-military sanctions against Iran

by the US, and are taking some action of our own in that regard. ^{but my} ~~I doubt that~~ military action, such as the mining of the Straits of Hormuz, would ^{not} be ~~a wise step to force the release of the hostages~~. It might provide the Soviet Union with a pretext for precisely that intervention in Iran which we all regard as the worst possible outcome of the present situation. Peter Carrington left the Americans in no doubt about our views during his recent visit to Washington.

We discussed on the telephone your proposal ^{SW} of an early meeting of the Heads of Government of Britain, France, West Germany and the United States. (I recall your ~~earlier~~ advocacy of this in February ~~of this year~~.) I said ^{then} that I thought the time was not quite right for this form of summit. After considering it further, I am still of the same mind. ~~As you know~~, There will be a number of occasions in the next few months which will provide good opportunities for consultation, and I am determined that there should be careful preparation of the Venice Summit in late June. ~~There~~ ^{Officials are already in} ~~is~~ close contact ~~among officials~~ for this purpose. We will make every effort to ensure that the Venice meeting ~~will~~ enhance the cohesion of the allies and the coherence of our strategy.

If you or your Ministers have views which you would like us to take into account in our preparation we would ~~of course~~ be delighted to have them. We will in any case ensure that, as in the past, you are properly briefed of the outcome.

[With all good wishes.]

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TO IMMEDIATE CERTAIN MISSIONS AND DEPENDENT TERRITORIES

GUIDANCE TELEGRAM NUMBER 44 OF 8 MAY 1980

SANCTIONS AGAINST IRAN: ENABLING LEGISLATION

1. WE ARE COMMITTED BY THE DECISION OF EC FOREIGN MINISTERS MEETING IN LUXEMBOURG ON 22 APRIL TO TAKE THE NECESSARY POWERS TO IMPOSE SANCTIONS AGAINST IRAN IN ACCORDANCE WITH THE VETOED SECURITY COUNCIL RESOLUTION OF 13 JANUARY. A SHORT ENABLING BILL, THE IRAN (TEMPORARY POWERS) BILL, IS BEING LAID BEFORE PARLIAMENT TODAY. ITS SECOND READING WILL TAKE PLACE ON 12 MAY, WITH A VIEW TO OBTAINING ROYAL ASSENT BY 16 MAY. THE FINAL DECISION ON THE IMPLEMENTATION OF SANCTIONS WILL NOT, HOWEVER, BE TAKEN UNTIL THE NEXT MEETING OF EC FOREIGN MINISTERS ON 17 MAY. DECISIONS WILL NATURALLY BE RELATED TO ANY DECISIVE ACTION THAT MAY HAVE BEEN TAKEN BY IRAN OVER THE HOSTAGES ISSUE BY THEN. WE CANNOT YET RULE OUT THIS POSSIBILITY. IRAN IS CONVENING ON 15 - 17 MAY A MEETING OF STATES AND POLITICAL BODIES, INCLUDING SOME MEMBERS OF THE NON-ALIGNED MOVEMENT, AND IT IS CONCEIVABLE THAT SOME HELPFUL PROGRESS COULD BE ACHIEVED IN THIS FORUM (FCO TELNO 75 TO ALGIERS, NOT TO ALL).

LINE TO TAKE

2. EXCEPT WHERE INDICATED OTHERWISE, YOU MAY DRAW FREELY ON PARAGRAPHS 3 TO 7 IF ASKED ABOUT ENABLING LEGISLATION.
3. THE ADDITIONAL POWERS WHICH THE GOVERNMENT IS SEEKING IN ORDER TO IMPLEMENT THE VETOED SECURITY COUNCIL RESOLUTION ONLY SUPPLEMENTS POWERS WHICH IT ALREADY POSSESSES UNDER THE 1939 IMPORT, EXPORT AND CUSTOMS POWERS (DEFENCE) ACT. THESE EXISTING POWERS INCLUDE THE BLOCKING OF THE PHYSICAL EXPORT OF GOODS. SUCH POWERS UNDER THE 1939 ACT CAN BE BROUGHT INTO EFFECT BY A SIMPLE ORDER-IN-COUNCIL. THE NEW BILL IS THEREFORE NECESSARY TO

/COVER OTHER

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COVER OTHER ASPECTS OF THE SECURITY COUNCIL RESOLUTION, EG:

(A) FUTURE SERVICE CONTRACTS IN SUPPORT OF INDUSTRIAL PROJECTS.

(B) THE USE OF BRITISH SHIPS TO TAKE GOODS FROM THIRD COUNTRIES TO IRAN.

(C) SIGNATURE OF CONTRACTS (AS OPPOSED TO THE PHYSICAL EXPORT OF GOODS) TO SUPPLY FORBIDDEN GOODS TO IRAN.

4. THE ENABLING BILL DOES NOT EMPOWER HMG TO MAKE ORDERS FOR THE IMPLEMENTATION OF THE FINANCIAL MEASURES OUTLINED IN THE SECURITY COUNCIL RESOLUTION. THE DESIRED EFFECT IS ALREADY BEING ACHIEVED BY WAY OF THE PROVISIONS FOR GUIDANCE INHERENT IN THE UK BANKING SYSTEM. (IF ASKED BY THOSE ALREADY OFFICIALLY AWARE OF THE VOLUNTARY MEASURES WHICH WE ARE ALREADY TAKING, YOU SHOULD SAY THAT THE GUIDANCE GIVEN TO BRITISH BANKS IN DECEMBER 1979 REMAINS IN FORCE AND IS PROVING EFFECTIVE). THE IDEA OF FREEZING IRANIAN ASSETS IN LONDON IS NOT INCLUDED IN THE ENABLING BILL SEMI-COLON THIS STEP WAS NOT COVERED IN THE SECURITY COUNCIL RESOLUTION.

5. THE IRAN (TEMPORARY POWERS) BILL AND THE 1939 ACT ARE ENABLING MEASURES ONLY. NO ACTUAL ORDERS TO PUT INTO EFFECT ANY OF THE MEASURES ENVISAGED IN THE SECURITY COUNCIL RESOLUTION WILL BE MADE UNTIL AFTER 17 MAY WHEN EC FOREIGN MINISTERS WILL DECIDE WHETHER OR NOT TO GO AHEAD WITH SANCTIONS IN THE LIGHT OF THE SITUATION THEN EXISTING.

6. YOU MAY ALSO DRAW, IF ASKED, ON THE FOLLOWING SUPPLEMENTARIES:

(A) IS THIS THE RIGHT MOMENT FOR SANCTIONS?

BY THE 22 APRIL DECISION OF EC FOREIGN MINISTERS, WE ARE COMMITTED TO TAKE THE POWERS NECESSARY TO IMPLEMENT SANCTIONS. BUT THERE WILL NO NO FINAL DECISION BEFORE 17 MAY.

(B) WILL SANCTIONS NOT DRIVE IRAN INTO THE ARMS OF THE RUSSIANS?

THIS POSSIBILITY IS OF COURSE A SOURCE OF GREAT CONCERN, AND WE HAVE TRIED TO TAKE IT FULLY INTO ACCOUNT IN OUR RECENT DECISIONS. BUT THE PATIENCE OF THE UNITED STATES OVER

/THE CONTINUED

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THE CONTINUED DETENTION OF THEIR HOSTAGES IS NOT INEXHAUSTIBLE, AND PURELY DIPLOMATIC ACTION HAS SO FAR FAILED TO SECURE THEIR RELEASE. IT IS VITAL THAT WE DEMONSTRATE OUR SUPPORT TO THE UNITED STATES AND SHOW IRAN THAT THE INTERNATIONAL COMMUNITY WILL NOT TOLERATE ITS CONTINUED VIOLATION OF INTERNATIONAL LAW.

(C) WILL NOT SANCTIONS HURT US MORE THAN IRAN? WE HAVE BEEN DISCUSSING THE IMPOSITION OF SANCTIONS AGAINST IRAN WITH OUR EUROPEAN AND OTHER PARTNERS. IN DRAWING UP THE NECESSARY ORDERS, WE WILL BEAR IN MIND BOTH THE PURPOSE OF SANCTIONS AND THEIR INTENDED EFFECT.

(D) WHAT IS THE BASIS IN INTERNATIONAL LAW FOR THE ACTION HMG IS TAKING?

IRAN HAS FLAGRANTLY VIOLATED ONE OF THE OLDEST ESTABLISHED AND MOST FUNDAMENTAL RULES OF INTERNATIONAL LAW. THIS AFFECTS ALL STATES WHO ARE PARTY TO THE VIENNA CONVENTION ON DIPLOMATIC RELATIONS, IRRESPECTIVE OF THEIR OWN BILATERAL RELATIONS WITH IRAN. THIS IS SUFFICIENT BASIS FOR COLLECTIVE REPRISALS BY ALL REPEAT ALL PARTIES TO THE VIENNA CONVENTION.

EXISTING CONTRACTS

7. THERE HAS BEEN SOME MISUNDERSTANDING ABOUT THE COVERAGE ENVISAGED BY HMG SINCE THE NEW BILL DOES NOT COVER CONTRACTS ALREADY IN EXISTENCE. IT HAS THEREFORE BEEN ASSUMED BY THE MEDIA THAT THE EXPORTS OF GOODS UNDER EXISTING CONTRACTS WILL NOT BE AFFECTED BY THE SANCTIONS NOW BEING CONTEMPLATED BY THE BILLS. BUT HMG IN FACT HAS POWERS TO DO THIS UNDER THE 1929 ACT, AND WILL BE ABLE TO BAN EXPORTS UNDER EXISTING CONTRACTS IF THEY SO WISH. BUT HOW THE EXPORT OF GOODS UNDER EXISTING CONTRACTS IS TO BE TREATED, AND WHAT OBLIGATIONS HMG MAY HAVE TO COMPANIES AFFECTED BY SUCH A BAN, IS STILL UNDER DISCUSSION. WE ARE ATTEMPTING TO HARMONISE WITH OUR EC PARTNERS OUR POSITION ON THIS POINT. NO FINAL DECISIONS WILL BE TAKEN UNTIL 17 MAY. (FURTHER DETAILS OF THIS QUESTION ARE BEING SENT SEPARATELY TO WASHINGTON AND EC CAPITALS).

CARRINGTON

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/BY TELEGRAPH:

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BY TELEGRAPH:

ANKARA	HELSINKI	KHARTOUM
ATHENS	MADRID	RABAT
BONN	STOCKHOLM	TUNIS
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UKREP EEC BRUSSELS	UKMIS NEW YORK	ISLAMABAD
UKDEL NATO BRUSSELS	BIS NEW YORK	SEOUL
COPENHAGEN	WASHINGTON	TOKYO
THE HAGUE	AMMAN	OTTAWA
LISBON	BAHRAIN	CANBERRA
LUXEMBOURG	DOHA	WELLINGTON
OSLO	DUBAI	NEW DELHI
PARIS	ABU DHABI	DACCA
UKDEL OECD PARIS	MUSCAT	COLOMBO
REYKJAVIK	BEIRUT	KUALA LUMPUR
ROME	JEDDA	SINGAPORE
BELGRADE	KUWAIT	LAGOS
BERNE	TEHRAN	DAR ES SALAAM
UKMIS GENEVA	DAMASCUS	NAIROBI
DUBLIN	CAIRO	LUSAKA
		VALLETTA

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FROM SIR MICHAEL EDWARDS

7 May 1980

TOP COPY.
Ind Bl: BL 43

The Rt Hon Mrs Margaret Thatcher, MP
10 Downing Street
London SW1

Dear Prime Minister.

IRAN - POSSIBLE TRADE SANCTIONS

Although BL's major involvement in Iran has already been registered with the Departments of Industry and Trade, I am taking the liberty of writing to you direct to emphasise our concern about the impact of possible sanctions, since the ultimate decision is bound to involve striking a balance between foreign policy and domestic policy considerations.

Our continuing business with Iran - involving the supply of Land Rover kits and truck and bus chassis to two local assembly plants, plus substantial sales of spare parts - will be worth some £2 million per month this year. In addition, there are substantial bus orders in prospect, including one for 1000 single-deck buses worth £40 million, and we need to build up Land Rover business in Iran as our expansion programme begins to take full effect from 1981 onwards.

You will realise that, as we struggle to overcome the impact of a strong pound and high domestic inflation on our competitiveness, BL cannot afford to pass up any opportunities of profitable business. As one of the UK's leading worldwide exporters, we are also concerned about the impact on our standing in other markets if we are seen to break contractual or long-established supply commitments. With so much taxpayers' money invested in BL, we would hope that Government policies in related fields will not conflict with the objective of that investment, which is presumably to give us the best possible chance to succeed.

...2

The Rt Hon Mrs Margaret Thatcher, MP

7 May 1980

Past experience of sanctions and of other types of international agreement has shown that the UK adheres to such arrangements more rigidly than do our main overseas competitors. In the case of Iran, enforcement would be particularly difficult, and we know that certain competitors are already well placed to evade sanctions, for example through their operations in Turkey.

Even if sanctions were enforced with equal strictness by all industrialised countries, I doubt whether any of them would enter into this arrangement with such a vulnerable industrial base as that of the UK. If there is any question of our helping our allies with North Sea oil to overcome the effect of sanctions, I wonder whether they in turn would support our motor industry or other UK manufacturing industries which were hard hit by loss of exports. Or would they simply rejoice that sanctions against Iran had helped to tip another competitor over the edge?

I am sure that you already have all these points on board, and I recognise the need to show support for our American allies in their difficulties. But I am equally sure that I am not alone in British industry in hoping that we can make progress with Iran by building on the excellent outcome of the London siege, rather than entering into a trade sanctions operation which seems most unlikely to succeed and where failure will be felt most keenly in the area where we can least afford it - in the jobs at present provided by UK exporters such as BL.

I am sending copies of this letter to Keith Joseph and John Nott.

