

PRIME MINISTER

PEUGEOT TALBOT AND IRAN

This is a recurrent problem.

The Iranians profess to attach importance to this contract. But they don't give it high priority in allocating foreign exchange.

Last October the Treasury agreed that ECGD should extend pre-shipment cover of £25m on the car kit contract. But they insisted that it should remain in place only until 31 May 1986, while steps were taken to secure letters of credit from the Iranians. These letters of credit have not been forthcoming, largely because the Iranians have enough kits in stock to keep them going until the end of the year.

Peugeot Talbot with DTI support want to extend the ECGD cover until the end of the year. They see a risk that otherwise the plant will close with significant redundancies in the West Midlands.

The Treasury see a considerable risk that the Iranians will back out of the contract anyway and want to terminate ECGD cover - though might agree to some reinstatement if the Iranians produce fresh letters of credit.

Two rounds of correspondence have failed to resolve the problem. You have not previously intervened.

The choices seem to me:

- (i) to support the Trade and Industry Secretary because the sums are not huge, the Iranians have in the past stumped up in the end and the risk of further redundancies in the West Midlands is best avoided; or

(ii) hold a meeting to give the Chief Secretary a chance to argue his case. Since you are so busy, the Lord President might be asked to chair this.

Please tick (i) or (11).

C.D.P.

CDP

8 July 1986

JA(57)



10 DOWNING STREET

From the Private Secretary

8 July 1986

Dear John

PEUGEOT TALBOT AND IRAN

The Prime Minister has seen the exchange of letters between your Secretary of State and the Chief Secretary on the question of further extending ECGD's pre-shipment cover on the Paykan car kit contract with Iran.

The Prime Minister notes that the present situation, while unsatisfactory in itself, is one which we have tolerated for some considerable time and that, in the end, the Iranians have eventually issued Letters of Credit. She also thinks the risk to which Mr. Channon draws attention of further redundancies in the West Midlands is a serious one. She would hope, therefore, that the matter could be resolved between the Department of Trade and Industry and the Treasury. Her other commitments would make it very difficult for her to chair a meeting on this issue. If a solution cannot be found by further direct contacts, she will have to ask the Lord President to undertake this task on her behalf.

I am copying this letter to Joan MacNaughton (Lord President's Office), Tony Galsworthy (Foreign and Commonwealth Office) and Jill Rutter (Chief Secretary's Office, HM Treasury).

Yours sincerely,
Charles Powell

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John Mogg, Esq.,
Department of Trade and Industry.