

"Air Striking Force" with the assistance of the Wellingtons of No 37 and No 70 Squadrons who had flown the round trip of 600 miles from RAF Shaibah.



ate in the afternoon of Tuesday 6th May, Valentia K.2808, with an escort of one Blenheim Fighter, transported 300 gallons of petrol to 3 Valentia's of No 31 Squadron who had force landed from lack of fuel in the desert near the Iraqi town of "HIT" on the banks of the Euphrates approximately 60 miles to the west of Habbaniya. During this sortie the Valentias Lewis Guns fired 300 rounds of ammunition.



On Wednesday the 7th an attempt was made to fit 520lb G.P. Bombs on the Bomb-racks of the Valentias of the "Flight" but this proved unsuccessful. According to the suggestion of Flight Lieutenant Skeet urgent modifications to the racks were put in progress.

Further maintenance was carried out on Valentia KR.2792 on Thursday the 8th May and then on Saturday the 10th May this Aircraft was air tested and carried out a 30 minute local reconnaissance flight

The modifications to the Valentias Bomb Crutches to enable them to carry 520lb G.P. Bombs were begun on Sunday the 11th and were completed by midday on Monday the 12th.

On the 12th May at 17.00 GMT, K.2808 set out to attack the Iraqi Airforce base at "AL RACHID" Airfield near Baghdad with 2 x 520s, 2 x 250s, 2 x 20s, and 2 x 25s incendiaries, returning at 19.10 GMT, At 21.00 GMT, KR.2792 took off to attack "AL RACHID" Airfield with 2 x 520s, 3 x 250s, 2 x 20s and 10 x 25s incendiaries, returning at 23.15 GMT. These attacks resulted in one direct hit on the hangar area and

7 231 547 777

# ECGD

RESTRICTED

W Henderson Esq  
Middle East Department  
Foreign & Commonwealth Office  
Whitehall  
London SW1

SCOTT INQ REF:

ECG.13.4.14

Export Credits Guarantee Department  
PO Box No 272  
Aldermanbury House  
Aldermanbury  
London EC2P 2EL

Telephone 01 382 7000  
Direct 01 382 7626  
Fax 01 382 7649  
Telex 883601

Your reference

Our reference

Date 1 March 1985

## IRAQ: EXPORT OF A CHLORINE PRODUCTION PLANT

We spoke briefly about the application received by ECGD for insurance support in relation to a contract obtained by [redacted], a wholly-owned subsidiary of the major West German plant manufacturer [redacted], for the design, supply, supervision of civil works, erection and supervision of commissioning of a Chlorine-Alkali-Electrolysis plant to be built at Saglawia which is about 70 kilometres west of Baghdad. On present FCO guidelines, this is not the sort of contract which would merit special consideration by Departments, and in strict ECGD terms, we would have no hesitation in granting the support requested. That said, there are a number of features affecting wider foreign and trade policy which should be taken into account before formal underwriting by the Department. I agreed to let you have a note giving details about the application and outlining the relevant arguments.

### The Project

The buyer is the Ministry of Industry & Minerals. <sup>the company</sup> [redacted] are acting in consortium with their West German parent, [redacted], and a company called [redacted] to carry out the contract. The lion's share is with [redacted], although most of the negotiation work has been carried out by [redacted]. The contract's value, in sterling terms, is around £14m and ECGD's liability under its guarantee will be around £10.8m. We were first approached about this case in December 1984; I am informed by [redacted] broker that the contract has been signed and the letters of credit have been opened. Payment is in cash terms out of an ILC: and all payments will have been received by final acceptance of the plant, which is estimated to be 29 months from date of contract.

### The Problems

There are a number of features about this case which taken together in conjunction with the market, we felt made it desirable to consult other Departments before giving final approval:-

1 one of the major outputs of the plant will be chlorine gas. Besides being highly toxic itself, chlorine can relatively easily be combined with other chemicals to manufacture poisonous compounds the export of which is subject to export licencing requirements. We have no information as to the destination of chlorine output from the plant; nor would we, as a matter of course enquire for a State buyer. It should also be said that

chlorine is an important building block for many chemical processes and in itself its local manufacture would not be an issue for comment;

2 I am told by the broker that the contract has been concluded in a relatively short period. We were first approached about this in December, at which point, so we are informed, negotiations with the Iraqis also commenced and less than 3 months later a contract is signed and letters of credit are opened. One can only reasonably conclude that priority is being given to the project. It is also worthy of comment that payment is in cash. That said, it is not without precedent that imports of industrial and chemical plant of this value to Iraq should be concluded that quickly and on cash terms, even against the background of cash shortages and major imports being financed through export credits.

3 Finally, one of the consortium partners, [REDACTED], will receive a commission amounting to some 7% of the export value. The payment of this commission is in cash and outside ECGD's insurance. Again, it has to be said that there is nothing noteworthy, in Middle East terms, against the payment of a commission; nor is it worthy of comment on grounds of size; and the payment is clearly specified in the contract itself. However, it has to be said that Iraq is unlike most other Middle East markets in this respect in that the payment of commissions is slightly unusual.

#### Analysis

The main point of our concern is the export of industrial plant to manufacture chlorine could be considered to be counter to the government's policy of even-handedness in the hostilities between Iraq and Iran. However, I should make two points here:-

a the denial of ECGD insurance support will not, in itself, prevent export. It is obvious from our discussions with the company concerned that financial support for working capital for the contract from their banks, for example, is dependent upon ECGD cover being granted, and rejection of the application will undoubtedly cause difficulties. I should also say that we have given an informal indication of support, and whilst this does not represent a legal commitment, normally it is taken by an exporter as firm support. Given that the contract is signed and a letter of credit has been opened, rejection at this stage would be even more difficult and clearly we would have to give reasons;

b export of the plant can only be prevented through the refusal of an export licence. At present, I gather, the equipment is not subject to export licence; and therefore to prevent export would require the imposition of a licensing requirement with the subsequent refusal of a licence for the specific export. It is for DTI to advise upon the problems/policy considerations here.

conclusions

In summary, there are no ECGD reasons why we should not give support to this project, but on the other hand there is both potential for embarrassment through our involvement, and it could cut across foreign policy objectives. I would therefore be grateful for your guidance on the line which we should take. Needless to say, ~~the Board~~ are pressing strongly for a formal confirmation of ECGD support, and whilst I have managed to persuade them that they cannot reasonably expect a decision before the week beginning 4 March, on the other hand, I cannot hold them off indefinitely. I hope that the FCO and the DTI will be able to reach a decision soon. I will be glad to come across to the FCO on Monday or Tuesday to discuss the case if that would be helpful.

I am copying this letter to Geoff Watson in OT4, DTI, Peter Sanders in Export Licensing Branch, DTI, and Roger Gotts in our Country Policy Division.

M Jaffray  
Project Division 4



CONFIDENTIAL

Foreign and Commonwealth

London SW1A 2AH

233 5877

5 March 1985

M Petter Esq  
DTI  
1 Victoria Street  
LONDON SW1

*Dear Richard,*

IRAQ: PROPOSED EXPORT OF CHLORINE PLANT

1. You will have seen a copy of ECGD's letter of 1 March about the proposed involvement of a British company, in the supply and construction of a chlorine plant in Iraq.
2. Although the ECGD letter confirms that we have no information on the intended end use of the chlorine to be produced by the plant, we do know that chlorine is one of the main constituents of mustard gas. Chlorine can of course also be used in a wide range of innocent industrial applications, but a number of factors point to the strong possibility that the Iraqis wish to use it for the manufacture of mustard gas. These factors include:
  - (i) there is evidence that the Iraqis make mustard gas locally and have made strenuous efforts in the international market to purchase the necessary raw materials.
  - (ii) the UN report of March 1984 implicitly accused the Iraqis of using mustard gas and the Iraqis have not responded to a UN appeal to refrain from the use of chemical weapons in the conflict (the Iranians have responded).
  - (iii) the Iraqis have given priority (and are paying cash) for what is on the face of it a civil project and does not therefore merit priority.
3. The extent to which UK-manufactured equipment is involved in the proposed deal is not clear. ECGD tell us that the UK company will in effect act as procurement agents for the various items of equipment, but we wonder if in fact the German parent company has asked its UK subsidiary to front the operation in an effort to avoid a confrontation with the German authorities, who have recently acted to prevent other similar orders being shipped to Iraq.
4. However, against this background (and bearing in mind our action over chemicals) we consider that it would be preferable to prevent the sale of this equipment going ahead. Both Mr Channon and Mr Luce have given assurances in the House of Commons that no items of equipment would be authorised for Iran or Iraq, which it was thought would in any way contribute to the manufacture of chemical weapons. Although these assurances would in fact hold good even if the deal went ahead (in that the equipment in

/question



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question is not, according to ECGD, export-licensable) hostile critics would undoubtedly make much of any British involvement in such a project (particularly the provision of ECGD cover), and this would inevitably result in further complications in our relations with the Iranians.

5. If we agree that it is in our interests to try to stop the deal going ahead, the question then arises as to what (if any) effective action we can take. I note that from their contact with the company, ECGD believe that the only way to frustrate the deal is through the Export Licence System, despite the fact that the British equipment involved is not, at present, subject to the control. Would it be possible to issue a temporary order banning the equipment in question? If this is not a practicable proposition we may have to consider speaking to the company, at a suitably high level, to express our concern and to seek more details. We are also briefing our Embassies in Bonn and Baghdad and asking them if they can tell us more. In any case, I believe that the provision of ECGD cover for the British portion of this project would, in the circumstances, be most unwise.

6. We are grateful to ECGD for drawing this matter to our attention.

*J. Sanders*

*S P Day*

S P Day  
Middle East Department

cc T M Jaffray Esq, ECGD ✓  
R Gotts, ECGD  
P Sanders Esq, Export Licencing  
Branch, DTI

10/2/85

SCOTT INQ REF:  
ECG/13.4.18

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

MIN. FOR TRADE'S OFFICE.

From The Minister of State  
Richard Luce MP

TOP/SEC ECGD  
FOR ADVICE (AND  
DRAFT REPLY IF  
APPROPRIATE)  
PLEASE BY: ASAP  
(PLEASE PHONE  
EXT: 5013 IF  
DEADLINE CANNOT  
BE MET.)

COPIES TO  
DE/CS  
DE/SA A RANLSON  
8 March 1985  
MR ROBERTS  
MR KEMP ECGD  
MR CHAPMAN  
MR ANLUNG SAS  
MR BENJAMIN PCP  
MR TITCHENER OT4  
MR HUTTON OT2  
MR FORAN ECGD  
MR HALL OT1/3  
MR CHAPMAN CT4  
MR WIGGAM CIP  
MR COGGINS ECGD  
MR WEISS  
MR BREACH  
MFT (to sea)

*Dear Minister.*

*MW Joffe*

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

Our officials have been in touch about the request from a UK company, [redacted], for ECGD cover on a contract with the Iraqi Ministry of Industry and Minerals to supply and install a chlorine-alkali-electrolysis plant in Iraq. [redacted] is the wholly-owned subsidiary of a West German company.

Perhaps I could begin by making one general point. As you know, we play a leading role at the Conference on Disarmament in Geneva in the search for a comprehensive and worldwide ban on the production, stockpiling and use of chemical weapons. I shall be presenting a new paper to the Conference on 12 March about the non-diversion of chemicals for civil use to illicit military use. This makes it particularly important that we should avoid authorising the export of a plant which could be adapted for military purposes.

Although a full assessment is not yet available, we understand from the experts in the Ministry of Defence that production from such a plant could be used, in conjunction with other chemicals already available in Iraq, to manufacture Chemical Warfare agents. In view of our general policy on the supply of CW-related equipment to either Iran or Iraq, I consider it essential that everything possible be done to oppose the proposed sale, and to deny the company concerned ECGD cover. I understand that it might be possible to frustrate the sale through the export licensing system by introducing an order to bring the equipment concerned under export control (along similar lines to action taken in the recent [redacted] case). Failing that, we should obviously consider speaking to the company concerned (we have already asked our Embassy in Bonn to make enquiries there) to explain our position to them.

/Perhaps we could

The Rt Hon Paul Channon MP  
Department of Trade and Industry  
1-19 Victoria St  
SW1H 0ET

cc: The Rt Hon Adam Butler MP, MOD  
J Gill Esq CB. ECGD CONFIDENTIAL

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11 MAR 1985  
MINISTER FOR  
TRADE'S OFFICE

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- 2 -

Perhaps we could discuss this difficult matter further when we are both back in our offices towards the end of next week. Meanwhile, I am sending copies of this letter to Adam Butler at the Ministry of Defence, and to the Secretary of ECGD.

*Yours sincerely,*

*Peter Westmacott*

P J WESTMACOTT  
Private Secretary to  
Mr Richard Luce MP  
(approved by the Minister  
and signed in his absence)

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Reference: .....

CONFIDENTIAL

PS/MFT

cc PS/Secretary of State  
PS/Sir A Rawlinson  
PS/ Sir B Hayes  
Mr Gill  
Mr Titchener  
Mr Kemp  
Mr Twyford  
Mr Hutton - OT2  
Mr Howarth - MEE  
Mr Petter - OT4  
Mr Corley - CTP  
Mr Mingay - MEE  
Mr Ayling - Sols  
Mr D Hall - OT2/3  
Mr Parker - Sols  
Mrs Chappell Sols (ECGD)  
Mr Nissen - Inf

IRAQ: CHLORINE PLANT

1 Problem.

The company [redacted], the UK subsidiary of a German company, have obtained a contract in Iraq for the supply of a Chlorine Plant for which they are seeking ECGD cover as a cash transaction. The Plant might be used to produce material which could assist in the manufacture of Chemical Weapons. There is no clear evidence in this respect but the plant does seem to be receiving priority treatment from the Iraqi side. However, a plant of this kind is not covered by export licensing restrictions and the question is whether the DTI should make a move to apply such restrictions and prevent its export, or if the DTI does not, whether ECGD cover should be made available.

2 Recommendation.

The DTI will be making a separate recommendation on the matter of export licensing. So far as ECGD cover is concerned, ECGD would recommend against withholding cover for the transaction, unless of course it is banned formally through export licensing.

3 Timing.

ECGD have been in discussion with the company about this transaction since December and although the company has no commitment from ECGD as such (and indeed we have today written to them withdrawing even the indication of cover that they have been given), if the export is to be permitted, it could cause some embarrassment if the ECGD decision is delayed overly long. An early decision is therefore desirable.

4 Background.

The buyer for the plants is the Ministry of Industry and Minerals. [redacted] are acting with their West German parent and a company called [redacted] to carry out the contract. The lion's

the company

share of the work is with [redacted], but most of the negotiation has been carried out by [redacted]. The contracts value in sterling terms is around £1.4m, and ECGD's liability under its guarantee would be around about £10.8m. ECGD were first approached in December 1984. The contract is for a relatively small value against good security and as legal trade was processed for consideration for ECGD cover in the normal way. However, once the contract reached underwriting stage (at a more senior level in the Department), we felt it advisable to draw the attention of the Foreign Office and the Department of Trade to the issue of chemical weapons at equally senior level. Prima facie the export is legal, but of its very nature creates suspicions and indeed there are some unusual circumstances concerning the contract which reinforce these. Firstly, there is a suspicion that [redacted] are doing this business out of the UK, because they have not been able to obtain all the permissions necessary to do it out of Germany. Second, this is a cash contract and for business out of the UK of this value, it is a little surprising that the Iraqis have not chosen to take advantage of the credit protocol. Third, the involvement of [redacted], who have done much of the negotiation work and the payment to them of a significant commission (although by no means unusual), does suggest that this contract has been obtained in a complicated way.

5 The position on ECGD cover is that the company have received a "without commitment" indication of the terms upon which ECGD might be prepared to make cover available. This has now been formally suspended in view of the possibility of export licensing restrictions, though no reason has been given to the Company formally for the suspension. There is no commitment on ECGD's part to provide cover, but there is a possibility that in the light of discussions which have taken place between the company and ECGD, including exchanges of telexes, the company might justifiably consider that it had every reason to expect that it would be provided with cover. That could conceivably provide them with a basis for embarrassing legal action against the Department, if that cover was not ultimately forthcoming on some basis.

6 Argument.

ECGD's normal position is that it stands ready to provide cover for legal trade. If an export licence can be obtained therefore, or if one is not required, in principle we should normally expect to cover the Chlorine Plant transaction. Withholding cover because the export was thought to be undesirable, but could not actually be prohibited or was too difficult to prohibit, would run counter to the generally non-political way in which matters of ECGD cover are decided and might not be effective in preventing the export. However it would be open to Ministers to instruct the Department that a particular piece of business should not be covered under Section 2 (under which all Iraqi business is taken), as not being in the national interest. However, that decision might have to be defended and in this case could leave the Department open to legal action of the kind mentioned above.

C FOXALL

PD4/ECGD

C309: Ext 7812

13 March 1985

COVERING CONFIDENTIAL

Reference.....

PS/MFT

cc PS/SOS  
PS/Sir A Rawlinson  
PS/Sir B Hayes  
Mr Roberts  
Mr Kemp ECGD  
Mr Chapman ECGD  
Mr Ayling Sols  
Mr Benjamin PEP  
Mr Titchener OT4  
Mr Petter OT4  
Mr Hutton OT2  
Mr Foxall ECGD  
Mr Chapman CTP  
Mr Ingram ECIP  
Mr Howarth MEE  
Mr Sanders ELB

PROPOSED EXPORT OF A CHLORINE PLANT TO IRAQ

As requested, I now attach a short speaking note for the Minister's use at his meeting with Mr Luce on 18 March.

So far as we can tell from our own examination of the US Export Administration and International Traffic in Arms Regulations, neither chlorine itself nor plants for the manufacture of chlorine are subject to US export licensing controls. But there are, as I mentioned to the Minister yesterday in a different context, various "catch-alls" in the US regulations. The only way of being certain is to ask the Americans; and we agreed not to do this at the Minister's meeting yesterday.

So far we have not received any further information from \_\_\_\_\_, or an answer from the German authorities about the details of the export licence said to have been granted by them. If this information arrives before the Minister's meeting, we will let him have it.

*DJH*  
D J HALL  
AS/OT2/3  
V/310  
215 5242  
15 March 1985



PROPOSED EXPORT OF A CHLORINE PLANT TO IRAQ

Points to make

1. Recognise Mr. Luce's wish that the UK should not be seen to be enhancing Iraq's CW manufacturing capacity.
2. Acknowledge that chlorine from the plant could be used to used to make CW.
3. But chlorine a very widely available chemical, with very widespread industrial uses. Understand Iraq already manufactures it; and imports it. Purpose of this plant import substitution, for water purification, detergent and paper industry. So far as we know, no Western country controls export of chlorine as such. So Iraq already has access to chlorine for CW purposes.
4. Understand company have a West German export licence for the German parts, and that Hermes prepared to cover these. So German authorities relaxed.
5. Believe company have acted in a straightforward way. part of highly respectable Group. They have not acted in suspicious haste. They say their principals have been negotiating for more than a year, and the only rapid development is the involvement of their UK subsidiary in place of their French subsidiary. They say this was because finance was cheaper in the UK than in France: not implausible.
6. [If necessary]. A cash transaction unusual. But we are told have done all their recent Iraqi business for cash. Understand Hermes will not extend credit to Iraq.
7. Even if ECGD refuse cover, this would not necessarily stop the deal.
8. Only certain way would be to amend the Export of Goods (Control) Order to catch plant of this type, and then refuse export licences. This can be done at any time, without Parliamentary procedure.
9. But this would involve controlling export of wide range of common process plant, which would be resented by British industry. This effect would be reduced if controls were confined to Iraq (and Iran). But a limited ban could easily be circumvented by sending goods through a third country.
10. Any such ban would not prevent the Iraqis obtaining chlorine plants elsewhere: they are widely available. Not at all clear that other plant manufacturing countries control exports of such plant. British industry would resent a unilateral ban as an unreasonable commercial restraint.



11. A very exceptional step to amend the law to stop exports under an existing contract. Only done twice since May 1979 - (sanctions against Iran at time of US hostages; and for reasons of national defence). Doubt whether present circumstances sufficiently exceptional. If we did take this step, a public row inevitable, particularly since no compensation payable even if Iraqis sued contractor for breach of contract. If the contractor procured the plant elsewhere we would look foolish.

12. A ban would do our other trade prospects in Iraq no good.

OT2/3  
15 March 1985

00000

CONFIDENTIAL

MR PETER  
OT4/1

cc Mr Hall/ OT2/3  
 Mr Jaffray ECGD  
 Mr Chapman CTP  
 Mr Ingram ECIP  
 Mr Howarth MEE  
 Mr Sanders ELB  
 Mr Parker Sols  
 Mr Henderson MED/FCO  
 Mr Lavender MOD

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

In advance of Mr Nicklen's note, this informs you briefly of the outcome of Mr Channon's meeting with Mr Luce and Mr Butler this morning.

Discussion

2 Mr Luce argued that this plant should not be exported to Iraq in view of HMG's explicit position on chemical warfare and particularly because of the recent escalation of the war and fresh allegations that Iraq was using chemical weapons.

3 Mr Channon said that to stop the export would cause very considerable problems. If chlorine plant were to be controlled, chlorine logically would also have to be, and to be effective the controls would have to apply to all destinations. Any steps should be taken in conjunction with our Allies.

4 Mr Butler said the issues were mainly for DTI and FCO but he did not consider it realistic to prevent the export. If it became necessary to defend a decision, he understood that a form of words could be found for Ministers and Press Officers to discuss the case in non-confidential and comprehensible terms.

5 The possibility of obtaining safeguards ensuring that the chlorine produced by the plant would be used for non-military purposes was considered, but dismissed as impracticable.

Action Points

6 It was decided that:-

(a) FCO should approach the West German Government very quickly to establish their attitude towards this contract and confirm that they had satisfied themselves that the plant would not be used for the manufacture of chemical weapons. Mr Channon emphasised that ~~the~~ *the company* were pressing very hard for a decision.

(b) DTI officials would investigate whether any further chemical intermediates would have to be brought under control (Mr Sanders is following this up).

*G R Watson*

G R WATSON  
 OT4/1b  
 V/141, Ext 5218  
 18 March 1985



PS/SR A RAWLINGS  
 PS/SR B HAYES  
 PS/SECRETARY ECGD  
 MR ROBERTS  
 MR KEMP ECGD  
 MR CHAPMAN  
 MR TURFORD  
 MR AILING SOLS  
 MR BENJAMIN DEP  
 MR FITCHENER OT4  
 MR HALL OT2/3  
 MR PETER OT4/1  
 MR HUTTON OT2

From the Minister for Trade

CONFIDENTIAL

P J Westmacott Esq  
 Private Secretary to Mr Richard Luce MP  
 Foreign & Commonwealth Office  
 LONDON  
 SW1A 2AH

SCOTT INQ REF:  
ECG/13.4.26

DEPARTMENT OF TRADE AND INDUSTRY  
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Telephone (Direct dialling) 01-2155 5144  
 GTN 2155  
 (Switchboard) 215 7877

MR FORALL ECGD  
 MR CHAPMAN OT4  
 MR NOWARTH MEE  
 MR SANDERS EL3  
 MR JAFFRAY ECGD

Miss [unclear] done 18 March 1985

Mr Goffe file.  
 cc Mr Goffe pc

New Peter

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

Mr Channon, Mr Luce and Mr Butler discussed this topic earlier today. Mr Luce was accompanied by Mr Glover, Mr Henderson and yourself. Mr Channon was supported by Mr Sanders and Mr Watson of this Department and by Mr Jaffray of ECGD.

Company's

Mr Luce said that he was anxious to avoid authorising the export of the Chlorine-Alkali-Electrolysis Plant to Iraq because there were indications that the Iraqis were using chemical weapons again in their conflict with Iran, because the product of the plant - chlorine - could be used to manufacture chemical weapons, because the US Government had appealed for us to stop this export and, above all, because blocking the export would be consistent with our policy on chemical weapons. He said that if the contract went ahead he was seriously worried about the damage to the credibility of the UK Government's leading role at the Conference on Disarmament in Geneva in the search for a comprehensive and worldwide ban on the production, stockpiling and use of chemical weapons.

