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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

IRAN

Note by the Secretaries

1. The Committee, at their meeting on 2 April (OD(80)10th Meeting, Item 1) considered a note by the Secretaries (OD(80)33) enclosing a report by the Official Group on Iran (MISC 27) on the United Kingdom response to United States pressure for voluntary sanctions against Iran. Following the subsequent decision of the Iranian authorities not to proceed with the transfer of the American hostages to Iranian government control as a prelude to their early release, the United States Government announced an intensification of their sanctions against Iran. On 8 April, the United States Ambassador in London saw the Lord Privy Seal and handed over an Aide-Memoire setting out what assistance the Americans are now seeking from their allies.
2. The Official Group on Iran (MISC 27) have considered the Aide-Memoire and have prepared the attached report which includes a general analysis of British interests in the new circumstances and examines the specific proposals now made by the United States Government. This report is intended as background to the report which the Foreign and Commonwealth Secretary will shortly make to his colleagues on the outcome of his discussions with other European Foreign Ministers on the handling of the American proposals.

Signed ROBERT ARMSTRONG
W N WENBAN-SMITH

Cabinet Office

11 April 1980

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IRAN: REPORT BY THE OFFICIAL GROUP ON IRAN

Introduction

1. Ministers considered (OD(80) 1st Meeting, Item 3). The scope for implementing voluntarily a variety of sanctions against Iran contained in a resolution of the United Nations Security Council (UNSC), which the Soviet Union alone vetoed. They reviewed recently (OD(80) 10th Meeting, Item 1), in the light of personal messages from President Carter to the Prime Minister, the implications of maintaining in force those measures which the United Kingdom had agreed to apply voluntarily. The purpose of this report is to review the possibility of applying, on a voluntary basis, the sanctions set out in the UNSC resolution referred to above, in the light of recent developments. This report therefore examines, first, the possible effects the measures being taken by the United States and the implications of supporting the Americans; then reviews as briefly as possible, the factors pertinent to individual measures which have been put forward, whether by the United States or others.

2. Since the Group's last report, circulated under cover of OD(80) 33, the situation has deteriorated with the Iranian President's failure to secure the transfer of the hostages to Government custody against the opposition of the militant students and his opponents in the Revolutionary Council. Additional United States measures against Iran were announced on 7 April. These were -

- i. the immediate breaking of diplomatic relations with Iran;
- ii. the unilateral application of the UN sanctions vetoed by the Soviet Union;
- iii. the preparation of an inventory of Iranian government assets already frozen and of American claims against Iran;
- iv. an immediate halt to the issue of visas to Iranian citizens.

On the 8 April the United States Government pressed its allies and other well-disposed States to take further measures -

- a. to maintain and intensify existing measures;
- b. to implement the sanctions in the draft Security Council Resolution and, where legislative authority did not exist, to obtain it;
- c. immediately to withdraw Ambassadors and move to a complete break in relations within weeks.

3. There are serious grounds for doubting whether the United States measures even if widely supported by other countries will in fact facilitate the release of the hostages. Economic sanctions are unlikely to take effect quickly and external pressure may unite Iranian opinion against the Americans and increase the influence of the militants. Stricter measures taken against Iran now will mean that the second round of the Iranian elections will take place against a background of anti-American and anti-Western rhetoric likely to favour the extremists. If sanctions do achieve economic disruption, political turmoil could follow, possibly leading to a Government of the extreme Left or authoritarian Right. A reduced Western presence in these disturbed circumstances would leave the field open to Soviet subversion or military threats. Western pressure on Iran may blur the perception in Islamic countries, including Iran itself, of Soviet actions in Afghanistan as the principal threat to them. It could confuse the discussion at the next meeting of the Islamic Conference. Moreover, sanctions would be bound to have an effect on our remaining not inconsiderable economic interests in Iran. The Oil Minister has specifically stated that no country imposing sanctions will have access to Iranian oil.

