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PRIME MINISTER

IRAN: SUPPLY OF DEFENCE EQUIPMENT

You earlier agreed to signature of the Oversight Agreement for the two Yarrow support ships and the release of non-lethal armoured vehicle spare parts for Iran.

You subsequently instructed that implementation of both decisions be frozen while the circumstances of the attack on the tanker British Renown were clarified.

A strong protest has been made to the Iranians about the attack. They have said that they do not wish to get involved with any act of hostility against Britain. There is evidence (though not conclusive) that the attack on Renown was a mistake.

A, B, C

The Defence Secretary, the Foreign Secretary and Mr. Tebbit agree that we should now return to the status quo ante.

But they also suggest that we should make clear to the Iranians that if there are any further attacks by Iranian forces on British shipping, delivery of the Yarrow ships and the tank spares would not take place.

Mr. Tebbit suggests in addition that it should be made clear to the Iranians that our willingness to supply the ships and spare parts is dependent on their releasing the outstanding letters of credit for Talbot. There are risks in being too explicit in this. The formulation proposed by Geoffrey Howe - any further difficulties involving British interests, for example over Talbot, could call into question

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the military contracts - would make the point without seeming to give the Iranians an ultimatum.

Agree that the "freeze" should be terminated and that the decisions previously taken should now be implemented, with the Iranians being told that if there are further attacks delivery of the ships and the tank spares would not take place?

C.D.P

Yes

25 July, 1984

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PRIME MINISTER

Iran: Supply of Defence Equipment

1. Your Private Secretary conveyed, in a letter of 10 July, your view that, in the light of the attack on the British tanker on 10 July, the supply of the two Yarrow support ships and of the armoured vehicle spare parts to Iran should be frozen, at least until the circumstances of the attack had been clarified. The Defence Secretary commented on 13 July.
2. The Iranians have never admitted responsibility for any of their attacks on neutral shipping. There is, however, clear evidence, that they were responsible for the disgraceful attack on the British Renown. We therefore protested strongly both here and in Tehran. The Iranians have now informed the Head of our Interests Section that Iran does not wish to get involved with any act of hostility against Britain, and have confirmed that they would be content should British Ministers wish to say this in reply to further questions in Parliament.
3. The view of our representatives in Tehran, which on the basis of the available evidence we share, is that this attack was most likely a mistake. That is no excuse. But it does have implications for our further reactions to it. We need to strike a balance, bearing in mind our wider political and commercial interests in Iran. Genscher came back from his recent visit to Tehran convinced that the Iranians now want to improve their relations with the West (including with the UK). Several of our European partners are showing increased interest in the commercial opportunities. Our own exports to Iran are already running at a substantial level: £630 million in 1983 (to which Talbot contributed over £100 million). The

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Iranians have recently made clear that they will regard our response on the tank spares as a touchstone of our good faith which could have implications for our overall commercial relationship. There is, therefore, a good deal at stake.

4. The Defence Secretary's minute sets out the practical difficulties we could face in seeking (i) to freeze all action on the Yarrow ships, where our final agreement on oversight arrangements came into effect on 10 July, and (ii) to identify the categories of spares which may be released. The ships (for which the Iranians have paid £17.9 million) will not be ready to leave for about three months. The question of freezing their delivery arises most obviously at that point. The Iranians regard the tank spares as effectively frozen now.

5. This is a difficult choice. But bearing in mind our wider relations, and the fact that the attack on the British Renown does not seem to have been a deliberate attack on a British ship, I agree with the line proposed by the Defence Secretary. We should hold to our decision to get this problem out of the way by releasing the Yarrow ships and the non-lethal tank spares, provided, as the Defence Secretary says, there is no further deliberate attack by the Iranians against British shipping in the period before delivery, and no serious deterioration of the situation in the Gulf. We have put a great deal of effort into preparing the ground for release, both with the United States and with the Arab countries, and seem to have made some headway.

6. I consider that we should make clear to the Iranians that if there are any further attacks by Iranian forces on British shipping, delivery of the Yarrow ships and the tank spares would not take place. For good measure, we should add that any further difficulties involving British interests, for

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example over Talbot - the importance of which the Secretary of State for Trade and Industry describes in his letter to me of 23 July - could also call into question the military contracts. That might provide a degree of additional security for British shipping in the Gulf, and, if there are no further attacks, would enable us to clear up a major part of this long-running problem and prevent it casting a shadow over our wider commercial relationship with Iran.

7. I am sending copies of this minute to the Defence Secretary, the Secretary of State for Trade and Industry, the Lord President of the Council and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
25 July 1984

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