Mr Channon said that if it would be easy to block this export he would do so. But on the contrary there were serious difficulties. Refusing ECGD cover would be very unlikely to stop the export so it would be necessary to make an Order introducing the requirement that plants of this nature were accompanied by an export licence. Only twice before had such action been taken to block, retrospectively, a contract. It would be odd to stop the export of a plant which would not come on stream until 1987, especially as the UK, and as far as he knew, everyone else in the world imposed no control on the export of chlorine itself to Iraq. Also the German authorities appeared to be content both to allow such a plant to be exported to Iraq and also to provide export cover. Mr Jaffray added that the German Government had satisfied themselves that the plant could not be used for the production of highly-toxic nerve gases. Mr Channon said that he was reluctant to introduce unilaterally the necessary controls.

Mr Butler said that his information was that chlorine could be used in the manufacture of Mustard Gas but that there was good evidence that the Iraqis had been stockpiling Mustard Gas and one of its components,



thiodiglycol. Secondly, chlorine was a necessary component in the more toxic nerve gases but a much easier route to these products was to buy intermediates. There was evidence that the Iraqi Government had been so buying and that they could continue to do so from the Egyptians. Thus, the Ministry of Defence's judgment was that there was no reason to suppose that the ban on the export of this plant would be effective in preventing the Iraqis preparing chemical weapons. His personal view was that it was not realistic to block this export. He had considered the public defence of the UK Government's position on the assumption that the export would go ahead. He had concluded that it would be possible to give publicity to the arguments he had deployed in concluding that blocking the export would be ineffective but the statement would clearly need to be carefully worded.

In conclusion, it was agreed that FCO officials should consult further with their German colleagues about why they had decided to block the export of such plant from Germany to Iraq, that officials in DTI, FCO and ECGD should consider whether any safeguard clause could be devised whereby the export could be blocked if it subsequently transpired that the Iraqis were intending to use it for the purpose of constructing chemical weapons, that they should consider whether an Order should be made introducing the requirement that the export of chlorine itself should be accompanied by a licence and that Ministers should meet again to discuss the matter further in the light of their advice. Mr Channon added that this should be pursued as a matter of urgency; the company were understandably pressing him for a decision. After the meeting ended, Mr Channon asked me whether the US Government themselves imposed controls on the export of such plant from the US to Iraq. I would be grateful if your officials could also advise on this.

I am sending a copy of this letter to Alan Kemp (Ministry of Defence).

*Yours as  
Steve*

STEPHEN NICKLEN  
Private Secretary to the  
Minister for Trade (Paul Channon)



19/2/85

*Miss Giffiths*

SCOTT INQ REF:  
ECG/13.4.27

Reference

CONFIDENTIAL

MR NICKLEN

cc Mr Titchener OT4  
Mr Petter OT4/1  
Mr Hall OT2/3  
Mr Jaffray LUGD ✓

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

1 I have seen your letter of 18 March to Mr Westmacott (FCO).

2 I am afraid the conclusions in the last paragraph do not correspond with my understanding of what was agreed. The conclusions would be more accurately expressed as follows:-

- (a) FCO officials should approach the West German Government very quickly to establish their attitude towards this contract, confirm that they were satisfied that the output of the plant would not be used to manufacture chemical weapons, and that the Federal Government had issued an export licence for the German content of the plant. Mr Channon emphasised that we were pressing very hard for a decision;
- (b) officials would investigate whether any further chemical intermediates should be brought under control.

3 The possibility of obtaining safeguards to block the export if the Iraqis were subsequently found to be using the chlorine to produce chemical weapons was certainly discussed, but I am quite certain that it was dismissed as impracticable and that therefore no action was requested.



4 I note that Mr Channon asked you after the meeting whether the US Government imposed controls on the export of such plant to Iraq. I am rather puzzled about this because it was agreed at the meeting that since the Americans were not involved in this contract it would be unwise to ask questions which might draw their attention to it. This confirmed the decision taken at Mr Channon's briefing meeting on 14 March and recorded in Mr Hall's minute to you of 15 March.



5 I presume you will wish to issue an amended letter which I should be glad to see in draft if you so desire.

G R WATSON  
OT4/1b  
V/141, Ext 5218  
19 March 1985

*2. Mr Gense - file*

*1. Mr Farrell  
an arcane debate which  
I am not following. Bill  
Hudson says that FCO are  
getting involved with Germany  
so Luce will probably reply to MF  
saying, reluctantly, go ahead.  
... expected Friday.*

CONFIDENTIAL

*Back to me*  
✓

GRS 190  
CONFIDENTIAL  
FM BONN 191710Z MAR 85  
TO IMMEDIATE EGO.  
TELEGRAM NUMBER 253 OF 19 MARCH  
INFO PRIORITY BAGHDAD  
INFO ROUTINE EIS TEHRAN

YOUR TELNO 92  
PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

1. THE FEDERAL MINISTRY OF THE ECONOMY (SCHWED), HAVING NOW LOOKED INTO THIS QUESTION, TELL US THAT THE RESPONSIBLE FEDERAL AUTHORITY, THE BAW (AN OFFSHOOT OF THE MINISTRY), GAVE ~~THE COMPANY~~ GERMANY FORMAL CONFIRMATION THAT THE EXPORT OF THE CHLORINE -ALKALI-ELECTROLYSIS PLANT WOULD NOT REQUIRE AN EXPORT LICENCE AS IT WAS NOT COVERED BY THE RESTRICTED LIST. (SUCH A QUOTE NEGATIV-ATTEST UNQUOTE IMPLIES NO JUDGEMENT ON THE END-USER.) HOWEVER, THE COMPANY HAS NOT BEEN SUCCESSFUL IN OBTAINING GERMAN EXPORT CREDIT GUARANTEE COVER. ACCORDING TO GEHRING (EXPORT CREDITS DEPARTMENT IN THE MINISTRY) TO WHOM WE HAD EARLIER SPOKEN, THIS WAS BECAUSE THE CONTRACT LIMIT FOR HERMES COVER WITH IRAQ IS DM 20 MILLION. (WE UNDERSTAND, TELECON HENDERSON/ ESCRITT, THAT THE CONTRACT VALUE IS POUNDS STERLING 14 MILLION WHICH WOULD BE MORE THAN TWICE THE GERMAN LIMIT.)

2. THE MINISTRY THEREFORE BELIEVE THAT ~~THE COMPANY~~ <sup>the company</sup> TURNED TO ECGD AS AN OBVIOUS ALTERNATIVE SOURCE OF COVER, A NOT UNCOMMON OCCURRENCE.

BULLARD

LIMITED

MED  
ACDD  
FUSD  
NEWS D  
UND  
ECD(E)  
PS/MR LUCE  
PS/FUS  
MR FERGUSSON  
MR DEREK THOMAS  
MR EGERTON

COPIES TO:

MR G WATSON OTL DTI  
MR T JAFFRAY ECGD

CONFIDENTIAL

Back to me

**CONFIDENTIAL**

GRS 430

CONFIDENTIAL

DESKBY 211400Z

FM BOHN 211045Z MAR 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 256 OF 21 MARCH

INFO ROUTINE BAGHDAD, SIS TEHRAN



YOUR TELNO 125

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

SUMMARY

1. GERMAN OFFICIALS APPEAR TO HAVE NO MISGIVINGS ABOUT THIS CONTRACT. THE NEGATIV-ATTEST ISSUED TO THE COMPANY IMPLIES NO JUDGEMENT ON THE END USER BUT DOES MEAN THAT NO EXPORT LICENCE IS REQUIRED AND NONE HAS BEEN GIVEN. CONTRARY TO EARLIER INDICATIONS, ~~THE COMPANY~~ GERMANY HAVE RECEIVED APPROVAL FOR EXPORT CREDIT GUARANTEE COVER FOR THEIR PART OF THE CONTRACT.

DETAIL

2. WE HAVE SPOKEN AGAIN TO SCHWED (FEDERAL MINISTRY OF THE ECONOMY) AND LUTZ (ASSISTANT IN THE EXPORT CREDITS DEPARTMENT IN THE FEDERAL FOREIGN MINISTRY) RAISED THIS IN THE COURSE OF OTHER BUSINESS YESTERDAY.

3. SCHWED CONFIRMED THAT

- A) ~~THE COMPANY~~ HAD ONLY RECEIVED A NEGATIV-ATTEST,
- B) THIS WAS CONFIRMATION THAT AN EXPORT LICENCE WAS NOT REQUIRED,
- C) THEREFORE NO EXPORT LICENCE HAD BEEN ISSUED,
- D) THE NEGATIV-ATTEST IMPLIED NO JUDGEMENT ON END USE,
- E) CHLORINE WAS NOT ON THE LIST OF ITEMS SUBJECT TO EXPORT APPROVAL. (THE LIST IS OF COURSE FAR MORE EXTENSIVE THAN THE ITEMS ADDED LAST YEAR, PARA TWO OF REFTEL.)

4. LUTZ TOLD US THAT ~~THE COMPANY~~ IN A LETTER DATED 19 MARCH, TO WHICH HE WOULD BE REPLYING, HAD SAID THAT ECGD HAD THE PREVIOUS DAY AGREED IN PRINCIPLE TO COVER, SUBJECT TO CONFIRMATION OF THE FEDERAL GOVERNMENT'S ATTITUDE. WE EXPLAINED THAT THE UNUSUAL ~~THE COMPANY~~ FEATURES OF THIS CASE HAD CAUSED US CONCERN. LUTZ ADDED THAT ~~THE COMPANY~~ HAD RECEIVED APPROVAL FOR EXPORT CREDIT GUARANTEE COVER FOR THEIR SHARE AMOUNTING TO DM 7.6 MILLION OF THE JOINT CONTRACT WITH ~~THEIR PARTNER~~ ~~THE UIC COMPANY~~ AND ~~THE UIC COMPANY~~ AND THAT IN TAKING THIS DECISION THE GOVERNMENT HAD LOOKED INTO THE QUESTION OF END USE AS THERE IS LATITUDE TO TURN DOWN APPLICATIONS IN DUBIOUS CASES. THEY HAD BEEN FULLY SATISFIED WITH THE COMPANY'S EXPLANATIONS AND COVER HAD BEEN APPROVED IN A LETTER TO THE COMPANY DATED 22 FEBRUARY.

**CONFIDENTIAL**

COMMENT

**CONFIDENTIAL**

COMMENT

5. IT IS CLEAR THAT NO EXPORT LICENCE HAS BEEN ISSUED AND NO FORMAL JUDGEMENT ON END USE MADE BY THE FEDERAL GOVERNMENT BUT IT IS POSSIBLE THAT THE COMPANY ARE SEEKING TO INTERPRET THE EXPORT CREDIT COVER APPROVAL AS IMPLYING THE LATTER. IN FAIRNESS WE HAVE DETECTED NO SIGNS OF FEDERAL GOVERNMENT DISQUIET ABOUT THE CONTRACT. THE CONFIRMATION THAT EXPORT COVER HAS BEEN GRANTED AT LEAST FOR THE GERMAN PART OF THE CONTRACT IS SURPRISING IN THE LIGHT OF WHAT WE HAD EARLIER BEEN TOLD, BUT NO DOUBT NORMAL HERMES/ECGD LIAISON WILL CLARIFY WHETHER THERE IS ANY OVERLAP IN THE RESPECTIVE APPLICATIONS TO THEM.

BULLARD

LIMITED  
MEL  
AZDD  
PS/MR WUCE  
MR EGERTON

COPIES TO  
OTH DTI  
MOD (D/SEC SALES)  
ECGD (JAFFRAY)

<sup>2</sup>  
**CONFIDENTIAL**



CONFIDENTIAL

SCOTT INQ REF:  
ECG/13.4.30



Foreign and Commonwealth Office

London SW1A 2AH

*ECGD - Mr Jaffray*

From The Minister of State  
Richard Luce MP

25 March 1985

*Dear Paul,*

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

At our meeting on 18 March it was agreed that FCO officials should contact our Embassy in Bonn with a view to eliciting further information from the appropriate German authorities about their attitude to the proposed transaction. We have now received a full report. (Copies of Bonn telegrams 253 and 256 of 19 and 21 March are enclosed.)

It is clear from the Bonn reports that because the German portion of the contract did not require an export licence, a document known as a negativ-attest (ie confirmation that a licence was not required) was issued by the Ministry of the Economy. Although this document did not of course imply any judgement on the end use of the plant, the information from Bonn confirms that ~~the~~ Germany received approval for export credit cover for their part of the contract, and that in taking this decision the German authorities seem to have satisfied themselves on the question of end use.

We continue to have misgivings about this contract, particularly in view of reports of Iraqi use of chemical weapons in the latest fighting (a number of Iranian CW victims arrived in London for treatment on 21 March). Although our Embassy in Bonn have detected no signs of Federal Government disquiet about the contract, I consider it disappointing that the West German authorities seem to have avoided giving any formal judgement on the end use of the plant. However, I quite understand the very real difficulties for your Department and ECGD in delaying matters further and I therefore reluctantly agree that this contract should go ahead. I believe it would be helpful if ECGD could extract suitable assurances (preferably in writing) from the company about the end uses of the plant, before credit cover is approved, as suggested by the ECGD representative at our meeting.

/As regards the

The Rt Hon Paul Channon MP  
Minister for Trade  
Department of Trade and Industry  
1-19 Victoria St SW1H 0ET

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- 2 -

As regards the wider questions raised by this case I consider that it has drawn attention to the need for DTI/ECGD/FCO officials to examine urgently what safeguards we can apply to satisfy ourselves in future that contracts such as these, to countries known to have or to be developing CW capabilities, are for innocent purposes and cannot be diverted.

\*—| As for the related matters raised at our meeting, officials here are in touch with the Americans on the question of further controls on chemicals and possibly equipment (though for obvious reasons we do not wish to draw attention to chlorine plants). My officials are also seeing what they can discover about existing US controls on the export of chlorine plant, as your Private Secretary has requested, but without making any direct approach to the US authorities. Finally, I understand that DTI officials are looking into the question of whether any further chemical intermediaries need to be brought under control. —|\*

In view of the renewed allegations of Iraqi use of chemical weapons in recent fighting, your officials will no doubt wish to give thought to preparing (on a contingency basis) a defensive line for use by DTI Ministers, should news of the sale become public. Could our two News Departments get together?

I am copying this letter to Adam Butler.

W  
—  
Riley

CONFIDENTIAL

Reference \_\_\_\_\_

1. Mr Hall OT2/3
2. PS/Mr Channon

cc PS/Secretary of State  
PS/Sir A Rawlinson  
PS/Sir B Hayes  
Mr Gill (ECGD)  
Mr Roberts DTI  
Mr Kemp (ECGD)  
Mr Twyford "  
Mr Chapman "  
Mr Ayling DTI Solicitor  
Mr Benjamin PEP DTI  
Mr Titchener DTI  
Mr Petter "  
Mr Hutton "  
Mr Foxall (ECGD)  
Mr J Chapman PEP DTI  
Mr Howarth DTI  
Mr Jaffray (ECGD)  
Mr Sanders DTI

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

Problem

In his letter of 25 March, Mr Luce reports that FCO discussions with the West German authorities have proved to be inconclusive; and that whilst he continues to have misgivings, particularly in the light of recent reports that Iraq has used chemical weapons in the recent round of fighting, he reluctantly acquiesces to the proposed export going ahead. The way is therefore open for Mr Channon to approve the export, but there are one or two details which also need to be settled:

- i Should ECGD seek assurances from <sup>the company</sup> [redacted] about the end use of chlorine from the plant, as suggested by Mr Luce;
- ii Should ECGD cover be conditioned to exclude any risk of loss due to frustration of the export through export licencing regulations;
- iii What steps should be taken to ensure that similar contracts in the future with countries with CW capability are solely for innocent purposes; and
- iv What steps are being taken by the DTI to examine whether further chemical intermediaries need to be brought under export licencing control.

Recommendation

2. I am routing this submission through Mr Hall to make recommendations on points iii and iv. On the other points:

- i ECGD and DTI recommend that the assurances already given on behalf of [redacted] <sup>the company</sup> about the possible end use of chlorine from the plant should be accepted as sufficient.
- ii ECGD recommends that risk of loss due to the imposition of export restrictions be excluded from the guarantee to be given to [redacted].

Z 18-77

*the company*



### Timing

3. The Minister will know that <sup>the company</sup> [redacted] are getting increasingly anxious about the delay to this contract, and a decision, therefore, is needed on points i and ii as soon as possible.

### Background

#### End User Assurances

4. A standard method of ensuring that arms exports are not diverted from their intended destination is the use of end-user certificates by the buyer stating that the goods are for his own use. For obvious reasons, seeking such assurances from the Iraqi authorities in this case is ruled out. The alternative, seeking assurances from the exporter, has been fully explored by ECGD and DTI officials, and oral assurances by [redacted] that the output of the plant is intended for industrial purposes have been confirmed in a letter dated 15 March from their brokers.

#### Export Licence Risk

5. ECGD's normal guarantee gives cover against losses due to the cancellation or non-renewal of an export licence; or the operation after the date of contract of any law in the UK which prohibits or restricts the export of the goods to the buyer's country (other than the refusal to grant an export licence for goods which on the date of contract were subject to licence). The guarantee would cover the exporter's costs and expenses resulting from the frustration of the export of goods under manufacture in the UK. In addition, given the likely circumstances in which prohibition of the exports might take place, retaliatory action by the Iraqi buyer could be expected; for example, they could refuse to pay for goods already despatched or might call on-demand performance bonds. Although the guarantee does not provide the exporter with cover directly for such losses under the export licencing cause of loss, it is likely that he would be able to sustain a claim against ECGD under other sections of the guarantee. In other words, ECGD might have to foot the entire cost to the exporter arising out of frustration of the contract through export licencing. The export licence risk is covered by ECGD's guarantee on the general grounds that it is one of the uncertainties and risks associated with overseas trade for which it is reasonable to expect cover from ECGD.

### Argument

#### End User Assurances

6. Both DTI and ECGD have already held extensive discussions with [redacted] and their brokers and received oral assurances backed up by their broker's letter of 15 March. Although no doubt the company would be willing to restate these assurances, it is difficult to see what else they could add. In any event, whatever their good intentions, assurances from [redacted] are of doubtful comfort; the reins are in the Iraqi hands. Although we have done our best to satisfy ourselves that Iraqi plans are presently to use the output for wholly innocent and industrial purposes, this could of course be changed in the future. To

/press

press further could risk compromising Ministers' room to manoeuvre in future if grounds emerged to support banning the contract. Similar considerations apply to ECGD cover. We believe from discussions with FCO officials that Mr Luce will be content if Mr Channon points out the oral and written statements already received. It is clear from the tone of his letter that Mr Luce is aware of the limited usefulness of such assurances.

Export Licence Risk

7. Other things being equal, ECGD would normally be content to cover this risk. However, in this case there are strong grounds of underwriting prudence not to do so: although we have done what we can to satisfy ourselves about the innocent uses of the plant, delivery will take up to 30 months to complete. The future outlook for the war casts uncertainty over Iraqi plans; if control of intermediaries for chemical weapons really begin to bite, it would not be impossible for the Iraqis to divert the chlorine output for direct manufacture. The future course of international thinking and public opinion are equally difficult to foresee. The possibility of changed circumstances leading to a revised Ministerial decision on whether the export should be allowed to go forward clearly cannot be ruled out. The company will undoubtedly protest that our stance is unreasonable given the decision to let the export itself go ahead. They may argue that Hermes are covering the risk on the German portion, having gone through a similar procedure to satisfy themselves about end-use of the chlorine.

8. We believe, however, that the decision to exclude the export licence risk can be defended on the grounds that although Ministers have approved the export on present information it is not possible to remove misgivings about future Iraqi intentions, and therefore it would not be appropriate to give this cover. It is for the company to make up their minds whether in the light of the conditions attached to ECGD's cover they wish to accept our offer.

*Amdiplack*

*for* R T Kemp  
Under Secretary.  
ECGD  
Ext 7011  
28 March 1985

Reference.....

I have slightly amended Mr Kemp's draft letter, with the agreement of ECGD, and have added a passage to it to deal with the points on the second page of Mr Luce's letter. We shall be pursuing these points with officials in other Department's concerned.

The first paragraph of the draft letter says that officials have told the company of our decision. But we have not done so in advance of authorisation from the Minister: since the company are pressing it would be helpful to have this in the course of tomorrow 29 March if possible.

*DJH*

D J HALL  
AS/OT2/3  
V/310  
215 5242  
28 March 1935

**DRAFT**

Addressed to:

Richard Luce Esq MP  
Minister of State  
FCO  
Whitehall  
LONDON SW1

**File No.**

Copies to:  
SS/SOS  
Sir B Hayes  
Mr Gill ECGD  
Mr Roberts  
Mr Kemp ECGD  
Mr Twyford "  
Mr Chapman "  
Mr Ayling Sols  
Mr Benjamin PEP  
Mr Titchener OT4  
Mr Petter OT4  
Mr Foxall ECGD  
Mr J Chapman PEP  
Mr Howarth NEE  
Mr Jaffray ECGD  
Mr Sanders ELB  
Mr D J Hall, OT2/3  
on file

Originated by:  
(Initials and date)

Seen by:  
(Initials and date)

Type for signature of

MFT

(Initials and date)

DEPARTMENTS OF INDUSTRY AND TRADE

CONFIDENTIAL

PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

Thank you for your letter of 25 March.

I share your misgivings about this export, particularly, as you say, in view of reports of Iraqi use of chemical weapons in the latest fighting. However I believe that in the light of the difficulties which we discussed at our meeting on 18 March we must acquiesce in the export going ahead, and I am grateful for your agreement that we should do so. My officials have told the company of our decision, and ECCD will be discussing with them the terms of any insurance cover.

You suggest that it might be helpful if ECGD could extract suitable assurances from the company about the end uses of the plant. We have already done this. <sup>The company</sup> [redacted] have given

(CONTINUING HERE)

File No.

several oral assurances of their belief that the plant is intended wholly for innocent industrial purposes and this has been confirmed in writing on their behalf by their broker's letter of 15 March (I enclose a copy). I do not think we can reasonably ask them for more, or that we would get any more if we did so. In any case, the assurances can provide only limited comfort: the reins will be in Iraqi hands. Whatever the Iraqis' present intentions, I recognise that we cannot exclude the possibility that they could devote the output for the manufacture of chemical weapons. If evidence of such changed intentions were to emerge, it is not inconceivable that we might have to reconsider the decision to permit the export. For this reason I have agreed that ECGD cover should exclude liability arising from such a decision. It will be for <sup>the company</sup> [redacted] to decide, as a commercial judgment, whether to go ahead on these terms.

I am asking my officials to discuss with yours whether safeguards can be devised to satisfy ourselves that such contracts cannot be diverted for illicit purposes. Our officials will also be in touch on the question whether further chemical intermediaries need to be brought under control. Finally, my officials will be working out a defensive Press line with yours. If there are any immediate questions to ECGD, the latter will

(CONTINUE TYPING HERE)

File No.

say that it is their practice not to comment  
on individual cases.

I am copying this letter to Adam Butler.



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5144  
GTN 215  
(Switchboard) -215 7877

From the Minister for Trade  
CONFIDENTIAL

Richard Luce Esq MP on file  
Minister of State  
Foreign and Commonwealth Office  
Whitehall  
LONDON  
SW1

29 March 1985

*Richard Luce*  
PROPOSED EXPORT OF CHLORINE PLANT TO IRAQ

Thank you for your letter of 25 March.

