

Prime Minister

GR 1400

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clearly the issue will soon
have to come back to us.

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FM TEHRAN 230930Z FEB 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 126 OF 23 FEBRUARY

A.S.C. 27/2.

YOUR TELNO 50: DEFENCE INDUSTRY CONTRACTS.

1. AT A MEETING ARRANGED BY KASHAN, I HAD AN UNCOMFORTABLE
TWO HOURS THIS MORNING WITH COL AFRAKHTEH (VICE MINISTER
OF DEFENCE FOR LEGAL QUESTIONS), KASHAN AND COL GERAMI
(ALTERNATE LEADER IN THE NEGOTIATIONS). I SPOKE IN ACCORDANCE
WITH YOUR PARAS 2 TO 4.

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2. ON THE MOU, KASHAN CONFIRMED THAT THE IRANIAN SIDE HAD
NO MORE AMENDMENTS TO SUGGEST, OTHER THAN THOSE
COMMUNICATED TO IMS. AFTER OUR CONVERSATION BEFORE MY VISIT
TO LONDON, HE HAD SENT A LETTER CONFIRMING THESE TO THE MFA
FOR TRANSMISSION TO YOU THROUGH THE LONDON EMBASSY. HE
PROMISED ME ANOTHER COPY. I EXPLAINED WE SHOULD HAVE SOME
FURTHER AMENDMENTS OF OUR OWN WHICH DID NOT AFFECT THE
SUBSTANCE OR DIMINISH THE IMPORTANCE WE ATTACHED TO THE
DOCUMENT. KASHAN SAID HE WOULD AWAIT OUR CLEAN TEXT.

3. WE CAME ON TO THE INTERIM PACKAGE. I EXPLAINED WE WERE
NOT SEEKING TO BACK OUT OF THIS OR SEEK ANY CHANGES UNLESS
THEY WERE ESSENTIAL. WE WERE HOWEVER BOUND BY OUR POLICY
OF NEUTRALITY. PUBLIC OPINION WOULD NOT UNDERSTAND IF WE
WERE SEEN TO BE SUPPLYING LETHAL ITEMS TO EITHER SIDE
WHATEVER THE TIMING OF THE CONTRACT TO WHICH THEY WERE
RELATED. OUR PROBLEM WAS COMPOUNDED BY REPORTS OF
INTENSIFICATION OF THE FIGHTING, TOGETHER WITH THE INCREASING
DANGER OF AN ESCALATION IN THE GULF AREA, WHICH HAD SERVED TO
FOCUS PUBLIC ATTENTION ON THE WAR TO A GREATER DEGREE THAN
BEFORE. FOR THAT REASON IT HAD BEEN NECESSARY FOR US TO REVIEW
ALL THE SPARE PARTS IN THE INTERIM PACKAGE TO ENSURE OUR
POLICY WAS NOT BREACHED. WE WOULD COMPLETE OUR REVIEW AS SOON
AS POSSIBLE AND NOTIFY THE IRANIANS IMMEDIATELY OF OUR
CONCLUSIONS. IN THE MEANTIME WE WOULD BE READY, IF THEY SO
WISHED, TO PUSH AHEAD SEPARATELY WITH THE SUPPORT SHIPS
CONTRACTS: AND WE WOULD SEE NO DIFFICULTY IF THE IRANIAN
AUTHORITIES WANTED SOME OF THEIR 50 IRANIAN NAVY PERSONNEL
ALREADY IN UK TO PREPARE THE KHARG ALSO TO WORK ON THE
SUPPORT SHIPS. WITH THE WAR GOING ON IT WAS NOT GOING TO BE
EASY FOR THE BRITISH GOVERNMENT TO EXPLAIN THE RELEASE OF
THESE SHIPS TO IRAN: IT WAS AN EARNEST OF OUR GOOD FAITH
THAT WE WERE PREPARED TO GO AHEAD.

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4. KASHAN'S IMMEDIATE REACTION WAS THAT THIS NEW POSITION OF THE BRITISH GOVERNMENT CHANGED THE WHOLE ATMOSPHERE IN WHICH WE HAD HITHERTO BEEN NEGOTIATING. THE IRANIANS HAD ALWAYS RECOGNISED THAT THERE WERE SOME ITEMS - EG AMMUNITION - ON WHICH EXPORT LICENCES WOULD NOT BE FORTHCOMING FOR THE DURATION OF THE WAR, BUT HE HAD BEEN GIVEN TO UNDERSTAND THAT THIS WOULD NOT APPLY TO THE ITEMS IN THE INTERIM PACKAGE. HE COULD NOT PREDICT THE REACTION OF HIGHER AUTHORITY BUT HE FEARED OUR DECISION COULD JEOPARDISE EVEN THOSE PARTS OF THE SETTLEMENT WHICH HAD ALREADY BEEN AGREED. HE DOUBTED WHETHER THE IRANIANS WOULD WANT TO NEGOTIATE FOR THE YARROW SHIPS ON THEIR OWN. WE SEEMED TO WANT TO GO AHEAD WITH THOSE CONTRACTS (LIKE THE SHIPS AND IPC) WHERE THERE WAS MONEY IN IT FOR US, WHILE DENYING THE IRANIANS THE EQUIPMENT WHICH WAS OF MORE USE TO THEM. AFRAKHTEH SAID THAT NOT ONLY WERE WE HOLDING UP THE DECISION ON THESE ITEMS: WE WERE EVEN INCREASING OUR CLAIMS AS THE MONTHS WENT PAST.