Yours sincerely,
Michael Inoué

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TO IMMEDIATE TEHRAN
TELEGRAM NUMBER 282 OF 7 MAY

FOLLOWING IS TEXT OF MESSAGE FROM PRIME MINISTER TO BANI SADR. QUOTE YOUR EXCELLENCY, I HAVE WRITTEN TO THANK YOUR EXCELLENCY FOR YOUR GENEROUS MESSAGE ON THE ENDING OF THE OCCUPATION OF YOUR COUNTRY'S EMBASSY IN LONDON. I HOPE YOU WILL NOT TAKE IT AMISS, YOUR EXCELLENCY, IF I ADDRESS YOU PRIVATELY ON THE WIDER ISSUES THAT THIS INCIDENT RAISES.

FIRST, I BELIEVE THAT IT BRINGS OUT ONCE AGAIN THE VULNERABILITY OF ALL EMBASSIES ALL OVER THE WORLD TO ACTION DICTATED BY HOSTILITY TO THE POLICIES OF THE GOVERNMENTS THEY REPRESENT. THIS VULNERABILITY PLACES A PARTICULAR RESPONSIBILITY ON HOST GOVERNMENTS, SINCE PRESSURE BY MEANS OF THE OCCUPATION OF EMBASSIES OR TAKING HOSTAGE OF THEIR STAFFS HAS LONG BEEN ACCEPTED THROUGHOUT THE WORLD AS AN INADMISSIBLE WAY OF CONDUCTING RELATIONS BETWEEN STATES. INDEED, BY MAKING DIALOGUE IMPOSSIBLE, IT STRIKES AT THE WHOLE STRUCTURE OF ARRANGEMENTS WHICH WE HAVE SO LABORIOUSLY WORKED OUT SINCE THE LAST WORLD WAR FOR THE PEACEFUL SETTLEMENT OF DISPUTES. IN THE PRESENT CASE THE BRITISH GOVERNMENT HAVE TRIED TO CARRY OUT THEIR RESPONSIBILITY AND I TRUST THAT THROUGH OUR ACTION AND THROUGH YOUR STEADFASTNESS AND THROUGH THE COURAGE OF THE HOSTAGES THEMSELVES WE SHALL HAVE CONVEYED A MESSAGE TO ALL THAT TERRORISM OF THIS KIND IS SELF-DEFEATING.

I DO NOT WISH TO DRAW A PARALLEL BETWEEN THE SEIZURE OF THE IRANIAN EMBASSY IN LONDON AND THE OCCUPATION OF THE AMERICAN EMBASSY IN TEHRAN. I AM AWARE OF YOUR GOVERNMENT'S POSITION. NOR DO I WISH TO ENGAGE IN A DEBATE ON THE PAST OR ON THE GRIEVANCES OF THE IRANIAN PEOPLE, WHICH THEY HOLD TO JUSTIFY THE CONTINUED RETENTION OF THE AMERICAN HOSTAGES. IT IS THE RIGHT OF THE IRANIAN PEOPLE TO CHOOSE THEIR OWN GOVERNMENT AND THEY MUST BE ABLE TO ENJOY THEIR OWN COUNTRY IN PEACE AND PROSPERITY WITHOUT

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OUTSIDE INTERFERENCE FROM ANY QUARTER, BEYOND THE INEVITABLE CONSTRAINTS THAT WE MUST ALL ACCEPT AS MEMBERS OF THE WORLD COMMUNITY AND AS GOD'S CREATURES ON ONE PLANET. I DO HOWEVER ASK THAT THE IMAN, AS AN ACT OF MAGNANIMITY WHICH I BELIEVE WOULD OPEN THE DOOR TO SO MUCH FUTURE HAPPINESS AND PROSPERITY FOR THE PEOPLE OF IRAN, SHOULD ORDER THE RELEASE OF THE AMERICAN HOSTAGES AS A GESTURE OF GOOD WILL TO THE BRAVE MEN WHO RISKED THEIR LIVES TO FREE THE IRANIAN HOSTAGES AND OF THANKS TO GOD FOR THEIR SAFETY. I ASK THIS IN THE HOPE THAT THE CONRADESHIP SEALED IN BLOOD IN THE LAST FEW DAYS BETWEEN OUR TWO COUNTRIES WILL GROW AND STRENGTHEN IN THE YEARS TO COME ON THE BASIS OF EQUALITY, MUTUAL RESPECT AND FRIENDSHIP.

I AM PUBLISHING THE TEXT OF MY EARLIER LETTER TO YOU, BUT I HOPE THAT THE CONTENTS OF THIS MESSAGE AND THE FACT THAT IT HAS BEEN SENT WILL REMAIN COMPLETELY PRIVATE.

WITH REGARDS, MARGARET THATCHER, PRIME MINISTER OF THE UNITED KINGDOM. UNQUOTE

CARRINGTON

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10 DOWNING STREET

Prime Minister

Since we cannot take Mr
Fraser into our confidence
about bipartite & quadripartite
discussions, this letter inevitably
focuses on general policy. He
will not find it very
satisfactory but will probably
guess that there is more going
on than meets the eye.

"Dear Malcolm"

"Yours sincerely"

I spoke to Andrew
Pencade at Belfast. ^{And says}
They are not ~~creating~~ ^{in contact}
~~with~~ ^{with} reply ~~not~~



10 DOWNING STREET

THE PRIME MINISTER

Your telephone call on 1 May, following your valuable letter of 29 April, was a welcome opportunity to discuss the need for closer consultation and greater coherence of strategy among friends and allies. As you will know from that discussion, I share the serious view you take of the international situation. I agree with you that the importance of cohesion among friends and allies has never been greater.

I am encouraged by the large measure of agreement there has been amongst the allies on the significance of the Soviet action in Afghanistan, the threat that it poses to our interests in the Gulf and South Asia, and the need to leave the Soviet Union in no doubt about the importance we all place on maintaining access to Gulf oil. There has, it is true, been some divergence on how best to bring home to the Soviet leaders the seriousness with which we view their invasion of Afghanistan and on the means of deterring them from further aggression. But it would be surprising if medium-sized powers in Western Europe, some of them deeply involved in trade with the Soviet Union, and one (West Germany) concerned to maintain and develop personal contacts within a divided nation, did not on some issues have a different perspective from that of the United States. We must work to reduce the divergence of view to which these differences of perspective give rise. But it is probably unrealistic to expect to eliminate them altogether. There has seldom been unanimity among the allies. That has not

/ in the past

in the past undermined the essential cohesion of our relations, and I do not believe it will do so now.

As well as being an outrage against the United States, the detention of American diplomats as hostages in Iran is putting a serious strain on the entire fabric of international relations. Britain, France and Germany were concerned in Luxembourg to show solidarity with the Americans on this as on other issues. But it is important to distinguish the issue of the hostages from the external threat to the Gulf oil supplies. It is important also to distinguish between economic, political and military aspects of the situation in the Gulf. As you know, we in Europe have supported the use of non-military sanctions against Iran by the US, and are taking some action of our own in that regard. But military action, such as the mining of the Straits of Hormuz, would not be wise. It might provide the Soviet Union with a pretext for precisely that intervention in Iran which we all regard as the worst possible outcome of the present situation. Peter Carrington left the Americans in no doubt about our views during his recent visit to Washington.

We discussed on the telephone your proposal for an early meeting of the Heads of Government of Britain, France, West Germany and the United States. (I recall your advocacy of this in February). I said then that I thought the time was not quite right for this form of summit. After considering it further, I am still of the same mind. There will be a number of occasions in the next few months which will provide good opportunities for consultation, and I am determined that there should be careful preparation of the Venice Summit in late June. Officials are already in close contact for this purpose. We will make every effort to ensure that the Venice meeting enhances the cohesion of the allies and the coherence of our strategy.

/ If you or your

If you or your Ministers have views which you would like us to take into account in our preparation we would be delighted to have them. We will in any case ensure that, as in the past, you are properly briefed of the outcome.

The Right Honourable Malcolm Fraser, C.H., M.P.

PRIME MINISTER

IRANIAN SANCTIONS BILL

Following our conversation this evening on the above subject, I have had a word with Neville Gaffin to try to make sure that we get the presentation right. He has been in touch with the FCO and I now gather that Douglas Hurd will brief the Lobby tomorrow afternoon.

Bayne *and*

7 May 1980

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FM F C O 071910Z MAY 80
TO IMMEDIATE BELGRADE
TELEGRAM NUMBER 108 OF 7 MAY

IRAN:
FOLLOWING FOR PS/P.M.
THE PRIME MINISTER WILL WISH TO KNOW THAT SIR J. GRAHAM IS RETURNING
TO TEHRAN TONIGHT WITH THE PURPOSE OF DELIVERING HER MESSAGE TO
BANI SADR PERSONALLY AS SOON AS POSSIBLE.

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FM F C O 071910Z MAY 80
TO IMMEDIATE BELGRADE
TELEGRAM NUMBER 108 OF 7 MAY

IRAN:
FOLLOWING FOR PS/P.M.
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BANI SADR PERSONALLY AS SOON AS POSSIBLE.

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FM FCO 071235Z MAY 80
TO FLASH BELGRADE
TELEGRAM NUMBER 102 OF 7 MAY
MIPT: IRAN (TEMPORARY POWERS) BILL
EXPLANATORY MEMORANDUM

THE BILL TAKES THE TEMPORARY POWERS NECESSARY TO IMPOSE SANCTIONS IN CONSEQUENCE OF BREACHES OF INTERNATIONAL LAW (INCLUDING BREACHES OF INTERNATIONAL AGREEMENTS) BY IRAN, IN CONNECTION WITH OR ARISING OUT OF THE DETENTION AS HOSTAGES OF MEMBERS OF THE EMBASSY OF THE UNITED STATES OF AMERICA IN IRAN. THESE POWERS ARE SOUGHT IN ACCORDANCE WITH THE DECISION ON 22ND APRIL 1980 OF THE FOREIGN MINISTERS OF THE MEMBER STATES OF THE EUROPEAN COMMUNITIES.

CLAUSE 1 TAKES POWERS AS DESCRIBED ABOVE IN RELATION TO FUTURE CONTRACTS CONNECTED WITH IRAN, WHETHER FOR SERVICES OR FOR THE SALE, SUPPLY OR TRANSPORT OF GOODS, OTHER THAN CONTRACTS FOR FINANCIAL SERVICES. THE CLAUSE ALSO LIMITS THE CASES IN WHICH EXTRA-TERRITORIAL OFFENCES MAY BE CREATED AND PROVIDES FOR ORDERS IN COUNCIL EXERCISING SUCH POWERS TO LAPSE AFTER 28 DAYS UNLESS APPROVED BY RESOLUTION OF EACH HOUSE.

CLAUSE 2 PROVIDES FOR THE BILL TO COME INTO FORCE ON 17TH MAY 1980 AND FOR CLAUSE 1 TO BE TERMINATED BY ORDER IN COUNCIL, AND MAKES PROVISION FOR THE TERRITORIAL EXTENT OF THE BILL. FINANCIAL EFFECTS OF THE BILL AND EFFECTS ON PUBLIC SERVICE MANPOWER

ALTHOUGH THE ACTUAL IMPLEMENTATION OF SANCTIONS UNDER THE POWERS IN THE BILL WOULD CAUSE LOSSES WHICH CANNOT NOW BE QUANTIFIED, THE BILL WILL HAVE NO DIRECT FINANCIAL EFFECT. PUBLIC SERVICE MANPOWER IMPLICATIONS ARE MINIMAL.

DRAFT OF A BILL TO
ENABLE PROVISION TO BE MADE IN CONSEQUENCE OF BREACHES OF
INTERNATIONAL LAW BY IRAN IN CONNECTION WITH OR ARISING OUT OF

/THE DETENTION

1

RESTRICTED

THE DETENTION OF MEMBERS OF THE EMBASSY OF THE UNITED STATES OF AMERICA.

BE IT ENACTED ETC.

1. (1) HER MAJESTY MAY BY ORDER IN COUNCIL MAKE SUCH PROVISION IN RELATION TO CONTRACTS IN ANY WAY RELATING TO OR CONNECTED WITH IRAN, BEING EITHER CONTRACTS FOR SERVICES OR CONTRACTS FOR THE SALE, SUPPLY OR TRANSPORT OF GOODS, AS APPEARS TO HER TO BE NECESSARY OR EXPEDIENT IN CONSEQUENCE OF BREACHES OF INTERNATIONAL LAW BY IRAN IN CONNECTION WITH OR ARISING OUT OF THE DETENTION OF MEMBERS OF THE EMBASSY OF THE UNITED STATES OF AMERICA.

(2) AN ORDER IN COUNCIL UNDER SUBSECTION (1) -

(A) SHALL NOT APPLY TO ANY CONTRACT MADE BEFORE THE DATE ON WHICH THE ORDER IS MADE SEMI-COLON AND

(B) SHALL NOT APPLY TO ANY CONTRACT WITH A BANK OR OTHER FINANCIAL INSTITUTION FOR THE PROVISION OF BANKING OR OTHER FINANCIAL SERVICES.

(3) WITHOUT PREJUDICE TO THE GENERALITY OF SUBSECTION (1), BUT SUBJECT TO SUBSECTION (2), AN ORDER IN COUNCIL UNDER SUBSECTION (1) MAY MAKE SUCH PROVISION FOR IMPOSING PROHIBITIONS, RESTRICTIONS OR OBLIGATIONS IN RESPECT OF CONTRACTS WITHIN SUBSECTION (1) AS APPEARS TO HER MAJESTY TO BE NECESSARY OR EXPEDIENT AS AFORESAID.

