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PREM 19/924

PART 1 ends:-

22.3.82

PART 2 begins:-

19.4.82

2 1982



Foreign and Commonwealth Office

London SW1A 2AH

22 March 1982

N.B. P.R.

WR 23/3.

Dear Nicholas,

UK/SOVIET JOINT COMMISSION

Thank you for your letter of 16 ^{att} March to Simon Fuller.

We accept that at The Economic and Industrial Review later this week you will not wish to convey a definite impression that Mr Rees will not be taking part in the Joint Commission. But equally FCO Ministers think it important that nothing be said which might prejudice the collective Ministerial decision on UK Chairmanship which you will be seeking in April. We hope DOT officials will bear this in mind.

I am copying this to John Coles (No 10), Jonathan Spencer (DOI), to the Private Secretaries of other OD members and to David Wright (Cabinet Office).

Yours sincerely,

A K C Wood
PS/Lord Privy Seal

Nicholas McInnes Esq
PS/Minister for Trade
Department of Trade
1 Victoria Street
LONDON SW1

23 MAR 1982



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TO IMMEDIATE F C O

TELEGRAM NUMBER 138 OF 17 MARCH

INFO IMMEDIATE D O T (FOR OT4) PRIORITY UKREP BRUSSELS

YOUR TEL NO 145 : EC MEASURES AGAINST SOVIET EXPORTS.

(SOVIET
REACTION)

1. THANK YOU FOR THESE PROMPT INSTRUCTIONS.

2. MANZHULO READ FROM A BOUT DE PAPIER, A COPY OF WHICH HE HANDED OVER (TEXT AND TRANSLATION BY BAG). THE PAPER WAS SO DRAFTED AS TO BE CAPABLE OF BEING USED WITH ANY MEMBER OF THE COMMUNITY, AND DID NOT REFER TO THE UK BY NAME. THE MAIN POINTS WERE :

(A) ACCORDING TO WESTERN PRESS REPORTS, THE RESTRICTIONS WORKED OUT BY THE COMMISSION MIGHT AFFECT, IN PARTICULAR, SUCH TRADITIONAL SOVIET EXPORT GOODS AS "MACHINE-TOOLS, CARS, RADIO EQUIPMENT, FURS, CARPETS, CUT DIAMONDS CLOCKS AND WATCHES, PHOTO-CAMERAS, VODKA, CAVIAR, CRABS AND OTHER FINISHED GOODS AS WELL AS CHEMICALS".

(B) THESE ACTIONS CLEARLY DISCRIMINATED AGAINST THE SOVIET UNION:

(C) THEY CONTRADICTED THE SPIRIT AND THE LETTER OF BILATERAL TRADE AND ECONOMIC AGREEMENTS, AND WERE NOT IN ACCORDANCE WITH THE PROVISIONS OF THE HELSINKI FINAL ACT.

(D) "A REDUCTION IN THE IMPORT OF SOVIET GOODS BY YOUR COUNTRY MAY RESULT IN THE REDUCTION OF OUR PURCHASES AS WELL AS IN THE COMPLICATION OF NEGOTIATIONS UNDER WAY RELATIVE TO THE PURCHASE OF CERTAIN GOODS, INCLUDING SOME KINDS OF MACHINERY AND EQUIPMENT, OTHER INDUSTRIAL AND FINISHED PRODUCTS".

(E) THE SOVIET UNION HOPED THAT A SOBER APPROACH WOULD EVENTUALLY PREVAIL AND THAT TRADE AND ECONOMIC COOPERATION ON AN EQUAL AND MUTUALLY BENEFICIAL BASIS WOULD BE CONTINUED.

3. BEATTIE UNDERTOOK TO REPORT. HE MADE THE COMMUNITY COMPETENCE POINT IN PARA 2 OF YOUR TUR. HE NOTED THAT THE SOVIET DEMARCHE WAS BASED ON WESTERN PRESS REPORTS, ADDING THAT DETAILS OF THE MEASURES WOULD BE PUBLISHED OFFICIALLY IN DUE COURSE. BEATTIE THEN SAID:

(A) THE COMMUNITY HAD TAKEN ITS MEASURES IN SUPPORT OF THE PROVISIONS OF THE FINAL ACT, IN POLITICAL CIRCUMSTANCES FOR WHICH MEMBERS OF THE COMMUNITY HAD NOT BEEN RESPONSIBLE, AS POINTED OUT IN THE COMMUNIQUE OF THE FOREIGN MINISTERS OF THE TEN OF 4 JANUARY.

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/ (B) THE

(B) THE COMMUNITY WOULD NO DOUBT STUDY ANY SOVIET COUNTER-MEASURES WITH CARE, TOGETHER WITH THE IMPLICATIONS OF THOSE MEASURES FOR SOVIET RELATIONS WITH THE COMMUNITY.

4. MANZHULO REPLIED THAT HIS STATEMENT HAD BEEN DELIVERED TO THE CORRECT ADDRESS. THE BRITISH GOVERNMENT HAD PARTICIPATED IN THE ELABORATION OF THE COMMUNITY'S MEASURES, AND WOULD BE RESPONSIBLE FOR ENFORCING THEM SO FAR AS THE UK WAS CONCERNED. THIS COULD NOT BUT AFFECT BILATERAL RELATIONS. MANZHULO SAID THAT ANY REDUCTIONS IN SOVIET PURCHASES SHOULD NOT BE REGARDED AS REPRISALS OR SANCTIONS, BUT SIMPLY AS A CONSEQUENCE OF THE FACT THAT IF CERTAIN COUNTRIES DID NOT BUY FROM THE SOVIET UNION, THE SOVIET UNION WOULD THEN NOT HAVE THE NECESSARY FOREIGN CURRENCY TO BUY FROM THOSE COUNTRIES, AND WOULD HAVE TO LOOK ELSEWHERE. HE REPEATED BRIEFLY HIS POINT ABOUT THE FINAL ACT, REFFERRING TO WESTERN RESPONSIBILITY FOR THE ADJOURNMENT OF THE MADRID MEETING, BUT CLEARLY DID NOT WISH TO PURSUE THIS LINE OF ARGUMENT.

5. IN CONCLUSION, MANZHULO NOTED THE FORTHCOMING E AND I REVIEW MEETING IN LONDON AS A SIGN OF "SOBER AND CONSTRUCTIVE" THINKING, AND AS A FORUM WHERE CURRENT PROBLEMS COULD USEFULLY BE DISCUSSED. HE ADDED POINTEDLY THAT HE HAD ATTENDED A MEETING OF THE SOVIET-NETHERLANDS JOINT COMMISSION IN THE HAGUE ON 22-25 FEBRUARY. HE ALSO SPOKE FAVOURABLY OF THE CURRENT LONDON CHAMBER OF COMMERCE AND INDUSTRY MISSION TO MOSCOW. MANZHULO SUBSEQUENTLY CAME TO A SUPPER FOR THE MISSION AND IN CONVERSATION COMMENTED THAT THE EFFECT OF THE WESTERN ECONOMIC MEASURES HAD BEEN TO MAKE INDUSTRIAL MINISTRIES ANXIOUS ABOUT THE RELIABILITY OF WESTERN SOURCES OF SUPPLY FOR MAJOR PROJECTS. THEY WERE THEREFORE LIKELY TO DO WHAT THEY COULD TO AVOID BEING DEPENDENT ON THEM IN FUTURE.

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From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215
SWITCHBOARD 01 215 7877

S W J Fuller Esq
Private Secretary to the
Lord Privy Seal
Foreign & Commonwealth Office
London SW1A 2AH

16 March 1982

N.B.P.R.

MR 25/3

Dear Fuller,

UK/SOVIET JOINT COMMISSION

Thank you for your letter of 9 March. Mr Rees has asked me to say that he is most grateful for the constructive support of FCO Ministers over the trade links with the Soviet Union which we are concerned to maintain. The Moscow Embassy has now been instructed to confirm arrangements for the Economic and Industrial Programme Review with the Soviet side.

Your suggestion that a senior official should lead our team for the next Joint Commission meeting needs to be kept in mind. However, Mr Rees feels that at least for the present we should proceed on the basis that, since there has been no collective Ministerial decision to the contrary, arrangements for the Joint Commission should proceed as originally envisaged. As agreed, this will be subject to Ministerial review nearer the time and in the meanwhile we will not be increasing our degree of commitment over the event. For the present we would not want to give the Russians any very definite impression that Mr Rees might not be taking part in the event. In our view, which we believe reflects the Ministerial discussion at the beginning of the year, business with the Soviet Union in the trade field continues to be as usual except in relation to those specific signals which have been agreed.

I am copying this to recipients of the previous correspondence.

Yours sincerely,

Nicholas McInnes

NICHOLAS McINNES
Private Secretary to the
Minister for Trade (PETER REES)

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23 MAR 1982

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/

Secretary of State for Industry

15 March 1982

N McInnes Esq
Private Secretary to the
Minister for Trade
1 Victoria Street
LONDON
SW1H 0ET

N. B. P. R.

A. J. C. ^{16.}/₃

Dear Nick

UK/SOVIET JOINT COMMISSION

Thank you for sending me a copy of your letter of 4[✓] March to Michael Arthur.

2 My Secretary of State agrees that it is desirable to maintain low key official contacts for the time being and to consider, in the light of the situation in early April, whether or not it is also desirable to proceed with the meeting of the Joint Commission proposed for May.

3 Copies go to Michael Arthur, John Coles (No 10), to the Private Secretaries of OD Members in other Departments, and to David Wright (Cabinet Office).

Yours ever

Richard

RICHARD RILEY
Private Secretary

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(2)

Prime Minister

A.J.C. 12/3.

From the Secretary of State

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The Rt Hon Humphrey Atkins MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

11 March 1982

Dear Humphrey

[Handwritten mark]

A.J.C. 15/3
P.A.

ANGLO-SOVIET SHIPPING TREATY

Thank you for your letter of 24 February about the Anglo-Soviet Shipping Treaty. I am glad to see that you endorse our overall objectives.

As to the timing of these negotiations, we have already had discussions about them with the General Council of British Shipping and with the British line involved in the trade, the United Baltic Corporation. I would hope that we shall be able to complete our consultations with our main Community partners during the Spring and thereafter to approach the Soviet side without delay.

Copies of this letter go to the Prime Minister, our colleagues on MLSC 19, and to Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

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- 2. MAR 1982



[Faint, illegible handwritten text]

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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 483 OF 11 MARCH

INFO UKDEL NATO, UKREP BRUSSELS

SAVING TO PARIS, BONN, ROME

FOLLOWING IS THE TEXT OF A LETTER TO ME FROM HAIG RECEIVED TODAY.

DEAR PETER,

IN HIS LETTER TO PRIME MINISTER THATCHER, PRESIDENT REAGAN COMMUNICATED OUR CONCERN REGARDING THE MANNER IN WHICH THE WESTERN DEMOCRACIES HAVE BEEN PROVIDING INCREASING VOLUMES OF SUBSIDISED OFFICIAL CREDITS AND CREDIT GUARANTEES TO THE SOVIET UNION. IT IS BECOMING INCREASINGLY CLEAR THAT THE COMPETITIVE GRANTING OF CREDITS TO THE SOVIET UNION RUNS COUNTER TO THE LONG-TERM SECURITY INTERESTS OF THE WEST. THE RECENT SOVIET-BACKED REPRESSION IN POLAND, CONTINUED AGGRESSIVE SOVIET ACTIONS IN OTHER AREAS OF THE WORLD, INCLUDING AFGHANISTAN, AND MOUNTING EVIDENCE OF A HARD CURRENCY CREDIT SQUEEZE WITHIN THE SOVIET BLOC, WHICH RAISES SERIOUS QUESTIONS ABOUT SOVIET CREDITWORTHINESS, ALL MAKE CLEAR THAT WE MUST ACT EXPEDITIOUSLY TO DEVELOP A COMMON WESTERN STRATEGY. AS THE PRESIDENT NOTED IN HIS LETTER, HE HAS ASKED UNDER SECRETARY OF STATE JAMES L. BUCKLEY TO HEAD AN INTERAGENCY MISSION WHICH WILL VISIT WESTERN EUROPE, MARCH 13-20, TO INITIATE WHAT WE HOPE WILL BE SPEEDY ACTION ON THIS PROBLEM.

THE PRIMARY PURPOSE OF THE MISSION OF UNDER SECRETARY BUCKLEY AND OTHER SENIOR ADMINISTRATION OFFICIALS WILL BE TO CONSULT WITH SENIOR OFFICIALS OF YOUR GOVERNMENT ON HOW WE SHOULD JOINTLY ACT TO OVERCOME THE SERIOUS DANGERS IN THE CURRENT SITUATION. THE MISSION MEMBERS WILL WANT TO DISCUSS THE TECHNIQUES WE CAN USE TO CONTROL THE FLOW OF OFFICIAL WESTERN CREDITS AND CREDIT GUARANTEES TO THE SOVIETS. FOLLOWING THE OTTAWA SUMMIT, AND SPURRED BY THE JANUARY HIGH-LEVEL MEETING IN PARIS, WE ARE MAKING PROGRESS IN THE AREA OF HIGH TECHNOLOGY

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CONTROLS WITHIN THE COCOM FRAMEWORK. A SIMILAR CONSULTATIVE PROCESS CAN LEAD TO A NECESSARY RETHINKING OF OUR APPROACH ON CREDITS. THE ABSENCE OF A MECHANISM FOR CREDIT RESTRAINT HAS CONTRIBUTED TO MAKING THE CREDIT PROBLEM SO SERIOUS.

FINALLY, LET ME EMPHASISE MY HOPE THAT WE CAN MOVE RAPIDLY AND IN CONCERT ON THIS ISSUE. TIME IS PRESSING. PRESIDENT REAGAN HAS DEFERRED HIS DECISION ON THE APPLICABILITY OF THE DECEMBER 30 SANCTIONS ON OIL AND GAS EQUIPMENT EXPORTS TO THE SOVIET UNION PENDING AN ASSESSMENT OF THE RESULTS OF THE BUCKLEY MISSION. IT IS MY HOPE THAT OUR CONSULTATIONS WILL RESULT IN THE DEVELOPMENT OF A COHERENT AND COORDINATED WESTERN STRATEGY FOR OUR DEALINGS WITH THE SOVIET UNION ON THE SO FAR NEGLECTED CREDIT FRONT. THE DECISION BY EC FOREIGN MINISTERS TO SEEK AN INCREASE IN THE OECD CONSENSUS EXPORT INTEREST RATE APPLIED TO THE SOVIETS IS AN IMPORTANT STEP ALONG A PATH THAT WE MUST TRAVEL FURTHER. COORDINATION AND RESTRAINT OF WESTERN CREDITS WOULD CLEARLY REINFORCE OUR OVERALL COOPERATION ON EAST-WEST ECONOMIC RELATIONS. IT IS MY HOPE THAT YOUR GOVERNMENT WILL APPROACH THE TALKS WITH UNDER SECRETARY BUCKLEY AND HIS COLLEAGUES WITH THIS COMMON OBJECTIVE IN MIND.

SINCERELY

ALEXANDER M. HAIG, JR.

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TO IMMEDIATE FCO

TELNO 813 OF 10 MAR 82

INFO PRIORITY ROME PARIS BONN UKREP BRUSSELS UKDEL NATO

INFO SAVING WARSAW MOSCOW.

YOUR TELNO 448 : BUCKLEY MISSION

1. BUCKLEY ASKED ME TO CALL THIS AFTERNOON TO GIVE ME A FIRSTHAND ACCOUNT OF THE SCOPE AND PURPOSE OF HIS MISSION. HE WAS ALSO DUE TO SEE THE AMBASSADORS OF THE OTHER EUROPEAN COUNTRIES HE WOULD BE VISITING, AND WOULD BE TALKING TO THE JAPANESE AMBASSADOR, THE US EMBASSY IN TOKYO WOULD FOLLOW THIS UP WITH THE JAPANESE GOVERNMENT.

2. BUCKLEY CONFIRMED THAT HIS MAIN FOCUS WOULD BE ON HOW TO ACHIEVE SIGNIFICANT REDUCTIONS IN OFFICIAL EXPORT CREDITS AND CREDIT GUARANTEES TO THE SOVIET UNION. DRAWING ON SOME WRITTEN TALKING POINTS (COPY BY BAG TO THE DEPARTMENT) HE SAID THAT THERE WAS AN OPPORTUNITY NOW TO TAKE STEPS TOGETHER WHICH, WHILE EMPHASIZING CONTINUED CONCERN OVER POLAND, WOULD SIGNIFICANTLY STRENGTHEN THE WESTERN SECURITY POSITION. THE PRESIDENT HAD DECIDED TO DEFER FURTHER ACTION ON THE MEASURES ANNOUNCED LAST DECEMBER, PENDING BUCKLEY'S REPORT ON THE RESULTS OF HIS MISSION. HE HAD TAKEN THIS DECISION DESPITE CRITICISM FROM CONGRESS AND THE US PUBLIC THAT HE WAS ACTING TOO HESITANTLY.

3. THE PRESIDENT BELIEVED STRONGLY THAT THE WEST, THROUGH ITS CREDIT POLICIES, HAD HELPED TO SUBSIDISE THE ECONOMIC DEVELOPMENT OF THE SOVIET UNION AND THUS HAD WORKED AGAINST WESTERN SECURITY INTERESTS THROUGH THE UNCONTROLLED AND UNCOMPETITIVE PROVISION OF CREDIT. IT MADE NO SENSE FOR THE WEST, FACING AN UNPRECEDENTED ARMAMENTS BUILDUP WHICH DIRECTLY THREATENED ITS SECURITY, TO BE SPENDING MORE AND MORE MONEY ON DEFENCE AND THEN TO LEND MONEY TO THE SOVIET UNION AT SUBSIDISED RATES. MOREOVER THERE WAS NO JUSTIFICATION FOR GRANTING THE SOVIET UNION CONCESSIONAL CREDIT AT THE EXPENSE OF WESTERN TAX PAYERS WHEN OUR CITIZENS WERE ALSO FACING HIGH INFLATION AND HAVING TO PAY HIGH INTEREST RATES. THE PRESIDENT SAW AN URGENT NEED TO INJECT SOME SENSE INTO ALL THIS.

4. BUCKLEY CONTINUED THAT THE AMERICANS RECOGNISED THAT THIS WAS A COMPLEX AREA AND NO COUNTRY SHOULD BE ASKED TO BEAR A DIS-PROPORTIONATE BURDEN. AGREEMENT WOULD NOT BE EASY. BUCKLEY WOULD THEREFORE BE COMING WITH A PROPOSAL IN TWO PARTS
(I) EARLY AGREEMENT ON AN INTERIM MORATORIUM ON NEW CREDITS;
(II) A MEETING IN SHORTER TIME INVOLVING NOT ONLY THE FOUR COUNTRIES HE WOULD BE VISITING BUT ALSO OTHER CREDIT-EXTENDING COUNTRIES,

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TO EXPLORE THE POSSIBILITY OF REACHING AGREEMENT NOT ONLY ON THE SUBSIDY ELEMENT IN OFFICIAL CREDITS BUT ALSO ON THEIR TOTAL VOLUME. (IN MAKING THIS POINT ON VOLUME HE APPEARS TO HAVE GONE BEYOND WHAT WAS IN HIS TALKING POINTS. HE MADE IT CLEAR THAT HE MEANT SOME KIND OF CREDIT RATIONING SYSTEM).

5. IN ADDITION TO THE QUESTION OF CREDIT, BUCKLEY SAID THAT SUBSIDIARY OBJECTIVES OF HIS VISIT WOULD BE TO DISCUSS THE POSSIBILITY OF COMMON RESTRAINTS ON IMPORTS FROM THE SOVIET UNION AND THE SCOPE FOR REDUCING EUROPEAN ENERGY DEPENDENCE ON SOVIET RESOURCES OF ENERGY.

6. I ASKED BUCKLEY WHETHER HE WOULD NOT WANT TO DISCUSS THE GENERAL OBJECTIVE OF ECONOMIC POLICY TOWARDS THE SOVIET UNION: WHETHER IT WAS TO PUNISH THEM, TO MAKE LIFE MORE DIFFICULT FOR THEM, TO REDUCE THE LEVEL OF COMMERCIAL EXCHANGES, OR WHAT. IN ANY DISCUSSION OF STEPS TO BE TAKEN IT SEEMED IMPORTANT TO AGREE WHAT OUR OBJECTIVES WERE. BUCKLEY'S REPLY SUGGESTED THAT THE AMERICANS WERE MORE CONCERNED WITH CUTTING OUT THE NEEDLESS SUBSIDISATION OF THE SOVIET ECONOMY THAN WITH PUNISHMENT. BUT HE MADE IT CLEAR THAT THE MAIN IMMEDIATE OBJECTIVE WAS TO FIND A METHOD OF SETTING LIMITS ON THE VOLUME OF OFFICIAL CREDIT GOING TO THE SOVIET UNION. HE REFERRED TO THE POSSIBILITY OF ESTABLISHING PERMANENT MECHANISM SOMEWHAT EQUIVALENT TO COCOM, FOR THE CONTROL OF OFFICIAL CREDITS TO THE SOVIET UNION IN SUCH A WAY AS TO PLACE EACH COUNTRY ON THE SAME COMPETITIVE BASIS. HE RECOGNISED THAT THIS WOULD NOT BE EASY.

7. I PICKED UP WHAT BUCKLEY HAD SAID ABOUT DIVERSIFYING THE EUROPEAN SOURCES OF ENERGY. THIS WAS A VERY IMPORTANT SUBJECT. I HOPED THERE WAS NO MISUNDERSTANDING ABOUT THE LIKELIHOOD THAT SUPPLIES OF GAS ON ANYTHING LIKE THE SCALE ENVISAGED FOR THE WEST SIBERIAN PIPELINE PROJECT WOULD BE FORTHCOMING FROM THE UK'S NORTH SEA RESOURCES. BUCKLEY SAID THERE WAS NO SUCH EXPECTATION IN US MINDS THOUGH THE RECENT VISIT OF US EXPERTS TO NORWAY HAD SUGGESTED THAT THE UK MIGHT BE A TRANSFER POINT FOR NORWEGIAN GAS. HE UNDERSTOOD THAT THE NEW NORWEGIAN GOVERNMENT WAS DISPOSED TO LOOK MORE POSITIVELY ON SUCH POSSIBILITIES THAN ITS PREDECESSOR.

8. AS REGARDS IMPORTS FROM THE SOVIET UNION, BUCKLEY SAID THAT THEY WOULD BE LOOKING FOR COMMON GROUND RULES.

9. IN THE COURSE OF THIS DISCUSSION THE FOLLOWING ADDITIONAL POINTS OF INTEREST AROSE:

- (1) THE AMERICANS DID NOT THINK WHAT THEY WERE PROPOSING ON CREDIT WOULD GIVE RISE TO DIFFICULTIES WITH THE GERMANS. NEVERTHELESS, DURING GENSCHER'S VISIT, THE GERMANS HAD SUGGESTED DISCUSSING ALL THIS IN OECD. THE AMERICANS WERE NOT PREPARED TO CONTEMPLATE THIS.
- (11) THE BUCKLEY MISSION IN ITS PRESENTATION IN CAPITALS WILL DRAW

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ON RECENT CIA AND OTHER MATERIAL ABOUT THE STATE OF THE SOVIET ECONOMY AND IN PARTICULAR ITS EXTERNAL POSITION. BUCKLEY AGREED THAT IT WOULD BE IMPORTANT TO TRY TO ESTABLISH A COMMON ECONOMIC ASSESSMENT AS A BASIS FOR JUDGMENT ABOUT THE LIKELY EFFECTIVENESS OF THE KIND OF MEASURES THEY WERE CONTEMPLATING ON CREDIT:
(III) BUCKLEY DOES NOT ANTICIPATE EXTENSIVE DISCUSSION ABOUT COCOM.

10. TOWARDS THE END OF OUR TALK, BUCKLEY MADE IT CLEAR THAT HE WAS NOT EXPECTING, DURING THIS VISIT, TO GET INTO THE SUBSTANCE OF QUESTIONS OF NON-UNDERMINING OR OF EXISTING CONTRACTS. HE SAID THAT HE WAS NOT SUPPOSED TO ADMIT THERE WAS A LINK BETWEEN THE QUESTION OF FUTURE CREDITS AND THESE OTHER ISSUES, THOUGH HE RECOGNISED THAT IN PRACTICE THERE WAS. HE ALSO UNDERSTOOD PERFECTLY WELL THAT THE EUROPEAN REACTION TO US IDEAS ON FUTURE CREDITS WOULD BE TO SOME EXTENT CONDITIONED BY WHAT HE COULD SAY TO THEM ABOUT THE TREATMENT OF EXISTING CONTRACTS. BUT HIS REACTION ON THIS SUGGESTED THAT IT WOULD HAVE TO BE DEALT WITH DELICATELY AND MIGHT BEST BE DONE INFORMALLY. THE OFFICIAL US POSITION WAS THAT THE PRESIDENT WOULD BE TAKING DECISIONS ON ALL THAT IN THE LIGHT OF THE FINDINGS OF THE BUCKLEY MISSION.

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Foreign and Commonwealth Office

London SW1A 2AH

9 March 1982

N. B. P. R.

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John McInnes,

UK/SOVIET JOINT COMMISSION

Thank you for your letter of 4 March.

As you say, discussions with our allies and partners have not produced a clear picture and we think it is probably fair to assume that in the end most of them will go ahead with their Joint Commissions. In these circumstances, FCO Ministers (I should add that the Lord Privy Seal himself is abroad at the moment) see no reason to object to your going ahead with the regular review of the UK/Soviet Economic and Industrial Co-operation Agreement, due to be held during the week of 22 March, nor with the similar review of the Science and Technology Programme. Equally, while we note your Minister's view that a final decision on whether to go ahead with the Joint Commission itself should be delayed until early in April, FCO Ministers do not anticipate any objection to the principle of the Commission going ahead on schedule. A formal answer on this point will, of course, be given when Mr Rees consults his colleagues early in April.

However, we think it important, if the Joint Commission does go ahead, that there should be some signal to the Soviet side that we are not thereby returning to business as usual in Anglo-Soviet relations. In our view, such a signal could best be conveyed by sending a senior official rather than a Minister as leader of the British side. This would have the additional advantage that the absence of a Minister would reduce the risk that by going ahead with the Joint Commission we might exacerbate our difficulties with the Americans over East/West economic issues. A number of our partners in any case have joint commissions led by a senior official or business man.

Because of the different structure on the Soviet side, we would not anticipate that such a change by us would lead to any major change in the composition of their delegation, although they might conceivably substitute another Deputy Minister for Mr Yuri Brezhnev. We believe that their main concern will be that both the March review and the Joint Commission itself should go ahead on time.

Nicholas McInnes Esq
PS/Minister for Trade
Department of Trade
1 Victoria Street
London SW1

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Pending a decision on this matter, we suggest that at the Review Meeting, the British side should confirm orally that Mr Rees remains the British co-chairman of the Joint Commission, but indicate that because of other commitments he may not be able to manage a meeting in May.

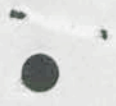
I am copying this letter to the recipients of yours.

Yours sincerely

Simon Fuller

S W J Fuller
PS/Lord Privy Seal

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TO IMMEDIATE F C O

TELEGRAM NUMBER 767 OF 5 MARCH

INFO PARIS, BONN, ROME, UKREP BRUSSELS, UKDEL NATO
INFO SAVING TO WARSAW, MOSCOWMY TELNO 682: BUCKLEY MISSION

1. I UNDERSTAND THAT DATES HAVE NOW BEEN PROPOSED FOR THE BUCKLEY MISSION AND THAT THEY ARE AIMING TO BE IN LONDON ON 15 AND 16 MARCH. I ALSO UNDERSTAND THAT BUCKLEY WILL BE ASKING ME TO CALL NEXT WEEK TO GO OVER THE OBJECTIVES FOR THE MISSION. IN THE MEANTIME MINISTER CALLED TODAY ON NILES (DEPUTY ASSISTANT SECRETARY, EUROPEAN AFFAIRS, STATE DEPARTMENT) FOR A PREVIEW AND HAS DISCUSSED THE MISSION AGAIN WITH HORMATS.

2. THE BASIC U.S. OBJECTIVE WILL BE TO START A DIALOGUE ABOUT THE POSSIBILITY OF CONSTRAINING MEDIUM AND LONG TERM CREDITS TO THE SOVIET UNION. SECONDRY OBJECTIVES WILL BE TO DISCUSS ENERGY SECURITY, RESTRICTIONS ON SOVIET IMPORTS, NOT UNDERMINING EACH OTHER'S MEASURES, AND THE PROBLEM OF EXISTING CONTRACTS.

3. IN SHIFTING THE FOCUS TO FUTURE CREDITS, THE AMERICANS ARE AWARE THAT THEY ARE EMBARKING, NOT FOR THE FIRST TIME, ON A VERY COMPLICATED AREA. THEY RECOGNISE THAT THIS IS NOT DIRECTLY RELATED TO THE SITUATION IN POLAND. IT IS SOMETHING WHICH THIS ADMINISTRATION WOULD ANYWAY HAVE WISHED TO PURSUE, IN PARALLEL WITH THE PROBLEM OF TECHNOLOGY TRANSFER TO THE SOVIET UNION. THEY FEEL THAT IT IS PROFOUNDLY WRONG OF THE WESTERN DEMOCRACIES TO BE COMPETING WITH EACH OTHER TO FINANCE AND SUBSIDISE THE DEVELOPMENT OF THE SOVIET ECONOMY. THEY BELIEVE THAT IT IS IMPORTANT TO SEE WHAT CAN BE DONE AS THEY PUT IT, TO PLACE OUR COLLECTIVE ECONOMIC RELATIONSHIP WITH THE SOVIET UNION ON A SOUNDER FOOTING.

4. THEIR SIGHTS ARE SET ON OFFICIAL CREDITS AND OFFICIAL GUARANTEED CREDITS TO THE SOVIET UNION (NOT THE REST OF EASTERN EUROPE). THEY WILL AIM DURING BUCKLEY'S VISITS TO EXPLORE THE POSSIBILITY OF RESTRAINING OR REDUCING THE VOLUME OF CREDIT INVOLVED AS WELL AS THE TERMS ON WHICH IT IS OFFERED, PAYING PARTICULAR ATTENTION TO ANY ELEMENT OF SUBSIDISATION.

5. THE AMERICANS DO NOT SEE THIS EXERCISE AS PART OF ANY PACKAGE OF SANCTIONS. THEY CLAIM THAT THEY ARE NOT SEEKING TO PUNISH THE SOVIET UNION BUT THEY HOPE TO BE ABLE TO DEMONSTRATE THAT CONSTRAINTS ON WESTERN OFFICIAL CREDITS WILL IMPOSE SIGNIFICANT ADDITIONAL BURDENS ON THE SOVIET ECONOMY, THUS MAKING IT MORE DIFFICULT FOR THE SOVIETS TO FINANCE THEIR OWN ECONOMIC AND MILITARY DEVELOPMENT.

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6. THE BUCKLEY MISSION IS NOT EXPECTING TO NEGOTIATE RESULTS DURING THIS TOUR. IT WILL RETURN TO WASHINGTON TO REPORT REACTIONS TO THESE GENERAL IDEAS. PENDING THEIR REPORT, THE PRESIDENT HAS DEFERRED DECISIONS ON OTHER POSSIBLE ACTION BY THE US GOVERNMENT AND ON THE VEXED QUESTION OF EXISTING CONTRACTS. THE AMERICANS ARE RELUCTANT TO BE DRAWN ON THE PRECISE LINKS THAT MAY BE MADE BETWEEN THESE ISSUES. BUT NILES AND OTHERS HAVE MADE IT CLEAR TO US THAT IF THE BUCKLEY MISSION CAN REPORT A GENERALLY POSITIVE ATTITUDE AMONG THE EUROPEANS ON THE IMPORTANCE OF TRYING TO TACKLE THE QUESTION OF CREDIT AND A READINESS, DESPITE THE DIFFICULTIES AND COMPLEXITIES, TO HOLD FURTHER DISCUSSIONS TO SEE WHAT CAN BE ACHIEVED, THIS WILL STRENGTHEN THE HAND OF HAIG AND OTHERS HERE WHO ARE TRYING TO AVOID ACTION WHICH WOULD BE DAMAGING TO ALLIANCE RELATIONSHIPS.

7. IN DISCUSSION WITH NILES AND OTHERS WE HAVE BEEN MAKING IT CLEAR THAT THIS WILL NECESSARILY BE A TWO-WAY PROCESS AND THAT THE EUROPEAN REACTION TO AMERICAN IDEAS ON FUTURE CREDITS WILL BE INFLUENCED BY THE SENSE THEY GET OF US READINESS TO FIND SOLUTIONS TO THE PROBLEMS THEY HAVE THEMSELVES CREATED FOR THE EUROPEANS, PARTICULARLY OVER EXISTING CONTRACTS.

FCO PASS SAVING WARSAW AND MOSCOW

HENDERSON

[REPEATED AS REQUESTED]

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DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

4 March 1982

M A Arthur Esq
Private Secretary to the Lord Privy Seal
Foreign & Commonwealth Office
Downing Street
LONDON SW1

Prime Minister

To be aware, especially

of X

A.S.C. $\frac{4}{3}$

Dear Michael,

MS

ML 8/3

L-a.

