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PREM 19/842

PART 2 ends:-

Fco to Asc 15.9.82

PART 3 begins:-

Fco to Asc 13.10.82

CONFIDENTIAL

Middle East



Foreign and Commonwealth Office

London SW1A 2AH

15 September 1982

A.J.C. 15/9.

Dear John,

Defence Sales Policy Towards Iran

This is to confirm, in response to your letter of 13 September, that Mr Pym is content with the proposals in paragraph 3 of Mr Nott's minute of 7 September. He continues to hold strongly to the view that, in working towards an overall financial settlement with Iran, we should avoid doing anything to jeopardise our position in Iraq. Terms of a settlement with Iran which failed to meet this point would not be acceptable. As matters stand at present, it is doubtful whether an offer of supplies to Iraq, to match those released to Iran, would solve this problem.

I am sending copies of this letter to Richard Hatfield (Cabinet Office) and to Richard Mottram (Ministry of Defence).

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

Foreign and Commonwealth Office
Middle East

Arms Sales

pt 2



30

10 DOWNING STREET

From the Private Secretary

13 September 1982

ANGLO/IRANIAN DISCUSSIONS:
DEFENCE SALES POLICY TOWARDS IRAN

The Prime Minister has seen the minute of 6 September by the Foreign and Commonwealth Secretary and the minute of 7 September by the Secretary of State for Defence on the above subject. Mrs. Thatcher agrees with the proposals for handling this which are contained in paragraph 3 of Mr. Nott's minute and which, I understand, are acceptable to Mr. Pym.

I am copying this letter to Richard Hatfield (Cabinet Office) and Richard Mottram (Defence).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

GH



The National Archives

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Prime Minister
I understand that the Foreign Secretary
agrees with the Defence Secretary's
minutes at Flag F.

Content?

A.S.C. 17/9.

Yes not

cc Sir Robert Armstrong
Mr Goodall

MR COLES ✓

DEFENCE SALES TO IRAN

You asked for advice on the minute from the Foreign and Commonwealth Secretary to the Secretary of State for Defence dated 6 September about the supply of defence equipment to Iran.

BACKGROUND

2. Ministers agreed in correspondence in July that we should discuss with an Iranian team not only the outstanding debts dating from the Shah's days but also the resumption of defence sales business and agreed that we could supply a range of non-lethal items. The Iranians would be told that progress on the supply of defence equipment would be monitored in relation to their willingness to make progress towards a satisfactory financial settlement. The Lord Chancellor expressed the hope that we would refrain from delivering any lethal defence equipment to the Iranians.

3. The Foreign and Commonwealth Secretary reports that the Iranians have shown every intention of negotiating seriously to settle the disputed financial claims, but that the talks may now run into the sand unless we can give them some assurance about letting them have the equipment for which contracts already existed and some items of new equipment. There are considerable sums of money at stake, both in the financial settlement and in prospects for new sales. Iran is not at present eligible for ECGD credit cover and all the new business would be on a cash basis.

4. The Foreign and Commonwealth Secretary proposes that officials should be authorised to give the Iranians an assurance in general terms that in principle there is now no political objection to the release of military equipment to Iran except where security considerations may prevail. We would tell the Iranians that we would like in principle to fulfil the contractual commitments made before the revolution. While our neutrality obligations imposed constraints while the war with Iraq lasts, we could discuss new contracts for items with long delivery dates. Specific items would be considered on a case by case basis, but items which might be agreed soon are those listed in the annex to Mr Pym's minute.



CONFIDENTIAL

COMMENT

5. The Foreign and Commonwealth Secretary's proposal represents a significant step forward from the position agreed by Ministers in July. It implies a willingness in principle to supply lethal items such as ammunition and the release of the eight remaining tanks from the tank contract which was terminated after the fall of the Shah: these tanks are Iranian property. We would also express willingness to continue the contract for Tracked Rapier, which could be extremely valuable and is, of course, a defensive anti aircraft missile. We have also told the Iranians that we are prepared to release the supply ship Kharg, for which the Iranians have already paid and which has for more than two years been berthed in the Tyne.

6. The Foreign and Commonwealth Secretary's minute refers to the need to proceed with care so as not to jeopardise our position in the Arab world and particularly our prospects in Iraq. Although no major defence contracts have been signed with Iraq, there are still some good prospects.

RECOMMENDATION

7. Both the Defence Secretary and the Trade Secretary are being briefed to support the Foreign and Commonwealth Secretary's proposals. The Lord Chancellor is in Northern Ireland and his views are not yet known. An early decision is required because the Leader of the Iranian delegation has expressed the intention of leaving London within the next few days. But there seems no need for a discussion in OD, and the Prime Minister may be advised to agree, though you may wish to await the Defence Secretary's reply.

Now attached.

A. S. C. 2/4.

R L L FACER

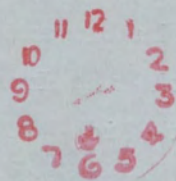
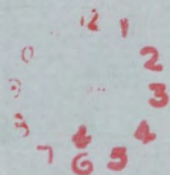
7 September 1982



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08 SEP 1982

P 1982





MO 26/9/15

FOREIGN SECRETARYANGLO/IRANIAN DISCUSSIONS: DEFENCE SALES POLICY
TOWARDS IRAN

I accept that, in addition to the financial return associated with a settlement of the outstanding debts, it would be in our general political and commercial interests in Iran to bring the current negotiations to a successful conclusion. But, as you say, we also have to take account of the wider repercussions in the area, including in particular our defence sales prospects in Iraq. A difficult balance has to be struck.

2. I agree that, in the absence of detailed proposals, the most we should be prepared to do at this stage is to give the Iranian negotiating team some indication, in principle, of the limits to which Ministers are prepared to go in authorising the supply of defence equipment to Iran. We seem to be faced with three main options:

a. We could stick closely to our previous policy, and agree only to the release of non-lethal items (including, for example, tank engines and spares). But this would go only a small way to meet Iranian objectives, and could not be expected to secure more than a partial settlement on a limited number of contracts, if that:

or b. We could relax the previous view we have taken on the supply of arms and ammunition, at least in respect of those items associated with the "historic" claims and which are readily available, and agree to the release of this category of lethal items (including, for example, £11M worth of



ammunition and, possibly, eight tanks remaining in this country from the earlier contracts with the Shah), subject to an acceptable financial settlement. This would go some way towards the Iranian position, and would provide a rationale (related to the "historic" claims) for this change in our position, but would also involve difficult explanations, and a possible further offer of supplies in order to maintain our even-handed approach, to Iraq;

or c. We could adopt the approach you propose, which would take in b. above, but would also involve completing a substantial ammunition order (worth over £50M at the original contract values) and continuing discussions on a resumption of business on the major weapons systems identified by the Iranians, notably Main Battle Tanks and Rapier. If negotiations on this basis could be carried through, the effect would be to re-establish a substantial defence sales relationship with Iran.

3. I agree with you that we should authorise officials to give an undertaking, in principle, to the Iranians on the lines described at b. above, on the clear understanding that this was conditional on achieving an acceptable financial settlement, which should be referred to Ministers for decision, and - so far as Iraq is concerned - to a further offer of supplies, if this is judged to be necessary, to protect our defence sales interests and to maintain our even-handed approach. At the same time, we should also authorise officials to continue discussions on c. above, but without any commitment.

4. I am sending a copy of this minute to our OD colleagues and Sir Robert Armstrong.

Ministry of Defence
7th September 1982

FW

Middle East - Defence Sales Pt 2.

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FCS/82/125

Await Cabinet Office
advice (which I have asked
Mr. Facey to provide).

SECRETARY OF STATE FOR DEFENCE

A. J. C. 7/9

Anglo/Iranian Discussions on Disputed Defence Contracts

1. In your Memorandum (MO 26/9/15) of 13 July you referred to the imminent arrival in London of an Iranian negotiating team and agreed that officials should refer back to Ministers when a need for guidance emerged.
2. I understand that the Iranians have shown every intention of negotiating seriously to settle the disputed claims. But it seems that talks may now run into the sand unless we can give them some kind of assurance about actual release of the equipment in the contracts as well as about future arms supply if negotiations are to succeed.
3. A list of contracts involved based on information from your officials is attached, with notes where relevant. Because negotiations are continuing I understand that it has not been possible in the time available for officials to work out detailed recommendations for Ministers in relation to each contract given the legal and other complexities. Work on this is still continuing.
4. We nevertheless need to say something now to the Iranians to keep the door open. At stake is £175 m worth of public sector claims (though we may expect this to be challenged by Iranian counter-claims). There are also £25 million in private sector claims and eventually £105 million in civil claims, at present borne by ECGD which the Iranians have said they will settle if we reach agreement on military contracts. There is also of course the prospect of an improved position for British exporters in the Iranian market after the war and the need to keep our lines open to Iran in order not to force them back on the Russians.
5. On the other hand, we need to proceed with great care so as not to jeopardise our position in the Arab World and in particular, the prospects that we have painstakingly built up in Iraq.
6. All these considerations need to be taken into account by officials in any detailed recommendations which they are preparing



for Ministers' consideration. I hope that we can look at this again soon. In the meantime I believe that officials should be authorised to give the Iranians an assurance in very general terms designed to keep up the momentum of the talks. They could say that their Ministers have considered the question of arms supply to Iran. In principle, there is no political objection now to the release of military equipment to Iran except where security considerations may prevail, eg, over the Blindfire Rapier System. We reciprocate the Iranians' wish to settle outstanding disputes. We should like in principle to fulfil the contractual commitments into which we entered before the revolution. Our neutrality obligations impose certain constraints, particularly on the supply of new lethal equipment while the war lasts. But this need not rule out discussion of new contracts for items with very long delivery dates, eg, tanks. On items subject to old contracts there are certain items which could be released at once such as the Kharg and the Yarrow ships. And we might be able to contemplate releasing that portion of the contracted ammunition that is readily available, (ie, about 1 million or 10% of the whole) if an acceptable overall settlement was reached covering the other contracts currently under discussion.

7. This may just suffice to keep the door open for the time being. We can then consider in detail any points the Iranians raise on specific contracts or items of equipment. If we go no further than this it will not be necessary to volunteer anything at this stage to the Iraqis about the talks. If necessary (eg, in the event of leaks) we could say that we naturally wish to settle our contractual disputes with Iran but that the talks are likely to be long and difficult. The only items that we have hitherto agreed to release, (eg, the Kharg) could not affect the war.

8. I am sending a copy to OD colleagues. There might be an opportunity to discuss the issue if necessary at the meeting on Wednesday, 8 September, although the agenda is already heavy.

CONFIDENTIAL



I therefore hope that these limited measures can be agreed by
correspondence.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office

6 September, 1982

CONFIDENTIAL



ANNEX

A: Contracts on Which Early Agreement is Likely(a) Non-Lethal Equipment

1. L60 SHIR TANK ENGINES:

Remarks: 22 Engines remain in this country as part of a repair contract. Fifteen have been repaired and could be released immediately. Some repairs are necessary on the other seven.

2. .22 RIFLE SPARES:

3. MOBILE WORKSHOPS (VEHICLES USED IN SUPPORT OF ARMOUR IN THE FIELD):

Available for delivery now but some fittings, eg, tools and brackets are still outstanding.

4. BL 755 CLUSTER BOMB TRAINING MANUALS AND TOOLS:

5. TANK SPARES, TOOLS AND TRAINING AIDS:

This contract relates to spares which the Iranians have already paid for. Roughly 95% of the items still to be delivered are non-lethal. But 5%, comprising tank guns and machine guns, must be considered lethal.

(b) Lethal Items

6. TANK GUN AMMUNITION:

76 mm: (Scorpion)

Only 5% available, remainder over 18 months to 2 years.

105 mm: (Chieftain)

50% available. Remainder over 18 months to 2 years.

120 mm: (Shir)

Approx 6% available. Remainder over two years to three years.

7. MACHINE GUN AMMUNITION:

Approx 90% available now. Remainder over three to six months.

8. NAVAL AMMUNITION:

None available. Delivery over 18 months to two years, 2800 rounds.



B: Other Contracts

9. THE 'KHARG' FLEET SUPPORT SHIP:

Ready for release. Formula agreed with Attorney General.

10. YARROW DUAL PURPOSE LANDING SHIPS:

Attorney General believes it would be possible to provide a formula similar to that for the Kharg

C: Major Contracts which have been Terminated but which the Iranians would wish to have Continued:

11. P 4030 MAIN BATTLE TANKS:

189 were delivered to Iran, the contract was terminated and as part of the process of termination, the residual assets were used in a sale of tanks to Jordan. The UK holds however eight tanks which are Iranian property and would be released as part of a settlement possibly associated with new orders.

12. BAe RAPIER:

BAe have £25 million in termination claims but are prepared to exchange termination for new business. They hold some spares and could be expected to refurbish Iran's existing holdings. They also hold for release, some 250 missiles. Reinstatement of the Tracked Rapier would bring £400+m. Rapier falls into the lethal category but a special case might be made for it in view of its defensive role. There may be security objections to the resumption of a Blindfire conversion programme - the bulk of Iran's holdings are of the earlier optical version.

13. IMS CONTRACTS:

There are a number of IMS contracts which cover construction and infra-structure work in Iran. A settlement would not involve the release of lethal material.

Middle East

MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-938 X02X 218 2111/3

MO 26/9/15

19th July 1982

*Dear Michael,**A & C. 27/7.**f-a.*DEFENCE SALES TO IRAN

Thank you for your letter dated 14th July 1982.

The proposition in Mr Nott's earlier minute (16th June) was concerned with a modest relaxation in our approach to defence sales to Iran, but the items in question do not form part of any current exchanges on a Government-to-Government basis with the Iranian Authorities. Moreover, the focus for the discussions with the Iranian delegation, which is now in this country, covers the outstanding debts owing to International Military Services Ltd, other British companies as well as the Ministry of Defence and they are not intended to deal with fresh defence sales business. The initial exchanges have confirmed that this is also the Iranian approach. The release of certain items, which formed part of the earlier contracts, is one of the questions which will need to be addressed during the talks, but our approach to this issue will be governed by our neutrality obligations (no release of "lethal" items) and by further reference to Ministers in the light of progress in the talks.

It is unfortunate that the arrival of the Iranian team (for which we have been pressing for some time) coincides with the incursion into Iraq and, in response to any questions which may arise concerning the discussions, it would be important to make it clear that their purpose was directed to our historic claims and the outstanding debts. On this basis, Mr Nott sees no reason why the talks should not go ahead.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, other members of OD, Secretary of State for Industry and Sir Robert Armstrong.

*Yours sincerely,
 Nich Evans*

(N H R EVANS)

M H Collon Esq

1982 JUL 20

20 JUL 1982

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1982 JUL 20



Prime Minister

To note.

FCS/82/105

SECRETARY OF STATE FOR DEFENCE

A.J.C. 19/7

Defence Sales to Iran

- attached

[Handwritten signature]

p.a.
A.J.C. 29/7

1. Thank you for your minute of 13 July on our policy on arms sales to Iran. There is, as you say, broad agreement on the overall policy to be adopted.
2. On the delegation which has now arrived to discuss outstanding claims, I understand that our officials are in close touch and I am content that there should be a report to Ministers at a later stage. I have naturally considered whether the Iranian attack on Iraq itself should lead us to postpone the talks. Since, however, they are concerned with the resolution of outstanding debts and not with new orders for arms, I have concluded that they should go ahead.
3. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry and to Sir Robert Armstrong.

[Handwritten signature]
(FRANCIS PYM)

Foreign and Commonwealth Office
19 July 1982

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Middle East
Top Copy filed on
Oman, May 1981,
State Visit by
Sultan Qaboos 10

10 DOWNING STREET

From the Private Secretary

15 July, 1982.

Oman

Thank you for your letter of 12 July commenting on Jane Ridley's letter of 5 July.

The Prime Minister has now signed the proposed letter to Sultan Qaboos. I enclose the signed version, and would be grateful if you would arrange for its delivery. We agreed that, given the current situation in the Gulf, it would be advantageous if the Sultan received the letter very quickly.

I am sending a copy of this letter and its enclosure to Jane Ridley (Ministry of Defence).

A. J. COLLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET



10 DOWNING STREET

THE PRIME MINISTER

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 144/82**

15 July, 1982.

Top Copy filed in
Oman, May 1981,
State Visit by
Sultan Qaboos

Your Majesty.

When we met in March, I promised that we would examine in detail Your Majesty's requests for further military assistance. Your Majesty's Minister of State for Foreign Affairs subsequently sent to our Ambassador in Muscat a summary of these requests. I am sorry it has taken me a little time to reply, but I am sure Your Majesty will understand the reasons for the delay.

The first request was for the continued provision of British officers and non commissioned officers for duty with Oman's Armed Forces. I can confirm that we agree to an increase in numbers of British Loan Service Personnel until Omani replacements are available. We hope to be able to meet the current bid for an increase of 82 posts in 1982/83. Beyond that, subject to the practical difficulties of finding the right officers to fill some Loan Service posts, we will endeavour to be as helpful as possible, particularly where new skills are required (for example, in operating mine countermeasures vessels, armoured personnel carriers or air defence systems).

/On the question

SECRET

On the question of charges for Loan Service Personnel, we were pleased to be able to inform you in March that these would be reduced by the proposed move to secondment terms. In current prices, the savings to Oman would be up to £0.5M for this financial year, (depending on when the change in terms of service occurred), rising to £1-1.5M a year thereafter. In addition, selective reductions in training charges have already been made, and there could be more where the provision of training is connected to the sale of British equipment.

Your Majesty also explained that the continued provision of training in the United Kingdom would be of increasing importance to Oman. As I am sure Your Majesty will appreciate, there is only a limited number of places available for overseas students on our courses, many of which are heavily over-subscribed. We cannot therefore guarantee places. I can nonetheless confirm that Oman will be given preferential treatment.

On the question of the position of British Loan Service Personnel in time of either internal or regional conflict, I can assure Your Majesty that we are fully committed to the security of Oman. While we would wish to be consulted before British personnel were used in circumstances which could prove embarrassing to either of our two Governments, we recognise that the urgency of a military response in the event of a direct threat to Oman might not allow time for consultation. In these circumstances, we would be content that British personnel should play their full part in Oman's defence. It is well understood between us that British Loan Service Personnel can only follow orders which are consistent with UK military law.

/We would wish

We would wish to be consulted by you, as provided in our existing confidential Exchange of Letters, before British personnel were committed to operations outside the frontiers of Oman. We recognise that Oman may assume certain obligations under Gulf Co-operation Council agreements. In the event of an emergency requiring Oman to act in accordance with these obligations, we would consider sympathetically requests you might put to us for the use of British Loan Service Personnel in a manner consistent with their role in support of Your Majesty's Armed Forces.

THIS IS A COPY. THE ORIGINAL IS
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OF THE PUBLIC RECORDS ACT

Subject to other commitments, we could also make available bomb disposal personnel to operate in Oman. We could in addition make available to Oman, and train Omanis in the use of, a range of equipment which we have developed to deal with most improvised explosive devices.

/Finally,

SECRET

Finally, Your Majesty asked about the supply in time of war of spare parts and ammunition for British equipment used by Oman's Armed Forces. Subject to our own overriding national requirements, I can assure Your Majesty that we would do our best to ensure the continued supply and delivery of such items if an emergency arose in Oman.

With every good wish,

Yours sincerely

Nagant Shahba

His Majesty Sultan Qaboos bin Said, G.C.B., G.C.M.G., G.C.V.O.

SECRET

CONFIDENTIALHOUSE OF LORDS,
SW1A 0PW

14th July 1982

David Omand Esq.,
Private Secretary to the
Right Honourable The Secretary
of State for Defence,
Ministry of Defence,
Main Building,
Whitehall,
London SW1.

Prime Minister

Your ref: MO 26/9/15

A-S-C 15/7

Dear David,

Defence Sales to Iran

TPM The Lord Chancellor has seen your Secretary of State's minute of 13th July to the Foreign and Commonwealth Secretary. He has commented that if, as seems likely, the reports in the press about an Iranian build up of troops for incursions into Iraq are true, and the Iranians embark on aggression against Basra or some other part of Iraq, we should refrain from negotiating with them on the subject of arms sales. The sale of arms to any aggressors would shed a bad light on our own arms sanctions against Argentina.

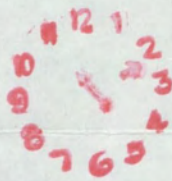
I am sending copies of this letter to the Private Secretaries to the Prime Minister, other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.

Yours sincerely,

Michael Collon

M.H. Collon

14 JUL 1982





Prime Minister

To note.

A.J.C. 13/7

MO 26/9/15

FOREIGN AND COMMONWEALTH SECRETARYDEFENCE SALES TO IRAN

I was grateful for your reply to my minute of 16th June and for the replies from No 10, the Lord Chancellor's office and the Secretary of State for Trade. I believe there is now broad agreement between us on the overall policy to be adopted towards Iran.

2. We have now heard from Tehran that the Iranians intend to send a delegation to London to commence discussion on our claims on 15th July. A similar visit was made this time last year when the discussions proved abortive because the Iranians had not brought the necessary legal and technical experts with them. However, there are grounds for hoping that they mean business this time. The delegation they propose is a good deal larger and they seem prepared to stay for a period of two months.

3. If the Iranians show themselves ready to embark on serious negotiations, we must clearly make the most of this opportunity not only to resolve the longstanding claims on defence business but also to move forward towards a resumption of closer political and commercial relations.

4. This argues for a cautious but flexible approach in the negotiations next week. Since we know little of the likely Iranian objectives, I doubt whether we can give officials any more precise instructions than those arising from our earlier correspondence. Once the initial discussion have taken place



and we have a better feel for the Iranian position, it may be necessary for us to take stock in order to determine the way ahead. I shall therefore be asking those concerned to report to Ministers at the appropriate stage.

5. I am sending copies of this minute to the Prime Minister, other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.

SW

13th July 1982
Ministry of Defence

1. 3. JULI 1982



CONFIDENTIAL

*Top copy filed on
Oman, May 1981,
State visit by Sultan*

Foreign and Commonwealth Office *Qaboos*



London SW1A 2AH

12 July, 1982

Dear John,

Oman

Jane Ridley sent us a copy of her letter to you of 5 July enclosing a draft letter which the Prime Minister might send to Sultan Qaboos about the various defence matters which came up during his State Visit in March.

We are content with the draft reply, in the preparation of which the FCO was consulted. Our only observation is that we would like to see line 4 of page 3 read:-

'..... we would consider sympathetically requests
you

I have discussed this with Jane Ridley and understand that MOD are content with this proposed change.

I am copying this to Jane Ridley (MOD).

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

CONFIDENTIAL

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Oman, May 1981
State Visit by Sultan
8 Qabous.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01 ~~XXXXXX~~ 218 2111/3

MO 5/4

5th July 1982

please type letter.

A.J.C. 1/2.

Dear John,

- 17 march

You asked for a note about what we could do on all the matters raised by the Sultan of Oman or General Creasey during the recent State Visit. I am sorry it has taken us some time to reply.

The advice of HM Ambassador Muscat, which I understand is endorsed by the FCO, is that since the purpose of the exchange is political rather than military, the reply to the Omanis should go from the Prime Minister. I attach accordingly a draft letter, which has been shown informally to General Creasey and which we understand the Omanis would find generally acceptable.

The summary referred to in paragraph 1 of the draft is attached at Annex. As Mr Nott pointed out in his minute to the Prime Minister of 15th March, none of the Omani requests is very easy to meet, but we have gone considerably further towards Oman than we have done for any other country. In particular, the recognition in paragraph 5 that there might be circumstances in which the urgency of a military response left no time for consultation, and the undertaking in paragraph 6 to consider sympathetically a request for the use of British personnel outside Oman, are both new departures. My Secretary of State believes that we should need to look particularly carefully at the political and military implications of committing British Loan Service Personnel to operations outside Oman, should such a request be received.

I am copying this letter and enclosure to Brian Fall (FCO).

Yours ever

Jane Ridley
(J E RIDLEY)

A J Coles Esq

SECRET

SECRET

DRAFT LETTER FROM THE PRIME MINISTER TO HM THE SULTAN

1. When we met in March, I promised that we would examine in detail Your Majesty's requests for further military assistance. Your Majesty's Minister of State for Foreign Affairs subsequently sent to our Ambassador in Muscat a summary of these requests. I am sorry it has taken me a little time to reply, but I am sure Your Majesty will understand the reasons for the delay.

2. The first request was for the continued provision of British officers and non commissioned officers for duty with Oman's Armed Forces. I can confirm that we agree to an increase in numbers of British Loan Service Personnel until Omani replacements are available. We hope to be able to meet the current bid for an increase of 82 posts in 1982/83. Beyond that, subject to the practical difficulties of finding the right officers to fill some Loan Service posts, we will endeavour to be as helpful as possible, particularly where new skills are required (for example, in operating mine countermeasures vessels, armoured personnel carriers or air defence systems).

3. On the question of charges for Loan Service Personnel, we were pleased to be able to inform you in March that these would be reduced by the proposed move to secondment terms. In current prices, the savings to Oman would be up to £0.5M for this financial year, (depending on when the change in terms of service occurred), rising to £1-1.5M a year thereafter. In addition,

SECRET

selective reductions in training charges have already been made, and there could be more where the provision of training is connected to the sale of British equipment.

4. Your Majesty also explained that the continued provision of training in the United Kingdom would be of increasing importance to Oman. As I am sure Your Majesty will appreciate, there is only a limited number of places available for overseas students on our courses, many of which are heavily over-subscribed. We cannot therefore guarantee places. I can nonetheless confirm that Oman will be given preferential treatment.

5. On the question of the position of British Loan Service Personnel in time of either internal or regional conflict, I can assure Your Majesty that we are fully committed to the security of Oman. While we would wish to be consulted before British personnel were used in circumstances which could prove embarrassing to either of our two Governments, we recognise that the urgency of a military response in the event of a direct threat to Oman might not allow time for consultation. In these circumstances, we would be content that British personnel should play their full part in Oman's defence. It is well understood between us that British Loan Service Personnel can only follow orders which are consistent with UK military law.

6. We would wish to be consulted by you, as provided in our existing confidential Exchange of Letters, before British personnel were committed to operations outside the frontiers of

Oman. We recognise that Oman may assume certain obligations under Gulf Co-operation Council agreements. In the event of an emergency requiring Oman to act in accordance with these obligations, we would consider ^{sympathetically} requests you might put to us, for the use of British Loan Service Personnel in a manner consistent with their role in support of Your Majesty's Armed Forces.

7.

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

8. Subject to other commitments, we could also make available bomb disposal personnel to operate in Oman. We could in addition make available to Oman, and train Omanis in the use of, a range of equipment which we have developed to deal with most improvised explosive devices.

9. Finally, Your Majesty asked about the supply in time of war of spare parts and ammunition for British equipment used by Oman's Armed Forces. Subject to our own overriding national requirements, I can assure Your Majesty that we would do our best to ensure the continued supply and delivery of such items if an emergency arose in Oman.

SECRET

MOD/CDS/3718

SUMMARY OF THE REQUESTS FOR MILITARY ASSISTANCE
FROM THE UNITED KINGDOM MADE DURING HIS MAJESTY'S
STATE VISIT TO LONDON ON 17TH MARCH 1982General

1. This paper summarises the requests for military assistance made by His Majesty the Sultan to the Prime Minister at their meeting at Downing Street on 17th March 1982. The same requests were made by the Minister of State for Foreign Affairs to the Secretary of State for Defence at the Ministry of Defence on the same day.

In Peace

2. Continuation of the provision of British regular officers and NCOs of the three Services for duty with the Sultan's Armed Forces for so long as Oman requires. The numbers required will increase as military aid from the Gulf Co-operation Council becomes available.
3. The costs raised for the services of regular British officers and NCOs to be reviewed and reduced.
4. Preferential treatment for the Sultan's Armed Forces at British Service Schools and training establishments.

In War and For Internal Security Operations

5. The peacetime assistance, in paragraphs 2-4 above, to continue. Regular British officers and NCOs to take part in all operations within Oman. British officers and NCOs to take part in operations mounted by the Sultan's Armed Forces as a result of Gulf Co-operation Council Treaty obligations outside Oman within the Gulf Co-operation Council area as may be agreed between the Governments of Oman and Great Britain. (The Confidential Exchange of side-letters between HM Ambassador and the Sultan dated 1 February 1978 and 5 April 1978 are to be amended accordingly).
6. Provided they are not already committed to operations of a higher priority, one SAS squadron (or elements of a squadron if a whole squadron is not available) and bomb disposal teams (with emphasis on electronic devices) to be made available for operations in Oman under Sultan's Armed Forces command.
7. Guaranteed continued supply of spare parts and ammunition for all British equipment used by the Sultan's Armed Forces.

CONFIDENTIAL



76 JP

Middle East

10 DOWNING STREET

From the Private Secretary

5 July 1982

DEFENCE SALES TO IRAN

The Prime Minister has seen the minutes of 16 June by the Secretary of State for Defence, 21 June by the Lord Chancellor, 25 June by the Secretary of State for Trade, and 1 July by the Foreign and Commonwealth Secretary.

She has noted that Departments are agreed that the items contained in the first of the lists annexed to the Defence Secretary's minute may be released to Iran, subject to the usual case-by-case clearance procedure.

I am sending copies of this letter to Michael Collon (Lord Chancellor's Office), John Rhodes (Department of Trade), Brian Fall (FCO) and David Wright (Cabinet Office).

A. J. COLES

David Omand, Esq.,
Ministry of Defence.



FILE SCW

M/East

10 DOWNING STREET

From the Private Secretary

2 July, 1982

Saudi Arabian National Guard

Communications Project

The Prime Minister has noted without comment the contents of your letter of 23 June.

A. J. COLES

Miss J. E. Ridley,
Ministry of Defence



Foreign and Commonwealth Office

London SW1A 2AH

1 July, 1982

Dear John,

Suspension of Arms Sales to Israel

We discussed this earlier today.

In your letter to me of 17 June you said that the Prime Minister had decided that we should not act alone in suspending arms sales to Israel but consult our partners in the Ten.

This was discussed at the European Council and press guidelines were agreed for use by the Presidency noting that no sales of military equipment to Israel by member states were taking place. (I understand that the Prime Minister had probably left when this was agreed). The Belgian Prime Minister and Foreign Minister spoke in these terms to the press (although unfortunately in such a way as to suggest that none of the Ten had been supplying arms before the Israeli invasion - in fact at least the Italians and Belgians were in the same position as ourselves).

In answering questions, the Prime Minister might use the following formula:

'The Ten discussed the question of arms sales to Israel. Mr Martens, for the Presidency, made clear after the European Council that those Member States who had been supplying military equipment to Israel would suspend sales. Our position is that approval of licences for the export of military equipment to Israel will not be given in present circumstances'.

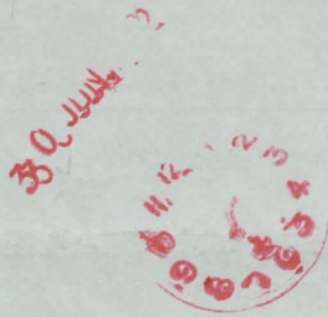
*Yours ever
for Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

Foreign and Commonwealth Office

London SW1A 2AH





Prime Minister

Department we agreed on a rather
more positive approach to selling
arms to Iran. You may wish to
read the correspondence.

