



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State
Peter Blaker MP

1 April 1981

h.c. *Blaker*

Dear Cecil,

Thank you for your letter of 23 March to Ian Gilmour.

I agree that the Soviet text is unacceptable, and that our aims should be to go as far as we can to provide Rolls Royce with the support they need, consistent with protecting our own future freedom of action, while avoiding any negotiation over the terms of the assurance.

I am in general content with the draft letter to Mr Sushkov which you enclosed with your letter. I have, however, three small amendments to suggest:

- (i) Second sentence of paragraph 2 to read: 'Their participation would be an important example of cooperation between our two countries similar to that envisaged under
- (ii) The final sentence of paragraph 2 to read: 'As you know, the British Government has consistently made clear its support for the expansion of Anglo-Soviet trade on the basis of mutual advantage.'
- (iii) The beginning of the second sentence of paragraph 3 to read: 'As far as the present contract is concerned, while I am not authorised

I agree on the importance of the early despatch of the letter and full instructions for our Ambassador to use when handing over the letter to Mr Sushkov. My officials will be in touch with yours about this.

.....

I am copying this letter to the recipients of yours.

Yours ever,
Blaker

Cecil Parkinson Esq MP
Minister of Trade
Department of Trade
1 Victoria Street
LONDON SW1

11 APR 1981

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Soviet Union

From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

The Rt Hon Sir Ian Gilmour MP
Foreign & Commonwealth Office
LONDON SW1

*NBDM yet**Hand*

23 March 1981

Dear Sir,

WEST SIBERIAN GAS PIPELINE

Thank you for your letter of 4 March. I am glad you agree we should do what we can to provide an adequate written assurance to the Russians. Your idea of this being conveyed in the form of a letter from our Ambassador to Sushkov is a good one. I agree entirely that we should if at all possible avoid negotiating a text with the Russians. The dangers involved in negotiation are amply illustrated by the arrival of a Soviet draft text (copy attached) that goes well beyond what we could accept.

My inclination is to persist with the idea of a letter from the Ambassador along the lines of the attached draft. This has been discussed with your officials. It deliberately makes no reference to our receipt of the Soviet text. In our instructions to the Ambassador we would ask him to explain why the Soviet text is unacceptable to us. It goes beyond what any Government (including the Soviet Government itself) could be expected to agree to. He would make it clear that his letter went as far as we were prepared to go. Our hope must be that the Russians will take a realistic view of the situation and not press for any discussion of their text.

In his letter to me of 11 March, the Chancellor asked to what extent other Governments were committed to the pipeline project. I do not think we can say that any Government is irrevocably committed to the project. At the end of the day it may prove impossible to agree on the price to be paid for Soviet gas or on the credit terms to be offered. However it seems clear that in those countries which are likely purchasers of the gas their Governments are of necessity actively involved in co-ordinating the negotiations on the purchase of gas, the supply of equipment and the provision of credit.

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If you can agree the form of words for the Ambassador to use I would like us to provide instructions to him as quickly as possible so as to avoid officials here or in Moscow becoming involved in discussing the Soviet text.

I am copying this letter to members of OD and Sir Robert Armstrong.

Yours *Est,*
Neil

CECIL PARKINSON

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DRAFT LETTER FROM HM AMBASSADOR, MOSCOW
TO MR SUSHKOV, DEPUTY MINISTER FOR FOREIGN TRADE

At our meeting on 28 January you enquired about the policy of Her Majesty's Government in relation to the export of equipment by Rolls Royce Limited in connection with the proposed gas pipeline from Western Siberia to Western Europe.

2 As we stated at that meeting the British Government fully supports the wish of Rolls Royce to supply equipment for this project. Their participation would be an important example of the co-operation between our two countries that is envisaged under our 1974 Agreement on the Development of Economic, Scientific, Technological and Industrial Co-operation and our 1975 Long Term Programme for the Development of Economic and Industrial Co-operation. It would also represent a significant development in our long term trade and economic relations. As you know, the British Government has consistently made it clear that it is in favour of expanding our trade where this is to our mutual advantage.

3 With regard to the provision of export licences you will wish to take account of the long history of successful trading between our two countries and the fact that in no case has the British Government revoked an export licence for goods to be supplied to the Soviet Union. For the future, while I am not authorised to bind Her Majesty's Government as to the future exercise of their power to grant, withhold or revoke export licences, I am instructed to inform you that the British Government give their full approval to Rolls Royce Limited's tender for a contract to supply Avon and RB 2-11 industrial gas generators for use in connection with the proposed pipeline and intend to grant export licences for the equipment that would be supplied by Rolls Royce if they successfully tendered for this contract.

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4 I hope that the current negotiations between Rolls Royce and Soviet foreign trading organisations can soon be brought to a successful conclusion. My Embassy is ready to assist in whatever way it can to bring this about.

