Foreign and Commonwealth Office

London SW1A 2AH

18 March 1982

Prime Minister

A.J.C. 18/3

Dear John,

Prime Minister's Meeting with Chancellor Schmidt: East/West Economic Relations

The Prime Minister will no doubt wish to compare notes with Chancellor Schmidt about the visits made to Bonn and London this week by Mr Buckley and his team and to discuss with him the way in which matters are now likely to develop.

/ I enclose a note which summarises the discussions which Mr Buckley and his team had with the Foreign and Commonwealth Secretary, and a team of British officials, in London on
/ 17 March. I also enclose a copy of FCO telegram No 512 to Washington, which gives more details about what was said during the talks at official level. These documents will give the Prime Minister the background.

/ Finally, I also enclose a speaking note on which the Prime Minister may wish to draw.

I am sending copies of this letter and of its enclosures to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade, the Secretary of State for Defence and to Sir Robert Armstrong.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

BACKGROUND NOTE

1. Mr Buckley and an inter-agency team visited London for talks on 17 March. Mr Buckley had been to Bonn and Paris and was going to Rome and Brussels (to talk to the Belgian Presidency and the Commission and in NATO). He would then report to President Reagan.

reports at Flag A&B

2. Mr Buckley had two basic propositions:

a) it was wrong in principle to help Soviet Union through credit subsidies and official credit guarantees when we were all facing increasing defence expenditure to match Soviet military build-up;

b) given the deteriorating state of East European economies, financial prudence suggested a cut-back on credit to Eastern Europe. The West should seek a net transfer of resources from East to West to reduce outstanding debt burden.

3. Mr Buckley wished to explore whether the countries mainly concerned in providing credit agreed with basic US proposition and thereafter whether there was political will to find means to implement policies. Stressed that this was a strategic question with approximately ten-year time frame.

4. Mr Buckley referred to the President's "suspended measures" and decisions that would need to be taken; ie on pipeline contracts. He avoided a direct link, but it was clear that the European response on credits would influence decisions on contracts.

5. The Americans had spoken to the Japanese and the Canadians and would be making further approaches to them. Mr Buckley characterised the German reaction as not really meeting the President's concerns. The Germans had tended to magnify the difficulties. The French had been forthcoming at M. Cheysson's level, but impression given at official level was that there would be difficulties over the existing bilateral Soviet/French Credit Agreement.

/6. As agreed,

6. As agreed, officials explored Mr Buckley's proposals in an interrogative way. They agreed to exchange information on export credits with US, as have French and Germans. They said there would be difficulty over imposing a short-term moratorium on granting credit to Soviet Union unless other credit suppliers did likewise, and also said that we would attend a meeting of credit supplying countries if the US wished to hold one.

7. The Foreign and Commonwealth Secretary told Mr Buckley that he hoped he would not leave London with same disappointment as Bonn. The Americans were raising important questions. We needed to examine them thoroughly. Mr Buckley appeared satisfied with his talks in London.

8. Next step will be for Mr Buckley to report to President Reagan. Thereafter there may be more bilateral contacts, with the possibility of a conference of those concerned.

18 March 1982

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TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 512 OF 17 MARCH 1982,
AND TO IMMEDIATE ROME, PARIS, BONN, UKDEL NATO, UKREP BRUSSELS,
INFO PRIORITY MOSCOW,
INFO ROUTINE TOKYO, UKDEL O E C D
INFO SAVING OTHER E C POSTS, WARSAW, OTTAWA.

BUCKLEY MISSION

1. BUCKLEY AND HIS INTER-AGENCY TEAM VISITED LONDON ON 17 MARCH. HE CALLED ON LORD TREFGARNE AND ME AND HAD A FULL SESSION OF TALKS AND LUNCH WITH BRIDGES AND REPRESENTATIVES OF WHITEHALL DEPARTMENTS.