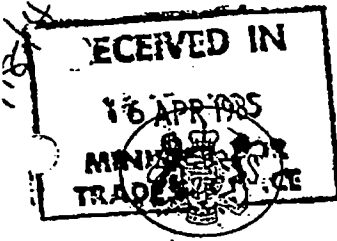
I share your misgivings about this export, particularly, as you say, in view of reports of Iraqi use of chemical weapons in the latest fighting. However, I believe that in the light of the difficulties which we discussed at our meeting on 18 March we must acquiesce in the export going ahead, and I am grateful for your agreement that we should do so. My officials have told the company of our decision, and ECGD will be discussing with them the terms of any insurance cover.

You suggest that it might be helpful if ECGD could extract suitable assurances from the company about the end users of the plant. We have already done this. They have given several oral assurances of their belief that the plant is intended wholly for innocent industrial purposes and this has been confirmed in writing on their behalf by their broker's letter of 15 March (I enclose a copy). I do not think we can reasonably ask them for more, or that we would get any more if we did so. In any case, the assurances can provide only limited comfort: the reins will be in Iraqi hands. Whatever the Iraqis' present intentions, I recognise that we cannot exclude the possibility that they could devote the output for the manufacture of chemical weapons. If evidence of such changed intentions were to emerge, it is not inconceivable that we might have to reconsider the decision to permit the export. For this reason I have agreed that ECGD cover should exclude liability arising from such a decision. It will be for you to decide, as a commercial judgment, whether to go ahead on these terms.

I am asking my officials to discuss with yours whether safeguards can be devised to satisfy ourselves that such contracts cannot be diverted for illicit purposes. Our officials will also be in touch on the question of whether further chemical intermediaries need to be brought under control. Finally, my officials will be working out a defensive Press line with yours. If there are any immediate questions to ECGD, the latter will say that it is their practice not to comment on individual cases.

I am copying this letter to Adam Butler.

*Paul Channon*  
PAUL CHANNON



CONFIDENTIAL

SCOTT INQ REF:  
ECG/13.4.38

MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6821 (Direct Dialling)  
01-218 9000 (Switchboard)

Minister of State  
for Defence Procurement

D/MIN/AB/3/1/9

15th April 1985

*Dear Paul,*

Thank you for sending me a copy of your letter to Richard Luce of 29th March.

I was glad to see that <sup>the company</sup> [redacted] had given appropriate assurances, but I believe that it would be imperative for us to reconsider the decision to permit export of the chlorine plant, if evidence emerged of changed intentions on behalf of the Iraqis.

I should be grateful if Ministry of Defence officials could be involved in tying up the arrangements for this project, in particular the PR line and future policy on such exports.

I am sending a copy of this letter to Richard Luce.

MIN. FOR TRADE'S OFFICE.

TO MR WALL OT2 | COPIES TO

FOR ADVICE (AND  
DRAFT REPLY IF  
APPROPRIATE)  
PLEASE BY: 24/4  
(PLEASE PHONE  
EXT: 5013 IF  
DEADLINE CANNOT  
BE MET.)

PS/SAS  
PS/IR B HAYES  
PS/SECRETARY ECGD  
MR ROBERTS  
MR KEMP ECGD  
MR CHAPMAN "  
MR TWYFOLD "  
MR AYLING SOLS  
MR BENJAMIN PEP  
MR TITCHENER OT4  
MR PETER OT4  
MR FOYALL ECGD  
MR CHAPMAN PEP3  
MR HOWARTH MEE  
MR JAFFRAY ECGD  
MR SANDERS EL3

*Yours in*  
*Adam*  
Adam Butler

*Mr George*

The Rt Hon Paul Channon MP MFT (to see)

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(XII) **BADGER CATALYTIC LIMITED**

**D6.343** On 15 December 1989 Badger Catalytic Limited (Badger Catalytic) submitted an application for ECGD cover in respect of a proposed £30m project to construct a chlori-alkali processing plant in Iraq.<sup>642</sup> The chlori-alkali produced by the plant was to be used in the manufacture of the chemical epichlorohydrin which, according to Badger Catalytic, was "an important chemical precursor in the manufacture of resins and plastics". The project was to be co-ordinated by the Iraqi Technical Corporation for Special Projects (known as TECO). It appears that the chlori-alkali plant was not licensable under the then current EGCO.<sup>643</sup>

**D6.344** Badger Catalytic's application was considered by Mr Tait (ECGD) who, on 19 December 1989, minuted Mr Foster (ECGD) as follows: "Although I have no real doubts about this business (we didn't originally about Polibur!!) I think we ought to check with FCO and DTI Export Licensing Unit".<sup>644</sup> Mr Foster agreed with the course suggested by Mr Tait and on 28 December he (Mr Foster) wrote to Mr Higson (FCO/MED), copied to Mr Steadman (DTI/ELB), in the following terms:

"We have recently been approached by Badger Catalytic who are seeking our preliminary approval to finance the provision of field services for supervision, commissioning and start up as well as supplying equipment and materials for a 36,000 tonne per annum grass roots chlorine plant. The location of the intended plant will be at the Petrochemical Complex No 2 at Al-Musayib in Iraq ....

In view of the sensitivities that have recently arisen we feel that in approving business under the Protocol we must have absolutely no doubt that the business does not have a sinister end use. We would however wish to notify you of this potential business, but unless you wish to comment our intention would be to advise Badger Catalytic in principle that the business would be financeable under the Protocol."<sup>645</sup>

The FCO referred the matter for consideration by the MOD.<sup>646</sup>

**D6.345** On 8 January 1990 Mr N (MOD/DIS), having considered the application by Badger Catalytic, wrote to Mr Musgrave (FCO/ACDD):

<sup>642</sup> ECGD/109.9

<sup>643</sup> DTI/963; As epichlorohydrin is a key precursor for a number of chemical warfare agents (see paragraph D6.345 *infra*), the chlori-alkali processing plant could now be licensable under Schedule 1, Part II of the EGCO 1994, which prohibits the export of equipment "if the exporter knows that they are intended or likely to be used in ... the development, production, handling, operation, delivery, detection, identification or storage of any chemical or biological weapon". No provision of this nature was in force in 1989; see also paragraph D6.327 *supra*

<sup>644</sup> ECGD/109.5

<sup>645</sup> ECGD/109.6

<sup>646</sup> ECGD/109.4

"2. Epichlorohydrin .... is on the Australia Group Warning List<sup>647</sup> and is a key precursor for the chemical warfare agent mustard. A chlori-alkali plant actually produces chlorine and sodium hydroxide. The chlorine, which is used to produce the epichlorohydrin, can also be used in the manufacture of phosphorus trichloride which is a key nerve agent precursor.

3. We currently assess that the Iraqi chemical warfare (CW) programme is moving towards the production of CW agents from indigenously available materials ....

4. There are direct parallels between this case and that of Polibur Engineering<sup>648</sup> and the HF plant. It is totally inconsistent to control the export of certain chemicals and not the means of their production.

5. Although MOD advice against the involvement of UK firms in the supply of chlori-alkali plants to Iraq has gone unheeded in the past, we continue to believe that the weight of evidence linking these plants to the Iraqi CW programme is sufficient to warrant such firms being strongly discouraged from involvement in such projects, and would advise this course of action in this case."<sup>649</sup>

**D6.346** Badger Catalytic's application, and the implications of the chlori-alkali project, were discussed at a meeting of the SXWP on 18 January 1990. Mr N agreed to provide further information about the organisations involved and, in particular, about the possible links with the Iraqi chemical warfare programme. The further information was provided in a letter dated 22 January 1990 from Mr N to Mr Pullen (FCO/ACDD). After repeating the information provided in his 8 January letter to Mr Musgrove, Mr N continued:

"7. There is no doubt that TECO [the Iraqi company co-ordinating the chlori-alkali plant project] is involved in military projects. It is one of the organisations responsible for the Iraqi missile programme and has also been involved in the procurement of CW agent precursors ....

11. Although there is no evidence of a direct link between the chlori-alkali project .... and the Iraqi CW programme, the organisation responsible for the project does have links with the CW programme.

<sup>647</sup> see paragraph C1.148 *supra*  
<sup>648</sup> see paragraphs D6.337 to D6.342 *supra*  
<sup>649</sup> MOD/31.1.324A

	Centrale de Ras Djinet / Algeria						
247	Ansaldo Meccanica Nucleare - Genova for Yemen General Electricity Corp. - Sanaa Al Mukha / Yemen Arab Republic	130	1.000	1	1984	T	Sea Water
248	Dynamit Nobel Silicon S.p.A. - Novara Merano, Bolzano / Italy	400	40.000	4			
249	Titanor Singapore Pte. Ltd. for Public Utilities Board Senoko Power Station / Singapore	135	8.000	4			
250	EL-CAR Paterson Candy - Milano for Belleli S.p.A. - Mantova el Bouri Offshore Field / Libya	72	120	2			
251	EniChem - Milano Assemini, Cagliari / Italy	500	1.000	1			
252	Samim Abrasivi S.p.A. - Milano S. Michele all'Adige, Trento / Italy	120	3.500	1			
253	AEM - Azienda Energetica Municipale Milano / Italy	575	20.000	5	1985	D	Traction
254	CROS S.A. - Barcelona Flix, Tarragona / Spain	45	220.000	2	1985 (expansion)	D	NaCl
255	UHDE GmbH - Dortmund - Germany for SEPP Faluja / Iraq	295	16.000	1	1985	T	NaCl
256	Titanor Singapore Pte. Ltd. for Taiwan Power Company Lin Kou / Taiwan	185	2.700	1	1986	T	Sea Water
257	Filippo Fochi S.p.A. - Bologna Abu Dhabi / United Arab Emirates	135	6.250	5	1986	T	Sea Water
258	AEM - Azienda Energetica Municipale Milano / Italy	575	2.000	1	1986	D	Traction

				(Projects)			
	Centrale de Ras Djinet / Algeria						
247	Ansaldo Meccanica Nucleare - Genova for Yemen General Electricity Corp. - Sanaa Al Mukha / Yemen Arab Republic	130	1.000	1	1984	T	Sea Water
248	Dynamit Nobel Silicon S.p.A. - Novara Merano, Bolzano / Italy	400	40.000	4	1984	T	Silicon monocrystal
249	Titanor Singapore Pte. Ltd. for Public Utilities Board Senoko Power Station / Singapore	135	8.000	4	1984	T	Sea Water
250	EL-CAR Paterson Candy - Milano for Belleli S.p.A. - Mantova el Bouri Offshore Field / Libya	72	120	2	1984	T	Sea Water
251	EniChem - Milano Assemini, Cagliari / Italy	500	1.000	1	1985	T	Electrolytic polarizing
252	Samim Abrasivi S.p.A. - Milano S. Michele all'Adige, Trento / Italy	120	3.500	1	1985	T	Carborundum
253	AEM - Azienda Energetica Municipale Milano / Italy	575	20.000	5	1985	D	Traction
254	CROS S.A. - Barcelona Flix, Tarragona / Spain	45	220.000	2	1985 (expansion)	D	NaCl
255	UHDE GmbH - Dortmund - Germany for SEPP Faluja / Iraq	295	16.000	1	1985	T	NaCl
256	Titanor Singapore Pte. Ltd. for Taiwan Power Company Lin Kou / Taiwan	185	2.700	1	1986	T	Sea Water
257	Filippo Fochi S.p.A. - Bologna Abu Dhabi / United Arab Emirates	135	6.250	5	1986	T	Sea Water
258	AEM - Azienda Energetica Municipale Milano / Italy	575	2.000	1	1986	D	Traction

Stern

German involvement in poison gas manufacture.

Public prosecutors and custom officials confiscated tons of files in German companies, suspected of providing Iraq with the necessary supplies to manufacture chemical weapons.

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The search took place during a snowstorm. When the search commando of the customs criminal investigation department in Cologne (ZKI) arrived at the door of Berthold Heberger, building contractor, in the morning of the 25th of November, he became suspicious and made off on his bike in the snow.

This attempt at running away did not affect the ZKI. Equipped with a judicial search warrant (reference no. 21 Js 35285/87) the officials went through filing cabinets and desks. In a small lorry they took "mountains of files" to the headquarters in Cologne - documents which were to prove that Heberger was building sheds and bunkers in Iraq for the manufacture of chemical weapons. The lethal weapons used by Iraq since Autumn 1983 against Iran and rebellious Kurds are produced in the secret plants of Samarra and Fallujah.

Everywhere in the Federal Republic public prosecutors and custom officials called at companies and private houses, factories and offices of tax consultants, asking for statements, contracts, construction plans and files. The ZKI in Cologne, a kind of Federal Criminal Police Office of the customs, for the first time in its history set up a special unit ("Soko Iraq"). This Soko unit will be busy for months going through these files - many of them temporarily stored in hallways. One thing seems certain already at this point: West German companies are involved in the deadly business of chemical weapons in Iraq. This also becomes obvious from original documents which were leaked to the Stern prior to the customs campaign.

According to the findings of the investigators, the "Water Engineering Trading" (W.E.T.) company in Hamburg plays the key role in the deal between Germany and Iraq. The documents in the hands of STERN show that this company together with an Iraqi partner, offered the Ministry of Industry in Bagdad a complete factory "for the manufacture of pesticides". This "project 33/85" was to cost 20 million marks.

"Project 33/85" consists of two plants, in which the highly toxic chemical Phosphorotrichloride and Phosphoroxitrichloride were to be produced - these also form the basis for the nerve gases Tabun and Sarin. According to the findings of an UN Commission, Tabun has already been used by Iraq against Iran in the Gulf war.

The offer comprises 16 typed pages including enclosures (list of appliances for drawing 102/485). The W.E.T. letter of the 30th April 1985 states that the plant can produce 17,6 tons of Phosphorotrichloride daily.

W.E.T. Hamburg made arrangements with the "State Establishment for Pesticides Production" (SEPP) in Bagdad which is a department in the Ministry of industry. SEPP, as western secret services found out, is responsible for the production of poison gas and ordered the building of the plants in Samarra and Fallujah.

SEPP and W.E.T. obviously came to an agreement. Already in 1986 a large number of parts for these plants was sent to Iraq by lorries and ships via Turkey. This detour had been suggested in the offer. Between the 8th and the 10th of March of that year 14 SEPP experts met 4 W.E.T. representatives, amongst them joint-owner Peter Leifer, in the Iraqi capital. SEPP expressed an interest in further cooperation with the Hamburg firm. The notes taken at this meeting show that W.E.T. has to come up with a new offer, this time regarding the assembly of the two production units they supplied. W.E.T. did not waste any time. Only a couple of months later Bagdad received the new offer - a turn key offer at a price of DM 35 Million (turn key offer 6/87).

W.E.T. planned for 100 technicians and skilled workers to assemble the plant in 18 months. The firm guaranteed that their experts would supervise production for one year after the plant was put into operation. These experts had meanwhile been trained at the French chemical plant ATOCHEM in Lyon. The French supplied W.E.T. with the "know-how" for the manufacture of the poison gas base Phosphorotrichloride. However....  
(rest of the sentence cut off. Translator's note.)

The documents, available to the customs and the judiciary also show that the Iraqis attached great importance to German quality work. On numerous occasions W.E.T. emphasized that the containers, pumps, valves and cooling plants had received the stamp of quality by the German M.O.T.

The firms management claims that they cannot understand, how the public prosecutors could suspect the W.E.T. of having illegally supplied Iraq with plants for the manufacture of poison gas. As far as they are concerned, they exported special pumps which are also sold to other countries, like Iran and Izrael.

The firm in Hamburg appears to be linked with the company Preussag AG in Hannover and with Karl Kolb GmbH in Dreieich near Frankfurt. Before Peter Leifer became managing director of W.E.T. he was in Hannover with  
(rest of sentence cut off...)

Picture: Consultation in Bagdad.

The building contractor Berthold Heberger (left) from Schifferstadt apparently built sheds and bunkers in Iraq. Peter Leifer of W.E.T. travelled to Bagdad in March 1987 to negotiate a turn key offer for a plant producing nerve gas.

Page 2:

Report by Jochen Schildt.

The friendly village mullah sharp-eyed behind his horn-rimmed glasses, cannot wait any longer: he gathers up his black cloak, the Aba, and hobbles through the mud over to the embankment. There he grabs one soldier after another and kisses them fondly on both cheeks. A clerical appreciation for the nation's heroes.

The Iranian revolutionary guards (Pasdaran) look tired and exhausted. They briefly left their dugouts to take shelter behind the sand rampart and sit down quickly for a cigarette and coke. A short break in a war which has been going on for more than six years and claimed nearly one million victims.

We left Teheran with a military escort to drive to the Schatt el-Arab through the vast swamp of the Euphrat and Tigris to the front at the Persian Gulf. On the other shore, close enough for conquest, is Basra, the target of Iran's present massive offensive 'Kerbela 5'. It was named after the holy shiite town Kerbela in Iraq, an important point in Khomeini's absurd campaign for the "worldrevolution" in the name of Islam.

We can see Basra's suburbs without binoculars. A burnt out freighter shot to pieces next to the oil tanks of a petrochemical plant within reach of light Iranian artillery. Smouldering fires can be seen in various places.

Around us corpses and more corpses, bodies shot to pieces, limbs missing, their faces swollen from the brackish water of the swamp, their hands still clasping handgrenades or the triggers of Soviet Kalashnikows. Our Iranian escort points at the dead shouting excitedly: "Arabs! Arabs!"

We do not see any Iranian soldiers. Obviously they were removed, before we arrived. Apparently they were taken to their native villages in cold storage trucks. A lot of dead also sink into the swamp. (Rest cut off. Transl.)



Page 3:

Supplies for SEPP

German firms supplied the Iraqi nerve gas factory SEPP with equipment to produce weapons used in the war with Iran.

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On the 30th August 1985 the Preussag AG Company in Hannover received a telex addressed to Otto Holzer, the person in charge of export matters. The haulage contractor Merkur in Munich announced the transport of 256 barrels of chemicals to Bagdad. "We found this rather odd", remembers Dr. Maruan Rifai, then Holzer's boss, "because Preussag never dealt in chemicals with Iraq." His colleagues, when questioned, stammered something about an "obvious mistake".

It was even stranger", Rifai told STERN, "when only a couple of minutes later a second telex arrived, in which Merkur not only apologized for the mistake, but also asked for the first telex to be immediately destroyed." The information was meant for W.E.T. in Hamburg.

Rifai, who suspected Otto Holzer and his colleague Peter Leifer of "doing private deals with Iraq behind the back of Preussag", made inquiries: W.E.T. stands for Water Engineering Trading GmbH, and the wives of Holzer and Leifer, Johanna and Karin are with others, authorized signatories of the firm. And the W.E.T. made a consulting contract with Nazar Al-Kadhi the Iraqi representative of Preussag in Bagdad.

Al-Kadhi again arranged deals with the Iraqi 'State Establishment for Pesticides Production' (SEPP) for example the delivery of water processing plants and lorries. Like Holzer and Leifer, he no longer works for Preussag.

Their bosses claim that they were unaware of the fact that "SEPP" according to Western secret services produces chemical weapons - the weapons which have been used by Iraq since Autumn 1983 in the terrible gas war against Khomeini's soldiers. "SEPP" a plant comprising 25 km<sup>2</sup> near the Iraqi town

town Samarra is surrounded by several high fences and protected by a ground-air missile system.

In the mid-seventies Iraq started to build factories for the production of pesticides on a site previously used by the military. But when Israeli bombers destroyed the Iraqi nuclear reactor Osiris in June 1981 and with it the hopes of the regime in Bagdad to manufacture nuclear weapons, the function of the pesticide plants in the desert was changed. The Iraqis started to produce "the poor man's atom bomb", i.e. the chemical weapons mustard gas (Lost), Tabun and Sarin for use in the Gulf war. Secret service experts estimate that the country invested at least five hundred millions West German Mark in these plants. To this day the Iraqi ambassador in Bonn, Abdulrazzak Al-Hashimi, claims that they only produce pesticides for the date harvest.

A large part of the technical equipment for the two plants "Ahmed I" and "Ahmed 2" for example was supplied by the West German company Pilot Plant GmbH, a subsidiary of the Karl Kolb GmbH in Dreieich near Frankfurt. Already in March 1984 the "New York Times" accused this company in Hesse of having supplied Iraq with laboratory equipment "for the self-sufficiency in manufacturing chemical weapons. The company protested strongly and stated that it was impossible to produce nerve gas with their products.

Even the Federal Government dismissed the accusations - at least temporarily, but then was taught otherwise by American experts. "On instructions from above" the customs headquarters in Darmstadt prohibited the export of further parts for the two plants under construction "Mohammed" and "Ali" which are now collecting dust on this site in the Iraqi desert.

Three weeks after the first accusations against the building contractors from Dreieich the wives of Freussag employees Holzer and Leifer and Reinhold Krauskopf, wholesaler for electrical appliances in Hamburg, founded their firm in April 1984. They entered the W.E.T. under the no. HRB 32783 in the

Register of companies, the official purpose of the company being "the trade in electrical appliances and water engineering". Krauskopf became manager and in December 1985, after leaving Preussag, Leifer and Al-Kadhi joined as managers.

W.E.T. however with its headquarters at Lenastrasse 50 in Hamburg-Bahrendfeld delivered not only water pumps, but also plant parts "which could be used for the manufacture of Lost and other highly toxic substances". According to the rules-regulating foreign trade, an embargo had been placed on these products and must not be exported. W.E.T. sold tons of chemicals to Bagdad which undoubtedly could be used for the manufacture of chemical weapons - Natriumfluoride, Isopropylamide, but especially Phosphortrichloride which is a base for producing mustard gas.

A delegation of UN experts having been invited by Iran to inspect a section of the front, came to the conclusion that the Iraqis used gas they produced themselves, because it contained traces of Phosphortrichloride. One of the experts, Lieutenant Ulrich Mobersted, doctor of chemistry and head of the department of defence weaponry in the Swiss military, stated explicitly that with their equipment Iraq could quite easily produce mustard gas.

The Finanzgericht (tribunal dealing with tax and other financial matters) in Kassel however did not accept this opinion in 1985. The company Pilot Plant rang this tribunal to protest against the ban on export imposed by the customs in Darmstadt. The judges announced that according to evidence given by two German chemists who however inspected only two of about ten of these factories in Iraq, "the plants were not equipped for the manufacture of poison gas and goods were to be produced for export".

The customs in Darmstadt made an appeal. The law-suit illustrates the alarming reluctance of the German authorities in charge to hinder or limit export. As from the 1st of January 19?? W.E.T. must no longer supply Iraq with Phosphortrichloride.

#### Picture

The Iraqi company SEPP produces 60 tons of mustard gas and four tons each

of the nerve gas Sarin and the nerve gas Tabun per month. On this satellite picture the STERN shows for the first time the position of the secret plants near Samarra.

1 bunker 2 German plant 3 French plant 4 Soviet plant 5 incineration plant  
6 stores for chemicals, 7 water processing container Preussag AG,  
8 administration buildings, 9 workshops, experimental plant, 10 laboratory.

Page 4:

Investigators appeared with search warrants in Preussag's headquarters and various branches, but like Kolb and Heberger, Preussag firmly denied to have been involved in illegal affairs.

The Kolb Company has been attracting attentions since 1984. At that time the US secret service CIA put out reports stating that the Kolb subsidiary "Pilot Plant" supplied plants in which Iraq could produce not only pesticides but also chemical weapons - possibly without the company's knowledge. When the Federal Government ordered further deliveries by 'Pilot Plant' to be stopped, the company went to court. They settled out of court with a compensation of DM 1,6 million for Kolb. The legal position regarding the export ban was unclear.

The Karl Kolb GmbH is now suspected of having violated export laws. W.E.T. documents prove that Kolb Company delivered pressure containers for the Iraqi "Project 33/85" to Hamburg. The customs received information that the company in Dreieich sold a so-called "inhalation chamber" to the plant in Samarra which apparently is used to test pharmaceutical products and pesticides on animals. According to information obtained by STERN it is however a gas chamber in which the effect of chemical weapons can be tested on dogs and cats. A technician who was in Samarra at the time, when the inhalation chamber was being installed, told STERN: "Right from the start I found it very strange that Iraq would spend more than two million Marks on equipment for research on pills or pesticides."