5. GERAMI SAID THAT AGREEMENT HAD BEEN REACHED ON THE SPARES DURING THE NEGOTIATING ROUND (WHERE HE HAD LED) AT THE END OF 1982. THE BRITISH GOVERNMENT HAD HAD MORE THAN ENOUGH TIME SINCE THEN TO DECIDE ON WHAT WAS LETHAL AND WHAT WAS NOT. OUR LATEST ANNOUNCEMENT SEEMED A MERE DEVICE FOR POSTPONING FULFILMENT OF OUR OBLIGATIONS. HE QUESTIONED IN THESE CIRCUMSTANCES WHAT WAS THE USE OF THE MOU. ALL BUT 10 OF THE 46 CONTRACTS COVERED BY THE MOU WERE TO OUR ADVANTAGE AND THESE WERE THE ONES WE WERE HOLDING UP.

6. REPEATING THAT OUR DECISION WOULD AFFECT THE WHOLE PACKAGE OF UNDERSTANDINGS WE WERE TRYING TO REACH, GERAMI SAID THERE WOULD BE AN IMMEDIATE EFFECT ON THE IPC AGREEMENT. THE NDIO HAD ALREADY RECOMMENDED IMPLEMENTATION TO BE HELD UP UNTIL OUR DECISION ON THE INTERIM PACKAGE WAS KNOWN: ACCORDINGLY THE LETTERS OF CREDIT HAD NOT YET BEEN OPENED. HE SAID HE COULD SEE NO REASON WHY WE SHOULD NOT GO AHEAD ON IPC, A MUTUALLY USEFUL AGREEMENT WHICH HAD BEEN FREELY AGREED ON. HE HOPED HE WAS NOT SAYING THAT THE IRANIANS PLAN TO RENEGE ON THEIR AGREEMENT: ANY DECISION TO DELAY IT WOULD BE VERY BADLY RECEIVED IN LONDON. KASHAN SAID THAT NDIO WOULD BE PROPOSING TO IMS IN THE NEXT DAY OR TWO A FURTHER ROUND OF NEGOTIATIONS TO CONFORM SOME 'TECHNICAL' POINTS. THERE WAS A CLEARLY STATED INTER-RELATIONSHIP BETWEEN IPC AND THE CONTRACTS IN THE INTERIM SETTLEMENT, BUT HE THOUGHT IT WOULD BE BEST FOR BOTH SIDES TO ATTEMPT TO PURSUE THIS QUESTION SEPARATELY. COMMENT. IT WOULD INDEED SEEM BEST FOR IMS TO RESPOND TO ANY NEW PROPOSAL FROM NDIO ON ITS MERITS, UNLESS THE IRANIANS FORMALLY CONNECTED IT TO AGREEMENT ON THE INTERIM SETTLEMENT.

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7. AFRAKHTEH ASKED THAT WE CONFIRM OUR POSITION IN A LETTER SO THAT HE WOULD KNOW PRECISELY WHAT TO SUBMIT TO HIGHER AUTHORITY. IT SHOULD SET OUT THE POSITION AS HE HAD DESCRIBED IT, INDICATING HOW WE PROPOSED TO PROCEED ON THOSE ITEMS WHICH WE COULD DELIVER AND THOSE WHICH (BECAUSE THEY WERE LETHAL) WE COULD NOT. KASHAN SAID IT WOULD BE USEFUL IF WE COULD CONTINUE TO NEGOTIATE EVEN ON THE LATTER TO THE POINT OF AGREEING A FINANCIAL SETTLEMENT, COMBINED WITH AN AGREEMENT TO FREEZE THE AGREEMENT REACHED UNTIL SUCH TIME AS DELIVERY BECAME POSSIBLE. AFRAKHTEH CONCLUDED BY REPEATING A POINT HE HAS MADE BEFORE, THAT THE IRANIANS WANTED ALL NEGOTIATIONS UNDER THE PACKAGE, WHETHER WITH BRITISH COMMERCIAL COMPANIES OR HMS, TO BE UNDER THE CONTROL OF THE RESPECTIVE GOVERNMENTS. THE NEGOTIATIONS HAD TO BE PURPOSEFUL: IRAN HAD ALREADY SPENT A HUGE AMOUNT OF TIME ON THESE NEGOTIATIONS, WHICH A COUNTRY AT WAR COULD NOT AFFORD IF THEY WERE TO HAVE NO RESULT. SHE REMAINED WILLING TO REACH A SETTLEMENT THROUGH NEGOTIATIONS, WITH OTHER WESTERN COUNTRIES AND EVEN THE US AS WELL AS WITH THE UK, BUT IF THE NEGOTIATIONS FAILED OTHER OPTIONS WERE OPEN, INCLUDING RESORT TO LITIGATION. WE SHOULD BEAR IN MIND THAT THE IRANIAN GOVERNMENT TOOK AN OVERALL VIEW OF ITS COMMERCIAL RELATIONS WITH THE UK: FAILURE IN ONE AREA SUCH AS THE DEFENCE NEGOTIATIONS WOULD AFFECT THE IRANIAN ATTITUDE TO OTHER TRANSACTIONS ACROSS THE BOARD.

8. HE SAID HE WOULD REPORT OUR CONVERSATION AND BE IN TOUCH WITH KASHAN AGAIN ONCE HE HAD THE CLEAN TEXT OF THE MOU AND ANY FURTHER INSTRUCTIONS. IT IS NOT CLEAR HOW HIGH UP THE TREE AFRAKHTEH WILL IMMEDIATELY REPORT OUR CONVERSATION, BUT THEY WILL BE INFORMING THE MFA. EGERTON'S INTERLOCUTORS MAY WELL THEREFORE CHOSE TO RAISE THE SUBJECT.

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