



CONFIDENTIAL

Prime Minister  
I understand that the Foreign Secretary  
agrees with the Defence Secretary's  
minutes at Flag F.

Content?

A.S.C. 17/9.

Yes not

cc Sir Robert Armstrong  
Mr Goodall

MR COLES ✓

DEFENCE SALES TO IRAN

You asked for advice on the minute from the Foreign and Commonwealth Secretary to the Secretary of State for Defence dated 6 September about the supply of defence equipment to Iran.

BACKGROUND

2. Ministers agreed in correspondence in July that we should discuss with an Iranian team not only the outstanding debts dating from the Shah's days but also the resumption of defence sales business and agreed that we could supply a range of non-lethal items. The Iranians would be told that progress on the supply of defence equipment would be monitored in relation to their willingness to make progress towards a satisfactory financial settlement. The Lord Chancellor expressed the hope that we would refrain from delivering any lethal defence equipment to the Iranians.

3. The Foreign and Commonwealth Secretary reports that the Iranians have shown every intention of negotiating seriously to settle the disputed financial claims, but that the talks may now run into the sand unless we can give them some assurance about letting them have the equipment for which contracts already existed and some items of new equipment. There are considerable sums of money at stake, both in the financial settlement and in prospects for new sales. Iran is not at present eligible for ECGD credit cover and all the new business would be on a cash basis.

4. The Foreign and Commonwealth Secretary proposes that officials should be authorised to give the Iranians an assurance in general terms that in principle there is now no political objection to the release of military equipment to Iran except where security considerations may prevail. We would tell the Iranians that we would like in principle to fulfil the contractual commitments made before the revolution. While our neutrality obligations imposed constraints while the war with Iraq lasts, we could discuss new contracts for items with long delivery dates. Specific items would be considered on a case by case basis, but items which might be agreed soon are those listed in the annex to Mr Pym's minute.



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COMMENT

5. The Foreign and Commonwealth Secretary's proposal represents a significant step forward from the position agreed by Ministers in July. It implies a willingness in principle to supply lethal items such as ammunition and the release of the eight remaining tanks from the tank contract which was terminated after the fall of the Shah: these tanks are Iranian property. We would also express willingness to continue the contract for Tracked Rapier, which could be extremely valuable and is, of course, a defensive anti aircraft missile. We have also told the Iranians that we are prepared to release the supply ship Kharg, for which the Iranians have already paid and which has for more than two years been berthed in the Tyne.

6. The Foreign and Commonwealth Secretary's minute refers to the need to proceed with care so as not to jeopardise our position in the Arab world and particularly our prospects in Iraq. Although no major defence contracts have been signed with Iraq, there are still some good prospects.

RECOMMENDATION

7. Both the Defence Secretary and the Trade Secretary are being briefed to support the Foreign and Commonwealth Secretary's proposals. The Lord Chancellor is in Northern Ireland and his views are not yet known. An early decision is required because the Leader of the Iranian delegation has expressed the intention of leaving London within the next few days. But there seems no need for a discussion in OD, and the Prime Minister may be advised to agree, though you may wish to await the Defence Secretary's reply.

Now attached.

A. S. C. 2/4.

R L L FACER

7 September 1982



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