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MO 26/9/15

Prime Minute

I think this letter covers all the points you made and makes a convincing case. The Foreign, Trade and, on balance, the Industry Secretary agree.

Agree that export licence should be refused?

A.S.C. $\frac{12}{5}$ PRIME MINISTERTANK ENGINES FOR IRAN

I have noted your comments on my minute of 22nd April, contained in your Private Secretary's letter of 28th April, and I have studied the letter which Mr David Plastow sent to you on 26th April. I have also seen the letters dated 28th April from Patrick Jenkin and 4th May from Arthur Cockfield.

2. In my view, we would be perfectly consistent in refusing Rolls Royce Motors an export licence to supply tank engines to Iran. Since last summer our policy has been to relax gradually the restrictions on military equipment which we would be prepared to sell to Iran, without releasing items which would make a direct and significant contribution to the Iranian war effort thereby jeopardising our much greater defence sales business with the Arabs. Correspondence between Ministers in June and July last year, in the context of resumed negotiations with the Iranians on our historic claims against the previous regime, resulted in agreement to divide equipment of interest to the Iranians into two lists. List I comprised equipment which we could now release to the Iranians whereas List II comprised those items which should remain embargoed. Most of the items mentioned in Mr Plastow's letter either appear on List I or fall within the policy framework agreed at the time. The CV12 engine was placed firmly on List II. We must acknowledge that our policy takes into account the perceptions of the Arab world and there can be no doubt that they would regard the supply of 300 engines for Iran's Main Battle Tank as falling into a totally different category



from the equipment which we have so far been prepared to release. Detailed comments on the points in Mr Plastow's letter are set out in an Annex to this minute.

3. I entirely agree that we should not deny ourselves defence business in Iran against the mere prospect of sales to the Arab nations and that if we hold back we should seek to extract some credit for doing so from the Arabs. In the first place there is real business at stake here. In 1982 new defence contracts worth £779M were signed with Saudi Arabia and the Gulf States, including the MOD managed support scheme for the Saudi Air Force (£370M) and the communications project for the Saudi National Guard (£200M). Since the beginning of the year we have concluded, against stiff French and US competition, the sale of Hawk to Abu Dhabi worth £96M. We have just concluded a very successful demonstration of Hawk in Saudi Arabia, Kuwait and Bahrain which has already lead to a request for firm proposals from Bahrain and considerable interest in Kuwait. Following the floating Defence Sales Exhibition in February and March an armour demonstration featuring Challenger, Valiant and MCV80 is to be held in the UAE this summer for all states in the Gulf Co-operation Council including Saudi Arabia. We must remember that Rolls Royce Motors have a considerable stake in this demonstration but any adverse reaction by the Arabs would affect a wide spread of main systems and component manufacturers throughout the country. In addition negotiation on the second phase of the hospital management project for the Saudi Arabian National Guard (worth £210M over two years) is now at a critical stage.

4. As for securing credit from the Arabs for holding back on Iran, I would propose, if the timing seems right, to send similar messages to other Arab leaders when important contracts are close to completion. The French have recently been stressing with some success the extent to which they have supported Iraq and the financial penalties of doing so. There is no reason why we should not take a leaf out of their book.



5. On the other side of the coin you asked whether the Talbot car project might be affected by a refusal to supply tank engines to Iran. It is for my colleagues to assess the likelihood of this but I understand that this project has survived the most difficult period of Anglo-Iranian relations, including the imposition of sanctions, and that the Iranians are now well locked into it. Certainly they are well aware of our current restrictions on the supply of defence equipment and they would have no grounds for regarding a refusal to supply tank engines as a shift of policy on our part.

6. Against this, you should be aware that, if the negotiations on our historic claims were to reach a satisfactory settlement in the near future, we might be obliged to release 22 L60 tank engines and certain other equipment which has been in MOD hands since the 4030 contract was terminated at the time of the Revolution. It is impossible to predict when or if such a settlement might be reached, but I have no hesitation in saying that we could justify the release of this small number of engines both to Rolls Royce Motors and the Arabs on the grounds that they relate to contracts placed by the Shah, were manufactured before the Revolution and will not make a significant contribution to Iran's military capability.

