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OD(81) 18th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

—  
MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 2 DECEMBER 1981 at 10.00 am  
—

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for  
the Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Francis Pym MP  
Lord President of the Council

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Humphrey Atkins MP  
Lord Privy Seal

The Rt Hon John Biffen MP  
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

The Rt Hon Sir Michael Havers QC MP  
Attorney General

SECRETARIAT

Sir Robert Armstrong  
Mr R L Wade-Gery  
Mr R L L Facer

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## 1. OVERHAUL OF CAPTURED CHIEFTAIN TANKS IN IRAQ

Previous References: OD(81) 1st Meeting, Item 2 and OD(81) 13th Meeting

The Committee had before them a minute of 19 November to the Foreign and Commonwealth Secretary from the Secretary of State for Defence proposing acceptance of an Iraqi Government contract for the provision of British spares and technical assistance to repair in Iraq Chieftain tanks captured from the Iranians; and a minute to the Secretary of State for Defence from the Foreign and Commonwealth Secretary drawing attention to the wider aspects of this proposal.

THE DEFENCE SECRETARY said that the Committee had agreed in January 1981 that International Military Services Limited (IMS) should inspect the Chieftain tanks in Iraq captured from the Iranians and negotiate for their repair and refurbishment in Jordan, but that no contract should be signed without further consideration by Ministers. IMS had now worked out with the Iraqis details of a contract, worth £50 million, under which the necessary British spares and technical assistance would be provided to repair 114 of the tanks. But the Iraqis were insisting, and the Jordanians agreed, that the work should be done in Iraq. As his minute indicated IMS had not intended to supply any lethal spares, such as gun barrels and ammunition. But it was now clear that it would be necessary to supply a small number of new gun barrels as well as repairing existing ones where possible. There was still no intention of supplying ammunition. The Government's policy of being prepared to sell non-lethal items of defence equipment to Iraq had so far brought sales worth some £200 million. There were prospects of further defence sales there worth up to £3,000 million, including possible orders for Hawk trainer aircraft and Challenger tanks. But they would be endangered if IMS were not authorised to accept the tank repair contract, which the Iraqis regarded as a test case. The French and the Italians were already active in the Iraqi market and were supplying a wide range of lethal equipment. But it would help Britain to preserve some measure of even-handedness as between Iraq and Iran if tank spares worth £12 million were now released to Iran. These had already been paid for, and the Iraqi reaction was not expected to be too serious. But further tank spares which the Iranians had ordered, worth £6 million and not yet paid for, should only be released in return for progress over Iran's outstanding debts.

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THE ATTORNEY GENERAL said that under international law a state adopting a position of neutrality towards belligerent states had a general obligation to be even-handed in the supply of military equipment to either side. The Hague Convention on which this rested was applicable to any equipment which might be used by the belligerents' armed forces, not just lethal items.

THE FOREIGN AND COMMONWEALTH SECRETARY said that it was necessary to consider whether Britain should aim to become a major supplier of arms to Iraq. The Iraqi regime was unreliable. It was also strongly hostile to Israel and might use against the Israelis any British arms now supplied. Moreover Iran would regard it as provocative for Britain to refurbish for Iraq captured Iranian tanks of British manufacture which might then be used against their original owner. Although Anglo-Iranian relations were at a low ebb at present, British trade with Iran remained considerable and a British citizen, Mr Andrew Pyke, was still detained there. But any gesture by Britain to Iran would clearly be resented in Iraq. Britain's economic interests made it difficult to argue against exploitation of the arms market in Iraq. But it might be advisable to seek an assurance from Iraq that the refurbished tanks would not be used in the war against Iran.

In discussion it was noted that prospects for trade with Iraq in civil goods would be improved to the extent that Britain was prepared to supply defence equipment. In the very long term Iran would presumably be a more important market. But in current circumstances there was no doubt that Iraq provided many more promising openings for both military and non-military exports. As elsewhere in the Middle East, however, political instability made the market a high-risk one. Sale terms should reflect this. The Iraqis were of particular importance as customers for the British aircraft industry. They were potential partners in a consortium of Arab countries which it was hoped would contribute to the development of the P110 aircraft, a derivative of the Tornado. Without Arab finance there was no prospect of this important project coming to fruition. The risk of an adverse reaction from Iraq to the supply of tank spares to Iran might be eliminated if the offer were made contingent on Iranian willingness to make progress on outstanding debt issues, which would probably be rejected. But this could reduce the chances of securing Mr Pyke's release. Britain was still holding the fleet auxiliary ship Kharg which the Iranians had ordered and paid for. But the legal obstacles to its release while the Iran-Iraq war continued should be removed

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if as seemed likely agreement could be reached on a statement that it was not intended for hostile use. An Iraqi assurance that the refurbished tanks would not be used in the war against Iran had been given in the past; but its renewal might only serve to underline the danger of their being used later against Israel.

