



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

The figures relating to the  
John Brown contract - which you  
need with Mr. Haig earlier -  
are in the last page attached.

3 June 1982

Dear John,

A.F.C.  $\frac{3}{6}$ East/West Economic Relations

I enclose a copy of Washington telno 1976. This makes it clear that, in the view of American officials, the related subjects of export credit for the Soviet Union and the exemption of existing European contracts from the impact of the measures against the Soviet Union adopted by the United States Administration on 29 December 1981 are likely to be the most difficult issue at the Versailles Economic Summit. It quotes the comment of a State Department official that the problem of existing contracts cannot now be resolved within the Washington bureaucracy and his belief that only a direct appeal by the Prime Minister to the President when she meets him will do the trick; ie secure the exemption of these contracts.

The Foreign and Commonwealth Secretary spoke to the American Ambassador about existing contracts on 2 June. He reminded Mr Louis that President Reagan had not replied to either of the two messages (dated 29 January and 5 April) in which the Prime Minister had referred to the subject; pointed out to him that it was the Americans who had created a link between the problems of export credit and existing contracts; and underlined to him the serious difficulties which were now faced by the British companies concerned, especially John Brown.

Although Mr Louis undertook to report our concerns to Mr Haig immediately, the Foreign and Commonwealth Secretary hopes that the Prime Minister will be willing to have a word with President Reagan about the problem of existing contracts at Versailles. It is really most important that the Americans should make a move on this issue. Unless they do, John Brown will face extremely serious problems; and it is possible that the related question of export credit for the Soviet Union, by which the Americans set so much store, could become a serious bone of contention at the Summit. It is hard to believe that either President Mitterrand or Chancellor Schmidt would be willing to give the Americans much over export credit unless the Americans were prepared to do something about the contracts of French and German firms which have now been blocked for over five months.

(attached) The Prime Minister could remind President Reagan of what she said to him in her messages of 29 January and 5 April; point out to him that it is the Americans who have established a link between the problems of export credit and existing contracts; and indicate to him just how far we have been prepared to go, so far

/on





on an unrequited basis, on the first of these problems. She could also point out that the French and the Germans, who have so far been dragging their feet over export credit, would be much more likely to offer something substantial in this field if they could be assured that the contracts of their companies were to be exempted from the impact of the American measures. She could also, perhaps, mention the fact that NATO contingency planning for a Soviet invasion of Poland specifically exempted existing contracts from any measures to be adopted, precisely because of the legal and political problems which would otherwise arise.

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

*Yours over.*

A handwritten signature in dark ink, appearing to read 'Francis Richards', written in a cursive style.

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street