UK/SOVIET JOINT COMMISSION

Discussions with allies about their regular contacts with the Soviet Union have not produced very clear-cut results. Some have suggested that their Joint Commissions and other similar meetings might be delayed as a result of the situation over Poland, but there have been few explicit commitments. Our experience after the invasion of Afghanistan was that few of these formal contacts were much affected; the UK put itself at a disadvantage by postponing a meeting of the UK/Soviet Joint Commission for a year. We would not want again to adopt a higher profile than others.

On the basis that normal trade by British firms with Soviet enterprises is continuing, except in the limited areas where there has been a definite decision to the contrary, my Department considers that we should in principle be prepared to carry on with the normal intergovernmental contacts which are necessary if our firms are to obtain business in the Soviet Union. Most immediate is the regular review of the UK/Soviet Economic and Industrial Co-operation Agreement, due to be held at official level in London during the week of 22 March. There is then the question of a similar review of the Science and Technology Programme for which a firm date still has to be fixed.

My Minister feels that colleagues should be aware of these reviews even though there should be no political problems over the necessary meetings. These will be held with the lowest level of public visibility consistent with securing the interests of British firms, in strictly businesslike manner, and with the minimum necessary official entertainment.

x) The UK/Soviet Joint Commission meeting scheduled for Moscow in the week of 17 May presents a greater problem because of

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/the political



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the political dimension. My Minister is due to lead the British team (including high-level businessmen), and Mr Yuri Brezhnev a First Deputy Minister of Foreign Trade, has been nominated on the Soviet side. But, even more than in the case of the Programme Reviews (which are really preparatory events), the Joint Commission is important for our firms and even postponement of the May meeting would be disadvantageous for them. Mr Rees has concluded that the best course for the present is to delay a final decision on whether or not to go ahead as planned; he would consult colleagues about this early in April. In the meanwhile, we would not give the Soviets any firm impression one way or the other.

I am copying this to John Coles (No. 10), Jonathan Spencer (DOI), to the Private Secretaries of OD Members in other Departments and to David Wright (Cabinet Office).

Yours ever,

Nick McInnes

NICHOLAS MCINNES
Private Secretary to the Minister for Trade

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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 385 OF 2 MARCH

REPEATED TO FOR INFO PRIORITY UKREP BRUSSELS, BONN, ROME, PARIS
UKDEL NATO, WARSAW

YOUR TELNO 568: MEASURES AGAINST THE SOVIET UNION

1. IT IS USEFUL TO HAVE EAGLEBURGER'S OUTLINE OF THE PURPOSE OF THE BUCKLEY MISSION. WE THINK IT IMPORTANT THAT THE AMERICANS AND EUROPEANS SHOULD HAVE A FULL DISCUSSION OF THEIR POLITICAL AND ECONOMIC OBJECTIVES IN ANY FURTHER MEASURES AGAINST THE SOVIET UNION. WE NEED TO EXPLORE US OBJECTIVES IN RAISING CREDIT POLICY, EG WHETHER THEY ARE THINKING OF SOVIET UNION OR EASTERN EUROPE AS A WHOLE: WHETHER THEY PROPOSE ACTION ON SUBSIDIESED CREDITS ALONE, OR ON ALL OFFICIALLY GUARANTEED EXPORT CREDITS ALONE, OR ON CREDITS MORE GENERALLY: LEGAL BASIS: EVENTUAL EFFECT ON TRADING PATTERNS: IMPLICATIONS FOR THE INTERNATIONAL BANKING SYSTEM? THESE ARE ALL QUESTIONS WHICH WE SHALL PUT TO BUCKLEY BUT WE SHOULD BE GRATEFUL FOR ANY CLARIFICATION THAT YOU CAN OBTAIN.

2. MORE GENERALLY, THE AMERICANS DO NOT YET SEEM TO APPRECIATE THE STRENGTH OF EUROPEAN OPPOSITION TO THE RESTRICTION OF CREDIT FOR THE SOVIET UNION. THE FRENCH AND GERMANS, AT LEAST, ARE OPPOSED ON BOTH POLITICAL AND ECONOMIC GROUNDS TO DELIBERATE ACTION TO CUT BACK EAST/WEST TRADE. THEY WOULD ALSO HAVE LEGAL PROBLEMS. ACTION TAKEN FOR POLITICAL REASONS TO CURTAIL CREDIT FOR EASTERN EUROPE (IF THAT IS WHAT THE AMERICANS HAVE IN MIND) WOULD STRIKE THEM AS SENSELESS. OUR FIRST REACTION, THEREFORE, IS THAT A JOINT MEETING CENTERED ON THESE ISSUES WOULD QUICKLY RUN INTO SERIOUS DIFFICULTY. THERE MIGHT BE ADVANTAGE IN THE AMERICANS LEARNING EUROPEAN VIEWS SEPARATELY AND AT FIRST HAND IN CAPITALS. WE ALSO HAVE IN MIND THAT A MEETING BETWEEN BUCKLEY AND FOUR EUROPEAN OFFICIALS WOULD PROBABLY BECOME PUBLIC,

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25993 - 2

AFTER THE ARTICLES IN THE US PRESS. THE REACTION OF OUR OTHER EUROPEAN PARTNERS, AND JAPAN, WOULD BE DECIDEDLY NEGATIVE.

3. OUR EARLIER SUGGESTION OF A MEETING OF THE FIVE (FCO TELNO 249 TO YOU - NOT TO ALL) WAS MADE IN THE CONTEXT OF 'NOT UNDERMINING'. WE ENVISAGED A CONFIDENTIAL MEETING OF ECONOMIC DIRECTORS THAT WOULD HAVE BUILT ON THE OUTCOME OF THE MEETING HELD IN THE US EMBASSY IN LONDON ON 2 FEBRUARY. WE REMAIN ANXIOUS TO PURSUE A SOLUTION ON THE BASIS PROPOSED IN THE PRIME MINISTER'S MESSAGE OF 29 JANUARY TO PRESIDENT REAGAN. HOWEVER, THE AMERICANS HAVE SUBSEQUENTLY RAISED AND GIVEN PROMINENCE TO THE ISSUE OF CREDITS FOR THE SOVIET UNION. WE SHOULD BE GRATEFUL FOR YOUR ASSESSMENT OF WHETHER A BARGAIN ON THE ORIGINAL BASIS REMAINS POSSIBLE OR ARE THE AMERICANS LIKELY TO INSIST ON ADDITIONAL CONCESSIONS, FOR EXAMPLE ON CREDITS FOR THE SOVIET UNION?

4. OUR CENTRAL CONCERN REMAINS THE PRESERVATION OF ALLIANCE UNITY. SUBJECT TO INFORMAL SOUNDINGS OF THE THREE EUROPEANS WE WOULD BE PREPARED TO RECOMMEND TO MINISTERS THAT WE HOST A CONFIDENTIAL MEETING OF THE FIVE TO PURSUE THE QUESTION OF 'NOT UNDERMINING' (IF THE AMERICANS SO REQUEST). IF THE AMERICANS WERE TO SEEK A JOINT MEETING COVERING THE WIDER ISSUES, WE WOULD HAVE TO SEEK MINISTERIAL INSTRUCTIONS.

5. THE US EMBASSY TOLD BRIDGES TODAY THAT THEY EXPECT BUCKLEY TO VISIT ROME, PARIS, LONDON AND BONN (IN THAT ORDER) BETWEEN MARCH 9 AND 19. LIKELY DATES FOR LONDON WOULD BE BETWEEN MARCH 14 AND 17. THEY DID NOT REFER TO A JOINT MEETING.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 645 OF 26 FEBRUARY

INFO PRIORITY UKREP BRUSSELS, BONN, ROME, PARIS, UKDEL NATO, WARSAW.

MY TELNO 613: MEASURES AGAINST THE SOVIET UNION. *ms*

1. I CALLED THIS AFTERNOON WITH MINISTER (COMMERCIAL) ON NORMAN BAILEY (NSC) FOR A MEETING WHICH HAD BEEN TWICE POSTPONED, BAILEY SAID THAT THE NSC HAD MET EARLIER IN THE DAY, BUT HAD TAKEN NO DECISIONS. THE PRESIDENT WAS NOW CONSIDERING THE OPTIONS. HE WOULD BE LIKELY TO REACH A DECISION BY EARLY NEXT WEEK. (OLMER HAS SINCE TOLD ME THAT AT THE MEETING THE GROUND HAD BEEN GONE OVER VERY THOROUGHLY AND THAT ALL THE ARGUMENTS WE WOULD HAVE WANTED TO SEE USED HAD BEEN FORCEFULLY DEPLOYED).

2. BAILEY SAID THAT THINGS WERE EVIDENTLY GETTING WORSE IN POLAND AND THE AMERICANS SAW NO REASON TO LIGHTEN THE SANCTIONS AGAINST EITHER POLAND OR THE SOVIET UNION. THEIR THINKING HAD BEEN FAVOURABLY AFFECTED BY THE SUBSTANTIAL WILLINGNESS WHICH MOST OF THEIR ALLIES WERE NOW SHOWING TO DO THINGS WHICH THEY THOUGHT THE SITUATION DEMANDED. BUT THEY HAD BEEN UNFAVOURABLY IMPRESSED BY THE DECISION OF THE FRENCH BANKS TO FINANCE THE DOWN PAYMENT FOR THE GAS PIPELINE (WHICH THE FRENCH GOVERNMENT COULD NOT DISAVOW SINCE NATIONALISATION), AND BY REPORTS OF CRITICISM IN THE EUROPEAN PARLIAMENT OF SIGNIFICANT VIOLATIONS BY THE COMMISSION OF THE SANCTIONS WHICH THE COMMUNITY HAD CLAIMED TO TAKE AGAINST THE RUSSIANS AFTER AFGHANISTAN. EUROPEAN PARLIAMENTARIANS WERE ALSO SAID TO BE CRITICIZING THEIR GOVERNMENTS FOR NOT TAKING SUFFICIENTLY SERIOUSLY THE SECURITY IMPLICATIONS OF THE GAS PIPELINE. BAILEY DID NOT ATTEMPT TO ANTICIPATE THE PRESIDENT'S DECISION. BUT HE COMMENTED THAT THE DECISION WAS CLEARLY POLITICAL AND THAT IT INVOLVED TRADING OFF DAMAGE TO THE SOVIET UNION AGAINST DAMAGE TO THE ALLIANCE.

3. I ARGUED THAT, AS A RESULT OF EXCHANGES WITH THE AMERICANS IN EARLY FEBRUARY, WE AND THE OTHER EUROPEANS HAD ASSUMED THAT THE AMERICANS WOULD BE FLEXIBLE IN APPLYING THE MEASURES OF 29 DECEMBER TO EXISTING CONTRACTS, IF IN RETURN THE EUROPEANS PRODUCED A SIGNIFICANT PACKAGE OF MEASURES OF THEIR OWN, AND COULD WORK OUT ARRANGEMENTS FOR NON-UNDERMINING. THE EUROPEANS HAD DONE THE FIRST AND WERE READY TO DISCUSS THE SECOND. THEY HAD NOW DECIDED IN PRINCIPLE TO CUT THEIR IMPORTS FROM THE SOVIET UNION, A STEP ON WHICH THE UNITED STATES HAD NOT YET EMBARKED. I HAD EARLIER LEFT HIM A COPY OF OUR NOTE OF 24 FEBRUARY ABOUT EXISTING CONTRACTS WHICH HE HAD READ. HE SAID HE TOOK OUR POINTS.

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4. BAILEY SAID THAT THE QUESTIONS FOR THE ADMINISTRATION WERE: WHETHER THE REGULATIONS SHOULD BE EXTENDED TO COVER U.S. SUBSIDIARIES AND LICENCEES ABROAD; AND WHETHER THE REGULATION ON OIL AND GAS EQUIPMENT SHOULD BE APPLIED RETROSPECTIVELY TO AMERICAN COMPANIES. THE EXISTING SANCTIONS CLEARLY PREVENTED GENERAL ELECTRIC FROM EXPORTING ANY MORE ROTORS AND SHAFTS TO CONSTRUCTORS JOHN BROWN FOR RE-EXPORT TO THE SOVIET UNION. BAILEY'S PERSONAL VIEW WAS THAT THE PRESIDENT WOULD BE UNLIKELY TO MODIFY THIS. GIVEN THE CURRENT POLITICAL PRESSURES, ANY SOFTENING OF THE EXISTING ARRANGEMENTS WOULD GIVE RISE TO GREAT CRITICISM AND COULD FOR EXAMPLE RESULT IN A UNION BOYCOTT OF GRAIN EXPORTS.

5. BAILEY SAID THAT THE ADMINISTRATION WERE NOW PARTICULARLY INTERESTED IN TIGHTENING FUTURE CREDITS TO THE SOVIET UNION: THIS LED TO A WIDER DISCUSSION, REPORTED IN MY TELNO 646.

COMMENT

6. IT IS NOT EASY TO JUDGE FROM BAILEY'S REMARKS WHICH WAY THE CAT MAY JUMP. THE AMERICANS ARE EVIDENTLY VERY CROSS WITH THE FRENCH, AND WITH THE ALLEGED SANCTION VIOLATIONS BY THE COMMISSION (PARAGRAPH 2 ABOVE) ON WHICH I WOULD BE GRATEFUL FOR CLARIFICATION. BUT THEY ALSO SEEM TO BE WELL SEIZED OF THE POTENTIAL DANGERS TO THE ALLIANCE AND ON THE DESIRABILITY OF CONSULTATIONS.

7. ASSUMING THE PRESIDENT SO DECIDES, BAILEY THOUGHT THAT THE BUCKLEY MISSION WOULD NOW LEAVE FOR EUROPE IN ABOUT TEN DAYS. IT WOULD NOT NECESSARILY GO TO BRUSSELS. HE WAS INTERESTED IN THE THOUGHT THAT CONFUSION MIGHT BE AVOIDED IF THE MISSION MET ALL ITS INTERLOCUTORS TOGETHER, INSTEAD OF SEPARATELY IN CAPITALS. HE ASKED WHETHER LONDON WOULD BE PREPARED TO HOST SUCH A COLLECTIVE MEETING. I SAID I WOULD ASK, AND WOULD BE GRATEFUL FOR EARLY GUIDANCE.

THOMAS

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From the Secretary of State

Prime Minister

To note.

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The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
SW1A 2AH

26 February 1982

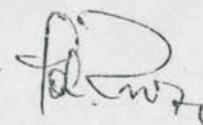
Dear Lord Carrington,

MEASURES AGAINST THE SOVIET UNION - QUOTAS

I am concerned about the draft measures which the Commission is proposing to implement the Council's decision on 23 February to introduce quota restrictions on imports of USSR manufactured goods and luxury products. My officials are already in touch with yours on the detailed points, but unless we can secure changes both to the draft regulation and to the lists of products to be covered we may well find ourselves saddled with a system which causes disproportionate harm to our interests. I am therefore writing to ask that before we go any further Ministers should be given the opportunity to consider the outcome of the COREPER meeting on March 1 at which these matters are to be discussed, and that the UK's position at that meeting is appropriately reserved.

We might also consider at the same time whether we could not use action on quotas by the Community as a bargaining counter with the Americans on existing contracts. The Community might for example agree to a 50% cut in USSR imports in return for American agreement to exempt existing contracts from their measures. Otherwise we might go for a much smaller reduction. This could point for the need for some delay in taking further decisions.

I am copying this to the Prime Minister, Chancellor of the Exchequer, Secretary of State for Industry, Secretary of State for Agriculture and Sir Robert Armstrong.

Yours sincerely, 

JOHN BIFFEN

(approved by the Secretary of State
and signed in his absence.)



Southern

Foreign and Commonwealth Office
London SW1

24 February 1982

Dear John

ANGLO/SOVIET SHIPPING TREATY

Thank you for your letter of 17 February to Peter Carrington which sets out the objectives you will be pursuing in the course of the renegotiation of the 1968 Anglo/Soviet shipping Treaty.

While I agree that the main aim should be to include provisions to correct the current imbalance in our bilateral trade, I am pleased to see that you are also looking at the possibilities of port closures and advance notification of Soviet vessels. In addition, anything you can do to achieve a common Community approach to the broader issues of the global activities of the Soviet Merchant Shipping Fleet is to be welcomed. It should be borne in mind that our treaty with the Soviet Union is more permissive than the equivalent treaties of our major partners and allies with the Russians.

I would be grateful if you could let me have some indication of the timetable and mechanism you envisage for consulting with partners and the opening of negotiations with the Soviet side. We must impress upon the Russians that we are serious in our aims and that our proposal to renegotiate, whilst an integral part of our response to developments in Poland, was not a purely political gesture; failure on their part to negotiate seriously could have implications for the future of the Treaty itself.

I am copying this letter to the Prime Minister, our colleagues on MISC 19 and to Sir Robert Armstrong.

Yours ever

The Rt Hon W John Biffen MP
Secretary of State for Trade
1 Victoria Street
LONDON SW1

2 5 FEB 1982





Prime Minister

A.S.C. 25/2

CONFIDENTIAL

From the Secretary of State

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Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Whitehall
London SW1

17 February 1982

Dear Peter,

ANGLO/SOVIET SHIPPING TREATY

We have told the Soviet Ambassador of our intention to renegotiate this Treaty. You will wish to know the objectives I shall be seeking to achieve in doing so. The essential problem is the great imbalance between British and Soviet carryings of our mutual seaborne trade. We do not accept that this should continue, but the Treaty in its present form contains no provisions on which we can rely in order to improve it.

My broad objective will therefore be to increase the share of the bilateral trade carried in British ships; and to this end to secure Soviet agreement to specific targets. My initial concern will be with the liner trade.

How far we go in seeking to raise our share of this market is something I shall need to reassess during the negotiations. Increasing the share carried by our shipping would not necessarily be without its costs for our trade. Much will depend on the willingness of the UK line now involved in the trade, or some other line, to overcome their present reluctance to commit additional tonnage to it; and that may depend in turn on their securing freight rates significantly higher than those at which the trade is now carried. Part of the cost of this would fall on our exporters and importers, so it will be a question of finding the right point of balance for British interests as a whole.



From the Secretary of State

As a separate objective, discussions are taking place between Departments on the possibility of limiting in the interest of security the number of British ports open to Soviet vessels, and the possibility of requiring Soviet vessels to give advance warning of their arrival. We shall of course see how these matters can also be pursued during the renegotiations.

I shall also be consulting our main Community partners. We have recently had some useful experience of the value of a concerted response to Soviet shipping, when we and four other Northern European countries got some useful concessions concerning the Soviet merchant fleet's activities in the cross-trades out of Northern Europe and the UK. We also know that these EC countries share our dissatisfaction with the shipping of their bilateral trade with the USSR, and I want to explore the scope for a concerted approach to this problem too.

I am copying this letter to our colleagues on MISC 19, and to Sir Robert Armstrong.

John Biffen

JOHN BIFFEN



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Prime Minister

From the Minister

A.S.C. 18-2

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The Rt Hon The Lord Carrington PC KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

A.S.C. 23/2

h.a.

17 February 1982

Mr Beech

ms

[Handwritten signature]

POSSIBLE ACTION AGAINST SOVIET EXPORTS OF MANUFACTURED AND LUXURY PRODUCTS TO THE COMMUNITY

Thank you for your minute of 15 February about possible measures against Russia.

Experience of trade sanctions suggests that they tend to be ineffective and bring little but problems to those countries imposing them. Because of this I have serious doubts about the wisdom of embarking on this path. I can see that there might be advantages for our manufacturers of industrial goods if we were to curtail certain competing Soviet exports. But there are no such benefits for our food and drink manufacturers and to take action here could attract retaliation to this sector. Moreover, what may start as a relatively limited action could easily escalate to the Eastern bloc countries as a whole.

A further reason for my hesitation over items such as caviar and canned salmon etc is that Soviet exports to us, and possibly to the rest of the Community, have been falling steadily in recent years. If the Community decided, for example, to restrict trade to, say, 1980 levels this would be seen by the Soviets as an idle gesture. As you say, the most important item in my sector that could be hit is whisky. Here there may not be much to lose in trade terms - although the sums involved may not seem significant, the psychological impact on an industry already seriously affected by cut-backs and redundancies is another matter. It seems however that vodka is not on the list that has been circulated and this might help somewhat to reduce the risk of retaliation on whisky.

/If however ...

If however it emerges in Brussels this week that most of the Member States support restraints of this nature I would not insist on our standing aside from a consensus that the luxury foods on the list should be included among the possible candidates.

/ I am sending copies to members of OD and to Sir Robert Armstrong.

17 FEB 1982

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PETER WALKER

*6.5 for personal reasons
of formal measure reports of
council and no reports
of activity!!*



Prime Minister

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AR 17.

FCS/82/23

MINISTER OF STATE FOR AGRICULTURE, FISHERIES AND FOOD

Possible action against Soviet exports of
manufactured and luxury products to the Community

1. As you know discussions have been going on in the Community to identify possible measures against Soviet exports to the Community. Discussion has focused on exports of manufactures, since many of these compete with hard-pressed Community industries, and of luxury products, including food products such as vodka and caviar. The Presidency has now invited Member States to say by 17 February which goods in these categories they could not accept restrictions on.

2. I am told that you have expressed reservations about the inclusion of luxury food products on the grounds that restrictions on imports of food products on political grounds could prejudice our position on such questions as imports of cereals substitutes; and that the Russians might retaliate against our whisky exports.

3. It is likely that there will be strong support among our partners for the appearance of these products among the options which the Council will be asked to choose from on 22/23 February. They see them as a demonstrative signal to the Russians which does no damage to Western interests. I share this view. Whisky exports to the Soviet Union are minimal; the Russians make a lot of money out of selling it internally at vastly inflated prices; and even if the Russians did retaliate, the curtailment of their whisky would affect precisely those in the Soviet Union whom we intend our signals to reach; in any event we should not be alone, since the French export cognac and other Member States may also export eaux de vie to the Soviet Union. On the trade point I do not see why our position

/on imports



on imports of cereals substitutes should be in any way affected. Our desire to see their continued importation is entirely defensible in economic and GATT terms; there is no question of politically-motivated sanctions in their case.

4. The UK has been pressing our partners to produce a credible list for action against Soviet imports. It would be difficult to defend either in the Council or in Parliament a refusal to go along with our Community partners on luxury food products. I therefore hope you will agree that we should not oppose their remaining on the list of possible measures.

5. I am sending copies of this minute to members of OD and Sir Robert Armstrong.

C
(CARRINGTON)

Foreign and Commonwealth Office, SW1

15 February 1982

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TO PRIORITY FCO

TELEGRAM NUMBER 82 OF 20 JANUARY 1982

INFO PRIORITY WASHINGTON BONN UKDEL NATO

INFO SAVING ATHENS, ANKARA, THE HAGUE, BRUSSELS, OTTAWA, ROME,
OSLO, COPENHAGEN, TOKYO, AND LISBON

COCOM HIGH LEVEL MEETING

SUMMARY

1. THE MEETING (PARIS, JANUARY 19/20) PROVED LESS DIFFICULT THAN EXPECTED. THE AMERICAN DELEGATION DID NOT PRESS THEIR PROPOSALS TO REVISE THE STRATEGIC CRITERIA AND TO EXTEND BLANKET ^{COVERAGE} MESSAGE TO A WIDE RANGE OF SOVIET INDUSTRIES INVOLVED IN DEFENCE. SATISFACTORY CONCLUSIONS ADOPTED WITH HELP OF EFFECTIVE FRENCH CHAIRMAN (PAYE). BRIEF STATEMENT WAS ISSUED BY FRENCH MFA ON JANUARY 20 (SEE PARIS TELEGRAM NO 80 -NOT TO ALL). IT WAS AGREED THAT THERE SHOULD BE NO FURTHER COMMENT TO THE PRESS.

DETAIL

2. FIRST DAY BEGAN WITH SHORT INTRODUCTION BY BUCKLEY LEADING LARGE US DELEGATION. HE DID NOT GO OVER THE DETAILED US CASE, WHICH HAD BEEN REPEATED IN A LONG PAPER EMPHASIZING NINE DEFENCE PRIORITY INDUSTRIES CIRCULATED ON THE EVE OF THE MEETING. NOR DID HE REFER TO REVISED CRITERIA. BRIDGES (UK) SPOKE NEXT, INDICATING OUR STRONG AND CONTINUING SUPPORT FOR COCOM AND NEED TO COVER AREAS OF CONCERN SUCH AS TECHNOLOGY TRANSFER ON THE TRIED CASE BY CASE BASIS. WE ALSO LOOKED FOR PRACTICAL IMPROVEMENTS IN COCOM'S WORK, WHICH WE SAW AS ESSENTIALLY LONG TERM AND NOT SUSCEPTIBLE TO DETAILED CHANGES IN RESPONSE TO SHORT TERM VICISSITUDES IN EAST/WEST RELATIONS, ALTHOUGH THESE WOULD NECESSARILY AFFECT OUR BROADER POLICY TOWARDS THE COMMUNIST WORLD WITHIN WHICH FRAMEWORK COCOM OPERATED. WE ALSO SUPPORTED THE TIMELY US INITIATIVE FOR THE HLM. THIS LINE WAS GENERALLY SUPPORTED BY THOSE WHO FOLLOWED. THERE WAS VIRTUAL UNANIMITY ON THE LONG TERM NATURE OF THE TASK AND ON THE NEED TO ACT ON THE AMERICAN CONCERNS BUT WITHIN THE EXISTING METHOD OF WORK. THERE WAS NO SPECIFIC SUPPORT TO CHANGES IN THE CRITERIA. FISCHER (FRG) AND OTHERS SPOKE OF THE NEED FOR A SUCCESSFUL OUTCOME OF THE MEETING WHICH REAFFIRMED THE UNITY OF THE PARTNERS IN APPROACHING THE WORK AHEAD.

3. AFTERNOON SESSION WAS MAINLY DEVOTED TO US PRESENTATION WITH SLIDES SHOWING THE LARGE CONTINUING SOVIET INVESTMENT IN DEFENCE INDUSTRIES AND THE EXTENT TO WHICH THIS DRAWS ON WESTERN TECHNOLOGY. INTENTION WAS TO SHOW EXTENT TO WHICH OUR TECHNOLOGY

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LEAKED, AS NOT COVERED BY COCOM, AND WAS OBTAINED BY CLANDESTINE MEANS. THE CASE WAS QUITE EFFECTIVELY MADE ALTHOUGH IT DID NOT COVER ALL THE AREAS WHICH THE AMERICANS LISTED: EG GAS TURBINES AND COMMUNICATIONS SWITCHING.

4. ON SECOND DAY THE MORNING WAS SPENT IN A GENERAL DEBATE ON THE EFFECTIVENESS OF NATIONAL MEASURES, THE NEED FOR CLOSER HARMONIZATION OF THESE, AND IMPROVEMENTS TO COCOM MACHINERY. OUR PROPOSALS FOR SPEEDING UP THE PROCESSING OF APPLICATIONS WAS GENERALLY WELCOMED, AND ELICITED US CONTRITION AT THE DELAYS IN THEIR SYSTEM.

5. DISCUSSION THEN TURNED TO THE SUMMARY OF CONCLUSIONS WHICH WERE ADOPTED AS A CONFIDENTIAL TEXT FOR GUIDANCE OF FUTURE WORK OF COCOM. THESE ARE SATISFACTORY AND MET ALL OUR POINTS. THERE IS NO REFERENCE TO POSSIBLE REVISION OF STRATEGIC CRITERIA. WITH OUR SUPPORT THE US LIST OF DEFENCE PRIORITY INDUSTRIES WAS READ INTO THE TEXT AS SUBJECTS FOR FURTHER STUDY (WITH A VIEW TO INCLUSION IN THE COCOM LISTS), BUT WITHOUT COMMITMENT TO ANY PARTICULAR ITEM. IT WAS ALSO AGREED THAT WORK ON HARMONIZING NATIONAL PROCEDURES SHOULD BE REMITTED TO AN EXISTING SUB-COMMITTEE. THE US PROPOSAL FOR A DEFENCE SUB-COMMITTEE WAS WIDELY OPPOSED BUT A COMPROMISE PUT FORWARD BY BRIDGES, THAT COCOM ITSELF MIGHT HOLD SESSIONS WITH DEFENCE EXPERTS PRESENT, WAS ADOPTED WITH CANADIAN SUPPORT. ANOTHER US PROPOSAL FOR A FURTHER HLM IN 1983 WAS OPPOSED FROM THE CHAIR AND NOT ACCEPTED.

6. TEXT OF SUMMARY CONCLUSIONS FOLLOW BY SAVINGRAM.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

HIBBERT

LIMITED
TRED
DEFENCE D
NAD
ECD (E)
ACDD
NEWS D
EESD
PUSD
PS
PS/LPS

PS/MR HURD
PS/LORD TREGARNE
LORD BRIDGES
MR WRIGHT
MR BULLARD
MR EVANS
MR GILLMORE
MR GOODISON
MR HANNAY

[REPEATED AS REQUESTED]

[NOT ADVANCED]



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

20 January 1982

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

N. B. P.S.

ML 20/1

Dear John

STRATEGIC EXPORTS TO THE SOVIET UNION

My Secretary of State has belatedly received copies of the later exchanges on the above which originated with the Foreign and Commonwealth Secretary's minute to the Prime Minister of 7 January (PM/82/2).

2 He has asked me to say that while he fully recognises the need for us to demonstrate support in principle for the American proposals to broaden the scope of the present COCOM embargo we should not allow ourselves to be committed until we have identified precisely what is involved and the attitude of our partners. It is not possible to make an accurate assessment of the potential impact on our industrial sector. But even if the tentative estimate of £50 million is about right, the effect will fall unevenly on the relatively few companies engaged in the sale of products of medium level technology. He entirely endorses therefore, the comments made on behalf of the Foreign Secretary in Francis Richard's letter to you of 13 January and the Trade Secretary's letter of 18 January.

3 My Secretary of State would be grateful if all correspondence on this topic could be copied to him as well as to the members of OD.

4 I am sending copies of this letter to the Private Secretaries to members of OD and to David Wright in the Cabinet Office.

Yours ever

Richard

RICHARD RILEY
Private Secretary

SUBJECT

DS.



file ce fuo

10 DOWNING STREET

cc handle
Ops

THE PRIME MINISTER

18 January 1982

See
Union

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T/11/82

Jean Ron.

Thank you for your letter of 13 January about COCOM.

I too have been considering what we should seek to achieve at the special High Level Meeting on 19 and 20 January.

I agree with you that the uncontrolled export of technology and critical equipment that contributes significantly to the shift in the military balance must be stopped. Our Ministry of Defence will be represented in our delegation.

I hope this meeting will provide a political framework for future meetings on technical issues, leading to much closer consultation, co-operation and agreement among COCOM members.

I am sure you are right to distinguish between responses to events in Poland and the longer-term issues which the High Level Meeting will address. The latter are of great importance to our collective security, however the Polish situation may develop.

Our consultations with your Government in preparation for this meeting have been most useful. We shall be glad to continue them.

*Y
Lansdown*

Ronald

The President of the United States of America



CONFIDENTIAL

PRIME MINISTER

STRATEGIC EXPORTS TO THE SOVIET UNION

I have seen the correspondence arising from the Foreign and Commonwealth Secretary's minute (PM/82/2) to you of 7 January. I share his view that, while we should aim to respond positively and constructively to specific United States proposals to amend the COCOM List, it is right to be more cautious over changes in strategic criteria which are open-ended and potentially bear much more heavily on European than American commercial interests, and do not necessarily do much to limit Soviet military capability. Without detailed exploration of the totality of their proposals with the Americans, it is difficult to make any reliable estimate of the consequences for our trade. But it would not be surprising to find that an amount in excess of £50m a year could be involved.

I also agree that there is a need to separate COCOM's long-term objectives and criteria from our response to the present situation over Poland. Furthermore we must continue to ensure that the controls are such that the great majority of our firms continue to regard them as reasonable and equitable; circumvention is frequently difficult to prevent so acceptance of the system by those most affected is a very necessary requirement.

I am copying this to Members of OD and to Sir Robert Armstrong.

WJB

Department of Trade
1 Victoria Street
London, SW1H 0ET

WJB

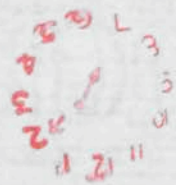
15th January 1982

CONFIDENTIAL

N. S. P. R.

AR 15/1

h.a.



15 JAN 1982



Foreign and Commonwealth Office

London SW1A 2AH

15 January 1982

Dear John,

Type letter pl.

COCOM

*15.
1*

I enclose a draft reply to President Reagan which you asked for in your letter of 13 January.

There is only one passage in President Reagan's letter which presents us with any real difficulty. That is the last sentence in paragraph 3, which refers to the export of technology and critical equipment for the Soviet military infrastructure. This is a reference to the American proposal to amend the criteria which define the term strategic, acceptance of which could in principle extend the scope of embargo very considerably. This problem is covered more fully in my letter of 13 January, in response to yours of 11 January.

While we need to respond positively and constructively to specific US proposals to amend the COCOM list, the Prime Minister may wish to be more cautious over expressing support for changes in the strategic criteria. Such changes could lead to extensions of the embargo which bore particularly heavily on the commercial and industrial interests of the Europeans and Japanese; and without necessarily doing much to limit the military capacity of the Soviet Union.