(4) ANY PROVISION MADE BY OR UNDER AN ORDER IN COUNCIL UNDER SUBSECTION (1) MAY APPLY TO ACTS OR OMISSIONS OUTSIDE AS WELL AS WITHIN THE UNITED KINGDOM OR OTHER COUNTRY OR TERRITORY TO WHICH THE ORDER EXTENDS SEMI-COLON BUT NO PROVISION SO MADE SHALL RENDER A PERSON GUILTY OF AN OFFENCE IN RESPECT OF ANYTHING DONE OR OMITTED BY HIM OTHERWISE THAN WITHIN, OR WITHIN THE TERRITORIAL WATERS OF, THE UNITED KINGDOM OR A COUNTRY OR TERRITORY TO WHICH THIS ACT EXTENDS UNLESS AT THE TIME OF THE ACT OR OMISSION THAT PERSON IS -

(A) A CITIZEN OF THE UNITED KINGDOM AND COLONIES, A PERSON WHO IS A BRITISH SUBJECT BY VIRTUE OF SECTION 2, 13 OR 16 OF THE BRITISH NATIONALITY ACT 1965 OR A BRITISH PROTECTED PERSON WITHIN THE MEANING OF THE SAID ACT OF 1948 SEMI-COLON OR

/(B) A BODY

- (B) A BODY INCORPORATED OR CONSTITUTED UNDER THE LAW OF ANY PART OF THE UNITED KINGDOM OR THE LAW OF ANY OTHER COUNTRY OR TERRITORY TO WHICH THIS ACT EXTENDS SEMI-COLON OR
- (C) IN CONTROL OF A SHIP OR AIRCRAFT REGISTERED IN THE UNITED KINGDOM OR ANY OTHER COUNTRY OR TERRITORY TO WHICH THIS ACT EXTENDS.
- (5) AN ORDER IN COUNCIL UNDER THIS SECTION MAY MAKE OR AUTHORISE THE MAKING OF SUCH INCIDENTAL, SUPPLEMENTAL AND CONSEQUENTIAL PROVISIONS AS APPEAR TO HER MAJESTY TO BE EXPEDIENT FOR THE PURPOSES OF THE ORDER.
- (6) AN ORDER IN COUNCIL UNDER THIS SECTION SHALL BE LAID BEFORE PARLIAMENT AFTER BEING MADE AND SHALL EXPIRE AT THE END OF THE PERIOD OF TWENTY-EIGHT DAYS BEGINNING WITH THE DAY ON WHICH IT WAS MADE UNLESS DURING THAT PERIOD IT IS APPROVED BY RESOLUTION OF EACH HOUSE OF PARLIAMENT.

THE EXPIRATION OF AN ORDER IN PURSUANCE OF THIS SUBSECTION SHALL NOT AFFECT THE POWER TO MAKE A NEW ORDER SEMI-COLON AND IN CALCULATING THE PERIOD AFORESAID NO ACCOUNT SHALL BE TAKEN OF ANY TIME DURING WHICH PARLIAMENT IS DISSOLVED OR PROROGUED OR DURING WHICH BOTH HOUSES ARE ADJOURNED FOR MORE THAN FOUR DAYS.

2. (1) THIS ACT MAY BE CITED AS THE IRAN (TEMPORARY POWERS) ACT 1980.

(2) THIS ACT SHALL COME INTO FORCE ON 17TH MAY 1980.

(3) SECTION 1 SHALL CONTINUE IN FORCE UNTIL SUCH DATE AS HER MAJESTY MAY BY ORDER IN COUNCIL APPOINT, AND SHALL THEN EXPIRE.

(4) HER MAJESTY MAY BY ORDER IN COUNCIL MAKE SUCH PROVISION IN RELATION TO CONTRACTS OF ANY DESCRIPTION MENTIONED IN SECTION 1(1) AS APPEARS TO HER TO BE NECESSARY OR EXPEDIENT IN CONNECTION WITH THE EXPIRATION OF SECTION 1 SEMI-COLON AND AN ORDER IN COUNCIL UNDER THIS SUBSECTION MAY MAKE OR AUTHORISE THE MAKING OF SUCH INCIDENTAL, SUPPLEMENTAL AND CONSEQUENTIAL PROVISIONS AS APPEAR TO HER MAJESTY TO BE EXPEDIENT FOR THE PURPOSES OF THE ORDER.

/(5) THIS

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(5) THIS ACT EXTENDS TO THE CHANNEL ISLANDS, THE ISLE OF MAN AND ANY COLONY AND (TO THE EXTENT OF HER MAJESTY'S JURISDICTION THEREIN) TO ANY FOREIGN COUNTRY OR TERRITORY IN WHICH FOR THE TIME BEING HER MAJESTY HAS JURISDICTION.

CARRINGTON

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FM F C O 071413Z MAY 80
TO FLASH BELGRADE
TELEGRAM NUMBER 101 OF 7 MAY.

FOLLOWING FOR ALEXANDER.

IRAN (TEMPORARY POWERS) BILL.

AS THE PRIME MINISTER KNOWS OD DECIDED TODAY TO MODIFY THE BILL AS PRINTED FOR LEGISLATION COMMITTEE AS FOLLOWS:

(A) TO LIMIT THE POWERS TO CONTRACTS RELATING TO IRAN, WHETHER CONTRACTS FOR SERVICES OR FOR THE SALE, SUPPLY OR TRANSPORT OF GOODS. (LEGISLATION COMMITTEE ACCEPTED SOLICITOR GENERAL'S ADVICE THAT THIS WAS THE FURTHEST WE COULD GO TO EXCLUDE FROM THIS BILL THE POWERS CONTAINED IN THE 1939 ACT):

(B) TO EXCLUDE CONTRACTS MADE BEFORE THE DATE ON WHICH AN ORDER IN COUNCIL IS MADE:

(C) TO EXCLUDE FINANCIAL CONTRACTS; AND

(D) TO PROVIDE THAT ORDERS UNDER THE BILL SHOULD BE SUBJECT TO RHODESIA-TYPE AFFIRMATIVE RESOLUTION. (LEGISLATION COMMITTEE AGREED THAT ASSURANCE SHOULD BE GIVEN TO THE HOUSE THAT ANY ORDER UNDER THE 1939 ACT WOULD ALSO BE SUBMITTED TO PARLIAMENT ALTHOUGH THERE IS NO SUCH REQUIREMENT IN THE 1939 ACT).

2. MIFT CONTAINS THE FULL TEXT OF THE BILL AS REVISED BY PARLIAMENTARY COUNSEL TO MEET THESE POINTS.

3. LEGISLATION COMMITTEE AGREE THAT THE BILL SHOULD BE INTRODUCED TOMORROW WITH A VIEW TO COMMONS' SECOND READING ON MONDAY. PROVISION IS BEING MADE TO ALLOW AMENDMENTS TO BE TABLED BEFORE SECOND READING. TO GIVE SUBSTANCE TO THIS DISPENSATION AND MORE TIME FOR PARLIAMENT TO CONSIDER THE BILL IT IS HIGHLY DESIRABLE THAT IT SHOULD BE INTRODUCED TOMORROW AND COPIES MADE AVAILABLE TO MEMBERS. OTHERWISE IT WILL BE DIFFICULT TO SECURE PASSAGE OF THE BILL IN TIME. UNLESS THE PRIME MINISTER SEES OBJECTION WE PROPOSE TO /INSTRUCT

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INSTRUCT PARLIAMENTARY COUNSEL TO HAND THE BILL IN TO THE HOUSE
AUTHORITIES THIS EVENING AT 1800 GMT. ONCE THE TEXT IS HANDED
IN WE CAN ALTER IT ONLY BY GOVERNMENT AMENDMENT. WE ASSUME THE
PRIME MINISTER WOULD NOT WISH HER NAME INCLUDED AS A BACKER OF THE
BILL.

CARRINGTON

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MR J W DAVEY " "
MR P EDGLEY BANK OF ENGLAND
MR P GENT DOI ABELL HOUSE SW1
MR M G STEPHENS EGDG ALDERMANBURY HSE EC2
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Ref. A02099

PRIME MINISTER

OD: Sanctions against Iran

BACKGROUND

There is wide agreement between the United Kingdom and the main allies of the United States on the need to bring home to the Iranians the unacceptability of their continuing to hold American hostages; and to do so in a way that reduces the pressure on President Carter to take military action. On 24th April (OD(80) 12th Meeting, Item 1) the Committee agreed that our policy would need to be aligned with that of our principal partners, inviting the Foreign and Commonwealth Secretary to report the views and intentions of the latter; invited the Chancellor to seek and report the views of the Governor of the Bank of England; and agreed to resume consideration of the problem of compensation at a later meeting. Since then the European Council has reaffirmed the commitment of the Community's Foreign Ministers to take a series of measures in two stages, the second of which would be based on the United States Security Council Resolution vetoed by the Russians in January. It was agreed that the deadline for applying the second stage, if the hostages had not been released beforehand, should be 17th May, the date of the next EC Foreign Ministers' meeting. The precise scope of the sanctions were to be discussed further by officials, the main question in doubt being whether to apply the ban on exports to existing supply contracts.

2. Minutes by the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade underline the costs to the United Kingdom of applying sanctions to existing as well as future contracts. They also demonstrate the link between this issue, the related question of compensating British firms for losses arising from the application of sanctions and the passage of the sanctions legislation (Iran (Temporary Powers) Bill) through Parliament. This last point accounts for the urgency of the Committee's meeting. The Bill needs to be presented to Parliament immediately if it is to have passed all its stages, or at least all its stages in the Commons, by 17th May. Moreover, although

Copy of Bill in
Folder

the wording of the Bill is not affected by the inclusion or exclusion of existing contracts, or by the Government's decision on compensation, Parliament will expect the Government's views on both points to be made clear in debate.

3. The Foreign and Commonwealth Secretary's memorandum (OD(80) 41) explains that he has kept the United Kingdom position open, pending the outcome of further discussion by European Community officials and of his own talks in Washington.

HANDLING

4. You will wish the Foreign and Commonwealth Secretary to describe the latest attitudes of the European Community, Japanese and Americans and, in the light of these, what is entailed by his ideas for a "graduated response". You will wish the Secretary of State for Industry and Mr. Parkinson (Mr. Nott is abroad) to comment on the likely industrial and trade effects of Lord Carrington's proposals. The Secretary of State for Industry has drawn attention to the extreme vulnerability of Talbot UK and the company's critical dependence on the contract to supply vehicles to Iran in kit form. He will wish to underline the threat to the company's existence and the cost to the Exchequer entailed in any decision which put a stop to the Talbot contract. You might then invite the Chancellor of the Exchequer to comment more generally on the economic implications and the cost of possible compensation to firms and individuals. The Secretary of State for Employment has been invited to attend this meeting because of his interest in the Talbot problem; you may wish him to comment on the employment aspects of Lord Carrington's proposals. The Chancellor of the Duchy of Lancaster could be asked to assess the chance of obtaining rapid Parliamentary approval for the Enabling Bill. Will the Bill go through if the Government refuses to compensate firms for losses they may incur as a result of Orders later promulgated under it? Will the Government's statement of their intentions on the scope of sanctions contrive to satisfy the House without at the same time annoying the Americans and letting Iran's other trading partners off the hook? How much pressure will there be for analogous legislation in relation to South Africa and/or Namibia?

5. Can the rescue of the Iranian hostages in London be turned to good account (both with Iran and the United States)? You might suggest that our capacity to capitalise on the good will of the Iranian Government will be dissipated rapidly if

we are seen to take a harder line than others on sanctions. We could deploy this argument in warning the Americans of the limited scope of our sanctions. You might also suggest sending a message to the Iranians that a gesture on their part - the release of some, if not all, the American hostages, or their transfer into the custody of the Iranian Government - could begin to unblock the present dangerous impasse.

CONCLUSIONS

6. Subject to points made in discussion you might lead the Committee to agree that -

- (i) We should not apply our sanctions against Iran more strictly than do our European partners or Japan.
- (ii) Existing contracts should be excluded from the scope of British sanctions.
- (iii) The Government should not compensate firms or individuals for business lost as the result of the application of sanctions.
- (iv) The Foreign and Commonwealth Secretary should explain the reasons for (ii) to the Americans.



ROBERT ARMSTRONG

6th May, 1980



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

C O N F I D E N T I A L

PRIME MINISTER

TALBOT AND IRAN

I have seen Keith Joseph's minute of 2 May about the risk to Talbot UK which would flow from the application of sanctions against Iran.

Our industrial reputation in Scotland rests on four initiatives by our predecessors: the pulp and paper mill at Fort William, the Ravenscraig steel plant, British Leyland at Bathgate and Talbot at Linwood. The pulp mill at Fort William is to close. I need not say much about British Steel and British Leyland.

Wilfully and deliberately to take action which could destroy car-making at Linwood, the only such operation in Scotland, would be to my mind disastrous to our political position in Scotland, quite apart from the social and economic effect in an area with a rate of male unemployment just short of 10 per cent.

It follows that Keith Joseph has my unqualified support in arguing that we should honour existing contractual obligations and confine sanctions against Iran to new business.

I am copying this minute to members of OD and to Sir Robert Armstrong.

C.Y.

6 May 1980

C O N F I D E N T I A L

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- 6 MAY 1960

6 May 1980

Thank you for your letter of today's date enclosing the signed original of Mr. Fraser's message of 29 April to the Prime Minister.

MICHAEL ALEXANDER



His Excellency Sir James Plimsoll, AC, CBE.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

6 May 1980

Deal with. Messages have issued.

Dear Michael,

Paul 9/5

Iran

I attach, as you requested, a draft reply for the Prime Minister to send to the message from President Bani Sadr about the occupation of the Iranian Embassy in London.

In addition we have been considering how most effectively to use the outcome to the occupation to put pressure on the Iranians over their continued detention of the American hostages. There have already been suggestions from the opponents of Bani Sadr that the occupation of the Iranian Embassy was a put-up job between ourselves, the Americans and the Iraqis to bring pressure on the Iranians to release the US hostages. There are therefore risks in any explicit link between the two Embassies, even though the outcome of the Iranian Embassy should dispel to any but the most suspicious mind the rumours that the Americans were behind it. A private appeal to the heart rather than to the head appears preferable, to the effect that President Bani Sadr should make a gesture of magnanimity. It may not succeed, but seems well worth trying. I therefore enclose a suggested text of a further message from the Prime Minister to President Bani Sadr along these lines. This text has been approved by Mr Hurd, though it has not yet been seen by Sir Ian Gilmour or Lord Carrington.

