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PREM 19/925



Confidential Review

Credit Terms for Exports to the USSR  
Trade Relations  
West Siberian Gas Pipeline / Rals Royce  
CEGB Uranium Enrichment Contract  
Controls on transfer of technology to  
the Soviet Union

SOVIET  
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Part 1: Sept 1979

Part 2: April 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>19.4.82</del>		<del>31.8.82</del>					
<del>23.4.82</del>		<del>1.9.82</del>					
<del>29.4.82</del>		<del>9.9.82</del>					
<del>2.5.82</del>		<del>15.9.82</del>					
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<del>29.6.82</del>		<del>30.9.82</del>					
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<del>12.7.82</del>		<del>15.10.82</del>					
<del>16.7.82</del>		<del>24.10.82</del>					
<del>26.7.82</del>		<del>29.10.82</del>					
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<del>30.7.82</del>		<del>6.11.82</del>					
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<del>3.8.82</del>		<del>10.11.82</del>					
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<del>27.8.82</del>		<del>11.11.82</del>					
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PART 2 ends:-

washington tel: 3660 of 11/11/82

PART 3 begins:-

washington tel: 3675 of 12/11/82



TO BE RETAINED AS TOP ENCLOSURE

## Cabinet / Cabinet Committee Documents

Reference	Date
CC(82) 48 <sup>th</sup> Meeting, item 2	11/11/82
CC(82) 47 <sup>th</sup> Meeting, item 2	4/11/82
CC(82) 45 <sup>th</sup> Meeting, item 3	28/10/82
CC(82) 44 <sup>th</sup> Meeting, item 2	21/10/82
CC(82) 43 <sup>rd</sup> Meeting, item 2	14/10/82
CC(82) 42 <sup>nd</sup> Meeting, item 2	30/9/82
CC(82) 41 <sup>st</sup> Meeting, item 1	9/9/82
CC(82) 40 <sup>th</sup> Meeting, item 4	29/7/82
CC(82) 37 <sup>th</sup> Meeting, item 3	8/7/82
CC(82) 35 <sup>th</sup> Meeting, item 4	24/6/82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed J. Gray

Date 19/10/2012

PREM Records Team



GRS 1100

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DESKBY 120900Z

FM WASHINGTON 120004Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3660 OF 11 NOVEMBER

INFO IMMEDIATE BTDO NEW YORK (FOR PS/S OF S)

PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, UKDEL OECD,

UKREP BRUSSELS, ROUTINE TOKYO, OTTAWA, BRUSSELS AND THE HAGUE

INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG

YOUR TELNO 2000: EAST WEST ECONOMIC RELATIONS (PIPELINE)

1. THERE WAS NO SIGN TODAY OF A U S DECISION ON SANCTIONS. MINISTER THEREFORE TOOK ADVANTAGE OF THE LULL TO GO OVER THE GROUND COVERED IN YOUR TELEGRAM UNDER REFERENCE INFORMALLY WITH A SENIOR CONTACT IN THE STATE DEPARTMENT.
2. THE REACTION OF THE OFFICIAL CONCERNED (WHO HAS BEEN CLOSELY INVOLVED IN THE WHOLE PROCESS) WAS ONE OF GENUINE DISMAY AND SURPRISE. THE AMERICANS HAD BEEN CONFIDENT THAT EITHER OF THE OPTIONS DESCRIBED IN MY TELNO 3648 WOULD MEET THE MAIN CONCERNS OF EUROPEAN GOVERNMENTS ABOUT DAMAGE TO THEIR COMPANIES' INTERESTS RESULTING FROM THE DECEMBER AND JUNE SANCTIONS. AS THE AMERICANS HAD UNDERSTOOD THE PROBLEM, OUR CONCERNS AROSE PRIMARILY FROM THE RETRO-ACTIVE AND EXTRA TERRITORIAL ELEMENTS IN THE U S MEASURES. THE ADMINISTRATION HAD BEEN TOLD ON MANY OCCASIONS (AND OFTEN IN THE STRONGEST TERMS) THAT WHAT THEY DID TO U S FIRMS WAS THEIR OWN BUSINESS BUT THEY SHOULD NOT BE DOING IT TO COMPANIES IN OTHER COUNTRIES, ABOVE ALL RETROSPECTIVELY. WHEN IT CAME TO LOOKING FOR WAYS OF LIFTING THE SANCTIONS THEREFORE THEY HAD CONCENTRATED ON THEIR RETRO-ACTIVE AND EXTRA TERRITORIAL PROVISIONS. AT THE SAME TIME THE PRESIDENT HAD TO LOOK OUT FOR HIS RIGHT FLANK. U S OFFICIALS THOUGHT THEY HAD FOUND A COMPROMISE SOLUTION THAT WOULD FULLY MEET THE PROBLEMS OF THE EUROPEANS WITHOUT EXPOSING THE PRESIDENT TO EXCESSIVE CRITICISM FROM HIS OWN SUPPORTERS AND INDEED FROM SOME OF HIS OWN TOP ADVISERS FOR TOTALLY CHANGING TACK. THIS WAS THE BACKGROUND AGAINST WHICH THE SECOND OPTION NEEDED TO BE SEEN.
3. THOMAS REPLIED THAT THIS WAS ONLY PART OF THE STORY. WE AND OTHERS HAD MADE CLEAR FROM THE BEGINNING THAT IN ADDITION TO THE RETRO-ACTIVE AND EXTRA TERRITORIAL ASPECTS OF THE U S MEASURES WE OBJECTED TO THEIR TAKING UNILATERAL DECISIONS AFFECTING THE WHOLE ALLIANCE WITHOUT ADEQUATE CONSULTATION. HE AGREED THAT WE HAD COMPLAINED VIGOROUSLY ABOUT THE FRUSTRATION OF EXISTING CONTRACTS, BUT WE HAD ALSO ARGUED AT ALL LEVELS THAT THIS WAS AN AREA WHERE THE NECESSARY FIRST STEP WOULD HAVE BEEN TO SIT DOWN AMONG THE ALLIES AND WORK OUT THE BASIS FOR A COMMON APPROACH. IN THE NEGOTIATION OF THE NON-PAPER WE HAD NOW BUILT A FRAMEWORK FOR THIS. BUT IF THE AMERICANS ADOPTED OPTION 2, THEY WOULD BE PREJUDGING AN IMPORTANT PART OF THAT EXERCISE BY MAINTAINING A BAN ON THE EXPORT OR RE-EXPORT

SECRET ECLIPSE

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10 DOWNING STREET

Prime Minister

I have some doubts  
about this.

I fear that it will be  
regarded by the U.S. as  
an attempt to exploit  
the situation following  
Brezhnev's death to obtain  
what we want on the  
pipeline issue. It may not  
have the effect we want.

A.J.C.



EAST/WEST ECONOMIC RELATIONS: PIPELINE

The Prime Minister has asked that you should convey to the White House as soon as possible her view, and that of her colleagues, that, given Brezhnev's death and the period of uncertainty which is now likely to ensue, we regard it as of the greatest importance that the West should be, and be seen to be, united. Against this background, it is more than ever essential that the pipeline issue should be very rapidly resolved. To achieve this, we trust that the President will lift both the June and the December measures and the temporary Denial Orders.

It is too late now  
and it would need  
a larger rather than a  
persuasive message to be  
effective.

me



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DESKBY 110845Z  
FM WASHINGTON 110055Z NOV 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 3648 OF 10 NOVEMBER  
INFO IMMEDIATE AMMAN (FOR PS/S OF S)  
PRIORITY TO PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, UKDEL OECD  
UKREP BRUSSELS AND ROUTINE TO TOKYO, OTTAWA, BRUSSELS, THE HAGUE  
INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG

MIPT: ALTERNATIVE US OPTIONS ON LIFTING SANCTIONS.

1. THE TWO ALTERNATIVES WHICH WE UNDERSTAND WERE SUBMITTED  
YESTERDAY TO PRESIDENT REAGAN WERE:

- (I) COMPLETE LIFTING OF THE DECEMBER 1981 AND JUNE 1982 MEASURES  
IN ALL THEIR PARTS. THIS WAS THE ALTERNATIVE PREPARED BY THE  
DEPARTMENT OF COMMERCE. TECHNICALLY IT WOULD BE THE  
SIMPLEST OPTION. THE MAIN OBJECTION IN INTER-AGENCY  
DISCUSSIONS WAS THE POLITICAL ONE: THE US WOULD APPEAR TO  
HAVE BEEN Routed BY THE ALLIES.
- (II) REMOVAL OF THOSE PARTS OF THE DECEMBER 1981 AND JUNE 1982  
MEASURES WHICH AFFECTED EXISTING CONTRACTS (AND RELATED  
SERVICE CONTRACTS) BUT RETAINING LICENSING PROCEDURES FOR  
EXPORTS AND RE-EXPORTS TO THE SOVIET UNION WITH CERTAIN  
SPECIFIED EXCEPTIONS.  
THIS ALTERNATIVE WAS SPECIFICALLY DESIGNED TO MEET THE  
PROBLEMS OF EUROPEAN AND JAPANESE COMPANIES WHICH HAD BEEN  
AFFECTED BY THE JUNE AND DECEMBER CONTROLS, LEAVING A  
LOOPHOLE FOR SPECIAL CASES.

THE NSC (WHO FAVORS THIS ALTERNATIVE) TELLS US THAT THIS  
TIME THE PROCEDURES FOR ALLOWING EXCEPTIONS WOULD BE PROPERLY  
WORKED OUT WITH THE COMMERCE DEPARTMENT TO AVOID A REPETITION  
OF THE CHAOS OF THE LAST FEW MONTHS. EVEN SO WE SUSPECT THERE  
WOULD INEVITABLY BE ARGUMENT AND DELAYS AS INDIVIDUAL SPECIAL  
CASES ARE CONSIDERED BY THE LICENSING AUTHORITIES.

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MIFT CONTAINS THE TEXT OF THIS RELEVANT PASSAGE FROM THE SUBMISSION TO THE PRESIDENT WHICH HAS BEEN GIVEN TO US IN STRICTEST CONFIDENCE. OUR KNOWLEDGE OF IT SHOULD NOT BE REVEALED TO U.S. OR OTHER OFFICIALS.

2. IT IS NOT YET CLEAR WHICH WAY THE CAT WILL JUMP. STATE DEPARTMENT OFFICIALS THINK THE PRESIDENT IS MORE LIKELY TO GO FOR THE SECOND ALTERNATIVE.

FCO PASS SAVING: ATHENS, DUBLIN AND LUXEMBOURG

WRIGHT

(REPEATED AS REQUESTED)

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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TO IMMEDIATE FCO  
TELEGRAM NUMBER 3647 OF 10 NOVEMBER

INFO IMMEDIATE AMMAN (FOR PS/S OF S)  
PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO  
UKDEL OECD, UKREP BRUSSELS  
ROUTINE TOKYO, OTTAWA, BRUSSELS, THE HAGUE

INFO SAVING ATHENS, DUBLIN, LUXEMBOURG

FOLLOWING FROM THOMAS IN ABSENCE OF SIR O WRIGHT ON  
WEST COAST.

MY TELNO 3639: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. SINCE WE ARE NOW VERY CLOSE TO THE CRUNCH IN THESE  
NEGOTIATIONS, IT MAY BE WORTH SETTING OUT WHERE WE HAVE GOT  
TO.
  2. THE PACKAGE THAT EMERGES AT THE END OF THE PROCESS MUST CONTAIN  
THREE ELEMENTS:
    - (I) AN AGREED FRAMEWORK FOR WORKING OUT AN ALLIANCE  
STRATEGY ON EAST/WEST ECONOMIC RELATIONS (THE NON-PAPER):
    - (II) A SATISFACTORY US DECISION ON THE LIFTING OF SANCTIONS  
AFFECTING THE SIBERIAN PIPELINE:
    - (III) AN AGREED METHOD OF PRESENTING RESULTS  
TO THE PUBLIC.
- IT HAS BEEN AN ACCEPTED CONVENTION FOR SOME TIME THAT AGREEMENT  
ON EACH OF THE THREE ELEMENTS IS DEPENDENT ON AGREEMENT ON THE  
WHOLE.
3. OUR OWN BASIC POLICY AIMS AT THE OUTSET WERE:
    - (I) TO SECURE THE LIFTING OF THE DECEMBER 1981 AND JUNE 1982  
MEASURES (AND SUBSEQUENT DENIAL ORDERS) INSOFAR AS THEY  
RELATED TO COMPANIES OUTSIDE THE USA.
    - (II) TO REACH AGREEMENT ON THE NEED FOR A COMMON ANALYSIS OF  
THE SOVIET ECONOMY AS A BASIS FOR WESTERN AGREEMENT ON  
POLICY AND SPECIFIC MEASURES.
    - (III) TO SECURE AGREEMENT THAT AMERICAN EXTRATERRITORIAL  
LEGISLATION CONSTITUTED A PROBLEM WHICH NEEDED TO BE TACKLED  
URGENTLY AND THAT EXTRA-TERRITORIAL MEASURES  
SHOULD NOT BE TAKEN WITHOUT CONSULTATION.
  4. AGREEMENT HAS NOW BEEN REACHED IN PRINCIPLE BETWEEN THE  
ECONOMIC SUMMIT SEVEN ON A SUMMARY OF CONCLUSIONS ON EAST/WEST  
ECONOMIC RELATIONS WHICH COVERS OUR OBJECTIVE AT 3(II) ABOVE.  
THE FINAL TEXT IS CONTAINED IN MY TELNO 3640. THIS REQUIRED INTEN-

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SIVE LINE-BY-LINE NEGOTIATIONS AND AMOUNTS TO AN AGREED SET OF GENERAL PRINCIPLES AND A WORK PROGRAMME. LIKE ALL SUCH DOCUMENTS, IT CAN MEAN DIFFERENT THINGS TO DIFFERENT PEOPLE. IF WE ARE NOT CAREFUL IT COULD GIVE RISE LATER TO ACCUSATIONS OF BAD FAITH ON EITHER SIDE. BUT THE RESERVATIONS OF ALL THE PARTICIPANTS HAVE BEEN CLEARLY STATED IN THE COURSE OF THE DISCUSSIONS HERE. OUR OWN PARTICIPATION IN THE PROCESS HAS BEEN EXPLICITLY ON THE UNDERSTANDING THAT IT WAS WITHOUT COMMITMENT TO THE OUTCOME OF THE STUDIES (AND OF COURSE ON THE UNDERSTANDING THAT THE AMERICANS WOULD IN PARALLEL LIFT THE SANCTIONS.). THE TASK WILL NOW BE TO AGREE ON HOW THE FURTHER WORK AND THE STUDIES ARE TO BE UNDERTAKEN AND TO PARTICIPATE IN THEM IN GOOD FAITH.

5. WE WILL AWAIT AN AMERICAN DECISION ON THE SECOND PART OF THE PACKAGE - THE LIFTING OF SANCTIONS. THE EUROPEAN FOUR HAVE MADE IT CLEAR THAT UNTIL WE KNOW WHAT THE AMERICANS ARE PREPARED TO DO ON THIS FRONT, IT IS NOT POSSIBLE FOR US TO AGREE ON ANY PARTICULAR METHOD OF PUBLIC PRESENTATION OF THE RESULTS. THE NATIONAL SECURITY COUNCIL WAS DUE TO TAKE A DECISION ON THE LIFTING OF SANCTIONS YESTERDAY, BUT IN THE EVENT (WASHINGTON TELEGRAM NO 3639) NO DECISION WAS TAKEN. I UNDERSTAND THAT THE MAIN REASON FOR THIS WAS THE DIFFICULTY OF DECIDING BETWEEN TWO OPTIONS WHICH WERE SUBMITTED TO THE PRESIDENT FOR LIFTING THE SANCTIONS. THE OPTIONS ARE SET OUT IN MY TWO LFT'S.

6. THE FINAL DECISION ON THE MODALITIES FOR LIFTING SANCTIONS WILL BE TAKEN BY THE PRESIDENT IN CONSULTATION WITH HIS IMMEDIATE CIRCLE OF ADVISERS. ASSUMING THAT ONE OF THE ABOVE OPTIONS IS ADOPTED, OUR DESIDERATA WOULD BE MET ON EXISTING CONTRACTS, THOUGH THE SECOND ALTERNATIVE WOULD LEAVE UK COMPANIES SUBJECT TO US LICENSING REQUIREMENTS FOR RE-EXPORT TO THE SOVIET UNION OF CERTAIN CATEGORIES OF GOODS. HOW THIS RIGHT WILL BE EXERCISED WILL DEPEND TO SOME EXTENT ON THE OUTCOME OF THE STUDIES PROVIDED FOR IN THE SUMMARY OF CONCLUSIONS ON EAST/WEST ECONOMIC RELATIONS.

7. ONCE WE RECEIVE CONFIRMATION (POSSIBLY TOMORROW) THAT THE PRESIDENT HAS DECIDED TO LIFT THE SANCTIONS, THERE WILL BE INTENSE PRESSURE HERE TO GO PUBLIC ON THE SUMMARY OF CONCLUSIONS ON EAST/WEST ECONOMIC RELATIONS. THIS IS BECAUSE THE PRESIDENT'S DECISION TO LIFT SANCTIONS WILL LEAK, AND HE WILL COME UNDER HEAVY CRITICISM FROM SOME QUARTERS FOR ACCEDING TO EUROPEAN PRESSURE UNLESS HE CAN AT THE SAME TIME REVEAL WHAT HAS BEEN AGREED BY WAY OF AN ALTERNATIVE ALLIANCE STRATEGY ON EAST/WEST ECONOMIC RELATIONS.

8. IN THESE CIRCUMSTANCES, WE COULD EITHER:-  
(1) AGREE THAT EACH GOVERNMENT SHOULD MAKE ITS OWN STATEMENT IN ITS OWN TIME: OR



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- (II) TRY TO AGREE ON THE POINTS TO BE INCLUDED IN A STATEMENT BY PRESIDENT REAGAN AND THEN ON WHAT SHOULD BE SAID IN RESPONSE BY OTHER GOVERNMENTS: OR  
(III) AGREE THAT THE SUMMARY OF CONCLUSIONS ITSELF SHOULD BE PUBLISHED, AND THAT ANY ACCOMPANYING STATEMENT SHOULD BE BRIEF AND SHOULD NOT PURPORT TO INTERPRET THE DOCUMENT.

9. THE FIRST ALTERNATIVE WOULD BE QUICKEST AND EASIEST BUT BY FAR THE MOST RISKY. AMMAN TELNO 3 GAVE US AUTHORITY TO ACCEPT (II) (PUBLICATION OF THIS TEXT) PROVIDED OTHER MEMBERS OF THE COMMUNITY AGREED AND PROVIDED THE PRESIDENT'S STATEMENT WAS SHORT AND DID NOT PURPORT TO INTERPRET THE PAPER. THERE IS NOW AN EMERGING CONSENSUS IN THE COMMUNITY IN FAVOUR OF THIS COURSE. THE GERMAN EMBASSY HERE BELIEVE THAT THE GERMAN GOVERNMENT WILL ULTIMATELY BE DISPOSED TO AGREE. ONLY THE FRENCH AT PRESENT ARE HOLDING OUT, AND THIS MAY BE FOR TACTICAL REASONS. THE FRENCH AMBASSADOR HERE IS IN NOT DOUBT THAT IT WOULD BE ENORMOUSLY DIFFICULT TO NEGOTIATE THE TEXT OF A US PUBLIC STATEMENT AND THE TEXTS OF EUROPEAN AND OTHER RESPONSES FOR ALL THE REASONS SET OUT IN YOUR TELEGRAM NO 299 TO AMMAN.

10. WE AND OTHER REPRESENTATIVES IN WASHINGTON HAVE PUT IT MOST STRONGLY TO THE AMERICANS THAT OTHER GOVERNMENTS MUST BE GIVEN TIME TO ASSESS THE RESULTS OF THIS EXERCISE AND REACH THEIR OWN CONCLUSIONS BEFORE THEY CAN AGREE TO ANY ANNOUNCEMENT BEING MADE. THE STATE DEPARTMENT UNDERSTAND THIS BUT IT MAY BE LESS WELL UNDERSTOOD IN THE WHITE HOUSE.

11. THE STATE DEPARTMENT ARE RECOMMENDING THAT AS SOON AS THE PRESIDENT'S DECISION ON SANCTIONS HAS BEEN MADE, HE SHOULD SEND MESSAGES TO THE OTHER HEADS OF GOVERNMENT CONCERNED, COMMENDING THE RESULTS OF THE EXERCISE AND SEEKING THE EARLIEST POSSIBLE RESPONSE. THERE MAY ALSO BE A MESSAGE FROM SHULTZ TO YOU IN THE SAME SENSE. WHEN THAT POINT IS REACHED YOU MAY THINK THERE IS SOME MERIT IN A SUGGESTION WHICH THE DANISH AMBASSADOR MADE INFORMALLY AT TODAY'S MEETING WITH THE FOUR THAT IT MAY BE DESIRABLE FOR THE FOUR EUROPEAN GOVERNMENTS MOST DIRECTLY CONCERNED TO BE IN TOUCH SO AS TO TRY TO PRODUCE A CONCERTED RESPONSE WITH THE LEAST DEALY PRACTICABLE.

12. AS TO OUR OBJECTIVE ON EXTRA-TERRITORIALITY (PARAGRAPH 3(III) ABOVE) THE COMMUNITY HAVE MADE CLEAR INFORMALLY TO THE AMERICANS THE IMPORTANCE WE ALL ATTACH TO THIS ISSUE. IT STILL REMAINS, HOWEVER, TO FIND AN APPROPRIATE WAY OF GETTING THE POINT NOTED FOR THE RECORD. THE FRENCH HAVE EXPRESSED A PREFERENCE FOR A SIDE-LETTER, TO WHICH THE AMERICANS WOULD BE EXPECTED TO RESPOND. WE HAVE ARGUED THAT A MORE APPROPRIATE METHOD WOULD BE A STATEMENT BY THE PRESIDENCY,



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IN THE COURSE OF ONE OF OUR FINAL MEETINGS WITH THE AMERICANS, IN WHICH WE WOULD REFER TO OUR EARLIER STATEMENTS OF CONCERN ON THIS MATTER AND MAKE IT CLEAR THAT WE PROPOSED TO PURSUE DISCUSSION OF IT WITH THE AMERICANS IN PARALLEL WITH THE STUDIES WHICH WILL BE TAKING PLACE ON THE ISSUES OF EAST/WEST TRADE. THIS WOULD INTRODUCE A HELPFUL LINKAGE BETWEEN PROGRESS ON BOTH SIDES OF THE BALANCE. THE COMMISSION AND THE REST OF THE COMMUNITY SUPPORT US ON THIS APPROACH. AT THE END OF THE DAY, IT SEEMS UNLIKELY THAT THE PROCEDURE ON THIS QUESTION WILL BECOME A STICKING POINT FOR EITHER THE FRENCH OR THE AMERICANS.

FCO PASS SAVING ATHENS, DUBLIN, LUXEMBOURG

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TELEGRAM NUMBER 953 OF 10 NOVEMBER  
INFO IMMEDIATE AMMAN (FOR SECRETARY OF STATE'S PARTY), WASHINGTON,  
PARIS

FOLLOWING FROM BULLARD IN BONN: PIPELINE

1. BURT TOLD ME THIS MORNING THAT THE FAILURE OF THE NSC TO REACH A DECISION (WASHINGTON TELNO 3628 OF 9 NOVEMBER) SHOULD NOT BE INTERPRETED AS HERALDING A CHANGE OF US POLICY. HE DID NOT THINK THE PRESIDENT HAD DOUBTS ABOUT THE CONTENTS OF THE NON-PAPER (ON WHICH HE HAD BEEN KEPT CAREFULLY BRIEFED THROUGHOUT THE WASHINGTON NEGOTIATIONS). RATHER, HE THOUGHT THE DELAY REFLECTED DEBATE WITHIN THE ADMINISTRATION AS TO THE MODALITIES FOR LIFTING SANCTIONS (THIS WOULD BE A COMPLICATED OPERATION), AND CONTINUING DISCUSSION ABOUT THE QUESTION OF PUBLICATION. IT WAS ESSENTIAL THAT THE DECISION, ONCE TAKEN, SHOULD BE SUPPORTED UNANIMOUSLY, INCLUDING BY ALL THE VARIOUS AGENCIES IN WASHINGTON.

TAYLOR

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10 DOWNING STREET

Premier Minister

You will wish to be aware of  
the latest development

I have attached at 1-2 tag B text of  
the US non-papers.

A. Lopez  
Duty Clerk  
9/11



1010 28.

FLASH

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MR THOMAS  
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MR GOODALL CABINET OFFICE

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FM AMMAN 091915Z NOV 82

TO FLASH WASHINGTON

TELEGRAM NUMBER 3 OF 09 NOV

AND TO FLASH FCO

INFO IMMEDIATE PARIS, BONN, ROME: PRIORITY COPENHAGEN, UKDEL NATO, UKDEL OECD, UKREP BRUSSELS: ROUTINE TOKYO, OTTAWA

Flag A

FCO TELNO 299: PIPELINE

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE ACCEPTS RECOMMENDATIONS THAT WE SHOULD AGREE TO PUBLICATION (AS THE LESSER EVIL) IF OUR PARTNERS ARE CONTENT AND SUBJECT TO THE IMPORTANT PROVISIO IN PARA 7 OF TUR.

2. DEPARTMENT SHOULD INFORM NO 10 AND OTHER KEY WHITEHALL ACTORS IF THEY HAVE NOT ALREADY DONE SO. SECRETARY OF STATE ATTACHES GREAT IMPORTANT TO THE PUBLIC PRESENTATION OF THE DECISION WHEN IT IS MADE, AND ASSUMES THAT WHITEHALL DEPARTMENTS ARE IN CLOSE TOUCH ON THIS. GRATEFUL FOR EARLY ADVICE OF WHEN STORY IS LIKELY TO BREAK, SO THAT SECRETARY OF STATE CAN CONSIDER WHAT IT MAY BE USEFUL FOR HIM TO DO FROM HERE.

URWICK



to/No10

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FM FCO 091700Z NOVEMBER 1982

TO FLASH AMMAN

TELEGRAM NUMBER 299 OF 9 NOVEMBER

INFO FLASH WASHINGTON, IMMEDIATE PARIS, BONN, ROME, PRIORITY  
COPENHAGEN, UKDEL NATO, UKDEL OECD, UKREP BRUSSELS, ROUTINE  
TOKYO, OTTAWA

FOLLOWING FOR PRIVATE SECRETARY: EAST/WEST ECONOMIC RELATIONS  
(PIPELINE)

1. YOU WILL HAVE SEEN FROM PARAS 8-9 OF WASHINGTON TEL 3612 THAT THE AMERICANS HAVE PROPOSED THAT THE TEXT OF THE SHULTZ PAPER SHOULD BE PUBLISHED. THE CANADIAN AMBASSADOR AGREED: THE FRENCH AMBASSADOR AGREED TO RECOMMEND THIS TO HIS GOVERNMENT, AND THE OTHER SUMMIT SEVEN REPRESENTATIVES ARE SEEKING INSTRUCTIONS.
2. UP TO NOW WE HAVE BEEN WORKING ON THE ASSUMPTION THAT THE PAPER SHOULD REMAIN CONFIDENTIAL. GENSCHER HAS ATTACHED IMPORTANCE TO THIS AND SO HAVE THE FRENCH: AND THE SECRETARY OF STATE IS COMMITTED TO GENSCHER OVER IT.
3. BUT IN THE LIGHT OF THE WAY THE NEGOTIATIONS HAVE DEVELOPED IN WASHINGTON, WE HAVE COME TO THE VIEW THAT IT WOULD ON BALANCE BE BETTER TO GO FOR PUBLICATION, PROVIDED ALL OUR PARTNERS WERE TO AGREE, THAN TO HAVE A UNILATERAL PRESIDENTIAL PUBLIC STATEMENT WHICH RISKS PROVOKING DAMAGING REACTIONS FROM OTHER CAPITALS (ESPECIALLY PARIS). THE TEMPTATION ON THE PRESIDENT WILL BE TO CLAIM THAT THE NEGOTIATION HAS PRODUCED MORE THAN IN FACT IT HAS: AND THE DANGER TO US IS THAT THE PRESIDENT'S STATEMENT MAY GIVE THE IMPRESSION THAT WE ARE ALL COMMITTED TO DOING MORE THAN WE REALLY ARE. (IT WAS FOR THIS REASON THAT WE DID NOT MUCH LIKE THE BOOTLEG FIRST DRAFT OF THE PRESIDENT'S STATEMENT WE WERE

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GIVEN PRIVATELY BY THE AMERICANS).

4. ANOTHER FACTOR IS THAT THE SHULTZ TEXT, AS THE AMERICANS HAVE UNDERLINED, IS BOUND TO LEAK ANYWAY. BETTER TO PUT OUT THE AUTHORISED TEXT IN CAPITALS ON OUR OWN INITIATIVE. PRESS HANDLING WOULD BE GREATLY SIMPLIFIED.
5. IF PUBLICATION IS AGREED BY ALL THE PARTNERS, THE PRESIDENT WOULD THEN NEED ONLY TO MAKE A SHORT COVERING STATEMENT.
6. WE HAVE SPOKEN THIS AFTERNOON TO THE GERMAN AND FRENCH ECONOMIC DIRECTORS. WE JUDGE THAT THE GERMANS MIGHT AGREE TO PUBLICATION OF THE SHULTZ TEXT BUT THE FRENCH, AT PRESENT, WILL NOT.
7. OUR RECOMMENDATION IS THAT OUR EMBASSY IN WASHINGTON SHOULD TAKE THE LINE THAT WE COULD AGREE TO PUBLICATION OF THE SHULTZ PAPER, PROVIDED ALL OUR PARTNERS ARE CONTENT, AND PROVIDED THE PRESIDENT MAKES A SHORT STATEMENT WHICH DOES NOT PURPORT TO INTERPRET THE PAPER. IF THE SECRETARY OF STATE APPROVES, GRATEFUL IF YOU WOULD SEND A FLASH TELEGRAM TO WASHINGTON ACCORDINGLY.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3612 OF 8 NOVEMBER

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INFO SAVING DUBLIN, ATHENS AND LUXEMBOURG

R I P T :

EAST/WEST ECONOMIC RELATIONS (PIPELINE) : PUBLIC HANDLING.

1. MIFT CONTAINS A TEXT WHICH THE STATE DEPARTMENT CIRCULATED AT TODAY'S MEETING OF THE SEVEN PLUS TWO OF POINTS WHICH THEY WOULD WANT TO BE INCLUDED IN PRESIDENT REAGAN'S ANNOUNCEMENT OF AGREEMENT TO THE NON-PAPER. THIS FOLLOWS IN SUMMARY FORM THE DRAFT STATEMENT REPORTED IN MY TELEGRAM NUMBER 3593 (NOT TO ALL).
2. WHILE AGREEMENT TO THE NON-PAPER HAS NOW BEEN REACHED, IT REMAINS EXPLICITLY CONTINGENT ON THE SATISFACTION OF OTHER GOVERNMENTS ON THE LIFTING OF SANCTIONS AND ON AGREEMENT TO THE PUBLIC HANDLING.
3. WALLIS SAID AT TODAY'S MEETING THAT, IF ALL OTHERS CONCERNED WOULD AGREE ON ALL THREE ASPECTS OF THE PACKAGE (I.E. NON-PAPER, THE LIFTING OF SANCTIONS AND PUBLICITY) THE PRESIDENT WOULD BE READY TO MAKE THE PUBLIC ANNOUNCEMENT ON WEDNESDAY, 10 NOVEMBER. WALLIS SAID HE HAD NO WISH TO RUSH OTHERS INTO AGREEMENT BUT HE FEARED THAT ONCE THE PRESIDENT'S DECISION WAS TAKEN ON THE LIFTING OF SANCTIONS IT WOULD UNDOUBTEDLY LEAK. HE WAS CONCERNED THEREFORE THAT AN ANNOUNCEMENT SHOULD BE MADE AS SOON AS POSSIBLE THEREAFTER. ANOTHER CONSTRAINT IS THAT THE PRESIDENT IS GIVING ONE OF HIS REGULAR SERIES OF PRESS CONFERENCES ON THURSDAY, 11 NOVEMBER, AT WHICH HE DOES NOT (NOT) WISH TO ANNOUNCE AGREEMENT TO THE PACKAGE BECAUSE OF THE RISK OF PRESSURE FOR ELUCIDATION. AT THE SAME TIME, THE WHITE HOUSE IS UNLIKELY TO BE ABLE TO AVOID QUESTIONS ABOUT THE NSC'S DECISION.
4. WALLIS SAID HE WOULD LIKE TO KNOW BY TOMORROW EVENING HOW OTHER GOVERNMENTS REACTED TO THE STATE DEPARTMENT DRAFT POINTS AND HOW THEY INTENDED TO ANNOUNCE THE AGREEMENT THEMSELVES.
5. MOST OF THE OTHER GOVERNMENTS CONCERNED, INCLUDING OURSELVES AND THE FRENCH THOUGHT IT WAS RUSHING THINGS TOO MUCH TO EXPECT THEIR GOVERNMENTS TO RESPOND ON THE QUESTION OF PUBLIC ANNOUNCEMENTS WITHOUT KNOWING WHAT THE AMERICANS INTENDED ON THE LIFTING OF THE SANCTIONS. IN ANY CASE, IT WAS MADE CLEAR AT A SUBSEQUENT COMMUNITY ROUND-UP SESSION THAT THERE WOULD BE PRACTICAL DIFFICULTIES FOR SOME. THE ITALIANS POINTED OUT THAT THERE WERE MANY PEOPLE IN THE ITALIAN COALITION WHO HAD TO BE CONSULTED. THIS WOULD TAKE TIME.

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6. AT THE MEETING AT THE STATE DEPARTMENT, VERNIER-PALLIEZ MADE TWO PRELIMINARY COMMENTS ON THE STATE DEPARTMENT'S POINTS. FIRST, HE THOUGHT HIS GOVERNMENT WOULD OBJECT TO THE USE OF THE WORD QUOTE SUBSIDIZE UNQUOTE. SECOND, THE LAST PARAGRAPH AND THE REFERENCE TO POLISH EVENTS DID NOT SIT WELL SINCE THERE WAS NO LINKAGE IN THE FRENCH GOVERNMENT'S VIEW BETWEEN THE MATTERS COVERED IN THE NON-PAPER AND EVENTS IN POLAND.
7. WALLIS SAID HE WAS GRATEFUL FOR THESE COMMENTS AND LOOKED FORWARD TO RECEIVING OTHERS.
8. TURNING TO THE NON-PAPER ITSELF WALLIS IN ANSWER TO QUESTIONS, THOUGHT IT SHOULD BE HEADED QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. HE SAID HE KNOWS THAT OTHER GOVERNMENTS WERE WORKING ON THE BASIS THAT IT WOULD REMAIN CONFIDENTIAL. THE STATE DEPARTMENT WOULD RESPECT THE CONFIDENTIALITY OF THE DOCUMENT IF THAT WAS WHAT OTHER GOVERNMENTS WANTED. BUT HE SUGGESTED THAT PUBLICATION OF THE PAPER MIGHT BE THE BEST WAY TO AVOID PUBLIC DIFFERENCES OF INTERPRETATION LEADING TO DAMAGING SPECULATION IN THE PRESS. THE PAPER WOULD UNDOUBTEDLY LEAK ANYWAY IN DUE COURSE. THE MOST PRUDENT COURSE MIGHT THEREFORE BE FOR ALL CONCERNED TO AGREE TO ITS PUBLICATION. THE CANADIAN AMBASSADOR AGREED THAT PUBLICATION WOULD BE THE BEST COURSE. NILES SUBSEQUENTLY INFORMED BORCH THAT IF THE OTHER GOVERNMENTS COULD AGREE TO PUBLISH THE NON-PAPER, THE PRESIDENT NEED MAKE ONLY A VERY SHORT STATEMENT RATHER THAN SOMETHING ON THE LINES OF THE LONGER STATEMENT NOW PROPOSED.
9. VERNIER-PALLIEZ SAID THAT HIS PRESENT INSTRUCTIONS WERE THAT HIS GOVERNMENT WISHED THE FULL TEXT TO REMAIN CONFIDENTIAL. NONETHELESS, HE PERSONALLY SAW MERIT IN WALLIS' ARGUMENT AND WOULD RECOMMEND THAT HIS GOVERNMENT AGREE TO PUBLICATION OF THE TEXT. THOMAS SAID HE TOO WOULD SEEK INSTRUCTIONS. DOHNE (FPG) SAID HIS GOVERNMENT WAS OPPOSED TO PUBLICATION BUT HE WOULD REPORT THE ARGUMENTS WHICH HAD BEEN PUT FORWARD AND SEEK REACTIONS. THE DUTCH AND BELGIAN REPRESENTATIVES SPOKE IN SIMILAR TERMS.
10. GRATEFUL FOR INSTRUCTIONS ON THIS QUESTION BY 092100Z

FCO PASS SAVING ATHENS, DUBLIN AND LUXEMBOURG

WRIGHT

**EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE**

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TELEGRAM NUMBER 3598 OF 6 NOVEMBER 1982

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21  
Soviet Union

MIPT: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

FOLLOWING IS TEXT OF DRAFT PRESIDENTIAL STATEMENT.

I AM PLEASED TO ANNOUNCE THAT WE AND OUR EUROPEAN, CANADIAN AND JAPANESE PARTNERS HAVE JUST REACHED A COMMON UNDERSTANDING ON THE FUTURE CONDUCT OF EAST-WEST ECONOMIC RELATIONS. THIS UNDERSTANDING SHOWS THAT THE WESTERN ALLIANCE IS FUNDAMENTALLY UNITED OVER THIS QUESTION. MORE IMPORTANTLY, IT WILL SERVE TO ENSURE THAT IN THE FUTURE OUR ECONOMIC RELATIONS WITH THE SOVIET UNION WILL BE CONDUCTED IN A WAY THAT PROTECTS OUR COMMON SECURITY INTERESTS.

AS A RESULT OF INTENSE DISCUSSIONS, CHARACTERIZED THROUGHOUT BY GOOD WILL AND UNITY OF PURPOSE, WE HAVE AGREED ON THE BASIC CRITERIA FOR THE CONDUCT OF EAST-WEST ECONOMIC RELATIONS, A SET OF CONCRETE ACTIONS, AND A WORK PROGRAM, INCLUDING A SERIES OF STUDIES, TO IMPLEMENT THIS COMMON APPROACH.

IN PARTICULAR, WE HAVE AGREED NOT TO ENGAGE IN TRADE ARRANGEMENTS WHICH COULD CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE OF THE USSR OR SERVE TO SUBSIDIZE THE SOVIET ECONOMY. THE WORK PROGRAM WILL EXAMINE HOW TO IMPLEMENT THESE BROAD AGREEMENTS IN VARIOUS AREAS OF EAST-WEST ECONOMIC RELATIONS. BECAUSE WE AND OUR PARTNERS ARE UNITED IN OUR BASIC OUTLOOK AND COMMITTED TO WORKING TOGETHER -- AS WAS SO EVIDENT IN THESE RECENT DISCUSSIONS -- WE ARE CONFIDENT THAT THE WORK PROGRAM WILL PRODUCE A DETAILED BASIS FOR WESTERN ECONOMIC POLICIES TOWARDS THE EAST WHICH WILL SERVE US FOR THE REST OF THE DECADE AND BEYOND.

PRIORITY ATTENTION WILL BE GIVEN TO TRADE IN HIGH TECHNOLOGY PRODUCTS, INCLUDING THOSE USED IN OIL AND GAS PRODUCTION. WE WILL ALSO STUDY WESTERN ENERGY REQUIREMENTS AND THE QUESTION OF DEPENDENCE ON ENERGY IMPORTS, WITH PARTICULAR FOCUS ON THE EUROPEAN SITUATION.

IN ADDITION, WE HAVE AGREED ON SEVERAL IMMEDIATE ACTIONS:

-- FIRST, WE AND OUR PARTNERS WILL STRENGTHEN THE EFFECTIVENESS OF OUR EXISTING CONTROLS ON THE TRANSFER OF STRATEGIC ITEMS TO THE SOVIET UNION.

-- SECOND, WE WILL ESTABLISH WITHOUT DELAY PROCEDURES FOR MONITORING FINANCIAL RELATIONS WITH THE SOVIET UNION AND WILL WORK URGENTLY TO HARMONIZE OUR EXPORT CREDIT POLICIES.

-- THIRD, EACH PARTNER HAS AFFIRMED THAT NO NEW CONTRACTS FOR THE PURCHASE OF SOVIET NATURAL GAS WILL BE SIGNED OR APPROVED DURING THE COURSE OF STUDY OF ALTERNATIVE SOURCES OF ENERGY.

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THE UNDERSTANDINGS WE AND OUR PARTNERS HAVE REACHED AND THE ACTIONS WE ARE TAKING REFLECT OUR MUTUAL DETERMINATION TO OVERCOME DIFFERENCES AND STRENGTHEN OUR COHESION. IN MY VIEW, WHAT HAS HAPPENED -- AND IS STILL HAPPENING -- IN POLAND HAS SHARPENED THE AWARENESS THROUGHOUT THE ALLIANCE THAT THE SOVIET UNION IS NOT ACTING AS A RESPONSIBLE AND RESTRAINED MEMBER OF THE INTERNATIONAL ORDER. WE DO NOT PLAN TO WAGE ECONOMIC WARFARE AGAINST THE SOVIET UNION, BUT ITS LEADERS MUST UNDERSTAND THAT THEIR AGGRESSIVE CONDUCT HAS ONLY STRENGTHENED OUR COMMON RESOLVE AND DOES NOT SERVE SOVIET INTEREST.

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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TELNO 3597 OF 6 NOVEMBER 1982.

MY TELNOS 3594 AND 3595: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

SINCE MY TELEGRAM UNDER REFERENCE WERE DRAFTED, WE HAVE BEEN GIVEN IN STRICTEST CONFIDENCE A COPY OF A DRAFT PRESIDENTIAL STATEMENT ABOUT THE EXERCISE COVERED IN THE REVISED U.S. NON-PAPER ON EAST/WEST ECONOMIC RELATIONS. IT HAS BEEN GIVEN TO NO ONE ELSE AND SHOULD NOT BE REFERRED TO IN CONVERSATION WITH ANY U.S. LET ALONE AT THIS STAGE EUROPEAN OFFICIAL. IT IS A STATE DEPARTMENT DRAFT WHICH HAS BEEN SUBMITTED TO THE WHITE HOUSE. IT IS LIKELY TO BE SUBJECTED TO CONSIDERABLE AMENDMENT. BUT IT HELPS TO SHOW THE SORT OF STATEMENT THEY EXPECT THE PRESIDENT WILL NEED TO MAKE.

2. AT FIRST SIGHT A STATEMENT ON THESE LINES WOULD GIVE US LITTLE DIFFICULTY. BUT THE FRENCH AND GERMANS WOULD PROBABLY SEE OBJECTIONS BOTH AS TO TONE AND SUBSTANCE. THAT IS A BATTLE TO BE FOUGHT OUT HERE NEXT WEEK.

3. THE OMISSION OF ANY REFERENCE IN THE DRAFT STATEMENT TO THE LIFTING OF SANCTIONS IS DESIGNED TO MEET FRENCH OBJECTIONS TO ANY EXPLICIT LINKING OF THE TWO QUESTIONS. THE U.S. INTENTION WOULD BE TO ANNOUNCE THE LIFTING OF SANCTIONS SEPARATELY.

4. THE TIMETABLE THE STATE DEPARTMENT ARE AT PRESENT WORKING ON IS AS FOLLOWS:-

- 6/7 NOVEMBER SUBMISSION OF THE NON-PAPER IN ITS NEAR FINAL FORM TO PRESIDENT REAGAN, WITH RECOMMENDATIONS FOR THE LIFTING OF SANCTIONS.
- 8 NOVEMBER (A) MEETING WITH FOUR TO GIVE DETAILS OF WHAT RECOMMENDATIONS ON LIFTING OF SANCTIONS HAVE BEEN PUT TO PRESIDENT.  
(B) MEETING WITH SEVEN TO REACH FINAL AGREEMENT ON NON-PAPER, SUBJECT TO AGREEMENT ON OTHER ELEMENTS IN PACKAGE.
- 9 NOVEMBER OR SOME TIME PRESIDENTIAL ANNOUNCEMENT OF AGREEMENT ON EAST/WEST ECONOMIC RELATIONS.  
NEXT WEEK.

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THE DANISH AMBASSADOR HAS WARNED THE AMERICANS THAT 9 NOVEMBER MAY BE TOO EARLY TO AIM FOR A PRESIDENTIAL STATEMENT ON EAST/WEST RELATIONS, GIVEN THE NUMBER OF ISSUES THAT STILL REMAIN TO BE SORTED OUT ON SANCTIONS AND ON PUBLIC PRESENTATION. THE AMERICANS ACCEPT THIS AND ARE UNLIKELY TO INSIST ON SUCH A TIGHT SCHEDULE. BUT WITH THE RISKS OF LEAKS, THEY ARE KEEN TO MAINTAIN THE PRESENT MOMENTUM AND PRESS ON TO A CONCLUSION.

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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UKDEL OECD, UKREP BRUSSELS.

MT

YOUR TELEGRAM 1964: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

1. THE OBJECTIVES SET OUT IN PARA 4 OF YOUR TELEGRAM UNDER REFERENCE ARE MORE EXPLICIT THAN THOSE SET OUT IN EARLIER TELEGRAMS (EG FCO TELNO 1923) AND WE HAVE BEEN THINKING ABOUT HOW BEST TO ACHIEVE THEM.

2. THE STATE DEPARTMENT TELL US IN THE STRICTEST CONFIDENCE (SEE MY TELNO 3595) THAT A MEMORANDUM IS GOING TO THE PRESIDENT THIS WEEKEND FROM SHULTZ AND BALDRICE RECOMMENDING THE LIFTING OF ALL THE DENIAL ORDERS, OF THE JUNE MEASURES AND OF THE DECEMBER MEASURES INsofar AS THESE APPLY TO FOREIGN FIRMS. THIS WOULD ENABLE FOREIGN FIRMS TO COMPLETE ALL CONTRACTS SIGNED BEFORE 29 DECEMBER 1981. WE UNDERSTAND THAT SUBJECT TO THE PRESIDENT'S FINAL AGREEMENT THIS MUCH IS AGREED BETWEEN ALL THE AGENCIES CONCERNED.

3. WHAT REMAINS IN DISPUTE BETWEEN THE AGENCIES IS WHETHER THE BAN ON THE FUTURE EXPORT BY AMERICAN COMPANIES OF US OIL AND GAS GOODS AND TECHNOLOGY SHOULD REMAIN IN FORCE. STATE AND COMMERCE DEPARTMENTS ARE RECOMMENDING A COMPLETE LIFTING; OTHERS ARE OPPOSED HOWEVER THIS ARGUMENT COMES OUT, WHAT IS CERTAIN IS THAT BEYOND THE OIL AND GAS SECTORS, THE AMERICANS WILL RESERVE THE RIGHT TO PREVENT THE EXPORT OF AMERICAN GOODS BY AMERICAN FIRMS IF THE ADMINISTRATION JUDGES THE PROPOSED END-USE TO BE OBJECTIONABLE (A RIGHT WHICH HMG WOULD PRESUMABLY ALSO CLAIM AT LEAST IN TIME OF WAR). THEY WILL CONTINUE TO REGARD IT AS FOR FOREIGN CUSTOMERS TO ENSURE THAT THEIR CONTRACTS CONTAIN THE APPROPRIATE FORE MAJEURE CLAUSE.

4. UNTIL WE KNOW WHAT THE PRESIDENT HAS DECIDED, IT WILL NOT BE POSSIBLE TO SEE PRECISELY WHERE OUR COMPANIES STILL STAND. BUT THE LIKELIHOOD ON PRESENT FORM IS THAT THEY WILL BE FREED FROM ALL DENIAL ORDERS AND ABLE TO COMPLETE ALL CONTRACTS SIGNED BEFORE 29 DECEMBER IMPORTING THE NECESSARY US GOODS AND TECHNOLOGY TO ENABLE THEM TO DO SO. AS TO FUTURE CONTRACTS, RE-EXPORT LICENCES WOULD AS BEFORE HAVE TO BE OBTAINED FOR GOODS SUBJECT TO US LICENSING ARRANGEMENTS. NO DOUBT THE STATE DEPARTMENT WOULD ARGUE TO THE PRESIDENT THAT IT WOULD BE OPEN FOR THE AMERICANS TO PRESS FOR MUTUALLY AGREED TIGHTER ARRANGEMENTS IN THE STUDIES UNDER 3(A) OF THE SHULTZ NON-PAPER. BUT AT LEAST UNTIL THOSE STUDIES WERE COMPLETED, THEY WOULD REGARD IT AS UP TO THE AMERICANS TO DECIDE THEMSELVES WHAT GOODS AND TECHNOLOGY SHOULD BE UNDER US CONTROLS. HOW MUCH UNILATERAL FREEDOM OF ACTION THEY WANT TO RETAIN AFTER THAT WILL DEPEND ON THE OUTCOME OF THE EXAMINATION OF THE NEED FOR WIDER COLLECTIVE CONTROLS.



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5. WE HAVE MADE IT QUITE CLEAR TO THE AMERICANS ON THE BASIS OF EARLIER INSTRUCTIONS, WHERE WE WANT THE CURRENT NEGOTIATIONS TO END UP. AS FOR THE WIDER ISSUES OF EXTRA-TERRITORIALITY, THIS AFFAIR HAS GIVEN US AN EXCELLENT OPPORTUNITY TO GET TO GRIPS WITH A PHENOMENON WHICH IS DEEPLY ROOTED IN AMERICAN POLITICAL AND LEGAL THOUGHT AND PRACTICE. OUR EUROPEAN PARTNERS ARE FOR THE FIRST TIME CONVINCED THAT THIS IS A MAJOR ISSUE ON WHICH IT IS ADVANTAGEOUS TO ACT TOGETHER. AMERICAN BUSINESS IS AT LAST REALISING HOW BADLY ITS OWN INTERESTS CAN BE HURT BY AMERICAN EXTRA-TERRITORIAL PRETENSIONS. WE CANNOT EXPECT THE AMERICANS TO ABANDON THEIR DEEPLY INGRAINED ATTITUDES ALL AT ONCE. BUT THE WAY IS OPEN FOR A DETERMINED CAMPAIGN, AND THE AMERICANS HAVE BEEN TOLD THAT THIS IS WHAT THE EUROPEANS INTEND. THE PROBLEM WILL BE TO KEEP UP THE PRESSURE FOR A LONG HAUL ONCE THE IMMEDIATE EXCITEMENT IS OVER. WE HAVE ALREADY MADE SOME SUGGESTIONS TO LONDON.

WRIGHT

## EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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attended - You will have seen from Washington telnos 3555, 3556 and 3557 of 3 November that what may be the critical meeting of the Summit Seven (plus Commission and Presidency) is to take place in Washington at 3 pm local time today.

Oliver Wright reports that everybody is now ready to accept the latest American version of the Shultz paper (Washington telno 3556) except the French, who are isolated. In particular, they object to the wording on credits in paragraph 3(b) of the text, although everyone else is ready to accept it.

There is, therefore, a real possibility that the whole negotiation will break down because of French intransigence on a point which, in the view of all their partners, lacks substance.

The Foreign and Commonwealth Secretary may be able to speak to M. Cheysson on the telephone later this afternoon. But, given the timing of the meeting in Washington, and what is at stake, Mr Pym recommends that the Prime Minister should personally speak to M. Mitterrand when she is in Paris later today.

The Prime Minister could make the following points:

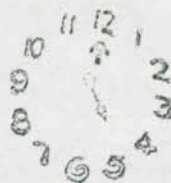
- i. we now seem very close to agreement;
- ii. Americans have moved a long way to meet European views;
- iii. we understand that all concerned except France are now ready to accept latest text;
- iv. urge France not to stand in way of the consensus that has emerged;
- v. today's meeting of Seven is critical. If we lose this opportunity, not only will we risk failure to achieve lifting of sanctions; we shall also have lost the chance to put the West's handling of East-West economic questions on a more coherent and logical basis. These are two important prizes.

(R B Bone)  
Private Secretary

A J Coles Esq  
 10 Downing Street



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TO FLASH WASHINGTON

TELEGRAM NUMBER 1955 OF 4 NOVEMBER

AND TO FLASH PARIS

AND TO IMMEDIATE BONN

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ROUTINE UKDEL NATO, UKDEL OECD, ROME, THE HAGUE, BRUSSELS,

INFO SAVING DUBLIN, ATHENS, TOKYO, OTTAWA

YOUR TELS 3555-7: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

1. WE HAVE THE FOLLOWING COMMENTS ON THE LATEST TEXT AND DISCUSSIONS. WE HAVE NO OBJECTION TO THE IRISH REFORMULATION IN THE PREAMBLE (NOR TO THE CONCEPT OF A COMMISSION SIDE LETTER) THOUGH WE ARE, AS YOU KNOW, CONTENT WITH THE EXISTING WORDING. WE ENDORSE DENMAN'S OBSERVATION ON THE WORD QUOTE THEREFORE UNQUOTE IN THE SECOND CRITERION. IN 3(A) WE PREFER THE WORD QUOTE FOLLOWING UNQUOTE TO THE WORD QUOTE BUILDING UNQUOTE, BUT CAN EASILY LIVE WITH THE LATTER WORD.

2. ON THE FINAL SENTENCE OF 3(B) WE ALSO HAVE DIFFICULTY WITH THE LATEST US VERSION, PARTICULARLY WITH THE WORDS QUOTE BUILDING UPON UNQUOTE FOLLOWED BY THE ITEMISATION. WE WOULD PREFER THE WORDING QUOTE HAVING IN MIND THE CRITERIA IN PARAGRAPH 2 ABOVE AND THE AGREEMENTS ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT, THEY WILL WORK URGENTLY FURTHER TO HARMONISE NATIONAL EXPORT CREDIT POLICIES FULLSTOP UNQUOTE. WE COULD AGREE TO THE DELETION OF THE REFERENCE TO THE OECD CONSENSUS BUT IF IT STAYS WE WOULD PREFER TO DELETE THE WORDS QUOTE BUILDING UPON UNQUOTE.

3. IF THESE FORMULAE CONTINUE TO CAUSE PROBLEMS YOU HAVE DISCRETION TO FLOAT (YET ANOTHER) MORE GENERALISED VERSION WHICH TRIES TO AVOID THE AMERICAN OBJECTIONS TO MERE STUDIES AND THE FRENCH BROAD OBJECTIONS TO HARMONISATION: QUOTE THEY WILL WORK URGENTLY FOR GREATER CONSISTENCY OF NATIONAL POLICIES IN THE EXPORT CREDIT FIELD FULLSTOP UNQUOTE.

4. THE EXTENDED DEFINITION OF NATIONAL CREDIT POLICY AS PROPOSED BY THE FRENCH IS A NON-STARTER. THE GERMAN ECONOMIC DIRECTOR TOLD HIS FRENCH COUNTERPART THIS MORNING THAT THE GERMAN GOVERNMENT FOUND THE FRENCH FORMULATION UNACCEPTABLE. NEITHER COULD WE ACCEPT ANY EXPLICIT COMMITMENT TO HARMONISE NON-OFFICIAL CREDITS.

5. I HOPE TO SPEAK TO CHEYSSON ON THE TELEPHONE LATER TODAY, AND WE ARE RECOMMENDING THAT THE PRIME MINISTER SHOULD STRESS TO PRESIDENT MITTERRAND THIS EVENING, WHEN THEY MEET IN PARIS, THE DANGER OF LOSING THE OPPORTUNITY OF AGREEING A TEXT, WHICH ENABLED US TO ACHIEVE THE LIFTING OF SANCTIONS, AND THE ESTABLISHMENT OF A STRATEGY FOR THE CONDUCT OF EAST/WEST ECONOMIC RELATIONS.

6. HOWEVER, WE (LIKE PAYE) ARE DISTURBED BY THE IMPLICATIONS OF EAGLEBURGER'S REMARKS TO BORCH (PARA 10 OF YOUR TEL 3557). THEY COULD MEAN THAT THE AMERICANS INTEND IN RETURN FOR AN AGREED TEXT ONLY TO RELEASE EXISTING REPEAT EXISTING CONTRACTS FROM THEIR DECEMBER 1981 AND JUNE 1982 MEASURES, AND PRESUMABLY TO LIFT THE DENIAL ORDERS. THIS WILL NOT BE SUFFICIENT FOR OUR PURPOSES. THE POSITION REMAINS AS IN MY TEL 1923. WE HAVE AMERICAN PRECISION ON THIS POINT.



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INFO ROUTINE TOKYO, OTTAWA, BRUSSELS, THE HAGUE

INFO SAVING ATHENS, DUBLIN, LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

EC MEETINGS

1. AT THE MEETING OF THE FOUR WITH THE PRESIDENCY AND THE COMMISSION, AND SUBSEQUENTLY WITH ALL COMMUNITY REPRESENTATIVES, BORCH REPORTED ON HIS CALL TODAY ON EAGLEBURGER, WHO HAD PROVIDED A REVISED VERSION OF THE US NON-PAPER. THIS INCORPORATED THE EUROPEAN PROPOSALS FOR THE FIRST CRITERION, BUT OMITTED IN THE SECOND CRITERION THE WORD QUOTE THEREFORE UNQUOTE. EAGLEBURGER HAD UNDERLINED THAT THE US WOULD NOT PRE-JUDGE THE DEFINITION OF THE WORD QUOTE SUBSIDIZE UNQUOTE. THE NON-PAPER HAD ALSO ACCEPTED THE FRENCH SUGGESTION FOR A QUALIFICATION OF THE COMMON LINE OF ACTION IN SECTION 2.2., BUT BELIEVED THAT SPELLING THIS OUT (AS PROPOSED BY THE FRENCH) IN SECTION 1 WAS UNNECESSARY.

2. IN SECTION 3(A) THE US NON-PAPER HAD REPLACED QUOTE FOLLOWING ON UNQUOTE WITH QUOTE BUILDING ON UNQUOTE. IT ALSO CONTAINED A REDRAFTED FINAL SENTENCE IN SECTION 3(B). IN THIS CONTEXT, EAGLEBURGER HAD REFERRED TO THE CONSIDERABLE ACCOMMODATIONS MADE BY THE US TOWARDS EUROPEAN WISHES. HE PERSONALLY HAD BEEN SURPRISED THAT THE ADMINISTRATION COULD ACCEPT THE PRESENT LANGUAGE, WHICH HAD BEEN REVIEWED AT THE HIGHEST LEVEL. (LATER DISCUSSION ESTABLISHED THAT THE PRESENT LANGUAGE WAS SHULTZ'S OWN WORK) HE HOPED THAT THE ENTIRE PAPER WOULD NOW BE ACCEPTABLE TO THE EUROPEANS.

3. THE ITALIAN AMBASSADOR, REPORTING ON SPADOLINI'S DISCUSSIONS HERE, ARGUED THAT THE NON-PAPER REPRESENTED THE US BOTTOM-LINE. US OFFICIALS HAD ALSO EMPHASISED THEIR NEED TO MAKE CLEAR IN PUBLIC THE GENERAL SENSE OF THE UNDERSTANDING, AND THEIR INTENTION THE FOLLOWING DAY TO ANNOUNCE THE LIFTING OF SANCTIONS WITHOUT DRAWING ANY LINK BETWEEN THE TWO STEPS.

