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From the Private Secretary

23 April 1980

Iran

The Foreign and Commonwealth Secretary called on the Prime Minister this morning to discuss the outcome of the Council of Ministers (Foreign Affairs) meeting yesterday in Luxembourg. Mr. Hurd was also present.

After the Foreign and Commonwealth Secretary had described the course of the discussions, he mentioned some of the problems on which national decisions would now be required. He said that it was being argued that the Government should give no undertakings to compensate firms affected by the prospective imposition of sanctions on trade with Iran. Most firms would have ECGD cover. Those which did not, had gone into the situation with their eyes open. The Prime Minister said that the matter would need to be considered in detail. In the meantime she did not wish any statement to be made ruling out the possibility of some form of compensatory action being taken by the Government. A formulation such as "consideration is being given to this matter" should be used. The Prime Minister added, however, there could be no question of freezing Iranian assets in order to provide funds from which compensation could be paid.

In relation to the problems likely to face the Talbot Car Company, the Prime Minister wondered whether arrangements should not be made to stockpile kits in this country. In the past, the Iranians had carried up to four months' supply of kits in Tehran (because of uncertainties over UK supply). If they still did so, and if a suitable number of kits were available for immediate supply if and when trade was resumed, the chances of losing the contract would be minimised.

The Prime Minister said that it would be necessary at tomorrow's OD meeting to clarify the question of what aspects of our commercial relations with Iran should be covered by legislation. Should the legislation cover all the topics dealt with in the UN Resolution? The Foreign and Commonwealth Secretary

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said that it seemed likely that purely financial matters would continue to be dealt with voluntarily; that imports and exports could be dealt with by the 1939 Act; but that services and shipments would require primary legislation.

The Foreign and Commonwealth Secretary told the Prime Minister that the reduction of our embassy staff in Tehran was already in hand. As regards the reduction of the Iranian staff in London, it was agreed that they need not be asked to reduce until after the Ambassadors of the Nine had spoken to President Bani Sadr on Monday of next week.

The Prime Minister said that it was essential that the Japanese Government should associate themselves with the measures being taken by the Nine. The Foreign and Commonwealth Secretary said that he thought that the Japanese would do so. But it was agreed that a telegram should be sent to Tokyo instructing Sir Michael Wilford to make it clear to the Japanese the importance which we attached to their endorsing the approach of the members of the Nine.

I am sending copies of this letter to the Private Secretaries to members of OD and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

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