Yours etc

Paul

(P Lever)
Private Secretary

Michael Alexander Esq
10 Downing Street
London

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= 6 MAY 1960



DRAFT: ~~SECRET~~ letter/~~TOP SECRET~~/~~TOP SECRET~~/~~TOP SECRET~~

TYPE: Draft/Final 1+

FROM:

The Prime Minister

Reference

DEPARTMENT:

TEL NO:

SECURITY CLASSIFICATION

TO:

His Excellency
Mr Abolhassan Bani Sadr
President of the Islamic
Republic of Iran
TEHRAN

Your Reference

~~TOP SECRET~~
~~SECRET~~
Confidential
~~RESTRICTED~~
~~UNCLASSIFIED~~

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SUBJECT:

.....In Confidence

CAVEAT.....

Your Excellency

Thank you for which I
I was deeply moved by your message ~~and~~ am conveying ~~your~~
~~thanks~~ to the police and to the unit of the British Army
who were involved. The British people watched anxiously
with your own during the ordeal of the staff of your
Embassy in London and join with you in giving thanks that
it was possible to achieve their safe release.

I should be grateful if you would convey to the families
of the two ~~men~~ *hostages* who died the condolences of the British
Government and people and of myself in their ~~most~~ tragic
loss.

Enclosures—flag(s).....

With regards,

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

The Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret
Secret
Confidential
Restricted
Unclassified

HE Mr Abolhassan Bani Sadr
President of the Islamic
Republic of Iran
TEHRAN

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Your Excellency,

CAVEAT.....

I have written to thank Your Excellency for your generous message on the ending of the occupation of your country's Embassy in London. I hope you will not take it amiss, Your Excellency, if I address you privately on the wider issues that this incident raises.

First, I believe that it brings out once again the vulnerability of all Embassies all over the world to action dictated by hostility to the policies of the governments they represent. This vulnerability places a particular responsibility on host governments, since pressure by means of the occupation of Embassies or taking hostage of their staffs has long been accepted throughout the world as an inadmissible way of conducting relations between states, ~~which~~ ^{it} Indeed, by making dialogue impossible, ^{it} strikes at the whole structure of arrangements which we have so laboriously worked out since the last world war for the peaceful settlement of disputes. In the present case the British Government have tried to carry out their
/responsibility

Enclosures—flag(s).....

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responsibility and I trust that through our action and through your steadfastness we shall have conveyed a message to all that terrorism of this kind is self-defeating.

I do not wish to draw a parallel between the seizure of the Iranian Embassy in London and the occupation of the American Embassy in Tehran. I am aware of your Government's position. Nor do I wish to engage in a debate on the past or on the grievances of the Iranian people, which they hold to justify the continued retention of the American hostages. It is the right of the Iranian people to choose their own government and they must be able to enjoy their own country in peace and prosperity without outside interference from any quarter, beyond the inevitable constraints that we must all accept as members of the world community and as God's creatures on one planet. I do however ask that the Imam, as an act of magnanimity which I believe would open the door to so much future happiness and prosperity for the people of Iran, should order the release of the American hostages as a gesture of good will to the brave men who risked their lives to free the Iranian hostages and of thanks to God for their safety. I ask this in the hope that the comradeship sealed in blood in the last few days between our two countries will grow and strengthen in the years to come on the basis of equality, mutual respect and friendship.

I shall be releasing the text of my shorter message of thanks. But I hope that both the contents of this message and the fact that I have sent it can remain completely private.

Papers removed from file

Date 6. 5. 80

Fco to MORSA 6.5.80

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MR J. HOBGELY

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~~D.O.~~ No 10 DS.

FROM: EXTERIEUR THRAN

TO: MINISTRY OF FOREGIN AFFAIRS OF U.K

MRS. MARGRIT TACHER

DATE: 6. MAY. 1980

HER EXELLENCY MRS. MARGRET TACHER

THE PRIME MINISTER OF U.K

I SHOULD LIKE TO EXPRESS MY GRATITUDE FOR THE PRESERVING ACTION OF YOUR POLICE FORCE THAT PROVED ITS COMPETENTS DURING THE UNJUST HOSSTAGE TAKING EVENT AT THE IRANIAN EMBASSY IN LONDON AND THE LIVES OF ALL BUT ONE . OF OUR VERY DEAR CHILDREN WERE SAVED IN THIS EVENT .

WITH REGARDS THE PRESIDENT OF THE ISLAMIC REPUBLI C OF IRAN ABOLHASAN BANI SADR

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T 103/80

Message telephoned from the British Embassy, Tehran - Message from Iranian President to the Prime Minister.

Excellency Mrs Margaret Thatcher the Prime Minister of the United Kingdom

I should like to express my gratitude for the persevering action of your police force that proved its competence during the unjust hostage - taking event at the Iranian Embassy in London, and the lives of all but one of our very dear children were saved in this event.

With regards

the President of the Islamic Republic of Iran
ABUL HASSAN BANI SADR

SECRET



AUSTRALIAN HIGH COMMISSION · LONDON

THE HIGH COMMISSIONER

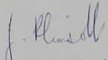
6 May 1980

Dear Mr Alexander,

I refer to my letter of 29 April 1980, enclosing the text of a letter from the Australian Prime Minister, the Rt Hon. Malcolm Fraser, to your Prime Minister, the Rt. Hon. Margaret Thatcher.

I now enclose the original of Mr Fraser's letter. - T98/80.

Yours sincerely,


(J. Plimsoll)

Mr Michael Alexander,
Private Secretary (Overseas Affairs),
to the Prime Minister,
Prime Minister's Office,
10 Downing Street,
LONDON, SW1.

SECRET



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FM WASHINGTON 061925Z MAY 80

TO IMMEDIATE F.C.O.

TELEGRAM NUMBER 1766 OF 6 MAY.

INFO PRIORITY E.E.C. POSTS, MOSCOW, TOKYO, CANBERRA, OTTAWA,
UKMIS NEW YORK, UKDEL NATO.

PERSONAL FOR AMBASSADORS.

FOLLOWING FOR PRIME MINISTER FROM SECRETARY OF STATE.

VISIT TO WASHINGTON : 3 - 6 MAY.

1. YOU WILL HAVE RECEIVED SEPARATELY ACCOUNTS OF THE TALKS I HAVE HAD HERE: THE FOLLOWING ARE MY MAIN CONCLUSIONS:

(I) ALTHOUGH THE VISIT WAS FIXED UP IN VERY DIFFICULT CIRCUMSTANCES, IT HAPPENS TO HAVE TURNED OUT TO BE TIMELY. I WAS ABLE TO TELL THE AMERICANS ABOUT THE LUXEMBOURG MEETINGS, AND TO TAKE THE TEMPERATURE IN THE PRESENT STATE OF FLUX FOLLOWING THE FAILED RESCUE AND VANCE'S RESIGNATION, AND I THINK TO EXERCISE SOME INFLUENCE ON WHAT IS CERTAINLY A VERY UNCERTAIN AND UNCONFIDENT ADMINISTRATION. SEEKING ALLIES. THE NEWS OF THE STORMING OF THE IRANIAN EMBASSY IN LONDON WHICH REACHED ME WHILE I WAS TALKING TO THE U.S. SECRETARY OF DEFENSE, CREATED A CONSIDERABLE AND FAVOURABLE IMPACT AND LED TO MUCH SPECULATION ABOUT PARALLELS.

(II) MUSKIE, WHOM I HAD NOT MET BEFORE, STRUCK ME AS A MAN WHOM IT WILL BE GOOD TO DO BUSINESS WITH. HE SPOKE AS IF HE INTENDED TO GET A GRIP ON THE STATE DEPARTMENT MACHINE AND ASSERT ITS AUTHORITY IN FOREIGN AFFAIRS AGAINST BRZEZINSKI AND THE WHITE HOUSE. HE DID NOT TRY TO BLUSTER ABOUT THINGS ABOUT WHICH HE KNEW NOTHING, BUT SHOWED, I THOUGHT, CONSIDERABLE POLITICAL INSTINCT FOR THE GAME. HE DOES, OF COURSE, SPEAK FROM A BASIS OF STRENGTH IN THE CONGRESS THAT IS IMMEDIATELY EVIDENT. ALTHOUGH HE HAS NOT HAD MUCH EXPERIENCE OF THE U.K., HE WAS EXTREMELY FRIENDLY ABOUT US AND RESPONDED WARMLY TO MY INVITATION THAT HE SHOULD COME THERE SOON.

(III) IN ALL THE MEETINGS I HAD, I EMPHASISED THE INTER-RELATION BETWEEN THE IRAN/AFGHANISTAN AND ARAB/ISRAEL PROBLEMS: THE POLITICAL REPERCUSSIONS OF THE FAILED RESCUE MISSION, HOWEVER MUCH IT MAY HAVE BEEN JUSTIFIED ON HUMANITARIAN GROUNDS, AND THE ADVERSE REACTION

BETWEEN THE IRAN/AFGHANISTAN AND ARAB/ISRAEL PROBLEMS: THE POLITICAL REPERCUSSIONS OF THE FAILED RESCUE MISSION, HOWEVER MUCH IT MAY HAVE BEEN JUSTIFIED ON HUMANITARIAN GROUNDS, AND THE ADVERSE REACTION THAT THERE WOULD BE IN THE U.K., AND I WAS SURE IN THE REST OF THE COMMUNITY, IF THE U.S. RESORTED TO FURTHER MILITARY MEASURES. IT WAS NOT ALTOGETHER EASY TO CONVINCE EVERYONE OF THE DIFFICULTIES THAT WE, AND THE OTHERS, WERE GOING TO HAVE IN IMPLEMENTING SANCTIONS. LOOKED AT FROM OUR ANGLE, I AM SURE THAT WHAT WE OUGHT TO AIM AT IS TO GET SOMETHING IN PLACE ON THE PROMISED DATE OF 17 MAY REGARDLESS OF WHETHER IT COVERS THE WHOLE RANGE. IT IS A QUESTION OF APPEARANCES, PARTICULARLY THE APPEARANCE OF ALLIED SOLIDARITY. I WAS ABLE TO EXPLAIN, AND DID SO ON MANY OCCASIONS, THE EXTENT TO WHICH THE EUROPEAN MEMBERS OF THE ALLIANCE WILL FACE A GREATER SACRIFICE THROUGH SANCTIONS THAN THE U.S.A. NOBODY SERIOUSLY ATTEMPTED TO SHOW HOW SANCTIONS WOULD GET THE HOSTAGES OUT: AND I STRESSED THAT DOUBTS ABOUT THIS POINT WERE PREVALENT IN EUROPE, BUT THAT EUROPE WAS STICKING TO ITS PROMISE IN ORDER TO SHOW SUPPORT. I TOLD AMERICAN LEADERS OF THE STALWART REACTION OF THE HEADS OF GOVERNMENT AND FOREIGN MINISTERS AT LUXEMBOURG.

(IV) NEVERTHELESS, IT WAS STRIKING TO FIND HOW FAR THE AMERICANS STILL CONSIDER THAT THE EUROPEANS ARE GIVING THEM INADEQUATE BACKING. I RAN INTO THIS PARTICULARLY MARKEDLY IN THE SENATE FOREIGN RELATIONS COMMITTEE. I PRESSED THE SENATORS TO TELL ME IN WHAT RESPECT EUROPE WAS GIVING INADEQUATE BACKING. ALTHOUGH NONE OF THEM WAS ABLE TO SPECIFY, THEY REMAINED DOUBTFUL WHETHER EUROPE WAS AS STAUNCH AS IT SHOULD BE.

(V) YOU WILL WANT, ABOVE ALL, TO KNOW WHETHER, ON THE BASIS OF EVERYTHING I HEARD, I THINK THAT THE AMERICANS ARE STILL CONSIDERING A FURTHER MILITARY MOVE IN IRAN. IT IS DIFFICULT TO BE CATEGORICAL ABOUT THIS. THE AMERICANS MADE IT PERFECTLY CLEAR THAT THEY COULD NOT PUBLICLY FORECLOSE THE MILITARY OPTION, FOR OBVIOUS REASONS. THE PRESIDENT HIMSELF ASSURED ME THAT THE ALLIES WOULD BE CONSULTED IF THE AMERICANS WERE THINKING OF A MILITARY MOVE. MY OWN VIEW IS THAT THEY ARE NOT AT THE MOMENT, THINKING ALONG MILITARY LINES. BUT SOON AFTER MY ARRIVAL I BEGAN TO RECEIVE MESSAGES FROM THE STATE DEPARTMENT, AND INDEED FROM CY VANCE HIMSELF, THAT I SHOULD MAKE IT PALPABLY CLEAR HOW ADVERSE THE EUROPEAN REACTION WOULD BE TO ANY U.S. MILITARY STEP, AS IF TO INDICATE THAT THIS POSSIBILITY MIGHT STILL BE ALIVE. MUSKIE TOOK THE POINT FULLY WHEN I SAID THAT ANY THOUGHT ABOUT A FURTHER MILITARY MOVE MUST TAKE ACCOUNT BOTH OF ITS LIKELY EFFECT ON THE RELEASE OF THE HOSTAGES AND THE CONSEQUENCES ON OTHER WESTERN INTERESTS IN THE REGION.

(VI) IN STRESSING THE INTER-RELATION OF THE IRAN AND AFGHANISTAN

ON OTHER WESTERN INTERESTS IN THE REGION.