HE SUPPORTED HIS STRONG PLEA THAT THE PAPER SHOULD NOW BE ACCEPTED BY THE COMMUNITY. THE GERMAN AMBASSADOR TOOK THE SAME LINE. HE WOULD ADVISE HIS GOVERNMENT NOT TO PROPOSE NEW CHANGES. WE WERE SAFE TO ACCEPT THE PAPER SINCE IN DOING SO WE WERE NOT SUBSCRIBING TO NEW COMMITMENTS.

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14.



4. HOWEVER, THE FRENCH AMBASSADOR COULD NOT JOIN THIS CONSENSUS. ON SECTION 3(B) HE MADE IT CLEAR THAT HIS GOVERNMENT NEEDED TO OMIT THE PHRASE QUOTE BUILDING UPON THE AGREEMENT ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT UNQUOTE. IF THE AMERICANS FOUND THIS HARD TO ACCEPT, THE FRENCH, WHILE STILL OMITTING THIS PHRASE, WOULD BE READY TO ADD AFTER QUOTE HARMONIZE FURTHER UNQUOTE THE FOLLOWING: QUOTE OFFICIAL AND NON-OFFICIAL GUARANTEED AND NON-GUARANTEED CREDITS CONCERNING INTEREST RATES, MATURITIES, DOWN-PAYMENTS AND FEED UNQUOTE. IN AN AT TIMES HEATED DISCUSSION, THE GERMAN AMBASSADOR MADE IT CLEAR THAT THE SECOND PROPOSAL WOULD BE UNACCEPTABLE IN BONN. VERNIER-PALLIEZ EQUALLY STUCK TO HIS GUNS IN REFUSING TO HAVE ANY REFERENCE TO THE OECD ARRANGEMENT, ON THE GROUNDS THAT THIS WOULD PREJUDGE THE EXERCISE AND LIMIT IT TO THE SAME RANGE OF DISCUSSIONS AS WAS CURRENTLY CONDUCTED WITHIN THE OECD. AFTER IT HAD BEEN POINTED OUT THAT THE PHRASE QUOTE BUILDING UPON ETC UNQUOTE HAD BEEN A CANADIAN SUGGESTION (MY TELNO 3502, PARA 9), IT WAS AGREED THAT THE PRESIDENCY WOULD SEEK US AGREEMENT TO DELETE THE PHRASE, PROVIDED THAT THE FRENCH AMBASSADOR COULD SECURE AGREEMENT IN PARIS TO THE FORMULA QUOTE WORK URGENTLY TO HARMONIZE ETC UNQUOTE.

5. THE FRENCH ALSO OBJECTED TO THE OMISSION OF THE QUOTE THEREFORE UNQUOTE IN THE SECOND CRITERION. ALTHOUGH OTHER COMMUNITY REPRESENTATIVES EMPHASISED THAT SHULTZ HAD MADE IT PLAIN THAT THIS OMISSION WAS A US SINE QUA NON, VERNIER-PALLIEZ ARGUED THAT A DEFINITION, IMPLIED BY QUOTE THEREFORE UNQUOTE, WAS REQUIRED OF THE WORD QUOTE SUBSIDIZE UNQUOTE. THE REST OF US TOOK STRONG ISSUE, NOTING THAT WE HAD ALREADY HAD AN UNDERTAKING FROM THE US SIDE THAT THEY WOULD NOT TRY TO ENFORCE ON US THEIR INTERPRETATION OF SUBSIDIZING. AT THE SAME TIME, WE COULD NOT EXPECT TO FORCE OURS ON THEM. DENMAN (COMMISSION) SAID THAT IT WOULD BE HARD TO EXPLAIN TO EUROPEAN COMPANIES THE CONTINUATION OF SANCTIONS AGAINST THEM ON THE GROUNDS THAT WE COULD NOT AGREE TO AMIT THE WORD QUOTE THEREFORE UNQUOTE. OTHER AMBASSADORS ARGUED STRONGLY THAT WE COULD NOT HOPE TO SUCCEED IN THE PRESENT EXERCISE IF AT THIS STAGE WE CONTINUED TO PRODUCE A RAFT OF NEW PROPOSALS FOR THE AMERICANS.

6. FINALLY, THE FRENCH AMBASSADOR RESISTED THE STRONG ARGUMENTS OF ALL OTHER COMMUNITY REPRESENTATIVES TO ACCEPT THE US PROPOSAL OF QUOTE BUILDING ON UNQUOTE AT THE BEGINNING OF SECTION 3(A). HE ARGUED THAT THIS IMPLIED, IN A WAY UNACCEPTABLE TO FRANCE, THAT THE EXERCISE WITHIN COCOM MIGHT GO BEYOND THE CONCLUSIONS OF THE HIGH-LEVEL MEETING. I POINTED OUT THAT BY ACCEPTING THE REST OF THE SUB-SECTION, WHICH HAD ALREADY BEEN AGREED, THE FRENCH HAD DEFINED THE MEANING OF QUOTE BUILDING ON UNQUOTE. HOWEVER VERNIER-PALLIEZ REMAINED OBDURATE ON THE RETENTION OF QUOTE FOLLOWING ON UNQUOTE.



7. SUMMING UP THESE DISCUSSIONS, BORCH SAID THAT HE WOULD RECOMMEND TO THE PRESIDENCY, AND HE HOPED OTHERS WOULD REPORT TO THEIR CAPITALS, THAT THERE WAS GENERAL AGREEMENT WITHIN THE COMMUNITY THAT WE SHOULD ONLY PROPOSE ESSENTIAL CHANGES, THAT THE NUMBER OF CHANGES WAS IMPORTANT, AND THAT ALL EXCEPT THE FRENCH FELT THAT ONLY ONE CHANGE (IN SECTION 3(B)) WOULD BE BEST. VERNIER-PALLIEZ UNDERTOOK TO REPORT THIS TO PARIS, EXPRESSING PESSIMISM ABOUT THE RESULT. I INTERVENED TO UNDERLINE THE NEED FOR ALL PARTICIPANTS TO BE AWARE OF THE RESULTS OF FAILURE TO REACH AGREEMENT WITH THE AMERICANS. SANCTIONS WOULD NOT BE LIFTED, NOR WOULD WE ACHIEVE AN OVERALL CONSENSUS ON OUR APPROACH TO ECONOMIC RELATIONS WITH THE EAST. IN OTHER WORDS, THE TWO MAIN AIMS OF THE ENTIRE EXERCISE WOULD HAVE BEEN LOST. I RECEIVED STRONG SUPPORT FROM MY ITALIAN AND GERMAN COLLEAGUES AND FROM THE COMMISSION. HERMES SAID THAT HIS GOVERNMENT WOULD REGRET DEEPLY ANY FAILURE TO REACH AGREEMENT WHEN IT WAS SO CLOSE.

8. IN THE SMALLER MEETING, THE PRESIDENCY HAD ALREADY REFERRED BACK TO THE IRISH PROBLEMS WITH THE INTRODUCTORY PASSAGE (MY TELNO 3529 PARA 3). IN ADDITION TO THE PRESENTATION TO THE US OF THEIR RESERVATIONS MENTIONED YESTERDAY, THE IRISH NOW WISHED TO REDRAFT A SECTION OF THIS PASSAGE IN THE NON-PAPER AS FOLLOWS: QUOTE.

.. AMERICA AND REPRESENTATIVES OF CANADA, THE FRG, FRANCE, ITALY, JAPAN AND THE UK ON THE SUBJECT OF EAST-WEST RELATIONS, IN WHICH REPRESENTATIVES OF THE EUROPEAN COMMUNITY ALSO PARTICIPATED, A CERTAIN NUMBER OF CONCLUSIONS HAVE BEEN REACHED ON BEHALF OF THE (UNDERLINE LAST WORD) GOVERNMENTS REPRESENTED. UNQUOTE. INITIALLY, THERE WAS SOME RELUCTANCE AMONG THE FOUR AND THE COMMISSION TO ACCEPT YET ANOTHER REVISION OF THE PRESENT NON-PAPER.

9. FOLLOWING FURTHER DISCUSSION WITH THE TEN, HOWEVER, IT WAS AGREED THAT THIS FORMULATION COULD CLARIFY THE POSITION OF OTHER COMMUNITY GOVERNMENTS, NOT MEMBERS OF THE SUMMIT SEVEN AND THEREFORE NOT DIRECTLY PARTICIPATING IN THE PRESENT EXERCISE. THE LANGUAGE WOULD BE SUBMITTED TO CAPITALS FOR URGENT STUDY AND APPROVAL, AND (IF POSSIBLE) PROPOSED TO EAGLEBURGER TOMORROW AFTERNOON. IT WAS ALSO AGREED THAT WE SHOULD CONSIDER URGENTLY THE SUGGESTION THAT THE COMMISSION, IN A SIDE-LETTER TO THE US, WHICH WOULD DRAW ON THE LUXEMBOURG CONCLUSIONS, SHOULD POINT OUT THAT COMMUNITY COMPETENCE APPLIED TO CERTAIN AREAS COVERED IN THE NON-PAPER AND THAT IN THOSE AREAS NORMAL COMMUNITY DECISIONS AND PROCEDURES WOULD APPLY TO THE FOLLOW-UP ON AND PARTICIPATION IN PRESENT DECISIONS. DENMAN UNDERTOOK TO PRODUCE APPROPRIATE LANGUAGE ALONG THESE LINES.

10. AT THE END OF THE MEETING BORCH MENTIONED TWO FURTHER POINTS RAISED WITH HIM EARLIER BY EAGLEBURGER:

1. THE LATTER'S HOPE THAT ALL WERE CLEAR THAT IN THE ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS TO WHICH SECTION 2.4 REFERRED, THE US DID NOT INTEND TO FORCE ON OTHERS THEIR OWN INTERPRETATION OF QUOTE SECURITY INTERESTS UNQUOTE OR OF QUOTE OTHER HIGH TECHNOLOGY



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ITEMS UNQUOTE. CONVERSELY, THE US WOULD NOT ACCEPT A VETO FROM OTHERS ON THE US INTERPRETATIONS. (IN OTHER WORDS, THERE COULD CONTINUE TO BE, AS IN COCOM, DIFFERENT NATIONAL INTERPRETATIONS).  
11. ON THE LIFTING OF SANCTIONS, EAGLEBURGER HAD NOTED THE NEED TO DISCUSS THE PRACTICAL STEPS WITH THE FOUR. HOWEVER HE HAD ALSO NOTED THAT WE COULD NOT EXPECT THE TOTAL ABSENCE OF US CONTROLS ON EXPORTS IN THE FUTURE. HE HAD INDICATED TO BORCH THAT THE US WOULD WISH TO REMOVE RETROACTIVE SANCTIONS, BUT HE EXPECTED THERE TO BE FURTHER DISCUSSION ON EXTRATERRITORIALITY AT A LATER STAGE.

11. IN DISCUSSION OF THESE POINTS, IT WAS AGREED THAT THE FIRST, BUT NOT THE SECOND, COULD BE COVERED AT THE NEXT (AND PERHAPS LAST) MEETING OF THE SEVEN PLUS TWO WITH EAGLEBURGER TOMORROW AFTERNOON AT 1500 HOURS. PRIOR TO THAT THERE WILL BE A COMMUNITY COORDINATION MEETING AT 1200 NOON.

F C O PASS SAVING ATHENS, DUBLIN, LUXEMBOURG

WRIGHT

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## EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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SECRET

DESKBY 040830Z

FM WASHINGTON 040055Z NOV 82  
 TO IMMEDIATE FCO  
 TELEGRAM NUMBER 3556 OF 3 NOVEMBER

INFO PRIORITY PARIS BONN ROME COPENHAGEN UKDEL NATO UKDEL OECD  
 UKREP BRUSSELS  
 ROUTINE TOKYO OTTAWA BRUSSELS THE HAGUE  
 INFO SAVING ATHENS DUBLIN LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. FOLLOWING IS TEXT OF REVISED VERSION, DATED TODAY, OF US  
 NON-PAPER:

DURING CONVERSATIONS IN WASHINGTON BETWEEN THE SECRETARY  
 OF STATE OF THE UNITED STATES OF AMERICA AND REPRESENTATIVES OF  
 THE EEC, CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE,  
 ITALY, JAPAN AND THE UNITED KINGDOM ON THE SUBJECT OF EAST-WEST  
 RELATIONS, A CERTAIN NUMBER OF CONCLUSIONS HAVE BEEN REACHED ON  
 BEHALF OF THEIR GOVERNMENTS. THE SUMMARY OF THESE FOLLOWS.

1. THEY RECOGNIZE THE NECESSITY OF CONDUCTING THEIR  
 RELATIONS WITH THE USSR AND EASTERN EUROPE ON THE BASIS OF A  
 GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE THEIR COMMON  
 FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY  
 CONSCIOUS OF THE NEED THAT ACTION IN THE ECONOMIC FIELD BE  
 CONSISTENT WITH THAT GLOBAL AND COMPREHENSIVE POLICY AND THUS  
 BE BASED ON A COMMON APPROACH. THEY ARE RESOLVED TOGETHER TO  
 TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES AND TO ENSURE  
 THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE  
 TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP



THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND IN A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

2. THE FOLLOWING CRITERIA SHOULD GOVERN THE ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES:

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS, OR TAKE STEPS, WHICH CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE AND CAPABILITIES OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE SOVIET ECONOMY; TRADE SHOULD BE CONDUCTED IN A PRUDENT MANNER WITHOUT PREFERENTIAL TREATMENT.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC WARFARE AGAINST THE SOVIET UNION. TO BE CONSISTENT WITH OUR BROAD SECURITY INTERESTS, TRADE WITH THE USSR MUST PROCEED, INTER ALIA, ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES.

IT IS AGREED TO EXAMINE THOROUGHLY IN THE APPROPRIATE BODIES HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A COMMON LINE OF ACTION IN THE SPIRIT OF PARAGRAPH ONE AND THE ABOVE CRITERIA. THEY WILL PAY DUE ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE EASTERN EUROPEAN COUNTRIES.

THE OVERALL ANALYSIS OF ECONOMIC RELATIONS WITH THE USSR AND THE EASTERN EUROPEAN COUNTRIES WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM):
- OTHER HIGH TECHNOLOGY ITEMS:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

IN THEIR ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS, IT IS AGREED TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT TO BE JOINTLY DETERMINED. THIS IMMEDIATE EXAMINATION OF WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET



UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT WILL INCLUDE TECHNOLOGY AND EQUIPMENT WITH DIRECT APPLICATIONS TO THE OIL AND GAS SECTOR.

IN THE FIELD OF ENERGY, THEY WILL INITIATE A STUDY OF THEIR PROJECTED ENERGY REQUIREMENTS AND DEPENDENCE UPON IMPORTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THESE REQUIREMENTS, WITH PARTICULAR ATTENTION BEING GIVEN TO THE EUROPEAN ENERGY SITUATION. THE STUDY WILL BE CONDUCTED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION AND FOLLOWING DECISIONS ALREADY MADE, THEY HAVE FURTHER AGREED ON THE FOLLOWING:

(A) BUILDING ON THE CONCLUSIONS OF THE HIGH-LEVEL MEETING, THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THEIR CONTEMPORARY SECURITY INTERESTS: THE LIST OF STRATEGIC ITEMS WILL BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY WILL TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE NECESSARY PROCEDURES FOR THIS PURPOSE WILL BE ESTABLISHED WITHOUT DELAY. HAVING IN MIND THE CRITERIA IN PARAGRAPH TWO ABOVE AND BUILDING UPON THE AGREEMENTS ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT, THEY WILL WORK URGENTLY TO HARMONIZE FURTHER NATIONAL CREDIT POLICIES COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS AND FEES.

(C) THEY HAVE INFORMED EACH OTHER THAT DURING THE COURSE OF THE STUDY ON ENERGY REQUIREMENTS, THEY WILL NOT SIGN, OR APPROVE THE SIGNING BY THEIR COMPANIES OF, NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS.

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FCO PLEASE PASS SAVING ATHENS DUBLIN LUXEMBOURG

WRIGHT

NNNN



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MR EVANS  
MR THOMAS  
RESIDENT CLERK

MR GOODALL CABINET OFFICE

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DESKBY 040830Z

FM WASHINGTON 040050Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3555 OF 3 NOVEMBER

INFO PRIORITY PARIS, BONN, ROME, UKDEL NATO, UKREP BRUSSELS,  
UKDEL OECD, COPENHAGEN.

INFO ROUTINE TOKYO, OTTAWA, THE HAGUE, BRUSSELS

INFO SAVING TO ATHENS, DUBLIN, LUXEMBOURG.

MY TELNO 3528: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. THE AMERICANS PROVIDED THE PRESIDENCY THIS MORNING WITH A FURTHER REVISION OF THEIR NON-PAPER (TEXT IN MIFT). THIS WAS DISCUSSED IN MEETINGS OF THE FOUR PLUS TWO, AND OF THE TEN LATER TODAY (DETAILED REPORT IN MY SECOND IFT).

2. THE FRENCH ARE NOW WHOLLY ALONE IN BEING UNABLE TO ACCEPT THE NON-PAPER IN ITS PRESENT FORM. THEY STILL HAVE RESERVATIONS ON THREE POINTS, THE MOST IMPORTANT APPARENTLY BEING THE LAST SENTENCE OF SECTION 3(B) ON POSSIBLE HARMONISATION OF CREDITS. THERE IS, HOWEVER, NO GUARANTEE THAT THEIR POSITION ON TWO LESS IMPORTANT POINTS WILL CHANGE BEFORE THE MEETING WITH EAGLEBURGER SCHEDULED FOR 1500 HOURS LOCAL TOMORROW, AT WHICH (AS MY GERMAN COLLEAGUE PUT IT) WE SHALL MAKE A LAST DITCH EFFORT TO REACH FULL AGREEMENT.

3. IT IS POSSIBLE THAT THE AMERICANS CAN BE BROUGHT TO ACCEPT ONE FURTHER CHANGE IN THE CREDITS SECTION AND THAT THE FRENCH ALSO WILL BE DRAGGED RELUCTANTLY INTO AGREEMENT ON THIS. HOWEVER, THE AMERICANS HAVE ALREADY MADE GREAT EFFORTS TO COME THIS FAR



3. IT IS POSSIBLE THAT THE AMERICANS CAN BE BROUGHT TO ACCEPT ONE FURTHER CHANGE IN THE CREDITS SECTION AND THAT THE FRENCH ALSO WILL BE DRAGGED RELUCTANTLY INTO AGREEMENT ON THIS. HOWEVER, THE AMERICANS HAVE ALREADY MADE GREAT EFFORTS TO COME THIS FAR AND JUDGING FROM THE LATEST PRIVATE COMMENTS BY SHULTZ AND EAGLEBURGER, I CANNOT SEE THEM MAKING ANY FURTHER CONCESSIONS OF SUBSTANCE. THE FRENCH, ON THE OTHER HAND, HAVE GOT ALMOST ALL THEY WANTED AND APPEAR TO BE STRAINING AT A GNAT. IF THEY REJECT THE PRESENT, WEAKER COMMITMENT TO WORK URGENTLY TO HARMONIZE ETC, THE AMERICANS (AND NO DOUBT THE REST OF US) MUST CONCLUDE THAT THEY HAVE NOT BEEN SERIOUS ABOUT THE EXERCISE FROM THE START, DESPITE THEIR PROTESTATIONS TO THE CONTRARY. FURTHERMORE, THEIR REFUSAL TO ACCEPT ANY REFERENCE TO THE OECD ARRANGEMENT IS HARDLY LOGICAL SINCE, EVEN IF THIS PHRASE WERE OMITTED, THE ARRANGEMENT WOULD HAVE TO BE A PRIME SUBJECT FOR DISCUSSION IN THE URGENT WORK ON HARMONISATION OF CREDIT POLICIES WHICH THE NON-PAPER ENVISAGES.

4. YOUR PREVIOUS INTERVENTION WITH CHEYSSON (YOUR TELNO 586 TO PARIS) WAS OF MUCH VALUE IN MOVING THE FRENCH FORWARD. I FEAR THAT IN THESE CIRCUMSTANCES I CAN DO NOTHING BUT RECOMMEND THAT YOU HAVE ANOTHER, FINAL GO AT HIM. THE ARGUMENTS WILL ALREADY BE FAMILIAR. BUT I STILL SEE SOME POINT IN REEMPHASISING THE DANGER THAT WE WILL LOSE THE WHOLE EXERCISE (NOT TO MENTION THE LIFTING OF SANCTIONS) IF FRENCH OFFICIALS CONTINUE TO REMAIN WEDDED TO POINTS WHICH, IN THE VIEW OF THE REST OF THEIR COMMUNITY PARTNERS AND THE SUMMIT SEVEN, CONTAIN NO REAL SUBSTANCE.

5. EAGLEBURGER TOLD THE DANISH AMBASSADOR TODAY THAT HE WOULD BE LEAVING WASHINGTON FOR TWO WEEKS ON SATURDAY. ALTHOUGH DISCUSSION COULD OF COURSE CONTINUE IN HIS ABSENCE, I DO NOT DOUBT THAT HIS PERSONAL EFFORTS HAVE CONTRIBUTED HEAVILY TO THE PROGRESS WE HAVE MADE IN BRINGING THE AMERICANS AROUND TO OUR POINT OF VIEW. I THEREFORE HOPE THAT WE CAN WRAP UP AT LEAST AGREEMENT ON THE NON-PAPER BY THE WEEKEND.

6. WE HAVE YET TO TOUCH IN SUBSTANTIVE TERMS ON PUBLIC HANDLING OF ANY AGREEMENT, ALTHOUGH THE POSITION OF VARIOUS PARTICIPANTS IS ALREADY FAIRLY CLEAR. IN FURTHER DISCUSSION (OF WHICH THERE WAS NONE TODAY BETWEEN COMMUNITY REPRESENTATIVES), I SHALL BEAR IN MIND THE POINTS MADE IN TELECON J THOMAS/D THOMAS TODAY.

FCO PASS SAVING ATHENS LUXEMBOURG AND DUBLIN

WRIGHT





CONFIDENTIAL

Prime Minister

To note

*[Handwritten initials]*

*[Handwritten initials]*

*[Handwritten initials]*

*[Handwritten initials]*

PRIME MINISTER

EAST/WEST ECONOMIC RELATIONS

I have seen Francis Pym's minute of 28 October and also the subsequent redraft of the American paper which is currently under discussion. I fully agree with the line Francis proposes. While there are risks in accepting the paper, our essential interests have been protected, and this does appear to be the only way out of the present impasse.

I am copying this to Cabinet colleagues and Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

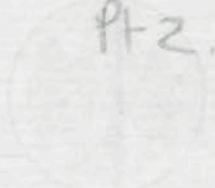
2 November 1982

*Arthur Cockfield*  
LORD COCKFIELD

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

DESKBY 020830Z

FM WASHINGTON 020059Z NOV 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 3524 OF 1 NOVEMBER

INFO PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKREP BRUSSELS,

UKDEL NATO AND UKDEL OECD

INFO ROUTINE TOKYO, OTTAWA, THE HAGUE, BRUSSELS

INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE): SEVEN PLUS TWO MEETING

1. AFTER BORCH (PRESIDENCY) HAD PRESENTED THE EUROPEAN PROPOSALS FOR REVISIONS, THERE WAS A BRIEF DISCUSSION OF SECTION 3 (C) - NEW GAS CONTRACTS. IT WAS AGREED THAT THE US WOULD PROVIDE ASSURANCES (WRITTEN OR ORAL, AS REQUIRED) THAT THE PRESENT LANGUAGE WOULD NOT PREVENT THE ITALIANS FROM APPROVING THE ENI/SOYUZGAS CONTRACT, THE GERMANS FROM PURSUING THE INCLUSION OF WEST BERLIN IN THE RUHRGAS/SOYUZGAS CONTRACT OR THE JAPANESE COMPLETING THE SAKHALIN PROJECT. NO OTHER PARTICIPANTS QUESTIONED THIS INTERPRETATION OF THE LANGUAGE

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E/W Economic = PIPELINE (20)

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" News &

PS

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Mr J Ballard

Mr Evans

Mr Thomas

Mr Lyndisore

Mr Hanning

NO 10 D.S

Mr SUNDERLAND } DO

Mr KNIGHTON } DO

Mr GOODALL - bob of

RC



SOYUZGAS CONTRACT OR THE JAPANESE COMPLETING THE SAKHALIN PROJECT. NO OTHER PARTICIPANTS QUESTIONED THIS INTERPRETATION OF THE LANGUAGE.

2. AT MY SUGGESTION, THE OPENING PASSAGE IN SECTION 2.3 WAS REDRAFTED TO READ: QUOTE THE OVERALL ANALYSIS OF ECONOMIC RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES WILL TOUCH ETC UNQUOTE. THE CANADIANS AND JAPANESE ACCEPTED THE REST OF THE EUROPEAN PROPOSALS, THE LATTER ON THE UNDERSTANDING THAT THE LANGUAGE ON CREDITS WOULD ALLOW THEM IN THE FOLLOWING STUDIES TO ARGUE FOR A HARDENING OF CREDIT TERMS BUT NOT RESTRICTIONS ON VOLUMES OF CREDITS.

3. SUMMING UP, EAGLEBURGER SAID THAT THE US WOULD NOW STUDY THESE PROPOSALS. FOLLOWING CONSULTATION WITH SHULTZ AND (PERHAPS) THE PRESIDENT, HE HOPED TO PROVIDE COMMENTS OR A REVISED DRAFT IN THE NEXT 24 HOURS. HE DENIED VIGOROUSLY, ON SHULTZ'S INSTRUCTIONS, THAT THERE HAD BEEN ANY QUESTION OF THE US BEING MOTIVATED BY ELECTION CONSIDERATIONS IN THEIR APPROACH TO THE PRESENT EXERCISE. THEY HAD BEEN TRYING TO ESTABLISH CERTAIN BASES FOR A COMMON APPROACH TO THE EAST WHICH WOULD SERVE THE PURPOSES OF ALL PARTICIPANTS. IT WAS IMPORTANT THAT EVERY COUNTRY SHOULD FEEL THAT THE EXERCISE WAS USEFUL. IF SOME HAD TO BE DRAGOONED INTO AGREEMENT, THE VALUE OF THE SUBSEQUENT STUDIES AND OF THE EXERCISE ITSELF WOULD BE SHARPLY REDUCED. THE US WERE CONCERNED ABOUT THE EVIDENT LACK OF ENTHUSIASM FOR THE EXERCISE ON THE PART OF SOME OF THE OTHER PARTICIPANTS. THE ADMINISTRATION HAD STARTED WITH A NUMBER OF DESIDERATA. SOME OF THESE HAD BEEN ADJUSTED IN THE PROCESS OF DISCUSSION. BUT THE POSITION OF SOME COUNTRIES ON CREDITS HAD REMAINED UNCHANGED. HE THOUGHT THAT THE US POSITION REMAINED THE SAME. HE WAS NOT OPTIMISTIC ABOUT SHULTZ'S REACTION TO THE PRESENT DRAFT.

4. I ARGUED THAT WE HAD COME A LONG WAY SINCE THE SITUATION PRIOR TO LA SAPINIÈRE. AT THAT POINT WE WERE TALKING PAST EACH OTHER. BUT FOLLOWING THE SHULTZ INITIATIVE WE WERE NOW TALKING TO EACH OTHER. COMPROMISES HAD BEEN MADE ON BOTH SIDES, AND WE RECOGNISED THAT THE US HAD COME A FAIR WAY TO MEET OUR PREOCCUPATIONS. WE WOULD FIND IT HARD TO ACCEPT, HAVING COME SO FAR, THAT WE COULD NOT REACH FULL AGREEMENT. THE MATTERS STILL UNDER DEBATE PALED INTO INSIGNIFICANCE COMPARED WITH THE PRIZE OF ONCE MORE REESTABLISHING HARMONY WITHIN THE ALLIANCE OVER OUR APPROACH TO THE EAST. WE ALL HAD A CLEAR DESIRE TO DO SO.

5. THIS LINE WAS STRONGLY SUPPORTED BY ALL OTHER PARTICIPANTS. THE FRENCH AMBASSADOR EMPHASISED THE IMPORTANCE OF THE PRESENT EXERCISE



5. THIS LINE WAS STRONGLY SUPPORTED BY ALL OTHER PARTICIPANTS. THE FRENCH AMBASSADOR EMPHASISED THE IMPORTANCE OF THE PRESENT EXERCISE, WHICH WOULD HELP TO AVOID SIMILAR PROBLEMS IN THE FUTURE. AMBIGUITY COULD SOLVE SHORT-TERM PROBLEMS BUT WOULD CREATE MORE PROBLEMS IN THE LONGER TERM. HENCE THE GREAT ATTENTION PAID BY THE FRENCH TO CLARIFY KEY ELEMENTS IN THE AGREEMENT. HERMES UNDERLINED THE COMMITMENT OF ALL REPRESENTATIVES TO PURSUING THE STUDY IN GOOD FAITH, WITH A VIEW TO PRESENTING RESULTS TO THE ECONOMIC SUMMIT NEXT YEAR. THE GERMAN GOVERNMENT WAS FULLY COMMITTED TO BRING THE PRESENT EXERCISE TO A SUCCESSFUL CONCLUSION.

6. EAGLEBURGER AGREED WITH VERNIER-PALLIEZ THAT THE EXERCISE CONCERNED CLARIFICATION AND HAD BEEN LARGELY SUCCESSFUL. WE HAD MANAGED TO REMOVE MANY DOUBTS ABOUT THE POSITIONS OF ALL PARTICIPANTS. HOWEVER, A MAJOR DIFFERENCE STILL REMAINED. TO SOME THIS WAS A NON-PROBLEM BUT TO OTHERS IT REMAINED REAL. IF THIS DIFFERENCE COULD NOT BE RESOLVED, IT MIGHT NOT BE WISE OR POSSIBLE TO PURSUE CURRENT EFFORTS FURTHER. HE DOUBTED WHETHER FURTHER DRAFTING WOULD HELP TO REMOVE THIS OBSTACLE, THE SOLE REMAINING ISSUE BETWEEN US, AND HOPED THAT A SOLUTION COULD BE FOUND. HIS EARLIER JUDGEMENT HAD BEEN BASED ON HIS PERSONAL EVALUATION OF HOW THE ADMINISTRATION WOULD REACT.

FCO PASS SAVING ATHENS, DUBLIN AND LUXEMBOURG

WRIGHT

NNNN



E/W Economic = PIPELINE

OO F C O DESKBY 020830Z

PP PARIS

PP UKDEL OECD

PP BONN

PP ROME

PP COPENHAGEN

PP UKREP BRUSSELS

PP UKDEL NATO

RR TOKYO

RR BRUSSELS

RR THE HAGUE

GR 800

S E C R E T

DESKBY 020830Z

FM WASHINGTON 020035Z NOV 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 3522 OF 1 NOVEMBER

INFO PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKREP BRUSSELS, UKDEL NATO, UKDEL OECD

INFO ROUTINE TOKYO OTTAWA BRUSSELS THE HAGUE

INFO SAVING DUBLIN ATHENS LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. FOLLOWING IS TEXT OF LATEST VERSION OF US NON-PAPER, INCORPORATING AMENDMENTS PROPOSED TODAY BY THE PRESIDENCY IN THE NAME OF THE FOUR, AND AGREED BY OTHER COMMUNITY REPRESENTATIVES.

2. TEXT BEGINS:

DURING CONVERSATIONS IN WASHINGTON BETWEEN THE SECRETARY OF STATE OF THE UNITED STATES OF AMERICA AND REPRESENTATIVES OF THE EEC, CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY,

ADVANCE COPY

LIMITED

Hd of TRED

" EESD

" NAB

" ECDC(E)

" WED

" News &

PS

PS/Mr Heard

PS/Mr Rifkind

PS/PUS

Sir J Bullard

Mr Evans

Mr Thomas

Mr Spedding

Mr Hennip

~~NO 10 D.S~~

Mr SUNDERLAND } DC

Mr KNIGHTON } DC

Mr GOODALL - bob O

RC

IMMEDIATE

[TYPISTS

*[Handwritten signature]*



THE EEC, CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY, JAPAN AND THE UNITED KINGDOM ON THE SUBJECT OF EAST-WEST RELATIONS, A CERTAIN NUMBER OF CONCLUSIONS HAVE BEEN REACHED ON BEHALF OF THEIR GOVERNMENTS. THE SUMMARY OF THESE FOLLOWS.

1. THEY RECOGNIZE THE NECESSITY OF CONDUCTING THEIR RELATIONS WITH THE USSR AND EASTERN EUROPE ON THE BASIS OF A GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE THEIR COMMON FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY CONSCIOUS OF THE NEED THAT ACTION IN THE ECONOMIC FIELD BE CONSISTENT WITH THAT GLOBAL AND COMPREHENSIVE POLICY AND THUS BE BASED ON A COMMON APPROACH, ACCORDING TO THE DOMAINS IN QUESTION. THIS APPROACH COULD TAKE THE FORM OF EITHER COLLECTIVE MECHANISMS, OR HARMONIZATION OR APPROPRIATE CONSULTATION. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES THAT HAVE ARISEN AND TO ENSURE THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND IN A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

*French proposal*

2. THE FOLLOWING CRITERIA SHOULD GOVERN THE ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES:

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS, OR TAKE STEPS, WHICH CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE AND CAPABILITIES OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE SOVIET ECONOMY (SEMI-COLON) TRADE THEREFORE SHOULD BE CONDUCTED IN A PRUDENT MANNER WITHOUT PREFERENTIAL TREATMENT.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC WARFARE AGAINST THE SOVIET UNION. TO BE CONSISTENT WITH OUR BROAD SECURITY INTERESTS, TRADE WITH THE USSR MUST PROCEED, INTER ALIA, ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES.

IT IS AGREED TO EXAMINE THOROUGHLY IN THE APPROPRIATE BODIES HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A COMMON LINE OF ACTION IN THE SPIRIT OF PARAGRAPH 1. THEY WILL PAY DUE ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE EASTERN EUROPEAN COUNTRIES.

THE OVERALL ANALYSIS OF ECONOMIC RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

-- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM).



(COCOM):

- OTHER HIGH TECHNOLOGY ITEMS:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

*Underlined*  
IN THEIR ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS, IT IS AGREED TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT TO BE JOINTLY DETERMINED. THIS IMMEDIATE EXAMINATION OF WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT WILL INCLUDE TECHNOLOGY AND EQUIPMENT WITH DIRECT APPLICATIONS TO THE OIL AND GAS SECTOR.

IN THE FIELD OF ENERGY, THEY WILL INITIATE A STUDY OF THEIR PROJECTED ENERGY REQUIREMENTS AND DEPENDENCE UPON IMPORTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THESE REQUIREMENTS, WITH PARTICULAR ATTENTION BEING GIVEN TO THE EUROPEAN ENERGY SITUATION. THE STUDY WILL BE CONDUCTED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION AND FOLLOWING DECISIONS ALREADY MADE, THEY HAVE FURTHER AGREED ON THE FOLLOWING:

(A) FOLLOWING ON THE CONCLUSIONS OF THE HIGH LEVEL MEETING, THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THEIR CONTEMPORARY SECURITY INTERESTS: THE LIST OF STRATEGIC ITEMS WILL BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY WILL TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

*French proposal*  
(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE NECESSARY PROCEDURES FOR THIS PURPOSE WILL BE ESTABLISHED WITHOUT DELAY. HAVING IN MIND THE CRITERIA IN PARAGRAPH TWO ABOVE, THEY WILL ALSO EXAMINE THE POSSIBILITIES OF FURTHER HARMONIZATION OF CREDIT POLICIES.

*Underlined*  
(C) THEY HAVE INFORMED EACH OTHER THAT DURING THE COURSE OF THE STUDY ON ENERGY REQUIREMENTS, THEY WILL NOT SIGN, OR APPROVE THE SIGNING BY THEIR COMPANIES OF, NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS.



WONFO 23/02

*Handwritten signature*  
0642/2

00 FCO DESKBY 020830Z

PP PARIS

PP BONN

PP ROME

PP COPENHAGEN

PP UKREP BRUSSELS

PP UKDEL NATO

PP UKDEL OECD

RR TOKYO

RR BRUSSELS

RR THE HAGUE

GR 420

CONFIDENTIAL

DESKBY 020830Z

FM WASHINGTON 020026Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3521 OF 1 NOVEMBER

INFO PRIORITY PARIS BONN ROME COPENHAGEN UKREP

UKDEL NATO UKDEL OECD

INFO ROUTINE TOKYO OTTAWA BRUSSELS THE HAGUE

INFO SAVING DUBLIN ATHENS LUXEMBOURG

YOUR TELNO 1920: EAST-WEST ECONOMIC RELATIONS (PIPELINE): SUMMARY

1. FOLLOWING MEETINGS TODAY OF THE EUROPEAN FOUR PLUS TWO, OF ALL COMMUNITY REPRESENTATIVES, AND OF THE SEVEN PLUS TWO CHAIRED BY EAGLEBURGER, THE AMERICANS ARE TO CONSIDER FURTHER THE LATEST

(20)  
E/W Economic-Pipeline

LIMITED

Hd of TRED

" EESB

" NAB

" ECDC(E)

" WED

" News &

PS

PS/Mr Heard

PS/Mr Rifkin

PS/PUS

Sir J Bullard

Mr Evans

Mr Thomas

Mr Lyndis

Mr Hannay

NO 10 D.S.

Mr SUNDERLAND } DC

Mr KNIGHTON } DC

Mr GOODALL - bob of

RC

[TYPISTS]

IMMEDIATE

ADVANCE COPY

*Handwritten initials*



~~EAGLEBURGER, THE AMERICANS ARE TO CONSIDER FURTHER THE LATEST~~  
EAGLEBURGER, THE AMERICANS ARE TO CONSIDER FURTHER THE LATEST  
EUROPEAN PROPOSALS FOR REVISIONS OF THE US NON-PAPER (MY TELNO  
3506). EAGLEBURGER HOPED, FOLLOWING CONSULTATIONS WITH SHULTZ AND  
(PERHAPS) THE PRESIDENT, TO LET US HAVE A FORMAL US RESPONSE WITHIN  
24 HOURS.

2. ALMOST ALL THE NON-PAPER (CURRENT TEXT, AS AMENDED BY  
EUROPEAN REVISIONS, IN MIFT) IS NOW ACCEPTABLE TO THE SEVEN  
PLUS TWO. THE GERMAN PROBLEM OVER NEW GAS CONTRACTS HAS BEEN  
SATISFACTORILY RESOLVED (AS HAVE ITALIAN AND JAPANESE RESERVATIONS  
ON THE SAME POINT). THE AMERICAN SIDE HAVE INDICATED THAT, WITH  
ONE EXCEPTION, THE REST OF THE EUROPEAN REDRAFT SHOULD BE LARGELY  
ACCEPTABLE TO THEM.

3. HOWEVER, THE PRESENT FORMULA ON CREDITS (A GERMAN SUGGESTION)  
REMAINS EXTREMELY HARD FOR THEM TO ACCEPT. IN SUMMING UP THE  
MEETING THIS AFTERNOON, EAGLEBURGER DID NOT DISGUISE HIS  
SCEPTICISM THAT THE ADMINISTRATION WOULD AGREE TO IT. I ARGUED  
STRONGLY, AND WAS SUPPORTED BY THE OTHER PARTICIPANTS, THAT  
THE PRESENT EXERCISE HAD BEEN AN EXTREMELY USEFUL ONE, THAT IT  
HAD ALLOWED US TO ESTABLISH THE BASIS FOR A COMMON APPROACH  
TOWARDS ECONOMIC RELATIONS WITH THE EAST OVER THE COMING YEARS,  
AND THAT THE SOLE REMAINING DIFFICULTY SHOULD NOT BE ALLOWED  
TO PREVENT AGREEMENT ON THE OVERALL PACKAGE.

4. DETAILED REPORT ON POINTS MADE AT ALL THREE MEETINGS TODAY  
FOLLOWS IN MY SECOND AND THIRD IFTS.

5. THE NEXT STEP IS TO AWAIT THE CONSIDERED US RESPONSE. THEREAFTER  
FURTHER BILATERAL CONTACTS MAY BE NEEDED. YOUR OWN INTERVENTIONS  
TODAY WITH CHEYSSON AND GENSCHER HAVE BEEN EXTREMELY USEFUL IN  
REMOVING GERMAN HESITATIONS. THE FRENCH HAVE TRIED TO BE  
ACCOMODATING AND THE LANGUAGE ON CREDITS IS NOW CLOSE TO WHAT  
MOST PEOPLE WANT. BUT IT MAY STILL BE LESS THAN THE MINIMUM  
THE AMERICANS REQUIRE, AND EAGLEBURGER'S CONCLUDING REMARKS  
SHOWED VERY CLEARLY THAT WE ARE NOT YET OUT OF THE WOODS.

FCO PASS SAVING TO DUBLIN ATHENS AND LUXEMBOURG

WRIGHT

NNNN





CONFIDENTIAL

Soviet Union

Prime Minister (2)

FCS/82/173

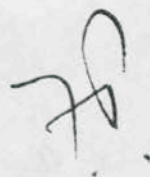
SECRETARY OF STATE FOR TRADE

To see what was  
agreed today.

MCS 29/10

Protection of Trading Interests Act (PTI)

1. Thank you for your letter of yesterday. I agree, subject to the views of others, that a Direction should be issued to SEACO. It is awkward to do so during the current talks in Washington which we hope will resolve this dispute. But having already agreed to issue Directions to British companies with existing contracts I do not think it would be right for us to refrain from doing so now.
2. I am copying this minute to the Prime Minister, to Patrick Jenkin, and to Sir Robert Armstrong.

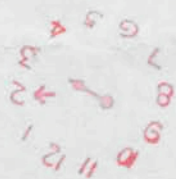
  
(FRANCIS PYM)

Foreign and Commonwealth Office

29 October 1982



Soviet Union, Credit Terms, Pt 2



29 OCT 1982



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Lancaster  
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OO FCO DESKBY 290930Z

GRS 180  
CONFIDENTIAL  
DEDIP  
DESKBY 290930Z  
FM BONN 290730Z OCT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 924 OF 29 OCTOBER

ADVANCE COPY

IMMEDIATE

MR COLES NO 10  
POWING & T

FOLLOWING PERSONAL FROM PRIVATE SECRETARY FOR BONE (PRIVATE OFFICE)

PIPELINE

1. THE PRIME MINISTER HAS SEEN THE SECRETARY OF STATE'S MINUTE OF 28 OCTOBER AND THE TEXT OF THE US PAPER CIRCULATED WITH IT. THE ONE POINT ON WHICH SHE HAS EXPRESSED SOME CONCERN IS THE COMMITMENT IN RELATION TO OIL AND GAS TECHNOLOGY. WHILE SHE RECOGNISES THAT THIS IS ONLY A COMMITMENT TO EXAMINE SHE DOES NOT WISH US TO GET INTO A POSITION WHERE WE MIGHT LATER BE OBLIGED TO PUT BRITISH FIRMS AT A DISADVANTAGE VIS A VIS THEIR EUROPEAN COMPETITORS.
2. AS I UNDERSTAND WHAT IS LIKELY TO EMERGE FROM THIS EXERCISE, THE DANGER SEEMS UNLIKELY TO ARISE IN PRACTICE. BUT IT IS IMPORTANT THAT THE DEPARTMENTS OF ENERGY, INDUSTRY AND TRADE SHOULD BE SATISFIED THAT WE CAN PLAY THE HAND IN A WAY WHICH AVOIDS IT. SUBJECT TO THE DEPARTMENT'S VIEW I THINK IT WOULD BE HELPFUL IF CONTACT COULD BE MADE IN THE COURSE OF TODAY TO MAKE SURE THAT WE HAVE A GAME PLAN WITH WHICH WE ARE BROADLY CONTENT. THIS MAY ALREADY HAVE BEEN DONE AT OFFICIAL LEVEL BUT THE VITAL POINT IS OF COURSE THAT THE MINISTERS CONCERNED SHOULD BE ON BOARD.
3. PLEASE COPY TO COLES (NO 10).

TAYLOR

NNNN

SENT AT 290812Z



SOVIET UNION. 217A



Foreign and Commonwealth Office

Prime Minister:

London SW1A 2AH

The latest draft of  
the US non-paper is attached  
at flag A

29 October 1982

Dear John,

JF 29/10

Pipeline

We discussed before despatch Bonn telno 924, a copy of which I attach for ease of reference. Jeremy Thomas had the point very much in mind when he met his Whitehall colleagues this morning in MISC(64) to agree the line Sir O Wright should take at this evening's meeting in Washington of the Seven economic summit countries (plus Presidency and Commission).

You will see from the attached telegram of instructions, which has been agreed interdepartmentally, that we think the latest American redraft is helpful on this point; the Americans have moved some way to meet the European concerns. But to emphasise our determination not to be dragged down a slippery slope on this issue, the Ambassador has been instructed to repeat what he told Mr Shultz on 24 October, namely that we could not commit ourselves to the outcome of the studies which the paper envisages.

I understand that the officials represented at the MISC(64) meeting will be briefing their Ministers accordingly.

(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street



DEDIP

DESKBY 290930Z

FM BONN 290730Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 924 OF 29 OCTOBER

NO DISTRIBUTION

TH PS

FOLLOWING PERSONAL FROM PRIVATE SECRETARY FOR BONE (PRIVATE OFFICE)

PIPELINE

1. THE PRIME MINISTER HAS SEEN THE SECRETARY OF STATE'S MINUTE OF 28 OCTOBER AND THE TEXT OF THE US PAPER CIRCULATED WITH IT. THE ONE POINT ON WHICH SHE HAS EXPRESSED SOME CONCERN IS THE COMMITMENT IN RELATION TO OIL AND GAS TECHNOLOGY. WHILE SHE RECOGNISES THAT THIS IS ONLY A COMMITMENT TO EXAMINE SHE DOES NOT WISH US TO GET INTO A POSITION WHERE WE MIGHT LATER BE OBLIGED TO PUT BRITISH FIRMS AT A DISADVANTAGE VIS A VIS THEIR EUROPEAN COMPETITORS.

2. AS I UNDERSTAND WHAT IS LIKELY TO EMERGE FROM THIS EXERCISE, THE DANGER SEEMS UNLIKELY TO ARISE IN PRACTICE. BUT IT IS IMPORTANT THAT THE DEPARTMENTS OF ENERGY, INDUSTRY AND TRADE SHOULD BE SATISFIED THAT WE CAN PLAY THE HAND IN A WAY WHICH AVOIDS IT. SUBJECT TO THE DEPARTMENT'S VIEW I THINK IT WOULD BE HELPFUL IF CONTACT COULD BE MADE IN THE COURSE OF TODAY TO MAKE SURE THAT WE HAVE A GAME PLAN WITH WHICH WE ARE BROADLY CONTENT. THIS MAY ALREADY HAVE BEEN DONE AT OFFICIAL LEVEL BUT THE VITAL POINT IS OF COURSE THAT THE MINISTERS CONCERNED SHOULD BE ON BOARD.

3. PLEASE COPY TO COLES (NO 10).

TAYLOR

*Mr. Howe*

*We agree*

NNNN

*Mr. Aslows*

*Mr. S. Bellard*

*Mr. Evans*

*Mr. Steward (TRSD)*

SENT AT 290812Z

*Copy to No 10 (for Mr. Piles)*



OUT TELEGRAM

Classification and Caveats	Precedence/Deskby
SECRET	IMMEDIATE

ZCZC 1 ZCZC  
 GRS 2 GRS  
 CLASS 3 SECRET  
 CAVEATS 4  
 DESKBY 5  
 FM FCO 6 FM FCO 291645Z OCT 82  
 PRE/ADD 7 TO IMMEDIATE WASHINGTON  
 TEL NO 8 TELEGRAM NUMBER  
 9 AND TO INFO PRIORITY UKREP BRUSSELS, COPENHAGEN, ROME, PARIS,  
 10 UKDEL OCEP, BONN, UKDEL NATO  
 11 ROUTINE OTTAWA, TOKYO, BRUSSELS, THE HAGUE  
 12 AND INFO SAVING DUBLIN, ATHENS  
 13 YOUR TELS 3490-1 EAST/WEST ECONOMIC RELATIONS (PIPELINE)  
 14 1. Officials have examined inter-departmentally the latest  
 15 version of the Shultz text. (Your tel 3491) You should  
 16 continue to be guided by my tels 1862-3 and 1878. We wish to  
 17 resolve this problem as rapidly as possible. You should  
 18 repeat your earlier statement (para 11 of your tel 3443) of  
 19 the conditions on which we can accept this paper - that it is  
 20 in exchange for the lifting of sanctions, and without any  
 21 commitment on the outcome of the studies. (For your own  
 22 information only, we are determined to avoid any commitments  
 23 under which our companies might eventually suffer any  
 24 competitive disadvantage in the oil and gas technology field.)  
 25

NNNN ends telegram	BLANK	Catchword 2. At
File number	Dept TRED	Distribution TRED, EESD, NAD, ESSD, ECD(E), ESID, ERD, PS, PS/MR HURD, PS/MR RIFKIND PS/PUS SIR J BULLARD MR EVANS MR THOMAS MR GOODISON MR ADAMS LIMITED
Drafted by (Block capitals) M GOWLLAND		
Telephone number 233 3703		
Authorised for despatch <i>M. G. G. G.</i>		
Comcen reference	Time of despatch	
		ADDITIONAL DISTRIBUTION: POLAND SPECIAL AND NO 10



OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

Page

2

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- 1 <<<<
- 2 2. At your meeting today the Americans should be invited to
- 3 explain the reasoning behind the latest changes to the Shultz
- 4 text (which, as Thomas said, we generally welcome).
- 5 3. We note the third criterion has reverted to its original
- 6 wording. We can accept this (or the alternative if others
- 7 prefer) provided the fourth criterion, to which we attach the
- 8 greatest importance, stays unaltered. We are content with the
- 9 deletion of quote and obligations unquote.
- 10 4. We welcome the less specific wording of analysis area ii).
- 11 5. The promotion of 3(D) to the preambular section is helpful,
- 12 if only presentationally, in that it sets it apart from the
- 13 other studies. We believe that the existing wording safeguards
- 14 our interests, (a) by the proposal being for an examination;
- 15 (b) by the reference to this being quote whether or not unquote
- 16 there should be any new controls; and (c) by this being quote
- 17 jointly determined unquote.
- 18 6. On 3(B) we welcome the reference to the criteria (including
- 19 the last one) replacing the earlier reference to quote not
- 20 subsidising unquote. We could accept a specific, limited,
- 21 reference to French difficulties (para 2 of UKREP Brussels
- 22 3982 to FCO).
- 23 7. We assume the rewording of 3(C) is to meet French and
- 24 Italian susceptibilities. We can accept it.
- 25 8. Our basic aims on extraterritoriality (para B(C) of my tel
- 26 1862) remain unaltered. You should seek an insertion of an
- 27 appropriate reference in the text, perhaps in the context of
- 28 the overall analysis, or encourage the Commission or Canadians
- 29 to do so, if this seems tactically better.
- 30 9. If the discussion makes sufficient progress towards a final
- 31 text you should ask the Americans how they envisage delivering
- 32 the package: both as regards the timing of the lifting of
- 33 sanctions in exchange for the agreed text, and announcing the
- 34

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/

NNNN ends  
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Catchword  
agreement.



OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

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agreement. It is essential that any American public statement should not go beyond the wording of the text, or imply in any way that we have entered into commitments as to the outcome of the studies. We remain opposed to the publication of the full text itself.

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NNNN ends telegram

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Catchword



GR 1000

SECRET

SECRET

DESKBY 290830Z

FM WASHINGTON 282300Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3491 OF 28 OCTOBER

INFO PARIS, BONN, UKREP BRUSSELS, COPENHAGEN, ROME, UKDEL NATO,  
TOKYO, OTTAWA, UKDEL OECD (PERSONAL FOR HEADS OF MISSION)

FOLLOWING PERSONAL FOR BULLARD/J THOMAS

MJPT AND TELECON J THOMAS/BRAITHWAITE: EAST-WEST ECONOMIC RELATIONS  
(PIPELINE)

1. FOLLOWING IS REVISED VERSION OF TODAY'S DATE OF US NON-PAPER:

1. OUR GOVERNMENTS RECOGNIZE THE NECESSITY OF CONDUCTING THEIR RELATIONS WITH THE USSR ON THE BASIS OF A GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE OUR OWN FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY CONSCIOUS OF THE NEED FOR A COMMON APPROACH IN THE ECONOMIC FIELD, WHERE ACTIONS MUST BE COORDINATED WITHIN THE FRAMEWORK OF THEIR GLOBAL STRATEGY. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES AND TO ENSURE THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND IN A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

2. THEY AGREE THAT THE FOLLOWING CRITERIA SHOULD GOVERN THE ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES.

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS WHICH CONTRIBUTE TO THE MILITARY CAPABILITIES OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE SOVIET ECONOMY: TRADE SHOULD BE CONDUCTED IN A PRUDENT MANNER WITHOUT PREFERENTIAL TREATMENT.

-- THAT THEY WILL TAKE NO STEPS THAT CONTRIBUTE TO THE STRATEGIC ADVANTAGE OF THE SOVIET UNION.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC WARFARE AGAINST THE SOVIET UNION. TRADE WITH THE SOVIET UNION AND EASTERN EUROPE SHOULD PROCEED ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES.

THEY AGREE TO EXAMINE THOROUGHLY HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A COMMON LINE OF ACTION. THEY WILL PAY DUE ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE EASTERN EUROPEAN COUNTRIES.

SECRET

/THIS



# SECRET

THIS OVERALL ANALYSIS WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS

- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM):
- OTHER HIGH TECHNOLOGY ITEMS:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

IN THEIR ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS, THE ALLIED GOVERNMENTS AGREE TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT, TO BE JOINTLY DETERMINED, BUT INCLUDING CONTROLS ON TECHNOLOGY WITH DIRECT APPLICATION TO THE OIL AND GAS SECTOR. ANY ACTIONS AS A CONSEQUENCE OF THE EXAMINATION WOULD BE AGREED UPON AND IMPLEMENTED WITHIN A FRAMEWORK TO BE AGREED.

IN THE FIELD OF ENERGY, THE EUROPEAN GOVERNMENTS, AS THEY ARE HEAVILY DEPENDENT ON IMPORTS OF ENERGY, WILL INITIATE A STUDY OF PROJECTED EUROPEAN ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THOSE REQUIREMENTS. THE UNITED STATES WILL PARTICIPATE IN THIS STUDY. IT WILL BE PREPARED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION AND FOLLOWING DECISIONS ALREADY MADE, THEY HAVE FURTHER AGREED ON THE FOLLOWING:

(A) THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THE CONTEMPORARY SECURITY INTERESTS OF THE ALLIANCE. THE LIST OF STRATEGIC ITEMS WILL BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY FURTHER AGREE TO TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE ALLIES ARE AGREED ON THE NEED TO ESTABLISH WITHOUT DELAY THE NECESSARY MECHANISM FOR THIS PURPOSE. HAVING IN MIND THE CRITERIA IN PARAGRAPH TWO ABOVE, ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO HARMONIZE NATIONAL POLICIES WITH RESPECT TO THE EXTENSION OF CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES.

(C) ALLIED GOVERNMENTS HAVE INFORMED EACH OTHER THAT DURING THE COURSE OF THE STUDY ON ENERGY REQUIREMENTS, THEY WILL NOT SIGN, OR APPROVE THE SIGNING BY THEIR COMPANIES, OF NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS.

WRIGHT

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**CONFIDENTIAL**

*From the Secretary of State*

The Rt Hon Francis Pym MP  
Secretary of State for  
Foreign and Commonwealth Affairs

27 October 1982

*Dear Secretary of State*

You will remember that on 2 August I issued a Direction under s.1(3) of the Protection of Trading Interests Act to Baker Oil Tools UK Ltd, ordering them not to comply with the US embargoes in respect of oil and gas equipment to the USSR.

A new case, involving a sister company of Baker, has come to my attention very recently. The company is SEACO North Sea Sales Services Limited (SEACO), an oil and gas equipment supply company located in Aberdeen, which employs about 100 people. This company, previously all-British, was acquired by the US-based Baker Organisation in June, before the Presidential embargo announced on 22 June. The company is now therefore a US subsidiary. It has two small pre-existing contracts, totalling some £800,000, for the supply of replacement sets of lubricating equipment to the Russians for oil and gas related activities. The company must be ready to deliver by 30 October or face loss of the contract. The Russians will not extend the deadline any further. Precise date of delivery depends on the arrival of a ship, but will probably be some time next week. The equipment is now ready for despatch. If I do not issue a S.1(3) Direction, I understand that the company will almost certainly break their contract with the Russians. The Russians have told them that in that event, they would not only claim



CONFIDENTIAL



*From the Secretary of State*

damages (against which SEACO , under a contract made under Swedish law, would have no defence); they would also award the contract to a Canadian competitor whom the US regulations cannot reach. SEACO believe that if that happened, it would wreck their chances of doing business with the Russians in future. (SEACO are relying on future business with the USSR in their plans for rapid expansion). However, SEACO have told us that if it came to the point the Group would sacrifice SEACO rather than face the likelihood of US sanctions in the form of a Denial Order against all the overseas subsidiaries, and the risk of personal penalties on the US management. But if I issue a S.1(3) Direction, and so provide SEACO with a defence in US law of 'foreign sovereign compulsion', it is clear that the company will fulfil the contract.

The only difference between this case and the previous one where I have given Directions under the PTI Act is that the equipment in question is not known to be destined for the Siberian pipeline project. The equipment is sold to the Russians who then do what they like with it afterwards.

After due consideration, I believe that a Direction under S.1(3) of the PTI Act should be given to SEACO, and quickly. If you agree, I should be grateful if you could let me know by midday on 29 October, so that the company may be informed before the weekend. I apologise for the very short notice; the company themselves only realised the position they were in a few days ago.

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

*Yours sincerely  
John Whitton*

*for LORD COCKFIELD*

*[Approved by the Secretary of State and  
signed in his absence]*





PM/82/90

PRIME MINISTER

The Prime Minister  
saw a copy of  
this minute during Prime Minister  
her visit to Bonn.

28/10

East/West Economic Relations (Pipeline)

1. We agreed this morning that it would be helpful if I were to set out briefly how things now stand on the pipeline issue.
2. The seven Economic Summit countries (plus EC Presidency and Commission) met in Washington on 22 October and our Ambassador deployed the line which we had agreed in Cabinet on the previous day. In particular Sir O Wright underlined that while we were prepared to accept Mr Shultz's paper as providing a general orientation for an overall approach to the problem, we were not committing ourselves to the outcome of the studies which the paper envisaged.
3. Following that meeting, the Americans redrafted the Shultz paper and I attach a copy of the redraft for ease of reference. The most important change was that they had made the criteria in para 2 (which none of the Europeans had liked) much more balanced and less prejudicial than they were in the original paper. For example, a new criterion had been added, spelling out that it was not our purpose to engage in economic warfare against the Soviet Union. These new criteria have thus made the points of difficulty for us in the rest of the paper (particularly credits and advanced technology) easier to accept. We therefore gave our Ambassador the discretion to accept this new version (including the passages in brackets) on the ~~close~~ <sup>clear</sup> understandings
  - (a) that our acceptance of the studies was without commitment on their outcome; and

/(b) that





(b) that the Americans would lift their measures (including the Denial Orders) once the paper was agreed.