FCS/82/96

SECRETARY OF STATE FOR DEFENCE

A.S.C. 1/7.

Defence Sales to Iran

1. You wrote to me on 16 June about defence sales to Iran. I have also seen the Lord Chancellor's Private Secretary's letter of 21 June, and the Secretary of State for Trade's letter of 25 June.

have requested

2. I agree with the forward-looking but cautious approach outlined in your minute and I confirm my agreement to the lists prepared by officials which you annexed. (I note also that the qualification you considered attaching to item 12 (overhaul of Rolls Royce marine engines) has been dropped since HMG do not in fact have to give clearance to this item.)

3. In paragraph 4 of your minute you rightly list new developments which have taken place since March and which need to be taken into account in our sales policy towards Iran. One of the most significant is the victory won by Iran over Iraq despite her lack of access to Western equipment and spares. There must be a considerable danger that Iran will now turn to the Soviet Union or Eastern Europe for new equipment. Iran's strategic and commercial importance to us remain considerable and we must keep our foot in the door. Although the Gulf states are worried about Iran, there is no reason to suppose that they oppose a Western rapprochement with Iran. Indeed they may even welcome this if they see the alternative as an enhanced Soviet role.

/4. For the



4. For the time being, I am content that we should stick to the guidelines on arms sales in paragraph 4 of my predecessor's minute of 9 March: ie we should release items to Iran where this (a) is in our commercial interest; (b) will not jeopardise our prospects in Iraq and (c) fits our criteria on not releasing lethal equipment to the belligerents. But the state of belligerence may soon be over: our contacts with Iran may show up Iranian requirements going beyond the 2 annexes to your minute: and the availability of Soviet arms may introduce a new dimension. So I propose that we should keep an open mind about the supply of arms to Iran in the future, and that we should ask our colleagues to endorse new guidelines as and when the need for a new approach becomes apparent.

5. On the question of leverage mentioned in the Secretary of State for Trade's minute, I am inclined to agree that withholding items of equipment has not in practice given us any leverage. But this is to some extent academic because the Iranians have not recently shown great interest in acquiring the items on List I, let alone those on List II which we plan to withhold. If and when they do show interest in particular items I should be quite content, as I have said above, to re-examine the guidelines. That will be the time to assess the relevance, if any, of the balance between our claims and Iranian counter-claims to the conclusion of new business.

6. I am copying this minute to the recipients of yours.

A handwritten signature in black ink, appearing to be 'F. Pym', written over a horizontal line.

Foreign and Commonwealth Office

(FRANCIS PYM)

1 July 1982



13 0 JUN 1982



From the Secretary of State

To JJC
To AJC
Middle East
Amik F.I.C.O. letter.

CONFIDENTIAL

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

A. J. C. 29/6.

25 June 1982

Dear John,
DEFENCE SALES TO IRAN

1 I agree with your proposal, in your minute to Francis Pym of 16 June, to release the equipment set out in your first list.

2 Clearly there appear to be sound political reasons to proceed with caution at this stage, in view of the reaction of Iran's Arab neighbours to her destabilising effect in the region; I would welcome Francis Pym's comments. However, I am not sure I agree with you on the narrower commercial point that the withholding of arms sales to Iran gives us leverage to secure the early settlement of our outstanding claims.

3 This has been an element in our defence sales policy ever since the hostage crisis ended some 18 months ago. Throughout the intervening period, Iran has been spending some \$150-200 million per month on military equipment, virtually none of it from Britain. For half that time Iran was suffering the worst foreign exchange crisis in its recent history, and clearly had no money to pay debts anyway. Thus the main commercial effect of seeking to supply the lever has been to deny ourselves

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From the Secretary of State

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any share in cash arms sales to Iran of about \$3 billion, for the sake of claims totalling about £300 million, which are no nearer settlement, and in any case to some extent offset by Iranian counter-claims. Meanwhile, as you say, Iran has won the war without our help; continues to standarise de facto on non-British equipment, notably Warsaw Pact equipment; and presumably has a dwindling interest in buying arms from us, while our interest in selling to Iran remains as high as ever. Thus, while I accept the political reasons for holding back on arms sales to Iran, purely commercial logic argues for breaking the link with claims; for treating military debts in the same way as civil debts, for ultimate solution in a package; and for maximising cash sales as soon as possible.

4 It was clearly right, in the interests of our exporters, to have attempted to use the "lever" in the past; but it now seems equally clear that the lever has not worked; and if it did not work while the Iranians were fighting a hard war and desperately needed equipment, I frankly see no reason to anticipate that it will work in the aftermath of their victory. Surely the time has come to admit failure and move on, treating defence sales strictly on their political and commercial merits, but dropping from our armoury the concept of a negotiating lever which seems only to harm both our exporters' immediate interests and their long-term market prospects.

5 I understand the Iranians have themselves just proposed a new procedure for the settlement of all claims, civil and military; I would see advantage for our trade on both sides and especially the latter, in pursuing this avenue as vigorously as possible.

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From the Secretary of State

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6 I am sending a copy of this letter to the Prime Minister and other members of OD, to the Secretary of State for Industry and to Sir Robert Armstrong.

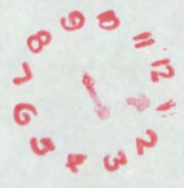
*Yours,
Arthur*

LORD COCKFIELD

CONFIDENTIAL



28 JUN 1982



28 JUN 1982





MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930-7022 ~~XXXXX~~ 218 2111/3

MO 5/3/3

23rd June 1982

Dear John,

Prince Nimitz
Good news.
A.J.C. 29/6.

SAUDI ARABIAN NATIONAL GUARD COMMUNICATIONS PROJECT (SANGCOM)

In my letter of 22nd June with which I forwarded the quarterly report on Defence Sales I mentioned that we envisaged that the MOD would shortly be signing a contract with the Saudi National Guard for the second ^{attached} part of a project providing extensive communications facilities to the National Guard. That contract has now been signed and involves business worth £200M over the next 2½ years - approximately equivalent to the value of the earlier contract. The work will be supervised by the Ministry of Defence and carried out on a back-to-back basis by Cable and Wireless as main contractor. Considerable equipment orders will be involved for the British electronics industry, and there will also be civil construction work for UK firms in Saudi Arabia.

Through this communications project and a similar hospital project, we have been able to develop a sound basis for further military business with the National Guard and my Secretary of State hopes to pay a visit to Saudi Arabia later this year for discussion on future co-operation and sales with Saudi Ministers involved in defence and security.

The MOD has also reached agreement with the Saudis on the terms of a 3 year extension (worth some £370M) to the Government to Government arrangement on training and support provided through British Aerospace to the Royal Saudi Air Force although final signature by Prince Sultan may be delayed until late July because of the onset of Ramadhan. This has been a difficult negotiation but now it has been completed it could clear the way for us to pursue other military aircraft and equipment sales to the Saudi Defence Ministry.

Yours ever,

Jane Ridley

(J E RIDLEY)(MISS)



HOUSE OF LORDS,
SW1A 0PW

CONFIDENTIAL

21st June, 1982

David Omand Esq.,
Private Secretary to the
Secretary of State for Defence,
Ministry of Defence,
Main Building,
Whitehall,
London,
SW1.

Prime Minister

I sent you last night minutes
by the Foreign, Defence and Trade Secretaries
indicating that they are in agreement that
we should try harder to sell arms to Iran.
The Lord Chancellor has reservations.

Your ref: MO 26/9/22

A.J.C. 2/7

Defence Sales to Iran

The Lord Chancellor has seen your Secretary of State's
minute of 16th June to the Foreign and Commonwealth Secretary.
He has commented that he thinks the time has come when we can
release the Kharg, and all other contracted items which have
been paid for. But he hopes that, so long as Iran is governed
by its present regime or one of a similar character, we will
refrain from delivering to them any lethal defence equipment,
even though this may be to our own disadvantage.

I am copying this letter to the Private Secretaries to
the recipients of your Secretary of State's minute.

Yours sincerely,

M.H. Collon

M.H. Collon

3001-1000-1000



Middle East



MO 26/9/22

Await F.C.O. reply.

A.J.C. 18/6

FOREIGN AND COMMONWEALTH SECRETARYDEFENCE SALES TO IRAN

As you will know, John Biffen when he was at the Department of Trade wrote to me on 26th February urging that we should not overlook the good longer term prospects for sales business with Iran. In his minute of 9th March Peter Carrington agreed, so far as the supply of defence equipment was concerned, that we might in certain circumstances slightly relax our ban.

2. In my reply to John of 23rd March, I referred to the review of defence equipment being undertaken by officials, and clearance to which should represent a useful concession to the Iranians.

3. In the interval, there have, of course, been a number of changes which need to be taken into account in assessing our approach to possible sales business with Iran. The Iranians have won major victories in the war against Iraq, without having access to supplies from the United Kingdom (thus diminishing the value of the negotiating card which we believed we had by withholding such supplies); apprehension at the Iranians' advance has spread throughout the Middle East, not least to Saudi Arabia and the Gulf; and the Iraqis have drawn back from one of the major projects, on which preliminary work has been proceeding for some time, namely the refurbishment of the captured Chieftain tanks, and this represents a significant setback in our defence sales prospects in that country. At the same time the Iranians have shown renewed interest in the release of the KHARG, and have reverted to the proposal to send a legal and technical team to this country to pursue the question of the outstanding debts



and the resumption of defence sales business. But we have been here before, and there can be no guarantee that the exchanges on the diplomatic net in Tehran will lead to positive Iranian action on any of the outstanding issues.

4. In parallel with these developments, our officials and those in the Department of Trade have completed their review and have identified two lists, the first covering items which - subject to the usual case by case clearance procedure - they propose should be released to Iran, and the second which they propose should continue to be withheld at this stage. As you will see from the attached, List I comprises non-lethal items, and List II covers a range of sharper items, including ammunition. Clearance for List I items would represent a modest step forward, but I think we are generally agreed that we should move ahead cautiously at this stage. Withholding the items in List II will, I recognise, continue to deprive British companies of work they would be glad to have, but to release the kind of items identified there would be to run into the difficulties referred to above. In particular, it would further weaken our negotiating position and, in order to maintain this as effectively as possible, we propose that the Iranians should be told that, in parallel with the movement on List I, we would expect the Iranians to be willing to discuss and settle the outstanding debts, and that progress will be monitored in relation to progress towards a satisfactory financial settlement.

5. I believe that this move would represent a worthwhile concession to the Iranians, and would serve to reinforce the efforts that are being put into our civil trade with Iran. I should be grateful to know that you are content.

6. I am sending copies of this minute to the Prime Minister and other members of OD, to the Secretary of State for Industry and to Sir Robert Armstrong.

ANNEX A

Defence Equipment in which Iranians have expressed interest

List 1: Items for supply

1. Night Vision Equipment especially SNIPE
2. Inflatable Boats
3. HF200 Radar Equipment
4. Dart Targets (for gunnery training)
5. Mobil Radio Stations HF, VHF, UHF
6. Boiler Hydro Test Pump
7. Alvis 'Samaritan' Tracked Ambulance
8. Inertial Navigation Equipment
9. 10 sets Martello Radar
10. Air Publications
11. Vehicles and Spares for Bulk Fuel Equipment
12. Overhaul in UK of Olympus Gas Turbines for SAAM Class of Frigates *]
13. Rotork Multi-purpose Boats (unarmed)
14. Chemical Protection Suits for the Iranian Navy
15. 56 NBC Respirators
16. 'Nova' Night Vision Goggles
17. Marconi Type SR1130 Radar Spares
18. Rudder Stocks and Bearings for MK5 Destroyers (built by Vickers)

* Clearance to be deferred in view of the outstanding debt on the SAAM and ZAAL Refits, which included work on Olympus Gas Turbines.

List II: Items not for supply

1. Spare Parts and Ammunition for Chieftain MBT and Scorpion
2. L60 Engines, CV 12 Engines and TM12 Gearboxes - all for Chieftains
3. Bomb Retarding System
4. Naval Fire Control System
5. Scorpion Engines
6. Survey for repair of US Helicopters
7. Armed Rescue Boats
8. LS30R 30MM Raden Naval Mounting
9. Portable Neutron Dose Ratemeter
10. Fuses for Guided Weapons and Shells
11. Surplus RAF Aircraft Spares
12. Tigercat (Aircraft) Spares
13. Bell Helicopter Spares

94 JUN 1982



Middle East ec Iran: Sit. Pt. 9
Anglo-Iraq Rel. 7/79

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01 218 9000
DIRECT DIALING 01-218 2111/3

MO 26/9/22

23rd March 1982

iv. l. 1. 12.

Dear Secretary of State,

1/10 23/5

TRADE WITH IRAN AND IRAQ

Thank you for your letter of 26th February. As you know OD decided last December that we should offer to supply to the Iranians the tank spares which they have already paid for in order to balance the deal to be concluded with the Iraqis to refurbish captured Chief-tain tanks. It is, of course, for the Foreign and Commonwealth Secretary to decide how and when this message should be conveyed to the Iranians but I note from his minute of 9th March that, in the light of further signs that they may be ready to resume negotiations on outstanding business, he is now prepared to move forward cautiously over the supply of defence equipment.

I understand that a list of non-lethal items is currently under consideration by officials of the various Departments concerned, with a view to submitting a package of defence equipment for Ministerial approval. It is to be hoped that this package will represent a useful concession to the Iranians without either impairing our very important and fast developing defence sales relationships with the Iraqis, which is now entering a critical phase on two major projects, or undermining our negotiating position on outstanding claims. At the same time I would hope that this gesture will help you in underpinning our civil trade in Iran.

I am copying this letter to the recipients of yours.

Tom Givens
Mich Evans

John Nott [Draft approved by the
Hoffman signed in his absence]

middle east

pa

CONFIDENTIAL

10. DOWNING STREET. (2 COPIES).

PP BIS TEHRAN

PP BAGHDAD

GRS 528

CONFIDENTIAL

FM FCO 181500Z MAR 82

TO PRIORITY WASHINGTON

TELEGRAM NUMBER 520 OF 18 MARCH

AND TO PRIORITY BAGHDAD, BIS TEHRAN, MODUK (SALES, DS 11, AUS. D STAFF, PS/MR NOTT)

DEFENCE SALES TO IRAQ: AEW NIMROD

1. HOOPER OF THE AMERICAN EMBASSY TELEPHONED MED ON 9 MARCH TO ASK FOR CLARIFICATION ABOUT A RUMOUR THAT WE WERE ABOUT TO SUPPLY AEW NIMROD TO IRAQ. WE HAVE NOW SEEN RENWICK'S LETTER TO MIERS 087/4 OF 4 MARCH.

2. THE IRAQIS HAVE ASKED US TO QUOTE FOR 6 TO 8 AEW NIMROD AIRCRAFT AND HAVE SAID THAT THEY ARE ALSO INTERESTED IN 2 TO 3 VICTOR TANKER AND 4 MORE NIMRODS FOR TANKER PURPOSES. A COMBINED BRITISH AEROSPACE AND MARCONI TEAM WILL VISIT IRAQ IN THREE OR FOUR WEEKS' TIME TO DISCUSS A PACKAGE COMPRISING AEW AND TANKER AIRCRAFT. THE IRAQIS HAVE SUGGESTED THAT A CONTRACT COULD BE SIGNED BY 1 JULY, BUT WE STILL HAVE A LOT OF GROUND TO COVER.

3. VICTOR TANKERS COULD BE DELIVERED FROM STOCK IF IT WAS JUDGED COMPATIBLE WITH NATO AND UK AIR DEFENCE COMMITMENTS: BUT PILOT TRAINING WILL BE NECESSARY AND IT WOULD BE AT LEAST SIX MONTHS FROM CONTRACT SIGNATURE BEFORE THE TANKERS BECAME OPERATIONAL. AEW NIMROD IS NOT YET IN SERVICE WITH THE RAF. DELIVERY OF AN EXPORT VERSION FOR IRAQ WOULD BE AT LEAST 4 YEARS FROM CONTRACT SIGNATURE AND IT IS FAR FROM CERTAIN THAT THIS TIMESCALE WILL BE ACCEPTABLE TO THE IRAQIS. THE IRAQIS COULD OBTAIN LIMITED AEW CAPABILITY ELSEWHERE (FOR YOUR INFORMATION THE ITALIANS ARE IN THE MARKET, THOUGH WITH A SIGNIFICANTLY INFERIOR AIRCRAFT).

4. MINISTERS HAVE CONSIDERED THE IRAQI REQUEST AND AGREED IN PRINCIPLE THAT THIS TYPE OF AIRCRAFT MAY BE SUPPLIED. THE ORDER, INITIALLY WORTH MORE THAN POUNDS 700 MILLION, IS IMPORTANT TO THE

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CONFIDENTIAL

UK AEROSPACE INDUSTRY AND WOULD ENABLE BAE TO RE-OPEN THE NIMROD AIRFRAME PRODUCTION LINE.

5. WE SHALL BE SPEAKING TO HOOPER ALONG THE FOLLOWING LINES:

- (A) THE IRAQIS HAVE ASKED US TO SUPPLY AEW NIMROD AND TANKER AIRCRAFT:
- (B) WE ARE CONSIDERING THIS REQUEST:
- (C) MINISTERS ARE NOT OPPOSED IN PRINCIPLE TO THE SUPPLY OF THIS TYPE OF AIRCRAFT:
- (D) ALTHOUGH VICTOR TANKERS IF SUPPLIED MIGHT BE OPERATIONAL WITHIN ABOUT SIX MONTHS, IT WOULD BE VERY MUCH LONGER BEFORE ANY AEW AIRCRAFT WOULD BE AVAILABLE FOR IRAQ.

6. YOU SHOULD THEREFORE SPEAK TO THE AMERICANS AT WHATEVER LEVEL YOU JUDGE BEST MAKING THE SAME POINTS. YOU COULD ADD THAT WE SHALL TAKE STEPS TO SAFEGUARD THE NATO LEVEL OF CAPABILITY AND WE ARE CONSCIOUS OF THE SECURITY IMPLICATIONS IN SUCH A SALE. WE WOULD EXPECT TO ENCOUNTER DIFFICULTIES WITH IRAQ'S NEIGHBOURS WHEN NEWS OF SUCH A SALE LEAKED, BUT THIS SORT OF TECHNOLOGY HAS ALREADY BEEN INTRODUCED INTO THE REGION: ISRAEL HAS SIMILAR EQUIPMENT.

7. YOU SHOULD BE AWARE THAT THERE ARE SOME VITAL US-MADE COMPONENTS IN THE RAF NIMROD AEW SYSTEM. WE DO NOT INTEND TO ASK FOR A RE-EXPORT LICENCE FOR THESE ITEMS.

8. YOU SHOULD NOT AT THIS STAGE BE DRAWN ON TORNADO. IF IT IS RAISED WITH YOU, YOU SHOULD SAY THAT THERE IS NO PROSPECT OF OUR SELLING TORNADO AT PRESENT. WE FULLY TAKE THE POINT ABOUT CONSULTING YOU, AND WE SHALL OBVIOUSLY NEED TO HAVE YOUR ADVICE ON HOW WE HANDLE THE AMERICANS IF INDEED WE FIND THAT WE CAN CONTEMPLATE RELEASING ANY TORNADO VARIANT TO IRAQ.

CARRINGTON

STANDARD

MED
NENAD
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ECD

WED
MAED
ES & SD
RID
TRED
ERD
CABINET OFFICE

**ADDITIONAL DISTRIBUTION
IRAQ/IRAN**



Prime Minister *Ray*
To note
M 26

From the Secretary of State

CONFIDENTIAL

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

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

26 February 1982

Dear John,

TRADE WITH IRAN AND IRAQ

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

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

CONFIDENTIAL



From the Secretary of State

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

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

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

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From the Secretary of State

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

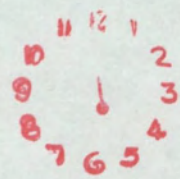
I am sending copies of this letter to Members of OD, Patrick Jenkin and Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

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26 FEB 1982





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Middle East (2)

Prime Minister

To note.

The proposal is for the supply of 180,000 Barmine anti-personnel mines. The Foreign Secretary and Defence Secretary are in agreement.

A.F.C. 16/2

MR 1/2
h.a.

FCS/82/24

SECRETARY OF STATE FOR DEFENCE

Barmine for Iraq

1. In your minute of 29 January you suggested that we should now agree to the release of Barmine to the Iraqis, along with 60 minelayers and 14 Ranger mine launchers. I can agree to this, but I believe that we should be careful not to give the impression to the Iraqis that the flood gates are now open. We have already agreed to the refurbishment of the captured Chieftain tanks (though they have not yet accepted our offer). We shall supply Barmine, and of course Hawk.

2. This is far beyond what we are supplying to Iran, and I think we should take the opportunity to point this out to the Iraqis. No doubt they will expect more, and no doubt we shall have to consider supplying more, but we should, I think, try to hold the line for the time being.

Foreign and Commonwealth Office

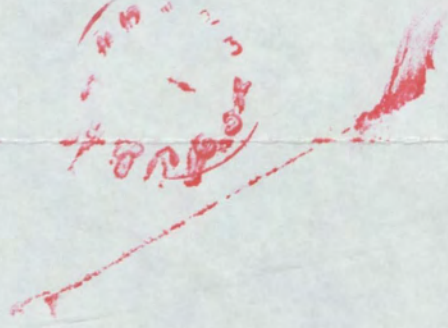
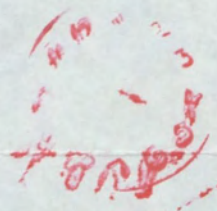
16 February 1982

(CARRINGTON)

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NO 128.442





7
BK
Middle East

10 DOWNING STREET

From the Private Secretary

MR. RICHARDS
FOREIGN AND COMMONWEALTH OFFICE

Defence Supplies to Iraq

any response

The Prime Minister saw the minute of 25 January from the Foreign and Commonwealth Secretary to the Secretary of State for Defence and is content with the line advocated in paragraphs 4 and 7 of that minute, subject to any views which may be expressed by other members of OD.

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

A.S.

3 February 1982

CONFIDENTIAL

so

middle east

file

SIR ROBERT ARMSTRONG

Jordan/Soviet Union: Surface-to-Air
Missiles

The Prime Minister was grateful for your minute of 1 February of which she has taken note.

A. J. COLES

3 February 1982

TOP SECRET

Prime Minister

You asked me about this today.

A.F.C. $\frac{1}{2}$ 6

UK EYES A

Ref. A07045

Copy No. 1 of 3 Copies

MR. COLES

Jordan/Soviet Union: Surface-to-Air Missiles

The subject of Soviet arms sales to Jordan was discussed in the Weekly Survey of Intelligence, No. 31, Part III, paragraphs 1-7, issued on 6th August 1981. The proposed purchases were seen as meeting an urgent genuine military need for air defence (against Syria), which neither the United States nor the United Kingdom could satisfy.

2. Jordan and the Soviet Union probably signed a deal for the sale of at least four batteries of ZSU 23/4 anti-aircraft artillery and five batteries of SA-8 (Gecko) surface-to-air missiles in October 1981 when a Jordanian military delegation visited the Soviet Union. During his visit to Washington in November, King Hussein revealed publicly that the deal was worth some \$200 million and would be financed by Iraq.

3. Arrangements were noted in January 1982 for 36 Jordanian military personnel to go to the USSR to begin training on ZSU 23/4, which is a mobile gun designed for low-level air defence.

4. The Jordanian Government have agreed that 25 Soviet advisers should go to Jordan in the spring with the first delivery of the SA-8 missiles which are a mobile system for air defence from very low to medium altitudes. After the training, the number of Soviet advisers is to be reduced to seven. Some Jordanian personnel will also go to the USSR for training on the SA-8 system. Deliveries are scheduled to continue until mid-1983.

5. Since the start of the negotiations, Jordanian officials have been alive to the danger of permitting a Soviet military presence in Jordan and have apparently sought to keep it to the minimum. The SA-8, however, is a sophisticated system and it was clear from the beginning that some Soviet advisers would be necessary in the initial stages.

-1-

TOP SECRET

UK EYES A

TOP SECRET



UK EYES A

6. Jordan will be one of the first countries outside the Warsaw Pact to receive SA-8: deliveries were made to Syria and Libya in January 1982. It is possible that Iraq has also received SA-8 or will do so.

7. We have no evidence to confirm the report in the Sunday Telegraph of 31st January that Jordan has agreed to buy SA-2 and SA-6 missiles.

RCA

ROBERT ARMSTRONG

CONQUEROR

1st February, 1982

-2-

TOP SECRET

UK EYES A



John D. ...

N. S. J. R.

Annex F/C.O. ...

ASL $\frac{3}{2}$

MO 26/9/22

FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE SUPPLIES TO IRAQ

TPM

I was encouraged by your minute of 25th January agreeing to our taking certain further steps forward in our defence equipment supply relationship with Iraq. As you say, now that we are in serious discussion with the Iraqis over the Hawk manufacturing project we risk jeopardising the whole exercise if we appear to the Iraqis to be less than whole hearted over the supply of equipment associated with the order, including items of ordnance. I therefore welcome your statement that we should go all out to get the Hawk contract. As you point out, we are not yet at the point where the Iraqis are seeking firm commitments from us in respect of the weapons associated with Hawk; indeed security constraints may, so far as missiles are concerned, incline the Iraqis to adapt their Hawks to deliver French systems. But as and when the Iraqis take up the question of ordnance with us, I think it important that we are ready to show a positive response.

2. Indeed a key to our success in establishing the kind of defence relationship with Iraq for which we both see real potential will be our credibility as a supplier. The Iraqis, like many other customers



today, tend to look at the totality of our approach. They will no doubt seek to extract maximum assurances from us over the supply, and will aim to secure a measure of government backing for the major business they may place with us, whether it involves Hawk, AEW or P110 or Army items such as the Main Battle Tank. To do them justice the Iraqis, so far, have accepted the distinction we have drawn between lethal and non-lethal equipment and have placed a variety of the latter business with us over the last year. But this has been with a certain wryness and meanwhile the competition has been getting the large orders.

3. I agree that we shall need to take each step carefully. The line you suggest over publicity seems acceptable and we should maintain it while we can. Our Departments must continue to work closely together and we have suggested that the political and financial implications of Iraqi participation in the development of the P110 programme should be considered by the Ministerial Working Group on Defence Sales which Tom Trenchard chairs.

4. Your minute prompts me to raise with you one case where I hope you can agree to our giving the Iraqis an early undertaking to supply, even during hostilities. This concerns an offer which IMS have prepared at Iraqi request for the supply of 180,000 Barmine anti-personnel mines, together with 60 minelayers and 14 Ranger mine launchers. This order is worth some £45M. In addition the Iraqis wish to buy 173 Centaur towing vehicles for the layers at value £14.5M. If we make our offer conditional on cessation of hostilities, this could not only put this valuable order at risk, but it also is likely to raise the kind of doubts about our reliability we are seeking to avoid. Moreover, the mine itself is fundamentally a defensive system: it is not suitable for offensive use.

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5. Another consideration, which will be of particular concern to some of our colleagues, is that the Centaur towing vehicle is made by Lairds of Anglesey, who have announced that if they are not able to secure further overseas military business within the next few weeks, they will be obliged to close their Anglesey factory. The Iraqi order, coupled with one which we are pursuing hard in Saudi Arabia, could be their lifeline. The Iraqis like the Centaur and have said that if the Barmine order goes ahead they are likely to double the quantity of Centaurs to be acquired. I might add that we have evidence on other channels that the Italian Government, one of our main competitors today in Iraq, has recently agreed to the supply of one million anti-personnel mines and 123,000 anti-tank mines to the Iraqi Armed Forces.

6. Our formal offer of Barmine is almost ready for presentation to the Iraqis. Delivery could be made within 6 months. The Iraqis are bound to press us for early delivery. I hope therefore that, in line with your readiness to tackle each case as it comes, you can give your agreement to our offering the Barmine equipment to them without a cessation of hostilities proviso.

7. I am sending copies of this letter to the recipients of yours.

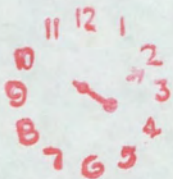
M. J. Gans (Private Secretary)

(Approved by Mr Holt and signed in his absence)

Ministry of Defence

29th January 1982

E 1 FEB 1982





Contact with paras. 4 & 7, subject to views of other members of OD?

A.T.C. 26/1

Yes mt.

FCS/82/16

SECRETARY OF STATE FOR DEFENCE

Defence Supplies to Iraq

1. On 2 December we agreed in OD that every opportunity should continue to be taken to exploit the potentialities of Iraq as a promising market for defence equipment.
2. On 22 January an Iraqi air force team arrived in the UK for a presentation on P110, discussion of pilot training and pursuit of Iraqi interest in airborne surveillance (AEW) aircraft. Before long we shall have to take decisions relating to our bid to sell Hawk in Iraq (a contract worth over £2000m): eg can we agree now to release Hawk ordnance to Iraq even if the war is still going on at the time of delivery, and to receive the large numbers of Iraqis who will need to come to the UK for training (perhaps 1400 at a time), with up to 500 UK nationals engaged on the project in Iraq?
3. We shall no doubt also come under strong pressure to release other lethal equipment going beyond our existing guidelines, and in general to show a more positive attitude towards Iraq if we are to have a chance of winning really lucrative orders (eg Hawk, tanks, P110 or AEW aircraft).
4. It is in my view right that we should now make a further move forward in our policy of supplying arms to Iraq. We should not sell Tornado (this was discussed in July - we can shelter behind the Germans), and we need to look very carefully at the implications of relying on Iraqi finance for the P110 (this has been taken up in separate correspondence). But we should go all out to get the Hawk contract; we should be ready in principle to release main battle tanks; and we should make a major effort to sell AEW aircraft, since this could prove very lucrative, and possibly pave the way for sales elsewhere.

/There



5. There will of course be penalties as well as advantages if we succeed in winning major contracts. At a time of widespread concern over the development and spread of weapons, we shall attract public, parliamentary and international criticism for taking sides, in effect, in a war that we are publicly pledged to want to stop. Other countries are getting away with this, but public opinion, both domestically and internationally, seems always to be disproportionately critical of such activity by the UK. Iran would be legally entitled to treat us as a cobelligerent of Iraq, though I view this as a theoretical rather than a practical danger. We run the risk that Iraq, and with it our equipment, may fall into hostile hands as the result of an internal upheaval. There is a danger in pushing Iran towards the Soviet Union and jeopardising our future prospects in this market that is potentially greater than Iraq's. But the potential there is not going to be realised again for some time (and we can try to keep our foot in the door by offering to release certain equipment at an appropriate moment, as agreed on 2 December). We shall also no doubt attract strong criticism from Israel and Syria which would in turn affect our ability to contribute to efforts to solve the Arab/Israel dispute.

6. On the whole, however, I consider these risks acceptable. There has been surprisingly little press and parliamentary interest so far in our stance over supplies of arms to Iraq. This is partly because of the unattractiveness of the Iranian regime. But I doubt if we should have unacceptable trouble if we moved forward in the way suggested in paragraph 4.