(VI) IN STRESSING THE INTER-RELATION OF THE IRAN AND AFGHANISTAN PROBLEMS WITH THE ARAB/ISRAEL SITUATION, I EXPLAINED THE REASONS WHY THE EUROPEAN COUNCIL HAD DECIDED TO REVERT IN JUNE TO THE IDEA OF A EUROPEAN INITIATIVE ON THE LATTER. THE ARABS FELT AS BITTERLY ABOUT THE OCCUPATION OF PALESTINE AS DID THE AMERICANS ABOUT THE HOLDING OF HOSTAGES. UNLESS SOME MOVEMENT WAS MAINTAINED, NOTWITHSTANDING THE PARALYSIS CAUSED BY THE U.S. ELECTIONS, ARAB OPINION WOULD BECOME INCREASINGLY IMMEDIATE WITH REPERCUSSIONS FOR WESTERN INTERESTS. IT IS OBVIOUS THAT NOTHING WHATEVER WILL HAPPEN ON THE MIDDLE EAST IN WASHINGTON DURING THE RUN-UP TO THE PRESIDENTIAL ELECTIONS. THE CAMP DAVID PROCESS WILL SIMPLY BE SPUN OUT, ASSUMING THE EGYPTIANS AND ISRAELIS CO-OPERATE. I THINK WE SHOULD CONSIDER WHETHER THE BEST FORM OF EUROPEAN INITIATIVE WOULD BE TO START WITH A NEW SECURITY COUNCIL RESOLUTION, AS I HAVE OFTEN ARGUED, OR TO GO FIRST FOR SOME SORT OF PRIVATE DIALOGUE WITH JORDAN AND THE PLO, AS THE STATE DEPARTMENT EXPERTS SUGGESTED. I KNOW THAT SIR A PARSONS ALSO SEES GREAT DIFFICULTY IN GETTING ANYTHING THROUGH THE SECURITY COUNCIL IN AN AMERICAN ELECTION YEAR.

(VII) THE AMERICANS ARE OBVIOUSLY INTENDING TO PRESS ON WITH THEIR PLANS FOR MILITARY FACILITIES IN THE INDIAN OCEAN AREA. THEY NEED OUR SUPPORT IN RETRIEVING THEIR POSITION IN OMAN AND ESPECIALLY ON DIEGO GARCIA. THIS GIVES US STRONG CARDS: I EMPHASISED THAT DIEGO GARCIA HAD BEEN AND WOULD REMAIN POLITICALLY TRICKY. HAROLD BROWN MADE GENERALLY POSITIVE NOISES ABOUT RAPIER.

(VIII) I TOLD THE AMERICANS AT EVERY LEVEL THAT, THOUGH DISSENSION IN THE ALLIANCE WAS EXAGGERATED, WESTERN CONSULTATION HAS NEVER BEEN MORE IMPORTANT. THE QUADRIPARTITE FORUM IS THE KEY ONE. DIRECTION OF THIS IN LONDON HAS BEEN FORMALLY ESTABLISHED IN THE F.C.O., AND WITH MUSKIE IN CHARGE AT THE STATE DEPARTMENT I WOULD HOPE THAT CONSULTATIONS WILL BE LESS FRENETIC AND MORE SYSTEMATIC FROM NOW ON. THE MEETINGS IN BRUSSELS AND VIENNA NEXT WEEK WILL BE THE FIRST TEST.

HENDERSON

NNNN



MO 11/10/22

NBP/1

*Phu*FOREIGN AND COMMONWEALTH SECRETARYIRANIAN MILITARY TRAINEES

Thank you for your minute of 5th May about the Iranian military students who are currently under training at MOD establishments.

2. As you know, the Americans have not yet suggested that we should follow their example and repatriate these students. Since they are all junior Naval personnel who are on courses of an academic or very basic professional nature and, since the training which we are providing could prove to be a useful long-term investment, I believe that we should allow them to continue, at least for the present. We are not of course accepting any new bids for places on training courses. Accordingly I am content with your proposals.

3. I am sending copies of this minute to the recipients of yours.

Ministry of Defence

6th May 1960

17 MAY 1980



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10 DOWNING STREET

From the Private Secretary

6 May, 1980.

Dear Paul,

Iran: Legislation

The Prime Minister held a meeting this evening with the Chancellor of the Exchequer and the Governor of the Bank of England. Sir Robert Armstrong was also present.

The Governor reported on a recent meeting he had had with Mr. Nobari, the Governor of the Iranian Central Bank. Questioned about HMG's position on the possible freezing of Iranian assets, he had told Nobari that - unless Iran were to take action against UK interests - HMG had no intention of freezing their assets in London. Nobari had, however, expressed concern that the legislation which we were planning on trade sanctions might still enable us to freeze Iran's assets.

The Prime Minister said that in that case it must be made absolutely clear in the legislation that freezing of assets was excluded. She understood that the bill as presently drafted was widely drawn, and would enable us to take freezing powers if we so wished. The bill would need to be redrafted so as to explicitly exclude the possibility of freezing.

The Prime Minister went on to say that, rather than introducing an Enabling Bill with the details of the measures to be set out in an Order in Council and with an explicit exclusion relating to assets, Ministers should consider specifying in the bill itself the measures to be taken. She understood that the 1939 Act would cover the main trade sanctions measures: if so, the bill could simply specify the trade measures in the vetoed Security Council Resolution which should not be implemented under the 1939 Act.

I am sending copies of this letter to the Private Secretaries to Members of OD Committee and L Committee, to John Beverly (Bank of England), and David Wright (Cabinet Office).

Paul Lever, Esq.,
 Foreign and Commonwealth Office.



FCS/80/82


SECRETARY OF STATE FOR DEFENCE

②
Pmme Amster

Aml

Iranian Military Trainees

1. In the paper I submitted for consideration in OD on 15 April, I suggested that the question of the repatriation of Iranian military trainees in the UK, who number 28, might be coupled with our refusal to grant an export licence for the fleet replenishment vessel, the Kharg.
2. However, no decision on this subject was then taken, nor was this mentioned during the meeting of Foreign Ministers in Luxembourg on 21/22 April. On reflection, my own view is that repatriation of these trainees would be a step more appropriate at a later stage, either at the time we proceed to the second stage of measures against Iran envisaged in our commitment to impose economic sanctions, or if we are forced meanwhile to break relations entirely. It would be illogical at present to send these trainees back to Iran without contemplating similar action over those members of the Iranian Navy attached to the Kharg. Of our partners in the Nine, only the Germans have Iranian military trainees in large numbers undergoing courses. With 150 trainees, West Germany would have larger problems than ourselves over repatriation and it has taken no decision on their future yet. Any decision on our Iranian trainees would best be taken in concert with the Germans.
3. I suggest, therefore, that we take no action now to repatriate these military trainees, but that we keep this as a possible option for the future. In the meantime we shall try to find out what the Germans intend to do about theirs.
4. I am copying this minute to other members of OD, Sir Keith Joseph and David Howell; and to Sir Robert Armstrong.


 (CARRINGTON)

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TO IMMEDIATE F C O

TELEGRAM NUMBER 71 OF 5 MAY

INFO IMMEDIATE WASHINGTON. ROUTINE KUWAIT, BAHRAIN, ABU DHABI, MUSCAT, JEDDA AND BAGHDAD.

MY TELNO. 70: VISIT OF IRANIAN FOREIGN MINISTER.

1. ADDITIONAL COMMENTS FROM SHAIKH AHMED BIN SAIF, MINISTER OF STATE IN THE FOREIGN MINISTRY, WERE THAT QOTBZADEH (UNDERSTANDABLY ENOUGH, AFTER THE ATTEMPT ON HIS LIFE IN KUWAIT) SEEMED EXTREMELY NERVOUS AND TALKATIVE THROUGHOUT HIS DISCUSSIONS HERE. HE HAD TOLD THE AMIR THAT IRAN WAS NOT TRYING TO EXPORT REVOLUTION TO THE GULF. THE AMIR REPLIED QUOTE THIS IS NOT WE HEAR UNQUOTE. HE EMPHASISED TO QOTBZADEH, IN A VERY STRONG STATEMENT, THAT IT WAS NOT IN IRAN'S INTERESTS, NOR ANYONE ELSE'S IN THE GULF, TO CONTINUE THE DETENTION OF THE U.S. HOSTAGES. QOTBZADEH REPLIED THAT HE AND BANI SADR WERE TRYING TO CALM THE STUDENTS DOWN. BUT HE ADMITTED FRANKLY THAT IF HE PUSHED TOO HARD FOR THE HOSTAGES' RELEASE, THE STUDENTS MIGHT WELL ACCUSE HIM OF BEING A CIA AGENT. HE REFERRED THROUGHTOUT TO KHOMEINI, BUT IMPLIED THAT EVEN THE LATTER COULD NOT ACHIEVE THE RELEASE OF THE HOSTAGES; ONLY PARLIMENT COULD DO THAT. MY U.S. COLLEAGUE COMMENTED THAT THIS ASSESSMENT SEEMED FAR FROM REASSURING.

2. SHAIKH AHMED COMMENTED THAT QOTBZADEH IMPLIED CLEARLY ENOUGH THAT IF KHOMEINI DIED OR WERE INCAPACITATED, THERE WOULD BE LITTLE CHANCE FOR BANI SADR AND HIMSELF TO SURVIVE POLITICALLY, SINCE THEY HAD NO POWER BASE WITHIN AFTER THEIR LONG YEARS OF EXILE. IN OTHER WORDS, THEY WOULD SINK OR SWIM WITH KHOMEINI. SHAIKH AHMED ALSO POINTED OUT THAT QOTBZADEH'S INFLUENCE IN IRAN COULD BE JUDGED FROM THE FACT THAT INSPITE OF HIS ASSURANCES THAT THE IRANIANS WERE NOT TRYING TO EXPORT THEIR REVOLUTION, EVEN WHILE HE WAS IN BAHRAIN ON HIS RETURN JOURNEY TEHRAN BROADCASTS WERE CALLING FOR THE OVERTHROW OF THE AL KHALIFA.

BRANT

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PRIME MINISTER

TALBOT AND IRAN

On 15 April I was invited by OD to consider whether there were any possible ways of alleviating the effect which an export embargo would have on Talbot Cars. I attach my estimation of this effect and my views on the action which the Government could consider taking.

It is quite clear that the financial position of Talbot UK remains extremely fragile and any small set-back is liable to bring it down. If, therefore, sanctions against Iran were extended to current contracts as compared with new business, it is probable that Talbot's UK operations would face liquidation or receivership within a relatively short time. From this point of view and more generally, even though it would reduce the impact of our sanctions, I share Geoffrey Howe and John Nott's view that it would be in our best interests as a trading nation to honour existing contractual obligations to the Iranians at least at this stage. We can always reconsider our position if there is no move to free the US hostages after the Iranian Parliament has assembled. I certainly do not feel that we should take action on existing contracts unless all our partners and the Japanese were prepared to follow the same line. In the case of Talbot it would be particularly unfortunate if we put PSA Peugeot Citroen at a disadvantage while the French Government did nothing to prevent Renault from honouring existing contracts in Iran.

I am copying this minute to members of OD, to George Younger, because



of the potential effect on employment in West Central Scotland
of the worst consequences of an embargo on current contracts with
Iran, and to Sir Robert Armstrong.

14

Department of Industry
Ashdown House
123 Victoria Street

K J
2 May 1980



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POSSIBLE ASSISTANCE FOR TALBOT MOTORS LIMITED IN THE EVENT OF A TRADE
EMBARGO ON IRAN

INTRODUCTION

1 On 15 April OD invited me:

"To consider whether there were any possible ways of alleviating the effect which an export embargo would have on Talbot Cars".

This note outlines the probable effects, considers action which might be taken and makes recommendations. The figures used in this assessment are the Company's own estimates.

THE EFFECTS OF AN EMBARGO

2 The impact on Talbot will depend upon whether current contracts are excluded from the embargo and if not, the length of time it remains in force. If current contracts are excluded and ECGD cover can be retained, the embargo itself will have no effect on Talbot although, of course, the Iranians could themselves stop taking deliveries as a reprisal or the US Government could institute a blockade which would have the same effect on Talbot as an embargo.

3 Although a short-lived embargo, say one or two months, would necessitate laying off up to 2,000 workers or short-time working, reduce Talbot's revenue by some £11.5m a month and increase losses which are, somewhat optimistically, forecast to be £10m this year, it would not be likely to lead to termination of the contract and Talbot could be expected to survive.

4 An embargo which went on for 4 months would seriously embarrass the company. Its borrowings would rise by £23m leaving little to spare from short-term facilities and the business would have a "negative net worth" calling for a fresh cash injection or guarantees from its parent



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PSA Peugeot Citroen (PSA), if it was to continue to trade legally. PSA might well be unwilling to provide the necessary funds or assurances and it would also become more likely that the Iranians would look elsewhere for future supplies, effectively terminating the contract.

5 Termination of the contract would, in addition:

- a) Leave Talbot with stock and work in progress to a value of some £25m after allowing for a shipment on 9 May and disposals, mainly for scrap, of unrequired stock since there is no other market for the Iranian kits. Effectively £22.5m of this is covered by EOGD pre-shipment insurance;
- b) Lead to upwards of 2,000 immediate redundancies, mostly at the Stoke (Coventry) engine plant at a cost of about £5m.
- c) Give rise to losses for the current year of £70m plus.

In the present climate with under-utilised capacity in their French facilities and a falling market share throughout Europe, it is highly improbable that PSA would be prepared to foot this bill for their ailing UK subsidiary, let alone fund capital investment (which could amount to more than £100m) to introduce new products to ensure long term stability. Termination of the contract or a prolonged hiatus in deliveries is therefore likely to lead to liquidation or a receivership with at least a substantial subsequent reduction in UK manufacturing facilities and at worst total closure of the UK operation. In employment terms this would mean the direct loss of up to 20,000 jobs more than 6,000 of which are at Linwood in West Central Scotland. There would also be knock-on effects on suppliers which could be expected to put at risk a similar number of jobs, mostly in the West Midlands.



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6 Three courses of action which could assist Talbot if its parent company wants to retain its UK manufacturing interests have been examined:

- a) Stock-piling at the Government's expense;
- b) Direct compensation for loss of profit;
- c) Further support under existing Government schemes.

Following any of these routes would lead to pressure for support for other firms affected by the embargo and would make it difficult to resist similar pressure in other circumstances, particularly where Government action might be said to have put firms at a commercial disadvantage.

