

Ref. A02099

PRIME MINISTER

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OD: Sanctions against Iran

BACKGROUND

There is wide agreement between the United Kingdom and the main allies of the United States on the need to bring home to the Iranians the unacceptability of their continuing to hold American hostages; and to do so in a way that reduces the pressure on President Carter to take military action. On 24th April (OD(80) 12th Meeting, Item 1) the Committee agreed that our policy would need to be aligned with that of our principal partners, inviting the Foreign and Commonwealth Secretary to report the views and intentions of the latter; invited the Chancellor to seek and report the views of the Governor of the Bank of England; and agreed to resume consideration of the problem of compensation at a later meeting. Since then the European Council has reaffirmed the commitment of the Community's Foreign Ministers to take a series of measures in two stages, the second of which would be based on the United States Security Council Resolution vetoed by the Russians in January. It was agreed that the deadline for applying the second stage, if the hostages had not been released beforehand, should be 17th May, the date of the next EC Foreign Ministers' meeting. The precise scope of the sanctions were to be discussed further by officials, the main question in doubt being whether to apply the ban on exports to existing supply contracts.

2. Minutes by the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade underline the costs to the United Kingdom of applying sanctions to existing as well as future contracts. They also demonstrate the link between this issue, the related question of compensating British firms for losses arising from the application of sanctions and the passage of the sanctions legislation (Iran (Temporary Powers) Bill) through Parliament. This last point accounts for the urgency of the Committee's meeting. The Bill needs to be presented to Parliament immediately if it is to have passed all its stages, or at least all its stages in the Commons, by 17th May. Moreover, although

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the wording of the Bill is not affected by the inclusion or exclusion of existing contracts, or by the Government's decision on compensation, Parliament will expect the Government's views on both points to be made clear in debate.

3. The Foreign and Commonwealth Secretary's memorandum (OD(80) 41) explains that he has kept the United Kingdom position open, pending the outcome of further discussion by European Community officials and of his own talks in Washington.

HANDLING

4. You will wish the Foreign and Commonwealth Secretary to describe the latest attitudes of the European Community, Japanese and Americans and, in the light of these, what is entailed by his ideas for a "graduated response". You will wish the Secretary of State for Industry and Mr. Parkinson (Mr. Nott is abroad) to comment on the likely industrial and trade effects of Lord Carrington's proposals. The Secretary of State for Industry has drawn attention to the extreme vulnerability of Talbot UK and the company's critical dependence on the contract to supply vehicles to Iran in kit form. He will wish to underline the threat to the company's existence and the cost to the Exchequer entailed in any decision which put a stop to the Talbot contract. You might then invite the Chancellor of the Exchequer to comment more generally on the economic implications and the cost of possible compensation to firms and individuals. The Secretary of State for Employment has been invited to attend this meeting because of his interest in the Talbot problem; you may wish him to comment on the employment aspects of Lord Carrington's proposals. The Chancellor of the Duchy of Lancaster could be asked to assess the chance of obtaining rapid Parliamentary approval for the Enabling Bill. Will the Bill go through if the Government refuses to compensate firms for losses they may incur as a result of Orders later promulgated under it? Will the Government's statement of their intentions on the scope of sanctions contrive to satisfy the House without at the same time annoying the Americans and letting Iran's other trading partners off the hook? How much pressure will there be for analogous legislation in relation to South Africa and/or Namibia?

5. Can the rescue of the Iranian hostages in London be turned to good account (both with Iran and the United States)? You might suggest that our capacity to capitalise on the good will of the Iranian Government will be dissipated rapidly if

we are seen to take a harder line than others on sanctions. We could deploy this argument in warning the Americans of the limited scope of our sanctions. You might also suggest sending a message to the Iranians that a gesture on their part - the release of some, if not all, the American hostages, or their transfer into the custody of the Iranian Government - could begin to unblock the present dangerous impasse.

CONCLUSIONS

6. Subject to points made in discussion you might lead the Committee to agree that -

- (i) We should not apply our sanctions against Iran more strictly than do our European partners or Japan.
- (ii) Existing contracts should be excluded from the scope of British sanctions.
- (iii) The Government should not compensate firms or individuals for business lost as the result of the application of sanctions.
- (iv) The Foreign and Commonwealth Secretary should explain the reasons for (ii) to the Americans.



ROBERT ARMSTRONG

6th May, 1980