7. Nevertheless I believe it would be right to proceed cautiously. We should not assume any of the more controversial commitments (eg to supply Hawk ordnance) before we have to, and I should like to consider each case on its own merits as and when we come under the inevitable pressure from the Iraqis to go beyond our existing guidelines about not supplying lethal weapons while the war lasts. In addition we should maintain publicly that we are still neutral, maintain the ban on arms or ammunition



(with the special exception agreed for tank parts) for the time being, and refuse to disclose details of any negotiations on Hawk, new tanks, or other lethal equipment for Iraq. If it leaks that we are ready to commit ourselves to release lethal Hawk or other equipment in future even if hostilities are then continuing, we shall have to defend this as an exception, permitted on the ground that we expect the war to be over by the time of delivery and that we have to match our competitors on projects of exceptional importance.

8. I am sending copies of this minute to our colleagues in OD and to Sir Robert Armstrong.

C
(CARRINGTON)

Foreign and Commonwealth Office, SW1
25 January 1982

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11

1.

PRIME MINISTER

I am afraid that your Tornado Answer this afternoon has been misunderstood by the press. Unknown to us, John Nott was today giving a Written Answer putting the total cost of the Tornado programme as £11.25 billion. One journalist has picked this up and linked it with the last sentence of your Answer (attached). We understand that the Birmingham Post is therefore threatening to lead under the headline that you now cost Trident at £11.25 billion.

The Press Office has explained that the only figure you had in mind was the £5 billion previously indicated for Trident; and that you were not yourself aware of the revised total being announced this afternoon. But I fear that we will not have managed to kill the misunderstanding completely.

MA

21 January 1982

We took a decision to go for Trident. The question now is whether we should take a decision to go for an even more advanced Trident. So far no further decision has been taken. As my rt. hon. Friend the Secretary of State for Defence has said the expenditure of this money secures a far greater degree of deterrence than the expenditure of the same amount of money on ordinary conventional armaments. My rt. hon. Friend has frequently used that argument at this Despatch Box. The expenditure would be roughly the same as for the Tornado programme.



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PRIME MINISTER

EGYPT: ECGD SECTION 2 COVER

EX(82)1

BACKGROUND

There is currently a limit of £500 million on the cover given by the Export Credits Guarantee Department (ECGD), under its Section 2 (national interest) account, for exports to Egypt - cover is given under Section 2 for the larger deals, involving longer credit periods, which ECGD cannot deal with under their Section 1 commercial account arrangements. Of this £500 million, £430 million is already committed and the balance will probably be taken up shortly. The Treasury chaired official Export Guarantees Committee could not agree on an increase in the limit.

2. In EX(82)1 the Secretary of State for Trade asks the Committee to consider whether the limit should be raised and if so by how much, and whether £270 million should be earmarked for the sale of ships to the Egyptian Navy - this sale is discussed in more detail in the Secretary of State for Defence's letter of 11 December at Appendix 1 of EX(82)1. He invites the Committee to consider 5 options, listed on page 3 of his paper. These require the Committee to consider:-

FLAG A. -

(i) whether to stick to the present limit of £500 million, which would mean switching off fairly soon further cover for business with Egypt - Option 1;

(ii) whether to make a general increase in the present limit with civil and defence sales being dealt with on a first come, first served basis; and to decide between an increase to £650 million (Option 2) or to £900 million (Option 4);

(iii) whether to make a special reservation of £270 million for the warships, and either to leave the limit of £500 million unchanged

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(Option 5) or to increase it to £650 million (Option 3).

3. The Secretary of State for Trade does not reveal his own preference. He has to balance advice from the ECGD, who counsel caution because of doubts over political stability in Egypt, and his own officials dealing with exports who would like to see an increase. At the least he is likely to recommend an overall increase to £650 million and he might be willing to go along with a separate allocation for the warships. The Secretary of State for Defence - probably supported by the Lord Privy Seal and the Secretary of State for Industry - is likely to go for an increase in the general limit to £650 million plus a special reservation for 6 months for the warships order (i.e. Option 3). If the warship order did not go ahead he might then want to make the special allocation generally available - that is, in practice, to go for an overall increase to £900 million (Option 4). The Chancellor of the Exchequer will probably acknowledge the need for some increase but he may prefer not to go beyond a general increase to £650 million.

The arguments for caution

4. The reasons for being cautious in increasing limits for business with Egypt are set out in the paragraphs on the economic and political background on page 2 of EX(82)1. The Egyptian economy is heavily dependant on aid and on the continuing support of the Americans. Although President Mubarak has started well there are obvious worries over the political stability of Egypt. Any risks which ECGD take now in giving cover on major orders will be with them for a long time - in the case of the warships there will be a building period of 4 years or so and then a repayment period of 10 years. The Committee may well conclude that this points to increasing the limit by an amount which would lead to a review later in the year when, among other things, it will be known whether the Israelis have withdrawn successfully from the Sinai.

The industrial case

5. Subject to the availability of credit the Egyptians are interested in buying from Vospers either 6 corvettes or 2 frigates. Vospers will be running out of work in their Portsmouth and Southampton yards by about June this year. Either order would give them 4 years work and save around 1,000

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260. 130 Rapiers
60. Am.
= Rapiers :-

100m.

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jobs in the area. The order would, therefore, be a helpful offset to the rundown of other defence activities in Portsmouth and useful in preserving capacity at Vospers.

6. The Secretary of State for Defence is also looking for a major order from the Egyptians for Rapier Missiles and for other defence equipment. On top of that there is a strong interest in civil exports to Egypt. If ECGD are to cover such business, the limit will have to be increased soon.

The political case

7. The Secretaries of State for Trade and for Defence have each visited Cairo in recent months to talk about possibilities of UK exports, including warships and Rapiers in particular. The Egyptians' expectations have been built up and if the Government were now to say that further credit will not be available that could be seen as a vote of no confidence in the stability and prospects of the new regime.

8. You are meeting President Mubarak on Saturday 6 February at Chequers. He will probably expect some indication of interest in civil and military exports to Egypt and the line you take will turn on the Committee's decision in this case.

HANDLING

9. You will wish the Secretary of State for Trade to speak to his paper and to advise the Committee on which of the 5 options listed he recommends them to adopt. You will then wish to hear the views of each of the other Ministers attending: the Secretary of State for Defence, the Lord Privy Seal, the Secretary of State for Industry and the Chancellor of the Exchequer.

10. If, as seems likely, it is generally agreed that there should be some increase in the present limit you will need to decide on the amount and on whether it should be an overall increase or whether there should be a special reservation of £270 million for 6 months for the warships order. (NB last year a similar provision was made outside the ECGD ceiling, with a time limit, in support of a proposed Hawk Aircraft deal).

25/2/82



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11. The option likely to command most support is that of increasing the present limit to £650 million with a separate and special reservation of £270 million for 6 months for the warships deal (Option 3).

- Option 2, a general increase to £650 million, would be insufficient to cover both warships and other civil and defence business for very long.

- Option 5, which reserves £270 million for warships but leaves the limit at £500 million, would mean that cover for civil and other defence business would quickly come up against the limit.

- Option 4, a general increase to £900 million, is probably too generous if the warship deal were to fall through. In that situation it would be better for Ministers to decide then, in the light of developments in Egypt, whether the £270 million should be added to the general limit.

CONCLUSIONS

12. In summing up you will wish:-

1. To record the Committee's decision on which of the 5 options, or variants of them, listed in EX(82)1 is approved.
2. To ask the Lord Privy Seal in consultation with the Secretaries of State for Trade and for Defence, to take account of the Committee's decision in your briefing for your talks with President Mubarak on 6 February.

PLG
P L GREGSON

21 January 1982



10 DOWNING STREET

Prime Minister

I have spoken to
Mr. Noel's office.

Tornado

A.F.C. - $\frac{20}{1}$

Mr. Ingham suggests, and I rather agree, that Mr Noel's answer would be better if it began by saying that the delivery rate will be adjusted from 60 to 44 in the case of the U.K. and from 56 to 42 in the case of Germany. There is little point in not being straightforward about facts that we bound to come out.

Agree that I should make the point to the MOD?

Yes no

A.F.C. - $\frac{19}{1}$



MO 21/7

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~336 7000~~ 218 2111/3

19th January 1982

Dear John,

Clive Whitmore wrote to his colleagues on the 8th January asking that Departments should give advance notice of Parliamentary statements and important PQ answers.

// You will wish to know that my Secretary of State intends to announce in a written PQ to be answered on Thursday of this week that we intend to reduce the delivery rates of the Tornado aircraft. A text of the proposed answer is attached, together with background material.

You will note from the attachments that the adjustments to the Tornado programme have been agreed by all the collaborative partners. The announcement has been anticipated in recent press comment, (most lately in this morning's Today programme). The Prime Minister may therefore wish to have a short line to take available for her questions this afternoon and I am submitting this separately.

/ I am sending a copy of this letter to David Wright, David Heyhoe and Francis Richards. A separate copy is enclosed for the No 10 Press Office.

Yours sincerely

Mich Evans

(N H R EVANS)

John Coles Esq

QUESTION

To ask the Secretary of State for Defence whether he will make a statement on Tornado delivery rates.

ANSWER

(Mr John Nott)

After full consultation between Germany, Italy and the United Kingdom it has been agreed that the peak delivery rates for Tornado should be adjusted to 44 for the United Kingdom and 42 for Germany. The peak rate for Italy remains at 24.

Production aircraft prices have fallen in line with forecasts and programme arrangements protect each nation from the inflation of its partners. Nevertheless, heavy pressures on defence budgets mean that the Tornado programme cannot be isolated from financial constraints. But the agreement reached between Britain and Germany to smooth out a peak of Tornado deliveries which would otherwise have occurred over the next three years will help to ease defence budget problems in that period without creating disproportionate operational and industrial dislocation.

Tornado remains central to the re-equipment programmes of the

three partners. It forms a substantial element of our defence equipment budgets and the programme has achieved major advances in meeting technical and collaborative challenges. Four of the six production batches have been approved and 476 aircraft are on order out of a planned total of 809. Over 60 aircraft have been delivered: 42 to the Joint Tri-national Training Establishment, 15 to the RAF and 6 to the German Air Force. Tornado is proving extremely popular with military aircrew and is already showing its powerful operational potential.

TORNADO PROGRAMME CHANGE - PRESS BRIEFING

Line to Take

In any briefing which is given to the Press on the statement regarding the Tornado programme change, and in dealing with any questions, it should be emphasised that the UK's contribution to the Tornado programme is the major one. We are planning to take 385 of the 809 aircraft produced in this programme and the size of our commitment is exemplified by the fact that for the financial year 1982/83 more than £1,000M is included in the Defence Equipment Budget for Tornado. This covers development, production and In Service Support. Particularly in dealing with the German Press, the British Embassy, Bonn will no doubt also wish to stress the British contribution in setting up and running the Tornado Tri-National Training Establishment.

SUPPLEMENTARY BRIEFING: TORNADO PROGRAMME CHANGES - QUESTIONS AND ANSWERS

Q1. Why is the UK slowing down peak rate of Tornado deliveries?

A1. This change began as a German ministerial initiative in recognition of the reductions in annual expenditure which could be made over the next few years if the delivery requirements of the partner nations could be deferred. Italy, however, remains at her own request unaffected by the delivery rate changes agreed for UK and Germany. UK's aim is to achieve significant relief of pressures on the UK defence budget in the next 3-4 years.

Q2. How heavy is the UK's involvement in the slowdown?

A2. Due to the arrangements for carrying out the work on the programme and for paying for it on a year-by-year basis, the impact on industry in Germany and UK will generally be comparable. The peak delivery rates to the RAF will reduce to 44 from an anticipated 60; in the case of Germany the reduction in peak rate has been in two stages during 1981, from (an average of) 56 to 42.

Q3. Why does the UK appear to be bearing the largest penalty in terms of aircraft deliveries when we are told that this was a German problem originally?

A4. Efforts have been made to find the revised delivery rates which best preserve the balance of production of component parts of the aircraft between the particular nations. The greatest practicable reduction has been sought to reduce UK funding whilst fulfilling operational and industrial desiderata.

Q4. Why has the slowdown been arranged jointly with Germany?

A4. While each partner undertakes final assembly of the aircraft of which it is to take delivery, component parts are built on a basis of worksharing by each of the three partner countries. As these component parts must be supplied by the producer nation(s) to all three countries in line with stated requirements there is a limit to the savings which can be made by changes to the programme work in one nation. Italy feels herself able to fund the programme proposed by GE and UK without the need to change rates of delivery of her own aircraft (but as she is to take a relatively small number the premise of the slowdown will not be affected).

Q5. Will the programme be curtailed?

A5. We have not reduced our estimated total aircraft requirements. Reductions in peak delivery rates will have the effect of stretching-out the duration of the programme.

Q6. How will extensive operational and industrial dislocation be avoided?

A6. The programme changes serve to smooth out a peak of Tornado deliveries over the next three years, and are of a level consistent both with the UK's declared commitment to NATO and with the maintenance of the industrial base. Redundancies should be avoided in the UK by the adoption of a plan to run down labour by natural wastage and to tailor the production of components accordingly.

- Q7. Will RAF squadron building go ahead as planned?
- A7. For the GR1, the WCU (Weapons Conversion Unit) at RAF Honington was formally opened on 8.1.82 and we are still planning to start squadron formation as previously planned. There will only be a very minor effect on ADV build up and it will still be introduced into service in the mid-1980s.
- Q8. Will the slowdown not create extra expense in the long term? How will these expenses be paid for?
- A8. There will be some extra costs later, as a result of the programme changes, but these will be kept to an absolute minimum. Nevertheless, the burden of costs of the order of that which was to be borne in each of the next three years will be avoided. Any liabilities or extra costs which do arise will be shared by UK and Germany.
- Q9. When do you expect to place the contracts for the remaining aircraft not yet ordered?
- A9. We have authorised long lead time materials ordering for the fifth batch (which is intended to comprise 171 aircraft) and the production contract should be placed later this year. The contract for the sixth batch, which would complete the currently planned tri-national requirements, would follow at the appropriate time.
- Q10. What arrangements, referred to in the release, protect each partner from the inflation of its partners?
- A10. Each Nation funds, that is pays on a year to year basis, the work which is done in its own country. This covers the major

part of work on Tornado. By this arrangement each Nation is initially bearing the consequences of its own inflation and therefore makes provision in its Defence Budget on this basis. We have agreements for the measurement of costs and assessments of effects of inflation and exchange rates, which will be taken into account in a final harmonization process.

BACKGROUND NOTE

1. The key to the slowdown proposals is that work is done in and funded by each of the three nations for all three partners, and that this work and its cost is not therefore reduced below a certain level even if delivery rates to a nation's own Air Force are slowed down very considerably. Germany was unable to achieve savings of the order required when at the end of 1980 she reduced funding and therefore work in Germany, accepting the penalty of slowed deliveries to her own Air Force.
2. Trinational action and agreement was therefore necessary if substantial savings were to be achieved. In the event, Italy felt herself able to fund the programme proposed by GE and UK without the need to change the rate of delivery of her own aircraft. As Italy is to take a relatively small number of finished aircraft, however, her non-involvement will not affect the premise of the slowdown.
3. Costs are finally borne in direct proportion to aircraft deliveries to be taken, but the work is funded on a year-by-year basis by the nation in which it is done with subsequent harmonization of exchange rates and inflation.
4. Unit production costs of Tornado are falling in line with our forecasts of the benefits to be gained from the manufacturing learning process; the negotiation of fixed-price contracts from the agreed maximum prices for each batch have so far reflected the anticipated reductions.
5. The delivery rate of 44/12 month period is consistent both with declared commitments to NATO and with the avoidance of significant redundancies. British Aerospace have been fully involved throughout discussion of programme changes; work may be recalled from subcontractors but this is a matter for BAe.
6. The production programme is now anticipated to continue in industry, on the basis of the current planned requirements, until 1989/90.



middle East JP

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10 DOWNING STREET

From the Private Secretary

5 January 1982

HAWK FOR ABU DHABI

The Prime Minister has seen and noted the contents of Jonathan Dawson's letter of 23 December.

I am sending a copy of this letter to Francis Richards (FCO) and David Wright (Cabinet Office).

A. J. COLES

Miss J.E. Ridley,
Ministry of Defence.



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~330 7002~~ 218 2111/3

MO 26/9/4

4th January 1982

Dear John,

*This letter is to be ignored.
 Pl. see the almost identical one
 of 23 Dec. from Mr. Dawson.
 A-J.C. 5/1*

HAWK FOR ABU DHABI

The Prime Minister is probably aware that the contract for the supply of Hawk aircraft to Abu Dhabi has not yet been concluded. We do not believe that there is anything particularly sinister in this. It is likely that the delay has been caused largely by prolonged absences from Abu Dhabi of the Chairman of the Evaluation Committee (Major Khamis) who has been accompanying Lieutenant Mohammed bin Zaid (the third son and an officer in the Abu Dhabi Air Force), around the USA on other business. The Committee were due to submit their report recommending the specification of the aircraft and the numbers to be bought, to Abu Dhabi GHQ in August. It is not clear if they have done so yet, but, in any case, it is not likely that a decision has been taken because GHQ has been in a state of turmoil since Sheikh Sultan returned to his post of C in C. His return has apparently had a considerable effect on the staff and has led to the resignation of the Chief of Staff. No procurement decisions have been made in GHQ for some months.

The Ambassador and MOD Sales have been at pains to keep the Hawk deal in Sheikh Khalifa's mind in the past few weeks. At the least we appear to have allayed his concern over the use and cost of Agents by the draft Memorandum of Understanding between the two Governments to support the deal.

Sheikh Khalifa is on a hunting trip at present and the advice of his Military Secretary is that the Ambassador should call on him as soon as he returns, which is expected to be soon. The Defence Attache drew the inference that Khalifa may be prepared to move quickly towards a signature of a contract on his return.

As to the need for further action by HMG (and depending on how GHQ and the Sultan react), there may be a need for a further intervention from the Prime Minister before long. But Sheikh Khalifa is aware of her continued interest in the programme, and my Secretary of State, the Ambassador and BAe consider we should keep the possibility in reserve unless and until we believe the programme is really in difficulty.

A copy of this goes to Francis Richards.

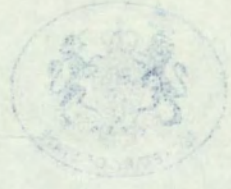
*Yours sincerely
 Nick Evans*

(N H R EVANS)

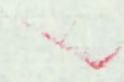
J Coles Esq

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-267 5053



5 JAN 1982



CONFIDENTIAL

Prime Minister

To note

wh
24/12



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~2307022~~X 218 2111/3

MO 26/9/4

23rd December 1981

Dear John,

mf

HAWK FOR ABU DHABI

As you may know the contract for the supply of Hawk aircraft to Abu Dhabi has not yet been concluded. We do not think, on balance, that this is ominous: we reckon that the delay has been caused largely by prolonged absences from Abu Dhabi of the Chairman of the Evaluation Committee (Major Khamis) who has been accompanying Lieutenant Mohammed bin Zaid (the third son of Shaikh Zaid and an officer in the Abu Dhabi Air Force), around the USA on other business. The Committee were due to submit their report to General Head Quarters (GHQ) in August and it is not clear if they have done so yet. This was to recommend the specification of the aircraft and numbers to be bought. Even if the report had been submitted, we doubt a decision would have been made, because GHQ has been in a state of turmoil since Sheikh Sultan returned from disgrace to his post of C in C. This has had a considerable effect on the staff and has led to the resignation of the Chief of Staff. As a result no procurement decisions have been made in GHQ for some months.

The Ambassador and Defence Sales have been at pains to keep the Hawk deal in the mind of Sheikh Khalifa (the Deputy Supreme Commander) in the past few weeks, and we believe we have succeeded in allaying his concern over the use and cost of Agents through the draft Memorandum of Understanding between the two Governments to support the deal.

Sheikh Khalifa is on a hunting trip at present and the advice of his Military Secretary is that the Ambassador should call on Khalifa when he returns (expected shortly). I gather our Defence Attaché drew the inference that Khalifa may be prepared to move quickly towards signature of a contract on his return.

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J Coles Esq

CONFIDENTIAL

CONFIDENTIAL



Depending on how GHQ (and Sheikh Sultan) react, it is possible that we and the FCO may propose a further intervention from the Prime Minister. Sheikh Khalifa, however, is aware of her continued interest in the programme. For the moment the Ambassador, British Aerospace and we recommend that we should keep this option in hand until absolutely necessary.

I am copying this letter to Francis Richards (FCO) and to David Wright (Cabinet Office).

Yours sincerely

J D S Dawson

(J D S DAWSON)

CONFIDENTIAL



JS
cc MOD

10 DOWNING STREET

From the Private Secretary

14 December 1981

TANK SPARES FOR IRAQ AND IRAN

The Prime Minister has noted the contents of your letter of 11 December to Jonathan Dawson.

I am sending a copy of this letter to Jonathan Dawson (MOD).

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

A



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ms

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 14/8

11th December 1981

ms

Prime Minister
To write
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h-a

Dear John .

P47

I visited Egypt last September and, as you may recall from my minute of 8th October, the Egyptians laid great stress on the provision of extended credit, if we wished to secure significant defence orders from them.

In recent years we have not achieved significant defence business - partly through the collapse of the Arab organisation for industrialisation and also because American influence in Egypt supported by their military assistance and credit programme is now massive. The French also have been active and last year won the trainer aircraft order against the Hawk.

General Abu Ghazala, the Minister of Defence, pressed me hard on two particular aspects of credit support; an open credit allocation to be used as they wanted, and also specific cover for six new corvettes, (which would be based on an existing Vosper Thornycroft design already in service with the Egyptian Navy). I undertook to consider both requests, but in the light of what my officials advise me in respect of Egypt's current credit position, I accept that the first of Abu Ghazala's proposals is not practicable.

I gather from my officials that there appears some dispute within the Egyptian Defence Ministry over what vessels to acquire.

The Rt Hon John Biffen MP



Abu Ghazala continues to be convinced, as he told me, that the Navy should have corvettes; but at least one faction in the Navy would prefer to buy two frigates. Vosper have also been asked, therefore, to put forward separate proposals based on their Type 15 design in competition with France, Italy and Spain. Either way there are good prospects for a sale.

There are strong reasons for making credit available for this sale. First, I am anxious that we make a clear demonstration of our political support for President Mubarak's new Government. There are also excellent future prospects for defence sales to Egypt if we can secure this promising foothold. The Egyptians have expressed great interest in Challenger tanks and Rapier missiles (and have also indicated that with the warships may go an associated helicopter order). The funding for these later projects will to some extent depend on a rapprochement with the rest of the Arab world; but our prospects will be greatly boosted by demonstrating our willingness now to help Abu Ghazala.

There are also good industrial arguments for making this credit available. Vospers claim that an order will assist employment in either their Southampton or Portsmouth yards - and would be particularly welcome to Vospers at this time in view of the contractions we are making in the Royal Naval warship building programme; and we are also running down Portsmouth Naval Dockyard, with a consequent loss of job opportunities in the area.

My officials have discussed this credit proposal with yours, but have been unable to secure approval, against the background of the current level of credit cover available to Egypt. There seems no prospect of making credit available for the warships within the section 2 limit of £500M (of which I gather some £400M is already taken up). I should like to propose, therefore, the provision of a special credit allocation of £250M. This would



cover either the six corvettes or the two frigates, whose cost is roughly the same. There is a precedent for this, in that last year a similar provision was made outside the ECGD ceiling, with a time limit, in support of the proposed Hawk aircraft deal. I am convinced that it is important we should consolidate the good start we have made in Egypt in re-establishing our defence equipment relationships with them. I hope, therefore, that you can agree to this special allocation of credit (on the normal consensus terms) on this key warship order, which would give a valuable boost to our warshipbuilding industry.

I am copying this letter to the Prime Minister, to Peter Carrington, Geoffrey Howe, Patrick Jenkins and Norman Tebbit; and to Sir Robert Armstrong.

Yours ever
John

P.S. If you would like a word, I am
happy to come & see you.

John Nott

JN

15 DEC 1981





Foreign and Commonwealth Office

London SW1A 2AH

11 December 1981

*Prime Minister**To note**11/12**Dear Jonathan,*Tank Spares for Iraq and Iran

Following discussion in OD on 2 December, the Foreign and Commonwealth Secretary understands that HMG's decision to proceed with the IMS contract will be conveyed to the Iraqis in the next few days by MOD officials. He considers it essential that we should abide by the commitment he gave to the Iraqi Foreign Minister in March to the effect that we would not supply spare parts to Iran without the Iraqis being told in advance. He therefore believes that the Iraqis should be told now that we propose discussing with the Iranians the release of tank spares for which they have already paid. There is advantage in saying this now in the context of our favourable response to the Iraqi requirement on tanks.

He proposes to inform the Iranians of our offer to release the tank spares already paid for shortly after the Iraqis have been told of our decision about the IMS contract. This will be done in accordance with the conclusions reached in OD on 2 December.

I am copying this letter to the Private Secretaries to members of OD and to David Wright in the Cabinet Office.

Yours ever,

(F N Richards)
Private Secretary

J D M Dawson Esq
 PS/Secretary of State for Defence

11 DEC 1981

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Ref: B06345

PRIME MINISTER

c Sir Robert Armstrong

OD: Overhaul of Captured Chieftain Tanks in Iraq

BACKGROUND

✓ Flag A The Iraqis want us to repair over a hundred Chieftain tanks they have captured during their war with Iran. The contract would be worth £50 million. OD decided in January (OD(81) 1st Meeting, Item 2, Conclusion iii) to play the request long, and authorised negotiations but not signature. This was confirmed in July, but with a presumption that signature would be authorised when required (OD(81) 13th Meeting, Conclusion 1.iii, and paragraph 4a of OD(81) 39); at that stage the work was to be carried out in Jordan.

✓ Flag D 2. The Iraqis now insist that it must be done in Iraq. The Defence Secretary's minute of 19th November sought the Foreign and Commonwealth Secretary's agreement that we should agree to the deal on that basis. The latter's reply (undated but circulated on 27th November) argued that the wider implications should first be discussed in OD. His view is believed to be that there are serious risks involved (the Iraqi regime is brutal, unstable and the aggressor in the current war); but that provided we consciously accept these, the deal is worth it for the richer prizes potentially involved.

✓ Flag E 3. In your summing up of OD's discussion in January, you said that "every opportunity should be taken to exploit Iraq's potentialities as a promising market for the sale of defence equipment; and to this end 'lethal items' should be interpreted in the narrowest possible sense, and the obligations of neutrality as flexibly as possible". The Defence Secretary reports in his minute that our policy has led to the sale of some £220 million of non-lethal equipment, with prospects worth over £3 billion. But the French and the Italians are active competitors. Mr Nott proposes that a gesture should be made towards Iran by releasing some tank spares for which they have already paid.



4. The Secretary of State for Industry and the Attorney General have been invited for this discussion. The Chancellor of the Exchequer is unable to be present as he is chairing a meeting of NEDC, but the Chief Secretary, Treasury, will be present.

HANDLING

5. You will wish to invite the Defence Secretary to open the discussion and the Foreign and Commonwealth Secretary to comment on the wider international aspects. Points to establish in subsequent discussion are -

a. The importance of the contract. If we pull out at this late stage, how badly would we damage our relations with Iraq, and also with Jordan? Would our other sales prospects in Iraq be affected? In addition to the two lead Ministers, the Secretary of State for Trade should comment in the light of his recent visit to Baghdad.

b. The importance of the Iraqi market. Do the Secretary of State for Industry and the Chief Secretary, Treasury, agree with the Defence Secretary's view that other sales prospects are substantial? In the light of the Foreign and Commonwealth Secretary's likely doubts about the stability of the Iraqi regime, are the Committee content to live with the danger that we may in the end face another spectacular collapse of a major arms market, as in Iran when the Shah fell?

c. Neutrality. The Attorney General should comment on our legal obligations and how strictly they need to be observed. Our policy is not to supply lethal equipment to either side; can we sustain that, if we rebuild tanks, by simply omitting their gun barrels? More generally, do we mind appearing to be neutral on the side of a dictatorship which started the war but is clearly failing to win it?

d. An offsetting gesture to Iran. Do we need one? If so, is the suggested release of certain tank spares adequate? Are there alternatives? Will Iraq retaliate?

*Challenger
order*



CONCLUSION

- 6. Subject to the discussion the Committee might be guided to agree
 - i. that we should sign the proposed contract to repair the captured Chieftain tanks in Iraq;
 - ii. that we should continue to take every opportunity to exploit Iraq's potentialities as a promising market;
 - iii. that we should release tank spares to Iran on the basis suggested.

Contract which puts our financial position.

[Handwritten mark]

R L Wade-Gery

30th November 1981

R L WADE-GERY

CONQUEROR



cabinet

p/w OTS papers

Paul

Treasury Chambers, Parliament Street, SW1P 3AG

David Wright Esq
Private Secretary to the
Secretary of the Cabinet
Cabinet Office
Whitehall
London SW1

27 November 1981

Dear David,

The Chancellor of the Exchequer is unable to attend the meeting of OD Committee on Wednesday 2 December, and has asked the Chief Secretary to attend in his place. I should be grateful, therefore, if the Chief Secretary could take up his invitation to attend on this occasion.

I am sending a copy of this letter to Michael Alexander at No 10.

Yours ever,

Terry Matthews

T F MATHEWS
Private Secretary

30 NOV 1981

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30 NOV 1981

Middle East

*NBSM since it
is coming to OD.*

h.w.

FCS/81/133

SECRETARY OF STATE FOR DEFENCE

Arms Supply to Iraq: Chieftain Tank Refurbishment Programme

In PM Box since 23/11

1. Your minute of 19 November raises important issues which, as you point out, go far beyond the immediate question of IMS's proposals for putting these captured tanks on the road. They embrace the question of our neutrality in the war, the opportunities that we risk losing in Iraq, and the implications of becoming a major supplier of modern weapons to Iraq.
2. For these reasons I think it would be appropriate for our decision in the matter to be taken collectively in OD. I am informed that it should be possible, if the Prime Minister agrees, to find an opportunity for this next week, which should allow you to keep to the programme you have mentioned in your minute.
3. I am sending copies of this minute to the Prime Minister, other members of OD, to Patrick Jenkin and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

127 NOV 1991



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Ref. A06081

MR ALEXANDERF9
-
RuhDefence Sales to Iraq

You will have seen a copy of the Secretary of State for Defence's minute (MO 26/9/22) dated 19 November to the Foreign and Commonwealth Secretary about the possible contract for the repair of Chieftain tanks captured by Iraq.

2. The Foreign and Commonwealth Office have told us that, while Lord Carrington would not necessarily disagree with Mr Nott's proposal, he thinks that it should be discussed by Ministers collectively. Lord Carrington hopes that it might be possible to do so at a meeting of OD next week since he will be abroad in the week beginning 7 December. In any event, as Mr Nott makes clear in his minute, a decision is needed soon. We will be making a proposal for a meeting of OD in this week's business note.

D J WRIGHT

24 November 1981



Ammy GDA

Phd

(2)

Prime Minister

MO 26/9/22

FOREIGN AND COMMONWEALTH SECRETARY

A timing decision is approaching. The
 Phd will be getting more deeply involved with
 Iraq i.e. to refurbish Chieftain in Iraq.
 Phd

You will recall that earlier this year we agreed in OD to an IMS team inspecting and categorising the captured Chieftain tanks in Iraq, for the repair and refurbishment of these tanks in Jordan, subject to suitable arrangements being worked out to protect our position in the event of a leak and seeking Ministerial endorsement before a contract was signed.