7 Stock-piling is not considered to be a useful or practical course to pursue. In the event that deliveries could be resumed after an embargo it would only delay the time at which lay-offs became necessary in order to clear the backlog in the pipeline, and if the contract was in fact to be terminated it would simply increase the volume of unsaleable product to be scrapped.

8 Direct compensation overtly presented as such would be expensive and could not be confined to Talbot alone - BL for example have £23m of annual business under current contracts and are hopeful of obtaining further orders worth £55m a year while other firms in the vehicle and associated industries are doing business with Iran at the rate of about £19m a year. If compensation were to be paid to Talbot for loss of profit while trade was suspended this would cost about £20m for a 4 month cessation on top of at least £400,000 a month which could be obtained under the Department of Employment's Temporary Short Time Working Compensation Scheme. Compensation for total loss of business would at least need to cover the incremental increase in losses this year of more than £60m, ^{and} further losses in subsequent years at, the rate of perhaps £40m a year. On this basis the sum required



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could exceed £60m this year with an on-going commitment for several years of something of the order of £40m. These payments would simply keep the firm alive without doing anything more to assure long term stability. Additional support towards capital investment in new products and associated facilities would also be needed to ensure this which is unlikely to attract PSA at this time given their current under-utilisation capacity. In all these circumstances I do not consider that direct compensation should be contemplated.

9 Short of direct compensation some assistance could be provided under existing schemes. If there is some prospect of recovering the business and PSA is prepared to support Talbot - both of which must remain possibilities in the short-term - Temporary Short Time Working Compensation is likely to be available as an alternative to redundancies and this would provide at least some £2.5m for the 6 months during which it can be paid. (The Company is likely to apply for £4.5m and Department of Employment Ministers are urgently considering whether the full amount could properly be met under the Scheme). Consideration could also be given to deferral or waiver as appropriate of interest on outstanding Government loans of £50m which would cost about £450,000 a month at current interest rates. These actions would ease the company's short term cash problems but would in no way prevent the worst consequences of a total loss of business. This could only be averted by massive rescue support under Section 7 and/or 8 of the Industry Act outside the present guidelines and needing EEC approval. The level of support needed would be on a par with that which was provided for in 1976 (up to £162.5m) and I do not believe that this could be justified in present circumstances. Consideration could, of course, be given at any time to a request by Talbot or PSA for a more modest level of support for any new viable capital investment they might be willing to locate in this country to ensure the long term stability of the UK operation. However, as has been indicated earlier in this note, there is little chance of such new investment being contemplated by PSA within a timescale which would prevent a very substantial run-down if not complete closure of Talbot's UK manufacturing operations.



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CONCLUSIONS AND RECOMMENSATIONS

10 If current contracts are excluded from sanctions and no other factors arise to prevent deliveries being made and EOGD cover is maintained; the projected trade embargo would not of itself affect Talbot and no special action needs to be taken. Apart, therefore, from other advantages, the exclusion of current contracts would be far and away the best solution from Talbot's point of view and would also ease the problems of BL and other vehicle sector firms.

11 If current contracts are not excluded I do not recommend support towards stockpiling or direct overt compensation for loss of profit. If assistance is to be provided I consider that this should be confined to support which is available within the parameters of current Government schemes, ie

- a) Maximum proper use of the Temporary Short Time Working Compensation Scheme to keep jobs in being;
- b) Deferment or waiver as necessary of interest payments on the £50m of outstanding Government loans as an aid to cash flow; and
- c) Support for any viable projects which might be brought forward by the company under Section 7 or 8 of the Industry Act to assist redevelopment of the business.

12 Any assistance would need to be considered in the light of the underlying viability of Talbot and its long term future as seen by PSA. In the present climate of the European motor vehicle assembly industry it does not, however, seem very probable that PSA will wish to create new capacity and therefore the most that we could seek to do is to enable Talbot to weather a short storm in the hope that it can recover its sales to Iran once an embargo is lifted. If it does not or the contract is terminated by the Iranians, the cost of preserving the company and inspiring the necessary capital investment for future stability would be



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so high that I do not believe that we should contemplate it. Apart from financial considerations, such action would be a major movement away from our policy of allowing market forces to determine the success or failure of companies and open the door to other rescue requests. Assistance at any level apart from that which would be available to any firm in similar circumstances (ie TSTWC) would be bound to attract political attention in view of the circumstances surrounding the earlier support for Talbot; the more particularly if it called for significant departures from the published criteria for support under the Industry Act. We could not, of course, avoid informing Parliament.

13 Cost estimates can only be very rough. Temporary Short Time Working Compensation for 6 months could cost between £2.5m and £4.5m for Talbot employees only (without allowing for knock-on effect at suppliers) and the monthly cost of deferment or waiver of all interest on current loans would be some £450,000 a month at current rates. In the unlikely event that PSA did come forward with new product proposals, support of, say, 25% of the cost of a major new engineering investment could amount to £35m over a period of 2 - 3 years since such support would need to be "front end loaded". None of these sums have been provided for in current estimates or PESC provisions and additional financial provision would be needed.

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-2 MAY 1980



JS

cc: FCO

T 101/80

10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 101/80

2 May 1980

Dear Prime Minister,

not delivered

Thank you for your message of 18 April. I greatly value your desire to co-operate with the European countries over the measures that can best be taken in support of the United States against Iran. If measures taken now are to have the right effect, it will be essential that they have the widest support possible.

I am particularly pleased that our two Governments have been able to consult so closely over this issue in recent weeks. Peter Carrington much appreciated his talk with Dr. Okita in Luxembourg on 21 April.

As you know the Foreign Ministers of the European Community countries announced on 22 April a series of measures to be taken in respect of Iran. I am most grateful that you have been able, in your statement on 24 April, to associate yourself with these measures. Our determination to take these has not been affected by the unsuccessful attempt to rescue the hostages last week. You will have seen that the European Council reaffirmed them at its meeting in Luxembourg on 27 and 28 April.

We shall all need to keep in touch over the implementation of these measures. Instructions are being sent to our Embassy

/in Tokyo

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in Tokyo to maintain the closest possible contact with the Japanese authorities. I hope that here in London we can enjoy similar contact with the Japanese Embassy.

I look forward to seeing you in Venice in June.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Masayoshi Ohira

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Foreign and Commonwealth Office

London SW1A 2AH

2 May 1980

IRAN (TEMPORARY POWERS) BILL

Thank you for your letter of 30 April in which you asked for details of the content and intention of the Iran (Temporary Powers) Bill, which we hope to introduce shortly. I hope the following will be helpful.

On 22 April the Foreign Ministers of the nine Member States of the European Communities meeting in Luxembourg decided to request their national Parliaments immediately to take measures to impose sanctions against Iran in accordance with the Security Council resolution on Iran of 10 January 1980 (which was vetoed) and the rules of international law. They expressed their belief that these legislative processes should be completed by 17 May, the date of the Foreign Ministers meeting in Naples. Our information is that all other States of the Community who require further legislative powers to implement sanctions intend to have such powers in place by 17 May; but we are checking urgently whether all our Community partners will in fact be able to achieve this by that date and exactly what the legislation will cover. The indications are that, in the event, existing contracts will not be affected, and the question of compensation will therefore only be significant in the context of arms sales.

/OD agreed

Ms Petra Laidlaw
 Private Secretary to the Chancellor
 of the Duchy of Lancaster
 Privy Council Office
 Whitehall
 London SW1



OD agreed on 24 April that we should proceed with our own legislation. A general enabling Bill has been prepared and this will be discussed by OD and L Committees next Wednesday, 7 May. In order to keep to the rather tight timetable, we shall need to give the Bill its first reading on Friday, 9 May or Monday, 12 May, with a view to completing all stages in the Commons by the end of Tuesday, 13 May.

As regards content, the Bill takes general powers to impose sanctions in consequence of breaches of international law (including breaches of numerous international agreements) by Iran in connection with or arising out of the detention of the hostages in the United States Embassy in Iran. Although the powers taken are general in nature and no indication is given in the Bill of the extent to which the terms of the vetoed Security Council resolution will be implemented, the powers are narrow in that they are limited to the Iran situation and to what is necessary or expedient in consequence of Iran's various breaches of international law (either past or in the future). It is the intention that sanctions should not be implemented by Order in Council beyond the extent which can be justified under the international law rules relating to reprisals. We have secured the agreement of our Community partners to justify our action in international law as a form of collective reprisals by the parties to the Vienna Convention on Diplomatic Relations of 1961.

The Bill makes clear that there is no power to create extra-territorial criminal offences except in regard to United Kingdom nationals and companies and ships or aircraft registered in the United Kingdom or in territory to which the Bill will extend. It makes provision for Parliamentary control of the Orders which may implement sanctions, in accordance with the decision taken earlier by OD. It is not the intention that any such Order should be made except on the basis of consensus between the Member States of the European Communities on the extent to which they will give effect to sanctions.

/The Short



The Short Title of the Bill is designed to emphasise both the narrow nature and the temporary nature of the powers being sought. It also provides specifically for entry into force of the Act on 17 May 1980, reflecting the decision of Ministers of Foreign Affairs; for the powers to be terminated by Order in Council; for the necessary consequential provisions to be made; and for the territorial extent of the Bill.

I am sending copies of this letter to the Private Secretaries to Members of L and OD Committees, as well as to the copy-recipients of your letter of 30 April.

Yours etc,
M A Wickstead

M A Wickstead
Assistant Private Secretary
to the Lord Privy Seal



1-2 MAR 1999



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FM FCO 021700Z MAY 80
TO PRIORITY WASHINGTON
TELEGRAM NUMBER 835 OF 2 MAY
MY TELEGRAM NUMBER 775 OF 25 APRIL

1 WE NOW HAVE THE TEXT OF THE PRIME MINISTER'S REPLY TO
PRESIDENT CARTER'S MESSAGE AND OF THE PRESIDENT'S RESPONSE TO
THAT.

2 THE PRIME MINISTER'S MESSAGE, DATED 25 APRIL, READS:-

'THANK YOU FOR YOUR MESSAGE TODAY.

I SHOULD LIKE TO EXPRESS TO YOU MY DEEPEST PERSONAL
SYMPATHY AT THIS DIFFICULT TIME FOLLOWING LAST NIGHT'S
EVENTS.

I HAVE JUST WATCHED YOUR TELEVISION BROADCAST AND WAS MUCH
MOVED. I HAVE THE GREATEST ADMINATION FOR THE COURAGE
YOU HAVE SHOWN. I SHARE IN THE FEELINGS THAT YOU AND
YOUR COMPATRIOTS MUST BE EXPERIENCING.'

3 THE PRESIDENT'S RESPONSE READS:- *dated 29/4*

'I AM GRATEFUL FOR YOUR CONSIDERATE MESSAGE ON THE ATTEMPT
TO RESCUE OUR HOSTAGES IN IRAN. THE DEEP SORROW AND
DISAPPOINTMENT ALL AMERICANS FEEL AT THIS TURN OF EVENTS
WILL NOT ALTER OUR RESOLVE TO BRING THIS TRAGIC AND
INTOLERABLE CRISIS TO AND END. I KNOW THAT I CAN CONTINUE
TO COUNT ON YOUR ASSISTANCE AND SUPPORT AS WE PURSUE THIS
IMPERATIVE TASK.'

CARRINGTON:

DEPARTMENTAL DISTRIBUTION

ADDITIONAL DISTRIBUTION
TEHRAN SPECIAL

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CONFIDENTIAL

PS
 PS/SIR I GILMOUR
 PS/MR HURD
 PS/FUS
 SIR D MAITLAND
 MR J C MOBERLY
 LORD BRIDGES
 LORD N G LENNOX
 MR EVANS
 MISS BROWN
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 ASSESSMENTS STAFF)
 MR R WADE GERY) CABINET
 MR LE CHEMINANT) OFFICE
 MR W N WENBAN SMITH)
 DIO)
 PS/CHANCELLOR)
 MR F R BARRATT) TREASURY
 MR R G LAVELLE)
 MR C W McMAHON) BANK OF
 MR P B EDGLEY) ENGLAND
 MR R WILLIAMS CRE5 DOT
 MR W KNIGHTON DEPT OF TRADE
 MR C BENJAMIN DOI
 MR D LE B JONES) DEPT OF
 MR C LUCAS) ENERGY

OO F C O DESKBY 021930Z

GR 384

CONFIDENTIAL

FM TEHRAN 021650Z MAY
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 456 OF 02 MAY 80
 INFO PRIORITY STOCKHOLM AND CANBERRA

(Instructions to leave)

I DO NOT DISSENT. I CONFESS THAT THE EXPERIENCE OF THE
 LAST FEW DAYS REDUCES ME TO NEAR DESPAIR. AS YOU KNOW I HAVE
 BEEN KEEN TO TRY TO KEEP WESTERN LINES OPEN IN THE HOPE THAT,
 WITH THE HOSTAGE ISSUE BEHIND US, WE COULD YET DEVELOP A
MUTUALLY CONVENIENT RELATIONSHIP. I HOPED ALSO TO BE ABLE TO
 MAKE SOME CONTRIBUTION TO THE SOLUTION OF THE HOSTAGE PROBLEM
 ITSELF. ALAS I AM INCREASINGLY DOUBTFUL IF THE SECOND IS
POSSIBLE (THE IDEAS I HAVE PUT FORWARD CAN IN ANY CASE BE PURSUED
 FROM ELSEWHERE: AND THE FORMER HOPE BECOMES INCREASINGLY
 DIFFICULT TO MAINTAIN. THE IRANIAN EMBASSY OCCUPATION WHICH
 THE IRANIAN MULLAHS SEEM BOUND TO TURN TO OUR DISADVANTAGE,
WHATEVER THE OUTCOME, IS JUST THE LAST STRAW. I SAW MY FRENCH
 BELGIAN AND DUTCH COLLEAGUES TODAY AND I THINK WE ARE ALL
 OF MUCH THE SAME MIND.

OF MUCH THE SAME MIND.