I have not been able to consult Lord Carrington about the draft message, which I shall put to him in weekend box. If you agree, you may wish to pass it to the Prime Minister on this basis so that we can get a reply off on Monday morning.

Yours ever,

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

Registry
No.

DRAFT MESSAGE

Type 1 +

SECURITY CLASSIFICATION

Top Secret,
Secret,
Confidential,
Restricted,
Unclassified.

To: - President Reagan

From
Prime Minister

Telephone No. Ext.

Department

PRIVACY MARKING

..... In Confidence

Thank you for your letter of 13 January about COCOM.

I too have been considering what we should seek to achieve at the special High Level Meeting on 19 and 20 January.

I agree with you that the uncontrolled export of technology and critical equipment that contributes significantly to the shift in the military balance must be stopped. ^{Ow} ~~The British~~ Ministry of Defence will ~~therefore~~ be represented in our delegation.

~~Within this framework,~~ I ^{hope the} believe that ~~the/aim~~ ^{will} to provide a political framework for future meetings on technical issues, leading to much closer consultation, cooperation and agreement among COCOM members.

^{are sure you are right to distinguish} I welcome the distinction you draw between responses to events in Poland and the longer-term issues which the High Level Meeting will address. The latter are of great importance to our collective security, however the ^{polish} situation ~~in and over Poland~~ may develop.

^{Ow} ~~The~~ consultations with your Government in preparation for this meeting have been most useful. We ~~stand~~ ^{shall be glad} ready to continue them.

Handwritten signature and initials

11 5 JAN



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POST OFFICE
NEW YORK
NEW YORK
NEW YORK
NEW YORK

CONFIDENTIAL

15 January, 1982

Strategic Exports to the Soviet Union

Thank you for your letter of 13 January, containing a fuller note on the American proposals. In the light of this information the Prime Minister agrees that the United Kingdom Representative at the meeting to be held in Paris on 19 or 20 January should be guided by the views outlined in the minute of 7 January by the Foreign and Commonwealth Secretary.

I am sending a copy of this letter to the Private Secretaries to the members of OD and to David Wright (Cabinet Office).

F N Richards Esq
Foreign and Commonwealth Office

CONFIDENTIAL

RM

①.

PRIME MINISTER

Strategic exports to the Soviet Union

In his minute of 7 January the Foreign Secretary proposed certain instructions for the UK Representative (Lord Bridges) at the meeting to be held in Paris on 19 or 20 January to discuss, among other things, American proposals for strengthening the COCOM arrangements. File F

You commented that you would have hoped we could be more forthcoming on the second of the four American proposals, namely that the scope of the COCOM embargo should be broadened to cover exports to "industrial sectors which support the military potential of the Soviet Union, either directly or indirectly".

I therefore asked the FCO for a more detailed explanation of the Foreign Secretary's views on this problem. This is now attached. Given the interest of British companies in present trading links with Russia, it does appear difficult to take a more positive attitude towards this particular American proposal. It would certainly be difficult to obtain inter-departmental agreement on a more positive line before the meeting on 19/20 January.

Agree, therefore, that Lord Bridges should be guided by the instructions in paragraphs 7-8 of the Foreign Secretary's original minute?

Yes mt

A.S.C.

14 January 1982

T S / 82

2

SUBJECT

cc Mester
cjs



EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

January 13, 1982

mt.

Prime Minister

A draft reply will be provided.

A-S-C-T¹³

Dear Margaret:

At our meeting in Ottawa last July, I spoke about the need for better control over trade with the Soviet Union in strategic goods and technologies as we pursue our common goal of strengthening Western security. We agreed to hold a special high-level meeting of the East-West Trade Coordinating Committee to discuss this issue.

k-cc
M¹³/i.

That meeting should reach a consensus for tighter controls that are better enforced and administered. Over the past decade, Western exports (and illegal Soviet acquisitions) have made significant contributions to the military capabilities of the USSR and the Warsaw Pact.

These contributions have added to the shift in the global military balance that we must now redress at great expense. The uncontrolled export of technology and critical equipment for the Soviet military infrastructure must be stopped.

I know that there are differences among the COCOM countries on these issues. But we all recognize that concern for our security must be paramount. To emphasize that concern, I have asked the U.S. Defense Department to join the small U.S. delegation to the high-level meeting.

We look forward to continuing our consultations with your Government as we prepare for this meeting. We have already discussed a number of details, and agree that the meeting should provide the political framework for further meetings on technical issues.

Our diplomatic representatives are consulting now on appropriate responses to the events in Poland. These consultations and individual government decisions may lead to the adoption of special measures. However, the issues which the high-level COCOM meeting will address predate and will continue beyond events in Poland and should be addressed on their own merits. Their successful resolution is vital to our collective security. I hope you share my view that this meeting should provide the framework for future meetings on technical issues and lead to much closer consultation, cooperation and agreement among COCOM members.

Sincerely,

Ronald Reagan



Foreign and Commonwealth Office

London SW1A 2AH

13 January 1982

Dear John

Strategic Exports to the Soviet Union

Thank you for your letter of 11 January 1982 on this subject. I attach the fuller note which you requested.

The Foreign and Commonwealth Secretary shares the Prime Minister's view that we should give the American proposals as much support as we can, on political grounds. The limiting factor is the damage which would be done to our own commercial and industrial interests. A tentative estimate made by Departments is that the unilateral controls imposed by the Americans on exports to the USSR in the Polish context, together with the proposals they have made for COCOM, would reduce our exports to the USSR quite substantially, perhaps by £50m annually. Such estimates are hard to make when the COCOM proposals have been defined only in outline. But it is clear that a number of British companies with traditional trading links with Russia would be much affected, notably ICL who have for over a decade sold computers incorporating a US part to the USSR. For a company in ICL's position this might be a serious matter. Another company which might be affected is Rank-Xerox (photocopying machines). There are no doubt others particularly in engineering and capital goods.

It is for the Departments of Trade and Industry to offer detailed advice on this aspect. But the proposals made in Lord Carrington's minute of 7 January reflect their views about the extent to which we can give active support to the American proposals.

I am sending copies of this letter to the Private Secretaries to members of OD and to David Wright in the Cabinet Office.

Yours ever,
Francis Richards
(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL



Strategic Exports to the Soviet Union

Paragraph 2b of the Foreign and Commonwealth Secretary's minute to the Prime Minister and other members of OD refers to an American proposal that the scope of the embargo applied by COCOM should be broadened.

There are two ways in which this can be done. One is to make additions to the embargo lists to take account of advances in technology and changes in the strategic balance. Such updating is the purpose of the review of the COCOM embargo lists which begins later this year. The American proposals for the High Level Meeting of COCOM to be held on 19/20 January make only passing reference to specific categories of goods and technologies to be added to the embargo lists in order to maintain the lead which the West now has in military technology. The other is to revise the criteria by which goods and technologies are defined as strategic. The emphasis of the American proposals is on extending the scope of the embargo by revising the strategic criteria to cover exports to "industrial sectors which support the military potential of the Soviet Union directly or indirectly". This is much more open-ended than the existing strategic criteria. If accepted, it would render a much greater proportion of Western exports of industrial goods to the Soviet Union liable to control. How large a proportion this would be would depend on the interpretation given to the concept of industries which indirectly support the Soviet Union's military potential. The Federal Republic of Germany, France, Italy, Japan and Britain would in any case be more affected than the United States whose exports to the Soviet Union are largely grain. It is doubtful whether the COCOM system could accommodate the political and practical strains of what in principle would be a far-reaching extension of the embargo.

No such political difficulties attend the updating of the embargo lists. The Americans have not so far put forward definitive proposals for the categories of goods and technologies they would like to have added, though it is their intention to do so. The examples they have adduced have been illustrative, not comprehensive. Nor have they been documented in a way which would allow our experts fully to assess their merits. Such assessment presents technical problems and takes time. Many of the specific categories of goods and technologies which the Americans have so far quoted seem prima facie good candidates for inclusion in the COCOM lists under the existing strategic criteria. We believe our major partners share this view.

The Americans have not been particularly successful in their attempts to update the COCOM lists following Afghanistan. This may have influenced the way in which they framed their

/proposals



proposals (tabled long before the military took over in Poland) for the High Level Meeting. By working for agreement at the HLM on guidelines for the review of COCOM's three lists of embargoed goods and technologies to take place in 1982 (paragraph 7 of the Foreign and Commonwealth Secretary's minute), and by adopting a sympathetic and constructive attitude towards whatever specific categories of goods and technologies the Americans propose for addition in the course of the Review, we will be able to demonstrate that we share the fundamental American concern which is to preserve the Western technological advantage. We have made it clear to the Americans in COCOM and other fora that we attach great importance to this. But we have also stressed the need to concentrate on proposals on which agreement might realistically be reached so as to preserve COCOM's effectiveness.

73 JAN 1962

73 JAN 1962

13 January 1982

COCOM

✓ I enclose a letter which the Prime Minister received from President Reagan this morning. I should be grateful if you could provide an appropriate draft reply as soon as possible.

AJC

Brian Fall Esq
Foreign and Commonwealth Office.

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EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

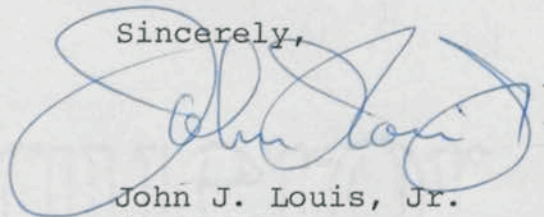
January 13, 1983

The Rt. Honorable
Margaret Thatcher
The Prime Minister
10 Downing Street
London

Dear Prime Minister:

I enclose a letter to you from President Reagan
which was received by cable this morning.

Sincerely,



John J. Louis, Jr.
Ambassador

Enclosure: as stated



FUR

RW

S. Under

10 DOWNING STREET

From the Private Secretary

11 January, 1981

Strategic Exports to the Soviet Union

The Prime Minister saw the Foreign and Commonwealth Secretary's minute of 7 January over the weekend. She commented that she would have hoped that we could have adopted a more forthcoming position on the American proposal described in paragraph 2b of the minute, namely that the scope of the embargo applied by COCOM should be broadened.

I think it would be helpful if you could provide a slightly fuller note on this aspect before the Prime Minister indicates her views on the line which should be taken by the United Kingdom representative at the meeting of senior officials in Paris on 19 or 20 January.

I am sending copies of this letter to the Private Secretaries to the members of OD and David Wright (Cabinet Office).

B Fall, Esq
Foreign and Commonwealth Office

RW



PM/82/2

PRIME MINISTER

007
I would have
hoped we could
be more
forthcoming
on (w).

Prime Minister
Agree that Lord Bridges should be
briefed on these lines, subject to
any comments from other members of ad?

A.S.C. 8.1

Strategic Exports to the Soviet Union

1. You will remember the discussion at Ottawa about the control of strategic exports to the Soviet Union. President Reagan put us all on notice that the United States wished to make proposals about improving the present system of controls.

2. The Americans duly put their proposals to all their partners in COCOM (the NATO countries minus Iceland, plus Japan) in the middle of October. The proposals are complicated in detail; indeed they are contained in a memorandum which runs to fifteen pages. But the most important of them are that:

- a. the criteria by which goods and technologies are defined as strategic should be revised;
- b. the scope of the embargo applied by COCOM should be broadened to cover exports to 'industrial sectors which support the military potential of the Soviet Union, either directly or indirectly' (nine such sectors are named; I enclose at Annex 1 the passage in the American memorandum which lists these sectors and sets out the case for extending the embargo to cover them);
- c. the licensing procedures of the Member States should be harmonised; and
- d. the embargo enforcement procedures of the Member States should be improved.

3. The Americans have made these proposals because they believe that, although the COCOM has worked reasonably well within its existing frame of reference, the Soviet Union and

/the other



the other Warsaw Pact countries still obtain equipment and technology of strategic and military importance from countries which belong to COCOM. They attribute this partly to the evasion of COCOM controls and partly to the limited coverage of these controls.

4. It has been agreed that a meeting of senior officials should be held in Paris, within the COCOM framework, on 19 or 20 January. I enclose at Annex 2 the agenda for this meeting. As you will see, it makes no reference to the American proposals I have described. But the Americans have made it clear that they intend to press for discussion of these proposals.

5. The meeting has always seemed likely to be a difficult one. It will be all the more difficult now that President Reagan has announced the imposition of unilateral American sanctions against the Soviet Union, some of which concern the export of high technology equipment to that country.

6. During the autumn, the Americans held bilateral talks in preparation for the meeting with the Germans, the French, the Japanese and ourselves. The Germans, the French and the Japanese all made it clear that, although they wished COCOM to remain an effective instrument for the control of strategic exports, they were not in favour of radical change in the scope of the embargo. We said that we hoped the Americans would not rush their fences. There was much in their proposals that was contentious and much that was technical. We hoped, therefore, that the Americans would concentrate on working for a political consensus about what we all wished COCOM to achieve in the 1980s. We did not commit ourselves, one way or the other, on any of the American proposals.

7. I believe that our principal purposes at the meeting should be to focus discussion on the future role of COCOM;

/to prevent



to prevent the kind of disagreement among participants which could damage COCOM and set up strains between the United States and their partners; and to work for agreement on guidelines for the review of COCOM's three lists of embargoed goods and technologies which is in any case due to take place in 1982. It will be helpful if the Americans do not press their partners to say whether they can or cannot accept their four proposals. If, however, they do so, our general objective should be to leave it to others (eg the French and Germans) to make the qualifications they think necessary. For our part, I suggest that we should be prepared to accept the third and fourth of these proposals (relating to the harmonisation of licensing procedures and the improved enforcement of controls). The first two proposals (about the revision of COCOM's strategic criteria and the broadening of the embargo) are more difficult. We could if necessary say that the far-reaching implications of these proposals for our trade with the Soviet Union and other communist countries will need more detailed study before decisions can be reached.

8. If the US Representative at the meeting says that our attitude does not go far enough, and claims that a much tougher COCOM regime is required because of repression in Poland, we would again hope to leave it to others to carry the burden of defending their position. Our own line might be that COCOM has long term objectives and criteria: these should not be confused with economic measures directed at the Soviet Union for political and short-term reasons, which should be considered - as we are already doing - on their own merits.

9. Our representative at the meeting will be Lord Bridges. I hope that you, and those to whom I am copying this minute, can agree to his going to Paris with a brief based on the

/views



views which I have outlined.

10. I am sending copies of this minute and enclosures to other members of OD and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'Carrington', written above a horizontal line.

(CARRINGTON)

Foreign and Commonwealth Office
7 January 1982

SOVIET UNION: DEFENCE PRIORITY INDUSTRIES IDENTIFIED BY
UNITED STATES

1. COMPUTERS: SOVIET PROGRESS IN COMPUTER TECHNOLOGY HAS GREATLY BENEFITTED FROM SUBSTANTIAL IMPORTS OF WESTERN EQUIPMENT AND SOFTWARE. A MASSIVE "REVERSE ENGINEERING;" PROGRAM IS CREDITED WITH REDUCING A 10-20 YEAR EAST-WEST GAP IN COMPUTER DEVELOPMENT AND PRODUCTION TO THE PRESENT ESTIMATE OF 3-7 YEARS. COMPUTERS ARE CRITICAL IN THE OPERATION AND SUPPORT OF MILITARY WEAPONS AND COMPLEX INDUSTRIAL PROCESSES. THE PRESENT PERFORMANCE ADVANTAGE ENJOYED BY THE WEST IN COMPLEX COMPUTERIZED GUIDANCE, CONTROL, AND COMMUNICATIONS SYSTEMS MUST BE MAINTAINED.

2. COMMUNICATIONS: THE SOVIET COMMUNICATIONS INDUSTRY LAGS SUBSTANTIALLY BEHIND THE WEST IN TERMS OF CAPABILITY AND TECHNOLOGY. WESTERN COMMUNICATIONS TECHNOLOGY HAS BEEN ACQUIRED THROUGH DIRECT PURCHASE OF COMPLETE PRODUCTION FACILITIES AND THROUGH TECHNICAL AGREEMENTS. THE SECURITY OF COCOM MEMBER COUNTRIES IS DEPENDENT ON COMMUNICATIONS NETWORKS WITH FEATURES DERIVABLE FROM ADVANCED TECHNOLOGY. AN EFFECTIVE COORDINATED EMBAPGO

CAN HELP PRESERVE THE WESTERN LEAD OVER THE WARSAW PACT IN COMMUNICATIONS TECHNOLOGY AND IN COMMAND AND CONTROL SYSTEMS.

3. MICRO-ELECTRONICS: THE DEVELOPMENT OF AN INDIGENOUS COMPUTER CAPABILITY REQUIRES THE CONTINUOUS INFUSION OF TECHNOLOGICAL ADVANCES IN MICRO ELECTRONIC COMPONENTRY AND INTEGRATED CIRCUIT DESIGN AND PRODUCTION. IN RECENT YEARS, THE SOVIETS HAVE BEEN SUCCESSFUL IN OBTAINING INTEGRATED CIRCUIT MANUFACTURING EQUIPMENT LEGALLY AND ILLEGALLY FROM THE WEST. COCOM HAS PARTIALLY EMBARGOED RAW MATERIALS, SUCH AS ELECTRONIC GRADE POLYCRYSTALLINE SILICON, WHICH ARE ESSENTIAL TO IC PRODUCTION. THIS MATERIAL IS AS CRITICAL AS THE PRODUCTION MACHINERY REQUIRED TO PRODUCE ELECTRONIC COMPONENTS. HOWEVER, MORE NEEDS TO BE ACCOMPLISHED, BECAUSE SHIPMENTS OF THIS SILICON AND OF PLANT TO PRODUCE IT ARE APPARENTLY STILL TAKING PLACE.

4. AEROSPACE: MAJOR CONCERNS WITH AEROSPACE TECHNOLOGY FOCUS ON COMPUTER-AIDED DESIGN, AIRCRAFT ENGINES, AND AIRFRAMES (ESPECIALLY WIDE-BODIED AIRCRAFT). METALLURGICAL PROCESSES AND PROTECTIVE COATINGS CONTRIBUTE TO THE ABILITY OF AN ENGINE TO ACHIEVE HIGHER EFFICIENCY AND LONGER SERVICE LIFE BY OPERATING AT HIGHER TEMPERATURES AND PRESSURES.

5. MACHINE BUILDING: THE SOVIET UNION'S ENTIRE INDUSTRIAL BASE IS DEPENDENT ON MACHINE BUILDING TECHNOLOGY. MACHINE TOOLS, FOR EXAMPLE, REQUIRE STRINGENT CONTROLS AS TO THE NUMBER OF SIMULTANEOUSLY CONTROLLED AXES AND METAL CUTTING AND POSITIONING ACCURACIES. SUCH MULTIAxis HIGH PRECISION TOOLS, COUPLED WITH COMPUTER NUMERICAL CONTROL UNITS, CAN SIGNIFICANTLY ENHANCE THE PRODUCTION AND QUALITY OF PARTS, COMPONENTS, AND TOOLS USED IN DEFENSE PRIORITY INDUSTRIES SUCH AS THE AEROSPACE INDUSTRY.

6. SHIPBUILDING: SINCE THE CUBAN MISSILE CRISIS IN 1962, THE SOVIET UNION HAS EMBARKED ON A MASSIVE NAVAL SHIPBUILDING PROGRAM. IN RECENT YEARS, THEY HAVE BEGUN TO EMERGE AS A DEEP-OCEAN NAVAL POWER. UNCONTROLLED SALES OF SUCH ITEMS AS FLYING DRYDOCKS HAVE CONTRIBUTED TO SIGNIFICANT SOVIET ADVANCES.

7. METALLURGY: THE SOVIETS HAVE MADE GREAT STRIDES IN THE FIELD OF METALLURGY BUT THEY STILL HAVE A NEED FOR WESTERN TECHNOLOGY AND EQUIPMENT. FOR INSTANCE, THEY CAN BENEFIT EXTENSIVELY FROM OVERALL PROCESS KNOW-HOW AND MANAGEMENT TECHNIQUES FOR A STEEL PRODUCTION FACILITY. THREE U.S. PROPOSALS TO REVISE THE COCOM LIST IN THE METALLURGY AREA ARE NOW PENDING IN COCOM.

8. CHEMICALS: THE CHEMICAL SECTOR CONTRIBUTES TO MANY MILITARILY RELATED INDUSTRIES. THE DEVELOPMENT OF POLYMERS IS A GOOD EXAMPLE. POLYMERS WITH ADHESIVE QUALITIES ARE BEING DEVELOPED FOR BONDING OF SHEET ALLOYS IN HIGH-PERFORMANCE AIRCRAFT AND OTHER MILITARY EQUIPMENT. THE BONDING OF POLYMER SURFACES IS KEY TO THE ENTIRE FIELD OF COMPOSITE MATERIAL TECHNOLOGY. SOME CLASSES OF SPECIAL POLYMERS ARE BEING CONSIDERED FOR SELECTIVE ABSORPTION OF CHEMICAL AND BIOLOGICAL AGENTS. SOME POLYMERS MAY BE USED TO CATALYZE OR OTHERWISE CONTROL THE SENSITIVITY OF EXPLOSIVES.

9. HEAVY VEHICLES: WESTERN TECHNOLOGY HAS BEEN USED BY THE SOVIET UNION TO PRODUCE GENERAL PURPOSE HEAVY TRUCKS WHICH SUPPORT MILITARY LOGISTICS IN OPERATIONS SUCH AS THE INVASION OF AFGHANISTAN.

AGENDA FOR COCOM HIGH LEVEL MEETING - 19/20 JANUARY

- (i) Political and strategic aspects of COCOM
 - Political Aspects
 - Strategic aspects including COCOM's effectiveness, scope and administration of controls

- (ii) National Control Policies
 - Enforcement and harmonisation of procedures

- (iii) Future Work

- (iv) Other Business

67 JAN 1992

1992 JAN 67

Soviet Union



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Mr Alexander (or)

From the Minister

CONFIDENTIAL

Am

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

28 May 1981

R. Bee

AGRICULTURAL EXPORTS TO THE USSR

Thank you for your minute of 14 May.

In view of your judgement that any attempt to oblige the Commission to bring politically sensitive proposals for sales to Russia to COREPER would fail, I agree with your suggestion that Sir Michael Butler be instructed to make clear our position to the Commission. You will I am sure appreciate that, unless COREPER has the chance to intervene, there is nothing that our representatives in the Management Committee can do to stop politically controversial proposals from being put to the vote.

I am copying this minute to the Prime Minister, to other members of OD and to Sir Robert Armstrong.

Peter Walker

PETER WALKER

28 MAY 1981



[Faint handwritten text, possibly initials or a signature]

[Faint, illegible text, likely bleed-through from the reverse side of the page]

CONFIDENTIAL



*File AW
cc PCO
Soviet Union*

10 DOWNING STREET

From the Principal Private Secretary

21 May 1981

Dear John,

TRADE RELATIONS WITH
THE SOVIET UNION

I have shown the Prime Minister your letter of 18 May to Michael Alexander and she is content that there should be a meeting of the United Kingdom/Soviet Joint Commission in London on 27-29 May on the understanding that the Foreign and Commonwealth Secretary has been consulted and has no objection.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office).

Yours sincerely,

John Rhodes

John Rhodes Esq.,
Department of Trade

CONFIDENTIAL

AW



Prime Minister

Contract, provided the FEO

(to show the Dept of Trade are
From the Secretary of State sending a copy of their letter at
my request) have no objection?

full
20 v.

Yes
not

18 May 1981

CONFIDENTIAL

M O'D B Alexander Esq
Private Secretary
10 Downing Street
London, SW1

Dear Michael,

There was correspondence between Ministers last September about again taking up trade relations with the Soviet Union leading to agreement that this could happen provided that it was done in a low key way and not too quickly. There was a real risk that, unless more normal relations were resumed, British business interests would begin to suffer, particularly at the beginning of a new Soviet Five Year Plan period. Indeed experience has borne this out in that no large contracts necessitating Government-backed buyer credit for the Soviet Union have been concluded since the beginning of last year.

We began to resume trade relations cautiously with the visit of a small group of Department of Trade officials to Moscow in January and the ninth meeting of the United Kingdom/Soviet Joint Commission is to be held in London from 27-29 May. The Minister for Trade will be leading the British team with a Soviet Deputy Minister of Foreign Trade on the other side.

This event is bound to attract press attention even though we will certainly not be seeking it. As agreed in September, our aim is to make the discussions as short and businesslike as possible and offer no more than the bare minimum of entertainment.

The Prime Minister may like to be aware that the event is taking place and that the basis for it is no more than the continuation of the Government's policy, reaffirmed immediately after the Afghanistan invasion, and we are continuing to seek mutually beneficial trade with the Soviet Union (but no more than this).

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL



19 MAY 1964
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RECORDED



Prime Minister
 To rule.

Soviet (4)
 the
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FCS/81/53

MINISTER FOR AGRICULTURE, FISHERIES AND FOOD

Agricultural Exports to the USSR

1. Thank you for your letter of 5 May.
2. The American decision to lift their partial grain embargo was regrettable. Once the US embargo had gone, the Community's restrictions on food sales, which were imposed in support of that embargo, were bound to follow.
3. I agree with you that the line to be taken by our representatives in the various commodity management committees (for whose efforts since January 1980 to secure proper enforcement of the Community embargo I am most grateful) must now be altered to take account of these new circumstances. In most cases, I agree that it would ^{now} ~~not~~ be appropriate for them to decide their line on the basis of market management considerations and our own economic interests.
4. At the same time I very much agree that we would want the Commission in future to take more account than they have in the past of the potential political sensitivity of proposals for sales to the USSR. The problem is how to achieve this. I fear that efforts by us to seek agreement in advance to the principle that the Commission should be obliged to raise such proposals in COREPER would inevitably

/found



founder on opposition from both the Commission and a number of member states. It would be better not to try than to try and fail. Instead, I therefore suggest that Sir M Butler should be instructed to make clear to the Commission our view that COREPER should be given the opportunity to consider the political aspects of proposals for export restitutions on unusually large sales to the Soviet Union or for especially favourable rates of refund for sales. I doubt if he will get a satisfactory answer, but at least the Commission will have been forewarned that they will have trouble on their hands from us if they act in a cavalier fashion in future. At the same time it is fair to point out that the Commission are already showing some political sensitivity by retaining the existing restrictions on butter sales and keeping in place the new monitoring arrangements. When I am in Brussels on 18 May I shall try to have a quiet word with both Thorn and Dalsager to bring home to them the importance we attach to this issue.

5. As to our public presentation, I agree with the line proposed in the penultimate paragraph of your letter. We shall also be able to say that we have made clear to the Commission that member states should be consulted on proposals for sales which are politically controversial

6. I am copying this minute to the Prime Minister, to other colleagues on OD and to Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office

14 May 1981

4 MAY 1981

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5 6 7 8 9



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Submit with reply from FCS.

Paul

VSF

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

5 May 1981

Robert

SALES OF FOOD TO THE USSR

Last week's meeting of COREPER concluded that the Foreign Affairs Council's resolution of 15 January 1980 was no longer applicable as a result of the American decision to lift their embargo on grain sales to Russia. Consequently, as agreed following the discussion in Cabinet yesterday, our representative abstained when the Cereals Management Committee voted on a proposal to resume sales of cereals to Russia on the grounds that we objected to the way the issue had been handled by the Commission. We now have to decide the general line for our officials to take in Management Committees on proposals involving export refunds on sales to the Russians.

I understand you think that, as the United Kingdom has accepted the cancellation of the 1980 Council resolution (albeit objecting to the way this has been done), it would be inconsistent for us to maintain our general opposition to proposals for refunds on exports to Russia. Without the cover of the Council resolution it would not be sensible for us to continue to oppose export refunds that might apply to sales to Russia in the Management Committees. Indeed, it would considerably weaken our ability to influence decisions in support of British interests and a reasonable Community policy.

Now that the embargo has been lifted on I think that, in determining our line in the Management Committees on export refunds that might apply to sales to Russia, we should be guided primarily by market management criteria, unless there are exceptional circumstances of a politically

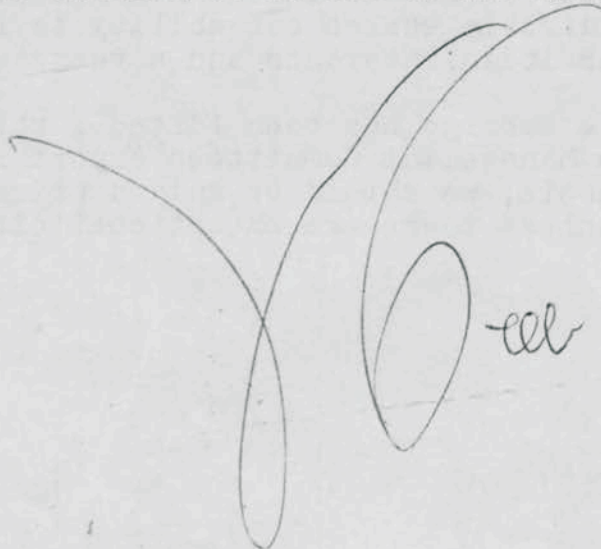
controversial nature such as a proposal for the export to Russia of unusually large quantities of a product or for especially favourable rates of refund for Russia. In such circumstances I agree with the suggestion in your telegram No 364 of 29 April to Brussels that the Commission should inform COREPER so that the political aspects can be considered before a proposal is voted on in the Management Committees. In such cases our line in the Committees would be determined in the light of the discussion in COREPER. However, the principle that the Commission should inform COREPER in such cases will first have to be agreed in COREPER or in the Foreign Affairs Council. Without such agreement it will be pointless for our Management Committee representatives to argue against such proposals being put to the vote.

In the case of butter we should clearly support the Commission's stated intention to retain the existing restrictions on exports to Russia in present market conditions. If, as is to be expected, Community stocks build up again following increased summer milk production, it would not be unreasonable, on market management grounds, for the Commission to propose refunds on sales to Russia. But here again I agree that before a decision is taken the Commission should consult COREPER.

It is helpful that the Commission are proposing to maintain the monitoring arrangements which have been set up since the invasion of Afghanistan. Bearing in mind the possibility of Russian action in Poland leading to a renewed embargo to Russia, I think we should support the Commission on this.

In reply to questions in Parliament and elsewhere we might say that, with the lifting of the US embargo and cancellation of the 1980 Council resolution, it would normally be appropriate to determine our line in the Management Committees on the basis of market considerations. This does not represent any change in our attitude to the Soviet invasion of Afghanistan. To act otherwise would seriously limit our capacity to safeguard our interests in the Management Committees. We could also point out that even with the refunds sales to Russia would not be below world prices.

I should be glad to know as soon as possible if you agree with what I have suggested above. I am sending copies of this letter to the Prime Minister, to the other members of OD and to Sir Robert Armstrong.



181 MAY 1981
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PETER WALKER

GRS 160

S E C R E T

SECRET

DEDIP

BURNING BUSH

FROM ROME 040345Z MAY 81

TO IMMEDIATE FCO

TELNO 135 OF 04 MAY 81

INFO PRIORITY WASHINGTON, PARIS, BONN, MOSCOW (PERSONAL FOR
AMBASSADOR)

QUADRIPARTITE MINISTERIAL DINNER IN ROME 3 MAY:

GRAIN SALES TO THE SOVIET UNION

FOLLOWING FROM PRIVATE SECRETARY

1. AT THE END OF DINNER HAIG IRONICALLY THANKED HIS COLLEAGUES FOR NOT MENTIONING THE LIFTING OF THE GRAIN EMBARGO. THIS HAD BEEN INEVITABLE BECAUSE PRESIDENT REAGAN HAD GIVEN A PROMISE, BECAUSE THE EMBARGO WAS NOT EFFECTIVE AND BECAUSE IT WAS NOT BEING ABIDED BY. REACTIONS OUTSIDE THE UNITED STATES HAD BEEN LESS SERIOUS THAN HAIG HIMSELF HAD PREDICTED.

2. FRANCOIS PONCET SAID THAT A CASE COULD BE MADE IN THE POLISH CONTEXT FOR LIFTING THE EMBARGO. BUT THERE WOULD BE NO CASE FOR RENEWING THE AMERICAN/SOVIET 5 YEAR GRAIN AGREEMENT WHEN IT EXPIRED. THIS WOULD ONLY TIE AMERICAN HANDS. FRANCOIS PONCET FAVOURLED LEAVING DOORS OPEN TO THE SOVIET UNION, BUT NOT COMMITTING ONESELF TO DOING SO. IF THE GRAIN AGREEMENT WERE RENEWED, IT WOULD BE POINTLESS TO TALK OF RESTRICTING SALES OF HIGH TECHNOLOGY TO THE SOVIET UNION.

3. HAIG 'S RESPONSE TO THIS WAS A PENSIVE NOD.

ARCULUS

LIMITED
HD/PLANNING STAFF
HD/EESD
HD/TRED
HD/WED
HD/NAD
HD/SAD

PS/PUS
MR BULLARD
LORD BRIDGES
MR HANNAY
MR EVANS
MR FERGUSSON

PS ✓
PS/LAS.

S E C R E T

Ref. A04793

PRIME MINISTER

Cabinet: Community Affairs

There are no major Community developments to report since the Easter break.

2. You might invite the Foreign and Commonwealth Secretary and the Lord Privy Seal to report on the Community aspects of their respective recent visits to Bonn and Ankara, unless they have already been covered under the Foreign Affairs agenda item.

