



Ref: B06620

PRIME MINISTER

c Sir Robert Armstrong

MS

Sale of Nimrod Aircraft to Iraq
(OD(82) 70)

BACKGROUND

The Committee agreed in January 1981 to exploit defence sales to Iraq, though a small range of lethal items should not be supplied so long as the war with Iran continued. The Committee confirmed this view in December 1981. In your summing up of that discussion you said that the importance of Iraq as a market for British exports and therefore as a source of employment was such that the risks involved in supplying defence equipment should be accepted, but financial arrangements should be made to protect British interests if there were to be a sudden collapse of the market because of political upheaval.

2. The Secretary of State for Defence's paper reports that an outline of a deal has been agreed for the supply of 6 Nimrod airborne early warning and 4 Nimrod tanker aircraft, together with the lease of 2 Victor tankers from the RAF: the total value is put at up to £1.3 billion. The Defence Secretary's paper contains no recommendation but he draws attention to three areas of difficulty:

- a. contractual terms; =
- b. diversion of aircraft from the RAF; and =
- c. the problem of components of United States origin.

3. He proposes not to agree to the contractual terms asked for by the Iraqis, in particular the advance payment guarantees and performance bonds, but to offer instead a Government-to-Government contract backed by a Memorandum of Understanding. The deal would be for cash, with sufficient prefunding by the Iraqis to cover all United Kingdom liabilities.

4. The deal would involve the diversion of some equipment from the RAF. First, the RAF have a programme of converting and upgrading their Nimrod maritime patrol aircraft, and the proposal is that the last three of these aircraft should be converted instead to airborne early warning aircraft

for supply to Iraq: they would be replaced, at no cost to the Ministry of Defence, by new aircraft from the reopened Nimrod production line, but the RAF would not receive these until 2-3 years later than they would have done if the original conversion programme had been maintained. Secondly, there is a risk that the development of some of the complex electronic equipment for the RAF's own Nimrod airborne early warning aircraft might be delayed by the need to supply Iraq and that there might be a shortage of spares.

5. But the greatest problem arises from the fact that much of the equipment for the aircraft is of American origin and subject to United States export controls. It will be necessary to face the question how best to secure American acquiescence and thus avoid sanctions against British firms. Apparently the French have decided not to inform the Americans in similar circumstances until after contract signature. But even if we follow their lead, we should have to weigh the risks to British Aerospace and GEC (the 2 main firms involved) of falling foul of the United States. At present the Defence Secretary and the firms concerned would like to take negotiations with the Iraqis towards the contract stage without informing the United States Government, leaving open the question of how an approach to the United States Government would be made and what we would do if, as expected, it met with a refusal.

6. The Secretary of State for Industry and the Attorney General have been invited for this item.

HANDLING

7. You will wish to invite the Defence Secretary to introduce his paper. The discussion should cover the following points.

a. Are we confident that our interests would be fully protected against the risks of a political upheaval in Iraq? The present Iraqi regime is unstable, and there is no guarantee that it would still be in power when deliveries of the aircraft began in some 3-4 years time. The Chancellor of the Exchequer should be asked to say whether he is content with the proposed contractual arrangements.

b. Is it acceptable to divert to Iraq aircraft intended for the RAF and to lease 2 RAF Victor tanker aircraft?

c. The paper foresees American objections to the sale but does not assess whether American attitudes will be determined primarily by their political attitude towards Iraq and their concern for the security of Israel or by concern for the security of United States technology, in view of the links between Iraq and the Soviet Union. If it is judged that the chances of obtaining United States approval are negligible, would it be best to call a halt to the negotiations now or risk Iraq's anger later on at having been led into negotiations under false pretences? The Committee will also need to judge whether it is better to approach the Americans now, at a relatively early stage, or only when the contract is ready for signature. The Foreign and Commonwealth Secretary and the Secretary of State for Trade should be invited to comment.

d. It will be important to assess the implications for industry and employment. The Secretary of State for Industry should be invited to comment.

CONCLUSIONS

8. Subject to the discussion, you may wish to guide the Committee towards the following conclusions.

a. The importance of the proposed deal to British industry is such that it ought to have full Government support. The financial arrangements proposed minimise the risks. If, however, the Iraqis are unwilling to accept these arrangements the Defence Secretary should consult the Chancellor of the Exchequer and the Secretary of State for Trade before making any substantial concessions.

b. The proposed diversion of aircraft from the RAF would be acceptable, and could be justified on the ground that export sales are crucial to the health of the country's defence industry, which is itself an important defence consideration.

c. To approach the Americans at present, when we are still trying to resolve the problem of sanctions against European firms involved in the Siberian pipeline contract, would be counter-productive. We should therefore proceed with negotiations with the Iraqis and in the light of their progress the Defence Secretary should consider, in consultation with the Foreign and Commonwealth Secretary and the

Secretary of State for Trade, and with the principal firms concerned, how best to approach the United States Government. No decision need be taken at present on whether we should if necessary be prepared to defy American objections and risk sanctions.

ADS Goodall

3rd November 1982

A D S GOODALL