

Ref: B06345

PRIME MINISTER

c Sir Robert Armstrong

OD: Overhaul of Captured Chieftain Tanks in Iraq

## BACKGROUND

✓ Flag A  
✓ Flag B  
✓ Flag C

The Iraqis want us to repair over a hundred Chieftain tanks they have captured during their war with Iran. The contract would be worth £50 million. OD decided in January (OD(81) 1st Meeting, Item 2, Conclusion iii) to play the request long, and authorised negotiations but not signature. This was confirmed in July, but with a presumption that signature would be authorised when required (OD(81) 13th Meeting, Conclusion 1.iii, and paragraph 4a of OD(81) 39); at that stage the work was to be carried out in Jordan.

✓ Flag D  
✓ Flag E

2. The Iraqis now insist that it must be done in Iraq. The Defence Secretary's minute of 19th November sought the Foreign and Commonwealth Secretary's agreement that we should agree to the deal on that basis. The latter's reply (undated but circulated on 27th November) argued that the wider implications should first be discussed in OD. His view is believed to be that there are serious risks involved (the Iraqi regime is brutal, unstable and the aggressor in the current war); but that provided we consciously accept these, the deal is worth it for the richer prizes potentially involved.

3. In your summing up of OD's discussion in January, you said that "every opportunity should be taken to exploit Iraq's potentialities as a promising market for the sale of defence equipment; and to this end 'lethal items' should be interpreted in the narrowest possible sense, and the obligations of neutrality as flexibly as possible". The Defence Secretary reports in his minute that our policy has led to the sale of some £220 million of non-lethal equipment, with prospects worth over £3 billion. But the French and the Italians are active competitors. Mr Nott proposes that a gesture should be made towards Iran by releasing some tank spares for which they have already paid.



4. The Secretary of State for Industry and the Attorney General have been invited for this discussion. The Chancellor of the Exchequer is unable to be present as he is chairing a meeting of NEDC, but the Chief Secretary, Treasury, will be present.

## HANDLING

5. You will wish to invite the Defence Secretary to open the discussion and the Foreign and Commonwealth Secretary to comment on the wider international aspects. Points to establish in subsequent discussion are -

a. The importance of the contract. If we pull out at this late stage, how badly would we damage our relations with Iraq, and also with Jordan? Would our other sales prospects in Iraq be affected? In addition to the two lead Ministers, the Secretary of State for Trade should comment in the light of his recent visit to Baghdad.

b. The importance of the Iraqi market. Do the Secretary of State for Industry and the Chief Secretary, Treasury, agree with the Defence Secretary's view that other sales prospects are substantial? In the light of the Foreign and Commonwealth Secretary's likely doubts about the stability of the Iraqi regime, are the Committee content to live with the danger that we may in the end face another spectacular collapse of a major arms market, as in Iran when the Shah fell?

c. Neutrality. The Attorney General should comment on our legal obligations and how strictly they need to be observed. Our policy is not to supply lethal equipment to either side; can we sustain that, if we rebuild tanks, by simply omitting their gun barrels? More generally, do we mind appearing to be neutral on the side of a dictatorship which started the war but is clearly failing to win it?

d. An offsetting gesture to Iran. Do we need one? If so, is the suggested release of certain tank spares adequate? Are there alternatives? Will Iraq retaliate?

*Challenger  
order*



CONCLUSION

6. Subject to the discussion the Committee might be guided to agree
- i. that we should sign the proposed contract to repair the captured Chieftain tanks in Iraq;
  - ii. that we should continue to take every opportunity to exploit Iraq's potentialities as a promising market;
  - iii. that we should release tank spares to Iran on the basis suggested.

*Contract which puts our financial position.*

*[Handwritten blue scribble]*

*R L Wade-Gery*

30th November 1981

R L WADE-GERY

CONQUEROR