3. You might also wish the Foreign and Commonwealth Secretary to inform the Cabinet of President Reagan's decision to lift the United States embargo on grain sales to the USSR, and to explain its implications for United Kingdom policy with regard to the parallel embargo imposed by the Community in January 1980.

4. The 28th April Development Council was a non-event and calls for no discussion.



ROBERT ARMSTRONG

29th April, 1981

Ref: A04790

CONFIDENTIAL

MR. ALEXANDER

Grain Sales to USSR

Soviet Union
Assumed with Prime Minister. She is content.
Mr Franklin informed.

K.A.

Am 29/4

The Prime Minister saw in the Gulf FCO telegram no. 348 to UKREP giving preliminary views on how we would want the Community to respond to the United States Government's decision to lift the grain embargo.

2. The Commission will be meeting today to discuss its line and we have lobbied them on the lines of telegram no. 348. The French are taking the line that the Commission is now free to decide, but we take the view that the Council itself must be involved, and we expect the matter to be discussed in COREPER tomorrow. I enclose a draft telegram of instructions which has been agreed by FCO and MAFF and at official level. The main elements are:

- (i) It is for the Council and not the Commission alone to lift the Community's embargo on grain. But given that the Foreign Affairs Council's decision in January 1980 was directly related to the United States action, it is unrealistic to expect, now that the United States have decided to lift their embargo, that we could get agreement on the maintenance of a Community embargo. It is clear that we should get no support from the Germans, and to try to and fail would only bring political comfort to the Soviet Union.
- (ii) But we should insist on the maintenance of the arrangements taken since January 1980 to improve monitoring of agricultural exports to the Soviet Union. This would be a worthwhile achievement in case of any new development in Soviet policy e.g. towards Poland.
- (iii) Community exports of butter to the Soviet Union are not affected by the United States decision, and since Community stocks are very low there is no reason for the Commission to change its position on export subsidies, which have been suspended since October 1980.

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3. It is clear that the President of the French Republic attaches importance to a decision allowing the export of 600,000 tons of French wheat being taken before the final round in the Presidential elections (see the record of my talk last week with M. Wahl). We should upset him to no purpose if we tried to thwart him. If the French are assured that we will not block this export, they should be ready to accept our position on the political nature of the decision and the need to maintain the monitoring arrangements. Unlike wheat there are no good management reasons for exporting butter to the Soviet Union at the present time, and we will of course maintain our opposition to any such sales.

4. The FCO and MAFF are consulting the Foreign and Commonwealth Secretary and Minister of Agriculture respectively. I should be grateful for confirmation that the Prime Minister is content with the line proposed.



Robert Armstrong

29th April, 1981

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TO UKREP BRUSSELS

COREPER 30 APRIL: GRAIN EMBARGO

OBJECTIVE:

1. To secure agreement:

a) That the Council machinery should be seen to take the political decision to lift the Community's embargo imposed in January 1980.

b) That monitoring arrangements introduced since that time should be maintained.

LINE TO TAKE

2. US decision clearly removes basis for principle laid down by January 1980 Foreign Affairs Council that Community supplies should not directly or indirectly take the place of those of the US on the markets of the Soviet Union. But in January 1980 Council was at pains to demonstrate that their action was an independent political decision taken by the Community on its own authority. The Community must now again be seen to take its own decision and must not simply alter its procedures without proper consideration in the Council machinery.

3. Therefore while British Government maintains reservations, which antedated US grain embargo, about appropriateness of subsidised food sales to Soviet Union, ^{we} accept that COREPER should agree on recommendation to Ministers on following lines:

a) Lifting of US embargo removes basis for January 1980 decision.

b) Council should therefore decide that the principle then laid down that Community supplies should not take the place of those of the US should no longer be applied.

c) Commission should be invited to take appropriate measures.

4. Important to ensure that these measures do not give wrong signal to Soviet Union and others about Europe's attitude to invasion and occupation of Afghanistan. Position of UK on this remains unchanged. So no doubt does that of other member states (see Paris telegram no 307 for French position) and Afghanistan must remain on agenda of Community/Ten.

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5. At same time measures taken since January 1980 to improve monitoring of agricultural exports to Soviet Union have proved useful and timely. They should be maintained in case of any new development in Soviet policy e.g. towards Poland. This point also should be included in recommendation to Ministers.
6. (If appropriate) Agree with Commission that US decision does not affect measures taken by Commission since October 1980 over export restitutions for sales of butter to the Soviet Union. It is for Commission to continue to judge situation in view of market requirements. Commission should however consult COREPER if these conditions change and potentially controversial export restitution proposals become once more a possibility. Same applies to other products.
7. (If appropriate) Once Council procedures have been completed (but not before) Commission of course free to bring forward proposals for sale, for example, of 600,000 tonnes of wheat to Soviet Union, if they judge this desirable on market management grounds.

BACKGROUND

8. The case for deliberate procedures being followed by the Council machinery is basically political not legal. We attach importance to the Council and its organs being seen to control actions by the Community over matters of such political importance as the grain embargo.
9. It is not yet clear what the Commission will propose to COREPER. But even if the substance of what they propose is acceptable we shall want to press for the final word being seen to lie with the Council machinery, eg in the form of a recommendation by COREPER which would then be agreed by the written procedure.
10. It seems uncertain whether the proposed sale of 600,000 tonnes of French wheat to the Soviet Union will now come before the Management Committee in the near future (para 3 of your tel no. 1444).

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If this were to come up at the Management Committee in the near future, it would be inconsistent to oppose it. But we should ask that no decision should be taken before completion of the discussion in the Council machinery about lifting the Community's embargo. If, however, others insist on a vote irrespective of the position in COREPER our representative will abstain.

CONFIDENTIAL

DESKBY 240830Z (FCO/BONN/SALALAH)

FM UKREP BRUSSELS 231635Z APR 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 1423 OF 23 APRIL 1981

AND TO PARIS, BONN (FOR PS/S OF S), SALALAH (FOR PS/PM), MOSCOW,
WASHINGTON

YOUR TELNO 156:

US GRAIN EMBARGO

1. WE HAVE LEARNT FROM A SOURCE IN DG VI, AND SUBSEQUENTLY CONFIRMED WITH THORN'S CABINET, THAT HAIG SENT THE PRESIDENT OF THE COMMISSION A TELEX TODAY WHICH INCLUDED THE FOLLOWING FORM OF WORDS: QUOTE IN THE VERY NEAR FUTURE WE WILL BE MAKING AN ANNOUNCEMENT ON THE LIFTING OF THE EMBARGO UNQUOTE.

2. WITH THORN AWAY, THERE IS SOME UNCERTAINTY ABOUT THE SPEED WITH WHICH DECISIONS WILL BE TAKEN, BUT THORN'S CABINET'S INCLINATION WAS TO INFORM THE PRESIDENT OF THE COUNCIL THIS EVENING THAT THE AMERICAN MESSAGE HAD BEEN RECEIVED. THEY EXPECTED THAT THE COMMISSION WOULD WANT TO DISCUSS THE ISSUE EARLY NEXT WEEK, WHEN A DECISION MIGHT BE EXPECTED THAT ANY FIRM ANNOUNCEMENT OF THE REMOVAL OF THE AMERICAN EMBARGO SHOULD IMMEDIATELY TRIGGER THE REMOVAL OF ANY CONSTRAINT ON COMMUNITY SALES, SINCE THESE HAD ONLY BEEN IMPOSED IN SUPPORT OF THE AMERICAN ACT. THE COMMISSION WAS UNLIKELY TO THINK IT NECESSARY TO WAIT FOR THE FOREIGN AFFAIRS COUNCIL ON 18/19 MAY.

3. OUR CONTACTS VOLUNTEERED THAT THEY WOULD EXPECT ANY LIBERALISATION OF COMMUNITY TRADE NOT TO BE EXTENDED TO DAIRY PRODUCTS, ON THE GROUNDS THAT (A) THE COMMUNITY IS NOW SHORT OF BUTTER IN STORE AND (B) THAT THE DECISION TO LIMIT BUTTER SALES WAS TAKEN ON DIFFERENT GROUNDS. IT WAS ALSO SUGGESTED THAT THE MONITORING ARRANGEMENTS INSTALLED FOR VARIOUS COMMODITIES IN THE WAKE OF THE 15 JANUARY 1980 FOREIGN AFFAIRS COUNCIL DECISION COULD USEFULLY BE MAINTAINED. WE PRESUME THAT YOU WOULD AGREE TO OUR SUPPORTING AND, IN DUE COURSE, PROMOTING THESE IDEAS.

FCO ADVANCE TO:-

FCO - HANNAY, SPRECKLEY, FAULKNER, MS YOUNG, FITZHERBERT

CAB - FRANKLIN, WENTWORTH

DOT - MEADWAY

MAFF - PS/MIN, PS/PS, DAVIES, ANDREWS, PARKHOUSE, WILKES

BUTLER

NNNN

CONFIDENTIAL

FM BONN 231300Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 282 OF 23 APRIL

INFO IMMEDIATE MOSCOW WASHINGTON PARIS SALALAH (FOR PRIME MINISTER)

PRIORITY UKDEL NATO ROME

MIPT

CALL BY THE SOVIET AMBASSADOR ON SECRETARY OF STATE

FOLLOWING FROM PRIVATE SECRETARY

1. FOLLOWING IS UNOFFICIAL TRANSLATION OF TEXT OF MESSAGE: BEGINS

THE SOVIET SIDE NOTES WITH SATISFACTION THE READINESS OF THE BRITISH GOVERNMENT TO DEVELOP POLITICAL DIALOGUE ON VARIOUS INTERNATIONAL PROBLEMS. THE OPINION OF THE SOVIET UNION ABOUT THE WAYS TO SOLVE THESE PROBLEMS IS CONTAINED IN THE SPECIFIC FOREIGN POLICY PROPOSALS PUT FORWARD IN THE REPORT OF L. I. BREZHNEV AT THE XXVI CONGRESS OF THE CPSU AND OUTLINED BY HIM IN THE MESSAGE TO PRIME MINISTER M. THATCHER. THE MAIN ESSENCE OF THE NEW SOVIET INITIATIVES IS TO ELIMINATE THE DANGER OF WAR, TO OPEN THE WAY TO STOP THE ARMS RACE, TO STRENGTHEN DETENTE.

THE ARMS RACE UNLEASHED WITH AN AIM TO GAIN UNILATERAL MILITARY ADVANTAGES DOES NOT GIVE AN ANSWER TO THE CRUCIAL PROBLEMS FACING THE MANKIND. THE ARMS RACE ONLY AGGRAVATES THESE PROBLEMS, AND AT THAT - IN AN IMMEASURABLY GREATER DEGREE THAN BEFORE. THE INTERESTS OF THE PRESERVATION OF PEACE DEMAND MAXIMUM RESTRAINT, SOBER AND FARSIGHTED APPROACH TO THE CONDUCT OF INTERNATIONAL AFFAIRS, THE PREVENTION OF HAVING DISAGREEMENTS TO COME OUT OF THE LIMITS OF PEACEFUL SETTLEMENTS OF DISPUTES AND TO TRANSFORM INTO MILITARY-CONFLICT SITUATIONS. IN OUR VIEW A COMPLICATED AND SOMETIMES CONFLICTING CHARACTER OF THE REALITIES OF THE PRESENT WORLD EMPHASIZES THE IMPORTANCE OF THE RESPONSIBLE INTER-STATE DIALOGUE WITH AN AIM TO IMPROVE THE SITUATION.

UNDER THE REALISTIC APPROACH TO SOLVING THE INTERNATIONAL PROBLEMS THERE IS NO PLACE FOR THE SO CALLED CONCEPT OF QUOTE LINKAGE UNQUOTE OF THE REALLY URGENT ISSUES WITH THE INVENTED ONES. THE ATTEMPTS TO PRACTICE SUCH A CONCEPT IN FACT LEAD US AWAY FROM THE CONSTRUCTIVE TALKS AND BUSINESSLIKE COOPERATION.

THE SOVIET UNION CONSIDERS IT NECESSARY TO CONDUCT AN ACTIVE DIALOGUE WITH OTHER STATES, USING FOR THIS AIM ALL EXISTING OPPORTUNITIES UP TO THE CONVOCATION OF A SPECIAL SESSION OF THE SECURITY COUNCIL WITH THE PARTICIPATION OF THE TOP LEADERS OF ITS MEMBER-STATES, TO DISCUSS URGENT INTERNATIONAL PROBLEMS, EXISTING IN EUROPE AND BEYOND THE BOUNDARIES OF THE EUROPEAN CONTINENT, TO LOOK FOR KEYS TO IMPROVE THE SITUATION IN THE WORLD.

HAVING COME OUT WITH THE NEW FOREIGN POLICY INITIATIVES THE SOVIET UNION DOES NOT THINK THAT IT SORT OF PRESCRIBES THE ONLY POSSIBLE WAY TO TURNING FOR THE BETTER IN THE INTERNATIONAL AFFAIRS. L.I. BREZHNEV NOTED IN HIS SPEECH IN PRAGUE ON THE 7TH APRIL THAT QUOTE IF SOMEBODY HAS OTHER REASONABLE PROPOSALS, WE ARE READY TO CONSIDER THEM AS WELL UNQUOTE.

ALL SOVIET PROPOSALS ON THE LIMITATION OF THE ARMS RACE AND STRENGTHENING THE INTERNATIONAL SECURITY REMAIN IN FORCE. IT RELATES FULLY TO THE WHOLE COMPLEX OF PROBLEMS DISCUSSED SOME TIME AGO BETWEEN THE SOVIET UNION AND THE UNITED STATES AND ABOVE ALL THE PROBLEMS OF THE LIMITATION OF STRATEGIC ARMS.

2. IN ORDER TO PREVENT THE ELEVATION OF THE NUCLEAR MISSILE CONFRONTATION IN EUROPE TO A NEW MORE DANGEROUS LEVEL THE SOVIET UNION PROPOSED THAT A MORATORIUM SHOULD BE SET UP ON THE DEPLOYMENT IN EUROPE OF THE NEW MEDIUM-RANGE NUCLEAR-MISSILE WEAPONS OF THE NATO STATES AND THE USSR, I.E. TO FREEZE THE EXISTING QUALITATIVE AND QUANTITATIVE LEVEL OF THESE WEAPONS, INCLUDING THE US FORWARD-BASED NUCLEAR WEAPONS IN THIS REGION.

THE SOVIET UNION IS PREPARED EVEN NOW WITHOUT WAITING FOR THE OUTCOME OF THE RELEVANT NEGOTIATIONS TO HALT THE CARRYING OUT OF ITS CURRENT PLANS OF MODERNISATION OF THE MEDIUM-RANGE NUCLEAR WEAPONS IN EUROPE. THIS SUPPLEMENTS OUR PROPOSAL ABOUT THE POSSIBILITY OF LIMITING THESE ARMS AS A RESULT OF TALKS, AND THE SCOPE OF SUCH LIMITATIONS COULD EVEN BE QUITE CONSIDERABLE, IF OUR PARTNERS ARE READY FOR THAT. THE MORATORIUM WOULD ENTER INTO FORCE IMMEDIATELY AFTER THE START OF THE TALKS ON THE LIMITATION OF NUCLEAR ARMS IN EUROPE AND WOULD BE EFFECTIVE DURING THE WHOLE PERIOD OF THE TENURE OF TALKS. THE OBLIGATIONS OF THE SIDES IN CONNECTION WITH THE MORATORIUM COULD BE AGREED UPON EVEN BEFORE THE OPENING OF THE OFFICIAL TALKS.

WE CAN NOT AGREE WITH THE STATEMENTS TO THE EFFECT THAT THE MORATORIUM WOULD PERPETUATE THE ALLEGEDLY EXISTING QUOTE SERIOUS IMBALANCE UNQUOTE IN FAVOUR OF THE USSR IN THE MEDIUM-RANGE NUCLEAR WEAPONS IN EUROPE.

FIRST. AT PRESENT AN APPROXIMATE PARITY EXISTS IN EUROPE IN THE RELEVANT TYPES OF WEAPONS. NATO HAS AT ITS DISPOSAL A POWERFUL GROUPING OF NUCLEAR MEANS, CAPABLE OF REACHING THE TERRITORY OF THE USSR.

NUCLEAR ARMS OF THE SOVIET UNION IN EUROPE DO NOT EXCEED THIS LEVEL. ANALYSING THE CORRELATION OF THE NUCLEAR FORCES OF THE SIDES ONE SHOULD NOT TAKE IN ISOLATION ONLY ONE TYPE OF MEANS, FOR EXAMPLE, THE GROUND-BASED MISSILES. NUCLEAR POTENTIALS SHOULD BE CONSIDERED AS A COMPLEX, SINCE ONLY ON SUCH A BASIS THE PRINCIPLE OF THE EQUAL SECURITY OF SIDES COULD BE OBSERVED.

SECOND, WHILE REPLACING NEW WEAPONS FOR OLD THE SOVIET UNION, WITH A VIEW TO PRESERVE NUCLEAR PARITY, FAR FROM INCREASING BY A SINGLE UNIT THE AGGREGATE NUMBER OF MEDIUM-RANGE NUCLEAR WEAPONS CARRIERS, EVEN DECREASED THIS NUMBER - WITH THE DEPLOYMENT OF EACH NEW MISSILE / QUOTE SS-20 UNQUOTE /, THE SOVIET UNION SIMULTANEOUSLY WITHDREW ONE OR TWO OLD MISSILES.

THIRD, ON THE NUMBER OF NUCLEAR CHARGES OF MEDIUM-RANGE MEANS IN EUROPE THE ADVANTAGE AT PRESENT IS ON THE NATO SIDE APPROXIMATELY IN 1,5 TIMES. THE EFFECTED REPLACEMENT OF OLD MISSILES BY NEW MISSILES DID NOT LEAD TO THE ACQUISITION BY THE SOVIET UNION OF A SUPERIORITY IN THIS FIELD. THE AGGREGATE YIELD OF THE CHARGES OF SOVIET MEDIUM-RANGE MISSILES WAS NOT INCREASED BUT EVEN DIMINISHED.

CONSEQUENTLY THE INTRODUCTION OF THE MORATORIUM WOULD ONLY FIX THE ESTABLISHED APPROXIMATE PARITY AND WOULD OPEN THE WAY TO ESTABLISH SUCH A PARITY AT A LOWER LEVEL. AND VICE VERSA, IF NATO COUNTRIES DEPLOY ADDITIONALLY IN EUROPE, AS IT IS PLANNED, 572 MEDIUM-RANGE MISSILES, THEN A MORE THAN 1,5 SUPERIORITY IN THE MEDIUM-RANGE NUCLEAR WEAPONS CARRIERS WILL BE CREATED ON THE NATO SIDE. BESIDES, WE CAN NOT BUT TAKE INTO ACCOUNT THE FACT THAT WITH REGARD TO THE SOVIET UNION THIS US WEAPON IS OF A STRATEGIC NATURE. IT IS COMMON KNOWLEDGE THAT THE SOVIET UNION DOES NOT HAVE ON THE TERRITORY OF ANY COUNTRIES SUCH WEAPONS CAPABLE OF REACHING TARGETS ON THE TERRITORY OF THE UNITED STATES.

THUS THE ADDITIONAL DEPLOYMENT OF AMERICAN MEDIUM-RANGE MISSILES IN EUROPE WOULD DISRUPT THE STRATEGIC PARITY BETWEEN THE USSR AND THE US, WOULD MAKE THE SITUATION LESS STABLE. SUCH A DEVELOPMENT WOULD COMPEL THE SOVIET UNION TO TAKE NECESSARY COUNTER-MEASURES IN ORDER NOT TO ALLOW THE WORSENING OF THE STRATEGIC SITUATION AND TO RESTORE BALANCE, BUT AT A HIGHER LEVEL.

DRAWING THE ATTENTION TO THE PROPOSAL OF THE MORATORIUM THE SOVIET SIDE EXPRESSES HOPE THAT THE BRITISH GOVERNMENT WOULD CAREFULLY ANALYSE ONCE AGAIN ALL ITS ASPECTS.

AS TO THE SOVIET-AMERICAN TALKS ON THE LIMITATION OF NUCLEAR ARMS IN EUROPE THE FIRST ROUND OF WHICH TOOK PLACE IN LAST OCTOBER-NOVEMBER, THE SOVIET SIDE IS PREPARED TO RESUME THEM AT ANY TIME, SO IT IS ALL UP TO THE AMERICAN SIDE.

3. THE SOVIET UNION CONSIDERS IT IMPORTANT TO ENSURE THE RESULTATIVE CONCLUSION OF MADRID MEETING AND IS FOR REACHING OF UNDERSTANDINGS ON ALL PARTS OF THE FINAL ACT. WE ATTACH GREAT IMPORTANCE TO REACHING AN AGREEMENT ON CONVENING THE CONFERENCE ON MILITARY DETENTE AND DISARMAMENT IN EUROPE AND ARE READY FOR REASONABLE COMPROMISES. WE ACCEPT SUCH AN OPTION WHEN ONE CONFERENCE SHOULD BE HELD - CONFIDENCE-BUILDING MEASURES WOULD BE DISCUSSED AT THE FIRST STAGE AND THE QUESTIONS OF DISARMAMENT ITSELF - AT THE SECOND ONE. BUT WE WOULD BE PREPARED TO AGREE TO HOLD TWO CONFERENCES HAVING IN MIND THAT THE FIRST CONFERENCE SHOULD BE DEVOTED TO THE CONFIDENCE-BUILDING MEASURES AND THE SECOND ONE - TO THE PROBLEMS OF DISARMAMENT.

THE SOVIET UNION EXPRESSED ITS AGREEMENT TO EXPAND CONSIDERABLY THE ZONE OF APPLICATION OF CONFIDENCE-BUILDING MEASURES, TO APPLY THEM TO THE ENTIRE EUROPEAN PART OF THE USSR PROVIDED THE WESTERN STATES, TOO, EXTEND THE CONFIDENCE ZONE ACCORDINGLY. THE CONCRETE SCOPES OF THE ZONE OF THE APPLICATION OF CONFIDENCE-BUILDING MEASURES COULD BE DEFINED AT THE CONFERENCE ITSELF.

NOW THE CLARITY IN PRINCIPLED APPROACH IS REQUIRED. THE FIRST IS MUTUALITY OF OBLIGATIONS. SECOND IS THEIR BALANCE, THE IMPERMISSIBILITY OF A DAMAGE TO THE INTERESTS OF SECURITY OF PARTICIPATING SIDES.

THE EQUALITY OF STATES - PARTICIPANTS OF THE EUROPEAN CONFERENCE MUST BE OBSERVED IN THEIR RIGHTS AND DUTIES IN CONFIDENCE-BUILDING MEASURES AS WELL AS IN EUROPEAN PROCESS AS A WHOLE. NOBODY MUST HAVE ANY PRIVILEGES IN COMPARISON WITH OTHERS. THE UNILATERAL EXTENTION BY THE SOVIET UNION OF THE ZONE OF CONFIDENCE-BUILDING MEASURES ON THE WHOLE EUROPEAN PART OF ITS TERRITORY WITHOUT RECIPROCAL STEPS FROM THE WEST WOULD NOT CORRESPOND WITH THE PRINCIPLE OF EQUALITY OF RIGHTS AND DUTIES OF ALL STATES - PARTICIPANTS OF THE EUROPEAN CONFERENCE.

IN THE DECISION ABOUT THE CONVOCATION OF THE CONFERENCE IT WOULD BE POSSIBLE TO ENVISAGE ALONG SIDE WITH THE EXTENTION OF THE ZONE OF CONFIDENCE-BUILDING MEASURES, THE INCREASE OF THE NUMBER OF THESE MEASURES (THE NOTIFICATION OF NOT ONLY LARGE MILITARY EXERCISES OF GROUND TROOPS BUT ALSO OF LARGE NAVAL AND AIR EXERCISES AS WELL AS OF LARGE MOVEMENTS OF TROOPS AND THE RENUNCIATION OF MILITARY EXERCISES WITH MORE THAN 40-50,000 PEOPLE INVOLVED IN THEM). THIS WOULD GIVE TO THE CONFIDENCE-BUILDING MEASURES A MORE IMPORTANT, MORE MILITARY SIGNIFICANT CHARACTER IN COMPARISON WITH THE MEASURES APPLIED AT THE MOMENT. APART FROM THATS THE POSSIBILITY WOULD NOT BE EXCLUDED OF ACCEPTING BY THE PARTICIPANTS OF THE CONFERENCE OF POLITICAL OBLIGATIONS ON IMPLEMENTATION OF SOME OF THE CONFIDENCE-BUILDING MEASURES AND THE ESTABLISHING UNDER CERTAIN CONDITIONS OF SUCH VERIFICATION FORMS WITH THE USE OF NATIONAL MEANS, WHICH WOULD MEET THE NATURE OF SPECIFIC CONFIDENCE-BUILDING MEASURES AND COULD BE AGREED BETWEEN SIDES.

NOW, WHEN THE MADRID MEETING IS IN RECESS, IT IS REQUIRED TO CONSIDER SERIOUSLY THE CURRENT SITUATION HAVING IN MIND THE NECESSITY OF A FURTHER DEVELOPMENT OF THE EUROPEAN PROCESS IN THE INTERESTS OF PEACE AND DETENTE. IN OUR VIEW THE DRAFT OF THE FINAL DOCUMENT PUT FORWARD BY NEUTRAL AND NON-ALLIED COUNTRIES ASSISTS TO A CERTAIN EXTENT THE REACHING OF THE MUTUALLY ACCEPTABLE DECISIONS. IN MOSCOW THEY HOPE THAT THE BRITISH GOVERNMENT WILL TAKE EFFORTS IN FAVOUR OF THE CONSTRUCTIVE CONCLUSION OF THE MADRID MEETING.

4. THE SOVIET SIDE IS CONVINCED THAT EVEN THE MOST ACUTE PROBLEMS IN EAST-WEST RELATIONS COULD BE SOLVED GIVEN THE OBSERVANCE OF LEGITIMATE INTERESTS OF THE SIDES. THIS CAN ALSO BE SAID ABOUT THE MIDDLE EAST PROBLEM, ON WHICH IN OUR VIEW THERE ARE AND COULD BE FOUND NEW POINTS OF COINCIDENCE BETWEEN THE POSITIONS OF THE SOVIET UNION AND BRITAIN, AND ABOUT THE SETTLEMENT OF THE SITUATION AROUND AFGHANISTAN, ON WHICH SERIOUS DIFFERENCES REMAIN BETWEEN OUR RESPECTIVE POSITIONS. THE OBJECT OF REAL SOLUTIONS COULD ALSO BE THE MATTERS OF ENSURING PEACE AND SECURITY IN THE PERSIAN GULF, IF ALL THE INTERESTED SIDES SHOW DESIRE TO SEARCH FOR SUCH SOLUTIONS AND REFRAIN FROM ACTIONS, ESPECIALLY OF MILITARY NATURE, WHICH COULD ONLY COMPLICATE THE SITUATION IN THIS REGION. SPECIFIC PROPOSALS ON THIS SCORE WERE MADE BY L.I. BREZHNEV AND ALSO IN HIS RECENT MESSAGE TO PRIME MINISTER M. THATCHER.

5. IN MOSCOW THEY WERE SATISFIED BY THE STATEMENTS OF THE BRITISH GOVERNMENT ABOUT ITS READINESS TO ADHERE TO A CONSTRUCTIVE LINE IN EAST-WEST RELATIONS AND TO COOPERATE WITH THE SOVIET UNION ON THE BASIS OF JOINT EFFORTS IN SPECIFIC ACTIONS TO BUILD-UP CONFIDENCE, TO STRENGTHEN INTERNATIONAL SECURITY AND TO DEVELOP MUTUALLY BENEFICIAL RELATIONS BETWEEN OUR COUNTRIES.

SUCH AN APPROACH IS MET WITH UNDERSTANDING BY THE SOVIET UNION. WE ARE IN FAVOUR OF PUTTING TO GOOD USE THE CONSIDERABLE POTENTIAL OF COOPERATION, CREATED OVER THE YEARS IN ORDER TO LOOK FOR SOLUTIONS OF URGENT PROBLEMS OF CURBING THE ARMS RACE, STRENGTHENING DETENTE, TO REALISE THE EXISTING OPPORTUNITIES IN VARIOUS FIELDS OF BILATERAL SOVIET-BRITISH RELATIONS, TO DEVELOP THEM FULLY AND TO TRANSLATE THEM INTO REAL DEEDS. WE ARE IN FAVOUR OF GIVING TO THE POLITICAL DIALOGUE BETWEEN OUR COUNTRIES SUCH A LEVEL AND CONTENTS WHICH WOULD BE IN KEEPING WITH THE REQUIREMENTS OF THE AGGRAVATED INTERNATIONAL SITUATION.

ENDS.

TAYLOR

NNNN

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SECRET

FM FCO 231437Z APR 81

TO IMMEDIATE SALALAH

TELEGRAM NUMBER 6 OF 23 APRIL

INFO IMMEDIATE WASHINGTON PRIORITY UKDEL NATO BONN PARIS

FOLLOWING FOR ALEXANDER PRIME MINISTER'S PARTY.

US GRAIN EMBARGO

FOLLOWING IS THE TEXT OF A LETTER FROM HAIG TO FOREIGN SECRETARY RECEIVED LATE LAST NIGHT.

BEGINS:

"I WANT YOU TO KNOW THAT THE PRESIDENT WILL ANNOUNCE IN THE NEAR FUTURE HIS DECISION TO LIFT THE PARTIAL GRAIN EMBARGO AGAINST THE SOVIET UNION. AS I KNOW YOU WILL UNDERSTAND THIS DECISION HAS NOT COME EASILY TO THE PRESIDENT WHO REALISES FULL WELL ITS IMPLICATIONS FOR OUR CLOSEST ALLIES. HE HAS THEREFORE PERSONALLY ASKED ME TO SEE THAT YOU AND THROUGH YOU THE PRIME MINISTER ARE THE FIRST TO BE INFORMED OF HIS DECISION AND THE REASONS FOR IT. THE PRESIDENT HAS LONG BEEN OPPOSED TO THE GRAIN EMBARGO WHICH HE BELIEVES HAS IMPOSED UNEQUAL AND THEREFORE UNFAIR SACRIFICE ON ONE SECTOR OF THE AMERICAN ECONOMY. HE CAMPAIGNED AGAINST THE EMBARGO HE MADE A FIRM COMMITMENT TO THE AMERICAN PEOPLE TO REMOVE IT. NEVERTHELESS FOLLOWING HIS INAUGURATION THE PRESIDENT RECOGNISED THE SUBSTANTIAL FOREIGN POLICY CONSIDERATIONS THAT MILITATED AGAINST LIFTING OF THE EMBARGO. HE HAS FIRMLY AND COURAGEOUSLY STOOD AGAINST THE POLITICAL FORCES WITHIN THIS COUNTRY THAT HAVE SOUGHT FROM THE MOMENT HE TOOK OFFICE A REVERSAL OF PRESIDENT CARTER'S EMBARGO DECISION.

IN ALL FRANKNESS PETER THOSE FORCES HAVE NOW BECOME SO STRONG THAT THE PRESIDENT FEELS HE CAN NO LONGER SUSTAIN HIS POSITION. TO MAINTAIN THE EMBARGO NOW WOULD SERIOUSLY JEOPARDISE AFFIRMATIVE CONGRESSIONAL ACTION ON HIS ECONOMIC PROGRAMME IN GENERAL AND HIS FARM BILL IN PARTICULAR. THE PRICE IN TERMS OF THE ABILITY OF THIS ADMINISTRATION TO RE-ESTABLISH A HEALTHY AND PRODUCTIVE NATION IS TOO MUCH TO PAY. THUS ALBEIT RELUCTANTLY THE PRESIDENT HAD DETERMINED THAT HE MUST ACT NOW IF HE IS TO CARRY FORWARD THE DOMESTIC REFORM PROGRAMMES THAT ARE SO IMPORTANT TO US AND IN THE LAST ANALYSIS OUR ALLIES.

LET ME EMPHASISIE THAT THE LIFTING OF THE EMBARGO DOES NOT INDICATE ANY CHANGE IN US POLICY VIS-A-VIS THE USSR OR US ACCEPTANCE OF THE STATUE QUO IN AFGHANISTAN. THE UNITED STATES REMAINS DETERMINED TO RESIST SOVIET AGGRESSION WHEREVER IT OCCURS. WE WILL CONTINUE TO WORK FOR A POLITICAL SETTLEMENT IN AFGHANISTAN WHICH INCLUDES THE WITHDRAWAL OF SOVIET TROOPS.

WE WILL CONTINUE TO SCRUTINISE ALL OUR COMMERCIAL TIES WITH THE SOVIET UNION CAREFULLY WE OF COURSE URGE OUR ALLIES TO DO THE SAME. NOR DOES OUR ACTION ON THE GRAINS EMBARGO AFFECT OUR BELIEF THAT POLAND CONTINGENCY PLANNING IS VITAL TO ENABLE THE WEST TO TAKE CONCERTED ACTION IF THE SOVIETS SHOULD INTERVENE IN POLAND.