4. George Shultz discussed the redraft with the British, French and German Ambassadors on Sunday 24 October. Oliver Wright spoke to his instructions and Shultz formally confirmed our understandings as outlined above. This is an important point, because Shultz has thus specifically recognised that Britain cannot be led down the slippery slope of prior commitments to the outcome of studies that have yet to be undertaken.

5. The French have maintained their reservations on credits, on the principle of not entering into new contracts for gas supplies while the energy studies proceed, and on the examination of possible new controls on advanced technology. But when I spoke to Claude Cheysson in Luxembourg on Monday, he recognised that, in the interests of getting the US measures lifted, it was important to get on with the exercise as rapidly as possible. That, at least, was a step forward.

6. The German and the Italian positions seem close to our own. The Japanese are particularly sensitive over the technology point, but will not hold out against their other Summit partners. On the whole, the Community has proved helpful.

7. We heard yesterday that the State Department is proposing to hold a further meeting of the Seven plus in Washington tomorrow. They aim to circulate beforehand a second revision of their paper to take some account of the French concerns. Our officials will be meeting to consider that redraft and any further instructions to Sir O Wright that may prove necessary. But if the text

/does





does move further in the French direction, it should prove easier for us, and our European partners.

8. Like Arthur Cockfield, I am very conscious that this is a difficult exercise. I recognise that we must not be manoeuvred into accepting commitments which we believe fundamentally mistaken and potentially damaging in order to achieve our aim of getting President Reagan to lift. But I am equally conscious that we have to offer the President a credible package. I also believe that all our essential interests have been skilfully safeguarded by Oliver Wright.

9. I cannot pretend that the outcome is assured. Much still depends upon the French. I am clearer, however, than when I last reported to my colleagues, that the US Administration does want to find a way out of this sterile dispute. I am ~~finally~~<sup>firmly</sup> persuaded that this course offers us the best prospect of getting the US measures lifted. If we can bring it off, we shall not only have brought great relief to our firms. We shall also have given the Alliance a more coherent basis for framing sensible policies over East-West economic relations.

10. We have, of course, been working closely with all the Departments concerned during these negotiations and will continue to do so.

11. I am copying this minute to Cabinet colleagues, and to Sir Robert Armstrong.

  
(FRANCIS PYM)



Soviet Union: Credit terms for exp. to  
USSR Pt 2.

17 OCT 1992

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TEXT OF REVISED SCHULTZ PAPER

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FM WASHINGTON 222355Z OCT 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 3439 OF 22 OCTOBER

MTW 09/12

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FOLLOWING PERSONAL FOR BULLARD  
MY TELNO 3434: EAST-WEST ECONOMIC RELATIONS

1. FOLLOWING IS TEXT OF U.S. REDRAFTED PAPER, FOR DISCUSSION AT  
FOUR-POWER MEETING WITH SHULTZ ON 24 OCTOBER: QUOTE

1. OUR GOVERNMENTS RECOGNIZE THE NECESSITY OF CONDUCTING  
THEIR RELATIONS WITH THE USSR ON THE BASIS OF A GLOBAL AND  
COMPREHENSIVE POLICY DESIGNED TO SERVE OUR OWN FUNDAMENTAL  
SECURITY INTERESTS. THEY ARE PARTICULARLY CONSCIOUS OF THE  
NEED FOR A COMMON APPROACH IN THE ECONOMIC FIELD, WHERE ACTIONS  
MUST BE COORDINATED WITHIN THE FRAMEWORK OF THEIR GLOBAL  
STRATEGY. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY  
STEPS TO REMOVE DIFFERENCES AND TO ENSURE THAT FUTURE DECISIONS  
BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON THE BASIS OF  
AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A WHOLE, WITH DUE  
REGARD FOR THEIR RESPECTIVE INTERESTS AND IN A SPIRIT OF MUTUAL  
TRUST AND CONFIDENCE.

2. THEY AGREE THAT THE FOLLOWING CRITERIA SHOULD GOVERN  
THE ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION  
AND EASTERN EUROPEAN COUNTRIES.

— THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS WHICH  
CONTRIBUTE TO THE MILITARY CAPABILITIES OF THE USSR.

— THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE  
SOVIET ECONOMY: TRADE SHOULD BE CONDUCTED IN A PRUDENT MANNER  
WITHOUT PREFERENTIAL TREATMENT.

-- THAT THEY WILL TAKE NO STEPS THAT WEAKEN THE STRATEGIC  
POSITION OF THE WEST.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC  
WARFARE AGAINST THE SOVIET UNION. TRADE WITH THE SOVIET UNION  
AND EASTERN EUROPE SHOULD PROCEED ON THE BASIS OF A STRICT  
BALANCE OF ADVANTAGES AND OBLIGATIONS.

THEY AGREE TO EXAMINE THOROUGHLY HOW TO APPLY THESE  
CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND  
POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A  
COMMON LINE OF ACTION. THEY WILL PAY DUE ATTENTION IN THE  
COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR  
ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE  
SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT  
POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE  
COUNTRIES.

THIS OVERALL ANALYSIS WILL TOUCH IN PARTICULAR ON THE  
FOLLOWING AREAS:

— STRATEGIC GOODS AND TECHNOLOGY OF MILITARY  
SIGNIFICANCE (COCOM):

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- HIGH TECHNOLOGY OF POSSIBLE STRATEGIC IMPORTANCE INCLUDING OIL AND GAS EQUIPMENT:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

IN THE FIELD OF ENERGY, THE EUROPEAN GOVERNMENTS, AS THEY ARE HEAVILY DEPENDENT ON IMPORTS OF ENERGY, WILL INITIATE A STUDY OF PROJECTED EUROPEAN ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THOSE REQUIREMENTS. THE UNITED STATES WILL PARTICIPATE IN THIS STUDY. IT WILL BE PREPARED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION THE FOLLOWING DECISIONS ALREADY MADE, THEY HAVE AGREED ON THE FOLLOWING:

(A) THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THE CONTEMPORARY SECURITY INTERESTS OF THE ALLIANCE. THE LIST OF STRATEGIC ITEMS WOULD BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY FURTHER AGREE TO TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE ALLIES ARE AGREED ON THE NEED TO ESTABLISH WITHOUT DELAY THE NECESSARY MECHANISM FOR THIS PURPOSE. (BEGIN SQUARE BRACKETS) HAVING IN MIND THE OBJECTIVE OF NOT SUBSIDIZING THE SOVIET ECONOMY, ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO HARMONIZE NATIONAL POLICIES WITH RESPECT TO THE EXTENSION OF CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES. (END SQUARE BRACKETS)

(C) (BEGIN SQUARE BRACKETS) DURING THE COURSE OF THE STUDY ON ENERGY, ALLIED GOVERNMENTS WILL NOT APPROVE NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS FOR WHICH NEGOTIATIONS HAVE NOT BEEN CONCLUDED. (END SQUARE BRACKETS)

(D) (BEGIN SQUARE BRACKETS) ALLIED GOVERNMENTS AGREE TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF STRATEGICALLY SIGNIFICANT ADVANCED TECHNOLOGY AND EQUIPMENT, TO BE JOINTLY DETERMINED, BUT INCLUDING TECHNOLOGY WITH DIRECT APPLICATION TO THE OIL AND GAS SECTOR. ANY ACTIONS WOULD BE AGREED UPON AND IMPLEMENTED WITHIN A FRAMEWORK TO BE AGREED. (END SQUARE BRACKETS)

UNQUOTE.

WRIGHT

LIMITED	ESID	SIR J BULLARD	ADD. DISTN.
TRED	PS	MR EVANS	POLAND SPECIAL
EESD	PS/MR HURD	MR THOMAS	
NAD	PS/MR RIFKIND	MR ADAMS	
LCD(E)	PS/PUS		
ERD			
PLANNING STAFF			

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TO IMMEDIATE FCO

TELEGRAM NO. 3444 OF 24 OCT 82

INFO IMMEDIATE LUXEMBOURG (PERSONAL FOR PRIVATE SECRETARY) PRIORITY  
PARIS BONN ROME UKREP BRUSSELS COPENHAGEN UKDEL NATO (PERSONAL FOR  
AMBASSADORS) ROUTINE TOKYO OTTAWA UKDEL OECD (PERSONAL FOR HEADS OF  
MISSION).

PERSONAL FOR BULLARD.

MY I P T: EAST-WEST ECONOMIC RELATIONS (PIPELINE): COMMENT.

1. THE FRENCH BEHAVIOUR WAS DISAPPOINTING, AND AT TIME CONFUSING. VERNIER-PALLIEZ'S INSTRUCTIONS SEEM TO HAVE BEEN TIGHTENED AND HE APPEARED TO RETURN TO HIS ORIGINAL POSITION THAT WE WERE NOT YET AT A STAGE WHEN IT WOULD BE USEFUL TO DISCUSS A TEXT, AND THAT A GENERAL DISCUSSION OF PRINCIPLES WAS FIRST REQUIRED. HIS PROMPT SWITCH TO A DEBATE ON PROCEDURES DID NOTHING TO MOVE MATTERS FORWARD, AND HIS REMARKS ON THE FOUR-POWER ROLE FURTHER MUDDIED THE WATERS. THE IMPLIED SUGGESTION THAT THE EUROPEANS SHOULD HAVE CONTROL OVER U S POLICIES TOWARDS THE EAST AND THE SURPRISING COROLLARY, WHICH MUST BE ANATHEMA IN PARIS, THAT THE U S COULD HAVE THE SAME OVER FRENCH POLICIES, WAS A HORSE WHICH EVEN HE CANNOT HAVE EXPECTED TO HAVE RUN VERY FAR.
2. NONETHELESS, ALL THIS WAS CONSISTENT WITH THE FRENCH APPROACH SINCE THE BEGINNING THAT THE EUROPEANS MUST NOT BE DEMANDEURS FOR THE REMOVAL OF THE PIPELINE SANCTIONS, THE FRENCH ALSO SEEK TO USE THE PRESENT SITUATION AS AN OPPORTUNITY TO INCREASE THEIR LEVERAGE AND THEIR INDEPENDENCE WITHIN THEIR ALLIANCE.
3. TODAY'S MEETING WILL NOT HAVE HELPED SHULTZ. THE DANGER IS THAT IN RAISING SO MANY OBJECTIONS TO THE IDEA IN THE U S PAPER, THE FRENCH (AND, TO A LESSER EXTENT NOW, THE GERMANS) RISK GIVING THE IMPRESSION ALL TOO CLEARLY IN WASHINGTON THAT THEIR MINDS ARE CLOSED AT THE BEGINNING OF THE PROCESS TO ANY OF THE RESULTS THE AMERICANS HOPE MIGHT BE ACHIEVABLE AT THE END OF IT. THIS APPLIES TO HARMONISATION OF CREDIT POLICY, TO DEVELOPMENT OF ALTERNATIVE GAS RESOURCES, AND TO THE DEVELOPMENT OF A CONCEPT OF GOODS AND TECHNOLOGY BEYOND THE STRICTLY MILITARY SPHERE THAT MAY NEED TO BE CONTROLLED. THIS IMPRESSION WILL MAKE IT HARDER FOR SHULTZ TO CONVINCE THE PRESIDENT THAT EVEN IF SOMETHING LIKE THIS PAPER CAN BE AGREED, THERE IS HARDLY ENOUGH IN IT TO EXCUSE LIFTING THE SANCTIONS. I THINK THE FRENCH ARE MISJUDGING THE PRICE THEY MAY HAVE TO PAY TO GET THE AMERICANS TO LIFT SANCTIONS.
4. IT WOULD BE HELPFUL IF YOU COULD GO OVER THIS GROUND WITH CHEYSSON IN LUXEMBOURG TOMORROW AND URGE HIM TO AUTHORISE HIS FRENCH REPRESENTATIVES TO TAKE PART IN DRAFTING. FOR ALL HIS STICKINESS ON PRINCIPLES AND INSISTING THAT THE FOUR-POWER FORUM SHOULD DEAL ONLY WITH BROAD STRATEGY, MY FRENCH COLLEAGUE MORE THAN ONCE ACCEPTED THAT DRAFTING SHOULD BE DONE ALBEIT TO THE SEVEN PLUS. SO THIS MAY BE THE ONLY WAY OF MAKING PROGRESS. WITHOUT AN AGREED PAPER,

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JTHGRG



# SECRET

THERE IS NO CHANCE OF THE PRESIDENT LIFTING THE SANCTIONS. THIS WILL IN TURN MAKE MUCH MORE DIFFICULT THE OBJECTIVE OF GETTING AN AGREED ALLIANCE STRATEGY ON THESE ISSUES (ALLEGEDLY THE PRIME FRENCH GOAL), SINCE FURTHER DISCUSSIONS WILL NOT TAKE PLACE WHILE THE SANCTIONS REMAIN IN PLACE.

5. OTHER POINTS WORTH MAKING TO CHEYSSON ARE:

(I) ANY ATTEMPT TO BRING THE COMMUNITY AS A WHOLE, OR EVEN THE SEVEN PLUS, INTO THE DISCUSSION BEFORE WE SEE A CLEARER WAY AHEAD, WILL ADD TO CONFUSION, REDUCE THE CHANCE OF ULTIMATE AGREEMENT, AND RISK DAMAGING THE U S COMMITMENT TO THE FOUR-POWER FORMAT:

(II) WE MUST BE READY TO ENDORSE IN SOME WAY WHATEVER THE PRESIDENT MAY EVENTUALLY BE BROUGHT TO SAY ABOUT THE NEW WESTERN POSTURE TOWARD S

THE EAST, AT THE TIME HE LIFTS SANCTIONS. AN ACCEPTABLE PROCEDURE FOR THIS SHOULD NOT BE HARD TO AGREE, AND SHOULD NOT BE ALLOWED TO DELAY HIS STATEMENT. (THIS IS ALSO A POINT TO USE WITH GENSCHER):

(III) WITH POTENTIAL TROUBLE AHEAD ON INF AND, MORE IMMEDIATELY, CSCE WE SHOULD SEIZE THE PRESENT OPPORTUNITY TO LANCE THIS BOIL IN INTRA-ALLIANCE RELATIONS. THE AMERICANS HAVE COME A LONG WAY SINCE JUNE. THE FUTURE IS AS MUCH OURS TO DICTATE AS THEIRS. BUT AFTER THE MID-TERM ELECTION ON 2 NOVEMBER, THE PRESIDENT WILL BE UNDER LESS PRESSURE TO LIFT THE CURRENT SANCTIONS FROM THOSE DOMESTIC CONSTITUENCIES NOW BEING HURT BY THEM.

6. NO DOUBT YOU HAVE ALREADY CONSIDERED THE POSSIBILITY OF THE REST OF THE ALLIES ACCEPTING THE PRESENT U S PROPOSALS IN THEIR REDRAFT AND LEAVING THE FRENCH IN ISOLATION, WITH SANCTIONS MAINTAINED AGAINST ALSTHOM ETC. BUT NOT OTHER EUROPEAN COMPANIES. I EXPECT THE GERMANS WOULD FIND DIFFICULTY WITH SUCH A SITUATION, BUT WOULD WE? AND IS THERE ANY PLAY TO BE MADE WITH THE IMPLICATION, NO MORE, TO CHEYSSON THAT OUR MINDS MAY BE TURNING IN THAT DIRECTION?

WRIGHT

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PS/MR HURD

PS/MR RIFKIND

ADD DISTR.  
POLAND SPECIAL

PS/PUS

SIR J BULLARD

MR EVANS

MR THOMAS

MR ADAMS

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3443 OF 24 OCTOBER

INFO IMMEDIATE LUXEMBOURG (PERSONAL FOR PRIVATE SECRETARY)

PRIORITY PARIS, BONN, ROME, UKREP BRUSSELS, COPENHAGEN, UKDEL

NATO (PERSONAL FOR AMBASSADORS) TOKYO, OTTAWA, UKDEL OECD (PERSONAL FOR HEADS OF MISSION)

PERSONAL FOR BULLARD

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE): DETAILED POINTS

1. OPENING THE MEETING, SHULTZ NOTED THAT WE WERE TRYING TO ENHANCE THE STRATEGIC POSTURE OF THE WEST VIS-A-VIS THE EAST, ESPECIALLY IN THE ECONOMIC FIELD. WE WRE DISCUSSING ACTIONS, HOLDING OPERATIONS AND COMMITMENTS TO STUDIES WHICH MIGHT PRODUCE THE NEED FOR FURTHER ACTIONS. THIS EXERCISE WAS A SELF-CONTAINED OPERATION WHICH SHOULD WIN AGREEMENT ON ITS MERITS.

2. THE PRESIDENT FELT THAT, IF IT WERE POSSIBLE TO DEFINE A BETTER STRATEGIC POSTURE FOR THE WEST, THEN THIS WOULD BE PREFERABLE TO THE EFFORTS WITH WHICH THE ADMINISTRATION WERE NOW STRUGGLING TO EXPRESS IN SOME ECONOMIC AREAS THEIR VIEW OF SOVIET BEHAVIOUR. IF THE NEW APPROACH (ENBRACING THE THREE CATEGORIES TO WHICH HE HAD REFERRED - PARAGRAPH 1 ABOVE) WERE AGREED, THE PRESIDENT WOULD BE ABLE TO MOVE FROM ONE SET OF ACTIONS TO ANOTHER. IN DOING SO, THE EXISTENCE OF THE ALTERNATIVE STRATEGIC POSTURE WOULD HAVE TO BECOME PUBLIC. THE PRESIDENT HAD ALREADY TRIED TO PREPARE THE WAY FOR SUCH A MOVE BY PUBLIC STATEMENTS IN WHICH HE HAD DEVELOPED THE US POSITION. A DECISION TO CHANGE COURSE DEPENDED ON WHAT HE FELT HE COULD ACCEPT. HE ATTACHED IMPORTANCE, AS OTHERS DID, TO THE INDEPENDENCE OF THE PRESENT EXERCISE BUT SHULTZ NOTED THAT THE PRESIDENT PERCEIVED A RELATIONSHIP BETWEEN THIS AND OTHER US ACTIONS.

3. VERNIER-PALLIEZ IMMEDIATELY RESPONDED THAT THE PRESENT MEETING SHOULD EXCHANGE VIEWS BUT NOT BECOME A DRAFTING EXERCISE. THIS SHOULD BE LEFT TO THE GROUP OF SEVEN PLUS, WITH ANY ADDITIONAL WORK THEREAFTER BEING DONE IN THE APPROPRIATE FORA (OECD, COCOM ETC). ANY AGREED DOCUMENT SHOULD NOT BE PUBLISHED, BUT THE SUBSTANCE OF IT COULD BE MADE PUBLIC BY THE PRESIDENT ON AN AGREED BASIS, AND IN A WAY TO WHICH OTHERS COULD FORMALLY SUBSCRIBE. THIS SHOULD BE DONE IN CONJUNCTION WITH THE OTHER US ACTIONS TO WHICH SHULTZ HAD REFERRED, AND SHOULD INCLUDE A STATEMENT OF THE READINESS OF ALL CONCERNED TO CONCERT THEIR FUTURE POLICIES IN ORDER TO AVOID FURTHER DIFFERENCES ON THE TYPE OF ISSUES UNDER DISCUSSION.

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14. HERMES



4. HERMES OBJECTED THAT THIS WOULD OVERFORMALISE PROCEDURES. HE SUGGESTED THAT THE US SHOULD ANNOUNCE THE SUBSTANCE OF THEIR POLICIES UNILATERALLY AND THAT OTHERS WOULD AGREE NOT TO CONTRADICT SUCH A STATEMENT. SHULTZ RESPONDED THAT IT WOULD BE EASIER FOR THE PRESIDENT TO ACT IF THE EUROPEANS MADE THE AGREED SUBSTANCE OF THE TEXT PUBLIC, AND DECLARED THEIR OWN INTENTIONS. THE US WOULD NEED A PUBLIC COMMITMENT BY OTHERS TO WHATEVER UNDERTAKINGS WERE AGREED. IT MUST BE PUBLICLY ESTABLISHED THAT AN NEW, IDENTIFIABLE STRATEGIC POSTURE FOR THE WEST HAD BEEN AGREED, AND THAT PARTICIPATING GOVERNMENTS HAD ALSO AGREED TO FURTHER ACTIONS AND STUDIES. I SAID THAT WHILE WE HAD NOT CONSIDERED IN DETAIL THE PUBLIC HANDLING OF THIS QUESTION, WE COULD ACCEPT A CONFIDENTIAL DOCUMENT BASED ON THE PRESENT REDRAFT. I THOUGHT WE WOULD AGREE TO A COLLECTIVE PUBLIC STATEMENT WHICH DREW ON THE SUBSTANCE OF THAT.

5. IN FURTHER DISCUSSION, HERMES CONTINUED TO RESIST THE IDEA OF GIVING THE CONFIDENTIAL DOCUMENT ANY OFFICIAL STATUS, OR OF PUBLIC ACTION BY THE EUROPEANS TO ENDORSE IT, OTHER THAN NOT CONTRADICTING WHATEVER STATEMENT THE PRESIDENT MADE. SHULTZ REFERRED TO AN EARLIER IDEA DISCUSSED WITH GENSCHER, WHEREBY A STATEMENT BY THE PRESIDENT COULD BE MADE IN THE PRESENCE OF AMBASSADORS FROM THE OTHER COUNTRIES CONCERNED, THUS DEMONSTRATING THEIR ENDORSEMENT OF IT.

6. VERNIER-PALLIEZ THEN SIDE-TRACKED THE DISCUSSION INTO AN EXTENDED EXCHANGE ABOUT THE ROLE OF THE FOUR. HE URGED THAT THIS FORUM SHOULD BE USED TO DEFINE AN OVERALL AND LONG-RANGE CONCEPT OF WESTERN RELATIONS TOWARDS THE EAST AND TO ENSURE THAT ACTIONS BY INDIVIDUAL COUNTRIES DID NOT CONFLICT, ESPECIALLY IN THE ECONOMIC/ COMMERCIAL FIELD. SUCH AN OVERALL STRATEGY SHOULD TAKE ACCOUNT OF ALL ASPECTS, INCLUDING SECURITY, DEFENCE, FINANCE AND ECONOMIC FACTORS. UNDER SECRETARIES FOR BOTH POLITICAL AND ECONOMIC AFFAIRS MIGHT NEED TO PARTICIPATE. THE DEVELOPMENT OF THIS FORM OF CONSULTATION SHOULD ALSO BE THE SUBJECT OF TALKS AT MINISTERIAL LEVEL, BILATERALLY AND IN OTHER FOUR-POWER FORMATS.

7. IN ANSWER TO A QUESTION FROM SHULTZ, VERNIER-PALLIEZ CONFIRMED THAT HIS GOVERNMENT WISHED EACH OF THE FOUR TO COMMIT THEMSELVES NOT TO ACT IN EAST-WEST RELATIONS UNLESS SUCH ACTION HAD ALREADY BEEN APPROVED IN THE FOUR-POWER SETTING. HE ADDED, HOWEVER, THAT WHILE BROAD ELEMENTS OF STRATEGY SHOULD BE THE SUBJECT OF CONSIDERATION A QUATRE, PRECISE ACTIONS AND STUDIES WERE NOT APPROPRIATE FOR THIS FORUM.

8. SHULTZ RESPONDED THAT THE FOUR-POWER FORUM HAD APPROVED FRUITFUL, DESPITE PERIODIC STRAINS (INCLUDING THE ITALIAN PROBLEM). HE COULD NOT, HOWEVER, AGREE TO TIE THE PRESIDENT'S HANDS IN THE EXERCISE OF HIS RESPONSIBILITIES BY GIVING OTHER GOVERNMENTS A VETO OVER US POLICIES. AGREEMENT TO CONSULT WAS POSSIBLE BUT FRANCE COULD NOT EXPECT CONTROL OVER US ACTIONS, JUST AS FRANCE WOULD NOT ACCEPT A VETO BY OTHERS OVER HER OWN.

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/ 9. I AGREE



9. I AGREED WITH SHULTZ. WE SHOULD CONTINUE TO STRENGTHEN AND MAKE THE MAXIMUM POSSIBLE USE OF THE FOUR-POWER PROCESS. I COULD ACT AS A STEERING COMMITTEE FOR THE WEST, ENSURING THAT THERE WERE NO SURPRISES. WE WOULD ALSO SEEK TO CONSULT OUR CLOSEST ALLIES REGULARLY ABOUT OUR FUTURE POLICIES BUT COULD NOT ACCEPT A VETO OVER OUR NATIONAL ACTIVITIES.

10. SHULTZ ENDORSED THESE REMARKS, AND IN PARTICULAR MY REFERENCE TO NO SURPRISES. HERMES SUGGESTED THAT THE PRESENT FRENCH PROPOSALS RISKED OVERLOADING THE CURRENT DISCUSSIONS. THE FRG ACCEPTED THE GENERAL CONCEPT. VERNIER-PALLIEZ THEN SAID (SURPRISINGLY) THAT HE COULD ACCEPT OUR VIEW.

11. MOVING TO DISCUSSION OF THE US REDRAFT, I SAID YOU WELCOMED THIS MEETING AND SHULTZ'S PARTICIPATION. WE WANTED TO SEE RAPID PROGRESS SINCE, AS LONG AS SANCTIONS REMAINED IN EFFECT, STRAINS BETWEEN THE ALLIES COULD INCREASE. WITH PARLIAMENT NOW REASSEMBLED, PRESSURE FROM PARLIAMENTARY AND PUBLIC OPINION IN THE UK WOULD INCREASE. WE COULD ACCEPT THE PRESENT REDRAFT, WHICH WE FELT TO BE AN IMPROVEMENT. OUR ACCEPTANCE WAS BASED ON THE UNDERSTANDING THAT WE WERE COMMITTING OURSELVES TO CERTAIN STUDIES WITHOUT PREJUDGING THEIR OUTCOME, TO WHICH WE WOULD HAVE A DEFINITE INPUT: AND THAT ONCE AGREEMENT ON A DOCUMENT HAD BEEN REACHED, SANCTIONS WOULD BE LIFTED. WE ASSUMED THIS WAS ALSO THE WISH OF THE ADMINISTRATION.

12. SHULTZ CONFIRMED THESE POINTS. HE EMPHASISED THAT THE DOCUMENT MUST CONTAIN NOT ONLY THE PROPOSED STUDIES BUT ALSO COMMITMENTS TO AN EXPLICIT PROCESS OF WORK. THERE WERE ALSO COMMITMENTS TO NO NEW GAS CONTRACTS, AND TO PURSUING THE VERSAILLES EXCHANGES ON CREDITS.

13. IN THE EXTENSIVE DISCUSSION THAT FOLLOWED, BOTH THE GERMAN AND FRENCH AMBASSADORS REPEATED, TO A LARGE EXTENT, POINTS ALREADY MADE IN THE PREVIOUS TWO MEETINGS. HERMES WAS marginally MORE POSITIVE THAN BEFORE, ALTHOUGH HE ADDED A NEW GERMAN RESERVATION OVER PARAGRAPH 3(C), NOTING THAT THE CONTRACT FOR GAS SUPPLIES TO WEST BERLIN HAD NOT YET BEEN CONCLUDED. (ON THIS POINT, THE US SIDE THOUGHT THAT SOME SPECIAL ARRANGEMENT COULD BE MADE TO MEET GERMAN NEEDS). VERNIER-PALLIEZ REPEATED THE FRENCH OPPOSITION TO ANY QUESTION OF CONTROLLING THE TRANSFER OF HIGH TECHNOLOGY WHICH, AS A RESULT OF STUDIES WAS SHOWN NOT TO HAVE MILITARY RELEVANCE. IF, ON THE OTHER HAND, IT WAS SHOWN TO MILITARILY RELEVANT, IT SHOULD FALL UNDER COCOM PRESENT CONTROLS. CREDIT PROBLEMS COULD CONTINUE TO BE THE SUBJECT OF STUDY, PROBABLY IN THE OECD, BUT THE COMMITMENT TO HARMONISE CREDIT POLICIES COULD NOT BE ACCEPTED AT THIS STAGE, SINCE IT WOULD PREJUDGE THE RESULTS OF ANY STUDY ON THE ISSUE. VERNIER-PALLIEZ'S OFFER TO INCLUDE A REFERENCE TO THE RUSSIANS NOT RECEIVING CREDIT TERMS MORE FAVOURABLE THAN THOSE GIVEN TO OTHER INDUSTRIALISED OR DEVELOPING COUNTRIES WAS NOT ACCEPTABLE TO SHULTZ. NOR WAS THE LATTER ALTOGETHER HAPPY WITH MY SUGGESTION (YOUR TELNO 1873 PARA 4), THAT THE LAST SENTENCE OF PARAGRAPH (B) OF THE REDRAFT SHOULD CONTAIN A REFERENCE BACK TO THE CRITERIA. HE WAS CONCERNED THAT THIS WOULD OPEN UP THE COMMITMENT TO VERY BROAD INTERPRETATIONS WHICH WOULD REDUCE ITS VALUE.



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14. THE FOLLOWING EXCHANGE ON THE CONCEPT OF SUBSIDISING THE SOVIET ECONOMY BROUGHT NO GREATER MEASURE OF AGREEMENT. SHULTZ ACCEPTED THAT PRIVATE COMPANIES SHOULD TAKE THEIR OWN DECISIONS ON SUBSIDIES. THE US WERE ONLY CONCERNED ABOUT OFFICIAL CREDITS. VERNIER-PALLIEZ MADE IT CLEAR THAT THE PRESENT FRENCH FINANCIAL SITUATION MADE IT IMPOSSIBLE TO ACCEPT THE US PROPOSALS. HERMES ADDED THAT SUBSIDISING OCCURRED NOT ONLY IN THE GRANT OF OFFICIAL CREDITS BUT IN PRODUCTION ITSELF (FOR EXAMPLE, US AGRICULTURE EXPORTS TO THE SOVIET UNION WERE IN EFFECT SUBSIDISED BY THE US GOVERNMENT). SHULTZ SUGGESTED THAT THE PROPOSAL BY FRAU STEEG BEFORE THE VERSAILLES SUMMIT ON CREDITS MIGHT PROVIDE A WAY FORWARD. HE AGREED THAT IT WAS HARD TO PREDICT HOW FAR THE PROPOSED STUDY WOULD GET. DESPITE THIS, VERNIER-PALLIEZ REMAINED FIRMLY OPPOSED TO THE LAST SENTENCE IN PARAGRAPH 3(B), RESPONDING TO MY SUGGESTION WITH THE OBSERVATION THAT THE PRESENT DISCUSSION WAS NOT A DRAFTING EXERCISE.

15. ON PARAGRAPH 3(C) - NO NEW GAS CONTRACTS WHILE THE ENERGY STUDY WAS UNDERWAY, SHULTZ MADE IT PLAIN THAT THE ADMINISTRATION REMAINED CONCERNED ABOUT POSSIBLE SOVIET MOVES TO PREVENT ALTERNATIVE GAS RESOURCES (ESPECIALLY IN NORWAY) FOR THE WESTERN EUROPEANS BEING DEVELOPED IN THE 1980S. HE SUGGESTED THAT, BY EMPLOYING A PREDATORY PRICING POLICY, THE RUSSIANS COULD ENSURE THAT THE NECESSARY INVESTMENT WAS NEVER MADE BY THE WEST, LEAVING THEM DEPENDENT ON SOVIET GAS RESOURCES, AND SUBJECT TO WIDER ECONOMIC PRESSURES LATER IN THE DECADE. VERNIER-PALLIEZ SAID THAT IT WAS A POINT OF PRINCIPLE FOR FRANCE NOT TO ACCEPT THIS COMMITMENT, BUT HE NOTED THAT IN PRACTICE NO NEW CONTRACTS WERE BEING SIGNED. HIS SUGGESTION THAT THE PASSAGE MIGHT BE REDRAFTED TO REFER TO THE EUROPEANS NOT CONTEMPLATING NEW CONTRACTS WAS UNACCEPTABLE TO SHULTZ. HOWEVER, THE LATTER ACCEPTED THAT THE ENERGY STUDY (TO WHICH PARAGRAPH 2 ALSO REFERRED) SHOULD HAVE BOTH US AND JAPANESE PARTICIPATION, ALTHOUGH EAGLEBURGER EXPRESSED STRONG PERSONAL DOUBTS THAT THE JAPANESE WOULD AGREE TO PARTICIPATE.

16. ON PARAGRAPH 3(D), LINKED TO THE SECOND AREA FOR ANALYSIS IN PARAGRAPH 2, THE FRENCH REMAINED FOR FAMILIAR REASONS OPPOSED TO ITS INCLUSION IN THE NON-PAPER. HERMES MADE A VALIANT EFFORT TO OVERCOME THEIR OBJECTIONS BY SUGGESTING THE REPLACEMENT OF THE TROUBLING WORD QUOTE STRATEGIC UNQUOTE BY QUOTE SECURITY UNQUOTE. THIS FOUNDERED ON THE FRENCH INSISTENCE THAT EXPORTS OF MILITARY SIGNIFICANCE SHOULD CONTINUE TO BE CONTROLLED BY COCOM, AND THAT OTHER HIGH TECHNOLOGY EXPORTS SHOULD NOT BE LIABLE TO NEW CONTROLS. SHULTZ CLARIFIED THE US REFERENCE TO QUOTE STRATEGIC UNQUOTE AS MEANING THAT ANY ASSISTANCE WHICH ENABLED ANOTHER GOVERNMENT TO DEVELOP ITS OWN RESOURCES OF OIL AND GAS WAS A CONTRIBUTION TO ITS STRATEGIC CAPABILITY. SOVIET ABILITY, AS A RESULT OF WESTERN TRANSFERS, TO PERFORM TERTIARY DRILLING TECHNIQUES AND TO EXPLOIT OFF-SHORE RESOURCES GAVE THEM A STRATEGIC ADVANTAGE AND ENHANCED THEIR MILITARY CAPABILITY.

17. AFTER THE EXCHANGE REPORTED IN PARAGRAPH 3 OF MIPT SHULTZ LEFT THE MEETING. IN A RATHER CURSORY DISCUSSION OF DETAILED POINTS IN THE US REDRAFT, VERNIER-PALLIEZ INDICATED THAT THE FRENCH WOULD WISH TO SEE SOME CHANGES IN PARAGRAPH 1 (PARTICULARLY THE REPLACEMENT OF QUOTE COORDINATED UNQUOTE WITH QUOTE CONCERTED UNQUOTE). (EAGLEBURGER



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EAGLEBURGER ALSO NOTED THAT THE US WOULD HAVE FURTHER SUGGESTIONS TO MAKE IN PARAGRAPH 2, WHICH WOULD ALTER THE PRESENT REDRAFT. FURTHER ATTEMPTS TO REFINE DIFFERENCES OVER PARTICULAR FORMULAE IN THE PAPER WERE NOT SUCCESSFUL IN THE FACE OF CONTINUED FRENCH REFUSAL TO BEGIN DRAFTING.

18. ALL THE EUROPEAN PARTICIPANTS REFERRED TO THE LIKELIHOOD OF PRIVATE DISCUSSIONS BETWEEN MINISTERS IN LUXEMBOURG OVER THE NEXT STEPS. EAGLEBURGER EMPHASIED THAT IT WOULD BE UNHELPFUL TO FIND OURSELVES IN A SITUATION WHERE THE TEN HAD AGREED A POSITION AND THE US HAD TO START NEGOTIATING WITH THE COMMUNITY AS A WHOLE. (PARTLY AS A DIG AT THE FRENCH) HE STATED THAT THIS WOULD MAKE IT IMPOSSIBLE TO CONTINUE THE PRESENT WORK OF THE FOUR. HE WOULD DISCUSS THE NEXT STEPS WITH SHULTZ ON THE LATTER'S RETURN FROM CANADA TOMORROW. BUT HE REPEATED THAT THE US WERE AT PRESENT NOT READY TO PROCEED TO A FURTHER DISCUSSION WITH THE SEVEN PLUS, SAW NO SENSE IN TRYING TO PRODUCE A NEW REDRAFT AT THIS STAGE, AND DID NOT BELIEVE THAT THE PRESENT REDRAFT, WITHOUT ALL THE CONCEPTS IN PARAGRAPH 3, WOULD BE SUFFICIENT TO ALLOW THE PRESIDENT TO LIFT SANCTIONS. VERNIER-PALLIEZ SUGGESTED THAT IF THE FIVE EUROPEANS COULD AGREE A POSITION IN LUXEMBOURG, A MEETING OF THE SEVEN PLUS COULD BE HELD THEREAFTER IN WASHINGTON. HERMES AND I EXPRESSED DOUBTS THAT THIS WOULD IN FACT PROVE POSSIBLE. WE WOULD URGE OUR MINISTERS NOT TO ALLOW THE COMMUNITY COLLECTIVELY TO TAKE UP ANY FIRM POSITIONS WHILE IN LUXEMBOURG.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3442 OF 24 OCTOBER

INFO IMMEDIATE LUXEMBOURG (PERSONAL FOR PRIVATE SECRETARY)

PRIORITY PARIS, BONN. ROME, UKREP BRUSSELS, COPENHAGEN, UKDEL

NATO (PERSONAL FOR AMBASSADORS) TOKYO, OTTAWA, UKDEL OECD (PERSONAL FOR HEADS OF MISSION)

PERSONAL FOR BULLARD

YOUR TELNOS 1877 TO 1879: EAST-WEST ECONOMIC RELATIONS (PIPELINE):  
SUMMARY OF 24 OCTOBER MEETING

1. SHULTZ DISCUSSED TODAY WITH THE THREE AMBASSADORS FOR TWO HOURS (UNTIL HE HAD TO LEAVE FOR CANADA) THE REDRAFTED US NON-PAPER (MY TELNO 3439). THEREAFTER THERE WAS FURTHER DISCUSSION CHAIRED BY EAGLEBURGER. HERMES AND I GAVE GENERAL SUPPORT TO THE REDRAFT. I DREW WHEN APPROPRIATE ON YOUR TELNO 1878. HOWEVER, WE WERE UNABLE TO MAKE FURTHER PROGRESS. THE FRENCH POSITION REMAINED UNCHANGED ON THE QUESTION OF HARMONISING OFFICIAL CREDITS, ON NEW GAS CONTRACTS WITH THE SOVIET UNION WHILE THE ENERGY STUDY WAS UNDER WAY, AND ON THE PROPOSED IMMEDIATE STUDY OF WHETHER CONTROLS OF STRATEGICALLY SIGNIFICANT ADVANCED TECHNOLOGY AND EQUIPMENT EXPORTS TO THE EAST WERE REQUIRED. THIS, DESPITE A TELEPHONE DISCUSSION BETWEEN SHULTZ AND CHEYSSON JUST BEFORE THE MEETING, DURING WHICH THE LATTER APPARENTLY SAID THAT HE HAD GIVEN VERNIER-PALLIEZ NEW INSTRUCTIONS.

2. THESE APPEARED TO CONSIST OF A REQUIREMENT TO STICK TIGHT ON ALL THE POINTS AT ISSUE, TO EMPHASISE THE CENTRAL ROLE OF THE FOUR IN DECIDING THE OVERALL WESTERN APPROACH TO THE EAST (INCLUDING A POSSIBLE VETO OVER ACTIONS BY THE OTHERS), AND A REFUSAL TO DRAFT WITHIN THE FOUR, THIS TASK BEING LEFT TO THE SEVEN PLUS. THERE WAS AN INCONCLUSIVE EXCHANGE ON THE PUBLIC HANDLING OF ANY AGREEMENT.

3. BEFORE LEAVING THE MEETING SHULTZ SAID THAT WE SEEMED TO BE MOVING AWAY, RATHER THAN TOWARDS A NEW AGREEMENT. HE HAD SOME DOUBTS ABOUT THE VALUE OF CONTINUING THE DISCUSSION, AND SUGGESTED THAT ALL CONCERNED SHOULD REFER BACK TO THEIR AUTHORITIES FOR FURTHER INSTRUCTIONS. I REPLIED THAT THE MEETING HAD BEEN VALUABLE IN IDENTIFYING THE REMAINING PROBLEMS MORE CLEARLY. I BELIEVED THAT SOME OF THESE COULD STILL BE RESOLVED WITH FURTHER WORK. THE US HAD INTRODUCED A NEW CONCEPT, THAT STRATEGIC EXPORT COULD ENCOMPASS TECHNOLOGY AND EQUIPMENT OF NO IMMEDIATE MILITARY RELEVANCE. IT WOULD BE USEFUL TO STUDY WHETHER THIS US CONTENTION WAS VALID. IN

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THE COURSE OF SUCH A STUDY, THE ALLIES MIGHT BE CONVINCED BY US ARGUMENTS BUT THE CASE WOULD HAVE TO BE PROPERLY ARGUED. HERMES SHARED MY CAUTIOUS OPTIMISM. VERNIER-PALLIEZ EMPHASISED THAT FOR THE FRENCH THE MOST IMPORTANT ASPECT OF THE CURRENT WORK WAS THE DEVELOPMENT OF A COMMON APPROACH TOWARDS THE EAST.

4. SHULTZ CONCLUDED THAT FOR THE MOMENT THERE WAS NO POINT IN A FURTHER MEETING OF THE SEVEN PLUS. ANOTHER MEETING OF THE FOUR WOULD BE NEEDED BEFORE THIS COULD USEFULLY TAKE PLACE. HIS LAST POINT WAS THAT AGREEMENT ON A PAPER WHICH ONLY COVERED THE ISSUES IN PARAGRAPHS 2 AND 3 (A) OF THE PRESENT DRAFT WOULD NOT BE SUFFICIENT TO ALLOW THE PRESIDENT TO LIFT THE PIPELINE SANCTIONS.

5. DETAILED POINTS MADE DURING THE MEETING ARE REPORTED IN MIFT.

6. MY CONCLUSIONS AND RECOMMENDATIONS ARE CONTAINED IN MY SECOND IFT.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 3439 OF 22 OCTOBER

FOLLOWING PERSONAL FOR BULLARD

MY TELNO 3434: EAST-WEST ECONOMIC RELATIONS

1. FOLLOWING IS TEXT OF U.S. REDRAFTED PAPER, FOR DISCUSSION AT FOUR-POWER MEETING WITH SHULTZ ON 24 OCTOBER: QUOTE

1. OUR GOVERNMENTS RECOGNIZE THE NECESSITY OF CONDUCTING THEIR RELATIONS WITH THE USSR ON THE BASIS OF A GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE OUR OWN FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY CONSCIOUS OF THE NEED FOR A COMMON APPROACH IN THE ECONOMIC FIELD, WHERE ACTIONS MUST BE COORDINATED WITHIN THE FRAMEWORK OF THEIR GLOBAL STRATEGY. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES AND TO ENSURE THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND IN A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

2. THEY AGREE THAT THE FOLLOWING CRITERIA SHOULD GOVERN THE ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES.

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS WHICH CONTRIBUTE TO THE MILITARY CAPABILITIES OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE SOVIET ECONOMY: TRADE SHOULD BE CONDUCTED IN A PRUDENT MANNER WITHOUT PREFERENTIAL TREATMENT.

-- THAT THEY WILL TAKE NO STEPS THAT WEAKEN THE STRATEGIC POSITION OF THE WEST.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC WARFARE AGAINST THE SOVIET UNION. TRADE WITH THE SOVIET UNION AND EASTERN EUROPE SHOULD PROCEED ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES AND OBLIGATIONS.

THEY AGREE TO EXAMINE THOROUGHLY HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A COMMON LINE OF ACTION. THEY WILL PAY DUE ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE COUNTRIES.

THIS OVERALL ANALYSIS WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

-- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM):



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- HIGH TECHNOLOGY OF POSSIBLE STRATEGIC IMPORTANCE INCLUDING OIL AND GAS EQUIPMENT:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

IN THE FIELD OF ENERGY, THE EUROPEAN GOVERNMENTS, AS THEY ARE HEAVILY DEPENDENT ON IMPORTS OF ENERGY, WILL INITIATE A STUDY OF PROJECTED EUROPEAN ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THOSE REQUIREMENTS. THE UNITED STATES WILL PARTICIPATE IN THIS STUDY. IT WILL BE PREPARED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION THE FOLLOWING DECISIONS ALREADY MADE, THEY HAVE AGREED ON THE FOLLOWING:

(A) THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THE CONTEMPORARY SECURITY INTERESTS OF THE ALLIANCE. THE LIST OF STRATEGIC ITEMS WOULD BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY FURTHER AGREE TO TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE ALLIES ARE AGREED ON THE NEED TO ESTABLISH WITHOUT DELAY THE NECESSARY MECHANISM FOR THIS PURPOSE. (BEGIN SQUARE BRACKETS) HAVING IN MIND THE OBJECTIVE OF NOT SUBSIDIZING THE SOVIET ECONOMY, ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO HARMONIZE NATIONAL POLICIES WITH RESPECT TO THE EXTENSION OF CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES. (END SQUARE BRACKETS)

(C) (BEGIN SQUARE BRACKETS) DURING THE COURSE OF THE STUDY ON ENERGY, ALLIED GOVERNMENTS WILL NOT APPROVE NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS FOR WHICH NEGOTIATIONS HAVE NOT BEEN CONCLUDED. (END SQUARE BRACKETS)

(D) (BEGIN SQUARE BRACKETS) ALLIED GOVERNMENTS AGREE TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF STRATEGICALLY SIGNIFICANT ADVANCED TECHNOLOGY AND EQUIPMENT, TO BE JOINTLY DETERMINED, BUT INCLUDING TECHNOLOGY WITH DIRECT APPLICATION TO THE OIL AND GAS SECTOR. ANY ACTIONS WOULD BE AGREED UPON AND IMPLEMENTED WITHIN A FRAMEWORK TO BE AGREED. (END SQUARE BRACKETS)

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FM WASHINGTON 222335Z OCT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 3434 OF 22 OCTOBER

PERSONAL FOR BULLARD

MY TWO IMMEDIATELY PRECEDING TELEGRAMS:

MEETING OF THE SEVEN ON EAST/WEST ECONOMIC RELATIONS

1. AS YOU WILL SEE FROM MY TWO IPT'S WE HAVE MOVED A LITTLE SINCE YESTERDAY. AT LEAST THE FRENCH NOW ACCEPT THE SHULTZ NON-PAPER AS A BASIS FOR DISCUSSION. BUT AGAINST THIS, TO THEIR EARLIER OBJECTIONS ON CREDITS AND ON THE EXAMINATION OF HIGH TECHNOLOGY EXPORTS, THEY HAVE ADDED AN OBJECTION TO ACCEPTING A COMMITMENT NOT TO ENTER INTO NEW ENERGY CONTRACTS WITH THE SOVIET UNION WHILE THE ENERGY STUDY IS UNDER WAY.
2. THE GOOD NEWS IS THAT ALMOST EVERYONE, EXCEPT THE FRENCH, ARE ON BOARD FOR THE BULK OF THE SHULTZ NON-PAPER. SUCH DIFFICULTIES AS WERE RAISED TODAY BY THE OTHERS CAN PROBABLY BE TAKEN CARE OF BY DRAFTING. THE JAPANESE MADE IT CLEAR THAT THEIR ONLY REAL DIFFICULTY WAS THE PROPOSAL FOR AN IMMEDIATE EXAMINATION OF WHETHER CONTROLS WERE NEEDED ON THE EXPORT OF HIGH TECHNOLOGY, BUT TRUE TO FORM ADMITTED THAT IF EVERYONE ELSE COULD GO ALONG WITH IT SO COULD THEY.
3. EAGLEBURGER HAS COMMISSIONED A REDRAFT OF THE SHULTZ NON-PAPER WHICH HE HOPES TO LET US, THE FRENCH AND THE GERMANS HAVE TONIGHT. HE DOES NOT EXPECT THAT, THIS TIME ROUND, THE REDRAFT WILL MEET ALL THE FRENCH OBJECTIONS. BUT HE HOPES THAT IT WILL HELP TO FLUSH OUT WHATEVER THE REAL FRENCH DIFFICULTIES MAY BE.
4. EAGLEBURGER IS FAIRLY CONFIDENT THAT THE PROBLEM OVER THE TREATMENT OF OIL AND GAS TECHNOLOGY IN THE LIST OF AREAS TO BE COVERED IN THE OVERALL ANALYSIS (PARATRAPH 2 OF THE SHULTZ NON-PAPER) CAN BE TAKEN CARE OF BY DRAFTING. IT MIGHT POSSIBLY BE DONE BY INCLUDING IT UNDER ENERGY RATHER THAN UNDER HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE.
5. HE IS LESS SURE WHETHER THE GAP ON CREDITS CAN BE BRIDGED. HE HAS YET TO TEST WHETHER THE FRENCH CONCEPT OF AVOIDING QUOTE PREFERENTIAL TREATMENT UNQUOTE INSTEAD OF QUOTE SUBSIDISING UNQUOTE WOULD DO FOR THE AMERICANS. (IT WOULD PRESUMABLY CAUSE US NO PROBLEMS). HE HIMSELF THOUGHT PRIVATELY THAT IT MIGHT BE MADE TO RUN HERE, BUT I IMAGINE THERE WOULD STILL BE AMERICAN PRESSURE FOR QUOTE ESTABLISHING THE MEANS TO HARMONISE NATIONAL



POLICIES UNQUOTE ON CREDITS WHICH MAY BE WHERE THE HEART OF THE FRENCH DIFFICULTY LIES.

6. EAGLEBURGER ALSO THINKS IT IS GOING TO BE EXTREMELY DIFFICULT TO SHIFT THE AMERICAN POSITION BACK ANY FURTHER ON THE LAST POINT IN THE SHULTZ NON-PAPER (PARAGRAPH 3D) WHICH CALLS FOR AN IMMEDIATE STUDY ON WHETHER THE SECURITY INTERESTS OF THE ALLIED GOVERNMENTS REQUIRED CONTROLS ON EXPORTS OF STRATEGICALLY SIGNIFICANT ADVANCED TECHNOLOGY AND EQUIPMENT, INCLUDING OIL AND GAS TECHNOLOGY. WHEN THEY ORIGINALLY PUT FORWARD THIS IDEA THEIR SUGGESTION WAS THAT WE SHOULD AGREE NOT SIMPLY TO STUDY THE QUESTION BUT TO IMPOSE CONTROLS ON SUCH EXPORTS. EAGLEBURGER WOULD CLEARLY HAVE GREAT DIFFICULTY IN GETTING AGREEMENT HERE TO FURTHER DILUTION OF THIS CONCEPT.

7. ALTHOUGH THEREFORE TODAY'S MEETING WAS AGAIN MODERATELY ENCOURAGING, THE AREAS OF DISAGREEMENT WERE LEFT JUDICIOUSLY IMPRECISE. PERHAPS THE MOST IMPORTANT THING IS THAT THE PROCESS IS STILL IN TRAIN. BUT A LOT OF CONCESSIONS STILL REMAIN TO BE MADE ON ONE SIDE OR THE OTHER IF WE ARE TO FINISH UP WITH AN AGREEMENT THAT WILL ENABLE THE AMERICANS TO LIFT THE SANCTIONS.

9. THERE WILL BE ANOTHER MEETING OF THE SEVEN PLUS THE PRESIDENCY AND THE COMMISSION, LATER NEXT WEEK TO GO OVER THE AMERICAN REDRAFT. OUR OWN POSITION IS SUFFICIENTLY FLEXIBLE TO ENABLE US IN THE MEANTIME TO ENABLE TO CONTINUE TO PROMOTE AN AGREEMENT THAT WILL NOT DAMAGE OUR OWN INTERESTS. BUT IT WILL BE IMPORTANT TO AVOID GETTING LOCKED INTO A COMMUNITY POSITION NEXT WEEK. I HOPE THAT AT THE COUNCIL MEETING IN LUXEMBOURG ON 25 OCTOBER WHEN THE PRESIDENCY AND THE COMMISSION WILL MAKE A REPORT ON TODAY'S DISCUSSIONS, THE DISCUSSION CAN BE CONFINED TO TAKING NOTE OF THE PROGRESS MADE, IN THE MOST POSITIVE TERMS THAT CAN BE MUSTERED. FOR THIS IT MAY BE HELPFUL THAT THE AMERICANS DO NOT EXPECT TO CIRCULATE THEIR REVISED DRAFT MORE WIDELY UNTIL AFTER IT HAS BEEN DISCUSSED BY THE FOUR.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 3433 OF 22 OCTOBER

INFO PRIORITY BONN, PARIS, ROME, UKREP BRUSSELS, COPENHAGEN, UKDEL  
NATO, TOKYO, OTTAWA, UKDEL OECD, LUXEMBOURG.

INFO SAVING OTHER NATO POSTS, DUBLIN, MOSCOW.

MIPT: EAST-WEST ECONOMIC RELATIONS

1. AT TODAY'S MEETING OF THE SUMMIT SEVEN, THE PRESIDENCY AND THE COMMISSION WITH STATE DEPARTMENT OFFICIALS, THE FOLLOWING DETAILED POINTS WERE MADE ON THE SHULTZ NON-PAPER PRESENTED AT LA SAPINIÈRE.

2. GOTTLIEB (CANADA) ACCEPTED THE THREE CRITERIA IN PARAGRAPH 2, NOTING THE NEED IN THE COURSE OF THE PROPOSED STUDIES TO ACHIEVE A COMMON UNDERSTANDING OF THE MEANING OF QUOTE STRATEGIC ADVANTAGE UNQUOTE AND QUOTE SUBSIDISING UNQUOTE, AND THE EXTENT TO WHICH WE WERE TO DIFFERENTIATE BETWEEN EASTERN COUNTRIES. ON PARAGRAPH 3, CANADA ACCEPTED SUB-PARAGRAPH A, SO LONG AS THIS WAS NOT TO BECOME A REDEFINITION OF COCOM PROCEDURES AND CONTROLS. SUB-PARAGRAPH B WAS ALSO ACCEPTABLE, IF IT DID NOT AMOUNT TO MAKING THE SUMMIT PROCEDURES TOO BUREAUCRATIC. HARMONISATION ON CREDIT POLICY WAS WELCOME, ESPECIALLY ON THE BASIS OF THE OECD CONSENSUS. THE SOVIET UNION SHOULD NOT BE SINGLED OUT FOR SPECIAL TREATMENT. AN OVERALL AGREEMENT ON THE DEFINITION OF THE AIMS OF SUB-PARAGRAPH D WOULD BE NEEDED. DID THE U.S. PROPOSE TO FOCUS SOLELY ON OIL AND GAS, OR ON OTHER AREAS AS WELL? WHAT RELATIONSHIP WITH COCOM WAS ENVISAGED?

3. IN RESPONSE BURT (STATE DEPARTMENT) SAID THAT THE U.S. DID NOT ADVOCATE A FUNDAMENTAL RESTRUCTURING OF COCOM, WHICH SHOULD CONTINUE TO FOCUS ON MILITARILY RELEVANT TECHNOLOGIES. THEY SAW THE REVIEW MECHANISM AND THE HARMONIZATION EFFORT ON CREDIT TAKING PLACE IN THE FRAMEWORK OF OECD. THERE WAS NO RISK OF MAKING THE SUMMIT STRUCTURE TOO BUREAUCRATIC. IN THE AREA OF HIGH TECHNOLOGY, THEY FELT OIL AND GAS EQUIPMENT SHOULD BE EXAMINED, BUT SOME COUNTRIES MIGHT WISH TO CONSIDER OTHER AREAS. THE U.S. WERE NOT PRE-JUDGING THE OUTCOME OF THIS STUDY, ONLY SEEKING AGREEMENT TO EXAMINE THE SUBJECT WITH URGENCY. COCOM AS AN EXISTING MECHANISM COULD BE USEFUL IN WORKING OUT JOINTLY-AGREED CONTROLS, BUT THE RELATIONSHIP BETWEEN THE ADMINISTRATION OF THESE AND THE PRESENT COCOM MACHINERY COULD REMAIN LOOSE.

4. HERMES (FRG) NOTED THE NEED TO DEFINE MORE CLEARLY SOME OF THE LANGUAGE IN THE NON-PAPER. IT MUST ALSO BE CLEAR THAT, IF WE WERE TO MOVE TOWARDS A COMMON POLICY FOR THE EAST, BURDENS WOULD BE

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/ FAIRLY



FAIRLY SHARED, AND PARTICULAR COUNTRIES WOULD NOT WIN COMPETITIVE ADVANTAGE. HE COULD NOT AGREE TO THE NON-PAPER BEING MADE PUBLIC, A POINT LATER ECHOED BY THE JAPANESE.

5. DENMAN (COMMISSION) NOTED THAT A RANGE OF ISSUES IN THE NON-PAPER CAME WITHIN COMMUNITY COMPETENCE. THE TEN WERE TRYING TO COORDINATE THEIR APPROACH TO THESE, AND THE COUNCIL IN LUXEMBOURG ON 25/26 OCTOBER WOULD PROBABLY DISCUSS THEM. BORCH (PRESIDENCY) EMPHASISED THE SPECIAL DANISH RESPONSIBILITY TO ENSURE THAT ANY AGREEMENT ACCORDED WITH COMMUNITY REGULATIONS. HE REFERRED TO HIS EARLIER DEMARCHE TO EAGLEBURGER (NY TELNO 3397).

6. PETRIGNANI (ITALY) NOTED THAT PARAGRAPH 3(C) WOULD BE UNACCEPTABLE IF IT MEANT THAT THE CONTRACT ALREADY SIGNED BY AN ITALIAN COMPANY WITH SOYUZGAS BUT NOT YET APPROVED BY THE ITALIAN GOVERNMENT WOULD CONTRAVENE THE AGREEMENT, SHOULD THE GOVERNMENT DECIDE TO APPROVE IT. HE COULD AGREE TO STRICTER CONTROL OVER THE VOLUME OF CREDITS, AND NOTED THAT SOME OF THE CONCERNS EXPRESSED BY OTHERS WERE SHARED BY ITALY.

7. I SAID THAT WE WOULD HAVE A DETAILED INPUT TO MAKE TO THE STUDIES WHEN THEY BEGAN. FOR EXAMPLE, THERE WOULD BE EVIDENT PROBLEMS IN HARMONISING CREDIT POLICY. THE STUDY ESTABLISHED UNDER PARAGRAPH 3(D) SHOULD FIRST DECIDE WHETHER CONTROLS WERE NEEDED, AND WHAT THEIR AIM WOULD BE. I EMPHASISED THAT OUR AGREEMENT TO ACCEPT THE NON-PAPER AS A BASIS FOR WORK DID NOT IMPLY ACCEPTANCE OR PREJUDGEMENT OF THE OUTCOME OF THE STUDIES. EAGLEBURGER COMMENTED THAT THE U.S. APPROACH WAS IDENTICAL TO OURS.