2. AS SUGGESTED BY TELEPHONE TO THE PUS, AND NOW CONFIRMED BY MIERS, I PROPOSE THAT WYATT MISS MACKINTOSH AND I SHOULD LEAVE BY TOMORROW'S BA FLIGHT 230 ARRIVING 1320 HOURS LOCAL. MRS MANSFIELD WILL FOLLOW ON SUNDAY 4 MAY. THIS WILL LEAVE BARRETT IN CHARGE, WITH REDDAWAY FOR THE RESIDUAL CHANCERY WORK,

J SMITH TO ASSIST WITH ADMINISTRATION AND CONSULAR WORK, AND MANSFIELD FOR COMMUNICATIONS. IT WILL BE BEST TO NOMINATE BARRETT FORMALLY AS CHARGE: THIS WOULD REGULARISE HIS POSITION AND I DOUBT IF THE SORT OF PEOPLE WHO MIGHT GO FOR THE EMBASSY WILL BE VERY ALIVE TO FORMAL NICETIES.

3. I WOULD STRONGLY ADVISE POSTPONING FORMAL NOTICE OF SUSPENSION OF THE VISA ABOLITION AGREEMENT. WE COULD OPEN DISCUSSIONS WITH THE MFA ABOUT IT BUT I STILL BELIEVE THAT TO MAINTAIN AN EMBASSY HERE, HOWEVER REDUCED, WHILE REFUSING TO HANDLE ANY VISA APPLICATIONS WOULD BE VERY PROVOCATIVE AND COULD PUT THE REMAINING STAFF AT RISK. WHEN WE FORMALLY CLOSE THE EMBASSY AND GO UNDER A PROTECTING POWER, IT SHOULD BE POSSIBLE, BUT EVEN THEN THE PROTECTING POWER MAY WISH TO BE ABLE TO HANDLE SOME APPLICATIONS. I DISCUSSED WITH MIERS AND WE AGREED TO DISCUSS IT AGAIN IN LONDON ON 6 MAY WHICH WOULD BE THE EARLIEST, HE SAID, THAT ACTION COULD BE TAKEN.

4. WE SHALL BE TELLING THE PRESS IF THEY ASK, MERELY THAT I HAVE BEEN RE-CALLED AGAIN FOR CONSULTATIONS IN THE LIGHT OF RECENT EVENTS. WE SHALL DECLINE TO BE DRAWN ON THE NUMBERS REMAINING ALTHOUGH THIS WILL SOON BECOME KNOWN.

GRAHAM

IMMEDIATE

NINN

IRAN: ADVANCE COPIES *W*

(X-41)

PS
 PS/SIR I GILMOUR
 PS/MR HURD
 PS/PUS
 SIR D MAITLAND
 MR J C MOBERLY
 LORD BRIDGES
 LORD N G LENNOX
 MR EVANS
 MISS BROWN
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 MR F R BARRATT) TREASURY
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 MR D LE B JONES) DEPT OF
 MR C LUCAS) ENERGY

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FM THE HAGUE 221406Z MAY 90.

TO IMMEDIATE FCO

TELEGRAM NUMBER 178 OF 02 MAY

INFO IMMEDIATE WASHINGTON AND UKREF BRUSSELS.

INFO SAVING EC POSTS AND TOKYO.

YOUR TELNO 205 TO BONN (REPEATED TO US FOR INFORMATION ONLY):

SANCTIONS AGAINST IRAN

1. AS REPORTED TO THE DEPARTMENT BY TELEPHONE, THE NETHERLANDS HAVE STILL NOT TAKEN A FIRM POSITION ON WHETHER SANCTIONS SHOULD APPLY TO EXISTING CONTRACTS. THE MFA APPRECIATE THAT TO BE EFFECTIVE SANCTIONS MUST APPLY TO EXISTING CONTRACTS AND DUTCH LEGISLATION ADOPTED IN FEBRUARY (MISS ADAMS'S LETTER OF 13 FEBRUARY TO SOUTH AFRICA DEPARTMENT) WOULD ALLOW THE GOVERNMENT TO IMPOSE SANCTIONS IMMEDIATELY WITHOUT COMPENSATING THE FIRMS INVOLVED. THE FIRMS COULD, HOWEVER, SUE THE GOVERNMENT FOR CONTRACTS LOST AND SOME OF THE LARGER FIRMS WOULD PROBABLY ATTEMPT TO DO SO.

... HOWEVER, SEE THE GOVERNMENT FOR CONTRACTS LOST AND SOME
OF THE LARGER FIRMS WOULD PROBABLY ATTEMPT TO DO SO.

2. IF A MAJORITY OF THE NINE ARE IN FAVOUR OF APPLYING
SANCTIONS TO EXISTING CONTRACTS, THE DUTCH WILL PROBABLY ACCEPT
THE MAJORITY VIEW. BUT THEY BELIEVE THE DECISION TO DO SO WILL
BE A POLITICAL DECISION TAKEN WITHOUT REGARD TO THE ECONOMIC
IMPLICATIONS AND THAT SUCH DECISIONS WILL HAVE TO BE TAKEN AT A
MINISTERIAL LEVEL. THEY THEREFORE DO NOT BELIEVE THAT THE MEETING
ON 5 MAY WILL MAKE MUCH HEADWAY.

FCO PLEASE PASS SAVING ADDRESSEES.

TAYLOR

NNNN

E

SENT /RECD AT 021427Z JGH/MJC

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FM TOKYO 020500Z MAY
TO IMMEDIATE FCO
TELNO 276 OF 2 MAY AND INFO PRIORITY WASHINGTON AND EC POSTS.

YOUR TELNO 169: SANCTIONS AGAINST IRAN

1. HEAD OF CHANCERY SPOKE ACCORDINGLY TO KUNIHIRO (ECONOMIC AFFAIRS BUREAU, MFA) AND WE HAVE ALSO BEEN IN TOUCH WITH MITI.
2. THE JAPANESE ARE APPROACHING THE CONCLUSION THAT IT WOULD BE WISER FOR THEM NOT TO ATTEMPT NEW LEGISLATION, BUT TO MAKE ORDERS UNDER THE EXISTING FOREIGN EXCHANGE AND FOREIGN TRADE CONTROL LAW (SEE PARAGRAPH 1 OF MY TELNO 060). IF THE GOVERNMENT WERE TO ATTEMPT TO INTRODUCE NEW LEGISLATION GIVING THEM STRONGER POWERS, IN THE LIMITED TIME AVAILABLE TO THEM IN THE CURRENT DIET SESSION (EFFECTIVELY LITTLE MORE THAN 2 WEEKS), THEY WOULD RUN THE RISK THAT THE LEGISLATION MIGHT FAIL AND THAT IT WOULD THEN BE MORE DIFFICULT EVEN TO ACT UNDER THE EXISTING LAW.
3. THEY ARE EQUALLY EXERCISED BY THE PROBLEM OF EXISTING CONTRACTS, BUT HAVE FOUND NO SOLUTION. KUNIHIRO WAS IN NO DOUBT THAT THE GOVERNMENT WOULD HAVE TO PAY COMPENSATION FOR BREACH OF EXISTING CONTRACTS AND THAT THE AMOUNTS INVOLVED WOULD BE EXTREMELY LARGE. THEY HAVE CONSIDERED SELECTIVE CONTROLS ON EXISTING CONTRACTS AND MITI ARE TRYING TO WORK OUT A WAY OF DISTINGUISHING GENUINE CONTRACTS FROM THOSE WHICH ARE NOT GENUINE (AND AGAINST WHICH, PRESUMABLY, NO ACTION NEED BE TAKEN). KUNIHIRO ADMITTED THAT THIS WAS DIFFERENT FROM IDENTIFICATION OF CONTRACTS WHICH IT MIGHT BE COUNTER-PRODUCTIVE TO BREAK. ALTHOUGH THIS STUDY IS STILL CONTINUING KUNIHIRO GAVE IT AS HIS PERSONAL VIEW THAT IT WOULD BE QUITE IMPOSSIBLE FOR PRACTICAL REASONS FOR THE JAPANESE TO BAN ALL EXISTING CONTRACTS.

CONFIDENTIAL

4. THE GOVERNMENT PLACE SOME RELIANCE ON DELAYING SHIPMENTS BY ADMINISTRATIVE GUIDANCE. SHIPMENTS HAVE ALREADY LEVELLED OFF AND THERE IS NOW LITTLE DOUBT THAT THIS WILL BE FEASIBLE AND HAVE AN EFFECT. THEY WILL ALSO USE ADMINISTRATIVE GUIDANCE TO CONTROL TRANSPORT BY JAPANESE FLAG SHIPS, IN RESPECT OF BOTH JAPANESE AND THIRD COUNTRY TRADE, AS THEY DID FOR RHODESIA SANCTION, ALTHOUGH KUNIHIRO REGARDED THIS AS A SECONDARY PROBLEM ASSUMING THAT THE CONTROL ON JAPANESE EXPORTS WORKED. HE COMMENTED THAT THE JAPANESE SHIPPING INDUSTRY WAS NOT VERY STRONG (IN RELATION TO THE GOVERNMENT) AND IMPLIED THAT THEY WERE THEREFORE UNABLE TO RESIST ADMINISTRATIVE GUIDANCE.

5. THE JAPANESE DO NOT NEED ANY LEGISLATION TO APPLY FINANCIAL SANCTIONS: THIS CAN BE DONE BY ADMINISTRATIVE GUIDANCE.

6. KUNIHIRO EMPHASISED THAT THE REAL DIFFICULTY FOR THE JAPANESE AT PRESENT WAS THAT THEY HAD TO WAIT FOR A DECISION BY THE EC. BECAUSE THE EUROPEANS HAD DECIDED THAT THEY COULD NOT ACT UNDER ARTICLE 113 (WHICH WOULD HAVE ENABLED THE JAPANESE TO DEAL ONLY WITH THE COMMISSION IN BRUSSELS) JAPAN NOW HAD TO KEEP IN TOUCH WITH EACH SEPARATE GOVERNMENT AND TRY TO ESTABLISH WHAT THE AVERAGE OF EUROPEAN ACTION WAS LIKELY TO BE. THE SOONER THE EC REACHED A COORDINATED DECISION, THEREFORE, THE SOONER THE JAPANESE WOULD BE ABLE TO MAKE UP THEIR OWN MINDS
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010
It is available to Sir K. Lougeur
Mr Barnett
Mr Lavelle

Mr T. Planchev, 10 Downing
St

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

1st May 1980.

6 p.m.

A.J. Wiggins, Esq.,
H.M. Treasury,
Parliament Street,
London,
SW1P 3AG

Dear John,

As you will have heard, the record of the Governor's meeting in Hamburg with Governor Nobari, which was sent to you last night, was missing a vital paragraph. I attach a correct version, containing the missing paragraph as paragraph 4.

I am very sorry for the muddle, but hope that the Chancellor was given the gist of my telephone call before his meeting with the Prime Minister this morning.

I should be very grateful if you would ensure that all copies of the incorrect version are destroyed.

Yours sincerely

Anthony Loehnis

A.D. Loehnis

NOTE FOR RECORD

Copies to: The Governors)
Mr.Holland) only

Meeting with the Governor of the Bank Markazi Iran:
(Friday, 25th April 1980)

During the IMF Interim Committee meeting in Hamburg last week, Mr.Ali-Reza Nobari, Governor of the Bank Markazi, asked for a meeting with the Governor, which was arranged.

The purpose of Nobari's request was clear from his immediate question at the meeting - are you going to freeze? The Governor said that he had made our position plain at their last meeting before Christmas, namely that it was not in our interests, nor had it been our practice, as a main financial centre to use the freeze weapon and that - provided always the Iranians behaved properly towards us in banking terms - we did not intend to freeze their deposits in the UK.

Nobari asked whether the Governor would be subject to political pressure to change this line and specifically whether he had consulted the Prime Minister. The Governor confirmed that this line had the Prime Minister's approval, and that the Bank would thus not be subject to political pressure to impose a freeze. The Governor mentioned the contingency of a UN resolution imposing a financial freeze, but said that this was not now a practical possibility.

Nobari seemed reassured by this, and, without mentioning the report in that day's ^{International Herald Tribune} (IHT) that he had said in Hamburg that in the light of the EEC Communique he would withdraw deposits from such countries, indicated that he would leave deposits in London. He said he had had unequivocal assurances on no freezing from Kreisky in Austria, and the German Government. He said that if inadvertently the Iranians took some action which we regarded as damaging or a departure from normal banking relationships, we should let him know, as it would be unintentional.

Nobari was concerned that we might be planning some special legislation, or that there was some legal machinery which could be utilised to compel us to freeze. He had had private intelligence in some such sense from a meeting of US banks in New York, and he

understood that their lawyers had been in touch with lawyers in the UK. The Governor said he did not know to what this intelligence related and stood on his general position as given above.

It was not at all clear what Nobari had in mind in this respect, but it is not impossible that it had to do with Chemical Bank's action relating to the National Water Council Loan. In any event, Nobari indicated that he would check with his source and revert to us in more precise terms as to what the main worry was if it persisted.

AdL

28th April 1980.

A.D.L.

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C.C. Winter *cc.* *1* *#*
Econ PDI: Domestic Monetary Policy Pt 3
Econ PDI: Exchange Rate May 79
Econ PDI: Public Sector Pay July 79

NOTE FOR THE RECORD

The Chancellor called on the Prime Minister at 0900 hours this morning. The following points came up in discussion:

(i) Select Committee on the Treasury and Civil Service

The Chancellor said that the Committee were causing him considerable difficulty in their demands for information and the general tone of their approach to the Government's economic policies. Their first report was likely to be fairly critical, and this was bad for the Government's credibility. Unfortunately, the Chairman and some of his Tory colleagues were being almost as unhelpful as the Opposition members. He was trying to get the more sympathetic members of the Committee, such as Mr. Beaumont-Dark, to play a bigger role in the Committee's deliberations.

