

PREM19

77

IRAN

(Internal Situation)

(Part 2)

SECRET

MT

PART 2

Confidential Filing

Internal Situation. USA/Iranian Relations
following the taking of the US Embassy in
Tehran.

IRAN

53

830


Part 1: May 1977

Part 2: December 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
13-12-79							
19-12-79							
22-12-79							
27-12-79							
28-12-79							
Part 2 ends							

PREM 19/77



 PART 2 ends:-

Draft Tel to Washington Undated

PART 3 begins:-

Text of Agreed Paper 23.12.79

Cabinet / Cabinet Committee Documents

[illegible]

Signed Wayland

Date 20 October 2009

PREM Records Team

S E C R E T

XY 42

File No.

Department *FRD*Drafted by
(Block Capitals) *A. F. GREEN.*

Tel. Extn.

OUTWARD

TELEGRAM

Security Classification
S E C R E TPrecedence
IMMEDIATE

DESKBYZ

FOR
COMMS. DEPT.
USE

Despatched

(Date)
(Time)Z

POSTBYZ

PREAMBLE

(Time of Origin)Z(G.M.T.)

(Security Class.) S E C R E T

(Codeword).....

(Restrictive Prefix).....

(Caveat/
Privacy Marking).....

(Deskby).....

FLASH
~~IMMEDIATE~~

WASHINGTON

To Tel. No. of.
(precedence) (post)

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) *IMMEDIATE TEHRAN**PRIORITY UKMS NEW YORK**ROUTINE BONN PARIS ROME TOKYO, BERNE, OTTAWA**AND OTHER ECN POSTS, AND MAY (AD) DEPEND (S) (S)*

SAVING TO (for info)

Distribution:-

*Departmental**FRD**MED**Cabinet office**Copies to:-**No 10**PS/Chancellor**PS/S&S Energy**PS/S&S Trade**ECGD**B/England**Sir D. Wan**Copies to:-**Sir K. Couzens**Mr Hancock**Mr Ashford**Tsy*

(TEXT)

IRAN: ECONOMIC MEASURES

1. Please transmit ^{immediately} the following reply to the US communication contained in FCO telno 452 to Bonn.

2. Begins: HMG are glad to be able to send an affirmative reply to the American requests, but we ^{will} ~~do~~ not ~~expect to~~ be able to act before December 27. We will send a further message ^{are} ~~before~~ then, explaining how we ^{are} ~~intend to~~ implement the measures here. Meanwhile we ^{it is essential} ~~hope~~ that there will be no publicity: we ~~XXXX~~ wish to avoid exposing those of our citizens still remaining in Iran to greater risk. Ends.

3. You should be aware that we are concerned by the serious leak in the Washington Post, which is in breach of the assurances we have already received. If there is a further leak in the next day

/or so,

S E C R E T

● so, we agree generally with the defensive press line proposed; ~~but~~ if we have to use this line, we would omit the word financial before measures, and would spell out the link with the hostages. But our clear preference is for strict confidentiality, which is the basis on which we have acted with our banks.

4. Background: reasons for delay until December 27 are

- A. Public holiday on Boxing Day
- B. Departure of some Embassy staff from Tehran on morning of 27th

5. Copy recipients should take no

~~CARRINGTON~~ action on this telegram until receipt of further instructions

J 24/12

NOTHING TO BE WRITTEN IN THIS MARGIN

S E C R E T

XY 42

File No.

OUTWARD

Security Classification
SECRETDepartment *FRD*

TELEGRAM

Precedence
IMMEDIATEDrafted by *AF GREEN*
(Block Capitals)

Tel. Extn

DESKBYZ

FOR
COMMS. DEPT.
USE

Despatched

(Date)

(Time)Z

POSTBYZ

PREAMBLE

(Time of Origin)Z(G.M.T.)

(Restrictive Prefix)

(Security Class.) *SECRET*(Caveat/
Privacy Marking)

(Codeword)

(Deskby)

To *IMMEDIATE* *WASHINGTON*
(precedence) (post)

Tel. No. of.

AND TO (precedence/post) *REPEATED FOR INFORMATION TO IMMEDIATE TEHRAN,*
BONN, PARIS, ROME, TOKYO, BERNE, OTTAWA AND UKHIS
NEW YORK

AND SAVING TO

REPEATED TO (for info) *ROUTINE TO OTHER ECC POSTS AND MOD (HD DEFENCE*
SALES)

SAVING TO (for info)

(This tel. to be despatched early on 27 Dec)

Distribution:-

Departmental
FRD
Cabinet Office
(FRD)

(TEXT)

IRAN: ECONOMIC MEASURES

1. We have already given a general reply to the US requests of 23 December (FCO telno to Washington). This telegram contains further details which you should convey to the US administration today 27 December.

Financial measures

2. The measures proposed in paragraphs 2(A), (B) and (C) of our telno 452 to Bonn are ~~now~~ acceptable to us (we note that credit for commercial transactions is now excluded). The Bank of England have spoken in confidence to the major British banks in the sense suggested.

Advice to Oil Companies

3. We can also agree to advise our oil companies in the sense of paragraph 3 and the last sentence of paragraph 5 of the American communication of 23 /December.

Copies to:-

PS/Chancellor
PS/Secretary of
State Energy
PS/Secretary of
State Trade
ECGD
Bank of England
PS/Sir D Wass)
PS/Sir K) HM
Couzens) Trea-
Mr Hancock) ury
Mr Ashford)

S E C R E T

S E C R E T

December. We have already spoken in confidence to BP and Shell and shall take appropriate action with the other oil companies this afternoon. We continue to believe that it would be a help^(nd) to have a broader understanding among oil importing countries, particularly of the precise meaning of the phrase quote on terms sharply different unquote. We should like to see a common interpretation widely accepted and hope that the Americans will arrange an early meeting for the purpose.

HELPFUL

4. To avoid any misunderstanding, you should inform the US administration in strictest confidence of the current position of the negotiations between NIOC, BP and Shell (my telno to Tehran, not to all, refers). Shell has been offered up to one hundred thousand barrels per day from one January. Half of this quantity would be at ^{the} Government selling price of dollars twenty-eight point fifty and half at a premium of dollars four per barrel. (There was no suggestion of payment in any currency but dollars.) BP have received a broadly similar offer. The average price per barrel in these offers is approximately dollars thirty point fifty. Representatives from Shell will be negotiating these offers in Tehran on 27/28 December. BP will follow suit on 29/30 December. We think it likely that both companies will consider that these ^{terms} ~~terms~~, taken as a whole, are not sharply different from those offered by other OPEC countries.

Publicity

5. The question of publicity continues to cause us concern. We note that there has already been a serious leak in the Washington Post (your telno) which has not been adequately explained. We must repeat that our action with the banks must be on the basis of strict confidentiality.

6. We agree generally with the defensive press line proposed but would suggest the omission of quote financial unquote since measures are also being taken in respect of oil purchases. We

/should

S E C R E T

NOTHING TO BE WRITTEN IN THIS MARGIN

should also like the link with the fate of the hostages spelt out. The revised line might thus read quote Certain measures of co-operation are being taken in solidarity by the major democracies in order to help secure the release of the hostages in Tehran. Governments are not prepared to give any details unquote.

7. We recognise, however, that a leak is nonetheless possible. If there were a leak that unspecified financial measures had been taken we might be obliged to say exactly what we had done in order to prevent speculation which would shake the confidence of the OPEC surplus countries in the international banking system.

Implementation

8. We ^{will}~~will~~ be grateful for an early account of responses from other Governments approached and for an indication as to the date on which they are likely to implement these measures.

9. Those posts to whom this telegram is repeated for information immediate should now inform the Governments to which they are accredited of the content of this reply.

CARRINGTON



KRB

8 14

10 DOWNING STREET

From the Private Secretary

22 December 1979

Dear Tony.

IRAN

The Prime Minister held a further meeting last evening to discuss possible measures which we might take to assist the USA over Iran. The following were present: the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Energy, the Attorney General, the Governor and Deputy Governor of the Bank of England, and senior officials. The meeting had before it your letter of 21 December and Stuart Hampson's letter of the same date.

The Chancellor said that the Treasury and the Bank had now agreed on a draft reply to the United States' note of 17 December and on a draft Memorandum of Understanding to be put forward for agreement between the governments of member countries of the EEC, Canada, Japan and Switzerland. These drafts (which were attached to your letter) incorporated the points which had been made at the previous day's meeting - and, in particular, the idea that a recycling operation would be more helpful than the American proposal that our banks should not accept new deposits, or increases in existing non-dollar deposits, from Iran. The paragraph on advice to oil companies had been agreed with the Department of Energy. The form of words suggested by the Secretary of State for Trade on ECGD cover could be included in the letter to the Americans. If the proposals set out in the draft letter could be agreed internationally, they would not do too much damage to our interests. But he remained anxious that if we were seen as the instigators of the measures, and other governments failed to go along with them, we would face retaliation from OPEC countries. Since it now seemed almost certain that the United States would very shortly apply for a Chapter 7 determination, it might be better not to respond to the American proposals for the time being - but, rather, rest on our assurance that we would support them in the United Nations.

The Governor reported on further talks he had had with the Governor of the Swiss Central Bank. The Swiss were prepared in principle to go along with proposals A, C and D in the American document, but they were not prepared to give advice to their banks or to give the Americans any assurances in writing. They

/would cooperate

would cooperate with the Americans, but only on a private basis. The Governor went on to say that he would prefer it if we did not respond to the American proposals prior to a decision on their application for a Chapter 7 determination; but, if we did respond, we should follow the Swiss and do it on an entirely confidential basis. He was most anxious to avoid damage to the international financial system and to sterling which would undoubtedly result from any publicised, unilateral action against Iran. The Iranians were already beginning to move their deposits out of London to Algeria, Libya and, to a lesser extent, to Austria. He agreed with the Chancellor that to the extent that we did take action against Iran, it was important to concert with other governments - and it would be helpful to try to explain to the Saudis what we were doing. In this respect, it was crucial that we link our measures solely to the freeing of the hostages. By contrast, the American position had been decidedly ambiguous: at first they had said that they had frozen Iran's assets to obtain the freeing of the hostages, but latterly the objective had been described as "to thwart Iranian-instigated disturbance to the international financial system".

The Foreign and Commonwealth Secretary said that even though the Americans were going for a Chapter 7 determination, they would still find it helpful to have a positive response to their proposals. Although they would prefer to be able to publicise our support, he agreed that, prior to international agreement on the particular measures, it would be better to give our response privately. The Prime Minister added that a further argument for keeping our response private was the fact that we still had 27 Embassy staff at risk in Tehran.

Summing up the discussion, the Prime Minister said that HMG should respond to the Americans on the lines of the draft reply attached to your letter, including an assurance on ECGD guarantees. But the reply should be given orally to Ambassador Brewster. It should be emphasised that we are already taking action privately with our banks and with the oil companies; that this action and any further action which we might take is linked solely to the freeing of the hostages; and that we do not wish there to be any publicity for what we are doing. It should also be stressed that we believe it essential that there should be concerted action. These various points should be included in a speaking note which the Foreign and Commonwealth Secretary could use for his meeting with the Ambassador.

(I enclose a copy of the speaking note which was prepared for the Foreign and Commonwealth Secretary's use and agreed with the Chancellor after the meeting.)

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Bill Burroughs (Department of Energy), Stuart Hampson (Department of Trade), Bill Beckett (Law Officers' Department), John Beverly (Bank of England) and to Martin Vile (Cabinet Office).

Ann

Tim Latham

We understand that your Government will be making an application for a Chapter 7 determination, in order to secure the release of the hostages. As we have said already, we will give all our support to this application.

In the meantime, we have considered the proposals contained in the note handed to us on 17 December. I am glad to be able to tell you that we are already taking action which should substantially meet what the Administration is asking us to do. But we must emphasise that any action which we are taking is linked solely to the freeing of the hostages, and that as soon as they are freed, we will feel free to relax these measures. We have noticed that there has been a certain ambiguity in your own approach so far: for example, the note handed to us referred to "economic measures to thwart Iranian instigated disturbances to the international financial system"; whereas earlier we had understood that any economic measures were to be aimed solely to secure the freeing of the hostages.

Furthermore, we want it clearly understood that the action we are taking must not be given publicity. This is for three reasons. First, we wish to avoid as far as possible damage to the international financial system. Second, we have very substantial deposits from Iran and other OPEC countries in London. The Iranians are already beginning to move these out, and we do not wish to exacerbate the situation. Third, we have 27 Embassy staff still in Tehran and 300 other British nationals in the country. We do not want them to be taken hostage.

BANKING MEASURES

We are already in touch with our banks and they will not be offering new or increased credits to the Iranian Government or governmental agencies - apart from short-term credits specifically associated with commercial transactions.

We would be prepared to ask our banks not to open new demand or deposit accounts for the Iranian Government and its agencies, and we would also be prepared to ask them not in general to accept substantial increases in existing non-dollar deposits from Iran. But in fact we now regard both of these proposals as increasingly academic. The Iranians are showing no interest in bringing their funds to London. On the contrary, they are taking them out. However, to the extent that action is needed to combat switching of Iranian funds out of dollars into other currencies, we think a far better approach would be to organise a recycling operation amongst central banks. Under such an arrangement, we would ask our banks to identify and report all transactions which appear to represent switching by Iran from dollars into other currencies.

However, we do not think that we can go along with your proposal B relating to defaults. All banks expect their loans to be serviced promptly; if they were not, the loans would be technically in default. But the bank or banks making the loans then have to decide whether and how best to exercise their rights to offset or enforce payment, as specified in the loan agreements. EMG cannot oblige banks to take decisions on this which conflict with their judgment on where their financial interests lie.

We are already taking substantial actions therefore in the financial field to support your position. But we believe it is essential that there should be concerted action by the United Kingdom, FRG, Italy, France, Japan and Switzerland to secure the intended effect. We would be glad to support the Administration in approaches to these governments to get agreement on the measures outlined above. We think these represent the highest common factor.

Oil measures

Hitherto British oil companies have not paid for Iranian oil in currencies other than UK dollars; nor have they accepted recent Iranian attempts to sell oil in 1980 at prices sharply above those asked by other OPEC countries. HMG is prepared in principle to advise British oil companies to maintain this attitude in future as part of effective and concerted arrangements made by all major OECD and IEA countries which cover spot market transactions as well as purchases by the oil companies. HMG is ready therefore to join at short notice in international discussions designed to secure an effective common initiative by OECD and IEA countries on these lines.

ECGD

In addition, although this does not feature explicitly in your proposals, we can reaffirm that on official credit insurance, the Export Credit Guarantee Department are not issuing any new guarantees for new business.

DRAFTS

D

We would not contemplate blocking Iran's assets unless constrained by gross violation of her obligations to us or by a specific United Nations Resolution requiring all nations to do so.

~~Iran grossly violated her
obligations to us
in the United Nations by mediating
resolutions specifically requiring all
nations to do so.~~

We would not contemplate blocking Iran's
assets unless ~~constrained by gross~~ *if her assets were seized*

~~violation~~ of her obligations to us or *at*

specifically if we were
by a ~~specific~~ United Nations Resolution
~~requiring~~ all nations to do so.

We understand that your Government will be making an application for a Chapter 7 determination, in order to secure the release of the hostages. As we have said already, we will give all our support to this application.

In the meantime, we have considered the proposals contained in the note handed to us on 17 December. I am glad to be able to tell you that we are already taking action which should substantially meet what the Administration is asking us to do. But we must emphasise that any action which we are taking is linked solely to the freeing of the hostages, and that as soon as they are freed, we ^{will feel free} ~~will be ready~~ to relax these measures. Furthermore, we want it clearly understood that the action we are taking must not be given publicity. This is for ^{three} ~~two~~ reasons. ^{Second,} ~~First,~~ we have very substantial deposits from Iran and other OPEC countries in London. The Iranians are already beginning to move these out, and we do not wish to exacerbate the situation. Second, we have 27 Embassy staff still in Tehran and 300 other British nationals in the country. We do not want them to be taken hostage.

First, we wish to avoid as far as possible damage to the international financial system.



Treasury Chambers, Great George Street, S.W. 1
01-930 1234

has been noticed that
there has been a certain
ambiguity in your own
approach so far: for example,
if you ~~do~~ the demand
~~which~~ referred ~~to~~
the demand handed to us
refers to "economic measures...
to assist financial institutions
to the international financial system".

L. A. Weston (52.5001)

We don't have legal power to
block your assets, nor are we
~~presently~~ contemplating taking such powers.

But you must understand that we
~~would~~ might have to ~~block~~ take
assets if -

1/ Iran takes illegal action
against the UK - either against
our citizens or by failing to
meet their obligations

2/ a Chapter 7 determination
required us to block ~~and~~ your
assets.

take
~~such~~ these
powers

We would not contemplate blocking
Iran's assets unless

- Iran grossly violated her obligations to us; or
- the United Nations by mandatory resolution specifically required all nations to do so. *There would*

*of course be no question of such
action if the U.S. hostages were
released, as we trust to*

*none of these questions would arise if
no hostages were released,*

Re @ 11 any no violation of Morley's laws.

But of course someone has been with us
guilty and violate our principles & laws and
also that we are not unprincipled.

BANKING MEASURES

We are already in touch with our banks and they will not be offering new or increased credits to the Iranian Government or governmental agencies - apart from short-term credits specifically associated with commercial transactions.

We would be prepared to ask our banks not to open new demand or deposit accounts for the Iranian Government and its agencies, and we would also be prepared to ask them not in general to accept substantial increases in existing non-dollar deposits from Iran. But in fact we now regard both of these proposals as increasingly academic. The Iranians are showing no interest in bringing their funds to London. On the contrary, they are taking them out. However, to the extent that action is needed to combat switching of Iranian funds out of dollars into other currencies, we think a far better approach would be to organise a recycling operation amongst central banks. Under such an arrangement, we would ask our banks to identify and report all transactions which appear to represent switching by Iran from dollars into other currencies.

However, we do not think that we can go along with your proposal B relating to defaults. All banks expect their loans to be serviced promptly; if they were not, the loans would be technically in default. But the bank or banks making the loans then have to decide whether and how best to exercise their rights to offset or enforce payment, as specified in the loan agreements. EMG cannot oblige banks to take decisions on this which conflict with their judgment on where their financial interests lie.

We would not consider the - the day

have credit unless

continued by first indicator.

be - the day to us

in by a special United States resolution

being all - the day to do so.

We are already taking substantial actions therefore in the financial field to support your position. But we believe it is essential that there should be concerted action by the United Kingdom, FRG, Italy, France, Japan and Switzerland to secure the intended effect. We would be glad to support the Administration in approaches to these governments to get agreement on the measures outlined above. We think these represent the highest common factor.

Oil measures

Hitherto British oil companies have not paid for Iranian oil in currencies other than UK dollars; nor have they accepted recent Iranian attempts to sell oil in 1980 at prices sharply above those asked by other OPEC countries. HMG is prepared in principle to advise British oil companies to maintain this attitude in future as part of effective and concerted arrangements made by all major OECD and IEA countries which cover spot market transactions as well as purchases by the oil companies. HMG is ready therefore to join at short notice in international discussions designed to secure an effective common initiative by OECD and IEA countries on these lines.

ECCD

In addition, although this does not feature explicitly in your proposals, we can reaffirm that on official credit insurance, the Export Credit Guarantee Department are not issuing any new guarantees for new business.

There will be no question of taking over
if the government honors
its international obligations.

~~Any difficulty that has already arisen with~~

~~U. I. O. Co.~~

~~By Mr. [unclear] [unclear] [unclear] [unclear]~~
~~in [unclear] [unclear] [unclear] [unclear]~~

The matter has since become known
in our country international law.

We shall not make the credit unless
(ii) ~~the~~ ^{the} defendant - the [unclear] obligation will

ⁱⁿ
(iii) ~~have~~ ^{have} on [unclear] in [unclear]

~~first~~ ^{of mandating} ^{revelation}
in [unclear] (iii) the United Nations
to [unclear] in the [unclear]
refuses

CONFIDENTIAL

GR 310

CONFIDENTIAL

FM TEHRAN 221115Z DEC

TO IMMEDIATE FCO

TELEGRAM NUMBER 1381 OF 22 DEC 79

INFO IMMEDIATE CABINET OFFICE (DIO), MODUK (DI1 AND DSS11),

CRE 5, WASHINGTON, UKMIS NEW YORK, BAHRAIN

INFO PRIORITY ABU DHABI, ANKARA, BAGHDAD, DOHA, DUBAI,

ISLAMABAD, JEDDA, KABUL, KUWAIT, MOSCOW, TOKYO, MUSCAT,

NEW DELHI AND EEC POSTS.

MY TELNO 1374 : SITUATION IN IRAN.

1. HOSTAGES. THERE HAS BEEN LITTLE MOVEMENT ON THIS ISSUE. TEHRAN RADIO PROGRAMMES WERE INTERRUPTED LAST NIGHT FOR THE RELEASE OF A STATEMENT BY KHOMEINI INSTRUCTING THE REVOLUTIONARY COUNCIL TO PERMIT CHRISTIAN MINISTERS TO VISIT THE HOSTAGES ON CHRISTMAS DAY. KHOMEINI SAID THAT PREFERENCE SHOULD BE GIVEN TO BLACK CLERGYMEN IN VIEW OF THEIR STANCE ON "AMERICAN CRIMES". THERE HAS BEEN NO MORE WORD OF OBSERVERS BEING GIVEN ACCESS TO THE HOSTAGES BEFORE CHRISTMAS AND NO WORD TO THE LOCAL CHRISTIAN CLERGY, ALTHOUGH I LEARN THAT A NUMBER OF VOLUNTEERS FROM THE US HAVE COME FORWARD.

2. IN ZAHEDAN, LOCAL RELIGIOUS LEADERS HAVE BEEN MEDIATING IN AN ATTEMPT TO STOP THE FIGHTING IN WHICH AT LEAST SIX PEOPLE HAVE BEEN KILLED SINCE THURSDAY. THE FIGHTING APPEARS TO BE BETWEEN GOVERNMENT FORCES, INCLUDING PASDARAN, AND BALUCHI TRIBESMEN. YESTERDAY AFTERNOON IT WAS REPORTED THAT A CEASEFIRE HAD BEEN AGREED.

3. THERE ARE STILL NO OFFICIAL CANDIDATES FOR THE JANUARY 25 PRESIDENTIAL ELECTIONS, NOMINATIONS FOR WHICH ARE DUE BY 29 DECEMBER, ALTHOUGH ADMIRAL MADANI HAS INDICATED THAT HE WILL STAND. AYATOLLAR BEHESHTI WHO IS ALSO WIDELY FANCIED, HAS BEEN QUOTED AS SAYING THAT HE HAS NO INTEREST IN NOMINATING HIMSELF AS A CANDIDATE, BUT WOULD RUN FOR ELECTION IF "RELIGIOUSLY DIRECTED" TO DO SO. OTHER POSSIBLE

CONFIDENTIAL

/ CONTENDERS

CONTENDERS ARE ABOL HASSAN BANI SADR, MEHDI BAZARGAN, EBRAHIM YAZDI, SADEGH TABATABAI AND AYATOLLAH KHALKHALI. ONCE THE 29 DECEMBER DEADLINE FOR NOMINATIONS HAS PASSED, THE MINISTRY OF THE INTERIOR WILL SUBMIT THE LIST OF CANDIDATES TO KHOMEINI FOR APPROVAL. WHEN THIS HAS BEEN GIVEN, THE MINISTRY OF THE INTERIOR WILL ANNOUNCE THE FINAL LIST OF CANDIDATES.

4. THE IRANIAN PRESS AND NEWSAGENCIES REPORT THE WITHDRAWAL OF IRANIAN DIPLOMATIC STAFF FROM MOROCCO AS A PRELUDE TO A BREAK IN RELATIONS.

5. NEXT SITREP WILL BE SENT ON 24 DECEMBER.

GRAHAM

DEPARTMENTAL DISTRIBUTION

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CONS EM UNIT	NAD
EESD	MAED
ES & SD	
EID	
NENAD	
SAD	

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TEHRAN SPECIAL

SECRET**SECRET**

13

*Present with ref. als.
(1972 + 1973 to W/ton)**to f. n.**Print*

FM FCO 221444Z DECEMBER 79

TO IMMEDIATE JEDDA

TELEGRAM NUMBER 469 OF 22 DEC

AND TO PRIORITY KUWAIT BAHRAIN ABU DHABI DUBAI DOHA MUSCAT

BAGHDAD CIARO AMMAN DAMASCUS ANKARA ISLAMABAD

INFO IMMEDIATE WASHINGTON PRIORITY EEC POSTS TOKYO OTTAWA BERNE

UKDEL OECD UKMIS NEW YORK MOD ROUTINE TEHRAN

VOLUNTARY ECONOMIC MEASURES AGAINST IRAN

1. THE FOLLOWING IS STRICTLY FOR YOUR BACKGROUND INFORMATION.
WE CANNOT AT PRESENT AUTHORISE YOU TO GO BEYOND THE VERY RESTRICTIVE
LINE CONTAINED IN FCO TELEGRAM NUMBER 466 TO YOU.

2. THE US GOVERNMENT REQUESTED US ON 17 DECEMBER TO:-

(I) ADVISE OUR BANKS TO:-

(A) OFFER NO NEW CREDITS TO THE GOVERNMENT OR PUBLIC AUTHORITIES
IN IRAN:

(B) INSIST ON PROMPT SERVICING OF IRANIAN LOANS AND TO DECLARE
DEFAULT IN CASE OF ARREARS:

(C) DECLINE TO OPEN NEW TIME OR DEPOSIT ACCOUNTS FOR IRAN:

(D) DECLINE SUBSTANTIAL INCREASES IN EXISTING NON-DOLLAR DEPOSITS
BY IRAN.

(II) TO ADVISE OUR OIL COMPANIES TO:-

(E) INSIST ON PAYING FOR IRANIAN OIL IN DOLLARS:

(F) REFUSE TO PURCHASE OIL FROM IRAN AT TERMS WELL ABOVE THOSE
OFFERED BY THE REST OF OPEC.

3. WE UNDERSTAND THAT THE AMERICANS HAVE MADE THE SAME
APPROACH TO CANADA, FRANCE, ITALY, JAPAN, THE FRG AND, IN MODIFIED
FORM, TO SWITZERLAND.

4. THE AMERICAN REQUESTS HAVE TO SOME EXTENT BEEN OVERTAKEN BY THE
ANNOUNCEMENT OF THEIR INTENTION TO SEEK A CHAPTER VII RESOLUTION
ON ECONOMIC SANCTIONS. HOWEVER, COOPER IS REPORTED TO HAVE TOLD
THE FRENCH IN WASHINGTON THAT THE US WOULD MEANWHILE SEEK
ACTION ALONG THE LINES REQUESTED.

SECRET

/5.

SECRET

5. SOME MOVEMENT OF IRANIAN FUNDS OUT OF NON-US BANKS IN LONDON ON 21 DECEMBER SUGGESTS THAT THE AMERICAN REQUESTS ABOUT OPENING AND ADDING TO BANK DEPOSITS MAY NOW BE RATHER ACADEMIC. NEVERTHELESS, MINISTERS DECIDED TO REPLY AS POSITIVELY AS POSSIBLE. THEY ALSO ATTACHED IMPORTANCE TO ACTING IN CONCERT WITH OUR EUROPEAN AND OTHER PARTNERS BOTH TO MAKE ANY ACTION MORE EFFECTIVE AND TO SPREAD THE RISK OF RETALIATION. THE DETAILS OF OUR REPLY TO THE AMERICANS ARE CONTAINED IN FCO TELEGRAMS 1972 AND 1973 TO WASHINGTON NOW TO BE REPEATED TO YOU.

6. WE UNDERSTAND THAT THE REPLIES OF THE FRENCH AND GERMANS ARE LIKELY TO BE SIMILAR IN SUBSTANCE TO OUR OWN. THE JAPANESE HAVE INDICATED PUBLICLY THAT THEY WILL KEEP IN LINE WITH THE EUROPEANS, BUT THE SWISS HAVE, WE UNDERSTAND IN CONFIDENCE, BEEN BROADLY NEGATIVE ON THE SUBSTANCE OF THE AMERICAN REQUESTS.

7. WE CANNOT YET JUDGE HOW FIRMLY THE AMERICANS WILL PRESS FOR VOLUNTARY MEASURES IN PARALLEL WITH THEIR ACTION IN THE SECURITY COUNCIL. BUT OUR GENERAL OBJECTIVE IS TO GIVE THEM MAXIMUM SUPPORT CONSISTENT WITH THE NEED TO PROTECT THE INTERNATIONAL BANKING SYSTEM ON WHICH WE WILL ALL DEPEND IN THE PERIOD AHEAD FOR THE RE-CYCLING OF VAST OPEC SURPLUSES.

8. TEHRAN WILL NO DOUBT DESTROY THIS TELEGRAM AFTER PERUSAL.

CARRINGTON

[COPIES SENT TO NO 10 DOWNING ST]

DEPTL DISTN

FRD

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TREASURY
DOT
DI IND
EC & D
B|ENGLAND
D|ENERGY

00 FCO DESKBY 230930Z

GR 550

RESTRICTED

DESKBY 230930Z

FM UKMIS NEW YORK 222130Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 1949 OF 22 DECEMBER

INFO PRIORITY WASHINGTON

WASHINGTON TEL 4343 : IRAN

FOLLOWING IS THE TEXT OF THE LETTER TO BE DELIVERED TO THE
PRESIDENT OF THE SECURITY COUNCIL AT 1900 LOCAL THIS EVENING:

ON NOVEMBER 4, 1979, 63 AMERICANS AS WELL AS PERSONNEL
OF OTHER NATIONALITIES WERE SEIZED WHEN A DISCIPLINED, ARMED
GROUP OF DEMONSTRATORS INVADED THE UNITED STATES EMBASSY IN
TEHRAN. WHILE EIGHTEEN OF THOSE CAPTURED HAVE BEEN RELEASED,
AT THE PRESENT MOMENT, SEVEN WEEKS LATER, 50 AMERICANS REMAIN
CAPTIVE.

ON NOVEMBER 25, 1979, SECRETARY GENERAL WALDHEIM, INVOKING
ARTICLE 99 OF THE UNITED NATIONS CHARTER TO REQUEST AN URGENT
MEETING OF THE SECURITY COUNCIL, DECLARED THE PRESENT CRISIS A
SERIOUS THREAT TO INTERNATIONAL PEACE AND SECURITY.

ON DECEMBER 4, 1979, THE SECURITY COUNCIL ADOPTED RESOLUTION
457 URGENTLY CALLING UPON THE GOVERNMENT OF IRAN IMMEDIATELY TO
RELEASE THE PERSONNEL OF THE AMERICAN EMBASSY BEING HELD IN TEHRAN,
PROVIDE THEM PROTECTION AND ALLOW THEM TO LEAVE IRAN. THIS RESOLUT-
ION ALSO CALLED ON THE SECRETARY GENERAL TO USE HIS GOOD OFFICES
TO SEEK A PEACEFUL RESOLUTION OF THE CRISIS.

ON DECEMBER 15, 1979, THE INTERNATIONAL COURT OF JUSTICE ISSUED
AN ORDER CALLING FOR "THE IMMEDIATE RELEASE, WITHOUT ANY EXCEPTION,"
BY IRAN OF ALL AMERICANS HELD IN IRAN AND FOR THEIR SAFE DEPARTURE
FROM IRAN.

THE EFFORTS OF THE SECRETARY GENERAL UNFORTUNATELY HAVE NOT
MET WITH A POSITIVE RESPONSE, AND IRAN HAS REJECTED THE ORDER OF
THE INTERNATIONAL COURT OF JUSTICE. IN FACT, IRAN HAS DEFIED ALL OF
THE DECISIONS OF THE INTERNATIONAL COMMUNITY AS WELL AS THE STRONG
APPEALS FOR THE RELEASE OF THE HOSTAGES BY THE SECRETARY GENERAL,
THE PRESIDENT OF THE SECURITY COUNCIL, AND THE PRESIDENT OF THE
GENERAL ASSEMBLY, AND BY NUMEROUS GOVERNMENTS AND WORLD LEADERS
OF EVERY POLITICAL PERSUASION AND RELIGIOUS BELIEF. IRAN
CONTINUES TO HOLD THE AMERICAN HOSTAGES IN INTOLERABLE CONDITIONS.

IN THE FACE OF IRAN'S CONTINUED DETENTION OF THE HOSTAGES, THE
UNITED STATES HAS SOUGHT TO ACT WITH RESTRAINT. THE UNITED STATES
MADE CLEAR IN ITS FORMAL STATEMENT BEFORE THE SECURITY COUNCIL ON
DECEMBER 4 THAT, ONCE THE HOSTAGES ARE RELEASED AND HAVE DEPARTED
FROM IRAN, IT IS PREPARED TO DISCUSS IRAN'S CLAIMED GRIEVANCES
AND TO COOPERATE WITH THE CALL CONTAINED IN RESOLUTION 457 THAT
IRAN AND THE UNITED STATES TAKE URGENT MEASURES FOR PEACEFUL RES-
OLUTION OF THE REMAINING ISSUES BETWEEN THEM.

ON NOVEMBER 4, 1979, 63 AMERICANS AS WELL AS PERSONNEL OF OTHER NATIONALITIES WERE SEIZED WHEN A DISCIPLINED, ARMED GROUP OF DEMONSTRATORS INVADED THE UNITED STATES EMBASSY IN TEHRAN. WHILE EIGHTEEN OF THOSE CAPTURED HAVE BEEN RELEASED, AT THE PRESENT MOMENT, SEVEN WEEKS LATER, 50 AMERICANS REMAIN CAPTIVE.

ON NOVEMBER 25, 1979, SECRETARY GENERAL WALDHEIM, INVOKING ARTICLE 99 OF THE UNITED NATIONS CHARTER TO REQUEST AN URGENT MEETING OF THE SECURITY COUNCIL, DECLARED THE PRESENT CRISIS A SERIOUS THREAT TO INTERNATIONAL PEACE AND SECURITY.

ON DECEMBER 4, 1979, THE SECURITY COUNCIL ADOPTED RESOLUTION 457 URGENTLY CALLING UPON THE GOVERNMENT OF IRAN IMMEDIATELY TO RELEASE THE PERSONNEL OF THE AMERICAN EMBASSY BEING HELD IN TEHRAN, PROVIDE THEM PROTECTION AND ALLOW THEM TO LEAVE IRAN. THIS RESOLUTION ALSO CALLED ON THE SECRETARY GENERAL TO USE HIS GOOD OFFICES TO SEEK A PEACEFUL RESOLUTION OF THE CRISIS.

ON DECEMBER 15, 1979, THE INTERNATIONAL COURT OF JUSTICE ISSUED AN ORDER CALLING FOR 'THE IMMEDIATE RELEASE, WITHOUT ANY EXCEPTION,' BY IRAN OF ALL AMERICANS HELD IN IRAN AND FOR THEIR SAFE DEPARTURE FROM IRAN.

THE EFFORTS OF THE SECRETARY GENERAL UNFORTUNATELY HAVE NOT MET WITH A POSITIVE RESPONSE, AND IRAN HAS REJECTED THE ORDER OF THE INTERNATIONAL COURT OF JUSTICE. IN FACT, IRAN HAS DEFIED ALL OF THE DECISIONS OF THE INTERNATIONAL COMMUNITY AS WELL AS THE STRONG APPEALS FOR THE RELEASE OF THE HOSTAGES BY THE SECRETARY GENERAL, THE PRESIDENT OF THE SECURITY COUNCIL, AND THE PRESIDENT OF THE GENERAL ASSEMBLY, AND BY NUMEROUS GOVERNMENTS AND WORLD LEADERS OF EVERY POLITICAL PERSUASION AND RELIGIOUS BELIEF. IRAN CONTINUES TO HOLD THE AMERICAN HOSTAGES IN INTOLERABLE CONDITIONS.

IN THE FACE OF IRAN'S CONTINUED DETENTION OF THE HOSTAGES, THE UNITED STATES HAS SOUGHT TO ACT WITH RESTRAINT. THE UNITED STATES MADE CLEAR IN ITS FORMAL STATEMENT BEFORE THE SECURITY COUNCIL ON DECEMBER 4 THAT, ONCE THE HOSTAGES ARE RELEASED AND HAVE DEPARTED FROM IRAN, IT IS PREPARED TO DISCUSS IRAN'S CLAIMED GRIEVANCES AND TO COOPERATE WITH THE CALL CONTAINED IN RESOLUTION 457 THAT IRAN AND THE UNITED STATES TAKE URGENT MEASURES FOR PEACEFUL RESOLUTION OF THE REMAINING ISSUES BETWEEN THEM.

IRAN'S CONTINUED DEFIANCE OF THE WORLD COMMUNITY JEOPARDIZES THE INTERNATIONAL ORDER VITAL TO ALL NATIONS. IRAN'S FLOUTING OF INTERNATIONAL LAW AND THE UNIVERSALLY-ACCEPTED RULES FOR THE CONDUCT OF RELATIONS AMONG NATIONS MUST BE DEALT WITH THROUGH CONCRETE AND EFFECTIVE ACTION BY THE SECURITY COUNCIL IN IMPLEMENTATION OF THE UNITED NATIONS CHARTER. THE SECURITY COUNCIL MUST ACT TO ENFORCE ITS CALL UPON IRAN TO RELEASE THE HOSTAGES. THE INTEGRITY OF INTERNATIONAL LAW AND MODERN CIVILIZED DIPLOMACY IS A STAKE, AS IS THE ABILITY OF THE UNITED NATIONS TO CARRY OUT ITS OBLIGATIONS FOR THE MAINTENANCE OF INTERNATIONAL PEACE AND SECURITY.

MY GOVERNMENT THEREFORE REQUESTS THAT THE SECURITY COUNCIL MEET AT AN EARLY DATE TO CONSIDER THE MEASURES WHICH SHOULD BE TAKEN TO INDUCE IRAN TO COMPLY WITH ITS INTERNATIONAL OBLIGATIONS.

ENDS

PARSONS

IRAN: ADVANCE COPIES

PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS
MR J C MOBERLY
~~LORD BRIDGES~~
HD/MED
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SIR R ARMSTRONG)
ASSESSMENTS STAFF) CABINET
MR R WAGE GERY) OFFICE
MR LE CHEMINANT)
MR P G FOWLER (2,7)
CABINET OFFICE DIO
MR F R BARRATT TREASURY

(2/2)

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CONFIDENTIAL

FM WASHINGTON 220451Z DEC 79

TO PRIORITY TEHRAN

TEL NO 44 OF 22 DECEMBER 1979

INFO PRIORITY FCC, TOKYO.

Prime Minister (2)

22.12.79

MYTEL 43 (NOT TO TOKYO) IRAN - POSSIBLE JAPANESE EVACUATION

1. PRECHT (IRAN COUNTRY DIRECTOR, STATE DEPARTMENT) TOLD US THIS AFTERNOON THAT HE HAD TODAY BEEN APPROACHED BY A MEMBER OF THE JAPANESE EMBASSY ABOUT THE POSITION OF JAPANESE NATIONALS IN IRAN. THE JAPANESE EMBASSY WERE BASICALLY ASKING FOR ADVANCE INDICATIONS OF U S PLANNING ON IRAN SINCE THEY WERE CONSIDERING THE WISDOM OF ADVISING THEIR NUMEROUS COMMUNITY TO LEAVE THE COUNTRY AS QUIETLY AS POSSIBLE. PRECHT TOLD THE JAPANESE EMBASSY THAT HE COULD NOT ADVISE THEM ABOUT DECISIONS NOT YET TAKEN. BUT HE THOUGHT THAT YOU MIGHT WISH TO KNOW THAT A WITHDRAWAL OF A NUMBER OF JAPANESE NATIONALS FROM IRAN MAY BE IMMINENT.

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DESKBY UKMIS NEW YORK (222100Z)

FM WASHINGTON 221910Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NO 4343 OF 22 DECEMBER

INFO IMMEDIATE UKMIS NEW YORK

Le. Paul

IRAN: UN ACTION

1. VANCE ASKED TO SEE ME TODAY ON THE ABOVE. HE WAS ACCOMPANIED BY MCHENRY. HE SAID THAT THE LATTER WOULD BE DELIVERING A LETTER TO THE PRESIDENT OF THE SECURITY COUNCIL THIS AFTERNOON ASKING FOR A MEETING OF THE COUNCIL. EVEN INFORMAL DISCUSSION IN THE SECURITY COUNCIL WOULD BE UNLIKELY BEFORE WEDNESDAY. VANCE SAID THAT THE AMERICANS WOULD DISCUSS THE TERMS OF A DRAFT RESOLUTION WITH OTHER DELEGATIONS. MCHENRY WOULD BE GETTING IN TOUCH WITH SIR A PARSONS VERY SOON AND THE AMERICANS WOULD TRY TO HAMMER OUT A DRAFT WITH THE MAXIMUM AGREEMENT FROM OTHER MEMBERS OF THE SECURITY COUNCIL BEFORE TABLING ANYTHING.

2. MCHENRY SAID THAT TECHNICALLY SPEAKING THE COUNCIL WAS ALREADY SEIZED OF THE IRAN ISSUE. THE LETTER WOULD THEREFORE ASK THE COUNCIL TO RESUME DISCUSSION OF IT. IT WOULD REFER TO ARTICLE 41. WHEN I REFERRED TO THE PRESIDENT'S MESSAGE TO THE PRIME MINISTER (FCO TELNO 817), VANCE SAID THAT THE DETAILS OF WHAT SANCTIONS THEY HAD IN MIND WOULD BE SPELT OUT IN A PAPER WHICH MCHENRY WOULD GIVE SIR A PARSONS; BUT HE CONFIRMED THAT THEY ARE NOT INTENDING TO BLOCK IRAN'S EXPORTS OR TO AFFECT FOODS OR MEDICINES.

3. I REFERRED TO THE PROVISION IN ARTICLE 41 FOR THE SEVERANCE OF DIPLOMATIC RELATIONS AND ASKED WHETHER THEY WERE INTENDING TO INCLUDE THIS IN THE RESOLUTION. VANCE SAID NO. I THEN ASKED HIM WHETHER HE HAD ANY THOUGHT ON HOW FAR THE PASSAGE OF A RESOLUTION WOULD BE COMPATIBLE WITH CONTINUED IRANIAN PROTECTION OF FOREIGN MISSIONS IN TEHRAN. VANCE SAID THAT HE THOUGHT THIS WOULD PROBABLY INCREASE THE RISK OF AN INCIDENT SOMEWHAT. THAT RISK HAD OF COURSE ALWAYS

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/ BEEN PRESENT.

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BEEN PRESENT. I ASKED HIM WHETHER HE KNEW OF ANY PRECEDENT FOR THE IMPLEMENTATION OF SANCTIONS UNDER ARTICLE 41 AND THE MAINTENANCE OF DIPLOMATIC MISSIONS BY PARTICIPATING STATES. HE DID NOT APPEAR TO KNOW OF ANY.

4. VANCE SAID THAT SANCTIONS WOULD NOT COVER QUOTE COMMUNICATIONS UNQUOTE BY WHICH HE APPEARED TO MEAN POSTAL AND TELEPHONIC SERVICES, BUT THEY WOULD BE LIKELY TO COVER RAIL, SEA AND AIR TRANSPORT. MCHENRY DREW A PARALLEL WITH RHODESIA WHERE POSTAL AND TELEPHONIC SERVICES OF THE COUNTRY HAD NOT BEEN SEVERED AND WHERE THEY HAD HAD DIFFICULTY, FOR INSTANCE, IN PREVENTING THE IMPORT OF TELEVISION PROGRAMMES.

5. I ASKED VANCE HOW LONG THEY EXPECTED TO TAKE TO FINALISE A DRAFT RESOLUTION. MCHENRY WOULD NOT GIVE ANY TARGET DATE, BUT SAID THAT THEY WANTED ONE AS SOON AS POSSIBLE. BUT THERE WOULD BE THE USUAL CONSULTATION PROCESS. THEY WOULD MUCH PREFER TO WORK SOMETHING OUT WITH THE MAXIMUM CONSENSUS BEFORE TABLEDRTPRZKLCLEDTHEY INTENDED TO FOLLOW THE SAME PROCEDURE AS THEY HAD IN PREPARING THE PREVIOUS SECURITY COUNCIL RESOLUTION ON IRAN.