When queried by STERN, Karl Kolb Company refused to comment.

At the moment the customs and public prosecutors are still keeping a very low profile. But they admit that there must be more than a vague suspicion, otherwise they would not have been issued with search warrants. The prosecutors now hope to discover with the help of confiscated documents the obscure ways on which possibly not only production units for poison gas but also equipment for chemical warfare were shipped to Iraq and to its allies.

Egypt and the Gulf states like Abu Dhabi for years have been clients of the company UFS in Mosbach- Lohrbach near Heidelberg. Their speciality is decontamination.

According to his own statements two years ago, the firm's director Fritz Gülde negotiated with the Egyptian military the sale of devices for detecting chemical weapons and equipment for decontamination. He also trained men in Abu Dhabi.

The 43 years-old chemist Abdel Fattah Shihada could come up with some useful information as well. Born in Palestine, he did his MA at Marburg University specializing in Phosphor combinations - the basis for poison gas. In the early eighties he was offered a chair at the Baghdad University. There he noticed that most of his students had a military rank.

#### Pictures:

##### In Germany for treatment

A seriously injured Iranian soldier is being treated in a Munich hospital. He became victim of an Iraqi poison gas attack.

##### Test chambers for the gas war ?

In this inhalation device the effect of pesticides was apparently tested on animals. The drawing was done by a technician who was present in Samarra while the plant was being built.

Basra and the road to Kuwait through which Iraq received most of its supplies, are constantly under fire. Parts of this town with over a million of inhabitants have already been deserted with people fleeing to the north of the country.

Meanwhile the Mullahs are preparing a second attack: this time it will be the enemy's heart, the Iraqi capital Baghdad. There are about 150 000 Iranian soldiers assembling at the border near Mehran, about 150 km away from Baghdad. Already now large parts of Baghdad are being devastated on a daily basis by constant rocket attacks - the morale of the Iraqis is low. "Kerbela 6", the attack on Baghdad, might well deal the death blow to Saddam Hussein's regime.

Especially as the Iranians became quite sophisticated in their warfare. No more suicidal attacks by fanatical volunteers, the Bashids, no more child soldiers throwing themselves into the Iraqi minefields. The strategies are now planned by clever young officers, graduates of the cadet school of the revolutionary guards which is in the former US Embassy. A western military attaché in Teheran observed that "the Iranian attacks have always been unpredictable, but now they have gained twice as much strength. They buy first class weapons and they know how to use them."

Especially the controversial US arms deal at present receiving so much attention strengthened considerably Iran's position. Israeli military expert told STERN that the amount sold was far greater than Washington admits. Two weapon systems in particular brought about the change: air defence rockets of the type "hawk" and "TOW" tank defence rockets. Iraq's superiority of air defence and armoured divisions has almost been destroyed.

Saudi-Arabia, officially Iraq's ally, discreetly facilitated the arms deal. In case of victory for the Khomeini's regime, she has to fear, that the Ayatollah will immediately attack... (rest cut off, translator)

Even the "heathen" East - as much hated by Teheran as the "imperialist" West - sent supplies for Khomeini's armies: in the last few weeks there have been at least twenty attacks on Baghdad with the Soviet medium-range missiles SS-1, supplied by Syria and Lybia. The Iraqis tried in vain to use their Soviet air defence against this Soviet super weapon.

Hojatoleslam Rafsanjani, president of parliament and after Khomeini Iran's most powerful man, is optimistic. He told us in Teheran: "The count-down has started. We will bring down this bastard's regime in Baghdad and if it doesn't happen tomorrow, it will be the day after."

His secret negotiations with America nearly brought about the downfall of Rafsanjani whom Washington considers a "moderate", favouring free enterprise and good relations with both East and West. His internal/domestic enemies accuse Rafsanjani of being a traitor to the islamic cause. But he acted quickly. The Pasdaran loyal to him attacked the office of his main adversary Mehdi Haschemi and put him into Evin prison. Haschemi's office for "revolutionary export" was closed.

Rafsanjani travelled to the front afterwards to be congratulated. "The 'Black House' in Washington supplied us with weapons!" he shouted to the soldiers, "but it still stays black!"

Back to the capital - a long dusty journey on the bus. Dawn. At around 6.30 convoys of cars start driving from north Teheran to the ministerial offices in the centre, where the Shah used to reside and where Khomeini has his headquarters now. (Rest cut off, translator)

...Even the opponent of the regime admit that the Mullahs are very busy. "You see, the Shah's officials never turned up at their desks before 10 o'clock, if at all," tells us a local journalist. Now at seven in the morning the typewriters are already cluttering, serious men with black beards are dictating their scripts and the secretaries wrapped in their chadors look like crows.

In this metropolis of seven million life is as busy as ever. The shops in the bazaar are well stocked - nearly anything can be bought, if at a high price. But meat, rice and oil are rationed, like washing powder and more recently - petrol. Families who have a martyr in their ranks receive extra coupons. This is particularly useful to the poor who otherwise receive as little from the Khomeini's regime as they formerly did from the Shah. Many of them volunteered to go to the front and nearly every family lost at least one son on the battlefield.

Despite the long war with its high death toll, eight years after coming to power the Khomeini regime is now quite stable. People seem to adapt themselves to the circumstances. There is no political movement - either in Iran or in exile - which could pose a threat to those in power. The opposition, People Mujahadin, who adhere to a vague islamic socialism and who have - from exile - for many years predicted an imminent collapse of the regime, are hardly noticeable in the country. Like every other opposition, they have been bloodily oppressed by the Mullahs. Many leading government opponents have been shot by Khomeini's Secret Service, others thrown into jail and kept without trial.

Thus assured, Teheran only wants peace, when Saddam Hussein in Iraq is overthrown. Even Khomeini's opponents agree with that. A bazaar merchant whose furniture business for long has not been as good as before the war says: "They have bombarded our towns. The arrogance....has to be punished... (Rest cut off, trahslator)

Centuries old prejudices that the Iraqis are "primitive" persist. Last Wednesday, Revolution Day, Pasdaran put up a big poster in the grounds of the Teheran University with Khomeini's quotation: "The more people die for our cause, the stronger we get." Then some students enlist spontaneously as volunteers, however the majority of the young intellectuals refuse. Partly because of their political convictions, partly because of fear.



Young women on the campus profit from the breath of liberality, which one can feel at present in the bigger towns. Instead of the black head covers, some risk white chawls with silver thread and embroidered flowers. Under the compulsory wide chador one can see jeans and modern Nike shoes. A whiff of Parisian Chic: Scha-Dior.

On another occasion too, the regime tries to appear generous. Last year, on the Christmas Eve, when the Iranians started the "Kerbela 5" offensive, the Mullah had a surprise for the Christian minority of the country and the diplomatic corps. The Tengeran Symphony Orchestra - its numbers now shrunk to 45 - played in the "Hall of the Great Unity" in Teheran "Silent Night" and works by Mozart, Johann Strauss etc...the big concert of Western music, which otherwise is banned.

There were 800 people in the audience, men sitting in the stalls, ladies on the balcony.

In this "silent night" there were again air attacks warnings, sounding in Teheran, Isfahan, Ghom and Tabris. Later on, Radio Baghdad reported that one unit of the airforce had bombed the headquarters of the "Snake Head Khomeini". However, the two Migs failed. Khomeini's fortress in the suburb of Shemiran was not hit. Instead, some windows in the house of the new military attache of the Federal Republic, frigate commander Klaus Strebe some 100 meters away, were broken.

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Vehicles] (particularly the Ram Jet technology which could be used to test Cruise Missiles/guidance systems).”<sup>8</sup>

**E3.2** A serious problem regarding the possible use of Egypt as a diversionary route arose in 1986. The problem concerned an application made by ISC Chemicals Ltd for a licence to export hydrogen fluoride (HF) to Egypt. A letter dated 29 January 1986 from Mr Charles Powell, the Prime Minister’s Private Secretary, to the DTI had alerted the licensing authorities to the problem. The letter passed on information about previous HF purchases made from ISC by Egypt acting, apparently, on behalf of Iraq and said that “An additional quantity of hydrogen fluoride is expected to be exported in the same way in the next few months” and that “The information we have received is that the material is intended for the Sepp plant in Iraq and procurement through Egypt is intended to bypass restrictions imposed on the export of hydrogen fluoride to Iraq.”<sup>9</sup> The significance of the export of HF to Iraq lay in its possible use as a precursor for chemical weapons and, in particular, the nerve gas Sarin.

**E3.3** Later in 1986 an ELA was received from ISC seeking a licence to export HF to Abu Zaabal, an Egyptian company. An end-user certificate signed on behalf of Abu Zaabal was provided. The certificate certified that the HF was required for various specified civil industrial processes to be carried out by four named Egyptian companies and that “neither the HF nor the products involved will be sold or re-exported from Egypt again anywhere.”<sup>10</sup>

**E3.4** A file note dated 27 August 1986 made by Mr D Powell, FCO/ACDD, referred to intelligence that “ISC had exported a quantity of HF to Abu Zaabal Company in Egypt”, that “Abu Zaabal... was a military facility concerned with the manufacture of artillery and weapons... [and had] no conceivable requirement for this chemical” and that “the shipment in October 1985 had been immediately transported over land by truck from Egypt to Iraq.”<sup>11</sup>

**E3.5** A request was made of the British Embassy in Cairo to give an assessment of the company, Abu Zaabal. The response, on 4 September 1986, was that “The Abu Zaabal company for specialised chemicals is owned and operated by the Egyptian Ministry of Military Production” and that its “main activities” were “the manufacture of single and double base powders for ammunition, solid rocket propellants and rocket motors, high explosives TNT and ammonium perchlorate.”<sup>12</sup>

<sup>8</sup> DTI/45.1.94 at paragraph 11.4

<sup>9</sup> FCO/242D.40

<sup>10</sup> FCO/242D.65

<sup>11</sup> FCO/242D.55

<sup>12</sup> FCO/242D.68

**E3.6** The issue of whether or not to licence the export of the HF was put to Ministers. A submission dated 4 September was put up by Mr Powell to Mr Renton, the FCO Minister.<sup>13</sup> Mr Powell recommended against granting the licence. In the paragraphs setting out the relevant "Background", Mr Powell reminded the Minister that HF had been added to the list of licensable chemicals in May 1986, that it was "extremely widely traded" and that both the DTI and the FCO "have been anxious that the UK control should not put the UK chemical industry at a competitive disadvantage *vis-à-vis* other countries (none of which have followed our lead)." The submission then went on:

"We have consistently taken a strong line against any export which may assist CW use in the Gulf Conflict. If the proposed export of HF to Egypt is indeed destined for Iraq there would be no doubt it should be stopped irrespective of the financial loss to the company or the likelihood that the order would go to a competitor. The balance to be weighed is, on the one hand, the specific (although uncorroborated)... information, and, on the other, the assurances received from the company concerned. Cairo has confirmed that the destination is indeed a military one. We cannot, of course, exclude the possibility that Abu Zaabal is genuinely procuring HF on behalf of the civil companies named. However, neither NENAD nor Research Dept think this likely... There is a difficult and essentially political judgement to be made. DTI officials take the view that... we should give the benefit of the doubt to the company. ...The firm view of ACDD and NENAD is that the FCO should advise against [the grant of the licence], taking into account the military nature of the destination, the specificity of the... intelligence, and the leading role the UK has consistently taken both in international efforts to curb CW proliferation, and more widely in the CW negotiations themselves."

Sir David Miers agreed with Mr Powell's recommendation.

**E3.7** The issue was discussed between Mr Renton and Mr Clark, the Minister for Trade. A telex dated 9 September to the Embassy in Cairo said that "Ministers are concerned at the potential for diversion of this order for Iraqi CW purposes. They are, however, prepared to allow this sale to proceed, provided the Egyptian Government, as owner of Abu Zaabal, are informed of our general concern about possible diversion.... We would like the Egyptian Government to be aware of the serious concern with which we would view any diversion of a UK supplied chemical."<sup>14</sup>

<sup>13</sup> FCO/242D.69

<sup>14</sup> FCO/242D.76

**E3.8** From 27 to 29 September 1986 Mr Renton made a visit to Egypt. In the course of his visit he raised with the Egyptian authorities the issue regarding the HF export to Abu Zaabal.<sup>15</sup> Following the visit a licence for the export of the HF was granted. In his evidence to the Inquiry Mr Renton explained the reasons for the decision:

“I think that the reason why the Egyptian order for hydrogen fluoride was allowed to proceed was primarily because the Egyptian Government owned the Abu Zaabal company; and that company had given a specific end-user certificate that the hydrogen fluoride would be used either by them for the production of detergent alkylate or by other Egyptian companies for aluminium smelting, galvanisation and other industrial purposes. They further specifically certified that ‘neither AHF nor the products involved will be sold or re-exported from Egypt again anywhere’. If we did not accept the contents of this end-user certificate, we would have been specifically saying that the Chairman of a Government-owned company in Egypt, a friendly country, was a liar.”<sup>16</sup>

Mr Renton said also that he “and the other Ministers involved were clearly as satisfied as we could be that the export would not end up in Iraqi hands and that therefore it would not add to the supply of chemical weapons in the hands of Gulf War combatants”. There is no indication from any subsequent intelligence that the HF exported under the licence in question to Abu Zaabal was diverted to Iraq.

**E3.9** The manner in which ISC’s 1986 ELA for the export of HF to Egypt was dealt with was, in my opinion, a model of its kind. The intelligence which gave rise to a real risk of diversion to Iraq was fully taken into account. The FCO officials in NENAD evaluated the risk and recommended refusal of the ELA. The Ministers, Mr Renton and Mr Clark (the MOD do not seem to have been involved) took into account the wider political and trade implications of the decision and decided, first, to stress to the Egyptian authorities the seriousness with which diversion would be viewed but, subject to that, to grant the licence. Mr Renton made the point during his visit. It may be possible to argue that the risk of diversion of the HF to Iraq and of the consequent use by Iraq of the chemical in the manufacture of Sarin outweighed the political and trade arguments in favour of the grant of the licence. But this is a balance to be struck by Ministers and, in this case, was struck by Ministers. There is, in my opinion, a clear contrast between the manner in which this ELA was dealt with and the several Jordan ELAs where the risk of diversion to Iraq was set aside in favour of the grant of licences but without the issue being put to Ministers.

<sup>15</sup> FCO/363.3.22

<sup>16</sup> Mr Renton’s written statement dated 10 September 1993, paragraph 11.2.3

working in Baghdad for years and knew Amer al-Saadi and the Baathists well. One of his favorite hangouts was a belly-dancing joint called the Al Wia Club, where patrons could drink champagne and eat *masgouf* while rubbing shoulders with some of the regime's most senior officials. This may be where he first heard of the Samarra project, one of the two pesticides plants that Amer al-Saadi planned to build. In the months following the Israeli raid on Osirak, Franzl succeeded in having his company appointed as the main contractor for that plant.

While the Samarra deal was certainly worth millions to Franzl and his colleagues, it may have appealed to him for other reasons as well. Customs investigators who searched Franzl's home in Dreieich years after Samarra had become a synonym for death found a large oil painting that showed Franzl wearing a Wehrmacht order from the Third Reich on his chest. Like Anton Eyerle's, his sympathy for Saddam Hussein's regime appears to have gone far beyond his taste for the excellent wages the Iraqis paid.<sup>7</sup>

Franzl's partners in Germany were all younger men. The most important was Helmut Maier, managing director of Karl Kolb. Born on December 28, 1932, Maier was too young to have fought in the Wehrmacht, but he was old enough to remember Germany's Nazi past.

Maier and Franzl contracted with a recently created Iraqi entity, the State Establishment for Pesticides Production (SEPP), to build an entire chemical weapons complex at Samarra. Of course the planned use of the Kolb facilities was never mentioned in the contract. For the two Germans, and for the host of subcontractors who helped build Samarra, this was merely a plant for making insecticides. They knew about flies, but they pleaded ignorance about Saddam's feelings toward Persians and Jews.

To help him in his day-to-day relations with the Iraqis, Franzl called on a German-educated Iraqi, Nazar al-Khadhi, who was soon appointed as his de facto deputy. Al-Khadhi's official title was head of the Baghdad office for Preussag AG and Water Engineering Trading, subcontractors for Kolb. W.E.T., as it was known, was run by an enterprising forty-two-year-old German named Peter Leifer, who traveled to Baghdad many times to supervise the fitting out of the Samarra plant.

Al-Khadhi organized several trips to Germany for SEPP officials.

In September 1987, for instance, all Iraqi leaders by the name of SEPP, Dr. Abdallah al-Ani, and a SEPP chemist, Dr. al-Nayeemi, visited UHDE, a subsidiary of the chemicals firm Hoescht. The company's Baghdad representative later telexed the head office in Frankfurt with information on the Samarra "pesticides" project and advised the company not to get involved. On May 4, 1982, German Customs documents show, the traveling Iraqis visited Preussag's Hannover office, claiming they represented the Baghdad Water Supply Administration. On another trip, SEPP's general manager, Mr. al-Attar, claimed he was from the State Establishment for Oil Refining and Gas Industry (SEORGI). Extensive documentary evidence shows that SEORGI was negotiating industrial contracts with some of the world's largest petrochemicals companies, including Technipetrole (TPL) in Italy. How many of these apparently innocent deals were linked to Iraq's poison gas program had yet to be determined by government investigators.

Helmut Maier understood that he had to proceed with caution, for poison gas was a subject of sensitivity to many Germans. To cover his tracks in the unlikely event that the German authorities decided to investigate Kolb's relationship with Iraq, Maier set up a front company called Pilot Plant, also located in Dreieich, to execute the Samarra contracts. Documents seized at Kolb headquarters in November 1987 by German Customs show that Maier was managing director of both companies.

Maier provided many services for the Iraqis, besides the equipment to manufacture chemical weapons. He advised them on the most efficient method of setting up their "pesticides" plant, designing it, and finding the right suppliers. And he served as a middleman for German firms hoping to get a piece of the cake. Heberger Bau GmbH, of Schifferstadt, was one such company introduced to SEPP through Maier's good offices. In return, Heberger paid Karl Kolb and Pilot Plant a 3 percent commission on its contracts with SEPP. The first of these, signed on February 2, 1982, was for construction of above-ground bunkers at the Samarra complex. Bertold and Egon Heberger were convinced that it was well worth paying a DM 120,000 commission to get a foothold in the Iraqi market, which could be worth millions to their company. The sprawling Samarra complex that the Hebergers helped build was heavily guarded, in accordance with Saddam Hussein's new

Timmerman "The Death hellos"

selves. One embassy reported that Iraq had set up a special plant to reequip its Soviet-made T-55 tanks with a more powerful 105 mm main gun. With the new guns, believed to have been supplied by Rheinmetall, Iraq's Soviet tanks could fire armor-piercing rounds bought in the West, turning the tanks into effective tank-killers.

In addition to the Taji complex to the north of Baghdad, a number of other weapons plants had gone into limited production. Some 25 kilometers south of Baghdad at al-Yusufiah was the Badr factory, which made "dumb" bombs and was gearing up to make artillery pieces. A bit farther south, near the industrial town of al-Hillah, was Iraq's principal munitions works, the al-Qaqaa State Establishment, where Iraqi technicians were fitting out assembly lines to manufacture solid rocket fuel and a wide variety of explosives. At nearby Iskandariyah, the Huteen State Establishment was tooling up to make the Cardoen cluster bombs under license. At Saad 16, near Mosul, work on missile projects was advancing at a rapid pace, while at Saad 13, French-trained electronics technicians were assembling battlefield radios and radar gear.

Perhaps the most ambitious of all was the brand-new chemicals complex at al-Fallujah, 60 kilometers west of Baghdad on the road to Ramadi, near the Habbaniya air base. A consortium of West German companies led by WTB (Walter-Thosti-Boswau) and a consulting outfit called Infracor were building a gigantic complex that went by the code name Project 9230. In contract documents, it was also called Project 33/85. (Iraq used the number system and multiple names to deceive potential investigators.) As time went on, other weapons-manufacturing lines would be added to the al-Fallujah complex, which was managed by the al-Muthana State Establishment.

The core plant had been designed by an old hand from the Samarra gas works, Water Engineering Trading (W.E.T.) of Hamburg, to manufacture the type of nerve gas precursors whose export was now controlled throughout most of the European community. W.E.T. was actually little more than a shell company, to cover private deals made with Iraq by two employees of the West German chemical producer Preussag AG. W.E.T. had few employees of its own so it had to purchase its expertise elsewhere. From the French chemicals manufacturer Atochem (a wholly owned subsidiary of the French national oil company Elf-Aqui-

taine), W.E.T. learned how to make the extremely dangerous substances it would be working on in Iraq. When completed, the al-Fallujah plant was capable of churning out 17.6 tons of nerve gas precursor chemicals each day.<sup>4</sup>

The plan was crucial to Iraq's independence from any international embargo. By making Sarin and Tabun precursors themselves, the Iraqis no longer had to rely on suppliers in Europe or the United States. Among the chemicals manufactured there were phosphorus trichloride and phosphorus oxychloride, substances so toxic and of such little use except for nerve gas production that even the Soviet Union controlled their export. One hundred West German technicians and workers were sent to Iraq to supervise construction and installation of the production lines.

Other chemical weapons agents were being manufactured in significant quantities in a top-secret plant near the Akashat / al-Qaim phosphate works. According to U.S. intelligence sources, this plant was built in the early 1980s by Klöckner Industrie, a petrochemicals firm based in Duisburg, West Germany. "This is a duplicate facility, a clear carbon copy of al Qaim," the sources said. "We know that chemical weapons are being manufactured at both the al Qaim and the Akashat plants."<sup>5</sup> A report prepared by the House Republican Research Committee entitled "Iraq's Expanding Chemical Weapons Arsenal" called the Akashat plant "the most autonomous production unit currently operational in Iraq."<sup>6</sup> This report situated it to the south of Akashat, near the Ar Rutbah air force base, which is close to the Jordanian border.

In an interview in Baghdad in February 1986, the head of the Scientific Research Council, General Amer Rashid, gave a rare glimpse of this flurry of activity. Iraq was already fitting French missiles onto Soviet aircraft and vice versa. It was upgrading Soviet tanks at repair depots built and equipped by West European companies and was developing its own electronics industry. Not a single piece of equipment purchased abroad fully met Iraqi expectations or requirements. "We systematically modify everything we buy. Everything," General Amer said. "We do this operationally, by using it in a different way, or technically, by actually modifying certain features. In nearly six years of war, we have yet to find any equipment that exceeded our expectations."

It was unusual for such a powerful but shadowy figure as Amer Rashid to speak on the record to a Western journalist but, even

UHDE LIMITED

REPORT OF THE DIRECTORS

The directors submit herewith their annual report and the audited accounts of the company for the year ended 31st December 1984.

Principal Activity

The principal activity of the company is the design and construction of plant for the chemical and other industries.

Results

The company continued to design and procure material for the construction of the alkaline chlorine plant in Pakistan, which is scheduled to go on steam in 1985.

The company has recently been awarded a second contract to build a similar plant in Iraq, which is due for completion in 1987.

Details of the results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend. The profit for the year will be carried to reserves.

Fixed Assets

The additions to fixed assets during the year are set out in note 4 to the accounts.

UHD

UHD LIMITED

REPORT OF THE DIRECTORS

The directors submit herewith their annual report and the audited accounts of the company for the year ended 31st December 1985.

Principal Activity

The principal activity of the company is the design and construction of plant for the chemical and other industries.

Results

The company continued to design and procure material for the construction of the alkaline chlorine plant in Pakistan, which is scheduled to go on stream in 1987.

