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*The problem of
"existing contracts"
is still with us.
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FM WASHINGTON 250105Z FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 613 OF 24 FEBRUARY

INFO UKREP BRUSSELS BONN ROME PARIS UKDEL NATO MOSCOW WARSAW

MY TELEGRAM NO. 596: MEASURES AGAINST THE SOVIET UNION

1. ACTING ON INSTRUCTIONS RECEIVED BY TELEPHONE TODAY FROM MACLEAN (TRED) I DELIVERED A FORMAL NOTE TO THE STATE DEPARTMENT THIS AFTERNOON SEEKING EXEMPTION FOR EXISTING CONTRACTS FROM THE U.S. MEASURES AGAINST THE SOVIET UNION ADOPTED ON 29 DECEMBER. TEXT OF NOTE FOLLOWS BY BAG.

2. IN HANDING OVER THE NOTE TO EDGAR (ACTING DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS) IN THE ABSENCE ABROAD OF HORMATS, I REHEARSED THE BACKGROUND, ON THE LINES SET OUT IN YOUR TELEGRAM TO UKREP BRUSSELS NO 109, (PRESIDENCY VISIT TO WASHINGTON). I THOUGHT IT WAS NOW WELL UNDERSTOOD THAT WE FULLY AGREED WITH THE US ON THE NEED TO CONDEMN THE IMPOSITION OF MARTIAL LAW AND SOVIET COMPLICITY IN IT. WE HAD AGREED AT THE NATO MINISTERIAL MEETING OF 11 JANUARY AND AT THE VARIOUS MEETINGS IN THE EARLY PART OF FEBRUARY TO GIVE COMPLEMENTARY SUPPORT TO MEASURES THE U.S. HAD TAKEN. WE HAD ANNOUNCED A SET OF MEASURES OURSELVES ON 4 FEBRUARY WHICH WERE FULLY COMPLEMENTARY TO WHAT THE AMERICANS HAD DONE. OTHERS HAD NOW DONE LIKEWISE IN THEIR VARIOUS WAYS. IN ADDITION, THE COMMUNITY HAD DECIDED IN EARLY FEBRUARY IN FAVOUR OF RECLASSIFYING THE SOVIET UNION AS A QUOTE RELATIVELY RICH UNQUOTE COUNTRY FOR EXPORT CREDIT PURPOSES. YESTERDAY THE COUNCIL OF MINISTERS HAD DECIDED TO ADVANCE A FURTHER TRANCHE OF HUMANITARIAN AID FOR POLAND TO BE DISTRIBUTED THROUGH AGREED CHANNELS, AND IN ADDITION HAD DECIDED IN PRINCIPLE, TO REDUCE IMPORTS FROM THE SOVIET UNION BY ACTION UNDER ARTICLE 113. I POINTED OUT THAT THIS LATTER STEP WAS BEING TAKEN BY THE EUROPEAN COMMUNITY AHEAD OF ANY US DECISION TO ACT AGAINST SOVIET EXPORTS.

3. I SAID THAT ALL THIS UNDERLINED THE EXTENT TO WHICH WE WERE WORKING IN THE SAME DIRECTION AS THE US GOVERNMENT. BUT THEY MUST RECOGNISE THE POTENTIALLY DIVISIVE EFFECTS WITHIN THE ALLIANCE OF THE FACT THAT THEIR OWN REGULATIONS, AS DRAWN UP, BIT SHARPLY ON EXISTING CONTRACTS. THEIR EFFECT WENT FURTHER THAN ANY MEASURES FORESEEN IN THE CONTINGENCY PLANNING WORK DONE IN NATO LAST YEAR FOR USE IN THE EVENT OF SOVIET INVASION. I DREW ATTENTION TO THE IMBALANCE IN THE POTENTIAL SACRIFICE INVOLVED AND SAID THAT UNLESS A WAY COULD BE FOUND OF RESOLVING THE

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PROBLEM, WE RISKED HAVING A MAJOR TRANSATLANTIC ROW I SAID THAT AT THE CONCLUSION OF THE MEETINGS ON 2 AND 3 FEBRUARY WE HAD THOUGHT THERE WERE THE MAKINGS OF AN UNDERSTANDING THAT PROVIDED THE EUROPEANS CAME UP WITH ADEQUATE COMPLEMENTARY MEASURES AND WERE ABLE TO GIVE SATISFACTORY ASSURANCES ON NON-UNDERMINING, THE U S WOULD DO ITS UTMOST TO FIND SUFFICIENTLY FLEXIBILITY IN THEIR OWN REGULATIONS TO LET EXISTING CONTRACTS THROUGH. WE HAD DONE OUR BIT ON THE FIRST PROVISIO AND WERE READY TO DISCUSS THE SECOND, ON WHICH WE BELIEVED WE HAD MADE SOME PROGRESS. WE LOOKED TO THE AMERICANS TO DO THEIR PART TO MEET US ON EXISTING CONTRACTS.

