

**CONFIDENTIAL**

PRIME MINISTER

ROLLS ROYCE ENGINES FOR IRAN

The Defence Secretary (see attached minute) and the Foreign and Commonwealth Secretary recommend that we should refuse an export licence for Rolls Royce Motors to supply 300 diesel engines to be fitted into Chieftain tanks.

The main factor which leads them to this conclusion is the likelihood of repercussions for political, commercial and defence links with the Arab countries. Sir Anthony Parsons agrees (see his minute attached).

I also attach a letter to you which David Plastow has just delivered. He wishes the contract, which has already been signed, to go ahead largely because of the critical unemployment situation in Shrewsbury and the viability of his diesel engine business. He also lists a number of cases where export licences have been granted to Rolls Royce and other firms for the supply of equipment to Iran (though a number of these cases do not involve lethal equipment).

Agree with the recommendation of Mr. Heseltine and Mr. Pym (subject to the views of other OD colleagues) that this export licence should be refused?

A.-J.-C.

① Have we consulted Industry Secretary?  
w.r. T. Abbott cons to Iran

② If we can't refuse we should surely see that we do not order for the British states in Iran.

Prospect  
not enough.  
D. with the Americans & the French seem to be getting a very big pop: 7  
the committee work not

26 April 1983

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MR. COLES

TANK ENGINES FOR IRAN

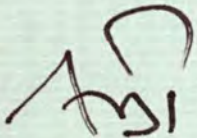
I have seen a copy of the Defence Secretary's minute of 22 April to the Prime Minister. I agree with the recommendation, namely that we should refuse an export licence to Rolls Royce.

I sent a note to the Prime Minister on this subject on 22 February (attached). I have not changed my views.

In this case, the risks of retaliation on the Arab side through our allowing Rolls Royce to export engines for the Iranian tanks, is greater than the risk of Iranian's retaliation because of our refusal. The only existing British interests against which Iran could retaliate are well established British joint ventures in Iran, eg Iran National, Leyland Motors Iran and, I think, one or two pharmaceutical firms. Retaliation against any of these would in the short term deprive the Iranians of products which are necessary to keep their people happy. In extreme circumstances, eg if we were to supply significant quantities of war-like equipment to Iraq, this would not worry Khomeini. But I doubt whether this would apply to a refusal to supply tank engines, which would come as no surprise to the Iranian Government in any case.

The probability of Arab retaliation against us for helping Iran's war effort is much stronger and more immediate. The Annex to the Defence Secretary's minute sets out our prospects in the Gulf States and Saudi Arabia. All these would be at risk since the Arabs would suffer nothing from rejecting our bids. They have plenty of alternative choices and they are not in vital need of the equipment anyway.

I recognise that Rolls Royce may well have a time gap at Shrewsbury with a shortage of orders for the CV.12 engine. However, with the existing orders from Jordan and from the British Army plus the prospects in Kuwait, Oman, the UAE and Saudi Arabia, there should be enough orders in the future to keep the Shrewsbury factory busy.

  
A.D. PARSONS  
26 April 1983

Talbot - can list?





MO 26/9/15

PRIME MINISTERTANK ENGINES FOR IRAN

Against strong Government advice, both at official and Ministerial level, Rolls Royce Motors have signed a contract with Iran to supply 300 diesel engines to be fitted into Chieftain tanks. This raises some difficult issues for us which I have discussed with the Foreign and Commonwealth Secretary. On the one hand, we have to take into account the company's urgent need for further work at their military engine plant in Shrewsbury, the possibility of this work going to Germany, and our wish to rebuild a more satisfactory political and commercial relationship with Iran in the longer term. On the other hand, there is little doubt that the supply of tank engines to Iran at this juncture could have serious repercussions for our political, commercial and defence links with the Arab countries who have steadfastly supported Iraq during the current conflict. There is so much at stake for us in the Arab world that Francis Pym and I have agreed that Rolls Royce Motors should not be granted an export licence to fulfil this contract, and should be discouraged from meeting the Iranian requirement by other means.

