



Prime Minister

subject to colleagues, your  
recommendations in para. 2?

A.J.C. 2/9

FCS/83/171

Yes

SECRETARY OF STATE FOR DEFENCE

Iran: The Kharg

1. Officials have been considering how to deal with this fleet support vessel built for the Iranians by Swan Hunter Shipbuilders Ltd at a cost of about £40m, which has been deteriorating on Tyneside since we blocked delivery in 1980.
2. In April 1981 OD decided that we should open negotiations for the release of the Kharg on condition that an appropriate understanding was received that the ship would not be used in the hostilities, and that a satisfactory settlement was reached concerning Iranian debts relating to the ship.
3. In late 1981 a procedure to satisfy the first condition was approved by the Attorney-General and the Iranians were told, in December 1981, that the vessel could be released provided certain financial questions relating to it were first settled.
4. Negotiations on these financial questions have been proceeding desultorily since 1982. The Iranians have now informed us that they are ready to commission the vessel and to deliver it to Iranian territorial waters. They have formally requested the issue of an export licence. Officials in the meantime have resolved interdepartmental differences about how the outstanding debts relating to the ship might best be settled. The ship itself was of course fully paid

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for in 1980. The debts relate to support equipment, spares and incidental charges. Officials are agreed that the best chance of settling the comparatively small debts owed to the MOD and Swan Hunter rests in allowing the Iranians to take away the ship as soon as possible. (The Attorney-General in any case ruled that a decision to withhold an export licence in pursuance of non-Governmental debts would be open to challenge in the Courts.) I understand that the Department of Transport is ready to accept responsibility, if the Iranians do not pay, for the costs incurred by the Port of Tyne Authority since 1979, which amount to some £17,000 to date, in ensuring that the ship remains securely moored and does not become a hazard to other vessels in the port.

5. The most difficult outstanding matter relates to the cost of making the vessel seaworthy. The Iranians claim that Swan Hunter have given them a preliminary figure of £5million, though Swan Hunter have told the Department of Industry and Trade that it is considerably less, perhaps in the order of £150,000. There might also be claims over the now expired warranty and training rendered nugatory by our decision to prevent the ship from sailing. The Iranians have warned us that they hold HMG responsible for these costs. We have, of course, denied responsibility and made it clear that HMG will not pay them. There is a chance that we may be able to negotiate an arrangement under which the Iranians commission and pay for the necessary work, and take the ship away, without prejudice to the claims of each side. In that event, the sum would be added to the list of other residual claims and counter-claims outstanding between the UK and Iran.





6. Alternatively, the Iranians may opt to have the vessel towed to another European port or even to try to take it there under its own steam. Their interest in these options may be increased if we now give them the export licence they have asked for. Another possibility for the Iranians would be to try to sell it to another government as it stands (I understand that the Royal Navy are no longer interested in this ship unless the Iranians offer it at a very low price.)

7. In any event, it is in our interests that the future of the ship should be solved if at all possible while the Iranians are in their present mood to negotiate about it seriously. They have accordingly been sent an interim reply to their request for an export licence which reiterates HMG's willingness to release the vessel provided certain financial questions relating to it are first settled, and inviting them to say how they propose to take the vessel away once an export licence, or UK agreement to the ship being commissioned, is granted.

8. Obviously, we do not want to grant an export licence or permit the ship to be commissioned, if it is going to remain on Tyneside while there is a protracted wrangle over the appointing and funding of a contractor to make it seaworthy. But if, on the other hand, the Iranians decided to tow it away, or remove it under its own power, then it would be in our interests to grant an export licence, or permit commissioning, without further delay.

9. The purpose of this minute, therefore, is to seek your agreement, and that of our colleagues to whom this minute is copied, that the April 1981 remit has been pursued as far as is practicable and that we should accordingly now be prepared in principle to facilitate the removal of the Kharg (whether by granting an export licence or by permitting it to be commissioned) as soon as it is clear that the

/Iranians





Iranians are ready actually to take it away - provided always that our case that the UK is not responsible for the costs of making it seaworthy remains fully protected. I recommend further that if the Iranians continue to hesitate about the method (or the cost) of taking the ship away we should nevertheless actually issue an export licence valid for a limited period (and revocable as is normal for all export licences) in the hope that such a gesture might be decisive in dispelling Iranian suspicions and getting them actually to take the vessel away.

10. Peter Carrington informed the then Iraqi Foreign Minister in March 1981 that we proposed in due course to release the Kharg to its owners, and the Iraqis have reluctantly come to accept that this will happen. The vessel's uses in a basically land war are, in any case, very limited.

11. I am copying this to OD colleagues and to the Minister for Transport.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

Defence  
Contracts with Iran  
June 79

-9 SEP 1983

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