


CONFIDENTIALPRIME MINISTERArms Supplies to Iran and Iraq

BACKGROUND

When the Committee discussed defence sales on 3rd December there was general agreement that more should be done to stimulate them, both as a springboard for the export efforts of high technology industries and because of the economic prizes which are there to be won. Defence sales in 1979-80 fell by more than £1,000 million compared to the level of previous years. This reduction was largely due to the loss of the Iranian market. The war between Iran and Iraq and the release of the American hostages are both in their different way factors which may help the United Kingdom recover some of the ground it has lost.

2. The Foreign and Commonwealth Secretary's present paper concentrates on individual equipment orders rather than on broad market strategy. The Secretary of State for Defence may wish to argue, against it, that we should be wise at this stage to decide whether to concentrate our future marketing efforts on Iran or Iraq, recognising that to seek to do business with both countries in current circumstances may end in antagonising both.

3. The Secretary of State for Defence and the Economic Ministers are also likely to criticise the paper for being too inhibited both by our detainees in Iran and by our obligations to neutrality. Waiting for our detainees to be released will give our competitors a head start. Being too scrupulous about the 1907 Hague Convention may contrast with their more carefree attitude. If we chose, it could be argued that the existence of £75 million worth of debts owed by Iran to the Ministry of Defence provided a valid excuse on commercial grounds for treating Iraq differently to Iran, whatever the demands of neutrality might be.

4. The Kharg is mentioned briefly in paragraph 6 of the paper. In accordance with your instructions earlier in the month, Departments are seeking to reach agreement on responsibility for meeting the costs of the maintenance of

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this ship. This is not proving easy. But the news that the Iranians may wish to sell the ship opens up new possibilities, and until these have been explored by officials there is no need for the Committee to consider the problems associated with its ultimate disposal.

5. The Attorney General and the Secretary of State for Industry (or Mr. Tebbit if Sir Keith Joseph cannot come) have been invited for this item.

HANDLING

6. You will wish to ask the Foreign and Commonwealth Secretary to introduce his paper. Points to cover in subsequent discussion are:-

- (a) Does the Secretary of State for Defence agree with the selective approach proposed in the paper? If a choice has to be made, does Iraq or Iran offer the better prospects for future defence sales from this country? Is Iraq likely to be sufficiently disillusioned with the Soviet Union as a source of defence equipment to wish to turn to a Western supplier? Is Iran likely to turn away from the United States as a major defence equipment supplier?
- (b) To what extent does the Attorney General consider that there are legal inhibitions to a resumption of defence sales to either Iraq or Iran if it is not possible to resume sales to both countries?
- (c) Are the Secretaries of State for Trade and Industry content with the proposals set out in the Foreign and Commonwealth Secretary's papers? Would they prefer a more expansive approach to a resumption of defence sales in this important area of the Middle East? To what extent is the likely availability of civil commercial opportunities in either Iraq or Iran a factor which should influence us in deciding on future marketing policy for defence sales?
- (d) Does the Foreign and Commonwealth Secretary consider that the four Britons detained in Iran are in any sense hostages? If so, what do the Iranians want to use them to extract from us?



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- (e) Does the Foreign and Commonwealth Secretary define tank spares for Iran as 'lethal' or 'non-lethal'? If the latter, is it consistent to refuse to repair Iraq's captured Chieftains? If the former, will not this damage our reputation as a supplier of major weapons systems?

CONCLUSION

7. Subject to points made in discussion (and there are likely to be a number of these) the Committee might be guided to endorse Lord Carrington's proposals. i.e. to agree:-

- (a) that in relation to Iran we should profess a wish for a return to a normal relationship in the hope that our detainees may be released in the near future; and that military supplies should continue to be withheld and the position reviewed in about a month's time if the detainees are still held;
- (b) that if and when the detainees are released, we should resume the supply to Iran of non-lethal military spares;
- (c) that, in the case of Iraq, arms and ammunition should not be supplied at present; non-lethal military equipment should be supplied and we should be prepared to negotiate for items with long delivery dates.

8. The Secretary of State for Defence might also be invited, in consultation with the Foreign and Commonwealth Secretary, to plan how to take maximum advantage of the defence sales opportunities which now seem to be presenting themselves in the Middle East and to devise an appropriate marketing strategy.

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Robert Armstrong

28th January 1981