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CABINET

DEFENCE AND OVERSEAS POLICY COMMITTEE

IRAN

Memorandum by the Secretary of State
for Foreign and Commonwealth Affairs

1. The American message of 8 April (circulated as Annex 1 to OD(80)34) explained that the Americans had now decided to put into effect the economic sanctions called for in the draft Security Council Resolution vetoed in January by the Soviet Union. The message also called on U.S. allies to maintain and intensify existing measures, to implement the sanctions in the Security Council Resolution (and where legislative authority did not exist to obtain it), to withdraw Ambassadors from Tehran now, and to give serious consideration to a complete break in relations with Iran in the weeks ahead in the absence of progress.
2. The arguments for a favourable response to the American appeal are very strong. There has been much publicity for it. Suggestions that America's allies are divided, doubtful and reluctant to support the U.S. have been very damaging.

Much American press comment on the lack of Allied support has been downright hostile. It is important to reassure the U.S. 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. Inability by the Americans to make progress over the hostages, particularly if coupled with an apparent lack of support by their allies, could have a grave effect on the standing of the West in the Gulf region just at a time when the Soviet threat from the North has shown itself to be particularly menacing. There must be a grave risk that if the allies do not support the President now over sanctions, he will be led to authorise measures of U.S. military intervention. This could be fraught with serious and unpredictable consequences. It is strongly in our interests to back American efforts to obtain a solution through political and economic pressure in order to avoid the President being driven to military measures.

3. Statements were made on the situation by the Prime Minister and me in Parliament on 14 April. There was a strong feeling on both sides of the House that we should support the Americans and some indication from the Opposition that they would not oppose Government legislation to obtain powers to give effect to sanctions (though Mr Benn has indicated reservation in an interview on the BBC this morning).

4. German and French attitudes seem to indicate a belief that resort to sanctions by the European countries will eventually be inescapable. The Germans have suggested that action by Community legislation under Article 113 of the Rome Treaty could ease the problems of those Community countries

that lack domestic powers to impose an embargo on exports without^a mandatory U.N. Resolution. This would indeed be helpful for us as regards our problem over domestic legislation, if Community agreement could be obtained. The French have suggested that, while the Community should perhaps agree to the American request to impose sanctions, their implementation should be postponed until after the Majles elections in Iran (Khomeini has said that the future of the hostages must be determined by the Majles but it is now unlikely to meet until the end of May): meanwhile the countries concerned could legislate to obtain the necessary powers. However, the views attributed to the French Government in the media indicate much less readiness to agree.

5. Given these attitudes and the continued pressure we must expect from the Americans, it is unlikely that we shall be able to avoid committing the U.K. to sanctions. Sanctions of some kind are inevitable but their implementation with the agreement of all concerned will inevitably take time to arrange, and in practice there could be considerable advantage in bringing these into effect in two stages. This is because the prospect of sanctions could well have as good an effect on Iranian opinion as their actual imposition (we do not believe the sanctions in the draft Security Council Resolution likely to be particularly effective, especially if they are applied only by a few countries). This would buy further time in which we would still have a chance of avoiding the imposition of those sanctions most damaging to ourselves (e.g., the ban on industrial exports). And if we eventually had to impose these measures we should have had time to obtain the necessary powers and to concert fully with other Western countries, thus

ensuring the maximum effect.

6. However, we would not be able to persuade the Americans to acquiesce in delaying all or some of the sanctions package unless we were able to announce a solid and convincing range of measures to support them now. So far, as a result of the meeting in Lisbon last week, the Ambassadors of the Nine have made a joint demarche, with which the Japanese associated themselves, to President Bani Sadr to urge the release of the hostages and to seek precise assurances about the dates and methods by which their release would take place. This was done on 12 April but without satisfactory results and the Community Ambassadors have returned to their Capitals to report. The Americans have now made it clear that they are expecting the meeting of the Community Foreign Ministers at the Foreign Affairs Council on 21 and 22 April to reach decisions on measures that the Community will take to support them.

7. This points towards a decision by the Community/Nine at this meeting (a) to adopt certain measures immediately or as soon as possible, and (b) to prepare themselves to adopt certain other measures at a later date (e.g., if there is no progress on the release of the hostages). The measures in the two categories would not necessarily need to be confined to those asked for by the Americans or included in the Security Council Resolution if it seemed that other measures would be more effective either in putting pressure on the Iranians or in satisfying the American wish for action. Measures under (a) might include:-

- (i) reducing the number of Iranian diplomats accredited (para 2(e) of the vetoed Resolution). This could be done unilaterally, consistently with the Vienna

(ii) changing the report of Iranian oil (see para 10 below).

