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OD(80) 10th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on WEDNESDAY
2 APRIL 1980 at 9.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Energy
(Item 1)

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Hon Nicholas Ridley MP
Minister of State
Foreign and Commonwealth Office
(Item 2)

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr W N Wenban-Smith

SECRET

16

17

18

19

20

21

22

23

24

25

26

11 27

12

13

14

15

MEMOS.

SECRET

CONTENTS

Item	Subject	Page
1	IRAN	1
2	THE DISPUTE WITH GUATEMALA OVER BELIZE	4

SECRET

JAN CONFIDENTIAL

CONFIDENTIAL

1. IRAN
Previous References: OD(80) 1st and 8th Meetings

The Committee considered a note by the Secretaries (OD(80) 33) covering a report by officials on the United Kingdom response to pressure for voluntary measures against Iran.

THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that the situation in Iran was extremely confused and confusing. President Carter's response to hints by President Bani Sadr that the hostages would shortly be transferred to the control of the Iranian Government appeared to have been considered inadequate by the Iranians. The American reaction was not yet known. Meanwhile the Prime Minister's reply to President Carter's message of 25 March had made clear the British view that the new measures he then envisaged were likely to prove counter-productive. It remained of major political importance, however, that Britain should continue her existing voluntary measures against Iran, as proposed in the officials' report. These concerned arms supplies, financial measures and oil prices.

In discussion the following points were made -

- a. The most urgent problem was the fleet replenishment ship Kharg. This was now due to be handed over to the Iranians by Swan Hunters on 11 April, and it was likely that an export licence would have to be refused, if there had been no improvement in the situation of the hostages by then. No formal breach of either the Government's or Swan Hunters' legal obligations would be involved. But the Iranians would have legitimate cause for complaint; financial penalties would probably be involved; and Britain's reputation as a supplier would be damaged. Since the Kharg was arguably not a warship, and since its detention was unlikely to help secure the release of the hostages, there was a good case for at least asking the United States Government whether they would really object to it being handed over. But the timing of such an approach would have to be carefully calculated. A decision now to hand over the Kharg would represent a reversal of policy at a moment when the Americans' sensitivities over the hostages issue remained intense. Their reaction to any such approach was therefore unlikely to be sympathetic at present.

JAN CONFIDENTIAL

16
17
18
19
20
21
22
23
24
25
26
11 27
12 MEMOS
13
14
15

CONFIDENTIAL

b. The United Kingdom's informal financial measures against Iran could be maintained at their present level. But there were serious risks to the stability of the international monetary system in President Carter's idea of unilaterally using blocked Iranian assets to settle outstanding claims against Iran. The dangers would be increased if the Americans sought to apply such measures extra-territorially.

c. The Iranians were now seeking a \$2.5 per barrel increase in their crude oil prices. The British oil companies were playing for time on this, but they were nervous about their supply position, both in Iran and elsewhere, and it would be difficult to prevent them acting in accordance with their commercial judgement. There was a strong case for refusing to pay the higher price, both on political grounds in accordance with American wishes and on commercial grounds in order to avoid starting a new general round of oil price increases; but it would be important that other major users of Iranian oil, particularly the Japanese, should take an equally robust line. Consultation with the Japanese, Germans and others was in progress. If British oil companies lost their access to Iranian supplies, it would in the circumstances be reasonable for them to look to the Americans to help them obtain alternative supplies from Saudi Arabia.

