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PRIME MINISTER

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Defence constructs
with Iran.

Review of the United Kingdom Response to Pressure for
Voluntary Measures against Iran
(OD(80) 33)

BACKGROUND

This paper by the official group on Iran is intended to meet OD's remit of 19th March (OD(80) 8th Meeting, Item 4) to consider what would be involved in meeting President Carter's request, in his message to you of 13th March, that we should continue to apply the voluntary economic measures against Iran which we first adopted in January.

2. President Carter's subsequent message of 25th March (to which you replied on 29th March) alarmed his allies, us included, by its talk of an ultimatum to the Iranians at what seems the wrong moment. But he has not asked us for additional economic measures. The measures discussed in the paper have not therefore been overtaken, though the circumstances make it politically much more difficult to contemplate discontinuing any of them.

3. In fact, the arguments for withdrawing any of the measures now are not strong. The informal financial measures can be maintained more or less indefinitely. We are not at present under any Iranian pressure for "sharply different" oil prices; and though our companies' market position could make them vulnerable to such pressure in the future, we are not committed to more than using our "best endeavours" to stiffen their resistance as an element in general international restraint. The main difficulty is likely to arise from the ban on the export of defence equipment, where the cost and risks of continuing to hold up deliveries could mount sharply.

4. The Secretaries of State for Industry and for Energy, and the Attorney General have been invited to attend for this item.

HANDLING

5. You will wish to inform the Committee of your own exchanges with President Carter and Chancellor Schmidt; and then invite Lord Carrington to assess the position in Iran, the latest American thinking, and the reactions

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of other recipients of President Carter's latest message. The Committee's assessment of these factors will provide the background for discussion of the review of voluntary economic measures.

6. You will wish to have the confirmation of the Chancellor of the Exchequer that the informal financial measures can be kept in place without damage to United Kingdom interests. Does Mr. Nott agree with that?

7. You could then invite Mr. Howell to say whether he anticipates Iranian demands for any disproportionate increase in prices and what plans he has for consultations with the United States in such an eventuality. Should the American companies be pressed to offer to help our companies if they run short of oil through resisting Iranian demands?

8. Finally, you could invite Mr. Pym to assess the problems and costs of continuing to hold up orders for defence equipment, in particular the Kharg. Sir Keith Joseph and Mr. Nott may wish to comment on the implications for British industry and for the United Kingdom's reputation as a reliable supplier of such equipment. In the Kharg case, who is going to pick up the bill for any losses incurred by British shipbuilders as a result of the Government's decision to help the Americans?

CONCLUSIONS

9. Subject to points made in discussion, you might lead the Committee to the following conclusions:-

- (i) That they approve the conclusions in paragraph 6 of OD(80) 33.
- (ii) That the Secretary of State for Energy should bring to his Ministerial colleagues' attention any signs of Iranian demands for sharp oil price increases and of British oil companies' readiness to meet them.
- (iii) That the problem of how to cover British Shipbuilders' potential losses on the Kharg be remitted to an ad hoc group of Ministers under Sir Keith Joseph, on which the Treasury, Department of Trade and Ministry of Defence should be represented.

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- (iv) That OD should review the ban on the export of defence equipment again at the end of April, if it has not in the meantime been lifted as a result of a settlement of the hostage crisis.

RA

(Robert Armstrong)

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