



~~Handwritten signature~~ Sarunia
N&P yet: submit with comments
from Foreign Secretary & Chancellor. *And*

From the Secretary of State

The Rt Hon the Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

23 October 1980

Jean Peter.

CREDIT TERMS FOR BUSINESS WITH THE USSR

In my letter of 18 September I suggested that in the interests of our trade prospects through their next Five Year Plan period (1981-85) we ought now to consider a limited change of course in our relationship with the USSR.

Added point is given to the desirability of such a change by the opportunity for Rolls Royce to participate in the £5 billion project to bring to Western Europe part of the production of the West Siberian gas field. Rolls Royce are keen to participate with a Franco/West German consortium in a bid for the construction of 37 compressor stations required for this very large project. They hope to win a substantial part of the project's £800 million turbine/compressor equipment requirement. They have very little prospect of succeeding in this endeavour unless they are able to arrange UK finance for their participation on terms similar to those available from France and Germany. In the case of France the terms provided for under the Franco/Russian Credit Agreement will probably apply. These provide for an interest rate which is $\frac{3}{4}\%$ below the Consensus minimum to which we have adhered since the expiry of our credit agreement with the Russians in February. The Germans do not subsidise interest rates and are, therefore, less constrained by the Consensus: they are said to be offering



From the Secretary of State

credit at an interest rate similar to that available from France.

Although the negotiations are at a very early stage and the terms of the financing package will take some time to emerge it would be useful to establish the attitude we should adopt towards this case. Rolls Royce are anxious for guidance as to the support that HMG is willing to provide. My own view is that we should allow ECGD support to be given to enable Rolls Royce to compete on equal terms for this valuable prospective business. I would be grateful for your views and those of the other recipients of this letter.

This course would, I think, be consistent with our preparedness to look to our own interests in the application of our present cool attitude in our relations with the USSR, and is one that we might adopt in carefully selected cases where those interests stand to benefit substantially.

I am copying this letter to the Prime Minister, Geoffrey Howe and Keith Joseph.

John Nott
John

JOHN NOTT

23 OCT 1980





FCS/80/155

SECRETARY OF STATE FOR TRADE

to await OS.

Soviet Union

Print
- 5/11Credit for the Soviet Union

1. Thank you for your letter of 23 October. It raises a good many difficult issues, which have implications going beyond Rolls Royce's interest in the West Siberian pipeline project. Among them are the political acceptability, both at home and abroad, of relaxing our policy on credit for the Soviet Union when the Russians have shown no sign whatever of modifying their policies in Afghanistan; and our general attitude towards Western coordination of credit rates. I think that the best way forward would be for officials of interested departments to prepare a paper which we might discuss in OD. The paper will need to cover the point I have mentioned as well, no doubt, as the implications of the present project for Anglo-Soviet trade as a whole, Rolls Royce's financial position, and employment in this country.
2. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Trade.

C

(CARRINGTON)

Foreign and Commonwealth Office

5 November 1980



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Secretary of State for Industry

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*Received
CF 18.00. 4/11/80
AJ.*

31 October 1980

The Rt Hon Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

John Peter.

*NRPA get
Phut*

CREDIT TERMS FOR BUSINESS WITH THE USSR

I have seen a copy of John Nott's letter to you of 23 October, concerning the potential supply of Rolls-Royce equipment for the massive project to pump gas from Western Siberia to Europe.

In addition to the trade benefit of the business, which is itself substantial, the industrial advantages to the UK, and especially Rolls-Royce and its suppliers are significant. Although at this stage we cannot be certain how much, if any, of the business Rolls-Royce will obtain, the minimum number of units that are likely to be ordered if the company is successful is 150; it could be over 400. This would represent at least 17% of the company's existing turnover, providing security of employment for some 500 employees in RR and their subcontractors. It would also generate £30m of profit and cash flow into a part of RR that has hitherto generally been a drain on the group's funds, and hence the Government's funding of the company. The contract is thus important to RR's efforts to improve its financial position, and certainly crucial to the future of the industrial and marine business.

While the commercial arguments are overwhelmingly in favour of John Nott's proposal to allow ECGD to give Rolls Royce the necessary support with export credit to enable them to compete on equal terms with their rivals, I fear that we cannot ignore the wider implications of such a move. Although I recognise that in your statement in January we agreed to look at credit arrangements in future on a case by case basis and made it clear that our acceptance of the international consensus was linked to other countries abiding by it, a move by us on this occasion to match French and German terms would undoubtedly be seen as a weakening of our opposition to Soviet aggression in Afghanistan. Before taking such a step, I think that we

/should ...



should consider the implications in detail. I have in mind such points as how this action would fit in with our desire to maintain the consensus, the precedents we would be setting for other contracts and the wider political implications of what will undoubtedly be seen by some as a significant softening of our response to Russian aggression.

In the company's interest, we must ensure that this matter is considered rapidly but, given its importance, ~~it~~ would suggest that we ask officials to prepare a paper setting out the relevant considerations and that we then meet to consider this.

I am copying this letter to the recipients of ^{J. Nott's letter} yours.

Lawson,

Kearney

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CABINET OFFICE

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From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A03368

28th October 1980

Soviet Union
L. J. Wright 29/10

Trade with the Soviet Union

Your Secretary of State wrote to the Foreign and Commonwealth Secretary on this subject on 18th September copying his letter to the Prime Minister, the other members of OD, the Secretaries of State for Industry, for the Environment and Energy, the Minister of Agriculture, Fisheries and Food and the Secretary of the Cabinet. Your Secretary of State has already had the agreement of the Foreign and Commonwealth Secretary to his proposal and he has also received comments from the Secretary of State for Defence, the Minister of Agriculture and the Secretary of State for the Environment. You will wish to be aware that the Prime Minister has now given her approval to the course of action he has proposed.

Copies of this letter go to the Private Secretaries to members of OD, the Secretaries of State for Industry, the Environment and Energy and the Minister of Agriculture, Fisheries and Food.

D. J. WRIGHT

(D. J. Wright)

S. Hampson, Esq

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29 OCT 1940