6. I ASKED VANCE HOW MANY MEMBERS OF THE SECURITY COUNCIL THEY HOPED WOULD VOTE FOR THEM. MCHENRY REPLIED THAT THEY DID NOT GIVE UP HOPE ON ANY EXCEPT THE SOVIET UNION AND CZECHOSLOVAKIA (TO BE REPLACED BY THE DDR ON 1 JANUARY). VANCE INTERJECTED THAT GROMYKO HAD BEEN GIVEN THE SAME MESSAGE FROM THE PRESIDENT AS OTHER SECURITY COUNCIL MEMBERS. HIS RESPONSE WAS THAT HE MUST DISCUSS IT WITH BREZHNEV BUT THAT IT WAS CLEARLY AN IMPORTANT AND SERIOUS MATTER. GROMYKO THEN RESTATED SOVIET SUPPORT FOR THE PRINCIPLE OF PROTECTION OF DIPLOMATIC PERSONNEL AND PROPERTY. HE SAID THAT HE COULD GIVE NO INDICATION OF THE SOVIET POSITION UNTIL THEY SAW THE TEXT OF THE PROPOSED RESOLUTION. HE HAD TAKEN NOTE THAT THE US GOVERNMENT DID NOT PROPOSE TO BLOCK IRANIAN EXPORTS.

7. WHEN I ASKED ABOUT AMERICAN EXPECTATION OF SUCCESS IN THE COUNCIL, MCHENRY SAID THAT COUNCIL MEMBERS WOULD HAVE TO THINK OF ALTERNATIVES. IT WAS HARD TO CONTEMPLATE THE FUTURE OF THE UN AS AN INSTITUTION IN THE FACE OF IRANIAN BEHAVIOUR UNLESS SOME KIND OF ENFORCEMENT ACTION AGAINST IRAN WAS AGREED. THE RANGE OF ACTION REMAINED OPEN. THE US GOVERNMENT WOULD NOT ASK FOR MERLEY SYMBOLIC ACTION.

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8. ON REACTIONS FROM INDIVIDUAL MEMBERS OF THE SECURITY COUNCIL, VANCE SAID THAT THEY HAD HAD NO REACTION FROM BANGLADESH. BOLIVIA HAD PROMISED ACTIVE COOPERATION - BUT WOULD OF COURSE NOT BE THERE AFTER THE END OF THE YEAR. THE REACTION FROM CHINA HAD BEEN POSITIVE ALTHOUGH THERE WAS NO COMMITMENT. THE AMERICANS HOPED THAT THEY MIGHT GET BETTER THAN THE AVOIDANCE OF A VETO. THE CHINESE CLEARLY DID NOT WANT TO BE IN THE SAME BOAT AS THE SOVIET UNION. MCHENRY POINTED OUT THAT THE CHINESE ATTITUDE IN THE SECURITY COUNCIL WAS BECOMING MORE FLEXIBLE, AS SHOWN BY THEIR POSITIVE SUPPORT OVER THE RHODESIAN SANCTIONS RESOLUTIONS.

9. MCHENRY SAID THAT JAMAICA WOULD BE DIFFICULT BUT THEY DID NOT RULE OUT HER SUPPORT. PORTUGAL WAS ALL RIGHT. VANCE SAID THAT THEY EXPECTED ZAMBIA AND NIGERIA TO HAVE AN EYE TO THE ISSUE OF SANCTIONS AGAINST SOUTH AFRICA. VANCE CONCLUDED THAT THEY MIGHT GET THE NECESSARY NINE VOTES.

10. REVERTING TO THE EVENTUAL TERMS OF THE RESOLUTION I ASKED WHETHER THE AMERICANS PLAN TO INCLUDE THE FREEZING OF IRANIAN ASSETS. AFTER A PAUSE VANCE REPLIED THAT THEY HAD TAKEN NO FINAL DECISION ON THIS.

11. I EMPHASISED TO VANCE THE IMPORTANCE OF CONSULTING US IN ADVANCE OF ANY PUBLIC ACTION, STRESSING THE VULNERABILITY OF OUR MISSION AND OUR PARTICULAR ROLE GIVEN THE IMPORTANCE OF LONDON AS A FINANCIAL CENTRE. VANCE SAID THAT THIS WAS ENTIRELY UNDERSTOOD.

12. MAY I LEAVE IT TO YOU TO DECIDE WHETHER TO REPEAT TO TEHRAN.

HENDERSON

FILES

MED PS/MR HURD
 NENAD PS/PUS
 DEF D SIR A DUFF
 CONS D MR FIGG
 CONS EM UNIT MR J C MOBERLY
 SED MR BULLARD
 NAD LORD BRIDGES
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 PS/SIR I GILMOUR

ADDITIONAL DISTRIBUTION

TEHRAN SPECIAL



10 DOWNING STREET

THE PRIME MINISTER

21 December 1979

Dear Mr. Bryan.

Thank you for your letter of 7 December enclosing a petition about demonstrations held by Iranians in this country and suggesting that those who take part in them should be deported.

It may be helpful if I first mention some factual points about the particular demonstrations to which your constituents referred. I understand that the police estimated the size of the larger demonstration at 2,500 not 10,000 as stated in the "Guardian". It was organised by the Muslim Solidarity Committee and although many of the participants were Iranian, others were members of various Muslim communities in Britain. Thanks no doubt at least in part to the efforts of the police, that demonstration, although noisy, passed off without major incident.

Nevertheless, I sympathise greatly with the feelings which lie behind your constituents' letter. The traditional position in this country is, as you know, that any group of people, whatever their nationality, is free to organise and to express its views in public, however objectionable those may be to others, provided that in so doing it does not break the law. If the law is broken, then it is the responsibility of the police and the courts to enforce it. I think you yourself recognise that to ban particular groups of people from demonstrating would be a novel step in a democracy.

/Somewhat

Somewhat similar considerations apply to the use of the power to deport people (which applies of course only to non-patrials) in cases like this. Although the Home Secretary can order the removal of any person whose deportation he deems to be conducive to the public good, it would be entirely novel were he to do so against someone who had simply exercised his freedom to demonstrate. Of course, deportation can take place on the recommendation of a court following conviction for an imprisonable offence. So here again action can be taken if the law is seriously broken, but an individual is free to demonstrate his views in public provided he remains within the law.

That brings us back to the law. I do think we need to look at the law on public order to see if we have got right the balance between the interests of the community on the one hand and of those who wish to demonstrate on the other. Willie Whitelaw is at present pressing ahead with a review of the Public Order Act and related legislation of which this is the primary object. I have, therefore, ensured that he is fully aware of our correspondence.

Yours sincerely
Raymond Whelan

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FM FCO DECEMBER 79

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1974 OF 21 DECEMBER

INFO PRIORITY EEC POSTS, UKMIS NEW YORK, TOKYO, OTTAWA, BERNE, TEHRAN.

IRAN: ECONOMIC MEASURES

1. FOLLOWING IS TEXT, AS DELIVERED, OF US EMBASSY NOTE OF 17 DECEMBER:

BEGINS.

1. THE UNITED STATES HAS DECIDED TO SEEK THE COOPERATION OF ITS MAJOR ALLIES IN A SERIES OF ECONOMIC MEASURES AGAINST IRAN AND TO THWART IRANIAN INSTIGATED DISTURBANCE TO THE INTERNATIONAL FINANCIAL SYSTEM, FOLLOWING THE TALKS WHICH THE SECRETARY, UNDER SECRETARY COOPER, DEPUTY SECRETARY CARSWELL, UNDER SECRETARY SOLOMON, AND ASSISTANT SECRETARY VEST HELD IN EUROPE LAST WEEK.

2. DURING THE CONSULTATIONS WE DISCUSSED THE POSSIBILITY OF INVOKING UN SANCTIONS UNDER CHAPTER VII OF THE UNITED NATIONS CHARTER. WE ARE EXAMINING THAT POSSIBILITY VERY CAREFULLY, BUT WE HAVE COME TO NO DECISION ON THIS POINT AND WILL BE CONSULTING FURTHER.

3. A NUMBER OF GOVERNMENTS HAVE QUIETLY TAKEN INDIVIDUAL STEPS ALREADY, AND WE HAVE RECEIVED INDICATIONS THAT MANY ARE WILLING TO COUNSEL THEIR BANKS AND FIRMS TO TAKE A NUMBER OF OTHER HELPFUL ADDITIONAL MEASURES. BRITAIN, FRANCE, GERMANY AND ITALY HAVE ALREADY HALTED SHIPMENT OF MILITARY EQUIPMENT AND THE GRANTING OF NEW OFFICIAL EXPORT CREDITS.

4. WE WISH GOVERNMENTS TO ADVISE THEIR MAJOR BANKS:

(A) TO OFFER NO NEW CREDITS TO IRAN OR IRANIAN GOVERNMENTAL ENTITIES (HEREINAFTER 'IRAN');

(THIS MEANS THAT BANKS WILL MAKE NO NEW LOANS OR INCREASES IN

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EXISTING, LEGALLY BINDING CREDIT FACILITIES - INCLUDING EXTENSIONS OF TRADE CREDIT BY WAY OF LETTER OF CREDIT FINANCING (IE WITHOUT FULL CASH COVER), PURCHASING OR DISCOUNTING ACCEPTANCES OR OTHERWISE).

(B) TO REQUIRE PUNCTUAL PAYMENT OF INTEREST AND PRINCIPAL ON OUTSTANDING LOANS TO IRAN, DECLARING IRAN IN DEFAULT IF THE PAYMENTS FAIL TO COME IN ON TIME.

(THIS MEANS THAT BANKS WILL DECLARE A DEFAULT AND ACCELERATE PAYMENT IMMEDIATELY UPON ANY FAILURE TO PAY INTEREST OR PRINCIPAL AND SIMULTANEOUSLY DECLARE A DEFAULT ON ANY OTHER LOANS BY THAT BANK HAVING CROSS DEFAULT CLAUSES. IT ALSO MEANS THAT BANKS WILL VOTE TO DECLARE A DEFAULT AND ACCELERATE SYNDICATE LOANS WHEN PAYMENTS FROM IRAN TO THE SYNDICATE HAVE NOT BEEN MADE TIMELY.)

(C) REFUSE TO OPEN NEW DEMAND OR TIME DEPOSIT ACCOUNTS FOR IRAN: (THIS MEANS THAT BANKS OPEN NO TIME OR DEPOSIT ACCOUNTS IN ANY CURRENCY FOR IRAN.)

(D) TO DECLINE TO ACCEPT SUBSTANTIAL INCREASES IN EXISTING NON-DOLLAR DEPOSITS BY IRAN.

FINALLY, COUNTRIES SHOULD ADVISE THEIR OIL OR TRADING FIRMS:

(E) TO REFUSE TO PAY CURRENCIES OTHER THAN US DOLLARS FOR IRANIAN OIL.

(F) TO REFUSE TO PURCHASE OIL DIRECTLY FROM IRAN AT TERMS SHARPLY DIFFERENT FROM THOSE OFFERED BY OTHER OPEC COUNTRIES. THIS DOES NOT PRECLUDE PURCHASES OF IRANIAN-ORIGIN OIL THROUGH BROKER IN REGULAR SPOT MARKETS, SUBJECT TO THE TOKYO SUMMIT AND IEA AGREEMENTS ON RESTRAINT.

5. TAKEN TOGETHER, THESE MEASURES WILL SERVE THREE IMPORTANT OBJECTIVES. FIRST, THEY WILL SEND A STRONG SIGNAL TO IRAN, THROUGH THE FINANCIAL COMMUNITY, THAT OTHER COUNTRIES BACK THE UNITED STATES IN DEED AS WELL AS IN WORDS, AND ARE NOT WILLING TO CARRY ON 'BUSINESS AS USUAL' IN THE PRESENT CIRCUMSTANCES. SECOND, THEY REPRESENT DEFENSIVE MEASURES AGAINST ANY ATTEMPT IRAN MIGHT MAKE TO DISRUPT THE INTERNATIONAL FINANCIAL MARKETS BY PUTTING PRESSURE ON THE DOLLAR. THIRD, THEY WILL MODESTLY INCREASE PRESSURE ON IRAN'S ABILITY TO IMPORT GOODS.

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6. THE EMBASSY HAS BEEN INSTRUCTED TO ELICIT A CONCRETE RESPONSE.
THE US GOVERNMENT WOULD LIKE TO SEE IMPLEMENTATION OF THE ABOVE
MEASURES AS SOON AS POSSIBLE.
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PS|CHANCELLOR

SIR D. WASS

SIR K. COUZENS

MR HANCOCK

MR ASHFORD

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DESKBY 212330Z

FM F C O 212220Z DEC 79

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1973 OF 21 DECEMBER 1979.

AND TO TEHRAN, PRIORITY BONN, PARIS, ROME, TOKYO, BERNE AND UKMIS
NEW YORK.

INFO THE HAGUE, BRUSSELS, LUXEMBOURG, COPENHAGEN, DUBLIN, UKREP
BRUSSELS, OTTAWA AND MOD (HD OF DEFENCE SALES).

MY IPT.

WE UNDERSTAND THAT YOUR GOVERNMENT WILL BE MAKING AN APPLICATION
FOR CHAPTER 7 DETERMINATION, IN ORDER TO SECURE THE RELEASE OF THE
HOSTAGES. AS WE HAVE SAID ALREADY, WE WILL GIVE ALL OUR SUPPORT TO
THIS APPLICATION.

IN THE MEANTIME, WE HAVE CONSIDERED THE PROPOSALS CONTAINED IN
THE DOCUMENT HANDED TO US ON 17 DECEMBER. I AM GLAD TO BE ABLE TO
TELL YOU THAT WE ARE ALREADY TAKING ACTION WHICH SHOULD SUBSTANT-
IALLY MEET WHAT THE ADMINISTRATION IS ASKING US TO DO. BUT WE MUST
EMPHASISE THAT ANY ACTION WHICH WE ARE TAKING IS LINKED SOLELY TO
THE FREEING OF THE HOSTAGES, AND THAT AS SOON AS THEY ARE FREED, WE
WILL FEEL FREE TO RELAX THESE MEASURES. WE HAVE NOTICED THAT THERE
HAS BEEN A CERTAIN AMBIGUITY IN YOUR OWN APPROACH SO FAR: FOR
EXAMPLE, THE NOTE HANDED TO US REFERRED TO ''ECONOMIC MEASURES
TO THWART IRANIAN INSTIGATED DISTURBANCES TO THE INTERNATIONAL
FINANCIAL SYSTEM'': WHEREAS EARLIER WE HAD UNDERSTOOD THAT ANY
ECONOMIC MEASURES WERE TO BE AIMED SOLELY TO SECURE THE FREEING OF
THE HOSTAGES.

FURTHERMORE, WE WANT IT CLEARLY UNDERSTOOD THAT THE ACTION WE
ARE TAKING MUST NOT BE GIVEN PUBLICITY. THIS IS FOR THREE REASONS.
FIRST, WE WISH TO AVOID AS FAR AS POSSIBLE DAMAGE TO THE INTERNAT-
-IONAL FINANCIAL SYSTEM. SECOND, WE HAVE VERY SUBSTANTIAL DEPOSITS

C O N F I D E N T I A L

FROM IRAN AND OTHER OPEC COUNTRIES IN LONDON. THE IRANIANS ARE ALREADY BEGINNING TO MOVE THESE OUT, AND WE DO NOT WISH TO EXACERBATE THE SITUATION. THIRD, WE HAVE 27 EMBASSY STAFF STILL IN TEHRAN AND 300 OTHER BRITISH NATIONALS IN THE COUNTRY. WE DO NOT WANT THEM TO BE TAKEN HOSTAGE.

BANKING MEASURES

WE ARE ALREADY IN TOUCH WITH OUR BANKS AND THEY WILL NOT BE OFFERING NEW OR INCREASED CREDITS TO THE IRANIAN GOVERNMENT OR GOVERNMENTAL AGENCIES - APART FROM SHORT-TERM CREDITS SPECIFICALLY ASSOCIATED WITH COMMERCIAL TRANSACTIONS.

WE WOULD BE PREPARED TO ASK OUR BANKS NOT TO OPEN NEW DEMAND OR DEPOSIT ACCOUNTS FOR THE IRANIAN GOVERNMENT AND ITS AGENCIES, AND WE WOULD ALSO BE PREPARED TO ASK THEM NOT IN GENERAL TO ACCEPT SUBSTANTIAL INCREASES IN EXISTING NON-DOLLAR DEPOSITS FROM IRAN. BUT IN FACT WE NOW REGARD BOTH OF THESE PROPOSALS AS INCREASINGLY ACADEMIC. THE IRANIANS ARE SHOWING NO INTEREST IN BRINGING THEIR FUNDS TO LONDON. ON THE CONTRARY, THEY ARE TAKING THEM OUT. HOWEVER, TO THE EXTENT THAT ACTION IS NEEDED TO COMBAT SWITCHING OF IRANIAN FUNDS OUT OF DOLLARS INTO OTHER CURRENCIES, WE THINK A FAR BETTER APPROACH WOULD BE TO ORGANISE A RECYCLING OPERATION AMONGST CENTRAL BANKS. UNDER SUCH AN ARRANGEMENT, WE WOULD ASK OUR BANKS TO IDENTIFY AND REPORT ALL TRANSACTIONS WHICH APPEAR TO REPRESENT SWITCHING BY IRAN FROM DOLLARS INTO OTHER CURRENCIES.

HOWEVER, WE DO NOT THINK THAT WE CAN GO ALONG WITH YOUR PROPOSAL B RELATING TO DEFAULTS. ALL BANKS EXPECT THEIR LOANS TO BE SERVICED PROMPTLY: IF THEY WERE NOT, THE LOANS WOULD BE TECHNICALLY IN DEFAULT. BUT THE BANK OR BANKS MAKING THE LOANS THEN HAVE TO DECIDE WHETHER AND HOW BEST TO EXERCISE THEIR RIGHTS TO OFFSET OR ENFORCE PAYMENT, AS SPECIFIED IN THE LOAN AGREEMENTS. HMG CANNOT OBLIGE BANKS TO TAKE DECISIONS ON THIS WHICH CONFLICT WITH THEIR JUDGEMENT ON WHERE THEIR FINANCIAL INTERESTS LIE.

WE ARE ALREADY TAKING SUBSTANTIAL ACTIONS THEREFORE IN THE FINANCIAL FIELD TO SUPPORT YOUR POSITION. BUT WE BELIEVE IT IS ESSENTIAL THAT THERE SHOULD BE CONCERTED ACTION BY THE UNITED KINGDOM, FRG, ITALY, FRANCE, JAPAN AND SWITZERLAND TO SECURE THE INTENDED EFFECT. WE WOULD BE GLAD TO SUPPORT THE ADMINISTRATION IN APPROACHES TO THESE GOVERNMENTS TO GET AGREEMENT ON THE MEASURES OUTLINED ABOVE. WE THINK THESE REPRESENT THE HIGHEST COMMON FACTOR.

OIL MEASURE

HITHERTO BRITISH OIL COMPANIES HAVE NOT PAID FOR IRANIAN OIL IN CURRENCIES OTHER THAN US DOLLARS: NOR HAVE THEY ACCEPTED RECENT IRANIAN ATTEMPTS TO SELL OIL IN 1980 AT PRICES SHARPLY ABOVE THOSE ASKED BY OTHER OPEC COUNTRIES. HMG IS PREPARED IN PRINCIPLE TO ADVISE BRITISH OIL COMPANIES TO MAINTAIN THIS ATTITUDE IN FUTURE AS PART OF EFFECTIVE AND CONCERTED ARRANGEMENTS MADE BY ALL MAJOR OECD AND IEA COUNTRIES WHICH COVER SPOT MARKET TRANSACTIONS AS WELL AS PURCHASES BY THE OIL COMPANIES. HMG IS READY THEREFORE TO JOIN AT SHORT NOTICE IN INTERNATIONAL DISCUSSIONS DESIGNED TO SECURE AN EFFECTIVE COMMON INITIATIVE BY OECD AND IEA COUNTRIES ON THESE LINES.

ECGD

IN ADDITION, ALTHOUGH THIS DOES NOT FEATURE EXPLICITLY IN YOUR PROPOSALS, WE CAN REAFFIRM THAT ON OFFICIAL CREDIT INSURANCE, THE EXPORT CREDIT GUARANTEE DEPARTMENT ARE NOT ISSUING ANY NEW GUARANTEES FOR NEW BUSINESS.

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FM 2FCO 212220Z DEC 79

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1972 OF 21 DECEMBER

AND TO BONN PARIS ROME TOKYO BERNE UKMIS NEW YORK

INFO ROUTINE THE HAGUE BRUSSELS LUXEMBOURG COPENHAGEN DUBLIN
OTTAWA MOD (HD DEF SALES) UKREP BRUSSELS

IRAN: ECONOMIC MEASURES

1. THE CHANCELLOR OF THE EXCHEQUER AND I ASKED AMBASSADOR BREWSTER TO CALL THIS EVENING TO RECEIVE OUR REPLY TO THE U S REQUEST, DELIVERED TO US ON 17 DECEMBER, TO TAKE SPECIFIED ECONOMIC MEASURES. THE TEXT OF THE CHANCELLOR'S SPEAKING NOTE IS CONTAINED IN MIFT, AND A COPY OF THIS WAS HANDED TO THE AMBASSADOR AT THE END OF THE CONVERSATION. IT WAS EMPHASISED THAT THIS WAS AN ORAL COMMUNICATION, AND THAT HMG ATTACHES IMPORTANCE TO ITS CONFIDENTIALITY.

2. BONN PARIS ROME TOKYO BERNE SHOULD INFORM GOVERNMENTS TO WHICH THEY ARE ACCREDITED ORALLY OF THE GIST OF OUR REPLY. OTHER EEC POSTS AND OTTAWA SHOULD DRAW ON THE SPEAKING NOTE IF ASKED ABOUT OUR ATTITUDE TO THE U S REQUEST.

CARRINGTON

NNNN



From the Secretary of State

SECRET

Tim Lankester Esq
Private Secretary
10 Downing Street
London, SW1

12

28/12

21 December 1979

Dear Tim

IRAN: EXPORT CREDIT

Following last night's meeting my Secretary of State has reviewed the position on credit for Iran. No ECGD guarantees are being offered for new business and our position on this is the same as the other major European countries. Some existing business important to UK industry and employment is going on, including in particular the Talbot (formerly Chrysler) car kits manufactured at Bathgate in Scotland. My Secretary of State considers that credit guarantees for this existing business should continue both because of the importance and location of the employment involved and because a repudiation of cover would precipitate expensive claims against ECGD's already dangerously high liabilities in respect of Iran. Even to make much in public of the fact that ECGD is not offering new credit could, in the present state of emotion in Tehran, precipitate claims if it caused the Iranians to discontinue such payments as are coming through.

Nonetheless it is possible to present the picture on ECGD cover in a way which the Prime Minister might consider helpful for incorporation in any wider message which she may be sending to President Carter.

.... I enclose a draft. Since some of the wording has to be carefully chosen would you please consult me if any changes are proposed.

I am copying this letter to Tony Battishill (Treasury), George Walden (FCO), Bill Burroughs (Energy), Bill Beckett (Law Officers' Department), John Beverly (Bank of England) and to Martin Vile (Cabinet Office).

Yours sincerely,
Stuart Hampson

S HAMPSON
Private Secretary

SECRET



DRAFT

PASSAGE ON ECGD COVER FOR INCLUSION IN ANY MESSAGE FROM THE
PRIME MINISTER TO THE US PRESIDENT

Since we met I have reviewed the position on credits for Iran guaranteed by our Export Credits Guarantee Department. They announced last February their decision to suspend cover for commercial reasons, but were however prepared to consider any important cases under special arrangements. Just before your hostages were taken they were about to restore a limited amount of cover for general trade. I have now instructed that ECGD should issue no new guarantees whatsoever.

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GRS 900A

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FROM FCO 212000Z DEC 79

TO IMMEDIATE TEHRAN

TELEGRAM NUMBER 817 OF 21 DECEMBER

AND TO IMMEDIATE WASHINGTON UKMIS NEW YORK

IRAN: UN ACTION

FOLLOWING IS ADVANCE TEXT OF A MESSAGE TO BE SENT SHORTLY FROM PRESIDENT CARTER TO THE PRIME MINISTER. IT WAS HANDED TO US BY THE U.S. EMBASSY ON 21 DECEMBER.

FOR MORE THAN SIX WEEKS, I HAVE TRIED IN EVERY WAY AVAILABLE TO ME TO FIND A PEACEFUL SOLUTION, THROUGH DIPLOMATIC CHANNELS, TO THE CRISIS THAT HAS BEEN CREATED BY THE CONTINUED INTRANSIGENCE OF THE GOVERNMENT OF IRAN.

WE HAVE BEEN DEEPLY GRATEFUL FOR THE EXPRESSIONS OF GOOD WILL AND SUPPORT THAT WE HAVE RECEIVED FROM THE INTERNATIONAL COMMUNITY. BUT THE RESPONSE OF THE GOVERNMENT OF IRAN TO THE DECLARATIONS OF THE WORLD COMMUNITY, EXPRESSED THROUGH THE SECURITY COUNCIL AND THE INTERNATIONAL COURT OF JUSTICE, HAS BEEN ONE OF TOTAL DEFIANCE. AND WITH EACH DAY THAT PASSES, THE HEALTH AND WELL-BEING OF OUR PEOPLE BEING HELD HOSTAGE THERE GROWS MORE AND MORE UNCERTAIN. THEY CANNOT WITHSTAND THESE CONDITIONS INDEFINITELY. NOR WILL THE AMERICAN PEOPLE, OR THE AMERICAN GOVERNMENT ALLOW THE SITUATION TO DRAG ON INDEFINITELY.

THROUGH THE UN AND THE WORLD COURT, THE INTERNATIONAL COMMUNITY HAS MADE ITS POSITION ABSOLUTELY CLEAR. THE TIME HAS COME FOR THE INTERNATIONAL COMMUNITY TO TAKE CONCRETE ACTION AS WELL. I AM THEREFORE INSTRUCTING THE PERMANENT REPRESENTATIVE OF THE UNITED STATES TO THE UNITED NATIONS TO REQUEST AN EARLY MEETING OF THE SECURITY COUNCIL TO ADOPT BINDING MEASURES UNDER ARTICLE 41 OF THE UNITED NATIONS CHARTER.

CONFIDENTIAL /WE SEEK

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WE SEEK A CLEAR AND CONVINCING EXPRESSION BY THE INTERNATIONAL COMMUNITY THAT IT WILL ACT FIRMLY AND PROMPTLY TO UPHOLD INTERNATIONAL LAW AGAINST THE GROSSEST AND MOST INHUMANE OF VIOLATIONS. WE SEEK EFFECTIVE ECONOMIC SANCTIONS THAT WILL INDUCE THE IRANIAN GOVERNMENT TO COMPLY WITH ITS INTERNATIONAL OBLIGATIONS. WE SEEK TO EMPLOY THE COLLECTIVE PRESSURE OF THE INTERNATIONAL COMMUNITY TO OBTAIN, A PEACEFUL SOLUTION, RATHER THAN TURN TO THE OTHER REMEDIES THAT ARE AVAILABLE TO US UNDER INTERNATIONAL LAW.

WE ARE NOT NOW ASKING TO BLOCK IRAN'S EXPORTS OR TO AFFECT ITS IMPORTS OF FOOD OR HUMANITARIAN ARTICLES SUCH AS MEDICINE. BUT WE DO SEEK STRONG, COLLECTIVE ACTION. THE IRANIAN GOVERNMENT HAS MADE CLEAR THAT IT DOES NOT RESPECT INTERNATIONAL DECLARATIONS UNACCOMPANIED BY INTERNATIONAL ACTION. AND BY THEIR CONTINUED DEFIANCE, THEY DO NOT ONLY IMPERIL THE LIVES OF INNOCENT PEOPLE: THEY CHALLENGE THE AUTHORITY AND THE PRACTICAL RELEVANCE OF THE PEACEKEEPING MACHINERY THAT HAS BEEN ESTABLISHED BY THE INTERNATIONAL COMMUNITY.

THIS IS A MATTER THAT NOT ONLY AFFECTS THE VITAL INTERESTS OF THE UNITED STATES: IT AFFECTS THE PEACE AND INTERNATIONAL ORDER VITAL TO ALL OF US.

I HOPE THAT YOU WILL SUPPORT US IN THIS EFFORT TO OBTAIN A PEACEFUL SOLUTION. I LOOK FORWARD TO WORKING CLOSELY WITH YOU IN THE DAYS AHEAD

CARRINGTON

DEPARTMENTAL DISTN.
MED
UND
FRD

ADDITIONAL DISTN.
TEHRAN SPECIAL

OO F C O (DESKBY 220100Z)

OO TEHRAN (DESKBY 220630Z)

PP PARIS

PP BONN

PP ROME

PP UKMIS NEW YORK

GR 500

CORRECTED VERSION

UNCLASSIFIED

DESKBY 220100Z (FCO)

DESKBY 220630Z (TEHRAN)

FM WASHINGTON 220010Z DEC 79

TO IMMEDIATE F C O

TELEGRAM NO 4338 OF 21 DECEMBER

INFO IMMEDIATE TEHRAN PRIORITY PARIS, BONN, ROME, UKMIS NEW YORK.

IMMEDIATE

DB 221000Z

ADVANCE COPY

Prime Minister

State Duty Clerk

22.12.79

PS/LPS
PS/POS
MR J. MOBERLY

MR FISS

HD/MCD

HD/NAD

RC

YOUR TEL 811 TO TEHRAN (NOT TO ALL): CHAPTER VII

1. PRESIDENT CARTER ANNOUNCED AT 4 P.M. LOCAL TIME TODAY THAT THE US WAS ASKING FOR AN EARLY MEETING OF THE SECURITY COUNCIL UNDER CHAPTER VII. FOLLOWING IS TEXT OF HIS ANNOUNCEMENT: BEGINS.

FROM THE FIRST DAY THE AMERICAN EMBASSY WAS INVADED AND OUR DIPLOMATIC STAFF WERE SEIZED AS HOSTAGES BY IRAN, WE HAVE PURSUED EVERY LEGAL CHANNEL AVAILABLE TO US TO SECURE THEIR SAFE AND PROMPT RELEASE. ON AT LEAST FOUR SEPARATE OCCASIONS THE WORLD COMMUNITY, THROUGH THE UNITED NATIONS SECURITY COUNCIL AND THROUGH THE INTERNATIONAL COURT OF JUSTICE, HAS EXPRESSED ITSELF CLEARLY AND FIRMLY IN CALLING UPON THE IRANIAN GOVERNMENT TO RELEASE THE AMERICAN HOSTAGES. YET IRAN TODAY STILL STANDS IN ARROGANT DEFIANCE OF THE WORLD COMMUNITY. IT HAS SHOWN CONTEMPT NOT ONLY FOR INTERNATIONAL STRUCTURE FOR SECURING THE PEACEFUL RESOLUTION OF DIFFERENCES AMONG NATIONS. IN AN IRRESPONSIBLE ATTEMPT AT BLACKMAIL TO WHICH THE UNITED STATES WILL NEVER YIELD, KIDNAPPERS AND TERRORISTS, SUPPORTED BY IRANIAN OFFICIALS, CONTINUE TO HOLD OUR PEOPLE UNDER INHUMANE CONDITIONS. WITH EACH DAY THAT PASSES OUR CONCERN GROWS FOR THE HEALTH AND FOR THE WELL-BEING OF THE HOSTAGES. WE HAVE MADE CLEAR FROM THE VERY BEGINNING THAT THE UNITED STATES PREFERS A PEACEFUL SOLUTION, IN PREFERENCE TO THE OTHER REMEDIES WHICH ARE AVAILABLE TO US UNDER INTERNATIONAL LAW. FOR A PEACEFUL

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0428/22

WE HAVE MADE CLEAR FROM THE VERY BEGINNING THAT THE UNITED STATES
PREFERS A PEACEFUL SOLUTION, IN PREFERENCE TO THE OTHER REMEDIES
WHICH ARE AVAILABLE TO US UNDER INTERNATIONAL LAW. FOR A PEACEFUL
RESOLUTION TO BE ACHIEVED, IT IS NOW CLEAR THAT CONCRETE ACTION MUST
BE TAKEN BY THE INTERNATIONAL COMMUNITY. ACCORDINGLY, I HAVE DECIDED
TO ASK FOR AN EARLY MEETING OF THE UNITED NATIONS SECURITY COUNCIL
TO IMPOSE INTERNATIONAL ECONOMIC SANCTIONS UPON IRAN UNDER TITLE
VII OF THE UN CHARTER. THE GOVERNMENT OF IRAN MUST REALISE THAT IT
CANNOT FLAUNT WITH IMPUNITY THE EXPRESSED WILL AND LAW OF THE WORLD
COMMUNITY. THE SECURITY COUNCIL MUST ACT TO ENFORCE ITS DEMAND THAT
IRAN RELEASE THE HOSTAGES. THE WORLD COMMUNITY MUST SUPPORT THE
LEGAL MACHINERY IT HAS ESTABLISHED, SO THAT THE UNITED NATIONS AND
THE INTERNATIONAL COURT OF JUSTICE WILL CONTINUE TO BE RELEVANT IN
SETTLING SERIOUS DESPUTES WHICH THREATEN PEACE AMONG NATIONS.
I CAN THINK OF NO MORE CLEAR AND COMPELLING CHALLENGE TO THE
INTERNATIONAL COMMUNITY THAN THE ONE WE FACE TODAY. THE LIVES OF
50 INNOCENT PEOPLE ARE AT STAKE. THE FOUNDATION OF CIVILISED
DIPLOMACY IS AT STAKE. THE CREDIBILITY OF THE UNITED NATIONS IS
AT STAKE. AND AT STAKE ULTIMATELY IS THE MAINTENANCE OF PEACE IN THE
REGION. AS WE CALL ON THE SECURITY COUNCIL TO ACT ON BEHALF OF
INTERNATIONAL LAW AND ON BEHALF OF PEACE WE AGAIN CALL ON THE
GOVERNMENT OF IRAN TO END THIS CRISIS BY RELEASING THE HOSTAGES
WITHOUT DELAY. AND NOW, BECAUSE OUR HOLY DAYS APPROACH A TIME TO
THINK OF PEACE I WOULD LIKE TO ADD A FEW SPECIAL WORDS FOR THE
AMERICAN PEOPLE, INDEED THE PEOPLE OF GOOD WILL IN ALL COUNTRIES
INCLUDING IRAN WHO SHARE CONCERN FOR 50 INNOCENT HUMAN BEINGS WHO
HOPE THEMSELVES FOR PEACE AND FOR THE SALVATION OF THEIR LIVES.
SQUARE BRACKETS BEGIN READING FROM A LONGFELLOW POEM SQUARE
BRACKETS END
ENDS

HENDERSON

NNNN

X-33

IRAN: ADVANCE COPIES

PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS
MR J C MOBERLY
LORD BRIDGES
HD/MED
HD/FRD
HD/NENAD
HD/UND (2)
HD/OID (2)
HD/DEF DEPT

HD/ES & SD (2)

MISS BROWN
PUSD (2)
NEWS DEPT
RESIDENT CLERK

PS NO 10 DOWNING ST
SIR R ARMSTRONG)
ASSESSMENTS STAFF) CABINET
MR R WADE GERY) OFFICE
MR LE CHEMINANT)
MR D G FOWLER R2.7)
CABINET OFFICE DIO
MR F R BARRATT TREASURY

IMMEDIATE

DB 220900Z

ADVANCE COPY

00 FCO DESKBY 220900Z
00 TEHRAN

GR 300A

CONFIDENTIAL

DESKBY 220900Z

FM UKMIS NEW YORK 212025Z DEC 79

TO IMMEDIATE FCO

TEL NUMBER 1940 OF 21 DECEMBER

INFO IMMEDIATE TEHRAN WASHINGTON

MY TELNO 1919: IRAN

1. AT TODAY'S INFORMAL CONSULTATIONS OF THE SECURITY COUNCIL ON RHODESIA, THE SECRETARY GENERAL GAVE A REPORT ON HIS LATEST EXCHANGES WITH THE IRANIAN LEADERSHIP.

2. WQALDHEIM SAID THAT HE HAD SENT A PERSONAL MESSAGE TO KHOMEINI ON 19 DECEMBER APPEALING THAT SOME AT LEAST OF THE HOSTAGES SHOULD BE RELEASED FOR CHRISTMAS. HE OFFERED TO FLY HIMSELF TO TEHRAN IMMEDIATELY TO SEE KHOMEINI. HE HAD RECEIVED NO REPLY TO THIS MESSAGE. HE HAD ALSO HAD ALMOST DAILY CONVERSATIONS WITH FARHANG, THE NEW IRANIAN PERMANENT REPRESENTATIVE HERE.

Prime Minister⁽²⁾

22.12.79

REPLY TO THIS MESSAGE. HE HAD ALSO HAD ALMOST DAILY CONVERSATIONS WITH FARHANG, THE NEW IRANIAN PERMANENT REPRESENTATIVE HERE. FARHANG HAD OFFERED A FEW SUGGESTIONS 'FOR BREAKING THE ICE' BUT THESE HAD NOT LED ANYWHERE. THE IDEA OF 'A UN DELEGATION' (WHICH TAKE TO BE THE PLOY DESCRIBED IN MY TEL UNER REFERENCE) HAD BEEN TURNED DOWN BY KHOMEINI, ALTHOUGH IT HAD ORIGINALLY BEEN QOTBZADEH'S IDEA.

3. IN A TELEPHONE CONVERSATION TODAY, WALDHEIM HAD TRIED TO FIND OUT FROM QOTBZADEH EXACTLY WHAT THE REVOLUTIONARY COUNCIL HAD DECIDED YESTERDAY. QOTBZADEH HAD BEEN VAGUE, BUT HIS TONE HAD INDICATED THAT THE DECISIONS WERE NOT HELPFUL. THE ONLY SPECIFIC POINT HAD BEEN THAT PRIESTS WOULD BE PERMITTED TO VISIT THE HOSTAGES OVER CHRISTMAS. THERE HAD BEEN NO CLEAR RESPONSE TO WALDHEIM'S REITERATED REQUEST THAT SOME OF THE HOSTAGES SHOULD BE RELEASED BEFORE OR DURING CHRISTMAS. QOTBZADEH HAD SAID THAT HE WOULD CONTINUE TO TRY TO HELP, BUT IT SEEMED THAT HIS INFLUENCE WITH KHOMEINI WAS LIMITED.

4. THE AMERICANS HAD TOLD US BEFORE THE MEETING THAT THEY WERE THINKING IN TERMS OF INFORMAL CONSULTATIONS OF THE COUNCIL ON 26 DECEMBER, BUT NEITHER THEY NOR ANY OTHER MEMBERS OF THE COUNCIL SAID ANYTHING IN RESPONSE TO WALDHEIM'S REPORT. THEY ALSO SAID THAT THEY THOUGHT, FOLLOWING THE PRESIDENT'S DECISION, THAT THEY WOULD PRESS ON IN THE COUNCIL EVEN IF THEY DID NOT HAVE THE VOTES.

PARSONS

NNNN

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 December 1979

Dear Sir,

IRAN

Thank you for your letter of 20th December reporting the outcome of the Prime Minister's meeting last night.

..... As requested in your letter the Treasury have produced revised drafts of the reply to the United States Government and what is now a memorandum of understanding between Governments and central banks. These are attached. The references to oil companies in the draft reply to the United States have been agreed with Department of Energy officials.

..... Given the short time available I am enclosing copies of this letter and attachments for the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Secretary of State for Energy, the Attorney-General, the Governor of the Bank of England and the Secretary of the Cabinet. I should be grateful if you would arrange for these to be made available at the start of the meeting.

Yours and

Anthony B. Battishill

(A.M.W. BATTISHILL)

T. Lankester, Esq.,
No.10, Downing Street

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DRAFT BRITISH REPLY TO THE UNITED STATES NOTE OF 17 DECEMBER

HMG have considered the six proposals contained in the note handed to the Foreign and Commonwealth Office and the Treasury on 17 December, following earlier discussions in Brussels and London. These matters were subsequently discussed with the United States President and Secretary of State in Washington. Four of the proposals concerned guidance to banks and two of them advice to oil companies.

Guidance to banks

2. HMG shares the United States concern that the present crisis in relations with Iran should be resolved without lasting damage to the international financial system. They are accordingly prepared to join with the authorities in other major financial centres in making a request to banks in London (both British banks and those from other countries) in support of the United States action to secure the release of their hostages. Concerted action by the following Governments seems to HMG to be essential to secure the intended effect: all member countries of the EEC plus Canada, Japan and Switzerland. A draft of a document which might be the basis of a memorandum of understanding between these countries is attached.

3. The attached draft follows closely proposal A in the United States note. But as the action envisaged does not extend as far as a trade embargo (which would require a Chapter VII resolution) HMG considers that it would be right to exclude from the implementation of proposal A any request that would serve to frustrate regular commercial transactions.

4. Proposal B is that we should ask banks "to require punctual payment of interest and principal on outstanding loans to Iran, declaring Iran in default if the payments fail to come in on time". The first half of this proposal presents no difficulty. All banks expect their loans to be serviced promptly; if they were not, the loans would be technically in default. But the bank or banks making the loans then have to decide whether to exercise their rights to offset or enforce payment, as specified in the loan agreements. HMG cannot oblige banks to take decisions on this which conflict with their judgement on where their financial interests lie.

5. The attached draft suggests a variation of proposal C and D as defined in the United States note with the same objective - namely that of preventing serious damage to US banks or the exchange rate for the dollar as a result of a manipulation by the Iranian Government of its financial assets. The proposal in the attached draft is that commercial banks should be asked to identify and report to central banks all transactions which appear to have this effect. The central bank could then consider co-ordinated intervention and re-cycling arrangements to preserve or restore orderly market conditions.

6. HMG's reasons for preferring the above approach are as follows. The United States proposals C and D would prevent a bank which had claims on Iran not fully matched by deposits from accepting new deposits, or increases in existing deposits that would match their claims. It would not, in the view of HMG, be right to discourage banks from covering their positions in this way. Secondly, it seems to HMG that proposals C and D would place non-US banks at a disadvantage by comparison with US banks. The US regulations, as we understand them,

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permit new money to be used to settle obligations in the United States; and this would presumably involve either the creation of new deposits or additions to existing deposits in the US banking system.

Advice to oil companies

7. Hitherto British oil companies have not paid for Iranian oil in currencies other than US dollars; nor have they accepted recent Iranian attempts to sell oil in 1980 at prices sharply above those asked by other OPEC countries. HMG is prepared in principle to advise British oil companies to maintain this attitude in future as part of effective and concerted arrangements made by all major OECD and IEA countries which cover spot market transactions as well as purchases by the oil companies. HMG is ready therefore to join at short notice in international discussions designed to secure an effective common initiative by OECD and IEA countries on these lines.

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DRAFT CONFIDENTIAL MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENTS
CANADA
OF MEMBER COUNTRIES OF THE EEC,/JAPAN AND SWITZERLAND

1. With the object of helping the United States to secure the release of the hostages detained by Iran in contravention of international law, the Governments of member countries of the EEC,^{Canada}/Japan and Switzerland have together decided to take the following measures. All action taken hereunder will be terminated directly the hostages are released unharmed and efforts will then be directed to the restoration of normality in all affected relationships.

2. Major banks of the countries concerned will, in pursuit of the objectives stated above, be requested:-

(i) to refrain from offering new or increased credits to the Iranian Government or Governmental Agencies, apart from short-term credits specifically associated with commercial transactions.

(ii) to identify and report to their central banks in total all transactions by such Iranian Government or Governmental Agencies which appear to represent switching of their deposits from US banks or, more generally, from dollars into other currencies, so that appropriate recycling operations can, if necessary, be organised amongst the central banks concerned.

3. Without forming part of any announcement, it will be made clear to all banks approached that these exceptional requests are essentially linked to the stated foreign policy objective and are thus different in character from the type of request normally made by a central bank

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to the banks in the country concerned. While all banks will no doubt give full weight to the requests and to the objective at which they are aimed, it will be understood that the individual banks are free to take in individual cases such decisions as are necessary to secure their vital commercial interests.

4. The twelve Governments invite other Governments who share their views to take similar action.

IRAN: ADVANCE COPIES

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PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS
MR J C MOBERLY
LORD BRIDGES
HD/MED
HD/FRD
HD/NENAD
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HD/DEF DEPT

HD/ES & SD (2)

MISS BROWN
PUSD (2)
NEWS DEPT
RESIDENT CLERK

PS NO 10 DOWNING ST
SIR R ARMSTRONG)
ASSESSMENTS STAFF) CABINET
MR R WADE GERY) OFFICE
MR LE CHEMINANT)
MR P G FOWLER R2.7)
CABINET OFFICE DIO
MR F R BARRATT TREASURY

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IMMEDIATE

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FM WASHINGTON 212250Z DEC 79

TO IMMEDIATE F C O

TELEGRAM NO 4326 OF 21 DECEMBER

AND TO BONN, BERNE, PARIS, ROME, TEHRAN, TOKYO, UKMIS NEW YORK,
UKDEL OECD, UKREP BRUSSELS

Prime Minister^②

22. 12. 79

MIPT: IRAN FINANCIAL MEASURES

FOLLOWING IS TEXT OF FRENCH PAPER

PROVIDED WE PREVIOUSLY AGREE ON THE WAY TO TREAT THE PRESS PROBLEM,
THE FRENCH POSITION IS THE FOLLOWING:

1. MILITARY SALES:

WE HAVE ONLY ONE CONTRACT WITH IRAN: DELIVERY OF 12 SMALL SHIPS,
EQUIPPED WITH DUTCH, ITALIAN AND US (HARPOON) EQUIPMENT. 9 OF THEM
WERE DELIVERED A FEW MONTHS AGO. 3 ARE READY AT CHERBOURG. THEY
WILL BE RETAINED THERE, ON THE BASIS THAT THERE IS A LEGAL DISPUTE
BETWEEN THE SHIPYARD COMPANY AND THE IRANIANS ABOUT THE PAYMENTS.
NO OTHER DEALS.