4. On the other hand there are strong reasons for supporting the United States measures. The Iranians are in flagrant breach of international diplomatic law and it is in everyone's interest that the machinery of international relations should not be damaged by blackmail, whether governmental or unofficial. From the wider Western policy angle, it cannot be an advantage that the United States should appear to be an ineffective

paper tiger. Furthermore, it is important to reassure the United States Government and public of our sympathy and support at a time when East/West relations are dangerously tense and our friends in the Gulf are uncertain of the West's will to support them. There is, too, the danger that if the latest American measures fail the allies may be blamed for their lack of support, and American public opinion may press for military action, with the attendant risks of interruptions in the flow of oil from the Gulf and even Soviet military counter-measures. There is already considerable public resentment in the United States over what is seen as the failure of her allies to support her. This theme recurs in President Carter's speech to journalists on 10 April. After the Prime Minister's visit in December Britain was singled out as an honourable exception. This has faded - now we are not.

5. Ideally therefore we should look for measures which would have a positive impact in Iran, show the United States Government and public opinion that we are supporting them, pose least risk to our own immediate interests and offer the hope of restoring relations with Iran once the present crisis ends. We should also wish to attract the broadest support for any measures we adopt so as to increase their impact, present a less concentrated target for any Iranian counter-measures and prevent backsliders from drawing political or commercial advantage. Although the Iranian Central Government is weak and its armed forces demoralised, it still possesses the power to damage Western interests. The hostages are at the mercy of the militants and the Government, Western Embassies and communities are potentially at risk and Iranian oil exports to the West or Western companies - though currently at a very low level - could be halted completely. Western exports of finished goods or components could be stopped and payments on earlier contracts withheld. The Iranian government could turn to the Soviet Union for economic and even military support.

Existing Measures

6. The request to maintain and intensify our existing measures presents some problems, which were discussed in the Group's previous report (OD(80) 33). The informal, voluntary banking measures remain in place, at no significant cost to our banking business and might be reaffirmed. The question of their intensification is raised in the United States Aide-Memoire. While one or two cosmetic additions to the measures might be considered, it would be

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difficult to persuade the banks to undertake any significant tightening on a voluntary basis, and there would be damage to business. Resistance to paying sharply different prices for oil is only to a very limited extent open to the Government's influence. But we have urged other consumers to persuade their companies to show solidarity in resisting the latest Iranian demands. An assessment of the present balance between supply and demand and the latest position in the negotiations between the oil companies and the Iranians is at Annex II. There is no scope for intensifying our efforts in this field.

7. There is no change in the scale of our problems over the supply of military equipment described in Annex III of OD(80) 33: some £80 million worth is being held up and extant contracts between £200 million and £300 million are at risk. Outstanding debts to International Military Services Ltd and the MOD amount to £77 million. Consideration is still being given to the answer to be made to the letter from the Iranian Ministry of National Defence about delays in dealing with defence contracts in general and which threatens legal action; legal advice is that there is a need to reply soon to refute some of the statements made in the letter.

8. However the position in respect of Support Ships has become much more acute. The detailed position on the Kharg is set out in Annex III to this paper. The Iranians have also now asked for the terminated contract for the supply of four ships by Yarrow yards to be revived, for delivery of ships 1 and 2 and the cancellation of ships 3 and 4. The total bill should not exceed £44 million which is the figure that the Ambassador had virtually agreed with the Iranians in November 1979. This Iranian proposal is being considered by IMS, Yarrow Shipbuilders and ECGD.

ECGD

9. ECGD has given no credit insurance cover for new exports from the United Kingdom since February 1979. Since June 1979, however, the Department has with the approval of Treasury, supported the supply of engineering goods intended for assembly in Iran by firms with whom the United Kingdom supplier had an established business relationship before the Revolution. Some £60 million of goods has been supplied during the last 6 months under this arrangement. ECGD's liability is however rather less than this figure.

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10. ECGD is formally off cover for Iran and has, probably as a consequence experienced little demand for new cover; the Department does not envisage any difficulty in continuing with the present arrangements. There would be severe risks in undertaking any further restrictions eg by refusing to allow ECGD cover on continuing business, a high proportion of which is accounted for by exports of motor vehicles and diesel engines. In particular refusal of cover would be likely to spell the end of the agreement under which Talbot UK, formerly Chrysler, supplies car kits to Iran. ECGD has estimated that it could face losses up to £550 million if Iran declared economic war by repudiating all debts on insured business, and by the arbitrary calling of bonds etc: at present ECGD's total balances in the Consolidated Fund are estimated at £470 million.