2. BUCKLEY COVERED MUCH THE SAME GROUND AS HE HAD IN BONN AND PARIS. THE PRESIDENT RECOGNISED THAT SOME OF THE MEASURES ANNOUNCED ON 29 DECEMBER HAD CAUSED CONCERN WITHIN THE ALLIANCE. THESE MEASURES WOULD BE HELD IN SUSPENSE PENDING THE OUTCOME OF HIS MISSION. THE MISSION'S PURPOSE WAS TO DISCUSS THE DESIRABILITY OF PROVIDING OFFICIAL SUBSIDISED AND GUARANTEED EXPORT CREDITS TO THE SOVIET UNION. IT WAS NOW TIME TO ADD THE ROLE OF WESTERN OFFICIAL CREDIT TO THE AGENDA OF WESTERN STRATEGIC CONCERNS. THE MISSION WAS NOT SEEKING AN ECONOMIC WAR WITH THE SOVIET UNION OR THE CESSATION OF TRADE. NOR WAS THE AMERICAN PROPOSITION A SPECIFIC RESPONSE TO EVENTS IN POLAND. SECONDLY, AND RELATED TO THE FIRST U S CONCERN OVER OFFICIAL CREDIT SUPPORT, THERE WAS THE PHENOMENON OF THE FRAGILE FINANCIAL POSITION IN EASTERN EUROPE. THE WEST WAS BECOMING THE CAPTIVE OF ITS DEBTORS AND A REVERSE LEVERAGE HAD BEGUN TO EMERGE. THE U S BELIEVED THAT WESTERN COUNTRIES MUST REDUCE THE BURDEN OF DEBT OVERHANGING WESTERN FINANCIAL INSTITUTIONS. THE NERVOUSNESS OF WESTERN PRIVATE BANKS ABOUT LENDING TO THE U S S R SHOULD BE A SIGNAL TO GOVERNMENTS. BUCKLEY'S MISSION THEREFORE HAD TO ESTABLISH WHETHER A CONSENSUS EXISTED AMONG THE KEY ALLIANCE PARTICIPANTS TO ADDRESS THIS PROBLEM. IF THE POLITICAL WILL WAS THERE, IT SHOULD BE POSSIBLE TO FIND A MECHANISM FOR CHANGE. IT WAS ACKNOWLEDGED THAT THE JAPANESE HAD TO BE BROUGHT IN. THE SEVEN SUMMIT COUNTRIES ACCOUNTED FOR AROUND 90% OF TOTAL OFFICIAL CREDIT TO THE SOVIET UNION.

3. SPECIFICALLY, BUCKLEY AND HIS TEAM PROPOSED A PAUSE, PERHAPS FOR 60 DAYS, DURING WHICH WESTERN GOVERNMENTS WOULD REFRAIN FROM ANY NEW OFFICIAL CREDITS OF GOVERNMENT GUARANTEES (BUT EXISTING COMMITMENTS WOULD BE HONOURED). SECONDLY, THERE SHOULD BE FURTHER INFORMATION SHARING BASED ON A U S QUESTIONNAIRE TO PROVIDE THE DATA ON WHICH PROPER DECISIONS COULD BE MADE.

4. LELAND (U S TREASURY) ACCEPTED THE NEED FOR EQUITABLE BURDEN SHARING. HE STRESSED THE NEED TO TAKE ACTION BOTH ON OFFICIAL CREDITS AND ON GOVERNMENT GUARANTEES. THE LATTER EFFECTIVELY PROVIDED A DIRECT SUBSIDY SINCE WITHOUT A GUARANTEE PRIVATE BANKS WOULD LEND TO THE SOVIET UNION ONLY AT SIGNIFICANTLY HIGHER RATES. CONTRARY TO BUCKLEY'S CONCENTRATION ON THE U S S R, HE ALSO SPOKE OF THE LINK BETWEEN THE SOVIET AND EASTERN EUROPEAN PROBLEMS. DECISIONS WERE NEEDED VERY SHORTLY ON EASTERN EUROPEAN DEBT. A DIFFERENTIATED APPROACH TOWARDS EASTERN EUROPE WOULD ONLY BE POSSIBLE IF A MORE RESTRICTIVE POLICY TOWARDS THE SOVIET UNION WERE ADOPTED. FURTHERMORE, IT WAS IMPORTANT TO SECURE A NET-FLOW OF RESOURCES FROM EAST TO WEST. OTHER MEMBERS OF THE U S TEAM STRESSED THE PART IN WHICH EASY WESTERN CREDITS TO THE SOVIET UNION HAD PLAYED IN FACILITATING THE GROWTH OF SOVIET MILITARY CAPABILITIES AND SOVIET ADVENTURISM IN THE THIRD WORLD.