2. IMS successfully undertook the categorisation exercise this summer and are now ready to present proposals for provision of the necessary spares and technical assistance to repair 114 of the tanks. A team of 20 IMS personnel would be required in country for about a year. About 50 tanks would be ready 6 months after contract commencement, and the remainder after one year. The value of the package is some £50M. In accordance with our policy, IMS do not propose to supply any lethal spares (eg gun barrels) or ammunition. Although the Iraqis may yet make an issue of this we would stand firm in this respect.

3. It has since become clear that there are practical problems in undertaking the work in Jordan. When I was in Amman, the Jordanians indicated they were quite ready to see the work done in Iraq and the Iraqis themselves are now insistent that the work should be done in Iraq, and might well reject any proposal to use Jordan.

4. Our policy of favouring Iraq, whilst preserving neutrality, has so far led to the sale, since the outbreak of hostilities, of some £200M worth of non-lethal equipment including radios, radars,



recovery vehicles and armoured recovery vehicles. This has produced a major new equipment market for us, and its potential is massive (over £3000M), with prospects of major sales of Challenger tanks, Hawk aircraft and other items, even though we have made it clear we will not agree to supply lethal items until after hostilities are over. Iraq is also one of our main targets for joint funding of the P110 project.

5. I believe it would be consistent with this policy for us to undertake the refurbishment work on the Chieftain and to do it in Iraq. It is unlikely that the war will be over before any tanks are ready but, in the possible event of the refurbishment exercise leaking, I believe we could defend our position against criticism on the grounds that we are not supplying any lethal parts or ammunition (although we believe the Iraqis may have some captured 120mm ammunition) and that with certain provisos we would be prepared to do the same for Iran.

6. I believe that our position could be eased if we in fact made some comparable gesture towards Iran. So far we have taken the line that we are not prepared to do any business with Iran pending settlement of their debts. However, if it is necessary to demonstrate some even-handedness as a prerequisite to going ahead with the refurbishment programme, I would be prepared to agree the release of tanks spares which the Iranians have paid for, with further supplies contingent on making progress, but not necessarily settlement, of the claims issue. I understand some relaxation of the policy has already been permitted, in that last week, FCO officials agreed to release hovercraft spares to Iran in parallel with the supply of 6 hovercraft to Iraq. If we do decide to proceed on this basis it will require careful explanation to the Iraqis, before taking action with the Iranians. One of my senior Sales officials is due to be in Baghdad early in December and could do this with the Ambassador.

7. I must emphasise the importance to our defence sales position in Iraq of going ahead with assisting the Iraqis to repair these

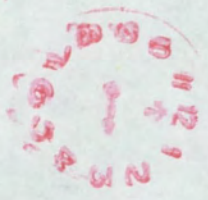


tanks: and we have to find a way of acceding to their request. We know the Iraqis are keen to diversify supply away from the Russians. We have already put a lot of effort into cultivating (with some success) this market. Indeed, an Iraqi armour delegation is in UK this week to see our tanks. But, our competitors have not been idle during the war; the French have contrived to deliver Mirage aircraft and a range of missiles to Iraq, and both the French and the Italians have signed major new contracts for lethal equipment such as artillery and mines. The French are also reported to have signed a very large contract for armoured control vehicles. The Iraqi President has taken a personal interest in the refurbishment project and the Iraqis have made it clear that they see this programme as a test of our readiness to co-operate in the defence field. King Hussein, too, has been involved, and if we now back away we will embarrass him and could put our relationship with him at risk: the Jordanian C-in-C urged us again last week to get on with the project. We also have much civil business at stake in Iraq. Our Ambassador in Baghdad believes that this also could be threatened, as these are linked in the Iraqi mind with our military help. John Biffen may wish to comment on this aspect in the light of his recent visit to Iraq.

8. We cannot delay a decision on this Chieftain exercise any longer: we are urgently being pressed to come to a decision. I should therefore welcome your views as soon as possible.

9. I am sending copies of this minute to the Prime Minister, to the other members of OD, to Patrick Jenkin (in view of the major industrial implications of our potential business in Iraq) and to Sir Robert Armstrong.

*Janet Haver
Private Secretary
Not affixed by Mr. Nott,
and signed in his absence.*



120 NOV 1984



Duty Clerk

No. 10.



~~(MODBA ?)~~

With the compliments of

MIDDLE EAST DEPARTMENT

K. PASSMORE

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

12 NOVEMBER 1981

GR 200

CONFIDENTIAL

CONFIDENTIAL

FROM ABU DHABI 110914Z NOV 81

TO PRIORITY FCO

TELEGRAM NUMBER 244 OF 11 NOVEMBER

INFO DUBAI AND MODUK SALES

NBE 08711
Pl. aw. JP.
(Hawk of UAE)

Wishy

W/least

MY TEL 236: HAWK.

1. I ASKED SHAIKH KHALIFA THIS MORNING WHETHER THERE HAD BEEN ANY DEVELOPMENTS IN ABU DHABI'S CONSIDERATION OF HAWK AND THE DRAFT MEMORANDUM OF UNDERSTANDING. KHALIFA REPLIED THAT THE OFFICER WHO HAD BEEN DEALING WITH THE SUBJECT HAD NOT DONE A GOOD JOB AND HAD HELD MATTERS UP: HE HAD BEEN REMOVED FROM HIS POST A FEW DAYS AGO AND KHALIFA HOPED THERE WOULD NOW BE SWIFTER PROGRESS.

2. I ASKED WHICH OFFICER THIS WAS AND KHALIFA REPLIED LT. COL. SAIF FARIS. WE REGARD FARIS AS ONE OF SHAIKH SULTAN'S MEN, SO HIS BEING SET ON ONE SIDE CAN ONLY BE GOOD NEWS FOR US.

3. I GAVE KHALIFA PLENTY OF OPPORTUNITY TO MENTION ANY OTHER SNAGS THERE MIGHT BE OVER THE HAWK CONTRACT, FOR EXAMPLE BY MENTIONING THAT I HAD SEEN A TV PROGRAMME A COUPLE OF DAYS AGO SHOWING SULTAN WATCHING A DEMONSTRATION BY WHAT I TOOK TO BE AN ALPHA JET. KHALIFA HOWEVER GAVE NO INDICATION WHATSOEVER THAT ANYTHING MIGHT BE AWRY WITH THE HAWK NEGOTIATIONS OTHER THAN WHAT HE HAD SAID ABOUT FARIS.

4. IN THE CIRCUMSTANCES I RECOMMEND WE CONTINUE TO KEEP THE PRIME MINISTER'S POWDER DRY.

WALKER

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ACDD.
PS/AHULD
PS/PCIS
SIL. JGRAHAM
SIL A. AGLAND
M. GILLTORE
M. ROBERTY

THIS TELEGRAM
WAS NOT
ADVANCED

CONFIDENTIAL



CF

10 DOWNING STREET

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THE PRIME MINISTER

25 September 1981

I have read your letter of 23 September with great interest and will bear your suggestion in mind.

I am inclined to doubt at present whether there would be advantage in attempting to persuade the Saudis to go for Nimrod now. The U.S. Administration are bound to press Congress very hard to allow the AWACS deal to go through. Nor would I wish it to appear that we were trying to benefit from the difficulties the Administration are at present encountering.

(SGD) MARGARET THATCHER

The Rt. Hon. Julian Amery, M.P.

B

cf Fco

FROM: THE RT. HON. JULIAN AMERY, M.P.

112, EATON SQUARE,
SWIW 9AA
TEL: 01-235 1543
01-235 7409



Confidential

23rd September, 1981.

Dear Margaret,

I gather from Republican Party Middle East friends that the chances of the Senate blocking the AWACS deal are pretty high. I also understand that in your talk with Prince Fahad there was discussion of the Saudis taking the Nimrod but only as a fall-back position, i.e. after an adverse Senate vote.

I have been wondering whether it might not be wiser for the Saudis to be encouraged to forget about AWACS and go for Nimrod before there is a vote on the Hill. If the Senate turned down the President it would be a very great blow to his personal standing. It would also seriously weaken the position of the Saudi regime and indeed all other Conservative Arab Governments, particularly of the weaker links like North Yemen and Somalia.

If, on the other hand, the Saudis go for Nimrod now, their prestige would emerge intact and to some extent strengthened by the evidence that they were not entirely dependant on the Americans. President Reagan for his part would be spared a humiliating setback and could blame the loss of American business on his critics.

We could, of course, only proceed on these lines after consultation and in full agreement with President Reagan. But we might reasonably say to him "you will be the best judge whether you can get the AWACS deal through. If you think you can, we will of course support you to the best of our ability. ^{But} If you are in doubt, would it not be wiser to get yourself and the Saudis off the hook by encouraging Prince Fahad to go for the Nimrod right away. We, of course, would benefit from the deal financially, but we could also take the opportunity to urge the Saudis to mend their fences with Sadat, and we might also offer Nimrod to the Egyptians and so make a European contribution to the Middle East defence system you are trying to build".

I do not, of course, know how your talks with Fahad went or how you assess the chances for AWACS. My Middle Eastern friends, however, are very concerned at the consequences for them of a defeat for Reagan on the Hill.

I expect all these considerations are already before you. ^{But} Sometimes it is helpful to have an opinion from outside.

I am copying this letter to Peter Carrington.

g's answer,
Julian.
Julian Amery

The Rt.Hon. Mrs. Margaret Thatcher, M.P.

12 SEP 1981

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 2111/3

MO 26/11/13

23rd September 1981

p/w briefs

Dear Michael,

Mr Nott, who is currently in Nepal, has asked that the results of his discussions with the Jordanians earlier this week on Tornado/P110 should be passed to the Prime Minister before she begins her tour.

It is clear from Mr Nott's talks with King Hussein, as well as with the Jordanian C-in-C and the Commander of the Royal Jordanian Air Force, that the Jordanians continue to be impressed by the UK combat aircraft family, and are ready to speak out strongly for Tornado/P110 in the Arab Consortium.

The Jordanians raised with Mr Nott HMG's future indications over P110 and particularly whether it was likely to be adopted by the Royal Air Force. This was a major query in the minds of Arab States involved in considering the UK aircraft option. Mr Nott said that he was concerned about a future combat aircraft for the RAF: P110 looked likely to meet a probable British national requirement in the late 1980s both to utilise our capacity for the design and manufacture of an advanced combat aircraft, and for an air superiority fighter for the European defence theatre. Further engine development was in any case required and R&D money was set aside in the defence programme. Nevertheless, it was still early days and prospects for full British Government involvement in the development of P110 would be very much influenced by the possibility of association in a joint venture with Arab funds. This would reduce the overall costs to both parties, and afford an opportunity to take both European and Middle East performance requirements into account at the early design stage.

The Jordanians welcomed this indication of HMG's support for P110, and can be expected to lay emphasis upon it with the Iraqis at the next meeting of the Arab Consortium in Baghdad, now unlikely to take place before late October. Jordanian interest focuses on P110, while they see the Iraqis as more concerned to obtain a long range ground strike capability, for example Tornado IDS. Mr Nott indicated that German objections

M O'D B Alexander Esq

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CONFIDENTIAL

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might in due course fall away, though any Tornado supply, if it were agreed, would involve an omission of certain more highly classified equipment. The Jordanians saw no difficulty over this, nor over our restrictions on disclosure of information to the Iraqis at this stage.

In giving his indication of HMG's likely support for P110, Mr Nott had in mind the importance of maintaining the momentum of the UK aircraft option. He suggests that the Prime Minister would wish to take the same line when she visits Kuwait.

I am copying this letter to Francis Richards (FCO) and to D J Wright (Cabinet Office).

Yours sincerely

Nick Gawn

(N H R EVANS)

CONFIDENTIAL

23 SEP 1981



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TELEGRAM NUMBER 2512 OF 25 AUGUST
INFO MODUK (DS1 AND DS 11), JEDDA, TEL AVIV,
INFO SAVING CAIRO, BAGHDAD, DAMASCUS, AMMAN, BEIRUT,
TRIPOLI, OTHER GULF POSTS, UKDEL NATO, MOSCOW, BONN, PARIS

Middle East
ms

AWACS FOR SAUDI ARABIA

1. THE ADMINISTRATION SUBMITTED TO CONGRESS YESTERDAY THEIR PACKAGE OF PROPOSALS TO ENHANCE SAUDI AIR DEFENCE. THIS INCLUDES FIVE AWACS, TWENTY-TWO RADAR GROUND STATIONS, SIX TANKERS, 1,177 SIDE-WINDER MISSILES AND 101 SHIP-SETS OF F15 CONFORMAL FUEL TANKS. THE TOTAL COST OF THE PACKAGE IS DOLLARS 8.5 BILLION. THE PROPOSALS HAVE REPORTEDLY BEEN PRESENTED NOW, INSTEAD OF 9 SEPTEMBER WHEN CONGRESS RESUMES, SINCE THE LATTER DATE WOULD COINCIDE WITH BEGIN'S VISIT HERE. AFTER THE USUAL TWENTY DAYS OF INFORMAL NOTICE STARTING ON 9 SEPTEMBER, THE ADMINISTRATION WILL THEN GIVE CONGRESS THE STATUTORY THIRTY DAYS NOTICE TO CONSIDER THE PACKAGE. FAILING A JOINT RESOLUTION OF THE TWO HOUSES AGAINST THE PACKAGE BEFORE 30 OCTOBER, IT WOULD THEN BE IMPLEMENTED.

2. THE SUBMISSION TO CONGRESS HAS BEEN ACCOMPANIED BY AN IMPRESSIVE AND COMPREHENSIVE SET OF BRIEFS (COPIES BY BAG - NOT TO ALL) PROVIDING POLITICAL ARGUMENTS IN FAVOUR OF CONGRESSIONAL APPROVAL, AND TECHNICAL DETAILS OF THE SYSTEMS IN QUESTION. IN SUMMARY THE ADMINISTRATION'S ARGUMENTS STATE:

- (I) THE PACKAGE WILL CLEARLY HELP THE SAUDIS TO DEFEND THEMSELVES;
- (II) IT WILL HELP RESTORE US CREDIBILITY AS A REALISTIC SECURITY PARTNER IN THE REGION;
- (III) IT WILL HELP TO MEET SOME US MILITARY NEEDS IN THE GULF BY PROVIDING THE FOUNDATION FOR THE EARLY WARNING AIR DEFENCE NETWORK WHICH WOULD BE ESSENTIAL FOR ANY US RESPONSE TO AIR THREATS TO GULF OIL FACILITIES;
- (IV) THE US WILL BE PROVIDING AN EXTENSIVE LOGISTICS BASE AND SUPPORT INFRASTRUCTURE TO SAUDI ARABIA WHICH WOULD FACILITATE DEPLOYMENT OF US TACTICAL AIRCRAFT TO THE REGION IN TIME OF NEED, IF SO REQUESTED;
- (V) THE PACKAGE PROVIDES A POSITIVE FOUNDATION FOR MORE EXTENSIVE US-SAUDI SECURITY COOPERATION OVER TIME.

3. THE ADMINISTRATION BRIEFING EMPHASISES THAT THE PACKAGE HAS BEEN DESIGNED TO MEET SAUDI DEFENCE REQUIREMENTS WHILE MINIMISING THE IMPACT ON THE ARAB/ISRAELI BALANCE. THEY CLAIM THAT THE EFFECT ON ISRAELI SECURITY, STILL A PARAMOUNT INTEREST OF THE US, WILL BE LIMITED BY THE SUPERIORITY OF THE ISRAELI AIR FORCE, THE TOPOGRAPHY OF THE REGION, THE LIMITATIONS OF THE AWACS AND THE NEED FOR US PERSONNEL TO MAINTAIN KEY ELEMENTS OF THE SYSTEM FOR ITS ENTIRE LIFE.

4 THE AMERICAN-JEWISH COMMITTEE STATED LAST MONTH THAT THE PRINCIPAL LEGISLATIVE PRIORITY FOR THE JEWISH COMMUNITY THIS YEAR WOULD BE BLOCKING THE AWACS SALE. THIS VIEW WAS SUBSEQUENTLY ECHOED BY OTHER JEWISH ORGANISATIONS. YESTERDAY'S ANNOUNCEMENT PRODUCED A BRIEF STATEMENT FROM THE ISRAELI EMBASSY: QUOTE THE POSITION OF ISRAEL IS WELL KNOWN. ISRAEL CONSIDERS THE SALE OF AWACS PLANES TO SAUDI ARABIA A DANGER TO ITS SECURITY AND TO THE MILITARY BALANCE IN THE AREA UNQUOTE.

5. DURING A BACKGROUND BRIEFING FOR THE PRESS YESTERDAY, US OFFICIALS REPORTEDLY HINTED THAT CONGRESS WOULD BE INFORMED LATER OF SOME AGREEMENT BETWEEN THE US AND SAUDI ARABIA ABOUT THE AREA IN WHICH THE AIRCRAFT WERE AUTHORISED TO OPERATE. EARLIER REPORTS IN THE NEW YORKS TIMES THAT THE SAUDIS HAD REFUSED TO ACCEPT LIMITATIONS ON CERTAIN OPERATIONS WITHIN THEIR OWN AIRSPACE WERE DESCRIBED AS UNINFORMED.

6. DURING THE SAME BRIEFING, US OFFICIALS ARE ALSO REPORTED TO HAVE SAID THAT IF CONGRESS VETOED THE SALE, THE SAUDIS WOULD BE LIKELY TO PURCHASE NIMROD AIRCRAFT FROM THE BRITISH AND POSSIBLY FRENCH FIGHTERS (MIERS' LETTER TO MONROE, MOD, OF 21 AUGUST - NOT TO ALL - REFERS).

FCO PASS SAVING ABU DHABI BAHRAIN DOHA DUBAI KUWAIT MUSCAT CAIRO BAGHDAD DAMASCUS AMMAN BEIRUT TRIPOLI UKDEL NATO MOSCOW BONN PARIS

THOMAS

MIDDLE EAST STANDARD

NENAD	MAED
MED	ES & SD
NAD	ERD
UND	ESID
EESD	CONS D
ECD	CONS EM UNIT
WED	CABINET OFFICE
RID	

ADDITIONAL DISTRIBUTION

ARAB/ISRAEL DISPUTE

THIS TELEGRAM
WAS NOT
ADVANCED



ms

Prime Minister 2

To note

LW

4/8

FCS/81/107OD COLLEAGUESUK/Iran Relations: Supply of Defence Equipment

1. You will recall that when we met on 9 April 1981, we agreed:-

(a) To go ahead with the plans to re-establish the British Embassy in Tehran.

(b) To make arrangements for issuing visas in Tehran once the Embassy was re-opened.

(c) To open negotiations with Iran for the release of the Kharg on condition that an appropriate undertaking was received and that the ship would not be used in the current state of hostilities between Iran and Iraq and that a satisfactory settlement was reached concerning the Iranian debts related to the ship.

(d) To arrange for talks with the Iranians about other contracts for defence equipment, which had hitherto been blocked, and the Iranian debts to the Ministry of Defence and to International Military Services Limited.

2. Arrangements were made to begin talks with the Iranians in June but the confusion following the downfall of former President Bani Sadr caused the Iranians to ask for postponement. The talks are now to take place on Wednesday 5 August.

3. The talks will cover the negotiations over the Kharg and the contracts and debts referred to above. While I hope we shall make some progress, it would be unwise to expect

/very

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very much to emerge from this first round. Nevertheless the Iranians are fielding a Deputy Minister for Defence, and the talks will provide us with the first real opportunity to engage the present regime at governmental level.

C
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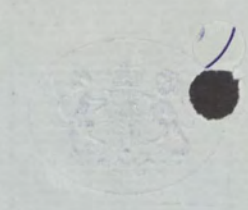
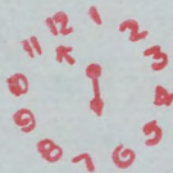
(CARRINGTON)

Foreign and Commonwealth Office

4 August 1981

CONFIDENTIAL

4 AUG 1981



Ref. A05311

PRIME MINISTER

Arms Sales to the Middle East and Chile

(OD(81) 36 and 39)

BACKGROUND

These two memoranda by the Foreign and Commonwealth Secretary and the Secretary of State for Defence are for discussion by OD on 24th July. They follow a bilateral talk between the two Secretaries of State, which was briefly recorded in Mr. Richards's letter of 17th July to Mr. Norbury, copied to Mr. Alexander, on 14th July. The Secretary of State for Defence had hoped that that meeting would enable them simply to report their agreed conclusions to colleagues. But although they reached general agreement in regard to the specific proposal to seek to sell a new aircraft development, the P110, to Middle East customers and to seek a satisfactory formulation on guarantees in relation to a number of possible defence sales prospects to Iraq, the Foreign and Commonwealth Secretary considered that the whole subject raised important political considerations which ought to be discussed collectively by OD.

2. The Secretary of State for Defence has also circulated to OD, for discussion on 24th July, his letter of 20th July to the Foreign and Commonwealth Secretary about the possible sale of up to 60 Mk III Vickers tanks to Chile. At the meeting on 14th July the Foreign and Commonwealth Secretary made clear that on political grounds he was against this sales prospect being pursued. The same subject was discussed in correspondence last year, culminating in the Foreign and Commonwealth Secretary's minute to you of 1st October.

3. OD had a general discussion on defence sales on 3rd December 1980, at which the Committee agreed on their importance as a springboard for the export efforts of high technology industries and took steps to stimulate them. Defence sales to Iraq specifically were discussed by OD on 29th January 1981 when it was agreed that every opportunity should be taken to exploit Iraq's potentialities as a promising market. At that same meeting OD were warned that Iran was a

CONFIDENTIAL

country of great importance in terms of size, resources and strategic situation; and it was noted that when the American hostages had been released it might be possible to resume some military supplies to the Iranians, who had been a major British customer in the past. Iran is scarcely mentioned in the two latest OD memoranda except for a passing reference in the Foreign and Commonwealth Secretary's paper; but the special problems that country presents must not be overlooked.

4. The Secretary of State for Industry has been invited for this discussion. It seems likely that business in the House of Lords may prevent the attendance of the Lord Chancellor and Lord President. The Lord Privy Seal is speaking in the debate on the Brandt Report and may be delayed for this reason.

HANDLING

5. You may like to deal with the question of arms sales to the Middle East first and the problem of Chile second. You will wish to ask the Secretary of State for Defence to introduce his paper and then the Foreign and Commonwealth Secretary to introduce his comments on the Secretary of State for Defence's proposals. Points to cover in subsequent discussion are:-

- (a) What industrial importance does the Secretary of State for Industry attach to the P110 project? The Secretary of State for Defence told OD on 8th June and the Cabinet subsequently that it represented the only future prospect for the British combat aircraft industry. But advanced combat aircraft projects have got a bad reputation for cost escalation. Is there a risk that the British taxpayer at some point in the future may be faced with a large bill for this project for which there is apparently no United Kingdom national defence interest? Or will the Arabs bear all the risks?
- (b) Does the Secretary of State for Defence consider that the RAF may have a future requirement for the P110? Would it not be much easier to sell this aircraft abroad if the British armed services were seen to be procuring it?

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- (c) How does the Chancellor of the Exchequer view the Secretary of State for Defence's suggestion that any United Kingdom contribution to the P110 programme would have to be funded either by private industry, by funds from another Department's programme (i. e. not the defence budget) or by a combination of these sources? Is this a realistic financial approach?
- (d) To what extent will the P110 be a Tornado derivative? Are the Foreign and Commonwealth Secretary and the Secretary of State for Defence satisfied that it will be sufficiently far removed for our Tornado partners not to raise objections to the proposed development and sale?
- (e) Does the Foreign and Commonwealth Secretary consider that the United States will be content with the proposed sale of the P110 to Arab countries in the Middle East if they are still seeking to press a policy of military restraint upon Israel by withholding their own aircraft deliveries to that country? Would the United States be content with the fact that no P110 aircraft would be delivered for some years?
- (f) Iraq is a member of the proposed Arab consortium which might procure the P110 aircraft. What does the Foreign and Commonwealth Secretary mean by his suggestion that there should be "extreme caution over supply" in relation to Iraq? Does this mean that this country should not sell the P110 to any grouping of Arab states of which Iraq formed part?
- (g) Are the Foreign and Commonwealth Secretary and the Secretary of State for Defence generally satisfied on the progress on other potential defence sales items to Iraq? How good are the future prospects and what are the main practical obstacles to them?
- (h) Is the Chancellor of the Exchequer now content with plans to offer guarantees to Iraq in relation to defence sales? His letter to Mr. Nott of 15th July suggests he is not. The point was discussed at the 14th July Nott-Carrington meeting but is not covered in Mr. Nott's OD paper.
- (i) What progress are the Secretaries of State for Industry and Defence making in getting rid of the Kharg to Iran? Now that the American hostages and

British detainees in that country have been released, is there scope for any further progress on defence sales there?

Chile

- (j) How important from an industrial point of view do the Secretaries of State for Industry and Defence consider the prospective sale of Vickers tanks to Chile? There seems a possible inconsistency in the statement in the latter's letter of 20th July that there are major medium and long-term prospective tank orders of considerable size in the offing but that the only one actually in prospect is in Nigeria and that this has been hanging fire for a long time.
- (k) Does the Foreign and Commonwealth Secretary feel that there would be strong international reactions to the proposed tank sale to Chile? If so, from which countries? How would the United States regard it? Would it alarm Argentina and affect the British dispute with that country over the Falkland Islands?
- (l) How seriously does the Committee consider the domestic political objections to be to the proposed sale of tanks to Chile? In his minute to you dated 1st October 1980 the Foreign and Commonwealth Secretary suggested that tanks were highly emotive items, and that in Parliament it might be considered that they would be used for repressive purposes. But the lifting of the arms embargo of 22nd July 1980 did not itself seem to cause much political excitement. Has the time come to take a further step forward?

CONCLUSION

6. Subject to the discussion the Committee might be guided to agree:-
- (i) That the sale of the P110 aircraft should continue to be promoted in the Middle East, despite the difficulties that this may involve.
- (ii) That discussions with the Arabs on the Tornado IDS should continue, even though there is no immediate prospect of securing German agreement to supply.
- (iii) That efforts to sell other defence equipment in the Middle East should be pressed ahead subject to the caveats entered by the Secretary of State for

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Defence in OD(81) 39 and by the Foreign and Commonwealth Secretary in the Annex to OD(81) 36.

- (iv) That in regard to the prospective sale of Vickers tanks to Chile, if it emerges from the discussion that the main objection relates to potential domestic political difficulties, the decision should depend on the general consensus of view which the Committee forms; but that, if the Foreign and Commonwealth Secretary argues successfully that there are powerful objections in terms of foreign policy, the present ban on tank exports should continue.

RA

ROBERT ARMSTRONG

23rd July, 1981

~~CONFIDENTIAL~~



Reference in O.P. (11) 39 and by the Foreign and Commonwealth Secretary in

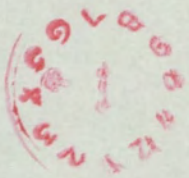
the Annex to O.P. (11) 38.

(iv) That in regard to the prospective sale of Viceroy's Palace, it is
emerged from the discussion that certain objections related to potential
economic political difficulties, the decision is still depend on the general
consensus of view which the Committee formed; and that, if the Foreign
and Commonwealth Secretary agrees, the Government will, if there are possible
objection in terms of effect of policy, the present plan on that aspect
should continue.

AS

CONFIDENTIAL

23 JUL 1981



23 JUL 1981



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/9/22

22nd July 1981

p/w papers for O/S to mins.

Dear Geoffrey

Annex - 23/7

[attached]

I quite understand the concerns you have expressed in your letter of 15th July about the guarantee we propose to give to enable IMS to do business in Iraq. It is not something that I view with equanimity and that is why I have insisted on a side letter (text attached at Annex) to clarify the wider issue of export licence control. But unless we are prepared to provide such a guarantee I believe there are genuine dangers that we shall lose the enormous business in prospect (up to £3,000M) which we badly need. We have tried alternative ways without success.

At my meeting with Peter Carrington last week we agreed to cover the export licencing point by sending this side letter making it clear that the arrangement would be subject to international legal obligations, or our overriding national interests. Whether the Iraqis will accept this is uncertain, but I hope they are pragmatic enough to realise that there is a point beyond which they cannot expect us to go.



On the points that you raise:

- a. The guarantee will only apply to those contracts which we authorise IMS to conclude;
- b. The Treasury Solicitor's advice is that the constitutional point can be included without difficulty in the IMS bill which has still to be presented to Parliament;
- c. IMS have agreed to provide a back-to-back indemnity on the lines drafted by the Treasury Solicitor;
- d. I agree that any payments which we may incur as a result of the guarantee will lie against Defence Votes.

Finally, you raised the question of the Parliamentary presentation of a guarantee, indicating that a Treasury Minute would need to be laid before Parliament on each occasion a guaranteed contract was given. I cannot accept the proposition that we should allow the House the opportunity to raise questions and possibly object to each sale to Iraq covered by the guarantee. Quite apart from our desire to keep our current negotiations private, there is a vociferous anti-Iraq and anti-arms sales lobby in the Commons, as well as some 25 Jewish MPs. We could therefore run the risk of a major row each time we wished to sign a contract. There is also the practical point that, as Minutes can only be laid in session, we would have a four month close season for Iraqi contracts during the Summer recess.



The suggested alternative to the guarantee - advance payment bank guarantees and performance bonds given by IMS - has been closely examined in the past. The essence of our objection to them is that very large sums of money could be arbitrarily withdrawn by the customer leaving the supplier at risk, with legal action as his only remedy. This is inappropriate in what is essentially a Government to Government deal. In the case of Iraq, I have concluded that the guarantee, which though it might expose the Government to the possibility of legal action in the event of default by IMS, is a better solution to the problem.

We must not allow procedural technicalities to create unnecessary difficulties. We are, after all, intending to take statutory authority for IMS in the IMS Bill. The PAC is certainly fully aware of IMS' activities, which are subject to C&AG's audit, and it has accepted the need for confidentiality. It is not as if we are entering into completely new territory. Moreover, I understand that some doubt has been cast over the constitutional requirement to seek prior Parliamentary approval to enter into commitments of this nature. I would therefore have thought that a single Minute, informing the House of the MOD's general intention on occasions to provide guarantees to IMS, without mentioning any country and without a high profile statement, should be sufficient to satisfy the proprieties. If you agree that this is all that is needed, perhaps we could leave our officials to tie up the details.

I should like to resolve this matter on your return. After years of trying to open up the Middle East market we now have real opportunities to do so. If we cannot sort this problem out between



ourselves by Friday, I should like to raise it at OD when we discuss Middle East arms sales. The Iraqis are pressing for a response, and it is urgent that we resolve this matter without delay.

I am copying this letter to the Prime Minister, to the other members of OD, to the Secretary of State for Industry and to Sir Robert Armstrong.

*Yours ever
John*

John Nott

DRAFT SIDE LETTER

I was glad to be able to convey in my letter of today's date the assurances you required about the relationship between the United Kingdom Government and its company, International Military Services.