2. The background to the action taken by Rolls Royce and the conflicting issues involved are set out in the enclosed paper. This has been prepared by my officials but reflects the discussions I have had with Francis Pym.

3. This matter is now urgent since, under the terms of the contract they have signed, Rolls Royce Motors wish to ship the first two engines immediately an export licence is approved, in order to prove





the installation in a Chieftain in Iran. If we are to refuse an export licence, the firm should be informed by the end of the week. I should therefore be grateful for your views and those of my OD colleagues as soon as possible.

4. I am copying this minute and the enclosed paper to OD colleagues, the Secretaries of State for Industry and Trade, and Sir Robert Armstrong.

*WJL*

Ministry of Defence  
22nd April 1983



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TANK ENGINES FOR IRAN

The Request from Rolls Royce

Rolls Royce have signed a contract with Iran, against Government advice, to supply 300 CV12 diesel engines for Chieftain tanks. This order would be worth £40M with further contracts of the same order to follow and would bring much needed work to the Rolls Royce military engine plant at Shrewsbury where employment has fallen to 1,800 from a peak of 3,000 three years ago, with only half those remaining on a full five day week. The company say that their factory at Shrewsbury may not survive without further orders and claim that German commercial engines, which are not subject to export controls, may be supplied in place of the CV12. FCO staff in Teheran confirm that some German engines have already been supplied.

Current Policy on Arms Sales to Iran and Iraq

2. Since the war broke out in September 1980, our declared policy has been one of neutrality and even-handedness between Iran and Iraq. This has been interpreted as supplying no lethal equipment to either side during the war, and statements to this effect have recently been made in Parliament. However, in practice, we have leaned heavily towards Iraq. Contracts worth over £350M have been secured from Iraq for non-lethal military equipment and supplies since the outbreak of war and we have indicated that we would be prepared to sell them Barmine, refurbish captured Chieftain tanks and arrange for the up-gunning of T55 tanks through Egypt. The Iraqis have declined to take up any of these proposals.

3. Our reluctance to do business with Iran on the same scale as Iraq was initially governed by the detention of British subjects and the financial claims relating



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to contracts terminated at the time of the revolution. However, a more fundamental reason is that Saudi Arabia, the Gulf States, Jordan and Egypt, who account for the major share of all UK arms exports, have effectively sided with Iraq and would regard any significant resumption of arms sales to Iran as a betrayal. In recent months, a less restrictive approach has been agreed by Ministers on arms sales to Iran. The link with the outstanding contractual claims has been loosened and approval has been given to the supply of certain non-lethal equipment, but few contracts have been signed.

Arguments For and Against Rolls Royce Proceeding

4. In addition to Rolls Royce's urgent need for new orders at Shrewsbury, we should consider our longer term relations with Iran, which remains the dominant power in the region, is still strongly anti-Soviet and appears to be in better military and financial shape than Iraq at present. I have discussed these aspects with the Foreign and Commonwealth Secretary who agrees that we need to build up a new political relationship with Iran in the longer term but should not put our close political and commercial ties with the Arabs at risk at this stage by supplying equipment which could make an early contribution to the Iranian war effort.

5. Any resumption of arms sales that made a substantial contribution to Iran's combat capability would appear irresponsible, if not positively hostile, to several key Arab nations. Saudi Arabia and the other Gulf States have begun to embark on a major military re-equipment programme. The threat which they perceive from Iran has contributed to this policy. Military equipment purchases by these countries over the next three to four



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years could amount to £6000M, and, following a successful floating exhibition of British defence equipment earlier this year, UK companies are well placed to secure a good proportion of this business. A full list of current defence sales prospects in the Middle East which might be at risk is at Annex A. However, these sales prospects are dependent on the maintenance of a positive political climate in which the purchasing states see the UK as an ally concerned for their security and not motivated entirely by commercial considerations. Ambassadors in the countries concerned have, with the exception of Oman, all strongly recommended against the supply of tank engines to Iran.