8. VERNIER-PALLIEZ (FRANCE) MADE A LENGTHY CRITIQUE OF THE NON-PAPER. DEALING FIRST WITH THE CRITERIA, FRANCE COULD ACCEPT THE FIRST CRITERION BUT WOULD PREFER MORE PRECISE LANGUAGE ON QUOTE THE MILITARY CAPACITY UNQUOTE OF THE SOVIET UNION. THEY WOULD PROPOSE NEW WORDING. THE REFERENCE TO QUOTE SUBSIDIZING UNQUOTE IN THE SECOND CRITERION COULD BE CONFUSING. FRANCE WOULD PREFER TO MAINTAIN THE IDEAS OF QUOTE NO PREFERENTIAL TREATMENT OF THE SOVIET UNION UNQUOTE, AND QUOTE STRICT BALANCE BETWEEN ADVANTAGES AND OBLIGATIONS UNQUOTE. THE WORD QUOTE STRATEGIC UNQUOTE IN THE THIRD CRITERION NEEDED FINER DEFINITION. OTHERWISE IT COULD BE AMBIGUOUS. VERNIER-PALLIEZ ALSO PROPOSED THAT QUOTE NEGATIVE CRITERIA UNQUOTE SHOULD BE ADDED TO THE NON-PAPER. FOR EXAMPLE, THERE SHOULD BE A REFERENCE TO THE FACT THAT WESTERN COUNTRIES DID NOT OPPOSE TRADE WITH THE EAST, NOR DID THEY WISH TO DAMAGE THE ECONOMIES OF THE EAST

9. CONTINUING HIS CRITIQUE OF PARAGRAPH 2, HE SUGGESTED THAT THE REFERENCE TO DIFFERENTIATING BETWEEN EASTERN COUNTRIES SHOULD BE ELABORATED. A CLEAR DISTINCTION SHOULD ALSO BE DRAWN BETWEEN STUDIES AND ACTIONS TO BE TAKEN BY GOVERNMENTS. THE FIRST AREA

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FOR ANALYSIS IN PARAGRAPH 2 PRESENTED NO PROBLEM. HIGH TECHNOLOGY WAS ALSO ACCEPTABLE AS AN AREA FOR ANALYSIS, BUT THERE SHOULD NOT BE A REFERENCE TO OIL AND GAS, SINCE THIS WOULD PRE-JUDGE THE OUTCOME OF THE STUDIES. IF SUCH EQUIPMENT HAD A MILITARY RELEVANCE, THEN IT COULD BE SUBSUMED WITHIN COCOM PROCEDURES. IF IT DID NOT, WE SHOULD NOT TRY TO BLOCK THE TRANSFER OF SUCH TECHNOLOGY. AGRICULTURAL GOODS SHOULD BE INCLUDED IN THE AREAS FOR ANALYSIS, A POINT EAGLEBURGER IMMEDIATELY ACCEPTED. ON CREDITS, VERNIER-PALLIEZ NOTED THAT THIS PROBLEM HAD ALREADY BEEN STUDIED EXTENSIVELY. IT WOULD BE HARD FOR FRANCE TO INCLUDE THIS AMONG AREAS FOR ANALYSIS (ALTHOUGH VERNIER-PALLIEZ DID NOT SAY THEY WOULD NOT AGREE). AS IN THE CRITERIA, THE PROBLEM MIGHT BE APPROACHED ALONG THE LINES THAT PREFERENTIAL TREATMENT SHOULD NOT BE GIVEN TO THE SOVIET UNION. A STUDY OF ENERGY POLICY WOULD BE WELCOME, AS ONE OF THE MAJOR PROBLEMS FOR THE WEST.

10. IN PARAGRAPH 3, SUB PARAGRAPH A WAS ACCEPTABLE; AS WAS SUB PARAGRAPH B, WITH THE EXCEPTION OF THE LAST SENTENCE. BUT HE WOULD LIKE THE INCLUSION OF QUOTE COMMERCIAL UNQUOTE AS WELL AS ECONOMIC AND FINANCIAL, RELATIONS WITH THE EAST AS HAD BEEN AGREED AT VERSAILLES. FRANCE COULD NOT ACCEPT SUB PARAGRAPH C, SO LONG AS IT IMPLIED ACTION. RATHER THAN A STUDY BY GOVERNMENTS. NOR, AT PRESENT, COULD FRANCE ACCEPT SUB-PARAGRAPH D. IF IT AMOUNTED TO A STUDY SIMILAR TO THE OTHERS, THEY WOULD RECONSIDER THEIR POSITION. HOWEVER, THE SAME PROBLEM AS BEFORE APPLIED TO THE REFERENCE TO OIL AND GAS, WHICH WOULD PREJUDGE CONCLUSIONS OF THE STUDY.

11. OKAWARA (JAPAN) SPOKE OF THE NEED TO DEFINE MORE CLEARLY THE CRITERIA IN PARAGRAPH 2. IN PARAGRAPH 3, SUB PARAGRAPH A WAS ACCEPTABLE, AND JAPAN FAVOURED SOME CONTROLS (SUB PARAGRAPH B) OVER OFFICIAL CREDITS IF THESE WERE TO APPLY TO TERMS AND CONDITIONS RATHER THAN VOLUME (AS HAD BEEN AGREED BEFORE VERSAILLES). SUB PARAGRAPH C WAS ACCEPTABLE BUT SUB PARAGRAPH D COULD LEAD TO CONTROLS ON OVERALL EAST-WEST TRADE, IF COCOM PROCEDURES WERE EXTENDED BEYOND THEIR PRESENT SCOPE. IT WAS NOT CLEAR WHETHER THIS WOULD BE PRACTICAL OR WISE, AND JAPAN THEREFORE FOUND IT HARD TO ACCEPT SUB PARAGRAPH D AT THIS POINT. JAPAN WOULD ALSO NEED SPECIAL TREATMENT OVER SAKHALIN.

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/ 12. HERMES



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12. HERMES (FRG) MADE NO FURTHER SPECIFIC COMMENTS, EXPLAINING THAT HIS CONCERNS HAD ALREADY BEEN EXPRESSED BY OTHERS. THE PRESIDENCY AND COMMISSION REPRESENTATIVES HAD NO SPECIAL COMMENTS.

RESIDENT CLERK: PLEASE ALERT BULLARD AND R EVANS.

F C O PASS SAVING TO ANKARA, ATHENS, BRUSSELS, LISBON, DUBLIN  
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TO IMMEDIATE F C O

TELNO 3432 OF 22 OCTOBER 1982,

INFO PRIORITY PARIS, BONN, COPENHAGEN, UKREP BRUSSELS,  
UKDEL NATO, OTTAWA, UKDEL OECD, TOKYO, ROME, LUXEMBOURG,  
INFO SAVING OTHER NATO POSTS, DUBLIN, MOSCOW.

EAST-WEST ECONOMIC RELATIONS AND THE PIPELINE

1. EAGLEBURGER, ACCOMPANIED BY WALLIS, BURT AND OTHER STATE DEPARTMENT OFFICIALS, HELD A MEETING THIS AFTERNOON WITH HEADS OF MISSION FROM THE SUMMIT SEVEN COUNTRIES, PLUS THE PRESIDENCY AND THE COMMISSION. DISCUSSION WAS BASED UPON THE SHULTZ NON-PAPER PRESENTED AT THE LA SAPINIERE MEETING (YOUR TELNO 1774 - NOT TO ALL).
2. THERE WAS A GENERAL WELCOME FOR THE US INITIATIVE IN CALLING THE MEETING, IN RESPONSE (AS EAGLEBURGER PUT IT) TO THE PRESIDENCY DEMARCHE LAST WEEK (MY TELNO 3387 - NOT TO ALL). EAGLEBURGER EXPLAINED THAT THE NON-PAPER REPRESENTED THE BEST US EFFORT, FOLLOWING SHULTZ'S TALKS WITH HIS COLLEAGUES, TO ACCOMMODATE VARIOUS POINTS OF VIEW. IT HAD BEEN REVIEWED AT THE HIGHEST LEVELS IN WASHINGTON AND WAS ACCEPTABLE TO THE ADMINISTRATION. THEY NOW HOPED TO REACH FULL ALLIED AGREEMENT ON IT. THE US WOULD BE UNABLE TO TAKE ANY FURTHER UNILATERAL ACTIONS UNTIL AN ADEQUATE AGREEMENT HAD BEEN REACHED ON THE RANGE OF QUESTIONS IN THE NON-PAPER. HOWEVER, EAGLEBURGER CONTINUED, IF FULL AGREEMENT COULD BE REACHED ON A DOCUMENT CONTAINING THE SUBSTANCE OF THE PRESENT NON-PAPER, PERHAPS WITH ADDITIONS OR SUBTRACTIONS, THE ADMINISTRATION WOULD TAKE STEPS TO LIFT SANCTIONS AFFECTING EXISTING CONTRACTS FOR THE PIPELINE. THEREAFTER, BILATERAL DISCUSSIONS WOULD BE NEEDED ON THE PRECISE STEPS INVOLVED FOR EACH COUNTRY DIRECTLY CONCERNED.
3. I EMPHASISED YOUR STRONG WISH THAT WE SHOULD MAKE URGENT PROGRESS TOWARDS REACHING A COMMON APPROACH ON OUR ECONOMIC AND COMMERCIAL RELATIONS WITH THE EAST. WE SAW THE NON-PAPER AS A CONSTRUCTIVE DOCUMENT, WHICH WE WERE PREPARED TO ACCEPT ON THE UNDERSTANDING THAT IT PROVIDED A GENERAL ORIENTATION FOR AN OVERALL APPROACH. IN ACCEPTING THE NON-PAPER, WE AGREED TO ENGAGE IN CERTAIN STUDIES BUT WERE NOT COMMITTING OURSELVES TO THE OUTCOME OF THESE. I NOTED THAT THE PRESIDENT HAD RECENTLY MADE A NUMBER OF PUBLIC STATEMENTS ABOUT HIS DESIRE TO LIFT SANCTIONS AND TO REACH A COLLECTIVE ALLIANCE POLICY TOWARDS THE EAST.

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/ 4. MY WELCOME



4. MY WELCOME FOR THE NON-PAPER AND ACCEPTANCE OF IT AS A BASIS FOR FURTHER DISCUSSION WAS ECHOED BY ALL OTHER SPEAKERS, INCLUDING THE FRENCH AMBASSADOR. THERE WAS GENERAL AGREEMENT ON THE NEED TO ACHIEVE A COMMON APPROACH ON ECONOMIC AND COMMERCIAL RELATIONS WITH THE EAST. IT WAS ALSO AGREED THAT IT WOULD BE APPROPRIATE TO ENGAGE IN A NUMBER OF STUDIES TO THIS END. HOWEVER, A NUMBER OF SPEAKERS SOUGHT CLARIFICATION, AND, IN SOME CASES, REDEFINITION OF THE PRESENT US LANGUAGE. DETAILED COMMENTS ARE REPORTED IN MIFT.

5. SUMMING UP THE SENSE OF THE MEETING, EAGLEBURGER SAID THERE WAS A RANGE OF VIEWS ON THE ADEQUACY OF THE CRITERIA IN THE NON-PAPER, WITH SOME SPEAKERS REQUIRING MORE SPECIFICITY. HE AGREED THAT AGRICULTURE SHOULD BE INCLUDED IN THE AREAS FOR ANALYSIS. THERE WAS SOME DISAGREEMENT ON OTHER AREAS, ESPECIALLY THE SPECIFIC REFERENCES TO OIL AND GAS SINCE THESE WERE THOUGHT TO PREJUDGE THE ISSUE. HE NOTED THAT, WITHOUT SUCH A REFERENCE, THE FRENCH COULD ACCEPT THE SECOND AREA FOR ANALYSIS (HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE), ALTHOUGH THEY DID NOT NECESSARILY ACCEPT THE IMPLIED LINK WITH COCOM. HE ALSO NOTED THAT, IN THE US VIEW, THERE WAS A DISTINCTION TO BE MADE BETWEEN THE ANALYSIS OF HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE, AND THE IMMEDIATE EXAMINATION OF STRATEGICALLY SIGNIFICANT TECHNOLOGY AND EQUIPMENT TO WHICH PARAGRAPH 3D REFERRED. THE FRENCH COULD ACCEPT THE FORMER, BUT NOT THE LATTER.

6. IN RESPONSE TO A CANADIAN ENQUIRY, EAGLEBURGER CLARIFIED SHULTZ'S REFERENCE TO A FURTHER AND BROADER STUDY, NOTING THAT THIS SHOULD TAKE ACCOUNT OF BOTH ECONOMIC AND POLITICAL FACTORS AFFECTING WESTERN RELATIONS WITH THE EAST AND SHOULD FOCUS ON THE FIVE POINTS IN PARAGRAPH 2 OF THE NON-PAPER, AMONG OTHERS. ON PARAGRAPH 3 OF THE NON-PAPER, EAGLEBURGER NOTED THAT SUB PARAGRAPH A WAS GENERALLY ACCEPTABLE. THE FIRST TWO SENTENCES OF SUB-PARAGRAPH B WERE ALSO ACCEPTABLE, WITH DISAGREEMENT ON THE REST. SUB PARAGRAPH C WAS UNACCEPTABLE TO THE FRENCH, AND THERE WAS AN ITALIAN RESERVATION ABOUT ITS POSSIBLE APPLICATION TO CONTRACTS ALREADY SIGNED, BUT NOT APPROVED BY THE ITALIAN GOVERNMENT. HE THOUGHT PERSONALLY THAT THE ITALIAN PROBLEM WOULD BE TREATED BY THE US AS A SPECIAL CASE. BOTH FRANCE AND JAPAN WOULD FIND IT HARD TO ACCEPT SUB PARAGRAPH D. THE JAPANESE AMBASSADOR THEN INDICATED THAT HIS GOVERNMENT COULD BE READY TO GO ALONG WITH THIS IF ALL THE OTHERS ACCEPTED SUCH AN EXAMINATION. EAGLEBURGER UNDERLINED THE DIFFERENCE THE US SAW BETWEEN THIS SUB-PARAGRAPH, REQUIRING URGENT ACTION, AND THE REMAINDER OF THE PROPOSED STUDIES.



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7. HE THEN PROPOSED THAT OVER THE WEEKEND THE US WOULD TRY THEIR HAND AT A NEW DRAFT, USING BRACKETS WHERE NECESSARY. THIS WOULD BE CIRCULATED TO PARTICIPANTS AS IN THE PRESENT MEETING WHO COULD SEND IT TO CAPITALS FOR COMMENT, PRIOR TO ANOTHER MEETING LATER NEXT WEEK. HE CONCLUDED, THAT IN HIS VIEW, THERE WERE STILL SOME 'UNBRIDGABLE DIFFERENCES'. THESE SHOULD BE LAID OUT CLEARLY, WITH A VIEW TO FURTHER DISCUSSION AT THE NEXT MEETING.

8. AFTER REFERENCES TO TODAY'S PRESS LEAKS (MY TELNO 3427) IT WAS AGREED THAT, IF ASKED ABOUT THE PRESENT MEETING, WE WOULD ONLY SAY THAT THE SUMMIT SEVEN PLUS THE PRESIDENCY AND THE COMMISSION HAD MET TO DISCUSS EAST-WEST ECONOMIC RELATIONS.

9. RESIDENT CLERK: PLEASE ALERT BULLARD AND R EVANS

FCO PASS SAVING:- ANKARA, ATHENS, BRUSSELS, LISBON, DUBLIN, OSLO, THE HAGUE, REYKJAVIK, MOSCOW.

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PRESIDENT REAGAN ON GRAIN SALES TO USSR

1. THE PRESIDENT TOOK TO BREAKFAST RADIO NETWORKS IN THE MID-WEST THIS MORNING TO ANNOUNCE THAT US REPRESENTATIVES AT THE 28-29 OCTOBER CONSULTATIONS WITH THE RUSSIANS IN VIENNA WOULD BE AUTHORISED TO OFFER AN ADDITIONAL 15 MILLION TONNES OF GRAIN ABOVE THE 8 MILLION ALREADY GUARANTEED. THE TOTAL OF 23 MILLION TONNES OFFERED WILL BE THE SAME AS IN THE LAST FISCAL YEAR WHEN, DESPITE THE ADMINISTRATION'S PREDICTIONS OF RECORD SALES, THE RUSSIANS BOUGHT ONLY 14 MILLIONS TONNES. THERE IS WIDESPREAD SCEPTICISM HERE ABOUT SECRETARY OF AGRICULTURE BLOCK'S PREDICTION THAT THE USSR WILL BUY UP TO 20 MILLION TONNES IN THE CURRENT FISCAL YEAR.

2. APART FROM CONTAINING THE EXPECTED ANNOUNCEMENT OF ADDITIONAL SALES AUTHORISATION, THE PRESIDENT'S SPEECH WAS LARGELY A REHASH OF HIS 3 AUGUST SPEECH IN IOWA TO THE NATIONAL CORN GROWERS' ASSOCIATION, ANNOUNCING THE FURTHER ONE YEAR EXTENSION OF THE US-USSR GRAIN AGREEMENT. HIS PRINCIPAL THEME WAS THE NEED FOR THE US TO RESTORE ITS REPUTATION AS QUOTE A RELIABLE SUPPLIER UNQUOTE AND REGAIN ITS SHARE OF THE USSR MARKET WHICH HAD BEEN THROWN AWAY AS A RESULT OF THE CARTER EMBARGO. IF THE SOVIETS WERE WILLING TO CONTRACT FOR THE ADDITIONAL QUANTITIES IN NOVEMBER AND THESE WERE SHIPPED WITHIN 180 DAYS FROM THE DATE OF THE CONTRACT THE US WOULD, THE PRESIDENT PROMISED, QUOTE EXTEND TO THEM....THE SAME ASSURANCES OF RELIABLE DELIVERY THAT THE 8 MILLION METRIC TONS ARE AFFORDED UNDER ARTICLE II OF THE AGREEMENT. UNQUOTE.

3. THOUGH THE PRESIDENT DID NOT MENTION SANCTITY OF CONTRACT NOR OVERTLY REFER TO ANY DISTINCTION BETWEEN SALES OF GRAIN AND PIPELINE TECHNOLOGY TO THE SOVIETS HE DID SAY-IN AN ATTEMPT TO MEET ANTICIPATED CRITICISM QUOTE THAT BY OFFERING TO SELL THE SOVIETS MORE GAIN WE ARE SENDING A WEAK SIGNAL UNQUOTE - QUOTE THAT'S WRONG - WE'RE ASKING THE SOVIETS TO GIVE US CASH ON THE LINE FOR THE FOOD THEY BUY. WE'RE NOT PROVIDING THEM WITH ANY SUBSIDIES OR PUMPING ANY WESTERN CURRENCIES INTO SOVIET POCKETS UNQUOTE. IN AN INDIRECT REFERENCE TO THE CARTER ADMINISTRATION, HE WENT ON: QUOTE IT'S ALWAYS SEEMED IRONIC TO ME THAT MANY PEOPLE WHO ARE SO QUICK TO SACRIFICE THE INTERESTS OF FARMERS IN AN EFFORT TO SEEM TOUGH ARE UNWILLING TO DO THE REAL THINGS WE NEED TO SEND A SIGNAL OF NATIONAL WILL AND STRENGTH UNQUOTE. THE TWO GRAIN EMBARGOES HAD COINCIDED WITH REDUCED COMMITMENT TO A STRONG NATIONAL DEFENCE. QUOTE WE'RE NOT MAKING THAT MISTAKE IN 1982 UNQUOTE, SAID THE PRESIDENT. QUOTE WE HAVE OUR PRIORITIES STRAIGHT. UNQUOTE

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4. IN WHAT MAY BE AN IMPLICIT REFERENCE TO THE POSSIBLE INTRODUCTION OF EXPORT SUBSIDIES IF THE US DOES NOT GET SATISFACTION ON AGRICULTURE IN THE GATT MINISTERIAL, THE PRESIDENT ALSO SAID, THAT THE ADMINISTRATION WAS UNITED IN SPEAKING OUT AND ACTING AGAINST QUOTE THE UNFAIR TRADE PRACTICES OF OUR COMPETITORS ABROAD UNQUOTE AND WAS CHALLENGING OTHERS IN NEGOTIATIONS, QUOTE PARTICULARLY OUR FRIENDS IN EUROPE AND JAPAN UNQUOTE TO MATCH US COMMITMENT TO QUOTE MORE OPEN AGRICULTURAL MARKETS..IF THEY'RE NOT WILLING TO PLAY BY THE RULES OF THE GAME...WE MUST AND WE WILL COUNTER WITH STRONG MEASURES OF OUR OWN TO PERMIT AMERICAN FARMERS TO REALIZE THE BENEFITS OF THEIR EXTRAORDINARY PRODUCTIVITY. UNQUOTE

5. THE PRESIDENT'S SPEECH IS MADE AGAINST A BACKGROUND OF DECLINING US AGRICULTURAL EXPORTS (BOTH BY VOLUME AND VALUE) AND DEPRESSED FARM INCOMES COUPLED WITH RECORD HARVESTS AND RAIN STOCKS. REPUBLICAN CANDIDATES IN A NUMBER OF MID-WEST GUBERNATORIAL AND HOUSE ELECTIONS ARE IN DIFFICULTIES AND USDA HAVE COME UNDER STRONG PRESSURE TO ANNOUNCE MEASURES FOR EXPORT STIMULATION. THE STATE DEPARTMENT EMPHASIZE THAT THERE HAS BEEN NO CHANGE IN THE TERMS OF THE GRAIN AGREEMENT. PRIVATELY THEY EXPECT SOVIET PURCHASES TO BE CLOSER TO LAST YEAR'S LEVEL (14 MILLION TONNES) THAN TO BLOCK'S PREDICTIONS.

6. TEXT OF SPEECH TOGETHER WITH A LESS THAN USUALLY OBJECTIVE FACT SHEET FOLLOWS BY BAG (TO TRED).

FCO PASS SAVING:

ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, ROME, THE HAGUE, OTTAWA.

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US OIL AND GAS MEASURES: PIPELINE

The Prime Minister was grateful for the minute of 11 October by the Foreign and Commonwealth Secretary and has noted its contents.

AJC

Roger Bone, Esq.,  
Foreign and Commonwealth Office.



010



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

Michael Scholar Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

To see  
14 October 1982 MS 15/10  
*[Handwritten signature]*

*Dear Michael*

I attach a copy of a letter which our Secretary of State has received in connection with the John Brown Engineering case and of the reply which he has sent. You will see that Mr Younger has undertaken to show the correspondent's letter to the Prime Minister.

*[Handwritten signature]*

A M RUSSELL  
Private Secretary





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Reverend James McShane  
St Margaret's  
Sinclair Street  
CLYDEBANK  
G81 1AE

October 1982

*Dear Mr. McShane,*

Thank you for your letter of 11 September about John Brown Engineering.

I very much appreciate the support being given by the churches in Clydebank to the Government's efforts to defend JBE's interests. We are, of course, continuing to do all we can to resolve this damaging dispute. I shall show your letter to the Prime Minister.

*Yours sincerely,*  
*Crowe Younger*





PM/82/80

PRIME MINISTER

Considerable progress towards a package on E/W relations which might lead the U.S. to lift sanctions. Due in large part to a U.K. initiative (Dr. Syms) + Schultz's advocacy. A.J.C. 12/11.

US Oil and Gas Measures: Pipeline

1. Since sending you my minute of 14 September I have held a series of bilateral and multilateral meetings in New York and Canada with the American Secretary of State and European and NATO colleagues. These culminated in the meeting of NATO Foreign Ministers at La Sapiniere near Montreal, of which the outcome is recorded in FCO telno 260 to UKDEL NATO (copy enclosed).
2. Shultz's summing up in paragraph 9 of the telegram puts a somewhat American gloss on the outline agreement reached in earlier discussions at the official level between the Americans and their closest allies including ourselves. But it was clearly understood to be an oral statement only. In my view it represents a significant advance in reconciling American and European thinking and opens the door to the kind of comprehensive policy towards the Soviet Union and Eastern Europe for which I have been arguing for some time.
3. The next steps will be further meetings in NATO, OECD and elsewhere to decide how the various pieces of work mentioned by Shultz are to be organised and to fix a rough timetable. Our objectives must be to participate constructively in this work and at the same time to promote the legitimate interests of British firms. Shultz, as he made clear to me in New York, is trying to put together a package which, if the Allies endorse it, will enable him to persuade the President to lift sanctions, possibly even before the mid-term elections in November. It is too early to say how near he may be to his objective; but we are doing what we can to keep up the momentum.
4. I am copying this minute to OD colleagues, the Secretary of State for Industry and Sir R Armstrong.

Foreign and Commonwealth Office  
11 October 1982

(FRANCIS PVM)



*Gada Jhuar*

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OO WASHINGTON DESKBY 041730Z

GRS 1829

*Read especially*  
*para 9 & 10.*

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DESKBY WASHINGTON 041730Z

FM FCO 041545Z OCT 82

TO IMMEDIATE UKDEL NATO

TELEGRAM NUMBER 260 OF 4 OCTOBER

INFO IMMEDIATE WASHINGTON, PRIORITY BONN, PARIS, UKDEL OECD, TOKYO,  
ROUTINE OTHER NATO POSTS.

INFORMAL WEEKEND, LA SAPINIERE, 2-3 OCTOBER.

SUMMARY.

1. A VERY USEFUL MEETING. DISCUSSION WAS LARGELY DEVOTED TO EAST/WEST RELATIONS, IN PARTICULAR THOSE ECONOMIC ASPECTS. THANKS MAINLY TO A SENSITIVE AND EFFECTIVE PERFORMANCE BY SHULTZ, AGREEMENT WAS REACHED ON A SERIES OF CRITERIA TO FORM THE BASIS OF AN ALLIANCE APPROACH TO THE ECONOMIC ASPECTS OF EAST/WEST POLICY, AND ON THE INITIATION OF STUDIES ON A NUMBER OF INDIVIDUAL ASPECTS OF EAST/WEST ECONOMIC RELATIONS. THERE WAS VIRTUALLY NO DISCUSSION OF THE PIPELINE AS SUCH. THERE WAS GENERAL ACKNOWLEDGEMENT OF THE NEED FOR STRONG DEFENCES, AND OF THE CENTRAL ROLE OF ARMS CONTROL NEGOTIATIONS IN MAINTAINING PUBLIC SUPPORT FOR ALLIANCE POLICIES. THERE WAS ALSO AGREEMENT THAT THERE SHOULD BE MORE COOPERATION AGAINST INTERNATIONAL TERRORISM.

DETAIL.

2. SHULTZ SAID THAT BECAUSE OF THE SOVIET ARMS BUILD UP AND SOVIET BEHAVIOUR AROUND THE WORLD, THE EAST/WEST RELATIONSHIP WAS STRAINED AND TENSE. NATO'S BROAD MILITARY STRATEGY REMAINED EFFECTIVE: DETERRENCE WAS WORKING, AND THE ALLIANCE WAS ON THE RIGHT TRACK. AS FAR AS NON-MILITARY ASPECTS OF THE EAST/WEST RELATIONSHIP WERE CONCERNED, ECONOMIC CONTACTS BROUGHT CERTAIN SPECIFIC BENEFITS, FOR EXAMPLE TO AMERICAN FARMERS AND IN

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PERMITTING HUMAN CONTACTS. BUT THE EVIDENCE SUGGESTED THAT THERE WERE IMPORTANT PROBLEMS. A LOT OF EAST/WEST TRADE WAS IN GOODS OF DIRECT MILITARY VALUE, AND THE SOVIET MILITARY BUILD UP WAS BEING ACCELERATED BY THE ACQUISITION OF TECHNOLOGY FROM THE WEST - INCLUDING THE US. HE HOPED IT WOULD BE POSSIBLE TO ADDRESS THIS AT THE FORTHCOMING COCOM MEETING. SOME AREAS - EG ENERGY - WERE OF SPECIAL STRATEGIC IMPORTANCE. WHY SHOULD THE WEST GIVE THE SOVIET UNION THE TECHNOLOGY IT NEEDED FOR THE DEVELOPMENT OF ITS ENERGY RESOURCES? HE COULD, MOREOVER, SEE NO REASON FOR PROVIDING SUBSIDIES TO THE SOVIET ECONOMY. CREDIT TO THE SOVIET ECONOMY HAD EXPANDED RAPIDLY, INCREASING THE CAPACITY OF THE EAST TO EXERT LEVERAGE ON THE WEST. THIS ARGUED FOR RESTRICTING FURTHER CREDITS. ON GAS, THE SOVIET UNION MIGHT GET INTO A QUASI MONOPOLY POSITION WHICH WOULD ENABLE IT TO GO TO WESTERN EUROPEAN CUSTOMERS AND OFFER ENERGY PRICES LOW ENOUGH TO DETER THE CUSTOMER FROM DEVELOPING ITS OWN ALTERNATIVE SOURCES OF ENERGY. GIVEN THE LOWER CURRENT LEVEL OF ENERGY DEMAND, THIS COULD PRODUCE AN UNDESIRABLE DEGREE OF DEPENDENCE ON SOVIET SUPPLIES. AS FAR AS EVENTS LIKE POLAND WERE CONCERNED, HE ACCEPTED THAT THE WEST'S PRACTICAL ABILITY TO AFFECT THE SITUATION WAS VERY LIMITED. THE WEST WOULD PERHAPS BE WISE TO AVOID SETTING STANDARDS FOR EASTERN BEHAVIOUR WHICH WERE NOT GOING TO BE MET.

3. ON INTERNATIONAL TRADE, SHULTZ RECALLED THAT THE RECESSION OF THE 1930S HAD BEEN MADE FAR WORSE BY EXTREMES OF PROTECTION, NOT LEAST IN THE US. SINCE THE WAR, THE OPEN MARKET IN TRADE, TECHNOLOGY AND IDEAS HAD MUCH EXPANDED WORLD TRADE. BUT WITH THE DECLINE IN THE REAL VALUE OF WORLD TRADE IN RECENT YEARS, THERE WERE RENEWED CALLS FOR PROTECTIONISM. IN THE US, THE ADMINISTRATION WAS UNDER PRESSURE IN CONGRESS AND FROM INDUSTRY. THE SITUATION WAS GETTING WORSE. ONE THIRD OF NON-COMMUNIST WORLD TRADE WAS NOW OUTSIDE GATT. SCIENTIFIC ADVANCE WAS CHANGING THE NATURE OF TRADE, AND NOW THERE WAS AN OPPORTUNITY FOR POSITIVE THINKING. LACK OF CONFIDENCE WAS BEING PRODUCED BY UNCERTAINTY IN WORLD TRADING CONDITIONS. ALL THIS MADE THE FORTHCOMING GATT MINISTERIAL MEETING VERY IMPORTANT, BUT IT WAS NOT BEING TAKEN SERIOUSLY ENOUGH OR

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ADEQUATELY PREPARED FOR. WHILE THIS FELL OUTSIDE NATO'S FIELD, IT WAS VERY RELEVANT TO THE ALLIANCE.

4. I DREW ATTENTION TO THE WIDER CONTEXT. IT RELATED ABOVE ALL TO SECURITY AND STABILITY, WHICH WERE THE PREREQUISITE OF GREATER PROSPERITY. THE FIRST PRIORITY MUST BE STRONG ENOUGH DEFENCE TO DETER AGRESSION, BALANCED BY THE MAINTENANCE OF A DIALOGUE ON ARMS CONTROL, CSCE, HUMAN RIGHTS, ETC: IT WAS VITAL TO DEMONSTRATE TO OUR PUBLICS THAT WE WERE DOING OUR BEST TO ACHIEVE SECURITY AT A LOWER COST. IT WAS IMPORTANT THAT THE ALLIES BE SEEN TO BE MAINTAINING AN EAST/WEST DIALOGUE IF THEY WERE TO RETAIN PUBLIC SUPPORT FOR THE FORTHCOMING DEPLOYMENT OF CRUISE MISSILES. SHULTZ HAD ADDED AN ECONOMIC DIMENSION TO OUR STRATEGIC THINKING: THERE WERE CLEARLY A NUMBER OF PRESSURE POINTS THROUGH WHICH WE COULD INTENSIFY THE ECONOMIC DIFFICULTIES OF THE SOVIET UNION, AND I STRONGLY FAVOURED FULL AND POSITIVE CONSIDERATION OF THIS ISSUE AND ITS IMPLICATIONS. THIS WOULD TAKE SOME TIME, AND SHOULD BE SEEN AS A LONG TERM POLICY ISSUE. MEANWHILE IT WAS VITAL THAT THE ALLIES SHOULD NOT BE DEFLECTED FROM THE CENTRAL REQUIREMENT FOR ADEQUATE DEFENCE.

5. CHEYSSON AGREED. ECONOMIC AND POLITICAL ASPECTS OF POLICY MUST BE INCORPORATED INTO A STRATEGY BASED ON OVERALL SECURITY. IT WAS IMPORTANT TO CONSIDER THE ROLE OF JASPAN (A THEME TO WHICH HE REVERTED LATER MORE THAN ONCE): THE OECD WOULD BE HELPFUL IN THIS CONTEXT. HE POSED THE QUESTION OF WHETHER THE WEST, IN ITS ECONOMIC STRATEGY, SHOULD DISTINGUISH BETWEEN THE SOVIET UNION AND ITS SATELLITES: THE WEST HAD BEEN ABLE TO ENCOURAGE THE PROCESS OF LIBERALISATION BY GRANTING CREDIT FACILITIES TO POLAND, AND IT WOULD BE WRONG TO FOREGO THE OPTION OF ENCOURAGING CHANGE IN THIS WAY AGAIN. THERE WAS, HOWEVER, A CONTRADICTION IN TRYING TO MAKE THINGS DIFFICULT FOR THE SOVIET UNION, WHILE HELPING THE SOVIET ECONOMY INDIRECTLY THROUGH THE EASTERN EUROPEAN ECONOMIES. HE DID NOT KNOW THE ANSWER, AND THIS WAS NOT THE RIGHT SETTING TO LOOK FOR IT. THE OECD, OR PERHAPS BILATERAL CONTACTS, WOULD BE BETTER. NO PREFERENTIAL TREATMENT SHOULD BE GIVEN TO THE SOVIET

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UNION. THE UNDERSTANDING REACHED AT VERSAILLES ON MONITORING HAD NOT BEEN IMPLEMENTED AS IT SHOULD HAVE BEEN, SECTOR BY SECTOR.

6. COLOMBO SAID THAT WE MUST NOT DELUDE OURSELVES: THE ALLIANCE WAS NOT IN GOOD SHAPE. EAST/WEST RELATIONS REPRESENTED THE CRISIS POINT. GUIDELINES WERE NECESSARY. WESTERN BELIEF IN DETENTE HAD LED TO A NEGLECT OF MILITARY CAPABILITY, RESULTING IN SOME IMBALANCE: WHILE DETENTE MUST STILL BE PURSUED, MILITARY CONSIDERATIONS MUST BE FED INTO THE MIX (HE APPEARED TO BE IMPLYING THAT A GREATER WESTERN MILITARY EFFORT WAS NECESSARY). THE QUESTION WAS WHAT PLACE ECONOMIC MATTERS SHOULD HAVE IN RELATIONS WITH THE EAST. HE WONDERED WHETHER IT WOULD BE POSSIBLE TO GUIDE OECD ON THE BASIS OF VIEWS EXPRESSED AT THIS MEETING. ENERGY TECHNOLOGY SHOULD BE STUDIED IN A MORE TECHNICAL FORUM. ACTION MUST NOT BE POSTPONED: THERE WAS A RISK THAT FARMING OUT WORK TO OTHER AGENCIES MIGHT PRODUCE DELAY.

7. VAN AGT SPOKE OF THE PARAMOUNT IMPORTANCE OF SECURITY, AND THE CRUCIAL ROLE OF ARMS CONTROL. ECONOMIC MEASURES HELD OUT THE PROSPECT OF CURBING SOVIET MILITARY CAPABILITY AND INFLUENCE: BUT THEY WOULD NOT HAVE ANY EFFECT ON SOVIET BEHAVIOUR. HE AGREED THAT SUBSIDIES AND THE TRANSFER OF TECHNOLOGY TO THE SOVIET UNION WERE WRONG. BUT TO TRY TO PUT PRESSURE ON THE RUSSIANS WOULD DO NO GOOD, AND WOULD DAMAGE THE WESTERN IMAGE IN THE EYES OF THE REST OF THE WORLD. WE COULD NOT WIN AN ECONOMIC WAR, WE SHOULD NOT START ONE.

8. MACKEACHEN WELCOMED SHULTZ'S MESSAGE THAT SECURITY DID NOT DEPEND ON MILITARY FACTORS ALONE. THE STRENGTH OF THE ALLIANCE DEPENDED ON THE VIABILITY OF WESTERN ECONOMIC INSTITUTIONS. HE TOO WONDERED WHETHER IT WAS RIGHT TO WAGE ECONOMIC WAR ON THE SOVIET UNION. SHULTZ DENIED THAT THE KIND OF IDEAS HE HAD BEEN DISCUSSING BORE ANY RESEMBLANCE TO AN ECONOMIC WAR.

9. OPENING DISCUSSION THE FOLLOWING MORNING, SHULTZ, READING FROM WRITTEN NOTES, SUMMARISED WHAT HE BELIEVED TO BE THE COMMON

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VIEW OF THE MINISTERS PRESENT. ALLIED GOVERNMENTS MUST CONDUCT EAST/WEST RELATIONS ON THE BASIS OF A COMPREHENSIVE STRATEGY, INCLUDING ECONOMIC ASPECTS. THERE WERE THREE CRITERIA WHICH SHOULD GOVERN WESTERN ECONOMIC DEALINGS WITH THE SOVIET UNION WITH EASTERN EUROPE:

(I) TRADE SHOULD NOT CONTRIBUTE ACTUALLY OR POTENTIALLY TO THE MILITARY CAPABILITY OF THE SOVIET UNION:

(II) IT WAS NOT IN THE WESTERN INTEREST TO SUBSIDISE THE SOVIET ECONOMY THROUGH TRADE:

(III) THE WESTERN COUNTRIES SHOULD TAKE NO STEPS WHICH CONTRIBUTE TO THE STRATEGIC ADVANTAGE OF THE SOVIET UNION.

THERE SHOULD BE A THOROUGH EXAMINATION OF HOW THESE CRITERIA SHOULD BE APPLIED, TOUCHING IN PARTICULAR ON STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE: HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE, INCLUDING OIL AND GAS EQUIPMENT: OTHER TRADE, INCLUDING AGRICULTURE AND FOOD STOCKS: CREDIT POLICY: AND ENERGY. ON ENERGY, THE EUROPEAN ALLIES SHOULD MAKE A STUDY OF THEIR PROJECTED ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND OF HOW THESE MIGHT BE MET.

THE STUDY, IN WHICH THE US WOULD PARTICIPATE, MIGHT BEST BE CONDUCTED UNDER OECD AUSPICES. THE MINISTERS SHOULD AGREE IMMEDIATELY ON FOUR POINTS:

(I) A REVIEW OF THE LIST OF STRATEGIC ITEMS SHOULD BE PUT IN HAND AT THE COCOM REVIEW MEETING ON 4 OCTOBER. THEY SHOULD DO WHAT IS NECESSARY TO MAKE COCOM MORE EFFECTIVE AND RESPONSIVE AND SHOULD IMPROVE THEIR NATIONAL MACHINERY IN WHATEVER WAY WAS NEEDED TO ENFORCE COCOM DECISIONS:

(II) MACHINERY (PERHAPS INVOLVING OECD FINANCE MINISTERS) SHOULD BE SET UP AT ONCE TO CARRY OUT THE PERIODIC EX-POST REVIEW OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE AGREED ON AT VERSAILLES. WE SHOULD ESTABLISH THE MEANS TO HARMONISE OUR POLICIES ON CREDITS, IN ORDER NOT TO SUBSIDISE THE SOVIET ECONOMY:

(III) WHILE THE ENERGY STUDY WAS BEING CARRIED OUT, THE ALLIES SHOULD EXERCISE RESTRAINT IN CONCLUDING NEW CONTRACTS FOR SOVIET NATURAL GAS:



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(IV) THE ALLIES SHOULD CONSIDER IMMEDIATELY WHETHER CONTROLS WERE NEEDED ON EXPORTS TO THE USSR AND EASTERN EUROPE OF TECHNOLOGY OF STRATEGIC IMPORTANCE. WHAT WOULD CONSTITUTE SUCH TECHNOLOGY SHOULD BE JOINTLY DECIDED, BUT SHOULD IN ANY CASE INCLUDE TECHNOLOGY DIRECTLY RELATED TO THE OIL AND GAS SECTOR. ANY DECISIONS EMERGING FROM THIS STUDY WOULD BE IMPLEMENTED IN A COCOM RELATED FRAMEWORK.

10. FURTHER DISCUSSION REVEALED UNANIMOUS ACCEPTANCE OF THE APPROACH OUTLINED BY SHULTZ. SEVERAL DELEGATIONS, NOTABLY THE FRENCH, DISCOURAGED THE US FROM TRYING TO REACH AGREEMENT ON A TEXT THERE AND THEN, AND NO TEXT WAS THEREFORE CIRCULATED.

OTHER ISSUES.

11. PEREZ LLORCA SAID THAT SPAIN WOULD REMAIN IN THE ALLIANCE, BUT THAT THE SPANISH GOVERNMENT WOULD HAVE TO WORK FOR THIS IN SPAIN: THE ALLIANCE COULD HELP THEM TO DO THIS. IN THIS CONTEXT HE MENTIONED TWO ISSUES - COOPERATION OVER TERRORISM, AND THE ACCELERATION OF SPAIN'S EC ACCESSION NEGOTIATIONS. TURKMEN ALSO REFERRED TO TERRORISM AS A FACTOR TO BE TAKEN INTO ACCOUNT IN ASSESSING WESTERN SECURITY. THE ALLIES SHOULD RECOGNISE TURKEY'S ACHIEVEMENT IN CURBING TERRORISM AT HOME, AND HER SITUATION AS A TARGET OF TERRORISM ABROAD. THIS SHOULD BE FURTHER DISCUSSED IN NATO. LUNS INDICATED THAT HE WAS FULLY SEIZED OF THIS NEED. CHEYSSON SAID THAT SINCE TERRORISTS WERE ARMED BY EASTERN EUROPE THE SUBJECT HAD ACQUIRED AN EAST/WEST CONNOTATION.

12. SEE MIFT FOR TEXT OF NOTES USED BY LUNS AT PRESS CONFERENCE.

PYM

LIMITED  
DEF DEPT  
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PS/MR HURD

PS/MR RIFKIND  
PS/PUS  
SIR J BULLARD  
MR WRIGHT  
MR EVANS  
MR THOMAS  
MR GILLMORE  
MR GOODISON

COPIES TO:

NO 10 DOWNING ST  
PS/MR NOTT  
PS/CHANCELLOR OF EXCHEQUER  
CABINET OFFICE

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SOVIET UNION: CREDIT TERMS FOR EXPORTS TO THE USSR.

11 OCT 1962

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Soviet Union

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ZZ OTTAWA

*I have agreed that 820,  
1544  
1324*

PP WASHINGTON

*Can be copied as necessary in Whitehall  
(by FRED) on longman may have typed & typed  
full minutes of the participants  
is removed.*

PP UKMIS NEW YORK

GRS 272

CONFIDENTIAL

FM FCO 021020Z OCT 82

TO FLASH OTTAWA

TELEGRAM NUMBER 324 OF 2 OCTOBER

AND TO PRIORITY UKMIS NEW YORK WASHINGTON PARIS BONN UKDEL NATO  
UKREP BRUSSELS.

*New Rope 4/x*

FOR SECRETARY OF STATE'S PARTY.

UKMIS TELS 1543 AND 1544: FOLLOWING FOR PRIVATE SECRETARY.

1. FOR EASE OF HANDLING WE ARE MAKING THIS TELEGRAM CONFIDENTIAL.
2. WE HAVE NOT TODAY (SATURDAY) CONSULTED WHITEHALL DEPARTMENTS AGAIN. BUT AS YOU WILL HAVE SEEN FROM OUR TEL 820 TO UKMIS NEW YORK, ALL CONCERNED CONSIDERED THE TEXT AT THAT STAGE BROADLY ACCEPTABLE. THIS LATEST VERSION WOULD WE THINK MEET OUR MAIN CONCERNS VERY WELL, PROVIDED THAT THE OUTSTANDING POINTS IN SQUARE BRACKETS CAN BE RESOLVED IN A MANNER THAT TAKES ACCOUNT OF THE STICKING POINTS WHICH WE HAVE ALREADY REGISTERED.
3. ON THE UNDERSTANDING THAT THE CRITERIA IN PARA 2 ARE ILLUSTRATIVE ONLY, WE CAN ACCEPT THEM AS A BASIS FOR FURTHER STUDY. THERE IS CLEARLY SCOPE FOR DISAGREEMENT IN INTERPRETING THE THREE U.S. PRINCIPLES: THE FRENCH ARE MUCH MORE PROMISING BUT COULD PERHAPS BE IMPROVED AND/OR EXTENDED.
4. WE SEE NO DIFFICULTY WITH THE REST OF PARA 2 AND WOULD NOT OBJECT TO LIFTING THE BRACKETS AFTER ENERGY. WE ARE TALKING HERE ABOUT ANALYSIS.
5. WE ARE HAPPY WITH PARA 3(A) INCLUDING THE PASSAGE IN BRACKETS.
6. PARA 3(B) IS ACCEPTABLE, INCLUDING THE PASSAGE IN THE FIRST BRACKETS. WE REMAIN OPPOSED TO THE SECOND BRACKETTED PASSAGE.
7. PARA 3(C) IS ACCEPTABLE.
8. WE CONFIRM OUR POSITION ON PARA 3(D). WE CAN ACCEPT A STUDY BUT NOT QUOTE CONTROL UNQUOTE. THIS REMAINS A STICKING POINT FOR US AND THE DEPARTMENTS OF TRADE AND INDUSTRY ATTACH GREAT IMPORTANCE TO IT.
9. WE WELCOME THE FOOTNOTE ABOUT THE EUROPEAN COMMUNITIES.

PYM

LIMITED  
HD/TRED  
HD/EESD  
HD/PLANNING STAFF  
HD/ECD (E)  
PS

SIR J BULLARD  
MR EVANS  
MR THOMAS  
MR GILLMORE  
MR ADAMS

CONFIDENTIAL



SECRET

GRS 1000

D E D I P

SECRET

BURNING BUSH

DESKBY 012030Z

FROM UKMIS NEW YORK 011918Z OCT 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1544 DATED 1 OCTOBER 82

INFO IMMEDIATE OTTAWA (FOR SECRETARY OF STATE'S PARTY) BONN,  
PARIS, WASHINGTON, UKDEL NATO (PERSONAL FOR AMBASSADOR/MINISTER)

MIPT: EAST/WEST ECONOMIC RELATIONS

1. FOLLOWING IS TEXT OF PAPER AS AGREED AT 1600 GMT ON 1 OCTOBER

BEGINS:

1. THE GOVERNMENTS OF - - - - - RECOGNIZE THE  
NECESSITY OF CONDUCTING THEIR RELATIONS WITH THE USSR ON  
THE BASIS OF A COMPREHENSIVE POLICY. THEY ARE PARTICULARLY  
CONSCIOUS OF THE NEED FOR A COMMON APPROACH IN THE ECONOMIC  
FIELD, WHERE THEY REGRET THE DIFFERENCES WHICH HAVE ARISEN  
AMONG THEM. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY  
STEPS TO REMOVE THESE DIFFERENCES AND TO ENSURE THAT FUTURE  
DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON  
THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A  
WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND IN  
A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

2. THEY AGREE THAT THE FOLLOWING CRITERIA SHOULD GOVERN THE  
ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION  
AND EASTERN EUROPEAN COUNTRIES.

-- THESE DEALINGS SHOULD IN NO CASE INVOLVE TRANSFER /  
OF MILITARILY RELEVANT EQUIPMENTS AND TECHNOLOGIES.

-- THERE IS A NEED TO AVOID ANY ARRANGEMENT BY WHICH /  
THE SOVIET UNION WOULD BE GIVEN A PREFERENTIAL TREATMENT OVER  
INDUSTRIALIZED OR DEVELOPING COUNTRIES.

-- IT IS PROPER, IN DEALING WITH THE SOVIET UNION, TO /  
LOOK FOR A VERY STRICT BALANCE OF ADVANTAGES AND OBLIGATIONS.

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS /  
WHICH HAVE THE EFFECT OF CONTRIBUTING TO THE MILITARY  
CAPACITY, ACTUAL OR POTENTIAL, OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO CONDUCT TRADE WITH  
THE USSR WHICH HAS THE EFFECT OF SUBSIDIZING THE SOVIET ECONOMY.

-- THAT THEY WILL TAKE NO STEPS THAT CONTRIBUTE TO THE  
STRATEGIC ADVANTAGE OF THE SOVIET UNION.

FOOTNOTE: THERE IS AGREEMENT ON THE NEED FOR SOME GENERAL PRINCIPLES  
OR CRITERIA. THE CHOICE AND FORMULATION OF THESE REQUIRES FURTHER  
STUDY. THOSE SUGGESTED HERE ARE ILLUSTRATIVE ONLY. THE FIRST  
THREE ARE FROM THE FRENCH DRAFT: THE SECOND THREE FROM THE  
U.S. DRAFT.

SECRET

/THEY AGREE



S E C R E T

THEY AGREE TO EXAMINE THOROUGHLY HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A COMMON LINE OF ACTION. THEY WILL PAY DUE ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM.

THIS OVERALL ANALYSIS WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

- STRATEGIC GOODS AND TECHNOLOGY (COCOM)
- AGRICULTURAL COMMODITIES, EQUIPMENT AND TECHNOLOGY
- OTHER TRADE
- CREDIT POLICY
- ENERGY SQUARE BRACKETS , INCLUDING HIGH TECHNOLOGY OIL AND GAS EQUIPMENT SQUARE BRACKETS END (UK AND FRENCH SQUARE BRACKETS).

IN THE FIELD OF ENERGY THE EUROPEAN GOVERNMENTS, WITH U.S. PARTICIPATION, WILL INITIATE A STUDY OF PROJECTED EUROPEAN ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THOSE REQUIREMENTS. THIS STUDY WILL BE PREPARED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION, THEY HAVE AGREED ON THE FOLLOWING:

(A) THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THE CONTEMPORARY SECURITY INTERESTS OF THE ALLIANCE. THE LIST OF STRATEGIC ITEMS WOULD BE EVALUATED AND, IF NECESSARY, MODIFIED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW MEETING BEGINNING OCTOBER 4 IN PARIS SQUARE BRACKETS BEGIN , AND FOLLOWED UP AT A HIGH LEVEL MEETING IN EARLY 1983 SQUARE BRACKETS END. THEY FURTHER AGREE TO TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS. (FRG AND FRENCH SQUARE BRACKETS).

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE ALLIES ARE AGREED ON THE NEED TO ESTABLISH WITHOUT DELAY THE NECESSARY MECHANISM FOR THIS PURPOSE. SQUARE BRACKETS BEGIN ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO SUPERVISE THE EXTENSION OF OFFICIAL CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES. SQUARE BRACKETS END SQUARE BRACKETS BEGIN ALLIED GOVERNMENTS WILL ENDEAVOR TO HARMONIZE NATIONAL POLICIES WITH RESPECT TO MATURITIES, DOWN PAYMENTS, AND SUBSIDIES FOR INTEREST RATES. SQUARE BRACKETS END (FIRST SQUARE BRACKETS FRANCE AND FRG. SECOND SQUARE BRACKETS FRANCE, US, UK).

(C) DURING THE COURSE OF THE STUDY ON ENERGY, ALLIED GOVERNMENTS WILL EXERCISE RESTRAINT WITH REGARD TO ENTERING INTO ANY NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS.

S E C R E T

/(D)



S E C R E T

(D) ALLIED GOVERNMENTS AGREE TO SQUARE BRACKETS BEGIN STUDY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS ON SQUARE BRACKETS END SQUARE BRACKETS BEGIN CONTROL SQUARE BRACKETS END THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF CERTAIN ADVANCED TECHNOLOGY AND EQUIPMENT, TO BE JOINTLY DETERMINED, WITH DIRECT APPLICATION TO THE OIL AND GAS SECTOR. ACTIONS WOULD BE AGREED UPON AND IMPLEMENTED WITHIN THE COCOM FRAMEWORK. (FIRST SQUARE BRACKETS U.S. SECOND SQUARE BRACKETS FRG AND UK. FRANCE BRACKETS ENTIRE PARAGRAPH)

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NOTE: THE EUROPEAN GOVERNMENTS ARE AGREED TO BEAR IN MIND THE COMPETENCIES OF THE EUROPEAN COMMUNITIES.

OCTOBER 1, 1982  
NEW YORK

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ENDS

2. FCO PLEASE ADVANCE AS IN MY IMMEDIATELY PRECEEDING TELEGRAM

THOMSON

[ADVANCED AS REQUESTED]

LIMITED	
HD/PLANNING STAFF	PS/PUS
HD/EESD	MR EVANS
HD/TRED	MR WRIGHT
HD/ECD (E)	MR THOMAS
PS	MR GILLMORE

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FM UKMIS NEW YORK 011915Z OCT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1543 OF 1 OCTOBER  
INFO IMMEDIATE OTTAWA (FOR SECRETARY OF STATE' PARTY) BONN, PARIS,  
WASHINGTON, UKDEL NATO (PERSONAL FOR AMBASSADOR/MINISTER).

MY TELNOS 1532 AND 1533: EAST/WEST ECONOMIC RELATIONS  
FROM BULLARD

1. THIS EXERCISE TOOK A NEW TURN OVERNIGHT AS A RESULT OF INSTRUCTIONS FROM CHEYSSON TO HIS POLITICAL DIRECTOR THAT AN EFFORT BE MADE TO RECONCILE THE FRENCH AND AMERICAN POSITIONS WHICH HAD BEEN SO FAR APART YESTERDAY. WHEN TODAY'S MEETING BEGAN ANDREANI CIRCULATED A NEW DRAFT WHICH PRESENTED THE ITEMS ON THE AMERICAN LIST, TO THE EXTENT THAT THESE WERE ACCEPTABLE TO THE REST OF THE FOUR, AS DECISIONS TO BE TAKEN IMMEDIATELY BUT IN THE CONTEXT OF A RESOLVE BY THE FOUR GOVERNMENTS TO CONDUCT RELATIONS WITH THE SOVIET UNION ON THE BASIS OF AN AGREED AND COMPREHENSIVE POLICY INCLUDING THE ECONOMIC DIMENSION. IT WAS AGREED TO WORK ON THIS FRENCH DRAFT. IT HELPED A GREAT DEAL THAT BURT HAD BEEN SUMMONED TO WASHINGTON ON BUSINESS CONNECTED WITH CONFIRMATION BY THE SENATE, LEAVING THE AMERICAN CHAIR TO BE TAKEN BY THE MUCH MORE EFFECTIVE EAGLEBURGER.
2. MIFT CONTAINS THE FINAL VERSION OF THE PAPER WHICH IT WAS AGREED TO RECOMMEND TO THE FOUR FOREIGN MINISTERS. THERE WAS A GENERAL SENSE THAT IT WAS BETTER TO SPELL OUT THE DIFFERENCES OF APPROACH BY MEANS OF SQUARE BRACKETS, RATHER THAN TRY TO CONCEAL THEM BY VERBAL FUDGING.
3. COMMENT. THE PAPER SEEMS TO ME TO TAKE ACCOUNT OF THE SIGNIFICANT POINTS IN YOUR TELNO 820, FOR WHICH MANY THANKS. IT ALSO OPENS THE WAY TO THE KIND OF COMPREHENSIVE POLICY TOWARDS THE EAST FOR WHICH THE SECRETARY OF STATE HAS BEEN ARGUING IN RECENT MONTHS. WHETHER IT GIVES THE UNITED STATES ENOUGH FOR SHULTZ TO BE ABLE TO PERSUADE THE PRESIDENT TO LIFT THE AMERICAN MEASURES AGAINST THE SOVIET UNION IS DOUBTFUL: EAGLEBURGER WAS PESSIMISTIC.

/4. YOU

S E C R E T



S E C R E T

4. YOU WILL NO DOUBT SEND THE SECRETARY OF STATE ANY FURTHER BRIEFING WHICH HE MAY REQUIRE AT THE NATO WEEKEND MEETING. THE UNDERSTANDING AMONG POLITICAL DIRECTORS WAS THAT THE FOREIGN MINISTERS WOULD PROBABLY WANT TO TALK ABOUT THE PAPER PREPARED HERE, BUT NOT TO DISCUSS IT IN DETAIL, AND THAT FURTHER WORK COULD BEST BE CONCENTRATED FOR THE TIME BEING IN WASHINGTON IN A GROUP OF FOUR COMPRISING THE THREE EMBASSIES AND THE STATE DEPARTMENT.

FCO PLEASE ADVANCE COPIES TO:-

PS, PS/PUS MR EVANS, MR WRIGHT, MR THOMAS, MR GILLMORE,  
HEAD/EESD, HEAD/ PLANNING STAFF, HEAD/TRED.

THOMSON

[ADVANCED AS REQUESTED]

LIMITED

HD/PLANNING STAFF

HD/EESD

HD/TRED

HD/ECD (E)

PS

PS/PUS

MR EVANS

MR WRIGHT

MR THOMAS

MR GILLMORE

2

S E C R E T



SECRET DEDIP BURNING BUSH 9

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ZZ UKMIS NEW YORK  
OO WASHINGTON  
GRS 375

SECRET/DEDIP/BURNING BUSH  
FM FCO 011115Z OCTOBER 82  
FLASH UKMIS NEW YORK

TELEGRAM NUMBER 820 OF 1 OCTOBER  
INFO IMMEDIATE BONN, PARIS, WASHINGTON, UKDEL  
NATO, UKREP BRUSSELS, (PERSONAL FOR AMBASSADOR/MINISTER)  
YOUR TELNOS 1532-3: EAST/WEST ECONOMIC RELATIONS

1. OFFICIALS CONCERNED FIND LATEST VERSION OF PAPER BROADLY ACCEPTABLE, SUBJECT TO THE FOLLOWING POINTS.
2. WORDING OF PREAMBLE AND (A) CAUSES US NO PROBLEM. IN (B) WE WOULD LIKE THE FIRST BRACKET DELETED: OR IF IT REMAINS, QUOTE NO SUBSIDISATION UNQUOTE SHOULD BE CHANGED TO QUOTE WITH A VIEW TO MINIMISING SUBSIDISATION UNQUOTE. THE NEXT SENTENCE SHOULD READ QUOTE TO THIS END ALLIED GOVERNMENTS WILL ESTABLISH THE MEANS TO SUPERVISE THE EXTENSION OF OFFICIAL CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES UNQUOTE. IF THE WORD OFFICIAL IS DELETED WE NEED THE WORDS QUOTE TO THE EXTENT POSSIBLE UNQUOTE, AS WE WOULD IF THE WORD QUOTE VOLUME UNQUOTE IS ADDED. SUBSTITUTION OF THE WORD SUPERVISE FOR MANAGE IS A STICKING POINT FOR THE TREASURY, AND THE DEPARTMENTS OF TRADE AND INDUSTRY. THE FINAL, BRACKETTED SENTENCE OF (B) SHOULD BE DELETED.
3. IN (C) DELETE VERB QUOTE CONTROL UNQUOTE AND SUBSTITUTE FIRST PASSAGE IN BRACKETS. THIS IS A STICKING POINT. WE ALSO WANT TO INCLUDE SECOND BRACKET, AND OTHERWISE STICK TO EXISTING TEXT, WHICH SUITS US ADMIRABLY.
4. (D) IS ACCEPTABLE BUT WE WOULD PREFER THE FIRST SENTENCE TO BEGIN QUOTE THE EUROPEAN GOVERNMENTS, WITH US PARTICIPATION, WILL STUDY PROJECTED EUROPEAN ENERGY REQUIREMENTS ....UNQUOTE. THE WORD QUOTE DELIVERY UNQUOTE IS AMBIGUOUS (IT MIGHT REFER TO WESTERN EXPORTS OF EQUIPMENT). WE THEREFORE PREFER THE WORD QUOTE PURCHASE UNQUOTE WHICH TIES THE ACTION FIRMLY TO GAS.

