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Thames Document
Council of Experts
Ministers
Tuesday

to be informed of PAs
agreement to request for
delay in time of
notification

MO 26/9/15

(Assuming that sanctions
are relaxed on us
again)

Prime Minister

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Ph... 4/11

LORD PRIVY SEAL

We circulated on 20th December a joint memorandum which explained that, since the American hostages had been taken, no defence equipment had been delivered to Iran. I understand that we may not be able to maintain our go-slow tactics much longer because the Iranians are now pressing us for delivery of certain items of equipment. Officials are currently examining how we might respond to this, but there is one problem on which we need to make an early decision.

2. Swan Hunter Shipbuilders Ltd (a subsidiary of British Shipbuilders) have a contract with Iran signed in 1974 for the construction of a Fleet Replenishment Ship "KHARG". This ship is now almost ready and awaiting the final contractor's acceptance trials. The company is anxious to act in line with the terms of its contract and to give the thirty days notice of availability of the ship required by the contract. I understand that we have no legal powers to prevent the issue of the thirty days notice of availability; however, Swan Hunters have been extremely cooperative with my officials and have agreed to delay notifying the Iranians until, at the latest, the morning of 16th January. Swan Hunters are under considerable pressure from the resident Iranian delegation on the Tyne, and they have also received a letter from the Iranian Ministry of National Defence requesting the early delivery of the ship. The estimated price of the ship is £39 million, of which the Iranians have so far paid £29 million. Of the final £10 million due on handover, arrangements exist for the transfer of £3 million, but the method of payment for the remaining £7 million is to be arranged during the thirty days notice period. There is no ECGD insurance cover in respect of the contract.



3. On the assumption that they would be giving notice shortly, Swan Hunters have planned a final week of contractor's sea trials from 16th January, after which about three weeks further would be required to prepare the ship for final handover. Under the contract Swan Hunters are obliged to deliver the ship by 28th February. If the company fail to meet this date, the Iranians could cancel the order and claim substantial compensation. It is not possible to estimate the size of the potential claim, but my officials tell me that it could be greater than the value of the completed vessel (£39 million). Moreover, delay in the handover of the ship will cost the firm about £70,000 per week.

4. When the contract was signed in 1974 warships were not subject to export licence control. From 1975, however, the Export of Goods (Control) Order was amended, and my officials tell me that a Department of Trade export licence is required for this ship. I understand that the only way in which we could frustrate the delivery of the ship would be by withholding or revoking the export licence. We could then expect the Iranians to make a claim against British Shipbuilders and, probably, a counter claim against the Government from Swan Hunters. My officials are currently examining the legal position. In such circumstances the implications for British Shipbuilders' cash and loss limits would also need to be considered.

5. In the present circumstances in Tehran I do not think that you or colleagues would wish this ship (which is essentially a warship) to be handed over to the Iranian Government. Our room for manoeuvre, however, is limited. It is possible officials might be able to persuade Swan Hunters to delay notification a little longer, although Swan Hunters are unwilling to hold up normal contractual action any longer, and unless we are prepared to run the risk of an Iranian claim. Swan Hunters must issue their thirty days notice by 29th January. If officials' attempts to persuade Swan Hunters to delay notification as long as possible fail, then we shall have no option but to tell Swan Hunters to go ahead with the issue of

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the notification to the Iranians. If, as the company has insisted, the notification is made on 16th January, the ship will go to sea that day for its acceptance trials and, subject to the granting of an export licence, the ship will be handed over to the Iranian Navy on 14th or 15th February.

6. If mandatory UN sanctions were applied, we should be obliged to prevent the export of the ship. If however no such sanctions are applied, we shall have thirty days from the issue of the notification by the company in which to consider whether to withhold the export licence and to assess all the implications of such a course. If the ship does proceed on acceptance trials, this will become public knowledge and will almost certainly give rise to press and Parliamentary comment. Moreover, the Iranian Navy still have the option, which they could exercise subject to pre-payment, of undergoing sea training in "KHARG" using Ministry of Defence facilities at Portland for a period of several months.

7. Subject to your views and those of colleagues, which I should be grateful to receive by mid-day on Tuesday 15th January, I propose to instruct my officials to attempt to negotiate further with Swan Hunters to delay the issue of the notification for as long as contractually possible. If this fails, and Swan Hunters insist on issuing the notification, we shall have thirty days in which to consider, in the light of the situation in Tehran, whether an export licence should be withheld. In any case we have only until 28th February by which to take a decision on the licence, at the very latest.

8. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry, the Attorney General, and Sir Robert Armstrong.

Ministry of Defence

11th January 1980

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