5. BRIDGES SAID THAT WE NEEDED FIRST TO ANALYSE THE FACTS BEFORE CONSIDERING LONG-TERM POLICY. THIS WOULD ALSO INVOLVE DECISIONS ON WHICH INSTITUTIONS WERE MOST APPROPRIATE FOR TAKING THE WORK FORWARD. THE U K WAS NOT IN PRINCIPLE IN FAVOUR OF SUBSIDISING EXPORT CREDITS. THE DIFFICULTY WAS ACHIEVING A POLICY WHICH WOULD NOT DISADVANTAGE THE U K. IF THE MEASURES PROPOSED BY THE AMERICANS WERE ADOPTED, OUR EXPORTS, BUT NOT THOSE OF COUNTRIES WITH LOW COMMERCIAL INTEREST RATES, WOULD BE DAMAGED. NEVERTHELESS, WE REGARDED THIS AS AN IMPORTANT QUESTION AND SHARED THE AMERICANS CONCERN TO FIND METHODS TO SECURE SOVIET RESTRAINT.

6. BRIDGES SAID THAT THE U K WOULD CONSIDER THE AMERICAN REQUEST FOR A PAUSE, BUT WOULD FIND IT VERY DIFFICULT TO AGREE TO THIS UNLESS ALL OTHERS CONCERNED ALSO AGREED. HE AGREED TO THE INFORMATION SHARING EXERCISE.

7. BUCKLEY SAID THAT, AFTER REPORTING EUROPEAN REACTIONS, IT WAS INTENDED TO MOVE TO 2-3-WEEKS OF BILATERAL TALKS FOLLOWED BY A WORKING-LEVEL CONFERENCE OF EXPERTS IN WASHINGTON IN WHICH THE 7 SUMMIT COUNTRIES MIGHT PARTICIPATE. DEPENDING ON THE CONCLUSIONS, THE RESULTS MIGHT BE SUBMITTED TO THE N A T O OR VERSAILLES SUMMITS. BRIDGES SAID THAT IT WOULD BE IMPORTANT TO AVOID OVERBURDENING THE SUMMIT MACHINERY, BUT AGREED THAT EXPERT ANALYSIS OF THIS KIND WOULD BE USEFUL. HOWEVER N A T O WOULD ALSO BE AN APPROPRIATE FORUM FOR ANALYSIS OF THE SOVIET ECONOMIC POSITION AND OF THE LONG-TERM POLICY OPTIONS. THE O E C D SHOULD NOT BE OVER-LOOKED AS AN IMPORTANT FORUM FOR OBJECTIVE ECONOMIC ANALYSIS OF A NON-POLITICAL KIND,

/EMBRACING

EMBRACING EUROPEAN STATES PROMINENT IN EAST/WEST TRADE. WE POINTED OUT THE NEED TO THINK THROUGH THE EFFECT OF CONVENING SUCH A CONFERENCE ON CONFIDENCE IN THE FINANCIAL COMMUNITY.

8. THERE WERE ALSO BRIEF EXCHANGES ON ENERGY SECURITY AND SOVIET EXPORTS TO THE E C, BOTH ON STANDARD LINES.

9. ADDRESSEES MAY PASS ON THE ABOVE FREELY TO HOST GOVERNMENTS. ROME SHOULD INFORM BUCOI AS SOON AS POSSIBLE.

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SPEAKING NOTE

PRIME MINISTER'S MEETING WITH CHANCELLOR SCHMIDT: EAST/WEST ECONOMIC RELATIONS

POINTS TO MAKE

1. Mr Buckley and his team visited London on 17 March. The Foreign and Commonwealth Secretary saw them for half an hour and they had over four hours talks with an official British team.