The company started work on a further contract with Iraq for an alkaline chlorine plant in the middle of the year. The start up is foreseen for 1987.

At the end of the year a contract for a nitric acid plant with Norsk Hydro was signed together with Uhde GmbH.

Details of the results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend. The profit for the year will be carried to reserves.

Fixed Assets

The additions to fixed assets during the year are set out in note 4 to the accounts.

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UNION

UNION LIMITED

REPORT OF THE DIRECTORS

The directors submit herewith their annual report and the audited accounts of the company for the year ended 31st December 1986.

Principal Activity

The principal activity of the company is the design and construction of plant for the chemical and other industries.

Results

The company continued to design and procure material for the construction of the alkaline chlorine plant in Pakistan, which is scheduled to go on stream in 1987.

Work continues on the contract for an alkaline chlorine plant in Iraq. Shipments of equipment and materials amounting to some £123,600,000 were made during the year. Start-up is not anticipated before the middle of 1988.

The works on the contract for a nitric acid plant at Immingham, England with Norsk Hydro Fertilizers Ltd are proceeding to schedule, start-up is foreseen for the autumn of 1987.

Details of the results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend. The profit for the year will be carried to reserves.

Fixed Assets

The additions to fixed assets during the year are set out in note 4 to the accounts.

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UHD LIMITED

REPORT OF THE DIRECTORS

The directors submit herewith their annual report and the audited accounts of the company for the year ended 31st December 1987.

Principal Activity

The principal activity of the company is the design and construction of plant for the chemical and other industries.

Results

The company continued to design and procure material for the construction of the alkaline chlorine plant in Pakistan, which is now scheduled to go on stream in 1988.

Work continues on the contract for an alkaline chlorine plant in Iraq. Shipments of equipment and materials amounting to some DM11,100,000 were made during the year. Start-up is not anticipated before 1990, due to a delay by the client in completing the civil works.

The nitric acid plant for Norsk Hydro Fertilisers Limited was started up at the end of 1987. The final performance test will be completed in 1988.

Details of the results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend. The profit for the year will be carried to reserves.

Fixed Assets

The additions to fixed assets during the year are set out in note 4 to the accounts.

UHD

REPORT OF THE DIRECTORS (CONT)

Directors

The directors of the company are

Prof Dr L Jaeschke (Chairman)  
Dr G L Zacher (Managing Director)  
Dr B Strasser  
Mr A M Donald  
Mr G H Storch

All of the above served on the

During 1987 Mr K F Kinch res

Directors' Interests in Shares

According to the register of Companies Act 1985, no director year ended 31st December 1987 other group company which a purpose, the directors are shareholders in a body corporate

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UHDE

Uhde Limited

UHDE LIMITED

REPORT OF THE DIRECTORS

The directors submit herewith their annual report and the audited accounts of the company for the year ended 31st December 1988.

Principal Activity

The principal activity of the company is the design and construction of plant for the chemical and other industries.

Results

The company continued to design and procure material for the construction of the alkaline chlorine plant in Pakistan, which is now scheduled to go on stream in 1989.

Work continues on the contract for an alkaline chlorine plant in Iraq. Shipments of equipment and materials amounting to some DM12,000,000 were made during the year. Start-up is not anticipated before 1990, due to a delay by the client in completing the civil works.

The nitric acid plant for Norsk Hydro Fertilisers Limited was started up at the end of 1987. The final performance will be legally completed in 1989. The company does not expect any further costs to be incurred in respect of this project in 1989. Therefore the total costs and revenue were realized, taken out of work in progress and included in the profit and loss account for the year ended 31st December 1988.

Details of the results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend. The profit for the year will be carried to reserves.

Fixed Assets

The movements in fixed assets are set out in note 4 to the accounts.

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UHDE LIMITED

Report of the directors

1 The directors submit herewith their annual report and the audited accounts of the company for the year ended 31 December 1989.

Principal activity

2 The principal activity of the company is the design and construction of plant for the chemical and other industries.

Results

3 The company continued to design and procure material for the construction of the alkaline chlorine plant in Iraq, which is now scheduled to go on stream in 1990.

The chlorine plant for Bela Chemicals, Pakistan, was started up in 1988. Additional work was completed in 1989. Consequently, the contract is considered to be terminated.

Details of the results for the year are set out in the profit and loss account on page 5.

The directors do not recommend the payment of a dividend. The profit for the year will be carried to reserves.

Fixed assets

4 The movements in fixed assets are set out in note 4 to the accounts.

Directors

5 The directors of

Prof Dr I L Jaeschke (C)  
Dr G L Zacher (Manag)  
Dr B Strasser  
Mr G H Storch

All of the above served

On 14 August 1989, Mr

Directors' interests in shares

6 According to Companies Act 1985, no ended 31 December 1989, the company is a group company which is exempt from the provisions of the Act as the directors are exempt companies incorporated in Germany.

Political and charitable contributions

7 No contributions were made during the year.

Auditors

8 Our auditors, Deloitte Haskins & Selys, have retired and Messrs Deloitte Haskins & Selys have been appointed as their new name. As a result, the company's auditors will be Deloitte Haskins & Selys.

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Uhde Limited

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**Directors' report  
for the year ended 31 December 1990**

The directors present their report and the audited financial statements for the year ended 31 December 1990.

**Principal activity**

The principal activity of the company is the design and construction of plant for the chemical and other industries.

**Review of the business**

Due to the lack of business opportunities, a decision has been taken to wind down the company's activities in the United Kingdom with the exception of activities relating to past contracts. Advantage will be taken of new business opportunities as they arise.

**Results**

The company completed the construction of the alkaline chlorine plant in Iraq during the year, and an acceptance certificate was signed.

Details of the results for the year are set out in the profit and loss account on page 6.

**Post balance sheet events: SEPP (Ministry of Industry and Minerals)  
contract, Iraq**

Subsequent to the year end, the commencement of hostilities between Iraq and United Nations forces in Kuwait and Iraq has resulted in a breakdown of communications with SEPP in Iraq. All Uhde staff have been withdrawn from the site and, as a result, the present condition of the plant is unknown. The contract has been accounted for on the basis that it is intact, with the costs of remaining contractual obligations kept in the balance sheet. Associated trade debtors have been written down to the amount recoverable from the Export Credit Guarantee Department.

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Dr G L Zach  
Dr B Strasser  
Mr G H Stor

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Uhde Limited

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9 Contract work-in-progress

	1990 £	1989 £
Long-term contracts (included in work in progress above)	-	12,684,363
Net cost less foreseeable losses	-	(14,358,562)
Less: applicable payments on account	-	(2,384,199)
	-	-

This excess of payments on account over net costs was included in trade creditors in 1989 (note 11).

10 Debtors

	1990 £	1989 £
Amounts falling due within one year		
Trade debtors	397,785	134,935
Amounts owed by group undertakings	468	1,015,565
Corporation tax recoverable	9,518	-
Advance corporation tax recoverable	290,727	-
Prepayments and accrued income	43,813	29,677
	<u>742,411</u>	<u>1,180,177</u>

11 Creditors: amounts falling due within one year

	1990 £	1989 £
Payments received on account	22,530	-
Trade creditors	9,772	2,506,733
Amounts owed to group undertakings	795,255	4,713
Corporation tax	-	296,347
Other creditors	247	-
Accruals and deferred income	1,239,536	598,416
Advance corporation tax payable	290,727	-
	<u>2,358,067</u>	<u>3,406,194</u>

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# IRAQ'S WEAPONS OF MASS DESTRUCTION

THE ASSESSMENT OF THE BRITISH  
GOVERNMENT

## CHAPTER 2

# IRAQ'S PROGRAMMES: 1971-1998

1. Iraq has been involved in chemical and biological warfare research for over 30 years. Its **chemical warfare** research started in 1971 at a small, well guarded site at Rashad to the north east of Baghdad. Research was conducted there on a number of chemical agents including mustard gas, CS and tabun. Later, in 1974 a dedicated organisation called al-Hasan Ibn al-Haitham was established. In the late 1970s plans were made to build a large research and commercial-scale

### Effects of Chemical Weapons

**Mustard** is a liquid agent, which gives off a hazardous vapour, causing burns and blisters to exposed skin. When inhaled, mustard damages the respiratory tract; when ingested, it causes vomiting and diarrhoea. It attacks and damages the eyes, mucous membranes, lungs, skin, and blood-forming organs.

**Tabun, sarin and VX** are all nerve agents of which VX is the most toxic. They all damage the nervous system, producing muscular spasms and paralysis. As little as 10 milligrammes of VX on the skin can cause rapid death.

production facility in the desert some 70km north west of Baghdad under the cover of Project 922. This was to become Muthanna State Establishment, also known as al-Muthanna, and operated under the front name of Iraq's State Establishment for Pesticide Production. It became operational in 1982-83. It had five research and development sections, each tasked to pursue different programmes. In addition, the al-Muthanna site was the main chemical agent production facility, and it also took the lead in weaponising chemical and biological agents including all aspects of weapon development and testing, in association with the military. According to information, subsequently supplied by the Iraqis, the total production capacity in 1991 was 4,000 tonnes of agent per annum, but we assess it could have been higher. Al-Muthanna was supported by three separate storage and precursor production facilities known as Fallujah 1, 2 and 3 near Habbaniyah, north west of Baghdad, parts of which were not completed before they were heavily bombed in the 1991 Gulf War.

2. Iraq started **biological warfare** research in the mid-1970s. After small-scale research, a purpose-built research and development facility was authorised at al-Salman, also known as Salman Pak. This is surrounded on three sides by the Tigris river and situated some 35km south of Baghdad. Although some progress was made in biological weapons research at this early stage, Iraq decided to concentrate on developing chemical agents and their delivery systems at al-Muthanna. With the outbreak of the Iran-Iraq War, in the early 1980s, the biological weapons programme was revived. The appointment of Dr Rihab Taha in 1985, to head a small biological weapons research team at al-Muthanna,



its chemical and biological weapons programme. Intelligence indicates that Saddam has learnt lessons from previous weapons inspections, has identified possible weak points in the inspections process and knows how to exploit them. Sensitive equipment and papers can easily be concealed and in some cases this is already happening. The possession of mobile biological agent production facilities will also aid concealment efforts. Saddam is determined not to lose the capabilities that he has been able to develop further in the four years since inspectors left.

- **Saddam's willingness to use chemical and biological weapons:** intelligence indicates that as part of Iraq's military planning Saddam is willing to use chemical and biological weapons, including against his own Shia population. Intelligence indicates that the Iraqi military are able to deploy chemical or biological weapons within 45 minutes of an order to do so.

*mls*

#### **Chemical and biological agents: surviving stocks**

6. When confronted with questions about the unaccounted stocks, Iraq has claimed repeatedly that if it had retained any chemical agents from before the Gulf War they would have deteriorated sufficiently to render them harmless. But Iraq has admitted to UNSCOM to having the knowledge and capability to add stabiliser to nerve agent and other chemical warfare agents which would prevent such decomposition. In 1997 UNSCOM also examined some munitions which had been filled with mustard gas prior to 1991 and found that they remained very toxic and showed little sign of deterioration.
7. Iraq has claimed that all its biological agents and weapons have been destroyed. No convincing proof of any kind has been produced to support this claim. In particular, Iraq could not explain large discrepancies between the amount of growth media (nutrients required for the specialised growth of agent) it procured before 1991 and the amounts of agent it admits to having manufactured. The discrepancy is enough to produce more than three times the amount of anthrax allegedly manufactured.

#### **Chemical agent: production capabilities**

8. Intelligence shows that Iraq has continued to produce chemical agent. During the Gulf War a number of facilities which intelligence reporting indicated were directly or indirectly associated with Iraq's chemical weapons effort were attacked and damaged. Following the ceasefire UNSCOM destroyed or rendered harmless facilities and equipment used in Iraq's chemical weapons programme. Other equipment was released for civilian use either in industry or academic institutes, where it was tagged and regularly inspected and monitored, or else placed under camera monitoring, to ensure that it was not being misused. This monitoring ceased when UNSCOM withdrew from Iraq in 1998. However, capabilities remain and, although the main chemical weapon production facility at al-Muthanna was completely destroyed by UNSCOM and has not been

rebuilt, other plants formerly associated with the chemical warfare programme have been rebuilt. These include the chlorine and phenol plant at Fallujah 2 near Habbaniyah. In addition to their civilian uses, chlorine and phenol are used for precursor chemicals which contribute to the production of chemical agents.

9. Other dual-use facilities, which are capable of being used to support the production of chemical agent and precursors, have been rebuilt and re-equipped. New chemical facilities have been built, some with illegal foreign assistance, and are probably fully operational or ready for production. These include the Ibn Sina Company at Tarmiyah (see figure 1), which is a chemical research centre. It undertakes research, development and production of chemicals previously imported but not now available and which are needed for Iraq's civil industry. The Director General of the research centre is Hikmat Na'im al-Jalu who prior to the Gulf War worked in Iraq's nuclear weapons programme and after the war was responsible for preserving Iraq's chemical expertise.

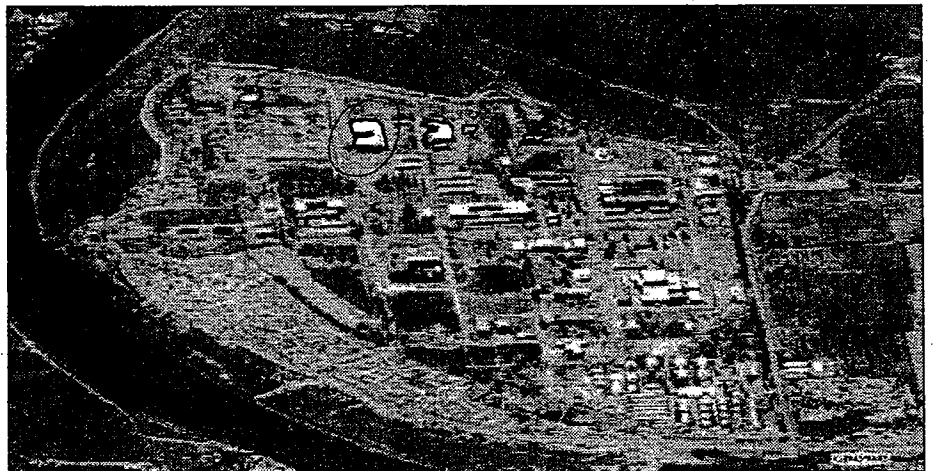


FIGURE 1: THE IBN SINA COMPANY AT TARMIAH

10. Parts of the al-Qa'qa' chemical complex damaged in the Gulf War have also been repaired and are operational. Of particular concern are elements of the phosgene production plant at al-Qa'qa'. These were severely damaged during the Gulf War, and dismantled under UNSCOM supervision, but have since been rebuilt. While phosgene does have industrial uses it can also be used by itself as a chemical agent or as a precursor for nerve agent.
11. Iraq has retained the expertise for chemical warfare research, agent production and weaponisation. Most of the personnel previously involved in the programme remain in country. While UNSCOM found a number of technical manuals (so called "cook books") for the production of chemical agents and critical precursors, Iraq's claim to have unilaterally destroyed the bulk of the documentation cannot be confirmed and is almost certainly untrue. Recent intelligence indicates that Iraq is still discussing methods of concealing such documentation in order to ensure that it is not discovered by any future UN inspections.

intelligence on Iraqi attempts to procure dual-use chemicals and on the reconstruction of civil chemical production at sites formerly associated with the chemical warfare programme. Iraq had also been trying to procure dual-use materials and equipment which could be used for a biological warfare programme. Personnel known to have been connected to the biological warfare programme up to the Gulf War had been conducting research into pathogens. There was intelligence that Iraq was starting to produce biological warfare agents in mobile production facilities. Planning for the project had begun in 1995 under Dr Rihab Taha known to have been a central player in the pre-Gulf War programme. The JIC concluded that Iraq had sufficient expertise, equipment and material to produce biological warfare agents within weeks using its legitimate bio-technology facilities.

3. In mid-2001 the JIC assessed that Iraq retained some chemical warfare agents, precursors, production equipment and weapons from before the Gulf War. These stocks would enable Iraq to produce significant quantities of mustard gas within weeks and of nerve agent within months. The JIC concluded that intelligence on Iraqi former chemical and biological warfare facilities, their limited reconstruction and civil production pointed to a continuing research and development programme. These chemical and biological capabilities represented the most immediate threat from Iraqi weapons of mass destruction. Since 1998 Iraqi development of mass destruction weaponry had been helped by the absence of inspectors and the increase in illegal border trade, which was providing hard currency.
4. In the last six months the JIC has confirmed its earlier judgements on Iraqi chemical and biological warfare capabilities and assessed that Iraq has the means to deliver chemical and biological weapons.

#### Recent intelligence

5. Subsequently, intelligence has become available from reliable sources which complements and adds to previous intelligence and confirms the JIC assessment that Iraq has chemical and biological weapons. The intelligence also shows that the Iraqi leadership has been discussing a number of issues related to these weapons. This intelligence covers:

- **Confirmation that chemical and biological weapons play an important role in Iraqi military thinking:** intelligence shows that Saddam attaches great importance to the possession of chemical and biological weapons which he regards as being the basis for Iraqi regional power. He believes that respect for Iraq rests on its possession of these weapons and the missiles capable of delivering them. Intelligence indicates that Saddam is determined to retain this capability and recognises that Iraqi political weight would be diminished if Iraq's military power rested solely on its conventional military forces.

Iraqi attempts to retain its existing banned weapons systems: Iraq is already taking steps to prevent UN weapons inspectors finding evidence of

## Chemical Warfare Program

Iraq has the ability to produce chemical warfare (CW) agents within its chemical industry, although it probably depends on external sources for some precursors. Baghdad is expanding its infrastructure, under cover of civilian industries, that it could use to advance its CW agent production capability. During the 1980s Saddam had a formidable CW capability that he used against Iranians and against Iraq's Kurdish population. Iraqi forces killed or injured more than 20,000 people in multiple attacks, delivering chemical agents (including mustard agent<sup>1</sup> and the nerve agents sarin and tabun<sup>2</sup>) in aerial bombs, 122mm rockets, and artillery shells against both tactical military targets and segments of Iraq's Kurdish population. Before the 1991 Gulf war, Baghdad had a large stockpile of chemical munitions and a robust indigenous production capacity.

Documented Iraqi Use of Chemical Weapons				
Date	Area Used	Type of Agent	Approximate Casualties	Target Population
Aug 1983	Haji Umran	Mustard	fewer than 100	Iranians/Kurds
Oct-Nov 1983	Panjwin	Mustard	3,000	Iranian/Kurds
Feb-Mar 1984	Majnoon Island	Mustard	2,500	Iranians
Mar 1984	al-Basrah	Tabun	50 to 100	Iranians
Mar 1985	Hawizah Marsh	Mustard/Tabun	3,000	Iranians
Feb 1986	al-Faw	Mustard/Tabun	8,000 to 10,000	Iranians
Dec 1986	Umri ar Rasas	Mustard	thousands	Iranians
Apr 1987	al-Basrah	Mustard/Tabun	5,000	Iranians
Oct 1987	Sumar/Mehran	Mustard/nerve agents	3,000	Iranians
Mar 1988	Halabjah	Mustard/nerve agents	hundreds	Iranians/Kurds

<sup>1</sup> Mustard is a blister agent that causes medical casualties by blistering or burning exposed skin, eyes, lungs, and mucus membranes within hours of exposure. It is a persistent agent that can remain a hazard for days.

<sup>2</sup> Sarin, cyclosarin, and tabun are G-series nerve agents that can act within seconds of absorption through the skin or inhalation. These agents overstimulate muscles or glands with messages transmitted from nerves, causing convulsions and loss of consciousness. Tabun is persistent and can remain a hazard for days. Sarin and cyclosarin are not persistent and pose more of an inhalation hazard than a skin hazard.

Although precise information is lacking, human rights organizations have received plausible accounts from Kurdish villagers of even more Iraqi chemical attacks against civilians in the 1987 to 1988 time frame—with some attacks as late as October 1988—in areas close to the Iranian and Turkish borders.

- UNSCOM supervised the destruction of more than 40,000 chemical munitions, nearly 500,000 liters of chemical agents, 1.8 million liters of chemical precursors, and seven different types of delivery systems, including ballistic missile warheads.

More than 10 years after the Gulf war, gaps in Iraqi accounting and current production capabilities strongly suggest that Iraq maintains a stockpile of chemical agents, probably VX,<sup>3</sup> sarin, cyclosarin,<sup>4</sup> and mustard.

- **Iraq probably has concealed precursors, production equipment, documentation, and other items necessary for continuing its CW effort.** Baghdad never supplied adequate evidence to support its claims that it destroyed all of its CW agents and munitions. Thousands of tons of chemical precursors and tens of thousands of unfilled munitions, including Scud-variant missile warheads, remain unaccounted for.
- UNSCOM discovered a document at Iraqi Air Force headquarters in July 1998 showing that Iraq overstated by at least 6,000 the number of chemical bombs it told the UN it had used during the Iran-Iraq War—bombs that remain unaccounted for.
- Iraq has not accounted for 15,000 artillery rockets that in the past were its preferred means for delivering nerve agents, nor has it accounted for about 550 artillery shells filled with mustard agent.
- Iraq probably has stocked at least 100 metric tons (MT) and possibly as much as 500 MT of CW agents.

**Baghdad continues to rebuild and expand dual-use infrastructure that it could divert quickly to CW production.** The best examples are the chlorine and phenol plants at the Fallujah II facility. Both chemicals have legitimate civilian uses but also are raw materials for the synthesis of precursor chemicals used to produce blister and nerve agents. Iraq has three other chlorine plants that have much higher capacity for civilian production; these plants and Iraqi imports are more than sufficient to meet Iraq's civilian

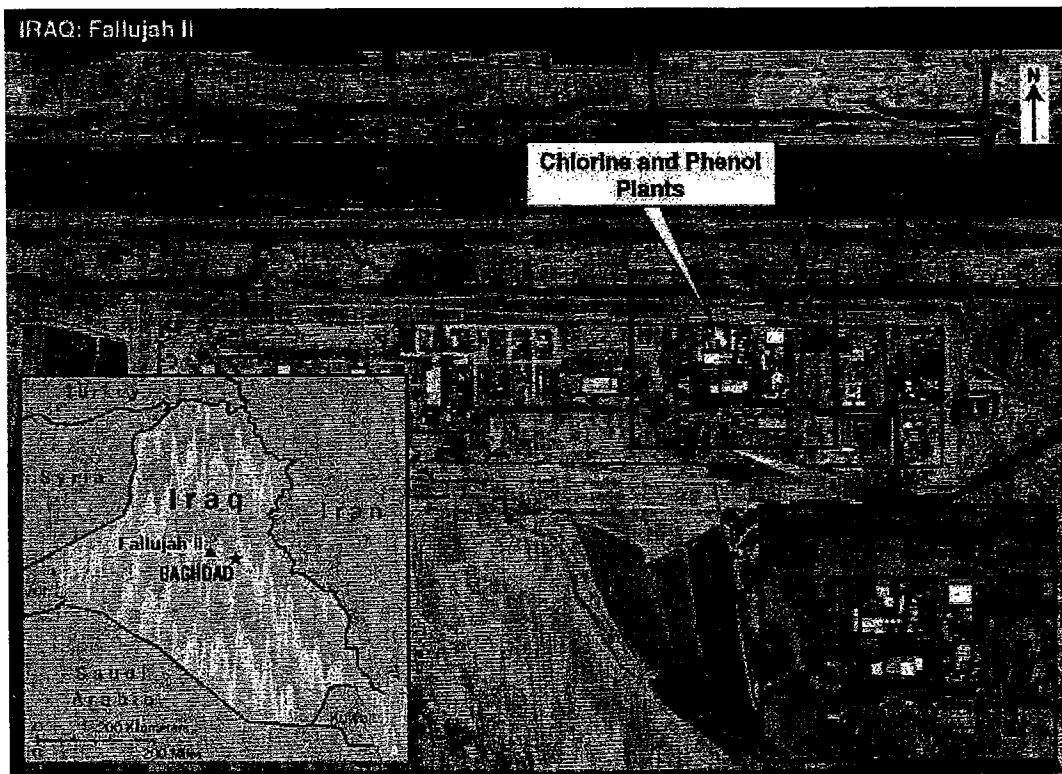
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<sup>3</sup> VX is a V-series nerve agent that is similar to but more advanced than G-series nerve agents in that it causes the same medical effects but is more toxic and much more persistent. Thus, it poses a far greater skin hazard than G-series agents. VX could be used for long-term contamination of territory.


