



FCS/84/168

SECRETARY OF STATE FOR DEFENCE

Yarrow Ships - Iran

Prime Minister. *cc/k*
 The Foreign and Defence Secretaries
 are agreed about the proposition
 in para. 1 below.

Content, subject to od colleagues:

Reluctantly -
 Yes not A.S.C. 1/6.

Thank you for your minute of 1 June, proposing that MOD should go ahead with signature of the oversight agreement for the two Yarrow support ships for Iran, but that we should seek to spin out for as long as we can the process of delivery and completion.

I agree with your proposal. As you note, the main contract has been signed, the Iranians have already paid £17.9 million (the bulk of the sum outstanding for the two ships), and it will be extremely difficult for MOD to delay signature of the oversight agreement any further. The Head of our Interests Section in Tehran has now separately advised that we cannot spin things out any longer without being accused of bad faith by the Iranians. In addition to financial penalties if we fail to go ahead, therefore, there will also be an adverse effect on our general relations (our exports to Iran in 1983 were worth £628 million: our second largest market in the Middle East). We are in any case playing for time by slowing down the issue of visas to the Iranian commissioning crews.

We have explained our position on the Yarrow ships to the Americans and to many of the Arab states, and they seem to have, reluctantly, accepted that we cannot now block ~~delivery of the ships~~. As the MOD oversight agreement is only an adjunct to the main contract (which may become public at any moment), I therefore also believe that we should proceed with it, although I share your view that we

/should



should spin out the process of delivery and completion for as long as we can.

We shall subsequently need to consider the gradual release of the spares for the armoured vehicles, on the lines suggested in my minute of 10 April to the Prime Minister, although this continues to be an even more difficult case. But I agree that we should be able to leave this in abeyance for a little longer, provided that we can retain the Iranians' confidence by going ahead with the next step on the Yarrow ships.

I am copying this minute to the Prime Minister, other OD colleagues and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
11 June 1984

IRAQ AT4
Internal Station

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19 JUN 1984