

SECRET

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

OD(79) 2nd Meeting

COPY NO

42

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 11 JUNE 1979 at 4.30 pm

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 Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
(Items 1 and 2)

The Rt Hon James Prior MP
Secretary of State for Employment
(Item 1)

SECRETARIAT

Sir John Hunt
Sir Clive Rose
Mr R M Hastie-Smith

CONTENTS

Item No	Subject	Page
1	SALE OF TANKS TO JORDAN	1
2	DEFENCE SALES TO CHINA: FUTURE POLICY	3

SECRET

SECRET

1. SALE OF TANKS TO JORDAN

SECRET

The Committee had before them a memorandum by the Secretary of State for Defence (OD(79) 6) and a memorandum by the Foreign and Commonwealth Secretary (OD(79) 8) about the possible sale of up to 274 Shir I tanks to Jordan. They also had before them a letter of 5 June from the Secretary of State for Employment about employment implications of diverting from Vickers' Elswick plant at Newcastle to the Royal Ordnance Factory (ROF) Leeds a contract for 77 Chieftain tanks.

THE DEFENCE SECRETARY said that the need for this sale arose as a result of the cancellation of an order for 1500 tanks by Iran. There was an urgent need to retain the technical skills and productive capacity of the ROF Leeds to enable it to undertake the production of the new main battle tank for the British Army in the early 1980s.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he supported the Defence Secretary's recommendation although the proposed sale would be likely to create problems in the Middle East. Egypt and Syria might wish to place similar orders while a strong reaction could be expected from Israel. The Israeli aim would probably be to prevent the sale to Jordan, but to do this they might ask for the Shir I themselves. There were of course strong arguments for not supplying arms to the Middle East at all: but Jordan would be very upset by a refusal and on balance the Defence Secretary's arguments seemed to carry the day.

In discussion there was general agreement that the balance of the argument lay in favour of going ahead with the sale of tanks to Jordan, although some doubt was expressed whether the strength of the Jordanian bargaining position would mean that they would agree a fair price for the tanks. The size and value of the perspective sale to Jordan, whose final requirement might be as many as 600 tanks justified accepting the political risks involved. We could defend the sale on the grounds that we had a traditional defence relationship with Jordan and we were in any case still involved in defence sales to Saudi Arabia and the Gulf States.

SECRET

SECRET

The proposal to order the 77 extra Chieftain tanks for BAOR from ROF Leeds rather than from Vickers in Newcastle was claimed to be necessary as another means of maintaining the ROF's productive capacity to meet the future needs of the British Army. On the other hand it was argued that the level of unemployment in Newcastle was already significantly worse than in Leeds and this would become more marked because of redundancies in shipbuilding. It was suggested that if this contract went to Vickers it would provide an opportunity to gauge the efficiency of the public sector in direct comparison with a company in the private sector. It was however pointed out it was an established element in our Defence policy to maintain the Royal Ordnance Factories as the preferred source for the supply of armaments for the British Army thus preserving an industrial base of which there was no assured existence in the private sector and which would be vital in time of tension or war.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed in principle that negotiations to sell Jordan up to 274 Shir I tanks and 26 of the armoured vehicles should proceed. In view however of the uncertainty over price, the possible complication - which would need to be checked - created by Iranian prefunding and the risk of reaction by other Middle East states, the Committee should be informed of the outcome of the negotiations before the sale was completed. As regards the order for 77 Chieftains, the Secretary of State for Defence, in consultation with the Secretary of State for Industry, should examine the comparative costs of placing the order with Vickers at Newcastle and in ROF Leeds. He should report his conclusions to the Committee, taking into account both the employment implications and the importance of preserving at Leeds the capability required for future army requirements.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Defence to proceed accordingly.

2

SECRET

CONFIDENTIAL

CONFIDENTIAL

2. DEFENCE SALES TO CHINA: FUTURE POLICY

The Committee considered a memorandum by the Foreign and Commonwealth Secretary (OD(79) 5) on future policy on defence sales to China.

THE FOREIGN AND COMMONWEALTH SECRETARY said that defence sales to China were covered by the same rules in COCOM as the USSR. Negotiations had been authorised by the previous Government for the sale of defence equipment to China in a number of areas and six specific items were now ready for formal approval. If clearance for these items was sought through COCOM the United States would veto them but they had told us they would be prepared tacitly to acquiesce to the United Kingdom making such sales without going to COCOM. But the Germans, the Canadians and the Japanese were insisting that we should not bypass COCOM. The French were proceeding outside COCOM with the sale of defence equipment like the anti-tank guided weapon system HOT and seemed unworried about the consequences. His view was that we should notify our COCOM partners of our intention to sell and only reconsider if we were faced with really severe reactions. Future sales should be considered on a case-by-case basis.

In discussion the relevance of COCOM to current circumstances in relation to China was questioned. It was generally agreed that the policy outlined by the Foreign and Commonwealth Secretary would be likely to expose us to some criticism but this price might be worth paying. A case-by-case approach would allow the strength of such criticism to be assessed before each sale was approved. It was however important that contracts for sales to China should include the usual break clauses in case of a sudden change in political circumstances, and that the possible resale or transfer of British military equipment by the Chinese to third parties should also be controlled.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that in regard to the six immediate items listed in Annex A to the Foreign and Commonwealth Secretary's memorandum, we should inform our COCOM partners of our intentions without seeking their concurrence, but reserve a final decision until we saw how sharply they reacted. The Committee agreed that we should

3

CONFIDENTIAL

CONFIDENTIAL

look at all future contracts on a case-by-case basis except that we should rule out the sale of items in category 4 in Annex B to the Foreign Secretary's memorandum. Industry should be authorised to proceed with negotiations in hand on items in category 1, including Harriers, and to explore, without commitment, Chinese interest in items in categories 2 and 3. The Foreign and Commonwealth Secretary should report to the Committee the reactions of our COCOM partners.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Foreign and Commonwealth Affairs to proceed accordingly.

Cabinet Office

13 June 1979

CONFIDENTIAL