2. ADVICE TO BANKS:

A) NO NEW CREDITS:

- FINANCIAL: NO NEED TO ADVISE. NO BANK PREPARED TO LEND TO IRAN
- COMMERCIAL SEMI COLON OUR COMPANY FOR EXPORT INSURANCE HAS

A) NO NEW CREDITS:

- FINANCIAL: NO NEED TO ADVISE. NO BANK PREPARED TO LEND TO IR
- COMMERCIAL SEMI COLON OUR COMPANY FOR EXPORT INSURANCE HAS
ALREADY DECIDED, SEVERAL WEEKS AGO, TO REFUSE ANY COVERAGE TO
EXPORT CREDITS EVENTUALLY MADE BY BANKS. DEALS ARE ONLY CONCLUDED
ON "AU COMPTANT" BASIS. THUS, NO NEED FOR FRESH ADVICE TO THIS
COMPANY.

B) NO NEW ACCOUNTS:

WE SHALL DISCREETLY ADVISE OUR MAJOR BANKS TO BE VERY VIGILANT
AND VERY RELUCTANT VIS A VIS ANY IRANIAN DEMAND FOR OPENING
NEW ACCOUNTS.

BUT WE ARE DOUBTFUL ABOUT THE EFFICIENCY OF SUCH AN ADVICE, AND
SURE THAT ANY PUBLICITY GIVEN TO THIS ADVICE COULD BE VERY
DAMAGING TO THE WESTERN BANKING SYSTEM.

C) NO MASSIVE CHANGES IN ACCOUNTS:

AS FAR AS WE KNOW, THERE IS A GREAT STABILITY IN THE ACCOUNTS
OWNED IN FRANCE BY THE IRANIANS. THE TOTAL LEVEL IS AT ABOUT
5.5 BILLIONS FF, 4/5 OF WHICH IN DOLLARS.

THE ONLY THING WE CAN, AND SHALL DO, IS TO ADVISE THE MAJOR BANKS
TO REPORT ON ANY MASSIVE CHANGE AND TO BE VERY CAUTIOUS IN
ACCEPTING IMPORTANT TERM DEPOSITS, WHERE THEY HAVE, TO SOME
EXTENT, A NEGOTIATION POSSIBILITY.

D) DEFAULT:

IMPOSSIBLE TO INTERFERE IN THIS FIELD. IT IS UP TO THE BANKS TO
TAKE THEIR OWN RESPONSIBILITIES, ACCORDING TO THEIR ASSESSMENT
OF THE RISKS AND TO LEGAL RULES OF THEIR CONSORTIUM AGREEMENTS.

3. OIL TRADE:

A) PAYMENT IN CURRENCIES OTHER THAN DOLLARS. NO PROBLEM FOR THE TIME
BEING, THERE HAVE BEEN NO PAYMENTS AT ALL FOR SEVERAL WEEKS,
BECAUSE A LEGAL DISPUTE BETWEEN IRAN AND THE "COMPAGNIE
FRANCOISE DES PETROLES". AND THERE IS NO CONTRACT CONCLUDED FOR
THE NEXT YEAR.

B) SPOT PRICES:

THE PERMANENT ADVICE TO OUR COMPANIES NOT TO BUY OIL AT SPOT
PRICES REMAINS IN FORCE AND WILL NOT BE CHANGED.

HENDERSON

NNNN

IRAN: ADVANCE COPIES

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PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS
MR J C MOBERLY
LORD BRIDGES
HD/MED
HD/FRD
HD/NENAD
HD/UND (2)
HD/OID (2)
HD/DEF DEPT

HD/ES & SD (2)

MISS BROWN
PUSD (2)
NEWS DEPT
RESIDENT CLERK

PS NO 10 ~~DOWNING~~ ST
SIR R ARMSTRONG)
ASSESSMENTS STAFF) CABINET
MR R WADE GERY) OFFICE
MR LE CHEMINANT)
MR P G FOWLER (2,7)
CABINET OFFICE DIO
MR F R BARRATT TREASURY

IMMEDIATE

ADVANCE COPY

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CONFIDENTIAL

FM WASHINGTON 212242Z DEC 79

TO IMMEDIATE F C O

TELEGRAM NO 4325 OF 21 DECEMBER

AND TO BONN, BERNE, PARIS, ROME, TEHRAN, TOKYO, UKMIS NEW YORK,
UKDEL OECD, UKREP BRUSSELS

IRAN: FINANCIAL MEASURES.

FOLLOWING FROM PUS:

1. PAYE (THE ECONOMIC DIRECTOR AT THE QUAI D'ORSAY WHO WAS HERE FOR THE ECONOMIC SUMMIT PREPARATORY MEETING) DISCUSSED THIS WITH ME AFTER COOPER (STATE DEPARTMENT) HAD TOLD US OF THE PRESIDENT'S DECISION TO GO TO THE SECURITY COUNCIL UNDER CHAPTER VII. HE SAID THAT HE HAD BEEN PRESSED YESTERDAY EVENING BY COOPER TO CLARIFY THE FRENCH ATTITUDE ON THE POINTS ON WHICH THEY (AND WE) HAD BEEN ASKED BY THE AMERICANS TO TAKE ACTION. HE HAD HANDED COOPER A "NON-PAPER" THIS MORNING CONVEYING THE FRENCH VIEW. HE GAVE ME A COPY (TEXT IN MIFT). HE SAID THAT IN GIVING THE PAPER TO COOPER HE HAD UNDERLINED THE NEED FOR THE LEAST POSSIBLE DISCUSSION IN PUBLIC OF THE ACTION THE FRENCH WOULD BE TAKING SO AS TO AVOID UNDESIRABLE REPERCUSSIONS IN TEHRAN.

2. PAYE SAID THAT THE AMERICAN DECISION TO GO TO THE SECURITY

Irnie Minster (2)

22.12.79

REPERCUSSIONS IN TEHRAN.

2. PAYE SAID THAT THE AMERICAN DECISION TO GO TO THE SECURITY COUNCIL, IN HIS VIEW, MADE THE ADOPTION OF THE MEASURES REQUESTED BY THE AMERICANS MUCH LESS URGENT. EVERYONE WOULD BE WAITING TO SEE HOW THE AMERICANS FARED AT NEW YORK. (HE ASSUMED THAT THEY WOULD NOT HAVE GONE TO THE SECURITY COUNCIL WITHOUT HAVING RECEIVED ASSURANCES THAT THE RUSSIANS WOULD AT LEAST ABSTAIN).

3. I ASKED WHETHER HE HAD EXPRESSED THESE VIEWS TO COOPER. HE SAID THAT HE HAD; BUT COOPER'S REACTION HAD BEEN THAT IT WOULD TAKE TWO OR THREE WEEKS FOR THE US GET ANY RESULT IN THE SECURITY COUNCIL. SEMI COLON AND THEY HOPED THAT THEIR ALLIES WOULD MEANWHILE TAKE ACTION ALONG THE LINES THE AMERICANS HAD REQUESTED.

4. PAYE ASKED WHAT OUR ATTITUDE WOULD BE. I SAID THAT THE PRIME MINISTER HAD MADE ABSOLUTELY CLEAR TO THE PRESIDENT OUR SUPPORT FOR ANY AMERICAN ACTION UNDER CHAPTER VII IN THE SECURITY COUNCIL. SO FAR AS THE MEASURES REFERRED TO IN MIFT WERE CONCERNED, I KNEW THAT THESE WERE UNDER ACTIVE MINISTERIAL CONSIDERATION IN LONDON. BUT I DID NOT KNOW WHAT VIEW THE GOVERNMENT WOULD TAKE OF THEM AGAINST THE BACKGROUND OF THE AMERICAN APPROACH TO THE SECURITY COUNCIL.

5. SEE MIFT.

HENDERSON

NNNN

IRAN: ADVANCE COPIES

39.27

PS
PS/SIR I GILMOUR
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FM MOSCOW 210931Z

TO IMMEDIATE FCO

TELNO 862 OF 21/12

RPTD INFO PRIORITY TO UKMIS NEW YORK, WASHINGTON, TEHRAN AND
UKDEL NATO.

SANCTIONS

1. DURING HIS RECENT VISIT THE FRENCH SECRETARY OF STATE, STIRN, ASKED GROMYKO WHAT WOULD BE THE SOVIET POSITION ON UN SANCTIONS OF ANY KIND AGAINST IRAN. GROMYKO IN REPLY RECALLED THE CLEAR POSITION TAKEN BY THE SOVIET UNION OVER THE SEIZURE OF HOSTAGES, BUT SAID THAT SANCTIONS WOULD NOT CONTRIBUTE TO A SATISFACTORY SOLUTION OF THE IRANIAN PROBLEM. THEY WOULD ONLY AGGRAVATE THE SITUATION. IN ANY CASE HE DID NOT SEE HOW CHAPTER 7 COULD APPLY. THE SOVIET VIEW WAS THAT FURTHER ATTEMPTS SHOULD BE MADE TO REACH A PEACEFUL SETTLEMENT OF THE DISPUTE. THE FRENCH EMBASSY HAVE ASKED THAT THIS DISCUSSION SHOULD BE TREATED AS PARTICULARLY CONFIDENTIAL.

KEEPL

P. Minto⁽²⁾

21.12.79

and

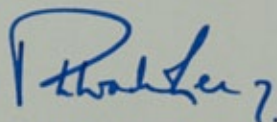
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MR LANKESTERIran

The Prime Minister's meeting at 4 pm needs to settle

- I Banking i. Agree revised text of document to be agreed by *Government*
~~Central Bank~~ covering 3 United States request -
- A - no credit
 - B - no new deposits
 - C - no increase in non-~~£~~ deposits
- ii. Agree to reject United States request B
(guidance to banks on defaults)
- II Oil iii. Agree on reply to United States requests
- E - no non-~~£~~ payments for oil
 - F - no high-price purchases
- III Procedure iv. Agree how we concert ~~I~~ and ~~II~~ with allies
- v. Agree which allies
 - vi. Agree whether action should be conditional on
United States failure to get a Chapter 7 determination.
 - vii. *Public or private?*
- IV ECGD viii. Agree Mr Nott's passage.

21st December 1979

R L WADE-GERY

TRAN: ADVANCE COPIES

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FM TEHRAN 201315Z DEC

TO IMMEDIATE FCO

TELEGRAM NUMBER 1375 OF 20 DEC 79

INFO IMMEDIATE WASHINGTON

INFO PRIORITY EEC POSTS.

MY TELNO 1364 : US EMBASSY, TEHRAN.

1. THERE DOES SEEM TO HAVE BEEN A CHANGE OF MOOD HERE, THOUGH IT IS DIFFICULT TO DATE IT. KHOMEINI'S PRESS INTERVIEW (MY TELNO 1361) ON SUNDAY AFTERNOON (16 DEC) WAS MARKEDLY STIFFER THAN THE STATEMENTS BEING MADE BY QOTBZADEH AT THAT TIME, THOUGH NOT INCONSISTENT WITH THEM. THE STATEMENT ISSUED BY THE "STUDENTS" ON THE MORNING OF 18 DECEMBER, HOWEVER, (PARA 5 OF MY TELNO 1355) WAS, AS I COMMENTED, MUCH HARDER IN TONE AND KHOMEINI'S STATEMENT TO THE DISABLED THAT SAME MORNING (MY TUR) SHOWED NO FLEXIBILITY, NOTABLY IN THE RENEWED INSISTENCE ON THE RETURN OF THE SHAH.

2. ON THE OTHER HAND THERE ARE STILL CONFLICTING VOICES.

2. ON THE OTHER HAND THERE ARE STILL CONFLICTING VOICES.

QOTBZADEH, SPEAKING AFTER A MEETING OF THE REVOLUTIONARY COUNCIL THE NIGHT BEFORE KHOMEINI (IE ON 17 DEC) CONTINUED TO TALK ABOUT AN ENQUIRY AS OPPOSED TO A TRIAL: AND RAFSANJANI, SUPERVISOR OF THE MINISTRY OF THE INTERIOR AND A MEMBER OF THE RO, SAID IN THE COURSE OF AN INTERVIEW ON 17 DECEMBER, "WHAT IS IMPORTANT FOR US IS THE INVESTIGATION OF US CRIMES IN IRAN.... WE DO NOT WANT TO INVESTIGATE THE INDIVIDUALS' CRIMES AS SPIES BECAUSE THE ISSUE IS ON A HIGHER LEVEL. WE WILL INVITE STRONG PERSONALITIES OF THE WORLD TO COME HERE... AND UNDERSTAND WHY WE COME OUT THE US IN THIS WAY. NOW WHAT FORM THE TRIAL SHOULD TAKE WE CANNOT DETERMINE. IT IS FOR THOSE WHO HAVE TAKEN THE HOSTAGES. OF COURSE THEY CONSULT THE IMAM."

3. THE COMMUNITY AMBASSADORS DISCUSSED THIS MORNING THE POWER STRUCTURE IN IRAN. ONE EXTREME VIEW IS THAT THERE IS IN EFFECT NO GOVERNMENT AND THAT THE "STUDENTS" DETERMINE POLICY. I BELIEVE THAT THIS IS TOO STARK AND OVER-SIMPLIFIES THE POSITION. AS FAR AS THE AMERICANS HELD IN THE US EMBASSY ARE CONCERNED, THE "STUDENTS" ARE IN POSSESSION AND ABLE TO IMPOSE A VETO, SINCE THE AUTHORITIES ARE NOT PREPARED TO USE FORCE AGAINST THEM (BANI SADR SAID THIS TO THE COMMUNITY AMBASSADORS AT OUR FIRST MEETING WITH HIM IN NOVEMBER). HOWEVER IN THE LAST RESORT THE "STUDENTS" ARE PREPARED TO OBEY KHOMEINI, IF HE GIVES THEM A CLEAR LEAD OR INSTRUCTION. BUT KHOMEINI HIMSELF, PARTLY FOR TACTICAL REASONS AND PARTLY BECAUSE I BELIEVE THIS IS HOW HE SEES HIS ROLE, IS NOT PREPARED TO GIVE A CLEAR INSTRUCTION UNLESS HE IS FAIRLY SURE THAT IT REFLECTS A CONSENSUS OF HIS FOLLOWERS AND WILL BE OBEYED. THIS IS CONSISTENT WITH HIS VIEW OF THE ROLE OF RELIGION AND WITH HIS CLAIM TO BE, NOT A DECIDER OF POLICY, BUT A MOUTHPIECE OF THE WILL OF THE PEOPLE OR OF GOD, VOX POPULI, VOX DEI, WITH A VENGEANCE) WHICH, PROVIDED THE PEOPLE ARE GOOD MUSLIMS, HE COULD ARGUE ARE THE SAME. IT IS A TWO WAY STREET AND TO A LARGE EXTENT KHOMEINI REACTS TO THE PUBLIC FEELING WHICH HE CREATES.

4. THAT SAID, I AM NOT CLEAR WHY THERE HAS BEEN THIS CHANGE IN MOOD. IN PART, AND AS FAR AS THE STUDENTS ARE CONCERNED I THINK THIS IS CERTAINLY SO, THE MOVE OF THE SHAH MAY HAVE CONTRIBUTED, ALTHOUGH THE REVOLUTIONARY COUNCIL AND KHOMEINI HIMSELF ORIGINALLY CHOSE TO REGARD IT AS A STEP IN THE RIGHT DIRECTION AND A VICTORY FOR IRAN. IN PART THE STUDENTS AND KHOMEINI ALSO SEEM TO HAVE BEEN ROUSED BY PRESIDENT CARTER'S COMMENTS OVER THE WEEKEND ABOUT A MORE HOPEFUL SITUATION DEVELOPING IN IRAN. BOTH THE STUDENTS AND KHOMEINI ARE

MENTS OVER THE WEEKEND ABOUT A MORE HOPEFUL SITUATION DEVELOPING IN IRAN. BOTH THE STUDENTS AND KHOMEINI IN THEIR RESPECTIVE STATEMENTS OF 18 DECEMBER EXPRESSED ANGER AT THIS INTERPRETATION. FOR EXAMPLE, WE HAVE IN THE FORMER STATEMENT, "OMINOUS SOUNDS ARE HEARD FROM THE WHITE HOUSE WHICH IMPUDENTLY ACCUSE THE IRANIAN NATION OF CHANGING ITS POSITION... HAS OUR IMAM CHANGED HIS POSITION? NEVER, NO ONE CAN EVER DARE TO SAY SUCH A BLASPHEMOUS THING". THE DEATH OF MOFATTEH MAY ALSO BE AN ELEMENT IN KHOMEINI'S ANGER. MOFATTEH WAS A PUPIL AND FRIEND, AND NOT KNOWING THE PERPETRATORS, HE HAS CHOSEN TO ATTRIBUTE THE ASSASSINATION TO THE CIA. I AM TOLD THAT HE IS TOTALLY TAKEN UP WITH THE BELIEF THAT THE US IS DEEPLY ENGAGED IN PLOTTING THE DOWNFALL OF HIMSELF AND THE FAILURE OF THE IRANIAN REVOLUTION.

T

5. IN SUM, THE SITUATION IS GLOOMY AND FACED WITH THE FAILURE TO OBTAIN ANY SIGNIFICANT SUPPORT IN THE WORLD, KHOMEINI'S MOOD IS UGLY. HE MAY WELL EMBARK ON SOME NEW INITIATIVE TO BOLSTER HIS POSITION.

GRAHAM

NNNN



10 DOWNING STREET

From the Private Secretary

20 December 1979

Dear Tony.

IRAN

The Prime Minister held a meeting this evening to discuss possible measures which we might take to assist the USA over Iran. The following were present: Chancellor of the Exchequer, Foreign and Commonwealth Secretary, Secretaries of State for Energy and Trade, the Attorney General, the Governor and Deputy Governor of the Bank of England, and Mr. Wade-Gery. The meeting had before it your letter of 19 December and the documents which you enclosed with it.

The Prime Minister said that the Government must do something to help the Americans, and certainly no less than their other allies in Europe. It was necessary to look for measures which would be presentationally useful but which would not do us substantial damage. It appeared that the Germans and the French were willing to go along with most of the Administration's latest proposals provided that action was taken on a concerted basis. But she did not wish the UK to be seen to be simply following the lead taken by others. It was important that we should take the lead ourselves. On the face of it, three of the four American proposals relating to the banking system could be implemented without having much of an adverse effect on our interests; and it looked as if we could also go along with the two proposals relating to oil purchases - provided all these measures were agreed with our partners. The Foreign and Commonwealth Secretary added that it seemed unlikely that the Americans would obtain a Chapter 7 determination. In that case, and if they did not obtain the kind of support which they were now asking us for, they might well be forced into actions which would be far more damaging to our interests than anything which might result from our going along with their proposals. Agreement to their proposals ought therefore to be seen as an alternative to something far worse.

The Chancellor and the Secretary of State for Trade argued that, even if we rejected proposal B in the American document and accepted proposals A, C and D, this could be very damaging to our financial interests. They might not look far-reaching, but they would give the impression that we were prepared to take more drastic action - such as introducing legislation to freeze overseas assets. The Iranians would regard these measures as an hostile act,

/and were

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and were likely to react against us. Moreover, it was unlikely that they would have any practical effect in terms of bringing about the freeing of the hostages.

The Governor said that the American information contained in Annex D on what other countries would be prepared to do was misleading. He had spoken to most of the European central bankers over the last few days, and based on these conversations, it seemed that the American information over-stated other countries' readiness to act. In addition he had heard that the Saudis were very worried at the US freezing of the Iranian assets: it raised with them the question of whether they would not be better off keeping their oil in the ground. Any action by the UK on the lines proposed by the Americans would aggravate the fears of the Saudis and other OPEC countries. The Chancellor added that he too was anxious that other Governments would do less than they had apparently told the Americans they would do. Moreover, even if they did move in concert with us, their exposure to retaliation was considerably less than ours.

The Prime Minister commented that according to our latest information from Bonn (Telegram No. 799) the Germans were prepared to go along with the American proposals; and they were certainly assuming that we would do so. In any case, the UK ought to take positive steps to persuade other Governments to assist the Americans. It also seemed from the note by Treasury officials that the three banking proposals as set out in the draft reply to the Americans would be unlikely to arouse serious opposition from the banks. If there were overriding objections to the proposals, then something must be found to take their place.

There was then some discussion of the three proposals as set out in the "draft document to be agreed between the central banks". It was pointed out that proposal (i) was a watered-down version of the American proposal A in that the banks would not be asked to stop short-term credit normally associated with commercial transactions. As for proposal (ii) (which corresponded with the American proposal C), the Governor commented that - if the objective was to prevent massive switching out of dollars into other currencies - it would be better for central banks to organise a re-cycling facility. As regards proposal (iii) (which corresponded to the American proposal D) the Governor said that this might be more acceptable if there could be a let out clause - which would allow banks to accept increases in non-dollar deposits by the Iranian Government where their claims on Iran exceeded their existing deposits.

The Secretary of State for Trade said that ECGD had stopped offering credit to Iran, but it had not publicised this. To announce a stoppage would invite retaliation, and this risk could not be dismissed since ECGD's exposure in Iran exceeded £600 m. On the other hand, there remained one or two steps which ECGD could still take against Iran; and these might help our position with the Americans. But again, we would have to tell them privately.

Turning to the two oil proposals, the Secretary of State for Energy said that neither of these should cause difficulty. The British oil companies were already paying for Iranian oil in US dollars and he had already asked the companies to avoid buying oil from Iran at prices sharply in excess of those charged by other OPEC countries. It would of course be in our interests to obtain international endorsement of this latter proposal - though in the light of the latest OPEC meeting, it would be less meaningful because of the wider variation in OPEC prices which now seemed likely.

/Summing

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- 3 -

Summing up the discussion, the Prime Minister said that she was determined that the UK should respond positively to the latest American proposals. Ministers were agreed that whatever action we took, it should be done in concert with our European partners. But it had not been possible to agree on what the measures should be. The meeting should reconvene the following afternoon at 1600 hours. In the meantime, the Treasury and the Bank should reconsider the "draft document to be agreed between the central banks" and the draft letter to the US and produce new drafts which the Chancellor and the Governor would find acceptable. In particular, they should draft an alternative to proposal C to cover the Governor's suggestion on re-cycling. They should also "neutralise" the central banks' document so that it would not appear as a text emanating from the UK. The Secretary of State for Energy should consider the paragraph of the draft letter on "advice to oil companies" and - if necessary - offer any amendments. The Secretary of State for Trade should consider the possibility of taking further measures in respect of ECGD: these could be explained in a separate letter to the Americans if he thought that was desirable. Finally, the FCO should consider how best we might concert with European Governments and with the Japanese.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Bill Burroughs (Department of Energy), Stuart Hampson (Department of Trade), Bill Beckett (Law Officers' Department), John Beverly (Bank of England), and to Martin Vile (Cabinet Office).

ham ew.

Tim Lehurst.

A. M. W. Battishill, Esq.,
H.M. Treasury.

R 01007

PRIME MINISTER

IRAN: VOLUNTARY MEASURES

(Note by Treasury Officials, 19 December)

INTRODUCTION

1. Before your visit to Washington Ministers decided not to seek to freeze Iranian assets, either unilaterally or in company with others. But we undertook to give the US an early response to a request by Mr Vance, later expanded by the US Embassy Note of 17 December, that HMG advise banks in the UK to take four, more limited, steps and also advise UK oil firms to pay for Iranian oil only in US dollars and to refuse to buy Iranian oil at prices which were sharply out of line. Similar notes went to other major European countries and to Japan.
2. During the talks in Washington Mr Brzezinski pressed hard for the UK to do what the US had asked in advance of any Chapter VII moves in the United Nations. Mr Vance reported that we risked lagging behind the FRG, France and Italy (Washington telegrams 4250 and 4251, at Annexes B and C of the Note).
3. The note by Treasury officials, prepared in consultation with other departments but not agreed with them, shows (Annex D) that the US report greatly exaggerated French readiness to take action. The Swiss will merely inform banks of the American wishes. The Japanese are uncommitted. The FRG have now agreed (Bonn telegram 801) to authorise their Ministers to advise the banks and oil companies in the sense requested if a Chapter VII determination cannot be obtained and if similar action is taken by Britain, France and others. The action would only be advisory but they expected banks and oil companies to comply. The Governor of the Bank of England, who will be present at the meeting, will be able to advise further on likely European reactions following his attendance at a farewell dinner given last night in Bonn for Mr Emminger.

4. The US request poses special difficulties for the UK in view of the leading position of the City and of the major roles of BP and Shell. We also share the general western concern at the damage that might be done to the world financial order if confidence in Arab oil producers were to be undermined; a general recognition that any action must be taken simultaneously by all major western countries; and a strong preference for the legal cover of a Chapter VII resolution. President Carter seems to intend very early moves to obtain a Chapter VII determination but is by no means certain to succeed.

HANDLING

5. You will wish to ask the Chancellor of the Exchequer to introduce the paper by his officials, which includes a draft reply to the Americans and a draft document for agreement by western Central Banks. The Foreign and Commonwealth Secretary and the Governor of the Bank of England might then be asked to report the latest information (additional to Annex D) on the likely response of other governments and Central Banks to the US request.

6. You may wish to invite the meeting to accept the suggestion at paragraph 12 that there is little to be gained in reminding the Americans of what we are doing on military sales and export credit and to concentrate on the reply to be given to the 6 US proposals at Annex A.

7. In considering the draft reply to the Americans it will be noted that this represents what Treasury officials thought to be the maximum we might offer (accepting risks of Iranian retaliation and other damage to our interests) if Ministers wished to make a positive response. But Bank of England officials regarded even this qualified response as contrary to our interests.

8. You may wish discussion of the two drafts to cover the following points:-

Draft Reply to the US

- i. If this advice to the banks, ie less than the US request, is "unlikely to raise serious opposition from the banks" and would leave them free to accept new deposits (paragraphs 14 and 15 of the paper) why is the Bank of England still unhappy?
- ii. Would the US accept this line as sufficiently positive? How far do they want political gestures; defensive support against a massive switch from the dollar; or action to hurt the Iranians?
- iii. Would German banks really comply with advice as the FRG government expect (Bonn telegram 801) and would their interpretation of proposal A. also exclude short-term trading credit?
- iv. Will the OPEC failure at Caracas make it more difficult to determine if Iranian oil prices are sharply out of line? Can Japan afford not to buy at almost any price? On the other hand is not the draft response in paragraph 5 as positive as we can manage?

NB Drafting details:

- the first sentence of paragraph two might come better at the end of the paragraph. "accordingly" would be omitted.
- first line of paragraph 3 should read "proposals for A, C and D".

Draft Document to be agreed by Central Banks

- i. Should we insist that the request to banks should come from the Governments and not merely pass on the request from the US Government, as proposed by the Swiss?
- ii. Is it accepted that it will be essential to agree a document and that agreement to give informal oral advice only would not be sufficient?

CONCLUSION

9. Subject to further information given on the likely attitude of other western countries and to the course of the discussion you may wish to guide the meeting to decide that we should certainly play our full part in bringing other western countries to take as positive a joint line as possible in response to the American request, despite the risks, but that a readiness to give advice to banks and oil companies, on the qualified lines suggested in the Treasury Note, may be the best that we or any other countries could sensibly do.

MJV.

M J VILE

20 December 1979

SECRET

SB 8



Foreign and Commonwealth Office

London S.W.1

20 December 1979

Dear Michael,

Iran

The German Embassy telephoned this afternoon to say that when the German Ambassador calls on the Prime Minister at 5.00 pm today he is likely to speak on instructions about Iran. The line he will take is that the FRG very much wishes to support the United States, put pressure on Iran and uphold international law by adopting at least some of the suggestions for financial and economic measures which the Americans have suggested. This is however subject to two conditions:-

- (a) The FRG will not act in isolation; measures of this kind must be fully co-ordinated with other Western Governments if they are to be effective;
- (b) The FRG Government has no constitutional powers to impose the kind of restrictions that the Americans are talking about; the most they can do is bring persuasion to bear upon German banks.

/ This information is broadly consistent with that in Bonn telno 801 (copy enclosed) which you will see was given us in strict confidence yesterday.

Yours etc

Paul

(P Lever)
Private Secretary

M O D B Alexander Esq
10 Downing Street
LONDON

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FM BONN 191906Z DEC 79

TO FLASH FCO

TELEGRAM NUMBER 801 OF 19 DECEMBER

INFO IMMEDIATE WASHINGTON

INFO PRIORITY PARIS ROME BERNE TOKYO TEHRAN UKREP BRUSSELS

MY TELEGRAM NUMBER 799: IRAN: FINANCIAL AND OIL MEASURES

1. WE HAVE BEEN TOLD IN STRICT CONFIDENCE (WHICH PLEASE PROTECT) THAT THE FEDERAL CABINET TODAY AGREED THE FOLLOWING RESPONSE TO TO US REQUEST FOR THE MEASURES LISTED IN PARAGRAPH 3 OF YOUR TELEGRAM NUMBER 439. THEY WILL SAY THAT THE STRONG GERMAN PREFERENCE IS TO TAKE THESE MEASURES ONLY IN CONJUNCTION WITH A CHAPTER 7 DETERMINATION. IF HOWEVER A CHAPTER 7 DETERMINATION CANNOT BE OBTAINED, THEY WILL (ALBEIT RELUCTANTLY) BE PREPARED TO AUTHORISE THE FINANCE AND ECONOMIC MINISTERS TO ADVISE THE BANKS AND OIL COMPANIES IN THE SENSE REQUESTED. THIS WILL HOWEVER BE CONDITIONAL UPON SIMILAR ACTION BEING TAKEN BY THE FRG'S MOST IMPORTANT PARTNERS. THE TWO EXPRESSLY MENTIONED IN CABINET WERE BRITAIN AND FRANCE. IT WILL ALSO BE MADE CLEAR TO THE AMERICANS THAT THE ACTION TAKEN CAN BE ADVISORY ONLY: THE FEDERAL GOVERNMENT IS NOT IN A POSITION TO OBLIGE THE BANKS AND OIL COMPANIES TO COMPLY. MINISTERS ARE HOWEVER FAIRLY CONFIDENT THAT THEY WILL IN FACT DO SO.

2. OUR INFORMANT SAID THAT GENSCHER HAD PREFIXED HIS PRESENTATION IN CABINET BY SAYING THAT IT WAS HIS IMPRESSION THAT THE AMERICANS WERE NOW SOMEWHAT LESS CONFIDENT OF OBTAINING A CHAPTER 7 DETERMINATION THAN THEY HAD BEEN WHEN VANCE DISCUSSED THE QUESTION WITH FOREIGN MINISTERS IN BRUSSELS LAST WEEK. THE GERMANS GUESSED THAT THIS MIGHT BE BECAUSE DOBRYNIN HAD BROUGHT BACK A DISCOURAGING RESPONSE FROM MOSCOW ON THE QUESTION OF A SOVIET ABSTENTION.

3. GERMAN MINISTERS RECOGNISED THAT IT WOULD BE EVEN MORE DIFFICULT FOR THE UK TO TAKE THE MEASURES REQUESTED THAN IT WOULD FOR THE FRG, BECAUSE WE HAD LARGER INTERESTS AT STAKE. LAMBSDORFF HAD MADE THIS POINT IN THE LIGHT OF HIS CONVERSATIONS IN LONDON.

/THEY

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THEY WERE NEVERTHELESS ASSUMING THAT, IN THE LIGHT OF
WHAT THE PRIME MINISTER HAD SAID AFTER HER DISCUSSIONS WITH
PRESIDENT CARTER IN WASHINGTON, THE UK COULD HARDLY DO LESS.

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FM TEHRAN 191215Z DEC

TO PRIORITY FCO

TELEGRAM NUMBER 1367 OF 19 DECEMBER 79

INFO PRIORITY WASHINGTON.

INFO SAVING UKMIS NEW YORK, AND EEC POSTS.

IRAN.

1. TEHRAN RADIO FOLLOWED THIS MORNING'S 8.0 A.M. NEWS WITH A COMMENTARY STRONGLY ATTACKING THE UK. THERE IS LITTLE TO BE DONE ABOUT THIS SORT OF THING, BEYOND HOPING THAT IT DOES NOT STIMULATE SOMEBODY TO TAKE THE LAW INTO THEIR OWN HANDS. IF I HAVE AN OPPORTUNITY I SHALL TAKE IT UP WITH QOTBZADEH BUT WOULD NOT EXPECT MUCH CHANGE FROM HIM - THE COMMENTARY TO A LARGE EXTENT REFLECTS WHAT WE KNOW OF HIS VIEWS. FOLLOWING IS A SUMMARY OF BROADCAST :

2. THE BRITISH INTELLIGENCE SERVICE HAS ALWAYS COOPERATED WITH OTHER SECURITY POLICE FORCES OF THE WORLD, AS WELL AS WITH THE IRANIAN SECRET POLICE AGAINST THE IRANIAN NATION AND ITS REVOLUTION. EVEN DURING THE LAST MONTHS AND DAYS OF THE DEPOSED SHAH'S REIGN, THE BRITISH POLICE TRIED TO ARREST AND PUT IN JAIL THE REVOLUTIONARY AND STRUGGLING STUDENTS OF IRAN, WHO WERE CARRYING OUT POLITICAL ACTIVITIES AND HOLDING DEMONSTRATIONS AGAINST THE FORMER REGIME. THIS IS IN SPITE OF THE FACT THAT BRITAIN IS SUPPOSED TO BE "LAND OF DEMOCRACY". THESE ACTS OF THE BRITISH POLICE ARE BEING CONTINUED NOW IN ANOTHER WAY.

3. BRITAIN, LIKE IMPERIALIST AMERICA, WHILE COOPERATING WITH THE FORMER REGIME OF IRAN AGAINST THE FREEDOM SEEKING

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3. BRITAIN, LIKE IMPERIALIST AMERICA, WHILE COOPERATING WITH THE FORMER REGIME OF IRAN AGAINST THE FREEDOM SEEKING ACTIVITIES OF THE IRANIAN PEOPLE, TRIED TO EXPLOIT OUR NATION AND TO PLUNDER OUR COUNTRY AS MUCH AS SHE COULD. IT WAS FOR THE SAKE OF SUCH OPERATIONS THAT THE FORMER REGIME SIGNED TENS OF DIFFERENT CONTRACTS, INCLUDING MILITARY AND ECONOMIC CONTRACTS, WITH BRITAIN. THIS LEFT HER AND THE AMERICAN IMPERIALISTS FREE TO PLUNDER IRAN. IT WAS ON THE BASIS OF SUCH UNREASONABLE RELATIONS, THAT IRAN BECAME ONE OF THE GREATEST MARKETS FOR BRITISH EXPORTS IN THE MIDDLE EAST AND THE WORLD, AS WELL AS BEING ONE OF THE GREATEST CLIENTS FOR BRITISH MILITARY EQUIPMENT. THE PURCHASE OF CHIEFTAIN TANKS WAS AN EXAMPLE OF THIS.

4. BRITAIN, LEST IT FALL BEHIND AMERICA IN THE PLUNDERING OF OUR COUNTRY, AND WHILE EXPORTING GOODS AND MILITARY EQUIPMENT TO IRAN AND CREATING ASSEMBLY INDUSTRIES IN IRAN, RECEIVED A LOAN OF MORE THAN ONE MILLIARD DOLLARS FROM THE FORMER REGIME. BRITAIN ALSO PLUNDERED, AS MUCH AS SHE COULD, OUR OIL. THIS WAS DONE BOTH THROUGH CONSORTIUMS AND IN OTHER WAYS. FOR THESE REASONS, BRITAIN, TOGETHER WITH AMERICA, SUPPORTED THE REGIME OF THE TREACHEROUS SHAH.

5. TAKING ALL THIS INTO ACCOUNT, THE STATEMENTS OF A FORMER SAVAK AGENT INDICATING THAT THERE HAD BEEN A RELATIONSHIP BETWEEN THAT ANTI-HUMAN ORGANISATION AND THE ESPIONAGE ORGANISATION OF BRITAIN DOES NOT COME AS A SURPRISE. BECAUSE BRITAIN DID NOT REFRAIN FROM COMMITTING ANY ACT AGAINST OUR NATION OR FROM EXPLOITING OUR COUNTRY IN THE SAME WAY AS AMERICA DID.

6. WE CAN BUT CONCLUDE THAT BRITAIN, THAT OLD FOX, HAS ALSO MADE TEEMENDOUS PROFIT OUT OF OUR COUNTRY DURING THE LAST 25 YEARS. THIS PLAYED A GREAT PART IN THE OPPRESSION OF THE IRANIAN PEOPLE, AS DID AMERICAN IMPERIALISM. IN THE PRESENT CONDITIONS WHERE ANTI-IMPERIALISTIC STRUGGLES ARE INCREASING EVERY MOMENT IN OUR COUNTRY, THE IRANIAN NATION IS DETERMINED THAT FROM NOW ON NEITHER BRITAIN NOR AMERICA NOR ANY IMPERIALISTIC POWER WILL BE PERMITTED TO TAKE ADVANTAGE OF AND MAKE PROFIT OUT OF OUR COUNTRY.

FCO PASS SAVING ADDRESSEES.

GRAHAM

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FM PARIS 190940Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NO 996 OF 19 DECEMBER

INFO PRIORITY TEHRAN, BONN, WASHINGTON, UKMIS NEW YORK

IMMEDIATE

WASHINGTON TELS NOS 4256 AND 4251 AND TELECON BAYNE/APPLEYARD: IRAN

1. AS INSTRUCTED FINANCIAL COUNSELLOR SPOKE TO PAYE (QUAI D'ORSAY) AND LALLEMAND (TRESOR) YESTERDAY ABOUT FRENCH REACTIONS TO THE US GOVERNMENT'S CHECKLIST WITHOUT OF COURSE REVEALING THAT WE HAD BEEN GIVEN THE US VERSION OF THEIR REPLIES.

2. PAYE SAID THAT THE MINISTER (ECONOMIC) IN THE US EMBASSY HERE, MYERSON, HAD CALLED ON HIM ON 17 DECEMBER WITH THE CHECKLIST. PAYE HAD GIVEN HIM AN INITIAL RESPONSE ON THE LINES DESCRIBED BELOW BUT FRENCH MINISTERS HAD NOT MADE ANY DECISION ON THE FORM OR TIMING OF THE SUBSTANTIVE REPLY. PAYE DID NOT GIVE MYERSON YES/NO ANSWERS BUT THE DRIFT IS CLEAR ENOUGH IN EACH CASE.

3. THE FOLLOWING IS PAYE'S ACCOUNT OF THE REPLIES HE GAVE TO MYERSON ON THE OPTIONS LISTED IN WASHINGTON TELEGRAM NO 4251:

(1) DENY MILITARY SALES

YES

YES

(2) DENY OFFICIAL EXPORT CREDITS

YES

(3) DENY NEW BANK CREDITS

PROBLEM DID NOT ARISE AS NO BANKS IN THEIR RIGHT MIND WOULD GRANT NEW CREDITS TO IRAN.

(4) PERSUADE BANKS TO DECLARE DEFAULT

THE FRENCH GOVERNMENT HAD NO LEGAL POWER TO MAKE THE FRENCH BANKS DECLARE DEFAULTS. IF THE GOVERNMENT TRIED TO PERSUADE BANKS TO DO THIS, THE BANKS WOULD IMMEDIATELY INFORM THE IRANIANS, THUS AGGRAVATING THE SITUATION, AND MIGHT ALSO DEMAND GUARANTEES OR INDEMNITIES FROM THE GOVERNMENT. FRENCH BANKS ONLY HAD ABOUT FRF 500 MILLION IN LOANS TO IRAN SPREAD AMONG SOME 25 SYNDICATES IN NONE OF WHICH WERE THEY LEADERS OR MAJORITY LEADERS.

(5) DENY NEW BANK ACCOUNTS

THE IRANIAN AUTHORITIES ALREADY HAD ENOUGH ACCOUNTS TO SERVE THEIR PURPOSES. IF THEY NEEDED MORE THEY COULD EASILY OPEN NEW ONES IN, FOR EXAMPLE ARAB COUNTRIES. THIS IDEA WAS A NON-STARTER.

(6) DENY SUBSTANTIAL INCREASE IN NON-DOLLAR DEPOSITS

PAYE QUESTIONED WHETHER US LAW PERMITTED BANKS TO PREVENT A NON-RESIDENT DEPOSITOR FROM ADJUSTING HIS ACCOUNTS. PAYE SAID THAT HE WAS STILL AWAITING A REPLY ON THIS. HE DOUBTED WHETHER FRENCH LAW WOULD, AND THE GOVERNMENT COULD NOT PERSUADE BANKS TO BREAK THE LAW.

(7) EXERCISE CROSS-DEFAULT CLAUSE

AS IN (4) ABOVE

AS IN (4) ABOVE

(8) FREEZE ASSETS WITHOUT CHAPTER VII ACTION

NO

(9) INSIST ON DOLLARS FOR OIL

NO PROBLEM. ONLY ONE FRENCH OIL COMPANY (CFP) BOUGHT FROM IRAN. IT HAD PAID ONLY IN DOLLARS FOR SOME TIME AND WOULD CONTINUE TO DO SO.

(10) REFUSE OIL PURCHASES ABOVE OPEC TERMS

FRANCE HAD BEEN TRYING FOR AGES TO PERSUADE OTHER COUNTRIES TO BUY ONLY AT OFFICIAL PRICES. PAYE APPARENTLY REMARKED TO MYERSON THAT IT WAS A PITY US COMPANIES HAD BOUGHT HEAVILY ON THE SPOT MARKET LAST SPRING, AT WHICH MYERSON REACTED ANGRILY.

3. LALLEMAND GAVE A SIMILAR ACCOUNT OF THE FRENCH POSITION AND COMMENTED THAT THAT THERE WAS VERY LITTLE THE FRENCH GOVERNMENT COULD DO.

(ADVANCED AS REQUESTED)

FCO PLEASE PASS ADVANCE COPIES TO BRIDGES, BAYNE.

HIBBERT

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FM TEHRAN 191200Z DEC

TO PRIORITY FCO

TELEGRAM NUMBER 1366 OF 19 DEC 79

INFO PRIORITY WASHINGTON, PARIS, BONN, UKMIS NEW YORK.

Prime Minister (2)

26.12.79

FOLLOWING FOR PUS. WASHINGTON TELNO 4250 :

US/IRAN CONFRONTATION.

1. I WONDER WHETHER IN PRACTICE OUR PERFORMANCE WILL TURN OUT TO BE ANY WORSE THAN OUR PRINCIPAL ALLIES. ON THE MAIN ISSUE, OF COURSE, WE ARE ALL BOUND BY OUR LAWS AND THE MATTER IS IN THE HANDS OF THE COURTS. I AM TOLD THAT THE FRENCH COURTS HAVE JUST ORDERED THE RELEASE OF THE IRANIAN TIME DEPOSIT (DUE TO-DAY) WITH THE CITIBANK IN PARIS.
2. AS FOR THE REST, I SUSPECT THAT WE MAY BE RATHER MORE HONEST THAN OUR ALLIES. FOR EXAMPLE, THE FRG AMBASSADOR TOLD ME YESTERDAY THAT, WHILE HIS AUTHORITIES ARE STRONGLY OPPOSED TO ANY MAJOR SWITCH INTO DEUTSCHMARKS (ON TECHNICAL AS WELL AS POLITICAL GROUNDS), THEY ARE PREPARED TO ACCEPT PAYMENT IN DEUTSCHMARKS FOR PARTICULAR TRANSACTIONS. AND HIS GENERAL APPROACH INDICATED THAT WHILE GERMAN BANKS AND BUSINESS MIGHT WELL HAVE RESERVATIONS ABOUT ENTERING INTO NEW ENGAGEMENTS WITH THE IRANIANS, ON COMMERCIAL GROUNDS, IT WOULD BE ANOTHER MATTER FOR THE FRG GOVERNMENT OR BANKING AUTHORITIES TO ISSUE INSTRUCTIONS AND GUIDANCE.
3. THIS IS OF COURSE ONLY THE VIEW AS SEEN FROM HERE.