/5. IN

SECRET DEDIP BURNING BUSH



5. IN (E) WE NEED A REFERENCE TO THE COMMUNITIES. ONE POSSIBILITY IS THE INSERTION IN THE FIRST SENTENCE AFTER THE WORD QUOTE INVOLVED UNQUOTE OF QUOTE AND BEARING IN MIND THE RESPECTIVE COMPETENCIES OF THE EUROPEAN COMMUNITIES AND OF NATO UNQUOTE. WE WOULD LIKE THE SECOND PART OF THE FINAL SENTENCE TO READ QUOTE THE ALLIES WILL EXAMINE THEIR ECONOMIC POLICIES TOWARDS THE SOVIET UNION AND EASTERN EUROPE TO ENSURE THAT THEY ARE CONSISTENT WITH THEIR POLITICAL AND SECURITY INTERESTS UNQUOTE. THIS IS BOMN WORDING, AND WE ATTACH IMPORTANCE TO THIS FORMULATION.

PYM

LIMITED

HD/PLANNING STAFF  
HD/EESD  
HD/TRED  
HD/DEFENCE D  
HD/ERD  
HD/ECD (E)  
HD/NAD  
PS  
PS/PUS  
MR EVANS  
MR GOODISON  
MR THOMAS  
MR GILLMORE



GR 600

SECRET

8

D E D I P

SECRET

BURNING BUSH

DESKBY 010800Z

FM UKMIS NEW YORK 010522Z OCT 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1533 OF 30 SEPTEMBER 1982

INFO IMMEDIATE BONN, PARIS, WASHINGTON, UKDEL NATO (PERSONAL FOR AMBASSADOR/MINISTER).

FOLLOWING FROM PRIVATE SECRETARY

MIPT: EAST/WEST ECONOMIC RELATIONS

FOLLOWING IS TEXT OF QUADRIPARTITE DRAFT PAPER AS AT 2300 HRS 30 SEPTEMBER.

BEGINS

THE GOVERNMENTS OF \_\_\_\_\_ RECOGNIZE THE NECESSITY OF DEVELOPING A COMMON POLICY ON ECONOMIC RELATIONS WITH THE USSR. THEY NOTE WITH REGRET THE DIFFERENCES WHICH HAVE DEVELOPED AMONG THEM IN THIS AREA, NOTWITHSTANDING THE BROAD AREAS OF AGREEMENT REACHED AT THE RECENT SUMMIT MEETINGS IN BONN AND VERSAILLES.

THEY ARE RESOLVED TO TAKE THE NECESSARY STEPS TO REMOVE THESE DIFFERENCES WITH THE LEAST POSSIBLE DELAY, ENSURING THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES WILL BE MADE ON THE BASIS OF A COMMON ASSESSMENT OF THE EAST-WEST RELATIONSHIP AND WITH DUE REGARD FOR THE INTERESTS OF THE BROADER COMMUNITY.

TO THIS END, THEY ARE IN FULL AGREEMENT ON THE NEED FOR JOINT ACTION IN THE FOLLOWING FIELDS:

(A) THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THE CONTEMPORARY SECURITY INTERESTS OF THE ALLIANCE. THE LIST OF STRATEGIC ITEMS WOULD BE EVALUATED AND, IF NECESSARY, MODIFIED. THIS OBJECTIVE WILL BE UNDERTAKEN AT THE COCOM REVIEW MEETING BEGINNING OCTOBER 4 IN PARIS, AND FOLLOWED UP AT THE HIGH LEVEL MEETING SCHEDULED FOR EARLY 1983. THEY FURTHER AGREE TO TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MEASURES AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE ALLIES ARE AGREED ON THE NEED TO ESTABLISH WITHOUT DELAY THE NECESSARY MECHANISM FOR THIS PURPOSE. (TO ENSURE THAT THERE IS NO SUBSIDIZATION OF SOVIET ECONOMIC DEVELOPMENT). ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO MANAGE

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THE EXTENSION OF CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES. (ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO MANAGE THE EXTENSION OF PUBLIC AND PRIVATE CREDITS, HARMONIZING NATIONAL POLICIES TO THE EXTENT POSSIBLE, TAKING INTO CONSIDERATION INTEREST RATES, MATURITIES, DOWN PAYMENTS, FEES, AND VOLUMES).

(C) SO AS NOT TO GIVE THE USSR AN UNDESIRABLE STRATEGIC ADVANTAGE THE ALLIED GOVERNMENTS AGREE TO CONTROL (OR TO STUDY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS ON) THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF CERTAIN ADVANCED TECHNOLOGY AND EQUIPMENT (TO BE JOINTLY DETERMINED) WITH DIRECT APPLICATION TO THE OIL AND GAS SECTOR. ACTIONS WOULD BE AGREED UPON AND IMPLEMENTED WITHIN THE COCOM FRAMEWORK.

(D) THE EUROPEAN GOVERNMENTS, WITH U.S. PARTICIPATION, WILL INITIATE A STUDY ON ENERGY WHICH WILL FOCUS ON PROJECTED EUROPEAN ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THOSE REQUIREMENTS. THIS STUDY WILL BE PREPARED UNDER THE AUSPICES OF THE OECD. DURING THE COURSE OF THIS STUDY, ALLIED GOVERNMENTS WOULD EXERCISE RESTRAINT WITH REGARD TO ENTERING INTO ANY NEW CONTRACTS WITH THE SOVIET UNION FOR THE DELIVERY OF NATURAL GAS.

(E) GIVEN THE COMPLEXITY OF THE ISSUES INVOLVED, SUCH DECISIONS CAN BE EFFECTIVE ONLY IF THEY ARE BASED ON A COMPREHENSIVE ANALYSIS OF THE NATURE AND CONDITIONS OF THE USSR AND OF EAST-WEST RELATIONS. CONSEQUENTLY, THE ALLIES ALSO AGREE TO INITIATE A BROADER EXAMINATION OF EAST-WEST ECONOMIC AND POLITICAL RELATIONS IN AN EFFORT TO SHAPE ECONOMIC POLICY IN LIGHT OF THE EVOLVING NATURE OF THE OVERALL RELATIONSHIP BETWEEN EAST AND WEST. AS PART OF THIS STUDY, THE ALLIES WILL EXAMINE HOW BEST TO TAILOR ECONOMIC POLICY SO THAT THE POLITICAL SITUATION IN VARIOUS EASTERN EUROPEAN COUNTRIES CAN BE AFFECTED IN DIRECTIONS CONSISTENT WITH THE INTERESTS OF THE ALLIANCE.

ENDS

F C O PLEASE ADVANCE COPIES TO: PS, PS/PUS, MR EVANS, MR WRIGHT, MR THOMAS, MR GILLMORE, HEAD/EESD, HEAD/PLANNING STAFF, HEAD/TRED.

THOMSON

(ADVANCED AS REQUESTED)

LIMITGD

HD/PLANNING STAFF

HD/EESD

HD/TRED

HD/DEF D

HD/ERD

HD/ECG(E)

HD/CSCG UNIT

HD/WED

HD/NAD

PS

PS/PUS

MR EVANS

MR GOODISON

MR THOMAS

MR GILLMORE

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GR 950

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D E D I P

SECRET

BURNING BUSH

DESKBY 010800Z

FM UKMIS NEW YORK 010520Z OCT 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1532 OF 30 SEPTEMBER 1982

INFO IMMEDIATE BONN, PARIS, WASHINGTON, UKDEL NATO (PERSONAL FOR AMBASSADOR/MINISTER).

MY TELNO 1502: EAST/WEST ECONOMIC RELATIONS

1. THE FOUR POLITICAL DIRECTORS SPENT SOME HOURS TODAY SEEKING TO CARRY FORWARD THE CONCLUSIONS OF THE MINISTERIAL DINNER ON 29 SEPTEMBER.
  
2. BURT (US), SPEAKING IN GREAT CONFIDENCE, SAID THAT SHULTZ HAD CONCLUDED FROM HIS TALKS THIS WEEK THAT A BREAKTHROUGH ON THE PIPELINE PROBLEM WAS WITHIN REACH. HE PROPOSED THAT THE FOUR FOREIGN MINISTERS SHOULD AGREE WITHIN THE NEXT FEW DAYS ON A SERIES OF STEPS WHICH COULD BE JUSTIFIED FOR THEIR OWN SAKE. THIS WOULD ALLOW PRESIDENT REAGAN TO LIFT THE CURRENT US NATIONAL SANCTIONS. THE LINK WOULD BE THERE BUT IT WOULD BE ESSENTIAL THAT NEITHER THE US NOR THE EUROPEAN ALLIES SHOULD DRAW ATTENTION TO IT. BURT URGED THAT THE PRESENT OPPORTUNITY BE GRASPED LEST IT SLIP FOR EVER. HE CIRCULATED A DRAFT (MY TELNO 1510, NOT REPEATED) WHICH SET OUT THREE GENERAL PRINCIPLES (NO CONTRIBUTION TO SOVIET MILITARY CAPACITY, ACTUAL OR POTENTIAL; NO SUBSIDIES TO THE SOVIET ECONOMY; NO CONTRIBUTION TO THE STRATEGIC ADVANTAGE OF THE SOVIET UNION) AND WENT ON TO COMMIT GOVERNMENTS TO THE FOLLOWING:
  - A. ACTION IN COCOM TO FOLLOW UP DECISIONS ALREADY TAKEN;
  - B. SETTING UP MECHANISMS TO MONITOR AND MANAGE CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS AND FEES;
  - C. CONTROL OF ADVANCED TECHNOLOGY AND EQUIPMENT IN THE OIL AND GAS SECTOR;
  - D. EUROPEAN GOVERNMENTS, WITH US PARTICIPATION, TO STUDY FUTURE EUROPEAN ENERGY REQUIREMENTS, DURING WHICH TIME NO NEW CONTRACTS FOR SOVIET GAS WOULD BE CONCLUDED;
  - E. EXAMINING EAST-WEST ECONOMIC AND POLITICAL RELATIONS, INCLUDING HOW BEST TO TAILOR ECONOMIC POLICY SO AS TO INFLUENCE THE SITUATION IN EASTERN EUROPE.
  
3. BULLARD (UK) EXPRESSED SURPRISE. THE CONSENSUS AT THE MINISTERIAL MEETING HAD BEEN TO COMMISSION A STUDY OF POLITICAL AND ECONOMIC RELATIONS WITH THE EAST, IN WHICH PROBLEMS SUCH AS THE PIPELINE COULD BE PUT INTO CONTEXT. THE 3 US PRINCIPLES

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/WLRG



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WERE NOT SO INNOCUOUS AS THEY SEEMED. TO SEEK INSTANT COMMITMENTS ON THE LINES PROPOSED BY BURT WOULD INVOLVE JUMPING TO THE CONCLUSIONS WHICH THE STUDY WAS INTENDED TO LEAD TO. BULLARD CIRCULATED AN OUTLINE FOR THE STUDY ON THE FOLLOWING LINES:

- I. WESTERN OBJECTIVES
- II. CHANGE OF LEADERSHIP IN THE SOVIET UNION
- III. WEAKNESSES OF THE SOVIET ECONOMY
- IV. ECONOMIC CHOICES FACING THE SOVIET LEADERSHIP
- V. IMPACT OF WESTERN TRADE AND TECHNOLOGY TRANSFERS
- VI. TASKS AND OPPORTUNITIES FOR THE WEST
- VII. MECHANISMS, EXISTING AND POTENTIAL
- VIII. RECOMMENDATIONS FOR WESTERN POLICY.

4. ANDREANI (FRANCE) AGREED WITH BULLARD. FRANCE HAD NO WISH TO DRAG HER FEET BUT IT WOULD BE IMPOSSIBLE TO REACH SIGNIFICANT DECISIONS WITHIN A FEW DAYS. HE CIRCULATED A DRAFT INTRODUCTION WHICH SAID IN EFFECT THAT UNILATERAL DECISIONS BY INDIVIDUAL MEMBERS OF THE ALLIANCE SHOULD IN FUTURE BE AVOIDED, THAT ANY ACTION SHOULD BE BASED ON AN ANALYSIS OF THE TOTAL SITUATION, THAT AN EFFORT SHOULD BE MADE TO HARMONISE VIEWS ON WESTERN STRATEGY TOWARDS THE SOVIET UNION AND THAT MEANWHILE "THE CLIMATE OF TRUST AND MUTUAL RESPECT MUST BE RESTORED" (IE THE AMERICAN NATIONAL MEASURES MUST BE LIFTED).

5. PFEFFER (FRG) WAS ILL AT EASE, NO DOUBT ON ACCOUNT OF THE POLITICAL SITUATION IN GERMANY. HE WAS READY TO WORK ON THE UK OUTLINE BUT ACKNOWLEDGED THAT SHULTZ HAD ASKED FOR RECOMMENDATIONS OF SOME SORT WITHIN A FEW DAYS.

6. AFTER FURTHER SKIRMISHES IT WAS AGREED TO ACCEPT A LESS CONTROVERSIAL PREAMBLE AND TO EXAMINE THE FIVE LINES OF ACTION SUGGESTED BY THE UNITED STATES (PARA 2 ABOVE).

7. POINT A CAUSED NO GREAT DIFFICULTY. ON POINT B, IT WAS AGREED TO PROPOSE THE SETTING UP OF A MECHANISM TO CONDUCT THE PERIODIC REVIEWS OF EAST WEST ECONOMIC AND FINANCIAL RELATIONS WHICH HAD BEEN ENVISAGED AT VERSAILLES. THIS WAS AS FAR AS THE FRENCH AND GERMANS WOULD GO BEYOND THE ACTUAL LANGUAGE OF VERSAILLES. ANDREANI IN PARTICULAR WAS CATEGORICAL IN REJECTING ANY MECHANISM TO MANAGE EXPORT CREDITS.

8. POINT C PROVED CONTENTIOUS. THE AMERICANS WERE DETERMINED TO SECURE A COMMITMENT TO CONTROL THE SALE TO THE EAST OF CERTAIN HIGH TECHNOLOGY EQUIPMENT IN THE OIL AND GAS FIELD, WHETHER OR NOT IT WAS ON THE COCOM LIST: AS EXAMPLES THEY MENTIONED SUBMERSIBLE PUMPS AND AUTOMATIC BLOW-OUT PREVENTERS. THE UK AND FRANCE POINTED OUT THAT ACTION ON THESE LINES COULD RECREATE THE ALLIANCE PROBLEM WHICH HAD ARISEN OVER THE PIPELINE. IN ANY CASE THE QUESTION WHETHER IT WAS IN THE INTEREST OF THE WEST TO FACILITATE DEVELOPMENT OF SOVIET ENERGY RESOURCES OR TO OBSTRUCT IT HAD SCARCELY BEEN DISCUSSED, MUCH LESS DECIDED. THE FRG WERE READY TO STUDY THE PROBLEM, BUT WITHOUT COMMITMENT.



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9. ON D, THE FRENCH COULD NOT ACCEPT ANY REFERENCE TO THE IEA. THE FRG COULD UNDERTAKE TO DISCOURAGE CONTRACTS, BUT NOT TO ABSTAIN FROM SIGNING THEM. THE UK WAS NOT MUCH AFFECTED IN PRACTICE.

10. POINT E WAS NOT REACHED.

11. MIFT CONTAINS DRAFT AS IT NOW STANDS, WITHOUT SOME OF THE NUMEROUS SQUARE BRACKETS. WE SHOULD BE GRATEFUL FOR ANY FURTHER COMMENTS, IF POSSIBLE BY 1300 GMT ON 1 OCTOBER WHEN DISCUSSION IS TO BE RESUMED WITH THE AIM OF FINALISING A PAPER OF RECOMMENDATIONS FOR THE FOUR FOREIGN MINISTERS TO TAKE WITH THEM TO THE INFORMAL NATO WEEKEND MEETING IN CANADA.

F C O PLEASE ADVANCE COPIES TO: PS, PS/PUS, MR EVANS, MR WRIGHT, MR THOMAS, MR GILLMORE, HEAD/EESD, HEAD/PLANNING STAFF, HEAD/TRED.

THOMSON

LIMITED

(ADVANCED AS REQUESTED)

HD/ PLANNING STAFF

HD/ EESD

HD/ TRED

HD/ DEF D

HD/ ERD

HD/ ECD (E)

HD/ ESCC UNIT

HD/ WED

HD/ NAD

PS

PS/PUS

MR EVANS

MR GOODISON

MR THOMAS

MR GILLMORE

- 3 -  
SECRET



6

LUK 713/28

RECEIVED  
BRITISH HIGH COMMISSION  
NEW DELHI  
CHANCERY REGISTRY  
29 SEP 1982  
DUPLICATES  
OF LETTERS  
OF EMBASSY  
LOCAL

FDW F 001/28

OO DELHI (DESKBY 290030Z)  
GPS 817  
D E D I P  
S E C R E T  
BURNING BUSH.  
DESKBY 290030Z  
FROM F C O 282157Z SEP 82  
TO IMMEDIATE NEW DELHI  
TELEGRAM NUMBR 703 OF 28 SEPTEMBER

IMMEDIATE

SECRET *ml 29/9*

FROM RESIDENT CLERK PERSONAL FOR PRIME MINISTER'S PRIVATE SECRETARY.  
1. FOLLOWING TELEGRAM IS BEING REPEATED TO YOU AT REQUEST OF PLANNING STAFF.

BEGINS.  
FM UKMIS NEW YORK 281635Z SEPT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1477 OF 28 SEPTEMBER,  
INFO IMMEDIATE BONN PARIS AND WASHINGTON (PERSONAL FOR AMBASSADORS)  
INFO PRIORITY ROME, MOSCOW, UKDEL NATO (PERSONAL FOR AMBASSADORS).

FOLLOWING FROM PRIVATE SECRETARY.

UNGA: BILATERAL WITH US SECRETARY OF STATE: PIPELINE.

1. THIS SUBJECT WAS TAKEN IN RESTRICTED SESSION, WITH THE SECRETARY OF STATE AND SHULTZ ACCOMPANIED ONLY BY BURT AND MYSELF. SHULTZ BEGAN BY SAYING THAT MR PYM'S HAD BEEN THE MOST CONSTRUCTIVE VOICE AROUND ON THIS SUBJECT, AND WENT ON TO REPORT THE RESULTS OF HIS LENGTHY TETE-A-TETE WITH CHEYSSON. MAIN POINTS ARE AS FOLLOWS:

- I. CHEYSSON HAD NOT BEEN PREPARED TO DISCUSS THE PIPELINE AS SUCH, ON WHICH HE SAID THAT THE TWO SIDES COULD ONLY HAVE REPEATED KNOWN ARGUMENTS. BUT, PROVIDED THAT THE PIPELINE COULD BE LEFT TO ONE SIDE AS AN UNRELATED BONE OF CONTENTION, HE WAS PREPARED TO SEE FURTHER DISCUSSION OF PARTICULAR ASPECTS OF EAST WEST ECONOMIC RELATIONS.
- II. CHEYSSON HAD EXPRESSED STRONG CRITICISM OF SOVIET POLICY ON AFGHANISTAN, POLAND AND THE ARMS BUILD UP, AND HAD WELCOMED THE STRONG US DEFENCE GESTURE.
- III. ON COCOM, THE FRENCH COULD SUPPORT AN EFFECTIVE REVIEW OF THE COCOM LIST AND A STRENGTHENING OF THE COCOM ADMINISTRATIVE MACHINERY.
- IV. ON CREDIT, CHEYSSON AGREED IN PRINCIPLE THAT WESTERN COUNTRIES SHOULD NOT SUBSIDISE THE SOVIET ECONOMY. HE WOULD BE PREPARED TO AGREE TO SOME SORT OF MACHINERY TO MANAGE THE FLOW OF CREDIT TO THIS END. ('MANAGE' WAS SHULTZ'S WORD: HE AGREED IN RESPONSE TO A QUESTION THAT CHEYSSON MIGHT NOT HAVE WISHED TO GO FURTHER THAN 'MONITOR').



- V. MORE GENERALLY, CHEYSSON COULD AGREE TO SETTING UP SOME MECHANISM TO MONITOR EAST WEST TRADE.
- VI. ON OIL AND GAS EQUIPMENT, SHULTZ HAD ARGUED FOR A LIST OF CRITICAL ITEMS THE WITHHOLDING OF WHICH WOULD HAVE A STRONG IMPACT ON THE SOVIET ABILITY TO GENERATE FOREIGN CURRENCY. HE ACCEPTED THAT THIS WAS A DISTINCT PURPOSE FROM THAT OF COCOM, BUT THOUGHT THAT A STRENGTHENED COCOM MACHINE MIGHT POSSIBLY DEAL ALSO WITH ITEMS ON THE OIL AND GAS LIST. HE WAS NOT SURE HOW FAR CHEYSSON WOULD BE PREPARED TO GO ON THIS POINT, BUT HE HAD APPEARED GENERALLY FORTHCOMING.
- VII. GAS. SHULTZ HAD EMPHASISED THE DANGER THAT THE RUSSIANS MIGHT PURSUE PRICING POLICIES DESIGNED TO MAKE UNATTRACTIVE THE SEARCH FOR NEW RESOURCES IN WESTERN EUROPE. HE HAD PROPOSED THAT THE QUESTION BE STUDIED, AND THAT THERE SHOULD BE COMMITMENT NOT TO ENTER INTO FURTHER AGREEMENTS FOR THE PURPOSE OF SOVIET GAS IN THE MEANTIME. THE AMERICANS WOULD PARTICIPATE IN SUCH A STUDY, BUT THOUGHT THAT THE LEAD SHOULD COME FROM THE EUROPEAN SIDE. CHEYSSON SEEMED GENERALLY IN AGREEMENT.
- VIII CHEYSSON HAD RAISED THE QUESTION OF SUBSIDISED SALES OF FOOD PRODUCTS FROM THE UNITED STATES. SHULTZ COMMENTED THAT, ON AN ANALOGY WITH CREDIT, THE US SHOULD HAVE NO DIFFICULTY IN AGREEING TO NON-SUBSIDISATION.

2. SHULTZ DREW FROM THIS THE CONCLUSION THAT THERE WAS A MAKING OF A PACKAGE ON EAST WEST ECONOMIC RELATIONS. TO MEET THE SUSCEPTIBILITIES OF THE FRENCH IT COULD NOT BE PRESENTED AS A QUID PRO QUO FOR AN AMERICAN LIFTING OF PIPELINE SANCTIONS. BUT, IF HE COULD SHOW THE PRESIDENT THAT THE ALLIES WERE ABLE TO AGREE ON SUCH A PACKAGE, HE THOUGHT THAT THE PRESIDENT WOULD BE PREPARED TO LIFT SANCTIONS. HE DID NOT RULE OUT THE POSSIBILITY OF THIS BEING DONE BEFORE THE MID-TERM ELECTIONS. PROCEDURALLY, THE NEXT STEP SHOULD BE FOR THE FOUR TO TAKE THINGS FORWARD, AND FOR THE ITALIANS AND JAPANESE TO BE BROUGHT INTO THE PICTURE.

3. IN RESPONSE, THE SECRETARY OF STATE REGRETTED THAT THE FRENCH POSITION MADE IT IMPOSSIBLE FOR US TO TACKLE THE PIPELINE QUESTION DIRECTLY: THE SANCTIONS WERE A MATTER OF GREAT CONCERN TO US AND WERE HAVING AN UNEXPECTEDLY HARSH IMPACT ON JOHN BROWN. BUT HE WAS READY TO BUILD ON WHAT THE FRENCH COULD BE BROUGHT TO ACCEPT AND TO SUPPORT FURTHER WORK IN THE FOUR. HE HOPED THAT THE FOUR MINISTERS WOULD ALSO GO FURTHER AND INSTRUCT POLITICAL DIRECTORS TO LOOK MORE GENERALLY AT WHAT SHOULD BE THE MAIN ELEMENTS OF WESTERN POLICY IN EAST WEST RELATIONS IN THE YEARS AHEAD. THESE QUESTIONS WERE OF IMPORTANCE TO THE ALLIANCE AS A WHOLE, BUT THE FRENCH WOULD BE MORE LIKELY TO COOPERATE EFFECTIVELY IN THE FOUR.

4. SHULTZ, WHO WAS CLEARLY IN A HURRY TO PUSH AHEAD, EXPRESSED CONCERN THAT VON STADEN WOULD FEEL OBLIGED TO TAKE A VERY CAUTIOUS LINE AT THE QUADRIPARTITE MEETING ON 29 SEPTEMBER. A SUBSEQUENT BILATERAL MEETING BETWEEN THE SECRETARY OF STATE AND VON STADEN TENDED TO CONFIRM THIS.

THOMSON  
ENDS  
PYM

NNNN





Prime Minister (2)

Mus 21/9

PRIME MINISTER

US OIL AND GAS MEASURES (PIPELINE) mf

I have seen your minute of 15 September to Francis Pym agreeing with the proposals outlined in his minute and enclosure to you of 14 September. I am in general agreement with these proposals, subject to the following reservations. I fully accept that we should maintain our efforts to find a solution to the present pipeline dispute with the US. Nevertheless we should not be proposing anything more than cosmetic gestures to get the US to withdraw its retroactive interference with existing European contracts in pursuit of a policy that we and our European allies do not share.

2 As to the details set out in the enclosure, I have some hesitation about the proposals on credit. There really seems to be little more we can do in this field without disadvantaging British exporters. Whatever is eventually decided upon must therefore be capable of widespread adoption, eg by the OECD countries.

3 On the COCOM issue I would simply say that I strongly support the earlier Ministerial exchanges (not to all) that we should





only concede progress on the Technology Note (item B(iv) of the enclosure) as a quid pro quo for US acceptance of an improvement of certain other COCOM mechanisms. I suggest that the reference to the Technology Note should therefore be deleted.

4 Quite apart from the issue of principle referred to in paragraph 1 above, it is very clear that any commitment to restrict sales of oil and gas equipment to the USSR would block out a number of British companies such as Rolls Royce, GEC, Ruston Gas Turbines etc, from a market they have already informed us they consider important to them. I am sure we shall be in good company in eschewing any commitment since the French, German and Italian Governments will have similar interests to protect and will not want to concede anything on this.

5 I see from Gerard Vaughan's minute to you of 17 September that he shares some of my reservations and I hope therefore that we may have a further opportunity to assess the scope of the package before any proposals are put to the US.

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

PJ

P J

21 September 1982



*S. J. Wilson*LDX 21  
LDX 201

CYPHER

FDW G 161/21

00 TOKYO (DESKBY 212300Z)

GRS 431

IMMEDIATE

CONFIDENTIAL  
DESKBY 212300Z  
FM FCO 211800Z SEP 82  
IMMEDIATE TOKYOTELEGRAM NUMBER 435 OF 21 SEPTEMBER  
REPEATED TO IMMEDIATE MEXICO CITY (DESKBY 211900Z) FOR PUS  
FOLLOWING FOR THE PRIME MINISTER'S PRIVATE SECRETARY  
INTERNATIONAL SITREP

1. PIPELINE: THE PIPELINE WAS DISCUSSED AT THE FOREIGN AFFAIRS COUNCIL IN BRUSSELS ON 20 SEPTEMBER. I OUTLINED OUR THINKING. THE ITALIANS AND GERMANS WELCOMED THE IDEA OF A MEETING A CINQ IN NEW YORK WITH COMMISSION AND PRESIDENCY PRESENT. THE FRENCH REMAINED UNENTHUSIASTIC, THEY WERE CONCERNED BOTH THAT SUCH A MEETING WOULD MAKE THE EUROPEANS LOOK LIKE DEMANDEURS, AND ABOUT PUBLICITY. I SHALL DISCUSS THE QUESTION WITH CHEYSSON IN PARIS ON 22 SEPTEMBER. THE DUTCH PRESSED HARD TO BE INCLUDED IN ANY MEETING, BUT THIS WAS NOT EXPLICITLY AGREED OR REFUSED.

2. FALKLANDS: AT YESTERDAY'S FOREIGN AFFAIRS COUNCIL, THE FRG, ITALY AND THE NETHERLANDS, SAID THEY WOULD FOLLOW THE FRENCH AND LIFT THE ARMS EMBARGO AGAINST ARGENTINA. IT WAS AGREED THAT EC MINISTERS WOULD FINALISE THEIR ATTITUDE ON A UNGA RESOLUTION WHEN THEY MEET IN NEW YORK.

## 3. GUATEMALA/BELIZE.

(I) THE GUATEMALAN FOREIGN MINISTER HAS RESPONDED POSITIVELY TO OUR SUGGESTION TO HOLD DISCUSSIONS ABOUT OUR BILATERAL RELATIONS. HE HAS PROPOSED NEGOTIATIONS IN NEW YORK AND HAS SUGGESTED THAT BELIZE SHOULD BE REPRESENTED ON THE UK DELEGATION. AS LONG AS THERE ARE NO GUATEMALAN ACTS OF SABOTAGE IN BELIZE AT TODAY'S INDEPENDENCE CELEBRATIONS, WE INTEND TO REPLY SAYING WE WOULD PREFER TO BEGIN WITH EXPLORATORY TALKS ABOUT MODALITIES WHICH MIGHT BEST BE CONDUCTED BY OUR RESPECTIVE DELEGATIONS IN NEW YORK. WE SHALL REMIND THE GUATEMALANS THAT THEY MUST DEAL DIRECTLY WITH THE BELIZE GOVERNMENT OVER THE GUATEMALA/BELIZE PROBLEM.

(II) IN BELIZE, MR ONSLOW HAS TOLD PRICE OF OUR DECISION TO WITHDRAW THE GARRISON NOT LATER THAN THE SECOND HALF OF 1983. HE STRESSED THE NEED TO USE THE INTERVENING PERIOD TO FIND OTHER MEANS OF ENSURING BELIZE'S SECURITY, EG. ATTEMPTS TO SETTLE THE DISPUTE WITH GUATEMALA: THE COMMONWEALTH SECRETARY GENERAL'S PLAN FOR INVOLVING OTHER COMMONWEALTH COUNTRIES IN BELIZE'S SECURITY: CLOSER TIES BETWEEN BELIZE AND REGIONAL ORGANISATIONS. PRICE SAID HE FULLY SHARED THESE OBJECTIVES AND BELIZE WOULD PURSUE HER OWN INFORMAL CONTACTS WITH THE GUATEMALANS. BUT HE CLEARLY REMAINED UNHAPPY ABOUT THE PROPOSED TIMING OF BRITISH WITHDRAWAL.

4. HESS: HESS RESPONDED TO TREATMENT FOR PLEURISY AND RETURNED FROM THE BRITISH MILITARY HOSPITAL TO SPANDAU ON 20 SEPTEMBER.

5. FRG INTERNAL: SEE SEPARATE TELEGRAM FROM BONN WHICH WILL REACH YOU SHORTLY.

6. EC BUDGET: I AM TELEGRAPHING SEPARATELY.

PYM

NNNN

H





Prime Minister (2)

Ms 17/9

PRIME MINISTER

US OIL AND GAS MEASURES (PIPELINE)

In Lord Cockfield's absence I am responding to the minute of 14 September from the Foreign Secretary.

2 Subject to the detailed points below I can agree to the use of the list of possible measures prepared by officials as guidelines in contacts with the other Europeans to establish whether it could form the basis of a package. I assume that before any package is put to the Americans, Ministers will have a further opportunity of considering the details.

a) It seems improbably that the French, given their present unwillingness to compromise and their attitude at Versailles, will be prepared to concede much if anything on credits. The substance of the American demands has in any event already been achieved. European Governments have taken steps to reduce their exposure on USSR borrowing for prudential reasons and the minimum rate of interest for officially financed credit for the USSR have been raised in OECD from 8½% in November to 12.4% for credit exceeding 5 years. The fall in domestic interest rates should eliminate the element of interest rate subsidy in the UK for new business and we have placed limits on our exposure in the USSR and increased ECGD premiums. If our firms are not to be placed at a competitive disadvantage we would need to secure the widest possible agreement in EEC and OECD on any further significant restrictions on credit for the USSR, but the changes which have already been made will make agreement on further restrictions hard to achieve particularly if these were perceived as part of a deal with the USA. We can make considerable play with the movement which has already been made towards the American position, but we should be very cautious about proposing any further significant restrictions.

b) There has already been Ministerial correspondence about the Technology Note (item B (iv) of the package) acceptance of which would extend COCOM control to know-how. We are prepared to accept it in principle but have delayed doing so in practice as a means of bringing pressure on the





Americans to accept a proposal which we put forward at the end of 1981 for placing a strict timetable on the handling of requests for exemptions from the COCOM rules. Our proposal, which has the support of all other COCOM members, was intended to curb the recent American practice of using delaying tactics to block requests for exemptions contrary to the normal practice of COCOM. The Americans have made their acceptance of our proposal conditional on the installation of advanced communication equipment in COCOM. We are now proposing (item B(iii) of the package) that we should agree the installation of this equipment and this should open the way to our acceptance of the Technology Note. We do not see that any useful purpose would be served by abandoning our present position on Technology Note. Item B(iv) of the package should therefore be deleted.

c) We could not support any restrictions on oil and gas equipment to the USSR. GEC and Rolls Royce see good prospects for exports and have already made their concern known about such a possibility.

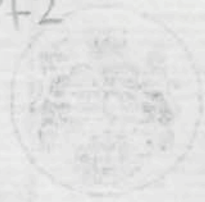
3 I am copying this to OD colleagues, the Secretary of State for Industry and Sir Robert Armstrong.

Gerard Vaughan

17.9.82



Soviet Union  
Credit Terms  
Pt 2



СОВЕТСКИЙ СОЮЗ



LDW 570

LDX 759/17

FDW G 140/17

00 TOKYO (DESKBY 172300Z)

GRS 552

CONFIDENTIAL

DESKBY 172300Z

FM FCO 171720Z SEPTEMBER 82

TO IMMEDIATE TOKYO

TELEGRAM NUMBER 413 OF 17 SEPTEMBER

FOLLOWING FOR THE PRIME MINISTER'S PRIVATE SECRETARY  
INTERNATIONAL SITREP

1. THE PIPELINE: THE FRENCH HAVE NOW AGREED TO A MEETING OF THE FOUR EUROPEAN FOREIGN MINISTERS WITH SHULTZ IN NEW YORK. THE COMMISSION AND THE PRESIDENCY WILL PROBABLY BE INVITED. THE AGENDA HAS NOT YET BEEN FIXED. WEINBERGER REPEATED TO HM AMBASSADOR IN WASHINGTON YESTERDAY THAT PRESIDENT REAGAN'S GOAL WAS TO BRING ABOUT AN IMPROVEMENT IN THE POLISH SITUATION BY MAKING THE RUSSIANS PAY A PRICE OVER THE PIPELINE. BUT HE ADDED THAT THE US WAS ALSO WORRIED ABOUT THE BOOST THE PIPELINE WOULD GIVE TO SOVIET HARD CURRENCY EARNINGS AND THE EFFECT THIS MIGHT HAVE ON SOVIET DEFENCE EXPENDITURE. NEVERTHELESS WEINBERGER STRESSED THAT THE DISPUTE SHOULD NOT AFFECT THE SPECIAL BILATERAL RELATIONSHIP, OR DISRUPT NATO. SIR O WRIGHT WILL DISCUSS THE PIPELINE WITH SHULTZ THIS AFTERNOON (FRIDAY).
2. TALKS WITH TINDEMANS: MY MEETING WITH TINDEMANS IN BRUSSELS ON 16 SEPTEMBER WAS FRIENDLY BUT NOT ESPECIALLY PRODUCTIVE. THE MAIN TOPICS COVERED WERE TRANSATLANTIC RELATIONS, POLAND, THE MIDDLE EAST AND THE FALKLANDS. ON THE EC BUDGET, TINDEMANS AGREED WITH US OVER 1982 REFUNDS AND SAID THAT THE COMMISSION SHOULD MAKE PROPOSALS OF ITS OWN ACCORD ON THE BUDGET FOR 1983 AND BEYOND. ON OTHER ISSUES HIS VIEWS COINCIDED MORE OR LESS WITH OUR OWN, BUT HE NOTED THAT PRESSURE TO EASE THE ARMS EMBARGO ON ARGENTINA WAS DEVELOPING. TINDEMANS MENTIONED HIS CONCERN THAT THE WAY DUTCH POLICY ON INF EVOLVED WOULD HAVE AN IMPORTANT IMPACT ON BELGIAN OPINION.
3. NAMIBIA: THE SOVIET ACTING PERMREP AT THE UN HAS WRITTEN TO THE SECRETARY GENERAL COMPLAINING THAT THE AMERICANS AND SOUTH AFRICANS ARE QUOTE ILLEGALLY UNQUOTE LINKING THE NAMIBIAN NEGOTIATIONS WITH THE PRESENCE OF CUBAN TROOPS IN ANGOLA. THE LETTER ALLEGES THAT THE AUTHORITY OF THE UN IS BEING UNDERMINED BY ATTACHING CONDITIONS TO THE IMPLEMENTATION OF THE UN PLAN, AND BY THE WAY THE NEGOTIATIONS ARE BEING CONDUCTED WITHOUT UN MEMBER STATES BEING PROPERLY INFORMED. OUR PRELIMINARY ASSESSMENT IS THAT THIS PROBABLY DOES NOT (NOT) REPRESENT A MORE OVERT AND ENERGETIC SOVIET ATTEMPT TO UNDERMINE THE NAMIBIAN NEGOTIATIONS, BUT IS DESIGNED TO WARN THE WEST, THE SECRETARIAT AND THE FRONT LINE STATES THAT THE RUSSIANS ARE KEEPING A CLOSE WATCH ON THE POSITION. WE EXPECT THEM TO EXPLOIT ANY OPPORTUNITIES FOR MISCHIEF MAKING, EG. AT THE SECURITY COUNCIL DEBATE ON 20 SEPTEMBER ABOUT THE UN ARMS EMBARGO AGAINST SOUTH AFRICA.
- RM HESS: HESS WAS ADMITTED TO THE BRITISH MILITARY HOSPITAL ON 15 SEPTEMBER. HE HAS PLEURISY BUT IS RESPONDING TO TREATMENT. HIS SISTER WAS ALLOWED TO VISIT HIM ON 16 SEPTEMBER. HIS IS EXPECTED TO REMAIN IN HOSPITAL UNTIL AT LEAST 20 SEPTEMBER.
5. THE MIDDLE EAST:
- (I) LEBANON: THE ISRAELIS HAVE REFUSED TO COMPLY WITH THE US DEMAND THAT THEY SHOULD WITHDRAW FROM WEST BEIRUT (LIKELY TO BE ECHOED BY THE SECURITY COUNCIL LATER TODAY). AMIN GEMAYEL HAS BEEN NOMINATED BY THE KATAEB AS THE PRESIDENTIAL CANDIDATE. NO DATE HAS YET BEEN SET FOR NEW ELECTIONS.
- (II) ARAB/ISRAEL: THERE HAS BEEN NO APPROACH YET FROM THE ARAB COMMISSION FOLLOWING UP THE FEZ SUMMIT. MR HURD HAD A GOOD TALK WITH KING HUSSEIN, WHO IS KEEN TO RESPOND TO THE REAGAN PROPOSALS BUT SO FAR LACKS SAUDI AND PLO SUPPORT.

PYM

NNNN



*Fos Jelens*

New York Meeting on Pipeline

Background

1. The Foreign Ministers of the United Kingdom, United States, France, Italy and West Germany are to meet in New York towards the end of this month.

Mr. Suzuki may express interest in the Japanese Foreign Minister taking part.

Line to Take

2. We have just heard that this long-delayed meeting will indeed take place towards the end of this month. France, initially reluctant, has now agreed to take part.

3. There have been considerable difficulties in arranging the meeting which the United Kingdom wanted some time ago. We can certainly ask the other participants about Japan's inclusion: But they may see difficulties. Some European countries, e.g., Netherlands, which are affected by US measures, will not be present. Nor will the European Commission.

4. There may well be a need for wider consultation after this preliminary meeting in New York. We could be in touch with Japan later.

5. All the participants in the New York meeting are (a) involved in a particular project (Siberian pipeline) (b) have had US denial orders issued against particular shipments. Japan not quite in the same situation?



## New York meeting on pipeline

### BACKGROUND

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Mr. Suzuki may express interest in the Japanese Foreign Minister taking part.

### LINE TO TAKE

2. We have just heard that this long-delayed meeting will indeed take place towards the end of this month. France, initially reluctant, has now agreed to take part.
3. There have been considerable difficulties in arranging the meeting which the U.K. wanted some time ago. We can certainly ask the other participants about Japan's inclusion. But they may see difficulties. Some European countries e.g. Netherlands, which are affected by U.S. measures, will not be present. Nor will the European Commission.
4. There may well be a need for wider consultation after the preliminary meeting in New York. We could be in touch with Japan later.
5. All the participants in the New York meeting are (a) involved in the particular project (Siberian pipeline) (b) have had US denial orders issued against particular shipments. Japan not quite in the same situation?



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

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15 September 1982

US Oil and Gas Measures (Pipeline)

The Prime Minister has seen the minute of 14 September by the Foreign and Commonwealth Secretary. Mrs Thatcher is sympathetic to the approach proposed by Mr. Pym, namely that the Europeans should try to agree upon a package of measures affecting the Soviet Union which could be offered to the Americans in exchange for their withdrawal of the retroactive application of the measures they have taken in respect of the pipeline. Subject to the views of OD colleagues, she agrees that discussions could commence with the other Europeans to establish whether the list annexed to Mr. Pym's minute could form the basis of a possible package. If difficulties arise in formulating an agreed position on the proposal, the Prime Minister would like to be consulted during her visit to the Far East.

I am copying this letter to the Private Secretaries to members of OD, the Secretary of State for Industry and Sir Robert Armstrong.

A J COLES

F.N. Richards, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

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CONFIDENTIAL

Prime Minister

Would you like me to say that you are sympathetic to the approach, subject to the views of our colleagues, and that if there are problems in obtaining general Ministerial agreement you will wish to be consulted in the Far East?

PM/82/77

THE PRIME MINISTER

A.F.C.  $\frac{14}{9}$

Yes MB

US Oil and Gas Measures (Pipeline)

1. We agreed in Cabinet on 9 September to maintain our efforts to achieve a solution to the problem acceptable both to the United States and to the European Governments concerned.
2. As you know, I shall be discussing the problem, and broader questions of East/West economic relations, with George Shultz and my French, FRG and Italian colleagues at a meeting in New York at the end of this month.
3. A possible solution to our dispute with the Americans would be for the Europeans to agree a package of measures affecting the Soviet Union in the fields Shultz has suggested - credit, COCOM, oil and gas equipment, and alternative energy sources - which could be offered to the Americans in exchange for their withdrawing the retroactive application of their measures of December and June. Although we must clearly not offer measures which damage the interests of our exporters, we would need to offer enough to enable President Reagan to present them to the American public as a significant contribution by the Europeans to the exercise of pressure on the Russians. This will not be easy. Our European partners, particularly the French, are inclined to argue that it is not for us to offer concessions to the Americans. I nevertheless believe that this approach offers the best available possibility of resolving this damaging transatlantic dispute.
4. I enclose a list of possible measures, which has been agreed inter-departmentally at official level. It is the maximum that officials think the UK could, or should, offer without prejudice to our legitimate commercial interests. You will see that officials have not thought it right to offer concessions on future sales

/of

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of oil and gas equipment to the Soviet Union.

5. I invite colleagues to agree that this list should, as appropriate, be used as our guideline in our contacts with the other Europeans to establish whether it could form the basis of a possible package.

6. I am copying this minute to OD colleagues, the Secretary of State for Industry and Sir Robert Armstrong.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office

14 September 1982

CONFIDENTIAL



A. 'Further restriction of credits to the Soviet Union'

- i. Establishment of information and monitoring systems (eg. half-yearly review meetings, quarterly exchanges of statistical information).
- ii. Agreement, where appropriate, to reduce the level of exposure and increase premium charges.
- iii. In cases of official financing to apply strictly Consensus minima of 12.15 - 12.4%
- iv. To limit official support to 75% of total value.
- v. To try to prevent side financing in excess of 10% of contract price.
- vi. Not to exceed Franco-Soviet protocol terms:
  - Under FF30M - 5 years credit
  - FF30 - 100M - 7 years credit
  - Over FF100M - 8 and half years credit
- vii. No official support for credits financing local costs.

B. 'Further tightening of COCOM regulations'

- i. Agreement in principle that the COCOM List should be extended to cover new advanced technology items; details will of course have to be settled in the List Review (examples: items on robotics and hovercraft)
- ii. Work on strengthening COCOM system to be speeded up (ie. Export Controls Sub-Committee) including facilitating enforcement by cutting out unnecessary items during course of List Review.
- iii. Agreement to consider favourably US proposals to improve communications within COCOM.
- iv. Acceptance of Technology Note. ?
- v. Repeat our agreement to 'conduct special sessions in order to receive and exchange reports from military and defence specialists' (HLM III (iii)).
- vi. An undertaking to be flexible on procedure during List Review discussions.
- vii. Readiness to implement a tighter regime for cases for Poland and the Soviet Union (eg. a no general exceptions policy for Poland, a reduction of the permitted exceptions for the Soviet Union).

C. 'Restricting prospective sales of oil and gas equipment to the Soviet Union'



D. 'Examining alternative energy sources'

- i. We can refer to existing IEA study of gas security issues
- ii. Repeat NAC undertaking to 'reflect' on East/West trade issues including energy: Invite Americans to suggest how this might be pursued.



Soviet Union

Credit Terms Pt 2

14 SEP 1961  
BUREAU OF  
COMMERCIAL  
ATTACHÉ  
WASHINGTON  
D.C.



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

22847 - 1

PP MOSCOW

GRS 486

*Read in full*

CONFIDENTIAL

FM FCO 131415Z SEP 82

TO PRIORITY MOSCOW

TELEGRAM NUMBER 504 OF 13 SEPTEMBER

INFO SAVING UKMIS NEW YORK, UKDEL NATO, WASHINGTON, BONN, PARIS.

SOVIET AMBASSADOR'S CALL

1. POPOV PAID HIS INTRODUCTORY CALL ON ME THIS MORNING BEFORE RETURNING TO MOSCOW FOR CONSULTATIONS, AND THE JOINT COMMISSION.
2. HE OPENED BY MAKING A PREPARED STATEMENT ON UK-SOVIET RELATIONS. IN THE SOVIET VIEW THESE WERE IMPORTANT NOT JUST IN THEMSELVES BUT ALSO FOR THEIR WIDER INTERNATIONAL EFFECT. THE SOVIET SIDE DID NOT CLOSE ITS EYES TO DIFFERENCES OF OPINION BUT SAW NO REASON WHY RELATIONS SHOULD BE FROZEN. POPOV REFERRED TO BREZHNEV'S WORDS ON UK-SOVIET RELATIONS AT THE 25TH CPSU AND TO THE FOREWORD TO THE RECENTLY PUBLISHED BIOGRAPHY OF BREZHNEV IN THE UK. THE SOVIET UNION HAD BETTER RELATIONS WITH THE FRG AND ITALY NOT TO SPEAK ABOUT FRANCE.
3. POPOV REMARKED ON THE 'REALISTIC' BRITISH POSITION ON THE SIBERIAN GAS PIPELINE PROJECT. HE HOPED FOR PROGRESS AT THE JOINT COMMISSION. TRADE WITH THE UK HAD NOT EXPANDED AT ANYTHING LIKE THE SAME RATE AS THAT WITH THE FRG OR ITALY.
4. I AGREED WITH POPOV THAT UK-SOVIET RELATIONS WERE IMPORTANT. I WISHED TO DO WHAT I COULD TO IMPROVE THEM, BUT THIS WOULD HAVE TO BE ON THE BASIS OF DEEDS NOT WORDS. I REFERRED TO THE LOSS OF CONFIDENCE RESULTING FROM THE SOVIET INVASION OF AFGHANISTAN AND ACTIVITIES

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



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

22847 - 1

IN CONNECTION WITH THE IMPOSITION OF MARTIAL LAW IN POLAND. THE SOVIET RECORD IN FAILING TO IMPLEMENT ITS COMMITMENTS UNDER THE CSCE HAD ALSO CAUSED CONCERN. FEELING ABOUT SUCH CASES AS SCHARANSKY, SAKHAROV AND NUDEL WENT DEEP. COULD THE SOVIET UNION NOT DO SOMETHING IN THESE CASES WHICH WOULD HELP RESTORE CONFIDENCE? AS THE CONTINUING BUILD UP OF SOVIET MILITARY CAPABILITY WAS DISTURBING. NATO MEMBER STATES WERE DEDICATED TO PEACE. THEIR FORCES WERE DEFENSIVE AND NO THREAT TO THE SOVIET UNION. I HAD MADE SOME PRACTICAL SUGGESTIONS FOR THE IMPROVEMENT OF EAST-WEST RELATIONS IN MY SPEECH IN DENMARK ON 10 SEPTEMBER. I HOPED THEY WOULD BE STUDIED IN MOSCOW. (COPY OF SPEECH BY BAG).

5. POPOV APPEARED FLUSTERED BY REFERENCES TO SAKHAROV ETC AND CLAIMED THAT IT WAS A PURELY INTERNAL MATTER WHAT THE SOVIET UNION DID WITH CRIMINALS AND WHETHER THEY WERE CONFINED WHERE THEY HAD NO CONTACT WITH THE WESTERN PRESS. HE RETURNED, HOWEVER, TO THE DESIRE TO IMPROVE RELATIONS AND STRENGTHEN PEACE (NOFUN ETC).

6. UNDER BILATERAL BUSINESS I MENTIONED STD RATES AND TELEPHONE COMMUNICATIONS WITH THE SOVIET UNION.

7. THE MEETING ENDED WITH POPOV UNDERTAKING TO REPORT TO GROMYKO BEFORE MY LUNCH WITH HIM IN NEW YORK. IN THIS CONNECTION HE ASKED FOR CLARIFICATION OVER OUR POSITION ON THE MIDDLE EAST. HOW COULD WE SUPPORT THE REAGAN PROPOSALS? I EXPLAINED THAT THEY SEEMED A REALISTIC BASIS FOR NEGOTIATIONS DEALING AS THEY DID WITH THE BASIC QUESTIONS OF THE SECURITY OF ISRAEL AND THE RIGHTS OF THE PALESTINIANS: THEY REPRESENTED A POSITION CLOSE, THOUGH NOT IDENTICAL, TO THAT OF THE TEN.

PYM

PYM

DIST: .

LIMITED

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A C D D

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P S/MR HURD

P S/MR RIFKIND

P S/P U S

SIR J BULLARD

COPIES TO:

OT4, D O T.



" I shall show "

St. Margaret's,  
Sinclair Street,  
Clydebank,  
G81 1AE.

11th September 1982.

Rt. Hon. George Younger, M.P.,  
Secretary of State for Scotland,  
Scottish Office,  
New St. Andrew's House,  
St. James Centre,  
Edinburgh, EH1 35X.

Dear Mr. Younger,

Would you be kind enough to thank the Prime  
Minister, Mrs. Thatcher, on our behalf for her valiant defence  
of J.B.E. (Clydebank).

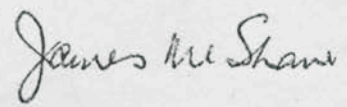
We hope and pray that her efforts will be successful.

I enclose a copy of a letter forwarded by Rev. Stewart  
Borthwick and myself to President Reagan as representatives of the  
local clergy.

With every kind wish,

Yours respectfully,

(Rev.) James McShane,



Chairman, Clydebank Campaign  
on Employment.



Soviet Union

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PP PARIS

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CONFIDENTIAL

DESKBY 100500Z COPENHAGEN

FM WASHINGTON 092300Z SEP 82

TO IMMEDIATE FCO

TELNO 2993 OF 9 SEP 82

AND TO IMMEDIATE COPENHAGEN DESKBY 100500

INFO PRIORITY PARIS BONN ROME

MY TELNO 2982.

H/TRED	PS/Mr Hurd
H/EESD	PS/Mr Liffkind
H/NAD	PS/PUS
H/Planning Staff	Sir J. Bullard
H/Def D	Mr JC Thomas
H/ECD(E)	Mr Hamney
H/WED	PS/Lord Cockfield
H/ESID	PS/Mr Lees
H/PUSD	Mr Gray
H/ESSD	Mr Sunderland
H/NewsD	Mr Ayling
H/ERD	Mr Bourke
	DO/DOT
	RC - fraction

*Handwritten mark*

TEMPORARY DENIAL ORDER AGAINST JOHN BROWN ENGINEERING.

1. MURPHY (JBE'S US COUNSEL) HAS TOLD SECOND SECRETARY (COMMERCIAL) THAT THE DENIAL ORDER AGAINST JBE - BY LIMITING THE LIST OF SUBSIDIARY COMPANIES - WAS TAILORED TO MINIMISE THE DAMAGE TO THE FIRM'S INTERESTS. IT WAS 'AS EXPECTED AND HOPED FOR'. ESSENTIALLY, IT HIT TWO JBE CONTRACTS (APART FROM THE SIBERIAN PIPELINE). ONE FOR A PETROCHEMICAL PROJECT IN SCOTLAND AND THE OTHER FOR A SEPERATE (UNDEFINED) PROJECT IN ALGERIA. AS TO THE FIRST, MURPHY, HAVING SPOKEN IN ADVANCE TO DEPUTY ASSISTANT SECRETARY DENYSYK, BELIEVED THERE MIGHT BE A LOOPHOLE IN THE COMMERCE DEPARTMENT REGULATIONS WHICH WOULD ALLOW JBE TO CONTINUE TO IMPORT THE US TECHNOLOGY REQUIRED. IN THE ALGERIAN CONTRACT, THERE WAS A FORCE MAJEURE CLAUSE RELATING TO US EXPORT CONTROL DIFFICULTIES WHICH COULD PROVIDE A DELAY OF SOME 6 MONTHS WHILE JBE SORTED THINGS OUT:

|| RESIDENT CLERK PLEASE INFORM FRANCIS RICHARDS

| ADVANCES AS APPROPRIATE TO BULLARD JC THOMAS GOWLLAND (TRED) FCO PLEASE PASS BY 100700Z TO PS/LORD COCKFIELD, PS/MR REES GRAY, SUNDERLAND, AYLING AND BOURKE (DOT)

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ADVANCE COPY

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PP PARIS

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UNCLASSIFIED

FROM WASHINGTON 092145Z SEP 82.

TO FLASH F C O

TELEGRAM NUMBER 2986 OF 9 SEPTEMBER

AND TO FLASH COPENHAGEN

INFO PRIORITY PARIS, BONN, ROME.

HO TRED  
HO EESD  
HO NAD  
HO Planning Staff  
HO Def D  
HO ECX(E)  
HO WED  
HO ESID

HO PUSD (2)  
HO JESSD  
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RS  
RS/M Hurd  
RS/M Rifkind  
RS/PUS  
Sir J. Bullard  
Mr JC Thomas  
Mr Hanney  
Ps/Woodcock/Field  
Ps/M Lees  
Mr Gray  
Mr Sunderkuyl  
Mr Ayling  
Mr Bourke } DOT  
Do/DOT

(re-actio copy)

MY TELEGRAM NO 2981: SIBERIAN PIPELINE: COMMERCE SECRETARY  
BALDRIGE'S STATEMENT.

1. FOLLOWING IS FULL TEXT OF BALDRIGE'S STATEMENT GIVEN AT HIS  
PRESS CONFERENCE TODAY:

BEGINS:-

I WANT TO EXPLAIN THE STATUS OF THE ACTIONS WE HAVE TAKEN SO FAR  
REGARDING THE PIPELINE SANCTIONS.

1) ON AUGUST 26 WE ISSUED TEMPORARY DENIAL ORDERS AGAINST  
DRESSER FRANCE AND CREUSOT-LOIRE. THESE ORDERS ARE TEMPORARY  
SO THAT WE CAN HAVE TIME TO INVESTIGATE AND MODIFY THEM IF  
NECESSARY. THOSE TEMPORARY ORDERS PROHIBITED EXPORT OF ALL U.S.  
PRODUCTS, SERVICES AND TECHNOLOGY TO THOSE TWO COMPANIES.  
ON SEPTEMBER 7, BASED ON FACTS DETERMINED IN OUR CONTINUING  
INVESTIGATIONS OF THOSE TWO COMPANIES, WE PROPOSED MODIFYING THE  
TEMPORARY ORDERS TO COVER U.S. OIL AND GAS RELATED PRODUCTS,  
SERVICES AND TECHNOLOGY AND TO HAVE THE SANCTIONS EXTEND TO  
THEIR HOME-COUNTRY SUBSIDIARIES TO ASSURE COMPLIANCE WITH THE ORDER.



IN THE DRESSER CASE, THE TEMPORARY ORDER HAS BEEN AMENDED AND NOW APPLIES ONLY TO OIL AND GAS RELATED PRODUCTS, SERVICES AND TECHNOLOGY, IN THE CREUSOT-LOIRE CASE, THE MODIFICATIONS ARE PENDING SO SUBMISSIONS BEING PREPARED CAN BE REVIEWED.

2) ON SEPTEMBER 4 WE ISSUED A TEMPORARY DENIAL ORDER AGAINST NUOVO PIGNONE OF ITALY AND ITS ITALIAN SUBSIDIARY, INSO. THAT ORDER ALSO COVERS OIL AND GAS RELATED EQUIPMENT, SERVICES AND TECHNOLOGY.

3) TODAY WE HAVE ISSUED A TEMPORARY DENIAL ORDER AGAINST JOHN BROWN ENGINEERING LTD. OF SCOTLAND AND ITS THREE UNITED KINGDOM SUBSIDIARIES. AS WITH THE OTHERS, THE TEMPORARY ORDER PROHIBITS EXPORT OF ALL U.S. GAS AND OIL RELATED EQUIPMENT, SERVICES AND TECHNOLOGY.

THE MODIFICATION OF THE SANCTIONS, AFTER OUR INVESTIGATIONS, FULLY MAINTAINS THE GOALS LAID OUT BY THE PRESIDENT REGARDING OIL AND GAS SANCTIONS IMPOSED ON THE SOVIETS WITHOUT UNDULY HARMING OUR ALLIES AND FRIENDS, AND IS CONSISTENT WITH THE FACTS DETERMINED THUS FAR IN OUR INVESTIGATIONS OF THESE CASES.

I WANT TO SAY A WORD ABOUT PRESIDENT REAGAN'S PURPOSE IN IMPLEMENTING THESE FOREIGN POLICY EXPORT CONTROLS, AND HIS RESOLVE TO MAINTAIN THEM THROUGHOUT THIS CRISIS IN POLAND.

THE SANCTIONS WERE IMPOSED BECAUSE OF THE SOVIET UNION'S COMPLICITY IN THE EVENTS OVER THE PAST 9 MONTHS IN POLAND, WHICH HAVE RESULTED IN THE JAILING OF MANY THOUSANDS OF INNOCENT, PATRIOTIC CITIZENS AND THE FORCED SOLITARY CONFINEMENT OF LECH WALESZA: THE IMPOSITION OF MARTIAL LAW, AND THE BREAKDOWN IN COMMUNICATIONS BETWEEN THE MILITARY GOVERNMENT, THE CHURCH, AND SOLIDARITY.

PIPELINE SANCTIONS WERE SELECTED BECAUSE WE KNEW WITH A FAIR AMOUNT OF CERTAINTY THAT THE SOVIET UNION WOULD PAY A HIGH COST IN TIME, MONEY AND EFFORT IF PREVENTED FROM OBTAINING U.S. PRODUCTS AND TECHNOLOGY RELATED TO PIPELINE CONSTRUCTION.

