

CONFIDENTIAL

PRIME MINISTER

IRAN

We have had a word this evening about the consequences of the explosion at the Iranian video shop in Kensington for the matters currently under consideration in relation to defence sales to Iran.

I believe there are in fact two such issues being considered at present:

- (i) the sale of radars, where you asked that Saudi and American views should be sounded out before we make up our minds. These consultations I think are still under way;
- (ii) the refurbishment of two hovercraft owned by the Iranian Navy. You asked that we should stick rigidly to the normal guidelines in these matters, if we were to go back on assurances we had given to Arab countries on many occasions.

The attached letter from Lady Young to Mr. Channon explains that the FC0 advise against the hovercraft deal, though they note that "we may have persuaded the Saudis that the radars will have no effect on the war".

Before I write round, could I confirm with you that your view that "the explosion puts an end to any possibility there had ever been of the orders being fulfilled" applies both to the contemplated radar sale and the hovercraft refurbishment?

*Mongo Duty Clerk.*

PP MARK ADDISON  
21 August 1986

*"The explosion is a very serious event which must have a vitally decisive influence against an military or quasi-military order for which previously may have been in the balance"*

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10 DOWNING STREET  
LONDON SW1A 2AA

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*From the Private Secretary*

22 August 1986

Dear Colin

The Prime Minister has seen Baroness Young's letter of 20 August to the Secretary of State for Trade and Industry. She has commented that the explosion at the Iranian video shop in Kensington seems to her to be a very serious event which must have a virtually decisive influence against any military or quasi-military orders which previously may have been in the balance.

I am copying this letter to the Private Secretaries to members of OD and to Michael Stark (Cabinet Office).

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Mark Addison

Mark Addison

Colin Budd Esq  
Foreign and Commonwealth Office.

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CSP

CCPC ✓

## MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALING 01-218 2111/3

MO 26/9/15L

4 September 1986

CSP 574.

Dear Paul,

You sent me a copy of your letter of 8th August 1986 to Geoffrey Howe asking for OD colleagues' agreement to Westlands Aerospace Ltd undertaking the refurbishment of two hovercraft for the Iranian Navy.

As you say, the fundamental issues in this case have been fully explored in the previous Ministerial correspondence. In military terms, refurbishment of these craft would represent only an insignificant enhancement of the Iranian military capability and the order might therefore strictly fall within our guidelines. But against this we must give due weight to the difficulties of presenting this to our friends in the Gulf. Our then Ambassador in Riyadh recommended strongly against refurbishment in March, making the point that, at that time, the Iranians were using their hovercraft to resupply their bridge-head in Iraqi territory and that with their use in such a high

The Rt Hon Paul Channon MP



profile role, the Saudis would be "appalled" that the United Kingdom should be servicing them.

We have continued to receive evidence that the hovercraft are being used operationally in the war zone and at the front. Whilst they are perhaps not as much in the public eye now as they were then, there can be no guarantee that this will remain the case. And even given King Fahd's restrained response to the Plessey 3D radar proposal, like Janet Young I am not sanguine that the same attitude would be taken in respect of the hovercraft which are far more closely involved with the current hostilities.

In the circumstances, I can see no grounds for altering the view expressed by Norman Lamont in March that this refurbishment order should not be allowed to go ahead.

I am sending copies of this letter to the Prime Minister and other OD colleagues, and to Sir Robert Armstrong.

*Yours wv,*  
*George*

George Younger





Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

20 August 1986

*Scan Paul,*

Thank you for your letter of 8 August to Geoffrey Howe about the granting of an export licence for the refurbishment of 2 Iranian hovercraft. I am replying in Geoffrey's absence on holiday.

As you say, we can all agree that the industrial and commercial case for allowing the refurbishment to proceed is very strong, particularly in view of the employment effects.

As for the guidelines, it is extremely difficult to distinguish between civilian and military uses of these hovercraft which, as you say yourself, are used in logistic support roles. My understanding of the MOD view is that they believe the hovercraft, and hence their refurbishment, would enhance the Iranian's ability to prolong or exacerbate the conflict, but that the enhancement would not be "significant".

The difficulty, as you acknowledge in your letter, is mainly presentational. You will doubtless recall that the discussion of the refurbishment of hovercraft stretches back several years. Indeed the publicity given to the refurbishment was one of the major reasons why we instituted a review of our previous export guidelines, and established the current IDC mechanism. In 1984 it was agreed that 2 hovercraft could be refurbished, but that no more should be allowed subsequently. I do not believe the arguments have

The Rt Hon Paul Channon MP  
 Secretary of State for Trade and Industry  
 Department of Trade and Industry  
 1 Victoria Street  
 LONDON SW1



changed substantially since then, when we came under very critical and difficult American and Arab scrutiny. This would doubtless return if we decided to allow further refurbishment, especially because, since 1984, there has been an assault by the Iranians at Fao and continued fighting in the marshy border areas where hovercraft would be in their element.