GRAHAM

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SED	PS
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FUSD	PS/MR HURD
FRD	PS/PUS
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ES & SD	MR FIGG
OID	MR J C MOBERLY
	MR GULLARD
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FM WASHINGTON 192326Z DEC 79

TO PRIORITY FCO

TELEGRAM NO 4283 OF 19 DECEMBER

INFO PRIORITY TEHRAN

Prime Minister

②

21.12.79

US/IRAN

1. TODAY'S WASHINGTON POST CARRIES AN ACCOUNT OF AN INTERVIEW WITH GOTBZADEH IN WHICH HE TWICE REPEATED THAT HE WAS USING THE OCCASION TO SIGNAL TO WASHINGTON WAYS TO END THE HOSTAGE IMPASSE. HE ALSO STATED, WITH REFERENCE TO CHARGES BY THE STUDENTS THAT HE WAS SPEAKING OUT OF TURN, QUOTE I AM TALKING WITH FULL AUTHORITY AND I KNOW WHAT I AM TALKING ABOUT UNQUOTE.
2. GOTBZADEH FLOATED WHAT APPEARS TO BE A NEW IDEA, NAMELY THAT THE US ITSELF SHOULD CONDUCT AN INVESTIGATION INTO THE SHAH'S CRIMES. HE DID NOT SPECIFY WHAT KIND OF INVESTIGATION HE ENVISAGED OR WHETHER IT NEEDED TO GET UNDER WAY BEFORE ANY OF THE HOSTAGES WOULD BE RELEASED. AT ONE POINT, HOWEVER, HE MENTIONED A CONGRESSIONAL PROBE, SIMILAR TO THE ONE THAT SPARKED THE NATIONAL DEBATE ON AMERICAN INVOLVEMENT IN VIETNAM. HE EMPHASISED THAT IRAN NEEDED SOME ASSURANCE OF US GOVERNMENT ACTION SINCE, IF THE HOSTAGES WERE RELEASED WITHOUT THE PROMISE OF A SERIOUS INVESTIGATION, US GOVERNMENT OFFICIALS QUOTE WILL BURY THE MORE GENERAL ISSUES UNQUOTE - THESE ISSUES INCLUDED CIA INVOLVEMENT IN IRAN, THE SHAH'S WEALTH, THE SALE OF UNNEEDED MILITARY EQUIPMENT TO IRAN AND THE ALLEGED BRIBERY OF AMERICAN OFFICIALS BY IRANIAN DIPLOMATS. THE IRANIAN AUTHORITIES WOULD SUPPLY MATERIAL TO HELP THE US GOVERNMENT PROBE. WORD OF AN AMERICAN INVESTIGATION INTO WHAT HE CONSIDERED THE REAL ISSUES SEPARATING THE US AND IRAN - THE SHAH'S ALLEGED CRIMES - COULD BE USED AS LEVERAGE TO PERSUADE THE STUDENTS TO GIVE UP THE HOSTAGES.
3. ASKED ABOUT GOTBZADEH'S PROPOSAL AT TODAY'S PRESS BRIEFING, HODDING CARTER REPEATED THAT THERE WERE MANY FORA OPEN TO THE IRANIANS TO AIR THEIR GRIEVANCES ONCE THE HOSTAGES WERE RELEASED: BUT HE ADDED THAT IT WAS A POLITICAL FACT WHICH HAD NOTHING TO DO WITH GOTBZADEH'S INTERVIEW THAT CONGRESS WOULD IN DUE COURSE HOLD HEARINGS ON US/IRANIAN RELATIONS.
- /4. IN

4. IN A STATEMENT ON 18 DECEMBER (I.E. BEFORE GOTBZADEH'S INTERVIEW APPEARED) WHITE HOUSE SPOKESMAN JODY POWELL CONTINUED TO TAKE A FIRM LINE AGAINST QUOTE PUBLIC EXPLOITATION UNQUOTE OF THE HOSTAGES, WARNING THAT IT WOULD BE CONSIDERED A QUOTE FURTHER PROVOCATION UNQUOTE IF THE IRANIAN AUTHORITIES WENT THROUGH WITH THEIR THREAT TO BRING THE HOSTAGES BEFORE AN INTERNATIONAL TRIBUNAL. QUOTE THE UNITED STATES IS SEEKING A PEACEFUL SOLUTION THROUGH EVERY AVAILABLE CHANNEL. THIS IS FAR PREFERABLE TO OTHER REMEDIES THAT ARE AVAILABLE TO THE US UNQUOTE. WITHOUT BEING SPECIFIC POWELL SAID THAT THE LONGER THE HOSTAGES WERE HELD, QUOTE THE HIGHER THE PRICE UNQUOTE IRAN WOULD HAVE TO PAY IN TERMS OF US RETALIATION.

5. IN BACKGROUND BRIEFING OF THE PRESS, OFFICIALS ARE LETTING IT BE KNOWN THAT, ALTHOUGH THE PRESIDENT REMAINS COMMITTED TO ORDERING NO ACTION THAT WOULD CAUSE BLOODSHED SO LONG AS THE HOSTAGES ARE NOT HARMED PHYSICALLY, A MORE MEASURED RESPONSE INVOLVING QUOTE NON-VIOLENT UNQUOTE MILITARY FORCE, FOR EXAMPLE A NAVAL BLOCKADE, IS UNDER CONSIDERATION. THIS IS SAID TO BE AN QUOTE OUTER OPTION UNQUOTE. THE PRESS ARE ALSO BEING TOLD THAT THE ADMINISTRATION IS CONTINUING TO MOVE TOWARDS TAKING STEPS IN CONJUNCTION WITH THEIR ALLIES TO INCREASE ECONOMIC PRESSURE ON IRAN, AND THAT SOME MEASURES OF THIS KIND COULD BECOME KNOWN IN THE NEXT FEW DAYS AND WOULD NOT NECESSARILY HINGE ON FIRST OBTAINING A CHAPTER VII RESOLUTION IN THE SECURITY COUNCIL.

HENDERSON

FILES

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19th December, 1979

Mr Michael,

IRAN

.....

I attach a paper prepared by Treasury officials in haste this afternoon following an inter-departmental meeting chaired by the Treasury this morning. I am circulating this tonight as a basis for the Prime Minister's meeting tomorrow afternoon.

The Chancellor has seen this note. He has considerable doubts whether it would be advisable to go as far as suggested in the draft reply to the Americans. But he wishes to reserve his position until he has heard the Governor's report on his visit to Bonn - see paragraph 13 of the attached note.

Copies go to the Private Secretaries of the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Secretary of State for Energy, the Attorney-General, the Governor of the Bank of England and Sir Robert Armstrong.

Yours ever,

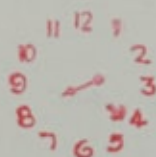
Mr Hill

P.P. (A.M.W. BATTISHILL)

M. Alexander, Esq.,
Private Secretary,
10, Downing Street

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19 DEC 1979



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DRAFT DOCUMENT TO BE AGREED BETWEEN THE CENTRAL BANKS OF THE UNITED KINGDOM, GERMANY, FRANCE, ITALY, JAPAN AND SWITZERLAND

(WITH APPROPRIATE TEXTUAL ADAPTATIONS)

Central Banks *When so convenient*
~~The Bank of England~~ will pass on to banks in the ~~UK~~ a request by ~~the~~
~~HMG~~ that they should take certain steps in support of the United States
action in freezing Iranian official assets with the aim of helping to
secure the release of the United States hostages in Tehran. The
action requested by HMG is that the banks should:-

- Pressure*
- (i) Refrain from offering new credit to the Iranian Government or government agencies apart from the type of short-term credit normally associated with commercial transactions.
 - (ii) Decline to open new demand or deposit accounts in any currency for the Iranian Government or government agencies, apart from those that are needed for normal commercial transactions, in order to prevent massive switching of deposits from United States banks or out of dollars into other currencies.
 - (iii) Decline to accept substantial increases in existing non-dollar deposits by the Iranian Government or government agencies so as to prevent massive switching of deposits from the United States banks or out of dollars into other currencies.

2. A similar request will be made simultaneously by the Governments of Germany, France, Italy, Japan and Switzerland to banks in their countries.

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3. The Bank of England will make it clear that this is a request by HMG that the banks should voluntarily do those things in support of a foreign policy objective - namely to help the United States to secure the release of their hostages in Tehran. It is not formal guidance by the Bank of England of the type used to achieve domestic monetary policy or prudential objectives. Individual banks must, in the last resort, take decisions which protect what they judge to be their vital commercial interests. The request will be withdrawn automatically when the hostages are released.

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DRAFT BRITISH REPLY TO THE UNITED STATES NOTE OF 17 DECEMBER

HMG have considered the six proposals contained in the note handed to the Foreign and Commonwealth Office and the Treasury on 17 December, following earlier discussions in Brussels and London. These matters were subsequently discussed with the United States President and Secretary of State in Washington. Four of the proposals concerned guidance to banks and two of them advice to oil companies.

Guidance to banks

2. HMG shares the United States concern that the present crisis in relations with Iran should be resolved without lasting damage to the international financial system. They are accordingly prepared to join with the authorities in other major financial centres in making a request to major banks in London (both British banks and those from other countries) in support of the United States action to secure the release of their hostages. Concerted action by the following Governments seems to HMG to be essential to secure the intended effect: United Kingdom, Germany, France, Italy, Japan and Switzerland. A draft of the confidential memorandum which might be the basis of a concerted request to banks in all these countries is attached.

3. The attached draft follows closely proposals A, B and D in the United States note. But as the action envisaged does not extend as far as a trade embargo (which would require a Chapter VII Resolution) HMG considers that it would be right to exclude from

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any guidance measures that would serve to frustrate regular commercial transactions. On the other hand the guidance would serve to reduce the chances of a massive switch of Iranian deposits from United States banks to the banks of other countries and out of dollars into other currencies.

4. Proposal B is that we should ask banks "to require punctual payment of interest and principal on outstanding loans to Iran, declaring Iran in default if the payments fail to come in on time". The first half of this proposal presents no difficulty. All banks expect their loans to be serviced promptly; if they were not the loans would be technically in default. But the bank or banks making the loans then have to decide whether to exercise their rights to offset or enforce payment, as specified in the loan agreements. We cannot oblige banks to take decisions on this which conflict with their judgement on where their financial interests lie.

Advice to oil companies

5. Hitherto British oil companies have not paid for Iranian oil in currencies other than US dollars; nor have they accepted recent Iranian attempts to sell oil at prices sharply above those asked by other OPEC countries. HMG is prepared in principle to advise British oil companies to maintain this attitude in future as part of effective and concerted arrangements made by all major OECD and IEA countries which did not simply direct Iranian sales on to the spot market. HMG is ready therefore to join at short notice in international discussions designed to secure an effective common initiative by OECD and IEA countries on these lines.

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IRAN: VOLUNTARY ACTION IN SUPPORT OF THE UNITED STATES

Note by Treasury Officials

On 17 December the US Embassy handed to the Foreign Office and the Treasury a note asking us to take six specific steps in support of the United States over Iran. A copy of this note is at Annex A.

2. During the Prime Minister's talk in Washington with President Carter on 18 December, Mr Brzezinski pressed us strongly to do what the Americans had asked. At a subsequent meeting with the Foreign and Commonwealth Secretary, Mr Vance handed over a list of measures which the Americans would like to see taken indicating the extent to which France, Germany and Italy were ready to comply. These developments are reported in Washington telegrams Nos 4250 and 4251 - copies attached at Annexes B and C. This second list includes the proposals in Annex A plus three others (see paragraph 9 below).

3. This note has been prepared by Treasury officials following a meeting on 19 December with officials of the Bank of England, Foreign and Commonwealth Office, Department of Trade, Department of Energy and ECGD officials. It is not an agreed document. It is exclusively concerned with the voluntary measures suggested by the United States in advance of any Chapter VII resolution or of any decision to seek such a resolution. This means, in particular, that the measures would have to be taken without legislative powers and also that they would not include a trade embargo.

Multilateral support

4. Ministers have made it clear that we cannot take action which would have costs for the United Kingdom on our own. There must be a sufficient degree of multilateral support. We have checked the information in telegram 4251 with the French and Germans. The French clearly are not prepared to go as far as Mr Vance supposes. We understand that the Germans intend to consult their major banks informally before reaching a final view on what they might do.

5. Our latest information on what the other major countries tell us they might be prepared to do is summarised in Annex D. It will be seen that the Swiss are reported to have told the Americans that they would inform their banks of the Americans' wishes but would leave them entirely free to do whatever they thought appropriate. The European central bank Governors are meeting in Bonn

tonight and our Governor will be present. He will take the opportunity to discover directly what the other main countries are proposing to do in response to the American request.

6. It seems very unlikely that the Americans will be able to get support for what they want from more than a very limited number of countries. Ministers will therefore have to consider what degree of collective support would be sufficient to enable us to make any move. In the case of banking measures, Treasury officials consider that it would be important to secure agreement to collective action by the following countries: Germany, France, Italy, Japan and Switzerland. In the case of the oil proposals, as explained below, it is likely that UK interests would be damaged unless the action were supported by all the major oil-consuming countries.

Objective of the measures

7. There has been an important ambiguity about US objectives since they first froze Iranian assets. At that time they said their purpose was to prevent Iranian action to default on debts to United States citizens and shake the dollar. Subsequently they told the Chancellor that their purpose was to put pressure on Iran to release the hostages. This has not been made clear in public. The same ambiguity persists in the latest proposals. The document at Annex A explicitly says that the action now sought from allies is intended "to thwart Iranian instigated disturbance to the international financial system". In fact, no disturbance to the international financial system flowing from action by Iran has yet taken place. All the evidence available to the Bank of England suggests that Iran is making every effort to ensure that banking relationships between Iran and non-US banks are conducted in as correct a manner as possible. The dollar has been remarkably stable since the hostages were taken.

8. In the view of Treasury officials, we should only contemplate action in support of the United States in order to help secure the release of the hostages. If we endorsed the US statement of the purpose of the action as being to thwart Iranian disturbance to the financial markets, we would be likely to intensify Third World fears that their assets held in the major financial centres, notably London, were no longer safe from direct political interference. Although Iranian action in seizing the US hostages has been almost universally condemned, there is nothing like the same degree of international support for the American financial measures. The Finance Minister of Kuwait, for example, has recently made a sharp public attack on the appropriateness of the US measures.

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Commentary on the US proposals

9. There are three proposals in the list contained in Washington telegram No 4251 which are not in the formal US document at Annex A. These are as follows:-

- (i) Freeze Iranian assets without Chapter VII action. X
- (ii) Deny military sales.
- (iii) Deny official export credits.

Ministers have already ruled out the first of these. It is clear that no other country would be prepared to contemplate such action.

10. No military spares and ammunition have been supplied to Iran since the hostages were taken in early November and the Americans know this. We cannot claim credit for this action in public because we have no legal basis for the delays that we are imposing and, if we refused to deliver, we should be in breach of contract.

11. ECGD suspended cover in February on commercial grounds; but in June it was agreed that a limited amount of new short-term cover should be permitted for certain joint ventures. No publicity was given to this and the public position is that ECGD remains off cover for Iran. However, it would not be strictly accurate to say that we are denying all official export credits as requested by the Americans. We might, if Ministers wished, say that we would give no new export credit cover after a certain date; but there is a case in the pipeline which would have to be dealt with before that date.

12. There seems very little to be gained by reminding the Americans of what we are doing on military sales and export credit in our reply to the document at Annex A. It seems more advantageous to limit our reply to the six proposals in Annex A.

Possible draft reply

13. Treasury officials have prepared the attached draft reply to the American note for Ministers to consider on the assumption that they would wish to be as forthcoming as possible. We understand that Department of Energy officials would be content with what is proposed for oil. But the Bank of England consider that even the limited response incorporated in the draft reply to the banking proposals would be contrary to our interests. The Governor will be discussing this matter with his fellow Governors in Bonn tonight and will be able to report his considered views on his return. Treasury officials do not recommend the reply in the draft but suggest that, if Ministers decide that a positive response must be made, the draft is a possible way in which the matter might be handled.

Banking proposals

14. The draft reply goes a long way towards complying with the American request in the proposals A, C and D in the note in Annex A. But it explicitly rules out the American suggestion that banks should refrain from giving normal commercial credit. This seems to us to be inconsistent with the assumption that these voluntary measures should not amount to a trade embargo. The Americans are not intending to stop exports to Iran themselves in the absence of a Chapter VII resolution and we think it unlikely that such trade could continue with no credit given at all. The measures which the draft reply suggests that we should offer to take seem unlikely to arouse serious opposition from the banks. They are unlikely in present conditions to want to give credit to Iran extending beyond that needed to finance trade and commerce. We would expect them to be sympathetic to the suggestion that they should not exploit the American freeze to facilitate the switching of deposits from US banks or out of the dollar.

15. On the other hand, the Bank of England have pointed out that a bank which has an outstanding loan to Iran and no Iranian deposits might be prevented from covering its exposed position if it complied with a request not to accept new deposits. For that reason, the attached drafts have been drawn up in such a way as leave individual banks free to take decisions that they consider necessary to protect their commercial interests.

16. Proposal B in Annex A would constitute a direct attempt to interfere with the commercial judgements of banks. We do not therefore think that the Government could support it. The reasons are explained in the attached draft reply to the Americans.

17. Even the limited agreement to the US suggestions in the draft reply would carry a risk to British interests. HMG has so far maintained an attitude of complete neutrality on the US action in freezing assets. The Third World countries who keep their money in London are well aware of this. Once we get off the fence, they may decide that London is no longer a safe place for their money. We have far more at stake than any of America's other allies. London is the world's leading international financial centre and one of the few truly competitive sectors of the UK economy.

Advice to oil companies

18. Proposals E and F in Annex A ask HMG to give advice to oil companies. In this case we assume that it is British oil companies that is meant. Any request

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to Shell Transport and Trading should be associated with an identical request to the Royal Dutch Company by the Netherlands Government because the Shell Group is only 40% British owned.

19. Proposals E and F must be viewed against the need to keep Iranian and other OPEC oil flowing in the interests of the world economy. Proposal F is also particularly difficult for the UK in another respect. Shell and BP are the two major oil companies who buy most oil directly from Iran. Other European countries such as Germany buy Iranian oil from the spot market. As formulated proposal F would discriminate against these direct sales while doing little or nothing to stop other countries bidding for Iranian oil at high prices through the spot markets. Moreover any action on these lines could well affect the flow of Iranian oil exports.

20. We would not rule out concerted action along the lines of E and F for these reasons. Indeed there would be wider benefits to be had if we could put a ceiling on the price the Iranians can secure for their oil. But it is important that our reply to the Americans should make it clear that:-

a) We could not accept F as drafted, and would want it to cover spot sales as well

b) We could not ask UK oil companies to accept such constraints without similar obligations being accepted by other major oil companies and traders, and without effective arrangements to ensure their observation by all concerned. The interests of BP and Shell would be damaged unless the action covered all the major oil-consuming countries.

HM Treasury

19 December 1979

SECRET

1. The United States has decided to seek the cooperation of its major allies in a series of economic measures against Iran and to thwart Iranian instigated disturbance to the international financial system, following the talks which the Secretary, Under Secretary Cooper, Deputy Secretary Carswell, Under Secretary Solomon, and Assistant Secretary Vest held in Europe last week.

2. During the consultations we discussed the possibility of invoking UN sanctions under Chapter VII of the United Nations Charter. We are examining that possibility very carefully, but we have come to no decision on this point and will be consulting further.

3. A number of governments have quietly taken individual steps already, and we have received indications that many are willing to counsel their banks and firms to take a number of other helpful additional measures. Britain, France, Germany and Italy have already halted shipment of military equipment and the granting of new official export credits.

4. We wish governments to advise their major banks:

(A) To offer no new credits to Iran or Iranian governmental entities (hereinafter "Iran");

(This means that banks will make no new loans or increases in existing, legally binding credit facilities--including extensions of trade credit by way of letter of credit financing (i.e. without full cash cover), purchasing or discounting acceptances or otherwise.)

(B) To require punctual payment of interest and principal on outstanding loans to Iran, declaring Iran in default if the payments fail to come in on time.

(This means that banks will declare a default and accelerate payment immediately upon any failure to pay interest or principal and simultaneously declare a default on any other loans by that bank having cross default clauses. It also means that banks will vote to declare a default and accelerate syndicate loans when payments from Iran to the syndicate have not been made timely.)

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(C) Refuse to open new demand or time deposit accounts for Iran;

(This means that banks open no time or deposit accounts in any currency for Iran.)

(D) To decline to accept substantial increases in existing non-dollar deposits by Iran.

Finally, countries should advise their oil or trading firms:

(E) *To refuse to pay currencies other than US dollar for Iranian oil, and*
(F)(E) To refuse to purchase oil directly from Iran at terms sharply different from those offered by other OPEC countries. This does not preclude purchase of Iranian-origin oil through broker in regular spot markets, subject to the Tokyo summit and IEA agreements on restraint.

5. Taken together, these measures will serve three important objectives. First, they will send a strong signal to Iran, through the financial community, that other countries back the United States in deed as well as in words, and are not willing to carry on "business as usual" in the present circumstances. Second, they represent defensive measures against any attempt Iran might make to disrupt the international financial markets by putting pressure on the dollar. Third, they will modestly increase pressure on Iran's ability to import goods.

6. The Embassy has been instructed to elicit a concrete response. The U.S. Government would like to see implementation of the above measures as soon as possible.

SECRET

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SIR R ARMSTRONG)
ASSESSMENTS STAFF)
MR LE CHEMINANT)

Annex B

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MR F R BARRATT TREASURY

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FM WASHINGTON 183643Z

TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE

TELEGRAM NO. 4250 OF 18 DECEMBER 1979

INFO IMMEDIATE TEHRAN, PARIS, BONN AND UKMIS NEW YORK.

FOLLOWING FROM P.U.S.

IRAN.

1. DURING THE TALKS WITH THE PRESIDENT THIS MORNING, BRZEZINSKI
PRESSED WITH SOME INSISTENCE FOR HMG TO TAKE A RANGE OF FINANCIAL
MEASURES AGAINST IRAN, EVEN BEFORE THERE WERE ANY QUESTION OF A
CHAPTER 7 DETERMINATION BY THE SECURITY COUNCIL. THE PRIME MINISTER
AND SECRETARY OF STATE EXPLAINED THE DIFFICULTIES THIS PRESENTED
FOR US, BUT BRZEZINSKI PURSUED THE POINT WITH INSISTENCE.

2. AT A SUBSEQUENT MEETING BETWEEN THE SECRETARY OF STATE AND
MR VANCE, THE LATTER PRODUCED A CHECK-LIST OF MEASURES WHICH THE
AMERICANS WOULD LIKE TO SEE TAKEN INDICATING THE EXTENT TO WHICH

AMERICANS WOULD LIKE TO SEE TAKEN INDICATING THE EXTENT TO WHICH THE GOVERNMENTS OF FRANCE, GERMANY AND ITALY WERE READY TO DO THIS (TEXT IN MY MIFT, NOT TO BE QUOTED).

3. THE SECRETARY OF STATE CONFIRMED THAT WE WERE ALREADY DENYING MILITARY SALES AND OFFICIAL EXPORT CREDITS, BUT EXPLAINED BRIEFLY SOME OF THE PROBLEMS INVOLVED IN OUR TAKING ANY OF THE OTHER MEASURES WITHOUT A CHAPTER 7 DETERMINATION. VANCE SAID THAT HE REALISED WE HAD PARTICULAR DIFFICULTIES OWING TO LONDON'S IMPORTANCE AS A FINANCIAL CENTRE, BUT ASKED WHY WE SHOULD NEVERTHELESS CONSIDER WHETHER THERE WAS NOT MORE THAT WE COULD DO IN THIS FIELD. THE SECRETARY OF STATE UNDERTOOK TO HAVE THIS LOOKED INTO AGAIN URGENTLY.

4. LORD CARRINGTON IS CONCERNED THAT OUR POTENTIAL PERFORMANCE IN THIS MATTER APPEARS TO COMPARE SO UNFAVOURABLY WITH THAT OF OUR PRINCIPAL EUROPEAN PARTNERS. HE RECOGNISES THAT WE ARE MORE SUBSTANTIALLY AFFECTED THAN THEY, BUT NEVERTHELESS THINKS THAT THE PRESIDENT HIMSELF MAY BE INCITED TO RETURN TO THE CHARGE GIVEN THE DISTINCTLY CRITICAL ATTITUDE OF BRZEZINSKI. THE SECRETARY OF STATE WOULD THEREFORE BE GRATEFUL IF THE DEPARTMENT COULD AGAIN REVIEW THE POSITION URGENTLY WITH THE TREASURY AND THE BANK OF ENGLAND, AND MAY WISH TO RAISE THE MATTER WITH HIS COLLEAGUES ON RETURN IF OUR ATTITUDE SEEMS LIKELY TO CONTINUE TO BE AS NEGATIVE AS IN THE BRIEFING PRODUCED FOR THE TALKS WITH THE PRESIDENT.

HENDERSON

NNNN

IRAN: ADVANCE COPIES

Annex c.

PS
S/SIR I GILMOUR
TS/MR HURD
PS/PUS
MR J C MOBERLY
LORD BRIDGES
HD/MED
HD/FRD
HD/NENAD
HD/UND (2)
HD/OID (2)
HD/DEF DEPT
HD/MAED
HD/ES & SD (2)
HD/CONS DEPT
HD/POD
Legal Adv 1
MISS BROWN
PUSD (2)
NEWS DEPT
~~RESIDENT CLERK~~

PS NO 10 DOWNING ST
SIR R ARMSTRONG)
ASSESSMENTS STAFF) CABINET
MR LE CHEMINANT) OFFICE
CABINET OFFICE DIO
MR F R BARRATT TREASURY

ADVANCE COPY

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GR 200

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FM WASHINGTON 180645Z

TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE
TELEGRAM NO. 4251 OF 18 DECEMBER 1979
INFO IMMEDIATE TEHRAN, PARIS, BONN AND UKMIS NEW YORK.

FOLLOWING FROM P.U.S.

MY M.I.P.T.

1. FOLLOWING IS TEXT OF CHECKLIST:

(NOT TO BE QUOTED)

FINANCIAL ACTIONS ALLIES ARE WILLING TO TAKE
(AS OF DECEMBER 14, 1979)

DENY MILITARY SALES	FRG. YES	FRANCE. YES	ITALY. YES
---------------------	-------------	----------------	---------------

DENY OFFICIAL EXPORT

OFFICIAL EXPORT
CREDITS

YES

YES

YES

DEN NEW BANK CREDITS

YES

YES

YES

BANKS TO DECLARE DEFAULTS
UPON ANY ARREARAGE

YES

YES

PROBABLY

DENY ANY NEW BANK
ACCOUNTS

PROBABLY

PROBABLY

PROBABLY

DENY SUBSTANTIAL INCREASE IN
NON-DOLLAR DEPOSITS

YES

PROBABLY

PROBABLY

EXERCISE CROSS-DEFAULT
CLAUSE

NO

MAYBE

NO

FREEZE ASSETS WITHOUT
CHAP. VII ACTION

PROBABLY NOT

NO

NOT RELEVANT

INSIST ON DOLLARS
FOR OIL

YES

YES

YES

REFUSE OIL PURCHASES WAY
ABOVE OPEC TERMS

YES

YES

PROBABLY

HENDERSON

NNNN

LIKELY RESPONSE OF OTHER GOVERNMENTS TO THE US APPROACH
(based on reports from our own posts)

COMMENT

Germany

France

Japan

Switzerland

Italy

Germans wish to show solidarity with US but want any action to be voluntary, informal and multi-lateral. Recommendations would be made to private sector but they would continue to exercise their commercial judgement. Cabinet expected to approve this approach in principle on 19 December.	Initial official response	Japanese Embassy say that no decisions have been reached. Strong preference for confidentiality. Replies marked + are as reported by the US Ambassador in Tokyo.	No effective action	Initial official response. Italians are unhappy at strength of American pressure. Large community in and loans to Iran
---	---------------------------	--	---------------------	--

ADVICE TO BANKS

- | | | | | | |
|---|-------------------------------------|--|------|--|--------------|
| (i) Deny new credits to Government or public authorities in Iran. | Continued commercial credit likely. | Problem does not arise since banks would be unwilling to lend to Iran. | Yes+ | Swiss will inform central and other banks of the Americans' wish that they do nothing to weaken the international monetary system, particularly the dollar. But they will leave banks free to do what they think appropriate, irrespective of political factors. | Not involved |
| (ii) Insist on prompt servicing; declare default in case of arrears | No | No. No legal powers. Only FR 500m involved as minority partners in syndicates | No | Barely applicable | |
| (iii) Decline to open new deposit accounts for Iran | ? | Irrelevant. Iranians already have enough French accounts. Could open them in Arab countries. | Yes+ | ? | |

ADVICE TO BANKS (continued)

	<u>Germany</u>	<u>France</u>	<u>Japan</u>	<u>Switzerland</u>	<u>Italy</u>
(iv) Decline substantial increases in existing non-dollar deposits by Iran	Difficult	Doubted whether French (or US) law would permit this. Could not ask banks to break law.	Yes+	See above	Not known

ADVICE TO OIL COMPANIES

(v) Insist on paying for Iranian oil in dollars	Perhaps. Paid in dollars so far but possible future payment in DM not excluded.	Yes. (Only CFP concerned, already pay in dollars).	Yes. MITI will give administrative guidance.	(Not raised)	Difficult
(vi) Refuse to purchase oil from Iran at terms well above OPEC	Yes. But would not apply to spot market.	Yes. This is a long-standing French proposal.	Hope to co-operate, and exchange information with British companies	(Not raised)	Will try

SECRET

Mr Whitmore *20/12* *Iran 6*
to F.A. [unclear] *27/11*



Foreign and Commonwealth Office

London S.W.1

19 December 1979

Dear Michael,

Some of the recent correspondence about action to support the Americans over Iran contained references to discussions at a Quadripartite Dinner in Brussels on 12 December. Not all of those receiving copies of the correspondence may have been aware of the sensitivity of such discussions, and the need to keep knowledge of them to a restricted circle. I therefore attach a copy of an internal FCO minute of 23 May 1979 setting out the background. I should be grateful if you, and those receiving copies of this letter, could show it to those who you judge need to see it, bearing in mind the need to keep the number to the minimum possible.

I am copying this letter to Martin Vile (Cabinet Office) and to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade, the Secretary of State for Energy, the Attorney-General and the Governor of the Bank of England.

7- [unclear]
8/12

(G G H Walden)
Private Secretary

M O' D B Alexander Esq
10 Downing Street
LONDON

SECRET

al. 10. 00
24 MAY 1979

S E C R E T

TO: All Deputy Under-Secretaries
All Assistant Under-Secretaries
supervising geographical and
functional departments

QUADRIPARTITE TALKS

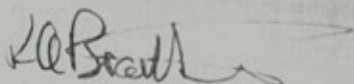
Procedures for handling papers on the secret Quadripartite talks between the UK, the US, Germany and France were set out by Mr Crowe in his minute of 9 August 1978. This minute brings the arrangements up-to-date.

- (114) 1978
2. The expression "Quadripartite talks" usually means the secret meetings of the four Foreign Ministers (sometimes using the normal Four-Power discussions on Berlin and Germany as a cover) and the somewhat more frequent preparatory meetings of the four Political Directors, at which the British representative is now Mr Bullard.
 3. Our other allies have not been informed of the existence of Quadripartite talks on non-Berlin subjects; but they are suspicious and would be resentful if they thought their suspicions justified (grumbling about the Guadeloupe Summit has still not subsided). This is why it continues to be important to restrict knowledge of the talks only to those in the FCO who "need to know".
 4. The following arrangements for handling papers are intended to help preserve this secrecy:
 - (a) All papers referring to Quadripartite discussions on matters other than Berlin at Foreign Minister level and between Political Directors will be classified SECRET and entered only in Planning Staff.
 - (b) Operational departments responsible for the individual subjects in the talks may keep their own copies of papers which refer to the Quadripartite forum, but these should be kept separately in, eg, the Head of Department's security press.
 - (c) Operational departments should not copy or distribute such papers elsewhere in the FCO. If wider copying or distribution is needed, papers should be sent to Planning Staff, who will make the necessary arrangements.
 - (d) Planning Staff files will always be available to be consulted by operational departments concerned.
 5. Mr Cornish is responsible in the Planning Staff for managing these arrangements.

S E C R E T

S E C R E T

6. I would be grateful if Assistant Under-Secretaries could, as necessary, draw the attention of the Heads of the Departments they supervise to these rules; and ask that Heads of Department should ensure that any desk officers involved in the handling of papers referring to the Quadripartite talks are also aware of the rules.



R Q Braithwaite
Planning Staff

23 May 1979

cc Private Secretary
PS/PUS

S E C R E T

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Subject filed as USA. Nov
79: Visit to US Policy

Extract from Record of Meeting between
PM and President of the U.N. General Assembly
New York 18.12.79

IRAN

The Prime Minister referred to her conversation with the Secretary General, in which Iran had been the main topic. Mr. Salim said that there had been hopes from time to time, which had then been dashed. He personally had tried to send messages which could help the situation. It was difficult to find out who was in control. The Foreign Minister's statements for example generated hope which had then been destroyed by the students' responses. The United States had been acting in a very responsible way. International opinion was with them. The Prime Minister stressed that international opinion must follow and support United States' efforts.

Mr. Salim said that the Prime Minister would know what ideas the Secretary General had in mind. The United Nations were ready to do anything feasible. The question was how a way out could be found. The return of the Shah was impossible. Humiliation for either side had to be avoided. The earlier Security Council resolution had offered a way out for Iran. He had spoken to Iranian diplomats in the United States. He had written to Khomeini, and had had in response a seven page letter from the previous Foreign Minister. But the Foreign Minister had been replaced before he could follow up the detailed issues raised in that letter. The Prime Minister said that she was concerned that nobody knew who the students really were.

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/Sir Anthony Parsons

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- 5 -

Sir Anthony Parsons outlined his personal assessment that they were representatives of a right wing Muslim group, Mujaheddin with middle class origins, which had operated as a guerrilla movement under the Shah. Lord Carrington drew attention to other theories that they were from an extreme left wing group out to discredit Khomeini. Sir Anthony Parsons said that they could be either, but were certainly not a bunch of nondescript students. The Prime Minister noted the more serious implications if they were a left wing group trying to challenge Khomeini's authority. Mr. Salim commented that there were numerous theories, but no firm answers. The Prime Minister referred to the frequent appearances of the Iranians holding the hostages on television. Lord Carrington recalled the day's television news, showing the "students" repudiating the new Foreign Minister. Mr. Salim said that Mr. Gotzbzadeh had contradicted himself twice two days earlier. It was important to recognise that political figures were attempting to establish personal constituencies within Iran at present. The Prime Minister asked whether life in Tehran appeared to be going on normally, away from the immediate environment of the US Embassy. Sir Anthony Parsons said that the most recent British reports indicated that this was so. It was like the period of the revolution in Tehran. Mr. Salim commented that some of the developments over the hostages appeared to be well orchestrated.

The meeting concluded at 1250.

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19 December 1979

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Subject filed in USA
Nov 79: Visit to US Policy

Extract from Record of Meeting between
PM and U.N. Secretary General, New York,
18.12.79.

Dr. Waldheim characterised progress on Rhodesia as one positive development in a period of troubles. Washington was now getting very restive about Iran. The new Iranian representative, Ambassador Farhang, had yesterday paid his initial call. He had instructions to explore how the United Nations might be able to contribute to a peaceful outcome of the situation. In the course of their one hour talk, he had floated one new idea. Dr. Waldheim stressed that he was passing this on in the strictest confidence, and that it had not been made public. The thought was that the United Nations could help by sending to Iran a small group of UN Ambassadors, whilst the Iranians themselves proceeded with their plans to establish some form of grand jury. The composition and terms of reference for such a group would have to be very carefully worked out. It would certainly have to include some Muslim representatives. Some names had already been suggested. From Europe there might perhaps be a Nordic representative. The total number should be five or six. Its purpose would be to establish contact with the various forces in Tehran active in the situation. But there would have to be a formal mandate. Ambassador Farhang had insisted that this could not in any way substitute for the grand jury but might be complementary. Dr. Waldheim had stressed that such a group could not be identified with the activities of the proposed grand jury, although it was not impossible to retain the possibility of some form of international inquiry later. He had said that he could consider the idea of a contact group from the United Nations mandated to make contact with the Iranian authorities. Ambassador Farhang seemed open to this possibility. Dr. Waldheim had suggested that such a group, invited by the Secretary General, might even go to Tehran before Christmas.

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In the light of its talks, it might be possible for the Iranians to release at least some hostages over Christmas as a gesture. Farhang had not rejected this, but had reported back to Tehran and expected to provide a response in two days. Dr. Waldheim had then reported his conversation to the United States authorities, who did not discourage the proposal.

Dr. Waldheim was expecting a response on 19 December. He was already thinking of a possible composition for the contact group. This could offer a new start to serious negotiations. They had once been in progress, until interrupted by the sudden departure of the previous Foreign Minister. He had already had a number of telephone conversations with the new Foreign Minister. He was, however, worried by Mr. Gotzbzadeh's excessive use of television for pronouncements on the situation. But he clearly wanted a settlement. Ambassador Farhang had told Dr. Waldheim that the Iranian public had to be prepared for the release of the hostages but had underlined that the authorities did not have complete control over the students. The Prime Minister asked how the public could be prepared for the release of the hostages if the authorities were not in control. Dr. Waldheim saw this as a psychological problem. It was a question of putting over an idea. If, for example, a group from the United Nations were looking into Iranian grievances, this could help. There were obvious difficulties in setting this up; but the idea of a contact group from the United Nations, visiting Iran to discuss ways and means of resolving the crisis, was a plausible approach which had not been rejected by the parties. If the next day's answer were positive, he would immediately put together the group, including a U.N. Under Secretary General. He would hope to despatch it before the end of the week. Lord Carrington asked whether the Iranians' own tribunal would be in operation at the same time. Dr. Waldheim said that they were still at the stage of setting that up. There might have to be parallel action. The Prime Minister

/ said

said that such a United Nations group could only go to Iran with the declared purpose of negotiating for the hostages' release in line with the decision of the International Court of Justice. Sir Anthony Parsons commented that the Iranians could well find this unacceptable.

Sir Michael Palliser asked whether the United States had indicated what limits they wish to establish on the activities of the group. Dr. Waldheim thought that the group might be able to invite some of the hostages to give their views on the situation, as a result of which those witnesses might be expelled from Iran. He had said to Ambassador Farhang that it was difficult to see how the hostages could be expected to give evidence after a long period of inactivity, handcuffed and blindfolded by day. The Ambassador had said that they were no longer treated in this manner. Dr. Waldheim had insisted that there should be an understanding about the release of some of the hostages before Christmas.

The Prime Minister asked whether anyone knew what the students really wanted. Her fear was that the Ayatollah Khomeini was not in control. Dr. Waldheim's sources indicated that Khomeini did still have ultimate authority, and that the students would - if reluctantly - obey his instructions. A United Nations group would have to have guarantees that Khomeini would see them and perhaps that they would see some of the hostages. The United States concern was that such a group could be exploited by the Iranians. This was why results would need to be demonstrated, in the form of some early release of hostages, to pre-empt any risk of the group being seen purely as an adjunct to the Irani tribunal. There might have to be some follow-up to the group's work - perhaps in the form of a commission of international jurists. But one need not exclude the other. The Iranians knew that their tribunal would not be taken seriously at the international level.

The Prime Minister commented that any commission of inquiry would be a dangerous precedent. If there was justification for one, it would be easy to find justification for 50. The ideas outlined by the Secretary General were not attractive in themselves, but she appreciated that they might be the only available tactical approach. She herself found it disturbing to think of a Russian or Hungarian involved in such a group. Dr. Waldheim acknowledged the problems. The Americans would also be sensitive about terms of reference. At the outset of the crisis, they had been desperately looking for any way to respond. Now their approach was a little more restrained. Within the United Nations, the African group had proved to be against any commission of inquiry, although the United States would have been ready to go along at an earlier stage. The Africans could see risks for themselves. They were happy to leave the ball in the Secretary General's court. He saw the contact group idea as the best way out of the immediate dilemma.

The Prime Minister wished it was possible to be clear what the students required. If the motive was purely vengeance, it was impossible to see a way out. Sir Anthony Parsons feared there was nothing more subtle in their motives. The student label was certainly misleading. His personal guess was that the captors were Mujaheddin, an extreme right-wing religious group whose leaders had never surfaced when operating as guerillas in the Shah's day, and still remained anonymous. Now they simply wanted to get the Shah back. The movement would maintain some kind of balance with Khomeini, and in the end they would probably not want to undermine his authority. Within the approach outlined by the Secretary General, the key would be a most careful briefing of the contact group. Dr. Waldheim said that he would of course select a very experienced group. He acknowledged the need for the most careful preparation. He saw the Iranian praise at the Shah's departure from the United States - characterising it as an Iranian

/ victory -

victory - as a step in the process of preparing Iranian opinion for the eventual release of the hostages.

Lord Carrington asked how long the United States would be prepared to hold back on other moves if a contact group were established. The Security Council resolution had been ignored as had the judgement of the International Court of Justice. Dr. Waldheim said that they would give it a week. His most recent discussions with Mr. Vance suggested that Americans would be prepared to give this last opportunity a chance. If it failed, then they would move for Chapter 7 sanctions. Lord Carrington asked whether the Americans would be able to carry a Chapter 7 determination in the Security Council. Dr. Waldheim was uncertain. On 15 December, Mr. Vance had spoken to him of preparing the ground for a Council meeting in view of the conflicting reports of the mood in Tehran. He had asked Mr. Vance to wait a few days. With the contact group idea now being explored, the Iranians could accuse the US of trying to undermine this approach if the US were to press for a sanctions resolution now. Sir Anthony Parsons commented that a resolution adopted with the minimum nine votes would in practice be an Iranian victory. A Chapter 7 determination would need at least 13 votes to achieve worthwhile pressure on Iran. He knew of one non-permanent member of the Council who seemed certain to abstain. Dr. Waldheim commented that a Security Council vote would be awkward for a number of countries. Initially everyone had been prepared to support the United States on such a grave violation of international standards. But sanctions were a different proposition. There were now noises of unease from some countries, and he felt that the USSR might not go along with sanctions. The situation had become very emotional, and a number of countries might consider that sanctions might not work. The Prime Minister commented that the situation was now worse than at the outset. Its familiarity, after 6 weeks, might lead some people to lose sight of the true horror.

The Prime Minister said that, if President Carter was to hold back whilst a contact group went to work, he would need to be able to justify his delay in public. Dr. Waldheim replied that this was why he had insisted on the need for some hostages to be released before Christmas. He had even prepared a letter to Khomeini drawing attention to the recent ^{Postponement} ~~suspension~~ of the ~~Security Council~~ ^{General Assembly} out of respect for holy days in the Muslim calendar and suggesting that the release of hostages would be a mark of respect and understanding for the Christian festival of Christmas.

The Prime Minister asked what the Iranians could find acceptable now that the Shah could not be returned by the United States. Dr. Waldheim found it difficult to assess this. Recognition by the international community of Iranian grievances against the past regime might meet the need. Sir Anthony Parsons commented that it was not the Iranian style to meet half-way in negotiations if they were already getting concessions. He commented that an ideal member of a contact group would be Ambassador Salim, whose credentials were ideal, as a young Muslim African with a radical background.

The Prime Minister observed that Dr. Waldheim was in the centre of a wide range of problems. But the Iranian one was of a type and seriousness which had not been encountered for a long time. Dr. Waldheim said that there was a particular problem in the absence of real interlocutors. The Prime Minister returned to her concerns about the objective of a contact group in Iran. But she acknowledged its value for the refugees as a reassurance to them whilst it was in Iran. Lord Carrington commented that it would add respectability to a very unrespectable event. Dr. Waldheim concurred. The Prime Minister added that once the group had gone to Iran it could not come out with nothing achieved. Lord Carrington said that there would have to

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be some understanding about results before the group departed.
Dr. Waldheim said that the International Community had to use
whatever avenues were open, especially in a situation where the
true source of power and authority was obscure.

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PS/MR HURD
PS/PUS

~~MR J C MOBERLY~~ *M. B. Moberly*

LORD BRIDGES

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FM TEHRAN 181000Z DEC

TO IMMEDIATE FCO

TELEGRAM NUMBER 1355 OF 18 DEC 79

INFO IMMEDIATE WASHINGTON

INFO PRIORITY EEC POSTS.

PS NO. 10 DOWNING ST

SIR R ARMSTRONG)


ASSESSMENTS STAFF)

CABINET
OFFICE

MR LE CHEMINANT)

CABINET OFFICE DIO

MR F R BARRATT TREASURY

Amie Austin


MY TELNO 1344 PARA 1 : IRANIAN REACTIONS TO THE MOVE
OF THE SHAH.

