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*Arms Sales to
Middle East*

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PRIME MINISTER

Arms Sales to the Middle East and Chile

(OD(81) 36 and 39)

BACKGROUND

These two memoranda by the Foreign and Commonwealth Secretary and the Secretary of State for Defence are for discussion by OD on 24th July. They follow a bilateral talk between the two Secretaries of State, which was briefly recorded in Mr. Richards's letter of 17th July to Mr. Norbury, copied to Mr. Alexander, on 14th July. The Secretary of State for Defence had hoped that that meeting would enable them simply to report their agreed conclusions to colleagues. But although they reached general agreement in regard to the specific proposal to seek to sell a new aircraft development, the F110, to Middle East customers and to seek a satisfactory formulation on guarantees in relation to a number of possible defence sales prospects to Iraq, the Foreign and Commonwealth Secretary considered that the whole subject raised important political considerations which ought to be discussed collectively by OD.

2. The Secretary of State for Defence has also circulated to OD, for discussion on 24th July, his letter of 20th July to the Foreign and Commonwealth Secretary about the possible sale of up to 60 Mk III Vickers tanks to Chile. At the meeting on 14th July the Foreign and Commonwealth Secretary made clear that on political grounds he was against this sales prospect being pursued. The same subject was discussed in correspondence last year, culminating in the Foreign and Commonwealth Secretary's minute to you of 1st October.

3. OD had a general discussion on defence sales on 3rd December 1980, at which the Committee agreed on their importance as a springboard for the export efforts of high technology industries and took steps to stimulate them. Defence sales to Iraq specifically were discussed by OD on 29th January 1981 when it was agreed that every opportunity should be taken to exploit Iraq's potentialities as a promising market. At that same meeting OD were warned that Iran was a

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country of great importance in terms of size, resources and strategic situation; and it was noted that when the American hostages had been released it might be possible to resume some military supplies to the Iranians, who had been a major British customer in the past. Iran is scarcely mentioned in the two latest OD memoranda except for a passing reference in the Foreign and Commonwealth Secretary's paper; but the special problems that country presents must not be overlooked.

4. The Secretary of State for Industry has been invited for this discussion. It seems likely that business in the House of Lords may prevent the attendance of the Lord Chancellor and Lord President. The Lord Privy Seal is speaking in the debate on the Brandt Report and may be delayed for this reason.

HANDLING

5. You may like to deal with the question of arms sales to the Middle East first and the problem of Chile second. You will wish to ask the Secretary of State for Defence to introduce his paper and then the Foreign and Commonwealth Secretary to introduce his comments on the Secretary of State for Defence's proposals. Points to cover in subsequent discussion are:-

- (a) What industrial importance does the Secretary of State for Industry attach to the P110 project? The Secretary of State for Defence told OD on 8th June and the Cabinet subsequently that it represented the only future prospect for the British combat aircraft industry. But advanced combat aircraft projects have got a bad reputation for cost escalation. Is there a risk that the British taxpayer at some point in the future may be faced with a large bill for this project for which there is apparently no United Kingdom national defence interest? Or will the Arabs bear all the risks?
- (b) Does the Secretary of State for Defence consider that the RAF may have a future requirement for the P110? Would it not be much easier to sell this aircraft abroad if the British armed services were seen to be procuring it?

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- (c) How does the Chancellor of the Exchequer view the Secretary of State for Defence's suggestion that any United Kingdom contribution to the P110 programme would have to be funded either by private industry, by funds from another Department's programme (i. e. not the defence budget) or by a combination of these sources? Is this a realistic financial approach?
- (d) To what extent will the P110 be a Tornado derivative? Are the Foreign and Commonwealth Secretary and the Secretary of State for Defence satisfied that it will be sufficiently far removed for our Tornado partners not to raise objections to the proposed development and sale?
- (e) Does the Foreign and Commonwealth Secretary consider that the United States will be content with the proposed sale of the P110 to Arab countries in the Middle East if they are still seeking to press a policy of military restraint upon Israel by withholding their own aircraft deliveries to that country? Would the United States be content with the fact that no P110 aircraft would be delivered for some years?
- (f) Iraq is a member of the proposed Arab consortium which might procure the P110 aircraft. What does the Foreign and Commonwealth Secretary mean by his suggestion that there should be "extreme caution over supply" in relation to Iraq? Does this mean that this country should not sell the P110 to any grouping of Arab states of which Iraq formed part?
- (g) Are the Foreign and Commonwealth Secretary and the Secretary of State for Defence generally satisfied on the progress on other potential defence sales items to Iraq? How good are the future prospects and what are the main practical obstacles to them?
- (h) Is the Chancellor of the Exchequer now content with plans to offer guarantees to Iraq in relation to defence sales? His letter to Mr. Nott of 15th July suggests he is not. The point was discussed at the 14th July Nott-Carrington meeting but is not covered in Mr. Nott's OD paper.
- (i) What progress are the Secretaries of State for Industry and Defence making in getting rid of the Kharg to Iran? Now that the American hostages and

British detainees in that country have been released, is there scope for any further progress on defence sales there?

Chile

- (j) How important from an industrial point of view do the Secretaries of State for Industry and Defence consider the prospective sale of Vickers tanks to Chile? There seems a possible inconsistency in the statement in the latter's letter of 20th July that there are major medium and long-term prospective tank orders of considerable size in the offing but that the only one actually in prospect is in Nigeria and that this has been hanging fire for a long time.
- (k) Does the Foreign and Commonwealth Secretary feel that there would be strong international reactions to the proposed tank sale to Chile? If so, from which countries? How would the United States regard it? Would it alarm Argentina and affect the British dispute with that country over the Falkland Islands?
- (l) How seriously does the Committee consider the domestic political objections to be to the proposed sale of tanks to Chile? In his minute to you dated 1st October 1980 the Foreign and Commonwealth Secretary suggested that tanks were highly emotive items, and that in Parliament it might be considered that they would be used for repressive purposes. But the lifting of the arms embargo of 22nd July 1980 did not itself seem to cause much political excitement. Has the time come to take a further step forward?

CONCLUSION

6. Subject to the discussion the Committee might be guided to agree:-
- (i) That the sale of the P110 aircraft should continue to be promoted in the Middle East, despite the difficulties that this may involve.
- (ii) That discussions with the Arabs on the Tornado IDS should continue, even though there is no immediate prospect of securing German agreement to supply.
- (iii) That efforts to sell other defence equipment in the Middle East should be pressed ahead subject to the caveats entered by the Secretary of State for

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Defence in OD(81) 39 and by the Foreign and Commonwealth Secretary in the Annex to OD(81) 36.

- (iv) That in regard to the prospective sale of Vickers tanks to Chile, if it emerges from the discussion that the main objection relates to potential domestic political difficulties, the decision should depend on the general consensus of view which the Committee forms; but that, if the Foreign and Commonwealth Secretary argues successfully that there are powerful objections in terms of foreign policy, the present ban on tank exports should continue.

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23rd July, 1981

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