The United Kingdom Government will do all it can to facilitate the arrangements set out in that letter and I hope the assurances you have been given will lead to a long and mutually beneficial relationship between both countries. However, as I am sure you will realise, because of their long term nature these arrangements should be regarded as being without prejudice to any international legal obligation, or overriding national interests.

22 JUL 1981





Middle East

Foreign and Commonwealth Office

(2) London S.W.1

17 July 1981

Dear Brian.

Pennie Minister

17/7

ms

Defence Sales: Iraq, the Middle East and Chile

As you will know, the Secretary of State for Defence had a meeting with the Foreign and Commonwealth Secretary on 14 July to discuss the issues raised by Mr Nott's minute to Lord Carrington on 9 July.

For the record, the outcome of their discussion was:

- a. agreement that current efforts to devise a satisfactory formulation on guarantees for Iraq should be pursued by FCO and MOD officials in consultation with the Treasury;
- b. more generally, agreement that a number of possible defence sales to the Middle East - in particular strike aircraft - raised important political considerations which deserved discussion by Ministerial colleagues at OD. An FCO paper has already been circulated;
- c. Lord Carrington expressed the view that we should not proceed with the possible sale of tanks to Chile.

I am sending copies of this letter to Michael Alexander (No. 10), Peter Jenkins (Chancellor of the Exchequer), Ian Ellison (Dept of Industry), John Rhodes (Dept of Trade) and David Wright (Cabinet Office).

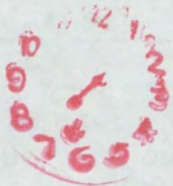
Yours ever.

F N Richards

(F N Richards)
Private Secretary

Brian Norbury Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building

17 JUL 1981



Middle East



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

16 July 1981

The Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

MRPA

Handwritten initials

Dear John,

DEFENCE SALES: IRAQ, THE MIDDLE EAST AND CHILE

Thank you for sending me a copy of your letter to Peter Carrington of 9 July in which you discussed, among other things, the line to be taken on the P110 and Tornado (IDS) in talks with Jordan, Iraq, Saudia Arabia and in the Middle East more generally.

2 I hope that PAe (with Rolls-Royce who would have important prospects for the RB199) will have every opportunity to develop and sell the P110. The future of both RR and BAe, and our hopes for reducing public funding of RR, are dependent on outlets being found for Tornado and/or P110. There is a strong industrial case therefore for the line proposed in your letter.

3 I am copying this to those who received your letter.

Yours faithfully
Kevin

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147 JUL



Middle East



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 July 1981

The Rt. Hon. John Nott, M.P.,
Secretary of State for Defence

I have asked the FCO,
for an account of the discussion
between Lord Carrington + the NSAT
on 14 July.
BU 1 week.

Dear John

DEFENCE SALES: IRAQ

Print 15/7

Thank you for sending me a copy of your minute of 9 July to Peter Carrington about the issues which you plan to discuss with him today. I am concerned about the idea of your giving a guarantee to induce Iraq to do business with IMS.

The proposed guarantee would apply, I understand, to all future IMS contracts in this market, and would be in effect a series of guarantees extending over an unspecified period of time. As a matter of constitutional propriety, it would therefore be appropriate for you to obtain some legislative backing. A Departmental Minute would also need to be laid before Parliament to give the House an opportunity to object to the contingent liabilities involved in each case. And you would need to secure a back-to-back indemnity from, and take powers over, IMS in respect of its performance on these contracts. Finally, any net payments to Iraq which might flow from the guarantee would of course need to come from within Defence Budget totals.

It is not clear to me that the alternative of requiring IMS to purchase performance bonds, as its competitors do, would be more costly. What is clear is that it would not set as damaging a precedent.

In view of the financial implications, I should be grateful if you would keep me in touch with your thinking on this issue.

Copies of this letter go to the other recipients of your minute.

[Handwritten signature]

GEOFFREY HOWE

15 JUL 1968



SECRET

UK EYES A



5.

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister has seen and noted the copy of Sir Frank Cooper's letter of 7 July 1981 which you sent me with your minute A05240 of 13 July.

KW.

14 July 1981

SECRET

UK EYES A



The National Archives

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Prime Minister ⁽²⁾ Middle

The sale of tanks to Chile would
certainly cause a political storm here
and in some quarters abroad.

MO 26/9/1

FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE SALES: IRAQ, THE MIDDLE EAST, AND CHILE

We had a brief word this morning about a number of urgent Defence Sales issues and I look forward to discussing them further when we meet next Tuesday, 14th July.

2. The matters I wish to discuss with you are:

a. the question of what guarantee should be given to Iraq to induce them to negotiate and enter into large potential contracts with IMS as our company;

b. the line we should take with Jordan, Iraq, Saudi Arabia, and in the Middle East more generally on the P110 and the Tornado (IDS): and

c. the possible sale of tanks to Chile.

3. On a. the Iraqis have asked us to guarantee IMS performance under contracts in order to avoid bank guarantees and performance bonds. I would like to give the Iraqis as much as possible of the formulation on guarantees that they want whilst preserving our freedom of action in respect of arms export licensing policy. This could perhaps be achieved by an exchange of side letters at the same time as the guarantee is given, explaining that the guarantee we give would be subject to overriding national interest? I have asked the Treasury Solicitor to discuss this with your Legal Advisers.



4. On b., in the light of the expressed interest of the Arabs in both aircraft, we should aim for the present to promote the sale of both in the Middle East, but in the private knowledge that the Germans would not in the event be prepared to sanction a Tornado sale for some time to come. The Germans' position could be worked to our advantage in promoting the British designed P110. Further discussions should take place between my officials and Jordan who are leading the Consortium as soon as possible, and before the meeting early next month of Arab Air Force Commanders to explain our position on the assurances that have been sought.

5. I realise that c. is a difficult and emotive proposition and I fully comprehend your political concerns. I should, however, like to stress my own worries about the future of Vickers as a tank manufacturer, which argue in favour of the deal. They have only one current order which is almost complete. There are some other prospects, but a sale to Chile - possibly worth more than £50M - could be critical to their future. It is very important to us to maintain Vickers' tank capacity, as I foresee major export prospects for main battle tanks over the next decade and I do not see that ROF Leeds will be able to satisfy the potential demands.

6. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Trade; and Sir Robert Armstrong.

I attach a list of potential sales to Iraq.

JN

Ministry of Defence

9th July 1981

RECENT DEFENCE SALES AND CURRENT PROSPECTSSALES SINCE THE START OF THE IRAN/IRAQ WAR

	<u>Value</u>	
1. Chieftain Armoured Recovery Vehicles	30	IMS
2. Tank Recovery Vehicles	30	Scannell
3. Night Vision Equipment	15.75	Flear Optics
4. Ground Power Units	11.2	Houchin
5. Land Rovers	3.5	BL
6. Hawk Study Contract	2.3	Bae
7. Other Miscellaneous sales	16.8	
	<hr/>	
Total:	£110M	
	<hr/>	

LONG STANDING MAJOR SALES PROSPECTS

1. Hawk Aircraft Local Assembly	1000+	Bae. Feasibility study well underway. In-country hot-weather trial July 81.
2. Naval Base, Integrated Weapons Complex	Initially 4-5 Eventually anything up to 500	IMS close to securing contracts for IWC package and Naval base Design Study. Agreement still to be reached on question of advance payment guarantees and performance bonds.
3. Engineer Package: Centaur/Barmine/Ranger	75	This is a long-standing requirement, although interest has intensified since the war began. There are security problems to the sale of Barmine & Ranger which have still to be resolved.

4. Hydrossearch for Dam Surveillance 30 MSDS close to contract signature.

MAJOR SALES PROSPECTS RECENTLY ARISEN (No lethal items to be supplied until after the war)

- | | | |
|--|------|---|
| 1. Refurbishment of captured
T-55 tanks (130) | 25 | IMS will shortly be reporting on the categorization exercise. |
| 2. New Tanks (200) | 500 | Iraqis have requested an offer for a further 200 advanced MBTs. |
| 3. Armoured Recovery Vehicles (21) | 25 | IMS are offering |
| 4. FH70 (500) | 350+ | Iraqis have requested an offer and may be interested in as many as 500 pieces. |
| 5. Tornado/P110 | 500+ | Strong Iraqi interest in Tornado IDS. Also possible Iraqi participation in joint Arab consideration of the P110 derivative. |
| 6. Mig 21 + Mig Spares and Overhaul Facility | NK | BAe, RR, Dowty and Westland all invited to quote for spares. Possible long-term interest in establishment of a large overhaul base. |
| 7. Spares for Russian T-tanks, including re-engining | NK | Various firms invited to put forward proposals. |
| 8. Further Recovery Vehicles and Tank Transporters from Scammell | 50 | Contracts signed but not ratified. |

Total: £3000M+
(including long-standing prospects)

10 JUL 1981
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CONFIDENTIAL

Top Copy
Defence Sept 80



MINISTRY OF DEFENCE *Defence Sales*
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~930 7022~~ 218 2111/3

MO 26/9/1A

8th July 1981

Mr Michael,

Prime Minister (4)
Mr *Amis*

I attach a copy of the latest quarterly report on major defence sales prospects which my Secretary of State has asked me to forward.

In addition, my Secretary of State has asked me to let you know of two recently signed contracts in the Middle East in which the Prime Minister has taken a personal interest:

- Dubai a contract for 8 Hawk aircraft was signed on 29th June. Estimated value £40M;
- Qatar a contract for the first battery of Rapier was signed on 14th June; together with support package, worth some £71M.

The sales to Dubai and Qatar are, I regret, subject to an embargo on publicity as the Governments in question have specifically stated that the sale should remain confidential.

The Prime Minister may also wish to be aware of further detail in connection with the follow-up to her discussions on Hawk in Abu Dhabi. Following Government to Government discussions, at which a MOU to support the Hawk sale was offered, a round of negotiations between the Company and the Abu Dhabi Air Force recently took place and agreement was reached on technical specifications. Negotiations will re-open towards the end of August. I understand that Abu Dhabi has earmarked some £60M for the purchase, indicating an initial order of up to 16 aircraft.

I am copying this letter to Francis Richards (FCO), John Rhodes (DOT) and David Wright (Cabinet Office).

John S. Lawson
Private Secretary

M O'D B Alexander Esq

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 MAJOR DEFENCE SALES PROSPECTS

AFRICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Algeria	Hawk (24)	125	1981+	Algerian team visited UK to evaluate Hawk in June 1981. Training package required.	FCS visited Algeria in May 1981.	France, Italy and Czechoslovakia
	Naval equipment	Dependent upon definition of requirements		Following FCS's success in stimulating Algerian interest in UK equipment, and an £8M contract for 2 FPBs signed in June, the Algerians are also considering a range of other UK vessels and equipment.		
Morocco	IMS Package 1st Phase - includes FH70 and 105mm Light Gun, mortars, small arms, FACE, vehicles, workshops and training and support services.	125	1981	This is considered to be a very good prospect and we expect IMS to win the contract. Subject to funding by Saudi Arabia. 2nd and 3rd phases could be worth up to £300M.	FCS visited Morocco in January 1981	France
Nigeria	36 MBTs and 11 armoured recovery vehicles and bridgelayers	50	1981	Contract is believed to have been approved and now awaits Nigerian Defence Minister's signature.	a. LPS visited Nigeria in December 1980 with DSO rep in his party	France USSR
	Jaguar (up to 36)	250+	1981	BAe proposal believed to be still with President and company is awaiting call for next round of negotiations.	b. FCS visited in February 1981, accompanied by HDS and defence sales team.	France
	Swingfire	135	1981	BAeDG proposal reported accepted by Nigerian President but renewed French pressure in favour of HOT delaying signature.	c. State Visit of Nigerian President in March 1981. Talks with FM and S of S.	France USSR
	Lynx	12+	1981	Good prospect for initial order for 3 for use with German built frigates. Agreement reached and contract signature confidently expected.	d. S of S wrote in March to Nigerian Defence Minister supporting UK Sales proposals, especially Jaguar.	France
	Naval Training School (Phase I)	5+	1981	Agreement reached and contract signature by Nigerian Defence Minister awaited.		
Tunisia	Hawk (12-14)	65-135	1981	BAe preparing firm quotation. Good credit terms offered already but Tunisia probably hoping for 15 years from contract.	M of S (FCO) visited Tunisia in May 1981 discussed prospects.	France Italy USA
	FPBs (3)	94	1981	Vospers' quotation under consideration but cannot match credit terms reported offered by France and FRG. Customer considers extended offer of credit to 13 years from contract is still unacceptable.		

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 MAJOR DEFENCE SALES PROSPECTS

ASIA AND FAR EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Australia	Hunt Class MCMVs	60+	1982+	MOD/Vosper Thornycroft team began visit to Canberra on 29 June for discussions with Australian DOD. Possible procurement of 2 vessels with option on 3rd. Diversion from RN production line agreed.		FRG NL
China	O51 Project	50-100	1981	Chinese economic problems have forced review of defence priorities but O51 ship weapons fit remains good prospect. Possibility of substantial follow-on orders.	OD approved Letter of Intent for O51 Project	
India	Sea King	200	1981	Westland have quoted for 22 helicopters and for uprating existing Indian Navy aircraft with new avionics. Supply of LAPADs refused on security grounds. Westland considering foreign alternative.	LAPADS case considered by S of S and security objections to sale upheld	France
	Sea Harrier	60	1982	Option for additional 6-8 aircraft now lapsed. India requires further operating experience before reaching decision.		
Indonesia	Hawk (Up to 28)	140		12 already bought and good prospects for sale of further 28. Indonesian request for 2 year secondment of RAF pilot instructor under consideration.	S of S plans to visit in Autumn	
Japan	SM1A marine gas turbines	20-50	1981	Japan assured of continued RN commitment to SM1A and decision by Japanese Defence Agency (JDA) expected by end July.	M of S (DP) agreed to bring forward RN SM1A ISD to meet Japan's wishes.	USA
	FH70	50-100	1981	Army strongly favours FH70 but formal JDA endorsement awaited. Favourable decision expected	M of S (DOI) visited Japan in April	
Malaysia	Air and Naval Bases, Army Camps and Defence Operations Room	Up to 50	1981	Strong competition. MOD active in offering support by means of MOUs and other initiatives.	M of S (DP) has written several letters supporting UK proposals.	FRG, France, USA and Australia Sweden, France, USA
	Rapier/Blindfire	50-100	1981	Rapier selected by Armed Forces Committee but Malaysian Treasury approval required.	M of S (DP) led high level sales team to Malaysia in January to pursue wide range of prospects. S of S plans visit in September.	
South Korea	Hawk	500	1983+	Strong interest in Hawk but Koreans required assurance that USA would not object. State Department has now given that assurance.		

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 MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
FRG	Sea Skua and associated radar	50	1985	Sea Skua with Sea Spray or Sea Searcher radar believed well-placed for selection as mid-life improvements to FRGs Sea King helicopters. Budgetary estimates submitted but in-service date deferred by 1-2 years.	Ministers have directed that particular attention be given to penetrating German market. Co-ordinated inter-Departmental campaign in progress.	France Italy
	Stingray	20+	1984	Stingray favoured to meet firm requirement for lightweight torpedo. Interest in Stingray technology for heavyweight torpedo.		USA Italy
Italy	Spey aero-engines (licensed manufacture)	100	1981	Ratification of contract still awaited but Italy-Brazil MOU on AMX aircraft now signed. Brazil has 30% stake in the project.		None known
	Gem aero-engines	30-100	1981	R-R working on prototype engine at own cost for Al29 helicopter project. Good prospect of 3rd party sales.		None known
Netherlands	FH70	60	1981/2	IMS proposals submitted. Decision awaited.		USA
Norway	Rapier	100+	1983	Norway publicly committed to buying US Roland II but privately reconsidering. Formal position confirmed during US of S(RN)'s visit and during Norwegian Chief of Defence Procurement visit to UK in May.	US of S(RN) visited Norway February 1981.	USA France
Spain	Rapier	200	1981 (First phase)	Rapier believed to be firm front runner to meet Spanish requirement. Spanish Army to send party to UK to witness live firings at end of July.		USA France
	Harrier/AV8B	75-85	1982	Spanish Navy undecided whether to procure AV8Bs, more Matadors or Sea Harriers. MOD exploring possibility of offering free or reduced cost pilot training.		USA
	Lynx/Sea Skua/Sea Spray	40-50	1982	During First Sea Lord's visit in March, Spaniards confirmed interest in Lynx and Sea Skua missile.		USA
Sweden	Lynx	50-100	1981	Westland bidding to meet requirement for 12 aircraft with option for further 25. UK well placed but stiff competition on price. Swedes may be reviewing requirement and purchase may be delayed by a year or more.		USA France FRG

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 MAJOR DEFENCE SALES PROSPECTS

LATIN AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Argentina	Canberra (up to 6)	19	1981+	Letter of intent signed for purchase of 2 aircraft (value £6M) but lack of funds has deferred prospect of sale of additional 4 aircraft.	Sale considered by Ministers in light of Falkland Islands dispute and agreed.	None
Brazil	Propulsion and fire-control systems for up to 12 locally-built corvettes.	100-200	1981+	Strong competition. Ferranti on short list for fire-control package and RR for gas turbines. Decision expected October 1981.	M of S(DP) may visit Brazil later this year.	Italy, France, USA & FRG
	Sea Skua missiles	10	1981	BAe hope to obtain contract by end of this year.		
	Mk 24 Torpedo	60	1981/2	Marconi confident of being awarded contract, following a consortium agreement with Engesa, but better credit terms required than 2-year agreement from Treasury.		
Chile	Army communications equipment	up to 50	1981+	Racal in strong position when finance again available. Purchases likely to be phased over several years.		Israel France
	Surplus RN ships	100+	1981+	Negotiations continuing for 2 County Class Destroyers modernised and converted to carry large helicopters and Sea Dart missiles.		
Ecuador	Rapier (12)	90	1981/2	Negotiations continuing and BAe confident that they will obtain contract shortly.	M of S (DP) may visit later this year.	France
	Air Defence Systems (Radar)	15-95	1982+	Contract for first stage (£15M) signed in June after very difficult negotiations with aid of considerable MOD support.	S of S wrote to Ecuadorean President.	USA France
Peru	Naval Base (Phase I)	90	1981/2	Project definition study being undertaken by Balfour Beatty. IMS closely involved. Decision on whether to proceed expected July or August.	Peruvian PM called on M of S(DP) in March 1981. M of S(DP) may visit Peru later this year.	France
Venezuela	Hawk (up to 48)	up to 200	1981	Decision expected late summer 1981.	M of S(DP) may visit later this year.	France
	Scorpion (200)	up to 40	1981	Decision may be made summer 1981.		France

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 MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Saudi Arabia	Extension of MOU covering Air Defence Project (SADAP)	650	1982	Despite delays caused by appointment of new Saudi negotiating committee, MOU expected to be signed by end 1981	Favourable indications given by Prince Sultan to S of S, June 1981	
	Tornado/P110 (See also Iraq, Jordan and Oman)	500+	1986/87	Answers to Saudi questionnaire on Tornado being prepared. Prince Fahd Abdullah has been invited to fly the Tornado.	Discussed by PM and S of S in Riyadh and with Prince Sultan in London	France, USA
	Hawk	120+	1984	RAF team gave successful flying training presentation to RSAF May 81 in support of Hawk prospects.	"	France
	Air Force Air Defence Radar System	200	1982	Marconi proposing update and extension of existing system against strong US competition.	-	USA
	Nimrod Airborne Early Warning	200	1982	Doubt over US willingness to supply AWACs has aroused considerable Saudi interest in UK kit. Two RSAF officers to visit UK soon to study Nimrod.	S of S discussed with Prince Sultan, London - June 1981	USA
	SANGCOM - Phase II	c 250	1981-2	Progress awaits discussions at official level.	-	
	Tanks for National Guard	45	Mid 80s	Joint DSO/IMS/Vicker presentation to the Guard in April. Visit to UK offered.	Discussed by PM during Apr 81 visit.	France, FRG, USA
	Security of Off-Shore Installations	Not Known	Not Known	Successful visit by Saudi delegation in May to view UK organisation and equipment. Report will go to Prince Naif.	"	Not Known
	Wavell and Associated Command and Congrol System for National Guard	200	Not Known	A joint MOD/Plessey team is giving further presentations and submitting proposals this month with budgetary cost information.	-	USA
	FH 70	130	1981	Negotiations for 72 guns plus ammunition, vehicles and supporting equipment underway.	S of S discussed with Prince Sultan, London - Jun 81	
SANGMED	150	1981	MOU/Letter of Agreement covering Jeddah hospital value approx £150M, signed in May. Good prospect for Riyadh hospital but strong US competition.	PM has written to Prince Abdullah promoting British case for second hospital	USA, France, Australia	
Abu Dhabi	Hawk and Aircraft Training	60	1981	PM secured agreement in principle to purchase. Second round of negotiations commenced late Jun 81	Visits by S of S in Mar and PM in Apr	France
	Military Engineering Package	80	1981	IMS visit late Jun 81		Not Known
	Electronic Warfare	100 (initially)	Not Known	Tenders submitted by Racal/MSDS and Plessey Jun 81		France, Italy FRG, USA
Dubai	Hawk (8)	42	1981	Contract now signed	S of S's visit in Mar 81 PM's visit Apr 81	France, Italy

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 MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Iraq	Hawk (Licenced Manufacture)	1000+	1982/82	BAe feasibility study well underway. In-country hot weather trials due Jul 81		France Italy
	Tornado/P110	500+	mid-late 1980s	Strong Iraqi interest in Tornado IDS but, because of difficulties with FRG, Iraqis being steered towards participation in joint Arab consideration of P110 derivative.		France
	Engineer Package: Centaur/Barmine/Ranger	75	1981/82	A long-standing requirement given higher priority by the Iraqis since the start of the war. Security problems an impediment.	Ministers to consider security constraints.	Not known
	Naval Base/IWC	4-5 initially. Possibly up to 500	1981	IMS close to securing contracts for IWC package and Naval Base design study. Agreement still to be reached on question of bonds and guarantees.	Mr Nott has written letter of support to Iraqi Minister of Defence.	France
	Refurbishment of Captured Chieftains	25+	1981	IMS currently in Iraq to categorise the captured vehicles.	Ministers have agreed to overhaul in Jordan and provision of non-lethal spares.	
	New MBTs and Artillery	Up to 1000	1982?	Iraqi General Staff have requested offer for further 200 MBTs based on Khalid and for FH70 (quantity of 500 mentioned).	Ministerial agreement in principle to supply conveyed to Iraqi Minister of Trade by S of S in June.	France
Jordan	Rapier	100-200	1981	BAe/DSO sales campaign completed. Outcome of Jordanian evaluation exercise awaited.	S of S plans to visit Autumn 1981	France
	Tornado/P110 (See also Iraq, Saudi Arabia, Oman)	Not known	mid-late 1980s	Jordan to take lead in further talks with UK and France on meeting joint Arab requirement for advanced fighter/ground attack aircraft. Technical committees likely to be set up in August.	PM's correspondence and meetings with King Hussein.	France
Egypt	Rapier	85	1981	Rapier in competition with Crotale. Price will be a problem, but ECGD credit available.	S of S plans to visit Autumn 1981	France
Oman	Armour Requirements Tanks	100	1981/2	Lease of 12 BA Chieftains recently concluded. Draft contract for sale of 35 tanks with option on further 18 to be presented Jul 81.	Visits by S of S and PM, Mar/Apr 81.	USA
	APCs	40	Not known	Possible requirement for up to 130 Stormer APCs		France, Brazil Austria
	Tornado (See also Iraq, Jordan and Saudi Arabia)	Not known	Not known	Omani pilot flew Tornado in April		

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 MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Oman (Cont)	Landing Ships Logistic (LSL)	45	Not known	Brooke Marine and Yarrows have tendered. BM preferred by Assessment Team. Short list for decision by Sultan Qaboos likely to include BM bid plus one each from France and FRG.	<i>Mr Nott has written to Oman's Defence Ministry, July 81</i>	France, FRG
Qatar	Rapier	150	1981	£71M contract for 1 battery signed mid Jun 81. Prospects for 2 more batteries.	Visits by S of S and PM 1981.	USA, France
Kuwait	Tanks	100		Interest in further 50-150 Chieftain tanks.	PM to visit Sep 81	Not known

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 MAJOR DEFENCE SALES PROSPECTS

NORTH AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
USA	Rapier	170	1981+	UK/US MOU signed Feb 81 covering 32 fire units for USAF bases in UK. Letter of Intent received and work at BAe begun. Order may be increased to cover 46 units. Possible further sale of 42 units for US RDF.	S of S, M of S and US of S(RAF) heavily involved in pressing Rapier sale.	USA France
	81 mm mortar	80-100	1982+	Co-development contract for modification of weapon to meet US requirements, expected late summer 1981.	PM and S of S promoted all current UK equipment prospects during their February 1981 visits. US of S(RAF) followed these up during his March/April visit.	USA
	Combat Support Boat	20	1981	Possible USMC requirement for 24 boats in FY 1983 and there is a prospect of a follow-on US Army purchase of an additional 300 boats. Longer term prospects for further 1300+ boats.		USA
	Searchwater radar	50	1982+	US Navy seeking funds for formal evaluation of Searchwater.		USA
	Hawk	Not known	1989/9	BAe in collaboration with McDonnell Douglas have been awarded contract for detailed design proposals for US Navy pilot training system. If Hawk is chosen potential value to BAe would be \$1BN+. Strong competition.		USA France Italy
	ICS3	50-100	1982	Elements of ICS3 High Frequency Communication System being evaluated by US Navy.		USA
	Stingray	Not known	Not known	US Advanced Lightweight Torpedo programme encountering difficulties. This is prompting US interest in Stingray technology. Stingray also competing for torpedo requirement in US ASW Stand-Off Weapon System.		USA
	Scorpion	Not known	1982/3+	Scorpion competing for Mobile Protected Weapons System (MPWS) and Light Armoured Vehicle (LAV) requirements. \$1.25M design contract for MPWS won by Alvis.		USA Canada
	UK LAW 80	Not known	Not known	USMC see requirement for weapon like LAW for their own and RDF use. USMC have said that they do not want US VIPER system to which US Army remains committed.		USA FRG France Israel
	High Mobility Multi-Purpose Wheeled Vehicle	Not known	1982 (for prototype vehicle)	DOSCO is one of 5 finalists in competition. Decision on which 2/3 firms will progress to evaluation contract (11 vehicles) expected July 1981. Total production requirement could be 50,000 + vehicles.		USA FRG



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2
Prime Minister 2
for information
East 2/7

FCS/81/92

SECRETARY OF STATE FOR DEFENCE

MT

Algeria

1. Thank you for your minute of ~~8~~ June in which you suggested that we should seek the views of our post on security aspects of defence sales to Algeria. This has been done and the Ambassador's assessment is being considered by officials.

2. I am convinced that the Algerian interest in buying arms from British manufacturers is genuine, as one element in their search for a more credible non-aligned position. They appear to have learned the lessons of Afghanistan and of the Soviet volte face in Ethiopia and Somalia and to be casting round for alternative suppliers. Prospects for British manufacturers are good. Britain's armed forces and defence equipment enjoy a high reputation and we have the added advantages, in their eyes, of being neither a super-power nor French.

3. At the moment Algeria's security rating is so low that a wide range of equipment would be unavailable to them. I hope that a review will enable the Algerians to purchase some more sophisticated equipment. We are otherwise unlikely to make any headway in the Algerian market, which looks increasingly promising, and in changing Algeria's present dependence on the Soviet Union as her principal arms /supplier.



supplier. Release up to 'Restricted' as enjoyed for example by Libya is, I think, the minimum requirement, and we should if possible be prepared to consider 'Confidential' on occasions (this would put Algeria on a par with, say, Morocco, Pakistan and India).

4. So far as political clearance is concerned our line has been up to now that, in addition to general constraints, we should not wish to upset the military balance in the Maghreb or to supply controversial weapons. This has, in effect, meant parity with Morocco. I see no reason why we should not be able to continue to adopt this line.

5. I understand that Mr Jeffs, Deputy Head of Defence Sales, is due to visit Algiers at the beginning of August for high level talks. It would clearly be useful if a decision could be reached on security clearance before then. We appear well placed to make ground with the Algerians and should not wish to see any delay.

6. It would be helpful therefore if your officials, with any help they require from mine, could put in hand as soon as possible a review which would enable us to adopt a positive policy on arms sales to Algeria.

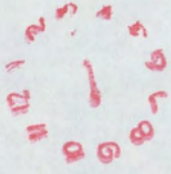
7. I am copying this minute to the Prime Minister, John Biffen and Sir Robert Armstrong.

C
(CARRINGTON)

Foreign and Commonwealth Office

2 July 1981

1911 OCT 23



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OFFICE OF THE CHAIRMAN
AND CHIEF EXECUTIVE
SIR JOHN CLARK

THE PLESSEY COMPANY LIMITED
MILLBANK TOWER · LONDON
SW1P 4QP

30th June 1981

8
2/7

PPS - ?

PA

Wm
3/7

The Rt Hon Mrs Margaret Thatcher MP,
Prime Minister,
10 Downing Street,
Whitehall,
London S.W.1.

Dear Prime Minister,

Thank you very much for your letter of 19th June
about the WAVELL project. I am most grateful to you
for your continuing support and as you will realise
Plessey are delighted that both project WAVELL and
project PTARMIGAN are to be included in the revised
Defence programme.

Sincerely

John Bealy



TELEPHONE 01-834 9641
FACSIMILE 01-828 5889
TELEX 917530

Directors: Sir John Clark, Michael Clark CBE, W J Dalziel CBE, P I Marshall, W J Sinsheimer (USA).
Lord Brookes, F K Chorley, A G Frame, G C Gaut CBE, Sir Raymond Penneck,
D H Pitcher, T G P Rogers, Sir Francis Sandilands CBE.

Middle East



MFS 27/6

file

10 DOWNING STREET

THE PRIME MINISTER

29 June 1981

Dear Sir Austin,

Thank you for your letter of 23 June with the excellent news about Rapier. I hope the order for the first battery will lead on to many more.

Yours sincerely,

Margaret Thatcher

Sir Austin Pearce, C.B.E.

LPO

British Aerospace

PUBLIC LIMITED COMPANY

Brooklands Road
Weybridge
Surrey KT13 0SJ

Telephone: Weybridge (0932) 45522
Telegrams: Britair Weybridge
Telex: 27111

From the Chairman,
SIR AUSTIN PEARCE, CBE

The Rt Hon Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, S.W.1.

23rd June, 1981.

R25

Dear Prime Minister,

I am sure you will be pleased to know that we have at last signed the order for the first battery of Rapier to be supplied to Qatar. This was the culmination of many years of hard work during which we received considerable assistance and support from our Ambassador, Mr. Colin Brant.

Unfortunately as with Singapore, with whom we signed a contract earlier this year, Qatar has asked that no publicity should be given to this sale, and so in the near-term we are unable to make commercial capital from it. The information will in due course leak out, but we believe it is most important to respect the customer's wishes, if for no other reason than we are quietly optimistic of further orders in due course.

In sending this letter I would like to say thank you for your efforts on our behalf in this respect, as well as those of John Nott.

Yours sincerely,

Austin Pearce



cc FCO
MOD

bk

CF file?