1. AS REPORTED, FIRST REACTIONS HERE WERE IN A LOW KEY. THE STUDENTS COMMENTED AS REPORTED BUT DESPITE THE ADVANCE WARNING, IT SEEMED THAT AN OFFICIAL LINE HAD NOT BEEN FULLY WORKED OUT. HOWEVER, OVER THE LAST FEW DAYS IT SEEMS THAT THE IRANIAN AUTHORITIES UP TO AND INCLUDING THE REVOLUTIONARY COUNCIL HAVE DECIDED TO TREAT THE SHAH'S MOVE TO PANAMA AS A VICTORY FOR IRAN. IN A STATEMENT ISSUED ON THE NIGHT OF 16 DECEMBER, THE REVOLUTIONARY COUNCIL SAID INTER ALIA, "THE HEROIC RESISTANCE OF THE IRANIAN PEOPLE IN THE FACE OF THE AGGRESSIONS OF AMERICAN IMPERIALISM, AND THE WISE LEADERSHIP OF THE IMAM... FORCED THE US TO RETREAT TO THE EXTENT THAT IT PERSUADED THE SHAH TO RUN AWAY, ACCEPTING DEFEAT".

2. SIMILARLY, GOTBZADEH TOLD PARS NEWS AGENCY THAT SAME DAY

2. SIMILARLY, QOTBZADEH TOLD PARS NEWS AGENCY THAT SAME DAY THAT THE US GOVERNMENT HAD YIELDED TO PRESSURE FROM THE IRANIAN PEOPLE FOR THE EXPULSION OF THE SHAH. CONGRATULATIONS ON THIS SUCCESS WERE DUE TO THE PEOPLE OF THE COUNTRY.

3. KHOMEINI HIMSELF SEEMS TO HAVE TAKEN A SOMEWHAT STRONGER LINE, SPEAKING IN A TELEVISION BROADCAST LAST NIGHT. I HAVE NOT YET OBTAINED A TEXT OF HIS REMARKS BUT I AM TOLD THAT IT WAS RECORDED SOME DAYS AGO. IN ANY CASE DESPITE THE BBC WORLD SERVICE REPORT OF THEM, I BELIEVE THEY ARE NOT TO BE REGARDED AS INCONSISTENT WITH THE REVOLUTIONARY COUNCIL'S AND QOTBZADEH'S LINE.

4. WHAT ARE THE IMPLICATIONS FOR THE HOSTAGES ? THE SIGNALS ARE CONFUSED. IN HIS SAME INTERVIEW WITH PARS, QOTBZADEH HOPED THAT THE GRAND JURY, TO STUDY THE US ACTIONS IN IRAN (THIS PHRASE IN THE PARS BULLETIN IS A MANUSCRIPT AMENDMENT TO AN ORIGINAL PHRASE WHICH READ, "TO STUDY THE CASE OF THE HOSTAGES", WHICH HAS BEEN DELETED) WOULD BE HELD IMMEDIATELY AFTER THE NEW YEAR, OR PERHAPS EVEN EARLIER. THE REVOLUTIONARY COUNCIL COMMUNIQUE OF 16 DECEMBER STATED THAT THEY STILL REGARDED THE US AS RESPONSIBLE FOR THE SHAH'S CRIMES, WHILE BANI SADR IS REPORTED TO HAVE REPLIED TO A QUESTION ON 16 DECEMBER IN THE FOLLOWING AMBIGUOUS TERMS : "ANSWERING THE QUESTION ABOUT THE DEPOSED SHAH AND HIS TRIAL AND THE HOSTAGES, BANI SADR SAID THAT THE TRIAL SHOULD BE CARRIED OUT AND ADDED THAT IT IS NOT A MATTER OF TRYING THE SHAH PERSONALLY, BUT HIS REGIME SHOULD BE TRIED....". HE ALSO SAID THAT A CLAIM INVOLVING THE MISAPPROPRIATION OF DOLLARS 3.5 MILLION BY THE SHAH AND HIS RELATIVES HAD BEEN "SENT" AND THAT TWO MORE CLAIMS WOULD BE FORWARDED NEXT WEEK TO THE PUBLIC PROSECUTOR, WHICH SUGGESTS THAT THE CENTRAL BANK OR THE GOVERNMENT HAVE STARTED QUASI-LEGAL PROCEEDINGS IN IRAN WITH A VIEW TO FOLLOWING THEM UP WITH LEGAL ACTION IN THE US, BUT THE PASSAGE IS VERY OBSCURE.

5. AS AGAINST THIS, HOWEVER, THE "UHUDENTS" OCCUPYING THE EMBASSY, AFTER REITERATING ON 16 DEC THEIR DEMAND THAT THE HOSTAGES SHOULD BE TRIED, AND DECLARING THAT THEY WOULD NOT LEAVE THE PREMISES OR FREE THE HOSTAGES UNTIL THEIR DEMANDS HAD BEEN MET, HAVE THIS MORNING PUT OUT A VERY STRONG STATEMENT. AFTER CRITICISING PRESIDENT CARTER'S STATEMENT OVER THE WEEKEND WELCOMING SOME SIGNS OF MODERATION, THEY "REGRETTE" THE DEPARTURE OF THE SHAH FROM THE US AND SAID THAT A DECISION OVER THE HOSTAGES WOULD BE TAKEN BY "THE IMAM AND OUR PEOPLE". THEY FOLLOWED THIS HOWEVER BY POINTING TO KHOMEINI'S EARLIER DEMANDS THAT, FAILING THE EXTRADITION OF THE SHAH, THE HOSTAGES SHOULD BE TRIED AND

HOWEVER BY POINTING TO KHOMEINI'S EARLIER DEMANDS THAT, FAILING THE EXTRADITION OF THE SHAH, THE HOSTAGES SHOULD BE TRIED AND CLAIMING THAT IN THE IRANIAN REVOLUTION THERE COULD BE NO COMPROMISE. FINALLY, THEY CRITICISED QOTBZADEH FOR NOT CORRECTLY REFLECTING THE IMAM'S THINKING, AND SAID THAT THEY HAZAONLY ONE DEMAND, THE EXTRADITION OF THE SHAH AND "THE RETURN OF ALL HIS PROPERTY, EVEN IF AMERICA KEEPS HIM OUTSIDE AMERICA" (AGAIN AN AMBIGUITY). FAILING THAT, THE STATEMENT ENDED, THE LEAST THAT COULD BE DONE WAS TO TRY "THE AMERICAN SPIES".

6. THE ISLAMIC REPUBLICAN PARTY, IN A COMMUNIQUE OF 17 DEC DENOUNCING THE DECISION OF THE INTERNATIONAL COURT AS THE HAGUE, REFERS TO "THE DISGRACEFUL EXPULSION OF MOHAMMED REZA FROM THE US, WHICH IS REGARDED AS A BACKWARD STEP FOR IMPERIALISM", AND CONCLUDES : ".....DEMANDS THAT THE TRIAL OF THE AMERICAN SPIES, WHICH IS IN FACT THE TRIAL OF THE CRIMINAL AMERICAN GOVERNMENT.... BEGIN AS SOON AS POSSIBLE ...".

7. MY CONCLUSION FROM ALL THIS IS THAT THERE IS STILL CONSIDERABLE DEBATE WITHIN THE MANY DIVERSE ELEMENTS THAT MAKE UP THE STRUCTURE OF AUTHORITY AND POWER HERE. THOSE IN FAVOUR OF A PEACEFUL SETTLEMENT, WHICH I THINK INCLUDES THE MEMBERS OF THE REVOLUTIONARY COUNCIL, HAVE DECIDED TO TAKE THE LINE THAT THE DEPARTURE OF THE SHAH FROM THE US IS A DEFEAT FOR THE US AND TO CONTINUE TO WORK FOR THE HOLDING OF AN INTERNATIONAL ENQUIRY. CERTAINLY QOTBZADEH HAS CONTINUED TO SPEAK IN THESE TERMS (CF HIS INTERVIEW ON ABC TELEVISION) AND HAS EVEN GIVEN CONSIDERABLE DETAIL OF THE WAY IN WHICH THE ENQUIRY MIGHT BE ORGANISED. HE HAS NAMED SEAN MCBRIDE AND PETTITI, CHAIRMAN OF THE LAWYERS' ASSOCIATION OF PARIS AND PRESIDENT OF THE INTERNATIONAL CATHOLIC JURISTS' ORGANISATION, AS POSSIBLE MEMBERS, IN ADDITION TO FIGURES FROM AFRICA AND ASIA, NONE OF WHOM HE HAS YET APPROACHED. (I AM TOLD THAT PETTITI, WHO I BELIEVE VISITED IRAN IN THE SPRING, HAS NOT REJECTED THE PROPOSAL OUT OF HAND BUT HAS SAID HE WOULD TALK TO MCBRIDE. I AM ALSO TOLD THAT THREE GERMANS HAVE BEEN APPROACHED, PASTOR ABLERTZ WHO HAS REFUSED, THE FORMER HEAD OF AMNESTY INTERNATIONAL IN GERMANY, WHO HAS SAID HE IS TOO OLD, AND ANOTHER PASTOR WHO DOES NOT WISH TO BE INVOLVED). HE HAS ALSO SUGGESTED THAT THE ENQUIRY MIGHT CONVENE AT THE BEGINSING OF JANUARY AND WOULD PROBABLY TAKE TWO WEEKS TO HEAR EVIDENCE. THE HOSTAGES COULD APPEAR BEFORE THE ENQUIRY AS WITNESSES BUT "NOT AS THE ACCUSED". MOREOVER HABIBI, SPEAKING FOR THE REVOLUTIONARY COUNCIL, SAID LAST NIGHT THAT THE ENQUIRY BOARD WOULD BE COMPOSED OF 24 MEMBERS. AS USUAL, I SHALL TELEGRAPH AGAIN WHEN I HAVE THE TEXT OF THIS STATEMENT LAST NIGHT, ALTHOUGH IT WILL ALREADY BE AVAILABLE TO YOU FROM THE WIRE SERVICES.

IT WILL ALREADY BE AVAILABLE TO YOU FROM THE WIRE SERVICES.

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FM WASHINGTON 180645Z

TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE
TELEGRAM NO. 4251 OF 18 DECEMBER 1979
INFO IMMEDIATE TEHRAN, PARIS, BONN AND UKMIS NEW YORK.

FOLLOWING FROM P.U.S.

MY M.I.P.T.

1. FOLLOWING IS TEXT OF CHECKLIST:

(NOT TO BE QUOTED)

FINANCIAL ACTIONS ALLIES ARE WILLING TO TAKE
(AS OF DECEMBER 14, 1979)

	FRG.	FRANCE.	ITALY.
DENY MILITARY SALES	YES	YES	YES
DENY OFFICIAL EXPORT CREDITS	YES	YES	YES
DENY NEW BANK CREDITS	YES	YES	YES
BANKS TO DECLARE DEFAULTS UPON ANY ARREARAGE	YES	YES	PROBABLY
DENY ANY NEW BANK ACCOUNTS	PROBABLY	PROBABLY	PROBABLY
DENY SUBSTANTIAL INCREASE IN NON-DOLLAR DEPOSITS	YES	PROBABLY	PROBABLY
EXERCISE CROSS-DEFAULT CLAUSE	NO	MAYBE	NO

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/ FREEZE ASSETS

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FREEZE ASSETS WITHOUT CHAP. VII ACTION	PROBABLY NOT	NO	NOT RELEVANT
INSIST ON DOLLARS FOR OIL	YES	YES	YES
REFUSE OIL PURCHASES WAY ABOVE OPEC TERMS	YES	YES	PROBABLY
HENDERSON			

FILES

MED	UND
NENAD	IPD
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LEGAL ADVISERS	POD
	PSD
SED	PS
NAD	PS/SIR I GILMOUR
PUSD	PS/MR HURD
FRD	PS/PUS
MAED	SIR A DUFF
ES & SD	MR FIGG
OID	MR J C MOBERLY
	MR BULLARD
	LORD BRIDGES

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*P.M. - to note contrast
between views of French & views
ascribed to French by Mr Vance.*

TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE
TELEGRAM NO. 4250 OF 18 DECEMBER 1979
INFO IMMEDIATE TEHRAN, PARIS, BONN AND UKMIS NEW YORK.

Am

FOLLOWING FROM P.U.S.

IRAN.

W

1. DURING THE TALKS WITH THE PRESIDENT THIS MORNING, BRZEZINSKI
PRESSED WITH SOME INSISTENCE FOR HMG TO TAKE A RANGE OF FINANCIAL
MEASURES AGAINST IRAN, EVEN BEFORE THERE WERE ANY QUESTION OF A
CHAPTER 7 DETERMINATION BY THE SECURITY COUNCIL. THE PRIME MINISTER
AND SECRETARY OF STATE EXPLAINED THE DIFFICULTIES THIS PRESENTED
FOR US, BUT BRZEZINSKI PURSUED THE POINT WITH INSISTENCE.
2. AT A SUBSEQUENT MEETING BETWEEN THE SECRETARY OF STATE AND
MR VANCE, THE LATTER PRODUCED A CHECK-LIST OF MEASURES WHICH THE
AMERICANS WOULD LIKE TO SEE TAKEN INDICATING THE EXTENT TO WHICH
THE GOVERNMENTS OF FRANCE, GERMANY AND ITALY WERE READY TO DO THIS
(TEXT IN MY MIFT, NOT TO BE QUOTED).
3. THE SECRETARY OF STATE CONFIRMED THAT WE WERE ALREADY DENYING
MILITARY SALES AND OFFICIAL EXPORT CREDITS, BUT EXPLAINED BRIEFLY
SOME OF THE PROBLEMS INVOLVED IN OUR TAKING ANY OF THE OTHER
MEASURES WITHOUT A CHAPTER 7 DETERMINATION. VANCE SAID THAT HE
REALISED WE HAD PARTICULAR DIFFICULTIES OWING TO LONDON'S
IMPORTANCE AS A FINANCIAL CENTRE, BUT ASKED WHY WE SHOULD NEVER-
THELESS CONSIDER WHETHER THERE WAS NOT MORE THAT WE COULD DO IN
THIS FIELD. THE SECRETARY OF STATE UNDERTOOK TO HAVE THIS LOOKED
INTO AGAIN URGENTLY.

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/ 4. LORD CARRINGTON

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4. LORD CARRINGTON IS CONCERNED THAT OUR POTENTIAL PERFORMANCE IN THIS MATTER APPEARS TO COMPARE SO UNFAVOURABLY WITH THAT OF OUR PRINCIPAL EUROPEAN PARTNERS. HE RECOGNISES THAT WE ARE MORE SUBSTANTIALLY AFFECTED THAN THEY, BUT NEVERTHELESS THINKS THAT THE PRESIDENT HIMSELF MAY BE INCITED TO RETURN TO THE CHARGE GIVEN THE DISTINCTLY CRITICAL ATTITUDE OF BRZEZINSKI. THE SECRETARY OF STATE WOULD THEREFORE BE GRATEFUL IF THE DEPARTMENT COULD AGAIN REVIEW THE POSITION URGENTLY WITH THE TREASURY AND THE BANK OF ENGLAND, AND MAY WISH TO RAISE THE MATTER WITH HIS COLLEAGUES ON RETURN IF OUR ATTITUDE SEEMS LIKELY TO CONTINUE TO BE AS NEGATIVE AS IN THE BRIEFING PRODUCED FOR THE TALKS WITH THE PRESIDENT.

HENDERSON

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DEF D	NEWS D
LEGAL ADVISERS	POD
	PSD
SED	PS
NAD	PS/SIR I GILMOUR
FUSD	PS/MR HURD
FRD	PS/PUS
MAED	SIR A DUFF
ES & SD	MR FIGG
OID	MR J C MOBERLY
	MR BULLARD
	LORD BRIDGES

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TEHRAN SPECIAL

Extract from NFR of
Meeting between PM and
President Carter, Washington
17.12.79 (Part 1)

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Subject filed in USA: Nov 79
Visit to US Policy.

-3-

Iran

The Prime Minister said that she would be grateful if the President could say how he now saw the situation in Iran. The more she knew of his thinking, the more quickly she could respond in time of need. She had said in a TV interview earlier in the morning that if the President opted for action under Chapter 7, the British Government would, of course, support him. No other course of action was thinkable. But it was necessary to consider what would happen next. The wave of popular anger in the United States was only too natural. But every action had to be judged against the overriding need to get the hostages out safely. Toughness with the Iranian regime could take various forms.

The President said that he had been reasonably encouraged by the latest developments. At first there had seemed to be a real possibility of the rapid trial and even execution of some of the hostages. At that stage the US naval forces had been moved in. The US Government was prepared to use them. But they wished to avoid bloodshed if at all possible. As Mr. Vance had told European Governments on his recent visit, the US Government had plans to interrupt Iranian commerce if the hostages were put on trial. There were a range of options: further action against bank assets; foreclosure on mortgages; sanctions; a multilateral embargo; or a blockade. However it looked increasingly as though neither execution or trials would take place. There was some evidence that Khomeini had decided that holding the hostages was proving counterproductive. Iranian thinking now seemed to be turning to the possibility of a multinational tribunal. Qotbzadeh had talked not of a trial but of a grand jury to decide

/whether

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whether there should be a trial. The students might not like this but the US Government's judgment was that Khomeini would prevail in a show-down with them. The tribunal might pass sentence on the Shah in abstentia and find the hostages guilty of offences meriting expulsion. The American Chargé, Mr. Laingen, who was still in the Ministry of Foreign Affairs and with whom the State Department were now finding it easier to get in touch, thought that the Shah's departure would help. The Iranians had been able to claim that as a victory. The President said that he did not want the situation to be frozen or to become fixed as a sort of status quo. Later in the day he hoped to establish a timetable for the implementation of more stringent measures, including sanctions, against the Iranians. He would discuss the matter further with the Prime Minister at dinner.

Mr. Vance said that both Qotbzadeh and his representative, Farhang, had said that the Shah's departure might be a needed first step in finding a way out of the present situation. The President said that he had always meant to move the Shah out of the country once he was well enough. He deeply appreciated President Sadat's offer. But it would have been embarrassing for President Sadat if the Shah had gone to Egypt. Moreover there would have been danger in trying to move the Shah closer to Iran. The Panamanian Government had invited the Shah to go to Panama 9 or 10 months previously. It had been a courageous action on their part. It would be helpful if the British Government could find some way to show that they also appreciated what the Panamanians had done. The Panamanian decision contrasted with the disappointing performance of the Mexicans. President Portillo had "pulled the rug" from under the Americans.

/The Prime Minister

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The Prime Minister asked the President for his views of the nature of the trial or tribunal. What shape would it take and how long would it last? The West's strategy was presumably to assist the Iranians to extract themselves from their present position without humiliation. But were the Iranians looking for a way out? The President commented that there was little rationality apparent in Tehran. But he thought that Khomeini was indeed trying to save face. The Iranians had accepted that the American Government were prepared to take strong action. They might use a tribunal to reveal the adverse relationship which had existed between the United States and Iran since the time of Dr. Mosadeq. He hoped they would not call the hostages before the tribunal even as witnesses. There could be no question of the US Government lending any kind of authenticity to the tribunal.

Mr. Vance said that the Iranians were all at sea about the grand jury idea. The State Department had been in touch over the weekend with various Iranian academics. It was clear that confusion reigned. The Prime Minister commented that this did not make for speed. But it increased the possibility that the Iranians would feel humiliated and do something which would cause a strong reaction in the United States. None the less she understood that the US administration would neither support nor oppose a tribunal. The President said that they would deplore it and criticise it publicly. But behind the scenes they would acknowledge that it might be a way out. He repeated that if the Shah and the hostages were found guilty and the hostages expelled he would accept that. Khomeini found it difficult to admit mistakes. He was inclined to attack the US and the Soviet Union and anyone else he could plausibly blame for the situation in Iran. He had evidently been disappointed at the outcome of the referendum on the Constitution.

/Mr Brzezinski

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Mr. Brzezinski said that during his trip to Europe, Mr. Vance had discussed specific steps which the allies could take prior to the passing of a Chapter 7 determination. The US Government hoped that these measures could be implemented without delay. As regards the trial or tribunal, the world was witnessing a struggle for the future of Iran. There was an internal contest going on: one of the groups involved was determined to sever links between the US and Iran. The future of Iran was at issue. There was a real risk that the country would become destabilised and that it would begin to fragment at the periphery. The question for the West was how to influence events so that the country neither broke up nor became a satellite of the Soviet Union. The Foreign and Commonwealth Secretary said that if the tribunal were to go back to the time when the Shah was returned to power in the early 1950s, the United States would not be the only country in the dock. The British Government would have to think of their position. As for the specific steps mentioned by Mr. Brzezinski, these had been discussed at the quadripartite meeting in Brussels the previous week. It had been agreed then that it would be easier to take the actions in question after a Chapter 7 determination than before. None the less the British Government was examining them. How long did the American Government intend to wait after the judgement of the International Court at The Hague, given that the Security Council had already passed one resolution, before taking further action? The President said that it would be a matter of days. He hoped that the United Kingdom, France and Germany would back the United States from the outset. The Prime Minister asked what sanctions the United States would seek under Chapter 7. The President said he would decide in the course of the day and that his present inclination would be to take action in the United Nations towards the end of the week. Action in the UN at some stage was inevitable. The offence to the international community could not be ignored. The Soviet Union had voted with the United States in the Security Council and the International Court. Their attitude to a Chapter 7 determination was yet uncertain. Mr. Brzezinski asked again about financial measures in advance of UN action. The Prime Minister reminded him that Governments

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/would

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would have more powers once Chapter 7 determination had been made. Mr. Brzezinski described Chapter 7 action as "a further stage".

Am

17 December 1979

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Subject filed on
USA: Nov 79: Unit
to US Policy

Extract of Record of Meeting between
PM and Chairman of US Federal Reserve
System Board, Washington 17.12.79.

Iranian Assets

The Prime Minister asked about the blocking of Iranian assets. It was her understanding that Iran had threatened to default as well as to withdraw funds from United States banks, and that this threat provided a banking reason for action to protect the assets. Although she understood that this had been the initial position, the US administration later seemed to have switched to blocking the withdrawal of assets whilst the hostages were held, essentially as a political option. There had been requests for the British Government to do the same, but all advice had been that there was no legal basis in the UK for such blocking action on political grounds: only banking grounds could justify it. The situation would change if the United Nations were to reach a Chapter 7 determination, when sanctions would have legal force in the United Kingdom.

Mr. Volcker stressed that he personally had not been closely involved in the decision. The blocking of assets had not been initiated in the face of political problems, but only when the Iranians threatened to withdraw the assets and hinted that there might be some action on the loan. Since then, the Iranians had by and large respected their obligations on loans from elsewhere, but the action of blocking assets had been treated as one of the political options available to the US and her allies. They were well aware that it was an unsatisfactory

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/and vulnerable

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- 4 -

and vulnerable position to try this option without comparable steps being taken by others. There were dangers in the possibility of a lack of uniform reaction from the industrialised world. The Chapter 7 approach was another option, but with disadvantages including the time required and the veto problem. The Prime Minister doubted that the USSR would veto a sanctions resolution; but the Security Council was now a disparate group and delicate drafting would be needed to secure the required support.

Mr. Volcker said that another alternative, short of freezing assets, would be to encourage US banks to check that Iran was punctilious in service on existing loans, whilst also discouraging new loans. Some other countries were encouraging their banks to look at finance for Iran in this way. The Prime Minister acknowledged that the essence was to act in concert. It would be all too easy for individual actions to destabilize the world banking system. Mr. Volcker said that, given Iran's present posture, joint steps were vital. He was aware of some technical concerns in the Bank of England, but did not know the details. The Prime Minister commented that there were some 300 foreign banks in London now. Mr. Volcker acknowledged that this was a rapid and significant development. He did not see any likelihood of a threat to it.

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FM WASHINGTON 151722Z DEC
TO IMMEDIATE F C O
TELEGRAM NUMBER 4228 OF 15 DECEMBER
INFO FLASH TEHRAN,
INFO IMMEDIATE PANAMA.

U.S./IRAN

FOLLOWING CONFIRMS TELECON RESIDENT CLERK/FORTESCUE.

1. WHITE HOUSE SPOKESMAN JODY POWELL ANNOUNCED AT 11.54 LOCAL TIME TODAY THAT THE SHAH HAS THIS MORNING LEFT THE U.S. FOR PANAMA.
2. STATE DEPARTMENT HAVE SAID PUBLICLY THAT THE IRANIANS WERE INFORMED SHORTLY IN ADVANCE. THE IRAN WORKING GROUP HAVE TOLD US IN CONFIDENCE THAT THIS WAS DONE THROUGH THE SWISS AND THROUGH LAINGEN (ALTHOUGH HE COULD NOT CONFIRM IT, OUR CONTACT THERE SAID WE COULD ASSUME THAT THE IRANIAN EMBASSY HERE WERE ALSO INFORMED IN ADVANCE). THE IRANIANS GAVE NO IMMEDIATE REACTION. STATE DEPARTMENT ARE HOPING, IN THE LIGHT OF THE APPARENTLY REDUCED INSISTENCE ON THE SHAH'S RETURN TO IRAN, THAT THE IRANIANS WILL CONSIDER HIS DEPARTURE FROM THE US A HELPFUL DEVELOPMENT.

HENDERSON

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00 WASHINGTON

00 UKMIS NEW YORK

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FM TEHRAN 151440Z DEC

TO IMMEDIATE FCO

TELEGRAM NUMBER 1343 OF 15 DEC 79

INFO IMMEDIATE WASHINGTON AND UKMIS NEW YORK.

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PS N° 1025

Fils

YOUR TELNO 799 : US EMBASSY - THE INTERNATIONAL TRIBUNAL.

AS I HAVE SAID IN PARA 4 OF MY TEL NO 1341 (WHICH CROSSED TUR). I BELIEVE THAT THE INTERNATIONAL TRIBUNAL, OR INVESTIGATION, REPRESENTS THE ONLY PRACTICAL WAY OUT HOWEVER UNSATISFACTORY IT MAY BE IN PRINCIPLE. I NOTE THAT NEWSOM MAY FEEL THE SAME (PARA 2 OF WASHINGTON TEL NO 4217 TO YOU). IT IS IMPORTANT THAT THE DISTINCTION BETWEEN "TRIBUNAL" AND "INVESTIGATION" APPEARS TO BE DELIBERATE ON THE PART OF THE IRANIANS. QOTBZANDEH OBJECTED TO MY USE OF THE WORD TRIBUNAL ON THE GROUNDS THAT IT SMACKED TOO MUCH OF A TRIAL, AND HE HAS BEEN CAREFUL EVEN UNDER HEAVY PRESS QUESTIONING NOT (RPT NOT) TO COMMIT HIMSELF TO A TRIAL OF THE HOSTAGES (HE CANNOT AT THIS STAGE DENY ANY SUCH INTENTION OUTRIGHT, FOR FEAR OF PROVOKING A CONTRADICTION FROM THE "STUDENTS").

2. IF THIS IS ACCEPTED, THE QUESTION IS WHETHER A STATEMENT WOULD HELP. I BELIEVE THAT AN ANGRY REACTION IN THE US WOULD INDEED HELP THE IRANIAN AUTHORITIES TO PRESENT THE IRANIAN INVESTIGATION LOCALLY AS A SLAP IN THE FACE TO THE US AND THUS WOULD MAKE IT EASIER FOR THEM TO LET THE HOSTAGES GO AT THE END. BUT THIS REACTION NEEDS TO COME AT THE TIME OF THE INVESTIGATION: TOO EARLY A REACTION MIGHT DIVERT THE IRANIANS AND PRODUCE REVERSED ONLY FOR THEM.

THE FACE TO THE US AND THUS WOULD MAKE IT EASIER FOR THEM TO LET THE HOSTAGES GO AT THE END. BUT THIS REACTION NEEDS TO COME AT THE TIME OF THE INVESTIGATION: TOO EARLY A REACTION MIGHT DIVERT THE IRANIANS AND PRODUCE RENEWED CALLS FOR TRIALS. BY THE SAME TOKEN, A STATEMENT IN ADVANCE BY HMG WOULD, IF IT WERE NOTICED AND THE EEC STATEMENTS HAVE RECEIVED VIRTUALLY NO PUBLICITY, BE LIKELY TO HINDER RATHER THAN HELP THE PROCESS. IN ONE SENSE, MOREOVER, THE IRANIANS ARE FREE TO HOLD A PUBLIC DEBATE ON THEIR VIEW OF THE HISTORY OF THE LAST 25 YEARS AND THE AMERICAN PART IN IT (NO DOUBT WE SHALL COME IN FOR MORE AND TOO): WHAT WOULD BE ILLEGAL WOULD BE THE TRIAL OF THE AMERICAN EMBASSY STAFF, OR THEIR USE AS WITNESSES AGAINST THEIR COUNTRY. (I GREATLY FEAR HOWEVER THAT THE LATTER MAY BE IN THE IRANIAN'S MINDS).

3. MY RECOMMENDATION THEREFORE IS THAT THE AMERICANS, AND A FORTIORI THE REST OF US, SHOULD SAY NOTHING YET : BUT WHEN THE INVESTIGATION IS LAUNCHED, THE AMERICANS SHOULD MAKE THEIR FEELINGS PLAINLY HEARD (I HAVE SUGGESTED ALSO THE INTERNMENT OF IRANIAN DIPLOMATS IN THE US AS A PRACTICAL STEP IF ONE IS NEEDED AND THAT WE AND OUR FRIENDS SHOULD ENUNCIATE ONCE AGAIN THE INADMISSABILITY OF PUTTING THE AMERICAN EMBASSY STAFF ON TRIAL OR IN THE WITNESS BOX.

GRAHAM

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6 PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS

MR J C ROBERTLY *N Burns*

LORD BRIDGES

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TO PRIORITY FCO

TELEGRAM NUMBER 1342 OF 15 DEC 79

INFO PRIORITY MODUK ABU DHABI ANKARA BAGHDAD BAHRAIN

DOHA DUBAI ISLAMABAD JEDDA KABUL KUWAIT MUSCAT.

IRAN-IRAQ BORDER INCIDENT.

1. TEHRAN RADIO LAST NIGHT REPORTED THAT "IRAQ FORCES WITH HEAVY WEAPONS" HAD YESTERDAY AFTERNOON PENETRATED FIVE KILOMETRES INTO IRAN BUT HAD BEEN DRIVEN BACK. THE RADIO QUOTED THE GOVERNOR OF KHORRAMSHAHR AND THE MFA AS SOURCES, BUT GAVE NO FURTHER DETAILS. THE MFA DUTY OFFICER, TO WHOM WE SPOKE AT MIDNIGHT, COULD NOT ENLARGE ON THE RADIO REPORT.
2. THE TEHRAN TIMES THIS MORNING QUOTES AN MFA SPOKESMAN AS FOLLOWS "I UNDERSTAND THEY CAME A LITTLE BIT INTO OUR COUNTRY AND THEN THEY WENT BACK TO THEIR COUNTRY AND ITS GOING TO BE ALL RIGHT".
3. QUOTING SOURCES IN ABADAN, THE TEHRAN TIMES SAYS THAT THE IRAQI ATTACK WAS DIRECTED AT A BORDER POST AT SALAMCHEH, 20 KM NORTH WEST OF KHORRAMSHAHR. THERE WERE CONFLICTING REPORTS AS TO WHETHER IRAQI FORCES ACTUALLY CROSSED THE BORDER.

(763)
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MR LE CHEMINANT) OFFICE
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FM TEHRAN 150715Z DEC

TO IMMEDIATE FCO

TELEGRAM NUMBER 1341 OF 15 DEC 79

INFO IMMEDIATE WASHINGTON, UKMIS NEW YORK

INFO PRIORITY BONN, PARIS AND TOKYO.

UKDEL NATO TELNO 335 :

US/IRAN CONFRONTATION - ECONOMIC MEASURES.

AMERICAN POLICY SEEMS TO BE BASED ON TWO PREMISES :

(A) THAT IT WILL BE POSSIBLE TO OBTAIN A CHAPTER 7 RESOLUTION
CALLING FOR ECONOMIC SANCTIONS AGAINST IRAN : AND
(B) THAT ECONOMIC SANCTIONS WILL EITHER CAUSE IRAN TO RELEASE
THE HOSTAGES OR UNDERMINE KHOMEINI, OR BOTH.

2. IT IS NOT FOR ME TO COMMENT ON (A) BUT THE WEIGHT OF NON-
AMERICAN OPINION SEEMS TO BE AGAINST IT. THIS OPINION IS
SUPPORTED BY THE ATTITUDES OF THE NON-ALIGNED, SOVIET AND
EAST EUROPEAN REPRESENTATIVES IN TEHRAN (THOUGH I RECOGNISE
THE TEMPTATION FOR ALL OF US HERE, INCLUDING MYSELF, TO BE
LESS ROBUST THAN OUR CAPITALS OR UN-MAJORING EXPLANATION)

THE TEMPTATION FOR ALL OF US HERE, INCLUDING MYSELF, TO BE LESS ROBUST THAN OUR CAPITALS OR UN MISSIONS EXCLAM MARK). AS SEEN FROM HERE, HOWEVER, A REBUFF TO THE AMERICANS IN NEW YORK WILL TEND TO MAKE THE IRANIANS THINK THE TIDE IS TURNING IN THEIR FAVOUR. IT MIGHT ALSO IT IS TRUE, CAUSE THEM TO FEEL VINDICATED, THAT THEIR HONOUR WAS TO SOME DEGREE SATISFIED, SO THAT, WITH THE PROMISED INVESTIGATION IN TEHRAN, WHICH WITH KHOMEINI'S DIRECTIVE DOES NOW SEEM INCREASINGLY LIKELY TO HAPPEN, THEY COULD MORE EASILY RELEASE THE HOSTAGES WITHOUT LOSS OF FACE. PERHAPS ALSO (CF PARA 6 OF WASHINGTON TELNO 4207 TO YOU, THOUGH FROM THE TONE OF THE TELEGRAMS GENERALLY THIS SEEMS UNLIKELY) THE ADMINISTRATION SEE THE SECURITY COUNCIL PROCEEDINGS AS A DISTRACTION FROM THE TEHRAN INVESTIGATION AND A MEANS OF ENABLING THEM TO SIT IT OUT AND TO HOLD US PUBLIC OPINION WHILE IT LASTS. IF THAT IS THE THINKING, THE TACTIC MAY BE SOUND, THOUGH THE TIMING WILL BE DIFFICULT.

3. IF HOWEVER THE AMERICANS REALLY BELIEVE THEY CAN OBTAIN A CAHPTER 7 RESOLUTION, THE POINT IN PARA 1(B) ARISES. I MYSELF DOUBT IF SANCTIONS WOULD HAVE THE EFFECT THAT SOLOMAN BELIEVES (PARA 5 OF WASHINGTON TELNO 4207 TO YOU). IN THE SHORT TERM AT LEAST THEY WOULD TEND TO RALLY IRANIAN OPINION TO KHOMEINI (IT MUST BE REMEMBERED THAT FEW EVEN OF THOSE WHO DISLIKE HIM AND HIS POLICIES HAVE A GOOD WORD TO SAY FOR THE US, NOW WHATEVER THEY MAY HAVE SAID OR THOUGHT BEFORE THE REVOLUTION. AS WE KNOW ONLY TOO WELL ECONOMIC SANCTIONS ARE VERY SLOW TO TAKE EFFECT ANYWHERE AND THE IRANIAN PEOPLE HAVE A GREAT CAPACITY FOR PUTTING UP WITH SHORTAGES, AS LAST WINTER SHOWED. CERTAINLY STOCKS, FUEL APART, ARE LOWER THAN LAST YEAR AND SHORTAGES OF SOME ITEMS HAVE ALREADY BEGUN TO APPEAR, BUT I CANNOT SEE ECONOMIC SANCTIONS HAVING ANY DISCERNIBLE EFFECT IN THE TIME-SCALE ENVISAGED BY MR VANCE (PARA 10 OF UKDEL NATO TELNO 331 TO YOU). RATHER I BELIEVE THAY WOUYQ NOT BEGIN TO BITE FOR 2 OR 3 MONTHS, ESPECIALLY IF THE PROGRAMME OUTLINED BY COOPER IN PARA 2 OF TUR IS FOLLOWED. ON VANCE'S VIEW IN PARA 4 OF UKDEL NATO TELNO 331, THAT A BROAD RANGE OF MEASURES SHOULD BE INTRODUCED AT THE START, SEEMS TO ME THE BETTER. I REMAIN VERY SCEPTICAL HOWEVER THAT ANY PRESSURE OF THIS KIND WILL CAUSE THE IRANIANS TO BACK DOWN WITHOUT SOME FACE-SAVING PROCEDURE, EVEN THOUGH I AM REASONABLY CERTAIN THAT MANY IRANIANS CLOSE TO KHOMEINI WANT TO FIND A WAY OUT.

4. I STILL BELIEVE THEREFORE THAT THE ONLY FEASIBLE WAY IS SOME SORT OF IRANIAN-MOUNTED INVESTIGATION. I FULLY RECOGNISE THAT THAT WOULD BE VERY UNPALATABLE FOR THE US, BUT THE ALTER-

4. I STILL BELIEVE THEREFORE THAT THE ONLY FEASIBLE WAY IS SOME SORT OF IRANIAN-MOUNTED INVESTIGATION. I FULLY RECOGNISE THAT THAT WOULD BE VERY UNPALATABLE FOR THE US, BUT THE ALTERNATIVES, WHETHER ECONOMIC OR MILITARY, WOULD BE DAMAGING ON A WIDE SCALE: DISRUPTION OF THE WORLD FINANCIAL SYSTEM, LOSS OF OIL SUPPLIES, LOSS OF EXPORT ORDERS (INCLUDING CHRYSLER/TALBOT'S £120M PER ANNUM TRADE, THOUGH THE LOSS MIGHT NOT BE PERMANENT) ALIENATION OF MUCH OPINION IN ARAB AND MUSLIM WORLD, THE STRATEGIC EFFECTS OF LEAVING THE FIELD TO THE SOVIET UNION, AND SO ON. ALL THIS WOULD NO DOUBT BE ACCEPTABLE, IF THE ALTERNATIVES WOULD PRODUCE THE DESIRED RESULT BUT, AS I HAVE ARGUED ABOVE, I DO NOT BELIEVE THAT THEY WOULD LEAD TO THE EARLY RELEASE OF THE HOSTAGES - AND THEY MIGHT DELAY IT.

5. ONE GESTURE, IT OCCURS TO ME, WHICH MIGHT BE MADE AT SOME STAGE IN AN IRANIAN INVESTIGATION AS A MEANS PRIMARILY OF SATISFYING DOMESTIC US OPINION THOUGH IT MIGHT ALSO HAVE SOME SUBSTANTIVE VALUE, WOULD BE FOR THE US TO DECLARE WAR AND INTERN (NOT EXPEL) THE IRANIAN DIPLOMATS IN THE US FOR EXCHANGE BY AGREEMENT IN ACCORDANCE WITH THE ORDINARY RULES OF INTERNATIONAL LAW.

GRAHAM

NNNN

IMMEDIATE

GRPS 670

UNCLASSIFIED

FM THE HAGUE 151750Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 456 OF 15 DECEMBER

INFO IMMEDIATE WASHINGTON, UKMIS NEW YORK AND TEHRAN

INFO ROUTINE ALL EEC POSTS, NATO POSTS AND MOSCOW

MY TEL NO 442 (NOT TO ALL): US EMBASSY AND CONSULATES IN IRAN-
INTERNATIONAL COURT OF JUSTICE

1. IN A SITTING AT 5PM THIS EVENING THE PRESIDENT OF THE
INTERNATIONAL COURT OF JUSTICE ANNOUNCED THAT THE COURT HAD,
PENDING THE COURT'S FINAL DECISION IN THE CASE, MADE UNANIMOUSLY
AN ORDER INDICATING PROVISIONAL MEASURES AS FOLLOWS:

QUOTE

A.(I) THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF IRAN SHOULD
IMMEDIATELY ENSURE THAT THE PREMISES OF THE UNITED STATES
EMBASSY, CHANCERY AND CONSULATES BE RESTORED TO THE
POSSESSION OF THE UNITED STATES AUTHORITIES UNDER THEIR
EXCLUSIVE CONTROL, AND SHOULD ENSURE THEIR INVIOABILITY
AND EFFECTIVE PROTECTION AS PROVIDED FOR BY THE TREATIES
IN FORCE BETWEEN THE TWO STATES, AND BY GENERAL INTERNATIONAL
LAW:

(II) THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF IRAN SHOULD
ENSURE THE IMMEDIATE RELEASE, WITHOUT ANY EXCEPTION, OF
ALL PERSONS OF UNITED STATES NATIONALITY WHO ARE OR HAVE
BEEN HELD IN THE EMBASSY OF THE UNITED STATES OF AMERICA
OR IN THE MINISTRY OF FOREIGN AFFAIRS IN TEHRAN, OR HAVE
BEEN HELD AS HOSTAGES ELSEWHERE, AND AFFORD FULL PROTECTION
TO ALL SUCH PERSONS, IN ACCORDANCE WITH THE TREATIES IN
FORCE BETWEEN THE TWO STATES, AND WITH GENERAL INTERNATIONAL
LAW:

(III) THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF IRAN
SHOULD, AS FROM THAT MOMENT, AFFORD TO ALL THE DIPLOMATIC
AND CONSULAR PERSONNEL OF THE UNITED STATES THE FULL
PROTECTION, PRIVILEGES AND IMMUNITIES TO WHICH THEY ARE
ENTITLED UNDER THE TREATIES IN FORCE BETWEEN THE TWO
STATES, AND UNDER GENERAL INTERNATIONAL LAW, INCLUDING
IMMUNITY FROM ANY FORM OF CRIMINAL JURISDICTION AND FREEDOM
AND FACILITIES TO LEAVE THE TERRITORY OF IRAN:

B. THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF IRAN SHOULD NOT TAKE ANY ACTION AND SHOULD ENSURE THAT NO ACTION IS TAKEN WHICH MAY AGGRAVATE THE TENSION BETWEEN THE TWO COUNTRIES OR RENDER THE EXISTING DISPUTE MORE DIFFICULT OF SOLUTION.
UNQUOTE.

2. IN DELIVERING THE COURT'S ORDER, SIR HUMPHREY WALDOCK MADE THE FOLLOWING POINTS:

- (A) THE ABSENCE OF IRAN FROM THE PROCEEDINGS WAS NO OBSTACLE TO THE INDICATION OF PROVISIONAL MEASURES:
- (B) THE DISPUTE WAS SUBJECT TO THE COMPULSORY JURISDICTION OF THE ICJ UNDER THE TWO VIENNA CONVENTIONS ON DIPLOMATIC AND CONSULAR RELATIONS:
- (C) THE TWO NON-DIPLOMATIC, NON-CONSULAR PERSONS OF US NATIONALITY AMONG THE HOSTAGES HAD BEEN SEIZED ON US EMBASSY OR CONSULAR PREMISES AND WERE THEREFORE SUBJECT TO THE PROTECTION AFFORDED UNDER THE TWO VIENNA CONVENTIONS, PARTICULARLY ARTICLE FIVE OF THE 1963 CONVENTION:
- (D) THE SEIZURE OF THE US EMBASSY AND THE CONSULATES IN TABRIZ AND SHIRAZ AND OF THE HOSTAGES COULD NOT BE REGARDED, AS MATTERS MARGINAL OR SECONDARY TO THE OVERALL PROBLEM OF US ACTIVITIES IN IRAN OVER THE LAST 25 YEARS, AS ARGUED IN THE LETTER FROM THE IRANIAN GOVERNMENT OF 9 DECEMBER (CITING WALDHEIM'S STATEMENTS AND SCR 497). BUT THE IRANIAN GOVERNMENT HAD DEPRIVED ITSELF OF THE OPPORTUNITY TO APPEAR BEFORE THE COURT TO ARGUE THE POINT:
- (E) A STRONG REAFFIRMATION OF THE CENTRAL IMPORTANCE OF THE INVIOABILITY OF DIPLOMATS AND DIPLOMATIC PREMISES FOR THE CONDUCT OF INTERNATIONAL RELATIONS:
- (F) THE COURT WAS COMPLETELY UNANIMOUS:
- (G) THE COURT HAD DECIDED TO KEEP MATTERS COVERED BY THE ORDER UNDER CONTINUOUS REVIEW PENDING ITS FINAL JUDGEMENT IN THE CASE.

/ 3.

3. SIR HUMPHREY WALDOCK ANNOUNCED THAT THE ORDER WAS BEING COMMUNICATED BY TELEGRAM TO THE GOVERNMENT OF IRAN, AND A SEALED COPY WOULD BE DELIVERED BY THE MOST RAPID POSSIBLE MEANS.

4. FULL TEXT OF THE (17 PAGE) ORDER FOLLOWS BY BAG TO MED AND UND.

TAYLOR

ENDS

TAYLOR

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REQUESTED BY CDD]

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1872 OF 14 DECEMBER

INFO IMMEDIATE WASHINGTON, PARIS, BONN, TEHRAN.

