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PM brief

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EUROPEAN COUNCIL, BRUSSELS

29/30 March 1982

EAST/WEST : BUCKLEY MISSION

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

1. In our interest to try to meet American concern over supply of Western credit to Soviet Union. Otherwise high risk of Americans going it alone on further round of measures and of further strains in relations between Europe and the United States.
2. Message from American Government shows they expect concrete recommendations from the European Council and that the meeting will ensure that partners join with the Americans in studying their proposals. Believe therefore that we must take Buckley proposals seriously. The European Council should make a clear statement to this effect.
3. We think first step should be to analyse thoroughly state of Soviet economy and importance to it of official credits and guarantees. Then consider desirability and feasibility of common action.
4. We must avoid doing anything which could do more damage to the West than to the Soviet Union.
5. We must also think hard about burden-sharing. Important that Japan and Canada should be associated with any steps taken.

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6. [If Raised] Mission did not discuss in detail problem of existing contracts, but implied that resolution was linked to progress on credits. Believe link should be broken. Need decision on existing contracts very soon.
7. [If Raised] Mission did not raise question of non-undermining.
8. Community should continue to press OECD Export Credit Consensus to upgrade Soviet Union to 'relatively rich' category.

BACKGROUND

Reference:

- A : Draft Statement on East-West Economic Relations discussed by Political Committee on 26 March 1982
- B : FCO telegram No.512 to Washington

9. Buckley Mission visited FRG, France, UK, Italy and Brussels (NATO, Presidency and Commission) in mid-March. Americans also talking to Japan and Canada. Chose these countries as they provide over 90% of officially-supported and guaranteed credit for the Soviet Union. In the US view talks went well in Rome, reasonably well in London and Paris, less well in Bonn.
10. Objective of mission to start a dialogue about medium and long-term officially-supported and guaranteed credit to the Soviet Union. Mission also urged, on grounds of prudence, restraint in extending further credit to countries of East Europe.
11. Mission did not discuss question of 'non-undermining', but indicated that resolution of problem of existing contracts affected by US measures of 29 December might depend on response to Buckley proposals.

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12. A message from Secretary Haig received on 26 March stressed the importance the United States attached to a positive outcome from the European Council meeting. Similar messages have, no doubt, gone to the French, Germans, Italians and Presidency. The Political Committee discussed the text at Annex A on 26 March. The Germans and others (eg. Danes) wished to water the text down and in particular omit the specific reference to export credit. We regard the text - including bracketed passages - as the minimum acceptable. It is particularly important that the final paragraph should be retained.

13. Community proposal in Export Credit Consensus on 10 March to up-grade Soviet Union supported by most other members including US and Japan, but blocked by neutrals (Sweden, Switzerland, Austria and Finland). However latter group indicated that they would support up-grading as part of general reclassification package, to be discussed in May.

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DRAFT STATEMENT PREPARED BY POLITICAL COMMITTEE : 26 MARCH 1982

(Square brackets are by FRG, Danes and others. All delegations have a general reserve on the text.)

[Against the sombre background of events in Poland and elsewhere] the Heads of State and Government reviewed the state of economic relations between their own countries and those of Eastern Europe, particularly in the light of the significant and specific role played by Community trade in regard to these countries.

They recognised the role which economic and commercial contacts had played in the stabilisation and development of East-West relations as a whole. They noted the existence of certain problems resulting from world economic trends, but in part also from the special nature of the state-trading economies and the basis on which East-West economic and commercial relations had come to be conducted. They saw an inevitable interaction between economic and political factors.

The Heads of State and Government agreed that these questions should be the subject of urgent and careful study by the European Community and by their own and other Governments, both nationally and in the international organisations concerned, and in close consultation with US and other major trading partners.

[It is in this context that the Heads of State and Government placed the particular question of government subsidised and government-guaranteed export credit to which the Government of the United States had recently drawn attention.]

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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 OECD

INFO SAVING OTHER EC 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. Further action on these measures would be held in suspense pending the outcome of his mission. The mission's purpose was to discuss the desirability of providing officially supported 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 US 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 US believed that Western countries must reduce the burden of debt overhanging Western financial institutions. The nervousness of Western private banks about lending to the USSR 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 US questionnaire to provide the data on which proper decisions could be made.
4. Leland (US 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 USSR, he also spoke of the link between the Soviet and Eastern European problems. Decisions were needed very shortly on Eastern Europe. **CONFIDENTIAL** Differentiated approach towards Eastern Europe would only be possible if a more restrictive policy

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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 US team stressed the part 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 UK was not in principle in favour of subsidising export credits. The difficulty was achieving a policy which would not disadvantage the UK. 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 UK 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 NATO 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, NATO would also be an appropriate forum for analysis of the Soviet economic position and of the long-term policy options. The OECD should not be over-looked as an important forum for objective economic analysis of a non-political kind, 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 EC, both on standard lines.

9. Addressees may pass on the above freely to host governments. Rome should inform Bucci as soon as possible.

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