IN THAT REGARD LET ME ALSO ASSURE YOU THAT SHOULD THE SOVIETS INTERVENE MILITARILY IN POLAND WE WILL TAKE THE MOST STRINGENT MEASURES TO LIMIT ECONOMIC RELATIONS BETWEEN THE UNITED STATES AND THE USSR THESE MEASURE WILL NOT BE RESTRICTED TO THE AGRICULTURAL SECTOR ALONE.

FINALLY PETER YOU SHOULD KNOW THAT THE PRESIDENT AND I HAVE APPRECIATED THE FIRM SUPPORT WE HAVE RECEIVED FROM YOU AND THE PRIME MINISTER ON THE ISSUE OF TRADE WITH THE SOVIETS OVER THE PAST SEVERAL MONTHS. YOU HAVE OUR GRATITUDE I HOPE WE HAVE YOUR UNDERSTANDING FOR THE REASON THAT LED THE PRESIDENT TO THIS DIFFICULT DECISION.''

ENDS

CARRINGTON

NNNN

telegraphed to Salalah
on 23/4 MS |

Foreign and Commonwealth Office

London SW1A 2AH

Soviet
Union

23 April 1981

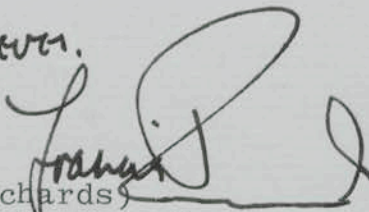
Dear Nick,

US Grain Embargo

I attach a copy of Secretary Haig's message of 22 April to Lord Carrington. The top copy was delivered here late last night and sent straight down to Lord Carrington, and is now with him in Germany; we have only now been able to secure a further copy from the US Embassy.

As I told you on the telephone, the news of this decision has already leaked in Washington. We shall, of course, let you know the line being taken in response to press queries.

copied to MAFF (by FCO)

Yours ever,

(F N Richards)
Private Secretary

Nick Sanders Esq
10 Downing Street
LONDON
SW1

SECRET

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EMBASSY OF THE
UNITED STATES OF AMERICA
London

April 22,

The Lord Carrington, KCMG, MC, PC
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

Dear Peter:

x/ I want you to know that the President will announce, in the near future, his decision to lift the partial grain embargo against the Soviet Union. As I know you will understand, this decision has not come easily to the President, who realizes full well its implications for our closest allies. He has, therefore, personally asked me to see that you, and through you the Prime Minister, are the first to be informed of his decision and the reasons for it.

The President has long been opposed to the grain embargo, which he believes has imposed unequal and therefore unfair sacrifice on one sector of the American economy. He campaigned against the embargo; he made a firm commitment to the American people to remove it. Nevertheless, following his inauguration the President recognized the substantial foreign policy considerations that militated against lifting of the embargo. He has firmly and courageously stood against the political forces within this country that have sought, from the moment he took office, a reversal of President Carter's embargo decision.

In all frankness, Peter, those forces have now become so strong that the President feels he can no longer sustain his position. To maintain the embargo now would seriously jeopardize affirmative Congressional action on his economic program in general and his farm bill in particular. The price, in terms of the ability of this Administration to reestablish a healthy

and productive nation, is too much to pay. Thus, albeit reluctantly, the President has determined that he must act now if he is to carry forward the domestic reform programs that are so important to us and, in the last analysis, our allies.

Let me emphasize that the lifting of the embargo does not indicate any change in U. S. policy vis-a-vis the USSR, or U. S. acceptance of the status quo in Afghanistan. The United States remains determined to resist Soviet aggression wherever it occurs. We will continue to work for a political settlement in Afghanistan which includes the withdrawal of Soviet troops. We will continue to scrutinize all our commercial ties with the Soviet Union carefully; we of course urge our allies to do the same. Nor does our action on the grains embargo affect our belief that Poland contingency planning is vital to enable the West to take concerted action if the Soviets should intervene in Poland. In that regard, let me also assure you that should the Soviets intervene militarily in Poland we will take the most stringent measures to limit economic relations between the United States and the USSR; these measures will not be restricted to the agricultural sector alone.

Finally, Peter, you should know that the President and I have appreciated the firm support we have received from you and the Prime Minister on the issue of trade with the Soviets over the past several months. You have our gratitude; I hope we have your understanding for the reasons that led the President to this difficult decision.

/x
Sincerely,

(S) Alexander M. Haig, Jr.

23 APR 1981



cc Press

2.



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Euro PA

From the Minister

- 1 NTS to see MF
- 2 Prime Minister

CONFIDENTIAL

The Lord Carrington PC KCMG MC
 Secretary of State for Foreign
 and Commonwealth Affairs
 Foreign and Commonwealth Office
 Downing Street
 London
 SW1

MAP 15/4

15 April 1981

Robbie

- 1. MODBA to see
- 2. RA MAP 27/4

SALES OF BEEF TO THE SOVIET UNION

I thought I should draw your attention to the situation that has arisen over sales of beef to the Russians. At a recent meeting of the Beef Management Committee the Commission reported that export licences for the sale of 44,000 tonnes of beef to the USSR had been issued between 1 January and 23 March. As this is already double the annual average for 1977 to 1979 of some 22,000 tonnes - and is indeed above the average of 38,000 tonnes for the period 1974 to 1978 - my officials asked what action the Commission proposed to take. In reply they were told, apparently on the instructions of the Commissioner, that this was a political question which could not appropriately be discussed in the Management Committee.

In 1980 the Commission took action so late that exports to Russia eventually reached 103,000 tonnes, which is massively in excess of any possible assessment of traditional trade. Given the Commission's attitude, it seems clear that there is nothing that we can do in the Management Committee to try to avoid a repetition of last year's failure to implement the Foreign Affairs Council's decisions of 15 January 1980. As I see it, the only chance of limiting beef sales to Russia to a reasonable level is to take the matter up in COREPER and the Foreign Affairs Council. In the circumstances you may like to consider doing this.

I am sending a copy of this letter to the Prime Minister, members of OD(E) and to Sir Robert Armstrong.

[Handwritten signature]
 ecc

PETER WALKER

15 APR 1981



Faint, illegible handwritten text, possibly including a name and address.



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State
Peter Blaker MP

1 April 1981

h.c. *Blaker*

Dear Cecil,

Thank you for your letter of 23 March to Ian Gilmour.

I agree that the Soviet text is unacceptable, and that our aims should be to go as far as we can to provide Rolls Royce with the support they need, consistent with protecting our own future freedom of action, while avoiding any negotiation over the terms of the assurance.

I am in general content with the draft letter to Mr Sushkov which you enclosed with your letter. I have, however, three small amendments to suggest:

- (i) Second sentence of paragraph 2 to read: 'Their participation would be an important example of cooperation between our two countries similar to that envisaged under
- (ii) The final sentence of paragraph 2 to read: 'As you know, the British Government has consistently made clear its support for the expansion of Anglo-Soviet trade on the basis of mutual advantage.'
- (iii) The beginning of the second sentence of paragraph 3 to read: 'As far as the present contract is concerned, while I am not authorised

I agree on the importance of the early despatch of the letter and full instructions for our Ambassador to use when handing over the letter to Mr Sushkov. My officials will be in touch with yours about this.

.....

I am copying this letter to the recipients of yours.

Yours ever,
Blaker

Cecil Parkinson Esq MP
Minister of Trade
Department of Trade
1 Victoria Street
LONDON SW1

11 APR 1981

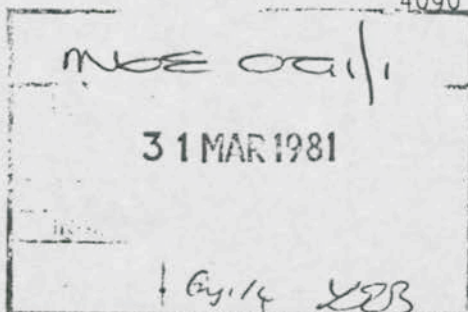
11 12 1 2 3 4 5 6 7 8 9 10

TOP SECRET

CONFIDENTIAL

4090 - 1

OO WASHINGTON
 GRS 468
 CONFIDENTIAL
 FRAME EXTERNAL/AGRICULTURE
 FM FCO 301736Z MAR 81
 TO IMMEDIATE WASHINGTON
 TELEGRAM NUMBER 509 OF 30 MARCH
 INFO IMMEDIATE UKREP BRUSSELS, BONN, PARIS, HONG KONG (FOR PRIVATE
 SECRETARY)



YOUR TELNO 1038: ⁹⁰ FRENCH WHEAT SALE TO SOVIET UNION

1. THE NEWS THAT HAIG HAS GIVEN THE FRENCH THE GREEN LIGHT IS MOST UNWELCOME. AS YOU POINTED OUT TO STOESSEL, THE AMERICANS HAVE KICKED THROUGH THEIR OWN GOAL. THEY HAVE ALSO CUT THE GROUND FROM UNDER THE FEET OF THOSE LIKE OURSELVES WHO HAVE BEEN WORKING CONSISTENTLY FOR THE PAST FOURTEEN MONTHS TO HOLD THE COMMUNITY TO ITS JANUARY 1980 DECISION AND HAVE OPPOSED THE FRENCH WHEAT DEAL IN BRUSSELS AS NOT BEING CONSISTENT WITH THAT DECISION, WHICH WAS ITSELF TRIGGERED BY THE US GRAIN EMBARGO. YOU SHOULD LEAVE THE AMERICANS IN NO DOUBT THAT THEY HAVE MADE IT VERY DIFFICULT FOR US TO BLOCK THIS SALE IF AND WHEN IT IS FURTHER DISCUSSED IN BRUSSELS. THEY MAY BE UNAWARE THAT AT THE FOREIGN AFFAIRS COUNCIL ON 17 MARCH, WE EXPENDED A GREAT DEAL OF EFFORT IN SUCCESSFULLY WATERING DOWN A FRENCH RESOLUTION IN FAVOUR OF A SALE TO THE SOVIET UNION. THE FRENCH SEEMED RESIGNED TO THE SITUATION AT THE MANAGEMENT COMMITTEE ON 26 MARCH, WHEN THE COMMISSION REAFFIRMED ITS VIEW THAT DISPOSAL OF THIS 600,000 TONNES TO DESTINATIONS OTHER THAN THE SOVIET UNION WAS NOT EXPECTED TO CAUSE MAJOR PROBLEMS, EITHER FOR THE COMMUNITY OR FOR THE WORLD WHEAT MARKET. BUT, FOLLOWING HAIG'S RESPONSE, THEY WILL NO DOUBT RETURN TO THE CHARGE.
2. HAIG'S ACTION IS ALL THE HARDER TO UNDERSTAND IN VIEW OF THE STRONG REAFFIRMATION BY PRESIDENT REAGAN PUBLISHED OVER THE WEEK-END OF THE US DECISION TO MAINTAIN THE GRAIN EMBARGO, A FURTHER REASON ADDUCED FOR WHICH WAS THE THREAT OF RUSSIAN INTERVENTION IN POLAND.
3. PLEASE TAKE THIS UP WITH THE STATE DEPARTMENT AT AN

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4090 - 1

APPROPRIATELY HIGH LEVEL AND MAKE THE POINTS ABOVE. SINCE THE FRENCH MAY WELL HAVE PURPORTED TO BELIEVE THAT THEIR PROPOSED SALE FELL WITHIN TRADITIONAL TRADE, AND THUS WOULD BE ACCEPTABLE TO THE COMMUNITY, YOU MAY WANT TO MAKE CLEAR THAT THIS IS SPECIOUS, DRAWING ON MY TELNO 182 TO UKREP AND THE BRIEF FOR THE 16/17 MARCH FOREIGN AFFAIRS COUNCIL.

4. YOU SHOULD MAKE IT CLEAR THAT WE WOULD TAKE IT ILL IF THE AMERICANS SUBSEQUENTLY TELL THE FRENCH THAT THERE HAVE BEEN COMPLAINTS BY OTHER ALLIES ABOUT HAIG'S GREEN LIGHT. YOU SHOULD ENCOURAGE ANY AMERICAN DISPOSITION TO REOPEN THE QUESTION WITH THE FRENCH, SUGGESTING IF APPROPRIATE THAT THE CRITICAL SITUATION IN POLAND AND PRESIDENT REAGAN'S REMARKS TO THE WASHINGTON POST PROVIDE SUFFICIENT JUSTIFICATION FOR DOING SO.

5. (FOR BONN). YOU SHOULD NOT (NOT) TELL THE GERMANS OF THE ACTIONS WE ARE TAKING WITH THE STATE DEPARTMENT.

6. IF HERMES ASKS ABOUT REACTIONS IN LONDON YOU SHOULD CONFINE YOURSELF TO SAYING THAT WE HAVE QUERIED WITH THE STATE DEPARTMENT THE APPARENT INCONSISTENCY BETWEEN WHAT HAIG SAID TO THE FRENCH AND WHAT PRESIDENT REAGAN SAID OVER THE WEEKEND.

CARRINGTON

NNNN

DIST

FRAME EXTERNAL/AGRICULTURE

ECD (E)

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NAD

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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

30 March 1981

P.A. has seen. Approved for
despatch. Mr Gomersall informed

Dear Sir,

Am
30/3

FRENCH WHEAT SALE TO SOVIET UNION

The Prime Minister and the Lord Privy Seal agreed this morning to send instructions to the Embassy in Washington to complain about the report in Washington telno 1038 that Mr Haig had given American approval to a French proposal for the sale of 600,000 tonnes of wheat to the Soviet Union. I attach a draft telegram.

I am copying this to Kate Timms and to David Wright.

Yours ever
Stephen Gomersall.

S J Gomersall

M O'D B Alexander Esq
PS/Prime Minister
10 Downing Street

OUT TELEGRAM

		Classification and Caveats CONFIDENTIAL	Precedence/Deskby IMMEDIATE
ZCZC	1	ZCZC	
GRS	2	GRS	
CLASS	3	CONFIDENTIAL	
CAVEATS	4		
DESKBY	5		
FM FCO	6	FM FCO	
PRE/ADD	7	TO IMMEDIATE WASHINGTON	
TEL NO	8	TELEGRAM NUMBER	
	9	AND INFO TO UKREP BRUSSELS, BONN, PARIS	
	10	YOUR TELNO 1038: FRENCH WHEAT SALE TO SOVIET UNION	
	11	1. The news that Haig has given the French the green light is	
	12	most unwelcome. As you pointed out to Stoessel, the Americans	
	13	have kicked through their own goal. They have also cut the	
	14	ground from under the feet of those like ourselves who have been	
	15	working consistently for the past fourteen months to hold the	
	16	Community to its January 1980 decision and have opposed the French	
	17	wheat deal in Brussels as not being consistent with that decision,	
	18	which was itself triggered by the US grain embargo. You should	
	19	leave the Americans in no doubt that they have made it very	
	20	difficult for us to block this sale if and when it is further	
	21	discussed in Brussels. They may be unaware that at the Foreign	
///	22	Affairs Council on 17 March, we expended a great deal of effort in	
//	23	successfully watering down a French resolution in favour of a sale	
/	24	to the Soviet Union. The French seemed resigned to the situation	
	25	at the Management Committee on 26 March, when the Commission	
		NNNN ends telegram	Catchword reaffirmed
		BLANK	
		File number	Distribution
		Dept ECD(E)	Frame External/Agriculture ECD(E) EESD NAD
		Drafted by (Block capitals) G E FitzHerbert	
		Telephone number 233 5604	
		Authorised for despatch	
		Comcen reference	Time of despatch

OUT TELEGRAM (CONT)

	Classification and Caveats	Page
	CONFIDENTIAL	2
		IMMEDIATE

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1 <<<<

2 reaffirmed its view that disposal of this 600,000 tonnes to

3 destinations other than the Soviet Union was not expected to cause

4 major problems, either for the Community or for the world wheat

5 market. But, following Haig's response, they will no doubt

6 return to the charge.

7 2. Haig's action is all the harder to understand in view of the

8 strong reaffirmation by President Reagan published over the week-

9 end of the US decision to maintain the grain embargo, a further

10 reason adduced for which was the threat of Russian intervention

11 in Poland.

12 3. Please take this up with the State Department at an

13 appropriately high level and make the points above. Since the

14 French may well have purported to believe that their proposed sale

15 fell within traditional trade, and thus would be acceptable to the

16 Community, you may want to make clear that this is specious,

17 drawing on my telno 182 to UKRep and the brief for the 16/17 March

18 Foreign Affairs Council.

19 4. You should make it clear that we would take it ill if the

20 Americans subsequently tell the French that there have been

21 complaints by other allies about Haig's green light. You should

22 encourage any American disposition to reopen the question with the

23 French, suggesting if appropriate that the critical situation in

24 Poland and President Reagan's remarks to the Washington Post

25 provide sufficient justification for doing so.

26 5. (for Bonn). You should not (not) tell the Germans of the

27 actions we are taking with the State Department.

28 6. If Hermes asks about reactions in London you should confine

29 yourself to saying that we have queried with the State Department

30 the apparent inconsistency between what Haig said to the French

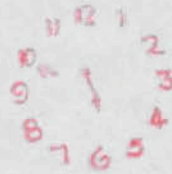
31 and what President Reagan said over the weekend.

///
//
/

33 CARRINGTON
34 NNNN

NNNN ends telegram	BLANK	Catchword
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30 MAR 1981



CONFIDENTIAL
AMENDED DISTRIBUTION 30 MARCH 1981

DISTRIBUTION SELECTED
FILE COPY

GR 150

[FRAME EXTERNAL]
[FRAME AGRICULTURE]

CONFIDENTIAL
FM WASHINGTON 280120Z MAR 81
TO PRIORITY F C O
TELEGRAM NUMBER 1038 OF 27 MARCH 1981
INFO UKREP BRUSSELS BONN AND PARIS

FRENCH WHEAT SALE TO THE SOVIET UNION

1. STOESSEL, UNDER-SECRETARY AT THE STATE DEPARTMENT, TOOK THE GERMAN AMBASSADOR AND ME ASIDE THIS AFTERNOON AFTER ANOTHER MEETING AND TOLD US IN CONFIDENCE THAT THE FRENCH AMBASSADOR HAD APPEALED DIRECTLY TO HAIG FOR U S APPROVAL OF A PROPOSED SALE OF 600,000 TONS OF WHEAT TO THE SOVIET UNION. THE STATE DEPARTMENT HAD RESPONDED THAT THEY WOULD RAISE NO REPEAT NO OBJECTION. STOESSEL HINTED THAT GISCARD'S ELECTORAL REQUIREMENTS HAD PLAYED A PART IN THE FRENCH REQUEST AND THE U S RESPONSE.

2. HERMES AND I BOTH EXPRESSED SURPRISE. I COMMENTED THAT THE STATE DEPARTMENT APPEARED TO HAVE FACILITATED AN END-RUN BY THE FRENCH AROUND U S POLICY ON AFGHANISTAN. STOESSEL SIGHED AND INDICATED THAT WHAT WAS DONE COULD NOT BE UNDONE.

FRETWELL

[THIS TELEGRAM WAS NOT ADVANCED]

COPIES SENT TO
No. DOWNING STREET

FRAME EXTERNAL
FRAME AGRICULTURE
ECD(E)
EESD
NAD
WED
SAD

CONFIDENTIAL

Soviet Union

From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

The Rt Hon Sir Ian Gilmour MP
Foreign & Commonwealth Office
LONDON SW1

*NBDM yet**Hand*

23 March 1981

Dear Sir,

WEST SIBERIAN GAS PIPELINE

Thank you for your letter of 4 March. I am glad you agree we should do what we can to provide an adequate written assurance to the Russians. Your idea of this being conveyed in the form of a letter from our Ambassador to Sushkov is a good one. I agree entirely that we should if at all possible avoid negotiating a text with the Russians. The dangers involved in negotiation are amply illustrated by the arrival of a Soviet draft text (copy attached) that goes well beyond what we could accept.

My inclination is to persist with the idea of a letter from the Ambassador along the lines of the attached draft. This has been discussed with your officials. It deliberately makes no reference to our receipt of the Soviet text. In our instructions to the Ambassador we would ask him to explain why the Soviet text is unacceptable to us. It goes beyond what any Government (including the Soviet Government itself) could be expected to agree to. He would make it clear that his letter went as far as we were prepared to go. Our hope must be that the Russians will take a realistic view of the situation and not press for any discussion of their text.

In his letter to me of 11 March, the Chancellor asked to what extent other Governments were committed to the pipeline project. I do not think we can say that any Government is irrevocably committed to the project. At the end of the day it may prove impossible to agree on the price to be paid for Soviet gas or on the credit terms to be offered. However it seems clear that in those countries which are likely purchasers of the gas their Governments are of necessity actively involved in co-ordinating the negotiations on the purchase of gas, the supply of equipment and the provision of credit.



If you can agree the form of words for the Ambassador to use I would like us to provide instructions to him as quickly as possible so as to avoid officials here or in Moscow becoming involved in discussing the Soviet text.

I am copying this letter to members of OD and Sir Robert Armstrong.

Yours *Est,*
Neil

CECIL PARKINSON

CONFIDENTIAL

DRAFT LETTER FROM HM AMBASSADOR, MOSCOW
TO MR SUSHKOV, DEPUTY MINISTER FOR FOREIGN TRADE

At our meeting on 28 January you enquired about the policy of Her Majesty's Government in relation to the export of equipment by Rolls Royce Limited in connection with the proposed gas pipeline from Western Siberia to Western Europe.

2 As we stated at that meeting the British Government fully supports the wish of Rolls Royce to supply equipment for this project. Their participation would be an important example of the co-operation between our two countries that is envisaged under our 1974 Agreement on the Development of Economic, Scientific, Technological and Industrial Co-operation and our 1975 Long Term Programme for the Development of Economic and Industrial Co-operation. It would also represent a significant development in our long term trade and economic relations. As you know, the British Government has consistently made it clear that it is in favour of expanding our trade where this is to our mutual advantage.

3 With regard to the provision of export licences you will wish to take account of the long history of successful trading between our two countries and the fact that in no case has the British Government revoked an export licence for goods to be supplied to the Soviet Union. For the future, while I am not authorised to bind Her Majesty's Government as to the future exercise of their power to grant, withhold or revoke export licences, I am instructed to inform you that the British Government give their full approval to Rolls Royce Limited's tender for a contract to supply Avon and RB 2-11 industrial gas generators for use in connection with the proposed pipeline and intend to grant export licences for the equipment that would be supplied by Rolls Royce if they successfully tendered for this contract.

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4 I hope that the current negotiations between Rolls Royce and Soviet foreign trading organisations can soon be brought to a successful conclusion. My Embassy is ready to assist in whatever way it can to bring this about.

DRAFT TEXT OF PROTOCOL PROPOSED BY THE SOVIET MINISTRY OF FOREIGN TRADE FOR
ADOPTION AT THE NEXT SESSION OF THE BRITISH-SOVIET JOINT COMMISSION

"The Government of the USSR and the Government of the United Kingdom, welcoming the report of negotiations being conducted between the appropriate Soviet Foreign Trade Organisations and the company "Rolls Royce 1971 Limited" about their possible co-operation in the implementation of a project for the construction of the gas pipeline from West Siberia to the western frontier of the USSR, noting that co-operation of the aforementioned organisations in the implementation of the said project would facilitate the further development of trade and economic relations between both countries, taking into account the large-scale and long-term character of the proposed co-operation in connection with this the importance of taking special measures which would furnish a firm basis for its successful implementation.

Have agreed on the following:-

1 Taking account of the provisions of the Agreement on the Development of Economic, Scientific, Technological and Industrial Co-operation of the 6th May 1974 and the Long-Term Programme for the Development of Economic and Industrial Co-operation of the 17th February 1975, both sides, for the purpose of creating more favourable conditions for co-operation between the aforementioned organisations in the implementation of the said project, will contribute to the successful fulfilment of the contracts which it is proposed shall be concluded, and in particular will issue import and export authorisations without obstruction.

2 The Government of the United Kingdom will not use any discretionary powers in accordance with laws, regulations and rules in force in the United Kingdom for the establishment of control of the delivery by the aforementioned company of goods to the Soviet Union in accordance with contracts concluded.

3 In the event of the introduction in the United Kingdom of limitations on the export of goods analogous to those which will be supplied by the aforementioned company to the USSR, the Government of the United Kingdom will ensure the non-extension of these limitations to the supply of goods to the Soviet Union by the aforementioned company under contracts concluded.

4 Both sides will without delay consult each other about problems which may arise in connection with the present understanding. Consultations will also be carried out on problems arising in the course of co-operation by the aforementioned organisations in the implementation of the said project or in connection with it,

including during the fulfilment of contracts, and problems relating to the competence of the sides or in the solution of which the sides can lend assistance in accordance with laws, regulations and rules in force in their countries.

The present protocol enters into force on the day of signature.

Concluded in London on the, 1981, two original copies, in the Russian and English languages, both texts having the same force.

For the Government of the Union of Soviet Socialist Republics.

For the Government of the United Kingdom and Northern Ireland".

24 MAR 1941





Wmlls.

Prime Minister

CABINET OFFICE

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

Top copy - Gurd, P
K6 Maastricht Ec
Policy

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

Ref. A04505

19th March, 1981

Wheat for the Soviet Union

The Secretary-General in the Elysee, Monsieur Jacques Wahl, telephoned Sir Robert Armstrong this afternoon about the proposed sale of 600,000 tonnes of wheat to the Soviet Union. He said that the French Government were concerned that this proposed sale seemed to be developing into a major cause of dispute in Europe. Monsieur Wahl argued that the sale was a routine question and not the sort of substantial matter which should provoke disagreement. In addition, he said, the quantity of 600,000 tonnes proposed in 1981 was the same as in 1980 and the cost to the Community would not be very high. Furthermore, according to Monsieur Wahl, the United States Government, who could have been expected to object to this sale, had let it be known that they were not concerned about it.

Sir Robert Armstrong took note of what Monsieur Wahl had said, agreed to look into the question, and to be in touch with him again.

I have spoken to Michael Franklin about this and he says that this French approach is something on which the Prime Minister will need to be briefed for Maastricht. You will wish to arrange for this to be put in hand.

I should also be grateful for advice as to what Sir Robert should say when he rings back. Copies of this letter go to Kate Timms (MAFF), John Wiggins (Treasury), Stuart Hampson (Trade) and Michael Alexander (No. 10).

D. J. WRIGHT

(D. J. Wright)
Private Secretary

R. A. Burns, Esq.

CONFIDENTIAL

CONFIDENTIAL

Soviet Union



Foreign and Commonwealth Office

London SW1A 2AH

f.a. Amt

17 March 1981

②

Prime Minister

Amt 17/3

Dear Michael

WEST SIBERIAN GAS PIPELINE: ROLLS ROYCE BID.

Thank you for your letter of 9 March about the draft letter to Mr Sushkov enclosed with the Lord Privy Seal's letter of 4 March to the Minister for Trade.

The reference to Western European licensing practice suggested by the Prime Minister would in our view have strengthened the relevant passage in the draft; but officials in the departments concerned are now inclined to think that our requirements would best be met by a text which did not refer to licensing policy to this extent. A revised text was on the point of being agreed for submission to Ministers when we heard on 13 March that the Soviet Ministry for Foreign Trade had taken the initiative by handing over to our Embassy in Moscow a draft which they propose should be endorsed by the British/Soviet Joint Commission which is to meet at the end of May. Officials are now reconsidering the position on the basis of this rather unwelcome Soviet intervention and the Minister for Trade will no doubt be writing to his colleagues again in due course.

I am copying this letter to the recipients of yours.

Yours ever

Michael Arthur

M A Arthur

M O'D B Alexander Esq
PS/Prime Minister
10 Downing Street

CONFIDENTIAL

17 MAR 1981

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CONFIDENTIAL

Sov Union



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

11 March 1981

Cecil Parkinson Esq., MP.
Minister for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

NRPA

Hand 11/3

[Handwritten signature]

WEST SIBERIAN GAS PIPELINE

Thank you for sending me a copy of your letter to Peter Blaker of 19 February about the assurances which the USSR are seeking in connection with the Rolls Royce bid for gas generators for the West Siberian gas pipelines. I have since seen Ian Gilmour's letter of 4 March and Keith Joseph's of 5 March.

I consider that the revised draft letter proposed by Ian Gilmour represents a straightforward statement of our position and would be happy for it to issue in these terms. We can, of course, look at the position again should it be unacceptable to the USSR, but it would be difficult to go further. In that event it would be appropriate to know more about what other countries are doing about assistance for the project as a whole, both those interested in orders only and those who will wish to purchase the gas in due course. I am not clear to what extent other governments are firmly committed to the pipeline project.

I am copying this letter to the members of OD and Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

CONFIDENTIAL

11 MAR 1981



CONFIDENTIAL



6
Soviet Union

10 DOWNING STREET

From the Private Secretary

9 March 1981

RF 16:38

West Siberian Gas Pipeline

The Prime Minister has seen the Lord Privy Seal's letter of 4 March to the Minister for Trade on this subject. She has asked whether it would be possible to insert the words "like their European partners" (or something similar) after the words "the British Government" in the second sentence of the draft letter to Mr. Sushkov from HM Ambassador, Moscow. I should be grateful for your comments.

I am sending a copy of this letter to Keith Long (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Stephen Gomersall Esq
Lord Privy Seal's Office.

CONFIDENTIAL



CONFIDENTIAL

DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

5 March 1981

Cecil Parkinson Esq MP
 Minister for Trade
 Department of Trade
 1 Victoria Street
 London SW1H 0ET

See Cecil.

WEST SIBERIAN GAS PIPELINE

Thank you for sending me a copy of your letter of 19 February to Peter Blaker about Rolls Royce's bid to supply generators for this pipeline. I recognise that the USSR's demand that the Government should not interfere with the supply of generators once a contract has been signed presents difficulties which require serious consideration. But, I would like to emphasise at the outset the importance of this contract to Rolls Royce. *TPM*

If Rolls Royce are successful, this order is likely to amount to a minimum of £150m. It would come at a time when the company is facing increasing competition in a market which has been badly affected by recession. The Industrial and Marine Division has recently had to lay off 600-700 workers and is facing great difficulty in maintaining the highly skilled workforce which will be needed if it is to take advantage of the upturn in what, in the medium to long term, should be a good market. Up to 1500 people would be involved directly and indirectly in the contract. In addition, this order would provide a unique opportunity to advance UK technology and would be a major showpiece for future sales in the growing world market.

This situation speaks for itself in terms of the importance of doing whatever we reasonably can to help Rolls Royce. I am therefore in favour of trying to meet the Russians' request although I appreciate the difficulties to which you draw attention. A statement on the lines you propose in the second paragraph of your aide memoire would be acceptable to me and I hope it may be sufficient for the USSR. If this is not the case, I should like to ask that we have an opportunity to consider the options



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and their implications before any decision is taken which could significantly affect Rolls Royce's position.

I am copying this letter to the members of OD and Sir Robert Armstrong.

*Y
Carr*

Kerr

5 MAY 1957

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Foreign and Commonwealth Office
London SW1

4 March 1981

(4)

Prime Minister

*You will wish to be aware
of this issue.*

Am,

Her Cecil,

WEST SIBERIAN GAS PIPELINE

Thank you for your letter of 19 February to Peter Blaker.

I agree that the Soviet request for a written assurance poses some difficult questions for us. I also agree that, for the reasons set out in your letter, we cannot fetter ourselves by entering into any legally enforceable obligations or by providing a text which would complicate our contingency planning over Poland or Soviet conduct in other areas. I do, however, accept that we should do what we can to help Rolls Royce win a contract, the employment and trade implications of which are so significant.

Our present intention to grant export licences in normal circumstances is already known to the Russians, and a written assurance to this effect could be said to be no more than a formalisation of what has already been said to them and to Rolls Royce. Furthermore, by acting in this way we should do no more than give official support to a major British company in the form most useful to them. The French and Germans are already closely identified with their firms' tenders for business associated with the pipeline, and the Russians have good reason to assume that their interest as purchasers of the gas will influence their attitude over the supply of the necessary equipment.

/I wonder,

Cecil Parkinson Esq MP
Minister for Trade
Department of Trade
1 Victoria St SW1

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I wonder, however, whether the text you enclosed with your letter is not unnecessarily weighted with caveats. The Russians can scarcely expect us to guarantee that, irrespective of any possible changes in the international scene, permission to export the equipment will continue. On the other hand, an all-embracing safety clause would deprive our assurance of its force and risk its rejection by the Russians. This, as you suggest, might leave Rolls Royce in a worse position than if we were to deny a written assurance at all. Furthermore, it might induce the Russians to seek to negotiate a more satisfactory text from their point of view. I would regard any such negotiation as out of the question.

Given the background of existing international competition and the fact that the very thinness of our bilateral relationship may have prompted the Russians to seek a written assurance, I believe that if we are to give an assurance the language must be convincing. The revised text I am enclosing with this letter seeks to do this. It does not bind us to any enforceable obligations. Our Legal Advisers believe that the protective clauses provide us with a sufficient basis for defending our actions should the Russians challenge any subsequent decision to withhold or revoke export licences. As you will see, the text is in the form of a letter from our Ambassador to Mr Sushkov and flows from the discussions with Sushkov in Moscow in late January. A letter in this form would lend itself less easily to any Soviet attempt to negotiate a text more to their liking.

The attached draft, like that which you enclosed with your letter, would be available for adaptation in the event of future Soviet requests for the Government to support tenders by British firms. I do not think this will necessarily happen, but we must guard against the contingency by agreeing a text which we could offer without qualms to others.

