



Prime Minister

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PRIME MINISTER

IRAN

At the meeting of the Defence and Oversea Policy Committee on 24 April, which took place while I was in Hamburg for a meeting of the Interim Committee, it was agreed that Ministers concerned should give further thought to the problem of compensation and the application of sanctions to existing contracts. Although the Committee is to resume discussion of these issues at its next meeting it may be helpful if I briefly set down my own views on these questions in advance.

2. As John Nott said in his memorandum of 25 April, France, Germany and Italy have all indicated that they want trade sanctions to apply only to future contracts. I very much agree with his view that it would be unwise to persist in a line that they should in addition apply to existing contracts.

3. Although as I understand it this is not a point which arises in relation to the terms of the enabling legislation itself, the extent of sanctions and the allied question of compensation are issues on which we shall obviously have to make our views known to the House in that context. If sanctions were to apply to existing contracts and there were no provision for compensating private industry it might prove very difficult to carry the legislation.

4. However, as has already been recognised, the cost of compensation on this basis could be great. ECGD's liabilities

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alone are considerable, leaving aside the uninsured claimants and the particular problem of Talbot. It seems clear to me that there could be no question of accepting any general commitment to compensate. Such a commitment would also be inconsistent with the precedent set in the case of Rhodesia.

5. Colleagues have already largely accepted that we cannot square the circle by confiscating Iranian assets. I am clear that the view of the Governor of the Bank of England is that in the absence of direct provocation any such move would be unthinkable and wholly contrary to all canons of banking behaviour. As such it would have grave effects on the City of London and the international monetary system at an unsettled time when the reputation of the banking community should be unimpeachable.

6. We must of course continue to assume that sooner or later the hostages problem will be resolved. We shall then face the task of rebuilding normal commercial and political relations. Trade sanctions, if imposed, can be lifted comparatively readily. But it would be a tortuous task, disproportionate to any short-term benefits, to unpick the results of a confiscatory exercise, quite apart from the more profound effects on the monetary system to which I have already referred. To contemplate any such action would risk heightening existing tensions and further undermining standards of international behaviour.

7. I am copying this minute to members of OD, to the Secretary of State for Industry, and to the Governor of the Bank of England.

Mark Hall

P.P. (G.H.)

28 April, 1980

*[Approved by
the Chancellor of
the Exchequer and
signed on his
behalf]*