Implementation of Sanctions

11. In the Group's view, the objections to implementing economic sanctions without a mandatory decision of the UN Security Council remain as valid as when Ministers considered the issues in January. The United States have now requested us to consider introducing legislation which would give the Government powers to apply sanctions without United Nations authority. Apart from the practical problems of introducing controversial primary legislation into the Government's programme, the existence of such powers would lead to pressure for their use in other cases (eg Israel, South Africa). Nor would we wish to see such wide-ranging powers exist in other countries. But there are also important legal considerations. Since there has been no direct injury to our own interests we take the view that we are not justified under the international law of reprisals in taking action which is in itself contrary to international law. Our position is sharply different from that of the United States, who in law have exhausted all reasonable methods of obtaining through negotiation redress for the injury inflicted directly on their interests and are therefore entitled to take proportionate measures by way of reprisals. The measures suggested by the United States fall into three categories -

- a. measures which are in themselves permitted under international law and are clearly justifiable as retaliation because they are related to the subject of the dispute (any form of reduction of embassies or break in relations by States which with Iran are parties to the Vienna Convention on Diplomatic Relations);

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b. measures which in themselves are permitted under international law but are less clearly justifiable as retaliation because they are not related to the dispute (not entering into new contracts, taking businesslike steps to enforce contractual rights, action on oil prices);

c. measures which in themselves are not permitted under international law (interference with contractual rights or property of the Iranian Government, indefinite detention of the Kharg).

Other Measures

12. a. We might follow the American lead by imposing stringent restrictions on the entry of Iranian citizens to the United Kingdom, or the period of their stay here. This idea is examined in more detail in Annex IV. Such a measure, however desirable in immigration terms, would however have implications for the Embassy in Tehran, either because more staff were required to process applications, or because, the absence of such staff provoked an assault on the Embassy by frustrated visitors and their sympathisers. A visa requirement would have a severe effect on almost all influential Iranians who, whatever their political views, travel frequently to Europe for shopping, medical treatment and to visit relations. Taken with measures to restrict the Iranian diplomatic presence in Europe the regime would find its influence over the large emigre community and contact with its foreign supporters greatly reduced.

b. We might, as the United States Government have suggested, participate in an immediate withdrawal of Ambassadors, to be followed after some weeks by a complete break in relations. We believe that the first measure would be unlikely to make much impression on the Iranians, while a formal break would require Iranian consent before it could be repaired. The Ambassadors of the Nine in Tehran believe that an effective and flexible policy would be to withdraw Embassies completely (leaving perhaps a couple of home-based staff as caretakers). If this policy were adopted by a wide range of States it would have a considerable impact and coupled with the imposition of a visa requirement (see a. above) would make it very difficult for Iranians to travel abroad.

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The withdrawal of Embassy staff (present strength 24 - United Kingdom based staff plus 22 dependants) would have disadvantages. The hostages would be even more isolated and the Americans deprived of valuable reporting and other assistance, (though they regard this as acceptable). The Western presence in Iran would be reduced to a minimum, as would our influence on Iranian affairs. Our communities would be left unprotected and our various cultural programmes (English Language Teaching in the case of the British Council) would stop. The two large British Embassy compounds in Iran (together worth perhaps £80 million in normal times) would be in real danger of sequestration by the authorities or illegal occupation by other groups. There would be a real risk that Iran would break relations.

On the other hand fewer staff would be at risk from Iranian reprisals for immigration restrictions, and we could follow the reduction of our own staff by a request to the Iranians drastically to reduce their Embassy staff in Community capitals (there are at present 24 Tehran-based staff in the Embassy in London) and to close Consular posts (there are 3 Tehran-based staff in the Consulate-General in Manchester). The request would not be enforceable while diplomatic relations continued.

c. We might encourage a boycott by major Western countries of international meetings at which Iran was represented in the hope that other (notably Third World) countries whose interests were affected would be moved to put pressure on Iran to release the hostages. (The idea was floated by the US Mission in New York but has never been endorsed by the United States Administration.)