I agree that it would be wrong to consult the Americans before offering the Russians our assurance.

I am copying this letter to the recipients of yours.

yes ✓
la

is it possible to
add something
like the following

L "like their European
partners"

DRAFT LETTER FROM
HM AMBASSADOR, MOSCOW

TO MR SUSHKOV,
DEPUTY MINISTER FOR FOREIGN TRADE

ms

At our meeting on 28 January you enquired about the policy of Her Majesty's Government in relation to the export of equipment by Rolls Royce Limited in connection with the proposed West Siberian gas pipeline.

As you may know, in determining their policy in relation to the licensing of exports to the Soviet Union, the British Government take account inter alia of changes in the international situation and the policies pursued by the Soviet Government. This will continue to be the case in future.

I am however instructed to inform you that, in present circumstances, the British Government give their full approval to Rolls Royce Limited's tender for a contract to supply Avon and RB 211 industrial gas generators for use in connection with the proposed pipeline, support the wish of the company to undertake the supply of this equipment, and intend to grant export licences for the equipment which would be supplied by Rolls Royce if they successfully tender for this contract.

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APR 1981

CONFIDENTIAL



From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

Peter Blaker Esq MP
Minister of State
Foreign and Commonwealth Office
LONDON
SW1A 2AH

19 February 1981

Dear Peter,

NB PR 1 yet

And 202

WEST SIBERIAN GAS PIPELINE

On 18 December OD considered the question of matching French credit terms in the context of Rolls Royce's bid for a large order from the Soviet Union for Avon and RB211 gas generators which would be used to pump natural gas from Siberia to a number of West and East European countries. The Committee decided that it was premature to consider the need to match and asked us to encourage the company to continue negotiations.

One difficulty which has now arisen is the insistence by the Soviets that they require an exchange of letters at Government level in which we would undertake not to interfere with the supply of generators from the UK once a contract has been signed. The Soviet authorities clearly see this as a useful political bargaining counter. Those directly concerned with the project wish to minimise the risk of disruption to a major undertaking for which they would personally have to account whatever the political circumstances. In particular they do not wish to see a repeat of Soviet experience after Afghanistan when the US Government forced its companies to cancel major contracts.

The question was raised again during the Economic and Industrial Co-operation discussions in Moscow at the end of January. Mr Sushkov, the Deputy Minister for Foreign Trade, indicated that nothing less than a written assurance that we would not interfere with the contact would suffice. Mr Sushkov suggested that the matter should be further discussed with the USSR Trade Delegation in London.

Rolls Royce have been pursuing this project with our full knowledge and support. The question of export licences for the Avon and the RB211 industrial gas generators has been fully discussed within Whitehall. The Avon can be exported without the need for a licence. Strictly speaking the industrial version of the RB211 is not subject

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to export licensing control. However the discussions have taken account of proposed changes to the COCOM rules which would restrict the sale of an industrial generator derived from an aero engine if the technology incorporated in it were less than eight years old. We told Rolls Royce that we would be prepared to grant them export licences for RB211's that incorporated a level of technology that was available in 1975 (based on an expected delivery date of 1983). The transfer of spares technology would not be allowed nor could technology subsequently be provided to update generators supplied or to be supplied. Rolls Royce have continued their negotiations on the basis of these conditions. The Soviets will be aware, in general terms, of the advice we have given Rolls Royce, but this is clearly not regarded as adequate for their purposes.

We do not want to go any further than is absolutely necessary over this issue. However I think that a contract for the pipeline is of such importance to Rolls Royce that we must give serious consideration to giving the Soviets a letter. It is clearly difficult to devise a formula for such a letter that would not compromise our wider position or give rise to legally enforceable commitments on the part of the Government, unlikely as it is that the Soviets would take us to court in the political climate that had caused us to interfere in existing contracts with the Soviet Union. On the other hand, if we suggest too weak a form of words, the result could be more harm than good. Bearing these points in mind my officials have prepared the enclosed draft of an aide memoire. I should be grateful for your reactions to it. In drawing up the Aide Memoire care has been taken not to fetter the discretion of Ministers in the exercise of their statutory powers or to bind future Administrations and to guard against entering into formal obligations which could be regarded as binding in international law. Our legal advice is that the wording meets these criteria. You may wish to ask your legal advisers to confirm this view.

In the event of a Soviet intervention in Poland it is likely that the whole pipeline project would be in jeopardy and Rolls Royce's interest would lapse. If the project nevertheless continued the Aide Memoire would not commit us to providing export licences for Rolls Royce. Of course, Rolls Royce are not due to start delivery of the engines until 1983, and by then the position will be clearer.

The Soviets have said that they intend asking for written assurances only from countries not taking gas from the pipeline. Those intending to take gas would run the risk of not receiving it if they interfered with the supply of equipment (including spares) from their countries. This means effectively that their demands are aimed at the Americans and ourselves. We shall have to keep in touch with the Americans but I hope you agree that we must avoid giving them some sort of veto over our repeating to the Russians assurances which we would readily give to Rolls Royce. A principal aim of the Americans is to secure orders for gas generators produced by General Electric, who are Rolls Royce's only real competitors in this field.

I am copying this letter to the members of OD, Sir Keith Joseph and Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]
CECIL PARKINSON



DRAFT

CONFIDENTIAL

AIDE MEMOIRE

Her Britannic Majesty's Government wishes to assure the Government of the Union of Soviet Socialist Republics that Rolls Royce Ltd has its full approval in tendering for a contract to supply Avon and RB 211 industrial gas generators for use in connection with the proposed West Siberian Gas Pipeline. While Her Majesty's Government is not in a position to guarantee the performance of particular contracts undertaken by Rolls Royce Ltd it nevertheless supports the wish of the company to undertake the supply of this equipment.

While you will appreciate that one Administration cannot bind its successors and that I have no authority to bind Her Majesty's Government in law as to the future exercise of its power to grant, withhold or revoke export licences I can confirm that it is Her Majesty's Government's intention to permit the export of the equipment which would be supplied by Rolls Royce if they successfully tender for this contract.



20 FEB

310
/

S. Union



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

12 February 1981

(2)

Prime Minister

Expressing

ms
Rmt

[Handwritten signature]

EXPORTS OF FLOUR TO THE USSR

You may wish to be aware of the reports that flour millers in the Community are converting US wheat into flour and exporting it to the USSR, in order to circumvent the embargo. I enclose two extracts from the Public Ledger. These confirm rumours which my officials have picked up in Brussels recently. You will see that there is no suggestion that any of the milling is taking place in the UK.

The operation is clearly being carried out under the "inward processing arrangements", which allow raw materials to be imported free of levies and other charges from third countries on condition that an equivalent amount of processed goods is exported to third countries. There is thus no question of a Community subsidy being granted as there would be if Community raw materials were involved.

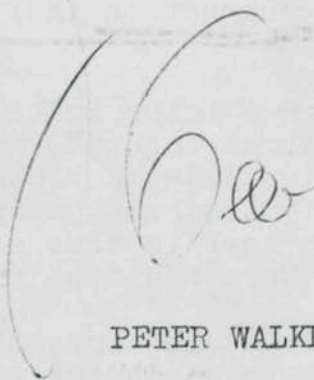
If US officials are correctly reported, they are resigned to no action being taken on the grounds that the processing takes place outside Community jurisdiction. This is not strictly correct. The conditions for inward processing are laid down in a Community Directive and it appears from this that Member States may authorise it or not, as they think fit. There is also a provision in the CAP regimes, including that for cereals, permitting the Council to prohibit, in whole or in part, the use of inward processing to the extent necessary for the proper working of the common organisation of the market.

The Community's policy on food exports to Russia following the invasion of Afghanistan has been laid down by the Foreign Affairs Council, and if you consider that something should be done about this new development, the only possibility would be to get that Council to look at it. Certainly we should get nowhere in the Agriculture Council.

/Even if you decide ...

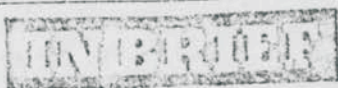
Even if you decide to bring the matter up in the Foreign Affairs Council, the prospects are poor, especially at a time when President Reagan is known to be considering the future of the embargo. We could not claim that the Community was subsidising the exports; and it would be argued that they did not fall within the scope of the original Council resolution since the flour, being made from US wheat, could not be called a Community product. It could also be pointed out that a restriction on inward processing in this case would not be necessitated by "the proper working of the common organisation of the market" and would therefore be outside the terms of the provision I have referred to above.

I am sending copies of this letter to the Prime Minister, members of OD(E) and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'Peter Walker', written in a cursive style. The signature is enclosed within a large, thin, hand-drawn oval or loop.

PETER WALKER

No. 68,456



**-MID EAST LINER
TRADE GROWS**

Page 6

**US denies
knowledge of
EEC/Soviet
flour sales**

US Agriculture Department officials denied having any knowledge of European millers' sales to the Soviet Union of 700,000 tonnes of flour made from 1 mln tonnes of imported US hard wheat. They were commenting on news reports from Paris quoting French trade sources that the sales are being made with the knowledge of the US and the EEC Commission (see PL 3/2/81).

If the sales are taking place, the USDA officials said, the wheat is being processed into flour at 'in-bond or customs-free' areas located near the ports.

These customs-free areas are outside the jurisdiction of the EEC and thus make it difficult, if not impossible, for the Common Market to restrict the flour sales, in line with EEC support for a partial embargo on shipments to the Soviet Union, they said.

"We do not welcome the sales in the least," one USDA official said, adding that the US still stands by the partial grain embargo.

They reasoned that the flour sales appear to be another loophole in the embargo being exploited by the Soviets. They cited the widespread rumours last summer that EEC crushers were buying US beans and then shipping the meal to the USSR.

The officials also expressed surprise that the Soviet Union would need as much as 700,000 tonnes of flour, especially since the Soviet wheat crop last year was sufficient to meet domestic needs.

151

GRAINS and OILCAKES

European millers selling flour to USSR

LONDON, February 2.—French trade sources report that millers in Europe are currently working on contracts to provide the USSR with more than 700,000 tonnes of flour made from 1 mln tonnes of imported US wheat. The US and the EEC Commission are apparently both aware of the sales which, sources said, do not directly infringe the embargo on sales to the Soviets.

The US is happy to sell its wheat to European millers although Community wheat exporters would prefer Commission rebates on EEC flour sales, allowing their own wheat to be used instead, the sources said.

This system of importing US wheat and exporting flour is known as "improved perfection traffic" and the trade avoids EEC import/export duties because the nature of the product changes.

West Germany is where most of the milling is done although Italy, the Netherlands and Belgium are also involved.



172 FEB 1984

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S. Union

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

16 January 1981

G H Walden Esq
Private Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

h.s.
Am

Dear George,

THE SOVIET UNION AND AID

Roderic Lyne

You wrote to me on 15 December about this.

I am now writing to confirm that the Treasury does not wish to pursue further the points in my letter to Michael Alexander of 4 November, in the light of the explanations you have now provided.

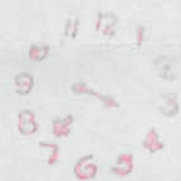
I am copying this letter to Michael Alexander, Brian Norbury, and David Wright.

Yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

16 JAN 1981



See Unit



10 DOWNING STREET

I have suggested to F.C.O.
that the question of our attitude
to Soviet aid policy should
be wrapped up in a broader
consideration of Aid Policy.
They agree.

L.S.

Perkins 7/11



10 DOWNING STREET

Michael

your note on David Wright's
minute of 23 December.

Hmt are not going to
comment.

C. M. H.
6/1.



B/F 2/1/81

Ser Union

B/F with Mr Wiggint' letter when rec'd.

Aunt

Ref A03891

MR. ALEXANDERTHE SOVIET UNION AND AID

You asked me for advice on the line the Prime Minister might take on the proposal discussed in correspondence beginning with Mr Walden's letter of 24 October.

2. Although the Chancellor of the Exchequer was prepared to accept that this topic should be excluded from the general discussion on development policy with Lord Carrington and other Ministers (which has now been postponed until late January), I understand that he is not happy with the line advanced by the Foreign and Commonwealth Secretary. The Prime Minister may prefer not to express a view until she has seen what line the Chancellor takes.

D J WRIGHT

23 December 1980



CONFIDENTIAL

Soviet
Union

Ref. A03832

PRIME MINISTER

Credit Terms for Business with the Soviet Union

(OD(80) 75)

BACKGROUND

Although this Note by the Secretary of State for Trade deals with one potential order for the Soviet Union, the underlying point at issue is the implied reversion to a trade policy towards the Soviet Union not unlike that which obtained before Afghanistan. On 17th January 1980 the Cabinet took note of your statement on the policy which the Ministers concerned had agreed should be pursued following the invasion; this included not renewing the Anglo-Soviet credit agreement. OD discussed the matter on 22nd January and agreed that Britain should refuse to accord the Soviet Union subsidised credit terms more favourable than the OECD consensus - provided that other relevant members of the European Community did the same, which in the event the French are not doing.

2. The Secretary of State for Trade in a letter to the Foreign and Commonwealth Secretary and OD colleagues of 18th September, which he copied to you, proposed a review of the Government's attitude to trade relations with the Soviet Union. He pointed out that if the United Kingdom, in contrast to virtually every other Western Government, continued to maintain its present attitude the amount of business coming to Britain seemed bound to decline. This approach secured the guarded agreement of OD colleagues that some relaxation in current policy was necessary to protect the competitive position of British exports of non-strategic goods to the Soviet Union. The Secretary of State for Trade is now proposing a significant further step in order to improve Rolls-Royce's chances of securing over £200 million worth of orders for gas compressor engines for the gas pipeline from the Soviet Union to Eastern and Western Europe. This would provide at least 400-500 jobs over the period 1982-85.

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3. The gas pipeline will be of direct benefit to a number of our Continental allies, but not to Britain. This may make our position more open to criticism than theirs would be, in relation to any specially favourable terms which are offered to the Russians.

4. The urgency for an OD decision stems from the fact that the Soviet Union have asked Rolls-Royce's bankers (Midland) to submit financing proposals in early January 1981.

5. The Committee will be somewhat reduced in size as the Secretary of State for Defence will be in Canada, the Lord President in Rome, and both the Lord Chancellor and Lord Privy Seal are likely to be detained by Parliamentary business. The Chancellor of the Exchequer may also be late. The Secretary of State for Industry has been invited because of his interest in Rolls-Royce and the Chief Secretary because of the public expenditure implications of the subsidised credit proposals.

HANDLING

6. You will wish to ask the Secretary of State for Trade to introduce his paper. The points to establish in subsequent discussion are -

- (a) What are the views of the Foreign and Commonwealth Secretary on this proposed change in our trade relations with the Soviet Union? How would the change be regarded by our allies, particularly the United States? Would the Soviet Union read it as a signal that this country was prepared to forget about Afghanistan and regard the fate of Poland with relative indifference? Or might the importance of this kind of order to the Soviet Union have a restraining effect on their Polish policy? The answers to these questions are by far the most important issues to be considered by the Committee on this occasion. If the Committee forms a clear view against any change in current policy, it will be unnecessary to spend time considering the commercial, industrial and financial balance of advantage in relation to the Secretary of State for Trade's proposal. But if the Committee decide that this proposal would involve this country in doing little more than some of our

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major allies are already either doing or contemplating, you will wish to consider the actual merits of the proposal itself. In that case, you will wish to pursue the following points.

- (b) How important does the Secretary of State for Industry consider this prospective business to be to Rolls-Royce's industrial and marine division? Is any high-level technology involved? (The paper suggests that there is no COCOM problem).
- (c) How do the Chief Secretary and the Secretary of State for Trade regard the financial implications of matching French competition in this and future cases? At some point on the subsidy scale export business ceases to be worth having (e.g. ships for Poland); how near that point would this business be? The Chief Secretary is likely to argue that Britain should not be in too much of a hurry to match the expected French credit offer on the grounds that the Soviet Union may have strong reasons for placing the proposed order with Rolls-Royce in any case. This is because Rolls-Royce already have a record of proven success in this field in the Soviet Union, and the programme is so large that in their own interest the Russians are going to be compelled to spread orders fairly widely. He may also suggest that we should not react too quickly to Soviet tactics designed to achieve cheap credit by playing off one country against another. Finally he may suggest that the proposed size of subsidy (£9.8 million) is too large in relation to the number of jobs which will be created by the Soviet order. But this of course depends on the ultimate size of the order.
- (d) How does the Secretary of State for Trade reconcile his proposal with the conclusion of the European Community meeting on Credit on 10th December at which all the countries present including France thought it was premature for firm commitments to be made on the pipeline project? Is there a risk that, if ECGD are allowed to match, we shall be left isolated because our allies continue to adhere to the consensus and the French return to it when their agreement is reviewed in September 1981?

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18000

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- (e) What will be the extent of this country's commitment if the Committee agree to the Secretary of State for Trade's proposals, the Midland Bank submit financing proposals to the Soviet Union and the latter subsequently invade Poland? In the case of Afghanistan existing transactions were allowed to run their course; but they might not be after an invasion of Poland.
- (f) In the Secretary of State for Trade's view how relevant are timing factors in relation to this transaction? How likely are Rolls-Royce to lose the proposed business if the Midland Bank is not ready to submit financing proposals in early January? More time would allow the Soviet intentions towards Poland to become more clear and would also be in keeping with the conclusion of the European Community meeting on Credit on 10th December. But how much more time would be most appropriate in the circumstances? Three months?

CONCLUSION

7. In the light of discussion on these points, the Committee will wish to take particular account of the views of the Foreign and Commonwealth Secretary. If he argues that it would be totally out of keeping with our current policy towards the Soviet Union to make this particular relaxation in current trade relations, and that it would be widely misunderstood by our allies, you may feel that the Committee ought to be guided to the appropriate conclusion. But if the views of the Foreign and Commonwealth Secretary are less clear cut (which is probable) and the Secretary of State for Industry makes out a powerful case about the importance of this business to Rolls-Royce and British industry, you may care to guide the Committee to the conclusion that in principle they accept the Secretary of State for Trade's proposal that ECGD should be allowed to match credit offers for the pipeline business (within the limits of their normal commercial judgment) and should be authorised to match other cases subject to the usual procedure. But you may wish to stipulate that they should not move in this direction just yet; and that before they do so, Ministers should consider

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the matter further on the basis of a submission from the Secretary of State for Trade which might be circulated in 2-3 months' time (you will need to set the timescale) and cleared "out of Committee".

RA

(Robert Armstrong)

17th December, 1980

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CONFIDENTIAL

Soviet Union



Foreign and Commonwealth Office

London SW1A 2AH

R^d 15.12.80

R/F with the Wiggins' reply

Am

Dear John,

The Soviet Union and Aid

You wrote on 4 November to Michael Alexander.

We have now consulted the Ministry of Defence, who confirm that Mr Pym is content that we should proceed as suggested in my letter of 24 October. Lord Carrington feels that it would not be appropriate for the meeting of Ministers on development policy on 17 December to discuss the minor alteration to existing policy which was proposed in my letter: that, in addition to criticising the Russians for their poor aid performance, we should henceforth encourage them to improve it. As we have pointed out, both the Germans and the Americans are already taking this line, which was also reflected in the Venice communique.

On the question of Soviet participation in the World Bank and the IMF, it was not our intention to suggest that membership, however unlikely, should be welcomed. We recognise that Soviet membership would have serious implications for the effectiveness of these organisations and the strength of the West's position in them. Paragraph 6 of the paper was intended to apply only to those agencies of which the Soviet Union is already a member, such as the UN Development Programme. As you know, at the latter's Governing Council this year the Americans made considerable play with the question of the non-convertibility of Soviet contributions. We would hope to capitalise on this at next year's Council, when non-convertibility is due to be discussed as a specific issue. In general we feel that we should not let pass the opportunity to draw attention to those issues on which the West and the developing countries are together in disagreement with the Soviet Union.

/The

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The Foreign and Commonwealth Secretary therefore hopes that we can now agree to proceed to use the paper as a basis for future policy, as proposed in George Walden's letter of 24 October.

I am copying this letter to Michael Alexander, Brian Norbury, and David Wright.

Yours ever
Robert Lyne

(R M J Lyne)
Private Secretary

A J Wiggins Esq
Treasury

15 DEC 1980





FCS/80/155

SECRETARY OF STATE FOR TRADE

to await OS.

Soviet Union

Print
- 5/11Credit for the Soviet Union

1. Thank you for your letter of 23 October. It raises a good many difficult issues, which have implications going beyond Rolls Royce's interest in the West Siberian pipeline project. Among them are the political acceptability, both at home and abroad, of relaxing our policy on credit for the Soviet Union when the Russians have shown no sign whatever of modifying their policies in Afghanistan; and our general attitude towards Western coordination of credit rates. I think that the best way forward would be for officials of interested departments to prepare a paper which we might discuss in OD. The paper will need to cover the point I have mentioned as well, no doubt, as the implications of the present project for Anglo-Soviet trade as a whole, Rolls Royce's financial position, and employment in this country.
2. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Trade.

C

(CARRINGTON)

Foreign and Commonwealth Office

5 November 1980



-5 NOV 1980



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

4 November 1980

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Michael,

THE SOVIET UNION AND AID

I have seen a copy of the letter from Lord Carrington's Private Secretary of 24 October suggesting that we should press the Soviet Union to give more aid, and also make more propaganda use of their poor aid performance.

The Chancellor will shortly be discussing with the Foreign Secretary and others the whole question of aid policy and our relationship with the Third World. There is also the remit to the special representatives following the Venice Summit. The question of our attitude to the Soviet Union's aid performance is only a small part of this, but we think more consideration is necessary before treating the paper as the basis of future policy. As the paper itself recognises, the case for taking the initiative in criticising Soviet aid performance and urging them to do better, rather than using the material defensively and leaving initiatives to others, is a balanced one. We suggest it would be right to consult the Ministry of Defence. And we ought to consider whether we should say anything which would imply that we would welcome Soviet participation in the World Bank and IMF. Paragraph 6 of the paper as now drafted seems to point in that direction.

I am copying this letter to George Walden and to Sir Robert Armstrong.

Yours ever

John Wiggins

A J WIGGINS
Private Secretary



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

*Received
CF 18.00. 4/11/80
M.J.*

31 October 1980

The Rt Hon Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

John Peter.

*NRPA get
Punt*

CREDIT TERMS FOR BUSINESS WITH THE USSR

I have seen a copy of John Nott's letter to you of 23 October, concerning the potential supply of Rolls-Royce equipment for the massive project to pump gas from Western Siberia to Europe.

In addition to the trade benefit of the business, which is itself substantial, the industrial advantages to the UK, and especially Rolls-Royce and its suppliers are significant. Although at this stage we cannot be certain how much, if any, of the business Rolls-Royce will obtain, the minimum number of units that are likely to be ordered if the company is successful is 150; it could be over 400. This would represent at least 17% of the company's existing turnover, providing security of employment for some 500 employees in RR and their subcontractors. It would also generate £30m of profit and cash flow into a part of RR that has hitherto generally been a drain on the group's funds, and hence the Government's funding of the company. The contract is thus important to RR's efforts to improve its financial position, and certainly crucial to the future of the industrial and marine business.

While the commercial arguments are overwhelmingly in favour of John Nott's proposal to allow ECGD to give Rolls Royce the necessary support with export credit to enable them to compete on equal terms with their rivals, I fear that we cannot ignore the wider implications of such a move. Although I recognise that in your statement in January we agreed to look at credit arrangements in future on a case by case basis and made it clear that our acceptance of the international consensus was linked to other countries abiding by it, a move by us on this occasion to match French and German terms would undoubtedly be seen as a weakening of our opposition to Soviet aggression in Afghanistan. Before taking such a step, I think that we

/should ...



should consider the implications in detail. I have in mind such points as how this action would fit in with our desire to maintain the consensus, the precedents we would be setting for other contracts and the wider political implications of what will undoubtedly be seen by some as a significant softening of our response to Russian aggression.

In the company's interest, we must ensure that this matter is considered rapidly but, given its importance, ~~it~~ would suggest that we ask officials to prepare a paper setting out the relevant considerations and that we then meet to consider this.

I am copying this letter to the recipients of ^{J. Nott's letter} yours.

Lawson,

Kearney

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CABINET OFFICE

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

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

Ref: A03368

28th October 1980

Soviet Union
L. J. Wright 29/10

Trade with the Soviet Union

Your Secretary of State wrote to the Foreign and Commonwealth Secretary on this subject on 18th September copying his letter to the Prime Minister, the other members of OD, the Secretaries of State for Industry, for the Environment and Energy, the Minister of Agriculture, Fisheries and Food and the Secretary of the Cabinet. Your Secretary of State has already had the agreement of the Foreign and Commonwealth Secretary to his proposal and he has also received comments from the Secretary of State for Defence, the Minister of Agriculture and the Secretary of State for the Environment. You will wish to be aware that the Prime Minister has now given her approval to the course of action he has proposed.

Copies of this letter go to the Private Secretaries to members of OD, the Secretaries of State for Industry, the Environment and Energy and the Minister of Agriculture, Fisheries and Food.

D. J. WRIGHT

(D. J. Wright)

S. Hampson, Esq

CONFIDENTIAL

29 OCT 1940





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 Ronnie Pinner.

(1)

Foreign and Commonwealth Office

London SW1A 2AH

Paras 5-9 of the attached
 paper are the heart of the matter.

24 October 1980

Do you agree that we should be
 guided by the argument summarised
 here?

B/F 15/XII

Dear Michael,

Ph 27/7

The Soviet Union and Aid

You will recall that there was some discussion at Venice as to whether the West should encourage the communist countries to accept a greater share of the burden of aiding the developing countries. In the event, the section of the communique dealing with the developing world did mention the industrialised communist countries. Since then both Herr Schmidt and Mr Muskie have called in separate fora for greater communist aid to the Third World.

I now attach the summary of a paper by the FCO Planning Staff which argues that we should ourselves adopt a similar line to that already taken by the Germans and Americans. The full paper is available if the Prime Minister wishes to see it. Since it is a Planning paper it has not been cleared outside the FCO and ODA.

The Foreign and Commonwealth Secretary agrees with the paper's conclusions. The idea, to which Herr Schmidt is attached, of involving the Russians more closely in efforts to tackle the economic problems of the developing countries, breaking down their isolation and persuading them to play a more constructive role will only be realised in the long term, if at all. In the short to medium term, there is little likelihood of a positive change in Soviet aid policy, with or without Western pressure. For practical purposes, therefore, the issue turns on whether there are propaganda benefits to be gained. The paper concludes that there are, but that such propaganda will need to be carefully handled if we are not to alienate Third World opinion. It could also have some effects on domestic opinion.

Lord Carrington therefore proposes that the paper should form the basis of our future policy on the subject; and that in particular it should guide the Prime Minister's Personal Representative when the work of the Aid Policy Group, envisaged at Venice, gets under way.

I am copying this letter to John Wiggins in the Treasury and to Sir Robert Armstrong.

John Wiggins

M O'D B Alexander Esq
 10 Downing Street

(G G H Walden)
Private Secretary

THE SOVIET UNION AND AID: SUMMARY

Introduction

1. The arguments for and against stepping up Western pressure on the communist countries to give more development aid can be summarised as follows:

Arguments for

- a) The developing world needs more aid, and a greater communist contribution would add to the total amount provided;
- b) Engaging the Russians in a more cooperative approach to Third World development problems could help to build a more constructive relationship between East and West;
- c) There are propaganda advantages to be gained from exposing the poor Soviet aid performance.

Arguments against

- d) Greater communist aid would mean greater communist involvement in developing countries, to the West's detriment;
- e) The Russians could turn the propaganda weapon against us.

Soviet and East European economic aid

2. Soviet and East European economic aid has hitherto been concentrated on the Third World members of the Council for Mutual Economic Assistance (CMEA), with only a relatively small amount going to non-communist countries, and this primarily for political purposes. Development aid has not constituted the main Soviet weapon in the struggle for influence in the Third World; military aid has been of far more immediate effect. But in the longer-term, the pacity of Soviet development aid, and the insensitivity with which it is often given, can lead to disillusionment on the part of the developing world and a more objective view of the Soviet Union generally. This may not, however, be before the Russians have secured certain short-term advantages.

3. Only in countries where Soviet aid has been massive (Cuba and the Vietnamese empire) can it be said to have been the decisive factor in establishing and consolidating a dominant Soviet influence. Neither the Soviet Union nor the countries of Eastern Europe, all of whose economies are likely to grow more slowly in the next decade, will

will be well-placed to take on significant new commitments in the near future. But they will no doubt continue to interfere, perhaps with the carrot of some development aid, in places where they stand to gain substantial benefits.

4. Western pressure will neither persuade the Russians and their allies to give more aid, nor prevent them from using it for political ends. Although in the longer-term we may eventually succeed in creating a more constructive partnership with the East in North/South (as in other) affairs, this will not be before political and economic priorities in the USSR have first changed substantially. In such circumstances, the West's best policy for the immediate future is to take the necessary measures (aid, trade, political contacts, military improvements etc) to counter Soviet advances in the Third World.

Propaganda and counter-propaganda

5. Since the Soviet performance is unlikely to improve in the short term, the question of how the West should treat the subject of Soviet aid-giving must be seen primarily in terms of public relations. The West can gain certain propaganda advantages by drawing attention to the poor Soviet aid record. This can be achieved either by encouraging the communist countries to do better, or by direct criticism of the Soviet aid performance. Encouragement may be preferable to criticism in many cases because it is less likely to draw accusations of 'propagandising'; but we can, according to the circumstances, do both.

6. In pressing for more aid, the West should be robust in rebutting the Soviet argument that the responsibility for helping the Third World rests solely with the ex-colonial powers. We should criticise Soviet multilateral aid; additional Soviet aid of this type would be more likely to be spent according to genuinely developmental criteria and would allow less room for political meddling, than greater bilateral aid. An improved multilateral contribution means in the first place the payment of the Soviet contributions to multilateral agencies in convertible currencies or, at least, the ending of the practice whereby the Soviet Union earns convertible currencies by providing equipment for projects financed by multilateral aid, while its nominal contribution, being in non-convertible roubles, remains underspent. A larger Soviet contribution would be a second objective.

7. When criticising the Soviet bilateral aid record we can point to the small size and heavily biased distribution of their aid effort, the extent to which their aid is 'tied' and 'double-tied', the low grant element and harsh repayment terms. Other shortcomings such as the very high ratio of Soviet defence expenditure to aid volume, the poor Soviet trade record and Soviet unwillingness to cooperate in ad hoc debt relief operations, can also be brought out.

8. But we should be ready for Soviet counter-propaganda. The Russians have a number of points in their favour: their total aid to the Third World as a percentage of GNP is higher than that of many Western countries, Soviet aid has frequently gone to the poorest LDCs, their trade may well improve in the near future, and on many issues in the North/South dialogue their interests either coincide with those of the Third World or are such that they can afford to indulge in propaganda against the West. And Western aid cannot itself entirely escape criticism either on the grounds of volume or of self - interested motivation.

9. Finally, we should not expect that by bringing greater pressure to bear on the communist countries we will ease Third World pressure on ourselves. Nevertheless, provided Western propaganda is carefully handled, there is something to be said for reminding developing countries from which side they get the better deal.

Planning Staff
Foreign & Commonwealth Office

1 October 1980



~~Handwritten signature~~ Sarunia
N&P yet: submit with comments
from Foreign Secretary & Chancellor. *And*

From the Secretary of State

The Rt Hon the Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

23 October 1980

Jean Peter.

CREDIT TERMS FOR BUSINESS WITH THE USSR

In my letter of 18 September I suggested that in the interests of our trade prospects through their next Five Year Plan period (1981-85) we ought now to consider a limited change of course in our relationship with the USSR.

Added point is given to the desirability of such a change by the opportunity for Rolls Royce to participate in the £5 billion project to bring to Western Europe part of the production of the West Siberian gas field. Rolls Royce are keen to participate with a Franco/West German consortium in a bid for the construction of 37 compressor stations required for this very large project. They hope to win a substantial part of the project's £800 million turbine/compressor equipment requirement. They have very little prospect of succeeding in this endeavour unless they are able to arrange UK finance for their participation on terms similar to those available from France and Germany. In the case of France the terms provided for under the Franco/Russian Credit Agreement will probably apply. These provide for an interest rate which is $\frac{3}{4}\%$ below the Consensus minimum to which we have adhered since the expiry of our credit agreement with the Russians in February. The Germans do not subsidise interest rates and are, therefore, less constrained by the Consensus: they are said to be offering



From the Secretary of State

credit at an interest rate similar to that available from France.

Although the negotiations are at a very early stage and the terms of the financing package will take some time to emerge it would be useful to establish the attitude we should adopt towards this case. Rolls Royce are anxious for guidance as to the support that HMG is willing to provide. My own view is that we should allow ECGD support to be given to enable Rolls Royce to compete on equal terms for this valuable prospective business. I would be grateful for your views and those of the other recipients of this letter.

This course would, I think, be consistent with our preparedness to look to our own interests in the application of our present cool attitude in our relations with the USSR, and is one that we might adopt in carefully selected cases where those interests stand to benefit substantially.

I am copying this letter to the Prime Minister, Geoffrey Howe and Keith Joseph.

John Nott
John

JOHN NOTT

23 OCT 1980



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MR. WRIGHT
CABINET OFFICE

Trade with the Soviet Union

The Prime Minister has seen your
minute to me of 14 October on this subject.
She is content for Mr. Nott to go ahead.