THE PRIME MINISTER, summing up the discussion, said that the importance of Iraq as a market for British exports and therefore as a source of employment in this country was such that the risks involved in supplying defence equipment should be accepted. But financial arrangements should be made to protect British interests if there were to be a sudden collapse of the market because of political upheaval, as had so damagingly happened in Iran at the time of the Shah's fall. The contract for refurbishing the Chieftain tanks in Iraq could now be signed, and the Committee felt it was acceptable to offer to provide new gun barrels. The Iranians should be offered the tank spares for which they had already paid, preferably on the condition that progress was made towards settling their outstanding debts.

The Committee -

1. Invited the Secretary of State for Defence, in consultation with the Foreign and Commonwealth Secretary, to arrange for the Iraqi contract for tank refurbishment to be accepted on the basis he now proposed; and to give further thought to possible Iraqi assurances about the future use of the tanks involved.
2. Agreed that every opportunity should continue to be taken to exploit the potentialities of Iraq as a promising market for defence equipment.
3. Invited the Foreign and Commonwealth Secretary, in consultation with the Secretary of State for Defence, to offer to supply to the Iranians the tank spares already paid for, and to consider further the possibility that this offer should be made conditional on progress over Iran's outstanding debts.

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## 2. SALE OF HMS INVINCIBLE TO AUSTRALIA

The Committee had before them a minute of 30 November to the Prime Minister from the Secretary of State for Defence proposing that an immediate agreement should be concluded with the Australian Government for the sale of HMS Invincible in 1983 for £175 million, and that the older carrier HMS Hermes should in consequence be retained in service until 1985.

THE DEFENCE SECRETARY said that he much regretted the need to sell HMS Invincible. There was bound to be public criticism of the decision, which would naturally be unwelcome to the Royal Navy. But he was confident that the Government's supporters in Parliament could be persuaded to accept it, as an integral part of his plans for reshaping the Defence Programme, which had been approved by the Committee and by the Cabinet and published in the White Paper of June 1981 (Cmnd 8288). It had been specifically announced that the Royal Navy should in the long term keep in service only two of the three Invincible class carriers which had been ordered. Australia was an ideal purchaser, and negotiations were well advanced. It would not be a satisfactory alternative to sell either HMS Illustrious or HMS Ark Royal, which would be ready in 1983 and 1985 respectively. Both would carry more sophisticated equipment, with a special capability for close co-operation with the United States Navy in the North Atlantic; neither could be sold at a price the Australian Government would be willing to pay; and it would be impossible to deliver HMS Ark Royal as early as 1983, which was the latest date the Royal Australian Navy could accept. The provisionally agreed price reflected both the historic cost of building HMS Invincible and the need to provide the Australians with an incentive to abandon their earlier firm plan to acquire a new Iwo Jima class carrier from the United States at a cost of £200-250 million. His aim would be to secure part payment during the 1982-83 financial year. The money was badly needed to help minimise the programme changes which he would need to propose to the Committee in the New Year in order to ensure that defence expenditure was held within the agreed limits. The smaller such changes needed to be, the less the inevitably adverse consequences for British industry.

In discussion there was general agreement that, while the sale of HMS Invincible was a matter for great regret, the Australians were indeed ideal purchasers. This should help to mitigate criticism. They wanted a firm decision reached before the end of 1981. The price was probably the best available. But it was unfortunate that Treasury officials had not been fully consulted on the financial terms at an earlier stage, as in all future cases they certainly should be. As regards the name "Invincible", it was not proposed that this should pass to the Australians, whose normal practice would be to give the ship a new name after taking delivery.

THE PRIME MINISTER, summing up the discussion, said that the Committee were due to meet again on 16 December. The Defence Secretary could of course consult them further on that occasion if developments so warranted. If not, they were content that he should proceed as suggested and should conclude the proposed deal with the Australian Government.

The Committee -

Agreed that the Secretary of State for Defence should, at his discretion, confirm arrangements for the sale of HMS Invincible to Australia on the basis set out in his minute to the Prime Minister of 30 November.

Cabinet Office  
2 December 1981