



Prime Minister

For information.

ABL 8/5

*[Handwritten signature]*

FCS/82/38

SECRETARY OF STATE FOR TRADE

Poland: Measures Against the Soviet Union

1. Thank you for your letter of 3 March 1982.
2. Discussion in the Community is now drawing to a conclusion. A draft Council Regulation imposing more restrictive quotas on Soviet exports to the Community is largely agreed by 7 member states (only the UK has an outstanding point of substance); Greece is prepared to be out-voted; only Denmark still has a reservation on Community action under Article 113. The Danes are very much in two minds about this, on the one hand disliking what they see as economic sanctions regarded as a matter of trade policy, but disliking equally being in a minority of one and blocking Community action although they appear not to object to economic sanctions as such. Subject to the Danish reservation, final decisions are close, so I owe my colleagues a report as well as you a reply to the points in your letter.
3. The situation now reached is as follows. There is agreement in Brussels to restrict Community imports from the Soviet Union of a wide range of goods to 50 per cent of 1980 quotas (where quotas exist) and to 25 per cent of 1980 trade levels where currently quotas do not exist. A number of items on the Commission's list of goods to be restricted (essentially manufactured goods and luxury products) have been deleted at the request of one or more member states. This includes all the deletions we sought. With the deletion of items of significance to the UK the Commission's figures show UK trade as being least affected among member states doing significant trade with the Soviet Union (Benelux 58 per cent, FRG 23 per cent, France 8.5 per cent, Italy 5 per cent, UK 4 per cent) so we come out well in the burden-sharing stakes. The effect of the

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deletions is to reduce the impact of the proposed restrictions to about 1 per cent of Soviet trade. While this is a very small proportion, it is nonetheless a useful signal both to the Soviet Union and to the Americans.

4. We also achieved the other main objective mentioned in your letter, exemption from the restrictions for contracts already concluded. We got this put in both because of its intrinsic value and because of its importance to our position vis-à-vis the Americans. Unfortunately although we argued strongly, we were in a minority of one in seeking a definition of 'contracts concluded' which specifically covered outline agreements and other similar undertakings. This is the one substantive point outstanding in the discussion which (subject to the overall Danish reserve) is now holding up Community agreement on the regulation. Your officials and mine are in touch about it and will, I hope, be able to resolve the problem at their level: this is not a point which we can usefully pursue further with our partners.

5. Other points are that, as a price for being willing to be out-voted, Greece will be exempted from applying the restrictions; the regulation will run for a year subject to renewal; and that it will enter into force the day after publication in the official journal.

6. We came under heavy pressure in Brussels on Friday (5 March). It was pointed out that we were least affected by the measures, yet holding out where others did not feel it necessary to do so. The Presidency wants to get the regulation agreed today (8 March) so that the Danes can be presented with a united front and has left it that the UK should inform the Presidency of its position as soon as possible in the course of the day. They would like to get it as an A point to the Council as early as 15 or 16 March, with entry into force the following day. We argued unsuccessfully and in isolation for a slightly slower implementation, if only to allow time

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for the licensing machinery to be put into place. The reason for the haste is the fear that leaks are inevitable with a consequent rush by traders to evade the new quotas. Implementation as early as possible is therefore regarded as essential.

7. This is germane to the point you raise about modifying the size of the cuts we are prepared to impose on the Soviet Union in proportion to American willingness to meet the Europeans on existing contracts. I have much sympathy with your approach. Unfortunately I do not believe it to be practicable or desirable for several reasons:

- a) We shall receive little comprehension from partners now anxious to go ahead quickly for the reasons given above;
- b) the deal you suggested (a 50 per cent cut in Soviet imports if the Americans are forthcoming; a lesser one if not) has been rather overtaken by the negotiations. A 25 per cent reduction in the liberalised sector was the highest figure that all would agree to; and a 50 per cent cut in present quotas is more than it sounds because many quotas are seriously unfulfilled. So what the Community would be prepared to do is not in practice much of a bargaining card with the Americans, especially since they know that the original Commission proposal envisaged substantially larger cuts which have been whittled down to only 1 per cent of Soviet trade by the end. We should do better to decide what we can do, do it and make maximum use of that with the Americans.

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c) Finally there would be immense practical difficulties in transferring what can be agreed with the Americans in a highly confidential negotiation involving only four members of the Community to the Community forum.

8. Against this background, I propose to accept what is on the table. If you have any difficulty with this, I should - in view of the Brussels deadline - be grateful if your officials would let mine know by telephone as early as possible today (8 March) and in any case before 1600 hours. I am meanwhile sending a message to Olesen to make it plain that we have no sympathy with his stand on the issue of action under Article 113.

9. I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry, the Minister for Agriculture and Sir Robert Armstrong.

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(CARRINGTON)

Foreign and Commonwealth Office

8 March 1982



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