MICHAEL ALEXANDER

21 October 1980

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ST



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Prime Minister

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Ref. A03226

Reluctantly - yes

MR. ALEXANDER

no

You minutes earlier that you understood Mr Nott's concern tho' you were not sure about the meeting of the Point Commission. Wished that he should go ahead but with a caveat that the Commission should perhaps meet later rather than sooner - it has already been held over since last May?

Trade with the Soviet Union

The Secretary of State for Trade wrote to the Foreign and Commonwealth

Secretary on 18th September about this, copying his letter to the Prime Minister, OD colleagues and the Secretaries of State for Industry, the Environment, Energy, Agriculture and Sir Robert Armstrong.

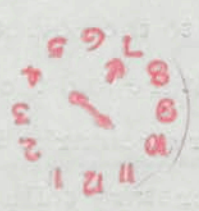
2. Mr. Nott proposed that the time had now come to review the Government's attitude to trade relations with the Soviet Union. He pointed out that if the United Kingdom, in contrast to virtually every other Western Government, continued to maintain its present attitude, the amount of business coming to this country seemed bound to decline to the benefit of this country's commercial rivals. He therefore suggested a limited change of course in order to protect British interests but without giving the impression that business was back to normal. In particular he suggested that we should now resume discussions on the implementation and updating of the United Kingdom/Soviet Scientific/Technological and Economic/Industrial Co-operation Programmes which relate directly to export opportunities. This would involve holding the 9th Session of the Joint Commission in due course. At this occasion the British side would normally be led by Mr. Cecil Parkinson, and Mr. Nott sought agreement that Mr. Parkinson might invite his Soviet opposite number to come to London for these talks.

3. The Foreign and Commonwealth Secretary has now agreed to this proposal, as a necessary move to protect the competitive position of our exports of non-strategic goods to the Soviet Union. He, the Secretary of State for Defence, the Minister of Agriculture and the Secretary of State for the Environment have made various cautionary remarks in their replies which Mr. Nott accepts. Mr. Nott's Private Secretary tells us that his Secretary of State now feels that he has the agreement of his colleagues which he needs in order to go ahead with



SECRET
1980

The Government of India for the Ministry of External Affairs
has received a letter from the Government of the United Kingdom
dated 14th October 1980, regarding the proposed visit of
the British Ambassador to New Delhi, India, in the month of
November 1980. The letter states that the British Ambassador
will be accompanied by a large delegation and that the visit
is of great importance to the bilateral relations between the
two countries. The Government of India has taken note of the
letter and is in the process of making the necessary arrangements
for the visit. It is expected that the visit will be held
in accordance with the proposed programme of work for the
year 1980-81. The Government of India will be pleased to
co-operate with the Government of the United Kingdom in
making the visit as comfortable and productive as possible.



14 OCT 1980



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the action he proposes without the need for a formal OD discussion. You may care to inform the Prime Minister of the position which has been reached, and to make sure that she is content with the action that Mr. Nott is proposing to take.

(D. J. Wright)

14th October, 1980



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②

MP

Prime Minister

H.S.

And

FCS/80/151

SECRETARY OF STATE FOR TRADE

Trade with the Soviet Union

1. Thank you for your letter of 18 September.
2. Since the Soviet invasion of Afghanistan, we have, of course, taken two decisions which affect the way in which Anglo/Soviet trade is conducted. The first was not to renew the Anglo/Soviet Credit Agreement of 1975 but to offer the Soviet Union instead export credit on a case by case basis on terms fully in line with the OECD consensus. The second was to participate in the informal agreement among COCOM countries that no general exceptions should be made to the COCOM rules as far as the Soviet Union is concerned and to join in discussions about widening the scope of the COCOM embargo. I attach considerable importance to both these decisions and believe we should do our utmost to stick to them and persuade our partners and allies to do so too.
3. We have not, however, attempted to take action to limit normal trade with the Soviet Union in non-strategic goods which brings benefits to our exporters. I therefore agree that we should do what is necessary to protect the competitive position of our exports in this area, and I do

/not

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not think we could hope to do this if we abandoned the inter-governmental activities which provide the framework within which our exporters operate and which the UK and other Western countries have seen as the necessary basis for conducting trade with state trading countries. The imminence of the next Soviet 5-year plan is, as you say, an important consideration.

4. I therefore agree that we should hold the next session of the Anglo/Soviet Joint Commission when we are ready for it and should be content for Cecil Parkinson to invite his Soviet opposite number to London for this purpose in the first part of next year. The invitation itself presumably need not issue for a little while yet. It follows that I see no objection to our holding the traditional reviews of our Economic and Industrial and Scientific and Technological Cooperation Programmes before then. I also agree that all these activities should be as businesslike as possible.

5. For the rest, I think that we should pursue energetically the work begun before the invasion of Afghanistan to eliminate from our cooperation programmes activities which have done us no good and to make the cooperation programmes more effective vehicles for the promotion of British exports. As far as other bilateral agreements are concerned, I believe that these agreements should be made to serve British interests better than has sometimes been the case in the past and that a substantial redirection of effort under some

/agreements



agreements will be necessary. My officials are already in touch with officials in some other departments about how these general principles should apply in particular areas.

6. I should add that we would, of course, need to review the whole range of our trading and other relationships with the Soviet Union should the Russians intervene by force of arms in Poland.

7. I am sending a copy of this minute to the Prime Minister, Members of OD, the Secretaries of State for Industry, Environment, Energy and Agriculture, and the Secretary to the Cabinet.

C

(CARRINGTON)

Foreign and Commonwealth Office

9 October 1980

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0861-130 6-

Soviet Union

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

CONFIDENTIAL

The Rt Hon John Nott MP
Secretary of State for Trade
1 Victoria Street
London SW1

NBPA
Am

7 October 1980

TRADE WITH THE SOVIET UNION

In your letter of 18 September to Peter Carrington you recommended some resumption of contacts with the Soviet Union in the interests of our export trade. Provided such contacts serve, as you suggest, positive and identifiable interests of the United Kingdom I have no objection to what you propose. So far as bilateral links with the Soviet Union are concerned, my direct interest is limited to the Agreement on Anglo-Soviet Co-operation in Agricultural Research (ASCAR) and our contribution to the work of the Joint Commission on which your Department takes the lead. I share your hesitations about reactivating the Joint Commission if it has to be led on our side by a Minister. But apart from this, I would see no difficulty in a meeting being held if you judge it to be useful in furthering our trading interests.

As for ASCAR our scientists have obtained minimal benefit from the Agreement and there has been no identifiable commercial spin-off for us. I propose therefore to continue to leave the Agreement in suspense. If the Soviet Union seeks to revive it, I shall keep any activity to as low a level as possible.

No doubt Peter Carrington will confirm that any relaxation in our attitude towards Russia such as you have in mind will not affect the Government's policy on sales of subsidised foods to Russia, which, apart from other considerations, reflects the Foreign Affairs Council decisions of 15th January.

I am sending copies of this letter to Members of OD, the Secretaries of State for Industry, the Environment and Energy and the Secretary to the Cabinet.

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-7 OCT 1980



Soviet Union

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2MB

TELEPHONE 01-215 9000
DIRECT DIALLING 01-215 2111/3

MO 14/10

6th October 1980

NKPA

Rud's 6/x

Dear Peter,

I have seen John Nott's letter of 18th September in which he advocates a modest relaxation in our present policy towards inter-governmental discussions and exchanges on civil trade between the UK and USSR.

I must say that I am most concerned lest any relaxation on civil trade undermine the firm line which we have been taking in support of the Americans to tighten up COCOM controls on strategic exports and the transfer of military technology to the Soviet Union in the wake of their invasion of Afghanistan. I wrote to Dr Harold Brown, the American Secretary of Defense, on 14th August to express our support for the American objectives in COCOM and I consider it important that the Americans do not gain the impression that we were re-considering our position on COCOM-related matters.

I am copying this letter to the Prime Minister, to other Members of OD, to Keith Joseph, Michael Heseltine, David Howell, and to Sir Robert Armstrong.

Francis Pym

Francis Pym

0987-120-9-





Soviet Union

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/17197/80

Your ref:

30 SEP 80

NBPA

Rmt 1/x

In Peter

TRADE WITH THE SOVIET UNION

John Nott copied to me his letter of 18 September to you.

I have no objection to his proposals for a limited relaxation of our attitude towards the Soviet Union, in the interests of maintaining trade relations.

My only direct interest is in the Joint Environmental Protection Agreement, which has been dormant since early this year. You will remember that this is one of the activities I cited in my letter of 4 September as a candidate for substantially reduced involvement. If we are to renew relations with the Soviet Union under this Agreement, I shall want to be satisfied that it is of such importance from a foreign policy or trade standpoint as to justify the use of scarce resources.

I am copying this letter to the other recipients of John Nott's.

Yes am

MICHAEL HESELTINE

The Rt Hon The Lord Carrington KCMG MC

CONFIDENTIAL

0861 130 1 - 1 OCT 1980





Treasury Chambers, Parliament Street, SW1P 3AG

Stuart Hampson Esq
Private Secretary to the
Rt Hon John Nott MP
Secretary of State
Department of Trade
1 Victoria Street
London SW1H 0ET

Paul
- 29/9

29 September 1980

Dear Stuart,

TRADE WITH THE SOVIET UNION

The Chief Secretary has asked me to say that he does not wish to comment on the proposals in the letter of 18 September from your Secretary of State to the Secretary of State for Foreign and Commonwealth Affairs, and is content for them to be agreed subject to the views of Lord Carrington.

I am sending copies of this letter to the Private Offices of the Prime Minister and of other Ministers who received copies of your Minister's letter.

Yours sincerely
Terry Mathews

T F MATHEWS
Private Secretary



From the Secretary of State

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

Prime Minister ^{Soviet}
Mr. Nott proposes a new
drive on sales to USSR.
Would you like to see this
discussed in O.O. when you
get back?

MAD
19/ix.

18 September 1980

I have doubts about
the Joint Commission - but
otherwise understand why
S & S seeks more robust
leading efforts not

Dear Peter.

TRADE WITH THE SOVIET UNION

With the Olympics over but no apparent likelihood of Soviet withdrawal from Afghanistan, we need to review our attitude to trade relations with the USSR. Our basic policy this year has been to seek the development of mutually beneficial trade but with the minimum of Government involvement.

On the whole, the policy has worked quite well; trade has increased with a reduction in our customary adverse balance, and the Russians have even been friendly towards British firms - probably with the aim of contrasting short-term commercial interests with the general position which it has been necessary for us to adopt. But we cannot count on this friendliness continuing indefinitely and it is noticeable that few sizeable contracts have been placed here by Soviet organisations during the last eight months. If the United Kingdom Government, in contrast to virtually every other Western government, continues to maintain its present attitude, the amount of business coming our way seems bound to decline to the benefit of no-one but our commercial rivals. This would have important implications for firms in the process engineering sector and others for which the Soviet bloc is a very important market. Unless their interests can be promoted at the beginning of the Soviet Five-Year Plan 1981-85, they are liable to lose out during the whole of the Plan period.

These considerations lead me to feel that we must now make a limited change of course so as to protect our interests but without giving the impression that the invasion of Afghanistan is a fait accompli and business is back to normal. I would not want to go as far as the French, who seem fully to have resumed the normal round of intergovernmental exchanges and are continuing to provide the Soviet

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19 SEP 1980



From the Secretary of State

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Union with credit on exceptionally favourable terms, or emulate the Germans in negotiating a new co-operation programme. But on the other hand it would be costly to us to remain at arms length with the Soviet Union to the same extent as the USA, which has very different and domestically relatively less important trade at stake.

I therefore suggest that we begin to pick up the threads at a deliberate pace. We would continue to provide support for trade fairs, missions and other normal promotional activities where these can be seen to benefit our firms, but we should now also resume discussions on the implementation and up-dating of the United Kingdom/Soviet Scientific/Technological and Economic/Industrial Co-operation Programmes, which relate directly to export opportunities. It follows that we should also be prepared in due course to hold the 9th session of the Joint Commission (held over from May). This is the only point which gives me pause, since the Soviet Delegation would be headed by a Deputy Minister, and it would be normal for Cecil Parkinson to lead our side. This might be the first occasion since the invasion of Afghanistan when a Soviet Minister was invited by the Government to visit the United Kingdom, and I should be grateful for your views. We should in any case make these exchanges as businesslike as possible avoiding activities purely intended to promote goodwill and the exchange of information with no direct commercial content.

I understand that colleagues are reviewing a number of the current specialist agreements with the Soviet Union in the industrial, cultural and other fields, and the activities of individual joint working parties. It is clearly right that we should look very hard at the benefits resulting from these activities but I feel that it would be better not now to attempt an across the board re-negotiation of our working relationship with the Soviet Union. Our aim is to restore the necessary basic relationship with the minimum of involvement and complication. Individual activities will need to be treated on their merits.

I seek my colleagues' agreement to these proposals and am sending copies of this letter to the Prime Minister, Members of OD, the Secretaries of State for Industry, the Environment, Energy and Agriculture, and the Secretary to the Cabinet.

Yours ever
John

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JOHN NOTT



Soviet Union

From the Secretary of State

(2)

The Rt Hon The Lord Carrington KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

Prime Minister 30 June 1980

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Dear Peter.

CREDIT FOR THE SOVIET UNION

In your minute of 17 June you asked me to consider withholding ECGD support for General Purpose Lines of Credit for the Soviet Union and in particular for three such lines in negotiation at present Consensus interest rates, until after the Moscow Olympic Games, by which time higher interest rates will apply.

While generally I support strongly the view - long held by successive administrations - that ECGD's facilities should not be used for political purposes, I agree that in the circumstances of the present situation it would be right to take the course you propose. The Department had given its agreement in principle to support General Purpose Lines of Credit to the Soviet Union at present Consensus interest rates provided that they are signed by 30 June. I have now instructed them to withdraw that agreement and also to delay until after the Olympic Games the provision of support for such lines at the higher Consensus interest rates that will apply from 1 July 1980.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

John Nott

JOHN NOTT

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30 JUN 1967

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*Soviet
Union*

10 DOWNING STREET

From the Private Secretary

19 June 1980

Credit for the Soviet Union

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 17 June to your Secretary of State on this subject. The Prime Minister has minuted that she is in full agreement with the Foreign and Commonwealth Secretary.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Stuart Hampson Esq
Department of Trade

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1 July agree with the F.C.S.
Prime Minister

NR a very sensible moment to put
his hand action of this kind

Ant - 17/6

FCS/80/104

SECRETARY OF STATE FOR TRADE

Credit for the Soviet Union

1. I have learned that ECGD have agreed in principle to underwrite small general purpose lines of credit which four banks wish to make available to the Soviet Union.
2. I understand that your view is that arrangements of this sort fall within the government's policy of continuing to support trade with the Soviet Union which is of genuine mutual benefit, so long as the OECD consensus on interest rates is observed. That is strictly correct. However, I am concerned about the timing and presentation of any final agreement that ECGD may give to any of the banks concerned. First, we should do nothing which would undermine our Olympics policy. In the next few weeks we shall be making a final attempt to persuade British sporting bodies and athletes not to go to Moscow; and I am meeting the chairmen of various sporting bodies today. As you know, the sporting community have repeatedly complained that they have been singled out by the Government and have contrasted our policy on the Olympics with our decision to continue to support normal Anglo-Soviet trade. The Private Member's Bill just tabled by Patrick Cormack is the latest illustration of the increasing steam behind this line of argument, and the availability of Government-supported credit to finance trade with the Soviet Union is a particularly sensitive aspect of our policies. Our position on the Olympics would be badly undermined if it became known in the next few weeks that ECGD had underwritten new credit lines, even small ones, for the Soviet Union. The impact of my discussions with the Olympic Federations today would be reduced if the news about new credits to the Soviet

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Union were to leak immediately afterwards. A further important consideration is that such news could be embarrassing for the Prime Minister at the Venice Summit of the Seven on 22-23 June, when the Americans are likely to press the Europeans to take tougher trade measures against the USSR.

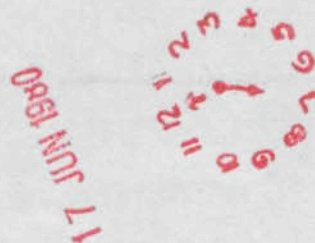
3. I should prefer ECGD to withhold their agreement to any new lines of credit for the Soviet Union until after the Olympic Games. I realise that delay beyond 1 July would mean that higher interest rates would apply, in line with the agreement recently reached in OECD, and that our exporters might conceivably lose business as a result. I should nevertheless be grateful if you would consider this possibility; and I hope that you will anyway agree that ECGD should delay reaching final agreement with any of the four banks concerned until at least 24 June, the day after the Prime Minister's return from Venice. The subsequent presentation of any agreement should be carefully coordinated between our officials.

4. I am sending copies of this minute to the Prime Minister and to Sir Robert Armstrong.

C
 (CARRINGTON)

Foreign and Commonwealth Office

17 June 1980





Soviet Union

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Ref. A01554

PRIME MINISTER

Afghanistan: Controls on the Transfer of Technology to the
Soviet Union
(OD(80) 16)

BACKGROUND

This paper is being taken as Item 2 following discussion of the Secretary of State for Defence's paper on arms exports to China. The juxtaposition highlights the fact that our current policies are widening both ways the differential between our treatment of the Soviet Union and our treatment of China.

2. The Lord Privy Seal begins by referring to Ministerial agreement on 17th January. The Cabinet that day took note of your statement that an ad hoc meeting of Ministers, which you chaired on 16th January had decided that we should study with our partners the possibility of tightening the COCOM rules on strategic exports to the Soviet Union and of extending their scope to include more potential exports of technology. OD on 22nd January took the view that significant joint steps were unlikely in this area and that unilateral British action could not be contemplated. The Government's statement to Parliament on Afghanistan on 24th January said: "on technology, we are studying with our partners the COCOM rules for controlling the transfer of sensitive technology to the Soviet Union".

3. The paper by officials, which the Lord Privy Seal circulated, seeks general endorsement for the line we have been taking with our partners. This is broadly that we are prepared to make certain economic sacrifices in terms of exports to the Soviet Union, provided our partners do no less. Most of your colleagues are likely to support that line, because of the importance for the future of bringing home to the Russians that the invasion of Afghanistan involves serious penalties for them in areas where it hurts.

4. Imports of Western technology are certainly one such area. But from that point of view the emerging Western position is weakened by the consensus in favour of not similarly penalising the East Europeans. There are good general

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reasons for that consensus. But it does mean that the Russians will be able to obtain indirectly much of what the West now refuses to let them have directly.

5. Mr. Parkinson, on behalf of the Secretary of State for Trade, is likely to question the paper on the more general grounds that a country in Britain's position should not damage its exports prospects for political purposes. This point has been made before by Mr. Nott, both in the Afghan context and (more forcefully) in the Iranian context. In the two months since the invasion of Afghanistan there has been a good deal of Ministerial argument about the relative weight to be given to our economic interests and our foreign policy aims. Systematic agreement is unlikely to be reached one way or the other. But the dilemma is less sharp in the present case where no one suggests we should do more than our partners; and where the speed of the Western convoy is likely to be kept fairly slow by those who have most at stake, e.g. the Germans and Italians.

6. The Secretary of State for Energy, who is being invited for this item, will make a strong plea for exempting exports of technology to the Soviet energy industry; partly because we have a comparatively large stake in this area, and partly because the development of global energy resources is more important than damaging the Soviet economy. His colleagues are unlikely to dissent.

7. The Foreign and Commonwealth Office are submitting to you separately a draft reply to President Carter's message of 10th February (Annex A to the paper). This can go off without waiting for the OD meeting.

HANDLING

8. You may like to ask Lord Carrington or Sir Ian Gilmour to introduce the paper (it is Sir Ian Gilmour's paper only because Lord Carrington was abroad at the time). Thereafter Mr. Parkinson and Mr. Howell will certainly wish to comment, for reasons given above. The Chancellor of the Exchequer and the Secretary of State for Defence should also be asked for any views.

9. A point to press Mr. Parkinson on is whether there are particular areas (apart from energy-related exports) where Britain may have significantly more to lose than her partners.



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10. Discussion could then be centred on the following questions [conclusions suggested in brackets].

- (a) Speed of the convoy. Should Britain urge her partners to go slower than they are otherwise minded? Or faster? Or neither? [Neither]
- (b) The United States. Are the Americans likely to press harder on tightening than on widening? [Yes]
- (c) Eastern Europe. Is the emergence of a differential in favour of Eastern Europe acceptable? [Yes]
- (d) China. Are we satisfied with the likely cumulative result of being stricter with the Russians at the same time as we are being less strict with the Chinese? [Yes]

CONCLUSION

- 11. Subject to the discussion, you may wish to guide the Committee to conclude
 - (i) that the answers to the questions in paragraph 10 above are as indicated;
 - (ii) that officials may continue to negotiate as proposed in the paper, subject
 - (a) to careful monitoring by DOT officials to ensure that we do not agree to measures likely to bear significantly more severely on Britain than on others;
 - (b) to our pressing for the exemption, so far as possible, of exports to the Soviet energy industry.

RA

(Robert Armstrong)

28th February, 1980

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Ref. A01477

PRIME MINISTER

CEGB Uranium Enrichment Contract with the Soviet Union

(OD(80) 12)

on Afghanistan bit

When OD discussed Afghanistan on 22nd January, one of the conclusions put forward by the Foreign and Commonwealth Secretary was that "we should pursue the political and economic measures directed at the Soviet Union which we have been discussing in NATO". As a result the Secretary of State for Energy raised with the Foreign and Commonwealth Secretary the question of the Central Electricity Generating Board's contract with the Soviet Union for uranium enrichment. This involves sending uranium hexafluoride from this country to Russia to be processed and returned as enriched uranium to fuel nuclear power stations. You asked for the matter to be considered by OD. The Secretary of State for Energy has therefore been invited, and has tabled OD(80) 12 which recommends allowing the contract to stand. Other invitees are the Secretary of State for Scotland (because the contract also involves the Scottish public utilities) and the Attorney General.

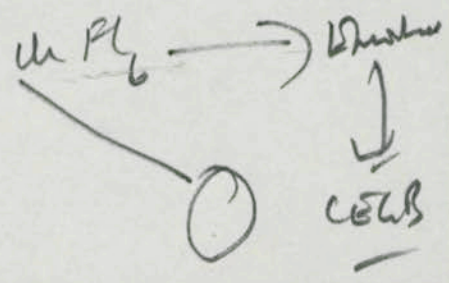
HANDLING

2. You will wish to ask the Secretary of State for Energy to introduce his paper; and the Foreign Secretary to comment on the implications for our policy towards the Soviet Union post-Afghanistan.

3. The points to establish in subsequent discussion are:-

(a) Can the Government actually order the CEGB to cancel the contract?

The letter attached to the Secretary of State for Energy's note suggests that the CEGB would not resist any Government action to terminate the contract provided that a clear event of "force majeure" could be brought about, but the letter also suggests that this would be very difficult to achieve. What is the position?



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- (b) If the CEGB does agree to cancel the contract, what are the likely penalties? Could the CEGB be sued successfully for damages in the Soviet courts and to what extent might the Government need to compensate CEGB for any damages?
- (c) What are the alternative sources of supply? What extra costs would be involved in having to make use of them?
- (d) What is the particular nature of the Scottish Office interest in this issue?
It is not clear whether the Scottish interest is different in principle from that of England and Wales.
- (e) What are the West Germans doing about their similar contract? The answer is almost certainly nothing, because West Germany public utilities are partly in private ownership, and because this particular contract forms part of a wider network of energy contracts (particularly for natural gas) which West Germany has got with the Eastern bloc.
- (f) How exposed to criticism will the Government be, particularly from the United States, if this contract continues? It seems likely that this contract will attract public notice only if an attempt is made to cancel it.

CONCLUSIONS

4. In the light of discussion on these points the Committee might be guided to reach the conclusion that the contract should be allowed to stand, because it is a long standing one, because the Germans are not cancelling theirs, because cancellation might make the Government liable for considerable damages, and because the Board's enriched uranium needs could only be met from other sources at considerable extra cost. The decision is needed urgently because the first shipment of uranium hexafluoride is due to leave this country for the Soviet Union this month.

RA

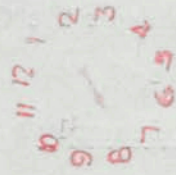
(Robert Armstrong)

20th February, 1980

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20 FEB 1980



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From the Secretary of State

NBPA

Ph...

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

20 February 1980

Dear Peter.

CEGB URANIUM ENRICHMENT CONTRACT WITH THE SOVIET UNION

Unfortunately I will not be able to attend the OD discussion on Thursday but I have seen the note by David Howell (OD(8012)) and I should like to support the conclusion in his letter to you of 8 February that this contract should go ahead. The practical considerations are important here but I would also like to emphasise the trade policy aspects which suggest that cancellation would be damaging in principle as well as practice. These aspects were of course set out in the letter sent by Cecil Parkinson's Private Secretary to David Howell's on 25 January.

I am copying this to the Prime Minister, David Howell, George Younger and Sir Robert Armstrong.

*Yours ever
John*

JOHN NOTT

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Soviet
Union

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
LONDON
SW1P 4QJ

13 February 1980

CONFIDENTIAL

K. J. Younger

CEGB URANIUM ENRICHMENT CONTRACT WITH THE SOVIET UNION

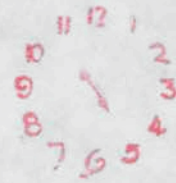
Thank you for sending me a copy of your letter of 8 February to Peter Carrington.

It is clear that we can reasonably intervene to have the CEGB contract cancelled only if we are certain that such action would satisfy the force majeure provisions of the contract. Your letter raises serious doubts on this score, suggests that trade in nuclear materials could be prejudiced to BNFL's overall disadvantage, and refers to the possibility that CEGB and SSEB would seek compensation from the Government. In all the circumstances I am inclined to agree with your conclusion that the contract should be allowed to continue.

I am copying this letter to the recipients of yours.

GEORGE YOUNGER

13 FEB 1960



[Faint, illegible handwritten text]

MR. ALEXANDER

The Prime Minister has suggested that this should be discussed at E. OD might be more appropriate, and she will accept this.

Cabinet Office have suggested an ad hoc meeting. They say no OD is scheduled. I told them that one will have to be scheduled for the Arab/Israel paper, and that we should decide tomorrow whether this subject can be added. Another ad hoc meeting is unnecessarily messy at present.

MAP

11 February 1980

How long does
the contract last?

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILEBANK LONDON SW1P 4GJ

211 6402

Prime Minister

②

Print 8/2

Do not discuss
this

The Rt Hon The Lord Carrington KCMG MC
Foreign and Commonwealth Secretary
Downing Street
London SW1A 2AL

8 February 1980

Dear Peter

CEGB URANIUM ENRICHMENT CONTRACT WITH THE SOVIET UNION

Following your minute of 25 January and letters from the offices of George Younger and Cecil Parkinson, my officials have discussed this matter with the CEGB and with BNFL.

Briefly, achieving effective cancellation of the contract without penalty could well be impossible, and the benefits to BNFL of getting the work from the CEGB either directly or through Urenco could well be outweighed by disadvantages to them in losing other business for the conversion of uranium hexafluoride (UF₆) and its onward transport to the USSR.

The contract between the CEGB (contracting on their own behalf and on behalf of the SSEB) and Technabexport makes no provision for cancellation on notice. The contract can therefore only be lawfully cancelled, without giving rise to a possible claim for damages for its breach, under its force majeure clause. This provides that if circumstances beyond the control of the parties make it impossible for either party to perform its obligations under the contract, the time for performance shall be extended while the parties try to find a solution which will make fulfilment of their obligations possible. If however the circumstances continue for more than 12 months, the contract may be cancelled without liability to pay compensation. Import and export prohibitions are included as examples of force majeure.

The export of UF₆ is subject to export licence. If the Government were to refuse an export licence for shipments for the purpose of fulfilling this contract, it would be open to the Russians under the clause described above to ask the CEGB to divert one of their incoming shipments of natural uranium to the USSR for conversion and enrichment there or, less likely, to offer to provide UF₆ from their own resources for the purpose of fulfilling the contract. If they did either of these things, there would be no basis for cancellation of the contract.

The import of enriched uranium is subject to import licence. But, the CEGB are contractually obliged to pay for enriched uranium as soon as it is loaded on to a ship in a Soviet port. Refusal of an import licence would not frustrate the contract.

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Thought has been given to the possibility of using exchange control legislation (even though presently dormant) in this case, to prevent the CEGB making payment, but there is legal advice to the effect that there is considerable doubt whether a Court would regard this as constituting force majeure for breach of contract.

It therefore seems that it may well be impossible for the Government to bring about a clear event of force majeure. It is understood that the contract, though providing for arbitration in Sweden, is written under Soviet law, so that if force majeure were not clearly established, the CEGB could be sued for damages in the Soviet Courts.

If a way could be found of cancelling the contract lawfully, we would expect the CEGB to look to BNFL or Urenco for replacement quantities of separative work.

who? BNFL could only do it for more than twice the Soviet price. If the work went to Urenco, BNFL would only get a third of the benefit. Urenco's price for doing the work would, even on the basis of some element of discount, be likely to be at least \$25 per swu more than the Soviet price. This would mean an extra cost to the Boards of about £10m over the life of the contract. It is relevant that BNFL engage in conversion of uranium oxide to UF₆ on behalf of European utilities and then ship it to the USSR for enrichment. They are at present negotiating further contracts for work of this nature worth some £20m. The cancellation of the CEGB contract, in which they are involved through their responsibilities for converting the uranium oxide into UF₆, could well cause the Russians to refuse to undertake further business involving BNFL in this capacity. BNFL believe that the benefit foregone in this way would more than offset what they would expect to gain if the CEGB has to come to Urenco for replacement quantities. Because of the wide price differential, they would not expect the CEGB to come to them, or, if they did, for the full amount. The benefit to BNFL is hence small (through Urenco) or speculative (on their own). There would also be long term effects on BNFL's reputation as a reliable supplier.

It is my officials' impression that the CEGB would not resist any Government action to terminate the contract, provided that a clear event of force majeure could be brought about and that there was no possibility of their having damages awarded against them. They have said however that in the event of cancellation they would want to be free to seek the most advantageous terms available elsewhere, including France and the US. Although we would wish to prevent their doing this, it throws further doubt on the benefit to BNFL of cancelling the Soviet contract. The Boards might seek compensation from the Government.

It is for you and John Nott to form a view about the effects on Anglo-Soviet trade and on Anglo-Soviet relations of trying to break this contract. From my officials' talks with those involved, it seems that the difficulties of doing so are great, the benefits so far as trade in nuclear materials is concerned are dubious and the likelihood of a



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frustrated legal wrangle in which the Generating Boards might suffer financially through a Soviet court decision is considerable. So far as my own responsibilities are concerned, I now tend to think that the contract should be allowed to continue, but I should be glad to know urgently whether you agree. The urgency arises from the fact that the first shipment of UF6 under the contract could be required to leave the UK before the end of this month, and would have to leave BNFL's Springfield works several days before the planned departure of the ship.

I am copying this letter to the Prime Minister, to John Nott, George Younger and Sir Robert Armstrong.

Yours ever
David
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D A R Howell

- 8 FEB 1960





10 DOWNING STREET

THE PRIME MINISTER

4 February 1980

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Dear Mr. Hornsby,

Thank you for your recent telex about export credit support for trade with the Soviet Union. I understand your concern about the possibility of officially backed export credit being withdrawn for trade with the Soviet Union. I can assure you that this is not what the Government has in mind.

You will have seen from the Foreign and Commonwealth Secretary's statement of 24 January that we do not intend to renew the Anglo-Soviet Credit Agreement which expires on 16 February. This is because the terms of the Agreement are too favourable to the Soviet Union, allowing interest rates lower than those extended to countries in a similar position. We cannot continue to subsidise trade with the Soviet Union in this way, particularly in present circumstances. But this does not mean that we want to deny credit for such trade or put UK firms at a competitive disadvantage in any other way.

In deciding what arrangements should follow the expiry of the present agreement, our aim is as far as possible to move in concert with other Western countries. We feel very strongly, and are urging on other Western countries, that it is in the general interest for all of us to adhere to the terms of the OECD Consensus on export credit. In keeping with this Consensus, even without a new credit agreement, we therefore expect to be in a position for the Export Credits Guarantee Department (ECGD) to continue to consider credit support on a case-by-case basis.

/I suggest

I suggest that your Association should contact the Export Credits Guarantee Department if you wish to discuss the position on particular contracts.

Yours sincerely
Rogers

H Hornsby Esq

Director-General Process Plant Assoc.

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31 January 1980

Thank you for your letter of 15 January, with which you enclosed a telegram from Mr. P.W. Greenwood, the Managing Director of Molins Ltd., Evelyn Street, Deptford, London, SE8, about credit support for trade with the Soviet Union. I understand the concern you and Mr. Greenwood have felt about the possibility that officially-backed credit might be denied for trade with the Soviet Union but I can assure you that this is not what the Government has in mind.

As Ian Gilmour announced in the House on 24 January, we do not intend to renew the Anglo-Soviet Credit Agreement which expires on 16 February. This is because the terms of the Agreement are too favourable to the Soviet Union, allowing interest rates lower than those extended to countries in a similar position. We really cannot continue to subsidise trade with the Soviet Union in this way, particularly in present circumstances. But this does not mean that we want to deny credit or put UK firms at a competitive disadvantage in any other way. As Ian Gilmour told you in the House, it is not our intention to hurt ourselves or firms like Molins.