<sup>4</sup> See footnote 5.

needs for water treatment. Of the 15 million kg of chlorine imported under the UN Oil-for-Food Program since 1997, Baghdad used only 10 million kg and has 5 million kg in stock, suggesting that some domestically produced chlorine has been diverted to such proscribed activities as CW agent production.

- Fallujah II was one of Iraq's principal CW precursor production facilities before the Gulf war. In the last two years the Iraqis have upgraded the facility and brought in new chemical reactor vessels and shipping containers with a large amount of production equipment. They have expanded chlorine output far beyond pre-Gulf war production levels—capabilities that can be diverted quickly to CW production. Iraq is seeking to purchase CW agent precursors and applicable production equipment and is trying to hide the activities of the Fallujah plant.





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## THE SECURITY COUNCIL, 27 JANUARY 2003: AN UPDATE ON INSPECTION Executive Chairman of UNMOVIC, Dr. Hans Blix

27 January – (as delivered)

### The governing Security Council resolutions

The resolution adopted by the Security Council on Iraq in November last year asks UNMOVIC and the IAEA to “update” the Council 60 days after the resumption of inspections. This is today. The updating, it seems, forms part of an assessment by the Council and its Members of the results, so far, of the inspections and of their role as a means to achieve verifiable disarmament in Iraq.

As this is an open meeting of the Council, it may be appropriate briefly to provide some background for a better understanding of where we stand today.

With your permission, I shall do so.

I begin by recalling that inspections as a part of a disarmament process in Iraq started in 1991, immediately after the Gulf War. They went on for eight years until December 1998, when inspectors were withdrawn. Thereafter, for nearly four years there were no inspections. They were resumed only at the end of November last year.

While the fundamental aim of inspections in Iraq has always been to verify disarmament, the successive resolutions adopted by the Council over the years have varied somewhat in emphasis and approach.

In 1991, resolution 687 (1991), adopted unanimously as a part of the cease-fire after the Gulf War, had five major elements. The three first related to disarmament. They called for :

- declarations by Iraq of its programmes of weapons of mass destruction and long range missiles;
- verification of the declarations through UNSCOM and the IAEA;
- supervision by these organizations of the destruction or the elimination of proscribed programmes and items.

After the completion of the disarmament :

- the Council would have authority to proceed to a lifting of the sanctions (economic restrictions); and
- the inspecting organizations would move to long-term ongoing monitoring and verification.

Resolution 687 (1991), like the subsequent resolutions I shall refer to, required cooperation by Iraq but such was often withheld or given grudgingly. Unlike South Africa, which decided on its own to eliminate its nuclear weapons and welcomed inspection as a means of creating confidence in its disarmament, Iraq appears not to have come to a genuine acceptance – not even today – of the disarmament, which was demanded of it and which it needs to carry out to win the confidence of the world and to live in peace.

As we know, the twin operation ‘declare and verify’, which was prescribed in resolution 687 (1991), too often turned into a game of ‘hide and seek’. Rather than just verifying declarations and supporting evidence, the two inspecting organizations found themselves engaged in efforts to identify the weapons programmes and to search for evidence through inspections, interviews, seminars, inquiries with suppliers and intelligence organizations. As a result, the disarmament phase was not completed in the short time expected. Sanctions remained and took a severe toll until Iraq accepted the Oil for Food Programme and the gradual development of that programme mitigated the effects of the sanctions.

The implementation of resolution 687 (1991) nevertheless brought about considerable disarmament results. It has been recognized that more weapons of mass destruction were destroyed under this resolution than were destroyed during the Gulf War: large quantities of chemical weapons were destroyed under UNSCOM supervision before 1994. While Iraq claims – with little evidence – that it destroyed all biological weapons unilaterally in 1991, it is certain that UNSCOM destroyed large biological weapons production facilities in 1996. The large nuclear infrastructure was destroyed and the fissionable material was removed from Iraq by the IAEA.

One of three important questions before us today is how much might remain undeclared and intact from before 1991; and, possibly, thereafter; the second question is what, if anything, was illegally produced or procured after 1998, when the inspectors left; and the third question is how it can be prevented that any weapons of mass destruction be produced or procured in the future.

In December 1999 – after one year without inspections in Iraq – resolution 1284 (1999) was adopted by the Council with 4 abstentions. Supplementing the basic resolutions of 1991 and following years, it provided Iraq with a somewhat less ambitious approach: in return for “cooperation in all respects” for a specified period of time, including progress in the resolution of “key remaining disarmament tasks”, it opened the possibility, not for the lifting, but the suspension of sanctions.

For nearly three years, Iraq refused to accept any inspections by UNMOVIC. It was only after appeals by the Secretary-General and Arab States and pressure by the United States and other Member States, that Iraq declared on 16 September last year that it would again accept inspections without conditions.

Resolution 1441 (2002) was adopted on 8 November last year and emphatically reaffirmed the demand on Iraq to cooperate. It required this cooperation to be immediate, unconditional and active. The resolution contained many provisions, which we welcome as enhancing and strengthening the inspection regime. The unanimity by which it was adopted sent a powerful signal that the Council was of one mind in

UNMOVIC shares the sense of urgency felt by the Council to use inspection as a path to attain, within a reasonable time, verifiable disarmament of Iraq. Under the resolutions I have cited, it would be followed by monitoring for such time as the Council feels would be required. The resolutions also point to a zone free of weapons of mass destruction as the ultimate goal.

As a subsidiary body of the Council, UNMOVIC is fully aware of and appreciates the close attention, which the Council devotes to the inspections in Iraq. While today's "updating" is foreseen in resolution 1441 (2002), the Council can and does call for additional briefings whenever it wishes. One was held on 19 January and a further such briefing is tentatively set for 14 February.

I turn now to the key requirement of cooperation and Iraq's response to it. Cooperation might be said to relate to both substance and process. It would appear from our experience so far that Iraq has decided in principle to provide cooperation on process, notably access. A similar decision is indispensable to provide cooperation on substance in order to bring the disarmament task to completion through the peaceful process of inspection and to bring the monitoring task on a firm course. An initial minor step would be to adopt the long-overdue legislation required by the resolutions.

I shall deal first with cooperation on process.

### **Cooperation on process**

It has regard to the procedures, mechanisms, infrastructure and practical arrangements to pursue inspections and seek verifiable disarmament. While inspection is not built on the premise of confidence but may lead to confidence if it is successful, there must nevertheless be a measure of mutual confidence from the very beginning in running the operation of inspection.

Iraq has on the whole cooperated rather well so far with UNMOVIC in this field. The most important point to make is that access has been provided to all sites we have wanted to inspect and with one exception it has been prompt. We have further had great help in building up the infrastructure of our office in Baghdad and the field office in Mosul. Arrangements and services for our plane and our helicopters have been good. The environment has been workable.

Our inspections have included universities, military bases, presidential sites and private residences. Inspections have also taken place on Fridays, the Muslim day of rest, on Christmas day and New Years day. These inspections have been conducted in the same manner as all other inspections. We seek to be both effective and correct.

In this updating I am bound, however, to register some problems. Firstly, relating to two kinds of air operations.

While we now have the technical capability to send a U-2 plane placed at our disposal for aerial imagery and for surveillance during inspections and have informed Iraq that we planned to do so, Iraq has refused to guarantee its safety, unless a number of conditions are fulfilled. As these conditions went beyond what is stipulated in resolution 1441 (2002) and what was practiced by UNSCOM and Iraq in the past, we note that Iraq is not so far complying with our request. I hope this attitude will change.

Another air operation problem – which was solved during our recent talks in Baghdad – concerned the use of helicopters flying into the no-fly zones. Iraq had insisted on sending helicopters of their own to accompany ours. This would have raised a safety problem. The matter was solved by an offer on our part to take the accompanying Iraq minders in our helicopters to the sites, an arrangement that had been practiced by UNSCOM in the past.

I am obliged to note some recent disturbing incidents and harassment. For instance, for some time farfetched allegations have been made publicly that questions posed by inspectors were of intelligence character. While I might not defend every question that inspectors might have asked, Iraq knows that they do not serve intelligence purposes and Iraq should not say so.

On a number of occasions, demonstrations have taken place in front of our offices and at inspection sites.

The other day, a sightseeing excursion by five inspectors to a mosque was followed by an unwarranted public outburst. The inspectors went without any UN insignia and were welcomed in the kind manner that is characteristic of the normal Iraqi attitude to foreigners. They took off their shoes and were taken around. They asked perfectly innocent questions and parted with the invitation to come again.

Shortly thereafter, we receive protests from the Iraqi authorities about an unannounced inspection and about questions not relevant to weapons of mass destruction. Indeed, they were not. Demonstrations and outbursts of this kind are unlikely to occur in Iraq without initiative or encouragement from the authorities. We must ask ourselves what the motives may be for these events. They do not facilitate an already difficult job, in which we try to be effective, professional and, at the same time, correct. Where our Iraqi counterparts have some complaint they can take it up in a calmer and less unpleasant manner.

### **Cooperation on substance**

The substantive cooperation required relates above all to the obligation of Iraq to declare all programmes of weapons of mass destruction and either to present items and activities for elimination or else to provide evidence supporting the conclusion that nothing proscribed remains.

Paragraph 9 of resolution 1441 (2002) states that this cooperation shall be "active". It is not enough to open doors. Inspection is not a game of "catch as catch can". Rather, as I noted, it is a process of verification for the purpose of creating confidence. It is not built upon the premise of trust. Rather, it is designed to lead to trust, if there is both openness to the inspectors and action to present them with items to destroy or credible evidence about the absence of any such items.

### **The declaration of 7 December**

On 7 December 2002, Iraq submitted a declaration of some 12,000 pages in response to paragraph 3 of resolution 1441 (2002) and within the time stipulated by the Security Council. In the fields of missiles and biotechnology, the declaration contains a good deal of new material and information covering the period from 1998 and onward. This is welcome.



One might have expected that in preparing the Declaration, Iraq would have tried to respond to, clarify and submit supporting evidence regarding the many open disarmament issues, which the Iraqi side should be familiar with from the UNSCOM document S/1999/94 of January 1999 and the so-called Amorim Report of March 1999 (S/1999/356). These are questions which UNMOVIC, governments and independent commentators have often cited.

While UNMOVIC has been preparing its own list of current "unresolved disarmament issues" and "key remaining disarmament tasks" in response to requirements in resolution 1284 (1999), we find the issues listed in the two reports as unresolved, professionally justified. These reports do not contend that weapons of mass destruction remain in Iraq, but nor do they exclude that possibility. They point to lack of evidence and inconsistencies, which raise question marks, which must be straightened out, if weapons dossiers are to be closed and confidence is to arise.

They deserve to be taken seriously by Iraq rather than being brushed aside as evil machinations of UNSCOM. Regrettably, the 12,000 page declaration, most of which is a reprint of earlier documents, does not seem to contain any new evidence that would eliminate the questions or reduce their number. Even Iraq's letter sent in response to our recent discussions in Baghdad to the President of the Security Council on 24 January does not lead us to the resolution of these issues.

I shall only give some examples of issues and questions that need to be answered and I turn first to the sector of chemical weapons.

### Chemical weapons

The nerve agent VX is one of the most toxic ever developed.

Iraq has declared that it only produced VX on a pilot scale, just a few tonnes and that the quality was poor and the product unstable. Consequently, it was said, that the agent was never weaponised. Iraq said that the small quantity of agent remaining after the Gulf War was unilaterally destroyed in the summer of 1991.

UNMOVIC, however, has information that conflicts with this account. There are indications that Iraq had worked on the problem of purity and stability and that more had been achieved than has been declared. Indeed, even one of the documents provided by Iraq indicates that the purity of the agent, at least in laboratory production, was higher than declared.

There are also indications that the agent was weaponised. In addition, there are questions to be answered concerning the fate of the VX precursor chemicals, which Iraq states were lost during bombing in the Gulf War or were unilaterally destroyed by Iraq.

I would now like to turn to the so-called "Air Force document" that I have discussed with the Council before. This document was originally found by an UNSCOM inspector in a safe in Iraqi Air Force Headquarters in 1998 and taken from her by Iraqi minders. It gives an account of the expenditure of bombs, including chemical bombs, by Iraq in the Iraq-Iran War. I am encouraged by the fact that Iraq has now provided this document to UNMOVIC.

The document indicates that 13,000 chemical bombs were dropped by the Iraqi Air Force between 1983 and 1988, while Iraq has declared that 19,500 bombs were consumed during this period. Thus, there is a discrepancy of 6,500 bombs. The amount of chemical agent in these bombs would be in the order of about 1,000 tonnes. In the absence of evidence to the contrary, we must assume that these quantities are now unaccounted for.

The discovery of a number of 122 mm chemical rocket warheads in a bunker at a storage depot 170 km southwest of Baghdad was much publicized. This was a relatively new bunker and therefore the rockets must have been moved there in the past few years, at a time when Iraq should not have had such munitions.

The investigation of these rockets is still proceeding. Iraq states that they were overlooked from 1991 from a batch of some 2,000 that were stored there during the Gulf War. This could be the case. They could also be the tip of a submerged iceberg. The discovery of a few rockets does not resolve but rather points to the issue of several thousands of chemical rockets that are unaccounted for.

The finding of the rockets shows that Iraq needs to make more effort to ensure that its declaration is currently accurate. During my recent discussions in Baghdad, Iraq declared that it would make new efforts in this regard and had set up a committee of investigation. Since then it has reported that it has found a further 4 chemical rockets at a storage depot in Al Taji.

I might further mention that inspectors have found at another site a laboratory quantity of thiodiglycol, a mustard gas precursor.

Whilst I am addressing chemical issues, I should mention a matter, which I reported on 19 December 2002, concerning equipment at a civilian chemical plant at Al Fallujah. Iraq has declared that it had repaired chemical processing equipment previously destroyed under UNSCOM supervision, and had installed it at Fallujah for the production of chlorine and phenols. We have inspected this equipment and are conducting a detailed technical evaluation of it. On completion, we will decide whether this and other equipment that has been recovered by Iraq should be destroyed.

### Biological weapons

I have mentioned the issue of anthrax to the Council on previous occasions and I come back to it as it is an important one.

Iraq has declared that it produced about 8,500 litres of this biological warfare agent, which it states it unilaterally destroyed in the summer of 1991. Iraq has provided little evidence for this production and no convincing evidence for its destruction.

There are strong indications that Iraq produced more anthrax than it declared, and that at least some of this was retained after the declared destruction date. It might still exist. Either it should be found and be destroyed under UNMOVIC supervision or else convincing evidence should be produced to show that it was, indeed, destroyed in 1991.

As I reported to the Council on 19 December last year, Iraq did not declare a significant quantity, some 650 kg, of bacterial growth media, which was acknowledged as imported in Iraq's submission to the Amorim panel in February 1999. As part of its 7 December 2002

# The Guardian

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5 March 2003

URGENT ATTENTION LORD KELVEDON

We are proposing to publish an article about Iraq tonight which mentions you prominently. I was anxious as a courtesy to let you know, and to give you the opportunity to comment.

One of the chemical warfare plants currently of concern in Iraq is a chlorine plant called Falluja 2.

Our investigations show that this £14 million plant was originally constructed by a British company, Uhde Ltd.

This case came to your personal attention as trade minister, according to DTI files available to us.

Despite the knowledge that this plant was likely to be used to produce precursor chemicals for mustard gas and nerve gas, you took 2 personal decisions. One was not to block the export using powers that would have been available to you. And the second was to allow the company support from the ECGD, without which it would have been difficult for it to proceed.

The documents we have show that your then ministerial colleague Richard Luce met with you and urged you to block the export, but you refused to do so.

The files also show that you agreed to conceal from the US the fact that you had authorised export of this plant, because they were concerned about chemical warfare. You also instructed the ECGD to respond to public queries by saying the ECGD would not comment on individual cases.

The files record you saying you wanted to improve trade with Iraq and it would be resented by British industry if the export was blocked,

The plant was subsequently completed over a period of years at Fallujah and was complete some months before the Gulf War broke out.

The public interest in ventilating these facts in the current climate is clear, as I am sure you will agree. If you have any comment, I would be glad to receive it by 5p.m. London time.

I am sending this message via your secretary Sophie Allen.

*David Leigh*

2.02pm Sophie Allen (see) rings  
can't clip it to it, so that's fine. He's got no comment  
\*\* TX STATUS REPORT \*\*

AS OF 05 MAR 2003 10:15 PAGE.01

GUARDIAN

DATE	TIME	TO/FROM	MODE	MIN/SEC	PGS	JOB#	STATUS
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I am sending this message via your secretary Sophie Allen.

Tom  
Daniel Liggins

**DETAILS OF LINES OF CREDIT IN RESPECT OF MAJOR CONTRACTS WITH IRAQ  
SUPPORTED BY ECGD BETWEEN 1984-90**

The Central Bank of Iraq acted as Guarantor in each of these six Lines Of Credit.

Bank	Midland Bank
Year Issued	1989
Total Value	£69million
Claims Outstanding	£53million
No of Contracts	108
No of Companies	56
Top three contracts - exporters/ products	Days Medical Aids - Medical Mobility Products Infacare (UK) Ltd - Wheelchairs, beds, respiratory equipment Coherent (UK) Ltd - Medical Lasers
Top three contracts - % of total value	27%

Welsh entrepreneur  
John Dalters  
(sold in 95)  
DRC Dalters  
(Days Medical)  
? Milton  
Coherent Inc, California

Bank	Midland Bank
Year Issued	1987
Total Value	£83million
Claims Outstanding	£47million
No of Contracts	86
No of Companies	48
Top three contracts - exporters/ products	Racal Radio Ltd - Radio communications equipment and training * - laboratory equipment for Baghdad University Angus Fire Armour Ltd - Fire protection equipment
Top three contracts - % of total value	41%

£15.7m }  
£3.5m approx.

**DETAILS OF LINES OF CREDIT IN RESPECT OF MAJOR CONTRACTS WITH IRAQ  
SUPPORTED BY ECGD BETWEEN 1984-90**

<b>Bank</b>	Morgan Grenfell
<b>Year Issued</b>	1984
<b>Total Value</b>	£133m
<b>Claims Outstanding</b>	£50million
<b>No. of Contracts</b>	82
<b>No. of Companies</b>	51
<b>Top three contracts - exporters/products</b>	Lansing Linde Ltd - Electric fork-lift trucks Gateway Engineers - JCBs, tractors Mabey & Johnson - Bridges
<b>Top three contracts - % of total value</b>	35%

?  
 Makes Heavy  
 work steel bridge.  
 Aluminium  
 Conservatory doors.  
 (£4995, 2000)

<b>Line of Credit</b>	Al Shemal
<b>Bank</b>	Midland Bank
<b>Year Issued</b>	1990
<b>Total Value</b>	£75million
<b>Claims Outstanding</b>	£65million
<b>Main Contractor</b>	NEI Parsons Ltd (Heaton Power Ltd)
<b>Contract Details</b>	Design, manufacture, supply and commission of 4 x 350MW turbine generators plus ancillary plant for the Al Shemal thermal power station in Northern Iraq

\* This information is exempt under Exemption 13 (third Party's Commercial Confidences) of the Code of Practice on Access to Government Information

\*\* This information is exempt under Exemption 4 (Law Enforcement and legal proceedings) of the Code of Practice on Access to Government Information

## IRAQ ENQUIRY 2

### 1 AMETS – Marconi Command and Control Systems

ECGD provided support for Marconi Command & Control Systems in respect of AMETS equipment. ECGD claims outstanding are £8.2m in respect of this contract. Midland Bank provided the loan of £10.1million. This case was not part of the ECGD defence allocation. Scott (Volume II D2.91-2.94) notes that there were disagreements amongst officials as to whether this export had defence applications and says that the comments of an official who thought the export should have been set against the defence allocation struck a "strong chord of commonsense".

### 2 Racal Radio Communications Equipment

Five contracts were supported under the ECGD defence allocation for Racal radio communications equipment and HF receiving stations. Total bank loan value for these contracts was £42.5m. Total ECGD claims outstanding in respect of the same contracts are £15.7m.

3

#### Other Defence Claims

With regard to other cases where claims were paid to the bank under the defence allocation:

*for use in the aerospace industry for starting helicopters & helicopters*

Bank	Exporter	Goods	Loan Value £m	Claims Outstanding £m
Midland	Houchin Ltd	Vehicle mounted ground power units	5.8	3.7
	Auto Diesels Braby	Motor Generator Units	0.9	0.8
" "	W Vinten <i>centre</i>	Video Recording System	0.7	0.8
" "	Thorn EMI Electronics	Mortar locating radar	1.0	0.9
" "	Cambridge Instruments	Electron Microscope	0.1	0.1

*Anglo N. i.*

(5 contracts)

<u>Racal</u>	£42.5m loan on contract	£15.7m payment
<u>Amets</u>	£10.1m loan	£8.2m payment
<u>others</u>	£8.5m loans	£6.3m payment
	<u>61.1</u>	<u>£30.2</u>
	23 + <i>Deromedical</i>	<u>£72.9m</u>
	<u>£84m</u>	<u>£39m</u> <u>£33m</u>

**DETAILS OF LINES OF CREDIT IN RESPECT OF MAJOR CONTRACTS WITH IRAQ  
SUPPORTED BY ECGD BETWEEN 1984-90**

Bank	Midland Bank
Year Issued	1988
Total Value	£64million
Claims Outstanding	£49million
No. of Contracts	32
No. of Companies	24
Top three contracts exporters/products	** - Consultancy work, heating, ventilation and photovoltaics  EMI Group Electronic Ltd - Mortar locating radar  Hawker Siddeley Power Engineering Ltd - Electricity substations
Top three contracts % of total value	26%

*J£ 0.9 m.*

Bank	Midland Bank
Year Issued	1984
Total Value	£101million
Claims Outstanding	£60million
No. of Contracts	81
No. of Companies	54
Top three contracts exporters/products	Hyster Marketing International Ltd - Fork lift trucks and heavy duty lifts  Tripod Engineering Co Ltd - Air-conditioning, Vacuum cleaners  Fisons-Gallenkamp - Laboratory equipment - Weighing, Chromotography and Spectrophotometer equipment, Ice Maker, Memo-Titrator
Top three contracts % of total value	22%

*- US-armed - Navco Inc.*

*John having £8.75m. default on £27m contract 5 tons of designs only sent*

*Loughborough - hand  
C (add to Saney  
- 1990)*



Foreign &  
Commonwealth  
Office

London SW1A 2AH

Telephone: 0171

22 January 1996

Mr Edwards  
Inquiry into Exports of Defence Equipment  
and Dual Use Goods to Iraq  
1 Palace Street  
Fax: 0171 238 3044

**IRAQI ATROCITIES AGAINST THE KURDS**

1. I spoke with the Research and Analysis Department, FCO, who told me that on 15 April 1987 Iraq started to gas the Kurds. These incidents were very quickly reported on.

*Yours ever*

*Michael Tiney*

Michael Tiney  
SIU(FCO)  
270 3937



ANNUAL REPORT

A REVIEW OF THE MILITARY SITUATION IN IRAQ  
OVER THE PERIOD SEPTEMBER 1984 TO SEPTEMBER 1985

BY THE DEFENCE ATTACHE TO  
HER BRITANNIC MAJESTY'S AMBASSADOR BAGHDAD

INTRODUCTION

1. The purpose of this, my second annual report, is again three-fold: to review the course of the war, highlighting aspects of particular interest; to attempt to predict the way the war is likely to progress over the next few months; and to review the defence sales scene in this country.

