



FCS/83/235

SECRETARY OF STATE FOR DEFENCE

UK/Iran Negotiations on Defence Industry Claims

1. OD colleagues will be aware of the lengthy discussions with the Iranians about blocked defence equipment contracts and Iranian debts to the Ministry of Defence and to International Military Services Ltd (IMS). These talks were authorised by OD on 9 April 1981 and have been in progress continuously since July 1982.
2. A point has now been reached at which agreement may be possible on a package comprising some 36 of the 102 contracts under negotiation, including virtually all those on which the UK stands to gain by a settlement. However, such an interim agreement would involve the release of a large quantity of Iranian-owned equipment, such as tank spares, a small part of which would be lethal items. We have hitherto refused to supply such items to either Iran or Iraq while the war between them continues.
3. This prospect raises a number of difficult political issues on which I would like to reflect further before deciding what course of action to recommend. But there is one point on which an urgent decision is required. One of the most important contracts in the package concerns two Yarrow support ships for the Iranian Navy. IMS need to know before the end of November whether there is any objection to their signing a Variation Agreement in respect of these ships. This would oblige the Iranians to pay some £20 million of the outstanding cost of the ships, and would free ECGD of some £15 million worth of potential liabilities. However, since such an Agreement would be legally binding, IMS would not wish to sign it unless they were assured that Ministers would not prevent the ships being handed over to the Iranians.



4. The Iranians have given us oral assurances that the ships would not be used in hostile operations against Iraq. This procedure, which was agreed with the Attorney-General in March/April 1982, is the same as that adopted for the Kharg, which we have told the Iranians they are free to remove. Moreover, delivery of the ships would take at least 3 to 4 months after signature of a Variation Agreement, and would almost certainly be followed by sea trials. The ships would not reach Iranian waters until mid-1984 at the earliest.

5. I conclude that it would be right to give IMS the assurance they seek, namely that Ministers would not try to prevent these ships being delivered to Iran, regardless of what happens to the rest of the interim settlement package. Since time is short, may I take it that OD colleagues are in agreement unless I hear to the contrary by Tuesday 22 November?

6. I am copying this to members of OD and Sir Robert Armstrong.

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

GEOFFREY HOWE

Foreign and Commonwealth Office

16 November, 1983