COULD ANY OTHER SANCTIONS HAVE BEEN SELECTED ? POSSIBLY. BUT THIS WAS THE QUICKEST, SUREST WAY TO EXACT A PENALTY ON THE SOVIETS FOR THEIR ACTS.

THE PRESIDENT INTENDS, HAS INTENDED, AND WILL INTEND TO SEE THE PROCESS OF POLISH NATIONAL RECONCILIATION BEGIN TO UN-



THE PRESIDENT INTENDS, HAS INTENDED, AND WILL INTEND TO  
SEE THE PROCESS OF POLISH NATIONAL RECONCILIATION BEGIN. AS WE,  
IN THE COMMERCE DEPARTMENT, WILL CONTINUE TO ADMINISTER THE  
REGULATIONS WHICH IMPLEMENT THAT POLICY AS FAIRLY AS POSSIBLE.

ENDS.

2. M.I.F.T. CONTAINS MAIN POINTS WHICH AROSE IN QUESTIONS  
AFTERWARDS.

RESIDENT CLERK PLEASE INFORM FRANCIS RICHARDS.

ADVANCE AS APPROPRIATE BULLARD, J C THOMAS, GOWLLAND (TRED)

FCO PLEASE PASS BY 10/0700Z PS/LORD COCKFIELD, PS/MR REES,  
GRAY, SUNDERLAND, AYLING, BOURKE (DOT).

WRIGHT

NNNN





10 DOWNING STREET

*From the Private Secretary*

9 September 1982

SOVIET PIPELINE

In his minute of 8 September your Secretary of State described the cases of two firms to whom it might be necessary to issue directions in the near future under Section 1(3) of the Protection of Trading Interests Act. As you know, Lord Cockfield discussed this question briefly with the Prime Minister in the margins of another meeting here yesterday. Mrs. Thatcher is content with the proposed action.

A. J. COLES

John Rhodes, Esq.,  
Department of Trade.

HU





MT

*From the Secretary of State*

CONFIDENTIAL

The Rt Hon Francis Pym MC MP  
Secretary of State for  
Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

7 September 1982

*Dear Francis,*

Since I issued Directions to John Brown Engineering and three other firms under Section 1(3) of the Protection of Trading Interests Act, we have received information about a number of other firms that look as though they might be placed in difficulties by the United States action over oil, gas and related equipment for the USSR. Several of these will almost certainly need Directions in due course if they are to avoid having to default on their contracts, but I would hope to delay action as long as possible so as to avoid prejudicing the atmosphere in our discussions with the United States.

Unfortunately, there are two cases where it is not possible to wait any longer. The first involves the Walter Kidde Company of Northolt, a wholly-owned subsidiary of a United States company, making fire-fighting equipment for use on the West Siberian Pipeline. The parent company has instructed the subsidiary to cease work on the order which is worth £9.5m (compared with annual sales for the company of £15m in all). It is unlikely that the company would survive the payment of penalties for non-delivery (due to begin later this month). There are currently some 700 employees on the payroll. The other case concerns

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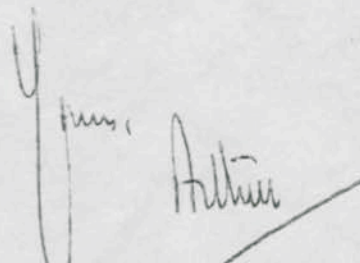
CONFIDENTIAL

*From the Secretary of State*

Andrew Corporation, manufacturers of communications equipment, based in Fife. They are a branch of an American firm and are acting as sub-contractors, through a French sister company, to Thomson SCF. Although Thomson's contract (signed in January) is for the supply of a television and communications system which will only be used in part to assist Pipeline operations, the United States authorities have said that the goods concerned are caught by the embargo. Thomson require Andrew to supply by next week. The employment consequences are small - only twenty-four people out of a workforce of 240 are engaged on this contract - but I do not feel that this should deter me from making a Direction.

I would not propose making Directions to Kidde or Andrew under Section 1(3) of the PTI Act before the expected denial order has been issued to John Brown Engineering. If that order is limited in scope, but still, as seems likely, hits JBE business outside the Soviet Union, the issuing of two further Directions - we have already made four - would be an appropriate immediate response. Not necessarily the definitive response: we will need to consider that carefully but urgently once we are clear about the precise terms of any United States action against JBE.

I am consulting colleagues on a limited basis, as we agreed. Unless I hear by 5.00 pm today that there is disagreement with my proposal, I will issue a Direction as soon as we have confirmation of United States action against JBE. The situation of the companies, as well as my own departure for New Zealand on Thursday, compels this regrettably tight timetable.

  
LORD COCKFIELD

CONFIDENTIAL





Foreign and Commonwealth Office

London SW1A 2AH

1 September 1982

Dear Wilke,

US Oil and Gas Measures (Pipeline)

The Prime Minister will wish to know before her visit to Scotland and meeting with John Brown where we now stand on President Reagan's measures against the Soviet Union which have affected John Brown and other British and European companies. We have of course seen John Witlock's letter to Tim Flesher of 31 August.

Following exchanges last week between Mr Pym and Mr Shultz we are arranging a meeting in London on Friday, 3 September, of senior officials of the four European countries concerned, to prepare for subsequent meetings of the Four with the Americans. We hope that senior officials of the Five will meet early next week, followed shortly thereafter by a meeting of the five Foreign Ministers. The latter would be in two stages - the first part soon in London, the second later this month in New York in the margins of the UN General Assembly. This two-stage approach is to avoid raising expectations of the first Ministerial meeting unduly. But we must keep up the momentum.

The French are showing signs of dragging their feet, and have asked that decisions on a meeting with the Americans should await the European meeting on Friday. But Mr Pym has sent a message last night to M. Cheysson and to Herr Genscher and Signor Colombo stressing the urgency of the matter.

Our intention is to press our European partners hard on Friday to agree on a set of specific proposals, perhaps involving credits and COCOM, which will give the Americans enough for them to withdraw the retroactive application of their measures, but which will not involve any surrender on the points which are of key importance to British and other European interests. We believe that such a package can be constructed, and we are in touch with the DOT and the other Departments concerned about the details. Mr Pym believes that the current Transatlantic atmosphere is very damaging to the Alliance and should be put right as a matter of urgency.

/The Prime





The Prime Minister may wish to reassure John Brown that we are doing all we can to protect the company's interests and solve the wider problems that President Reagan's measures may have posed. She may wish to point out that by issuing directions under the Protection of Trading Interests Act we have acted quickly and effectively to protect our companies' interests. And she may wish to reply to questions about our objections to the American measures by repeating that we do not as a matter of principle believe that existing contracts should be affected by retrospective measures, and that we object very strongly to the extra-territorial implications of the American measures. But Mr Pym hopes that the Prime Minister can also stress in public the point that the Transatlantic rift in the Alliance only benefits the Russians: we must therefore all work urgently and constructively to bridge it.

I am copying this letter to the Private Secretaries of the Secretaries of State for Trade and Industry and of the Chancellor of the Exchequer.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

W Rickett Esq  
10 Downing Street





SEP 24 11 12 AM '69  
LOS ANGELES



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GRS 570

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FM WASHINGTON 012215Z SEP 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 2916 OF 1 SEPTEMBER  
AND TO PARIS, PRIORITY ROME, BONN.

EAST WEST ECONOMIC RELATIONS: SIBERIAN PIPELINE.

ASSOCIATED PRESS THIS AFTERNOON REPORT THE FOLLOWING: QUOTE  
THE REAGAN ADMINISTRATION ACKNOWLEDGING THAT ITS ORIGINAL PENALTIES  
WERE TOO SWEEPING, PLANS TO IMPOSE MORE LIMITED TRADE SANCTIONS  
AGAINST EUROPEAN COMPANIES THAT ARE HELPING CONSTRUCTION OF THE  
SOVIET NATURAL GAS PIPELINE, TREASURY SECRETARY DONALD REGAN SAID  
TODAY. HE TOLD REPORTERS THE ADMINISTRATION INTENDS ONLY TO BAR THE  
COMPANIES FROM RECEIVING AMERICAN EXPORTS OF OIL AND GAS EQUIPMENT  
AND TECHNOLOGY.

THAT REPRESENTS A RELAXATION FROM THE TOTAL EXPORT BAN THAT  
THE COMMERCE DEPARTMENT IMPOSED LAST WEEK AGAINST THE FRENCH  
SUBSIDIARY OF DALLAS-BASED DRESSER INDUSTRIES AND ANOTHER FRENCH  
COMPANY FOR SHIPPING PIPELINE PARTS TO THE SOVIETS.

REGAN SAID LAST WEEK'S ORDER BANNING THE FIRMS FROM RECEIVING  
ANY U.S. GOODS QUOTE MAY NEED A LITTLE REDEFINITION ..... A  
CLARIFICATION OF WHAT WAS MEANT. UNQUOTE HE SAID THE MORE STRINGENT  
COMMERCE DEPARTMENT ORDER QUOTE WAS, PERHAPS, MISINTERPRETED OR,  
PERHAPS, IN ITS ORIGINAL, PRISTINE FORM, WAS A LITTLE TOO  
SWEEPING WITHOUT GIVING A PRECISE DEFINITION OF WHAT WAS MEANT.  
UNQUOTE THE REVISED ORDER WOULD IMPOSE SANCTIONS QUOTE REGARDING  
PURCHASES AND USE OF OIL AND GAS EQUIPMENT AND TECHNOLOGICAL  
INFORMATION FROM U.S. SOURCES. UNQUOTE

REGAN SAID HE EXPECTS THE QUOTE REDEFINED UNQUOTE PENALTIES WILL  
BE IMPOSED SOON ON THE JOHN BROWN ENGINEERING CO OF GLASGOW, SCOT-  
LAND, FOR ITS SHIPMENT OF PIPELINE EQUIPMENT MANUFACTURED WITH  
AMERICAN TECHNOLOGY. HE REJECTED SUGGESTIONS THAT THE UNITED  
STATES WAS EASING ITS ORIGINAL SANCTIONS, QUOTE OUR SANCTIONS HAVE  
TO DO WITH OIL AND GAS. THEY CERTAINLY WOULDN'T INVOLVE, LET'S

RESTRICTED

/ SAY,



## RESTRICTED

SAY, IBM TYPEWRITERS VERSUS OLIVETTI TYPEWRITERS BEING PURCHASED BY DRESSER OF FRANCE. UNQUOTE HE ALSO DENIED THAT THE ADMINISTRATION WAS LOOSENING ITS RESTRICTIONS.

STATE DEPARTMENT SPOKESMAN JOHN HUGHES SAID HERE THAT QUOTE MEASURED UNQUOTE AND QUOTE APPROPRIATE UNQUOTE PUNITIVE ACTION WILL BE TAKEN BY THE COMMERCE DEPARTMENT AGAINST JOHN BROWN AS SOON AS A LEGAL DETERMINATION IS MADE THAT THE PARTS HAVE BEEN SHIPPED, EVEN THOUGH THE EXACT NATURE OF THE PENALTY REMAINS TO BE DETERMINED. UNQUOTE

COMMENT: THIS DEVELOPMENT TYPIFIES THE ADMINISTRATION'S CONFUSION OVER THE ISSUE AS REFLECTED IN OUR TELNO 2897 OF 31 AUGUST. IT DOES HOWEVER SUGGEST THAT THE ADMINISTRATION HAS SEEN THE DANGER OF ATTEMPTING TO DRIVE A WEDGE BETWEEN BRITAIN AND FRANCE.

ADVANCE TO BROOMFIELD (ESSD) AND MCCLEAN (TRED)

FCO PLEASE PASS TO BOURKE (OT2) DOT.

THOMAS

[COPIES SENT TO NO 10 DOWNING ST]

LIMITED

TRED

ESSD

NAD

PLANNING STAFF

DEFENCE D

ECD(E)

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NEWS D

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MR GOODISON

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MR HANNAY

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*Wm, 19*



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

*S Uria*

MO 14/10

31st August 1982

*Dear John,*

SOVIET PIPELINE

You wrote to me on 2nd August about the message from Mr Weinberger to Mr Nott about the Soviet pipeline. I am sorry that, in my absence on leave, you have not had a reply and I am now attaching a copy of Mr Nott's response to Mr Weinberger of 6th August which, as you will see, met the Prime Minister's point.

A copy goes to Francis Richards (FCO).

*Yours ever,*

*Richard Mottram*

(R C MOTTRAM)

A J Coles Esq

RESTRICTED



RESTRICTED



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 14/10

6th August 1982

*Dear Casp.*

I greatly appreciated the nature of your personal message on the subject of the gas pipeline, and I know how strongly you feel about this subject.

All my instincts and wishes are similar to yours in opposing trade that directly assists the Soviet defence effort. But whether or not this is true of the pipeline, your efforts to block or delay it risk a greater gain to the Soviets - as a result of a deep rift in the Alliance - than the large but lesser gain to the Soviets of allowing the deal to go ahead.

I am sure that you must be aware of how people feel here about the commercial integrity implied in a licence arrangement. The West needs US technology but it can hardly rely on it, if it is to be subject to last minute political intervention, albeit for the most desirable strategic objectives. You must understand how people - however mistakenly - contrast US action in this instance with your actions over grain. It is impossibly difficult to impose sanctions on grain but, if such sanctions were successful, the Soviet defence effort would be massively hit.

After all the assistance and goodwill that I have received from you personally - and our country has received from the US - it would be my genuine wish to give you the backing you desire.

The Honorable Caspar Weinberger



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But the greatest service I can give you is my judgement. And my judgement is that you will not be able to stop this deal. I advise you against attempting it. You can certainly delay it - but only at great cost to the Alliance.

*Yours ever  
John*

John Nott



1 SEP 1982

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2



Soviet Union

From the Secretary of State

CONFIDENTIAL

John Holmes Esq  
Private Secretary to the  
Secretary of State for  
Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AH

Prime Minister:

I assume that  
the FCO and Trade will  
be meeting to resolve their  
27 August 1982 differences

Dear John

MS  
JH  
27/8

EAST-WEST ECONOMIC ISSUES/SIBERIAN PIPELINE

Thank you for your letter of 26 August<sup>TPM</sup> enclosing a draft telegram of instructions to Ambassadors.

Since receiving it we have learned that the United States Department of Commerce have issued "temporary denial orders" against Dresser (France) and Creusot Loire and the issue of a similar order against John Brown Engineering must now be considered probable. Thus despite hopes expressed by the Prime Minister and the Foreign Secretary that the United States Administration would avoid escalating the dispute further, it appears that the Department of Commerce have decided to apply summary sanctions against the European firms in advance of an administrative hearing. My Secretary of State is strongly of the view that we should not accept the inevitability of sanctions against JBE or appear to be weakening in our resolve. He considers that if the Americans escalate the dispute - as they now appear to be doing - we should need to consider further the nature of our response.

In these changed circumstances the proposal to hold a meeting of Foreign Ministers needs to be carefully considered:

- (a) We need to be certain as to the precise nature and intent of the temporary denial orders.
- (b) The risks of failure now seem greater given that the atmosphere is likely to have been soured by the action taken against Dresser and Creusot Loire.

CONFIDENTIAL





*From the Secretary of State*

CONFIDENTIAL

- (c) If in the interim similar action is taken against JBE, our participation might be seen in the United States as tacitly accepting the legitimacy of American actions. The French may take a similar line.
- (d) The timetable seems to be too short for adequate preparation given the nature of the agenda. An advantage of an early meeting would have been to head off summary action by the Commerce Department. Now that this has been taken the need for an early meeting seems less pressing.

Against this background we think that the proposal for the meeting should be put in much more neutral language and modified as follows:-

- (a) senior officials of the European countries involved should meet next week to consider a unified European response in the light of a full assessment of the effect of the temporary denial orders.
- (b) a meeting of Foreign Ministers, assuming there is agreement that this is desirable, would take place at a later date than early September.

Copies go to the recipients of yours.

*Your sincerely*

*John Whitlock*

JOHN WHITLOCK  
Private Secretary



27 AUG 1982

CONFIDENTIAL





Foreign and Commonwealth Office

London SW1A 2AH

26 August, 1982

Anne Munster

Dear John,

*re French position*  
*27/8*

East-West Economic Issues/Siberian Pipeline

You will have received my letter of earlier today about exchanges between Mr Shultz and Mr Pym on East-West economic issues and the pipeline. We have now received a written message from Mr Shultz. I enclose a copy. It speaks for itself.

Mr Shultz's message will require consequential amendments to the draft message to the Foreign Ministers of France, Germany and Italy enclosed with my letter of 26 August.

Mr Pym also believes that he should reply to Shultz as soon as possible, making the following points:-

- (a) as far as the US reaction to European pipeline shipments is concerned, we are glad to note that the US response will be 'controlled'. In the spirit of the recent exchanges between the Prime Minister and the President, we look to the United States to refrain from forcing the issue;
- (b) on the agenda, for the suggested Foreign Ministers' meetings, we believe that the items should be neutrally phrased and that the area for discussion should include all the subjects covered by the Versailles, Bonn and other NATO declarations, including agricultural exports to the Soviet Union;
- (c) the French, Germans and Italians are being consulted urgently. But, as was indicated to Mr Shultz on 25 August, it may not be possible to get the other Foreign Ministers together as quickly as he had proposed. In any case, given the complexity of the issues involved, it would be preferable for a meeting of officials to prepare the ground before Ministers meet.

I should be grateful for your agreement by noon tomorrow to a message to Mr Shultz on these lines. This would issue at the same time as Mr Pym's message to his three European colleagues.

Given the possibility of a meeting of officials early next week I hope that the Departments concerned will take this as an early warning of the preparation and briefing likely to be required. Officials here will be in touch with those directly concerned about the detailed arrangements.

/I



CONFIDENTIAL



I am copying this letter to Tim Flesher (No 10) and to the Private Secretaries of other members of OD and to Richard Hatfield (Cabinet Office).

Yours ever  
*John Holmes*

(J E Holmes)

John Rhodes Esq  
Private Secretary  
Department of Trade

CONFIDENTIAL



SECRET

Dear Mr. Secretary:

I was glad to have the opportunity to talk to you about your recent suggestion, which I welcome, that we have a meeting to discuss a number of aspects of East/West economic relations. As you noted in your letter, there are a number of these matters pressing in on us which are given special importance now by the urgency of several cases involving the sanctions which President Reagan has put in place. As I mentioned to you, if the companies in Europe take actions contrary to these sanctions, we will respond. Our response will be clear, significant, and controlled.

My concern is that before the action-reaction cycle gets beyond our mutual control, we should pick up on your suggestion for an exchange of views hopefully leading to agreement on East/West trade issues. Specifically I believe we should discuss:

- 1) Further restriction of credits to the Soviet Union;
- 2) Further tightening of COCOM regulations;
- 3) Restricting prospective sales of oil and gas equipment to the Soviet Union; and,
- 4) Examining alternate energy sources.

Were it possible for us to reach a mutually satisfactory agreement on the above issues, it would then be possible for the United States to reconsider the retroactive character of the sanctions recently imposed by the President on trade with the Soviet Union.

As we discussed, I am prepared to respond to your suggestion for an early meeting by traveling to Europe right away if you can arrange it with our French, German and Italian colleagues. We can plan for September 2-3 if you find that is agreeable to them. If you are able to arrange an early meeting, we will give your Embassy and others here some more detailed thoughts on what we would like to discuss so that we can all come to the meeting prepared to talk specifics.

I await your further word on how you think we should proceed.

Sincerely yours, George P. Shultz

SECRET



11 12 1 2  
8 9 0  
7 6 5 4

127 AUG 1992





Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister:

26 August 1982

Mr Schultz has proposed a Foreign Ministers meeting to discuss the pipeline. Mr Pym thinks we should agree.

Agreed. If however the whole range of issues on our agenda following Versailles are to be discussed they will need an Economic strand

JF

26/8

Dear John,

East/West Economic Issues/Siberian Pipeline

As you know, Mr Pym sent a message to the US Secretary of State which was delivered on 24 August. The aim was two-fold: first to express our expectation that the deliberately moderate line we were taking here over the pipeline contracts would be reciprocated by the US authorities; and second to improve the atmosphere in which the Americans would reach their decisions. Mr Pym suggested that the US and its closest allies might meet at official level to try to bring some order into the general complex of East/West economic issues which we are committed to discuss under the Versailles, Bonn and other declarations.

Mr Shultz lost no time in replying. On the telephone on 25 August he said that he was in favour of a meeting. He went on to propose that it might be held next week, attended by the Foreign Ministers of France, Germany, Italy, as well as the UK and the US.

Mr Pym believes that in the present situation with more open clashes over the pipeline looming and other issues also festering, notably steel, we must respond positively to this suggestion. There is a risk that a highly public meeting to resolve transatlantic problems might fail and leave us worse off than before. The other three Europeans, notably the French, might also be reluctant to involve themselves in such a meeting. But it must be to our advantage to make a positive response to the US. And there is a chance of defusing what might develop into a serious Alliance crisis. I therefore enclose a draft telegram of instructions to our Ambassadors in the capitals concerned. I would be grateful for your early agreement that these instructions issue. Given the urgency, Mr Pym would like them to be sent by midday on 27 August.

EI

/I am



CONFIDENTIAL



I am copying this letter to Tim Flesher (No 10) and to the Private Secretaries of other members of OD and to Richard Hatfield (Cabinet Office).

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

John Rhodes Esq  
Department of Trade  
1 Victoria Street

CONFIDENTIAL



OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	CONFIDENTIAL	IMMEDIATE

ZCZC - 1 ZCZC  
 GRS 2 GRS  
 CLASS 3 CONFIDENTIAL  
 CAVEATS 4  
 DESKBY 5  
 FM FCO 6 FM FCO  
 PRE/ADD 7 TO IMMEDIATE BONN  
 TEL NO 8 TELEGRAM NUMBER  
 9 AND TO IMMEDIATE PARIS, ROME, WASHINGTON  
 10 RFI IMMEDIATE UKREP BRUSSELS, UKDEL NATO, ROUTINE TO MOSCOW  
 11 EAST-WEST ECONOMIC ISSUES/SIBERIAN PIPELINE  
 12 1. Please pass the following message from me to Genscher, Cheyssou  
 13 and Colombo and seek as early a response as possible.  
 14 BEGINS: I have been thinking about how we might deal with the  
 15 current difficulty over the pipeline contracts which is one ele-  
 16 ment in the complex of East-West economic questions which also  
 17 includes credit, exports of high technology, agricultural  
 18 commodities and energy generally. I discussed these matters in  
 19 general terms with Secretary Shultz when I was in Washington on  
 20 29 July. He has told me this week that he would be in favour of  
 21 an early meeting with the Foreign Ministers of the four countries  
 22 most directly affected by the US measures on the Siberian pipeline.  
 23 I undertook to consult you about the possibility of organising  
 24 such a meeting in London.  
 25 I think, given the complexity of the issues involved, that

NNNN ends telegram	BLANK	Catchword it
File number	Dept	Distribution
Drafted by (Block capitals)		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	



OUT TELEGRAM (CONT)

Classification and Caveats  
CONFIDENTIAL

Page  
2

<<<<

1 <<<<

2 it would be better if such a meeting were prepared by a round of  
3 talks by officials on say 1 September and that the Ministerial  
4 Meeting might be held as soon as you might find it possible  
5 thereafter. Possible days for me would be pm 3 September,  
6 6 September and pm 8 September.

7 From what I hear from Washington I think there is a chance  
8 that the US is looking for a way of defusing the effects of  
9 their regulations on the pipeline. While I do not underrate the  
10 difficulties, a meeting of the five of us to discuss the whole  
11 range of issues which are on our agenda following the Versailles,  
12 Bonn and other declarations could improve the atmosphere in which  
13 decisions are taken and indicate whether there is a real possibility  
14 of a way out of the damaging impasse in which we find ourselves.

15 I would be grateful for your views as soon as possible. In  
16 the meantime the British companies concerned with these contracts  
17 will continue to act on the basis of the directions we have given  
18 them and their own assessment of their economic interests. ENDS  
19 2. For Washington. You should not hand over the text of this  
20 message to the Americans but should indicate that, as agreed on  
21 the telephone between Shultz and me on 25 August, we have put out  
22 a proposal for an early meeting of the five Ministers, possibly  
23 preceded by a round of discussions at official level on 1  
24 September. We will keep the Americans informed of the responses.

25  
26 PYM

27 NNNN

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NNNN ends  
telegram

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Catchword



26 AUG 1992

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COPY NUMBER 3 OF 7

*From the Secretary of State*SECRET - BURNING BUSH

John Holmes Esq  
 Private Secretary to the  
 Secretary of State for  
 Foreign and Commonwealth Affairs  
 Foreign and Commonwealth Office  
 Downing Street  
 London  
 SW1A 2AH

24 August 1982

*Dear John,*EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

Thank you for your letter of 19 August. It is, we think, very important that we should give no impression to the American Administration that we are weakening in our resolve or in the depth of our objection to the embargo. As Mr Pym pointed out in his Telegram Number 1526 of 19 August we regard the Administration's action as quite unacceptable both on grounds of extra-territoriality and retrospection. We would therefore regard action by the American Administration against the British companies concerned as escalating the dispute. If that happened we simply could not stand aside. Provided you feel that the clarity of our own position on this matter is not in any way obfuscated by the terms of the draft message to Shultz then we have no objection, subject to one minor drafting change.

That is that we think that the reference in the third paragraph to "taking forward the Buckley discussions" should be omitted. The Buckley discussions failed, principally due to the French credit agreement on the USSR. We therefore doubt whether any purpose will be served by encouraging the Americans to think that the European allies would welcome the perpetuation of the Buckley discussions, or that further discussions on credit would necessarily lead to the sort of limitations the United States were seeking in the run up to the Versailles Summit.

We note that you are not proposing to clear this approach in advance with the French and Germans and assume that you are satisfied that on balance this is the best course to pursue.

SECRET - BURNING BUSH





*From the Secretary of State*

SECRET - BURNING BUSH

We would wish to be consulted about the briefing for the meeting of Economic and Political directors if it takes place.

Copies of this letter go to Flesher (Number 10) and to Hatfield (Cabinet Office).

*Yours sincerely*

*John Whitlock*

JOHN WHITLOCK  
Private Secretary

SECRET - BURNING BUSH





Foreign and Commonwealth Office

London SW1A 2AH

19 August, 1982

Dear John,

MS  
Pine Murrer  
R  
20/8East/West Economic Issues/Siberian Pipeline

/ I enclose a copy of Washington telno 2735 in which our Chargé d'Affaires makes some suggestions as to how we might seek to improve the atmosphere in Washington with the aim of mitigating the American reaction against violations of US restrictions by European companies fulfilling their pipeline contracts.

// Against the background of the recent exchanges between the Prime Minister and President Reagan and the President's very firm linking of his 18 June measures with events in Poland, Mr Pym doubts whether other linkages of the sort suggested by Mr Thomas would be likely to achieve our aim. Nevertheless he is concerned that we should do all we can to improve the atmosphere in Washington, to put the pipeline problem in its right context and therefore to demonstrate our willingness to engage in discussions of the wider East/West economic issues to which we are committed under the Versailles, Bonn and other declarations. I hope, therefore, that you can agree that instructions on the lines of the enclosed draft telegrams should be sent as soon as possible to Washington.

I am sending copies of this letter to Tim Flesher (No 10) and to Richard Hatfield (Cabinet Office). Given the particular forum suggested for the consultations with the Americans I would be grateful if the drafts could be given appropriate handling.

Yours ever

John Holmes

(J E Holmes)  
Private SecretaryJohn Rhodes Esq  
Private Secretary  
Department of Trade



JPD 800

CONFIDENTIAL

DESKBY 160900Z

FROM WASHINGTON 141630Z AUG 82.

TO IMMEDIATE F C C

TELEGRAM NUMBER 2735 OF 14 AUGUST

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

CONFIDENTIAL

*cc Moscow (14 11 11)*  
*GRD*  
*and for me*  
*NS*  
*16/viii*  
*KPM*

SIBERIAN PIPELINE: ASSESSMENT OF CURRENT US MOOD.

1. THERE HAS BEEN A GOOD DEAL OF WHEEL-SPINNING THIS WEEK IN THE US GOVERNMENT'S CONSIDERATION OF WHAT TO DO IF AND WHEN A EUROPEAN COMPANY VIOLATES THE US RESTRICTIONS AFFECTING THE SIBERIAN PIPELINE PROJECT. THEY WILL PROBABLY ISSUE WARNING LETTERS EARLY NEXT WEEK TO COMPANIES WHO HAVE SHOWN EVIDENCE OF AN INTENTION TO VIOLATE THE RESTRICTIONS. BUT THEY ARE UNLIKELY TO MOVE TO MORE SPECIFIC ACTION (IMPOSITION OF FINES OR BLACKLISTINGS) UNTIL A SHIPMENT OF EMBARGOED GOODS TAKES PLACE. THEY ARE AWARE THAT JOHN BROWN WILL PROBABLY BE THE FIRST COMPANY TO SHIP AND HAVE NOTE THE CHAIRMAN'S STATEMENT THAT IT MUST DO SO BY THE END OF AUGUST. WE MAY THEREFORE HAVE TWO WEEKS BEFORE A FINAL DECISION IS TAKEN TO IMPOSE SANCTIONS ON JOHN BROWN, UNLESS THE COMPANY DECIDES THAT THEY COULD AFFORD TO LET THE DATE SLIP FURTHER. I HAVE GIVEN THE AMERICANS NO ENCOURAGEMENT TO THINK THAT THIS WOULD BE POSSIBLE.

2. IN THE MEANTIME I BELIEVE THAT THE DANGER OF SERIOUS DAMAGE TO ALLIANCE RELATIONSHIPS IF THIS BUSINESS IS ALLOWED TO ESCALATE FURTHER HAS NOW BECOME MORE WIDELY RECOGNISED IN WASHINGTON. IT HAS ALSO SUNK IN THAT STAGE 1 OF THE PIPELINE IS GOING TO GO AHEAD WHETHER THE AMERICANS LIKE IT OR NOT.

3. THERE IS THEREFORE SOME INCREASED READINESS TO LOOK FOR WAYS OF LIMITING THE DAMAGE AND FINDING A WAY OUT. THIS IS NOT YET NOTICEABLE IN THE PENTAGON. BUT PEOPLE IN THE DEPARTMENT OF COMMERCE AND THE NSC WHO HAVE PREVIOUSLY SEEMED UNRECALCITRANT HARD-LINERS ARE BEGINNING TO SHOW SIGNS OF FEELING THEIR WAY TOWARDS THE MIDDLE GROUND.

4. AT THE SAME TIME, ALL THE PEOPLE I HAVE DISCUSSED THIS PROBLEM WITH DURING THE LAST FEW DAYS RECOGNISE THAT THE ADMINISTRATION IS IN A BOX. THEY SEE NO LIKELIHOOD OF ANY IMPROVEMENTS TAKING PLACE IN POLAND THAT WOULD JUSTIFY LIFTING RESTRICTIONS ON THE TERMS WHICH THE PRESIDENT HAS LAID DOWN. WITHOUT THAT, THE PRESIDENT WOULD LOOK TO THE RUSSIANS AS THOUGH HE WAS VACILLATING UNDER PRESSURE FROM THE ALLIES AND THE ONE THING HE IS DETERMINED NOT TO DO IS TO BECOME 'CARTERISED'. THE FORCE OF THIS ARGUMENT IS NOT WEAKENED BY THE FACT THAT NO ONE OUTSIDE THE WHITE HOUSE IS PREPARED TO DEFEND THE SUPPOSED LINK BETWEEN THE PIPELINE AND EVENTS IN POLAND.

CONFIDENTIAL



5. AS A POSSIBLE WAY FOUND, THERE IS SOME READINESS TO LOOK AGAIN AT OTHER POSSIBLE WAYS OF STRENGTHENING ALLIANCE ACTION TO MEET US CONCERNS IN SUCH A WAY AS PERHAPS TO JUSTIFY A RELAXATION OR ADJUSTMENT OF U.S. MEASURES OR AT LEAST A MILD REACTION AGAINST VIOLATIONS BY EUROPEAN COMPANIES. I WOULD NOT WANT TO RATE THE CHANCES OF SUCCESS TOO HIGH BUT THE POSSIBILITIES BOIL DOWN TO PRESENT TO FOUR:-

(I) BEARING ON THE SOVIET ECONOMY IN ITS PRESENT WEAK STATE:  
(II) FRUSTRATING CONSTRUCTION OF THE SECOND STAGE OF THE PIPELINE:  
(III) RATIONING WESTERN CREDIT TO THE SOVIET UNION AND REDUCING THE SUBSIDY ELEMENT IN IT:

(IV) TIGHTENING UP ON TRANSFERS OF HIGH TECHNOLOGY WHICH MAY REINFORCE SOVIET DEFENCE INDUSTRY CAPABILITY.  
NONE OF THESE THOUGHTS ARE NEW. NOR IS THERE A CONSENSUS WITHIN THE ADMINISTRATION ABOUT THE RELATIVE IMPORTANCE TO BE GIVEN TO EACH OF THEM. BUT IN ONE GUISE OR ANOTHER THEY KEEP COMING UP IN DISCUSSION HERE AND TAKEN TOGETHER REPRESENT A CONSIDERABLE BODY OF CONCERN.

6. IT WOULD SIGNIFICANTLY STRENGTHEN THE HAND OF THOSE IN WASHINGTON WHO ARE ARGUING THE CASE OF REASON AND MODERATION IF WE AND OTHERS COULD GIVE A CLEAR INDICATION THAT WE WERE STILL READY TO DISCUSS THESE ISSUES SERIOUSLY. THE SECRETARY OF STATE SET THE PACE FOR THIS DURING HIS VISIT ON 29 JULY WHEN HE SUGGESTED TO BUSH AND SHULTZ THAT WE OUGHT TO TRY TO ARRIVE AT A COMMON ASSESSMENT OF OUR OBJECTIVES IN SEEKING TO BEAR ON THE SOVIET ECONOMY AND OF THE BEST METHODS OF DOING THIS. SHULTZ WELCOMED THIS IDEA AND I THINK IT WOULD BE HELPFUL NOW TO TRY TO FOLLOW IT UP WITH SOME SPECIFIC SUGGESTIONS, IF POSSIBLE LINKING THESE TO IDEAS FOR MAKING PROGRESS IN THE DISCUSSIONS ON COCOM AND ON CREDITS TO THE EASTERN BLOC. ONE WAY OF DOING THIS MIGHT BE TO SEND A MESSAGE TO SHULTZ IDEALLY WITHIN THE NEXT WEEK OR TEN DAYS, WITH SOME IDEA ABOUT HOW TO TAKE THE SECRETARY OF STATE'S SUGGESTION FURTHER. AT THE LEAST, THIS WOULD HAVE A BENEFICIAL EFFECT ON THE ATMOSPHERE IN WHICH DECISIONS ABOUT POSSIBLE RETALIATION AGAINST VIOLATORS OF THE US REGULATIONS WILL BE TAKEN LATER IN THE MONTH. IF SUCH A MESSAGE WERE TO INDICATE THAT WE HAD THE SUPPORT OF THE FRENCH GERMANS AND ITALIANS SO MUCH THE BETTER.

THOMAS  
LIMITED  
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PLANNING STAFF  
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ESID  
NEWS D  
SIR J BULLARD  
MREEVANS  
MR GOODISON

ADDITIONAL DISTN  
POLAND SPECIAL

COPIES TO  
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OUT TELEGRAM

Classification and Caveats

SECRET - BURNING BUSH

Precedence/Deskby

IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET - BURNING BUSH
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO                    AUGUST 82
PRE/ADD	7	TO IMMEDIATE WASHINGTON
TEL NO	8	TELEGRAM NUMBER
	9	INFO ROUTINE PARIS, BONN, ROME, UKREP BRUSSELS, UKDEL NATO,
	10	MOSCOW (for Ambassador/Minister)
	11	YOUR TELNO 2735: EAST/WEST ECONOMIC ISSUES/SIBERIAN PIPELINE
	12	1. I agree that we should do what we can to improve the
	13	atmosphere in Washington and help those who are disposed to
	14	argue for a relaxation or adjustment of US measures. Against
	15	the background of the recent exchanges between the Prime Minister
	16	and President Reagan and the latter's firm linkage of his
	17	18 June measures to events in Poland, I doubt whether other
	18	linkages of the sort you outline would have the desired effect.
	19	2. Nevertheless I agree that we should try to build on the
	20	talk I had with Mr Shultz on 29 July and seek to get a proper
	21	dialogue going again on the wider East/West economic issues
///	22	covered in the Versailles and Bonn Declarations.
//	23	3. You should hand over the message from me to Shultz in
/	24	MIFT as soon as possible. When doing so you should stress our
	25	willingness to discuss the wider issues involved as well as our

NNNN ends telegram	BLANK	Catchword hope
File number	Dept Private Dept	Distribution Limited: EESD                    PS/Mr Hurd TRED                    PS/Mr Rifkind ERD                     PS/PUS ECD(E)                 Sir J Bullard Defence Dept           Mr Evans Planning Staff        Mr Goodison ESID                    Mr Hannay NAD PUSD News Dept
Drafted by (Block capitals) J E HOLMES		
Telephone number 233 4641		
Authorised for despatch		
Comcen reference	Time of despatch	ESSD PS



OUT TELEGRAM (CONT)

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ZCZC  
 hope that not only the rhetoric but also the scope of any US  
 measures will allow these wider discussions to proceed in a  
 constructive manner.  
 PYM  
 NNNN

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OUT TELEGRAM

Classification and Caveats

SECRET - BURNING BUSH

Precedence/Deskby

IMMEDIATE

ZCZC	1	ZCZC
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PRE/ADD	7	TO IMMEDIATE WASHINGTON
TEL NO	8	TELEGRAM NUMBER
	9	INFO ROUTINE ROME, PARIS, BONN, MOSCOW, UKREP BRUSSELS, UKDEL
	10	NATO
	11	EAST-WEST ECONOMIC ISSUES/SIBERIAN PIPELINE
	12	1. Text of message as follows:
	13	BEGINS
	14	Following our very valuable talk on 29 July I have been
	15	giving some thought to the range of East/West economic issues
	16	on our current agenda. On the pipeline we have of course since
	17	taken the limited action to which the Prime Minister referred in
	18	her message of 2 August to the President. We have been careful
	19	to keep the rhetoric down so as not to threaten wider and more
	20	important Western interests, and I know that you will be
	21	concerned to respond in the same spirit.
///	22	There are other aspects of East/West economic relations
//	23	which need to be examined, such as credit, high technology and
/	24	agricultural exports to the East, and also Eastern European
	25	debt. Our two governments and others are committed to

NNNN ends telegram		BLANK	Catchword discussing	
File number		Dept Private Dept	Distribution Limited:	
Drafted by (Block capitals) J E HOLMES			EESD	PS/Mr Hurd
Telephone number 233 4641			TRED	PS/Mr Rifkind
Authorised for despatch			NAD	PS/PUS
Comcen reference		Time of despatch	Planning Staff	Sir J Bullard
			Defence Dept	Mr Evans
			ECD(E)	Mr Goodison
			ESID	
			PUSD	
			ESSD	
			WED	
			News Dept	
			PS	



OUT TELEGRAM (CONT)

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1 ZCZC  
2 discussing these questions in the OECD and NATO, as well as in  
3 COCOM. COCOM issues aside, our preference would be for OECD  
4 to undertake the bulk of the data collection and basic  
5 analytical work. But there is a fair amount of overlap and  
6 we will need to take a view on how to coordinate the various  
7 discussions.  
8 I think it would be helpful in the coming months if you  
9 and your principal allies could work closely together to inject  
10 some order into this process and promote the maximum consensus,  
11 taking forward the discussions with Jim Buckley earlier this  
12 year. I have therefore been wondering whether the Four  
13 Political Directors could meet in the next few weeks, with  
14 economic colleagues present also, in order to try to isolate the  
15 most pressing questions and develop a plan of action. They  
16 could do this either when they meet during or just before the  
17 autumn session of the UN General Assembly, or earlier if this  
18 were feasible.  
19 It does seem to me very desirable to try, between the four  
20 of us, to chart the way forward on the consultations to which  
21 we are all committed by the Versailles, Bonn and other  
22 declarations. Without some degree of prior consultation and  
23 agreement in the Four I fear that these discussions could all  
24 too easily lose their way and lead to nothing except a further  
25 bout of the kind of disagreement and recriminations we all wish  
26 to avoid.  
27 I should be interested to know your thoughts on this subject  
28 as soon as you are able to let me have them. Meanwhile I am not  
29 saying anything to either our French or our German colleagues.  
30  
31 PYM  
32 NNNN  
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NNNN ends telegram	BLANK	Catchword
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19 AUG 1962



Soviet Union



Foreign and Commonwealth Office

London SW1A 2AH

11 August 1982

JB  
r/y

Tim Flesher Esq  
10 Downing Street  
London SW1

Dear Tim,

We discussed the message which the Prime Minister received yesterday from President Reagan. This is to confirm that we see no need for the Prime Minister to reply.

Yours ever,

S M J Lamport  
Private Secretary to Mr Hurd



**SUBJECT**

ZCZCWAG036  
TOO WTE24  
DE WTE 05384 2211906  
091846Z AUG 82  
FM THE WHITE HOUSE  
TO CABINET OFFICE LONDON  
ZEM  
S E C R E T VIA CABINET OFFICE CHANNELS WH05384

see **PRIME MINISTER'S**  
**PERSONAL MESSAGE**  
Prime Minister  
**SERIAL No. T158/82**  
only Clerk  
9/8/82  
4

DEAR MARGARET:

I MUCH APPRECIATE YOUR JULY 30 LETTER ON THE SUBJECT OF JOHN BROWN ENGINEERING AND THE CONSTRUCTIVE FRAMEWORK IN WHICH YOU HAVE PLACED OUR DIFFERENCES CONCERNING THE SANCTIONS ISSUE. I AM IN THOROUGH AGREEMENT WITH YOU THAT ON THE BROADER SECURITY CONCERNS POSED BY SOVIET BEHAVIOR AND THE CRISIS IN POLAND WE THINK ALIKE. IN CASES WHERE WE DO DISAGREE, I BELIEVE THAT YOUR LETTER EXEMPLIFIES THE TONE AND SPIRIT WHICH OUGHT TO GUIDE U.S.-U.K. RELATIONS.

LET ME ADD HOW MUCH I ALSO APPRECIATED YOUR JULY 29 LETTER AND THE INFORMATION YOU SHARED WITH ME ON YOUR TALKS WITH KING HUSSEIN. THESE VIEWS PROVIDED TIMELY BACKGROUND FOR MY OWN MEETING LAST WEEK WITH EGYPTIAN FOREIGN MINISTER KAMAL HASSAN ALI, AND WITH HIS ISRAELI COUNTERPART, FOREIGN MINISTER YITZCHAK SHAMIR, ON MONDAY.

THE TALKS WITH ALI WERE USEFUL, ALTHOUGH THE EGYPTIANS HAVE HARDENED THEIR POSITION TOWARD ACCEPTING PLO FIGHTERS. ALI'S PRESENTATION WAS SIMILAR TO HIS EXCHANGE WITH FRANCIS PYM, AS HE EMPHASIZED THE NEED TO SEIZE THIS MOMENT TO RESOLVE THE PALESTINIAN PROBLEM IN ALL ITS-ASPECTS. WHILE MUCH OF THE U.S. AND EGYPTIAN THINKING ON THE MIDDLE EAST IS CONGRUENT, WE DO DISAGREE WITH ALI'S VIEW THAT THE SOLUTION TO WEST BEIRUT SHOULD BE EXPLICITLY LINKED TO THE BROADER PALESTINIAN PROBLEM.

AS FOR THE MEETING WITH FOREIGN MINISTER SHAMIR, I MADE CLEAR TO HIM HOW STRONGLY WE FEEL ABOUT THE DISPROPORTIONATE AND INDISCRIMINATE ISRAELI ATTACKS ON WEST BEIRUT. I ALSO EMPHASIZED OUR OPPOSITION TO ISRAELI PRESSURE TACTICS INVOLVING THE CUT-OFF OF FOOD, WATER, ELECTRICITY AND MEDICAL SUPPLIES. SHAMIR REITERATED THE ISRAELI POSITION THAT SUCH TACTICS WERE NECESSARY IN ORDER TO ENSURE PLO WITHDRAWAL. I RESPONDED THAT SUCH ACTS, IN CONJUNCTION WITH CONTINUING LEVELS OF EXCESSIVE VIOLENCE, WERE MAKING IT IMPOSSIBLE FOR PHIL HABIB TO EXTRACT THE PLO BY DIPLOMATIC MEANS AND THAT THIS COULD HAVE THE GRAVEST POSSIBLE CONSEQUENCES FOR OUR OWN BILATERAL RELATIONSHIP WITH ISRAEL.

CLEARLY THE ROAD AHEAD REMAINS FRAUGHT WITH DANGER, BUT

END OF PAGE 01

I SEE NO ALTERNATIVE TO WORKING AS HARD AS WE CAN TO BRING ABOUT THE WITHDRAWAL OF THE PLO FROM LEBANON, AS WELL AS ALL OTHER FOREIGN FORCES, AND A RETURN TO CONDITIONS WHICH WILL PERMIT THE LEBANESE TO FUNCTION AS AN INDEPENDENT PEOPLE AND GOVERNMENT.

SINCERELY,

RON

THE RIGHT HONORABLE  
MARGARET THATCHER  
10 DOWNING STREET  
LONDON  
0464  
05384

NNNN

DE CAB QSL 0918466Z AT 19577 Z IDS

Middle East situation  
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Soviet Union

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FM WASHINGTON 032241Z AUG 82

TO PRIORITY FCO

TELEGRAM NUMBER 2648 OF 3 AUGUST 1982

INFO MOSCOW, UKDEL NATO, UKREP BRUSSELS, PARIS, BONN

mt

PRESIDENT REAGAN ON GRAIN SALES TO THE USSR

1. THE PRESIDENT SPOKE TO THE NATIONAL CORN GROWERS' ASSOCIATION IN IOWA YESTERDAY (COPY OF TEXT BY BAG). WHILE MUCH OF THE SPEECH WAS DEVOTED TO MASSAGING THE FARM VOTE IN THE MID-WESTERN STATES, THERE WERE A NUMBER OF REFERENCES TO HIS ATTITUDE TOWARDS GRAIN SALES TO THE SOVIET UNION, AND COMMENTS ABOUT THE AMERICAN CHALLENGE TO FOREIGN GOVERNMENTS USING SUBSIDIES TO ASSIST THEIR AGRICULTURAL EXPORTS.
2. PRESIDENT REAGAN SAID THAT THE EFFECTS OF THE CARTER GRAIN EMBARGO WERE STILL HANGING OVER THE MARKETS. THE US HAD ENJOYED 70 PER CENT OF THE SOVIET MARKET BEFORE THE EMBARGO; THIS FIGURE FELL TO 25 PER CENT DURING THE EMBARGO, WHILE AMERICA'S COMPETITORS QUOTE TOOK ADVANTAGE OF THE MARKET WHICH THE LAST ADMINISTRATION HAD THROWN AWAY UNQUOTE. AFTER LIFTING THE EMBARGO, THE US HAD OFFERED THE SOVIETS AN ADDITIONAL 15 MILLION METRIC TONNES. HOWEVER, DEVELOPMENTS IN POLAND HAD SET BACK US EFFORTS, ON BEHALF OF FARMERS, TO NEGOTIATE A NEW LONG-TERM GRAIN AGREEMENT WITH THE USSR. THE US HAD THEREFORE HAD NO CHOICE BUT TO IMPOSE A NUMBER OF SANCTIONS AGAINST THE SOVIETS AND THE POLES INCLUDING POSTPONEMENT OF NEGOTIATIONS ON A NEW LONG TERM AGREEMENT.
3. WHILE THE PRESIDENT ADMITTED THAT THERE WAS STILL NO CAUSE TO CELEBRATE IN POLAND, HE WAS QUOTE SOMEWHAT ENCOURAGED UNQUOTE BY INDICATIONS OF A RELAXATION OF MARTIAL LAW. THE US WOULD CONTINUE TO WATCH DEVELOPMENTS, AND IN THE MEANTIME THE ADMINISTRATION WOULD BE EXPLORING A ONE-YEAR EXTENSION OF THE CURRENT GRAIN AGREEMENT. THE PRESIDENT SAID THAT HE HAD ALSO AUTHORISED THE SECRETARY OF AGRICULTURE TO CONSULT WITH THE SOVIETS ON THE SUBJECT OF ADDITIONAL GRAIN PURCHASES BEYOND THE MINIMUM PURCHASE REQUIREMENTS OF THE CURRENT AGREEMENT.
4. THE PRESIDENT SAID THAT THE EXTENSION WOULD HAVE THE QUOTE SANCTITY OF A CONTRACT, ENSURING US FARMERS' ACCESS TO THE SOVIET MARKET UNQUOTE. THE PRESIDENT (THE PIPELINE NOTWITHSTANDING) NOTED WITH APPROVAL GOVERNOR THONE'S (NEBRASKA) COMMENT THAT QUOTE THERE MUST BE NO QUESTION ABOUT OUR RESPECT FOR CONTRACTS UNQUOTE. THE INDICATIONS, HE SAID, WERE THAT THE US WOULD SELL A QUOTE RECORD VOLUME UNQUOTE OF GRAIN TO THE USSR THIS YEAR. LARGE EXPORTS WERE ALSO EXPECTED DURING THE EXTENDED YEAR OF THE AGREEMENT. QUOTE THE GRANARY DOOR IS OPEN AND THE EXCHANGE WILL BE CASH-ON-THE-BARREL-HEAD UNQUOTE.

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15. THE



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5. THE PRESIDENT REITERATED THAT FARM EXPORTS WOULD NOT BE SINGLED OUT AS AN INSTRUMENT OF FOREIGN POLICY, AND WOULD BE USED ONLY AS PART OF A TRADE EMBARGO IF THAT EMBARGO WERE BROAD AND SUPPORTED BY OTHER NATIONS ACROSS THE BOARD. (THE PRESIDENT, BEFORE DELIVERING THE SPEECH, DELETED A PASSAGE IN THE PREPARED TEXT WHICH SAID THAT QUOTE THIS ADMINISTRATION DOES NOT HAVE, NOR WILL WE HAVE, A GRAIN EMBARGO AGAINST THE SOVIET UNION UNQUOTE. BAKER WHITE HOUSE CHIEF OF STAFF, SAID THAT SO CATEGORICAL A STATEMENT WAS INNAPPROPRIATE).

6. ON FOREIGN GOVERNMENTS' AGRICULTURAL POLICES, THE PRESIDENT SAID THAT THE ADMINISTRATION WERE VIGOROUSLY CHALLENGING THE USE OF EXPORT SUBSIDIES IN AGRICULTURAL AREAS. THE ADMINISTRATION WAS UNITED IN THIS EFFORT TO SPEAK OUT AGAINST UNFAIR TRADE PRACTICES. AT THE GATT MINISTERIAL MEETING, THE US WOULD PROPOSE BRINGING AGRICULTURE UNDER THE LIBERALISING INFLUENCE OF GATT. THE PRESIDENT SAID HE WAS COMMITTED TO MORE OPEN AGRICULTURAL MARKETS IN ALL COUNTRIES. HE CHALLENGED OTHERS - PARTICULARLY IN EUROPE AND JAPAN - TO MATCH THIS COMMITMENT.

THOMAS

FCO D

NAD

CABINET OFFICE

COPIES SENT TO  
No. 10 DOWNING STREET

THIS TELEGRAM  
WAS NOT  
ADVANCED

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should operate. Therefore, I believe that we ought to insist that these two points go into the Bill. There seems to be general acceptance of that view in other parts of the House, and therefore I wish to press the amendment.

4.17 p.m.

On Question, Whether the said amendment (No. 37) shall be agreed to?

Their Lordships divided: Contents, 80; Not-Contents, 105.

#### DIVISION NO. 1

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Balogh, L.	McCarthy, L.
Banks, L.	McNair, L.
Beswick, L.	Molloy, L.
Bishopston, L.—[Teller.]	Oram, L.
Blease, L.	Paget of Northampton, L.
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Glenamara, L.	Strabolgi, L.
Gormley, L.	Strauss, L.
Hampton, L.	Taylor of Gryfe, L.
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Hatch of Lusby, L.	Underhill, L.
Hooson, L.	Wade, L.
Houghton of Sowerby, L.	Wallace of Coslany, L.
Howie of Troon, L.	Wedderburn of Charlton, L.
Hunt, L.	Wells-Pestell, L.
Jacques, L.	Whaddon, L.
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HL 36 B

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Hailsham of	Radnor, E.
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Hawke, L.	Redcliffe-Maud, L.
Henley, L.	Reigate, L.
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Massereene and Ferrard, V.	Trumpington, B.
Merrivale, L.	Vaux of Harrowden, L.
Milverton, L.	Vickers, B.
Morris, L.	Vivian, L.
Mottistone, L.	Ward of Witley, V.
Mountgarret, V.	Westbury, L.
Murton of Lindisfarne, L.	Wynford, L.
Norfolk, D.	Young, B.
Nugent of Guildford, L.	

Resolved in the negative, and amendment disagreed to accordingly.

(Amendment No. 38 not moved.)

### Siberian Gas Pipeline

4.26 p.m.

**The Secretary of State for Trade (Lord Cockfield):**

My Lords, with permission, I wish to make a statement about the American export embargo as it affects companies in this country which have contracts connected with the Siberian Gas Pipeline. As I made it clear in the debate in your Lordships' House on 26th July, the embargo in the terms in which it has been imposed is an attempt to interfere with existing contracts and is an unacceptable extension of American extra-territorial jurisdiction in a way which is repugnant in international law.

On 30th June I made an order under Section 1(1) of the Protection of Trading Interests Act 1980 citing certain provisions of the Export Administration Regulations as measures which were damaging to the trading interests of the United Kingdom. I had hoped—and indeed still hope—that it would have been possible for an acceptable solution to be found to this problem; but, despite strenuous efforts made by Her Majesty's Government, the American Administration has not so far responded.

In these circumstances I have decided that the trading interests of the United Kingdom require me to issue Directions under Section 1(3) of the Act to certain named British companies forbidding them to comply with the American embargo. I have therefore issued Directions today to the following companies, all of which entered into contracts prior to the announcement of

Soviet Union



[LORD COCKFIELD.]

the United States embargo. The companies are: John Brown Engineering Limited, Smith International (North Sea) Limited, Baker Oil Tools (United Kingdom) Limited, and AAF Limited.

I have at this stage, limited action in this way as I have no wish to escalate this dispute. I should hope that the moderation of our approach would persuade the American Administration to think again. But I do wish to make it clear, as I said in your Lordships' House on 26th July, that in the absence of a mutually acceptable solution I am determined to defend our own national interests.

**Lord Ponsonby of Shulbrede:** My Lords, I should like to thank the noble Lord for making his Statement and for exercising his discretion in favour of the United Kingdom's trading interests by forbidding the companies concerned to comply with the American embargo. In doing so the Government have wisely followed the lead taken by the French Government, who have already openly ordered French companies to defy the American embargo, and the Italian Government, who have made clear their intention that the ban should be defied. I hope that the West German Government will follow the lead set by their other EEC partners.

As the noble Lord has said, the embargo is an unacceptable extension of American extra-territorial jurisdiction which is repugnant in international law. With this we agree, and we see it as ill-considered, unfair, and inconsistent that almost at the same time the United States Government should end its grain embargo against the Soviet Union as a result of intense pressure from United States farmers. We must wonder whether the embargo imposed by the American Government is likely to do more damage to Western Europe than to Eastern Europe. I am glad that the noble Lord has taken this action, because it has been constructive in ensuring that about 3,000 jobs will be preserved in particular parts of British industry.

**Baroness Seear:** My Lords, we also wish to thank the noble Lord for making the Statement in your Lordships' House, and to say that we support the action taken in rejecting the American embargo, and in the instruction that has been issued to the four named companies. The employment consequences of any such embargo would, of course, be serious. We also support the whole idea of the development of the pipe-line.

At the same time, we view with great concern the fact that this further disagreement has arisen with the United States at a time when it looks as if a trade war is all too close as a result of the steel dispute which is already going on. I am sure that the noble Lord will be able to tell us that Her Majesty's Government are pursuing as vigorously as they possibly can the means of finding a solution acceptable to the Americans. While we are protecting our short-term national interests in the step we are now taking, if we have further disputes with the United States our longer-term national interest could be seriously at risk.

**Lord Cockfield:** My Lords, I am most grateful to the noble Lord, Lord Ponsonby of Shulbrede, and to

the noble Baroness, Lady Seear, for what they say. It is, of course, true that the action taken by the American Administration has resulted in a degree of tension on trade matters. I have endeavoured to conduct our own affairs in a way which does not exacerbate that tension. It is important to underline the fact that the Western Alliance is of crucial importance to the United Kingdom, to Western Europe, and indeed to America herself, and we ought to do everything we can to avoid any damage to that alliance. It is for this reason that the action we have taken has deliberately been restrained and has set out only to protect our absolute trading interests.

It is true, as the noble Lord, Lord Ponsonby, said, that there are a large number of jobs at risk if in fact the embargo were obeyed by companies in this country. This is one of the major reasons why we have taken the action that we have. It is true also that one might be more than a little surprised that, at a time when the American Government have imposed this export embargo, they should also continue to ship large quantities of grain to the Soviet Union, and we think that it is quite inequitable that the American Government should do this while expecting its allies to bear the brunt of sanctions against the Soviet Union in the pipeline case. We do not regard this as even-handed treatment. I can assure the noble Baroness, Lady Seear, that we shall continue to do everything in our power to find an acceptable solution, not only to this dispute but to the steel dispute as well.

**Lord Taylor of Gryfe:** My Lords, from these Benches we very much welcome the Statement made by the Minister. May I assure him that the Statement will be even more than welcome in Clydebank where John Brown operates and where unemployment is close to 20 per cent. of the population of that town. I should like to ask the noble Lord one or two questions. The first is whether in fact, despite the delay in the execution and acceptance of this contract and the fact that export credit terms have changed in relation to the Soviet Union in the past few days, the contract will be recognised on the export terms on which the contract was originally based?

Secondly, I should like to encourage the noble Lord to negotiate with our American allies on a code of conduct on future contracts affecting United Kingdom and USSR or Eastern European trade applying to companies which enjoy US licensing arrangements, and perhaps the noble Lord can tell us the responsibilities of the US Government to US company subsidiaries in this country which are presently competing for trade with the USSR? Further, can the noble Lord tell us whether the US Government have any more power over US-owned companies such as Brown and Root and Highland Fabricators who are bidding for off-shore supplies business at the moment, and whether the constraints which they apply on the licensing arrangements will be similarly applicable to US subsidiaries? May I encourage the Minister to continue these negotiations so that we are not frustrated once contracts are signed and have some code recognised, so that people who are negotiating for contracts can feel secure and confident while doing so.

**Lord Cockfield:** My Lords, I am obliged to the noble Lord for what he says. So far as the first



point is concerned—namely, on delay in the execution of contracts—I am not aware that in fact any such delay has occurred. One of the reasons why it was necessary to issue the directions now was that if the directions were not issued such delay might occur. Therefore, I think up to date at any rate there has been no problem here. The question of the ECGD cover is a matter to be negotiated between the companies concerned and the Export Credits Guarantee Department.

The noble Lord also raised the much wider question of negotiation with our American allies on a code of conduct for dealing with commercial relations with the Soviet Union. This is an interesting suggestion but it is difficult to see just at the moment what its chances of success would be. The important thing is to dispose of the present disagreement which has arisen. The noble Lord also raised the question of United States subsidiaries who are competing for trade in the Soviet Union. Presumably he had in mind subsidiaries in this country of United States companies. Indeed, it is against such subsidiaries that the American export embargo might very well bite. This was one of the factors that we have taken into account in issuing directions.