THE PRIME MINISTER, summing up the discussion, said that there continued to be major political importance in maintaining British support for the United States Government over the hostages issue. In the case of oil prices, the political case was reinforced by the economic undesirability of precipitating a further general round of price increases. Consumer solidarity was essential: there would be no point in British companies refusing to pay a higher price if Japanese, German and French customers for Iranian oil agreed to do so. It would be reasonable to look to the Americans for help over supplies of Saudi oil if British companies were cut off from their normal Iranian sources as a result of a refusal to pay higher prices on political grounds, in the interest of bringing pressure to bear on the Iranians to release the hostages. Existing financial measures against Iran should be maintained. In principle the ban

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on arms supplies should also be maintained; but if a propitious moment could be found the United States Government should be asked whether further delay was essential in the case of the Kharg. If the Americans argued strongly against its release this should be accepted. It would then become necessary to consider further where any costs involved in its retention should fall.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Foreign and Commonwealth Secretary, or in his temporary absence the Lord Privy Seal, to look for an early opportunity of seeking United States agreement to the release of the Kharg, and to report the outcome.
3. Invited the Chancellor of the Exchequer and the Secretary of State for Trade to keep under review the operation and effects of existing British financial measures against Iran and to report any difficulties which might arise.
4. Invited the Secretary of State for Energy to report the outcome of his efforts to secure united resistance by consumer countries to the increase in oil prices demanded by Iran, and to report also on the prospect for securing American assistance over replacing from Saudi sources Iranian oil supplies foregone by British oil companies.

CONFIDENTIAL

16
17
18
19
20
21
22
23
24
25
26
11 27
12 MEMOS
13
14
15

CONFIDENTIAL

SECRET

2. THE DISPUTE WITH GUATEMALA OVER BELIZE

SECRET

The Committee considered a paper by the Foreign and Commonwealth Secretary (OD(80) 31) proposing a resumption of negotiations with the Guatemalan Government on the basis that independence for Belize could no longer be delayed.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that there were signs of the Guatemalans wanting a settlement of the Belize problem. Internationally they were isolated on the subject. Internally they were much preoccupied with terrorism. The fact that the Prime Minister of Belize, Mr Price, had just been re-elected with a convincing majority was another hopeful factor, although it would make him less disposed to consider concessions. The package of proposals to be put to the Guatemalans should include provisions for seaward access, help with the provision of road access from Guatemala to the Caribbean Sea, and reassurances in the field of security designed to convince the Guatemalans that Belize would not be used as a launching ground for Cuban or other left-wing subversion of Guatemala. At some stage it would probably have to be made clear that they could not have a veto on plans to bring Belize to independence, and that Britain would if necessary implement such plans without an agreement with Guatemala. British troops might need to remain in Belize after independence; this could serve Britain's own interests in the defence field by providing training facilities as well as a base for any operations which might be necessary elsewhere in the Caribbean area.

In discussion, the following points were made -

- a. It would be unwelcome on defence policy grounds if the British garrison in Belize had to be reinforced. This would probably be unavoidable if the territory became independent without Guatemalan agreement. But it would be a temporary measure, and the alternative if independence were postponed would be for the present garrison to be maintained indefinitely.
- b. Mr Price's search for local allies was an ominous sign. If Britain could not help him, there was a danger of his aiming at independence with the support of left-wing governments including Cuba. That would be most unwelcome to the Americans, who therefore had good reasons for supporting Britain's search for a settlement.

SECRET

16
17
18
19
20
21
22
23
24
25
26
11 27
12 MEMOS
13
14
15

CONFIDENTIAL

c. The financial implications of any package proposed to the Guatemalans would need to be carefully costed. Provision for an appropriate British aid contribution had been made by the Overseas Development Administration. An American contribution might also be required.

d. Given the Americans' traditional neutrality in the matter, their present support for British policy was a welcome development. Events elsewhere in Central America had contributed to their disenchantment with the regime in Guatemala.

e. It was in practice inconceivable that Belize should be denied the independence for which Mr Price's followers had now voted. Mr Price himself was strongly opposed to further delay. Britain therefore had little choice but to proceed as now proposed.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the general approach recommended in the Foreign and Commonwealth Secretary's paper. They would wish to take stock of the position reached in the light of progress in the proposed negotiations.

The Committee -

Invited the Foreign and Commonwealth Secretary to arrange for negotiations to be undertaken on the basis put forward in OD(80) 31 and to report on their progress.

Cabinet Office

3 April 1980