



10 DOWNING STREET

THE PRIME MINISTER

10 September 1982

Dear Mr. Smith.

Thank you for your letter of 30 August about the Soviet gas pipeline.

What I had to say on my recent visit to Glasgow was widely reported and should have left no doubt about the Government's determination to defend British interests. We have explained in detail to the Americans the unacceptable nature of their attempts to exert extra-territorial jurisdiction, and have also joined with our European partners in making formal Community representations on the US measures restricting the supply of oil and gas equipment to the Soviet Union.

International meetings are now taking place to find an acceptable solution but to avoid the sort of confrontation you appear to have in mind. I regard the maintenance and strengthening of the Western Alliance as of the greatest importance; only the Soviet Union and its supporters would benefit from deteriorating relations between the United States and Western Europe.

As regards your point about compensation, John Brown Engineering (JBE) was given a direction under the Protection of Trading Interests Act in the national interest, but this direction strengthens rather than weakens its position in relation to the American authorities. It has been provided with a

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defence which it may use in proceedings before the US courts. To the extent that JBE's contracts may be covered by ECGD guarantees, the company could have a claim under the terms of those guarantees if it incurs unavoidable losses through the contracts being frustrated by the action of any government.

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Yours sincerely

Raymond Holden

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John Smith, Esq., M.P.