You also raise the difficulties with Saudi Arabia. These are, I believe, very considerable. We may now (with difficulty) have persuaded them that Plessey 3D Radars will have no effect on the war. They would most likely be very much more difficult over further hovercraft refurbishment. Since the Saudis are themselves users of hovercraft, and fear that Iran might use its hovercraft to infiltrate sensitive Saudi coastal areas, they simply will not understand our nice distinctions between a significant and an insignificant enhancement. They will judge us to be increasing Iranian capabilities in a very sensitive area of direct relevance both to the conflict with Iraq and to Saudi security concerns. On this ground alone, I am afraid I must maintain our objection to the granting of an export licence.

I am copying this letter to other members of OD, and to Sir Robert Armstrong.

*Your own*  
*Jane*

Baroness Young

file



bc: PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 August 1986

Dear Catherine,

The Prime Minister has now seen your Secretary of State's letter of 8 August to the Foreign and Commonwealth Secretary seeking the agreement of OD colleagues to the granting of an export licence to Westland Aerospace Ltd to enable it to undertake the refurbishment of two hovercraft owned by the Iranian Navy since 1971.

The Prime Minister has commented that we must adhere rigidly to the normal guidelines in these matters. Not to do so would mean going back on the assurances which the Prime Minister has given on many occasions to Arab countries.

I am copying this letter to the Private Secretaries to members of OD.

*Tim*  
*T. F.*

(Timothy Fleisher)

Miss Catherine Bradley,  
Department of Trade and Industry.

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Secretary of State for Trade and Industry

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The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
LONDON  
SW1

8 August 1986

Prime Minister

To be aware that the  
refurbishment by Westland Aerospace  
of two Iranian hovercraft is being  
considered. MCA 8/8

Dear Geoffrey,

I am writing to invite the agreement of OD colleagues to the granting of an export licence to Westland Aerospace Ltd (trading as British Hovercraft Corporation) to enable it to undertake the refurbishment of two hovercraft which have been owned by the Iranian Navy since 1971.

The proposal has been considered under the terms of the 1984 Guidelines on the sale of defence equipment to Iran and Iraq both by the Inter-Departmental Committee of officials and then subsequently by Ministers, but agreement has not yet been reached.

The industrial and commercial case for granting a licence is very strong and has been accepted by Tim Renton and by Norman Lamont when at the Ministry of Defence. The order is worth £9 million and would secure 120 jobs for some 14 months. If the order is not placed, the danger is that Westland Aerospace are likely to announce further redundancies at their Isle of Wight operation in addition to the 140 recently laid off. The company is a very important employer in the area where unemployment is 20 per cent and rising. The order is extremely significant to the company and its loss would lead to uncertainties about the future viability of their hovercraft operation. I believe this should not be allowed to happen, particularly since Westland Aerospace is the only manufacturer of large air cushion hovercraft in the UK. The Government would be criticised for failing to support the industry which is still perceived as an important UK invention.

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BOARD OF TRADE  
BICENTENARY





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Although my Department is primarily concerned with the industrial and commercial case, we have, of course, examined the matter against the Guidelines. There are only two craft involved, both used in logistic support and ambulance, search and rescue roles. As I know George Younger would confirm, the aluminium alloy and glass reinforced plastic construction of the craft together with their prominent superstructure make them unacceptably vulnerable if employed in the front line.

I can see no grounds for claiming that their refurbishment would significantly enhance Iran's capability to exacerbate the conflict contrary to the Guidelines set out in your statement to the House on 29 October 1985.

Norman Lamont whilst concerned about possible Saudi reaction, agreed in a letter on 27 March 1986 that approval of the export would not breach its Guidelines in military terms. He agreed also that by allowing refurbishment the Iranian hovercraft fleet would be reduced by one-third for a period of about 18 months. In Ministerial exchanges on this subject, these fundamental points have not been overturned.

Tim Renton appears to be concerned about the views expressed by our Ambassador in Riyadh that, if the refurbishment went ahead, it might have an adverse effect on our relations with Saudi. I cannot see why this should be. As this possible order is not a breach of the Guidelines the Saudis should have no trouble in understanding our position. The order is trivial in comparison with the resources deployed by both sides but vital in terms of its effect on the UK hovercraft industry.

We may need to explain the order to the Saudis. But the issue is then only a matter of presentation. We can re-affirm to the Saudis HMG's position on the supply of defence equipment to Iran and Iraq and indeed, point out that the value of orders to Iran lost as a result of this policy was worth more than £130 million in the last year. We can, of course, assure the Saudis that there is no question of selling any new hovercraft or any other significant surface vessel to Iran. Westland Aerospace have confirmed that if the order were to go ahead, they would make every effort to ensure that the order was not given publicity.

I firmly believe that the industrial importance and commercial advantages of this order, given that it does not breach the Guidelines, argue strongly for allowing this business to go ahead. I hope you and other colleagues will agree. I am copying this letter to the members of OD.

Paul  
PAUL CHANNON

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