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TO IMMEDIATE F C O

TELEGRAM NUMBER 450 OF 11 FEBRUARY

INFO PRIORITY UKDEL NATO, PARIS, BONN, ROME AND UKREP BRUSSELS

POLAND: ECONOMIC MEASURES AGAINST THE SOVIET UNION.

A SENIOR INTERAGENCY GROUP MET THIS AFTERNOON UNDER STOESSEL'S CHAIRMANSHIP TO CONSIDER WHAT STEPS TO TAKE NEXT IN THE LIGHT OF THE OUTCOME OF THE N.A.C. MEETING LAST WEEK. HORMATS GAVE MINISTER THE FOLLOWING ACCOUNT IN STRICT CONFIDENCE.

2. IT WAS DECIDED IN PRINCIPLE TO SEND A QUOTE GRAND EMBASSY UNQUOTE TO SELECTED EUROPEAN CAPITALS TO DISCUSS THE WHOLE SERIES OF INTER-RELATED PROBLEMS OF HOW TO DEFINE UNDER-CUTTING, WHAT TO DO ABOUT SPECIFIC CONTRACTS, ESPECIALLY THOSE CONNECTED WITH THE GAS PIPELINE, AND WHAT TO DO ABOUT CREDITS TO THE SOVIET UNION. THE QUESTION WILL BE SUBMITTED TO THE N.S.C. EARLY NEXT WEEK. IN HARMATS' JUDGEMENT, HARD DECISIONS ARE UNLIKELY TO BE TAKEN BEFORE THEN.

3. THE MISSION IS LIKELY TO BE LED AT DEPUTY SECRETARY OR UNDER SECRETARY LEVEL (PROBABLY STOESSEL OR BUCKLEY). IT IS LIKELY TO VISIT ROME FIRST, FOLLOWED BY PARIS, BONN, AND LONDON. (HORMATS HAD ARGUED AGAINST STARTING WITH LONDON ON THE GROUNDS THAT THIS MIGHT LOOK LIKE THE US AND THE UK GANGING UP, WHICH WOULD BE COUNTER-PRODUCTIVE, BESIDES BEING AWKWARD FOR US.)

4. NO DATES HAD BEEN AGREED FOR THE MISSION BUT IN HORMATS VIEW IT MIGHT BE LAUNCHED AS SOON AS THE MIDDLE OF NEXT WEEK.

5. NOR HAD ANYTHING YET BEEN AGREED ON THE SUBSTANCE OF WHAT THE MISSION SHOULD TRY TO ACHIEVE. EACH AGENCY CONCERNED (PRINCIPALLY STATE, DEFENCE, TREASURY AND COMMERCE) WOULD BE PUTTING TOGETHER ITS OWN OPTIONS PAPER BY THE END OF THIS WEEK. THESE WOULD BE COLLATED INTO A SINGLE PAPER FOR THE N.S.C. HORMATS SAID IT WAS TOO SOON TO SPECULATE WHAT THIS PAPER MIGHT CONTAIN. AT THE MOMENT, HE EXPECTED IT TO BE CONFINED TO THE SUBJECT AREAS MENTIONED IN PARAGRAPH 2 ABOVE. BUT THERE WAS A CRESCENDO OF PRESSURE BUILDING UP OVER THE HANDLING OF POLISH DEBT. THE TREASURY AND STATE DEPARTMENT HAD SO FAR BEEN ABLE TO HOLD THE LINE AND HE WAS REASONABLY CONFIDENT THAT IT WOULD HOLD UNTIL THE RESULTS OF THE PROPOSED MISSION COULD BE LOOKED AT. THEREAFTER MUCH WOULD DEPEND ON THE RESULTS.

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6. HORMATS MENTIONED TWO IDEAS WHICH HAD BEEN VENTILATED TODAY. THESE WERE:-

- (I) A POSSIBLY DEFINITION OF NOT UNDERMINING MIGHT BE THAT EUROPEAN FIRMS WOULD NOT BID FOR A CONTRACT IF A US FIRM THAT WAS PREVENTED FROM BIDDING COULD BE SHOWN ON THE BASIS OF SOME REASONABLE TEST TO BE COMPETITIVE. (THOMAS EXPRESSED DOUBTS ABOUT THE POWERS OF EUROPEAN GOVERNMENTS TO IMPOSE SUCH RESTRICTIONS ON THEIR FIRMS, EVEN IF THE NOTION OF POTENTIAL COMPETITIVENESS COULD SOMEHOW BE VALIDATED, WHICH SEEMED UNLIKELY).
- (II) A POSSIBLE WAY OF DEALING WITH CREDITS MIGHT BE TO DECLARE THAT EUROPEAN GOVERNMENTS WOULD ISSUE NO NEW OFFICIALLY GUARANTEED CREDITS COVERING SOVIET TRADE (HORMATS ACCEPTED THAT THE PROBLEM ON THIS WOULD BE TO GET ENOUGH GOVERNMENTS TO AGREE TO DO IT).

7. COMMENT.

THERE IS STILL A LOT OF PRESSURE HERE FOR A FURTHER ROUND OF UNILATERAL MEASURES. WE CAN BE REASONABLY SURE, BARRING A SHARP DETERIORATION OF THE SITUATION IN POLAND, THAT NOTHING WILL BE DECIDED UNTIL AFTER THE PROPOSED SENIOR MISSION HAS MADE ITS TOUR. BUT IT WILL NEED TO BE ABLE TO SHOW SUBSTANTIAL PROGRESS ON ITS RETURN ON NON-UNDERMINING AND PERHAPS ALSO ON CREDITS, IF WE ARE TO GET ANY ACCOMMODATION ON EXISTING CONTRACTS AND AVOID A SECOND STRIKE OF SOME SORT. IT WOULD PROBABLY BE HELPFUL HERE IF, WITHOUT SHOWING TOO MUCH OF OUR HAND IN ADVANCE, WE AND OTHER COULD GIVE THE IMPRESSION OF INTENSIVE ACTIVITY TO PREPARE FOR FURTHER DISCUSSIONS ON THESE QUESTIONS, PERHAPS EVEN PUTTING FORWARD A FEW IDEAS OF OUR OWN ON A TENTATIVE AND NON-COMMITTAL BASIS. ANYTHING THAT CREATES A SENSE OF CONTINUING EFFORT WILL HELP.

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