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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

THE KHARG: FURTHER DEVELOPMENTS

Note by the Secretaries

This note has been prepared, in the light of departmental advice at official level, as a focus for the Committee's discussion. At the meeting of the Committee on 29 January (OD(80) 3rd Meeting Item 3), it was decided to resume consideration of the 'Kharg' in a fortnight's time, in the light of events in Iran following the election of President Bani-Sadr. During the Committee's discussion on 29 January the advice of HM Ambassadors in Tehran and Washington was noted that the Iranian reaction to a decision to postpone export of the 'Kharg' might in certain circumstances be fairly restrained, but that there could be severe damage to Anglo-American relations if the decision were not to postpone export while the hostage crisis continued.

2. Since the Committee discussed the 'Kharg' on 29 January the position has, if anything, improved slightly. The new President, Mr Bani-Sadr, although not yet in a position to appoint a government, has shown a certain flexibility. There are signs of slackening public support in Iran for the students. The United States have decided again to postpone the promulgation of rules to apply unilaterally the sanctions which were vetoed in the Security Council. All this has led to a less tense climate in Tehran. Thus, while the Americans would no doubt still look upon it as an unfriendly gesture if the United Kingdom released the 'Kharg', the risk of Iranian retaliation if delivery was delayed is probably less now than it was a month ago. This assessment is reinforced by the attitude shown by Colonel Kamkar, an Iranian Deputy Minister of Defence who is leading a visiting Iranian military contracts delegation. It was made clear to him informally that, in current circumstances, the Iranians cannot expect delivery of the British ammunition and spares for which they have opened Letters of Credit. He agreed that this was only realistic.

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3. During the course of his visit, Colonel Kamkar had a meeting with Swan Hunter Ltd on 6 February at which a Ministry of Defence official was present. Although the United States hostages were not specifically mentioned, Colonel Kamkar clearly understood the political difficulty of releasing the 'Kharg' to Iran while this issue remains unresolved. Against this background an agreement was reached on a basis for negotiating the final price of the 'Kharg' and, more important, for the delivery date to be postponed from 28 February to 31 March 1980, with recognition of the fact that the delivery date might have to slip beyond 31 March for political reasons.

4. If the postponement of the delivery of the 'Kharg' does not slip beyond 31 March, there should be no financial penalties or political implications. If it goes on longer, Swan Hunter may seek compensation from the Government to the extent of £40,000 a week after 31 March, to reimburse them for the loss of interest on the delayed final delivery payment on the 'Kharg' of approximately £10 million.

5. The agreement reached with Colonel Kamkar needs to be ratified by his Minister, and possibly the Revolutionary Council as well. There is thought to be a reasonable chance that it will be. Even if it is not, the position reached with Colonel Kamkar will provide grounds for argument and negotiation with the Iranians which can be spun out over the next few weeks. At the same time, and in case the United States hostages have still not been released by the end of March, officials will be studying alternative possibilities of causing further delay by linking the delivery of the 'Kharg' with a wider range of financial problems which exist with Iran. These studies will also cover the question of inviting the United States Government to help in meeting any additional costs which may arise.

Conclusions

6. Ministers are invited to note:-

- a. that provisional agreement has been reached to postpone the delivery of the 'Kharg' until 31 March 1980.

b. that officials are studying further possibilities of delaying the delivery of the 'Kharg' if the United States hostages have not been released by the end of March.

Signed ROBERT ARMSTRONG  
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Cabinet Office  
8 February 1980