7. I note that Arthur Cockfield accepts that we should not supply engines for Iran's main battle tanks while the war is in progress. Patrick Jenkin argues that we should allow Rolls Royce Motors to supply commercial diesel engines for conversion on the spot. This ignores the fact that conversion could only be carried out with the help of certain key components which are subject to licensing controls and the use of MOD drawings and documentation. In Arab eyes we would be just as heavily involved as if we had agreed to supply tank engines direct. Nor would they readily understand that we could control the export of tank engines but not commercial engines.



8. Finally, I doubt whether the industrial implications are as bleak as Rolls Royce Motors have claimed. Their factory at Shrewsbury will certainly not close since we depend upon it for our own Challenger and MCV80 engines. While the plant is not working to full capacity at present - outstanding orders for the British Army and Jordan total 520 CV12 engines over the next three years - its current loading is in the MOD's view sufficient to sustain it at very much its present level. Moreover, there are firm prospects for future orders of CV12s for the Army's Challenger tank totalling some 200 engines. In addition, the new Mechanised Combat Vehicle which it is planned should enter production in 1985, will be powered by the related CV8 engine, also produced at Shrewsbury.

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

MHL [private secretary]

Approved by Mr Hereltrie and signed in his absence

Ministry of Defence

12th May 1983

TANK ENGINES FOR IRAN - DETAILED COMMENTS ON THE POINTS MADE IN MR PLASTOW'S LETTER OF 26 APRIL

The comments below refer to the paragraphs of the Memorandum enclosed with Mr Plastow's letter of 26 April to the Prime Minister.

Para 3 - It is not correct to say that the CV12 engine requires an export licence because the MOD has classified it as "lethal" equipment. The Export Goods Control Order states that an export licence is required for:-

"engines specially designed or essentially modified for military use"

The CV12 diesel engine was originally designed as a power plant to produce high power output for a number of uses, tanks, tank transporters, heavy vehicles or commercial generators. It was based on a conventional commercial design but Rolls Royce developed this to fit the 4030 Main Battle Tank supplied to the Shah. Variants at different horsepower ratings now power Chieftain and Challenger tanks. It requires an export licence because it is a tank engine, not because it is regarded as "lethal equipment".

Para 4 - The German MAN engines are civil diesel engines which do not require an export licence under current German regulations. The MTU engine is a tank engine and supply of this would be at odds with declared German policy on arms sales to the Middle East. However, because of the restrictive policy they have hitherto adopted on arms sales, Germany has far less at stake in terms of defence sales elsewhere in the Arab world.

Similarly the supply of American Teledyne engines from the United States via Belgium would be contrary to current American policy. Steps can be taken to check this out but the United States has consistently shown, through their support for Israel, that they have the power and prestige to override the political sensitivities of the Arabs and still obtain defence business from them.

Para 5 -

a. The overhaul of Olympus gas turbines for the Iranian Navy was considered by Ministers in June/July last year. It was agreed that the Government had no power to prevent overhaul work under present regulations and approval was subsequently given to the export of two new engines on the grounds that these would not make a significant contribution to the war effort and might help the negotiations over outstanding claims.

b. The Alvis Samaritan Tracked Ambulance featured in List I behind Sir John Nott's minute of 16 June 1982. Alvis have been told that we would be prepared to approve supply but have not yet submitted an application for an export licence. We would only agree to the supply of vehicles with engines installed and essential spares. We would certainly be alert to any attempt to re-engine the Iranians Scorpions by acquiring engines ostensibly for Samaritans.

c. A licence has been granted for twenty W30 helicopters as air ambulances for the Red Crescent (not Lynx helicopters for the Army). Approval has also been given, but no export licence yet issued, for the supply of six Sea King helicopters for search and rescue purposes. No weapons or offensive installations are to be fitted to these helicopters. Spares for American Bell helicopters featured on List II and could not be exported from this country under present policy. However, there is no way of preventing repair work being undertaken in Iran if these spares were to be obtained from other sources.

d. The supply of field telephones is fully consistent with the present distinction between lethal and non-lethal equipment. A number of export licences for non-lethal communications equipment for Iran have been granted.

e. No export licence has yet been granted for engines to re-power Iranian tank transporters.

f. No export licence has yet been granted for either Leyland Scammell tank transporters or the Rolls Royce CV12 engines which would power these. However, since a significant number of tank transporters have been supplied to Iraq during the course of the war, due account would need to be taken of our policy of even-handedness in considering any application.

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