2. Our objectives were to listen to what the Americans had tc say; to enter into no firm commitments about changing the terms or the volume of officially-guaranteed export credit for the Soviet Union; but not to leave them with the impression that they were leaving London empty-handed. We believe that we achieved these objectives.

3. It is clear that the Americans (from the President downward) want to open up discussions area of export credit for the Soviet Union. They appear to have twin motives: to restrict the Soviet Union's supply of hard currency; and to prevent the hard currency debt of the Soviet Union increasing to the point where creditcrs find themselves obliged to re-finance this debt.

4. We are going to hear a lot more about this subject. It is therefore very much in our collective interest that we should decide how we want to respond to the Americans. In the short term our principal interest must be to prevent them from deciding to adopt a new round of unilateral measures against the Soviet Union which could be damaging to us.

5. For the longer term, we must decide how we should like the discussion of East/West economic relations to be related to the discussion of East/West political relations (with the Summits at Versailles and Bonn in mind); how far we are all prepared to go in restricting the supply of export credit to the Soviet Union; and, if we are prepared to go some distance in this direction, how we deal with the problem of burden-sharing among the credit-granting countries.

6. We shall want to keep in very close touch with you as the situation evolves. The next important development will be the President's reaction to the report which Mr Buckley makes to him. We must hope that he will not opt for a new round of unilateral American measures; but even if he does not, we shall all face difficult decisions.

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TO IMMEDIATE FCO
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AND TO IMMEDIATE WASHINGTON, PARIS, BONN, UKDEL NATO,
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STOCKHOLM, VIENNA, CANBERRA, BERNE

YOUR TELNO 512 TO WASHINGTON: BUCKLEY MISSION

1. BUCCI ASKED THAT A FULL ACCOUNT OF THE BUCKLEY TEAM'S MEETING IN ROME BE PASSED TO BRIDGES. THE TEAM SAW OFFICIALS AT THE MFA, AND LATER COLOMBO AND CORTI (PSDI JUNIOR FOREIGN AFFAIRS MINISTER).

2. BUCKLEY SEEMS TO HAVE USED THE SAME PREPARED BRIEF IN SPEAKING TO THE ITALIANS. THE ITALIANS WERE IMPRESSED BY HIS FRANKNESS AND REALISM, AND BY HIS INSISTENCE THAT THE TEAM HAD NOT COME TO ROME TO PRESENT THAKE IT OR LEAVE IT DEMANDS, BUT TO DEVISE COMMON APPROACHES. BUCKLEY STRESSED THAT THE U.S. AIM WAS THE GRADUAL REDUCTION OF OFFICIALLY SUPPORTED AND GUARANTEED CREDITS, WHILST SAFE-GUARDING NORMAL TRADE. THE PRESENT COMPETITION BETWEEN WESTERN COUNTRIES WAS ''RUINOUS'' AND LIKELY TO IMPOVERISH THE WEST TO THE EAST'S BENEFIT. THE CRITICAL PROBLEMS FOR EXAMINATION WERE THE DEGREE OF COMMUNIST DEPENDENCE ON WESTERN FINANCE, AND THE SECURITY OF THE WEST. COMMUNIST COUNTRIES' DEBTS HAD REACHED WORRYING LEVELS. BUCKLEY ACKNOWLEDGED THE PROBLEMS IN HARMONISING CREDIT POLICY, BUT, AS IN LONDON, INSISTED THAT IF THE POLITICAL WILL WERE THERE SOLUTIONS COULD BE FOUND.

3. HE PROPOSED A CREDIT WAR ''CEASE-FIRE'', WITHOUT APPARENTLY SPECIFYING ITS DURATION, AND THE FRAMEWORK OF CONSULTATIONS ~~SUMMARISED IN PARAGRAPH 7~~ summarised in paragraph 7 OF YOUR TUR. HE EMPHASISED THE NEED TO INVOLVE ANY INDUSTRIALISED COUNTRIES AS POSSIBLE, BUT FAVOURED PRIOR DISCUSSION BETWEEN THE 7 SUMMIT COUNTRIES. THE WORKING GROUP MEETING MIGHT BEGIN TO PREPARE A DOCUMENT FOR EVENTUAL APPROVAL AT THE VERSAILLES SUMMIT.