**The Earl of Lauderdale:** My Lords, would my noble friend be able to say anything about the Government's attitude to some of the energy policy aspects of this matter, notably whether it is indeed the case that the Soviet gas component of Western European energy needs will not in fact be a critical component? Secondly, by way of restoring better relations with the United States in this area, would we not be well advised to support the proposal which has been made many times for a cross-Channel gas pipe-line so that Norwegian gas can be fed to the Continent as a sort of alternative supply? Is my noble friend aware that this is indeed one of the recommendations of the European scrutiny committee of this House published only last week?

**Lord Cockfield:** My Lords, I hope that my noble friend will forgive me if I say that I have enough difficulty dealing with the trans-Siberian pipe-line without having to deal with the cross-Channel pipe-line as well. So far as the wider issue he raised is concerned, my information is that the amount of gas coming through the Siberian pipeline, when completed, would not represent a major part of Western Europe's supplies, and of course there are strong arguments in favour of diversification of supplies in view of the uncertainties which we all know exist in this field.

**The Earl of Lauderdale:** My Lords, is my noble friend saying that the Government cannot really comment on the energy implications of the whole matter?

**Lord Cockfield:** My Lords, it is only right that I should make the point that the statement I have made relates to the American attempts to embargo supplies to the trans-Siberian gas pipeline. I should have thought that the question of a pipeline across the English Channel was somewhat remote, both geo-

graphically and in other senses. So far as the general energy question is concerned, I think I have answered the point my noble friend raised; namely, that the supplies coming through this pipeline, when complete, would not in fact be a major component of Western Europe's total supplies.

**Lord Rhodes:** I think this was necessary, my Lords, particularly in view of the legislation which the Reagan Government put through in June of this year covering re-exports of American strategic materials, although they were exported from a country other than the United States. Can the British Government be sued in American courts on this matter? I would comment that this is a long-standing worry to the Department of Trade; I remember in 1950 the Westinghouse argument on uranium when we were taken through the American courts. I congratulate the Minister on having done what he has.

**Lord Cockfield:** I am obliged to the noble Lord for those remarks, my Lords. I should not have thought it was open to one Government to sue another Government in its courts except by the consent of that Government.

### Employment Bill

Further considered on Report, on Clause 12.

4.43 p.m.

**Lord Jenkins of Putney** moved Amendment No. 39:

Page 16, line 21, at end insert—

("(5) A contract between two parties in which one party is required to be a member of an employers' association and the other part is required to be a member of a trade union is not voided or invalidated by this section.")

The noble Lord said: My Lords, I have made more than one attempt to get the Government off the hook in this matter and this amendment is a further attempt to that end. If I am right in thinking that the whole of the clause is not intended to intervene in contracts between two parties but essentially envisages a three-party situation, then the amendment, which is for the purpose of greater certainty and clarity, should be acceptable to the Government. It simply says that where you have a straightforward position between an employer and employee, the existence of a requirement to be a member of an employers' association or trade union does not invalidate the contract.

The amendment should commend itself to the Government because, as I understand it, the whole of the clause is to intervene in what I described as a three-party situation: for example, a contract between a local authority and a contractor, whereby the authority says to the contractor, "You shall", or "You shall not", as the case may be, "employ only members of a certain trade union", whereby the local authority concerned makes it, in other words, a condition of that contract that the other party shall employ—or not employ, as the case may be—certain people with or without a certain qualification.

That would not be a reasonable step to take, but that, I am fairly sure, is what the Government intend to do. One may dislike it and vote against it, or one can say,



[LORD JENKINS OF PUTNEY.]

from the Government's point of view, that they are right to produce a clause on such a basis—if that is their objective. But if I am right in thinking that, virtually accidentally, in the course of so doing they have unintentionally also invalidated a straight contract between two parties and have made such a contract voidable under the clause, then I hope the Government will agree that the amendment makes the situation clearer and should be accepted.

**Lord Mackay of Clashfern:** My Lords, the provisions of Clause 12 are concerned with any term or condition of a contract for the supply of goods or services, and such a term or condition is made void if it purports to do the things mentioned in paragraphs (a) and (b). So it is a contract in which two parties are involved for the supply of goods or services, and I do not think the noble Lord, Lord Jenkins, is correct in saying that it is intended to apply only to a tripartite situation. The view of the Government is that the amendment is unnecessary for the purpose the noble Lord has in mind. The purpose of Clause 12 is to void requirements of the kind I have mentioned and it makes it unlawful to refuse to include a person on a tender list or award him a contract on the grounds that he does not recognise a trade union.

The second of these is, as far as we can see, entirely irrelevant to contracts between theatre managers and individual actors. The first may make void any requirement in an Equity contract that the theatre manager recognises Equity for the purposes of negotiations, assuming that it is a contract for the supply of goods or services. But in our view the amendment is unnecessary for the purpose the noble Lord has in mind and would introduce confusion into the provisions. I therefore hope your Lordships will not accept it.

**Lord Wedderburn of Charlton:** My Lords, I invite the Minister to think again on this subject and perhaps come back to it at Third Reading. We take no particular pleasure at this stage of the Bill—when one is not able or indeed willing to oppose its main thrust—in asking whether the Government are not impaled on the horns of a dilemma of their own making by introducing a certain amendment late in Committee. All Governments do that from time to time, but I cannot refrain from noting that I wondered where I had seen it when, in July, in the middle of Committee, it was brought to us, and then I found my *Financial Times* cutting of 28th May which more or less printed the clause as what the organisation Aims of Industry was urging on the Secretary of State. That cutting of 28th May sets it out for the noble and learned Lord, just as it does for me.

The Aims of Industry clause was introduced in the middle of July and the Government put forward the argument that they so disliked pressure—be it commercial under this clause or industrial under Clause 13, which is keyed in with it, like Clause 11—that they would not have people use either sort of pressure to require others to negotiate or even consult with trade unions. Then they had to draw up a liability along that boundary and it was perhaps inevitable that they should run along the boundary between contracts for the supply of goods and services, which were within the

area of the Bill, and contracts of service—or of employment, as they are usually called—which were not.

I come now to the problem with which the Government are faced and from which they will not escape, and which it seems to me is the root point of my noble friend's argument to both this amendment and some other amendments that are germane to the problem. This is why I ask the Government to look at it again, because it comes out in various parts of the Bill. Their problem is that, apparently without meaning to, they get into the area of causing to be invalid various types of clause and various types of pressure where the workers are in law those who have contracts for services—sometimes called self-employed or independent contractors—as opposed to the normal workers under a contract of employment. To the man in the street they are for the most part the same species, but the noble and learned Lord, and perhaps myself, as lawyers know that they are fundamentally different.

Therefore, if one drafts clauses where the unlawfulness and the impropriety attach to a situation defined by reference to a contract for services, then a large number of workers—a minority, but quite a large number—will come in, even if one does not intend it. There are of course the musicians, and their contractual arrangements, and all kinds of pressures and requirements, are dealt with in the contracts for services of musicians. There are also, of course, actors. I have not previously intervened to speak about actors because I declare an interest as the independent chairman of the London Theatre Council and the Provincial Theatre Council. I say merely that it is extremely disturbing to see the way in which the well-observed and normal operations of the theatre councils, of management on the one side of the table, and British Actors' Equity on the other, would have to be very carefully considered in relation to the clause, and would not be easy to operate. I think that that would be a fairly common view around the table, but I must not express it as anything other than my own view.

However, actors and musicians are not alone. Recently I had reason to be given evidence that in the petrochemical industry there is a very large amount of self-employment. That is true among draftsmen, and in many other areas of industry, where self-employment and contracts for services come up. English law being what it is—it might be better North of the Border—one cannot ever be quite sure. Consider, for example, the lorry driver who in 1968 was taken on and told, "You are the owner of the concrete lorry; go away and keep it up". Then he was paid sums that appeared to him to be wages, but he turned out to be an independent contractor. There are quite a few workers around who are in a rather awkward and difficult spot, and there have been many cases in the courts on this issue in recent years.

Surely the Government can find a way of avoiding what they appear to want to avoid, though the noble and learned Lord did not wholly convince me on this point. If the Government want to avoid the clause upsetting the agreed provisions in industry—where much self-employment arises and is recognised and dealt with by orderly arrangements, such as among musicians and actors—why do they not take away the clause over the Recess? They could also take away the amendments of the kind that my noble friend is



*original destroyed**4/4/82**Prime minister 2**From the Secretary of State*COVERING CONFIDENTIALCOMMERCIAL - IN CONFIDENCE

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

2 August 1982

*Dear John,*

## SIBERIAN GAS PIPELINE

I attach a copy of the statement which my Secretary of State is making in the House of Lords this afternoon, at approximately 4.30 pm. An announcement that the statement is to be made is timed for just after 3.30 pm. The timings are to be explained by the potential commercial sensitivity of the statement on the Stock Exchange. The statement should, therefore, be given only very limited circulation by the Departments to whom I am also copying this letter.

Arrangements have been made to communicate the text of this statement to the West German, French, Italian, Japanese and United States governments, and the EC Commission. In addition, the Secretary of State hopes to arrange a meeting with the United States Ambassador at 6 pm, today.

Finally, I would be grateful if any initial Press inquiries following this statement could be re-routed to this Department.

Copies of this letter go to John Kerr (Treasury), Jonathan Spencer (Department of Industry) and Muir Russell (Scottish Office).

*Yours sincerely,*

JOHN RHODES  
 Private Secretary

COVERING CONFIDENTIALCOMMERCIAL - IN CONFIDENCE





STATEMENT: SIBERIAN GAS PIPELINE

With permission, I wish to make a Statement about the American export embargo as it affects companies in this country which have contracts connected with the Siberian Gas Pipeline.

As I made it clear in the Debate in your Lordships House on 26 July, the embargo in the terms in which it has been imposed is an attempt to interfere with existing contracts and is an unacceptable extension of American extra-territorial jurisdiction in a way which is repugnant in international law.





On 30 June I made an Order under Section 1(1) of the Protection of Trading Interests Act 1980 citing certain provisions of the Export Administration Regulations as measures which were damaging to the trading interests of the United Kingdom. I had hoped - and indeed still hope - that it would have been possible for an acceptable solution to be found to this problem; but despite strenuous efforts made by HMG the American Administration has not so far responded. In these circumstances I have decided that the trading interests of the United Kingdom require me to issue Directions under Section 1(3) of the Act to certain named British companies forbidding them to comply with the American embargo. I have therefore issued Directions today to the following companies, all of whom entered into contracts prior to the announcement of the United States embargo. The companies are:

John Brown Engineering Limited

Smith International (North Sea) Limited

Baker Oil Tools (United Kingdom) Limited

AAF Limited





I have, at this stage, limited action in this way as I have no wish to escalate this dispute. I would hope that the moderation of our approach would persuade the American Administration to think again. But I do wish to make it clear as I said in your Lordships House on 26 July that in the absence of a mutually acceptable solution I am determined to defend our own national interests.



CONFIDENTIAL



*Soviet Union  
file B*

10 DOWNING STREET

*From the Private Secretary*

2 August 1982

Soviet Pipeline

The Prime Minister saw the message to your Secretary of State from Mr. Weinberger contained in a telegram from the Embassy in Washington sent on 28 July.

Weinberger employs at one point the argument that the fact that the Russians are using their scarce hard currency and are selling gold for purchases of agricultural products in Europe, the United States and elsewhere indicates that they are unwilling or unable to squeeze the civilian economy further. The Prime Minister has commented that this appears to be a good argument for the US refusing to sell more wheat to the Soviet Union.

I am copying this letter to Francis Richards (FCO).

A. J. COLES

Richard Mottram, Esq.,  
Ministry of Defence.

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*B.*



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do a good argument.  
do. referred*

*Read in full,  
by the  
U.S. - do feel more  
w/ head.  
do the Soviet!*

FOLLOWING PERSONAL FOR SECRETARY OF STATE FOR DEFENCE AND FCO  
(PERSONAL FOR PS/S OF S)  
SOVIET PIPELINE

1. WEINBERGER HAS ASKED ME TO PASS TO YOU A LETTER OF 27 JULY ABOUT  
THE PIPELINE THE TEXT OF WHICH IS BELOW.

DEAR JOHN:

THOSE OF US FOLLOWING THE EUROPEAN DISCUSSION OF PRESIDENT REAGAN'S  
EXTENSION OF EXPORT CONTROLS ON OIL AND GAS TECHNOLOGY TO THE USSR  
ARE CONCERNED THAT THE STRATEGIC AND ALLIANCE-RELATED REASONS FOR  
THE PRESIDENT'S DECISION, ARE SOMEHOW NOT BEING EXPRESSED OR HEARD.  
YOU AND I HAVE DISCUSSED HOW THE PIPELINE WILL CONTRIBUTE BILLIONS  
OF DOLLARS ANNUALLY TO SOVIET HARD CURRENCY EARNINGS. AND INDICATIONS  
TODAY ARE THAT WHILE THE SHORTAGE OF HARD CURRENCY FORCES THE SOVIET  
UNION TO CUT BACK ON MILITARY-RELATED INDUSTRIAL PURCHASES AS WELL  
AS ON FOREIGN POLICY ADVENTURES THAT WOULD BE HARMFUL TO THE  
ALLIANCE, AN EXTRA DLRS 8 TO DLRS 10 BILLION A YEAR WILL  
CORRESPONDINGLY ADD ENORMOUSLY TO THEIR MILITARY STRENGTH. CONTRARY  
TO ARGUMENTS MADE BY SOME, THE SOVIET GOVERNMENT CANNOT SIMPLY CUT  
FURTHER INTO THEIR CIVILIAN CONSUMPTION TO KEEP FEEDING THEIR  
MILITARY ESTABLISHMENT. THE VERY FACT THAT THEY ARE USING THEIR  
SCARCE HARD CURRENCY AND SELLING THEIR GOLD NOW FOR PURCHASES OF  
AGRICULTURAL PRODUCTS IN EUROPE, THE UNITED STATES AND ELSEWHERE  
INDICATES THAT THEY ARE UNWILLING, OR UNABLE, TO SQUEEZE THE  
CIVILIAN ECONOMY FURTHER.

MOREOVER, THE PUBLIC SHOULD UNDERSTAND THAT THE PIPELINE PROJECT  
INVOLVES MORE THAN THE CONSTRUCTION OF A SINGLE LINE INTO WEST  
GERMANY. IT IS SET UP FOR RAPID EXPANSION INTO A MULTI-LINE SYSTEM,  
THUS SUBSTANTIALLY ADDING NOT ONLY TO THE LEVERAGE THE SOVIETS  
WILL ACQUIRE IN THE WEST EUROPEAN MARKETPLACE, BUT ALSO, AND EVEN  
WORSE, ADDING A HUGE ENERGY SUPPLY AND DISTRIBUTION SYSTEM, PAID FOR  
BY THE WEST, TO THEIR INDUSTRIAL BASE. I HOPE THAT WE CAN FIND A WAY  
TO STAND TOGETHER IN POINTING OUT THE DANGERS OF SUCH A COURSE AND  
THE ADVANTAGES OF DEVELOPING INDIGENOUS EUROPEAN OR OTHER ALTERNATE  
ENERGY RESOURCES.

IT IS NOT JUST SO MUCH THE LEVERAGE FROM THE THREAT OF CUTTING OFF  
GAS SUPPLIES THAT WE MUST BE CONCERNED ABOUT BUT THE POLITICAL-  
ECONOMIC LEVERAGE ARISING FROM A NETWORK OF CONTRACTS AND PURCHASER-  
SELLER RELATIONSHIPS BETWEEN THE SOVIET GOVERNMENT AND WEST  
EUROPEAN FIRMS. THE VERY INTENSITY OF THE POLITICAL CONCERN THAT IS  
NOW NOTICEABLE IN EUROPE CONCERNING THE POTENTIAL LOSS OF RELATIVELY  
SMALL CONTRACTS WITH THE SOVIET UNION NOW AT STAKE IN CONNECTION

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WITH THE PIPELINE SUGGESTS THE POLITICAL LEVERAGE THAT WOULD BE OPENED UP IF THIS PROJECT GOES AHEAD AT ITS FULL POTENTIAL. LET ME ALSO MENTION THAT THE ANTI-US TONE OF MUCH OF THE EUROPEAN DISCUSSION POSES PROBLEMS FOR US HERE AS WE TRY TO MAINTAIN AND STRENGTHEN THE AMERICAN COMMITMENT TO THE ALLIANCE. WE DO NOT MIND CRITICISM, BUT MUCH OF THE TONE ADDS GREATLY TO THE ALREADY FAR TOO LARGE ANTI-NATO AND ANTI-EUROPEAN SENTIMENTS IN THE CONGRESS. FINALLY, LET ME QUESTION THE ARGUMENT THAT EUROPEAN COUNTRIES MUST GO AHEAD WITH THE PIPELINE IN ORDER TO HONOR CONTRACTS WITH THE USSR. IT IS HARD TO ARGUE THAT THESE CONTRACTS CAN BE SEPARATED FROM POLITICAL CONSIDERATIONS IN VIEW OF THE FACT THAT GERMAN AND FRENCH CONTRACTS WERE SIGNED AFTER THE UNITED STATES HAD EXPRESSED SERIOUS RESERVATIONS ABOUT THE PIPELINE AND AFTER EVENTS IN POLAND HAD CAST EVEN MORE DOUBT ON THE SOVIET COMMITMENT TO DETENTE IN CENTRAL EUROPE.

I WOULD APPRECIATE YOUR COMMENTS, AND IF YOU CAN, YOUR PERSONAL EFFORTS TO SPEAK FOR BOTH OF US IN ENSURING THAT THE STRATEGIC AND DEFENSE CONSIDERATIONS OF THE SIBERIAN PIPELINE WILL BE BETTER UNDERSTOOD BY RESPONSIBLE EUROPEAN OFFICIALS AND THE EUROPEAN PUBLIC.

SINCERELY, CAP  
LETTER FOLLOWS BY BAG.  
2. COMMENT FOLLOWS.  
BT

[COPIES SENT TO NO 10 DOWNING STREET]

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PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T.155/82

CAB/WTE001/30

IMMEDIATE 301650Z JUL 82  
FM CABINET OFFICE  
TO WHITE HOUSE

BT

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

TELEGRAM NUMBER MISC 176 DATED 30 JULY 1982.

MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN.

DEAR RON,

THANK YOU FOR YOUR MESSAGE OF 2 JULY.

I NOTE WHAT YOU SAY ABOUT JOHN BROWN ENGINEERING. I HAVE NO DOUBT THAT MY ANXIETIES ON THAT SCORE ARE ONLY TOO WELL FOUNDED. IF DIFFERENT ACCOUNTS HAVE REACHED YOU, THIS COULD BE BECAUSE THE COMPANY MUST NATURALLY BE CAREFUL NOT TO ENCOURAGE DOUBTS IN THE UNITED STATES ABOUT ITS OWN FUTURE STABILITY. I CAN ONLY REITERATE MY VERY SERIOUS CONCERN ABOUT THE OUTLOOK FOR THIS BRITISH COMPANY IF IT IS PREVENTED FROM EXPORTING THE EQUIPMENT WHICH IT IS UNDER CONTRACT TO SUPPLY. IT IS BECAUSE OF THIS THAT WE SHALL HAVE NO OPTION BUT TO FOLLOW THE PROVISIONS OF OUR LEGISLATION TO PROTECT THE INTERESTS OF JOHN BROWN ENGINEERING AND OTHER BRITISH COMPANIES WITH EXISTING CONTRACTS.

YOU WILL KNOW FROM OUR TALKS TOGETHER THAT I BELIEVE, AS A MATTER OF PRINCIPLE, THAT EXISTING COMMERCIAL CONTRACTS SHOULD BE HONOURED. I SHOULD LIKE TO STRESS THAT WE ARE TAKING, AND WILL CONTINUE TO TAKE, NO MORE THAN THE ABSOLUTE MINIMUM ACTION. I AM VERY ANXIOUS THAT THIS MATTER SHOULD NOT BE ALLOWED TO ESCALATE AND THUS BECOME A SERIOUS IRRITANT IN OUR RELATIONS. THIS IS WHY WE ARE LIMITING OUR ACTIONS IN THE WAY THAT WE ARE. I WOULD VERY MUCH HOPE THAT YOUR ADMINISTRATION WILL BE ABLE TO RESPOND IN THE SAME SPIRIT.

ON THE BROADER ISSUES, I DO NOT THINK THERE IS MUCH DIFFERENCE BETWEEN US. I DO AGREE WITH YOU ABOUT THE NEED FOR THE AUTHORITIES IN POLAND TO RETURN TO A COURSE OF RECONCILIATION AND REFORM. FOLLOWING THE DECLARATION BY THE NORTH ATLANTIC COUNCIL ON 11 JANUARY, WE OURSELVES ANNOUNCED MEASURES ON 5 FEBRUARY DIRECTED AGAINST POLAND AND AGAINST THE SOVIET UNION. OF COURSE, WE MUST CONTINUE TO WORK TOGETHER CLOSELY. OUR TASK WILL NOW NEED TO BE TO CONSIDER FURTHER WITH OUR NATO PARTNERS THE RELATIONSHIP BETWEEN THE LATEST RELAXATIONS ANNOUNCED BY GENERAL JARUZELSKI ON 21 JULY AND THE OBJECTIVES WE HAVE SET OURSELVES.

THE QUESTION OF ECONOMIC RELATIONS WITH THE EAST CERTAINLY NEEDS TO BE DISCUSSED FURTHER. FRANCIS PYM HAS JUST HAD MOST USEFUL TALKS ON THE SUBJECT WITH GEORGE BUSH AND GEORGE SHULTZ, WHICH WE LOOK FORWARD TO FOLLOWING UP. THE ALLIANCE, AND THE WEST AS A WHOLE, NEED AN AGREED AND UNITED STRATEGY FOR EAST/WEST ECONOMIC RELATIONS. WE SHALL BE HAPPY, INDEED ANXIOUS, TO WORK WITH YOU TO PROMOTE THIS.

YOURS EVER

MARGARET

NNNN





Foreign and Commonwealth Office

London SW1A 2AH

30 July 1982

Dear John,

fr.  
AM 30/7/82

John Brown Engineering

In your letter of 29 July to John Rhodes, you asked that any proposed revisions to the message from the Prime Minister to President Reagan should reach you by 1800 hours today, so that the message can be despatched over the weekend.

We have only one revision to propose. In the light of the Foreign and Commonwealth Secretary's talks in Washington yesterday, we suggest the following to replace the second sentence in the final paragraph:

'Francis Pym has just had most useful talks on the subject with George Bush and George Shultz, which we look forward to following up.'

I am copying this letter to John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

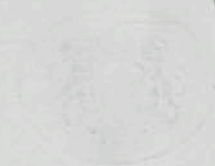
Yours ever.

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street



Federal Bureau of Investigation  
Washington, D.C. 20535



30 JUL 1982

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B/H

B

10 DOWNING STREET

*From the Private Secretary*

29 July 1982

John Brown Engineering

The Prime Minister has seen your Secretary of State's minute of 28 July. She is content with what is proposed and, in particular, agrees that a message should be sent to President Reagan, on the lines of the draft you enclosed, over the coming weekend. We shall need to consult about minor revisions, for example the reference to the meeting between the Foreign and Commonwealth Secretary and Mr. George Schultz. I should be grateful if you and other recipients of this letter could let me know by 1800 hours tomorrow of any revisions which you think necessary.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

A. J. COLES

John Rhodes Esq  
Department of Trade

B



CONFIDENTIAL Prime Minister



PRIME MINISTER

The proposed message to President Reagan was redrafted at my request to avoid the confrontational tone of the earlier draft.

Yes - the point doesn't need to be made with George & Hubert will need revising not.

2. Content that it should issue, as Lord Colfield requests, over the weekend (I will consult you again if any major amendments are proposed)?

A.S.C. 25/7

As I explained in my minute of 21 July we now need to issue Directions under Section 1(3) of the Protection of Trading Interests Act 1980 requiring certain named British companies, principally John Brown Engineering, not to comply with the United States Re-export Control Regulations. The Foreign Secretary and I agree that we should not seek to challenge the American embargo across the board, but should limit our action at this stage to those companies with contracts pre-dating the American measures which seek to interfere with these contracts. The Directions would therefore apply only to goods supplied in relation to the Siberian Gas Pipeline, and to existing contracts, about which President Reagan and his Administration know we already hold strong views. I therefore propose that a Direction be issued to John Brown Engineering Limited, which as you know has most at stake, and to four other companies with Pipeline contracts, not to comply with United States Re-export Control Regulations. The companies are Baker Oil Tools, Howmet Turbine, American Air Filters, and McEvoy Oil Field Equipment.

It is to be expected that when these Directions are issued, other companies which have so far not made representations or which are involved in non-Pipeline projects, will ask that they be protected by the issue of similar Directions. Both the Foreign Secretary and I think we will have to consider these cases on their merits, and further Directions may have to be issued. Much will, of course, depend on the response that the United States Administration takes to our measures. I therefore think it would be appropriate

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and helpful if you could send a personal message to the President explaining why we were acting as we were, and stressing that we were taking and would continue to take no more than the absolute minimum action we needed to take, and therefore that in the same spirit the President should accept that enforcement action should not be taken. I enclose a draft message making these points. This has been drafted by the Foreign Office and myself in consultation.

The outstanding problem is therefore one of timing. The two main factors determining how soon the Directions could be issued are the Foreign Secretary's forthcoming visit to Washington (29 July) and the negotiations John Brown are planning to undertake in Moscow (28/29 July). John Brown will be seeking in Moscow to mitigate, and I hope avoid, penalties from late delivery of turbines caused by the United States measures. They feel that their hand might be weakened in these negotiations if a Direction had just been issued by the British Government. I accept this view. I understand too that Francis would not wish Directions to be issued immediately before or after his first formal meeting with Mr Shultz. If nothing transpires, meanwhile, this points to issuing the Directions on Monday 2 August. It is four weeks since I made the enabling Order under Section 1(1) of the Protection of Trading Interests Act, and it is necessary to show our continuing support for the firms involved as well as to demonstrate that the Act is no paper tiger. We must also show that our determination is no less than that expressed in recent statements by Chancellor Schmidt and the French government.

The firms involved would be told after trading on the Stock Exchange had closed for the day. John Brown may well want to see a short suspension of their shares.

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Our aim must be to present the Directions, both in Europe and in Washington, as the minimum response we could take to the continuing imposition of the United States measures. We will therefore seek to handle the publicity in as low key a way as will be possible for this very significant step. In this context, I think it would be helpful, if you agree, that the personal message to President Reagan should be sent this coming weekend. The final text may need some further up-dating following Francis' Washington visit, and as a result of further discussions today in NATO.

I am copying this to the Foreign and Commonwealth Secretary, the Secretary of State for Industry and to Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

28 July 1982

*Arthur Cockfield*

LORD COCKFIELD

CONFIDENTIAL



Confidential



DRAFT MESSAGE FOR THE PRIME MINISTER TO SEND  
TO PRESIDENT REAGAN

Dear Ron,

Thank you for your message of 2 July.

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well founded. If different accounts have reached you, this could be because the company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply. It is because of this that we shall have no option but to follow the provisions of our legislation to protect the interests of John Brown Engineering and other British companies with existing contracts.





*Dear Hon.*

You will know from our talks together that I believe, as a matter of principle, that existing commercial contracts should be honoured. I should like to stress that we are taking, and will continue to take, no more than the absolute minimum action. I am very anxious that this matter should not be allowed to escalate and thus become a serious irritant in our relations. This is why we are limiting our actions in the way that we are. I would very much hope that your Administration will be able to respond in the same spirit.

On the broader issues, I do not think there is much difference between us. I do agree with you about the need for the authorities in Poland to return to a course of reconciliation and reform. Following the Declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed against Poland and against the Soviet





Union. Of course, we must continue to work together closely. Our task will now need to be to consider further with our NATO partners the relationship between the latest relaxations announced by General Jaruzelski on 21 July and the objectives we have set ourselves.

The question of economic relations with the East certainly needs to be discussed further. *Francis Pym has just had most useful talks on* ~~I hope that this problem will be high on the~~ *the subject will George Bush and George Schultz,* ~~agenda when Francis Pym is able to have his~~ *which we look forward to following up.* ~~first meeting with George Schultz.~~ The Alliance, and the West as a whole, need an agreed and united strategy for East/West economic relations. We shall be happy, indeed anxious, to work with you to promote this.

*Yours ever*

\* \* \* \* \*

*Margaret*





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28 JUL 1982



**CONFIDENTIAL**

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FM WASHINGTON 282228Z JUL 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 2582 OF 28 JULY  
AND TO MODUK (PERSONAL FOR PS/S OF S)

MY TELNO 281445Z TO MODUK PERSONAL FOR S OF S FOR DEFENCE AND TO  
F C O PERSONAL FOR PS/S OF S.

**SIBERIAN PIPELINE: MR WEINBERGER'S LETTER**

1. THIS NEW DEVELOPMENT COULD AFFECT HOW YOU WILL WANT TO HANDLE YOUR TALKS WITH MR SHULTZ. IT IS DISCOURAGING EVIDENCE OF HOW LITTLE THE EUROPEAN ARGUMENTS HAVE BEEN HOISTED IN BY THE PENTAGON.
2. PENTAGON OFFICIALS TELL US THAT WEINBERGER HAS NOT WRITTEN TO OTHER NATO DEFENCE MINISTERS IN THIS SENSE. THE LETTER WAS THE WORK OF IKLE AND PERLE. WEINBERGER HIMSELF MADE NO MENTION OF IT WHEN I SAW HIM LAST NIGHT WHICH SUGGESTS THAT HE DID NOT HIMSELF SEE IT AS A PARTICULARLY NEW DEPARTURE.
3. THE WEINBERGER LETTER TREATS THE ISSUE AS ONE OF WESTERN SECURITY AND POINTS TO THE REAL DANGER THAT THE PUBLIC TRANSATLANTIC ROW COULD WEAKEN THE ALLIANCE. STRIKINGLY, IT BARELY REFERS TO THE POLISH CONDITION ON WHICH PRESIDENT REAGAN INSISTED IN HIS DECISION OF 18 JULY. RATHER IT REVERTS TO THE ARGUMENTS ABOUT EUROPEAN DEPENDENCE ON SOVIET ENERGY AND HARD CURRENCY WHICH WERE PUT BY PRESIDENT REAGAN AT THE OTTAWA SUMMIT LAST YEAR. LAMBSDORFF, IN TODAY'S WASHINGTON POST, EXPLAINS WHY THE EUROPEANS NEVERTHELESS DECIDED TO GO AHEAD AND THIS WILL CATCH A FAIR DEGREE OF SYMPATHY HERE WHERE PRESS COMMENT SO FAR HAS BEEN BROADLY CRITICAL OF THE ADMINISTRATION. THE WEINBERGER LETTER WHICH SETS OUT THE HARD LINE SUCCINCTLY, IS NOT CLASSIFIED AND MAY WELL LEAK BEFORE LONG.
4. YOU AND SCHMIDT, AND EVEN CHEYSSON, HAVE PUBLICLY UNDERLINED THE IMPORTANCE OF KEEPING THIS DISPUTE IN PROPORTION. THAT WOULD BE THE RIGHT SPIRIT IN WHICH TO TAKE UP AND DEAL WITH WEINBERGER'S ARGUMENTS IN A CONSIDERED REPLY. I DOUBT IF THE AMERICANS REALISTICALLY EXPECT EUROPEAN GOVERNMENTS TO GO INTO REVERSE AT SUCH A LATE STAGE, AND AFTER LONG CONSIDERATION OF ALL THE ARGUMENTS. SO THE PROBLEM IS ONE OF DAMAGE LIMITATION: THE LAST THING WE WANT IS FOR THIS - AND OTHER - ECONOMIC ROWS TO SPILL OVER INTO NEXT YEAR'S DISCUSSION IN THE ALLIANCE OF MISSILE DEPLOYMENT AND OTHER TICKLISH MATTERS.

**CONFIDENTIAL**

/5.



# CONFIDENTIAL

5. I AM SURE SHULTZ WILL WANT TO DISCUSS WITH YOU HOW ALL THIS CAN QUIETLY AND EFFECTIVELY BE BROUGHT BACK UNDER CONTROL. I LOOK FORWARD TO TALKING ABOUT THE TACTICS WHEN YOU ARRIVE TOMORROW, INCLUDING WHAT YOU SAY TO THE PRESS ABOUT IT.

HENDERSON

[COPIES SENT TO NO 10 DOWNING STREET]

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Soviet Union

file 110

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10 DOWNING STREET

From the Private Secretary

26 July, 1982

JOHN BROWN ENGINEERING

In his minute of 21 July your Secretary of State explained the Directions which he proposed to issue under Section 1(3) of the Protection of Trading Interests Act 1980. He also suggested that the Prime Minister might send a personal message to President Reagan explaining why we were acting as we were.

In his minute of 23 July the Foreign and Commonwealth Secretary agreed generally with these proposals.

Francis Richards' letter of 23 July enclosed a draft of a message to President Reagan.

Your letter of 23 July describes some amendments which your Secretary of State wished to propose to that message and added that Lord Cockfield had not decided when the best time might be to issue Directions under the Act. You also explained to me orally that John Brown were having further discussions with the Soviet Government.

Since the Prime Minister has already agreed in principle that Directions may be issued under the Act (my letter of 12 July) and since it is still not entirely clear when such Directions will be issued, I have not yet shown the Prime Minister the above papers. It would be most helpful if, when as foreshadowed in your letter of 23 July, you send me further proposals you could couch these in the form of a self-contained piece of paper which will give the Prime Minister a comprehensive account of the situation reached and present an agreed draft of the proposed message.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), Caroline Varley (Department of Industry) and David Wright (Cabinet Office).

A. J. COLES

J N Rees, Esq  
Department of Trade

859





*From the Secretary of State*

CONFIDENTIAL

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

23<sup>rd</sup> July 1982

Dear John,

JOHN BROWN ENGINEERING

1 I have seen a copy of Francis Richards' letter of 23 July to you, enclosing a draft message for the Prime Minister to send to President Reagan. As his letter points out, we have not yet decided when the best time might be to issue a Direction under Section 1(3) of the Protection of Trading Interests Act 1980. We hope to be able to write to you with further proposals early next week. However, it might be helpful to let you have now my Secretary of State's preliminary comments on the draft message attached to Francis Richards' letter.

2 Lord Cockfield has proposed the following amendments:-

First main paragraph, last sentence: "It is because of this that we shall have no option but to follow the provisions of our legislation to protect the interests of John Brown Engineering and other British companies with existing contracts."

Second main paragraph: Delete first sentence, and "But". Delete last sentence and replace by the following passage:-

"I am very anxious that this matter should not be allowed to escalate and thus become a serious irritant in our relations. This is why we are limiting our actions in the way that we are. I would very much hope that your Administration will be able to respond in the same spirit."





*From the Secretary of State*

CONFIDENTIAL

3 There may of course need to be other amendments, in the light of our proposals on timing which, as I say above, we hope to be able to let you have early next week.

4 I am copying this letter to the recipients of Francis Richards'.

*Yours ever,*

*Jonathan Rees*

J N REES  
Private Secretary

CONFIDENTIAL





Foreign and Commonwealth Office

London SW1A 2AH

23 July 1982

*Dear John,*John Brown Engineering

You will remember that I wrote to you on 12<sup>✓</sup> July, enclosing a draft letter for the Prime Minister to send to President Reagan. You later told me that the Prime Minister did not wish to send a message to the President on these lines, and made some helpful suggestions. I now enclose a revised draft, which takes account of these, and of two new factors, namely:

- (a) General Jaruzelski's speech to the Polish Sejm on 21 July, to which he announced some relaxation in the martial law regime; and
- (b) the proposal in Lord Cockfield's minute of 21 July to the Prime Minister that directions should now be issued under Section 1(3) of the Protection of Trading Interests Act requiring certain British companies not to comply with the United States Re-Export Control Regulations - and that the Prime Minister should send a personal message to the President about this. (Mr Pym has written separately about this.)

I understand that it has for practical reasons not yet been possible to fix a date for the Secretary of State for Trade to announce action under (b). Since too long an interval between delivery of the Prime Minister's message to President Reagan and the announcement would inevitably invite determined American efforts to reverse our decision (particularly if Mr Pym's planned visit to Washington on 29 July intervened between the two events) we suggest that no action be taken to deliver the message until this can be sorted out. But it seemed sensible to send you the text before the weekend to give you and other recipients of this letter time to consider it.

The only point on which the Department have not followed your suggestions is the use of the phrase "we must work for more fundamental developments". This might be taken by the President to mean that we agree with his view that far-reaching changes can be brought about in the Soviet system by a concerted campaign of sanctions. We do not altogether share American views on this point, and have therefore omitted the phrase in the latest version.

/Because of



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Because of action pending under the Protection of Trading Interests Act, I am copying this letter to Jonathan Rees (Department of Trade), Caroline Varley (Department of Industry) and David Wright (Cabinet Office).

*Yours ever.*

*Francis Richards*

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street





JUL 1982



Vertical text or markings on the right side of the page, possibly a date or address fragment.



DRAFT: ~~minute/letter/teletype/dep.atch/note~~ MESSAGE

TYPE: Draft/Final 1+

FROM:  
The Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:  
  
President Reagan

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your message of 2 July.

CAVEAT.....

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well founded. If different accounts have reached you, this could be because the Company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply. It is because of this that we shall announce very soon further measures to protect the interests of John Brown Engineering and other British companies with existing contracts.

Enclosures—flag(s).....

I realise that this will come as a disappointment to you. But you will know from our talks together that I believe, as a matter of principle, that existing commercial contracts should be honoured. I should like

/to stress



to stress that we are taking, and will continue to take, no more than the absolute minimum action. In this way, it should be possible to prevent this whole issue from becoming too much of an irritant in our relations.

On the broader issues, I do not think there is much difference between us. I do agree with you about the need for the authorities in Poland to return to a course of reconciliation and reform. Following the Declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed against Poland and against the Soviet Union. Of course we must continue to work together closely. Our immediate task must be to consider carefully with our NATO partners the relationship between the latest relaxations announced by General Jaruzelski on 21 June and the objectives we have set ourselves.

The question of economic relations with the East certainly needs to be discussed further. I hope that this problem will be high on the agenda when Francis Pym is able to have his first meeting with George Shultz. The Alliance, and the West as a whole, need an agreed and united strategy for East/West economic relations. We shall be happy, indeed anxious, to work with you to promote this.



N. S. P. A.

MR 29.  
7PM/82/63PRIME MINISTERAmerican Measures Against the Soviet Union

1. Arthur Cockfield copied to me his minute to you of 21 July, proposing that he issues Directions under Section 1 (3) of the Protection of Trading Interests Act to John Brown and other companies with existing contracts for the Siberian Pipeline which have been affected by President Reagan's measures of 29 December 1980 and 18 June.
2. I agree that Directions should be issued to John Brown and the other companies he names under the conditions he proposes, and that this should be done and announced in the House of Commons as soon as possible. The faster we act the less the risk of leaks, and of subsequent accusations of collusion with the companies concerned.
3. I believe it is right to limit the action we are taking to those companies with existing, legally-binding contracts. Although the PTI Act is designed to counteract all foreign legislation with extra-territorial effect, I see advantage in applying it in this case only to our existing contracts, about which President Reagan and his Administration already know we hold strong views.
4. It would be very helpful if you could give advance warning to President Reagan. This might be embodied in a reply to his message of 2 July: we shall be suggesting some wording later today. We shall also give detailed instructions to our Embassy in Washington about the timing, nature, and scope of our action. I believe we should also ask our Embassies to tell the French, Germans and Italians what we propose.





5. I am copying this minute to the Secretaries of State for Trade and Industry and to Sir Robert Armstrong.

*FP*

(FRANCIS PYM)

Foreign and Commonwealth Office

23 July 1982



CONFIDENTIAL



PRIME MINISTER

N.B.P.R.

ML 29.  
7

We now need to issue Directions under Section 1(3) of the Protection of Trading Interests Act of 1980 requiring certain named British companies, principally John Brown, not to comply with the United States Re-Export Control Regulations. This ought to be done fairly soon because of the risk of leakage of what might be regarded as market sensitive information. Nothing has emerged from yesterday's Foreign Affairs Council which should cause us to change our minds. The Directions would apply to John Brown Engineering Limited plus the following companies, provided we can be assured that the issue of a Direction would be in their interest:-

Baker Oil Tools;  
Howmet Turbine;  
American Air Filters.

The Directions would apply only to goods supplied or to be supplied under existing contacts: and only to goods supplied in relation to the Siberian Gas Pipeline.

It is to be expected that when these Directions are issued, other companies who so far have not made representations or who are involved in other non-Pipeline projects, will ask that they should be protected by the issue of similar Directions. We will have to consider these cases on their merits, and further Directions may have to issue. Directions under Section 1(3) are not statutory instruments and do not have to be laid. Nevertheless the issue of further Directions would complicate matters as our hope throughout has been that the American Administration would either not take

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enforcement action against John Brown, or if they did only nominal fines would be imposed. But the more companies covered by Directions the more difficult it would be for the American authorities not to react adversely. There is the further problem that the more extensive the coverage, the more likely it is that the American Courts - if matters went to the Courts - would take the view that there had been collusion between the United Kingdom Government and the companies concerned.

My objective throughout has been to limit the damage done to Anglo-American relations by the embargo. This is why I have proposed restricting action at this stage in the way I have described - ie to a handful of named companies and in respect of existing contracts only: and not attempted to challenge the American embargo across the board. This is in line with what was said in your Private Secretary's letter of 12 July and the letter of the same date from the Foreign Secretary's Private Secretary.

In the light of this approach I would think it appropriate and helpful if you could see your way to sending a personal message to the President explaining why we were acting as we were; stressing that we were taking, and would continue to take, no more than the absolute minimum action we needed to take; and therefore that in the same spirit the President would accept that enforcement action should not be taken. I hope very much you agree.

I am copying this to the Foreign and Commonwealth Secretary, the Secretary of State for Industry and to Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

21 July 1982

2

*Arthur Cockfield*  
LORD COCKFIELD

CONFIDENTIAL





21 JUL 1962





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B/F ✓  
Soviet Union

10 DOWNING STREET

From the Private Secretary

19 July 1982

John Brown Engineering

Your letter of 12 July enclosed a further draft letter for the Prime Minister to sent to President Reagan. As I told you last week, the Prime Minister does not wish to send a message in these terms. She minuted that we have always been closer than the rest of Europe to the United States on the question of economic relations with the East. Mrs. Thatcher also considers <sup>that</sup> to reject the approach in President Reagan's message of 2 July would do great harm to Anglo/American relations.

B/A

In the light of the Prime Minister's views, one course would be not to continue the correspondence. This seems rather difficult, however, given the fact that President Reagan's latest message incorporates the suggestion that the United States and the United Kingdom should undertake a serious dialogue both on how we can bring pressure to bear on Moscow and Warsaw and also on a common approach to economic relations with the USSR over the longer term. I have discussed this with the Prime Minister and think that she might be prepared to sign a letter on the lines of the enclosed revised draft. But before I put this to Mrs. Thatcher I should be grateful to know whether you are content with it.

jl

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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DRAFT MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

Thank you for your message of 2 July.

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well founded. If different accounts have reached you, this could be because the Company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply.

My own worry relates, as you know, to a matter of principle.- that existing commercial contracts should be honoured. On the broader issues, I do not think there is any difference between us.

I do of course agree with you about the need for the authorities in Poland to return to a course of reconciliation and reform. Following the Declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed both against Poland and against the Soviet Union. I agree that the improvements in Poland since then have been only superficial and that we must work for more fundamental developments.

/ The question



The question of economic relations with the East certainly needs to be discussed further. I hope that this problem will be high on the agenda when Francis Pym is able to have his first meeting with George Schultz. The Alliance, and the West as a whole, need an agreed and united strategy for East/West economic relations. We shall be happy to work with you to promote this.



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COMMERCIAL IN CONFIDENCE

*Soviet Union*

JU470



*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

16 July 1982

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

*A.S.C. 16/7*  
*k.a.*

*Dear John,*

JOHN BROWN ENGINEERING

Thank you very much for sending me copies of the recent correspondence between yourself, the Department of Trade and FCO about the problems caused for John Brown Engineering by US sanctions against the Soviet Union.

2 My Secretary of State has asked to be kept in touch with the discussions over possible action and I should be grateful, therefore, if you and copy recipients could arrange to circulate any future correspondence to this Department.

3 I am copying this letter to Francis Richards (FCO), Jonathan Rees (Trade) and David Wright (Cabinet Office).

*Yours ever*

*Caroline Varley*

CAROLINE VARLEY  
Private Secretary



DEPARTMENT OF INDUSTRY  
ASHDON HOUSE  
121 VICTORIA STREET  
LONDON SW1E 6RH  
TELEPHONE: 01-235 8500  
FACSIMILE: 01-235 8501



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160 JUL 1982

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MR WRIGHT  
MR GILLMORE  
MR GOODISON  
HD/TRED  
HD/UND  
HD/EESD (ALLOCATED)  
HD/DEF D  
HD/PUSD (2)  
HD/WED  
HD/ECD(E)  
HD/PLANNING STAFF  
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RESIDENT CLERK

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DIO CABINET OFFICE

MR FRANKLIN  
MR CAINES  
MR CORLEY  
MR POWNALL

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TO IMMEDIATE FCO

TELEGRAM NUMBER 2427 OF 14 JULY

INFO DOT, PARIS, BONN, ROME

INFO SAVING MOSCOW, TOKYO

U S SANCTIONS AGAINST SIBERIAN PIPELINE:

U S PRESS COMMENT.

1. ARTICLES IN TODAY'S AND YESTERDAY'S U S PRESS (COPIES BY BAG) ARE CRITICAL OF THE PRESIDENT'S SANCTIONS AGAINST THE SOVIET GAS PIPELINE AND CONCENTRATE ON THE DAMAGE THEY WILL DO TO THE ALLIANCE.

2. AN EDITORIAL IN THE BALTIMORE SUN MAKES THE POINT THAT QUOTE NOTHING IS MORE DAMAGING TO A NATION'S INTERESTS THAN A DEMONSTRABLY DOOMED POLICY UNQUOTE. PRESIDENT REAGAN HAD EMBARKED ON QUOTE JUST SUCH A POLICY IN HIS MYOPIC ATTEMPT TO BLOCK THE CONSTRUCTION OF THE SOVIET NATURAL GAS PIPELINE TO WESTERN EUROPE. UNQUOTE. THE WESTERN EUROPEAN COUNTRIES INVOLVED WERE DETERMINED TO PUSH AHEAD WITH THE PROJECT. THE MAJOR CASUALTY WAS THEREFORE LIKELY TO BE AMERICA'S ALREADY STRAINED RELATIONS WITH THE ALLIES.



AMERICA'S ALREADY STRAINED RELATIONS WITH THE ALLIES.

3. A STORY BY JOSEPH HARSCH IN THE CHRISTIAN SCIENCE MONITOR HEADED QUOTE THE ALLIANCE IS WORTH SAVING UNQUOTE INDICATED THAT THE PRESIDENT DID NOT UNDERSTAND UNTIL IT WAS TOO LATE HOW STRONGLY THE WESTERN ALLIES FELT ABOUT HIS EFFORTS TO STOP THE SIBERIAN PIPELINE. MRS THATCHER'S QUOTE OPEN DEFIANCE UNQUOTE OF THE PRESIDENT WAS THE FIRST MAJOR BREACH BETWEEN THE TWO COUNTRIES SINCE MR REAGAN TOOK OFFICE. UNTIL THE PRIME MINISTER'S STATEMENT ON 1 JULY IN THE HOUSE, SHE HAD GIVEN MR REAGAN MORE ENTHUSIASTIC AND PUBLIC SUPPORT THAN ANY OTHER HEAD OF GOVERNMENT IN THE ALLIANCE. THE ARTICLE GOES ON TO SAY THAT MR REAGAN HAS HAD TO LEARN THE HARD WAY THAT THE ALLIES CANNOT BE COERCED, OR EVEN LED, IN A DIRECTION CONTRARY TO WHAT THEY REGARD AS IN THEIR OWN BEST INTERESTS. IT CONCLUDES THAT SANCTIONS WHICH DO NOT HAVE ALLIANCE SUPPORT SIMPLY HELP THE SOVIETS BY WEAKENING THE ALLIANCE.

4. AN ARTICLE HEADED QUOTE U S BUNGLED EUROPE TIES DUE TO PIPELINE POSITION UNQUOTE APPEARS IN THE JOURNAL OF COMMERCE. COMMENTS ARE ATTRIBUTED TO PETER PETERSON (WHO HEADED THE DEPARTMENT OF COMMERCE FROM 1972-73) THAT THE U S HAD NOT BEEN QUOTE INSIGHTFUL ENOUGH TO APPRECIATE WEST GERMANY'S LACK OF INDIGENOUS OIL RESOURCES ... WE SHOULD HAVE ACKNOWLEDGED OUR ALLIES' NEED FOR GAS AND NEED TO DIVERSIFY THEIR FUEL SOURCES. UNQUOTE

5. THE WASHINGTON POST, IN AN ARTICLE DATED MOSCOW, REPORTS THE FORMAL AGREEMENT OF WEST GERMAN BANKS ON 13 JULY TO EXTEND UP TO U S DOLLARS 1.6 BILLION IN CREDITS FOR THE SIBERIAN PIPELINE QUOTE IGNORING U S SANCTIONS AGAINST THE SOVIET UNION UNQUOTE. THE ACCORD WAS CITED AS FURTHER EVIDENCE OF WEST GERMAN DETERMINATION TO PROCEED WITH THE PROJECT.

6. THE WALL STREET JOURNAL REPORTS FORMER NORWEGIAN PRIME MINISTER MRS BRUNDTLAND'S CRITICISM OF MR REAGAN FOR QUOTE IMPLYING SOMETHING IN THE NATURE OF JURISDICTION BY THE U S OVER ENERGY RESERVES OF TWO SOVEREIGN NATIONS - NORWAY AND THE NETHERLANDS UNQUOTE. NORWEGIAN GOVERNMENT OFFICIALS ARE REPORTED TO HAVE EMPHASISED THAT NORWEGIAN GAS RESERVES IN THE NORTH SEA COULD NOT BE DEVELOPED BEFORE THE START OF THE 1990'S AT THE EARLIEST.

FCO PASS SAVING MOSCOW, TOKYO.

HENDERSON



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

To note Foreign Secretary's views. 12 July 1982  
A.J.C. 12/7

Dear John,

John Brown Engineering

Mr Pym has seen Jonathan Rees' letter of 8 July to you. He agrees that the prospects for our obtaining the exemption of John Brown's contracts from the American measures look increasingly bleak, but that we should continue to try.

He has no objection in principle to the issuing of a direction to John Brown under Section 1(3) of the Protection of Trading Interests Act. Such a step would be unprecedented and certain to increase transatlantic tension, but the American measures are in themselves unprecedented. However he believes that we should not decide whether or not to issue the direction until John Brown has decided at their Board meeting on 15 July whether the company wishes to proceed with the shipment later this month of the first six units which include the rotors already in Scotland. There would not seem to be much advantage in issuing the direction if the company decides not to make shipment.

Mr Pym believes that the issuing of directions under Section 1(3) of PTI to other British companies affected by the American measures should be considered by the Ministers most concerned on a case-by-case basis.

I am copying this letter to the Private Secretaries to the Secretary of State for Trade and Sir R Armstrong.

Yours ever,

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street



CONFIDENTIAL

2 PPS ①



*We have always been closer to the United States on this issue than any other country. To refuse this proposal would do great harm to Anglo-American relations.*

Foreign and Commonwealth Office  
London SW1A 2AH

12 July, 1982

Dear John,

Prime Minister

Agree to send this further message to President Reagan?

A.J.C. 12/7

John Brown Engineering

In your letter of 2 July to Jonathan Rees you asked for advice on the latest message from President Reagan.

Mr Pym agrees with the Prime Minister's comment (your letter of 5 July) that the President's letter is very disappointing. He understands that the Americans have written similarly to the Japanese, the Italians and probably others who asked for the decision of 18 June to be reconsidered.

No

The President's letter however contains two points of particular application to Britain: the suggestion that the United States is better informed than the British Government about the situation of John Brown Engineering, and the proposal for bilateral Anglo-American talks on economic relations with the Soviet Union and Poland. The enclosed draft letter, agreed with the Department of Trade, deals with both these points. On the second, Mr Pym assumes that the American purpose is to undermine the unanimity which exists at the moment between America's principal European allies, and this is his reason for suggesting that the idea of private bilateral consultations should not be taken up. But he sees everything to be gained by discussing the problem himself as soon as possible with the new American Secretary of State, who is on record as believing that governments should be cautious in seeking to use trade and economic relations as a political lever against the East. We are in touch with the Embassy in Washington about how and when the Foreign and Commonwealth Secretary could most conveniently meet Mr Shultz.

I am sending copies of this letter and enclosure to Jonathan Rees (Dept of Trade) and David Wright (Cabinet Office).

*Yours ever,*

(F N Richards)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

CONFIDENTIAL



## DRAFT MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

Thank you for your message of 2 July.

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well-founded. If different accounts have reached you, this could be because the company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply.

On the broader questions, I do of course agree with you about the need for the authorities in Poland to return to the course of reconciliation and reform. Following the declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed both against Poland and against the Soviet Union. I agree that the improvements in Poland since then have been only superficial. Where I part company with you is on the question whether the Polish situation is likely to change for the better as a result of the national measures which you announced on 18 June, and whether these measures are wise in themselves. I need not repeat here what I said in my earlier messages and in the House of Commons last week.

The question of economic relations with the East certainly needs to be discussed further, and frameworks for this already exist. I hope that this problem will be high on the agenda when Francis Pym is able to have his first meeting with George Shultz. What the Alliance and the West as a whole need, in both the short and the longer term, is a strategy for East/West economic relations based on an agreed assessment of all the considerations and an agreed analysis of the net costs of particular courses of action to East and West respectively. We are a long way from this at present.

John - This shall be done.  
 Ray! Have a word  
 with me





Secret when file

CC FCO  
CO.

10 DOWNING STREET

*From the Private Secretary*

12 July 1982

John Brown Engineering

Thank you for your letter of 8 July.

Subject to the views of the Foreign and Commonwealth Secretary, the Prime Minister is content that your Secretary of State should issue directions under Section 1(3) of the Protection of Trading Interests Act 1980 to the British companies concerned where he is satisfied that such directions would assist the completion of existing contracts and would be of benefit to the firms concerned.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

A. J. COLES

Jonathan Rees, Esq.,  
Department of Trade.

#





①

Prime Minister

Contact that Trade Secretary should issue direction to British companies concerned where he is satisfied that this will help the companies?

From the Secretary of State

J Coles Esq  
10 Downing Street  
London SW1A

28 July 1982

A.P.C. 7/7

Dear John,

Yes no

JOHN BROWN ENGINEERING

My Secretary of State has seen your letter to me of 2 July on this subject and the accompanying text of President Reagan's message to the Prime Minister. The President does not seem to be greatly worried that, by interfering with existing contracts, his Administration is imposing a high cost on our firms - probably higher than on the Russians who can claim damages under these contracts.

Lord Cockfield's conclusion is that continuing efforts to resolve this matter privately by agreement do not now have much chance of success, but, since this is the preferred outcome, we should keep on trying. At the same time we must be prepared, if necessary, to take more overt action, including further use of the Protection of Trading Interests Act 1980. Subject to the views of the Prime Minister and the Foreign and Commonwealth Secretary, he has in mind to issue directions under Section 1(3) of this Act to British companies requiring them not to comply with the United States Re-export Control Regulations referred to in the Order already made under Section 1(1) of the Act. Such directions would only be issued in cases where my Secretary of State was satisfied that they would materially assist the completion of existing contracts and would be of benefit to the firms concerned.

I note that you have asked FCO for advice on the President's proposals for a dialogue and on longer term relations with the Soviet Union. DOT will be in touch with the FCO about the economic and trade aspects of this; our approach to these and related issues is bound to be one of concern to protect the legitimate trading interests of British firms and to avoid a repetition of the damage they are currently suffering at American hands.

I am copying this to Francis Richards (FCO) and David Wright (Cabinet Office).

Yours ever,

Jonathan Rees

JONATHAN REES  
Private Secretary





TRADE MARK SECTION

RECEIVED  
MAY 19 1954

MAY 19 1954





cc: Trade ✓  
 Industry ✓  
 HO ✓  
 LCO ✓  
 HMT ✓  
 LPO ✓  
 MOD ✓  
 LPS ✓  
 CDL ✓ CO ✓  
 5 July 1982

10 DOWNING STREET

*From the Private Secretary*

UK/SOVIET JOINT COMMISSION

The Prime Minister has seen Nicholas McInnes' letter of 18 June and John Macgregor's letter of 28 June and has noted that departments are agreed that we should propose to the Russians that the next session of the Anglo/Soviet Joint Commission should be held in late September, with the Minister of Trade leading the British delegation.

I am copying this letter to Nicholas McInnes (Department of Trade), Jonathan Spencer (Department of Industry), the Private Secretaries to the other members of OD and David Wright (Cabinet Office).

A. J. COLES

Francis Richards, Esq.,  
 Foreign and Commonwealth Office

CONFIDENTIAL

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CC itradp

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

5 July 1982

JOHN BROWN ENGINEERING

I sent you a copy of my letter of 2 July to Jonathan Rees enclosing a copy of President Reagan's reply to the Prime Minister's letter of 25 June about the problems caused for John Brown Engineering by US sanctions against the Soviet Union.

Pending the advice which you will be providing on President Reagan's latest letter, you may care to know that the Prime Minister has minuted that it is "very disappointing".

Francis Richards, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL

B



CONFIDENTIAL

RM



FILE

Sullivan

10 DOWNING STREET

From the Private Secretary

2 July, 1982

BF

JOHN BROWN ENGINEERING

Following your letter of 25 June the Prime Minister sent a message to President Reagan about the problems created for John Brown by American sanctions against the Soviet Union.

I now enclose a copy of a reply which the Prime Minister has just received from President Reagan. The reply goes wider than the immediate issues and suggests that we and the Americans should undertake as soon as possible a serious dialogue on how pressure might be brought to bear on Moscow and Warsaw and also that we should work out a common approach to economic relations with the Soviet Union over the longer term. It will be for the Foreign and Commonwealth Office to lead on our response to this latest proposal and I should be grateful if Francis Richards could let me have further advice as soon as possible.

I am copying this letter and enclosure to Francis Richards (FCO) and to David Wright (Cabinet Office).

A. J. COLES

J Rees, Esq  
Department of Trade

CONFIDENTIAL

A



SUBJECT

PRIME MINISTER'S

PERSONAL MESSAGE

Prime Minister

SERIAL No. T142/82

To note. I am making advice.

VZCZCWAG034  
TOO WTE24  
DE WTE 4346 1830417  
O 020355Z JUL 82  
FM THE WHITE HOUSE  
TO CABINET OFFICE LONDON  
ZEM

re: A.F.C. 2/7  
Gr

C O N F I D E N T I A L VIA CABINET OFFICE CHANNELS WH04346

DEAR MARGRET:

THANK YOU FOR YOUR LETTER OF JUNE 25. AGAIN, OUR INFORMATION CONCERNING THE CONSEQUENCES FOR JOHN BROWN ENGINEERING DIFFERS FROM YOURS. ALL INFORMATION AVAILABLE HAS AND WILL CONTINUE TO BE PASSED TO YOUR OFFICE.