6. Nor can we be sure that the adverse repercussions would be confined solely to defence business. Our substantial civil trade with the Arab countries of the Middle East might also suffer a set back. Events have shown that, unlike the Americans, we lack the clout to simply ignore Arab disapproval of our policies. As for the Germans, they have very little at stake in terms of military sales elsewhere in the Middle East.

#### Compromise Solutions

7. It has been suggested that Rolls Royce could supply civil generators to Iran which are not subject to export licensing control and could be converted to tank engines without undue difficulty. The components required for conversion would themselves require an export licence. Drawings and documentation would not but some of these are owned by MOD. Moreover, it is felt that this arrangement could not be concealed from the Arabs. Once discovered we would be open to charges of bad faith which would be much greater than if we had supplied the tank engines openly. The possibility of supplying modification kits through third parties or arranging for



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local manufacture has been suggested but these arrangements would be open to the same objections. We could not convince the Arabs that we were unable to prevent this.

Conclusion

8. Although an order for 300 tank engines worth £40M, with the prospect of further follow-on business, is of major importance to Rolls Royce and the future of their factory at Shrewsbury, these prospects are not in themselves sufficiently attractive for us to reverse our current policy and risk the much wider repercussions to our defence sales and other commercial prospects elsewhere in the Middle East. We may not be able to prevent Rolls Royce from supplying commercial generators and arranging for conversion on the spot. But this could be equally if not more damaging to our sales prospects elsewhere in the Middle East and we should exert maximum pressure to dissuade Rolls Royce from proceeding in this way. In doing so, we may face considerable political criticism for failing to prevent redundancies at Shrewsbury, particularly if the Iranians buy commercial engines from Germany. Against this, we would expect to obtain political and commercial credit with the Arabs by explaining our decision to them.



## DEFENCE SALES PROSPECTS IN THE MIDDLE EAST

Specific major sales prospects which the UK has a major prospect of achieving over the next 3 years in the Middle East are as follows:

### Iraq

Nimrod AEW	£800M
Hawk Jet trainer (with longer term prospect of further local manufacture)	£150M £2,000M)
Heavy recovery vehicles	£50M
Light gun (after the war)	£25M

### Bahrain

Hawk trainer aircraft	£50M
Vickers Valiant tanks	£50M
MCV 80 reconnaissance vehicles	£20M
Coastal patrol vessels	£8M
Sea Skua A/S missiles with radar	£25M

### Kuwait

Hawk trainer aircraft	£250M
Rapier SA missiles	£150M
AR3D radars and communications	£50M
Challenger MBT	£100M
Scorpion reconnaissance vehicles	£20M

### Oman

Tornado ADV aircraft	£160M
Martello radars	£20M
Scorpion and associated armoured vehicles	£25M
Chieftain MBT	£45M
Anti-tank missiles	£10M



Oman (continued)

Inter-service communications £100M  
Engineering work on workshop and  
a Naval Base £50M

(the majority of the foregoing  
projects are due to be funded by  
Oman's GCC partners)

Qatar

Rapier SA missiles £150M  
Joint Ops Centre £100M

Saudi Arabia

Hawk trainer aircraft £200M  
Nimrod AEW\* £250M  
Lynx helicopters £80M  
BH 7 hovercraft £85M  
Air defence radars £200M  
Rapier and Blowpipe for National Guard £100M  
Challenger MBT for Army and possibly  
National Guard £500M  
Various ammunition and artillery  
support packages £200M  
Engineer equipment £150M  
Air based security equipment £80M  
Extension of SANGMED hospital project  
for National Guard £400M  
Extension of communications project  
for National Guard £230M

UAE

Hawk ground attack aircraft £90M  
Nimrod AEW\* £200M  
AR3D radars £50M  
Tracked Rapier £70M  
Blowpipe £30M  
Challenger MBT £80M  
Scorpion and MCV 80 £20M  
105mm guns £25M  
Ops centres and associated communications £150M  
Electronic warfare system £100M

\* dependent on an Iraqi order to reopen the line