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4. THE ITALIANS RESPONDED THAT THEY HAD CEASED TO PROVIDE GENERALISED LINES OF CREDIT TO THE USSR IN 1978, AND SINCE THEN HAD ONLY GRANTED SUPPLIERS' CREDITS. THESE AMOUNTED TO ONLY 7% OF TOTAL OFFICIALLY SUPPORTED CREDITS, AND THE FIGURE FOR EASTERN EUROPE WAS STILL LESS, ESPECIALLY AFTER THE SUSPENTION OF CREDITS TO POLAND. AS WE HAVE REPORTED BEFORE, HOWEVER, THE ITALIANS SHOWED WILLINGNESS TO TAKE FURTHER ACTION IN COMPANY WITH THEIR PARTNERS. THEY FOUND THE PRESENT SITUATION UNSATISFACTORY. SOME COUNTRIES (THEY PROBABLY MEANT FRANCE) STILL CONCEDED LINES OF CREDIT, OTHERS WERE FORCED TO MATCH THE TERMS AND THIS ALL PLAYED INTO SOVIET HANDS.
IT WULD BE IMPORTANT, HOWEVER, TO INVOLVE NOT ONLY THE JAPANESE BUT THE SWISS, AUSTRIANS, SWEDES AND AUSTRALIANS IN ANY FURTHER STUDIES. ITALY DID NOT WANT AN ECONOMIC WAR OR A CONCERTED POLICY OF SANCTIONS AGAINST THE SOVIET UNION. IT WOULD PREFER AN OBJECTIVE, TECHNICAL ANALYSIS OF SOVIET AND EAST EUROPEAN DEBT, LEADING TO THE REVMOVAL OF UNJUSTIFIED SOVIET ADVANTAGES. ANY SUCH STUDY SHOULD BE CONDUCTED WITH MAXIMUM CONFIDENTIALITY.

5. WHEN COLOMBO RECEIVED BUCKLEY, HE STRESSED THE NEED FOR A STRATEGY THAT WAS JOINTLY AGREED AND JOINTLY PUT INTO EFFECT, WITH NO FURTHER UNILATERAL MEASURES. ANY SUCH STRATEGY SHOULD BE BASED ON EQUALITY OF SACRIFICE, AND POLICY CHANGES SHOULD BE DEFENSIBLE TO WESTERN PUBLIC OPINION OR SENSIBLE FINANCIAL AND BANKING RESPONSES.

6. THE ITALIANS WILL THEREFORE PARTICIPATE IN THE INFORMATION SHARING EXERCISE, PROVIDED IT IS OBJECTIVE AND ''NON-POLITICAL''. AT DEPARTMENTAL LEVEL, MFA OFFICIALS WONDER WHETHER IT IS WISE FOR THE EUROPEANS TO AWAIT NEW U S PROPOSALS, OR WHETHER THEY SHOULD NOT TAKE THE INITIATIVE AND SO UNDERLINE THE SERIOUSNESS OF THEIR APPROACH. THE AMERICANS APPARENTLY SHOWED SOME IRRITATION WITH THEIR RECEPTION IN BONN AND PARIS. (THE ITALIANS DISPUTE FRG PROTESTATIONS THAT THE GERMANS DO NOT SUBSIDISE EXPORT CREDITS TO THE USSR).

7. BUCKLEY DID NOT PRESS THE ITALIANS HARD ON THE PIPELINE. COLOMBO TOLD HIM THAT THE ''PAUSE FOR REFLECTION'' STILL HELD, BUT IF THE FRENCH AND GERMANS WENT AHEAD WITH CONTRACTS TO PURCHASE SOVIET GAS, IT WOULD BE HARD FOR ITALY NOT TO FOLLOW, NOT LEAST FOR DOMESTIC POLICTICAL REASONS.

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8. FCO PSE PASS SAVING ADDRESSEES.