DRAFT TEXT OF PROTOCOL PROPOSED BY THE SOVIET MINISTRY OF FOREIGN TRADE FOR
ADOPTION AT THE NEXT SESSION OF THE BRITISH-SOVIET JOINT COMMISSION

"The Government of the USSR and the Government of the United Kingdom, welcoming the report of negotiations being conducted between the appropriate Soviet Foreign Trade Organisations and the company "Rolls Royce 1971 Limited" about their possible co-operation in the implementation of a project for the construction of the gas pipeline from West Siberia to the western frontier of the USSR, noting that co-operation of the aforementioned organisations in the implementation of the said project would facilitate the further development of trade and economic relations between both countries, taking into account the large-scale and long-term character of the proposed co-operation in connection with this the importance of taking special measures which would furnish a firm basis for its successful implementation.

Have agreed on the following:-

1 Taking account of the provisions of the Agreement on the Development of Economic, Scientific, Technological and Industrial Co-operation of the 6th May 1974 and the Long-Term Programme for the Development of Economic and Industrial Co-operation of the 17th February 1975, both sides, for the purpose of creating more favourable conditions for co-operation between the aforementioned organisations in the implementation of the said project, will contribute to the successful fulfilment of the contracts which it is proposed shall be concluded, and in particular will issue import and export authorisations without obstruction.

2 The Government of the United Kingdom will not use any discretionary powers in accordance with laws, regulations and rules in force in the United Kingdom for the establishment of control of the delivery by the aforementioned company of goods to the Soviet Union in accordance with contracts concluded.

3 In the event of the introduction in the United Kingdom of limitations on the export of goods analogous to those which will be supplied by the aforementioned company to the USSR, the Government of the United Kingdom will ensure the non-extension of these limitations to the supply of goods to the Soviet Union by the aforementioned company under contracts concluded.

4 Both sides will without delay consult each other about problems which may arise in connection with the present understanding. Consultations will also be carried out on problems arising in the course of co-operation by the aforementioned organisations in the implementation of the said project or in connection with it,

including during the fulfilment of contracts, and problems relating to the competence of the sides or in the solution of which the sides can lend assistance in accordance with laws, regulations and rules in force in their countries.

The present protocol enters into force on the day of signature.

Concluded in London on the, 1981, two original copies, in the Russian and English languages, both texts having the same force.

For the Government of the Union of Soviet Socialist Republics.

For the Government of the United Kingdom and Northern Ireland".

24 MAR 1941



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Soviet Union



Foreign and Commonwealth Office

London SW1A 2AH

f.a. Amt

17 March 1981

②

Prime Minister

Amt 17/3

Dear Michael

WEST SIBERIAN GAS PIPELINE: ROLLS ROYCE BID.

Thank you for your letter of 9 March about the draft letter to Mr Sushkov enclosed with the Lord Privy Seal's letter of 4 March to the Minister for Trade.

The reference to Western European licensing practice suggested by the Prime Minister would in our view have strengthened the relevant passage in the draft; but officials in the departments concerned are now inclined to think that our requirements would best be met by a text which did not refer to licensing policy to this extent. A revised text was on the point of being agreed for submission to Ministers when we heard on 13 March that the Soviet Ministry for Foreign Trade had taken the initiative by handing over to our Embassy in Moscow a draft which they propose should be endorsed by the British/Soviet Joint Commission which is to meet at the end of May. Officials are now reconsidering the position on the basis of this rather unwelcome Soviet intervention and the Minister for Trade will no doubt be writing to his colleagues again in due course.

I am copying this letter to the recipients of yours.

Yours ever

Michael Arthur

M A Arthur

M O'D B Alexander Esq
PS/Prime Minister
10 Downing Street

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17 MAR 1981



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Sov Union



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 March 1981

Cecil Parkinson Esq., MP.
Minister for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

NRPA

Hand 11/3

[Handwritten signature]

WEST SIBERIAN GAS PIPELINE

Thank you for sending me a copy of your letter to Peter Blaker of 19 February about the assurances which the USSR are seeking in connection with the Rolls Royce bid for gas generators for the West Siberian gas pipelines. I have since seen Ian Gilmour's letter of 4 March and Keith Joseph's of 5 March.

I consider that the revised draft letter proposed by Ian Gilmour represents a straightforward statement of our position and would be happy for it to issue in these terms. We can, of course, look at the position again should it be unacceptable to the USSR, but it would be difficult to go further. In that event it would be appropriate to know more about what other countries are doing about assistance for the project as a whole, both those interested in orders only and those who will wish to purchase the gas in due course. I am not clear to what extent other governments are firmly committed to the pipeline project.

I am copying this letter to the members of OD and Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

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11 MAR 1981



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6
Soviet Union

10 DOWNING STREET

From the Private Secretary

9 March 1981

RF 16:38

West Siberian Gas Pipeline

The Prime Minister has seen the Lord Privy Seal's letter of 4 March to the Minister for Trade on this subject. She has asked whether it would be possible to insert the words "like their European partners" (or something similar) after the words "the British Government" in the second sentence of the draft letter to Mr. Sushkov from HM Ambassador, Moscow. I should be grateful for your comments.

I am sending a copy of this letter to Keith Long (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Stephen Gomersall Esq
Lord Privy Seal's Office.