10 DOWNING STREET

THE PRIME MINISTER

*Key
I'd rather not
AJ 19/6
For CF
8/3/7*

19 June 1981

Dear Sir John

Thank you for your letter of 8 June about the WAVELL project. I am pleased that we have been able to help to open the way for a sale of WAVELL to Saudi Arabia.

You expressed your concern about the possibility that WAVELL might be cancelled by the Ministry of Defence. As you know, John Nott is conducting a thorough review of the Defence programme. This is not yet completed and I am therefore unable to say whether WAVELL will be included in the final programme. I have, however, drawn your observations to his attention.

signed

MT

Sir John Clark

jfh

010



WITH
THE COMPLIMENTS OF THE
PRIVATE SECRETARY

MINISTRY OF DEFENCE, WHITEHALL

Telephone: 01-218 9000
01 218

British Aerospace

PUBLIC LIMITED COMPANY

ADMIRAL SIR RAYMOND LYGO, KCB
Chairman and Chief Executive

RL/GCW/SC

Dynamics Group

Group Headquarters
P.O. Box 19, Six Hills Way
Stevenage
Hertfordshire SG1 2DA

Telephone: Stevenage (0438) 2422
Telegrams: Britair Stevenage
Telex: 825125/6

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Windle East

(2)

18th June 1981

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

Prime Minister
To be aware of the point
at X.
md *And*
for *Am*

Dear Secretary of State,

Just a short note to let you know that the order for the first battery of Rapier was signed in Qatar on Sunday morning, 14th June. This was the culmination of many years of work but I would particularly like to mention the strong support of our Ambassador, Mr Colin Brant.

X

The main purpose of this letter is to say thankyou to you for your efforts on our behalf which led so successfully to the Prime Minister's visit and the conclusion soon thereafter of this contract. Unfortunately, like Singapore, with whom we signed a contract earlier this year, Qatar has asked that no publicity should be given to this sale and so we are unable to make commercial capital from it. Nevertheless we believe it most important to respect the customer's wishes, if for no other reason than we are quietly confident of further orders for a battery or two in the fullness of time.

John Nott
[Signature]

CONFIDENTIAL

Middle
East



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-9307622 218 2111/3

Type for PM's signature

MO 26/4

17th June 1981

Handwritten initials

Stan Michael

I attach a draft reply for the Prime Minister to send to Sir John Clark in response to his letter of 8th June, and about which we have spoken.

For your information, WAVELL is a computerised system for analysing, displaying, and distributing to battlefield Commanders data which they need to conduct a mobile war. An early version is in use with one Division in BAOR but has proved incapable of surviving the stresses of operation in armoured command vehicles. A more rugged and effective version is under development. My Secretary of State is still considering whether WAVELL should be included in the forward defence programme: a decision on this is dependent on the level of resources allocated by Cabinet to Defence.

The system is some two to three years ahead of any being developed elsewhere and we have long recognised that it should have considerable overseas sales potential. We therefore suggested to Sir John Clark last year that his company might invest some of its own money in the project. At first, Plessey refused to invest its own money in the project, but under continuing pressure from MOD officials, they have come to accept that they should make a contribution. Most recently Plessey has offered to pay for further development of the 'bubble memory' but this proposal still needs to be clarified.

Turning to the sales prospects, the potential market is extensive as Sir John Clark says, particularly in the Arab world, although the only firm proposal relates to the Saudi Arabian National Guard. Here, the Defence Sales Organisation has been pressing the case for Wavell with some success, and chances are reckoned to be good. One advantage we have is that supply and operation of the system could be spliced into the existing SANGOM project which is now well established. It would, as I explained to you last week on the telephone, have been inappropriate - and possibly

M O'D B Alexander Esq

1

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counter-productive to have raised this with King Khaled as he was accompanied by Prince Sultan, the Saudi Minister of Defence and Aviation. The National Guard is as you will recall the responsibility of Prince Abdullah and the two Princes compete for the agreement of the Council of Ministers for funds for their respective projects.

I am copying this letter to Francis Richards (FCO).

Yours sincerely
Peter Dawson.

(J D S DAWSON)

CONFIDENTIAL

DRAFT LETTER FROM THE PRIME MINISTER TO SIR JOHN CLARK

Thank you for your letter of 8th June about the WAVELL project. I am pleased that we have been able to help to open the way for a sale of WAVELL to Saudi Arabia.

You expressed your concern about the possibility that WAVELL might be cancelled by the Ministry of Defence. As you know John Nott is conducting a thorough review of the Defence programme. This is not yet completed and I am therefore unable to say whether WAVELL will be included in the final programme. I have, however, drawn your observations to his attention.

[Finally, I should say that I did not raise the matter of WAVELL with King Khaled. This was because he was accompanied only by Prince Sultan his Minister of Defence and Aviation, and not by the Commander of the National Guard, Prince Abdullah.]

CONFIDENTIAL

JS
cc 720

15 June 1981

UAE - WARSHIP EXPORTS

The Prime Minister has seen and taken note of your letter to me of 11 June on this subject.

I am sending a copy of this letter to Francis Richards (FCO).

MICHAEL ALEXANDER

J.D.S. Dawson, Esq.,
Ministry of Defence.

C.

CONFIDENTIAL

GR 73
DESKBY 140900Z
CONFIDENTIAL
FM DOHA 140626Z JUN 81

TO IMMEDIATE MODUK
TELEGRAM NUMBER 140626Z OF 14 JUNE
AND TO F C O (MED AND DEFENCE DEPT).

FOR JEFFS AND SALES 1(C): OUR TELNO. 010620Z JUN 81.
MOD RESIDENT CLERK PLEASE PASS TO JEFFS AND TIPPING SALES 1(C).

1. RAPIER CONTRACT WAS SIGNED THIS MORNING. IT INCLUDED A LAST
MINUTE ADDITIONAL CLAUSE FOR BAE TO PROVIDE SUPPORTING TRANSPORT
AND COMMUNICATIONS. SUPPORT PACKAGE IS WORTH £1.3 MILLION AND TOTAL
CONTRACT £71.3 MILLION. DETAILS FOLLOW.

BRANT

LIMITED
DEF. D
MED
NENAD
ACDD
TRED
PS/MR HURD
SIR A ACLAND
SIR J GRAHAM
MR GILLMORE
MR MOBERLY

CONFIDENTIAL

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7622~~ 218 2111/3

MO 26/9/4

11th June 1981

John Michael,

[Handwritten initials]

Prime Minister

(4)

[Handwritten signature]

UAE - WARSHIP EXPORTS

You asked for background on the assertion made by Dr Al Otaiba, the Emirates Minister of Petroleum, to the Prime Minister in Abu Dhabi that "he was surprised HMG had not made more effort to sell warships to the Emirates". You will recall that David Omand here corresponded with Clive Whitmore about this and other UAE Defence Sales points last year (his letter of 10 December 1980 refers).

please see Pt 1

By way of explanation, I should first say that the UAE has a very small navy consisting of fast patrol vessels and other small craft. Our Defence Sales staff are not aware of any requirements for larger ships. Moreover, the UAE have a severe indigenous manpower problem and most vessels have to be manned by expatriate personnel on contract. This limits effectively both the size of the navy and of individual units. There are, therefore, only comparatively limited opportunities for business.

In recent years the UK has successfully sold Vosper Thornycroft 110 foot patrol craft and other, smaller vessels. We have, however, lost a more recent competition for 45 metre patrol craft to West Germany for reasons of price and delivery. (Background on this is contained, again, in David Omand's letter of 10th December). We have also been trying to interest the UAE in hovercraft but we understand that their plans have been shelved for the time being. The

M O'D B Alexander Esq

CONFIDENTIAL



Commander of the UAE Navy has shown particular interest in RN training arrangements, and British firms are currently ~~tendering~~ for the design of programmes for a proposed Naval Training Centre to be completed in 1982.

I will keep you informed of developments.

I am copying this letter to Francis Richards (FCO).

Yours sincerely

Jonathan Dawson

(J D S DAWSON)



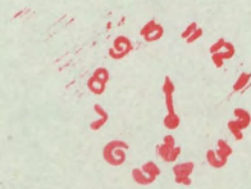
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CONFIDENTIAL

11 JUN 1981



Pop copy
Saudi Arabia,
King Khalid Visit
(F. 10/11)



cc: MOD
FCO

10 DOWNING STREET

THE PRIME MINISTER

8 June 1981

Dear Sir Austin

Thank you very much for your letter of 2 June 1981 about King Khalid's visit. As I am sure you are now aware, Lord Trenchard called a meeting, on 3 June 1981, of officials and your representatives, including Sir Frederick Page, to discuss the P.110 project and the line that should be taken during King Khalid's visit. I understand that the meeting was in full agreement in this respect and I can assure you that I will take the fullest opportunity to express our support for the project and our willingness to enter into discussions over possible collaboration in it.

I shall also be prepared to speak about the Nimrod AEW aircraft if this subject is raised.

Yours sincerely

Raymond Stelter

Sir Austin Pearce, C.B.E.

855

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ds

10 DOWNING STREET

From the Private Secretary

8 June 1981

bf 28-6-81

I enclose a copy of a letter which the Prime Minister has received from the Chairman of Plessey about Wavell. I should be grateful for a very early draft reply which the Prime Minister might send to Sir John Clark.

There is also the question of the line which the Prime Minister should take with King Khalid on Wednesday. I should be grateful if you could have a word with me on the telephone tomorrow about this.

I am sending a copy of this letter and its enclosure to Francis Richards (Foreign and Commonwealth Office).

M. O'D. B. ALEXANDER

David Omand, Esq.,
Ministry of Defence.

~~CONFIDENTIAL~~

PERSONAL



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 5/3/3

8th June 1981

John Kenneth

*kg
Nott*

Thank you for your letter of 8th June. I was aware of the Saudi interest in the Nimrod Airborne Early Warning aircraft as a possible alternative to the Boeing AWACS. Mr Pateman has already been in touch with the Prime Minister's office and with my Department and the Prime Minister is fully briefed on the Saudi interest. At No 10's request my Private Secretary has already replied to Mr Pateman's letter to the Prime Minister and I attach a copy. I am sure that such a sale would be a major achievement, and it could also be very advantageous to the Royal Air Force. We will certainly do our best to encourage Saudi interest further.

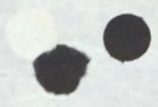
Like you I am copying my letter to the Prime Minister.

*Yours ever
John*

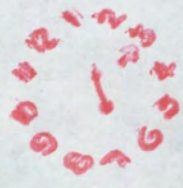
John Nott

Kenneth Warren Esq MP

PERSONAL



1961 JUN 6



CONFIDENTIAL

8 June 1981

My dear John.

Having recently returned from a 'Defence' visit to the US, I am very much aware of the political problems the Americans are having in relation to their planned deployment of AWACS Aircraft in Saudi Arabia. I understand that an ex business colleague of mine, Jack Pateman, Managing Director of Marconi Avionics has written to the Prime Minister suggesting that she proposes to King Khaled this week during his visit that he should buy Nimrod AEW Aircraft instead.

This is a suggestion I heartily endorse as its operating capabilities are much more in tune with what the Saudi's need than the Boeing Aircraft and I think it would prove politically acceptable to the Israeli's. In any case the Americans are having so much software trouble with AWACS that the Saudi's at least would have an aircraft which worked.

Yours ever,

Ken. Watten MP.

Rt Hon John Nott MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1

cc Rt Hon Margaret Thatcher MP ✓

010
OFFICE OF THE CHAIRMAN
AND CHIEF EXECUTIVE
SIR JOHN CLARK


THE PLESSEY COMPANY LIMITED
MILLBANK TOWER · LONDON
SW1P 4QP

8th June 1981

The Rt Hon Mrs Margaret Thatcher MP,
Prime Minister,
10 Downing Street,
Whitehall,
London SW1.

Dear Prime Minister,


WAVELL

I was most grateful to you when during your recent visit to Saudi Arabia you talked about British defence equipment that could make a significant contribution to the Saudi Arabian defence strategy, and I am happy to inform you that as a result of your initiative the Saudis are most enthusiastic about Wavell. Plessey representatives, working closely with Ministry of Defence Sales, have already staged a demonstration of the system in Saudi Arabia, and we have now heard that it was extremely well received - particularly as it was clear to the customer that the competitive presentation by the US Department of Defence was far short of our own. There can be no doubt that we are between two and three years ahead of the American competition and technology.

Plessey were also grateful to you for mentioning British defence equipment in Washington during your recent visit. My brother Michael Clark, who has just returned from America, tells me that the Pentagon is only now going out to tender for a system (code-named SIGMA) which will in due course - but certainly not within two to three years - provide the US Army with a system comparable to WAVELL, which has already been in use by the British Army in Germany for over a year.

You will I think understand our consternation therefore to be told that WAVELL is under active consideration by the Ministry of Defence for cancellation. This would be absolutely catastrophic in respect of the Saudi Arabian potential, which alone amounts to a minimum of £200 million of export, and would cut from beneath our feet any chance of pursuing a joint programme with the United States.

/2.

 TELEPHONE 01-834 9641
FACSIMILE 01-828 5889
TELEX 917530

Directors: Sir John Clark, Michael Clark CBE, W J Dalziel CBE, P I Marshall, W J Sinsheimer (USA).
Lord Brookes, F K Chorley, A G Frame, G C Gaut CBE, Sir Raymond Pennock,
D H Pitcher, T G P Rogers, Sir Francis Sandilands CBE.

We believe that over a period of time the Middle East potential for WAVELL is well in excess of £500 million, and in addition, the NATO potential alone for C3 (Communications Command and Control) is estimated at £1500 million: WAVELL is Britain's entrance fee to this vast market. In addition to Saudi Arabia a number of other Middle East countries are potential customers for WAVELL: Kuwait, Qatar, United Arab Emirates, Oman, Egypt, Iraq, Greece, Turkey, Algeria and Libya. If the British Army cancel its requirement, none of this potential could possibly be realised. Cancellation of the project would immediately be known to our potential Middle East customers, and would cause them to lose confidence in the system on technical rather than financial grounds.

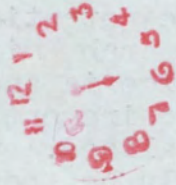
If some cut-back is absolutely essential, then so be it. But cancellation would be devastating.

I hope you will forgive me writing to you personally, but in view of the impending visit of King Khaled, and your own initiative in support of British defence equipment, I felt you would wish to be fully in the picture.

Yours sincerely

Tina Turner

JUN 1981
18 JUN 1981



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(2)

MO 26/9/1

Prime Minister

MS. [Signature]

FOREIGN AND COMMONWEALTH SECRETARY

ALGERIA

Thank you for your minute of 2nd June, about improving our military co-operation with Algeria. I have also seen the Prime Minister's comments.

2. I am glad that you established contact with Colonel Belloucif and were able to discuss prospects with him. As you say, Defence industries are actively promoting UK equipment in Algeria at the moment. The Defence Sales Organisation arranged a successful demonstration of the Shorland armoured car and Fox in Algeria last week; an Algerian team is in the UK evaluating the Hawk this week; and Brooke Marine have been invited out again next week to finalise negotiations on fast patrol craft.. This is a follow-up to a recent visit by a team which looked at warship-building generally. With the upsurge in interest, Defence Sales have been planning to visit Algiers before the end of the month to follow up your visit and to ensure a co-ordinated and effective response to the Algerians' interest. Unfortunately, I gather Sir Ronald Ellis's programme is now fully committed for several months ahead but his deputy, Peter Jeffs, plans to make a visit as soon as possible. I am sure this is important.

3. I share your view that we should encourage Algeria's shift towards genuine non-alignment. We will, of course, have to be careful over supplying our most sensitive technology, as Algeria has a very low security rating in view of the large number of Soviet and allied military advisers still resident there. This will not stand in the way of our responding quickly and constructively to their interest



in much UK equipment, but it does limit severely the kind of training which we are able to offer. As the last security assessment on Algeria was made in 1978, I think it would be helpful if your Department could set in hand an early and new assessment - starting with a report from the Post.

4. You mentioned Algeria's financial strength. I gather from my officials that ECGD would respond favourably to export cover and credit for defence sales.

5. Finally, you raised the question of posting a Defence Attache to Algiers. Defence Sales have already been thinking about this and the possibilities will be looked at further during the next Sales visit. As a start it might be possible for an Attache from elsewhere to be given visiting accreditation. We will follow this up as quickly as possible through the usual channels. Because of the ceiling on numbers, however, the establishment of a new post in Algiers will have to be at the expense of another Attache post elsewhere.

6. I am copying this to the Prime Minister and also (with the earlier correspondence) to John Biffen who has a major interest.

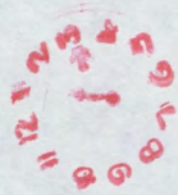
SW

Ministry of Defence

5th June 1981



9 JUN 1981



Top Copy

Saudi Arabia
Visit of King Khalid



CONFIDENTIAL

MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~938 2022~~ 218 2111/3

MO 5/3/3

5th June 1981

Letter to type for PM's signature

Am

Dear Michael,

VISIT OF KING KHALID

Thank you for your letter of 2nd June 1981.

We are well seized of the necessity to raise the subject of the P.110 project during King Khalid's visit. A meeting was held here last night by Lord Trenchard which was attended, inter alia, by the Managing Director of the Aircraft Group, BAe (Sir Frederick Page), to agree the line we should recommend the Prime Minister, and other Ministers, to take in discussions with the Saudi delegation. It was agreed that we should take a positive line to encourage discussions on a possible collaborative venture with the Saudis on the P.110, and a brief is being prepared accordingly. Mr Nott has asked me to add that there is at present no financial provision for P.110 in MOD's budget; a collaborative venture with the Saudis would have to be funded either by industry or by additional MOD resources.

The separate subject of the Nimrod AEW to which Sir Austin Pearce also alludes in his letter, and on which you have received a separate letter dated 2nd June 1981 from the Managing Director of Marconi Avionics, is a little more difficult. It is true that the Saudis have expressed interest in the Nimrod AEW aircraft because of the difficulties that have arisen in the US Congress over the supply of AWACS aircraft. How far this is genuine and how far it is bluff directed at the US is speculative. Taking it at its face value, however, our problem in responding to this interest is that the Nimrod is out of production and the system we would offer is an adaptation of the Nimrod AEW system which is as yet unproven. We will, of course, respond to the Saudi interest (and indeed Marconi intend to make a presentation in Riyadh soon) but the delivery time is probably not attractive to the Saudis (though re-opening of the Nimrod line could have advantages for us). In view of the uncertainties (e.g. the final attitude of Congress) we do not believe the subject should be positively raised by the Prime Minister. But, if the subject is raised, our brief will recommend that the Prime Minister responds along the lines that we would be glad to discuss the requirement and what would be possible as regards delivery.

1

M O'D B Alexander Esq

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-8337022 218 2111/3

MO 5/3/3

4th June 1981

Dear Mr Pateman,

Thank you for your letter of 29th May 1981 to the Prime Minister, about the Nimrod AEW aircraft.

I understand you have already been advised that King Khalid's programme is too tight to permit a visit to Borehamwood and Radlett. However, we have heard from several sources of the interest of the Saudi Government in the alternative UK system to the AWACS aircraft, and we do expect this subject to be raised during the visit of King Khalid. If so you can be assured that we will take the opportunity to encourage the interest and to offer a presentation and discussions on the UK system to the Saudi MOD and Air Force.

Yours sincerely
James Dawson

(J D S DAWSON)
Private Secretary

J E Pateman Esq

DRAFT LETTER FROM THE PRIME MINISTER TO SIR AUSTIN PEARCE CBE
CHAIRMAN, BRITISH AEROSPACE, BROOKLANDS ROAD, WEYBRIDGE, SURREY

Thank you very much for your letter of 2nd June 1981 about King Khalid's visit. As I am sure you are now aware, Lord Trenchard called a meeting, on 3rd June 1981, of officials and your representatives, including Sir Frederick Page, to discuss the P.110 project and the line that should be taken during King Khalid's visit. I understand that the meeting was in full agreement in this respect and I can assure you I will take the fullest opportunity to express our support for the project and our willingness to enter into discussions over possible collaboration in it.

I shall also be prepared to speak about the Nimrod AEW aircraft if this subject is raised.

MFJ

CONFIDENTIAL

*Middle
Gart*

4 June 1981

Algeria: Defence Sales

The Prime Minister has seen a copy of the Foreign and Commonwealth Secretary's minute of 2 June to the Defence Secretary on this subject. The Prime Minister has said that she hopes that the possibility of developing our defence sales effort in Algeria will be followed up energetically.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

MODBA

B.M. Norbury, Esq.,
Ministry of Defence.

CONFIDENTIAL

SK

Top Copy Saudi Arabia
Visit of King Khalid

British Aerospace

PUBLIC LIMITED COMPANY

Brooklands Road
Weybridge
Surrey KT13 0SJ

Telephone: Weybridge (0932) 45522
Telegrams: Britair Weybridge
Telex: 27111

From the Chairman,
SIR AUSTIN PEARCE, CBE

The Rt Hon Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, SW1.

2nd June, 1981.

Dear Prime Minister,

Following your initiatives in January and your subsequent tour in the Middle East, we have been vigorously pursuing sales of Tornado, Hawk and the P.110 project in the Middle Eastern States.

In the light of the very favourable response we have received in Saudi Arabia and other Gulf States on the P.110 project we believe there is a singular opportunity during this visit of King Khaled to consolidate an understanding of interest between our two Governments on this important programme.

HRH Prince Sultan bin Abdul Aziz, the Minister of Defence and Aviation, in a meeting with our Managing Director, Military Aircraft, last week, referred to his meeting with you in Saudi Arabia, where you raised the possibility of a joint venture in the development and production of this advanced combat aircraft. Prince Sultan also mentioned the current competition for Arab funding of the Mirage 4000 with the hint that there might be a possibility of a joint programme with the Franch. For obvious reasons we would not encourage this idea.

Based on our assessments of the future market we visualise an Arab requirement of about 200 aircraft, exports elsewhere of 200 aircraft and, in due course, when funding permits, for the Royal Air Force, possibly somewhere of the order of 100.

As a total programme this could amount to sales of over £5,000M and if there is a substantial Arab contribution towards the launching costs, we envisage an eventual commitment from the Middle East of over £2,500M.

The Middle East States are greatly influenced by the attitude of Saudi Arabia on such matters, because the major part of the funding would emanate there. Moreover, there is a sense of urgency in arriving at a decision since if the P.110 project concept is not followed up during this visit, the opportunity may be lost completely.

/You will be

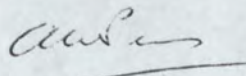
You will be aware of the powerful French Government lobby in promoting the Mirage 4000 for Arab sponsorship. Irrespective of what we in British Aerospace may be able to do by way of promotion, it is essential that HMG is prepared to enter into a friendly and direct relationship with the Arab States, since it is only the Government that will be able to give the necessary inter-governmental undertakings that this kind of collaborative enterprise requires.

If we are successful in this enterprise, it would provide several thousand jobs in other companies as well as in British Aerospace. I have discussed this project with Lord McFadzean since Rolls-Royce are an integral part of the proposal and would benefit as would a significant number of avionics and equipment companies who are pressing for a UK project of this type.

We have also been advised that Prince Sultan might raise with you the subject of the Nimrod AEW aircraft. If it is raised it is likely to be in the context that the Saudis are experiencing some difficulties in acquiring the Boeing AWACS aircraft, largely because of blocking moves by Congress. We in British Aerospace have not been promoting the Nimrod, and although we are always interested in sales, there are reasons why we would prefer to exercise caution at this stage.

If you so wished, I and my colleagues would be very pleased to see you, or any of your Ministers or officials, to discuss matters relating to this most important visit. In view of the short time available I am copying this letter to Lord Carrington, Mr. Nott and Sir Keith Joseph, whose staffs are aware of the background.

Yours sincerely,



cc: Lord Carrington
Mr. John Nott, MP
Sir Keith Joseph, MP
Sir Ronald Ellis, MoD
Lord McFadzean, R-R

Top Copy
Saudi Arabia,
Visit of King Khalid

FILE



MR PATEMAN

Marconi Avionics 23/6

BK

cc FCO

10 DOWNING STREET

From the Private Secretary

2 June 1981

I enclose a copy of a letter which the Prime Minister has received from the Managing Director of Marconi Avionics about the possibility of interesting King Khaled in the purchase of Nimrod AEW.

In acknowledging Mr. Pateman's letter, I have said that I doubt whether there would be any possibility of King Khaled visiting Marconi Avionics, but that I would pass his letter on to those concerned in case advantage could be taken of the State Visit in some other way to advance the case for Nimrod AEW. You may like to consider, together with Francis Richards (FCO), to whom I am sending a copy of this letter and its attachment, whether anything can be done. I should be grateful if you would let me have a copy of the letter you send to Mr. Pateman.

M. O'D. B. ALEXANDER

David Omand, Esq.,
Ministry of Defence.

Top copy
Saudi Arabian
visit of King Khalid



SK

10 DOWNING STREET

From the Private Secretary

2 June 1981

I am writing on the Prime Minister's behalf to thank you for your letter to her of 29 May about the possibility that King Khaled might visit Marconi Avionics to discuss Nimrod AEW. I fear that there will be no possibility at this stage of amending King Khaled's programme. But I am passing your letter on to those concerned in case your suggestion can be pursued in some other way.

M. O'D. B. ALEXANDER

J. E. Pateman, Esq.



10-DOWNING STREET

From the Private Secretary

2 June 1981

Handwritten notes:
KIM
CF
no note to return
for please return to me.
AGS/p

Top copy Saudi Arabia
visit of King Khalid.

Dear Brian,

Visit of King Khalid

Your Secretary of State has received a copy of a letter which the Chairman of British Aerospace has sent to the Prime Minister about King Khalid's visit. Sir Austin Pearce argues that we should take advantage of King Khalid's visit to consolidate an 'understanding' between HMG and the Saudi Government about the P.110 project.

As you will have seen, Sir Austin offers to discuss the matter with the Prime Minister, or any other Minister, in advance of King Khalid's arrival. I should be grateful for early advice and for a draft reply which the Prime Minister might send.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office) and Ian Ellison (Department of Industry) both of whose Ministers have also received copies of Sir Austin Pearce's letter.

Yours sincerely

Richard Alexander

Brian Norbury, Esq.,
Ministry of Defence.



(2)

*FS
Amh*

*Prime Minister
Encouraging*

*Amh
2/6*

MS

FCS/81/63

SECRETARY OF STATE FOR DEFENCE

Algeria: Defence Sales

1. At the end of my visit to Algeria on 26-28 May I called on Colonel Belloucif, Secretary-General at the Ministry of Defence (Colonel is the highest rank in the Algerian forces, and there is no minister). He spoke very positively about the prospects for increased military cooperation between us, saying that it had been inadequate in the past (though he referred to some training of Algerian personnel which had taken place in the UK, and to the Army's use of British communications equipment). He said that the right conditions for increased cooperation now existed, referring to the cordiality of our political relations, of which the atmosphere during my own visit was certainly evidence. Algeria was interested both in more training in the UK and in buying more defence equipment from us. Their interest was particularly strong in the navy, and he spoke of the development of naval training and requirements for 'intelligence gathering vessels' and landing craft, though there was also interest on the army and air side and he mentioned their current interest in Hawk and Fox, as well as the possibility of assembling Landrovers in Algeria.

2. I told him that this Algerian interest was welcome to us, and said that the best way for us to respond to what he had said might be for the Head of

/Defence



Defence Sales to pay a visit to Algiers. Colonel Belloucif at once said that he would be happy to issue an open invitation for us to send a representative at whatever level we thought right; he would like to get discussion onto a more concrete level without delay.

3. I see every advantage in responding to this. Politically, we want to encourage Algeria's gradual shift towards a genuine non-alignment and diversification from excessive military dependence on the Soviet Bloc. Militarily, it is only reasonable that they should wish to strengthen their armed forces especially in view of the accumulation of arms in Libya and the unpredictability of Qadhafi. Financially, they can afford very substantial purchases indeed. Algeria is an enormous market. It has the reputation of being a difficult one and the performance of our exporters there is not satisfactory. A success on the defence side could be immensely valuable.

4. Our Embassy will be reporting what they have been able to learn to amplify the above. I know that the Defence (Sales) organisation and some British firms are already active in Algeria, but I think it is important that we should respond soon to Colonel Belloucif. If you agree, I think that an early visit by Sir R Ellis would be an excellent first step? In the slightly longer term we should perhaps be thinking in terms of a Defence Attache in Algiers to maintain contact between visits.

5. I am sending a copy of this minute to the Prime Minister.

(CARRINGTON)

Foreign and Commonwealth Office

2 June 1981

1961 JUN 1

9 1 2 3 4 5 6 7 8



SS

2 June 1981

DEFENCE CONTRACTS WITH SAUDI ARABIA

The Prime Minister has seen and taken note of your letter to me of 29 May on this subject.

MODBA

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J.D.S. Dawson, Esq.,
Ministry of Defence.

Top copy Saudi Arabia
Visit of King Khalid

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Marconi Avionics Limited

A GEC-Marconi Electronics Company

The Prime Minister
10 Downing Street
LONDON

Airport Works
Rochester Kent ME1 2XX
Telephone Medway (0634) 44400
Telegrams Elliottauto Rochester
Telex 96333/4

29 May 1981

My Dear Prime Minister

I understand that King Khaled of Saudi Arabia is shortly to visit you.

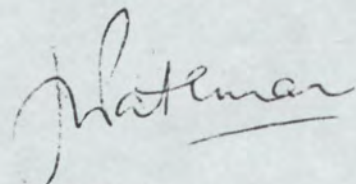
As you are aware Saudi Arabia is currently seeking to purchase 5 AWACS Aircraft (E3A) from the U.S. at an estimated value of \$2B.

This country has an aircraft of no less performance in the form of the Nimrod AEW which carries a Mission Systems Avionic package including all the communications and radar made by my Company, and I should very much hope that during his visit it will be possible for him to visit our establishments at Borehamwood and Radlett to see this equipment and for us to talk to him about its performance.

Congress has not yet approved the sale of AWACS to Saudi Arabia and may well not do so. There is also a growing feeling in the third world (if Saudi Arabia can be so described) that they wish to stay independent of both the U.S. and U.S.S.R. and this can also induce them to look in our direction.

Bearing in mind the sums of money involved and its impact on employment I am certainly prepared to go to considerable lengths to try to secure a sale, and a visit from King Khaled would, I think, be most valuable.

Yours sincerely



J E Pateman
Managing Director



Marconi Avionics Limited
is a management company for
Elliott Brothers (London) Limited
Registered London No 964493
Registered Office Marconi House
New Street Chelmsford Essex CM1 1PL
Holding Company
The General Electric Company Limited



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~9307022~~ 218 2111/3

MO 5/3/3

29th May 1981

Iran Michael

Prime Minister

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DEFENCE CONTRACTS WITH SAUDI ARABIA

I agreed to reply to your letter of 28th April to John Rhodes at the Department of Trade concerning Prince Sultan's complaints about UK contracts with Saudi Arabia, as we think that Prince Sultan's observations relate primarily to defence contracts. I have, however, deferred replying until the outcome of the negotiations on the Medical Services Project for the National Guard was known. You will, of course, know that these were successfully concluded on 24th May.

