



Prime Minister <sup>(2)</sup> Middle East

The sale of tanks to Chile would certainly cause a political storm here and in some quarters abroad.

MO 26/9/1

FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE SALES: IRAQ, THE MIDDLE EAST, AND CHILE

We had a brief word this morning about a number of urgent Defence Sales issues and I look forward to discussing them further when we meet next Tuesday, 14th July.

2. The matters I wish to discuss with you are:

a. the question of what guarantee should be given to Iraq to induce them to negotiate and enter into large potential contracts with IMS as our company;

b. the line we should take with Jordan, Iraq, Saudi Arabia, and in the Middle East more generally on the P110 and the Tornado (IDS): and

c. the possible sale of tanks to Chile.

3. On a. the Iraqis have asked us to guarantee IMS performance under contracts in order to avoid bank guarantees and performance bonds. I would like to give the Iraqis as much as possible of the formulation on guarantees that they want whilst preserving our freedom of action in respect of arms export licensing policy. This could perhaps be achieved by an exchange of side letters at the same time as the guarantee is given, explaining that the guarantee we give would be subject to overriding national interest? I have asked the Treasury Solicitor to discuss this with your Legal Advisers.



4. On b., in the light of the expressed interest of the Arabs in both aircraft, we should aim for the present to promote the sale of both in the Middle East, but in the private knowledge that the Germans would not in the event be prepared to sanction a Tornado sale for some time to come. The Germans' position could be worked to our advantage in promoting the British designed P110. Further discussions should take place between my officials and Jordan who are leading the Consortium as soon as possible, and before the meeting early next month of Arab Air Force Commanders to explain our position on the assurances that have been sought.

5. I realise that c. is a difficult and emotive proposition and I fully comprehend your political concerns. I should, however, like to stress my own worries about the future of Vickers as a tank manufacturer, which argue in favour of the deal. They have only one current order which is almost complete. There are some other prospects, but a sale to Chile - possibly worth more than £50M - could be critical to their future. It is very important to us to maintain Vickers' tank capacity, as I foresee major export prospects for main battle tanks over the next decade and I do not see that ROF Leeds will be able to satisfy the potential demands.

6. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Trade; and Sir Robert Armstrong.

*I attach a list of potential sales to Iraq.*

*JN*

Ministry of Defence

9th July 1981

RECENT DEFENCE SALES AND CURRENT PROSPECTSSALES SINCE THE START OF THE IRAN/IRAQ WAR

	<u>Value</u>	
1. Chieftain Armoured Recovery Vehicles	30	IMS
2. Tank Recovery Vehicles	30	Scannell
3. Night Vision Equipment	15.75	Flear Optics
4. Ground Power Units	11.2	Houchin
5. Land Rovers	3.5	BL
6. Hawk Study Contract	2.3	Bae
7. Other Miscellaneous sales	16.8	
	<hr/>	
Total:	£110M	
	<hr/>	

LONG STANDING MAJOR SALES PROSPECTS

1. Hawk Aircraft Local Assembly	1000+	Bae. Feasibility study well underway. In-country hot-weather trial July 81.
2. Naval Base, Integrated Weapons Complex	Initially 4-5 Eventually anything up to 500	IMS close to securing contracts for IWC package and Naval base Design Study. Agreement still to be reached on question of advance payment guarantees and performance bonds.
3. Engineer Package: Centaur/Barmine/Ranger	75	This is a long-standing requirement, although interest has intensified since the war began. There are security problems to the sale of Barmine & Ranger which have still to be resolved.

4. Hydrossearch for Dam Surveillance 30 MSDS close to contract signature.

MAJOR SALES PROSPECTS RECENTLY ARISEN (No lethal items to be supplied until after the war)

1. Refurbishment of captured leftain tanks (130)	25	IMS will shortly be reporting on the categorization exercise.
2. New Tanks (200)	500	Iraqis have requested an offer for a further 200 advanced MBTs.
3. Armoured Recovery Vehicles (21)	25	IMS are offering
4. FH70 (500)	350+	Iraqis have requested an offer and may be interested in as many as 500 pieces.
5. Tornado/P110	500+	Strong Iraqi interest in Tornado IDS. Also possible Iraqi participation in joint Arab consideration of the P110 derivative.
6. Mig 21 + Mig Spares and Overhaul Facility	NK	BAe, RR, Dowty and Westland all invited to quote for spares. Possible long-term interest in establishment of a large overhaul base.
7. Spares for Russian T-tanks, including re-engining	NK	Various firms invited to put forward proposals.
8. Further Recovery Vehicles and Tank Transporters from Scammell	50	Contracts signed but not ratified.

Total: £3000M+  
(including long-standing prospects)

10 JUL 1981  
11 12 1  
13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31