In deciding what arrangements should follow the expiry of the present agreement, our aim is as far as possible to move in concert with other Western countries. We feel very strongly, and will urge on these other countries, that it is in the

/general

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general interest that all should adhere to the terms of the OECD Consensus on credit. In keeping with this Consensus, even without a new credit agreement with the Soviet Union, we expect to be in a position for the Export Credits Guarantee Department (ECGD) to offer case-by-case credit. I suggest that Mr. Greenwood contacts ECGD about support for new business as soon as he has specific cases to put forward.

(SGD) MARGARET THATCHER

The Rt. Hon. R.J. Mellish, MP.

Soviet Union



FCS/80/14

SECRETARY OF STATE FOR ENERGY

Trade with the Soviet Union

1. You wrote to me on 21 January about the CEGB's contract with the Soviet Union for enrichment of uranium. I was surprised to learn that the CEGB had gone to the Russians in the first place, given that security of supply could in due course be brought into question for political reasons. I understand, however, that the decision was taken for reasons of price and because of a possible shortage of enrichment services which was then foreseen.
2. In normal circumstances the arguments against government intervention in trade for political reasons are strong. Even after the Russian invasion of Afghanistan it is not our wish to restrict trade with the Soviet Union where there is clear advantage to British firms. However, in the light of the more aggressive Soviet attitude to relations with the West, it seems to me sensible not to give the Russians levers which they could use against us. On these grounds I should be in favour of transferring CEGB's contract away from the Russians.
3. The overall commercial advantage to the UK also appears on balance to favour cancellation of the Russian contract and its replacement by an arrangement with URENCO. I understand that the CEGB have no strong feeling either way. As you point out, there is a risk that the Russians would retaliate against other British firms by deliberately switching business away from them. I doubt, however, that cancellation of the CEGB contract would add significantly to the chances of Soviet retaliation, given the action we are already taking against them in the fields of credit and technology following the invasion of Afghanistan.
4. On balance, therefore, I would favour cancellation of the contract on government instructions, and am content for you to hold discussions with the interested parties as you propose.
4. I am sending copies of this minute to the Prime Minister, John Nott and George Younger.

Prime Minister (2) aut
 L.S.
 28/1

28 JAN 1980

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
London
SW1P 4QJ

25 January 1980

CONFIDENTIAL

NBRN yet

Phms

TRADE WITH THE SOVIET UNION

I have now seen a copy of your letter of 21 January to Peter Carrington about the possibility of our requiring CEGB to break its contract with the Soviet Union for uranium enrichment work.

The case for asking the Boards to withdraw from the contract is, in my view, fairly strong. Withdrawal would, I understand, seem not to be likely to create serious difficulties for SSEB provided that it followed direct and unmistakable Government intervention so that the "force majeure" provision in the contract can be brought into play. At the very least, I think that we should ask for the postponement of the proposed visit to Moscow by the CEGB delegation, on which, incidentally, SSEB is not to be represented, to enable the arguments for and against intervention to be considered at greater leisure.

In the time available I have not been able to give any consideration to the question of the availability of alternative supplies of enriched uranium. I should be grateful, therefore, if you would arrange for your officials to keep mine closely in touch with discussions on this matter so that SSEB's interests, which may not necessarily coincide with those of CEGB, can be fully taken into account.

I am copying this letter to the recipients of yours.

Approved by the Secretary of State
and signed in his absence



25-97111-1000



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From the
Minister for Trade 's office

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5146
SWITCHBOARD 01 215 7877

NBPJ

12/1

The Private Secretary to
the Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1

25 January 1980

Dear Private Secretary,

TRADE WITH THE SOVIET UNION

You copied your Secretary of State's letter of 21 January to Lord Carrington about the CEGB's contract for the enrichment of uranium to the Secretary of State for Trade who is at present in the Far East. Our copy of the letter arrived only yesterday afternoon.

Mr Parkinson saw the letter before he left for his constituency. In his view it is unfortunate that we are being pressed at such short notice to take a decision that could have serious consequences for Anglo-Soviet trade relations. He is concerned about the possible damaging effect of cancellation of this contract on the prospects for UK companies. Coming so close on the heels of the announcement of the sanctions against the Soviet Union this action could so easily be regarded as a sign that UK companies in general - the Soviet Union will not necessarily attach much importance to the CEGB's status as a nationalised industry - are going to renege on their contracts and take their trade elsewhere.

In the energy sector alone UK companies have a considerable amount at stake. The International Offshore Consortium (Wimpey, Brown & Root and BP) is in the final stages of negotiation for the oil fabrication yard on the Caspian Sea. This contract even in its recent more restricted form is still worth about £85m. There are many other good prospects, particularly in the offshore oil and gas sectors, where UK companies have considerable experience and expertise to sell.

The sort of action that is contemplated goes beyond what Ministers have agreed should be the present scope of sanctions against the Soviet Union. Collective Ministerial decisions entail no attempt to interfere with normal trade. And on the measures that have been taken by the Community to withdraw subsidies there has been no disturbance of existing contractual obligations. It is not clear from your Secretary of State's letter whether we are at a point of no return and a crucial decision on cancellation in relation to this contract has to be taken before the CEGB party go to the Soviet Union on Monday. If

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it does, my Minister considers that in terms of the existing collective decisions, that decision must be not to intervene. If it were possible, postponement of the CEEB visit would allow time for more careful consideration of the issues involved.

I am copying this letter to the Private Secretaries to the Prime Minister, the Foreign Secretary and the Secretary of State for Scotland.

Yours sincerely,

Vivien Thackeray

VIVIEN THACKERAY
Private Secretary to the Minister
for Trade (CECIL PARKINSON)

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12 5 JAN 1980

12 5 JAN 1980

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

Tel: 211 6402

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

Inset Union

(2)

Prime Minister

*This is relevant to OS
Programme. A good candidate
for cancellation on the face of it.*

Am.

21 January 1980

- 2/1

mf

De Pau

TRADE WITH THE SOVIET UNION

We have been considering the relations of our nationalised industries with the Soviet Union. The CEBG have a contract with the Soviet Union, concluded in 1974/75 and known to the former Government, under which the USSR will enrich substantial quantities of uranium for the CEBG. The contract is for the supply of 1000 tonnes of separative work, starting this year and continuing until 1989. The total contract is worth some £50m to the Russians. Uranium hexafluoride will be shipped from here to Russia and returned as enriched uranium, about 90-100 tonnes at a time. The first shipment of uranium hexafluoride is due to leave here in March; before that happens, a CEBG delegation (with an SSEB representative) has to go to Moscow for final negotiations dealing with the interpretation of the price clauses in the contract. They are due to travel on 28 January. The enriched uranium is for use in AGR nuclear power stations: it will amount to about 20% of CEBG's annual supplies.

To direct the CEBG to break this contract would be a major act of policy, and decisions on this must rest on the balance of advantage between foreign policy and commercial considerations. I understand that a Government direction to break the contract would get the CEBG out without penalty, (although it is always open to the Russians to sue in the UK courts for breach of contract). Urenco should be able to supply the services instead, and BNFL as the UK partner in collaboration could gain a substantial share of the business as a result. There would however be some price disadvantage for the CEBG, as Urenco supplies would be more expensive. However, they would also be secure. Implementation of the contract could also be delayed without penalty by Government direction, provided this is sufficiently clear and public to convince an outside body such as the London Chamber of Commerce.

There appear to be three possible options:

- i. cancellation of the contract on Government instructions

/ii.....

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- ii. notification to the Russians of a delay of 1 year in its implementation: and a review of the situation in say, 6 months time.
- iii. non-interference in the contract.

Cancellation would involve interfering with the CEGB's commercial judgement. It could have commercial advantages for BNFL, but disadvantages for other UK companies trading in the Soviet Union. In the final analysis, the decision will need to be taken in the context of our overall relations with the Soviet Union.

I should like to know if you think that consideration should be given to including cancellation of this contract in any package of economic sanctions against Russia that is drawn up in response to the invasion of Afghanistan.

I should be grateful to have your views and those of John Nott and George Younger, to whom I am copying this letter. We need to decide quickly whether this is an option we want to pursue; if so officials will need to discuss it immediately with interested parties including CEGB, SSEB, and BNFL and Urenco.

I am also copying this letter to the Prime Minister.

D A R HOWELL

Yours
David

24 JAN 1960

0 11 21 23
9 4 1 4
8 7 6 5

Soviet Union

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GR 380

CONFIDENTIAL

FM FCO 282000Z DEC 79

TO PRIORITY PARIS

TELEGRAM NUMBER 574 OF 28 DECEMBER

INFO SAVING BONN OTTAWA ROME MOSCOW

fs
Ans

CREDIT FOR THE USSR

1. IT HAS BEEN DECIDED THAT WE SHOULD MAKE A FURTHER EFFORT TO DISSUADE THE FRENCH FROM NEGOTIATING WITH THE RUSSIANS A NEW CREDIT AGREEMENT PERMITTING INTEREST RATES AT BELOW CONSENSUS MINIMUM LEVELS.

2. PLEASE SPEAK AS SOON AS POSSIBLE TO THE ELYSEE ALONG THE FOLLOWING LINES, MAKING IT CLEAR THAT YOU ARE DOING SO ON THE PRIME MINISTER'S INSTRUCTIONS. THERE IS ONE IMPORTANT MATTER WHICH THE PRIME MINISTER DID NOT HAVE AN OPPORTUNITY TO DISCUSS WHEN PRESIDENT GISCARD WAS IN LONDON IN NOVEMBER. THIS IS THE QUESTION OF CREDIT AGREEMENTS WITH THE SOVIET UNION. FRANCE AND THE UNITED KINGDOM BOTH HAVE AGREEMENTS WHICH EXPIRE SHORTLY. THE CHANCELLOR OF THE EXCHEQUER HAS ALREADY WRITTEN AND SPOKEN TO M MONORY ABOUT THIS. WE STRONGLY BELIEVE THAT THE EXCEPTIONALLY FAVOURABLE INTEREST RATES WHICH THE SOVIET UNION HAS BEEN RECEIVING SHOULD BE BROUGHT TO AN END. WHEN THE BRITISH AGREEMENT EXPIRES, WE WOULD CERTAINLY WISH TO ENSURE THAT FUTURE BUSINESS WAS ON TERMS WHOLLY IN ACCORD WITH THE OECD CONSENSUS ON EXPORT CREDITS. WE WOULD WISH TO INSIST IN PARTICULAR THAT INTEREST RATES WERE IN LINE WITH THE MINIMUM RATES LAID DOWN IN THE CONSENSUS AND TO MAKE IT CLEAR TO THE RUSSIANS THAT THESE RATES WOULD BE SUBJECT TO ANY FUTURE CHANGES IN THE CONSENSUS RATES. TO CONTINUE THE PRESENT PREFERENTIAL RATES FOR ANY PERIOD BEYOND THE EXISTING EXPIRY DATES WOULD BE A BREACH OF THE CONSENSUS. THE PRESENT RATES HAVE CONTINUED HITHERTO WITHIN THE CONSENSUS BECAUSE THEY COUNT AS QUOTE PRIOR COMMITMENTS UNQUOTE. BUT ONCE /THE

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THE PRESENT AGREEMENTS EXPIRE, ANY EXTENSION OR RENEWAL IS A NEW COMMITMENT. TO BREACH THE CONSENSUS WOULD ENDANGER ITS OPERATION ELSEWHERE AND INDEED ITS EXISTENCE. THIS WOULD GO AGAINST THE INTERESTS OF FRANCE AND THE UNITED KINGDOM AND OF THE EEC AS A WHOLE. THERE IS NO NEED TO GIVE THE RUSSIANS SPECIAL SUBSIDIES IN ORDER TO SECURE EXPORTS. OUR STRONG HOPE IS THAT IN ANY NEW AGREEMENT OR ARRANGEMENT THE FRENCH GOVERNMENT MAKES WITH THE SOVIET UNION THE RATES AVAILABLE WOULD BE WITHIN THE TERMS SET BY THE CONSENSUS AND THAT THE FRENCH WILL JOIN WITH US IN PERSUADING OTHER COUNTRIES TO DO THE SAME. IF, HOWEVER, THERE WAS ANY QUESTION OF THE FRENCH GOVERNMENT OFFERING THE RUSSIANS CREDIT SUPPORT WHICH WAS IN ANY WAY MORE PREFERENTIAL THAN THAT PROVIDED FOR IN THE CONSENSUS, THE PRIME MINISTER HOPES THAT THE PRESIDENT WOULD BE WILLING TO DISCUSS THE MATTER WITH HER BEFORE ANY DECISION WAS TAKEN.

CARRINGTON

[COPIES SENT TO NO 10 DOWNING STREET]

F I L E S

TRED
EESD
WED
PS
PS/LPS
PS/MR RIDLEY
PS/MR BLAKER
PS/PUS
MR EVANS
MR FERGUSSON

COPIES TO

PS/MIN FOR TRADE
1 VICTORIA STREET
MR COTTERILL } ECGD
MR HENLEY }
MR WIDDUP } TREASURY
MR COWDY }

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10 DOWNING STREET

From the Private Secretary

21 December 1979

CREDIT FOR THE USSR

We discussed on the telephone the question of whether or not the Prime Minister need herself write to President Giscard in the terms of the enclosure with Vivien Thackeray's letter to me of 7 December on this subject. You suggested that it would suffice if Sir R. Hibbert were to speak to M. Wahl on the lines of the draft letter, making it clear that he was speaking on the Prime Minister's instructions.

I have consulted the Prime Minister and she is content that we should proceed in the way you propose.

I am sending a copy of this letter to Vivien Thackeray in the Department of Trade.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

JS
cc DIT

Dr



(1)

10 DOWNING STREET

Prime Minister.

Departments agree that there is no point in a message of this kind going from anyone other than you. However there is no particular reason why it should go in writing. Sir R. Hubert might be instructed to go in cars and speak to N. Wahl, making it clear that he was doing so in your name. Agree?

Yes not Point

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DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister ~~XXXXXX~~
for Trade's Office

Prime Minister.

(1)

The attached list was prepared in the
F.C.O. It is pretty brightly worded. Agree?

Mr N Sanders
Private Secretary to the
Prime Minister
No 10 Downing Street
London
SW1

I'm afraid we shall not *think*
be likely to give a *January* 7 December 1979
response to a letter from me. *12/11*

Dear Nick, could it not be dealt with at Sec 7
state level? *not.*

CREDIT FOR USSR

One of the agenda items for the Prime Minister's recent meeting with M Giscard d'Estaing concerned credit terms for exports to the USSR. Since time did not permit a discussion of this subject, my Minister feels that the Prime Minister may wish to write to the President in the terms of the attached letter.

The background is briefly as follows. The UK/USSR Credit Agreement was signed by the then Prime Minister in February 1975 to match similar arrangements which had been negotiated by the Russians with other countries. It expires mid February 1980. The French agreement signed in 1974 had very low rates of interest which the French maintained throughout the life of the agreement on the grounds that they were a commitment undertaken prior to the introduction of the Consensus (the agreement amongst the major trading nations on terms and interest rates for exports). With the expiry of the Agreement in December 1979, the French cannot so argue any longer, and if they continue preferential rates they will have to derogate formally from the Consensus.

The Italians and Canadians also have similar agreements with the USSR, both of which expire on 31 December 1979. We therefore have an opportunity to return to Consensus interest rates on the USSR which is unlikely to be repeated in the near future.

There have been frequent representations made to the French at official level, but the response has always been that a decision on a return to Consensus rates would be taken by the President. Mr Parkinson raised the matter with M Deniau when he was in Paris in October and more recently Sir Geoffrey Howe did the same with M Monory, who expressed broad agreement with our line. Nevertheless, it seems likely that the President will have the final say.

Representations have also been made at official level, and at Ministerial level with the Canadians and Italians. Both recognise the need to return to Consensus

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rates on the expiry of their present agreements; indeed officials here have just been advised by the Canadian authorities that their agreement will not be formally renewed, but that business will be dealt with on a case by case basis giving due consideration to financial terms being offered by others. Everything therefore depends on what France does.

I attach a draft for the Prime Minister's consideration.

Yours sincerely,

Vivien Thackeray

VIVIEN THACKERAY
Private Secretary to the Minister
for Trade (CECIL PARKINSON)

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DRAFT LETTER FROM THE PRIME MINISTER TO PRESIDENT GISCARD D'ESTAING

There is one important matter which we did not have an opportunity to discuss when you were in London recently. This is the question of credit agreements with the Soviet Union.

We both have agreements which expire shortly: yours at the end of December and ours in February. Sir Geoffrey Howe has already written and spoken to M Monory about this. I feel very strongly that we should bring to an end the exceptionally favourable interest rates which the Soviet Union has been receiving. When ^{the United Kingdom's} ~~our~~ Agreement expires we would certainly wish to ensure that future business was on terms wholly in accord with the OECD export credit agreement - the Consensus. We would wish to insist in particular that interest rates were in line with the minimum rates laid down in the Consensus and to make it clear to the Russians that these rates would be subject to any future changes in the Consensus rates.

To continue the present preferential rates for any period beyond the existing expiry dates would be a breach of the Consensus. The present rates have continued hitherto within the Consensus because they count as 'prior commitments'. But once the present agreements expire, any extension or renewal is a new commitment. To breach the Consensus would endanger its operation elsewhere and indeed its existence. This, I am sure you will agree, would go against the interests of France and the United Kingdom and of the EEC as a whole. There is no need to give the Russians special subsidies in order to secure exports.



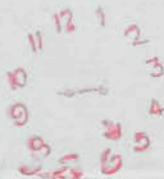
....continued

Your own agreement has now only a few weeks to run and I hope very much that in any new agreement or arrangement you make with the Soviet Union the rates available would be within the terms set by the Consensus and that you will join with us in persuading other countries to do the same. If, however, there was any question of your Government offering the Russians credit support which was in any way more preferential than that provided for in the Consensus I hope you would be willing to discuss the matter with me before any decision was taken. I should add that we are making similar approaches to the Canadians and Italians who also have credit agreements with the USSR which expire next month.

MT

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10 DEC 1979



Trade



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister of State
XXXXXX
for Trade

NBPA
19/10

Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

19 October 1979

Dear Geoffrey,

USSR - ANGLO-SOVIET CREDIT AGREEMENT

On 9 October you wrote to Monsieur Monory expressing HMG's concern at the possible continuation of the below Consensus interest rates in any renewal of the UK and French Credit Agreements. At the same time similar representations were made at official level to the Italians whose Credit Agreement also expires at the end of this year.

Reports from our Embassy in Rome suggest that the Italians may well concede on low interest rates during the Italo/Soviet Joint Commission which takes place 25/26 October. If this were to be the case the French would have all the excuses they need to themselves concede low interest rates and we should then find ourselves in the difficult position of having to match or be out of line with our competitors. We have already passed the substance of your letter to M. Monory to Italian officials but I suggest that you should follow this up with a personal message to the Italian Minister of Finance urging him to stand firm. A draft is attached. If you agree with it we can telegraph the text on Monday and follow it up with a signed version later in the week.

I am sending a copy of this letter to the Prime Minister.

James
Dear

CECIL PARKINSON



DRAFT LETTER

Minister of Finance
Rome
Italy

The British and Italian credit agreements with the USSR both expire in the next few months. If the Soviet Government seek to renew these agreements both our Governments will need to reach decisions soon on the terms on which any renewal should be negotiated.

The British Government are concerned that the exceptionally low rates of interest which apply in both the present agreements for the financing of credit sales to the Soviet Union should be eliminated if the agreements are renewed. You will recall that during the recent meeting of our two Prime Ministers it was agreed that we should try to co-ordinate our policies on this issue. Our Embassy officials have since communicated our views to your Government at senior official level.

I understand that Mr Patolichev, the Russian Minister of Foreign Trade, will be visiting Rome on 25 and 26 October. I have no doubt that you will be discussing the renewal of your credit agreement with him and that he will press for the continuation of the present terms. I very much hope that you will not agree to such terms, but that if you come under pressure from the Russians we can have further consultations.

19 OCT 1979

1961 130 81

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FM FCO 281625Z SEP 79

TO IMMEDIATE BELGRADE

TELEGRAM NUMBER 111 OF 28 SEPTEMBER

INFO IMMEDIATE PARIS AND MOSCOW.

Trade

*fy
Pmt*

FOLLOWING FOR CHANCELLOR OF THE EXCHEQUER:

USSR CREDIT AGREEMENT.

1. THE UK/USSR CREDIT AGREEMENT SIGNED BY THE THEN PRIME MINISTER IN FEBRUARY 1975 EXPIRES IN 1980. TO MATCH SIMILAR ARRANGEMENTS WHICH HAD BEEN NEGOTIATED BY THE RUSSIANS WITH THE FRENCH (AND OTHER COUNTRIES), IT PROVIDES FOR EXPORT FINANCE TO BE MADE AVAILABLE AT RATES OF INTEREST BELOW THOSE IN THE INTERNATIONAL CONSENSUS ON EXPORT CREDIT TERMS. EVEN IF THE AGREEMENT IS RENEWED BY US, IT IS VERY MUCH IN OUR INTEREST TO STRIVE TO ELIMINATE THE BENEFIT TO THE RUSSIANS AND THE PUBLIC EXPENDITURE COST TO US OF THESE EXCEPTIONALLY LOW INTEREST RATES. SIMILAR VERY LOW RATES OF INTEREST WERE AGREED IN THE FRENCH/RUSSIAN CREDIT AGREEMENT WHICH EXPIRES AT THE END OF DECEMBER 1979. RENEWAL OF THAT AGREEMENT WITH CONTINUED LOW INTEREST RATES WOULD BREACH THE CONSENSUS.

2. OFFICIALS HERE HAVE BEEN TOLD THAT PRESIDENT GISCARD WILL HIMSELF MAKE THE DECISIONS ON THE RENEWAL AND TERMS OF A NEW AGREEMENT. EFFORTS AT OFFICIAL LEVEL TO PERSUADE FRENCH TO GIVE AN ASSURANCE NOT TO RENEW AT PRESENT VERY LOW RATES HAVE FAILED.

3. WE UNDERSTAND THAT FRENCH FINANCE MINISTER IS GOING TO MOSCOW IMMEDIATELY FOLLOWING THE IMF MEETING AND THERE THUS SEEMS TO BE RISK THAT HE WILL HAVE PRELIMINARY DISCUSSIONS ON RENEWING THE AGREEMENT AND THAT ANY PRESSURE WE WERE LATER TO PUT ON FRENCH WOULD MEET WITH THE RESPONSE THAT THE DECISIONS HAD ALREADY BEEN TAKEN.

4. IN VIEW OF THIS IT SEEMS VERY DESIRABLE THAT YOU SHOULD RAISE THIS WITH THE FRENCH FINANCE MINISTER AND PRESS HIM STRONGLY NOT TO MAKE ANY COMMITMENT TO THE RUSSIANS, STRESSING THAT IT IS

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/IM BOTH

CONFIDENTIAL

IN BOTH OUR INTERESTS FOR CREDIT TO THE USSR NOT TO BE GIVEN A
BELOW CONSENSUS RATES.

5. YOU MIGHT HAND HIM LETTER ON LINES OF THE FOLLOWING:-

BEGINS.

QUOTE

THE BRITISH AND FRENCH CREDIT AGREEMENTS WITH THE USSR BOTH EXPIRE IN THE NEXT FEW MONTHS. IF THE SOVIET GOVERNMENT SEEK TO RENEW THESE AGREEMENTS BOTH OUR GOVERNMENTS WILL NEED TO REACH DECISIONS SOON ON THE TERMS ON WHICH ANY RENEWAL SHOULD BE NEGOTIATED.

I AM CONCERNED THAT THE EXCEPTIONALLY LOW RATES OF INTEREST WHICH APPLY IN BOTH THE PRESENT AGREEMENTS FOR THE FINANCING OF CREDIT SALES TO THE SOVIET UNION SHOULD BE ELIMINATED IF THE AGREEMENTS ARE RENEWED. BOTH OUR GOVERNMENTS SUBSCRIBE TO THE INTERNATIONAL CONSENSUS ON OFFICIAL SUPPORT FOR THE FINANCING OF EXPORTS. THE BRITISH GOVERNMENT BELIEVE THAT IT WOULD BE VERY DAMAGING TO CONCEDE RATES OF INTEREST TO THE USSR BELOW THE MINIMUM RATES LAID DOWN IN THE CONSENSUS.

I HOPE THAT THE FRENCH GOVERNMENT AGREE. IF THERE IS ANY POSSIBILITY OF THE FRENCH GOVERNMENT IN FACT GOING BELOW THE APPROPRIATE CONSENSUS RATES, THE BRITISH GOVERNMENT WOULD HOPE THAT THERE WOULD BE CONSULTATION BETWEEN OUR TWO GOVERNMENTS BEFORE ANY DECISION WAS TAKEN. IF NECESSARY, THIS CONSULTATION SHOULD TAKE PLACE AT THE HIGHEST LEVEL WHEN PRESIDENT GISCARD VISITS LONDON IN NOVEMBER.

UNQUOTE

ENDS.

COPIES SENT TO
No. 10 DOWNING STREET

CARRINGTON

FILES
FRD
RESQ
WED
TREP

Copies to:
PS/CHAMBERLAIN OF EXCHEQUER
M. WIDDUP TSY:
M. VILE CABINET OFFICE
PS/S.S. TRADE.

- 2 -
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CONFIDENTIAL



hd vs
TRADE

10 DOWNING STREET

From the Private Secretary

28 September 1979

USSR Credit Agreement

The Prime Minister has seen Stuart Hampson's letter to me of 27 September on this subject and the draft telegram enclosed with it.

The Prime Minister agrees that a telegram should be sent to the Chancellor of the Exchequer proposing that he take action along the lines proposed in Stuart Hampson's letter. However, she is unhappy with the text of the letter contained in the draft. I enclose a new draft which reflects the Prime Minister's wishes.

I am sending copies of this letter and its enclosure to George Walden (FCO), Stuart Hampson (Department of Trade), Andrew Duguid (Department of Industry) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

M.A. Hall, Esq.,
H.M. Treasury.

CONFIDENTIAL

ABD

TEXT OF A LETTER TO BE HANDED TO THE FRENCH MINISTER OF
FINANCE BY THE CHANCELLOR OF THE EXCHEQUER

The British and French Credit Agreements with the USSR both expire in the next few months. If the Soviet Government seeks to renew these Agreements both our Governments will need to reach decisions ^{soon} on the terms on which any renewal should be negotiated.

I am concerned that the exceptionally low rates of interest which apply in both the present Agreements for the financing of credit sales to the Soviet Union should be eliminated if the Agreements are renewed. Both our Governments subscribe to the international Consensus on official support for the financing of exports. The British Government believe that it would be very damaging to concede rates of interest to the USSR below the minimum rates laid down in the Consensus.

I hope that the French Government agree. If there is any possibility of the French Government responding to Soviet pressure to go below the appropriate Consensus rates, the British Government would hope that there would be consultation between our two Governments before any decision was taken. If necessary, this consultation should take place at the highest level when President Giscard visits London in November.



①

Prime Minister.

From the Secretary of State

I believe the other depts would be content for action on these limits to be taken. Agree with?

Michael Alexander Esq
Private Secretary
Prime Minister's Office
10 Downing Street
London SW1

I agree the purpose but I just don't like the tone

of the letter and 27 September 1979

don't believe it would achieve its objective.

Dear Michael, It seems to me there is only one point - we have agreed international credit rates. It is the French response to adhere to their agreed rates or not?

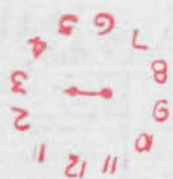
USSR CREDIT AGREEMENT

The UK/USSR Credit Agreement which was signed by the then Prime Minister in February 1975, expires in February 1980.

To match similar arrangements which had been negotiated by our trading competitors, principally the French, the Agreement provides for funds to be provided at rates of interest below the minimum subsequently agreed under the International Consensus. The Russians are expected in the near future to seek renewal of our Agreement. Even if we decided to renew it, it seems clear that we must strive to eliminate the benefit to the Russians, and the public expenditure cost to us, of these exceptionally low rates of interest. Our Ministers are aware of the political sensitivity of this Agreement and are still considering its future. However, urgent action is needed to prevent an initiative by the French which could impinge on our freedom of action.

The minimum rates of interest at which export finance may be provided are governed internationally by the so called Consensus to which all the credit giving countries of the West subscribe. Rates considerably below the Consensus minimum were agreed in the Franco/Russian Agreement and were later defended by the French on the grounds of a commitment undertaken prior to the introduction of the Consensus, the terms of which did provide for prior commitments to be excepted from its ambit. Italy elected to match the French low rates of interest and the previous Government considered themselves obliged to follow suit to protect the competitive position of British exporters. This means that we have to pay higher subsidies on export credits for Russia than we would if we adhered to the Consensus minimum rates.

contd/.....



27 SEP 1979



From the Secretary of State

The Franco/Russian Agreement expires at the end of this year and negotiations for its renewal are expected to take place in November or early in December. All Departments are agreed that it is very important that the French should not renew their own Agreement at rates of interest below those permitted by the Consensus. If they did, it would be a clear breach of the Consensus, it would increase the chances of a self-defeating international credit race and it would make life much more difficult for those like ourselves who see no justification for giving preferential treatment to the Russians.

There is no possibility that the French could justifiably plead a prior commitment to maintain low rates of interest for business with Russia, but exchanges of information at official level have failed to elicit any assurance from them that Consensus minimum rates of interest will be observed in any renewal. Our officials in London and in Paris have been told repeatedly that the President will himself make the decisions on the terms for renewal of the Agreement.

We understand that the French Finance Minister is to go to Moscow after the IMF meeting in Belgrade. It is just possible, therefore, that he could discuss a renewal of the Franco/Russian Agreement and that any approach to the French by us could meet with the response that the decisions to renew and on the terms of the Agreement have already been taken. In view of this we feel that it would be very desirable for the Chancellor to raise this with the French Finance Minister in Belgrade and warn the French that if there were to be any question of their considering going below the Consensus, the Prime Minister would wish first to have the opportunity of discussing the matter with President Giscard.

I should be grateful if you could seek the Prime Minister's approval for this action. A draft telegram for despatch to the Chancellor in Malta is attached.

I am copying this to George Walden (FCO), Martin Hall (Treasury), Andrew Duguid (Industry) and Martin Vile (Cabinet Office).

Yours sincerely,
Stuart Hampson

S HAMPSON
 Private Secretary



CONFIDENTIAL

TO BRITISH HIGH COMMISSION, MALTA REPEATED BELGRADE
MOSCOW
PARIS

Following for Chancellor of Exchequer

USSR CREDIT AGREEMENT

The UK/USSR Credit Agreement signed by the then Prime Minister in February 1975 expires in 1980. To match similar arrangements which had been negotiated by the Russians with the French (and other countries), the Agreement provides for export finance to be made available at rates of interest below those in the International Consensus on Export Credit Terms. Even if the Agreement is renewed by us, it is very much in our interest to strive to eliminate the benefit to the Russians and the public expenditure cost to us of these exceptionally low interest rates. Similar very low rates of interest were agreed in the Franco/Russian Credit Agreement which expires at the end of December 1979. Renewal of that Agreement with continued low interest rates would breach the consensus.

2. Officials here have been told that President Giscard will himself make the decisions on the renewal and terms of a new Agreement. Efforts at official level to persuade French to give an assurance not to renew at present very low rates have failed.

3. We understand that French Finance Minister is going to Moscow immediately following the IMF meeting and there thus seems to be risk that he will have preliminary discussions on renewing the Agreement and that any pressure we were later to put on French would meet with the response that the decisions had already been taken.



4. In view of this it seems very desirable that you should raise this with the French Finance Minister and press him strongly not to make any commitment to the Russians, stressing that it is in both our interests for credit to Russia not to be given at below Consensus rates.

5. You might hand him letter on lines of the following:

Begins

The French and British Credit Agreements with USSR both expire in the next few months. If the Soviet Government seeks to renew these Agreements both your Government and my own must reach decisions quite soon on the terms on which any renewal may be negotiated.

I am concerned that the exceptionally low rates of interest which at present apply in both these Agreements for the financing of credit sales to Russia should be eliminated for any renewal of the Agreements. ^{would be very desirable to} I believe that there is no ^{to} defensible reason ^{to} for ^{to} conceding rates of interest to the USSR which are below the minimum rates laid down in the Consensus on official support for the financing of exports, to which we all subscribe. ^{were} Moreover, to do so would set a precedent for which others, for example China, could be expected to press and could jeopardise the future of the Consensus; and there are countries, for example Germany and Japan, which could comfortably offer low interest rates to other markets which it would be very costly for France and the UK to match; and there are others, for example the USA, which could readily offer long credit periods which it would be equally burdensome for us to rival.

I hope the French Govt agree. JF



If there is any possibility

I hope therefore that you can assure me that there is no question of the French Government responding to the inevitable Soviet pressure to go below the appropriate Consensus rates. If any question of this kind should arise, we very much hope that you will take no decision without first allowing for discussion between us, if necessary at the highest level, when our Prime Minister meets President Giscard in November.

London 6 November

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