A boycott of this nature would run counter to consistent Western policy, which has been to resist introduction of unrelated political issues into international meetings, and to existing practice of breaking diplomatic relations without severing international contacts; it could prejudice Western relations with the Third World and increase pressure for similar action in respect of South Africa and Israel.

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We estimate the chances of getting adequate Western support are not good, unless this was seen as the only measure which had even a remote chance of success and which might dissuade the Americans from resorting to military action. Western as well as Third World interests would suffer from a boycott, and it is uncertain whether the Third World or the Iranians would react positively or negatively to what they might perceive as blackmail by the West.

On the other hand a boycott, if it could be organised on a wide enough scale, might bring home to the Iranian authorities the extent of their international isolation and generate pressure upon Tehran by governments in the Third World which have hitherto done nothing. A boycott could be applied selectively so as to spare international meetings where the Western interest is strong, eg, the IMF/IBRD. The idea is being explored urgently in detail.

d. We could without difficulty strengthen our advice to British subjects against visiting or working in Iran in the present circumstances. We should however need to bear in mind the risk that in some cases the withdrawal of personnel could cause the projects on which they are working to collapse: and in those cases the consequences for ECGD insured business could be serious.

United States Action on Iranian Assets

13. Finally there are implications for the United Kingdom in the United States decision to make an inventory of frozen assets and of United States claims against the Iranian government, a move that had been foreshadowed in President Carter's message of 25 March to the Prime Minister. Before the President's announcement of 7 April, we expressed our concern to the Americans at official level that use of these inventories to settle claims out of blocked assets could have damaging consequences ie it would harm foreign (notably Gulf) attitudes to United States banks and administer a further shock to the international banking system. We also argued that hopes of an amicable unwinding of the freeze, following release of the hostages, would have to be abandoned.

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14. The inventory is to include assets held by foreign branches and subsidiaries of United States banks. On this question of extra-territoriality, we have reminded the Americans that the action of United States banks in London in freezing Iranian balances has been brought before the English courts by the Bank Markazi and that the courts will not recognise any further United States action insofar as it affects rights that the courts establish are repayable under English law.

15. The actions by the Bank Markazi have now been set down for hearing on 3 November. The Attorney-General has received a letter from the United States Attorney-General on these cases. It appears that the United States are asking us to facilitate an invitation by the English courts so that they can present their arguments through their English counsel. This request is now being considered. At present, however, assuming that we wished to be helpful to the Americans on this question, there seems to be very little scope for our doing so.

Cabinet Office

11 April 1980

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EMBASSY OF THE
UNITED STATES OF AMERICA

London, April 8, 1980

AIDE MEMOIRE

The hostages held in the American Embassy compound in Tehran are now in their 156th day of captivity. After more than two months of intensive discussions through the United Nations and other channels with the authorities in Iran, no progress whatsoever has been achieved to resolve the crisis or bring about the early release of the hostages. In spite of assurances from the Iranian authorities that the crisis could be resolved through a series of steps including an early transfer of the hostages to government control, their assurances have not been honored. The Iranian position is that decisions on the hostages can only be made by the elected Parliament. We have no assurances as to when the Parliament might meet or what the decision of the Parliament would be.

The situation has therefore become intolerable and we have now concluded that we have no alternative but to put into effect severe formal and political sanctions against Iran. The effect of these sanctions will be more pronounced if they are reinforced by our allies and other friendly nations. More forceful action will be required if the hostages are not released.

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Shortly after the detention of the hostages the United States prohibited the import of Iranian oil and froze Iranian assets. In the hopes of encouraging the release of the hostages, however, we have avoided more intensive measures.

On several occasions we have asked your Government and others to restrain financial and trade relations with Iran. Your Government agreed to stop new official export credits to Iran. Your Government agreed to give informal advice to banks to issue no new credits to Iran, to refuse to open new time or demand deposits for Iran and to allow no substantive increase in existing non-dollar deposits for Iran. The Government agreed to request oil and trading companies to pay for Iranian oil only in dollars and not to purchase Iranian oil on terms sharply different from that of other OPEC suppliers. Your Government agreed not to ship military equipment and spare parts to Iran. We requested your Government not to replace the US in supplying a large quantity of jeeps.