UKDEL NATO TELNO 331: IRAN

1. I HAVE TOLD THE US MISSION THAT I AM READY, AS SOON AS THEY ARE, FOR DISCUSSIONS ABOUT THE PROSPECTS FOR CHAPTER VII ACTION IN THE COUNCIL. MCHENRY IS GOING TO WASHINGTON AND HIS MISSION DO NOT EXPECT THAT THEY WILL BE READY FOR QUADRIPARTITE DISCUSSIONS UNTIL THE BEGINNING OF NEXT WEEK, BY WHICH TIME THE ICJ INTERIM DECISION WILL BE KNOWN.

2. MEANWHILE I HAVE HAD A PRELIMINARY TALK WITH VANDEN HEUVEL, MCHENRY'S DEPUTY. VANDEN HEUVEL (PLEASE PROTECT) STRESSED THAT HE WAS SPEAKING PERSONALLY AND WAS SIMPLY CLEARING HIS MIND ABOUT THE KIND OF ADVICE THE U.S. MISSION SHOULD GIVE SECRETARY VANCE. HE CLEARLY THOUGHT DECISIONS MIGHT ALREADY HAVE BEEN TAKEN IN WASHINGTON.

3. VANDEN HEUVEL AND I AGREED THAT, IF SECURITY COUNCIL ACTION WAS TO HAVE THE DESIRED EFFECT, ANY RESOLUTION SHOULD BE AS NEAR UNANIMOUS AS POSSIBLE. IT WOULD DO LITTLE GOOD, EITHER HERE OR IN IRAN, IF THE AMERICANS SCRAPED THROUGH WITH A BARE NINE VOTES.

4. I TOLD VANDEN HEUVEL OF THE VARIOUS CONVERSATIONS I HAVE HAD WITH MEMBERS OF THE SECURITY COUNCIL, NOTABLY THE ONE WITH MY BANGLADESH COLLEAGUE (MY TELNO 1838). VANDEN HEUVEL HAD ENCOUNTERED SIMILAR REACTIONS. LIKE ME, HE HAD THE IMPRESSION THAT THE NON-ALIGNED HAD NOT YET FOCUSSED SERIOUSLY ON THE CHAPTER VII POSSIBILITIES BECAUSE THEY ASSUMED THAT THE SOVIET UNION WOULD OPPOSE THEM. WE AGREED THAT, IF THE AMERICANS COULD PERSUADE THE RUSSIANS, IN THE WIDER CONTEXT OF US/SOVIET RELATIONS, TO GO ALONG WITH A CHAPTER VII DETERMINATION, THE POSITION OF THE NON-ALIGNED MIGHT BECOME LESS NEGATIVE THAN IT IS AT PRESENT, THOUGH KUWAIT WOULD ALWAYS HAVE ITS OWN LOCAL REASONS FOR HOLDING BACK. THE CHINESE POSITION WOULD ALSO BE IMPORTANT: THE CHINESE MISSION HERE HAVE TOLD THE AMERICANS THAT THEY DO NOT THINK THAT THEIR GOVERNMENT WOULD BE ABLE TO AGREE TO CHAPTER VII ACTION. THE AMERICANS HAD HAD FROM SOME OF THE AFRICANS THE INTERESTING REACTION THAT THEY WOULD NOT SUPPORT SANCTIONS AGAINST IRAN GOING FURTHER THAN THOSE CURRENTLY IN FORCE AGAINST SOUTH AFRICA (CF THE NAMIBIA TRADE-OFF REFERRED TO BY THE BANGLADESH AMBASSADOR).

S E C R E T

5. VANDEN HEUVEL'S AND MY PRELIMINARY AND TENTATIVE CONCLUSION WAS THAT THERE COULD BE POSSIBILITIES IN A STAGED MOVE INTO CHAPTER VII. INITIALLY THE COUNCIL WOULD DETERMINE UNDER ARTICLE 39 THAT A THREAT TO THE PEACE EXISTED, WOULD CALL UPON IRAN TO CARRY OUT THE ICJ'S INJUNCTION BY A SPECIFIED DEADLINE AND WOULD STATE THAT, IF IRAN FAILED TO COMPLY IT WOULD CONSIDER FURTHER MEASURES (IE SANCTIONS). ONLY IN THE SECOND STAGE (ASSUMING NON-COMPLIANCE BY IRAN) WOULD A SANCTIONS RESOLUTION BE INTRODUCED. AN ALTERNATIVE POSSIBILITY WOULD BE TO MAKE USE OF SALIM, THE TANZANIAN PRESIDENT OF THE GENERAL ASSEMBLY, AFTER THE ASSEMBLY FINISHES NEXT WEEK. I HAVE FELT ALL ALONG THAT SALIM IS IDEALLY QUALIFIED AS AN INTERMEDIARY WITH KHOMEINI AND THE STUDENTS, BEING A RADICAL YOUNG AFRICAN MOSLEM OF INTERNATIONAL REPUTE. BUT I TOLD VANDEN HEUVEL THAT I DID NOT THINK SALIM WOULD CONSENT TO GO TO IRAN AFTER A CHAPTER VII DETERMINATION HAD BEEN MADE. IF HE WAS TO PLAY A PART, THE BETTER COURSE MIGHT BE FOR THE COUNCIL TO CONFINE ITS NEXT RESOLUTION TO A CALL UPON IRAN TO COMPLY WITH THE ICJ AND FOR SALIM THEN TO TRY TO GO TO IRAN. ONLY IF HIS MISSION FAILED WOULD RECOURSE BE HAD TO CHAPTER VII.

6. I THINK, AS I BELIEVE DOES VANDEN HEUVEL, THAT THIS KIND OF GRADUAL APPROACH OFFERS THE ONLY PROSPECT THE AMERICANS HAVE OF OVERCOMING THE PRESENT RELUCTANCE OF THE MAJORITY IN THE COUNCIL TO CONTEMPLATE CHAPTER VII ACTION. BUT TO ACHIEVE EVEN THIS, A MAJOR DIPLOMATIC EFFORT WOULD BE REQUIRED ON THEIR PART. THEY WOULD HAVE TO PLAY THE DETENTE CARD WITH THE RUSSIANS AND THEY WOULD ALSO HAVE TO SQUARE THE CHINESE IN SOME WAY. (VANDEN HEUVEL SAID THEY WERE ALREADY WORKING ON THEM.) I AM PRETTY SURE THAT, IN ADDITION, THEY WOULD HAVE TO DO SOME KIND OF DEAL WITH THE AFRICANS ON SANCTIONS AGAINST SOUTH AFRICA IN THE NUCLEAR OR NAMIBIAN CONTEXTS.

7. MY PERSONAL OPINION STILL IS THAT CHAPTER VII ON IRAN IS EXTREMELY UNLIKELY TO BE ACCEPTABLE TO THE COUNCIL AS A WHOLE, BUT I WAS CAREFUL NOT TO GIVE VANDEN HEUVEL (WHO IS INCLINED TO BE GUNG-HO) THE IMPRESSION THAT I WAS A WEAK SISTER.

PARSONS

F I L E S

HD/MED

HD/FRD

HD/UND

PS

PS/LPS

PS/MR RIDLEY

PS/PUS

LEGAL ADVISERS

(SIR I SINCLAIR)

MISS BROWN

MR J C MOBERLY

COPIES TO

MR ALEXANDER

NO 10 DOWNING STREET

S E C R E T

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PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS

~~MR J G MORRELY~~ *Mr Figg*

LORD BRIDGES

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HD/CONS DEPT

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MISS BROWN

PUSD

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NEWS DEPT

RESIDENT CLERK

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ASSESSMENTS STAFF)

CABINET
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MR LE CHEMINANT)

CABINET OFFICE DIO

MR F R BARRATT TREASURY

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CONFIDENTIAL

FM WASHINGTON 142247Z DEC 79

TO IMMEDIATE F C O.

TELEGRAM NUMBER 4217 OF 14 DECEMBER, 1979.

AND TO PRIORITY UKMIS NEW YORK, TEHRAN, PARIS AND BONN.

IRAN: ECONOMIC MEASURES.

1. I SAW NEWSOM (UNDER SECRETARY AT THE STATE DEPARTMENT) TODAY AND ASKED HIM WHETHER HE COULD TELL ME WHAT HE THOUGHT THE PRESIDENT WOULD BE SUGGESTING TO THE PRIME MINISTER ON MONDAY IN THE LIGHT OF VANCE'S EUROPEAN TOUR.

2. HE SAID THAT HE HAD NOTICED THAT THERE WERE CONFLICTING SIGNALS FROM EUROPE ABOUT WHAT THE U S WERE INTENDING TO DO. AT THE MOMENT NO DECISION HAD BEEN TAKEN TO PROCEED TO ACTION UNDER CHAPTER 7. THE PRESIDENT WOULD ONLY COME TO A CONCLUSION ABOUT THIS IN THE LIGHT OF THE FOLLOWING :

(A) AN ASSESSMENT OF VANCE'S VISIT AND IN PARTICULAR WHETHER HE HAD COME TO THE CONCLUSION FOLLOWING HIS TOUR OF EUROPE THAT SANCTIONS WERE NOT NECESSARY OR ALTERNATIVELY THAT THE EUROPEAN ALLIES WOULD FIND IT EASIER TO ACT IF THERE HAD BEEN A DETERMINATION UNDER CHAPTER 7.

(B) THE PRESIDENT WOULD ALSO WANT TO KNOW FIRST WHAT HAD BEEN DECIDED BY THE U S.

CHAPTER 7.

(B) THE PRESIDENT WOULD ALSO WANT TO KNOW FIRST WHAT HAD BEEN DECIDED BY THE I C J.

(C) FINALLY A DECISION WOULD DEPEND UPON WHAT WAS HAPPENING IN IRAN. THE CURRENT AMERICAN VIEW WAS THAT FAVOURABLE EVENTS WERE TAKING PLACE THERE; HE REFERRED IN PARTICULAR TO THE AYATOLLAH KHOMEINI'S VIEWS ON A TRIBUNAL AND ON VISITS TO THE HOSTAGES.

3. NEWSOM SAID THAT HE DID NOT THINK THAT THE LATEST RUMOURS OF FIGHTING ON THE IRAN/IRAQ BORDER WOULD NECESSARILY HELP THE U S. KHOMEINI MIGHT TAKE THIS AS A SIGN OF THE U S THREATENING THE INTEGRITY OF THE STATE OR OF SUPPORTING HIS RIVALS. THIS DID NOT DETRACT FROM THE U S VIEW THAT ECONOMIC PRESSURE WAS PROVING EFFECTIVE UPON KHOMEINI.

4. AS REGARDS THE STEPS THAT MIGHT BE TAKEN UNDER CHAPTER 7 NEWSOM SAID THAT IF THE PRESIDENT DECIDED TO PROCEED THE PROCESS WOULD BE GRADUAL. THE U S WOULD BEGIN BY SEEKING A DETERMINATION UNDER ARTICLE 39. ONLY IF THAT WAS INEFFECTIVE WOULD THEY GO TO ARTICLE 41. THEY WERE ALSO GOING TO TRY TO THINK OUT A LITTLE MORE CLEARLY WHAT IT WAS THAT THEY WOULD WANT COVERED UNDER ARTICLE 41, IE WHETHER THE SANCTIONS WOULD APPLY TO TRADE GENERALLY OR TO AIR TRAFFIC OR TO MONEY OR MINERALS.

5. I ASKED HIM HOW HE THOUGHT THE VOTE WOULD GO IN THE SECURITY COUNCIL IN THE EVENT OF AN APPROACH UNDER CHAPTER 7 TO WHICH HE REPLIED THAT THERE WERE CONFLICTING VIEWS. I ASKED WHETHER THE THINKING IN THE STATE DEPARTMENT WAS THAT EVEN IF A CHAPTER 7 DETERMINATION FAILED IT WOULD BE WORTH MAKING THE APPLICATION PERHAPS IN THE HOPE OF A BIGGISH VOTE WHICH WOULD PROVIDE A USEFUL BASIS FOR FURTHER ECONOMIC STEPS. HIS ANSWER WAS TO REPEAT THAT NO DECISION HAD YET BEEN MADE ABOUT CHAPTER 7.

6. FINALLY I ASKED NEWSOM WHETHER HE HAD ANYTHING TO TELL ME ABOUT MOVING THE SHAH. HE SAID THAT THERE WAS A NEW DETERIORATION OF HIS HEALTH. THERE WERE TWO POSSIBLE PLACES TO WHICH HE MIGHT GO BUT IT WAS STILL OPEN. THE MAIN POINT WAS THAT THE SUBJECT SEEMED TO ENGENDER LESS HYSTERIA IN TEHRAN THAN HITHERTO.

7. NEWSOM SAID THAT HE WOULD TRY TO LET ME KNOW OVER THE WEEKEND BEFORE THE PRIME MINISTER'S ARRIVAL WHETHER OR NOT THE PRESIDENT WAS GOING TO PROCEED UNDER CHAPTER 7 AND WHETHER THEREFORE HE WOULD BE RAISING THIS COURSE OF ACTION WITH THE PRIME MINISTER.

HENDERSON

IRAN: ADVANCE COPIES

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IMMEDIATE

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FM WASHINGTON 141808Z DEC 79

TO IMMEDIATE F C O

TELEGRAM NO 4212 OF 14 DECEMBER

INFO BIS NEW YORK

WE UNDERSTAND FROM NEWS DEPARTMENT THAT REUTERS ARE CARRYING A PARTIAL AND MISLEADING REPORT OF SOME REMARKS I MADE TO JOURNALISTS AT A BREAKFAST MEETING YESTERDAY (13 DECEMBER).

2. FOLLOWING ARE VERBATIM EXTRACTS OF THE RELEVANT PASSAGES ON IRAN:-

BEGINS

...LET ME SAY ONE WORD ON THE SUBJECT THAT IS PARAMOUNT IN YOUR MINDS - IRAN AND IN PARTICULAR THE QUESTION OF THE ALLIES RELATIONSHIP TO THE IRAN PROBLEM BECAUSE I'M VERY CONSCIOUS OF QUESTIONS AND DOUBTS THAT ARE STILL BEING EXPRESSED HERE ABOUT WHETHER THE ALLIES ARE GIVING THE UNITED STATES THE SUPPORT THEY SHOULD AND THAT THE UNITED STATES DESERVES AND REQUIRES AT THIS MOMENT IN THE CRISIS FOR THEM. MY ANSWER IS UNEQUIVOCALLY THAT WE ARE AND FRANKLY I AM RATHER SURPRISED AT THE SUGGESTIONS THAT I GET, AND I'VE HAD THEM ALL OVER THE US, DOUBTS WHETHER THIS IN FACT IS WHAT IS HAPPENING. I'M IN NO DOUBT MYSELF THAT THE US AUTHORITIES BELIEVE THAT THEY ARE GETTING SUPPORT FROM, AND I CAN ONLY SPEAK FOR MYSELF - MY COUNTRY. I'VE NO DOUBT ABOUT IT THE IMPORTANCE OF THE STALWART SUPPORT WE ARE GIVING AND NOT SIMPLY IN STATEMENTS, THOUGH THEY HAVE BEEN VERY IMPORTANT AND AFTER ALL YOU ARE INVOLVED PRINCIPALLY IN A GAME OF DIPLOMACY WHICH INVOLVES MAKING YOUR VIEWS KNOWN, YOUR ATTITUDE KNOWN TO THE IRANIANS, AND

...OUT OF OUR WAY TO TAKE GREAT TROUBLE BOTH

WE HAVE CERTAINLY GONE OUT OF OUR WAY TO TAKE GREAT TROUBLE BOTH INDIVIDUALLY AND AS MEMBERS OF THE COMMUNITY AND COMMONWEALTH TO ENSURE THAT IRAN IS LEFT IN NO DOUBT ABOUT THE STRENGTH AND QUALITY OF OUR SUPPORT. WE'VE ALSO HAD DISCUSSIONS AS YOU KNOW ON MONDAY WITH SECRETARY VANCE, AND VANCE HAS BEEN TOURING THE OTHER CAPITALS AND WAS YESTERDAY AT THE NATO MEETING AND I CAN'T TELL YOU ABOUT THAT FOR THE SIMPLE REASON THAT I DON'T KNOW THE OUTCOME OF ALL OF THAT - ALL I DO BELIEVE IS THAT IT WAS USEFUL THAT MR VANCE WAS ABLE TO EXPLAIN MORE CLEARLY AND WE WERE ABLE TO ASSURE HIM OF OUR READINESS TO DO EVERYTHING THAT WAS POSSIBLE, BUT ALSO OF THE NEED TO CONSIDER RATHER CAREFULLY THE POSSIBLE CONSEQUENCES OF ANY FURTHER ACTION BECAUSE ALL THESE THINGS AREN'T JUST SOMETHING THAT WOULD HAPPEN OVERNIGHT THEY COULD HAVE LONGTERM REPERCUSSIONS AND THE FINAL THING I WOULD LIKE TO SAY ON IRAN AND OUR ATTITUDE TOWARDS IT IS ON THE HIGHLY CONTROVERSIAL QUESTION OF OIL. I THINK YOU SHOULD KNOW THAT BRITAIN IS NOT IN FACT PICKING UP ANY OF THE OIL THAT YOU WERE BUYING FROM IRAN INDEED WE'RE BUYING LESS OIL THAT WE WERE BEFORE THIS CRISIS. AND BP AND SHELL THE TWO COMPANIES IN WHICH BRITAIN IS MOST IDENTIFIED AS MARKETERS OF OIL ARE BUYING VERY VERY MUCH LESS OIL FROM IRAN THAN THEY DID BEFORE THE REVOLUTION. BEFORE THE REVOLUTION THEY WERE BUYING OVER 50 PERCENT OF IRAN'S OIL, THEY ARE NOW BUYING AROUND 20 PERCENT FOR, OF COURSE, WORLDWIDE DISTRIBUTION...

Q: AS YOU NOTED SECRETARY VANCE HAS BEEN IN EUROPE TO SOUND OUT THE ALLIES ON POSSIBLE ECONOMIC PRESSURE ON IRAN. IN YOUR OPINION IS IT FEASIBLE FOR OTHER INDUSTRIAL COUNTRIES TO ACTUALLY JOIN WITH THE US EITHER IN A UNILATERAL HALT IN EXPORTS TO IRAN WHICH IS WHAT I THINK THE US HAS IN MIND OR MORE DRASTICALLY GO TO THE SECURITY COUNCIL IN SEARCH OF SANCTIONS. ARE EITHER OF THESE REALLY FEASIBLE?

A: TAKE THE SECOND FIRST. I THINK IF YOU'RE TALKING ABOUT GOING TO THE SECURITY COUNCIL FOR SANCTIONS YOU HAVE TO ACCEPT THE FACT THAT TO GET SANCTIONS AT THE SECURITY COUNCIL FIRST YOU HAVE TO PASS TWO THIRDS VOTE IN THE COUNCIL - 9 MEMBERS THAT FAVOUR - AND NOBODY VETOS. WHETHER THAT IS FEASIBLE IS A MATTER THAT (INAUDIBLE) IT OBVIOUSLY SOMETHING THAT BEFORE YOU DO IT YOU WANT TO BE SURE ABOUT. AS REGARDS WHETHER THE COUNTRIES OF WESTERN EUROPE ARE ABLE TO TAKE MEASURES TO LIMIT OR EVEN HALT ALTOGETHER EXPORTS FOR IRAN OBVIOUSLY THAT DEPENDS UPON THE LEGAL POSITION IN ALL THE COUNTRIES. I'M NOT FRANKLY ABLE TO GIVE YOU A CATEGORICAL VIEW ON THIS. BUT I BELIEVE THAT INSOFAR AS THE UK IS CONCERNED THAT IT WOULD REQUIRE LEGISLATION ON OUR PART TO DO IT.

Q: CAN'T YOU SIMPLY ASK COMPANIES IN ENGLAND SIMPLY NOT TO

A: YES, AGAIN MY OWN VIEW ON THIS AND I'D LIKE YOU TO TREAT THIS AS MY VIEW BECAUSE IT ISN'T A GOVERNMENT VIEW ON IT. ITS A VERY DIFFICULT SUBJECT. BUT TO BRING UP THE WALL ST JOURNALS POINT JUST NOW - I THINK THAT OUR EXPERIENCE HERE IS THAT FOR THESE THINGS

NOW - I THINK THAT OUR EXPERIENCE HERE IS THAT FOR THESE THINGS TO BE EFFECTIVE THEY MUST BE FAIRLY UNIVERSAL...

YOUR EARLIER COMMENT ABOUT IRAN, AND I WONDER FIRST OF ALL WHEN YOU SAY UNEQUIVOCALLY THAT THE ALLIES ARE GIVING SUPPORT ARE WE SPEAKING ONLY OF BRITAIN OR ARE WE SPEAKING OR WERE YOU SPEAKING OF ALL THE ALLIES?

A: WELL, THE EUROPEAN COMMUNITY HAS COME OUT WITH AT LEAST TWO EXTREMELY CATEGORICAL UNEQUIVOCAL AND FIRM STATEMENTS CONDEMNING THE IRANIAN ACTION IN TAKING HOSTAGES AND IMPLOING THEM TO REVERSE THAT, TO RELEASE THEM AND RETURN TO INTERNATIONAL LEGALITY, AND OF COURSE THERES BEEN A UNANIMOUS DECISION BY THE SECURITY COUNCIL. AND I THINK HERE YOU UNDERESTIMATE YOUR SUCCESS. YOU TEND TO UNDERESTIMATE YOUR INTERNATIONAL SUCCESS AND THIS IS FAIRLY RARE YOU KNOW TO GET THE UNANIMOUS VERDICT OF THE SECURITY COUNCIL ON ANYTHING, AND YOU GOT ONE HERE WHICH ENTIRELY UNDERScored YOUR POSITION ON IRAN AND I THINK YOU HAVE EVERY REASON TO BE PROUD OF YOURSELF.

Q: RELATING THAT THE THE SECOND PART OF THE QUESTION - WHETHER YOU COULD BE A LITTLE MORE SPECIFIC FIRST OF ALL ABOUT ANYTHING THE US MAY HAVE ASKED OR IS NOW ASKING BRITAIN AND THE OTHER ALLIES AND SECONDLY ANY SPECIFIC STEPS THAT YOU AND ANY OTHERS ARE ADOPTING RESOLUTIONS CONDEMNING IRAN RHETORICALLY, ANY SPECIFIC ACTIONS, IN TERMS OF AID, TRADE THAT HAS BEEN TAKEN IN RESPONSE TO THIS?

A: I CAN'T GIVE YOU THE DETAILS OF WHAT HAS BEEN UNDER DISCUSSION BY MR VANCE IN LONDON. BUT I CAN TELL YOU ONE, I THINK QUITE ELEGANT EXAMPLE OF WHAT HAS HAPPENED AND THAT IS THAT BRITISH PETROLEUM AND SHELL HAVE MADE NO AGREEMENTS ON ACQUIRING, PURCHASING ANY OIL FROM IRAN, GOING BEYOND THE END OF THIS YEAR. I DON'T SAY THAT IT WILL REMAIN LIKE THAT, BUT THAT IS THE PRESENT POSITION...

Q: ...COULD YOU GIVE US YOUR VIEW OF WHETHER OR NOT THERE IS ANY POSSIBILITY THAT ANY KIND OF ECONOMIC SANCTIONS WOULD BE ACCEPTABLE TO THE BRITISH GOVERNMENT - WOULD THEY BE PROPOSED, WOULD THEY BE CONSIDERED, ASSUMING THAT THEY HAVE BEEN, OR WILL BE ASKED FOR AND WOULD THEY BE ACCEPTABLE TO THE BRITISH PEOPLE?

A: I DON'T KNOW THAT THEY HAVE BEEN, YOU SAID ECONOMIC SANCTIONS?

Q: SOME KIND OF EXPORT RESTRICTIONS?

A: I DON'T KNOW THAT THEY HAVE BEEN ASKED, THAT WE HAVE BEEN ASKED TO. ALL I DO KNOW WOULD BE THAT IF WE WERE ASKED AND WE WOULDN'T BE ASKED ALONE - YOU WOULD WANT IT TO BE EVERY EUROPEAN COUNTRY BECAUSE AS I'VE SAID THEY HAVE TO BE UNIVERSAL TO BE EFFECTIVE. AND I'M SURE THAT WE AS INDEED OTHER COUNTRIES, FRANCE, GERMANY, EVERY COUNTRY - JAPAN, WOULD HAVE TO THINK ABOUT THE CONSEQUENCES OF THIS - THEY'D HAVE TO THINK WHETHER THIS IN FACT, IN THEIR JUDGEMENT, WOULD HELP THE HOSTAGES AND SECONDLY WHAT WOULD BE THE EFFECT OF THIS ON RELATIONS WITH IRAN AND UPON IRANS FUTURE RELATIONS WITH THE WEST, AND ALL I CAN SAY IS THAT THOSE ARE THE IMPORTANT CONSIDERATIONS

RELATIONS WITH IRAN AND UPON IRAN'S FUTURE RELATIONS WITH THE WEST, AND ALL I CAN SAY IS THAT THOSE ARE THE IMPORTANT CONSIDERATIONS THAT WOULD HAVE TO BE WEIGHED. WHLIKRTKTCBWDLFE OUTCOME I CAN'T SAY - I THINK ITS A HYPOTHETICAL QUESTION...

Q: IT HAS BEEN SAID THAT THERE WAS A DE FACTO BAN ON THE PART OF EUROPEAN COUNTRIES, AND MILITARY (INAUDIBLE)

A: ALL I KNOW IS AS FOR US NO MILITARY SUPPLIES HAVE GONE OR PARTS, HAVE GONE TO IRAN SINCE JUST BEFORE THE CRISIS...

Q: IF FOR EXAMPLE A VOTE WERE TAKEN IN THE UN FOR SANCTIONS - WHAT YOU'RE SAYING IS THAT THE UNITED STATES COULD NOT COUNT ON THE SUPPORT OF GREAT BRITAIN.

A: I DIDN'T SAY ANYTHING OF THE KIND.

Q: IS THAT A FAIR ASSUMPTION?

A: I DIDN'T SAY ANYTHING OF THE KIND, ALL I SAID WAS THAT IF YOU'RE TO GET THE THING THROUGH THE SECURITY COUNCIL YOU NEED, AS FAR AS I KNOW, NINE VOTES, AND NO VETO. THATS ALL I SAID, I COULDN'T PREDICT HOW PEOPLE ARE GOING TO VOTE. BUT I DO REPEAT WHAT I KEEP ON SAYING, AND THAT YOU KEEP DISBELIEVING IS THAT WE ARE STALWART BEHIND YOU. WE THINK WE'RE GIVING YOU ENORMOUS BACKING AND WE ALSO THINK THAT YOUR AUTHORITIES RECOGNISE THIS.
ENDS.

HENDERSON

NNNN

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*Subject: on U.S.A.
Nov 79: V. it to US Policy
(with brief)*

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Ln. Pmt

M J Vile Esq
Cabinet Office
70 Whitehall
LONDON SW1

14 December 1979

Dear Martin,

PRIME MINISTER'S VISIT TO THE UNITED STATES

As my Secretary of State told the Prime Minister on Thursday afternoon, the Iranians last week offered Shell and BP much reduced quantities of oil next year at a price of about \$36 a barrel. The United States Embassy in London has made representations to this Department on this matter which President Carter may raise with the Prime Minister.

I attach a note for inclusion with the briefing for the Prime Minister's visit to the United States.

I am copying this letter and its attachment to Paul Lever (FCO), Michael Alexander (No 10), Martin Hall (Chancellor of the Exchequer), and Stuart Hampson (Trade).

*Yours ever
Denis*

DENIS WALKER
PRIVATE SECRETARY

NOTE ON OFFERS OF IRANIAN OIL AT EXCESSIVE PRICES

The US Embassy in London have now, on instructions, made representations to the Department of Energy in favour of a common front of OECD countries against buying overpriced Iranian oil even after Caracas. The Americans are making similar representations in all OECD capitals.

The Secretary of State for Energy told the Prime Minister on 13 December that the Iranians have offered Shell and BP much reduced quantities of oil next year (about 120,000 barrels per day compared with nearly 600,000 bpd this year) at a price of about \$36 a barrel over the whole amount irrespective of what happens at Caracas. This is nearly \$12 a barrel more than the new Saudi prices just announced. If the Iranians succeed in imposing these terms it could have a ratcheting effect on oil prices. Shell and BP have not accepted the terms.

The report of the Official Group on Iran shows that she could live off her own resources for at least a year by using some \$3½ million of unfrozen free reserves for essential imports. And she would also secure some income from third world sales. In a clash of wills we cannot therefore be sure that Iran would give way before the West.

If we are to go along with the American move three conditions must be met:-

- (a) there must be a common front of all OECD countries. The position of Japan is critical. There is an undoubted risk that even if in theory they join in common action they would in practice find ways around it.
- (b) there must be a scheme which everyone accepts as some understanding of the way in which the scheme will be operated. Requests to the main oil companies for voluntary restraint would not prevent traders purchasing Iranian oil. An attempt to close this gap might involve import licensing by oil importing countries.

(c) we should need to find a way of acting against Iran which would not necessarily involve acting against other OPEC countries who may charge more than the official selling price.

The risks and practical problems of common resistance to Iranian demands are very great. Even if it could be mounted the attempt may not succeed. In reply to American representations we might indicate that we are willing without commitment to take part in a very urgent international study of the possibility of overcoming the practical problems and setting up an effective common front against Iranian demands.

If President Carter raises the matter it could be handled on these lines.

Department of Energy
14 December 1979



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 8707

D J S Hancock
Under Secretary

14 December 1979

M O B Alexander Esq
Private Secretary
No 10 Downing Street
LONDON SW1

Dear Alexander,

PRIME MINISTER'S VISIT TO WASHINGTON: LATEST MOVES ON IRANIAN ASSETS

I attach a brief on the latest US proposals for action in support of their freeze on Iranian assets.

2. Copies of this letter go to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Secretary of State for Energy, the Governor of the Bank of England, the Secretary to the Cabinet and Sir M Palliser.

Yours sincerely,

David Hann.

D J S HANCOCK

*Duty Clerk No 10
Subject filed with
briefs on USA: NOV 79
Visit to US: Phay*

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PRIME MINISTER'S VISIT TO WASHINGTON

IRAN - LATEST DEVELOPMENTS

After the Foreign Secretary's dinner in Brussels on 12 December with Messrs Vance, Francois-Poncet and Genscher, representatives of the Foreign Ministries of the UK, US, France and Germany met to consider next steps. Following discussion about the possibility of securing a Chapter VII resolution in the United Nations, the US representative put forward suggestions for four voluntary steps that might be taken by America's allies independently of any action in the UN. They were that official guidance should be given to the commercial banks in each country to the following effect:-

- (i) No new credits should be given to Iran.
- (ii) Banks should refuse to accept any new non-dollar accounts for the Iranian Government or the Central Bank and should also refuse to accept massive enlargements of existing non-dollar accounts.
- (iii) Prompt action by banks to declare default against Iran whenever there were justification e.g. if any payments were overdue in whatever currency.
- (iv) Oil companies should not pay Iran in non-dollar currencies.

2. We are examining these proposals. They all present considerable problems which are explained below. It would be advisable for the Prime Minister to avoid detailed discussion. We have undertaken to give the Americans our answer next week through diplomatic channels.

No new credits

3. We would expect that the only new credits given to Iran at present will be short-term of the sort normally associated with commercial transactions. It is highly unlikely that longer-term credit is being contemplated; but we are checking on this. The Bank of England could not give formal guidance to commercial banks to refrain from giving credit. That would be to interfere with the commercial judgement of the individual banks. If such a bank could

show that it had lost business which it might have secured but for the guidance, they could sue the Bank of England for compensation.

No new deposits

4. The effect of telling British banks not to accept new deposits would be to divert the business to other banks. The problem cannot be solved by agreement between a small group of countries such as the United States, Germany, France and Japan (for example). In the City of London alone, there are over 300 banks coming from every corner of the globe. It is inconceivable that the United States will be able to persuade the authorities in all these countries to persuade their banks to comply with guidance of the sort that the Americans have suggested. Once again, the Bank of England have no powers under which they can require banks to give up business and, if they gave informal guidance which caused an individual bank to lose money, they could be sued. We have no evidence that there have been substantial shifts in Iranian official deposits - but no figures are at present available for the relevant period.

Prompt action to declare defaults

5. Our understanding is that the Iranians are trying hard to meet their obligations and that, for the most part, they are succeeding. It is not unusual for some payments to be in arrears. The question whether a default be declared when a payment is late is one for the commercial judgement of the individual banks. The view taken by British banks is that, so long as Iran is making the maximum effort to service debt, it would not be in the commercial interests of the banks to enforce default. If they did judge it to be in their commercial interest they would do so. For the reasons explained in the above paragraphs, the Bank of England cannot override the commercial judgement of the individual banks.

Payments for oil

6. We understand that neither Shell nor BP have yet made any payment for Iranian oil in any currency other than dollars. But we do know that the Iranian authorities have asked certain oil companies to make payments in other currencies, finally deciding to take dollars only at the last moment. BP and Shell are both anxious to obtain more supplies of Iranian oil provided that they can get it on reasonably terms and in reasonable quantities. It might be possible to persuade them to agree to pay only in dollars if they were assured that all their competitors, and in particular the Japanese, were similarly committed. This idea could be followed up,

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if there were to be further discussions about combined resistance to Iranian demands for excessive prices - see separate brief from the Department of Energy.

Line to Take

7. I understand that four specific suggestions for voluntary action - independent of the question of a Chapter VII determination - were put to British officials last week. These suggestions are now being examined in London. We shall let the US authorities have our response as soon as possible.



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Subject filed with
Brief in USA: Nov 79
Visit to US Embassy

From the Secretary of State

Michael Alexander Esq
Private Secretary
10 Downing Street
Whitehall
SW1

14 December 1979

Dear Michael,

IRAN

You asked for a more detailed breakdown of our trade with Iran than is provided in paragraph 3F(iii) of Annex B to the MISC paper on Iran. I attach a table with the figures.

You may also like to know that one of the major construction projects mentioned in the paper involving a British firm is a large (£100m) road building contract won by Marples Ridgway (part of the Bath Portland Group) in SE Iran, on the Pakistan border. With the Revolution there was some delay and uncertainty. But the new regime decided to press on with the contract. There are 45 British staff working on the site. In the other project, Turiff International are sub-contractor to a French (Elf-Aquitaine) joint venture constructing oil gathering and exporting facilities on Sirri Island. There are 35 British staff resident on the site. The work is very near completion.

I am copying this letter to Paul Lever (FCO) and to Martin Vile (Cabinet Office).

*Yours sincerely,**Stuart Hampson*

S HAMPSON
Private Secretary



BREAKDOWN OF UK TRADE WITH IRAN (£m)

EXPORTS TO IRAN				
	1978	%	1979 (first 10 mnths)	%
Food & beverages	14.6	(1.9)	1.9	(1.1)
Chemicals of which medicinal & pharmaceutical products	71.6	(9.5)	30.4	(16.3)
	29.0	(3.9)	12.0	(6.6)
Iron & steel	33.6	(4.5)	4.7	(2.6)
Manufactures of metal	34.8	(4.6)	6.2	(3.4)
Power Generating equipment	94.0	(12.5)	13.2	(10.0)
Machinery	170.3	(22.7)	41.0	(22.7)
Telecommunications	22.2	(3.0)	2.3	(1.3)
Road vehicles	133.2	(17.7)	36.7	(20.6)
Others	177.0	(23.6)	39.2	(21.7)
TOTAL	751.3		130.6	
IMPORTS FROM IRAN (£m)				
Oil and Oil products	497.4	(93.0)	159.0	(84.7)
Carpets	12.0	(2.3)	10.5	(5.6)
Others	25.0	(4.7)	18.2	(9.7)
TOTAL	534.4		187.7	

USA. Nov 79, Visit to US
Policy (with briefs) 2

405 7641 Ext. 3291

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Communications on this subject should
be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,

ROYAL COURTS OF JUSTICE,

LONDON, W.C.2.

Our Ref: 400/79/371

13 December 1979

T P Lankester Esq
Prime Minister's Office
10 Downing Street
LONDON S W 1

IRAN

As promised when we spoke on the telephone this morning,
I am now writing to give you more information about the legal
proceedings in the United States which purport to affect the
High Court proceedings here in London.

The Governor of the Bank of England has handed to the
Attorney General a copy of an Order made by the US District
Court in New York. This was given to the Governor by the
London solicitors acting for Bank Markazi Iran. As you know
Bank Markazi are claiming in a High Court action here in
London against Chase Manhattan (London) for the return of
deposits of \$330 million. Chase Manhattan in New York in an
action against the State of Iran, Bank Markazi and numerous
other Iranian entities, have now obtained an Order prohibiting
all the Iranian defendants from taking any action to prosecute
or continue the proceeding entitled Bank Markazi Iran v. The
Chase Manhattan Bank, N.A. heretofore commenced in the High
Court of Justice, Queens Bench Division and from taking any
action to commence prosecution or continue any other court
proceeding against the Chase Manhattan Bank, N.A., in any
jurisdiction outside the United States relating to the subject
matter of this lawsuit.

The above Order was obtained by Chase Manhattan in New
York on an ex parte application to the United States District
Court. At the moment it is only an interim Order. It will
be up to the Iranians to decide whether to appear to seek to
prevent the Order being made permanent.

This Order appears to be a most monstrous invasion of
the United Kingdom judicial sovereignty and we can see no
basis at all for the American courts to require persons in the
UK to discontinue proceedings already commenced in our courts
nor to prohibit them from the right to commence proceedings

/here.

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05 7641 Ext.

Communications on this subject should
be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,

ROYAL COURTS OF JUSTICE,

LONDON, W.C.2.

here. Effectively the US Court Order is to put at risk Iranian assets in the United States if the Iranians pursue their claims here in London for the withdrawal of their deposits and in a sense the American courts are endeavouring to freeze Iranian assets in London.

We expect Bank Markazi to raise this matter before the Judge in the English proceedings and we would also expect the Judge to say something strong about an unwarranted interference with the right of persons in this country to bring actions here for the return of their deposits. This matter, however, relates only to the dispute between Chase Manhattan and the Iranians and not to affect the number of other legal actions involving American banks here in London and the Iranians. I attach a list of the legal actions which we know about so far.

As you know from my note to you of 11 December, the United States Attorney General has been pressing our Attorney to intervene in the Citibank proceedings here in London to represent the views of the United States Government. In line with our understanding of the conclusions reached at the Prime Minister's meeting on 11 December, we have been making no positive response to the US Attorney General and we are also now satisfied that the Judge in the Citibank case is unlikely to approach our Attorney with any request to act as an amicus curiae in this case. Through the US Embassy here the US Attorney General is still seeking a response to his suggestion about our intervention but, if nothing else, the knowledge of the American Court Order in the Chase Manhattan case now gives us the opportunity to say that any such intervention by our Attorney must be out of the question since any intervention in the courts here would be bound to involve our Attorney in objecting to the extraterritorial jurisdiction assumed by the American courts.

I am copying this to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Trade, Hancock (Treasury) and Martin Vile (Cabinet Office).

Yours sincerely,
W C Beckett

W C BECKETT

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1600 2377

Lawsuits/writs taken by Iran

<u>Date (approx.)</u>	<u>Plaintiff</u>	<u>Defendant</u>	<u>Assets Involved</u>	<u>Court</u>	<u>Legal Action Taken</u>
29/11	Bank Markazi	Bank of America	\$1,790 mm.	London	Writs issued for release of assets (14 days allowed for payment of sums claimed due to Bank Markazi).
29/11	Bank Markazi	Manufacturers Hanover Trust	\$415.6 mm.	London	
29/11	Bank Markazi	Bankers Trust Company	\$332 mm.	London	
29/11	Bank Markazi	Chase Manhattan	\$330 mm.	London	
29/11	Bank Markazi	Citibank	\$175 mm.	London	Court hearing 10/12 to unblock \$50 mm. deposit. Subsequently "send for deliberation" - no date set for decision.
10/12	Bank Markazi	Citibank	\$50 mm.	Paris	
4/12	Bank Saderat	Credit Lyonnais	\$18 mm.	London	Writ to recover \$18 mm. (within 14 days) Saderat has deposited with Credit Lyonnais, <u>Bahamas</u> .
7/12	Bank Mell	First National Bank of Chicago	\$511,750	London	

Lawsuits/Writs taken against Iran (Cont.)

<u>Date (approx.)</u>	<u>Plaintiff</u>	<u>Defendant</u>	<u>Assets Involved</u>	<u>Court</u>	<u>Legal Action Taken</u>
5/12	Chemical	Iran Bank Markazi }	\$50 mn. + int.	London	Injunction preventing payment of principal and interest on National Water Council loan, and preventing payment from any bank account held for a/c Bank Markazi at London offices of Chase, Citibank, Bankers Trust or Man.Han. which would result in an aggregate reduction in net balances below \$510 mn.
6/12	Citibank NA	Iran		London	Asks for declaration that it is subject to US law to extent that it cannot pay out any dollar deposits to Iran or to Bank Markazi.
7/12	Starrett Housing Corp. Crocker Nat.Bank Wells Fargo	Iran }	\$38.5 mn.	New York	
			\$18.5 mn.		
			\$18.1 mn.		
8/12	Bank of America	Iran Government + 38 Iranian commercial and banking concerns	\$337 mn.	San Francisco	Attachment in respect of loans, letters of credit, and other assets totalling \$337 mn. + interest at the rate of \$112,000 per day.
12/12	Chase Manhattan	Bank Markazi		New York (Southern District Court)	Protective action to restrain Bank Markazi from suing it in courts outside the US.

Lawsuits/action taken against Iran

<u>Date (approx)</u>	<u>Plaintiff</u>	<u>Defendant</u>	<u>Assets involved</u>	<u>Court</u>	<u>Legal action taken</u>
27/11	Morgan Guaranty	Iran Govt.	\$40 mn.	New York	Attachment
	Morgan Guaranty	Net.Petrochemical Co. (Iran)	\$25 mn.		
	UBAF Arab American Bk. European American Bk. European Bank and Trust	Iran Govt. Net.Petrochemical Co. (Iran)		New York	Attachment
28/11	Morgan Guaranty	Iran Govt.	\$40 mn.	Essen, W.Germany	Attachment on Iran's shareholdings in Fried Krupp and Deutsche Babcock
	Morgan Guaranty	Net.Petrochemical Co. (Iran)	\$25 mn.		
	Morgan Guaranty	Bk. of Tehran			
	Morgan Guaranty	Foreign Trade Bk. of Iran		New York and W.Germany	Court order to protect claims for alleged overdrafts totalling \$1.65 mn.
28/11	Morgan Guaranty	Bk. of Iran and Japan			
	First Chicago Chemical	Iran	\$88 mn. \$50 mn.	New York?	
3/12	Partners in Eurodif	Iran	-	Paris	Freezing of Iran's 10% holding in Eurodif, French-based Iranian enrichment co., because of failure to provide investment funds as proposed. Second attachment against Iran's 25% holding in Krupp.
4/72	Morgan Guaranty	Iran	\$26 mn.	Essen, W. Germany	

IRAN: ADVANCE COPIES

27

Prime Minister

PS
PS/SIR I GILMOUR

PS/MR HURD

PS/PUS

MR J. C. VORSEY in File

HD/MED

HD/FRD

HD/MENAD

HD/UND

HD/OID

HD/DEF DEPT

HD/MAED

HD/ES & SD

HD/CONS D

MISS BROWN

PUSD

NEWS D

RESIDENT CLERK

PS No 10 DOWNING ST

SIR R ARMSTRONG

ASSESSMENTS STAFF

MR LE CHEMINANT

CABINET
OFFICE

CABINET OFFICE DIO

MR F R BARRATT TREASURY

IMMEDIATE
ADVANCE COPY

SECRET

DESKBY TEHRAN 140630Z

FM WASHINGTON 132255Z DEC 79

TO IMMEDIATE F C O

TELNO 4207 OF 13 DECEMBER 1979

INFO IMMEDIATE UKMIS NEW YORK, TEHRAN, PARIS, BONN.

UKDEL NATO TEL NO 331

IRAN.

MINISTER ECONOMIC CALLED ON SOLOMON AT THE U S TREASURY TODAY AND ASKED IF THERE HAD BEEN ANY DEVELOPMENTS IN AMERICAN THINKING ABOUT ECONOMIC ACTION AGAINST IRAN OF WHICH WE SHOULD KNOW BEFORE THE PRIME MINISTER'S VISIT.

2. SOLOMON SAID THAT HE UNDERSTOOD THAT WHEN SECRETARY VANCE HAD DISCUSSED CHAPTER 7 ACTION AT THE QUADRIPARTITE DINNER YESTERDAY HE HAD ALSO SUGGESTED THAT THERE SHOULD BE QUOTE INTERIM ACTION UNQUOTE AND THAT HE BELIEVED THAT COOPER HAD ELABORATED PROPOSALS FOR SUCH ACTION. THESE HAD ORIGINATED FROM THE U S TREASURY AND WERE AS FOLLOWS. HE WAS VAGUE AS TO WHICH COUNTRIES IT WAS ENVISAGED WOULD TAKE PART, BUT HOPED THAT MORE THAN THE FOUR WOULD PARTICIPATE.