- Convention on Diplomatic Relations, provided that our numbers in Tehran were also being reduced;
- (ii) recalling HM Ambassador (asked for by the Americans on 8 April);
 - (iii) reducing the numbers of our own staff in Tehran to a minimum caretaker element or to a British interests section in another Embassy. This may be necessary in any case if we are to reduce the exposure of our Mission to reprisals. But it would be necessary first to give the 350 British nationals who still remain in Iran appropriate warning of our inability in the future to provide consular protection in circumstances when they themselves could be at greater risk;
 - (iv) re-imposition of a visa requirement. This could only be done safely by the simultaneous withdrawal of staff. Imposition of a visa requirement without adequate staff to handle the applications is likely to provoke trouble.
 - (v) a **formal embargo on arms sales**. This would place our refusal to release the 'Kharg' and our withholding of ammunition from Iran on a more open footing. This could be combined with the expulsion of the Iranian military students from the U.K. It should be realised that an arms embargo will in some cases involve defaulting on contractual obligations or detaining Iranian property and may lead to legal action by Iran. The arms embargo is the only measure in part (a) which raises substantial legal problems;
 - (vi) foregoing the import of Iranian oil (see para 10 below).

8. Measures under part (b) could include:-

- (i) embargo on exports and of their shipment other than food and medical supplies (2(a) (b) (d) of the Security Council Resolution). This would prevent the export of Talbot kits to Iran. With the agreement of our Air Bus Industrie partners (in effect France and FRG) we could also block the delivery of five Airbuses;
- (ii) action on Iranian loans, deposits and credit (2(c) of the UN Resolution). This would amount to taking mandatory action (for which special legislation would be required) to back the voluntary measures which are already in force;
- (iii) prevent new service contracts other than medical (2(f) of the UN Resolution). This would require new primary legislation. As the Americans, however, attached particular importance in the 8 April message to preventing the signing of new economic agreements or contracts, non-mandatory pressure by Governments to discourage the signing of new service contracts might be included under group (a) above.

9. There is also the question of a freeze on Iranian assets which should be considered in two separate cases:-

- (i) As a measure taken on our own, or Community, initiative to reinforce our package of measures, perhaps under part (a) above. This has not been requested by the Americans, nor was it included in the UN sanctions resolution - mainly because of the strong opposition of ourselves and other

countries with important financial centres. The damage to the reputation of the City of London and to the world financial system could be severe.

- (ii) As a counter to Iranian reactions to our measures under part (a) or part (b). If it seemed likely that the Iranians were planning to make damaging withdrawals of their deposits from Britain, existing legislation could be used to prevent this. It would be for consideration whether we would wish to take action. If so, we would have to explain it carefully, particularly to Gulf depositors.

10. As regards oil, action could fall into two parts. We are confronted with the need for a decision on one aspect almost immediately. As you know, British and Japanese companies have so far resisted paying the \$2.50 increase claimed by the Iranians for this quarter. Consultations by the companies are in train in Tehran, but BP, who went first, report that the Iranians are adamant. I consider it essential to persuade the companies to stand firm despite the fact that they will be in breach of contract. BP already seemed inclined to do so but I intend to arrange meetings with the chairmen of BP and Shell to impress on them that this is what we expect. We and the Americans will need to stiffen the Japanese. This would mean in effect an embargo on the major portion of Iranian oil exports, though taken on commercial not political grounds. Nevertheless the foregoing of oil imports could be presented to the Americans as part of the overall response to their appeal for action. Taken with the other measures in part (a) it might create a

package sufficient to convince the Americans that their allies were responding adequately to their appeal. Depriving Iran of the oil revenue necessary for the purchase of imports could be as effective a gesture as banning exports (as provided for in the UN Sanctions Resolution) and much less difficult to impose and police.

11. There remains the question of whether to take overtly political action to follow up the commercial boycott, as part of stage (b). The Iranians have already threatened to cut off supplies to any country that introduces sanctions. There is something to be said for pre-empting that decision since by doing so we should lose little, but deprive the Iranians of a propaganda advantage. The Japanese and some of our European Partners would be hurt more than the UK and might consequently accuse us (harmfully in the Community context) of advocating a measure that hurt them more than us. There might be pressure to increase North Sea oil production to help meet the Iranian shortfall. But these pressures should be containable and argue more for coupling the proposal with ideas of how to meet the problem than for dropping it. It will be necessary to decide in consultation with our partners how to implement the measure (e.g., by political pressure on the Oil Companies or by the use of domestic or Community legal instruments).

12. If Community Foreign Ministers are to take significant decisions at their meeting next week much preparatory work will be needed. It is possible that some of the above measures will need to be further refined or transferred from one of the proposed categories to the other. This may only

/become

become clear when we share our thinking with our EC Partners and the Americans. There is, however, an urgent need for consultation at official level on these questions and I invite my colleagues to agree that British officials should be guided by the broad lines of the above in these discussions.

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