Assistance that we have received from our allies has been greatly appreciated and has been helpful in maintaining pressure on Iran, but we are not convinced that more must be done. The UN Resolution, vetoed by the Soviet Union on January 13 would have prohibited: (A) exports of all goods to

Iran except food, medicine, medical supplies;
(B) shipment of embargoed items on national vessels;
(C) new credit and certain other financial transactions with Iran; (D) shipment of embargoed goods on Iranian vessels; and (E) new service contracts in support of industrial projects in Iran.

At a previous stage we had considered invoking these sanctions formally and we suggested that others do the same as though the UN Resolution had not been vetoed. However, the negotiating situation changed and we withheld imposition, recognizing that others would also withhold, in order to take advantage of what seemed to be a favorable atmosphere for transfer of the hostages. That atmosphere has disappeared, and we have seen a number of other potentially favorable events also turn to dust.

We are driven to the conclusion that the Iranian Government is not able to carry out its commitments.

The President has now decided that the United States will formally put into effect the entire range of economic sanctions called for in the United Nations Resolution, through the International Emergency Economic Powers Act.

For economic sanctions to produce a stark realization among the governing circles in Iran that they must release the hostages, we count upon

the assistance of our allies and other friendly nations. The United States requests that your Government continue to maintain in effect those trade and financial restraints which you have already undertaken. We also request that you intensify these measures insofar as it is legally possible for you to do so and that you do all that you can to hinder commercial and financial relations with Iran. We believe it particularly important to prevent the signing of new economic agreements or contracts with Iran. It continues to be our view that your Government could best assist our efforts by instituting the full range of sanctions voted by 10 members of the UNSC and vetoed by the Soviet Union. We urge you strongly to look once again at instituting these sanctions. If your Government believes that its legal powers are insufficient to take compelling economic measures, we would hope, where possible, that you could seek such power, which in itself would convey our collective resolve to Tehran. We believe that the Iranian authorities will only become more serious about releasing the hostages if they see that the economic consequences for Iran of continued refusal will, in the long run, be calamitous.

On the political side we believe it is crucial that allied Governments reinforce the diplomatic isolation of Iran with specific steps. We urge

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that all allies withdraw their Ambassadors from Tehran immediately to demonstrate their deep concern over the failure of the Iranian authorities to take control over the hostages from the militatn students as they had said they would do. We also strongly urge that allied Governments give serious consideration to a complete break in relations with Iran in the weeks ahead, if Iranian authorities continue to reject efforts to achieve a peaceful solution. While we understand the desire of our allies to exert a moderating influence in Tehran and to avoid enhancement of Soviet influence, we strongly believe that a stark demonstration to the Iranian leadership of the alternatives they face will have a more persuasive moderating influence than will a posture of normal diplomatic interchange.

In price and also agreed to maintain the \$3 price. In the last fortnight Iraq has asked for the government selling price to be increased by amounts varying from \$2 to \$2.50 a barrel with the \$3 price again being maintained. The \$3 was unhappy about the terms of the original contract and critical of the contract in March. Their present request to us in practice means that they expect us not to accede to the latest Iranian request for increases. These increases are requested against the trend in general market prices which would result in Iranian light crude oil being sold at an average price of some \$15.00 per barrel. This would be well in excess of the government selling price in other OPEC countries for crude of a similar quality and also in excess of spot market realizations for such crude.

IRAN: OIL SUPPLIES AND PRICES.

1. The US Aide Memoire asks that HMG should continue to request oil and trading companies to pay for Iranian oil in dollars and not to purchase Iranian oil at terms sharply different from that of other OPEC suppliers.

Present relations between oil companies and Iran.