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CONSULTATIONS SUMMARISED IN PARA7 OF YOUR TUR. HE EMPHASISED ETC

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FM UKDEL NATO 191630Z MAR 82
TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE,
TELEGRAM NUMBER 142 OF 19 MARCH 1982,
INFO PRIORITY WASHINGTON, PARIS, BONN, UKREP BRUSSELS,
INFO ROUTINE ROME, TOKYO, UKDEL OECD,
INFO SAVING ALL OTHER NATO POSTS, MOSCOW, WARSAW, DUBLIN.

YOUR TELNO 83 (NOT TO ALL): NORTH ATLANTIC COUNCIL: BUCKLEY MISSION.

1. BUCKLEY ACCOMPANIED BY LELAND (WHO LEFT EARLY) AND BAILEY BRIEFED THE COUNCIL THIS MORNING. HIS PRESENTATION WAS WELL-JUDGED AND STIMULATED A USEFUL EXCHANGE. THE MAIN POINTS WERE AS FOLLOWS (FULLER RECORD FOLLOWS BY BAG).

2. IN HIS OPENING STATEMENT BUCKLEY COVERED MUCH THE SAME GROUND AS HE HAD IN BONN, PARIS AND LONDON EXCEPT THAT HE PITCHED HIS REMARKS TOWARDS ALLIANCE CONCERNS. HE SAID THAT PROVISION OF WESTERN CREDIT WAS HELPING THE SOVIET UNION TO EXTEND ITS MILITARY CAPABILITIES AND ITS DRIVE FOR MILITARY SUPERIORITY. THIS, AT A TIME WHEN THE RELATIVE MILITARY CAPABILITIES OF THE WARSAW PACT AND NATO WERE MOVING IN THE FORMER'S FAVOUR: WHEN AN EVER-INCREASING BURDEN OF NATIONAL TAXATION FOR DEFENCE WAS PLACED ON WESTERN TAXPAYERS: AND WHEN SOVIET SELF-CONFIDENCE WAS EVIDENT IN ITS ACTIONS IN THE THIRD WORLD. AGAINST THIS BACKGROUND WESTERN POLICY ON OFFICIAL CREDIT TO

WORLD. AGAINST THIS BACKGROUND WESTERN POLICY ON OFFICIAL CREDIT TO THE SOVIET UNION WAS PARADOXICAL. THE U S THEREFORE WISHED TO EXTEND THE COOPERATION WHICH EXISTED IN DEFENCE PLANNING AND IN COCOM TO DISCUSSION IN A STRATEGIC CONTEXT OF THE ROLE (AND NECESSITY) OF PROVIDING SUCH CREDIT. THE OBJECTIVE WOULD BE TO MONITOR AND EXERCISE DISCIPLINE OVER THE TRANSFER OF RESOURCES TO THE SOVIET UNION THROUGH PROVISION OF CREDIT, WITH A VIEW TO ENDING IN AND EVENTUALLY REVERSING THE RISE IN SOVIET INDEBTEDNESS TO THE WEST WHICH HAD BECOME SO LARGE THAT IT WAS BEGINNING TO LAY THE WEST OPEN TO SOVIET LEVERAGE. IN THE LIGHT OF THE DEBT PROBLEMS OF THE SOVIET BLOC AS A WHOLE THIS MADE FINANCIAL AS WELL AS STRATEGIC SENSE: BUT HE EMPHASISED THAT THE U S INITIATIVE WAS FOCUSSED EXCLUSIVELY ON CREDIT TO THE SOVIET UNION.