DEFENCE SALES AND SERVICES

41. There has been a noticeable decrease in new interest shown by the Iraqis towards British defence equipment and to military training as well, at least through the Military Attaches. A year ago the Air Attache and I were called upon, or otherwise required, to visit the Ministry of Defence on one pretext or another at least three times per week. Latterly the need has dropped to about once a week. I believe that two main factors contribute towards this current state of affairs. First is the ever more compelling financial strictures that must be hardening against unnecessary military expenditure in Iraq. Every consideration of new equipment will surely be subject to increasingly ruthless evaluation to determine whether it is essential or not. As we have noted before, Iraq is comprehensively ~~equipped~~ - perhaps even over-equipped - and they have almost certainly refined their procurement procedure very extensively and it will probably be relatively efficient by now. They know what they want, and from whom to obtain it, and have little cause to refer to Attaches, who are but middlemen. Second, the Iraqi MOD has now had time to digest the practical implication of British defence sales policy. They know the sort of equipment and training that we are prepared to offer and do not need to waste their time in probably fruitless discussions or enquiries. Air Force training calls for continual liaison, mainly because it is relatively expensive and carefully supervised, but the pattern of Army and Naval course opportunities in the United Kingdom is now well-established in their minds and frequent discussions are now unnecessary. We still believe that the Iraqis would welcome more UK military training opportunities at every level but they know our capacity to help well enough by now and questions are largely unnecessary.

ANNUAL REPORT ON THE IRAQI AIR FORCE (IAF) - SEPTEMBER 1985

Defence Sales

13. There is a tendency to believe that, as a result of HMG's current policy on defence sales to Iraq, there is little activity in this field. It is true that the large defence projects that were mooted some years ago have not come to fruition. But many companies in the defence equipment industry continue to do business here although not on the scale previously expected.

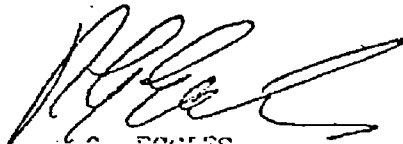
14. Iraq is a difficult market for several reasons, not the least being their lack of liquidity. Although it considers itself a non-aligned country, the French and the Soviets are particularly favoured suppliers of Air Force equipment. Nevertheless, there are still openings available to us, particularly in the fields of computers, navigation equipment,

simulators, radars and communications equipment. It is in these areas that we are likely to be successful and Marconi, Racal, Plessey, Logica, ICL and others all have ongoing negotiations for contracts potentially worth hundreds of millions of pounds.

15. We also are particularly favoured in the field of training. Our interests include the training of air defence controllers, pilots, accident investigators, and others.

42. However, although there is little new for defence sales and services in the offing, the established lines are proceeding as satisfactorily as can probably be expected, with some £164.5M of export licences for defence-related equipment business being processed and considerably more if training expenditure in the UK were to be included.

I have the honour to be,  
Sir,  
Your obedient Servant



R.G. ECCLES  
Colonel  
Defence Attache

19 September 1965

IRAQI NAVY DEFENCE VALUE PROJECTS

Re-engining "OSA" Class Fast Missile Boats	Paccan Diesels
Marine Hoists	Wise Handling Ltd
Action Speed Trainer	Ferranti
Remotely Controlled Vessels (Seaflash)	Flight Refuelling Ltd.
Fast Assault Craft (FAC 508)	Rotork
Integrated Weapons Complex	IPC
Major Refitting Base	IPC
Mini Submarine	

heat of summer and shortages of water and electricity to sap the Iranians' resistance. Certainly the Iraqis remain determined to drive the Iranians out. If they do so they will be in a stronger position than before the attack on Fao because of the psychological effect on the two combatants. And the support of the Gulf states for Iraq, which had shown some signs of wavering last year, will have been stiffened by the Iranians' attempt to bring the war closer to them.

5. If the Iraqis fail, I am not convinced that it would be a catastrophe. Colonel Eccles sees the whole episode as evidence of a trend against Iraq. In making such judgments, the time-scale is important. The small part of the Fao peninsula into which the Iranians have been driven is of greater psychological than strategic value and the Iraqi (and Arab) capacity for self-delusion will help the nation adjust to the new situation. Long-term loss of Fao would represent a further erosion of Iraqi territory but not a military reason why the war should not still be of depressingly long duration.

#### The Military Balance

6. Iraq, unlike Iran, still receives the weaponry and munitions it requires despite new economic constraints imposed by the drop in oil prices and value of the dollar. Its Air Force continues to enjoy dominance of the air despite recent aircraft losses and greater use by Iran of its tiny fleet of airworthy craft. Notwithstanding the drain on its resources of fighting around Fao, Iraq has made, during March and April, gains in the Central Sector as well as those in the north mentioned above. These indicate an army still able to take the initiative at many different points on the long front. Although the strategic value of these successes is difficult to assess, they will make it even harder for the Iranians, already hard-pressed in their Fao enclave, to organise another major offensive despite their current recruiting drive. They also given encouragement to the Iraqi side. The overall picture is not therefore necessarily to Iraq's disfavour.

#### Civilian and Military Morale

7. Colonel Eccles attempts in the Annexe to his report to assess morale in the armed forces. Because of the lack of hard information, this is a most difficult area for the foreign outsider to judge. Much depends on the eye of the beholder. The political specialist in the area, making relative judgments, may be less dismayed than the military man viewing the performance of the Iraqi armed forces through the rigorous perspective of his own professionalism. However much one feels that morale ought to have declined after the setback in Fao, the evidence, admittedly limited, is lacking.

8. To take a longer view, in my time here the Iranians have made two major attempts at territorial gain and have attacked Baghdad with missiles. In the spring offensive in 1985, the Iraqi armed forces yielded initially but subsequently recovered and beat the invaders off, inflicting heavy losses. In the main Val Fajr offensive against Basra this spring the Iraqi armed forces stood firm: they crumbled in Fao but the outcome there is yet to be decided. Elsewhere along the front the Iraqis do not seem to have lacked the will to fight and, particularly recently, have done reasonably well. To my mind this record suggests not so much a lack of steadfastness, a permanent weakness of character, as a lack of discipline and organisation at all levels which is so common a feature of life in the Arab world. I am impressed more by the fact that the Iraqi armed forces, which certainly lack the Iranians' fanatical motivation, have shown themselves capable after initial set-backs of resisting, fighting back and more often than not winning (Fao remains to be seen). In a rare, informal encounter with a group of soldiers at Amara, I found them resigned, but determined, to fighting in defence of Iraq for as long as necessary. I believe from many more encounters with people across the country that the notion of Iraqi nationhood is a lot stronger than Colonel Eccles gives credit for. After all, most Iraqi Shia, more than half the population, have

(86)

AGREED MINUTES  
OF THE EIGHTH SESSION OF THE  
IRAQ/UNITED KINGDOM JOINT COMMISSION  
ON ECONOMIC AND TECHNICAL COOPERATION

1 The Eighth Meeting of the Iraq/United Kingdom Joint Commission, established by the Agreement on Economic and Technical Co-operation signed between the United Kingdom and Iraq on 24 June, 1981 was held in London from 27 to 30 November 1989.

The Iraqi delegation was led by HE Dr Mohammed Mehdi Saleh, Minister of Trade, the United Kingdom delegation was led by the Rt Hon Lord Trefgarne PC MP Minister for Trade. The members of both delegations are shown on the attached list (Annex 1).

2 The Joint Commission reviewed the implementation of the Agreement on Economic and Technical Co-operation since its signature and noted with satisfaction the continuing development of the trade relationship between the two countries.

3- The United Kingdom authorities concerned explained the Memorandum of Understanding signed between (1) the Iraqi and United Kingdom Ministries of Health and (2) "Resource" of the United Kingdom and the Central Organisation for Standardisation and Quality Control of Iraq and the National Centre for Construction Laboratories of Iraq.

The Joint Commission agreed to convene it's next session in Baghdad at a date in 1990 to be decided.

DONE AND SIGNED IN LONDON ON THE 30TH DAY OF NOVEMBER 1989 IN TWO ORIGINAL COPIES IN THE ENGLISH LANGUAGE.



HE. DR. MOHAMMED MEHDI SALEH  
FOR THE GOVERNMENT OF THE  
REPUBLIC OF IRAQ



THE RT. HON LORD TREFGARNE  
FOR THE UNITED KINGDOM OF  
GREAT BRITAIN AND  
NORTHERN IRELAND

3 By mutual agreement three Sub-Committees were established at official level to deal with the following subjects:

- (i) Trade and Economic Co-operation.
- (ii) Financial Co-operation.
- (iii) Technical Co-operation.

The Sub-Committees reached the following conclusions and recommendations which were approved by the Joint Commission.

*[Handwritten mark]*

*[Handwritten mark]*



## ANNEX 1-A

UK DELEGATION

The Rt. Hon Lord Trefgarne	Minister for Trade
Chairman	
Mr M G Petter	Head of Middle East Branch
Vice Chairman	Department of Trade and Industry
Mr R Wild	Director Project Group, Export Credits Guarantee Department
Mr D Coombe	Head of Project Division, Export Credits Guarantee Department
Mr I Foster	Project Division 4, Export Credits Guarantee Department
Mr J I Gallaher (Rapporteur)	Middle East Branch, Department of Trade and Industry
Dr J Warren	Head of Overseas Technical Information Unit, Department of Trade and Industry
Mr A Brown	First Secretary Commercial British Embassy, Baghdad
Mr P Sullivan	Head of Industrial Training British Council
Mr R Higgins	Middle East Branch, Department of Trade and Industry
Mr S Lawrence	Overseas Technical Information Unit, Department of Trade and Industry
Mr M Edwards	Ministry of Agriculture
Mr T Crawley	Department of Health
Mr R Mackintosh	National Health Service, Overseas Enterprises

ANNEX 1-B

IRAQI DELEGATION

Dr Mohammed Mehdi Saleh Chairman	Minister of Trade
Mr Hashim Ali Obeid Vice Chairman	Under Secretary, Ministry of Finance
Dr Azmi Al-Salihi	Iraqi Ambassador to UK
Mr Farouk Al-Obaidi	D.G, Foreign Economic Relations Ministry of Trade
Mr Rajaa Hassan Ali	D.G, Economic and Administrative Department, Ministry of Industry and Military Manufacturing
Mr Yahya Abdul Amir Al Dojaili	D.G, Ministry of Industry and Military Manufacturing
Mr Khalid Hussain Ahmed	Head of Economic Planning Commission, Ministry of Planning
Mr Sabeeh Jalal	Central Bank of Iraq
Mr George Z. George	Rafidain Bank
Mr Bourhan Abdullah Ramadhan	Foreign Economic Relations Department, Ministry of Trade
Mr Sadaam Z. Hasan	Commercial Attache, Iraq Embassy London
Mr Haitham A. Khalil	Research Department, General Federation of Iraqi Chambers of Commerce and Industry
Mr Abdul Sahib Sattar Aziz	Protocol Division, Ministry of Trade (PS to the Minister)

MP

ANNEX 2

LIST OF SUPPLIES REQUIRED IN 1989/1990 BY IRAQ

- Baby Milk Powder
- Instant Full Cream Milk Powder
- Skimmed Milk Powder
- Processed Cheese
- Razor Blades
- Sugar
- Cigarettes and partly manufactured tobacco
- Beverages
- Tinned and processed meat
- Frozen Meat
- Milling Wheat
- Metal Window Sections
- Steel Sheets (plain & corrugated)
- Joists
- Equal Angles
- Deformed Bars
- Electrical Installation
- Machinery, Equipment and Spare parts
- Medicines and Other Pharmaceutical Items
- Medical Instruments and Equipment
- Veterinary Products and Vaccines
- Scientific Instruments
- Components for Electronic and Electrical Industries
- Fabric Fitters for Asphalt plants
- Hand - Tools and Equipment, Mechanical and Electrical  
Tools

- Laboratory Equipment
- Tyres and Tubes for Trucks, Tractors, Buses and Saloon Cars
- Auto Batteries
- Industrial Rubber
- Aluminium Ingots, Slabs, Bars, Sheet, Wire
- Steel Sheets (Various Types)
- Alloy Steel (X40)
- Heat Resistance Steel
- Hot and Cold rolled Steel (Industrial and Construction Steel)
- All types of Industrial Furnaces
- Paints
- Packing and Wrapping Materials
- Drums coated with polyethylene - capacity (200 litre)
- Valves (Ball, Butterfly Valves) coated with Teflon or glass lined
- Pumps and Pipes coated with Teflon or glass lined.
- CNC Lathe Machines, Welding Machines, Circular Submerged ARC Welding Machines
- Centrifugal Pumps for Slurry (used for High Corrosive Fluids)
- Industrial Glassware
- Control and Measuring Instruments (Temperature, Pressure, Flow Rate)
- Storage Tanks Coated with PVD.
- Glass Lined Reactors
- Pumps (for Industrial Use)
- PP, PVDF, PVC Pressure Fittings

NATIS found

used to name gas

rain, Tabern, 2, V X  
they are lethal quality

but I also 6 used & perhaps  
kill weeds in garden & head bee

- Air Pumps, Compressors, Air Conditioning Machines and Equipment (Industrial)
- Electrical Equipments (Fuses, Voltage Regulators)
- Chemical Substances for Research Consisting of Orgino . Phosphoric Compounds and Cyano Compounds
- Different Apparatus for Research (Corrosion Measurements, UV Visible and IR Visible Chromatography Analyzer and Distillation Apparatus) 2 can use 7 in biology
- Dosing and Vacuum Pumps
- Storage Systems
- Cables and Accessories Connectors
- Integrated Circuits
- Transistors
- Polishing Machines
- Nippling Machines
- Deep Drilling Machines
- Plastic Machines for Producing Plastic Containers
- Transformers
- Communication Terminal X
- Air Cooled Water Chillers & Pumps
- Air Handling Units
- Weather proof Roof Extractors
- Steam Boilers
- Cooling Towers
- Control Systems
- Black Steel Pipes
- Insulation for Pipes
- Sanitary Pipes and Fittings
- Fibre Glass - Mat and Woven

VAPOUR

M

I TRADE

1 Both sides noted with satisfaction that the United Kingdom was Iraq's third largest OECD supplier in 1988. They expressed the hope for further increases in the volume of trade between the two countries.

2 The Iraqi Side outlined their priorities for the coming year submitting an indicative list explaining their requirements for 1990 (Annex 2). The Iraqi Side requested the United Kingdom Side to consider the provision of credit facilities for financing the export to Iraq of items on the list with a deferral payment period not less than 2 years.

3 The United Kingdom Side took note and undertook:

- a) To consider the Iraqi's expressed priorities in the context of the new Financial Protocol.
- b) To notify British industry accordingly.

4 The Iraqi Side briefed the UK Side on the recent changes in the administration and economy of the country as well as the strategies to be adopted in accordance with the requirement of the present situation,

MP

They explained the continuing change of emphasis within the economy aimed at increasing productivity and manufacturing efficiency. One of the objectives of the Iraq Government is a move to a more diversified economy. At the request of the UK side the Iraqi Side highlighted their Governments privatisation policy with special reference to their agricultural sector, the retail trade sector, tourism and certain light industries.

5 The Iraqi Side submitted an indicative list of non-oil products available for export to the United Kingdom market (Annex 3).

6 The United Kingdom side stated that many of the Iraqi non-oil products in Annex 3 to the agreed minutes of the 1988 Session of the Joint Commission were eligible for tariff concessions under the Generalised System of Preferences and submitted an annotated list.

7 The United Kingdom Side briefed the Iraqi Side on the effect that the changes to the European Economic Community might have on trade between the two countries after 1992.

*[Handwritten mark]*

*MP*

8 Both sides expressed satisfaction that the number of United Kingdom companies participating in the 1989 Baghdad International Fair was significantly greater than the number exhibiting in 1988 and expressed the hope that the increase would continue.

The United Kingdom Side noted the Iraqi Side's wish to see a greater cross-section of products exhibited at future Fairs.

9 Both Sides expressed the hope that, with their encouragement, the number of visiting trade delegations would increase in 1990/91. The United Kingdom Side supplied a list of planned missions of industrial and commercial groups in 1990/91 (ANNEX 4). The Iraqi Side welcomed this.

The United Kingdom Side noted the Iraqi Side's request for a visiting delegation of UK buyers of Iraqi products at the time of next year's Baghdad International Fair and undertook to do all it could to encourage potential UK buyers.

10 The United Kingdom Side expressed pleasure that a number of United Kingdom companies reporting unresolved debts at the time of the 1988 Joint Commission have had their problem satisfactorily resolved. The United Kingdom side drew the Iraqi Side's attention to a list of companies which are experiencing delayed payments within the Iraqi banking system and expressed concern that it had significantly increased from

*[Handwritten signature]*



last year. The Iraqi Side took note and undertook to bring the lists to the attention of the relevant authorities for their consideration (Annex 5).

11 The United Kingdom Side drew the Iraqi Side's attention to a list of United Kingdom companies with unresolved problems/financial matters within the terms and conditions of the relevant contracts. The United Kingdom Side undertook to provide fuller details to the United Kingdom Embassy in Iraq who would pass them on to the relevant authorities. The Iraqi Side noted this (Annex 6).

12 At the United Kingdom Side's request the Iraqi Side briefed the United Kingdom Side on the objectives of the Arab Co-operation Council. The United Kingdom Side took note of this.

13 At the request of the Iraqi side the United Kingdom Side undertook to try and identify an expert in the fields of Marketing and Distribution to visit Iraq and give lectures or address seminars over a period of a few days.

RD

## II ECONOMIC COOPERATION

1 The Iraqi Side briefed the United Kingdom Side on their priorities regarding their future programme of development and presented to the United Kingdom Side a list of priority projects for the year 1990. (Annex 7)

2 The Iraqi Side stated that they would welcome more active participation from British companies in projects.

3 The United Kingdom Side presented a list of British companies very interested in specific future business in Iraq (Annex 8).

4 The United Kingdom Side provided a list of British companies active in Iraq who have provided industrial and technical training.

*[Handwritten mark]*

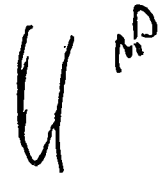
*[Handwritten mark]*

III FINANCIAL COOPERATION

1 Discussions were held on Financial Cooperation with the objective of:

- a) reviewing progress under the Protocols agreed at the Fifth and Sixth Sessions of the Joint Commission;
- b) reviewing progress regarding outstanding payments due to UK lenders, UK exporters and the refinancing of certain existing contracts;
- c) reviewing the arrangements for short term credit;
- d) considering Iraqi priorities for future financing of UK exports, services and projects and agreeing on a new Protocol succeeding that agreed in November 1988.

2 Although issue and utilisation of the 1988 Protocol facilities had been slow both sides noted the recent progress made and the overall contribution made by successive Protocols toward the continuing improvement in trading relationships between the two countries.



3 The UK side raised the matter of outstanding payments and expressed concern in particular over the deterioration in short term ILC payments. The Iraqi side took note of this and undertook to repay all existing overdues relating the ECGD guaranteed contracts.

4 a) In considering Iraqi priorities to be financed under the next Protocol it was once again confirmed that the boiler contract for the Al-Anbar power station and Petro-chemical Complex 2 (PC2) were the most important among other projects. Iraq would also wish to have a further General Purpose Line of Credit for a range of other smaller contracts and projects.

b) The two sides noted paragraph 15(b) of the minutes of the August 2-3 meeting of the Iraq/UK Financial Sub-Committee and that Iraq had provided information on the PC2 project. The UK side emphasised in relation to PC2 that no additional and separate amount of credit could be made available over and above the amounts of Protocol credits agreed by Her Majesty's Government for the 1989 Joint Commission discussions. The Iraqi side noted the UK position but repeated its wish to have a separate amount of credit made available for PC2 over and above the Protocol.

5 It was agreed that consideration could be given to the financing of large international collaboration projects (valued at one billion US dollars or more), as envisaged under Article 3 of the General Provisions provided other agencies indicate their willingness to support medium term credits for such business. However, the UK side pointed out that no additional allocation for that purpose had been authorised at the present time.

6 The Iraqi side indicated that it would not be their intention to place short term business on credit with UK suppliers and all contracts would be placed on cash terms.

7 Both sides considered several technical issues and agreed to use their best endeavours to find solutions to the following problems:

- a) The method of notification of delay interest/principal by lending banks to the Central Bank of Iraq:
- b) Difficulties being experienced by UK exporters under certain Deferred Payments Agreements. (see Aide-Memoire dated November 1989)

8 Resulting in a change to the ECGD system from 1 October 1989 applying to all countries requiring that commercial rates of delay interest be charged after 90 days following due date, the UK side exceptionally agreed that the final General

*[Handwritten signature]*

Purpose Line of Credit under the 1988 Protocol would not contain this condition. It would be the UK's intention that this condition would attach to all future loan agreements under the 1989 Protocol.

9 Both sides welcomed the conclusion of the new Protocol (Annex 9), which makes provision for:

- a) support for medium term credits, up to a maximum of £250 million pounds sterling for projects and general purpose lines of credit;
- b) unutilized balances available in due course under existing Protocols to be carried over to future allocations.

*[Handwritten mark]*

*[Handwritten initials]*

#### IV TECHNICAL COOPERATION

- 1- Both sides noted with satisfaction the training programme arranged for 1988/89, which saw a total of 21 trainees attend courses in the United Kingdom. The United Kingdom Side commented that the training organisations had been impressed by the high quality of the trainees.
  
2. The United Kingdom Side stated that they were unable to provide funds for training for 1989/90. The Iraqi Side regretted that the United Kingdom Side would not be able to fund a training programme.

~~\_\_\_\_\_~~

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ECONOMIC  
CO-OPERATION  
AND  
DEVELOPMENT

Iraq No. 1 (1981)

## Agreement

between the Government of the  
United Kingdom of Great Britain and Northern Ireland  
and the Government of the Republic of Iraq  
on Economic and Technical  
Co-operation

London, 24 June 1981

*[The Agreement is not in force]*

*Presented to Parliament  
by the Secretary of State for Foreign and Commonwealth Affairs  
by Command of Her Majesty  
July 1981*

LONDON  
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**AGREEMENT  
BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF  
GREAT BRITAIN AND NORTHERN IRELAND AND THE  
GOVERNMENT OF THE REPUBLIC OF IRAQ  
ON ECONOMIC AND TECHNICAL CO-OPERATION**

The Government of the United Kingdom of Great Britain and Northern Ireland and Government of the Republic of Iraq, convinced of the importance of strengthening, expanding and diversifying economic and technical co-operation between their two countries on the basis of equity and mutual interest, have agreed as follows and appointed as their plenipotentiaries who have exchanged their powers, found to be in good and due form.

The Rt Hon John Biffen, Secretary of State for Trade, for the Government of the United Kingdom of Great Britain and Northern Ireland.

His Excellency Mr Hassan Ali, Member of the Revolutionary Command Council, Minister of Trade, for the Government of the Republic of Iraq.

**ARTICLE 1**

The two Governments shall, in accordance with the objectives of this Agreement, do their utmost to develop and strengthen economic and technical co-operation between their two countries by all possible means to their mutual benefit particularly in the following fields:

- (a) Industry, including steel production;
- (b) Agriculture;
- (c) Oil Industry and Petrochemicals;
- (d) Electric Power Generation, Transmission and Distribution;
- (e) Public Works, including housing, the water sector and sewerage;
- (f) Transport and Communications;
- (g) Health and Medicine;
- (h) Transfer of technology.

**ARTICLE 2**

For the purpose of developing and expanding trade between the two countries, the two Governments shall encourage and facilitate the promotion and conclusion of contracts between the relevant organizations and companies, preferably on a long-term basis.