2. The existing contracts with Iran originated last December. In the case of Shell and BP they were for 95,000 barrels per day (bpd) and 125,000 bpd respectively. Half of the quantities were at the government selling price and the other half at a premium of \$3 on this price. In addition there were contracts for processing oil and for the return of products at prices which effectively resulted in nearly \$2 being added to the overall return available to the Iranians on the contracts as a whole. There were also contracts to buy heavy fuel oil at prices which were relatively high. In March, the Iranians increased the government selling price for crude oil by a further \$2.50 a barrel and all the oil companies concerned accepted this increase in price and also agreed to maintain the \$3 premium. In the last fortnight Iran has asked for the government selling price to be increased by amounts varying from \$2 to \$2.50 a barrel with the \$3 premium again being maintained. The US were unhappy about the terms of the original contract and critical of the commitments in March. Their present request to us in practice means that they expect us not to accede to the latest Iranian request for increases. These increases are requested against the trend in general market prices and would result in Iranian light crude oil being sold at an average price of some \$35.37 per barrel. This would be well in excess of the government selling prices in other OPEC countries for crude of a similar quality and also in excess of spot market realisations for such crude.

Output prospects in Iran

3. Earlier this year our best estimates were that total Iranian production would be some 3mbpd (of which 0.7mbpd for local consumption). More recently reports from oil company sources suggest that production may have fallen to some 1.5 mbpd (with only about 0.7 mbpd for export). The fall is thought to be due largely to technical problems, sabotage and industrial unrest in the oilfields. The latest American assumptions are that production for export in recent weeks may have been about 1mbpd.

Present relations between oil companies and Iran

4. All the oil companies under contract, including, BP, Shell and Japanese companies, have told NIOC only last week that they consider the proposed price increases are unjustified and that they would like to talk. NIOC have in all cases acknowledged these messages; drawn attention to their right under the contracts to increase the official selling price; but have said they are willing to discuss. The Iranians have suggested the following programme:-

- (a) BP - 13/14 April
- (b) First group of mainly Japanese trading companies - 15/17 April.
- (c) Shell - 21/22 April
- (d) Second group of mainly Japanese refining companies - 22-24 April.

We do not know what course events will take during these discussions, but the companies have all indicated that if there is to be any room for manoeuvre they have to find it in terms of reducing the premium price demand for half of the total quantity, but do not expect to be able to make progress on reducing the government selling price. If the premium were eliminated, there would still be some net increase over the current level of prices which oil companies are paying and this might in terms be unacceptable to the USA.

Direct UK interests affected.

5. UK supplies could be affected by either:-

(i) A failure to agree on suitable commercial terms, in which case Iran might cease loading tankers for UK or other destinations, or

(ii) Iranian retaliation against the measures taken by the UK or others to support US initiatives.

The direct UK interests affected are smaller than hitherto since we now only rely on Iranian oil for something like 5-7% of UK imports (3-4% of total UK oil supplies). Of the BP contracted volumes only about 25% come to the UK, whilst most of the remainder goes to Western European destinations. In the case of Shell a smaller quantity - only about 7% - comes to the UK, with Western Europe taking most of the remainder. For this reason we have involved the governments of Germany, Belgium, Holland and Italy in the consultations about the action which has so far been taken and have in most cases been given their general support.

Implications for other Western countries.

6. The largest risks are being run by Japan. She now relies on Iranian oil supplies for something like 10% of her total supplies and would be hard put to it to find other sources since most of this oil is imported directly by Japanese companies and not through multinational companies. We must expect, therefore, that Japan will be particularly anxious that discussions with Iran should not lead to total failure. It is important, therefore, that given the small relative size of our direct interest, that the UK should not be put out in front in meeting American requests and running the risks of any major retaliation.

Implications for the Western world as a whole.

7. It will be critical whether the Iranians decide to cease exports in total, or whether they are prepared to divert supplies which would have gone to BP, Shell and Japanese companies to other channels. Within limits they could divert some of this oil to the spot market, but to do it would probably mean accepting lower prices, unless contrary to current expectations, the spot market becomes stronger again.

There will also be some scope for them to increase the quantities already going to other third countries in small amounts - countries like India, Finland, Sweden and some Iron Curtain countries are involved.