(I) REFUSAL TO PAY FOR OIL IN ANYTHING BUT DOLLARS.

(II) REFUSAL BY BANKS TO ACCEPT NEW NON-DOLLAR ACCOUNTS FOR THE GOVERNMENT OR CENTRAL BANK OF IRAN OR TO ACCEPT INCREASED DEPOSITS IN EXISTING NON-DOLLAR ACCOUNTS.

(III) PROMPT ACTION BY BANKS IN ANY CASE WHERE ACTION COULD BE TAKEN TO DECLARE DEFAULT AGAINST IRAN E.G. IF ANY PAYMENTS WERE OVER DUE IN WHATEVER CURRENCY.

(IV) NO NEW CREDITS TO IRAN INCLUDING REFUSAL TO PURCHASE IRANIAN ACCEPTANCES.

3. SOLOMON SAID HE UNDERSTOOD THAT IT HAD BEEN AGREED THAT THESE IDEAS SHOULD BE EXAMINED. HE WOULD BE GLAD TO SPEAK AGAIN ABOUT THESE MATTERS AFTER COOPER HAD RETURNED TO WASHINGTON TOMORROW.

4. THE PRESIDENT WAS PERSONALLY FOLLOWING THIS MATTER VERY CLOSELY AND THE PRESSURES WERE INCREASING, HE, SOLOMON, WAS ABOUT TO GO TO CAPITOL HILL TO MEET A GROUP OF SENATORS WHO WISHED TO PUT OUT A STATEMENT DEMANDING MUCH MORE POSITIVE ACTION FROM QUOTE THE ALLIES UNQUOTE IN SUPPORT OF THE UNITED STATES.

5. SOLOMON ALSO SAID THAT HE WELL UNDERSTOOD THE CONCERNS OF THE TREASURY IN LONDON AND THE BANK OF ENGLAND ABOUT THE REPERCUSSIONS IN THE BANKING SYSTEM OF FINANCIAL ACTION AGAINST IRAN, BUT THE ISSUE AT STAKE WAS A VERY LARGE ONE. THE WEST AS A WHOLE HAD AN INTEREST IN ENSURING THAT LAWLESSNESS WAS NOT CONDONED.

FINANCIAL ACTION HAD ITS COSTS AND DISADVANTAGES, BUT THE COST OF INACTION WOULD BE GREATER. THE SITUATION IN IRAN BEING AS VOLATILE AS IT WAS, ECONOMIC ACTION COULD HELP TO UNDERMINE KHOMEINI'S POSITION.

6. OUR VIEW IN THE EMBASSY IN THE LIGHT OF WHAT SOLOMON SAID AND OTHER EVIDENCE IS THAT THE AMERICANS MAY WELL KNOW OF THE GREAT DIFFICULTY OF GETTING A POSITIVE VOTE IN THE SECURITY COUNCIL UNDER CHAPTER 7, BUT THAT IT WOULD BE GOOD FOR THEM TO HAVE GONE TO THE SECURITY COUNCIL IN ANY CASE AND THAT THIS WOULD THEN MAKE OTHER ACTION EASIER SUBSEQUENTLY. FOR WHAT IT IS WORTH THE FRENCH AND FRG AMBASSADORS HERE HAVE INDICATED PRIVATELY THAT THEY DO NOT THINK THAT THERE IS ANY CHANCE OF A CHAPTER 7 VOTE GOING THROUGH.

HENDERSON

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FDEDIP

SM UKDEL NATO 130920Z DEC 79

TO F L A S H FOREIGN AND COMMONWEALTH OFFICE,

TELEGRAM NUMBER 331 OF 13 DECEMBER 1979,

INFO IMMEDIATE TEHRAN, WASHINGTON, UKMIS NEW YORK,

INFO PRIORITY PARIS, BONN.

M M Alexander
N° 10 D.S.

FOLLOWING FROM PRIVATE SECRETARY.

IRAN.

1. AT THE QUADRIPARTITE DINNER HERE ON 12 DECEMBER THE SECRETARY OF STATE INVITED MR VANCE TO SAY WHAT AMERICA'S FRIENDS COULD DO TO HELP HER IN THE APPALLING PROBLEM SHE FACED.
2. MR VANCE SAID THAT BY THE WEEKEND, OR EARLY NEXT WEEK, IRAN WAS LIKELY TO HAVE FLOUTED BOTH THE SECURITY COUNCIL AND THE INTERNATIONAL COURT OF JUSTICE. THE QUESTION WAS WHETHER OR NOT TO GO NEXT FOR SANCTIONS UNDER CHAPTER VII. ALL THE ASPECTS NEEDED TO BE CONSIDERED. MR VANCE CONCEDED THAT IF A RESOLUTION WERE INTRODUCED IN THE SECURITY COUNCIL AND VETOED BY THE SOVIET UNION, THE PROSPECTS FOR RATIFICATION OF SALT II WOULD BE NIL. BUT HE GUESSED THAT THE RUSSIANS WOULD NOT GO SO FAR. HE THEN WENT THROUGH THE LIST OF MEMBERS OF THE SECURITY COUNCIL AND SAID THAT ALL EXCEPT RUSSIA PLUS CZECHOSLOVAKIA/GDR COULD IN HIS JUDGEMENT BE RELIED ON TO SUPPORT A MOVE FOR SANCTIONS AGAINST IRAN. THE SAME WAS TRUE OF CUBA AS HEAD OF THE NON-ALIGNED MOVEMENT. THE ONLY REASONS FOR WAITING UNTIL NEXT WEEK WERE FIRST THE ICJ JUDGEMENT AND SECONDLY THE DESIRABILITY OF WAITING FOR THE NEW IRANIAN REPRESENTATIVE TO REACH NEW YORK. THE SITUATION ON THE GROUND WAS NOT SUCH THAT IT MATTERED WAITING 4 OR 5 DAYS RATHER THAN 2 OR 3.
3. THE SECRETARY OF STATE ASKED ABOUT THE CONSEQUENCES IN THE LONGER TERM. WOULD RESORT TO CHAPTER VII IN THIS CASE ENCOURAGE OTHERS TO FOLLOW SUIT IN OTHER AREAS? MR VANCE AGREED THAT THIS WAS LIKELY, BUT SAW CHAPTER VII AS THE ONLY AVAILABLE NEXT STEP, OTHER THAN MEASURES WHICH NONE OF US WISHED TO SEE ADOPTED.

SECRET

/4. AS TO

4. AS TO WHAT KIND OF SANCTIONS TO GO FOR, MR VANCE THOUGHT IT BETTER TO SEEK A BROAD RANGE OF MEASURES AT THE OUTSET RATHER THAN START WITH SOMETHING SMALLER AND QUOTE RACHET IT UP UNQUOTE. IT WOULD HAVE NO EFFECT TO DENY IRAN EG CIVIL AIR COMMUNICATIONS AND SPARE PARTS.

5. THE SECRETARY OF STATE ASKED WHETHER AN ECONOMIC BLOCKAGE WOULD CONSTITUTE SANCTIONS OR AN ACT OF WAR. MR VANCE SAID THERE WERE TWO OPINIONS ABOUT THIS: HE PERSONALLY THOUGHT THE LATTER.

6. M. FRANCOIS-PONCET SAID THAT THE ADVANTAGE OF CHAPTER VII WAS THAT IT WOULD CREAT A LEGAL BASIS FOR FRANCE AND OTHERS TO TAKE ACTION. AS THINGS STOOD IT WOULD BE LEGALLY DIFFICULT TO FREEZE IRANIAN ASSETS IN FRANCE. THERE WAS NO LEGISLATION AVAILABLE EXCEPT AN ACT OF 1939 WHICH FRENCH COURTS WOULD PROBABLY NOT REGARD AS VALID. (THIS WAS NOT TRUE OF CROSS-DEFAULT WHICH HE WAS WILLING TO LOOK AT). THE INTERNATIONAL APPROACH WOULD SOLVE THIS PROBLEM. AND IT WOULD NOT WORSEN THE FEELING OF ISOLATION AMONG THE IRANIAN MODERATES.

7. HERR GENSCHER SAID THAT THE FRG WOULD VERY MUCH WELCOME A MOVE FOR CHAPTER VII. THE FRG WAS NOT A MEMBER OF THE SECURITY COUNCIL, BUT THEIR REPRESENTATIVE IN NEW YORK WOULD BE INSTRUCTED TO EXPRESS SUPPORT. THE EARLIER THE BETTER.

8. THE SECRETARY OF STATE SAID THAT MR VANCE NEED NOT DOUBT WHERE BRITAIN STOOD. HE ASKED WHETHER, IN PARALLEL WITH THIS, IT MIGHT BE POSSIBLE TO ORGANISE A CONSENSUS OF OIL BUYERS TO REFUSE TO BID FOR IRANIAN OIL. SUCH A MOVE HOWEVER SHOULD NOT BE MOUNTED BEFORE THE OPEC MEETING IN CARACAS, AND IT WOULD BE ESSENTIAL TO GET JAPAN ON BOARD. MR VANCE THOUGHT IT MIGHT HAVE SOME EFFECT IF PURCHASES OF IRANIAN OIL COULD BE BROUGHT BELOW 2.5 M.B.P.D. BUT IT WOULD BE DIFFICULT TO PERSUADE JAPAN.

9. AT MR VANCE'S SUGGESTION, IT WAS AGREED THAT THE FOUR MISSIONS IN NEW YORK SHOULD CONSULT URGENTLY ON THE PROSPECTS FOR THE KIND OF ACTION WHICH HE HAD INDICATED, AND HOW BEST TO GO ABOUT IT. MEANWHILE ECONOMIC EXPERTS FROM THE FOUR FOREIGN MINISTRIES SHOULD CONTINUE THEIR DISCUSSIONS ON POSSIBLE MEASURES AGAINST IRAN IN THAT FIELD.

SECRET

10. FINALLY, MR VANCE SAID THAT IF THE SECURITY COUNCIL FOUND THAT THERE WAS A THREAT TO PEACE AND ORDERED SANCTIONS, THE SITUATION IN TEHRAN MIGHT STILL REMAIN UNCHANGED. A FORTNIGHT WOULD BE LONG ENOUGH TO WAIT BEFORE JUDGING WHETHER A SANCTIONS RESOLUTION HAD BEEN EFFECTIVE OR NOT. M. FRANCOIS-PONCET SAID THAT IF THIS POINT WERE REACHED, IT WOULD BE NECESSARY TO HAVE AN EVALUATION OF THE LIKELY RESULTS, NOT ONLY IN IRAN, BUT ELSEWHERE IN THE AREA. IN ADDITION FRANCE WOULD NEED TO HAVE ADVANCE NOTICE. MR VANCE ACCEPTED THIS.

11. PRIVATE OFFICE TO BE CONSULTED BEFORE ANY DISTRIBUTION IS GIVEN TO THIS TELEGRAM.

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FM TEHRAN 130600Z DEC

TO PRIORITY FCO

TELEGRAM NUMBER 1334 OF 13 DEC 79

INFO PRIORITY WASHINGTON.

MY TELNO 1292 (PARA 8): US EMBASSY TEHRAN.

1. A PRIVATE NEWS SHEET WHICH CIRCULATES QUITE WIDELY HERE, HAS ADVANCED THE THEORY THAT THE US GOVERNMENT ARE KEEPING THE SHAH IN THE US A VIRTUAL PRISONER, BECAUSE 'SHE WILL NOT GIVE UP HER MOST VALUABLE PIECE OF BARGAINING'.

2. IT SEEMS TO ME QUITE LIKELY THAT THIS MAY INDEED REFLECT THE THINKING OF SOME IRANIANS IN AUTHORITY: AND THAT IT WOULD BE DESIRABLE TO SCOTCH IT BY MOVING THE SHAH ON.

3. ON THE ASSUMPTION THAT THE SHAH HAS SOMEWHERE TO GO, THE QUESTION MUST BE CONSIDERED WHETHER, IF THE SHAH LEFT THE US, THERE WOULD BE A REACTION HERE WHICH WOULD AFFECT THE HOSTAGES. IT IS A DIFFICULT MATTER OF TIMING. MY VIEW IS THAT NOW WOULD BE AS GOOD A TIME AS ANY: THAT, ON THE OTHER HAND, FOR THE SHAH TO MOVE AT A TIME WHEN SOME SORT OF PUBLIC INVESTIGATION WAS ON THE POINT OF BEING OR HAD ALREADY BEEN

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VESTIGATION WAS ON THE POINTXHF BEING OR HAD ALREADY BEEN
LAUNCHED WOULD BE SEEN AS PROVOCATIVE.

4. I DISCUSSED THIS WITH LAINGEN YESTERDAY AND I THINK HE
WOULD AGREE WITH THIS VIEW.

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TO PRIORITY F.C.O.

TELEGRAM NUMBER 4177 OF 12 DECEMBER.

INFO PRIORITY TEHRAN, TOKYO, BONN, PARIS, ROME.

MY TEL 4159: IRAN - MR VANCE'S TRIP TO EUROPE.

1. THE THEME OF THE LATEST BRIEFING BEING GIVEN TO U.S. REPORTERS TRAVELLING WITH VANCE (AS REPORTED IN TODAY'S PRESS) IS THAT THE ALLIES, THOUGH THEY HAD EXPRESSED "GREAT OUTRAGE" ABOUT EVENTS IN IRAN AND SHOWN THEMSELVES MUCH INTERESTED IN WHAT VANCE HAD TO SAY, HAD NOT COMMITTED THEMSELVES TO ANY ACTION (THOUGH RICHARD BURT IN THE NEW YORK TIMES REPORTS A U.S. OFFICIAL AS HAVING SAID THAT HE HAD NO DOUBT THAT THE ALLIES WOULD COOPERATE IF THE ADMINISTRATION DECIDED TO SEEK A COLLECTIVE TRADE EMBARGO UNDER THE U.N. CHARTER. VANCE'S DISCUSSIONS IN EUROPE ARE DESCRIBED AS PART OF THE ADMINISTRATION'S "PROCESS OF DECISION MAKING" AND NO DECISION IS EXPECTED UNTIL AFTER VANCE HAS RETURNED TO WASHINGTON AND REPORTED TO PRESIDENT CARTER. VANCE HAD NEITHER SOUGHT NOR RECEIVED FIRM COMMITMENTS TO SUPPORT ANY SPECIFIC COURSE OF ACTION.

2. CARTER'S ACTION IN FREEZING IRANIAN ASSETS IS REPORTED TO HAVE SUCCEEDED BETTER THAN ANYONE HAD EXPECTED IN CURTAILING IRANIAN TRADE WITH THE INDUSTRIALISED WORLD, THIS DEVELOPMENT WAS DESCRIBED BY A STATE DEPARTMENT OFFICIAL AS BEING, WHILE "NOT UNWELCOME",

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3. THE WASHINGTON POST ALSO QUOTES SECRETARY BROWN AS HAVING SAID IN BRUSSELS "IT IS NOW APPROPRIATE, I THINK, FOR OUR ALLIES AND FRIENDS, INDEED FOR THE WORLD COMMUNITY TO REFLECTS IT DISAPPROVAL THROUGH CONCRETE ECONOMIC AND DIPLOMATIC STEPS" (CF BRZEZINSKI'S REMARKS IN HIS TELEVISION INTERVIEW OF 9 DECEMBER - MY TELNO 4124).

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TO PRIORITY FCO

TELEGRAM NUMBER 1333 OF 12 DEC 79

INFO PRIORITY WASHINGTON, MOSCOW AND COPENHAGEN.

MY TELNO 1332 : US/IRAN CONFRONTATION.

1. AT THE MEETING WITH QOTBZADEH THIS MORNING (PARA 3 OF MY TUR), WHICH TONED OUT TO BE MERELY A SOCIAL OCCASION FOR HIM TO MEET HEADS OF MISSION IN TEHRAN, I SPOKE AT SOME LENGTH WITH THE SOVIET AMBASSADOR. THE DANISH AMBASSADOR HAD ALSO SEEN HIM EARLIER TODAY, AND THE FOLLOWING IS AN AMALGAM OF WHAT VINOGRADOV SAID TO US BOTH.

2. ACCORDING TO VINOGRADOV, THE RUSSIANS HAVE MADE PLAIN TO THE IRANIANS IN TEHRAN THEIR SUPPORT FOR THE PRINCIPLE OF DIPLOMATIC IMMUNITY. HE TENDED TO QUESTION THE UTILITY OF REPEATED DEMARCHES AND CLAIMED THAT THE PRIVATE SOVIET DEMARCH WAS AT LEAST AS EFFECTIVE IN ACHIEVING RESULTS, E.G. BANI SADR'S ATTEMPT TO MOVE THE STUDENTS TO ACCORD MORE HUMANITARIAN

REPEATED DEMARCHES AND CLAIMED THAT THE PRIVATE SOVIET DEMARCH WAS AT LEAST AS EFFECTIVE IN ACHIEVING RESULTS, E.G. BANI SADR'S ATTEMPT TO MOVE THE STUDENTS TO ACCORD MORE HUMANITARIAN TREATMENT.

3. VINOGRADOV TOOK THE LINE NEVERTHELESS THAT THE CRISIS WAS BROUGHT ABOUT BY THE "INCREDIBLE BLUNDER" OF THE US IN ADMITTING THE SHAH, AGAINST THE BACKGROUND WHICH HE CLAIMS IS NOW COMING OUT IN THE SHAH'S MEMOIRS AS PUBLISHED IN L'EXPRESS, OF AMERICAN INVOLVEMENT HERE IN THE YEARS BEFORE THE REVOLUTION. WHEN I SAID THAT, NO MATTER WHAT MISTAKES OR INTERFERENCE THERE HAD BEEN ON THE PART OF THE AMERICANS, THE IMMUNITY OF EMBASSIES WAS AN ABSOLUTE PRINCIPLE, AND THAT THE IRANIAN ATTITUDE TOWARD THE AMERICAN EMBASSY UNDERMINED THE VALIDITY OF THEIR ASSURANCES TO THE REST OF US, VINOGRADOV WARMLY AGREED: NO EMBASSY IN TEHRAN, HE SAID, COULD BE REGARDED AS SAFE, BUT THE POINT WAS HOW TO GET OUT OF THE PRESENT CRISIS. HE ARGUED THAT THE PRINCIPLE OF DIPLOMATIC IMMUNITY HAVING BEEN ESTABLISHED BY THE SECURITY COUNCIL RESOLUTION, IT WAS NOW UP TO THE UNITED STATES "TO GIVE SOMETHING" TO ENABLE THE IRANIANS TO CLIMB DOWN, BUT HE COULD NOT THINK WHAT. AS A MATTER OF PRINCIPLE THIS MIGHT BE WRONG, HE SAID, BUT HE COULD SEE NO OTHER WAY OUT. MOREOVER, HE BELIEVED THAT ANY MILITARY ACTION OR A CONTINUATION OF ECONOMIC AND FINANCIAL SANCTIONS WOULD BE COMPOUNDING THE ORIGINAL BLUNDER. THE DANISH AMBASSADOR POINTED OUT THAT THE AMERICANS HAD SAID THAT ONCE THE HOSTAGES HAD BEEN RELEASED, OUTSTANDING PROBLEMS COULD BE DISCUSSED. VINOGRADOV SAID SUCH A PROMISE WAS NOT ENOUGH: THERE HAD TO BE SOMETHING IN THE HAND.

4. I SAID THAT IT SEEMED THAT THE IRANIANS WERE BEGINNING TO MOVE TOWARDS CONSIDERING THE RELEASE OF THE HOSTAGES FOLLOWING SOME SHOW ENQUIRY INTO THE ALLEGED INIQUITIES OF THE US, BUT THAT THE WHOLE PROCESS WAS BOUND TO BE EXTREMELY DIFFICULT FOR PRESIDENT CARTER TO HANDLE DOMESTICALLY, EVEN IF ONE ACCEPTED THAT THIS WAS THE ONLY WAY OUT. VINOGRADOV SAID THAT THE PRESIDENT'S DOMESTIC DIFFICULTIES CUT NO ICE HERE: THAT WAS THE AMERICANS' BUSINESS.

5. THE DANISH AMBASSADOR ASKED ABOUT THE IRAN-SOVIET TREATY. VINOGRADOV CONFIRMED THAT ABOUT 3 DAYS BEFORE BAZARGAN'S RESIGNATION (IE ABOUT 3 NOVEMBER) THE IRANIANS HAD DELIVERED A NOT ABROGATING TWO CLAUSES. THE RUSSIANS HAD NOT REPLIED. THEY TOOK THE VIEW THAT THE TREATY SPECIALLY PROVIDED THAT

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6. THE DANISH AMBASSADOR MADE A POINT OF TELLING ME THAT HE WAS NOT PASSING ANY OF HIS CONVERSATION ON TO MY OTHER COLEAGUES.

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FM TEHRAN 120755Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 1332 OF 12 DECEMBER

AND TO IMMEDIATE BRUSSELS (FOR PRIVATE SECRETARY)

INFO IMMEDIATE CABINET OFFICE (DIO), MODUK (DI4 AND DS11), CRE 5,
WASHINGTON, UKMIS NEW YORK, BAHRAIN

INFO PRIORITY ABU DHABI, ANKARA, BAGHDAD, DOHA, DUBAI, ISLAMABAD,
JEDDA, KABUL, KUWAIT, MOSCOW, TOKYO, MUSCAT, NEW DELHI, EEC POSTS.

MY TELNO 1329: SITUATION IN IRAN

1. ALTHOUGH THE SITUATION IN QROUMIEH APPARENTLY REMAINS UNEASY, TABRIZ IS NOW REPORTED TO BE QUIET. HOWEVER JOURNALISTS THERE YESTERDAY HAVE TOLD US THAT THE TABRIZIS WERE UNHAPPY ABOUT THE COMPOSITION OF THE REVOLUTIONARY COUNCIL DELEGATION (SEE TUR), HAVING EXPECTED PERSONAL REPRESENTATIVES OF KHOMEINI AND SHARIAT MADARI TO BE INCLUDED. THE DELEGATION ADDRESSED A RALLY YESTERDAY AFTERNOON WITHOUT INCIDENT, BUT THE LEADERS OF THE MPRP HAVE ALL GONE UNDERGROUND.
2. WE HAVE NOW SEEN A FULL TEXT OF SHARIAT MADARI'S REPLY TO THE DEMANDS AND CRITICISMS OF QOM MULLAHS (SEE TUR), BROADCAST ON THE 2.00 PM NEWS YESTERDAY AND ON THE BBC PERSIAN SERVICE LAST NIGHT. REFERRING TO THE ATTACK ON HIS HOUSE ON 6 DECEMBER

2. WE HAVE NOW SEEN A FULL TEXT OF SHARIAT MADARI'S REPLY TO THE DEMANDS AND CRITICISMS OF QOM MULLAHS (SEE TUR), BROADCAST ON THE 2.00 PM NEWS YESTERDAY AND ON THE BBC PERSIAN SERVICE LAST NIGHT. REFERRING TO THE ATTACK ON HIS HOUSE ON 6 DECEMBER (MY TELNO 1307) HE SAID "ATTRIBUTING THE SAD EVENT .. TO AMERICAN IMPERIALISM AND RELATING EVERYTHING TO IMPERIALISM AND ZIONISM DOES NOT SOLVE ANYTHING..." ABOUT AZERBAIJAN: "NO DOUBT IMPERIALISM MUST BE FIRMLY FOUGHT, BUT ANTI-IMPERIALIST SLOGANS SHOULD NOT BECOME A WEAPON TO HIT BOTH RIGHT AND WRONG". ANSWERING THE DEMAND THAT HE DISSOLVE THE MPRP: "...WITH THE PRESENT GOVERNMENT'S METHODS THERE IS NO NEED FOR THE FOUNDERS TO DISSOLVE THE PARTY. THE GOVERNMENT ITSELF WILL GRADUALLY DISSOLVE ALL THE PARTIES BY LABELLING THEM AS AMERICAN, ZIONIST AND ANTI-ISLAMIC".

3. THE OCCUPATION OF THE US EMBASSY HAS RECEDED SOMEWHAT IN THE PUBLIC EYE HERE. TO-DAY'S BAMDAD REPORTS THE REFUSAL BY KHOMEINI TO SEE AN AMERICAN DELEGATION LED BY SEN. KENNEDY (SIC). ELABORATING ON HIS CONCEPT OF A "GRAND JURY" TO INVESTIGATE IRAN'S GRIEVANCES AGAINST THE UNITED STATES, QOTBZADEH TOLD FOREIGN JOURNALISTS YESTERDAY THAT THIS BODY, WHICH HE HAS ALSO VARIOUSLY CALLED A "BOARD" AND AN "INTERNATIONAL COMMISSION", WOULD INCLUDE FOREIGN DIPLOMATS ACCREDITED TO IRAN. DETAILS WOULD BE ANNOUNCED "WITHIN 10 DAYS". QOTBZADEH APPEARED TO DISTINGUISH BETWEEN THE "GRAND JURY" AND A TRIAL OF THE HOSTAGES: THE LATTER, IF IT TOOK PLACE AT ALL, WOULD DO SO ONLY AFTER THE "GRAND JURY" HAD CONVENED. HE ALSO SAID THAT HE HAD NOT SEEN ZUHAIR YAHIN AND THAT HIS MEETING WITH THE SRI LANKAN FOREIGN MINISTER HAD CONCENTRATED ON BILATERAL ISSUES. HE IS TO SEE ALL HEADS OF MISSION IN TEHRAN THIS MORNING BUT THIS MAY ONLY BE TO INTRODUCE HIMSELF.

4. THE MFA YESTERDAY ISSUED A FURTHER STATEMENT REPEATING THAT A PANEL WOULD BE FORMED TO EXAMINE THE UNITED STATES RECORD IN IRAN SINCE 1953. THE RC SPOKESMAN, DR. HASSAN HABIBI, SAID LAST NIGHT THAT THE GRAND JURY COULD BE CONVENED ONCE THE LIMITS OF ITS RESPONSIBILITIES HAD BEEN CLARIFIED AND HAD GAINED THE APPROVAL OF THE RC AND THE IMAM. IT MAY BE THAT QOTBZADEH IS HAVING DIFFICULTY IN THIS.

5. SYMPTOMATIC OF THIS SHIFT IN INTEREST, THE HEADLINES OF TODAY'S JOMHOURI ESLAMI, THE ISLAMIC REPUBLICAN PARTY'S NEWSPAPER, CONCERN THE BUDGET FOR THE RECONSTRUCTION CRUSADE AND RAFSANJANI, SUPERVISOR OF THE MINISTRY OF THE INTERIOR, HAS ANNOUNCED A BILL TO ALLEVIATE UNEMPLOYMENT. POPULAR ATTENTION

HAVING DIFFICULTY IN THIS.

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6. THE DELEGATION TO KURDESTAN MET YESTERDAY WITH HOSSEINI, QASSEMLOU AND OTHER KURDISH LEADERS. SABBAGHIAN, A MEMBER OF THE DELEGATION, HAS SAID THAT MILITARY POLICE WILL TAKE OVER RESPONSIBILITY FOR SECURITY AND ORDER IN KURDISH TOWNS FROM THE PASDARAN, THAT NO-ONE ELSE WOULD BE ALLOWED TO CARRY ARMS, AND THAT RIGHTS WOULD BE GRANTED TO THE KURDISH PEOPLE AS A WHOLE RATHER THAN TO A PARTICULAR GROUP.

7. THE IRANIAN PRESS HAS CARRIED, WITHOUT COMMENT, AGENCY REPORTS OF THE ALLEGED HOLD-UP BY BRITAIN OF TANK PARTS ETC (FCO TELNO 784 NOT TO ALL), DETENTION OF AN IRANIAN IN CONNECTION WITH THE ASSASSINATION OF SHAHRYAR SHAFIQ (FCO TELNO 787 NOT TO ALL), AND OF AN ITV INTERVIEW WITH THE IRANIAN CHARGE D'AFFAIRES IN LONDON, AFROUZ, IN WHICH HE MENTIONED INTER ALIA IMMIGRATION PROBLEMS, DEMONSTRATIONS BY IRANIANS, AND THE WEALTH OF THE SHAH AND HIS FAMILY IN BRITAIN WHICH SHOULD BE RETURNED TO IRAN.

GRAHAM

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Prime Minister

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*I m has Seen.
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13/12/79

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CONFIDENTIAL

FROM PARIS 121300Z DEC 79

TO PRIORITY F C O

TELEGRAM NUMBER 972 OF 12 DECEMBER 1979

INFO PRIORITY TEHRAN AND WASHINGTON

INFO ROUTINE BUDAPEST, BUCHAREST AND WARSAW

EASTERN EUROPEAN INVOLVEMENT IN DEMARCHES ON IRAN

1. DURING A COMMUNITY BRIEFING LARGELY DEVOTED TO THE VISIT OF THE SECRETARY GENERAL OF THE ARAB LEAGUE (SEE MY TELNO 971. (NOT TO ALL)), LECOMPT (DIRECTOR FOR MIDDLE EAST AND NORTH AFRICA AT THE QUAI) SAID THAT THE FRENCH HAD TAKEN ACTION IN PARIS ON THE AMERICAN REQUEST FOR THE NINE TO LOBBY THE EASTERN EUROPEANS TO SHOW GREATER SOLIDARITY WITH THE REST OF THE DIPLOMATIC CORPS IN TEHRAN. LECOMPT HAD SUMMONED THE ROMANIAN, POLISH AND HUNGARIAN AMBASSADORS AND THE SOVIET MINISTER/ COUNSELLOR. THE SUBJECT HAD ALSO BEEN RAISED BY M. BARRE WITH THE HUNGARIAN PRIME MINISTER DURING THE LATTER'S RECENT VISIT TO PARIS. RESPONSES WERE AS FOLLOWS :

(A) THE POLE HAD SAID THAT HIS GOVERNMENT COULD AGREE TO BE ASSOCIATED WITH FUTURE DEMARCHES.

- (A) THE POLE HAD SAID THAT HIS GOVERNMENT COULD AGREE TO BE ASSOCIATED WITH FUTURE DEMARCHES.
- (B) THE ROMANIAN, WHILST PRIVATELY CONDEMNING THE TAKING OF HOSTAGES, HAD SAID THAT IT WOULD DO MORE HARM THAN GOOD TO REMONSTRATE WITH THE IRANIANS AND THE ROMANIANS WOULD NOT (NOT) PARTICIPATE IN ANY SUCH MOVES.
- (C) NEITHER THE HUNGARIAN AMBASSADOR NOR LAZAR HAD TAKEN ANY POSITION AT ALL.
- (D) THE SOVIET MINISTER/COUNSELLOR HAD ACKNOWLEDGED THE INADMISSABILITY OF TAKING HOSTAGES, BUT HAD THEN LAUNCHED INTO A LONG ACCOUNT OF SOVIET SUSPICIONS OF AMERICAN MOTIVES IN EXPLORING ALL PEACEFUL METHODS OF BRINGING PRESSURE TO BEAR ON THE IRANIANS SINCE THIS WAS UNDOUBTEDLY DESIGNED TO PROVIDE A PRETEXT FOR MILITARY ACTION SHOULD PEACEFUL PRESSURES PROVE FRUITLESS.

HIBBERT

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Prime Minister.

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FROM UKMIS NEW YORK 120155Z DEC 79

TO IMMEDIATE F C O

TELEGRAM NUMBER 1830 OF 11 DECEMBER

AND TO UKDEL NATO

INFO IMMEDIATE PARIS

INFO PRIORITY WASHINGTON BONN ROME

PARIS TELNO 964 (NOT TO UKDEL NATO): IRAN: MR VANCE'S VISIT

1. I AM SURE THAT THE FRENCH ARE RIGHT IF, AS SIR R HIBBERT SUGGESTS, THEY THINK THAT THERE WILL BE NO CHAPTER VII DETERMINATION. NEITHER THE RUSSIANS NOR THE NON-ALIGNED WOULD SUPPORT SUCH A RESOLUTION AND IT WOULD ALMOST CERTAINLY FAIL TO ACHIEVE NINE POSITIVE VOTES. IF SO, THE RUSSIANS WOULD NOT EVEN HAVE TO VETO.

2. AS SEEN FROM HERE, THEREFORE, IT IS IRRESPONSIBLE OF THE FRENCH TO ENCOURAGE THE AMERICANS TO CONTEMPLATE RECOURSE TO CHAPTER VII, FOR THE FOLLOWING REASONS.

2. AS SEEN FROM HERE, THEREFORE, THE FRENCH TO ENCOURAGE THE AMERICANS TO CONTEMPLATE RECOURSE TO CHAPTER VII, FOR THE FOLLOWING REASONS.

3. FIRST (THOUGH THIS IS NOT STRICTLY MY BUSINESS), I WOULD EXPECT THAT THE COUNCIL'S REFUSAL TO ACCEPT AN AMERICAN REQUEST FOR A CHAPTER VII DETERMINATION WOULD HAVE AN UNHELPFUL EFFECT ON AMERICAN PUBLIC OPINION AND INCREASE PRESSURE ON THE ADMINISTRATION FOR DRASTIC ACTION.

4. SECONDLY, AN AMERICAN REQUEST, EVEN IF REFUSED, WOULD ENCOURAGE THE AFRICANS TO PRESS EVEN HARDER FOR CHAPTER VII ACTION AGAINST SOUTH AFRICA, ON THE GROUNDS THAT IF CHAPTER VII IS JUSTIFIED BY IRAN'S BREACH OF INTERNATIONAL LAW IN TAKING 50 HOSTAGES, IT IS EVEN MORE JUSTIFIED BY SOUTH AFRICA'S "DEFIANCE OF THE SECURITY COUNCIL" OVER EG NAMIBIA, THE BANTUSTANS ETC. SIMILAR ARGUMENTS APPLY IN THE ARAB/ISRAEL CONFLICT.

5. THIRDLY, AN AMERICAN REQUEST WOULD PUT US (AND THE FRENCH, THOUGH THEY SEEM NOT TO SEE IT) IN AN AWKWARD POSITION, WHERE WE WOULD HAVE TO CHOOSE BETWEEN DISCOURAGING THE AMERICANS FROM GOING AHEAD, WITH ALL THE DAMAGE THAT WOULD ENSUE FOR OUR RELATIONS IN THE PRESENT AMERICAN STATE OF MIND, OR PLEDGING OUR SUPPORT FOR A LOST CAUSE AND INCURRING DAMAGING CONSEQUENCES. IF THE AMERICANS HAD PRESSURISED THE AFRICANS OVER CHAPTER VII ON IRAN, THEY WOULD FIND IT HARDER TO EXERCISE THE VETO ON SOUTH AFRICA AND WE AND THE FRENCH WOULD BE MORE EXPOSED.

6. FROM THIS POST'S POINT OF VIEW, THEREFORE, THERE WOULD BE ADVANTAGE IN YOUR SOUNDING A CAUTIONARY NOTE ON THIS IN YOUR FURTHER CONTACTS WITH MR VANCE AND M FRANCOIS-PONCET.

PARSONS

NNNN

PRIME MINISTER

The Attorney General of the United States called on our Attorney General this morning. Sir Michael Havers will, of course be reporting on this at the five o'clock meeting, but you might like to be aware of the main points which came up.

These were;

i) The US Attorney reported that he was expecting the International Court to reach a judgment on Friday - and that this would almost certainly find in favour of the USA.

ii) Sir Michael Havers explained the reasons why we do not believe the 1947 Exchange Control Act can be used to block Iranian assets here in London - and in particular the point that for these powers to be used, there must be some economic motive. In response, the US Attorney asked whether we could not satisfy ourselves that there was some economic objective in moving against the Iranians - such as the prospect of default on our loans to Iran.

iii) The US Attorney made a new proposal in relation to the City Bank case which is coming to the courts shortly. As you will recall, the administration had asked that our Attorney General should ask the court directly to put into effect the Presidential order. The US Attorney this morning proposed something slightly different. The US Government has been made a party to the suit, and he asked whether Sir Michael Havers would be willing to represent the US Government in the Court and present their arguments on their behalf. The US Attorney thought that this would at the very least show that we were sympathetic to their position; and he hoped Sir Michael would be able to go somewhat further and say explicitly that we agreed with the US arguments. Sir Michael responded that he would consider this possibility, but gave no commitment. The US Attorney left behind a note setting out the kinds of arguments that he would want Sir Michael to put forward on their behalf; Sir Michael will bring this to the meeting.

11 December 1979



With the compliments of

THE PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

Mr Hapnay (Head of MED)

Iran: Telephone Discussion between
Lord Carrington and Herr Genscher

The German Foreign Minister telephoned the Foreign and Commonwealth Secretary at lunch-time today to enquire what sort of representations the Germans would be likely to receive from Mr Vance who was due to arrive in Bonn later in the afternoon.

Lord Carrington said that the gist of Mr Vance's message in London had been that the economic pressure on the Iranians seemed to be having some effect and that the United States would be grateful if their allies could freeze Iranian assets in the same way that the Americans had done. Lord Carrington added that the Prime Minister and he had told Mr Vance that the British Government was anxious to help over Iran as much as possible but that the idea of a freeze on Iranian assets posed problems in that the British Government did not have the necessary juridical authority to impose one. Herr Genscher said that the Germans had similar difficulties. They were anxious to help but did not want to damage the whole of the world's banking system. He thought that the problem could be discussed among the four Foreign Ministers at the Quadripartite Dinner in Brussels on 12 December. Thereafter it might also be discussed among NATO Foreign Ministers at the restricted session, without officials present, of the North Atlantic Council. He asked whether Mr Vance had mentioned the possibility of a chapter seven determination by the UN Security Council and the imposition of sanctions on Iran. Lord Carrington said that Mr Vance had mentioned this as something which might be required if things got worse. Lord Carrington added that he personally saw some merit in this course. Herr Genscher said that he did as well. It ought to be possible to secure the agreement of all the Western members of the Security Council for such action and it would be difficult for the Soviet Union to refuse.

Paul Lever
(P Lever)

11 December 1979

cc: PS/Lord Privy Seal
PS/Mr Ridley
PS/PUS
Lord Bridges
Mr Bayne, FRD
PS/Chancellor of the Exchequer

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01-405 7641 Ext. 3291

Communications on this subject should
be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,

LAW OFFICERS' DEPARTMENT,

ROYAL COURTS OF JUSTICE,

LONDON, W.C.2.

11 December 1979

T P Lankester Esq
Prime Minister's Office
10 Downing Street
LONDON S W 1

Dear Tim,

— I attach a note of the Attorney General's meeting
— with the US Attorney General today and also a copy of
the document the US Attorney left with us.

I am copying this to Hancock in the Treasury and
Walden in the FCO.

70-5
Bill Beckett

W C BECKETT

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NOTE

The US Attorney General, Mr Civeletti, called to see the Attorney General at noon today. The meeting had been arranged by the US Ambassador last evening, who had asked the Attorney to see Mr Civeletti on his way through London today, following his appearance at the International Court in the Hague.

Mr Civeletti told the Attorney that he thought the American case had gone well in the Hague and that they expected something in their favour quickly from the Court, probably on Friday of this week.

The Attorney General explained briefly to Mr Civeletti the legal difficulties that face the UK both as regards taking any action under the Exchange Control Act 1947 and in making any intervention in the court proceedings here in London (the Citibank case). On the former, the Attorney General explained our views about an economic necessity in order to make any action under the Exchange Control Act intra vires and on the second point he explained that, in the absence of any request by the court itself to appear as an amicus curiae, he had no right to intervention in proceedings in which the UK was not a party simply to express goodwill and support for the American blocking action. He explained that any such intervention might be harmful to the Americans rather than helpful and that if the contracts were governed by English law it was difficult to see how any judgment could be in favour of the American bank.

On the point about the use of Exchange Control Act powers Mr Civeletti urged that the UK ought to consider that there was some economic necessity and to have regard to what he called a

/collateral

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collateral economic effect which he thought might provide a sufficient basis for use of powers under the 1947 Act.

On the point about an intervention in the Citibank court proceedings Mr Civeletti urged that at the appropriate time (he was not saying that the present was the appropriate time) the UK Attorney General should intervene in the following way. The dilemma for the US Government was that they had been made a party to the proceedings: whilst they wished to bring arguments to the attention of the English court, at the same time they wanted to plead their sovereign immunity. What Mr Civeletti proposed was that the Attorney General should intervene in the proceedings to put to the court the views of the US Government, making the point that since as a matter of principle the US Government had to stand on their sovereign immunity they were not able to put such views to the court themselves. Mr Civeletti went on to say that ideally the US would like the Attorney not only to put the US views to the court but to go on to say that HMG agreed with them.

The Attorney General explained to Mr Civeletti that such a right of intervention would be a novelty as far as we were aware but it was a new aspect of the request for our intervention and, in principle, he would consider whether it was feasible. The Attorney General asked whether Mr Civeletti had any formulation of the kind of views that the US Government would wish the UK Attorney to put before the Court. Mr Civeletti replied that he had no such precise formulation at the moment but that he did have a document which in outline indicated the points that would be relevant to the English court. These points were framed very much on the basis of their hope that HMG would agree with them. Asking us not to treat the document as anything more than a rough guide to their present thinking, Mr Civeletti left the Attorney General with the attached copy of the document.

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U.S. ACTION CONSISTENT WITH U.K. PUBLIC POLICY

1. This is not a case of U.S. exercise of extraterritorial jurisdiction regarded as improper by HMG. U.K. recognizes basic international law principle that every nation can exercise jurisdiction over its nationals and over its currency. The Iranian deposits at issue are deposits in dollars in branches of U.S. banks. No question of U.S. regulation of U.K. companies arises.
2. It is entirely possible that in all, or in several, of these cases the applicable law of the contract is New York or California law. The facts need to be developed as to the terms of the contracts of deposit and as to other relevant matters such as use of the New York or San Francisco clearing house and the existence of cover accounts in the United States.
3. If it should appear that English law applies to this matter, a strong argument can be made that in the circumstances of this case English law would recognize and give effect to the U.S. blocking regulations.
 - Under U.K. law, obligation of repayment of deposits is not absolute; attachments (and setoffs?) are appropriate when there is a claim against the assets.
 - U.K. exchange control regulations contemplate the possibility of similar regulation of foreign branches of U.K. banks.
 - The contacts with the U.S. in this case (nationality, currency, clearing house, etc.) outweigh the contacts with the U.K. (place of deposit).
 - If the interests of the two countries are weighed, vital interests of the United States in the protection of its diplomatic personnel in Teheran and the defense of its currency and the interest of the entire international community in the maintenance of international law and the protection of diplomatic intercourse should be seen to outweigh the U.K. interest in the regulation of dollar transactions by U.S. banks in its territory.

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-- The U.S. blocking action in this case is a moderate response to the extreme provocation by Iran and is entirely consistent with international law as recognized by the United Kingdom and the world community. The U.S. action is also in accordance with the Bretton Woods Agreement to which U.K. is a party. The broad policy of that agreement that treaty partners should cooperate to protect the stability of currency and the international monetary system should also be given proper weight.

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11 DEC 1979

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L. S. *Paul*

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

11th December, 1979

Ref. A0914

Dear Michael,

I was rung up at 10.00 am this morning by Dr. Manfred Schtler, State Secretary in the Federal Chancellor's Office in Bonn. The purpose of the call was to try to find out what the United States Secretary of State had talked to British Ministers about, and what he could be expected to talk to German Ministers about.

I said that Mr. Vance was mainly concerned with the possibility of measures to be taken in support of the financial freeze on Iranian assets in the United States banks. Though most of the United States financial claims on Iran arose in the United States, many of the Iranian assets were held in branches of United States banks outside the United States. Mr. Vance was concerned with the possibility of measures which would deny access to Iranian balances so held. Dr. Schtler said that he understood that the proposal went beyond Iranian assets in branches of United States banks, and extended to Iranian balances in British banks. I said that this was so, and that what was proposed by Mr. Vance was strictly related to the release of the hostages: it was part of the suggestion that whatever was done should be on the basis that it would be removed as soon as the hostages were released.

Dr. Schtler asked whether the British Government had made any decision. I said that it had not done so. There had been some discussion of the legal position. We did not think that existing powers were available to do what had been proposed, and there were obvious difficulties about introducing new legislation. Apart from the implications for the financial system, one had to have regard to the possible impact in Iran: if we were not careful, the result could be an increase rather than a diminution in the number of hostages. Ministers here, however, would very much like to find some means of supporting the Americans at this difficult time, and we would continue to study the matter. We thought that it would be very important that the Nine should act in concert and not singly. We had it in mind that it might well be the subject of discussion on Wednesday evening at dinner in Brussels.

