

Middle East



FCS/82/125

Await Cabinet Office
 advice (which I have asked
 Mr. Facey to provide).

SECRETARY OF STATE FOR DEFENCE

A.J.C. 7/9

Anglo/Iranian Discussions on Disputed Defence Contracts

1. In your Memorandum (MO 26/9/15) of 13 July you referred to the imminent arrival in London of an Iranian negotiating team and agreed that officials should refer back to Ministers when a need for guidance emerged.
2. I understand that the Iranians have shown every intention of negotiating seriously to settle the disputed claims. But it seems that talks may now run into the sand unless we can give them some kind of assurance about actual release of the equipment in the contracts as well as about future arms supply if negotiations are to succeed.
3. A list of contracts involved based on information from your officials is attached, with notes where relevant. Because negotiations are continuing I understand that it has not been possible in the time available for officials to work out detailed recommendations for Ministers in relation to each contract given the legal and other complexities. Work on this is still continuing.
4. We nevertheless need to say something now to the Iranians to keep the door open. At stake is £175 m worth of public sector claims (though we may expect this to be challenged by Iranian counter-claims). There are also £25 million in private sector claims and eventually £105 million in civil claims, at present borne by ECGD which the Iranians have said they will settle if we reach agreement on military contracts. There is also of course the prospect of an improved position for British exporters in the Iranian market after the war and the need to keep our lines open to Iran in order not to force them back on the Russians.
5. On the other hand, we need to proceed with great care so as not to jeopardise our position in the Arab World and in particular, the prospects that we have painstakingly built up in Iraq.
6. All these considerations need to be taken into account by officials in any detailed recommendations which they are preparing



for Ministers' consideration. I hope that we can look at this again soon. In the meantime I believe that officials should be authorised to give the Iranians an assurance in very general terms designed to keep up the momentum of the talks. They could say that their Ministers have considered the question of arms supply to Iran. In principle, there is no political objection now to the release of military equipment to Iran except where security considerations may prevail, eg, over the Blindfire Rapier System. We reciprocate the Iranians' wish to settle outstanding disputes. We should like in principle to fulfil the contractual commitments into which we entered before the revolution. Our neutrality obligations impose certain constraints, particularly on the supply of new lethal equipment while the war lasts. But this need not rule out discussion of new contracts for items with very long delivery dates, eg, tanks. On items subject to old contracts there are certain items which could be released at once such as the Kharg and the Yarrow ships. And we might be able to contemplate releasing that portion of the contracted ammunition that is readily available, (ie, about 1 million or 10% of the whole) if an acceptable overall settlement was reached covering the other contracts currently under discussion.

7. This may just suffice to keep the door open for the time being. We can then consider in detail any points the Iranians raise on specific contracts or items of equipment. If we go no further than this it will not be necessary to volunteer anything at this stage to the Iraqis about the talks. If necessary (eg, in the event of leaks) we could say that we naturally wish to settle our contractual disputes with Iran but that the talks are likely to be long and difficult. The only items that we have hitherto agreed to release, (eg, the Kharg) could not affect the war.

8. I am sending a copy to OD colleagues. There might be an opportunity to discuss the issue if necessary at the meeting on Wednesday, 8 September, although the agenda is already heavy.

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I therefore hope that these limited measures can be agreed by
correspondence.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office

6 September, 1982

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ANNEX

A: Contracts on Which Early Agreement is Likely(a) Non-Lethal Equipment

1. L60 SHIR TANK ENGINES:

Remarks: 22 Engines remain in this country as part of a repair contract. Fifteen have been repaired and could be released immediately. Some repairs are necessary on the other seven.

2. .22 RIFLE SPARES:

3. MOBILE WORKSHOPS (VEHICLES USED IN SUPPORT OF ARMOUR IN THE FIELD):

Available for delivery now but some fittings, eg, tools and brackets are still outstanding.

4. BL 755 CLUSTER BOMB TRAINING MANUALS AND TOOLS:

5. TANK SPARES, TOOLS AND TRAINING AIDS:

This contract relates to spares which the Iranians have already paid for. Roughly 95% of the items still to be delivered are non-lethal. But 5%, comprising tank guns and machine guns, must be considered lethal.

(b) Lethal Items

6. TANK GUN AMMUNITION:

76 mm: (Scorpion)

Only 5% available, remainder over 18 months to 2 years.

105 mm: (Chieftain)

50% available. Remainder over 18 months to 2 years.

120 mm: (Shir)

Approx 6% available. Remainder over two years to three years.

7. MACHINE GUN AMMUNITION:

Approx 90% available now. Remainder over three to six months.

8. NAVAL AMMUNITION:

None available. Delivery over 18 months to two years, 2800 rounds.



B: Other Contracts

9. THE 'KHARG' FLEET SUPPORT SHIP:

Ready for release. Formula agreed with Attorney General.

10. YARROW DUAL PURPOSE LANDING SHIPS:

Attorney General believes it would be possible to provide a formula similar to that for the Kharg

C: Major Contracts which have been Terminated but which the Iranians would wish to have Continued:

11. P 4030 MAIN BATTLE TANKS:

189 were delivered to Iran, the contract was terminated and as part of the process of termination, the residual assets were used in a sale of tanks to Jordan. The UK holds however eight tanks which are Iranian property and would be released as part of a settlement possibly associated with new orders.

12. BAe RAPIER:

BAe have £25 million in termination claims but are prepared to exchange termination for new business. They hold some spares and could be expected to refurbish Iran's existing holdings. They also hold for release, some 250 missiles. Reinstatement of the Tracked Rapier would bring £400+m. Rapier falls into the lethal category but a special case might be made for it in view of its defensive role. There may be security objections to the resumption of a Blindfire conversion programme - the bulk of Iran's holdings are of the earlier optical version.

13. IMS CONTRACTS:

There are a number of IMS contracts which cover construction and infra-structure work in Iran. A settlement would not involve the release of lethal material.