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10 DOWNING STREET

From the Private Secretary

11 December, 1979.

Dear George,

Iran

The Prime Minister held a further meeting at 1700 hours this afternoon to discuss the attitude of the Government towards the American request for support in taking action to freeze Iranian assets. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy, the Secretary of State for Trade, the Attorney General, the Governor and Deputy Governor of the Bank of England, and Sir Robert Armstrong attended the meeting.

The Foreign and Commonwealth Secretary said that he had spoken on the telephone earlier in the day to the German Foreign Minister, Herr Genscher. The German position was very similar to our own. They were extremely anxious to find some way of helping the Americans, but they thought that it would be wrong to take action to block Iranian assets. The Germans favoured action under Chapter 7 of the UN Charter. So did the French Government. Mr. Vance had told Herr Genscher that it was not certain that the Russians would veto a Chapter 7 Resolution: Dobrynin was seeking instructions. If a Chapter 7 Resolution was adopted, it might include a provision for the blocking of Iranian assets. Since the Resolution would be mandatory and binding on all members of the UN, this would make the British Government's position easier. It was pointed out that Sir Anthony Parsons had considerable doubts as to whether a majority at present existed in the Security Council for a Chapter 7 Resolution.

The Prime Minister said that in the light of the attitudes of the French and German Governments and of the difficulties identified in earlier discussions, the idea of action by the British Government to block Iranian assets in London, whether taken unilaterally or in conjunction with other members of the Nine, should not be pursued. As regards a Chapter 7 Resolution, the Prime Minister noted that Sir John Graham had suggested in a recent telegram that there were now some signs of movement in the Iranian position, and that pressure might be counter-productive. The Secretary of State for Trade said that his impression from his own visit to the Middle East and from telegrams he had read subsequently was that all the Gulf States

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and Saudi Arabia would be opposed to the intensification of pressure on Iran, including the imposition of UN sanctions. The Foreign and Commonwealth Secretary said that the difficulty for Mr. Vance was that he wanted to avoid military action, the consequences of which would be incalculable. However strong the arguments in favour of continuing patience, Mr. Vance's judgement was that the US Administration had to be seen to be doing something to hurt the Iranians. Failing such action, more drastic alternatives might become unavoidable.

The Prime Minister said that if the Americans wished to take the UN route, we should try to follow them. But before doing so, we should draw Mr. Vance's attention to the arguments in Sir J. Graham's telegram. Moreover, it would be essential before going far down the road that we should be clear what forms of sanctions we were prepared to see included in a Chapter 7 Resolution. After the Governor of the Bank of England had argued that the freezing of Iranian assets as the result of a mandatory UN Resolution would be almost as damaging to the world banking system as action in the absence of a Resolution, the Prime Minister agreed that we should argue against the inclusion of action against assets within the ambit of any Chapter 7 Resolution. However, this would make it the more urgent to consider the alternatives. The group which had drawn up MISC 27(79)2 should review the options listed in that paper, and arrange for briefing to reach the Foreign and Commonwealth Secretary in Brussels before his meeting with his American, French and German colleagues tomorrow night. The Chancellor of the Exchequer suggested that the question of an arms embargo and of refraining from buying overpriced oil - assuming others also refrained - should be looked at.

The Foreign and Commonwealth Secretary summarised the message he would be giving Mr. Vance as being that the Government, in the light of Sir J. Graham's advice, was not certain that further pressure on the Iranians would be productive; but that if action was required, it should be an attempt to secure a Chapter 7 Resolution that we would back the effort; but that in doing so we would wish to avoid the inclusion of a freeze on Iranian assets in the Resolution. The Prime Minister agreed with this line.

At the end of the meeting, the Attorney General said that he had learned that the judge in the forthcoming case involving US Citibank might have it in mind to approach him to act as amicus curiae. If he were to agree to do this, it would be in order to put forward the views of the defendants, i.e., the US Government and the Markazi Bank of Tehran. Since, in the light of earlier discussions, he would be unable to come down in favour of the Americans, he thought there would be considerable difficulty in

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agreeing to any such request. The Prime Minister agreed that the judge should be discouraged from making the suggestion.

I am sending copies of this letter to Tony Battishill (HM Treasury), Stuart Hampson (Department of Trade), Bill Burroughs (Department of Energy), Bill Beckett (Law Officers' Department), John Beverly (Office of the Governor of the Bank of England), and to Martin Vile (Cabinet Office).

Yours ever

Richard Alexander

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