4. I TOOK THE OPPORTUNITY ALSO OF REFERRING TO THE REPORTS WE HAD RECEIVED THAT THE BUCKLEY MISSION, WHEN IT TOOK PLACE, WOULD BE LIKELY TO BE PURSUING THE QUESTION OF FUTURE CREDITS. I REPEATED THE POINT WHICH I MADE ON EARLIER OCCASIONS INFORMALLY TO HORMATS THAT IN OUR VIEW THIS WAS A QUESTION WHICH WOULD NEED MAJOR AND SUSTAINED EFFORT TO RESOLVE AND SHOULD MORE APPROPRIATELY BE TREATED ALONG WITH THE LONGER TERM ISSUES WHOSE STUDY WAS CALLED FOR IN THE NATO COMMUNIQUE OF 11 JANUARY.

5. EDGAR LISTENED CAREFULLY AND UNDERTOOK TO SEE THAT COPIES OF OUR NOTE TOGETHER WITH AN ACCOUNT OF THE POINTS I HAD MADE, WAS CIRCULATED QUICKLY TO ALL THOSE CONCERNED. I WOULD KNOW THAT THIS WHOLE QUESTION WAS CURRENTLY UNDER DISCUSSION AMONG DEPARTMENTS IN WASHINGTON. HE COULD GIVE ME NO ASSURANCES, BUT THE STATE DEPARTMENT WAS FULLY AWARE BOTH OF THE UK CONCERN ABOUT EXISTING CONTRACTS AND OF THE DESIRABILITY OF AVOIDING ACTION WHICH WOULD RISK DIVIDING THE ALLIANCE.

6. I HAD EARLIER CALLED ON OLMER (UNDER SECRETARY, DEPARTMENT OF COMMERCE) TO GO OVER THE SAME GROUND AND LEFT A COPY OF THE NOTE WITH HIM. OLMER WAS GLAD TO HEAR OUR CASE AT FIRST HAND. HE SEEMED IMPRESSED BY THE ACCOUNT I GAVE HIM OF THE DECISIONS WHICH THE EUROPEAN COUNCIL OF MINISTERS HAD TAKEN YESTERDAY (UKREP BRUSSELS TELEGRAM NO 697). HIS EXECUTIVE ASSISTANT WHO WAS PRESENT, ARGUED THAT A REDUCTION IN IMPORTS FROM THE SOVIET UNION WOULD INVOLVE NO GREAT SACRIFICE: IT WOULD SIMPLY REDUCE THE EC'S DEFICIT WITH THE USSR. I REPLIED WITH SOME HEAT THAT THIS WAS A GOOD ILLUSTRATION OF THE PRESENTATIONAL PROBLEM WE FACED. I HAD NOTICED A TENDENCY FOR THE AMERICANS TO MINIMISE EVERYTHING THAT THE EUROPEANS DID IN THIS CONTEXT. IT WOULD BE EASY FOR US TO DO THE SAME IN RETURN. I THOUGHT IT HAD BEEN AGREED BETWEEN US THAT OUR OBJECTIVE SHOULD BE TO CAUSE MAXIMUM DAMAGE TO SOVIET INTERESTS WHILE CAUSING MINIMAL DAMAGE TO

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OUR OWN. I POINTED OUT THAT THE POTENTIAL DAMAGE TO THE EUROPEAN ECONOMIES FROM THE MEASURES THE AMERICANS HAD ALREADY TAKEN WAS DOLLARS 4 BILLION COMPARED WITH DOLLARS 400 MILLION A YEAR TO THE U S. IT WAS HARDLY SURPRISING IN THESE CIRCUMSTANCES THAT THE EUROPEANS BEGAN TO ASK QUESTIONS ABOUT GRAIN EXPORTS. OLMER ACCEPTED THAT I HAD A POINT BUT SAID WE SHOULD REALISE THAT THE ADMINISTRATION HAD HAD SIMILAR COMPLAINTS FROM SUCH COMPANIES AS CATERPILLAR. I REMINDED HIM THAT THE U S GOVERNMENT HAD EVERY RIGHT TO DAMAGE CATERPILLAR'S INTERESTS BUT NONE WHATEVER TO DAMAGE JOHN BROWN'S.

7. OLMER TOLD ME IN CONCLUSION THAT THE WHOLE QUESTION OF POSSIBLE FURTHER MEASURES AGAINST THE SOVIET UNION WAS TO BE DISCUSSED AT AN NSC MEETING, UNDER THE PRESIDENT'S CHAIRMANSHIP, DUE TO TAKE PLACE ON 26 FEBRUARY. THE IDEA OF A MISSION LED BY UNDER SECRETARY BUCKLEY IN WHICH OLMER WOULD PARTICIPATE WAS ONE OF THE POSSIBLE OPTIONS WHICH MIGHT BE ADOPTED. MY CALL HAD THEREFORE BEEN TIMELY. I SAID THAT SUCH A MISSION, PROVIDED ITS PURPOSE WAS NOT SIMPLY TO ANNOUNCE NEW MEASURES, WOULD CERTAINLY BE PREFERABLE TO A DECISION TO TAKE UNILATERAL ACTION, WHICH WOULD RISK CAUSING AS MUCH IF NOT MORE DAMAGE TO THE ALLIANCE THAN TO THE RUSSIANS.

8. ADVANCE TO LORD BRIDGES.

THOMAS

(ADVANCED AS REQUESTED)

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