(ii) The Exchange Rate

The Prime Minister said that the high exchange rate was beginning to have a serious effect on manufacturing industry. She agreed with the Chancellor that there was no easy way of getting the exchange rate down, and in any case there would be disadvantages in terms of the RPI even if it were possible. Nonetheless, she hoped that the Chancellor was considering what might be done. The Chancellor said that the effect of the exchange rate was to move resources out of the manufacturing sector to consumers, and this was reflected in the recent big increase in real disposable income. But he did not think there was any mileage in trying to reduce the exchange rate: if anything was to be done for manufacturing, it would be better to look at fiscal reliefs. He had this whole question under review.

(iii) Interest Rates

The Chancellor said that the money supply figures for banking April now seemed likely to be worse than earlier expected: instead of a negative figure, sterling M3 was likely to show an increase of $\frac{1}{4}$ per cent. This in itself was not too bad, but it concealed a continued high level
/lending to

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- 2 -

lending to the private sector. Interest rates had fallen a little partly in sympathy with American interest rates, but it was too early to contemplate a reduction in MLR. The Bank would need to put out a new tap, probably this week, in order to maintain the funding programme.

(iv) Iran

The Chancellor referred to his minute of 28 April and said that he fully agreed with Mr. Nott that it would be very difficult to get legislation through Parliament if sanctions were to apply to existing contracts. The Prime Minister said she agreed. The Chancellor then turned to the question of Iranian assets, and reported that the Governor had recently met Mr. Nobari of the Iranian Central Bank - who had asked for an assurance that we had no intention of freezing. The Governor had given him this assurance, and in answer to further questioning, had made clear that he was not under any pressure from HMG to freeze the Iranian assets. He had explained to Mr. Nobari that the situation would have been different if the UN Resolution had included freezing of assets; but since it had not there was no question of HMG going down this route. Mr. Nobari had told the Governor that he had been given a similar assurance by the Germans and the Austrians. The Prime Minister said she was glad that Mr. Richardson had made our position clear.

T.

1 May 1980

cc: Mr. Michael Alexander

SECRET

Handwritten signature

1 May 1980

The Department may like to have for the record the enclosed exchange of messages between the Prime Minister and President Carter about the failure of the American rescue mission to Iran.

M. O'D. B. ALEXANDER

Handwritten initials

Paul Lever, Esq.,
Foreign and Commonwealth Office.

SUBJECT

h.s. Pugh

CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF AUSTRALIA, MR. MALCOLM FRASER, ON 1 MAY 1980

PM: Hello, Malcolm, good morning.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No T99A

Mr. Fraser: How are you?

PM: Oh, I was about to say good morning, it's good evening, isn't it. I'm fine. And you

Mr. Fraser: Oh, fine thank you. Thank you for the conversation yesterday.

PM: I just hope it was all warmly received in Australia.

Mr. Fraser: Yes, I'm sure it was. Have you had my letter?

PM: Yes, I've got your letter, I've got it in front of me. Can I just give you a quick reaction? First, we were very very pleased to receive it because we've all been just a little bit worried but we think because we were a little bit worried that there are quite a certain number of things already going on. We met in Luxembourg as you know, both the Nine Heads of Government and Nine Foreign Ministers of Europe and had a discussion. But within that there's Giscard, Helmut Schmidt and myself plus the three Foreign Ministers, Peter and the other two. We all met separately to discuss these matters and at that meeting we discussed the invitation that Helmut Schmidt had received from Moscow. He's not finally mind up his mind as yet but if he goes he will go soon after the Venice meeting in June and before, probably before the Olympics. But he's still considering that. Because one never knows what's going to blow up next. We felt that in view of the other things going on which I will tell you about, the time wasn't quite right for a Summit yet and indeed, well, we didn't take any decision about whether there should be one. After last weekend Peter Carrington is going to Washington this weekend and of course will see Muskie. Whether he'll see President Carter or not I don't know. On the 14th of May there's a NATO meeting which has been extended to include Foreign Ministers as well as Defence Ministers. On the 15th May there's the 25th Anniversary of the Austrian Treaty in Vienna at which there will be present the Foreign Ministers from the United States, Russia, France,

ourselves, and Germany has been asked. And on the 17th of May the Foreign Ministers of Europe meet again. So we think that that is quite a lot going on at the moment. And that really we could consult again after we've more information, particularly from Peter's visit this coming weekend. What we all felt, on a little side meeting at Luxembourg, was that any Summit, we would have to know exactly what we wanted to get out of it. It would have to be prepared extremely carefully because as you realise, once it was announced there was going to be one there would be enormous expectations, possibly it could be used as a certain amount of criticism of the United States which we wouldn't want at the moment in any way. But with all of those things going on and we'll obviously try to, let you, keep^{you}/informed about what's been happening, I think we're very very grateful for the suggestion but I think we ought to wait just a little while.

Mr. Fraser: I can understand that and I'm very glad to know that it is being taken with that kind of seriousness, that those consultations are proceeding. I think that, obviously if there is to be a Summit of the big four the preparation would have to be very very careful and well worked through. But I'm sure it could be done in a way that is supportive rather than critical. One of the things that concerns me is, maybe only implied in my own letter, was that while Europe has taken a number of actions to demonstrate total solidarity with the United States, there are many people who would have much more confidence in the totality of the strategies that are pursued by all of us and the things that we'll all be asked to do at different points to support whatever strategy is adopted. If we know that the three major countries of Europe have also been very much involved in the working out of those strategies and you know you will understand what I'm saying in relation to that. It's sort of world leadership that the United States has to give.

PM: Yes, I understand all that without your having to spell it out because we are on an open line. In addition to May we are already preparing, both ourselves and our Continental friends, very careful papers for the June meeting in Venice. As you know there are two, we shall meet again, the Europeans, all within six weeks of our Venice meeting. We're preparing papers very carefully so that the Economic Summit which takes place later in Venice is not confined

to economics but has just the discussion of that kind of strategy very much in the forefront of our minds. And we are preparing papers very carefully on that basis and of course Peter's consultations with the United States and with NATO and the others will help. And obviously if you have a particular input it would be, we'd be delighted.

Mr. Fraser: Well, at the moment you know we've got no specific proposals to adopt except the ones that are obvious. But what we were interested in and it's obvious that you're, what you've already done has taken a long way.

PM: I think we are all of one mind really.

Mr. Fraser: Yes. You know the mechanism to get a jointly devised and united strategy is, that was the one thing in my view which could have been lacking ...

PM: It's a big thing that matters. It's the one big thing that matters now.

Mr. Fraser: Yes. Because without it the dangers of some sort of, you know, appearance of a breach in the Alliance is a real possibility ...

PM: I think it matters even more because we're in a United States election period. But we are doing that, we are doing it extremely carefully with a view to the Venice so-called economic summit but it won't be and we have all these other contacts, Malcolm, and we will keep you very much in touch.

Mr. Fraser: Oh, well I appreciate that very much because you know we sometimes might appear distant and there is a very real concern.

PM: But it's a global strategy we need. We do very much so.

Mr. Fraser: Well Margaret thank you very much.

PM: No, thank you very much and thank you for letting us have that letter and those thoughts. You'll want us to reply formally .

I will of course reply formally. And let you ..

Mr. Fraser: There's no need to, no.

PM: Well perhaps I can let you know formally all what's happening on those various dates.

Mr. Fraser: All right. Fine

PM: Thank you. Goodbye.



10 DOWNING STREET

From the Private Secretary

1 May 1980

Telephone Conversation with Mr. Fraser

The Australian Prime Minister, Mr. Malcolm Fraser, rang the Prime Minister this morning. As you know, the Prime Minister had a word with the Foreign and Commonwealth Secretary before taking Mr. Fraser's call.

In reply to Mr. Fraser's question, the Prime Minister said that she had received his letter. She said that her preliminary reaction was that the time was not quite right for a summit. There were a number of other meetings in prospect in mid May, including a NATO meeting, a meeting to celebrate the 25th Anniversary of the Austrian Treaty in Vienna and a further meeting of the Nine Foreign Ministers. The Foreign and Commonwealth Secretary was also going to visit Washington very shortly. The feeling in Luxembourg, where the Prime Minister had had a separate discussion with Chancellor Schmidt and President Giscard, had been that before proposing a quadripartite summit it would be necessary to have a clear idea of what might be achieved at such a meeting. It would therefore probably be wise to wait a little while before deciding whether or not to proceed with the idea. Meanwhile we would aim to keep the Australian Government informed about what was happening.

Mr. Fraser said that he was glad to hear of the seriousness with which the present situation was being treated and that consultations were proceeding. He agreed that a summit "of the big four" would have to be very carefully prepared but considered that it could be supportive of the United States. His concern was that, while European Governments had taken a number of actions to demonstrate their solidarity with the United States, there were many people who would have more confidence in the West's strategy if it was known that the three major European Governments had been involved in the development of that strategy. Mr. Fraser said that the United States had to give leadership to the world. (There was a strong implication in his remark that the United States was at present failing to do so.) A mechanism for producing a jointly devised and united strategy seemed at present to be lacking. In its absence, a breach in the Alliance seemed to be a real possibility.

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The Prime Minister said that she understood the point that Mr. Fraser was making. Very careful preparation was in hand to ensure that the Economic Summit due to take place in Venice discussed precisely the kind of strategic issue raised by Mr. Fraser. If Mr. Fraser had an input to make to those preparations, the Prime Minister would be delighted to receive it. Mr. Fraser said that he had no specific input in mind. The Prime Minister said that she would be letting Mr. Fraser have a formal reply to his letter.

M. O'D. B. ALEXANDER

George Walden, Esq.,
Foreign and Commonwealth Office.

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11.11.
TALK BETWEEN THE PRIME MINISTER AND THE FOREIGN AND COMMONWEALTH
SECRETARY AT 0845 ON 1 MAY 1980

Fr. Pines

PM: Sorry to bother you, Malcolm Fraser's coming through about a quarter to nine and he wants to discuss the letter he has written to us and to Helmut and to Giscard and to Carter about possible summits. The line I propose to take is that we all met in Luxembourg and in particular the three people concerned, I think I can let him know that, and that your're going to Washington this weekend and that I think we ought to wait before taking any further action. There was a certain amount of discussion about a possible summit but at the moment it was not felt the time was ripe in any way for a meeting in June.

FCS: Yes unfortunately of course he doesn't mind that does he, he doesn't mind not being in on ...

PM: Well, he can't mind can he?

FCS: No he doesn't. But in this letter he was quite sensible about it.

PM: Yes, yes. But is there anything else one can say. There was a certain amount of desultory conversation about a Summit at breakfast, Peter, do you remember? But it certainly didn't meet with any warmth from Giscard.

FCS: I don't think anybody thought it was right, the right time. I would have thought what you want to say was absolutely right. That the three had a talk and that we also discussed Schmidt going over. I think it's worth saying that.

PM: Going over, what, to Carter?

FCS: To Moscow.

PM: To Moscow, yes.

FCS: And that he apparently is going to do that but realises it's rather tricky. I'm going over there and then we're going to meet

in June. But before then the four Foreign Ministers will be in touch both in NATO and at the Austrian Neutrality Treaty things in a fortnight's time.

PM: Oh, I had forgotten that. When's the NATO thing?

FCS: 14th.

PM: The NATO, what, 14 May. Then we're all meeting on the 17th of May in Naples.

FCS: No, I mean, that's with the Americans on the 14th.

PM: Yours on the 14th?

FCS: Yeah. And then on the 15th the four Foreign Ministers will be in Vienna and we are probably going to meet Gromyko there. And on the 17th the Nine meet again. So I think you can tell him there's a hell of a lot going on. But what he's worried about I think is the Summit. You know, he wants Heads of State and Heads of Government. And I think really you've got to put him off because we're meeting in June and we're all preparing the ground before then with all these other meetings.

PM: What's the one on the 14th May?

FCS: NATO. Do you remember he blew it up to include Foreign Ministers.

PM: But that's the one in Turkey - is that the one in Turkey?

FCS: No, Turkey's after that.

PM: Turkey's after.

FCS: That's in June, Turkey.

PM: And the NATO in Brussels.

FCS: So that we shall have the opportunity of seeing, the four meeting in Brussels. Also in Vienna the next day, either one or

the other. Also there are all the other contacts I've been talking about.

PM: Yes. Peter, I do think that there's getting a certain amount of hysteria about lack of consultations.

FCS: Oh, there is. I had a real go yesterday evening about consultation with the department and what we think is that there's too much.

PM: Well, yes. It seems to me that people are dashing in and about the whole time ...

FCS: But it's at the wrong level.

PM: without very much effect. Yes.

FCS: And what we really want is that quadripartite thing and what we decided yesterday, you know in light of your minute, that the quadripartite meeting which is about foreign affairs, ought to be, we may have to make it a little more bureaucratic but, I mean, whoever they want to appoint it is their business. But that we do it on the basis that Michael and Robert go when necessary but it's the Foreign Office because it's foreign affairs. They can have who they like. But I think we've got that more or less sorted out now and I think that they will be meeting, you see, at political director level, I mean whoever it is. But Julian Bullard, Aaron in their case not Vest will also be meeting in the middle of May and then we shall have a quadripartite discussion in Vienna and so it's all leading up to quite a sensible thing for Venice. Although of course there'll have to be a sort of, the seven will have to discuss it before then. As long as the four have got it sewn up it doesn't matter.

PM: Who's going to be at the Austrian, signing the signature at the 20th anniversary of the Austrian ...?

FCS: Well the three powers that are concerned with it, or four powers that are concerned with it, I suppose, are Russia, Austria, France and Britain and America.

PM: But not Germany of course.

FCS: The Germans have been asked. And so there will be an opportunity there.

PM: Yes, all right. Fine. So I just discourage him from any further.

FCS: Well, I think soothe him and say we've got it very much in mind, what a good idea, we've been thinkina about it, he's quite right, all that stuff.

PM: Yes, all right. OK, Peter, thank you. Bye.

PART 6 ends:-

MODERN to Feb 30.4.80

PART 7 begins:-

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