/Dr. Schuler

M. O'D. B. Alexander, Esq.

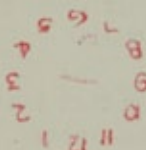
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Dr. Schtfler said that the Federal Chancellor had had a long meeting with some of his colleagues yesterday evening. They were not by any means convinced that what the Americans proposed was the right way of going about it or would be effective. They had arrived at similar conclusions to those which I had described, by many of the same arguments. In addition, they saw some signs that support for the Ayatollah Khomeini was beginning to be undermined, and they feared that measures on the lines proposed would simply reconsolidate the support which he had enjoyed. I said that our understanding was that the Germans also saw technical and legal difficulties about operating on the financial side. Dr. Schtfler said that that was so, and that these points had been made by the representatives of the Bundesbank at the Chancellor's meeting yesterday evening. But he said that it was in the end a political decision. They would like to be able to demonstrate solidarity with the Americans. He said that they very much shared our view that it was important for the Community countries concerned to act together.

I concluded by saying that I welcomed the contact that he had made. There would no doubt be discussions in Brussels tomorrow. If before that he wanted a further word, I should be at his disposal; and equally I hoped that I might feel free to ring him, if it seemed useful to do so. I added that, if the Federal Chancellor thought that it would be useful for him to talk to the Prime Minister, I was sure that the Prime Minister would be glad to have the opportunity of talking with him.

I am sending copies of this letter to George Walden and Tony Battishill.

Yours ever
Robert Armstrong



11 DEC 1979



R
12/11/79

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11th December, 1979

Dear Tim,

... I attach, as promised, a record of the breakfast discussion between the Chancellor and the US Treasury Secretary. I apologise for the delay in sending you this.

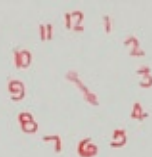
Yours,

Richard.

R. I. TOLKIEN

T. P. Lankester, Esq.,

11 DEC 1979





BREAKFAST DISCUSSION BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND U.S. TREASURY SECRETARY, THE HONORABLE WILLIAM MILLER, AT
NO.11, DOWNING STREET ON THURSDAY, 29TH NOVEMBER, 1979

US Treasury Secretary Miller called on the Chancellor this morning on his way back to Washington after his Middle East tour. He was accompanied by Mr. Mundheim, General Counsel to the US Treasury, Mr. Bergsten of the US Treasury and the US Ambassador and Mr. Ammerman. The Chancellor was accompanied by the Financial Secretary, Sir Kenneth Couzens, the Deputy Governor of the Bank of England, Mr. Hosker, Treasury Solicitor and Mr. Hancock.

2. The discussion, which lasted about an hour and a half, covered five main topics:

- the international oil situation;
- the US domestic oil situation;
- his Middle East tour;
- North Sea oil prices and BNOC forward sales; and
- events in Iran.

The International Oil Situation

3. Secretary Miller said that his Middle East tour had been planned some time; and he had seen no reason to alter it in the light of events in Iran. It had taken place against the background of a tight balance of demand and supply for oil (with Iranian production still some 3 mbpd below the pre-revolution level); exceptional oil price increases, going far beyond world expectations, which



had damaged US counter-inflation policy and extended the timetable for bringing inflation under control (oil prices accounted for 4 per cent, nearly one third, of current US inflation); and a situation in which capacity of the developed countries to help the LDCs had, in consequence, been seriously curtailed. There was in the present situation a risk of further deterioration leading to world recession, increased protectionism and severe economic disruption. Secretary Miller said that he personally did not expect that situation to come about, but the stakes were high and the risks apparent. The sequence could be triggered by a 30 per cent increase in oil prices.

4. Against that background, Secretary Miller described the aim of his Middle East tour as to convey the message that the oil producing and oil-consuming countries shared an interest in restoring and maintaining a balanced world oil situation, for which all countries should be prepared to make sacrifices. As its contribution the US was willing to accept a period of economic recession. Above all, world demand for oil needed to be reduced. As a high energy user the US had a special responsibility to help in this respect.

US Domestic Measures

5. Secretary Miller then went on to describe the measures taken by the Carter Administration to improve the US domestic oil situation. He began by repeating the familiar historical reasons for the present US high energy consumption and consumer resistance to change. US public opinion was only beginning to acquit the oil companies of total responsibility for conspiring to raise oil prices. More efficient use of energy was coming to be accepted as a legitimate objective. Consumer resistance was slowly being broken down. The present Administration had achieved more in this respect than all its predecessors.



The President's energy legislation alone accounted for a half billion bpd reduction in energy consumption. The US Administration were putting a major effort into energy conservation through mandated standards for energy use in a wide range of industrial, transportation and building operations; through individual and corporate tax incentives for insulation; and through application of temperature controls. Increased production of conventional energy sources was being encouraged. The President's firm initiative on de-regulation would reverse the long tradition of oil-price controls and stimulate greater exploitation of the massive US oil resources. The phasing programme to October 1981 was a legitimate price to pay for this necessary reform. A programme of renewable energy sources was being developed: although having some impact in the next decade, this would not come to full fruition until the turn of the century. A major effort was being made to harness unconventional sources of domestic energy: US oil deposits in shale exceeded Saudi Arabian oil reserves. Secretary Miller also mentioned US methane deposits and interest in gasification and liquifaction of coal.

6. Secretary Miller described the progress of US policy in this area as "going fairly well". The Administration had other proposals to make if the current legislative programme was successfully enacted this year. The results were encouraging. Domestic oil consumption showed a drop of 2½ per cent in the first half of 1979; and this had risen to 4.4 per cent by the third quarter. This was not due, as some alleged, to any economic downturn. It continued a trend, reflecting the success of earlier policies; the onset of the recession would provide further reinforcement.

Middle East tour

7. Secretary Miller said that it had not been the intention of his Middle East tour to secure public commitments from the countries he visited either on oil prices or on output



levels. Rather, he had aimed to get an appreciation of the mutual interest of oil-producers and consumers in at least maintaining present levels of production, which in the case of the Saudi was higher than their perceived optimum. He described the attitudes he had met as "very responsive". Middle East opinion was generally in accord with the aim of containing production levels sufficient to produce a disciplined price structure again. There was some expectation that present excess demand might be due in some degree to temporary factors. Partly this was a matter of hoarding. But it also reflected reduced reliance for supply on the international majors inducing more customers to come into the market on their own account. This led the US to think that the market situation might be reversed in the coming quarters, with supply again out-running demand.

8. On production, the Saudis had not been prepared to give any commitment, but seemed ready probably to maintain current levels. The UAE had given a public commitment to maintain the present levels next year (despite a temporary cut of 60,000-80,000 bpd whilst they remedied technical abuse of one of their existing fields). The Kuwaitis had been the most hawkish publicly. But in private discussion they had been more forthcoming, though faced with difficult internal pressures to maintain oil in the ground rather than replace it with potentially less secure financial assets. Their public statements stressed an unwillingness to increase production. Privately he thought they might cut back next year to the level existing before the Iranian troubles. But they wanted to maintain flexibility over timing.

9. As to prices, having stuck to \$18 a barrel, the Saudis were most upset at the price increases by other OPEC countries and by the oil companies' failure to pass on the benefit of Saudi price stability to consumers. Both Kuwait and the UAE recognised the dangers to their own self interest from an



undisciplined spot market. There were fears both about their own growth prospects in a world recession and also (in the light of experience after 1974) about the security of their own financial assets. Both wanted to return to a single price system, but were doubtful of success at Caracas. But there was some expectation that emerging excess supply would begin to dry up the spot market, not least because of high storage costs of oil. The Saudis had expressed the most moderate price objectives but the Kuwaitis, whilst the most hawkish, had been less ambitious than Secretary Miller had expected.

North Sea oil and forward sales

10. Secretary Miller then made some critical remarks about BNOC's forward oil sales and about UK price leadership and disposal of North Sea oil. Speaking frankly, he thought that the UK's actions were contributing to, and exacerbating, an already difficult situation. It was not in the interest of the developed countries, nor he thought of the UK, that North Sea oil was realising higher average price than the rest of world supply. Forward sales by BNOC were a harmful precedent which risked emulation by the more militant sections of OPEC.

11. In reply, the Chancellor said he shared Secretary Miller's concern about the potential dangers to the world economy from any further deterioration in the oil situation. But he could not leave the remarks about the UK unchallenged. North Sea oil had to be seen in perspective. It was true that we were approaching self-sufficiency in oil; but that would not be sustained for many years. North Sea oil brought a direct advantage to the UK balance of payments, but indirect disbenefits to our competitiveness through an appreciating petro-currency. At its peak North Sea oil would add only 4 or 5 per cent to GDP. But it also aroused false expectations among our own people. If anything, national self-sufficiency increased difficulties of sustaining a sensible energy policy: the Government were currently grappling with the need to raise



the real price of gas. The Chancellor said it had to be understood that the Government did not directly control the price at which North Sea oil changed hands. This was a matter for the operating companies, who had been given explicit assurances that they would be allowed to dispose of oil from the North Sea at the ruling world price. Without this assurance the development of North Sea oil could not have been assured. The UK certainly was not a price leader: we followed the prices for equivalent high-quality crude set by countries like Libya, Algeria and Nigeria. Nor could the UK be accused of setting a precedent over forward oil sales: others had done so before us. The Chancellor said he fully recognised the dangers in competitive energy pricing. The UK would lend no encouragement to this. We were bringing all our influence to bear in the direction of moderation and, in this spirit, welcomed the discussions Secretary Miller had been having with Middle East suppliers.

12. Secretary Miller retorted that he found it sad to hear the UK spoken of in the same terms as Libya and Nigeria. Such a comparison would not be well received in the US. He did not believe it added to UK esteem. UK oil was selling at a price above the average of Saudi and Kuwaiti oil. Sir Kenneth Couzens said that it was not realistic to compare the price of Saudi crude with the higher-quality crude obtained from the North Sea. North Sea oil was changing hands at world prices. This recognised the assurances given to the oil companies. Secretary Miller said he did not believe that prices were not under Government control. How was it then that North Sea oil came to be sold at a uniform price? If that was the position the message was certainly not getting across in the US. Reverting to BNOC forward sales, Secretary Miller said this had done irreparable harm to the United States. Distinctions could not be drawn on grounds of security of supply. The US could not question the reliability of Middle East suppliers, if faced with demands for similar arrangements. The Financial Secretary said that he had seen no evidence that



BNOC forward sales had altered the world position at all.

13. Secretary Miller said that the impression created by the UK's actions were not favourable. Whatever the reality, perceptions were important. The Chancellor replied that the matter could not be left there. He must ask Secretary Miller to correct any misunderstanding of the UK position. This was not state-owned oil; it was market-produced oil extracted by world-wide trading companies, with strong US interests. Sir Kenneth Couzens added that the proportion of North Sea oil going to the spot market was very low indeed, only a couple of per cent of total production. This was a better record than many Middle East suppliers. It had required a great deal of leaning on the companies to achieve. Mr. Hancock quoted the example of Tricentrol which had recently been on the point of taking BNOC to arbitration to enforce its right to dispose of North Sea oil at the ruling world price. Other companies could do likewise. Secretary Miller said that these considerations did not deal with the question of forward sales.

Iran

14. Secretary Miller described the Iranian action over the US Embassy hostages as a violation of recognised international law and convention; it was without precedent in modern times. Nevertheless, the US Government's response in banning imports of Iranian oil and in blocking official Iranian financial assets had been calculated not to inflame the situation. Removal of deposits to other banks would have posed no great problem. But the Iranians had been thought to be bent on humiliating the US by leaving US claims unsettled and unloading large quantities of dollars in the market; this would have been considerably more damaging. US actions had therefore been designed to hold the Iranian authorities accountable for their financial relations.



15. Secretary Miller went on to say that the US was appreciative of the help given by the UK Embassy in Tehran and the support provided by the UK Government and the Bank of England. The UK authorities had behaved commendably in holding that Iranian claims on UK branches of US banks should be settled by the due process of English law. He had to say, however, that there were increasing doubts as to whether the US was any longer dealing in Iran with a responsible authority of whom the normal standards of international behaviour could be expected. Attempts to secure the return of the Shah by blackmail were wholly unacceptable.

16. Reverting to the blocking of Iranian accounts, Secretary Miller said that immediate action had been taken by the US authorities to unfreeze non-dollar assets and to release funds for normal diplomatic expenditure. This demonstrated the intentionally limited nature of the action. Subsequent events culminating in the declaration of a default on the \$500 million Iranian loan had been unpredictable. It would be sad if earlier international concern for the welfare of the US hostages was to begin to be subordinated to commercial interests. Secretary Miller referred to a court hearing later in the day over an application to release funds by a UK branch of the Bank of America. The branch in question was backed by a U.S. cover account and would not have sufficient funds to meet the application on its own account. Since the US account could certainly be blocked difficult and important questions of jurisdiction would arise. It was important, therefore, that the matter should be looked at against the wider background.

17. The Chancellor, in reply, expressed total sympathy with the US in its refusal to accept the Iranian breach of the normal concept of diplomatic behaviour. The US had to look at all ways of influencing the situation. The UK had tried



to respond helpfully, whilst holding firm to the principle that claims on branches of US banks in this country had to be settled by reference to UK law. However, if the present situation deteriorated there was bound to be a risk of disturbing confidence in the international financial order and in the trust which other OPEC countries now enjoyed in the western banking system. The Deputy Governor also expressed anxiety over the possible repercussions. Suggestions of possible public disclosure of the liquidity position of the Bank of America's branch in London made him particularly uncomfortable. No more damaging statement could be made about a bank than that it had insufficient funds available to meet a claim. Mr. Mundheim thought this pointed to recognising the Bank of America as a special case: that might be the best way out of a difficult situation. Secretary Miller said that the exceptional circumstances of the Iranian action needed to be stressed. The US was not asking the UK to share its initiative by blocking funds in the UK banks. But he submitted that in cases of concurrent jurisdiction the purpose of the acting nation, and the actions of the hostile nation, should be carefully considered. He could not see any risk to the UK banking system in that approach. The Deputy Governor replied that he had been concerned for future confidence in US banks. Secretary Miller said that he was ready to face that risk in the interests of defeating international blackmail. He personally believed that refusal by the Atlantic Alliance to continue normal commercial relations with Iran would reinforce, not reduce, confidence in the western financial order.

18. The Chancellor said that no conflict of purpose arose between the UK and the US. We were struggling, with the US to reconcile important conflicting principles in our mutual interest. Secretary Miller recalled that the US had last blocked the accounts of a foreign sovereign state to



prevent Norway and Denmark from being looted during the German occupation in the last war. Arguably swift action of this kind would reinforce confidence in the western world's ability to safeguard legitimate national assets from threat by revolutionary factions in temporary control of a country. The Chancellor acknowledged that the growth of international lawlessness threatened to undermine established financial principles: this increased the need to find ways of proceeding without resort to unprincipled action.

19. Secretary Miller then spoke about the risks to continued oil supplies from Iran. A total shutdown could come about as the result of economic mismanagements and a progressive decay in Iran's physical capacity to keep the oil flowing; or as the result of a counter-revolution shutting down the oil-wells again. Both risks were present. However the situation developed, Secretary Miller said that he hoped that handling of the financial situation would not imperil the present good relations between the US and the UK. The Chancellor said Secretary Miller would understand that disputed claims would have to be settled in accordance with the law in their respective countries. It was also right that others should reflect long and hard before making any move to participate in the US actions. In emphasising this the UK was not asserting the precedence of commercial interest; rather we were acknowledging the supreme importance of maintaining a framework of international financial confidence.

20. Before the meeting closed, there was a brief discussion of what Secretary Miller would say at his press conference later in the morning. He would report on his Middle East tour; say that he and the Chancellor had exchanged information about the US energy programme and the world energy situation, including prospects for prices and production; say he had brought the Chancellor up to date on the Iranian situation. He would not say that he had put any pressure on the UK to go further than it had done.

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21. The meeting ended at 10.00 a.m.

AB
(A.M.W. BATTISHILL)

29th November, 1979

Circulation

Financial Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr. Barratt
Mr. Hancock
Mr. Peretz

Mr. Hosker, Treasury Solicitor

Deputy Governor, Bank of England

Mr. Bayne, FCO

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[Handwritten: Elaburated]

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SIR R ARMSTRONG

ASSESSMENTS STAFF

MR LE CHEMINANT

CABINET
OFFICE

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MR F R BARRATT TREASURY

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He (P.O.)

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Prime Minister

11.12.1

CONFIDENTIAL

FM THE HAGUE 111530Z DEC 79.

TO IMMEDIATE FCO

TELEGRAM NUMBER 442 OF 11 DECEMBER

INFO IMMEDIATE WASHINGTON, TEHRAN AND UKMIS NEW YORK.

INFO SAVING TO EEC POSTS.

MIPT: IRAN HOSTAGES: INTERNATIONAL COURT OF JUSTICE.

1. I HAD A BRIEF WORD TODAY WITH SIR HUMPHREY WALDOCK. HE TOLD ME THAT THE COURT WOULD THIS AFTERNOON BE CONSIDERING THE CASE PUT FORWARD YESTERDAY BY THE US ATTORNEY-GENERAL. IN ANSWER TO QUESTIONS ABOUT HOW SOON THE COURT MIGHT REACH A DECISION SIR HUMPHREY SAID THAT HE COULD REALLY SAY NO MORE THAN THAT HE HOPED THAT THIS WOULD BE AT "AN EARLY DATE", AS HE HAD SAID PUBLICLY.

2. SIR HUMPHREY WALDOCK TOLD ME THAT HE WAS PLANNING TO LEAVE THE HAGUE ON 19 DECEMBER AND THAT HE HAS AN APPOINTMENT IN PARIS ON 9 JANUARY. BETWEEN THESE DATES HE HOPED NOT TO BE AT WORK HERE. WHEN I ASKED WHETHER THE DECISION MIGHT BE AVAILABLE BEFORE 19 DECEMBER, SIR HUMPHREY SAID IT WAS VERY UNCERTAIN. I THEN ASKED WHETHER HE WAS EXPECTING PROBLEMS DUE TO THE DIFFERENT NATIONALITIES REPRESENTED ON THE COURT. HE SAID THAT IT WAS NOT A QUESTION OF NATIONALITIES, BUT THE COURT REPRESENTED "15

NATIONALITIES REPRESENTED ON THE COURT. HE SAID THAT IT WAS NOT
A QUESTION OF NATIONALITIES, BUT THE COURT REPRESENTED "1
DIFFERENT MINDS", AND THERE COULD WELL BE PROBLEMS OVER DRAFTING.
HE ADDED THE COURT WAS WELL AWARE OF THE TREMENDOUS URGENCY
DUE TO THE NATURE OF THE CASE. I WAS UNABLE ON THE TELEPHONE
TO GO MORE DEEPLY INTO THE MATTER WITH HIM.

FCO PLEASE PASS TO SAVING ADDRESSEES.

TAYLOR

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SIR R ARMSTRONG

ASSESSMENTS STAFF

MR LE CHEMINANT

CABINET
OFFICE

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MR F R BARRATT TREASURY

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CONFIDENTIAL UK COMMS ONLY

FM TEHRAN 111015Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 1329 OF 11 DECEMBER

INFO IMMEDIATE CABINET OFFICE (DIO), MODUK (DI4 AND DS11), CRE 5,
 WASHINGTON, UKMIS NEW YORK AND BAHRAIN

INFO PRIORITY ABU DHABI, ANKARA, BAGHDAD, DOHA, DUBAI, ISLAMABAD,
 JEDDA, KABUL, KUWAIT, MOSCOW, TOKYO, MUSCAT, NEW DELHI, EEC POSTS.

MY TELNO 1326: INCIDENTS IN TABRIZ

1. CONTRARY TO MANY REPORTS IT SEEMS THAT TABRIZ WAS RELATIVELY
 QUIET YESTERDAY AND THAT SUCH TROUBLE AS THERE WAS IN
 AZERBAIJAN WAS IN OROUMIEH, WHERE CLASHES BETWEEN KHOMEINI'S
 SUPPORTERS WHO HAD OCCUPIED THE MPRP HEADQUARTERS AND MPRP
 MEMBERS WHO TRIED TO RETAKE IT ARE REPORTED TO HAVE LEFT TWO
 DEAD AND EIGHT INJURED. THE GOVERNOR GENERAL OF THE TOWN HAS
 TOLD REUTERS THAT THERE IS STILL SOME TROUBLE IN THE SCHOOLS
 THERE BUT THAT IT APPEARS TO BE DYING OUT.

2. THE RADIO STATION IN TABRIZ IS STILL OFF THE AIR AND THERE
 IS THEREFORE NO CONCLUSIVE EVIDENCE TO SHOW WHO NOW CONTROLS
 IT. A JOURNALIST HAS TOLD US THAT THE ARMY ARE OCCUPYING THE
 BUILDING. AN MPRP SOURCE HAS SAID PRIVATELY THAT A PRO KHOMEINI
 GROUP CONTROLS THE BUILDING ITSELF (PRESUMABLY WITH ARMY SUPPORT)
 BUT THAT THEY ARE SURROUNDED BY MPRP SUPPORTERS. WE HAVE HEARD
 THAT THE MPRP ARE DISORGANISED, POORLY ARMED AND WERE HOPELESSLY

Prime Minister

11.12

GROUP CONTROLS THE BUILDING ITSELF (PRESUMABLY WITH ARMY SUPPORT) BUT THAT THEY ARE SURROUNDED BY MPRP SUPPORTERS. WE HAVE HEARD THAT THE MPRP ARE DISORGANISED, POORLY ARMED AND WERE HOPELESSLY UNPREPARED FOR A CONFRONTATION.

3. THE RC DELEGATION (SEE TUR) HAS ARRIVED IN TABRIZ BUT IS APPARENTLY FINDING DIFFICULTY IN MAKING CONTACT WITH REPRESENTATIVES OF THE MPRP TO TALK TO THEM. THEY ARE TO HOLD A RALLY IN THE CITY'S SPORTS STADIUM THIS AFTERNOON. MAHDAVI KANI, A MEMBER OF THE DELEGATION, HAS DESCRIBED EVENTS IN TABRIZ IN THE LAST 3 DAYS AS NO MORE THAN PLOTS AIMED AT DESTROYING THE ISLAMIC REVOLUTION. KHOMEINI YESTERDAY BLAMED "CARTER'S SPIES", (PROBABLY A REFERENCE TO MARAGHE'I) IN A FORTHRIGHT ATTACK ON THE PRESIDENT, WHOM HE DESCRIBED AS "A BAD POLITICIAN ... AND NOT QUALIFIED TO BE PRESIDENT".

4. LEADING MULLAHS IN QOM YESTERDAY CALLED ON SHARIATMADARI TO DISSOLVE THE MPRP IN A STRONGLY CRITICAL OPEN LETTER WHICH SUGGESTED THAT SHARIATMADARI'S ENTOURAGE INCLUDED CIA AND SAVAK AGENTS. SHARIATMADARI HAS REPLIED THAT HE WAS NOT A MEMBER OF THE PARTY AND COULD THEREFORE NOT DISSOLVE IT, AND ANSWERED CRITICISM OF HIS ALLEGED SUPPORT FOR MARAGHE'I AND NAZIH BY SAYING THEY WERE FRIENDS OF BAZARGAN AND HIS CABINET. HE CONCEDED THAT HE HAD DIFFERENCES OF OPINION WITH KHOMEINI AND EXPLAINED AGAIN HIS REASONS FOR OPPOSING THE CONSTITUTION, THAT AZERBAIJAN SHOULD HAVE A GREATER SAY IN RUNNING THEIR OWN AFFAIRS.

5. THE SRI LANKAN FOREIGN MINISTER IS REPUTED TO HAVE ARRIVED HERE YESTERDAY BUT THERE IS NO REFERENCE TO IT IN THE PRESS.

GRAHAM

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SIR R ARMSTRONG)

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CABINET OFFICE DIO

MR F R BARRATT TREASURY

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CONFIDENTIAL

FM TEHRAN 110720Z DEC 79

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 39 OF 11 DECEMBER

AND TO IMMEDIATE FCO (FOR MED)

Crime Minister

11.12.

*[Signature]*US EMBASSY TEHRAN

FOLLOWING IS A FURTHER MESSAGE FROM LAINGEN TO IRAN WORKING
 PARTY, STATE DEPARTMENT.

IT WAS GIVEN TO THE DANISH AMBASSADOR LATE YESTERDAY.

BEGINS:

1. FIVE WEEKS AFTER THE SEIZURE OF OUR EMBASSY A SOLUTION TO
 THE CRISIS STILL ELUDES US. A VARIETY OF FACTORS SEEM TO
 FIGURE IN THIS FRUSTRATING STATE OF AFFAIRS: E.G.,

A) KHOMEINI'S INTRANSIGENCE. HE IS A STUBBORN MAN WHO IS
 MADE EVEN MORE DIFFICULT TO NEGOTIATE WITH BY THE NARROWNESS OF
 HIS EXPERIENCE WITH THE WORLD OUTSIDE SHIA IRAN. HE IS OBSESSED
 WITH THE IDEA OF REVENGE AND CONVINCED THAT BY STANDING FIRM
 AGAINST THE U.S. HE WILL ULTIMATELY GET IT. SIMPLE STATEMENTS
 THAT WE WILL NOT BE BLACKMAILED LEAVE HIM UNIMPRESSED.

B) LACK OF A STRUCTURE OF AUTHORITY. POLITICAL POWER HERE
 REMAINS BOTH HIGHLY CONCENTRATED IN THE PERSON OF KHOMEINI AND

B) LACK OF A STRUCTURE OF AUTHORITY. POLITICAL POWER HERE REMAINS BOTH HIGHLY CONCENTRATED IN THE PERSON OF KHOMEINI AND WIDELY DIFFUSED AMONG POLITICAL GROUPS WHICH OFTEN OPENLY COMPETE WITH KHOMEINI FOR THE EXERCISE OF AUTHORITY IF NOT ACTUAL LEADERSHIP OF THE REVOLUTIONARY MOVEMENT. ACCORDINGLY, KHOMEINI CAN COMMAND MILLIONS TO MARCH AGAINST AMERICAN IMPERIALISM ON OCCASIONS LIKE ASHURA, BUT HE MUST PROCEED WITH CAUTION WHEN DEALING WITH A FEW HUNDRED STUDENTS WHOSE ALLEGIANCE TO HIM MAY BE NO MORE THAN NOMINAL. THERE FEW INSTRUMENTS OF GOVERNMENT READILY AVAILABLE WHICH CAN EFFECTIVELY BE BROUGHT TO BEAR AGAINST POLITICAL ELEMENTS THAT DEFY OR SIMPLY IGNORE THE REVOLUTIONARY LEADERSHIP.

C) SO-CALLED LEADERS WHO WILL NOT LEAD. THE SECOND ECHELON LEADERSHIP -- THE REVOLUTIONARY COUNCIL AND SENIOR GOVERNMENT AND RELIGIOUS FIGURES -- HAS WITH RARE EXCEPTION ABDICATED ITS RESPONSIBILITIES IN THIS CRISIS. WHETHER THIS HAS BEEN DONE OUT OF PERSONAL AMBITION, IGNORANCE OR CRAVENNESS, THE EFFECT HAS EVERYWHERE BEEN THE SAME: I.E., POLICY DERIVED BY INTERACTION OF AN AGEING RELIGIOUS ZEALOT, A GROUP OF RADICAL REVOLUTIONARIES, AND THE MINDLESS IRANIAN MOB.

2. ALMOST WILLY-NILLY, IRAN HAS CREATED A SITUATION IN WHICH IT HAS ISOLATED ITSELF INTERNATIONALLY AND FROM WHICH THERE ARE ALMOST NO AVENUES OF ESCAPE THAT DO NOT ENTAIL GRAVE RISK OR GREAT LOSS OF FACE. KHOMEINI AND THE STUDENTS HAVE LARGELY WRITTEN OFF WORLD PUBLIC OPINION, HAVING CONVINCED THEMSELVES THAT PEOPLES, AS OPPOSED TO GOVERNMENTS, EVERYWHERE RECOGNISE THE JUSTICE OF THEIR CAUSE AND SUPPORT THEIR ACTIONS. UNDER THE CIRCUMSTANCES, IT IS DIFFICULT TO ENVISION A RESOLUTION OF THE CRISIS BEING HAMMERED OUT UNDER UN AUSPICES OR ANY OTHER GENERALLY ACCEPTED INTERNATIONAL FRAMEWORK IN ACCORDANCE WITH RECOGNISED DIPLOMATIC AND LEGAL CONVENTION. THAT IS NOT TO SAY THAT EFFORTS ALONG THESE LINES ARE WITHOUT VALUE. HOWEVER, IT SEEMS LIKELY THAT UNCONVENTIONAL MEANS WILL HAVE TO BE FOUND TO RESOLVE UNCONVENTIONAL SITUATION, AND SINCE THE IRANIANS HAVE LARGELY BEEN RESPONSIBLE FOR CREATING THE PARAMETERS OF THE LATTER, THEY WILL HAVE TO PLAY THE PRIMARY ROLE IN FINDING AN ACCEPTABLE WAY OUT.

3. ACCEPTABLE MEANS ACCEPTABLE IN TERMS OF INTERNAL IRANIAN POLITICAL DYNAMICS. IN THIS CONTEXT, OUR IMMEDIATE GOAL REMAINS THE RELEASE OF THE HOSTAGES UNHARMED. FOR THAT TO OCCUR, KHOMEINI MUST BE CONVINCED THAT HE CANNOT FORCE US TO RETURN THE SHAH AND THAT HIS OWN POSITION WILL NOT BE UNDER MINED BY FREEING THE HOSTAGES: THE STUDENTS MUST BE SATISFIED THAT THEIR SEIZURE OF THE EMBASSY HAS BEEN VINDICATED AMONG THE AUDIENCE THAT MATTERS MOST TO THEM.

MATTERS MOST TO THEM.

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4. KHOMEINI MAY BE RELUCTANT TO ABANDON THE NOTION THAT HE CAN FORCE US TO RETURN THE SHAH EVEN IF THE SHAH DEPARTS THE U.S., BUT HAVING HIM LEAVE IS THE MOST CONVINCING GESTURE WE CAN MAKE THAT WE WILL NOT RETURN HIM TO IRAN. EVEN IF KHOMEINI GIVES UP THE DEMAND THAT WE EXTRADITE THE SHAH, HE WILL WANT TO BE CERTAIN THAT FREEING THE HOSTAGES WILL NOT CREATE AN INTERNAL BACKLASH, AN EVENTUALITY HE PRESUMABLY CAN BEST GUARD AGAINST BY FIRST CREATING AN ATMOSPHERE OF INTENSE ANTI-AMERICAN EMOTION UNDER HIS LEADERSHIP.

5. THE STUDENTS' OBJECTIVES HAVE NEVER BEEN ENTIRELY CLEAR. HOWEVER, WE ARE IMPRESSED BY THE ANALYSIS OF ONE OF OUR DIPLOMATIC VISITORS THAT THEIR PRIMARY PURPOSE IN SEIZING THE EMBASSY WAS LESS THE RETURN OF THE SHAH THAN REVITALIZATION OF THE REVOLUTIONARY MOVEMENT. IF THIS ANALYSIS IS CORRECT, THE STUDENTS ARE NOW IN A POSITION TO CLAIM A RESOUNDING SUCCESS. ALL THAT REMAINS TO BE DONE IS TO DEVISE SOME PROCESS WHEREBY THE STUDENTS ACTIONS CAN BE FORMALLY APPROVED.

6. IT HAS BEEN OUR EXPERIENCE THAT THOSE AMONG THE REVOLUTIONARY LEADERSHIP WHO HAVE NOT BEEN ABLE TO AVOID COMING TO GRIPS WITH THE ACTUAL PROBLEMS IRAN CONFRONTS, HAVE HAD TO MAKE SOME CONCESSIONS TO THE REALITY OF WHERE THEIR COUNTRY'S ABIDING INTERESTS LIE. THAT WAS CERTAINLY TRUE OF BANI SADR. GHOTBZADEH SEEMS DETERMINED NOT TO MAKE BANI SADR'S MISTAKE OF GETTING TOO FAR OUT IN FRONT OF KHOMEINI AND THE STUDENTS. HE, TOO, PROBABLY RECOGNISES THE NEED TO RESOLVE THE HOSTAGE ISSUE. HIS PROPOSAL TO CONVENE A PANEL OF IRANIANS AND QUOTE INDEPENDENT UNQUOTE FOREIGNERS TO QUOTE PROBE THE CRIMES OF THE USG IN IRAN SINCE 1953 UNQUOTE, WITH THE HOSTAGES SERVING AS EITHER EVIDENCE OF OR WITNESSES TO THESE ALLEGED CRIMES, SEEMS TO BE THE MECHANISM THAT IN GHOTBZADEH'S VIEW MAY BE ACCEPTABLE TO KHOMEINI AND THE STUDENTS FOR ACHIEVING THIS.

7. WHAT CAN WE AND THOSE WHO SUPPORT US DO TO ADVANCE THE PROCESS TOWARD RESOLUTION OF THIS CRISIS? AT BEST ACTIONS THAT MIGHT BE TAKEN WILL AFFECT ONLY THE MARGINS OF A PROCESS THAT MUST BE FUNDAMENTALLY AN INTERNAL IRANIAN ONE: AT WORST, EXTERNAL PRESSURES MAY RESULT IN HARDENING THE IRANIAN POSITION. THE RISKS NOTWITHSTANDING, WE SEE THE FOLLOWING AS VIABLE COURSES OF ACTION:

A) PUSH THE SEARCH FOR A THIRD COUNTRY WHICH WILL ACCEPT THE SHAH. SO LONG AS HE REMAINS IN THE U.S., NEITHER KHOMEINI

A) PUSH THE SEARCH FOR A THIRD COUNTRY WHICH WILL ACCEPT THE SHAH. SO LONG AS HE REMAINS IN THE U.S., NEITHER KHOMEINI NOR THE STUDENTS WILL HAVE MUCH INCENTIVE TO THINK IN TERMS OF, RELEASING THE HOSTAGES.

B) CONTINUE TO EMPHASIZE IRAN'S ISOLATION INTERNATIONALLY. KHOMEINI AND THE STUDENTS CARE LITTLE ABOUT THIS ISOLATION PER SE, BUT PEOPLE LIKE BANI SADR AND GHOTBZADEH CAN BE INFLUENCED BY WORLD PUBLIC OPINION. ULTIMATELY, IT WILL HAVE TO BE INDIVIDUALS LIKE THEM WHO CONVINCE KHOMEINI THAT IT IS IN IRAN'S INTEREST TO RESOLVE THE HOSTAGE ISSUE SHORT OF THE SHAH'S EXTRADITION TO IRAN.

C) KEEP THE UNSC INVOLVED. IRAN IS UNLIKELY TO ACCEDE TO UNSC RESOLUTIONS OR ICJ RULINGS JUST BECAUSE THEY HAVE BEEN ADOPTED, BUT THESE ACTIONS ARE NOT TOTALLY WITHOUT EFFECT. KHOMEINI APPARENTLY INTENDS FOR THE PRESENT TO IGNORE BOTH WALHEIM AND THE UNSC RESOLUTION. IN THE MEANTIME GHOTBZADEH HAS PROPOSED THAT IRAN CREATE ITS OWN INTERNATIONAL TRIBUNAL. SINCE THE UNSC RESOLUTION DIRECTS THE COUNCIL TO REMAIN QUOTE ACTIVELY SEIZED UNQUOTE WITH THE PROBLEM, WE WILL NEED TO COORDINATE CAREFULLY WITH WALHAIM AND UNSC MEMBERS WHAT FURTHER STEPS THE COUNCIL CAN EFFECTIVELY TAKE AND WHEN.

D) LEAN FURTHER ON THE RUSSIANS. WE ASSUME WE ARE MAKING IT CLEAR TO MOSCOW THAT PRONOUNCEMENTS SUCH AS THAT IN THE RECENT PRAVDA EDITORIAL ARE SERIOUSLY CONTERPRODUCTIVE TO THE BROADER U.S. - SOVIET RELATIONSHIP.

E) CONTINUE ECONOMIC PRESSURES. DESPITE REVOLUTINARY RHETORIC ABOUT WESTERN MATERIALISM AND ISLAMIC SPIRITUALISM, THE NERVE ENDINGS IN THE IRANIAN POCKET BOOK ARE HIGHLY SENSITIZED. FREEZING IRANIAN ASSETS HAS CLEARLY MADE AN IMPACT HERE. CONSIDERATION SHOULD BE GIVEN TO A COMMODITIES EMBARGO AND OTHER ACTIONS FURTHER TO DISRUPT IRAN'S INTERNATIONAL FINANCIAL TRANS-ACTIONS. WHATEVER STEPS ARE TAKEN SHOULD BE WEIGHED CAREFULLY AND PREFERABLY TAKEN QUIETLY OUT OF PUBLIC FOCUS, KEEPING IN MIND THE EFFECTS ON COUNTRIES OTHER THAN IRAN AS WELL AS THE POSSIBILITY OF PROVIDING ISSUES AROUND WHICH IRANIANS CAN EFFECTIVELY UNITE AGAINST US. OPEC MEMBERS' ATTITUDES ARE ESPECIALLY IMPORTANT.

F) EMPHASIZE OUR PREFERENCE FOR A PEACEFUL RESOLUTION, ESPECIALLY IN PUBLIC STATEMENTS. WARNINGS THAT OUR PATIENCE IS NOT INFINITE WILL BE MOST EFFECTIVE IF MADE PRIVATELY AND NOT SO FREQUENTLY AS TO LOSE CREDIBILTiy.

G) EXPLOIT ANY OPPORTUNITY TO SECURE A PARTIAL RELEASE OF THE HOSTAGES. STUDENT CLAIMS THAT ALL 50 REMAINING HOSTAGES, RANGING AS THEY DO FROM A HAPLESS BUSINESSMAN AND A SCHOOL ADMINISTRATOR FROM PAKISTAN TO REGULAR FS PERSONNEL, ARE SO PATENTLY REDICULOUS THAT INITIATIVES TO GAIN A LIMITED RELEASE A LA THE 13 WOMEN AND BLACKS MAY PROVE SUCCESSFUL.

H) BE OPEN TO UNORTHODOX APPROACHES. AS FARICAL AS

PATENTLY REDICULOUS THAT INITIATIVES TO GAIN A LIMITED RELEASE
A LA THE 13 WOMEN AND BLACKS MAY PROVE SUCCESSFUL.

H) BE OPEN TO UNORTHODOX APPROACHES. AS FARFICAL AS
GHOTBZADEH'S PROPOSAL FOR AN INVESTIGATIVE TRIBUNAL OR QUOTE
GRAND JURY UNQUOTE WHERE THE HOSTAGES WOULD BE QUOTE EVIDENCE
UNQUOTE RATHER THAN DEFENDANTS MAY BE, IT COULD IN THE FINAL
ANALYSIS AMOUNT TO SOMETHING LESS OFFENSIVE THAN THE SHOW TRIALS
THE STUDENTS HAVE DEMANDED. WHILE WE SHOULD USE EVERY MEANS,
DIRECTLY AND THROUGH THE UN, TO EMPHASIZE THE ILLEGALITY OF SUCH
A PROCEEDING AND THE POSSIBLE GRAVITY OF ITS CONSEQUENCES, WE
CANNOT PREVENT SUCH AN AFFAIR AND WE MAY NOT WISH TO IMPEDE IT
IN ANY EVENT IF IT REPRESENTS THE ONLY MECHANISM THAT WILL FREE
THE HOSTAGES AND ALSO PERMIT THE IRANIANS TO EXTRICATE THEMSELVES
FROM THEIR OWN PREDICAMENT.

8. THE DEPARTMENT WILL UNDERSTAND THAT OUR VIEWS ABOVE ARE
SUBJECT TO OUR LIMITED AWARENESS OF ACTIONS THAT MAY BE
UNDERWAY. THEY ALSO FOCUS PRIMARILY ON THE DYNAMICS OPERATING
ON THE IRANIAN WILLINGNESS OR CAPACITY TO ACT, SINCE THAT IS
WHERE OUR VISIBILITY IS BEST. TO SUM UP, THE MAIN DANGERS AS
WE SEE THEM IN OUR CONTINUING EFFORTS TO DEAL WITH THE HOSTAGE
ISSUE ARE, ON THE ONE HAND, TAKING ACTIONS THAT RISK DRIVING
THE IRANIANS INTO POSITIONS FROM WHICH THERE TRULY IS NO ESCAPE
AND, ON THE OTHER, ALLOWING THE MATTER TO DRAG ON INTERMINABLY
THROUGH TOO GREAT A DEGREE OF CAUTION.

ENDS

GRAHAM

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10 DOWNING STREET

From the Private Secretary

11 December, 1979.

Dear George,

Iran

The Prime Minister held a further meeting at 1700 hours this afternoon to discuss the attitude of the Government towards the American request for support in taking action to freeze Iranian assets. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy, the Secretary of State for Trade, the Attorney General, the Governor and Deputy Governor of the Bank of England, and Sir Robert Armstrong attended the meeting.

The Foreign and Commonwealth Secretary said that he had spoken on the telephone earlier in the day to the German Foreign Minister, Herr Genscher. The German position was very similar to our own. They were extremely anxious to find some way of helping the Americans, but they thought that it would be wrong to take action to block Iranian assets. The Germans favoured action under Chapter 7 of the UN Charter. So did the French Government. Mr. Vance had told Herr Genscher that it was not certain that the Russians would veto a Chapter 7 Resolution: Dobrynin was seeking instructions. If a Chapter 7 Resolution was adopted, it might include a provision for the blocking of Iranian assets. Since the Resolution would be mandatory and binding on all members of the UN, this would make the British Government's position easier. It was pointed out that Sir Anthony Parsons had considerable doubts as to whether a majority at present existed in the Security Council for a Chapter 7 Resolution.

The Prime Minister said that in the light of the attitudes of the French and German Governments and of the difficulties identified in earlier discussions, the idea of action by the British Government to block Iranian assets in London, whether taken unilaterally or in conjunction with other members of the Nine, should not be pursued. As regards a Chapter 7 Resolution, the Prime Minister noted that Sir John Graham had suggested in a recent telegram that there were now some signs of movement in the Iranian position, and that pressure might be counter-productive. The Secretary of State for Trade said that his impression from his own visit to the Middle East and from telegrams he had read subsequently was that all the Gulf States

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and Saudi Arabia would be opposed to the intensification of pressure on Iran, including the imposition of UN sanctions. The Foreign and Commonwealth Secretary said that the difficulty for Mr. Vance was that he wanted to avoid military action, the consequences of which would be incalculable. However strong the arguments in favour of continuing patience, Mr. Vance's judgement was that the US Administration had to be seen to be doing something to hurt the Iranians. Failing such action, more drastic alternatives might become unavoidable.

The Prime Minister said that if the Americans wished to take the UN route, we should try to follow them. But before doing so, we should draw Mr. Vance's attention to the arguments in Sir J. Graham's telegram. Moreover, it would be essential before going far down the road that we should be clear what forms of sanctions we were prepared to see included in a Chapter 7 Resolution. After the Governor of the Bank of England had argued that the freezing of Iranian assets as the result of a mandatory UN Resolution would be almost as damaging to the world banking system as action in the absence of a Resolution, the Prime Minister agreed that we should argue against the inclusion of action against assets within the ambit of any Chapter 7 Resolution. However, this would make it the more urgent to consider the alternatives. The group which had drawn up MISC 27(79)2 should review the options listed in that paper, and arrange for briefing to reach the Foreign and Commonwealth Secretary in Brussels before his meeting with his American, French and German colleagues tomorrow night. The Chancellor of the Exchequer suggested that the question of an arms embargo and of refraining from buying overpriced oil - assuming others also refrained - should be looked at.

The Foreign and Commonwealth Secretary summarised the message he would be giving Mr. Vance as being that the Government, in the light of Sir J. Graham's advice, was not certain that further pressure on the Iranians would be productive; but that if action was required, it should be an attempt to secure a Chapter 7 Resolution; that we would back the effort; but that in doing so we would wish to avoid the inclusion of a freeze on Iranian assets in the Resolution. The Prime Minister agreed with this line.

At the end of the meeting, the Attorney General said that he had learned that the judge in the forthcoming case involving US Citibank might have it in mind to approach him to act as amicus curiae. If he were to agree to do this, it would be in order to put forward the views of the defendants, i.e., the US Government and the Markazi Bank of Tehran. Since, in the light of earlier discussions, he would be unable to come down in favour of the Americans, he thought there would be considerable difficulty in

/ agreeing

agreeing to any such request. The Prime Minister agreed that the judge should be discouraged from making the suggestion.

I am sending copies of this letter to Tony Battishill (HM Treasury), Stuart Hampson (Department of Trade), Bill Burroughs (Department of Energy), Bill Beckett (Law Officers' Department), John Beverly (Office of the Governor of the Bank of England), and to Martin Vile (Cabinet Office).

Yours ever

Michael Alexander

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

SP



PART 1 ends:-

MODBA to PM 10/12/79

PART 2 begins:-

MODBA to K20 (5) 11/12/79

END

Filmed at the National
Archives (TNA) in London

February 2010