3. BUCKLEY SAID THAT THE U S WAS UNDER NO ILLUSIONS ABOUT CHANGING SOVIET BEHAVIOUR THROUGH ECONOMIC MEASURES. THE U S WAS NOT CAMPAIGNING AGAINST EAST/WEST TRADE NOR PROPOSING A TRADE WAR BUT SIMPLY ARGUING THAT TRADE WITH THE SOVIET UNION SHOULD BE CONDUCTED ON A STRICTLY COMMERICAL BASIS. WESTERN COUNTRIES WERE CUTTING THEIR OWN THROATS IN OUT-BIDDING EACH OTHER TO PROVIDE SUBSIDISED CREDIT. THE U S DID NOT UNDER-ESTIMATE THE PRACTICAL DIFFICULTIES WHICH HAD BEEN BROUGHT HOME TO THEM IN THE CAPITALS THEY HAD VISITED, OF CONSTRUCTING A REGIME TO REGULATE CREDITS, GIVEN THE DIFFERENCES IN NATIONAL CREDIT ARRANGEMENTS. BUT WITH POLITICAL WILL A REGIME COULD BE CONSTRUCTED WHICH DID NOT DISADVANTAGE ANY ONE WESTERN COUNTRY. IN ADDITION TO THE BILATERAL DISCUSSIONS IN THE CAPITALS OF THE FOUR COUNTRIES WHO WERE IMPORTANT TRADING PARTNERS OF THE SOVIET UNION, THE U S WAS ALSO CONSULTING JAPAN. (REFERENCE WAS LATER ALSO MADE TO A FORTHCOMING VISIT BY BUCKELY TO OTTAWA).

4. BUCKLEY SAID THAT HE DID NOT WISH TO ADDRESS WESTERN DEPENDENCE ON SOVIET ENERGY IN DETAIL AT THIS MEETING. BUT DISCUSSION WITH ALLIES HAD LED HIM TO THE CONCLUSION THAT THE PROBLEMS OF FINDING ALTERNATIVE SOURCES OF SUPPLY WAS LESS PHYSICAL THAN POLITICAL. BY THIS HE MEANT THE FAILURE OF ANY INTERNATIONAL AGENCY TO PURSUE THE PROBLEM, AND THE NATIONAL POLICIES OF WESTERN COUNTRIES WITH GAS DEPOSITS. HE PROPOSED THAT NATO SHOULD EXAMINE THE LONGER TERM QUESTION OF ALTERNATIVE ENERGY SOURCES FOR EUROPE.

5. IN ANSWER TO QUESTIONS BUCKELY AND LELAND (US TREASURY) MADE THE FOLLOWING ADDITIONAL POINTS:

(A) THE COOPERATION OF THOSE NATIONS PROVIDING MOST CREDIT TO THE SOVIET UNION WAS THE KEY TO THE SUCCESS OF THE U S INITIATIVE. HE HAD BEEN SUFFICIENTLY ENCOURAGED BY THE BILATERAL DISCUSSIONS IN CAPITALS TO BELIEVE THE INITIATIVE COULD BE PURSUED:

(B) THE FIRST STEP WAS TO EXCHANGE INFORMATION ON CREDIT TO THE

IN CAPITALS TO BELIEVE THE INITIATIVE COULD BE PURSUED:

(B) THE FIRST STEP WAS TO EXCHANGE INFORMATION ON CREDIT TO THE SOVIET UNION AND TO EASTERN EUROPE, THE LATTER BEING INCLUDED WAS TO MONITOR WHETHER THE BENEFITS WERE BEING PASSED ON TO THE SOVIET UNION (HE LATER CIRCULATED THE U S QUESTIONNAIRE):

(C) THE PROBLEM CONCERNED NOT ONLY SUBSIDISED OFFICIAL CREDITS BUT ALSO OFFICIAL CREDIT GUARANTEES. THE LATTER DISTORTED THE BANKS' JUDGEMENT OF THE SOVIET UNION'S COMMERICAL CREDIT-WORTHINESS: WITHOUT THEM BANKS WOULD ONLY LEND AT HIGHER RATES (BUCKLEY SAID HE HAD LEARNED IN BONN THAT 70 PERCENT OF GERMAN CREDIT TO THE USSR IN 1980 HAD BEEN IN UNGUARANTEED PRIVATE CREDIT: THIS YEAR GERMAN BANKS WERE REFUSING CREDIT WITHOUT THESE GUARANTEES).