8. But Iranian exports might cease entirely. Kuwait, Algeria, Libya, Venezuela and Nigeria have recently reduced production; OPEC production is between 29 and 30mbpd. Demand for OPEC oil in 1980 is likely to be in the range of 28.5 to 29.2mbpd. Saudi Arabia has spoken of reducing production by 1mbpd. Iraqi production could also fall. With no Iranian production there could consequently be a shortfall. Its size would depend on the level of economic growth in the consuming countries. On the most extreme assumptions (low OPEC production, buoyant demand) the deficit over the year as a whole could be as large as 2mbpd. This could lead to an extremely tight market with the strong possibility of a future steep increase in the price of oil.

The IEA trigger.

9. The IEA trigger which sets the full allocation system in motion, is pulled when the supply is estimated to be 7% below demand in the latest period of 12 months for which statistical data is available. Because of the recession in demand this year so far, supply is already some 4% below this reference level so that a quite modest further fall in supply could in theory produce a trigger situation - although the shortfall would, of course, be largely unreal. The shortfall, however, would be unevenly spread over individual countries, and Japan in particular could quickly be in a selective trigger situation. This would not require the UK or other countries to cut consumption, but would require us and others to make oil available to Japan or other countries in a similar situation.

US attitudes.

10. We have already made it clear to the Americans that if British (and Japanese) companies were to be denied Iranian oil because of the attitudes they take, then it would not

be unreasonable to expect some help to be given to them by US companies particularly the ARAMCO companies who have a large supply of low priced Saudi crude. The US at Government level have expressed some sympathy with this attitude and have promised us a more substantive reply on the whole question. But it remains to be seen whether this sympathy turns from words to deeds.

Conclusions

11. The UK in this situation is less vulnerable than many others. We share with others the general interest in holding down prices, but our interest in achieving this is not so sharp as that of our partners - North Sea oil insulates us from the most direct effects of price increases. Although, therefore, we should work with them to achieve a satisfactory outcome, it would not be in our interests to get out in front and our objective should be to ensure that countries /and Germany, like Japan/ who are much more directly affected, take the lead wherever possible. We should certainly not be prepared to commit ourselves to continuing action in Iran without assurances that there will be a firm common front which will hold.

On 10 April the Department of Trade received an application for an export licence from Sean Hunters, acting on behalf of the Iranians. The application appears to be in order and there is no technical reason for delay in dealing with it. Officials consider that it is not necessary to communicate a decision for the time being. The Iranians have been told that a licence will be needed before the ship can be exported.

Following a meeting with British shipbuilders on 9 April the Lord Privy Seal asked the Ministry of Defence to notify the resident Iranian Naval Delegate at Sean Hunters that pending consideration of the export licence application, approval to the construction of the ship was withheld. This request was in

FLEET REPLENISHMENT SHIP KHARG

1. The difficulties over delivery of the Kharg were mentioned in passing by the Lord Privy Seal when the United States Ambassador called on him on 8 April. This was misinterpreted by the Ambassador, and the concern expressed as a result in Washington provided an immediate indication of the adverse reaction from the Americans which would result from release of the Kharg.
2. Delivery of the Kharg was due on 11 April.
3. On 9 April the Commodore Naval Ship Acceptance formally inspected the Kharg in accordance with the Shipbuilders' contract. After the inspection he held a meeting with the Shipbuilder, the Iranian Naval Delegate and Iranian ships officers at which outstanding items of work were discussed. The meeting was not formally completed because the Iranian Delegate identified three faults in the ship and maintained that these were the Shipbuilders liability to correct. He stated that he had sought advice from Tehran. Swan Hunters did not accept the Delegate's assessment and to protect their legal position, stated their intention to proceed towards hand-over. The Commodore wrote to the Iranian Delegate that evening notifying him that had the ship been destined for the Royal Navy he would have recommended its acceptance by the Commanding Officer subject to all outstanding items of work being completed as a matter of urgency. Swan Hunters had assured him that this action would be taken.
4. On 10 April the Department of Trade received an application for an export licence from Swan Hunters, acting on behalf of the Iranians. The application appears to be in order and there is no technical reason for delay in dealing with it. Officials consider that it is not necessary to communicate a decision for the time being. The Iranians have been told that a licence will be needed before the ship can be exported.
5. Following a meeting with British Shipbuilders on 9 April the Lord Privy Seal asked the Ministry of Defence to notify the resident Iranian Naval Delegate at Swan Hunters that pending consideration of the export licence application, approval to the commissioning of the ship was withheld; this request was in