I DO NOT WANT YOU TO THINK, IN ANY CASE, THAT WE TOOK THE DECISION WITHOUT RECOGNIZING THAT IT WOULD BE PAINFUL. BUT I WANT YOU TO UNDERSTAND THAT IT IS MY CONVICTION THAT WHAT IS HAPPENING IN POLAND IS NOT ONLY A HUMAN TRAGEDY BUT AN HISTORIC TEST OF OUR WILL AND OUR ABILITY TO MAKE THE SOVIETS PAY A HIGH COST -- IF POSSIBLE A PROHIBITIVE COST -- FOR THEIR SUBJUGATION OF HALF OF EUROPE. WE IN THE WEST FACE NO MORE COMPELLING PROBLEM.

I KNOW, MARGARET, THAT YOU FEEL AS STRONGLY AS I THAT THE SOVIET AND POLISH AUTHORITIES MUST BE BROUGHT TO REALIZE THAT THE REFORM PROCESS IN POLAND MUST BE RENEWED. YOU HAVE, YOURSELF, SPOKEN ELOQUENTLY OF THE TRAGEDY THAT HAS BEFALLEN THE POLISH PEOPLE= I HAVE WATCHED WITH ADMIRATION AND RESPECT AS YOU STOOD FIRM IN SUPPORT OF THAT STRICKEN NATION. SURELY, GIVEN OUR COMMON VIEW, YOU AND I CAN -- INDEED, WE MUST -- CONTINUE TO WORK TOGETHER TO BRING THE SOVIET AND POLISH AUTHORITIES TO THEIR SENSES. I WOULD SUGGEST, THEREFORE, THAT OUR TWO COUNTRIES SHOULD UNDERTAKE, AS SOON AS POSSIBLE, A SERIOUS DIALOGUE ON HOW WE MIGHT, TOGETHER, BRING PRESSURE TO BEAR ON MOSCOW AND WARSAW, WHILE ALSO WORKING OUT AN ENDURING COMMON APPROACH TO ECONOMIC RELATIONS WITH THE USSR OVER THE LONGER TERM. I STAND READY TO LIFT OUR SANCTIONS WHEN PROGRESS IN RETURNING POLAND TO GREATER FREEDOM IS UNDERWAY.

WITH WARM REGARDS,

SINCERELY,

RON

0320  
4346

NNNNV



T/42/82

*Very disappointing*

Prime Minister

To note. I am seeking advice.

A.F.C.  $\frac{2}{7}$

VZCZCWAG034  
TOO WTE24  
DE WTE 4346 1830417  
O 020355Z JUL 82  
FM THE WHITE HOUSE  
TO CABINET OFFICE LONDON  
ZEM

C O N F I D E N T I A L VIA CABINET OFFICE CHANNELS WH04346

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WITH WARM REGARDS,

SINCERELY,

RON

0320  
4346

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file

Soviet Union DSG

## 10 DOWNING STREET

From the Private Secretary

28 June 1982

Dear John,

WEST SIBERIAN PIPELINE: JOHN BROWN ENGINEERING

The Prime Minister has seen your Secretary of State's minutes of 23 and 24 June and Mr. Hurd's minute of 24 June on the above subject.

She agrees with the course of action suggested in paragraph 4 of Lord Cockfield's minute of 23 June, as amended by Mr. Hurd's minute of the same date. The Prime Minister was, however, inclined to doubt whether it was necessary to await the results of the meeting of senior officials before a firm decision was taken on representations to the United States Administration. I understand that the officials concerned will be meeting in the margins of the European Council on 28/29 June. I think the sense of the Prime Minister's comment is that she would not wish representations to the United States Government to be delayed beyond the early part of this week.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), John Kerr (HM Treasury), David Omand (Ministry of Defence), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

Yours ever

John Gales.

John Rhodes, Esq.,  
Department of Trade.

BCK



CONFIDENTIAL

ATC

2



Foreign and Commonwealth Office

London SW1A 2AH

28 June 1982

Prime Minister

To note x.

*[Handwritten initials]*

A.J.C. 29. 6

cc: A J Coles Esq, No 10 ✓  
J Spencer Esq, DOI  
D Wright Esq, Cabinet Office  
PSS to other OD members

UK/SOVIET JOINT COMMISSION

Thank you for your letter of 18 June to Charles Humfrey (who has been replaced by Stephen Lamport).

FCO Ministers agree that we should propose to the Russians that the next session of the Anglo/Soviet Joint Commission should be held in late September, with your Minister leading the British delegation. This would be consistent with our overall policy towards the Soviet Union.

We should be in good company. Some of our partners (Belgium/Luxembourg, Denmark, the Netherlands) have already gone ahead with their Mixed Commissions with the Soviet Union. The Germans have held their preparatory meeting and expect to hold the Commission itself in mid-October. The French have also held their 'Petite Commission', and will have the 'Grande Commission' in late 1982. Both the French and German events are held at more senior Ministerial levels than our own. There have been US/Soviet exchanges at the Haig/Gromyko level and there is the possibility of a summit meeting later this year. However, as you say, we should obviously have to reconsider the position if political circumstances were to change.

Our officials should remain in touch on the instructions to be sent to HM Embassy in Moscow. On presentation, we agree that the meeting should be prepared without publicity and should be treated as a routine event within the established Anglo/Soviet inter-governmental framework.

I am copying this letter to the recipients of yours.

J M Macgregor  
Private Secretary to  
Malcolm Rifkind MP

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

CONFIDENTIAL



Top Copy on  
UN: UNSSOP:  
Feb 1982

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CAB/WTE 001/25

ZZ WTE

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T138/82**

FLASH

S E C R E T

Z 251845Z JUN 82

FM NO. 10 DOWNING STREET  
TO WHITE HOUSE

MESSAGE TO THE PRESIDENT OF THE UNITED STATES.

DEAR RON,

WHEN WE DISCUSSED ON 23 JUNE THE EFFECT ON JOHN BROWN ENGINEERING (JBE) OF AMERICAN SANCTIONS AGAINST THE SOVIET UNION, YOU TOLD ME THAT REPRESENTATIVES OF THE COMPANY HAD INDICATED RECENTLY TO YOUR OFFICIALS IN WASHINGTON THAT THE DECISION TO EXTEND THE SANCTIONS WOULD NOT CAUSE THEM GREAT FINANCIAL DISTRESS. I SAID THAT I WOULD ENQUIRE INTO THE MATTER AND ADVISE YOU FURTHER.

JBE'S VIEWS HAVE BEEN MISUNDERSTOOD IN WASHINGTON. THE COMPANY'S REPRESENTATIVES HAVE REPEATEDLY MADE CLEAR TO US OFFICIALS THEIR DEEP CONCERN ABOUT THE FAR REACHING RESULTS OF THE COMPANY BEING FORCED BY RETROSPECTIVE LEGISLATION TO ABANDON A CONTRACT WHICH THEY ENTERED INTO IN GOOD FAITH AT A TIME WHEN THE GOODS CONCERNED WERE NOT EMBARGOED. LAST WEEK THEY CONFIRMED TO US OFFICIALS THAT FAILURE TO SHIP THE TURBINES WOULD HAVE VERY DAMAGING CONSEQUENCES. THE PRECISE EXTENT OF THE DAMAGE CAUSED CANNOT BE ASSESSED AT PRESENT. AT WORST UNINSURED COSTS AND DAMAGES COULD BE AS MUCH AS POUNDS STERLING 100 MILLION. JBE COULD WELL BE FORCED OUT OF BUSINESS AND THIS WOULD LEAD TO 1700 JOB LOSSES IN THE COMPANY IN AREAS OF HIGH UNEMPLOYMENT IN SCOTLAND; THERE WOULD ALSO BE EFFECTS UPON COMPONENT SUPPLIERS. THE STABILITY OF THE GROUP AS A WHOLE MIGHT BE THREATENED. THE CHAIRMAN OF JOHN BROWN HAS CONFIRMED THESE FACTS TO THE SECRETARY OF STATE FOR TRADE SINCE OUR MEETING IN WASHINGTON.

WE SEE THE FURTHER MEASURES WHICH YOU ANNOUNCED ON 18 JUNE AS WRONG IN PRINCIPLE BECAUSE OF THEIR EXTRA-TERRITORIAL APPLICATION DIRECTLY TO BRITISH COMPANIES. THEY WILL IF PROCEEDED WITH CAUSE SERIOUS ECONOMIC DAMAGE IN THE UK QUITE APART FROM ADDING TO JBE'S PROBLEMS. WE ARE ALREADY RECEIVING REPORTS OF BRITISH COMPANIES FACED WITH LOSSES OR THE THREAT OF CLOSURE AS A RESULT OF THESE MEASURES. YOUR PEOPLE WILL TELL YOU THAT WE HAVE STRONGLY OPPOSED THE EXERCISE OF EXTRA-TERRITORIAL POWERS IN THE PAST, AND ARE THEREFORE BOUND TO REACT TO ITS NEW EXTENSION.

AS YOU KNOW, THE VIEWS AND POLICIES OF OUR TWO GOVERNMENTS ON RELATIONS WITH THE COMMUNIST COUNTRIES ARE IN VERY CLOSE HARMONY. IT WOULD BE UNHAPPY IF, IN PUBLIC EYES, THIS HARMONY WERE TO BE OVERSHADOWED BY THE VERY SEVERE CONSEQUENCES OF YOUR MEASURES FOR BRITISH COMPANIES. I THEREFORE HOPE THAT YOU WILL BE WILLING TO RECONSIDER THESE MEASURES IN THE WIDER POLITICAL, AS WELL AS THE SPECIFICALLY ECONOMIC, CONTEXT.

JBE'S PROBLEM IS NOW BOTH VERY SERIOUS AND URGENT. I WOULD GREATLY VALUE YOUR HELP IN SOLVING THIS PROBLEM BY 2 JULY WHEN THE FIRST SHIPMENTS ARE DUE.

MY BEST WISHES,  
MARGARET.

BT

NNNN

SENT-251908Z JH

RG RG QSL UR MSG AT 1908Z AND PLS IF U HAVE TRF AGAIN  
TO GIVE US SOME BELLS ONT TTY  
ATTN KKK



E.R.  
TEXT OF MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER  
RE JOHN BROWN ENGINEERING

---

When we discussed on 23 June the effect on John Brown Engineering (JBE) of American sanctions against the Soviet Union, you told me that representatives of the company had indicated recently to your officials in Washington that the decision to extend the sanctions would not cause them great financial distress. I said that I would enquire into the matter and advise you further.

JBE's views have been misunderstood in Washington. The company's representatives have repeatedly made clear to US officials their deep concern about the far-reaching results of the company being forced by retrospective legislation to abandon a contract which they entered into in good faith and at a time when the goods concerned were not embargoed. Last week they confirmed to US officials that failure to ship the turbines would have very damaging consequences. The precise extent of the damage caused cannot be assessed at present. At worst unensured costs and damages could be as much as £100 million. JBE could well be forced out of business and this would lead to 1700 job losses in the company in areas of high unemployment in Scotland: there would also be effects upon component suppliers. The stability of the group as a whole might be threatened. The Chairman of John Brown has confirmed these facts to the Secretary of State for Trade since our meeting in Washington.

We see the further measures which you announced on 18 June as wrong in principle because of their extra territorial application directly to British companies. They will if



proceeded with cause serious economic damage in the UK quite apart from adding to JBE's problems. We are already receiving reports of British companies faced with losses or the threat of closure as a result of these measures. Your people will tell you that we have strongly opposed the exercise of extra territorial power in the past, and are therefore bound to react to its new extention.

As you know, the views and policies of our two Governments on relations with the Communist countries are in very close harmony. It would be unhappy if, in public eyes, this harmony were to be overshadowed by the very severe consequences of your measures for British companies. I therefore hope that you will be willing to reconsider these measures in the wider political, as well as the specifically economic, context.

JBE's problem is now both very serious and urgent. I would greatly value your help in solving this problem by 2 July when the first shipments are due.

My best wishes,





SECRET

*From the Secretary of State*

2  
Top Copy a  
UN: UNSSOD;  
Feb 1982

John Coles Esq  
10 Downing Street  
London SW1

25th June 1982

Dear John,

As requested in your letter of 24 June to Brian Fall, I attach a draft message for the Prime Minister to send to President Reagan. This has been cleared at official level with the FCO. The passage on JBE has been cleared with Sir John Mayhew Sanders.

We are now receiving reports from a number of British subsidiaries of US companies about the effects of the new measures announced on 18 June. It is too early to assess the full effect but by way of example the Walter Kidde Co, employing 700 people in Northolt has reported that a major part of its current order book is tied up with the Siberian Gas Pipeline and that it may go out of business if the new measures are not withdrawn.

I am copying this to the recipients of yours, Brian Fall and Jonathan Spencer (Industry).

Yours ever,

JONATHAN REES

Private Secretary



SECRET

DRAFT

Addressed to :

~~The Hon Ronald Reagan~~

File No.

Copies to :

Originated by:  
(Initials and date)

PMSC 25/6/82

Seen by :  
(Initials and date)

Enclosures :

Type for signature of

PM  
.....  
(Initials and date)

DEPARTMENT OF TRADE

Dear Ron

When we discussed on 23 June the effect on John Brown Engineering (JBE) of American sanctions against the Soviet Union, you told me that representatives of the company had indicated recently to your officials in Washington that the decision to extend the sanctions would not cause them great financial distress. I said that I would enquire into the matter and advise you further.

JBE's views have been misunderstood in Washington. The company's representatives have repeatedly made clear to US officials their deep concern about the far reaching results of the company being forced by retrospective legislation to abandon a contract which they entered into in good faith at a time when the goods concerned were not embargoed. Last week they confirmed to US officials that failure to ship the turbines would have very damaging consequences. The precise extent of the damage caused cannot be assessed at present. At worst uninsured costs and damages could be as much as £100m. JBE could well be forced out of business and this would lead to 1700 job



(CONTINUE TYPING HERE)

File No.

losses in the company in areas of high unemployment in Scotland; there would also be effects upon component suppliers. The stability of the group as a whole might be threatened. The Chairman of John Brown has confirmed *these facts* the foregoing to the Secretary of State for Trade since our meeting in Washington.

*W. L. M.*  
 3 The further measures which you announced on 18 June are ~~objectionable~~ *wrong* in principle ~~to us~~ because of their extra-territorial application directly to British companies. They will if proceeded with cause serious economic damage in the UK quite apart from adding to JBE's problems. We are already receiving reports of British companies faced with losses or the threat of closure as a result of these measures. Your people will tell you that we have strongly opposed the exercise of extra-territorial powers in the past, and are therefore bound to react to its new extension.

4 As you know, the views and policies of our two governments on relations with the Communist countries are in very close harmony. ~~We have given you a great deal of support in your efforts to promote a greater degree of prudence in the management of East/West economic relations.~~ It would be ~~unfortunate~~ *unhappy* if, in public eyes, this harmony were to be overshadowed by the ~~consequences~~ *very serious* of your measures for British companies. I therefore hope that you will be willing to reconsider these measures in the wider political, as well as the specifically economic, context.

5 JBE's problem is now both very serious and urgent. I would greatly value your help in solving this problem by 2 July when the first shipments are due.

*with my best wishes*

*Margaret.*



SECRET file

SUBJECT



10 DOWNING STREET

1 ROL  
UN: UNSSOD:  
Feb 1982

From the Private Secretary

24 June 1982

Dear Sir,

PRIME MINISTER'S TALKS WITH PRESIDENT REAGAN

I enclose the record of the conversation which took place at the White House on 23 June.

There is one point which requires rapid action. The Prime Minister told President Reagan that she would make enquiries as to the precise facts about John Brown's attitude to the recent American decision to extend the embargo on the export of certain goods to the Soviet Union, since the Americans seemed to have obtained from the firm the impression that they were not particularly concerned about it. The Prime Minister would be grateful if the Secretary of State for Trade could take this matter up urgently with John Brown and let her have an account of the situation which can then be conveyed to the US Government. It would be most helpful if contact with the firm could be made this week.

I am copying this letter and enclosure to John Rhodes (Department of Trade), David Omand (Ministry of Defence), John Halliday (Home Office) and David Wright (Cabinet Office).

I should be grateful if circulation of the record could be closely restricted to those who have an operational need to know its contents.

Yours ever  
John Halliday

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND  
PRESIDENT REAGAN AT THE WHITE HOUSE AT 1700 HOURS ON WEDNESDAY,  
23 JUNE 1982

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Present:

Prime Minister	President Reagan
Sir Nicholas Henderson	Vice-President Bush
Mr Whitmore	Mr Haig
Mr Gillmore	Judge Clark
Mr Coles	Mr Rentschler

\*\*\*\*\*

The Prime Minister opened the conversation by expressing warm gratitude for the successful operation recently conducted by the FBI against arms smuggling by the Provisional IRA in the United States.

President Reagan said that he wished to raise the question of the sanctions applied by the United States to the Soviet Union in connection with Poland. His recent decision that these sanctions should be extended was based on a point of principle. When they had originally been imposed, it had been made clear that they would be kept in being until there had been some internal liberalisation in Poland, either in respect of the position of Mr. Lech Walesa or the release of detainees or the restoration of a dialogue with Solidarity. He knew that his decision to extend the sanctions affected John Brown but representatives of the Company had indicated recently in Washington that it would not cause them great financial distress. He had hoped that following his discussions on this problem in Europe

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/President Mitterrand



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-2-

President Mitterrand or Chancellor Schmidt would have indicated to the Russians that if they worked actively to influence the Polish situation the sanctions might be lifted. Private representations to the Russians could be effective. During his recent meeting with Mr. Gromyko, Mr. Haig had raised certain internal questions. For example, he had raised the case of a young man on hunger strike in the Soviet Union who had relatives in the United States. Within 48 hours the Soviet media had indicated that the release of this young man was likely.

The Prime Minister said that we had wanted existing contracts to be exempted from the American sanctions. The latest decision would cause us serious problems in an area which already had heavy unemployment. It would be said that the damage caused to Britain by the American decision was proportionally much greater than that caused to the United States whose main exports to the Soviet Union were of grain rather than of manufactured goods.

President Reagan said that when Mr. Carter had originally imposed the grain embargo, in connection with Afghanistan, American farmers had complained that they alone were being asked to bear a burden. Consequently, he had promised in his presidential campaign that he would remove this discrimination. The existing grain agreement was now coming to an end. The Russians were pressing for the conclusion of a new agreement but the United States had so far declined to open discussions. The Prime Minister said that she presumed there would be a new grain agreement. President Reagan said that he hoped that the Russians would take some step that would make this possible. The Prime Minister enquired whether she could, therefore, say publicly that there would not be a new agreement. President Reagan replied that none had yet been negotiated.

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(Mr. Haig



- 3 -  
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Mr Haig said that even if there were no agreement, grain would continue to be sold on the market. The Prime Minister commented that in that case American farmers would not suffer. But John Brown's employees would. The company was ready to commence implementation of this contract with the Soviet Union and only needed American rotors to be able to do so. If they were prevented from going ahead, they would be disinclined to buy sophisticated equipment from the United States again. She would be pressed on this matter on her return. She could say that the latest decision was seen by the Americans as being based on principle but the fact was that US grain would continue to be sold while John Brown could not purchase the necessary rotors from elsewhere. President Reagan said that the Americans were prepared to be painted as the villains. But if the Russians brought about change in Poland, then the decision on sanctions could be changed.

The Prime Minister asked again whether she could state that the Wheat Agreement would not be renewed. Judge Clark stated that this question had not be discussed, much less decided. Mr Haig added that so far some \$850 m worth of United States exports of manufactured goods had been affected by the sanctions. The President's latest decision would bring the figure to about \$1 billion. The Prime Minister pointed out that the John Brown contract was worth £400 m. Sir Nicholas Henderson observed that British exports to the Soviet Union were on a downward trend while American exports were rising.

President Reagan repeated that John Brown had not expressed great concern to the US Government about the latest decision.

Sir Nicholas Henderson suggested that there must have been some

SECRET/misunderstanding because



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misunderstanding because their statements to us had been quite different. President Reagan suggested that John Brown could obtain the equipment they needed from the French subsidiary of the American company concerned. Judge Clark commented that legal proceedings had now begun. This would lead to delay and the hope must be that there would be change in Poland during that time. The Americans believed that the Russians had not taken seriously the original decision on sanctions. It was hoped that the latest decision would induce a change of mind.

The Prime Minister said that she would arrange for a further discussion with John Brown because our clear understanding was that they were seriously worried about the situation. Meanwhile, there seemed little doubt that the US would continue to export wheat to the Soviet Union by one means or another and thus total American exports to the Soviet Union would continue to rise. European firms would be reluctant to order sophisticated equipment from the United States in future and would go elsewhere. Existing contracts should have been exempted. The effect of the United States decisions was to prevent the fulfilment of normal commercial engagements. America's word was at stake. President Reagan said that it had been made clear at the time of the original decision what the consequences would be. Judge Clark said that John Brown had originally claimed that 1700 jobs would be at risk but the figures seemed to have changed recently. The Prime Minister said that she intended to enquire into the precise facts. But there would be much resentment in Britain if America's exports to Russia continued to rise while ours went down.

The Prime Minister said that we were also concerned



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- 5 -

about the recent United States decision in respect of steel imports from European countries. This was a matter for the European Community but if the Community did not take it up through the courts, we should probably do so. She believed that the British Steel Corporation would contest the decision. It would cost us £50 m in exports of specialised steel and job losses which, as with those in the case of John Brown, would be sustained in Scotland. Sir Nicholas Henderson emphasised that the matter was a very serious one. We had reduced our steel exports to the United States by an enormous percentage. But British Steel was now likely to be badly hurt by the American decision.

The Prime Minister then described the latest situation in the South Atlantic. We had returned around 10 thousand prisoners of war to Argentina. Many of the prisoners we had taken had been in very bad condition. The Argentine Armed Forces appeared to keep their officers in luxury but to have little regard for their other ranks. Some officers had had to be allowed to keep their small arms because they were afraid their own troops might attack them. Some of the soldiers had been in an appalling state, suffering from trench foot, dysentery and parasites. The medical treatment given by the Argentines to their wounded had been well below an acceptable standard.

Sometime ago we had sent a message to President Galtieri through the Swiss Government that we would send back the prisoners, lift sanctions and remove the exclusion zones if we received an assurance that hostilities had been permanently ended. We had received no direct reply.

/ The Argentine

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The Argentine note to the United Nations had been very equivocal. Intelligence reports suggested that while many units were reverting to normal states of alert, the air force at Rio Grande was still on a high level of security. We did not know why. The first group of prisoners which had been repatriated had apparently been taken to camps and not allowed to go home.

President Reagan asked whether we could confirm that some conscripts had been shot in their feet. The Prime Minister said that she had read this story but could not confirm it. We were retaining some 600 officers, pilots and engineers until a permanent cessation of hostilities had been achieved. They would shortly be put on a boat to Ascension, and, in the absence of a satisfactory Argentine statement, might be flown from there to Britain. Then, if the elapse of time revealed that hostilities were not being resumed we might send them back. Another serious problem had been caused by the indiscriminate sowing of plastic mines, whose position was not, as the rules of war required, marked. Four of our personnel involved in mine removal had already been wounded. This was very demoralising. Mr. Haig said that the United States had a good deal of specialised equipment available which he thought could be flown into Port Stanley. President Reagan asked that this should be investigated. The Prime Minister said that this would be most helpful. Meanwhile, we were removing about 3,000 of our troops from the Falklands. But our ships were still vulnerable. We were worried that some wild action might be contemplated by the Argentinians.

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Time was now needed for reconstruction and rehabilitation. Mr. Hunt was returning as Civil Commissioner shortly and teachers and doctors would be going back. At a later stage, we would discuss the future with the Islanders. We would probably bring them closer to self-government, perhaps resembling the situation in American possession such as Guam.

The President suggested that the United Kingdom needed a peaceful settlement which relieved us of the burden of defending the Islands for a lengthy period. The Prime Minister said that we should be obliged to defend the Islands. The runway would have to be extended, Rapiet batteries established and further aircraft deployed. President Reagan asked whether, with the new Government in Argentina, there might be a better prospect of a genuine peace. The Prime Minister replied that this might be possible. But we should have to proceed slowly. The attitude of other Latin American countries had been by no means uniform. A recent leader in a prominent Brazilian newspaper had praised the British action. After her speech in the United Nations General Assembly earlier in the day, the representatives of Colombia, Chile and one other Latin American country had offered their congratulations. We would do everything possible to restore normal relations with other countries of Latin America, and believed that they would respond positively.

The Prime Minister said that events in the Lebanon had produced a mood in Arab countries the like of which she had never seen before.

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They found Israel's actions in the Lebanon utterly disproportionate. President Reagan said he was aware of this. The Arab countries accused the United States of collusion with Israel. The Prime Minister commented that Prince Saud had agreed with her when she had told him recently that she did not believe the stories of United States/Israeli collusion.

President Reagan said that he had sent Mr. Habib to the area to try to secure a ceasefire. He had been very blunt with Mr. Begin during the latter's recent visit to Washington. But he believed that the accounts of the slaughter of civilians had been much exaggerated. The present situation could offer a great opportunity for a Lebanon which had been torn apart for seven years. The Lebanese themselves saw a great need to disarm the PLO. The seven separate Lebanese factions had come together and were discussing the formation of a central authority and a single army. Mr. Habib was trying to promote a settlement. The Israelis wanted a new Lebanese Government to be established, a multi-lateral force to be constituted and all foreign troops to be withdrawn from the country. The Prime Minister asked where the Palestinians were to go. President Reagan said that it was necessary to distinguish between the PLO and the Palestinians. Many of the latter were content to remain in the Lebanon. Mr. Begin had told him that the Israelis had discovered in the Lebanon arms supplies of a far greater quantity than could ever be used by the PLO. Indeed, it looked as though the Soviet Union had been establishing its own arms depots in the Middle East. The removal of these weapons would be a major undertaking for the Israelis. The Prime Minister asked what kinds of weapons had been discovered. Mr. Haig referred rather vaguely to sophisticated



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rocketry and large quantities of ammunition for conventional Soviet weapons.

The Prime Minister said that she found the Soviet attitude to the Lebanese situation rather puzzling. She assumed that they would be concerned about the reputation of the Soviet equipment in Syrian hands which had fared so badly. President Reagan agreed that the Russians had been unpleasantly surprised by the success of the American equipment supplied to Israel. Soviet tanks and planes had been no match for their American counterparts.

Mr. Haig said that the situation was now critical. Mr. Habib had just met the Salvation Council and had presented to them firm propositions. He thought that Sharon would not refrain from entering Beirut unless the PLO made firm commitments to disarm, to leave Beirut and to shed some of their leaders.

Mr. Habib was now waiting for answers from Yasser Arafat.

The Prime Minister asked what would happen to Major Haddad.

Mr. Haig replied that his forces would have to be honourably absorbed. Major Haddad would be retired comfortably to another country. So far, Mr. Begin had not objected to these propositions.

The Prime Minister said that the task of constructing a Government in the Lebanon would be very difficult. The PLO would be forced back to terrorism. And the question would remain - where would the Palestinians go? We felt a special obligation. It was we who had walked out of Palestine. The Israelis were Finlandising Lebanon. The Arabs believed that Jordan would be the next to suffer. When the latest situation had developed she had feared that a third world

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recession would be brought about by Arab action on oil. But so far this had not happened. Mr. Haig commented that this was because most Arabs wanted the Lebanese situation to be straightened out. The Prime Minister observed that the Arabs made the valid criticism that the Middle East went from crisis to crisis but the underlying problem was never dealt with. President Reagan said that he had told Mr. Begin that in return for American patience with Israel he wanted real commitments to deal with the Palestinian problem. Mr. Begin had faced strong criticism on the Hill and had left Washington in a more sober frame of mind. The Prime Minister said that she understood Congressional criticism of Israel. Israel's friends felt let down. The Israelis were inflicting massive suffering and were refusing to let international relief agencies help. President Reagan commented that there had been a great change in American attitudes to Israel.

The conversation ended at 1800 hours.

A.J.C.

23 June 1982

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①

Prime Minister

Content will be  
approved?

Yes - but we must have to wait - not sure with 25% of cost  
not

PRIME MINISTER

WEST SIBERIAN PIPELINE/JOHN BROWN ENGINEERING

1. In Francis Pym's absence, I am commenting on Arthur Cockfield's minute to you of 23 June.

2. The meeting of senior officials of the four European countries most affected by the American measures will take place in the margins of the European Council on 28-29 June. I suggest that the principal purposes of this meeting should be to establish the legal, political and economic implications of the American measures as a whole and to draw up options for political action by the four countries.

3. I agree that there may be a case for the four European countries, perhaps with Japan, to make representations to the United States Administration. But I think we should await the results of the meeting of senior officials next week before we make a firm decision on this.

4. I also agree that we should encourage John Brown and the other companies affected to examine the possibility of challenging American regulations in the United States courts. But we must recognise that any such process would take some time and would therefore not solve John Brown's immediate problems. If the companies concerned decided to proceed down this path, we should certainly consider the possibility of the governments concerned supporting them as amici curiae (I am not certain how feasible this will prove to be).





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5. Finally, I support the proposal to make an order under Section 1(1) of the Protection of Trading Interests Act 1980. A public and formal signal of this sort would be an entirely appropriate response to these measures. It would clearly be premature to consider a direction under Section 1(3) of the Act at this stage.

6. I am copying this minute to the Secretary of State for Trade, the Chancellor of the Exchequer, the Secretaries of State for Defence and Industry and to Sir Robert Armstrong.

*Douglas Hurd.*

Foreign and Commonwealth  
Office  
Whitehall

DOUGLAS HURD

24 June 1982

-2-

CONFIDENTIAL





Prime Minister

To note.

AM 25/6

PRIME MINISTER

JOHN BROWN AND THE SOVIET PIPELINE

I saw Sir John Mayhew-Sanders, the Chairman of John Brown, yesterday. He says that his company cannot defy the ban imposed by the American Government. To do so would almost certainly result in their being blacklisted by the American Administration. They are dependent - so far as their business as a whole is concerned - on GE technology and patents. Blacklisting by the American Administration would therefore put the whole of their business at risk. They could not - as the French are alleged to be prepared to do - defy the ban.

They had therefore no alternative but to conform with the American ban. If this ban were not lifted, they would have to default on the Soviet contract. Quite apart from the financial consequences of this - there are heavy penalties involved - this would destroy customer confidence in their turbine business. They would have little alternative in Sir John's view, to closing the turbine business down, with serious redundancies, amounting to several hundreds, on Clydebank. At this stage, Sir John is very anxious that this information should be treated as very confidential.

John Brown categorically deny that they had indicated to American officials that the decision by the American Administration would cause them no great distress. On the contrary, representatives of John Brown had made their views as set out above very clear in successive discussions with American officials.

I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence and Industry, and to Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET  
24 June 1982

*Arthur Cockfield*  
LORD COCKFIELD



14 JUN 1982

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

CONFIDENTIAL





PRIME MINISTER

WEST SIBERIAN PIPELINE/JOHN BROWN ENGINEERING

CONFIDENTIAL

Prime Minister

①

I have asked that the Trade Secretary should make urgent contact with John Brown, following your talk with President Reagan yesterday and let you have a draft message to the President before the weekend.

2. Contact with action proposed in para. 4, subject to the views of colleagues?

A.P.C. 24/6.

1 The President's decision to reject your request and instead to extend the embargo on the export of certain goods to the USSR to cover overseas subsidiaries of United States firms and foreign firms manufacturing under United States licences introduces a serious new problem. It constitutes an attempt by the United States to impose jurisdiction extra-territorially. We, and some other European countries, have consistently opposed such attempts in the past and we have ourselves taken powers in the Protection of Trading Interests Act 1980 (PTI Act) to enable us to do something to protect United Kingdom firms threatened in this way. The United States Administration is well aware of our views on the extra-territorial issue, and while the timing is unfortunate in view of their support in the Falklands crisis, we have in my opinion no option but to respond.

2 The effect upon John Brown Engineering (JBE) of the President's decision will depend upon how the USSR and other countries involved in the gas pipeline project react. JBE have made it clear that they would probably not deliver to the USSR the six turbines now in the United Kingdom unless they could be assured that they would not have their "export privileges" withdrawn by the United States Administration. Were the United States Administration to black list them, JBE's whole business, which is dependent on United States technology, would collapse. It seems inconceivable that an assurance not to black list would be given unless we can change the balance of political considerations as perceived by the United States. Failure to proceed with the pipeline project, the first deliveries for which are due on 2 July, is likely to lead to serious financial losses and redundancies not only for

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JBE but also among their United Kingdom suppliers, some of whom are now affected by the extended sanctions.

3 The Foreign Affairs Council yesterday adopted a strongly worded resolution in this matter - covering both the pipeline and United States steel issues. We should in my view build on this and mobilise collective action by the other European governments concerned especially the French (who are in a key position industrially), and the Germans.

4 I suggest the following course of action:-

a At the European Council next week we should press those countries in the lead in the pipeline project to review the options for effective action. A meeting of senior officials from the countries involved has already been arranged.

b Consideration should be given to the four Governments directly concerned in the pipeline project making joint representations to the United States Administration. The Japanese, who are in similar difficulties with another contract, might be invited to join in. I would not expect such representations to have any significant effect, though they might clarify the conditions which would have to be fulfilled for the embargo to be relaxed. They would, however, be a signal to the Americans.

c Consideration should be given by the companies involved to challenging the United States regulations in the United States Courts. JBE have reputable United States legal advice which suggests that the constitutional basis for the United States Regulation is shaky. This would be a matter for the firms concerned to decide. The outcome of litigation cannot be predicted, but such action would not be unusual in the United States of America, and might lead to a situation in which a compromise could be struck.





d If the companies decide to take joint legal action, the Governments involved might join the action as amici curiae. We have done this on past occasions in actions in the United States Courts involving United Kingdom companies alone and should indicate our willingness to consider this form of support.

e We should, independently, make an order (which would be subject to negative resolution in Parliament) applying Section 1(1) of the PTI Act to the United States Regulations. This would in effect state that the application on the United States Regulations in this case is extra-territorial and thus offensive. An order at this stage under Section 1(1) would be no more than declaratory but it would be a public and formal signal to the Americans and to the French in particular, who have shown past robustness in resisting this kind of action, that our concern was serious. Its effect would be enhanced as it would be the first occasion upon which this power had been used. A subsequent direction under Section 1(3) would be needed to require a particular company, such as JBE, not to comply with any requirement or prohibition of the United States Regulations, but is not in question at this stage. Whether we proceeded to that would depend whether overall it would be likely to bring advantages as matters develop.

5 I am copying this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence and Industry and to Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET  
23 June 1982

A handwritten signature in blue ink, appearing to read 'P. Cockfield', is written over the typed name.

LORD COCKFIELD

[Approved by the Secretary of State  
and signed in his absence.]



S. Union



DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215  
SWITCHBOARD 01 215 7877

5144

From the  
Minister for Trade 's office

Charles Humphrey Esq  
Private Secretary to  
The Rt Hon Douglas Hurd CBE MP  
Minister of State  
Foreign & Commonwealth Office  
London SW1A 2AL

18 June 1982

Await F/C.O. reply.

A.J.C. 21/6

Dear Charles,

## UK/SOVIET JOINT COMMISSION

I wrote to you on 22 April about Mr Rees' proposal, which was subsequently agreed, to postpone the next meeting of this Joint Commission under his co-Chairmanship until the autumn. This was accepted by the Russians and they have not tried to make political capital out of it. However, if British firms are not be put at a disadvantage, the working relationship at government level on trade matters will need to be continued.

In view of the number of events building up in the autumn and the calls on Ministers' time, we will soon have to decide what to do about the Joint Commission even though any likely date is 4 or 5 months away. My Minister feels that we should now seek to agree dates for the Joint Commission meeting under his leadership on the UK side. This would be consistent with the Government's policy of continuing to seek mutually beneficial trade with the Soviet Union, although bearing in mind the need to be cautious over financial relations and prudent over credit as agreed at the Versailles Summit. It would also be in line with other Western European countries, some of which have delayed formal trade meetings but have generally maintained the level of their contacts. If there are any particularly unacceptable actions by the Soviet Union in the meanwhile we can always cancel or postpone.

My Minister would find it convenient from the point of view of his diary to visit Moscow in the last week of September. Unless colleagues see any particular difficulties, we would like soon to indicate privately to the Russians that a meeting at that time would be practical for us, subject to final confirmation nearer the

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time. This Department would then go ahead with planning the event but without giving it any publicity (although complete confidentiality cannot be guaranteed as both the Russians and selected British business interests will be aware of the situation). We will keep in contact with the FCO over the presentational aspects of the event and on any intervening political problems.

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

*Yours ever,*

*Nick McInnes*

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



21. July 1982

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*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

F N Richards Esq  
Private Secretary to the  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
London SW1

*A.J.C. 26/5*  
*h.a.*

26 May 1982

*Dear Francis,*

Thank you for your letter of 26 May addressed to John Coles at No. 10.

We have already reached decisions on restrictive measures in the field of credit for the USSR on grounds of financial prudence. The measures now under discussion in the Summit context go further in that they would involve stiffening the terms of credit for the USSR to a greater degree than is provided for even in the proposed amendments to the OECD Consensus. These, if implemented, would affect the interests of those UK companies which have over the years built up trade with the USSR to the advantage of German and Japanese competitors. This possible damage is acceptable but can be defended only if:

- (a) existing contracts are released from the effect of the American embargo announced at end December 1981;
- (b) measures agreed on credit for the USSR are sufficiently flexible to enable ECGD to match competing offers by other Summit countries providing that they are also agreeable. If the others however, seek more general matching (ie on offers by third countries) we shall have to reconsider our position;
- (c) the Consensus as a whole remains in being. (But tightening arrangements should be outside the Consensus and not complicate the Consensus further.)





The draft telegram does not adequately reflect (a) above but will serve to put the Americans on notice that the issue will be raised. The brief for the delegation should however take account of these points. I suggest that the reference to the Franco/Soviet protocol should be omitted.

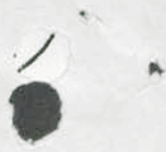
I am copying this to the recipients of yours.

*Yours ever,*

*Nicholas McInnes*

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





21 9 11/11/1982





cc: HO  
FCO  
CDL  
MOD  
CO

file BK

10 DOWNING STREET

*From the Private Secretary*

26 May 1982

Credit Restrictions for  
the Soviet Union

As I told John Holmes on the telephone earlier today, the Prime Minister has seen your letter of 26 May and has approved the enclosed draft telegram to Washington subject to the deletion of the word "only" in paragraph 1 and the insertion at the end of that paragraph of the words " and on equitable burden-sharing".

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

A. J. COLES

Francis Richards, Esq.,  
Foreign and Commonwealth Office

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DS





Foreign and Commonwealth Office

London SW1A 2AH

26 May 1982

Prime Minister

Content will proposals at X and  
attached telegram of instructions?

Dear John,

Yes  
A-J.C.  $\frac{26}{5}$

Credit Restrictions for the Soviet Union

x Discussion of American proposals to their Summit partners to restrict the supply of official, officially-supported, and officially-guaranteed credit to the Soviet Union, outlined in Lord Carrington's memorandum OD(82)15 of 23 March, has continued among Summit officials. The original proposals of the Americans for volume controls have proved unacceptable to Summit partners, and have been dropped. However, a meeting of Summit credit experts on 20 - 21 May in Washington, at which ECGD officials were present, established that it would be technically and legally feasible for most or all Summit countries to reduce the percentage of official financing for each contract, eliminate official local cost financing or guarantees for it, and increase insurance premiums, guarantees or commitment fees for direct exports.

Summit Economic Directors will meet in Paris on Thursday, 27 May, to examine the experts' report, and the associated questions of burden-sharing and information-sharing. We need to decide whether our Representative at that meeting should be authorised to commit us to these proposals and, if so, on what terms.

In his message to the Prime Minister of 7 May, President Reagan made it clear that the achievement of agreement on credit restraint towards the Soviet Union would be one of his main goals at the Versailles Summit. The Foreign and Commonwealth Secretary believes it is important that we should try to meet the Americans on this point for two reasons.

First, there is a good case on broad political grounds for adopting a constructive attitude to what the Americans have proposed. Quite apart from our general interest in maintaining a close and cordial Transatlantic relationship, current developments in the Falkland Islands conflict make this particularly important at the moment. Furthermore, it is clear that agreement among all concerned on revised terms for the OECD's Export Credit Consensus, of which an uncontroversial element is that export

/credit

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credit interest rates for the Soviet Union should be increased, will not now be reached in advance of the Summit. This strengthens the case for demonstrating to the Americans that we are prepared to do something about restricting the supply of credit to the Soviet Union at the Summit itself.

Secondly, the Americans have established a link between agreement by their partners to restrict the supply of credit to the Soviet Union and the release of two American components for John Brown and other European suppliers of turbines purchased by the Soviet Union for the Siberian gas pipeline. The export from the United States, and the re-export from Europe, of these components is at present blocked by the measures announced by President Reagan on 29 December 1981. The Prime Minister has so far had no reply from President Reagan to the two messages, dated 29 January and 5 April, in which she has brought up this subject. We cannot be certain that an agreement to restrict the supply of credit to the Soviet Union would unblock the export and re-export of the components. We can, however, be sure that failure to do anything to meet the Americans over credit would deprive John Brown and other European companies of the components they need; and might also lead to an extension of the scope of the measures of last December.

I enclose a draft telegram to Washington which sets out the line which the Foreign and Commonwealth Secretary believes our representative at the meeting in Paris on 27 May should be authorised to take. The purpose behind the second paragraph is to strengthen the inclination of the Americans to unblock the export and re-export of their embargoed components. The third paragraph answers the main points of a letter which Hormats sent to Sir Robert Armstrong last week. It would be helpful if you could let me know as early as possible whether the terms of the draft telegram are acceptable to the Prime Minister.

I am sending copies of this letter, and of the draft telegram, to the Private Secretaries of all members of OD and of Sir Robert Armstrong.

*Yours ever,*

*Francis Richards*

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street



OUT TELEGRAM

Classification and Caveats

CONFIDENTIAL ..

Precedence/Deskby

IMMEDIATE

ZCZC  
GRS  
CLASS  
CAVEATS  
DESKBY  
FM FCO  
PRE/ADD  
TEL NO

1 ZCZC  
2 GRS  
3 CONFIDENTIAL  
4  
5  
6 FM FCO  
7 TO IMMEDIATE WASHINGTON  
8 TELEGRAM NUMBER  
9 YOUR TELNO 1844: CREDITS FOR THE SOVIET UNION  
10 1. Please tell Hormats that Bridges has been authorised to  
11 agree in principle on 27 May to those restraints over the grant  
12 of credit to the Soviet Union which were found generally  
13 feasible at last week's meeting of experts (para 5 of your TUR).  
14 His agreement will be conditional ~~only~~ on the readiness of  
15 other countries to go as far as their legal obligations allow  
16 (see para 3 below) *and on equitable burden-sharing.*  
17 2. Please mention to Hormats the link which the Americans have  
18 made between progress on credit restraint towards the Soviet  
19 Union and the impact on European companies of the measures  
20 announced by President Reagan on 29 December. It would be  
21 extremely helpful for us (and, we are sure, for others) if the  
22 Americans could intimate on 27 May that a satisfactory  
23 understanding about credit restraint towards the Soviet Union  
24 will enable them to look sympathetically at the problems faced  
25 by John Brown and other companies through their inability to

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File number		Dept	Distribution LIMITED
Drafted by (Block capitals) PRIVATE SECRETARY			TRED EESD ERD ESID NAD PS PS/Mr Hurd PS/Mr Onslow PS/Mr Rifkind PS/PUS
Telephone number 233 4831			Mr Evans cc: Poland Standard
Authorised for despatch			Lord Bridges Mr Bullard
Comcen reference	Time of despatch		



OUT TELEGRAM (CONT)

Classification and Caveats

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export and/or obtain American components for the turbines which they are under contract to supply to the Soviet Union.

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3. Finally, please tell Hormats that Armstrong has received his letter about the discussion of East/West economic relations at the meetings held in and near Paris over the weekend before last. He too was worried about the way in which this discussion went, but is hopeful that the experts meeting last week has now reopened the way to general agreement. We, of course, have been working for such agreement and will continue to do so. You could add that, like the Americans, we have never seen the text of the Franco/Soviet protocol on export credit and that the delay in reaching an agreed Community position about the revision of the OECD's Export Credit Consensus has nothing to do with the Soviet Union. All member states are agreed that the Soviet Union should be promoted from Category 2 to Category 1.

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Catchword





126 MAY 1982



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Foreign and Commonwealth Office

London SW1A 2AH

From the Parliamentary Under Secretary of State

27 April 1982

*N. B. P. R.*

*MR 27/4*

*Dear Peter,*

UK/SOVIET JOINT COMMISSION

1. We had a word this morning about your Private Secretary's letter of 22 April on which the Prime Minister's views are set out in Mr Coles' letter of 23 April.
2. I agree that there is some advantage in postponing the Joint Commission until the autumn. We should by then at least have a clearer idea of our major European partners' plans for their mixed commissions. But as I made clear this morning, the FCO preferred option would have been to go ahead with the Joint Commission in May on the basis set out in Fuller's letter of 9 March, ie by bringing down the level of Chairman on our side from Ministerial to senior official. I believe it would have been possible to have managed the political problems.
3. We agreed this morning, however, on postponement and how to handle it presentationally. It will be important, both with the Russians and our own businessmen, to stick to your proposed line that postponement has been made necessary by Ministerial changes and re-allocation of responsibilities in the Department of Trade. There may well be a few companies (John Brown for instance) who will feel that we are not adequately supporting their efforts to sell to the Soviet Union, and unless we can advance an apparently soundly based technical case, I fear we will be engaged in interminable arguments with both Russians and businessmen, about the political reasons for changing our minds now, in April, having gone ahead with the Review Meeting in March.
4. I am sending copies of this letter to recipients of McInnes' letter of 22 April.

*Yours ever,*  
*Malcolm*

Malcolm Rifkind

Peter Rees Esq QC MP  
Minister for Trade  
Department of Trade  
1 Victoria Street  
LONDON SW1H 0ET



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27 APR 1982



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TO IMMEDIATE F C O

TELNO 1444 OF 25 APRIL 1982,

INFO UKREP BRUSSELS, BONN, PARIS, ROME.

U S MEASURES AGAINST THE SOVIET UNION : EXISTING CONTRACTS

1. EAGLEBURGER TELEPHONED MINISTER YESTERDAY EVENING ABOUT A REPORT THAT A NUMBER OF EUROPEAN COMPANIES INVOLVED IN THE WEST SIBERIAN PIPELINE PROJECT WERE DUE TO MEET IN PARIS ON 3 MAY TO DISCUSS MAKING ARRANGEMENTS FOR GE ROTORS TO BE MANUFACTURED UNDER EXISTING LICENCES IN FRANCE. THE COMPANIES INVOLVED INCLUDED JOHN BROWN, CREUSOT LOIRE, ALSTHOM ATLANTIQUE AND A NUMBER OF FIRMS FROM ITALY AND GERMANY. THE STATE DEPARTMENT HAD TOLD THE FRENCH, AND WOULD BE TELLING THE ITALIANS AND GERMANS THAT THIS REPORT WAS CAUSING SERIOUS CONCERN. IT WOULD BE A MAJOR MISTAKE FOR THE COMPANIES TO GO DOWN THIS COURSE AT A TIME WHEN A REAL EFFORT WAS BEING MADE THROUGH THE BUCKLEY MISSION TO REACH AN AGREEMENT ON CREDIT POLICIES WHICH IT WAS HOPED WOULD FACILITATE A SENSIBLE DECISION ON EXISTING CONTRACTS AND ON FUTURE STEPS WHICH MIGHT BE TAKEN. EAGLEBURGER URGED US TO DISCOURAGE JOHN BROWN FROM PREJUDICING THIS POSSIBILITY BY TAKING THE WRONG DECISIONS ON 3 MAY.

2. THOMAS SAID THAT HE WOULD TAKE NOTE AND REPORT EAGLEBURGER'S WARNING. HE SAID THAT THE ADMINISTRATION'S DECISIONS OF LAST DECEMBER HAD PUT THE COMPANIES WITH EXISTING CONTRACTS IN AN APPALLINGLY DIFFICULT POSITION AND THIS HAD INEVITABLY AFFECTED THE CLIMATE FOR DISCUSSION OF CREDIT POLICY WHICH THE BUCKLEY MISSION HAD NOW LAUNCHED. IT WOULD OBVIOUSLY IMPROVE THIS CLIMATE IF THE AMERICANS COULD FIND A WAY NOW OF SIGNALLING MORE CLEARLY THAT THEY WOULD BE PREPARED TO ALLOW THE PERFORMANCE OF CONTRACTS SUCH AS JOHN BROWN'S.

3. EAGLEBURGER RECOGNISED THAT THERE WAS A CHICKEN AND EGG PROBLEM HERE. HE SAID IN CONFIDENCE (PLEASE RESPECT) THAT IN INTER-AGENCY DISCUSSIONS HERE THE WHOLE QUESTION OF EXISTING CONTRACTS HAD BEEN EXPLICITLY LINKED WITH THE OUTCOME OF THE BUCKLEY MISSION. IT WAS NOW COMMON GROUND HERE THAT IF A REASONABLE FRAMEWORK COULD BE WORKED OUT ON CREDITS (AND THE RECENT REACTIONS OF THE FRENCH AND EVEN THE GERMANS SUGGESTED THAT THE PROSPECTS FOR THIS WERE LOOKING BRIGHTER) THE ADMINISTRATION WOULD NO LONGER STAND IN THE WAY OF PERFORMANCE OR CONTRACTORS FOR WHICH AMERICAN COMPONENTS HAD ALREADY BEEN SUPPLIED. AGREEMENT WAS NOT QUITE SO CLEAR-CUT ABOUT THE PERFORMANCE OF EXISTING CONTRACTS FOR WHICH US COMPONENTS STILL REMAINED TO BE SUPPLIED, BUT EAGLEBURGER SAID THAT THE STATE DEPARTMENT AND THE DEPARTMENT OF COMMERCE BOTH BELIEVED THAT THESE SHOULD ALSO BE ALLOWED TO GO AHEAD, AND HE WAS HOPEFUL THAT FULL AGREEMENT WOULD BE REACHED ON THIS AS WELL. IF THE BUCKLEY MISSION CAME OUT ALL RIGHT, THEREFORE, WE SHOULD ALL BE OFF THE HOOK AS FAR AS EXISTING CONTRACTS WERE CONCERNED. BUT THE PROSPECTS FOR THIS WOULD BE SEVERELY DAMAGED IF THE COMPANIES DECIDED TO GO AHEAD AT THE MEETING ON 3 MAY ON THE BASIS OF FRENCH PRODUCED ROTORS. GE ITSELF WOULD ALSO TAKE A JAUNDICED VIEW OF THIS.

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4. THOMAS POINTED OUT THE TIME PRESSURES WE WERE UNDER AS REGARDS FULFILMENT OF THE CONTRACTS. HE BELIEVED THAT JOHN BROWN HAD ALREADY MISSED THE DELIVERY DATES FOR ONE LOT OF COMPRESSERS AND WERE LIKELY TO BE BEHIND SCHEDULE ON THE OTHERS. EAGLEBURGER SAID THAT THIS WAS WELL UNDERSTOOD. THAT WAS ONE OF THE REASONS WHY THE ADMINISTRATION FELT THAT THE WHOLE QUESTION MUST BE TIED UP IN TIME FOR THE VERSAILLES SUMMIT. IT WAS WITH THIS JUNE DEADLINE IN MIND THAT THE BUCKLEY INITIATIVE WAS BEING PRESSED AHEAD URGENTLY. THIS WAS ALSO WHY HE WAS PESSING THE EUROPEAN GOVERNMENTS NOT TO ENCOURAGE THE COMPANIES TO REACH IMPRUDENT DECISIONS ON 3 MAY.

5. THOMAS SAID THAT, SPEAKING PERSONALLY, HE WAS ENCOURAGED BY WHAT EAGLEBURGER HAD SAID ABOUT ATTITUDES WITHIN THE ADMINISTRATION ON EXISTING CONTRACTS. IT CONFIRMED IF RATHER MORE SPECIFICALLY WHAT WE HAD HEARD BEFORE. BUT HE SUGGESTED THAT THE AMERICANS SHOULD SERIOUSLY CONSIDER SENDING A CLEAR SIGNAL NOW, BY INDICATING THAT THEY WOULD NOT OPPOSE PERFORMANCE OF CONTRACTS FOR WHICH US COMPONENTS HAD ALREADY BEEN SUPPLIED, WITHOUT CONDITIONS, BEFORE DECEMBER 1981. THEY HAD GIVEN US THIS KIND OF INFORMAL GREEN LIGHT IN THE CONTEXT OF DEFENCE SALES TO CHINA. IF THEY DID SOMETHING SIMILAR NOW IT WOULD BE AN EARNEST OF GOOD INTENTIONS WHICH COULD ONLY BE HELPFUL TO THE FURTHER DISCUSSIONS.

FCO PLEASE ADVANCE TO BRIDGES.

HENDERSON

[ADVANCED AS REQUESTED]

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MFJ

Soviet Union

23 April 1982

UK/USSR Joint Commission

Your letter of 22 April refers. The Prime Minister agrees that the Joint Commission should be postponed until the autumn.

JC

N. McInnes, Esq.,  
Department of Trade.

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TO IMMEDIATE FCO

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CREDITS FOR SOVIET UNION : DISCUSSION AT RAMBOUILLET 24 APRIL

1. UNDER-SECRETARY BUCKLEY (STATE DEPARTMENT) CALLED A MEETING OF ECONOMIC SUMMIT AMBASSADORS TO EXPLAIN THE IDEAS HE WILL BE PUTTING AT RAMBOUILLET ON SATURDAY.

2. BUCKLEY SAID THE AMERICANS STARTED FROM TWO PREMISES:

(A) WE NEEDED A COMMON DATA BASE. THE CIA WERE DOING AN ANALYSIS, WHICH WOULD BE PRESENTED AT RAMBOUILLET AND IF POSSIBLE CIRCULATED IN WASHINGTON AND IN CAPITALS BEFORE THEN.

(B) ANY REGIME FOR CONTROLLING CREDITS TO THE SOVIET UNION SHOULD BE "PRUDENT, APROPRIATE AND FAIR". THE AMERICANS WERE HIGHLY CONSCIOUS OF THE NEED FOR EQUITY AMONGST CREDITOR COUNTRIES IN THE LIGHT OF DIFFERENT NATIONAL SITUATIONS.

3. PRELIMINARY AMERICAN IDEAS WERE SET OUT IN A PAPER WHICH BUCKLEY CIRCULATED (SUMMARY IN MIFT, TEXT BY BAG; NOT TO ALL). BUCKLEY EMPHASIZED THAT THE PROPOSED REGIME CONCERNED ONLY CREDIT TO THE SOVIET UNION AND NOT TO EASTERN EUROPE; THAT IT WAS NOT INTENDED TO STOP TRADE WITH THE SOVIET UNION; AND THAT ANY REGIME WOULD DOUBTLESS NEED TO BE MODIFIED, PERHAPS QUITE SOON, IN THE LIGHT OF CHANGING CIRCUMSTANCES.

4. THE AIMS OF THE REGIME WOULD BE:

(A) TO AVOID AN EXCESSIVE BUILD-UP OF SOVIET DEBT, AND THE REVERSE LEVERAGE WHICH THE SOVIET UNION WOULD THEREBY ACQUIRE OVER ITS WESTERN CREDITORS;

(B) TO REVERSE THE PRESENT NET FLOW OF RESOURCES TOWARDS THE SOVIET UNION (ON WHICH THE CIA STUDIES WERE VERY INFORMATIVE);

(C) TO ENSURE A FAIR SHARING OF THE BURDEN AMONGST WESTERN CREDITORS.

5. CORNELL (DEPUTY ASSISTANT SECRETARY IN THE TREASURY) EXPANDED. THE AMERICAN PAPER DID NOT ATTEMPT TO QUANTIFY THE POSSIBLE FORMULAE MENTIONED IN THE PAPER; THAT COULD BE DONE WHEN THE DATA WERE CLEARER AND WHEN AGREEMENT HAD BEEN REACHED ON THE EXACT FORM AND PACE OF THE PROGRAMME THAT WOULD BE UNDERTAKEN. BUT THE OPTIONS WERE TO MANAGE EITHER NEW COMMITMENTS ON OFFICIAL DEBT; OR ACTUAL DISBURSEMENT OR TOTAL EXPOSURE. A PRACTICAL SYSTEM WOULD DOUBTLESS HAVE TO COMBINE ELEMENTS OF ALL THREE. IT WOULD HAVE TO TAKE ACCOUNT OF THE FACT THAT DEBT FLOWS VARIED FROM COUNTRY TO COUNTRY AND FROM YEAR TO YEAR; SOME SYSTEM OF "AVERAGING" WOULD DOUBTLESS BE NECESSARY TO ENSURE EQUITY.

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6. IN ANSWER TO QUESTIONS, BUCKLEY AND CORNELL SAID THAT:
- (A) THE CIA'S ANALYSIS WAS BASED ON EXPERIENCE OVER THE PAST DECADE, ON A CONSERVATIVE ESTIMATE OF FUTURE SOVIET REQUIREMENTS FOR WESTERN IMPORTS, AND ON A JUDGEMENT ABOUT FUTURE SOVIET CAPACITY TO EARN FOREIGN CURRENCY.
  - (B) THE AMERICANS HOPED THAT THE COMMUNITY, JAPAN, AND APPROPRIATE NEUTRALS WOULD COLLABORATE IN THE PROPOSED REGIME, IF ONLY FOR REASONS OF FINANCIAL PRUDENCE.
  - (C) THE AMERICANS LOOKED FOR TANGIBLE RESULTS FROM THE VERSAILLES SUMMIT (IN THIS REGARD THE BUCKLEY DISCUSSIONS WOULD BE SEPARATE FROM THOSE THE SHERPAS WOULD BE HAVING ON OTHER SUMMIT ISSUES).
  - (D) CREDIT ISSUES COULD ALSO BE DISCUSSED IN THE OECD AND NATO.
  - (E) THE AMERICANS ASSUMED THAT THE PROPOSALS FOR DEBT RECLASSIFICATION DISCUSSED IN THE OECD IN MARCH WOULD BE ACCEPTED BY ALL. TOGETHER WITH A LIMIT ON THE PROPORTION OF GOVERNMENT-BACKED CREDIT, THIS WOULD SIGNIFICANTLY INCREASE INTEREST RATES ON CREDIT TO THE SOVIET UNION.
  - (F) THE PROPOSED REGIME WOULD COVER NEW CREDITS ONLY: THE AMERICANS DID NOT WISH TO TAMPER WITH EXISTING CREDITS.
  - (G) THE AMERICANS APPRECIATED THE DELICACY OF ALL THIS, AND THE NEED FOR CONFIDENTIALITY, BUT BUCKLEY WOULD HAVE TO SPEAK NON-COMMITTALLY AT SENATE HEARINGS DUE ON 22 APRIL.

7. FCO PLEASE ADVANCE TO SIR KENNETH COUZENS AND CAREY (TREASURY).

HENDERSON

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PART 1 ends:-

22.3.82

PART 2 begins:-

19.4.82