(D) WHILE THE U S SUPPORTED THE EC INITIATIVE TO REGRADE THE USSR IN THE OECD CONSENSUS SYSTEM, THE SOVIET UNION WAS A SPECIAL CASE. QUOTE IF IT WAS JUST ANOTHER COUNTRY, THERE WOULD NOT BE A NATO UNQUOTE (IE MERELY APPLYING THE HIGHER, BUT STILL SUBSIDISED OECD CONSENSUS RATE WAS NOT ENOUGH):

(E) ANY RESTRAINT MEASURES SHOULD APPLY TO NEW CREDITS - IE THOSE FOR WHICH QUOTE TO-DAY UNQUOTE THERE WAS NO LEGALLY BINDING COMMITMENT:

(F) THE U S PROPOSALS APPLIED TO OFFICIAL CREDIT FOR EXPORTS OF COMMODITIES AS WELL AS CAPITAL GOODS:

(G) THE U S WOULD WELCOME VIEWS ON THE FORA IN WHICH CONSULTATION SHOULD PROCEED. BUCKLEY FORESAW FURTHER CONSULTATION INITIALLY WITH A SMALL GROUP OF THOSE COUNTRIES MOST INVOLVED, FOLLOWED BY CONSULTATION IN A FORUM MOST SUITED TO THE SECURITY PERSPECTIVE. THE SUMMIT MEETINGS IN JUNE MIGHT PROVIDE AN APPROPRIATE OPPORTUNITY FOR HIGH LEVEL DISCUSSION.

6. BUCKLEY DID NOT REFER SPECIFICALLY TO THE IDEA OF A PAUSE IN GRANTING OFFICIAL CREDITS TO THE SOVIET UNION.

7. APART FROM QUESTIONS AS IN PARA 5 ABOVE, THE INTERVENTIONS OF MOST OF MY COLLEAGUES WERE LIMITED TO THANKING BUCKLEY, TO EXPRESSING THE IMPORTANCE THEIR GOVERNMENTS ATTACHED TO COORDINATION OF POLICY ON THIS MATTER (BURDEN-SHARING) AND THEIR READINESS TO CONSIDER THE U S PROPOSALS SERIOUSLY. I INDICATED UK READINESS TO TAKE PART IN AN EXCHANGE OF INFORMATION AND DREW ON APPROPRIATE POINTS IN PARA 5 OF FCO TELNO 512 (NOT TO ALL), FOR WHICH I WAS GRATEFUL. I ADDED THAT IF THERE WERE TO BE FURTHER CONSULTATION AT NATO, I THOUGHT THIS SHOULD BE UNDERTAKEN PRIMARILY IN THE COUNCIL AND THE SENIOR POLITICAL COMMITTEE.

8. THE ONLY SLIGHTLY SOUR NOTE WAS STRUCK BY MERILLON (FRANCE) WHO, WHILE CLAIMING THAT FRANCE FULLY SHARED THE U S STRATEGIC AIMS

8. THE ONLY SLIGHTLY SOUR NOTE WAS STRUCK BY MERILLON (FRANCE) WHO, WHILE CLAIMING THAT FRANCE FULLY SHARED THE U S STRATEGIC AIMS, SUGGESTED THAT THE U S APPROACH WAS TOO NARROWLY-FOCUSSED AND SIMPLISTIC. FRANCE'S APPROACH WAS GLOBAL; MEASURES HAD TO BE VIEWED AGAINST THE WHOLE BACKGROUND OF EAST/WEST POLICY, ENERGY POLICY, UNEMPLOYMENT AND NOTHING SHOULD BE DONE WHICH HURT OURSELVES MORE THAN THE SOVIET UNION. DESPITE THIS, BUCKLEY SHOULD RETURN TO WASHINGTON WITH THE GENERAL IMPRESSION THAT HE RECEIVED A FAIR AND CONSTRUCTIVE HEARING FROM THE COUNCIL.

FCO PLEASE PASS SAVING TO ANKARA, ATHENS, COPENHAGEN, THE HAGUE, LISBON, LUXEMBOURG, OSLO, OTTAWA, REYKJAVIK, MOSCOW, WARSAW, DUBLIN.

GRAHAM.

NNNN

SENT AT 19/1712Z MNJ