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From the Minister for Trade

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London SW1

5th October 1983

Dear Andrew,

Before the Prime Minister sees Mr Ramadhan tomorrow, it might be helpful to let you and copy recipients know how Mr Channon's Joint Commission meeting with Trade Minister Hassan Ali went this afternoon.

Hassan Ali's initial reaction to our offer of £250M 5 year credit was that of a good Souk haggler - grudging appreciation, coupled with comments "not enough", and an immediate attempt to bargain into our offer "strategic" consumer goods, such as medicines, food and clothing. Nonetheless, there are clear signs that the Iraqis are well pleased - as they should be.

The Ministers then adjourned so that officials could begin negotiations, likely to continue late into the night, of the text of a Financial Protocol. This will be in general terms - ECGD will have to negotiate in detail in coming months - but must contain tough conditions safeguarding our own interests. It seems likely, to judge from the atmosphere at the Ministerial meeting, that the Protocol will be ready for Mr Channon and Hassan Ali to sign tomorrow, along with the Agreed Minutes of the Joint Commission covering lesser matters, at 11.00 immediately before the meeting with the Prime Minister; but should officials fail to reach agreement, the fall-back would be for signature to be delayed until Mr Channon's visit to Iraq early next month for the Baghdad Fair. I shall confirm the outcome by telephone tomorrow morning.

In Mr Channon's view, the Prime Minister should be advised to reiterate to Ramadhan, as he has done to Hassan Ali, that we have made a unique effort to be helpful, and have very little flexibility in negotiation on terms and conditions - in short, something close to "take it or leave it".



In addition, Mr Channon was only able to mention the Kier problem over lunch, the meeting itself becoming too confused (on the Iraqi side) to repeat it. He is not confident that Hassan Ali has taken in how seriously we regard it. Since Ramadhan himself is the source of the problem, he thinks it would be helpful if the Prime Minister could make a point of telling Ramadhan that, if efforts to reach a compromise this week fail (as is very likely), the best solution would be for the Iraqis to return Kier's bond money and agree to an amicable suspension (ie termination) of the contract; it was, after all, an Iraqi default on a cash contract which caused the problem in the first place.

I am copying this letter to John Kerr (HM Treasury), Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PAUL CHANNON)