In our experience the Saudis are persistent and accomplished negotiators who never miss an opportunity to strengthen their position in any discussions which are in train. We believe that Prince Sultan's remarks to the Prime Minister should be seen in this context and, whilst we must clearly take note of Saudi concern over price and contracting procedures, we should recognise that the expression of this concern is in part a negotiating tactic. Our officials have examined the various contracts and agreements currently under discussion and they cannot find any justification for the criticisms which Prince Sultan makes.

The one major project which is of direct concern to Prince Sultan is the extension of the Saudi Arabian Air Defence Assistance Project for a further three years beyond 1982. Negotiations are currently in hand but, although the project is currently worth approximately £200M per annum, the basic agreement between the two Governments is a simple one containing only 20 clauses. It has never so far been criticised for its complexity. On price we believe that our costs are significantly less than those of comparable American contractors

M O'D B Alexander Esq



(Lockheed, Northrop, and McDonnell-Douglas) but, because the arrangements involve a back-to-back contract between MOD and British Aerospace (which the Saudis do not see), we seek to ensure that UK Government funds are not at risk and that we are covered against all possible commitments by payment in advance.

The two other major projects on which we are engaged with Saudi Arabia concern the National Guard for which Prince Abdullah is responsible. The Prime Minister was informed by Prince Abdullah that there are no further problems on the communications project for the National Guard (SANGCOM) which has now been running for two years. On the Medical Services Project (SANGMED) the question of jurisdiction, which was raised during the Prime Minister's visit has been resolved and the agreement - worth £150M over two years for the first stage - was signed on 24 May. This success represents the culmination of two years hard bargaining in the face of intense competition from the Belgians, French and Americans and clearly indicates that our prices and contractual conditions are fully competitive with those of other countries.

In summary we believe that there are no serious grounds for the criticisms raised by Prince Sultan in any of the major Government-to-Government projects currently under discussion. However, the Saudis are hard bargainers and negotiating with them can be a long drawn-out business requiring a firm but patient approach. The various negotiating teams from the Defence Sales Organisation have made frequent visits to Saudi Arabia, often involving long periods in the country. We have achieved a significant success on SANGMED but we will, of course, continue to bear in mind the points raised by Prince Sultan - but without giving too much away.

I am copying this letter to Francis Richards (FCO) and John Rhodes (DOT), and David Wright (Cabinet Office).

(J D S DAWSON)

1 JUN 1981

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The first of the two papers presented at the meeting was a paper by the author and others on the subject of the role of the state in the development of the economy. The paper argued that the state should play a more active role in the economy, particularly in the areas of infrastructure and social services. The second paper was a paper by the author and others on the subject of the role of the state in the development of the environment. The paper argued that the state should play a more active role in the environment, particularly in the areas of pollution control and resource management.

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Prime Minister

Middle East

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Foreign and Commonwealth Office

London SW1A 2AH

20 May 1981

Dear Michael,

Tornado

Signor Forlani has sent the enclosed message to the Prime Minister through our Embassy in Rome in reply to the Prime Minister's message of 16 February.

As you will see, the message is drafted in very cautious terms. A brief is being prepared in consultation with the Ministry of Defence, for the Prime Minister's use when she sees Signor Forlani on 2 June.

I am sending a copy of this letter to Brian Norbury (Ministry of Defence).

Yours ever,

(F N Richards)

M O D'B Alexander Esq
10 Downing Street
LONDON
SW1

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MESSAGE FROM THE PRESIDENT OF THE COUNCIL OF MINISTERS
TO THE BRITISH PRIME MINISTER, MRS MARGARET THATCHER

I have considered with much interest the information you were good enough to send me in your letter on the subject of the possible sale of arms to Saudi Arabia and other Arab countries of the region.

In general, I share your evaluation of the interest which the countries of Western Europe have in assuring the maximum stability ~~for~~ the region and ~~for~~ Saudi Arabia in particular. I note your observations on the implications which the possible sale of arms might have so far as Israel is concerned.

Moreover, I am not unaware of the economic interest of the transaction and the positive repercussions which it would have on the realisation of the MRCA programme, whose cost, as we know, is becoming extremely high.

I have invited our National Administration to examine the various aspects which this operation presents.

I am confident that it should be possible very soon to have constructive exchanges of view on what is to be done.



*Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri*

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Roma, 16 maggio 1981

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Dear Ambassador,

I should be very grateful if you could kindly arrange for the enclosed message from the President of the Council of Ministers to be forwarded to Mrs. Thatcher.

Yours very sincerely

Luigi Bultrini

S.E. il Signor
Ronald Arculus
Ambasciatore di
Gran Bretagna
R O M A



R i s e r v a t o

MESSAGGIO DEL PRESIDENTE DEL CONSIGLIO DEI MINISTRI
AL PRIMO MINISTRO BRITANNICO, SIGNORA MARGARET THATCHER

Ho esaminato con molto interesse quanto mi ha gentilmente comunicato con il Suo messaggio in merito alla eventuale vendita di armi all'Arabia Saudita e ad altri Paesi arabi della regione.

Condivido, in linea generale, la Sua valutazione sull'interesse che hanno i Paesi dell'Europa occidentale ad assicurare la massima stabilità alla regione ed all'Arabia Saudita in particolare. Prendo atto di quanto Lei osserva circa le implicazioni che potrebbe avere l'eventuale vendita di armi nei riguardi di Israele.

Non mi sfugge, d'altra parte, l'interesse economico della transazione e le ripercussioni positive che essa avrebbe sulla realizzazione del programma MRCA, il cui costo, come sappiamo, è stato assai elevato.

Ho invitato l'Amministrazione nazionale ad esaminare i vari aspetti che presenta questa operazione.

Confido che, al più presto, debba essere possibile avere costruttivi scambi di vedute sul da farsi.

Roma, 15 maggio 1981

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10 DOWNING STREET

From the Private Secretary

12 May 1981

Visit of the Chancellor of the Federal Republic:
Tornado

I will be sending separately a copy of the record of the plenary session at Chequers yesterday.

The Prime Minister has told me that most of the issues which came up in her talks with Herr Schmidt were referred to at the plenary session. However there is one point which was not and which may be worth mentioning.

The Prime Minister raised the question of our wish to sell Tornado in one version or another to the Saudis. Chancellor Schmidt said that he himself had no objection to this. However the idea was politically unnegotiable in Germany at the moment. Opposition in the Bundestag would be too great.

I am sending a copy of this letter to Brian Norbury (Ministry of Defence).

M. O'D. B. ALEXANDER

CS

George Walden, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET

From the Private Secretary

28 April 1981

BF?

Prime Minister's Visit to Saudi Arabia

Check with report

During the Prime Minister's visit to Saudi Arabia, she heard complaints, notably from Prince Sultan, that our contracts are excessively detailed and that they compare unfavourably in this respect with the contracts drawn up by Saudi Arabia's other partners. I should be grateful for any comments you could let me have on this.

I am sending copies of this letter to Brian Norbury (Ministry of Defence) and Francis Richards (Foreign and Commonwealth Office).

M. O. D. E. ALEXANDER

John Rhodes, Esq.,
Department of Trade.

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16 April 1981

Thank you for your letter of 15 April, about Tornado sales to Arab countries.

As I told you on the telephone, the Prime Minister has seen a copy of the draft letter which it is proposed that H.M. Ambassador in Bonn should send to the Federal Chancellor's Office. She is content.

I am sending a copy of this letter to Brian Norbury (Ministry of Defence).

M. A. PATTISON

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

15 April 1981

Dear Mike,

Tornado Sales to Arab Countries

Lord Carrington has seen a copy of Dawson's letter of 10 April to No 10, with the enclosed annexes on the Tornado 'family' and revised briefs for the Prime Minister's visit to the Gulf States. These papers indicate that our main objective now is the sale to Arab customers of a completely new aircraft (the P110) available towards the end of the decade, specifically designed for the Middle East and incorporating modern technology developed during the AST 403 studies combined with major components of the Tornado. The Tornado itself in its IDS or ADV versions, would be supplied to Arab customers in three or four years time to fill the gap.

The Prime Minister's message of 16 February referred solely to the question of sales of the two existing versions of the Tornado itself. In light of latest developments, and of Herr Schmidt's own visit to Jedda a few days after the Prime Minister's, Lord Carrington believes it important that we should give the Federal Chancellor's office an up-to-date and comprehensive account of the way our thinking is progressing. He sees a risk that, unless we do so now, the Germans may feel that we have been less than wholly frank and consistent in what we have said to them.

When our Ambassador in Bonn paid his introductory call on Chancellor Schmidt, the latter expressed scepticism about the seriousness of our proposal to sell Tornado to the Arabs; he said he thought our proposals were merely a political gesture. Sir J Taylor put matters straight. But, because the interview had to be cut short, Herr Schmidt invited him to write to the Chancellery on any further points he wished to cover. Lord Carrington considers that this provides a useful opportunity to keep

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the Chancellor informed of the latest developments on Tornado and the P110 as well as to deal with the security question which the Chancellor mentioned.

/ I attach a draft text which, subject to the Prime Minister's views, the Secretary of State wishes to instruct Sir J Taylor to include in his letter to the Chancellor's office. This takes account of comments from the Embassy in Bonn on an earlier MOD draft.

In addition, Lord Carrington believes that it would be helpful if further word could be sent to the Chancellor about any talks on Tornado which the Prime Minister may have in Jedda, before Herr Schmidt leaves Bonn on 27 April.

I am sending a copy of this letter to Brian Norbury.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M Pattison Esq
10 Downing Street

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DSR (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

DRAFT TEXT OF LETTER FROM HM AMBASSADOR BONN TO THE
FEDERAL CHANCELLOR'S OFFICE

CAVEAT.....

1. In the course of my discussion with the Chancellor on 7 April, I undertook to provide further information on the security implications of selling Tornado in the Middle East. I would, however, like also to take this opportunity of bringing you up to date with the latest developments in our discussions with Arab countries and of filling in some background detail to the Prime Minister's message of 17 February.

2. In her message, the Prime Minister stressed the political importance of strengthening the Arab states by encouraging them to stand on their own feet in military terms. It is for this reason, and because of the importance which HMG attach to the industrial and technological arguments, that we have been so anxious to ensure that the option of a purchase of Tornado, and of a derivative of this aircraft, was kept fully open while the Arab countries considered their future requirement for an advanced technology fighter. We therefore regard the prospect of Tornado

Enclosures—flag(s).....

sales as much more than a political gesture and believe it important to encourage any interest which the Arab states show in the aircraft.

3. At present the degree of interest varies from state to state. Different countries have different aircraft requirements in different timescales. Jordan, which has the most effective Arab airforce in the Middle East, appears to be taking the lead in advising a number of other Arab states on a joint purchase of some 300 advanced combat aircraft. Once the Jordanian evaluation is complete it will be discussed with other Arab nations at a technical conference. The United Kingdom first learnt of this intention at the time of the Amman Summit in the autumn. Just before the Taif Summit in February we discovered that King Hussein was on the point of putting a recommendation to his colleagues. We were told that Tornado had not been considered because of doubts about its availability for the Middle East. We judged that a decision in favour of an alternative aircraft would cause long term damage to the advanced aircraft industry in the three partner countries. ~~It was for this reason, as much as for political reasons,~~ ^{accordingly} that The Prime Minister sent a personal message to King Hussein asking that the Tornado should also be considered. This message appears to have averted an immediate decision in favour of an alternative aircraft. The Omanis also expressed an interest in Tornado but it appears that the Saudis have taken no firm position at this stage.

4. ~~In the light of our subsequent~~ ^{We have continued to make} soundings among potential Arab customers, ~~and with our own industry,~~ ^{Although the situation in this field,} our thinking has ~~never~~ ^{however,} developed a good deal since the Prime Minister's message. You may find it helpful if I were to set out the position in detail. ~~It is now clear~~ ^{There are some indications} that the Arab countries ~~are looking~~ ^{may be mainly} ~~for~~ ^{interested in} an advanced air superiority fighter aircraft, available towards the end of the 1980s. There would be an obvious attraction for them if this new aircraft could be the latest in a 'family' of aircraft, earlier generations of which might be available for them in the mid 1980s. We are therefore now ~~thinking~~ ^{beginning to} of a new design, based on Tornado technology and using Tornado components, which would be ~~specifically~~ developed in the United Kingdom for the Arabs as a partnership venture involving Arab funding. We hope that a longer-term project of this nature will not give rise to ~~the~~ serious political difficulties in the Federal Republic. Nevertheless, in the shorter term the Arab countries may want to procure some of the existing IDS and ADV versions of the existing Tornado in order to fill the gap before the new aircraft is available. HMG consider that a proposal of this nature has considerable appeal to potential Arab customers and offers the possibility of significant benefits to the industries of the three partner countries by building on our achievement, and safeguarding our future capability in this area of high technology.

5. We therefore believe it important to counter the reservations which the Arabs continue to express about

/our

our reliability as a secure source of supply, and have taken certain measures to sustain Arab interest. King Hussein has asked to fly an RAF Tornado in the course of a private visit which he is currently making to the United Kingdom and we have made arrangements for him to do so. This will be followed by a similar flight for an Omani pilot and a similar invitation has been offered to Saudi Arabia. I hope these measures, which the United Kingdom has taken on its own responsibility, indicate the importance we attach to maintaining Arab interest. I should stress, however, that discussions are still at a very early stage and we do not yet know whether the Arabs will decide in favour of Tornado and, if so, what configuration of aircraft they will choose and in what timescale.

6. Finally, I should like to deal with the important problem of security which the Chancellor mentioned to me. The United Kingdom is just as concerned as the FRG that the essential characteristics of our main front line aircraft should not be compromised. If the Arabs decide on an entirely new advanced combat aircraft, ^{this should overcome our difficulties over} ~~we do not anticipate any~~ security, ~~difficulties~~. We have, however, discussed the security ^{problem} ~~difficulties~~ on the current IDS Tornado with officials at the Federal Ministry of Defence. It was agreed that there are only four areas of particular sensitivity and these could be safeguarded in the following ways:

- a) the nuclear weapons panel - this would be deleted from any aircraft sold to the Middle East;
- b) the characteristics of the terrain-following radar - these could be altered by design changes;

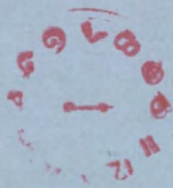
/c)

- c) electronic warfare equipment - this is always re-designed for export aircraft;
- d) the weapons fit - no commitments have been made to the Arab states on weapons.

Apart from these four areas, where safeguards can be devised, we do not expect that any part of the existing aircraft will need to be classified above confidential. The United Kingdom would take similar steps on the air defence variant. We would of course wish to hold further discussions on security with the appropriate German authorities once we know what sort of aircraft the Arabs wish to purchase.

7. In the meantime the immediate problem is to convince the Arabs that we are serious and that both political and security problems can be overcome. Mr Nott took every opportunity to make this point, without prejudicing the position of our partners, in the course of his recent visit to the Middle East and the Prime Minister will follow this up during her own visit. ~~If~~ any further information ~~which~~ becomes available ~~will~~ be fed back to you before the Chancellor leaves for Saudi Arabia, ~~on 27 April~~. Thereafter we anticipate that a ~~very~~ early decision in principle will be required to continue the dialogue with the Arabs, ~~that has already begun~~.

during the Prime Minister's visit, we will try to arrange for it to



U.S. AIR MAIL



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MO 25/3/4

Paul (2)

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-938 3022 218 2111/3

Prime Minister
Paul

10th April 1981

Don Michael,

VISIT BY PRIME MINISTER TO THE MIDDLE EAST - TORNADO

/ Further to my letter of 9th April I now attach a paper summarising the details of the various members of the Tornado "family" (the first two already flying and the second two being "paper" aircraft) for which you asked in your letter to me of 6th April. I also attach a summary of a suggested line that the Prime Minister might take in Saudi Arabia and Oman. *copies of her*

/ In addition Sir Ronald Ellis has asked me to forward to you a series of brochures on three of the four members "family", prepared by British Aerospace; and he has also asked me to pass on a number of small cards, which, I believe, he undertook to give to the Prime Minister. *In yellow folder*

/ Shortage of time precludes the documents being circulated tonight as a formal brief in time for the Prime Minister's weekend box. I am, therefore, enclosing 5 copies of the paper for you (and a further 5 for each of the copy addressees). The paper will be issued in due course as a formal brief.

/ I am copying this letter to Francis Richards (FCO) and to David Wright (Cabinet Office).

Yours sincerely
Paul Dawson

(J D S DAWSON)

M O'D B Alexander Esq

TORNADO FAMILYBackground

1. To meet the prime objective of a number of Arab States of acquiring a common combat aircraft which meets their differing national requirements, BAe have proposed a family of four aircraft based on Tornado. In chronological order of availability they are:

- a. Tornado IDS (Interdiction Strike Version). Nominally the same aircraft as that to be delivered to UK, Germany and Italy in 1983/84 (the fourth Batch standard). As its name implies, it is optimised for offensive support/ground attack.
- b. Tornado ADV (Air Defence Variant). Nominally the same aircraft to be delivered to the RAF in 1983/84 and optimised for the air interception role.
- c. Developed Tornado ADV. An improved version of the ADV, incorporating new wings, higher thrust engines and better ground attack capability. Apart from increasing the performance of the aircraft the design changes offer better multi-role capability, i.e. ground attack as well as air defence in a single aircraft. It would be available some 3 years after the ADV.
- d. Pl10. A completely new design incorporating the latest technology combined with major components of the Tornado. The result is a very high performance, extremely agile aircraft with outstanding capability in both air-to-ground and air-to-air roles. It would be developed specifically to meet Middle East requirements with full

/involvement

involvement of the countries concerned; and could be available from 1988/89.

2. More detailed descriptions are attached.
3. The IDS and ADV Tornados will not be identical to the aircraft being supplied to the RAF but will contain down-
graded versions of certain sensitive equipment, for
example terrain following radar and electronic warfare
equipment.

LINE TO TAKESaudi Arabia and Oman

The British Government would welcome the opportunity to develop an aircraft specifically designed to meet the special requirements of Middle East countries. British Aerospace have been working in conjunction with the Royal Air Force on an aircraft for the past few years, which we think could form the basis of this design. This aircraft, the P110, would incorporate the most advanced technologies and have a high degree of commonality with the Tornado, a version of which could be made available in the interim if so desired.

Thento Saudi Arabia

The British Government would welcome Saudi participation in joint development of this new aircraft. To fill the gap before delivery, the interdictor strike version of the Tornado, which would have a high degree of commonality with the P110, and Lightning could be made available to complement your excellent F15/air defence fighters. Perhaps officials could explore this possibility together.

to Oman

The British Government would welcome Omani participation in joint development of this new aircraft. To fill the gap before delivery, the interdictor strike version and the air defence variant of the Tornado, both of which have a high degree of commonality with the new design, could be made available to complement your Jaguar aircraft. Perhaps officials could explore this possibility together.

TORNADO IDS (INTERDICTION STRIKE VERSION)

1. The Tornado IDS is optimised for long range interdiction strike attack against ground and sea-borne targets. It achieves this through:

- a. high efficiency Rolls-Royce RB199 engines;
- b. variable sweep wings giving high efficiency over a wide speed range, and a comfortable ride for the crew in high speed low level flight;
- c. terrain contour following by auto pilot control in all weathers and at night;
- d. a blind attack capability with a large load and many different weapons.

2. It is visualised that this version of Tornado would be particularly attractive to Saudi Arabia which lacks a long range deep penetration attack capability. The IDS would complement the F15s and Lightnings which are principally air defence fighters. A long range, all weather interdiction capability would also be attractive to Oman (to complement the Jaguar), Abu Dhabi and Qatar.

TORNADO ADV (AIR DEFENCE VARIANT)

1. The Tornado ADV is more or less the same aircraft as the Tornado IDS except that:
 - a. the Terrain Following system is replaced by a powerful air interception radar capable of detecting targets at all altitudes with a high resistance to electronic counter measures;
 - b. four Skyflash medium range air-to-air missiles plus up to four Sidewinder short range air-to-air missiles are carried.
2. The ADV is optimised for long range patrol and air interception in all weathers and at night. The 2-man crew is provided with a tactical display of the air situation, priority assignments on targets and options on interception patterns with the different weapons available. Data link is available for information exchange with friendly fighters and ground installations. This aircraft has 80% of its structure and systems common with the Tornado IDS.
3. The Tornado ADV would be of particular interest to Oman which has Jaguars for interdiction but lacks a high performance air defence fighter and has no all-weather/night capability in this field.

DEVELOPED TORNADO ADV

1. To meet Arab needs an improved version of the Tornado ADV could be developed:

- a. The ADV air intercept radar would have an air-to-ground mode added.
- b. A new navigation and terrain contour following system would be incorporated.
- c. Air-to-ground as well as air-to-air weapons could be carried.
- d. The engines would develop higher thrust and new wings of larger area and different profile could be introduced to give better manoeuvring performance.
- e. Delivery of the first aircraft could occur in 1986/87.
- f. The high degree of commonality with Tornado IDS and ADV would be retained.

The main objective of this development would be to add a substantial all-weather air-to-ground capability to an aircraft already possessing the highest level of all-weather interception capability.

2. The Developed Tornado ADV would be attractive to countries seeking a long range all-weather interceptor combined with ground attack capability. It is assessed that Oman in particular falls into this category, but it is judged not necessary to raise this version as a special item in discussion.

P110

1. Much of the advanced technology, such as carbon fibre structure material and fly by wire controls, developed during AST 403 studies is used in this new design which also incorporates the major weapon system components of the Tornado developed ADV. The result is a highly agile air combat fighter with good intercept and ground attack capability, having a large degree of commonality with Tornado through use of:

- a. RB199 engines (uprated to higher power) and ancillaries installation;
- b. developed ADV Radar;
- c. the same Skyflash underfuselage installation, with ability to accept the Advanced Medium Range Air-to-Air Missile (AMRAAM) when available.

Deliveries of this aircraft could start in 1988/89 given an early decision to proceed.

* * * * *

Given sufficient desire on the part of the Arab States to develop and fund a common aircraft specifically to meet the differing requirements of the countries concerned, this aircraft would be particularly attractive. In the interim, the versions of the Tornado would fill the gap ^{providing} whilst/the commonality being sought.

IRAN/IRAQ

ADVANCE COPIES

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PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS
~~SIR B YOUDE~~
SIR J GRAHAM
MR J C NOBERLY
MR BRAITHWAITE
HD/MED
HD/WENAD
HD/UND
HD/CONS D
~~CONSULAR EMERGENCY UNIT~~
HD/ES & SD
HD/MAED
HD/DEF D
PUSD (2)
NEWS D
~~RESIDENT CLERK~~

NO 10 DOWNING STREET
CABINET OFFICE DIO

IMMEDIATE

SR A. Adams

CONFIDENTIAL

DESKBY FCO 090900Z

DESKBY MODUK 090900Z

FM BRIT INT SECT TEHRAN 090515Z APR
TO IMMEDIATE FCO
TELEGRAM NUMBER 119 OF 9 APRIL 81
AND TO IMMEDIATE MODUK
INFO STOCKHOLM

YOUR TELNOS 64 AND 65 : DEFENCE-SALES : IRAN.

1. I WAS SUMMONED ON 8 APRIL BY TAGHAVI (HEAD OF THE WESTERN EUROPEAN DEPARTMENT OF THE MFA) TO A MEETING WITH DR MERHAN, A DEPUTY MINISTER OF NATIONAL DEFENCE, FOR THE DISCUSSION ON DEFENCE SALES THAT TAGHAVI HAD WARNED ME ABOUT EARLIER (MY TELNO 97). BUNDY, WHO HAD BEEN CALLED FOR A MEETING HALF AN HOUR EARLIER ON POSSIBLE ARMS SALES FROM SWEDEN, STAYED ON FOR MY DISCUSSION WITH MERHAN AND TAGHAVI.

2. THE IRANIANS RAISED THE FOLLOWING POINTS :

(A) ON THE KHARG, THEY HOPED FOR AN EARLY REPLY TO THEIR SUGGESTION THAT AN IMS TEAM SHOULD COME TO IRAN TO DISCUSS THE CONTRACTUAL AND RELATED DIFFICULTIES THAT HAD

SUGGESTION THAT AN IMS TEAM SHOULD COME TO IRAN TO DISCUSS THE CONTRACTUAL AND RELATED DIFFICULTIES THAT HAD ARISEN. DR MERHAN AFFIRMED THAT THE VESSEL WAS NOT A TYPE SUITED FOR USE IN THE WAR WITH IRAQ. THEY COULD, IF NECESSARY, GIVE AN ASSURANCE THAT THE KHARG WOULD NOT BE USED IN THE CONFLICT. THEY ATTACHED IMPORTANCE TO GETTING DELIVERY AS SOON AS POSSIBLE.

(B) ON THE FOUR YARROW FRIGATES, THEY EXPRESSED UNDERSTANDING OF OUR INABILITY TO RELEASE THE TWO VIRTUALLY COMPLETED VESSELS WHILE THE WAR WAS IN PROGRESS. THEY WISHED TO COMPLETE NEGOTIATIONS OVER THE CONSTRUCTION AND PAYMENT FOR THE VESSELS, SO THAT THESE COULD BE FINISHED AND DELIVERED WHEN CIRCUMSTANCES PERMITTED.

(C) DR MERHAN SAID THAT THEY WERE INTERESTED IN SPARE PARTS, SOME OF WHICH THEY HAD PAID FOR, FOR CHIEFTAIN TANKS.

3. I TOLD THE IRANIANS THAT I WOULD REPORT THEIR RENEWED INTEREST IN DEFENCE SALES AND WOULD SEEK INSTRUCTIONS. I EXPLAINED THE BASIS OF OUR PRESENT POLICY AS SET OUT BY THE LORD PRIVY SEAL ON 21 JANUARY AND SAID THAT I HAD NOTED THE INTEREST IN THE IRANIAN SIDE IN CONTINUING RELATIONS IN THE DEGENCE SALES FIELD ONCE THE WAR WAS OVER AND ON THE BASIS OF A CONTINUED IMPROVEMENT IN RELATIONS BETWEEN THE UK AND IRAN.

4. AFTER I HAD SAID THAT THERE WERE SIGNIFICANT CONTRACTUAL DIFFICULTIES FOLLOWING THE CANCELLATION AND MODIFICATION OF IRANIAN INTENTIONS AFTER THE REVOLUTION, THEY PRESSED THAT WE SHOULD AGREE THAT NEGOTIATIONS ON THESE MATTERS SHOULD BE ALLOWED TO GET UNDER WAY. THEY WERE, HOWEVER, CONCERNED THAT DIFFICULTIES OVER PYKE'S CASE WOULD BE BROUGHT UP.

5. I TOLD TAGHAVI AND MERHAN THAT I WAS GLAD THEY HAD BROUGHT UP ANDREW PYKE. SPEAKING FRANKLY, HIS CONTINUED DETENTION WAS A NEGATIVE FACTOR. NOW THAT WE KNEW THAT THE CHARGES AGAINST HIM DEALT ONLY WITH COMMERCIAL AND FINANCIAL MATTERS WHICH AFFECTED THE COMPANY RATHER THAN HIM PERSONALLY, IT WAS HARD TO SEE WHY HE SHOULD BE DETAINED IN PRISON. MERHAN (WHO CLAIMED TO HAVE INTERVENED OVER THE THREE ANGLICANS) AND TAGHAVI SAID THAT A POSITIVE MOVE BY US OVER DEFENCE SALES WOULD LEAD TO A CORRESPONDING POSITIVE STEP ON THE IRANIAN SIDE.

6. PLEASE SEE MIFT.

BARRETT

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Middle
East

Ref. A04667

PRIME MINISTER

United Kingdom/Iran Relations: Supply of Defence Equipment

(OD(81) 21 and 22)

BACKGROUND

The Foreign and Commonwealth Secretary sent you and OD colleagues a minute on 26th March proposing the re-establishment of the British Embassy in Tehran, the release of the Kharg to the Iranians and a proposal to talk to the Iranians about other contracts for defence equipments which have so far been blocked. You said that you wished the matter to be discussed at OD. The Committee previously discussed this subject on 29th January, when it was agreed that no defence items should be released to Iran unless the British detainees there were freed, that help should be offered to the Iranians to find another customer for the Kharg, and also a British inspection of the material state of the ship should be proposed. The Committee noted that in present circumstances Iraq represented one of the largest potential markets for defence equipment in the Middle East.

2. Since that OD meeting there have been developments. Three of the four British detainees in Iran have been released and the charges against the fourth have been reduced. The Iranians responded to the message about the Kharg by saying that they still want the ship themselves, and they would like to send their own inspection team. The Iranians have also shown signs of renewed interest in resuming arms purchases from this country, and some readiness to negotiate on some major outstanding contracts which have been the subject of claims on the Export Credits Guarantee Department.

3. As there has been no inspection of the ship yet, the physical state of the Kharg is unknown, but the Chairman of British Shipbuilders has suggested that it might cost as much as £5 million to make the ship fully seaworthy. In his minute to you dated 3rd April the Chancellor of the Exchequer has expressed his

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anxiety that no part of this cost should involve recourse to the Central Reserve. In addition there are about £1 million of claims against the Iranians arising directly in relation to the Kharg, largely on the part of the builders Swan Hunter, but also involving the Port of Tyne Authority.

4. A full statement of Iranian debts to the United Kingdom is set out in the note by officials attached to OD(81) 21. It can be expected that the Iranians will whittle these claims down to some extent, and make some substantial counter claims on their own account.

5. There has been some feeling among Departments that, in its anxiety to avoid driving Iran into the arms of the Soviet Union, the Foreign and Commonwealth Office have not always given full weight to the domestic and economic interests of other Departments. However a preliminary meeting by officials, to consider the problems set out by the Foreign and Commonwealth Secretary in OD(81) 22, suggests that this feeling has been largely dispelled, and the Committee's discussion of this whole issue can probably be a short one. The Secretary of State for Industry has been invited because of his particular responsibilities for British Shipbuilders and hence the Kharg. The Chief Secretary has also asked to be present because of the public expenditure implications. The Attorney General will be present because of the legal problem of releasing a warship to Iran while that country remains at war with Iraq. The Foreign and Commonwealth Secretary will just have returned from the Far East.

HANDLING

6. You will wish to ask the Lord Privy Seal to introduce his paper. In the subsequent discussion you may like to suggest that the decision to re-establish the British Embassy in Tehran is primarily one for the Foreign and Commonwealth Secretary. Other points to cover in subsequent discussion are:-

- (a) In the view of the Attorney General, how clear-cut an undertaking not to use the ship in the war against Iraq needs to be obtained from the Iranians in order to meet the British legal obligation on this point? In the view of the Lord Privy Seal are the Iranians likely to be willing to give such an undertaking? Is it arguable that so much time will be required to make the Kharg fully seaworthy that such an undertaking will have no practical relevance anyhow?

