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copy
H.M. Secy



PM/83/35

PRIME MINISTER

But they have not made such a decision. We are going to have a meeting. There are many issues.

rec R J

Prime Minister

To see (I have already covered your desire that an export licence should be

Tank Engines for Iran

refused.)

A.F.C. 13/5

1. I fully support the points made in Michael Heseltine's minute of 12 May replying to your comments (your Private Secretary's letter of 28 April). I would add the following.

Talbot

2. I do not think that the Talbot passenger car contract with Iran is likely to be affected by our decision on this question. It is in both Iran's interest and our own that the contract should continue (that is why it is continuing); and since it survived even the imposition of trade sanctions on Iran by the UK during the hostage crisis, it ought to survive a decision not to release 300 tank engines. I understand this is also Patrick Jenkin's view (his letter of 9 May).

Arab Views

3. Following your comments, I arranged for the further views of Sir James Craig and of certain other Posts to be obtained. In short, HM Representatives in Arab posts maintain their advice that the release of these engines would be detrimental to our commercial and political interests in Arab countries. On your point about exploiting our refusal to release these engines to Iran so as to obtain firm orders in Arab countries, Sir James Craig advises that to try to tie anything up beforehand would look like blackmail. But after the event we should certainly take the opportunity to explain what the refusal had cost us, and press the Saudis (and other GCC members) to place defence orders with Britain.

I do not see why the Germans /The should get the order without their interests being damaged. When we apparently would rather encourage - get not for competitive orders not



The 'Generator Option'

4. HM Representatives also advise that the indirect supply of these engines in a civil guise would be seen in Arab eyes as little different from direct supply. Sir James Craig says that some of the more sophisticated Saudis might understand that we lacked powers to block supply by this route: but Prince Sultan (the Defence Minister) would be unlikely to be forgiving, and our defence sales prospects would be at great risk.

How many orders has Prince Sultan given us?

The German Angle

5. I have also consulted HM Ambassador in Bonn, since we may lay ourselves open to criticism when it becomes clear that Rolls Royce's German competitors are pursuing the 'generator' route to secure the business. It is clear that the ability of the Federal Government to prevent German companies from exporting civil diesel engines would have to be tested in court, and that the German authorities are unlikely to be responsive to any representations we make to block supply. We might also risk forfeiting German goodwill in areas which matter more to us, such as the conclusion of the Memorandum of Understanding on future defence production and sales, which might in particular affect the issue of the supply of Tornado to Oman. However, once we have taken our own decision we shall obviously need to consider carefully whether we should make representations to the Germans. On balance I believe we should do so, but it will be useful to have OD colleagues' comments.

/6. I am

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6. I am copying this minute to OD colleagues and to Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'FP', written in a cursive style.

(FRANCIS PYM)

Foreign and Commonwealth Office
13 May 1983

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13 MAY 1983

