

CONFIDENTIAL



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

CONFIDENTIAL

MO 26/9/15

FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE CONTRACTS WITH IRAN

Prime Minister

Agree with this approach, subject to

the views of OJ

Yes and colleagues?

BM

1/6

One of the last acts of the pre-revolutionary Government in Iran was to repudiate five major defence contracts worth some £1,900m. With the exception of the British Aerospace contract for Rapier surface-to-air missiles, the contracts were placed through International Military Services Limited (IMS), our wholly-owned company, and thus were effectively on a Government-to-Government basis.

2. These contracts were for tanks, Armoured Recovery Vehicles (ARVs), support ships, and a base workshop under construction in Iran. Apart from these, IMS had about 50 other contracts principally for the supply of Ministry of Defence-procured vehicle spares and ammunition and the provision of manpower for support and training as well as for a number of military construction projects in Iran.

3. When it seemed, late last year, that the continuation of business under the contracts was doubtful, we took steps to limit our exposure without actually breaching the contract terms. Shipments ceased after December 1978 and in early February IMS and British Service personnel were withdrawn from Iran. Production at some Royal Ordnance Factories was progressively run down and some sub-contracts were terminated.

4. A joint MOD/IMS team visited Iran in April for talks with the Iranian Minister of Defence and representatives

/ of the ...

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL



CONFIDENTIAL

2

of the three Armed Services. A full report of the visit and the proposed follow-up action was circulated last week by my officials to Whitehall Departments who have been kept in touch with developments throughout this year. In brief, the outcome of the talks, which took place in a friendly and constructive atmosphere, was that the Iranian Defence authorities expressed their intention of paying all monies due for work and deliveries of supplies which had already been completed: of continuing with most of the supply contracts for ammunition and spares for their existing armoured vehicles: and, despite previous repudiation of the contracts, of taking delivery of the 71 ARVs and two support ships. They also expressed willingness to talk about the future of some construction work in Iran. They confirmed the cancellation of the tank contract. It was agreed that further detailed discussions would take place on the individual contracts concerned and these are being arranged.

5. I believe that the talks have been useful in providing clarification of Iranian intentions. It seems clear that they wish still to do considerable business with us. For our part I take it that we would wish to honour outstanding contracts for the supply of ammunition and spares for existing equipments - indeed to decline to do so would be a political act of considerable significance which could seriously damage our relationship with the new regime and our general reputation as a reliable trading partner. Moreover, I believe that we should be ready to consider, on a case-by-case basis, future requests for new supplies if such requests are received. However, I think we should aim in future to arrange new business on advance payment terms.

6. We now await practical evidence of the intentions and ability of the Iranians to meet their existing obligations by paying outstanding debts, / which, / for work performed and deliveries made, amount to some £85m. Before and during the detailed discussions soon to take place my officials

/ and ...

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL



CONFIDENTIAL

3

and IMS Limited will continue to press for all monies due. Discussions with the Iranians will, of course, cover revised delivery schedules and prices and the appropriate payment arrangements.

7. If satisfactory progress with the discussions is made and money flows to clear debts, our intention is to offer early deliveries of modest proportions to test the system. By the time this has been done a few months will have passed and it may be easier to judge the stability of the present regime and the future outlook.

8. I am not over-optimistic about the prospects for our continuing business or indeed for the recovery of all monies due. When all termination action has been taken this sum could be more than £100m and with this sum at stake we must continue to take positive action to resolve matters with the Iranian Government.

9. I should be glad to hear whether you and our colleagues on OD, the Secretaries of State for Industry and for Employment, to whom I am sending copies of this minute, agree that we should proceed on the basis outlined above. If any difficulties are foreseen, they might perhaps be discussed at OD next Monday, when the Committee will be considering the supply to Jordan of tanks available as a result of the cancellation of the Iranian contract.

78

7th June 1979

CONFIDENTIAL

CONFIDENTIAL