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TO IMMEDIATE FCO

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INFO IMMEDIATE BANGKOK (FOR PRIVATE SECRETARY) <sup>MR COLES 10 DOWNING ST</sup> BONN PARIS UKDEL NATO

UKREP BRUSSELS PRIORITY ROME WARSAW MOSCOW

US RESPONSE ON POLAND

1. WHEN I SAW EAGLEBURGER TODAY I ASKED HIM ABOUT THE DECISIONS OF THE NATIONAL SECURITY COUNCIL YESTERDAY ON THE ABOVE SUBJECT. HE TOLD ME THAT IT HAD BEEN DECIDED NOT TO CALL A DEFAULT ON POLISH DEBTS. THE GRAIN QUESTION AND THAT OF A WIDER TRADE EMBARGO HAD BEEN LEFT OPEN. EAGLEBURGER SAID HE COULD NOT TELL ME THAT THE US HAD ACTUALLY DECIDED AGAINST SUCH AN EMBARGO, BUT NEVERTHELESS HE THOUGHT IT WAS EXTREMELY UNLIKELY THAT THEY WOULD PROCEED WITH ONE.

2. THE OTHER QUESTIONS HAD BEEN LEFT FOR FURTHER EXAMINATION. BY THIS HE MEANT THAT NO DECISIONS HAD BEEN TAKEN TO EXTEND THE PRESENT EMBARGOES (IE ON ENERGY-RELATED PRODUCTS AND HIGH TECHNOLOGY) TO AMERICAN SUBSIDIARIES ABROAD OR TO PRODUCTS IN THESE BANNED CATEGORIES MADE UNDER LICENCE ABROAD AND DESTINED FOR EXPORT TO THE SOVIET UNION.

3. I ASKED ABOUT EXISTING CONTRACTS, WITH PARTICULAR RELATION TO JOHN BROWN. EAGLEBURGER (WHO THEN CALLED IN AN EXPERT) SAID THAT THERE HAD BEEN NO CHANGE ABOUT THIS SINCE THE PRESIDENT'S STATEMENT OF 29 DECEMBER. THEY WERE DEFINITELY CAUGHT BY THE EXISTING EMBARGO. RE-EXPORT LICENCES WOULD BE REQUIRED FOR GENERAL ELECTRIC COMPONENTS IN ENERGY AND ENERGY-RELATED FIELDS AND THESE WOULD NOT BE GRANTED.

4. I POINTED OUT THE INEQUITY INVOLVED: A FRENCH FIRM COULD PRODUCE A PRODUCT UNDER LICENCE FROM GENERAL ELECTRIC AND WAS ABLE TO EXPORT IT TO THE SOVIET UNION; BUT JOHN BROWN WHO HAD PURCHASED EXACTLY THE SAME PRODUCT FROM AMERICA AND INCORPORATED IT AS A COMPONENT IN A PIECE OF EQUIPMENT FOR EXPORT TO THE USSR WAS NOT ALLOWED TO DO SO. EAGLEBURGER ACKNOWLEDGED THE PROBLEM. HE SAID THAT HAIG WAS VERY MUCH AWARE OF IT. HE HAD BEEN MUCH AFFECTED BY THE ARGUMENTS THE PRIME MINISTER HAD USED WITH HIM ON THE SUBJECT. HE IMplored ME NOT TO CONCLUDE THAT A DEFINITE NEGATIVE DECISION HAD BEEN REACHED. THE SUBJECT WAS STILL UNDER EXAMINATION.

5. FROM THIS WE WENT ON TO A GENERAL CONVERSATION ABOUT AMERICAN INTENTIONS IN THE TRADING FIELD VIS-A-VIS THE SOVIET UNION. I SUGGESTED THAT IF THEY THEMSELVES WERE NOT BENT UPON TERMINATING THEIR TRADE WITH THE SOVIET UNION THEY COULD NOT EXPECT THEIR EUROPEAN PARTNERS TO DO SO EITHER. BUT WHAT ABOUT THE PIPELINE? WAS IT THE US INTENTION TO DO EVERYTHING POSSIBLE TO THWART THE CONSTRUCTION AND USE OF THE PIPELINE? EAGLEBURGER SAID THAT THE

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AMERICANS CONSIDERED THE PIPELINE A GRAVE ERROR. NOT SO MUCH BECAUSE IT WOULD INCREASE WESTERN EUROPEAN ENERGY DEPENDENCE UPON THE SOVIET UNION BUT BECAUSE IT WOULD PROVIDE THE SOVIET UNION WITH SO MUCH HARD CURRENCY. WITHIN THEIR POWER THEREFORE THE US ADMINISTRATION WOULD DO EVERYTHING IT COULD TO PREVENT THE EUROPEANS FROM HELPING WITH THE CONSTRUCTION OF THE PIPELINE. I SAID THAT MY VIEW WAS THAT THE FRENCH AND GERMANS WERE DETERMINED TO GO AHEAD WITH THE PIPELINE. THE AMERICANS HAVE NEVER BEEN ABLE TO COME UP WITH ANY ALTERNATIVE SOLUTION TO MEET THE EUROPEAN CONTINENT'S ENERGY NEEDS. WHAT WAS THE POINT OF HAVING A CONTINUING ROW WITH THE EUROPEANS ABOUT THE PIPELINE IF THEY KNEW THAT THE EUROPEANS WERE GOING TO GO AHEAD ANYWAY? EAGLEBURGER ADMITTED THAT THERE MIGHT BE LITTLE POINT IN DOING SO: NEVERTHELESS THERE WAS STRONG FEELING IN THE TOWN THAT AMERICAN GOODS SHOULD NOT BE USED TO HELP THE CONSTRUCTION OF THE PIPELINE.

6. THERE WAS ALSO STRONG OBJECTION TO THE PROVISION OF GUARANTEED EXPORT CREDITS TO THE SOVIET UNION BY EUROPEAN GOVERNMENTS. NEITHER EXIM BANK NOR THE COMMODITIES CREDIT CORPORATION HAD BEEN ALLOWED TO PROVIDE SUCH CREDIT SINCE 1974. THE AMERICANS RECOGNISED THAT IT WAS A STEP IN THE RIGHT DIRECTION FOR THE EUROPEAN COUNTRIES TO RECLASSIFY THE SOVIET UNION AS A QUOTE RELATIVELY RICH UNQUOTE COUNTRY. THIS WOULD BRING THE COST OF SOVIET BORROWING A LITTLE NEARER TO MARKET RATES. BUT THEY WOULD PREFER TO SEE US MOVE STILL FURTHER INTO LINE AND STOP SUBSIDISING SOVIET TRADE ALTOGETHER.

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