**ARTICLE 3**

Each Government undertakes to facilitate:

- (a) the provision to the organizations and companies of the other country working in the field of mutual co-operation of all appropriate facilities for carrying out their work;
- (b) the elimination of obstacles which may arise from implementation of contracts;

- (c) the movement of citizens working within the scope of this Agreement in both countries.

#### ARTICLE 4

The Government of the United Kingdom shall facilitate the promotional activities of Iraqi organizations engaged in exporting Iraqi products to the United Kingdom.

#### ARTICLE 5

The Government of the United Kingdom shall recommend and encourage those concerned to take into consideration the following principles in submitting their offers and contracts:

- (a) high quality of the technical specifications;
- (b) speed in submitting offers, concluding contracts and implementing projects;
- (c) competitive prices;
- (d) providing spare parts, equipment, materials and after-sales service at competitive prices.

#### ARTICLE 6

(1) The two Governments shall use their best endeavours to promote technical co-operation, including facilitating the transfer of modern technology, between relevant organizations and companies.

(2) The two Governments undertake to implement, or facilitate the implementation of, technical co-operation which may include the following measures:

- (a) exchange of visits of specialized personnel;
- (b) study by Iraqi personnel at British universities, institutes and other training facilities;
- (c) training of Iraqis in all fields referred to in Article 1 of this Agreement;
- (d) the provision of British technical expertise to establish technical institutes, in the fields of agriculture, industry and engineering consultancy, in design and construction in Iraq;
- (e) exchange of scientific and technical information;
- (f) any other fields for technical co-operation to be agreed upon by the two Governments.

(3) The two Governments shall agree upon the financial arrangements arising out of implementing any technical co-operation mentioned in this Article, in which United Kingdom Government finance is involved.

#### ARTICLE 7

(1) Each Government shall encourage participation in international fairs held in either country and the setting up of fairs as well as the provision of all necessary facilities for the importation of samples for advertising

purposes, goods and articles for display, tools and other instruments for erection purposes and all necessary measures in accordance with the laws and regulations in force in either country.

(2) Each Government shall in accordance with the laws and regulations in force in the importing country, grant relief from duties, taxes and all other statutory charges payable at importation of goods temporarily imported from the other country for the purpose of being displayed at, or used in connection with, the running of general and specialised trade fairs. Such goods shall be re-exported unless the parties concerned mutually agree otherwise.

#### ARTICLE 8

(1) For the purpose of promoting the aims of this Agreement a Governmental Joint Commission which shall consist of representatives designated by each Government is hereby established.

(2) The Joint Commission shall meet at the request of either Government at a date to be mutually arranged on each occasion. The meetings shall be held alternately in Iraq and the United Kingdom.

(3) The Joint Commission shall:

- (a) review and keep under consideration the implementation of the provisions of this Agreement;
- (b) examine means of facilitating the conclusion and implementation of contracts between relevant organizations and companies;
- (c) consider proposed measures for a continuing and substantial increase in trade between the two countries;
- (d) consider proposed measures for the expansion of economic and technical co-operation between relevant organizations and companies;
- (e) encourage and facilitate the exchange of ideas and information in the field of technology;
- (f) review progress in the promotion of technical co-operation and examine the financial arrangements referred to in paragraph (3) of Article 6 between the relevant organizations of each country;
- (g) consider annual programmes of technical co-operation which may be submitted by either Government.

(4) The Joint Commission may submit to the two Governments recommendations relating to the matters referred to in paragraph (3) of this Article.

#### ARTICLE 9

The Joint Commission may endeavour to facilitate the amicable settlement of any problems or disputes arising from any contracts and arrangements concluded within the scope of this Agreement. This shall be without prejudice to the application of the specific provisions for the settlement of disputes stipulated in the relevant contracts.

CONFIDENTIAL

SCOTT INQ REF:  
T/9.18.841

16  
cc:  
PS/Cha  
EST  
Sir Peter Middleton  
Sir John Anson  
Mr Wicks  
Mr Evans  
Mr Mountfield  
Mr A Allen  
Mrs Brown  
Mr Bottrill  
Mr R Watts  
Mrs Chaplin  
Mr Tyrie  
Mr Lightfoot



Treasury Chambers, Parliament Street SW1P

The Rt Hon Douglas Hurd CBE MP  
Secretary of State for Foreign Affairs  
Foreign & Commonwealth Office  
King Charles Street  
London  
SW1A 2AH

20<sup>th</sup> March 1990

Dear Secretary of State

IRAQ: ECGD CREDIT

When we discussed at Cabinet on Thursday the execution of Mr Farzad Bazoit there was a general view that a unilateral position by the UK on trade and credit sanctions would not be appropriate since such a move would be ineffective in influencing the attitude of the Iraq Government and could inflict disproportionate damage on British Industry.

2. There remains an important issue however of the wisdom of ECGD building up further exposure in Iraq. You will recall that at the time of the discussions last Autumn on the last protocol Treasury Ministers argued for the imposition of a ceiling on ECGD exposure. We accepted Bank of England advice that at some stage an Iraqi rescheduling is inevitable and given that it seemed a mistake to go on increasing ECGD's exposure towards £1.5 billion in the hope of protecting the UK's preferred creditor position. We would have preferred to have started cutting back by offering new credits to the Iraqis no greater than repayments due in 1990. If the Iraqis were to react to such an offer by rescheduling, it was better they should do so now than in 2, 3 or 4 years time when ECGD's exposure would be much higher. The offer of further new credits only postponed the day of reckoning and increased the extent of the losses which would occur when it arose.

4. In the event we agreed reluctantly that David Trefgarne offer £250 million new credits and the Iraqis settled on that basis. We took that decision primarily to protect ECGD's existing position as preferred creditor and to avoid unilateral rescheduling by the

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Iraqis. There is obviously now a ... the Iraqis will take discriminatory action against us and stop paying on existing credits. In any event, the next protocol will be negotiated in Autumn and the same arguments still apply.

5. Against this background there is clearly a case for responding to the events of the last few days by stopping the draw down of the remaining £350 million available under the 1989 and 1988 protocols. The argument in favour is that such a step would avoid increasing ECGDs exposure still further. The argument against is that it seems clear the Iraqis will respond by defaulting on all existing ECGD debt. On the other hand it is not clear that they will do anything different when - as surely we must - we call a halt to the extension of new credit sometime in the next few years.

6. Iraq's debts are huge and increasing (substantially in excess of \$60 to \$80 billion) - ECGD share about \$1.6 billion. The Iraqis themselves expect their debt position to continue to deteriorate for a further 5 years reflecting the need to finance both post war reconstruction and military expenditures. Iraq refuses a multilateral rescheduling of debts through the Paris Club (partly because it wishes to avoid going to the IMF first) and relies on bilateral negotiations. By keeping Iraq on cover, the UK has helped to prevent the emergence of a concerted Paris Club approach to Iraq's debts. If the United Kingdom came off cover we should be able to argue in favour of a multilateral approach to rescheduling which is in any case our best hope for recovering some of the existing £1 billion outstanding debt, and avoiding discrimination against the UK.

6. In my view we should cut our loses now and close down the credit line. We are unlikely ever to find a better time. I am of course ready to discuss with you.

7. I am sending a copy of this letter to the Prime Minister, Nicholas Ridley, and Tom King.

*Yours sincerely*

*Kleen Campbell*

NORMAN LAMONT

*Approved by the Chief Secretary  
and signed in his absence*

**842**



SCOTT INQ REF:  
MOD/31.2.287

CONFIDENTIAL

FCS/90/069

31.2.287<sup>2</sup>

Asst

CHIEF SECRETARY

Rms

(H. Sec. X)

FFALDES0

ARMOIC, Jim Shaha to see.

6/17/15

Iraq: ECGD Credit

1. Thank you for your letter of 20 March about the ECGD credit for Iraq.
2. When Cabinet met on 15 March we agreed a series of measures we would take in the light of the execution in Iraq of Parzad Bazoft. We considered carefully how to protect most effectively our commercial and other interests in Iraq. One of the measures we decided to exclude was action against trade or credit, and I later made this clear in my statement to Parliament. I have also made it clear to numerous Arab interlocutors, including the Saudi Foreign Minister, that we proposed to draw a line under this affair.
3. I disagree that this is an ideal time to 'cut our losses' in Iraq. In fact it could not be worse. We continue to be treated by the Iraqis as a 'favoured creditor'. Although the flow of Iraq's repayments is unsatisfactory, our position is much better than most of our Western competitors. One way to ensure that the Iraqis do reschedule, or completely stop their repayments, is to halt our own credits. In the atmosphere brought about by our present difficulties, Iraq would see any action against credit as a further political response to Bazoft, and would hit back hard. That would be bad for our wider commercial interests, where our competitors would happily step in to take up our share of the market.

/I would

CONFIDENTIAL



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I would also be concerned that the Iraqis might try to retaliate against the British community there, or against the two British detainees, Mrs Parish and Mr Richter.

4. I would also question your argument about the Paris Club. We see no prospect of Iraq agreeing to an IMF programme and a multilateral rescheduling in the foreseeable future. Iraq has successfully played off one creditor against another, and will no doubt continue to do so. Our Departments have in the past agreed that since the UK does relatively well out of this, it would not be in our interests to see common terms applied to all Iraq's Paris Club creditors. That remains my view.

5. It is still possible, despite our efforts to contain the dispute with Iraq over the Bazoft affair, that relations with Iraq will get worse and the Iraqis will take further action against us in which case we may need to look at this again. But now is not the moment to provoke them into doing so without good reason.

6. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry and the Secretary of State for Defence.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office  
27 March 1990

CONFIDENTIAL

Telephone 01 382 7000  
Direct 01 382  
Fax 01 382 7649  
Telex 883601

Mrs A Case  
HM Treasury  
Parliament Street  
London SW1

Your reference  
Our reference  
Date

26 November 1984

IRAQ: SECOND FINANCIAL PROTOCOL

We had a brief word about the increase from £25m to £50m for the line of credit to be provided for pharmaceutical supplies to Iraq, and I thought it might be useful to write to confirm our conversation, and to give you a brief report on the outcome of the negotiations on the second Financial Protocol for Iraq.

Broadly speaking, the negotiations went very well. There was little of substance separating the two sides, and discussions were conducted in a cordial and businesslike atmosphere. The experience we have gained in dealing with the Iraqi authorities over the last year, coupled with the gradual improvement in their economic and military position were of importance but underlying it there is a genuine appreciation on their part for the efforts made by the UK during what has been a difficult time for them; and whilst obviously no guarantees can be given, it was the broad judgement of all in the UK delegation that this is bound to benefit UK-Iraq trade in the future.

Turning now to the Protocol itself, with the exception of the position on pharmaceuticals, the agreements are in line with the conclusions of the EGC meeting held on 27 September 1984. Briefly these are:

- 1) £250m of medium term credit (maximum 5 years) for capital goods and projects business. (We have also agreed to consider providing credit for major service and consultancy contracts partly as a result of pressure from the Iraqi side, but mainly to try to forestall a strong lobby by British consultants for a relaxation in the terms of support for short term business away from payment from irrevocable letters of credit. Credit for services contracts is normal and thus our agreement to credit is no concession - precise payment terms are to be discussed further (see paragraph 7 below);
- 2) carry forward of unutilised amounts from the 1983 Protocol. Around £200m worth of loans have been signed up or will be signed shortly from the old Protocol, and we have agreed that the balance of around £50m can be carried forward to finance contracts placed in 1985. Similarly, we have agreed that any surplus from the £25m pharmaceuticals facility



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Your reference  
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Date  
26 November 1984

**IRAQ: SECOND FINANCIAL PROTOCOL**

We had a brief word about the increase from £25m to £50m for the line of credit to be provided for pharmaceutical supplies to Iraq, and I thought it might be useful to write to confirm our conversation, and to give you a brief report on the outcome of the negotiations on the second Financial Protocol for Iraq.

Broadly speaking, the negotiations went very well. There was little of substance separating the two sides, and discussions were conducted in a cordial and businesslike atmosphere. The experience we have gained in dealing with the Iraqi authorities over the last year, coupled with the gradual improvement in their economic and military position were of importance but underlying it there is a genuine appreciation on their part for the efforts made by the UK during what has been a difficult time for them; and whilst obviously no guarantees can be given, it was the broad judgement of all in the UK delegation that this is bound to benefit UK-Iraq trade in the future.

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for 1984 can be carried forward although already around £20m worth of contracts have already been placed and there is unlikely to be any major shortfall;

3) refinancing of 1985 payments on the same terms as agreed for 1983 and 1984;

4) willingness on the UK side's part to consider major strategic development projects outside the terms of the Protocol. You will recall that this provision was contained in the 1983 Protocol mainly to deal with possible pipeline finance but the Iraqis may now press for this to be used for major non-oil projects. One mentioned to us during the visit was an airport development at Mosul for around £450m though the extent of the UK participation, indeed the basic structure and timing of the project itself, are as yet unclear;

5) £50m for pharmaceuticals on the same terms as the £25m facility agreed in 1984. Briefly the terms are 100% finance for UK content, 18 months credit if orders placed in 1985 exceed £10m, with the starting point of credit being mean delivery; interest being paid at commercial ie unsubsidised interest rates. As I explained when we spoke, the Iraqi side pressed very strongly for a £50m pharmaceuticals facility, and given that the exposure period is relatively short (with spread payments as opposed to bullet which is often the case with this length of credit), the interest rates are unsubsidised and there are perhaps a few humanitarian aspects to providing concessionary terms for pharmaceuticals we were content to increase the facility. You endorsed this decision;

6) Outstanding Debts. The Iraqis renewed their best endeavours commitments to honour outstanding debts to British companies. The amount before our visit was around £20.5m, covering claims payments, claims under examination and potential losses together with some uninsured business. A large part of this related to the [redacted] contract, £9.2m, which has subsequently been repaid largely as a result of the pressures brought to bear on the Iraqi side during the negotiations. The balance of £11.3m covers about 95 contracts and relates mainly to completion payments, retentions etc. The Iraqis have undertaken to try to find out what is holding up payment of these sums, and our Claims Division will be pursuing the relevant exporters for details of authorisations, dates etc. In summary, whilst we have little doubt about the sincerity of the Iraqis best endeavours efforts, there is no doubt that their administration and banking procedures are in a chaotic state as a result of the clampdown at the end of 1982, and it will be a slow process to whittle down the amount of outstanding payments. Some are undoubtedly the subject of a dispute, and we hope to be able to identify these with the help of the Iraqi authorities. Thus whilst the position could be better, there have been improvements in performance during the course of the last year, and the repayment of the [redacted] debt means that we can rightly describe the progress made as being substantial. With regard to contracts with the Iraqi Ministry of Defence, this was not raised during official discussions on the Protocol itself and we doubt whether the

IRAQ

EG(89)

Present cover arrangements

- 1 Section 1: no cover (previously £60m ML)  
 Section 2: a Supplier Credit: £100m ML, credit terms up to 360 days; ILC Ltd, 15 months DAL  
 b Buyer and lines of credit: 1989 Protocol facilities:  
     £60m (LV) for pharmaceuticals line of credit  
     £216.25m (LV) for GPLOCs  
     £ 63.75m (LV) for Al Shamal project
- 2 Grading: D
- 3 Consensus category: II
- 4 Commitments
 

	£m
<u>Section 1</u>	
Short term	34.7
Other	5.2
<u>Section 2</u>	
up to 360 days/ILC	55.0
Buyer and lines of credits (Protocols)	735.0
	-----
TOTAL	829.9
	-----
- 5 Overdues
 

credits up to 360 days/ILC	40.4
buyer and lines of credit (Protocols)	46.6
	-----
TOTAL	87.0
	-----

→  $\frac{87.0}{80}$
- 6 Proposed sovereign debt provision 1988/89: 24%
- 7 Proposed PMS category: IV

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EXPORT GUARANTEES COMMITTEE

EG (89)

IRAQ

## PURPOSE OF PAPER

1 This paper considers future cover arrangements on Iraq in readiness for the annual Joint Commission meetings scheduled for the end of October.

## INTRODUCTION

2 Special considerations continue to apply to Iraq. It is a market where debt problems are of a cash flow nature and not structural. Over the longer term this is a market where we should wish to maintain our present share. In the short term our policy continues to be based on the 1983 deal, initiated by the two Prime Ministers, of offering medium term credits in return for a preferential creditor status. This remains a high risk strategy. It has, however, so far been very successful and ECGD considers that to abandon it now would be against our financial (as well as our trade and political) interests. This means offering more credits at the October Joint Commission meeting whilst recognising the high degree of risk in our sovereign debt provision and premium charges.

## RECOMMENDATIONS

3 It is recommended that

i short term business on up to 180 days credit secured by irrevocable letters of credit (ie ILC limited terms) should in future be provided under Section 2 (The EGAC has agreed to 'close-down' the Section 1 £60m market limit);

ii new buyer and line of credit facilities totalling £350m (loan value) should be offered to Iraq for contracts placed in 1990. (The precise allocation between projects and lines of credit to be the subject of negotiations at the Joint Commission meetings);

iii pharmaceuticals should in future be covered under standard supplier credit facilities on terms up to 360 days secured by irrevocable letters of credit (ie ILC limited terms) within a Section 2 limit of £50m (ie additional to the existing £100m Section 2 limit);

iv the overall 'exposure ceiling' on Iraq in respect of all cover should be £1430m;

v the trigger whereby buyer and line of credit facilities are suspended when overdues outstanding of more than 2 months reach £5m should be increased to £15m;

RESTRICTED

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/ vi supplier credit cover be suspended when overdues of more than 3 months reach £10m; and

| vii authority be given to agree 8.5 years credit for specific projects if necessary.

*but is amount if smaller.*

#### ARGUMENT

##### Background

4 Following the end of the Iraq/Iran war, Iraq was saddled with massive external debts incurred to finance the war effort. Accurate debt figures are not available but have variously been estimated between \$60bn - \$80bn. It is thought that half these debts are owed to Arab governments and there is a general presumption that they will not be repaid. The balance is owed to Arab banks, Western creditors and Eastern bloc countries.

5 Iraq is essentially a one product economy since over 90% of foreign exchange receipts are derived from oil. Thus Iraq's income crucially depends upon demand, production/export capacity, its OPEC quota and price of oil. Whilst oil prices strengthened during the first half of 1989, this was due to temporary production problems in the North Sea and the Alaskan oil disaster as much as improved OPEC discipline. The general expectation now is that oil prices will bottom at around \$15 pb, rising modestly in line with inflation over the next decade. Thus, unless Iraq is able to obtain a significantly higher OPEC quota at the expense of other countries' quotas (otherwise oil prices would be inevitably driven downwards), Iraq is unlikely to see a significant rise in its foreign currency earnings over the next few years.

6 Against this background there will be insufficient money to re-equip the military, finance reconstruction, pay for day-to-day needs and service all debts at due date. Iraq seems to have relegated debt repayment to the bottom of its list of priorities. The signs are that Iraq will not go to the IMF thus precluding multilateral debt relief through the Paris Club. It would seem that Iraq will continue to negotiate reschedulings with individual creditors on a bilateral basis. The UK and USA are the main creditors who have so far escaped requests for rescheduling.

7 Iraq's problems need to be assessed in the context of the country's long term potential. Iraq has the second largest oil reserves in the Middle East, sufficient to last well over 100 years. There is evidence that towards the end of the next decade oil production will once again be mainly concentrated in a few countries, particularly the Gulf OPEC members. These countries will then be able to gain a bigger market share and much higher oil prices. Although it is difficult to predict when the country will pull itself free from the debt overhang, the expectation is

that towards the end of the next decade Iraq's external position should have improved to the extent that debts can be serviced at due date.

#### Experience

8 There has been a build-up of overdues in respect of buyer and lines of credit business from time to time, which is indicative of Iraq's cash-flow problems. Moreover, experience under supplier credit facilities, principally Insurance Services business covered on 180/360 day letters of credit, has also been affected by payment delays which have deteriorated markedly over the past 6 months. However the UK's payments experience has generally been far better than most other ECAs', mainly because Iraq regards the UK as a preferred creditor. The Iraqis have in fact made repayments amounting to some £140m in respect of buyer and line of credit commitments and £5m or so in respect of supplier credit facilities since the beginning of this year.

#### Risk of Rescheduling

9 Although the UK's favoured nation status, recently confirmed at the Protocol half yearly review meetings, is reassuring, Iraq's capacity to service UK debt at due date would appear to be getting more strained as increasing demands are being placed upon the country's foreign exchange earnings. This is evidenced by the number of times Protocol facilities have had to be suspended this year as substantial, and sometimes lengthy, arrears have built up. There must be a serious risk therefore that Iraq will simply not be able to honour its pledges to the UK and will be forced to seek a rescheduling. Moreover it is possible that pressure could also come from those ECAs who have had their debts rescheduled on a bilateral basis to include UK debts in a comprehensive multilateral rescheduling. Such an approach would be in line with the normal Paris Club principle of equal burden sharing. However, unless Iraq is prepared to go to the IMF, which it is very unlikely to do, such a rescheduling would be difficult without a parallel economic reform programme. Obviously a multilateral approach would not be in the UK's interest and ECAs could not of course force UK debts to be included in a comprehensive debt restructuring package if Iraq did not want to do so.

#### Do "we cut our losses"?

10 Although the Protocol specifically states that UK debts will not be rescheduled the question arises as to whether we should refuse to offer any more new credits, given the risk that one way or another UK debts may be rescheduled. In other words, we might only be storing up greater losses later by giving more credits now. The problem of course is that if the UK were to unilaterally decide to cease extending new credits such action would be seen as a hostile move by the Iraqis who would almost certainly default on all exposure. A typical Iraqi reaction might then be to put ECGD's debt at the end of the queue. However if Iraq were to

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Your reference

Our reference

Date

23 April 1985

MBR 103/1

IRAQ: SALE OF RADIO COMMUNICATIONS EQUIPMENT

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1. I refer to your letter of 3 April to Bob Adams in the Treasury about the proposal to agree ECGD cover, within the financial protocol, for RACAL Communications Equipment.
2. From the FCO's point of view we have no objection in principle to RACAL's contracts being covered under the terms of the Protocol, provided the export licences for the equipment concerned have been approved by the inter-departmental committee. However, I understand that the question of whether all the licences have been approved is not clear and until this point is cleared up we are not in a position to confirm our full agreement to your proposal. Perhaps you could ask the company to produce a detailed breakdown of the licences which make up the £17m package. This would enable us to consider the package as a whole and check that all the licences have been processed by the inter-departmental committee.
3. I should just add that our agreement in principle in this case should not alter the arrangements whereby all defence-related applications for inclusion in the Protocol are considered on a case by case basis, and that we are consulted in advance on each occasion.

W R Henderson  
Middle East Department

cc R E Adams, Treasury  
G Watson, DTI  
R Keeling, MOD(DSO)

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**FAX**

**TO :** David Leigh  
The Observer

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**FROM:** Robin Ogleby, Press Officer

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If any pages are not received clearly, please telephone immediately.

## IRAQ

Following our conversation yesterday perhaps I can best answer your questions about amounts owing to ECGD providing the information below of a Michael Meacher PQ answered by Anthony Nelson, Minister of Trade, on 11 September 1996.

Our "exposure" (paid in recoveries) on Iraq is about £620 million.

The total of claims for guarantees in relation to trade with Iraq was £683 million as at 31 December 1995. Of this £100 million was paid to Banks for Buyer Credit and Line of Credit facilities; the balance having been paid directly to exporters under Short Term or Supplier Credit facilities. As against the figure million above, recoveries of £72 million have been made, bringing the total outstanding unrecovered claims for Buyer Credit facilities to £506 million. A breakdown of the amounts claimed as between UK clearing banks and other banks, or of the amounts held by individual banks for their own account where loans have been syndicated, is not readily available.

Best regards

£623 million

**ROBIN OGLEBY**