- (b) Does the Lord Privy Seal consider that the Iranians will be prepared to meet the various costs directly related to the Kharg amounting to about £1 million, in order to achieve the release of the ship to them? Do the Secretary of State for Industry and the Chancellor of the Exchequer agree that, if thereafter there is any question of British Shipbuilders doing further work to make the Kharg seaworthy, this should be a matter for commercial negotiations between the Iranians and British Shipbuilders without any question of the costs being met from the public purse?
- (c) Does the Lord Privy Seal consider it probable that the Iranians will still want to work up the Kharg under the tutelage of the Royal Navy? Should the United Kingdom be willing to offer this facility (which was part of the original Kharg deal) in view of the adverse effects it is likely to have on our relations with Iraq?
- (d) How confident is the Lord Privy Seal that the Kharg can be released to the Iranians without upsetting Iraq and putting British commercial interests in that country at risk? Is the Secretary of State for Defence satisfied that possible defence sales to Iraq will not thereby be lost?
- (e) Is the Secretary of State for Trade satisfied that if talks with the Iranians are begun about other contracts for defence equipment, and these are linked with the settlement of the Iranian debts to the Ministry of Defence and International Military Services Limited, ECGD debts on civil contracts will be sufficiently supported?

CONCLUSION

70. Subject to points made in discussion, the Committee might be guided to endorse the Lord Privy Seal's proposals i. e. to agree:-

- (a) to confirm plans for the re-establishment of the British Embassy in Iran;
- (b) to release the Kharg on condition that it is not used in the current state of hostilities between Iran and Iraq;
- (c) that talks should be opened with the Iranians about other contracts for non-lethal defence equipment which have so far been blocked, linked with Iranian debts to the Ministry of Defence and International Military Services Limited.

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8. The need for any further discussion by the Committee of these issues will depend on how the Iranians react to these proposals.

RA

ROBERT ARMSTRONG

8th April, 1981

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Middle East: Army
Sales: A2

Jordan: King Hussein's visit to UK:



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
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June 79

MO 26/9/19

7th April 1981

John Michael

KHALID TANKS FOR JORDAN

You will already have received briefing from the FCO for King Hussein's call tomorrow on the Prime Minister. I am writing however, to mention one supplementary point of which she ought to be aware, concerning the delivery of the first batch of Khalid tanks to Jordan. (There is a short background note on the tank order at paragraph 15 of the 'Essential Facts' brief).

There are continuing development problems with the TN37 gearbox which have not been resolved and on which tests are still being conducted. The Commander of the Jordanian Armed Forces, Lieutenant General Sharif Zaid bin Shaker, is being told this evening by Sir Ronald Ellis, Head of Defence Sales, that the gearbox is still giving slight problems but that, to ensure that the Jordanian Army is not inconvenienced, we will be providing both the material and manpower to cope with any gearbox failures which might occur in the early period of its service. The cost of this support will be met by the United Kingdom.

The Prime Minister is advised not to raise the subject with King Hussein but, as the latter may be aware of the problem before the meeting, the Prime Minister will wish to know the line which Sir Ronald Ellis has taken. If there is any significant reaction from General bin Shaker, I will let you know early tomorrow morning.

M O'D B Alexander Esq
 10 Downing Street

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I am sending a copy of this letter to Francis Richards (FCO) and to David Wright (Cabinet Office).

Yours sincerely
J D S Dawson

(J D S DAWSON)

Action

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(81) 22

COPY NO

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6 April 1981

for OS

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

UNITED KINGDOM/IRAN RELATIONS: SUPPLY OF DEFENCE EQUIPMENT

Memorandum by the Lord Privy Seal

1. The Prime Minister has directed that the proposals contained in the Foreign and Commonwealth Secretary's minute of 26 March should be referred to OD for discussion on 9 April. Members of the Committee will have seen the Foreign and Commonwealth Secretary's memorandum of 26 January and the minutes of the OD meeting on 29 January when the matter was last discussed. These two papers and the Foreign and Commonwealth Secretary's minute of 26 March provide a full background to the problem. In addition, officials have examined the question of claims and the leverage which the blocked arms supplies offer.
2. Our aim should be to achieve a cautious but sustained improvement in our relations with Iran. In her present isolation she is dangerously vulnerable to Soviet manipulation. I believe a beginning can be made if, on 9 April, we
 - (a) confirm plans for the reestablishment of our Embassy in Tehran;
 - (b) agree to release the Kharg on condition that it is not used in the current state of hostilities between Iran and Iraq; and
 - (c) agree to talk to the Iranians about the other contracts for defence equipment which we have blocked and the Iranian debts to the Ministry of Defence and International Military Services Limited.

KCCAD

3. The reasons for 2(a) and 2(b) are spelt out in the Foreign and Commonwealth Secretary's minute of 26 March. As regards 2(c) we have since received more encouraging news about the detained Briton, Mr Pyke, and a direct approach from the Iranians for talks about their blocked arms supplies including an offer to examine mutual claims. The Iranians have indicated that their approach was being made with a longer term relationship in mind.

I.H.G.

Foreign and Commonwealth Office

6 April 1981

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Defence Sales



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MO 26/9/1(A)

6th April 1981

ms

Prime Minister

(4)

John Michael,

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QUARTERLY REPORT ON MAJOR DEFENCE SALES PROSPECTS

I attach the latest quarterly report on major defence sales prospects. We have simplified the format of the report from the first edition circulated with my letter to you of 21st January, and we have cut down the number of entries in the report; but we have retained more comprehensive coverage for India and the Middle East in view of the Prime Minister's impending visit.

I am copying this letter with its attachment to Francis Richards (FCO), Richard Tolkien (HM Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

*Yours sincerely
J D S Dawson*

(J D S DAWSON)

M O'D B Alexander Esq

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 MAJOR DEFENCE SALES PROSPECTS

INDIA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
India	Sea King helicopters	200	1981	Westlands have quoted for 27 helicopters and for uprating the IN's existing aircraft with new avionics. Deal may hinge on supply of <u>LAPADS which poses serious security problems.</u>	a) US of S(RAF) visited India 17-20 March 1981. b) PM to visit 15-19 April 1981. c) MOD Ministers will be invited to consider <u>LAPADS question shortly.</u>	France
	Sea Harrier	60	1982	Option in current contract for additional 6-8 aircraft has lapsed. Govt has said first-hand experience of operating the aircraft is needed before decision on additional buy can be made. Arrangements made for Indian pilot to have place on current RN Harrier course.	As a) and b) above.	
	NH70 (up to 200 guns plus tractors and ammunition)	80	1982, on	India considering price and delivery details - UK prepared to consider transfer of technology and local manufacture. Early decision not expected.		USSR USA Sweden
	Rapier	15	mid 1981	India considering use of unallocated funds from 1980/1981 budget to procure small quantity of Optical Rapier for evaluation. Could lead to further orders worth up to £250M. Clearance to sell given on understanding that Blindfire radar should not be promoted.	S of S approved sale of Rapier without Blindfire.	USA USSR France
	Light Combat Aircraft/RB 199	Not Known	Not Known	Prospects pursued by HDS during visit March 1981. Longer term prospect India has a requirement to develop a light combat aircraft to enter service around 1990. BAe and RR are eager to go into partnership with India to design, develop and produce such an aircraft. Possible security problems with our European partners concerning supply of RB 199.	PM's visit 15-19 April.	

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 MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (SAUDI ARABIA)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Saudi Arabia	National Guard Medical Services Project (SANGMED), Phase I	approx 150	1981	Total project worth over £1000M. Phase 1 would be subject of inter-Governmental agreement on acceptance, commissioning and operation of part of 2 new hospitals about to be completed. <u>Decision expected shortly.</u>	Discussed by Lord Strathcona during his visit and Mr Jenkin helped to promote during his visit to Riyadh in Nov 80. Mr Nott supported UK bid during his visit Mar 81.	USA France
	Extension of MOU covering Air Defence Project (SADAP)	650	1982	Broad agreement on tasks and manning. Costed proposals presented to RSAF end of Mar 81. Hoped to complete negotiations for Ministerial ratification not later than Jun 81.	Mr Nott discussed with Prince Sultan, during his visit Mar 81, who agreed in principle.	None anticipated
	Tornado			See also Oman and Jordan. Potential for Saudi-financed procurement for several Arab states.	Raised by Mr Nott with Prince Sultan	
	Hawk and flying training Requirements	120+	1982	Expansion of flying training and construction of new air academy provides good prospect for sale of Hawk. UK has suggested RAF team visit to advise on restructuring flying training and role of Hawk.	Prince Sultan accepted Mr Nott's offer of RAF team during S of S's Mar 81 visit.	France
	Air Force Air Defence Radar System	200	1982	Marconi, suppliers of majority of existing equipment, proposing update and extension of system. However, US consultants employed by RSAF have recommended complete replacement with new American equipment. UK MOD has offered RSAF opportunity of bringing Marconi proposal under umbrella of SADAP MOU.	Marconi's proposals supported during S of S's visit	USA
	RSAF Logistics Computer System	50	1982	Although formally ruled out of this competition, the Company has had difficulty in producing an alternative proposal. A possible approach is currently under discussion with MOD.	Previous initiative supported by Lord Strathcona during his visit Nov 80.	USA Taiwan
	RSAF Central Supply Depot	50+	1985	With RSAF encouragement, BAe are bidding to participate in the development and manning of this scheme.	BAe proposals supported during S of S's visit.	USA
Nationwide Communications Network for National Guard (SANGCOM), Phase II	approx 250	1981/82	Inter-Governmental agreement covers first part of project currently underway. Phase II would extend system's capabilities and facilities.	Interest fostered by Lord Strathcona during his visit in November 1980.	None known	

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MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (SAUDI ARABIA)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
<p>Saudi Arabia Contd</p>	<p>Tanks</p> <p>Security of Off-Shore Installations</p>	<p>approx 45</p> <p>reports will Ministry for Not Known</p>	<p>Mid 80s</p> <p>Not Known</p>	<p>National Guard interested in buying 50 vehicles. Information provided on 4030/3, Chieftain derivative and Vickers Valiant. We hope also be presented to Defence potential Army interest. Saudi Ministry of Interior interested in off-shore protection but have yet to define requirements. DNAO has submitted a report.</p>	<p>Mr Nott's offer of presentation team accepted by Prince Abdullah</p> <p>Supported by Lord Strathcona during Nov 80 visit. Discussed during Mr Nott's visit.</p>	<p>France FRG USA Canada</p> <p>FRG France USA</p>

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (GULF STATES TO BE VISITED BY PM APRIL 1981)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Abu Dhabi (UAE)	Aircraft and Training Requirement	Not known	1981	BAe have submitted proposals for supply of 18 Hawk aircraft. Discussions between Mr Hurd, HDS and Shaikh Khalifa, Deputy Supreme Commander, revealed Abu Dhabi also interested in combat aircraft and training. BAe have therefore also provided proposals for 18 Jaguar. S of S asked for decision by time of PM's visit.	a) Mr Hurd, accompanied by HDS, visited Abu Dhabi 5 January 1981. b) PM to visit April 1981 c) Letters from PM and Lord Carrington in support of UK proposals.	France
	Military Engineering Package	Under 100	1981	Contents of package under discussion for 2 years of effort by IMS; contract negotiations hoped for.	S of S visited 29 March 1981.	Unknown
	Air Defence	Not known	Not known	DMAO sponsored air defence study October 1980. Requirement for further battery of LLAD missiles, radar coverage and Air Defence Operations Centre (ADOC) identified. Abu Dhabi still considering report, but help requested with ADOC.		France USA
	Electronic Warfare	100 Initial Phase	Not known	EW requirement for all 3 Armed Services. 3 UK companies on shortlist.		France FRG USA Italy
Dubai (UAE)	Hawk	approx 30	Not known	Crown Prince told S of S he wished to go ahead with 8 aircraft.	PM to visit April 1981.	France Italy
Oman	FPBs (2)	42	1981	Contract now signed.		
	Armour requirements	Approx 100	1981/82	DMAO team recently visited and discussed introduction of tanks into Sultan of Oman's Land Forces. Lease of 12 British Army Chieftains recently concluded. Possible buy of 35 Chieftains with option on further 18. Possible requirement for up to 130 Spartan and Stormer APCs to support tanks. In-country evaluation to be undertaken. 2 Scorpions evaluated very successfully in Oman but purchase may depend on evaluation of Spartan and Stormer APC variants of Scorpion (see above).	a) S of S visited 25 March 1981. b) PM to visit April 1981.	USA France Brazil Austria France
	Tornado			Omani pilot to fly in Tornado 16 April 1981. (See entry under Jordan and Saudi Arabia)		

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST (GULF STATES TO BE VISITED BY PM APRIL 1981)

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Oman (contd)	Naval Base	Not known	Not known	Sir Alexander Gibb and Partners have design contract for new naval base. Prospects for IMS and UK construction firms.		Various
	Landing Ships Logistic (LSLs)	35+	Not known	Requirement for 2 LSLs. Tenders to be issued soon. 2 UK firms in running.		Various
Qatar	Rapier	264+	1981	As a result of DMAO's report there is strong interest in Rapier although there are reservations on price. MOD asked to adjudicate on costs.	a) Mr Nott visited 28 March 1981 b) PM to visit in April 1981.	USA France

MAJOR DEFENCE SALES PROSPECTS

MIDDLE EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Egypt	Rapier	85	1981	Egyptians evaluated Rapier in UK in August 1980. Keen competition. Maximum indigenous production sought. Discussions in progress.	Lord Carrington visited Egypt 10-17 January 1981.	USA France
Iraq	Radio Relay/Tropospheric Scatter equipment	60-140	1981	Technical proposals being considered by Iraqis. Award of contract believed imminent.	Ministers monitoring sales in light of Iran/Iraq conflict.	FRG France
	Hawk (Licensed manufacture)	1000+	1981/82	BAe awarded feasibility study contract. If French Govt offers same degree of direct support as was believed enjoyed by Thompson CSF in their successful bid for the electronics complex contract, Alpha Jet may be in strong position to obtain sale.	Ministers have approved feasibility study and in-country test flights. Supply will be subject to separate approval.	France Italy
	Naval Base and Integrated Weapon Complex (IWC)	4-5 initially (Ultimately worth up to 500)	Study Contract 1981	Following a year of negotiations, IMS, with MOD support have recently negotiated design study contracts with both projects. These remain unsigned pending outcome of our efforts to establish IMS as an arm of HMG in Iraqi eyes to avoid strict bonding requirements. Reply to Mr Nott's letter on this subject awaited.	Mr Nott has written letter of support to Iraqi Minister of Defence.	France
	Refurbishment of (captured Iranian) Chieftains and possible follow-on sale of new MBTs	Not yet known	1981	Preliminary visit by IMS to Baghdad in December 1980 to examine feasibility of refurbishment and discuss possible training, spares and ammunition package, has led to agreement with Iraqis and Jordanians on possible method of providing UK assistance on conclusion of hostilities.	Ministers have agreed subject to detailed arrangements being made to safeguard UK's neutral status.	Not known
Jordan	Rapier	100-200	1981	Rapier demonstrated in Jordan in February 1981 and is being followed up by two-way visits and a live firing in the UK in May. The Jordanian evaluation of Rapier and its competitors is due to be completed by the end of May after which funds are apparently available for an early purchase.	MOD Ministers see King Hussein during his visit to UK in Apr 81.	USA France
	Armoured Recovery Vehicles	30	1981	Contract now signed.		
	Tornado	Not known	mid-late 1980s	See entry under Saudi Arabia and Oman. King Hussein, who is apparently leading international Arab consideration of future fighter/ground attack aircraft requirements, has been invited to fly Tornado during his visit to this country in April. BAe gave a presentation to the Royal Jordanian Air Force on this aircraft at the end of March.	PM's recent correspondence with King Hussein.	France
Kuwait	Tanks	approx 100	1981	Interest in purchase of further 50-150 Chieftains. Kuwaitis attended successful March demonstration of Improved Chieftain in UK but may want more advanced 4030/3 model.	PM to visit September 1981	Not known

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 MAJOR DEFENCE SALES PROSPECTS

AFRICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Algeria	Hawk (24)	125	1981	Bae working on firm quotation. Credit terms and offer of training could be critical factors.	Lord Carrington plans to visit during May 1981.	France Italy Czechoslovakia
Kenya	FPEs (up to 4 boats)	100	1981+	Kenyan Treasury advise no funding available this FY and decision rests with Cabinet. May be delayed until 1982 and Kenyan Navy being asked to consider purchase of 2 boats only.		
Morocco	IMS Package 1st Phase - includes FH70 and 105 mm Light Gun, mortars, small arms, FACE, vehicles, workshops and training and support services	125	1981	Moroccan Minister of Defence expected to sign contract for first phase shortly. Subject to funding by Saudi Arabia.	a) HM The Queen visited Morocco in October 1980. b) Lord Carrington visited Morocco in January 1981.	France
	2nd and 3rd Phases - include tanks, transporters and vehicles but exact make-up yet to be determined	300	Dependent on definition on requirements			
Nigeria	36 tanks and 11 armoured recovery vehicles and bridge-layers	50	1981	Contract apparently approved by Minister of Finance but requires Minister of Defence's signature.	a) LPS visited Nigeria December 1980 with Defence Sales Organisation representative in his party.	France- USSR
	40 Scorpion and variants (follow-on order)	10+	1981	As above	b) FCS visited in February 1981 accompanied by Defence Sales team led by HDS.	Austria France Brazil
	Jaguar (up to 36)	250+	1981	Bae proposal thought to be approved by President and contract signature expected.	c) State visit of Nigerian President in March 1981. Talks with PM and S of S.	France
	Swingfire package	135	1981	BAeDG proposals reported accepted by Nigeria President. Possibility that purchase will be staged.	d) S of S wrote in March to Nigerian Defence Minister supporting UK sales proposals, especially Jaguar.	France USSR
	Lynx	12+	1981	Good prospect for initial order for 3 for use with German-built frigate.		France
	Naval Training School (Phase 1)	5+	1981	Contractual terms appear to have been agreed and submitted to Minister of Finance.		None known
	Blowpipe	22	1981	Contract reported to be with President for approval.		USSR
Tunisia	Hawk (12-24)	65-135	1981	Bae working on firm quotation.		France USA Italy
	FPEs (3)	94	1981	Vospers quotation under consideration but cannot match credit terms reported offered by France and FRG.		

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 MAJOR DEFENCE SALES PROSPECTS
ASIA AND FAR EAST

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
China	O51 Project	200-300	1981	Chinese economic problems have forced review of defence priorities but LUDA ship refit remains good prospect. Includes Lightweight Sea Dart and wide range of electronic equipment with possibility of substantial follow-on orders.	a) OD approved Letter of Intent being ratified by UK in 1980. b) US of S(RAF) to visit China later this year.	
Indonesia	Hawk	40	1981	8 already bought. Discussions on buy of further 8 underway with prospects for total of 32. Dependent on Hawk's performance during forthcoming ASEAN exercise. HDS with BAe to visit Indonesia end April 1981.		
Japan	SMA Spey Marine Gas Turbine	30-50	1981	Funding tentatively identified in 1981/82 budget. Govt to Govt MOU on support offered and RN have brought forward own In-Service Date to assist Japanese.	a) LPS visited Japan in 1980. b) Mr Nott, as S of S for Trade, visited Japan in January 1981.	USA
	FH70 (including licensed manufacture)	50-100	1981	Japanese Ground Self Defence Forces favour FH70 proposal - Govt decision awaited.		USA Sweden
Malaysia	Rapier/Blindfire	50-100	1981	Rapier selected by Armed Forces' Committee but Malaysian Treasury approval required.	a) M of S led high level sales team to Malaysia January 1981. b) S of S planning visit - date to be decided.	Sweden France USA
	Air and Naval Bases, Army Camps and Defence Operations Room	540	1981	Strong competition. MOD active in offering support by means of draft MOUs and other initiatives.	a) As a) and b) above. b) Letter from M of S supporting detailed proposals by HDS for airbase project.	FRG France Australia
	Hawk	up to 40	1982+	Strong competition but Malaysians proposing to send evaluation team. Malaysian Treasury will not sanction expenditure until current A4 refurbishment programme settled.	See entries above for visits by S of S and M of S.	Italy France
Singapore	Rapier/Blindfire	approx 45	1981	BAe hope to obtain contract shortly but modification to ensure compatibility with US AWACS may be necessary.		France USA
South Korea	Hawk	50+	1983+	UK has obtained letter from the US Defence Security Assistance Agency stating no objections to S Korea purchase, to combat South Korean sensitivities about their relations with USA.	Raised by Mr Blaker during recent visit.	USA

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 MAJOR DEFENCE SALES PROSPECTS

EUROPE

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
FRG	Sea Skua and associated radar	50	1985	Sea Skua with Sea Spray or Sea Searcher believed well-placed for selection as mid-life improvements for FRG's Sea King helicopters. Budgetary estimates submitted but in-service date deferred by 1-2 years.	a) Ministers have directed that particular attention be given to penetrating German market. Co-ordinated inter-Departmental campaign in progress. b) Anglo-German Summit May 1981.	France Italy
	Stingray	20+	1984	Stingray favoured to meet firm requirement for lightweight torpedo. Interest in Stingray technology for heavyweight torpedo.		USA Italy
Italy	Spey aero-engines (licensed manufacture)	100	1981	Ratification of contract delayed until after Italy-Brazil MOU on AM-X aircraft programme ratified end March 1981. Testing of prototype aircraft begun.		None known
	Gem aero-engines	30-100	1981	R-R working on prototype engine (at own cost) for Al29 helicopter project. Good prospect of third-party sales.		None known
Netherlands	FH70	60	1981/2	IMS proposals submitted. Decision deferred until after Dutch General election in May.		USA
Norway	Rapier	100+	1983	Norway publicly committed to buying US Roland II but privately reconsidering. Formal position confirmed during US of S(RN)'s visit.	US of S(RN) visit in February 1981.	USA France
Spain	Rapier	200	1981 (1st phase)	Revised BAe offer submitted 26 January. Evaluation in progress - US aid for use of military bases in Spain could cover part of cost of Chaparral purchase.	Lord Privy Seal discussed with Sen Calvo Sotelo, Deputy PM for Economic Affairs (now PM) on 9 January 1981.	USA France
	Harrier/AV8B	75-85	1982	Spanish Navy have sought quotation from US for AV8B. Possible UK/US joint development of AV8B could lead to Spanish purchase of AV8B from UK. First Sea Lord visited Spain 23-27 March.		USA
	Lynx/Sea Skua/Sea Spray	40-50	1982	Spain given information on UK logistic support arrangements for Lynx. Quotations being prepared in response to Spanish request.		USA
Sweden	Lynx	50-150	1981	Westland bidding to meet requirement for 12 aircraft with option for further 25. UK well placed but stiff competition on price.		USA France FRG

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 MAJOR DEFENCE SALES PROSPECTS

LATIN AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
Argentina	Canberra	19	1981	6 required to add to 10 already in service. RAF has agreed to release 2 aircraft to assist sale, subject/satisfactory arrangements on price.	Sale considered by Ministers in light of Falkland Islands dispute and agreed.	
Bolivia	FPBs (6)	10	1981	Brooke Marine awaiting reactions to their proposals.	Ministers agreed in December 1980 that Brooke Marine be allowed to tender.	Israel S Korea Argentina
Brazil	Propulsion and fire-control systems for up to 12 locally-built corvettes	100-200	1981+	Strong competition. Ferranti's on short-list for weapons package but no decision yet on propulsion package.	M of S may visit later this year.	Italy USA France FRG
Chile	Army communications equipment	50+	1981	Budgeted money used for other equipment purchases but RACAL in favourable position when money again available.		Israel France
Ecuador	Scorpion (120 vehicles)	30	1981	Trials successfully completed in February 1981 but decision not expected before May. Competing wheeled vehicles significantly cheaper and with better credit terms. Early delivery vital.	M of S may visit later this year.	Manufacturers from 8 other countries
	Army communications equipment	10	1981	Negotiations with RACAL in progress.		Israel France
	Air Defence System (radar)	10-95	1981	Negotiations on first stage in progress.		USA France
	Jaguar	72	1981/1982	Negotiations underway but strong competition from Israeli Kfir.		Israel France
Peru	Naval Base (Phase 1)	70	1981/1982	Preliminary project definition study being negotiated, with financial assistance from DOI(PEP). IMS heavily involved.	PM and M of S saw Peruvian Prime Minister during his visit 29 Mar - 1 Apr 81.	Netherlands
Venezuela	Hawk (up to 48)	up to 200	1981	Decision expected July/August.	M of S may visit later this year.	France

CONFIDENTIAL UK EYES B
 MAJOR DEFENCE SALES PROSPECTS

NORTH AMERICA

COUNTRY	EQUIPMENT /PROJECT	VALUE £M	CONTRACT TIMESCALE	STATUS	MINISTERIAL INVOLVEMENT	COMPETITION
USA	Rapier	170	1981+	MOU signed February 1981 covering 32 fire units for USAF bases in UK. Letter of Intent received and work at BAe begun. Order might be increased to a total of 46 fire units. US interest in Rapier for RDF - potential further sale of 42 fire units.	a) S of S, M of S and US of S(RAF) heavily involved in pressing sale. b) PM pressed UK sales prospects during her US visit Feb 81 and made subsequent statement in House.	USA France
	81mm mortar	80-100	1982+	US decision on whether or not to continue with programme expected shortly. Considerable MOD efforts to overcome problems identified by US.	c) US of S(RAF) visiting USA 29 Mar-2 Apr and will pursue major UK sales prospects.	USA
	Combat Support Boat	7.7	1981	US Army purchase of 120 boats included option for further 80.	d) All UK sales pursued by Mr Nott during his visit to USA February 1981	USA
		20	1981/82	USMC request for loan of 2 for testing - requirement for 24 boats in FY 1983 /Also US Army requirement for possible additional 300 with longer term prospects for another 1,300+/-		USA
	Giant Viper	30	1981+	UK preparing development cost plan to cover US request for fuse chain re-design. US Army Interim Project Review of Giant Viper requirement March 1981 - results awaited.		
	Searchwater radar	50	early 1980s	US Navy seeking funds for formal evaluation of Searchwater.		USA
	Stingray	Not known	Not known	US Advanced Lightweight Torpedo programme encountering difficulties and this is prompting interest in Stingray technology. Stingray also being promoted for torpedo requirement in US ASW Stand-Off Weapon system.		
	Hawk	Not known	late 1980s	BAe in collaboration with McDonnell Douglas have contract for detailed concept design proposals for US Navy pilot training system. Strong competition.	M of S discussed with US Deputy Secretary of Defense during 1980 visit. Raised by PM during visit February 1981.	USA France Italy

SECRET



*File LPO
Middle East*

10 DOWNING STREET

From the Private Secretary

6 April 1981

The Prime Minister has seen Lord Trenchard's letter to her of 23 March about Sir Ronald Ellis' discussions in Iraq and Jordan about arms sales. The Prime Minister has commented that she is very pleased with the careful progress being made in contacts with both Governments on these matters.

M. O'D. B. ALEXANDER

Colin V. Balmer, Esq.,
Ministry of Defence
(Lord Trenchard's Office).

SECRET

A large, handwritten scribble or signature in the bottom right corner of the page.

CONFIDENTIAL

LR



10 DOWNING STREET

From the Private Secretary

6 March 1981

ARMS SALES TO IRAN

The Prime Minister has seen the Chancellor of the Exchequer's minute to her of 3 April on this subject. She has made no comment.

I am sending copies of this letter to the Private Secretaries to the other members of OD, Ian Ellison (Department of Industry), Jim Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

A. J. Wiggins, Esq.,
H.M. Treasury.

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3 April 1981

Tornado Sales to ^{JORDAN.} ~~IRAN~~

As I have already mentioned to you on the telephone, the telegram enclosed with your letter to me of 2 April can be dispatched.

MICHAEL ALEXANDER

A. K. C. Wood, Esq.,
Foreign and Commonwealth Office.

✓ B

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

(2)

PRIME MINISTER

Prime Minister

To note.

Ant. 3/4

ARMS SALES TO IRAN

The Foreign Secretary sent me a copy of his minute to you of 26 March, in which he sought colleagues' agreement to our informing the Iranians that we should be disposed to release the Kharg, provided that certain conditions are satisfied. I have since seen your Private Secretary's letter of 30 March, recording your view that the matter should be the subject of a further and final discussion in OD Committee.

2. One of the proposed conditions for the release of the Kharg is that a variety of outstanding claims against Iran should be settled. While a satisfactory resolution of these claims would, of course, be very welcome, I note the Foreign Secretary's expectation that there will be a dispute with the Iranians over payment for the work that will be necessary to make the Kharg seaworthy. I understand that the sums involved could be significant, as the ship has been unattended for some nine months.

We failed before us

3. It follows, I think, that one of the matters we will need to settle at OD is that of Departmental responsibility for this expenditure, if, as a result of negotiations with the Iranians, colleagues propose that HMG should contribute to the costs. I think that in present circumstances we need to settle the matter in such a way that we avoid recourse to the Central Reserve.

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4. I am copying this minute to other members of OD,
and to the Attorney-General, Sir Keith Joseph, and Sir
Robert Armstrong.

Amis

for (G.H.)

3 April 1981

(Approved by the Chancellor and signed
in his absence)

CONQUEROR

CONFIDENTIAL



9 D N 2 1
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3 APR 1981

COMBINATION

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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

2 April 1981

Dear Michael,

TORNADO SALES TO JORDAN

You will have seen Amman telegram number 116 recording King Hussein's reaction to the Prime Minister's reply to his message.

The King is reported to be still concerned about the German attitude. He indicates that he would have no objection to our letting Chancellor Schmidt see his exchanges with the Prime Minister if this would help to impress on him the reality of Arab interest. We have considered this idea. But we think that it is not the best way of making the Germans more aware of Arab interest in Tornado. We believe that the King's idea that his C in C might speak to the German Ambassador would provide a more useful independent indication of interest.

We should like to instruct HM Ambassador to let the King know that we would favour an initiative of that kind, but you may first wish to consider whether you should seek the Prime Minister's approval. I attach a draft telegram.

AWB


Adam

A K C Wood

M O'D B Alexander Esq
10 Downing Street
London

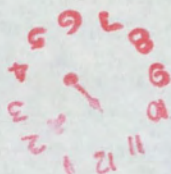
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OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	CONFIDENTIAL	IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO 011430Z APRIL 81
PRE/ADD	7	TO IMMEDIATE AMMAN
TEL NO	8	TELEGRAM NUMBER
	9	AND TO IMMEDIATE MODUK (SICZ8G)
	10	FOR INFO PRIORITY BAGHDAD
	11	SAVING TO BONN
	12	YRTEL.116: TORNADO
	13	1. We are grateful for this account of the King's reaction to
	14	the Prime Ministers Message.
	15	2. We have considered whether to take up the suggestion that the
	16	exchanges should be copied to the Germans. We think this would
	17	not be the right approach. But an independent indication of
	18	interest conveyed perhaps as the King suggested by his C in C to
	19	the German Ambassador might be useful.
	20	3. If you see no objection please let the King know that we
	21	would favour such an initiative.
///	22	
//	23	CARRINGTON
/	24	NNNN
	25	

NNNN ends telegram	BLANK	Catchword
File number	Dept DEFENCE	Distribution LIMITED
Drafted by (Block capitals) B WATKINS		DEFENCE DEPT
Telephone number 233-4768		NENAD
Authorised for despatch		MED
		WED
		SIR A ACLAND
		SIR J GRAHAM
Comcen reference	Time of despatch	MR J C MOBERLY
		MR P H MOBERLY



5 APR 1981