accordance with legal advice contained in the Law Officers Department's paper dated 21 January 1980. Action was taken on 10 April. The Iranian Naval Delegate sought clarification of the situation by telephone and was advised that the Iranian flag could not be raised on the vessel in United Kingdom territorial waters at present. He was grateful for this advice and commented that the ship was in any case not ready for hand-over. (He also asked whether this meant that Iranian personnel could not live on board and after taking advice Ministry of Defence are now informing him that this will be possible.)

6. The position at Noon on 11 April was that the Iranian Delegate had not accepted the ship but Swan Hunters were progressing legally towards hand-over although they could not put a time or date to this action. They have explained to the Iranian Naval Delegate that when the ship is handed over it will require maintenance.

7. Customs and Excise have responsibility to try to prevent the Iranians exporting the vessel if and when it is handed over by Swan Hunters and is not licenced for export. The chances of the Iranians attempting to remove the ship do not appear high, not least because there are few stores and only half a day's fuel on board. The Deputy Collector at Newcastle is in touch with the local tug company and has explained that severe penalties would attach to assisting the illegal export of the ship. The pilotage authority has also been informed. If, in spite of these precautions, Swan Hunters reported to him that preparations seemed to be under way for moving the Kharg, he is under instructions to inform Headquarters immediately. The Newcastle police would be asked to intervene to try to prevent the ship being moved; if this failed, Ministers would have to consider calling on the Royal Marines. As twenty-four hours are needed for the ship to get up steam, there is no need to bring the Marines to special alert (with the risk of adverse publicity.)

Immigration Control

The Americans have imposed stringent restrictions on the entry and stay of Iranians to the United States, making use of their visa system. Following the American example is desirable, not only as a gesture of support for the Americans, but for more effective control of Iranian immigration to this country. Iranian students or visitors have little incentive to return home once admitted here (170,000 were admitted in 1979). The more firmly the American door is closed, the greater the incentive to try to enter or stay on here.

The visa abolition agreement with Iran could be suspended with minimal formality. A visa system is the appropriate method of control for difficult nationalities. Processing visa applications in Tehran would however require substantial increases in staff, unless a policy so stringent as to come close to refusal as a matter of routine were adopted or applications allowed to pile up undealt with. Either course has risks to the safety of our people in Tehran. The Foreign Office would be reluctant to impose a visa requirement now unless this coincided with withdrawal of our staff from Iran.

There may be scope for further tightening up without a formal visa requirement. Immigration officers have power to refuse entry to passengers unless satisfied that they will not stay on. More Iranians have in recent months been refused than any other nationality. Nevertheless only one Iranian is refused for every 50 admitted, largely because of pressure of numbers and the difficulty of establishing grounds in each case for suspecting an intention to stay. It would be possible under the existing immigration rules to have more regard to the political, economic and social conditions in Iran as providing an incentive for Iranians to wish to avoid returning there. The result could be to make refusal of Iranian visitors and students appropriate unless there are positive indications that one could be confident that the individual genuinely intended to return. Such a change of policy might be manageable at Heathrow over the next few weeks, when Iranian traffic tends to be lighter than usual for seasonal reasons, provided it was publicly announced so as to deter Iranian travellers and the airlines. Once the policy was established, travel from Iran might well diminish. Any such announcement would have to present the new policy as an immigration control measure, consistent with our immigration rules, which indeed it would be, while at the same time we should seek to make the most of

it with the Americans as a gesture of support. Such a policy would be unpopular in Iran and therefore not without risk of unpleasantness for our Embassy, but the decisions would be seen to be taken in London rather than conveyed direct to applicants by the Embassy.

The details of any such measures would need to be carefully worked out. If Ministers wish, the possibilities can be examined further.