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DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

5 March 1981

Cecil Parkinson Esq MP
 Minister for Trade
 Department of Trade
 1 Victoria Street
 London SW1H 0ET

See Cecil.

WEST SIBERIAN GAS PIPELINE

Thank you for sending me a copy of your letter of 19 February to Peter Blaker about Rolls Royce's bid to supply generators for this pipeline. I recognise that the USSR's demand that the Government should not interfere with the supply of generators once a contract has been signed presents difficulties which require serious consideration. But, I would like to emphasise at the outset the importance of this contract to Rolls Royce. *TPM*

If Rolls Royce are successful, this order is likely to amount to a minimum of £150m. It would come at a time when the company is facing increasing competition in a market which has been badly affected by recession. The Industrial and Marine Division has recently had to lay off 600-700 workers and is facing great difficulty in maintaining the highly skilled workforce which will be needed if it is to take advantage of the upturn in what, in the medium to long term, should be a good market. Up to 1500 people would be involved directly and indirectly in the contract. In addition, this order would provide a unique opportunity to advance UK technology and would be a major showpiece for future sales in the growing world market.

This situation speaks for itself in terms of the importance of doing whatever we reasonably can to help Rolls Royce. I am therefore in favour of trying to meet the Russians' request although I appreciate the difficulties to which you draw attention. A statement on the lines you propose in the second paragraph of your aide memoire would be acceptable to me and I hope it may be sufficient for the USSR. If this is not the case, I should like to ask that we have an opportunity to consider the options



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and their implications before any decision is taken which could significantly affect Rolls Royce's position.

I am copying this letter to the members of OD and Sir Robert Armstrong.

*Y
Carr*

Kerr

5 MAY 1957

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Foreign and Commonwealth Office
London SW1

4 March 1981

(4)

Prime Minister

*You will wish to be aware
of this issue.*

Am,

Her Lordship,

WEST SIBERIAN GAS PIPELINE

Thank you for your letter of 19 February to Peter Blaker.

I agree that the Soviet request for a written assurance poses some difficult questions for us. I also agree that, for the reasons set out in your letter, we cannot fetter ourselves by entering into any legally enforceable obligations or by providing a text which would complicate our contingency planning over Poland or Soviet conduct in other areas. I do, however, accept that we should do what we can to help Rolls Royce win a contract, the employment and trade implications of which are so significant.

Our present intention to grant export licences in normal circumstances is already known to the Russians, and a written assurance to this effect could be said to be no more than a formalisation of what has already been said to them and to Rolls Royce. Furthermore, by acting in this way we should do no more than give official support to a major British company in the form most useful to them. The French and Germans are already closely identified with their firms' tenders for business associated with the pipeline, and the Russians have good reason to assume that their interest as purchasers of the gas will influence their attitude over the supply of the necessary equipment.

/I wonder,

Cecil Parkinson Esq MP
Minister for Trade
Department of Trade
1 Victoria St SW1

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I wonder, however, whether the text you enclosed with your letter is not unnecessarily weighted with caveats. The Russians can scarcely expect us to guarantee that, irrespective of any possible changes in the international scene, permission to export the equipment will continue. On the other hand, an all-embracing safety clause would deprive our assurance of its force and risk its rejection by the Russians. This, as you suggest, might leave Rolls Royce in a worse position than if we were to deny a written assurance at all. Furthermore, it might induce the Russians to seek to negotiate a more satisfactory text from their point of view. I would regard any such negotiation as out of the question.

Given the background of existing international competition and the fact that the very thinness of our bilateral relationship may have prompted the Russians to seek a written assurance, I believe that if we are to give an assurance the language must be convincing. The revised text I am enclosing with this letter seeks to do this. It does not bind us to any enforceable obligations. Our Legal Advisers believe that the protective clauses provide us with a sufficient basis for defending our actions should the Russians challenge any subsequent decision to withhold or revoke export licences. As you will see, the text is in the form of a letter from our Ambassador to Mr Sushkov and flows from the discussions with Sushkov in Moscow in late January. A letter in this form would lend itself less easily to any Soviet attempt to negotiate a text more to their liking.

The attached draft, like that which you enclosed with your letter, would be available for adaptation in the event of future Soviet requests for the Government to support tenders by British firms. I do not think this will necessarily happen, but we must guard against the contingency by agreeing a text which we could offer without qualms to others.

I agree that it would be wrong to consult the Americans before offering the Russians our assurance.

I am copying this letter to the recipients of yours.

yes ✓
la

is it possible to
add something
like the following

L "like their European
partners"

DRAFT LETTER FROM
HM AMBASSADOR, MOSCOW

TO MR SUSHKOV,
DEPUTY MINISTER FOR FOREIGN TRADE

ms

At our meeting on 28 January you enquired about the policy of Her Majesty's Government in relation to the export of equipment by Rolls Royce Limited in connection with the proposed West Siberian gas pipeline.

As you may know, in determining their policy in relation to the licensing of exports to the Soviet Union, the British Government take account inter alia of changes in the international situation and the policies pursued by the Soviet Government. This will continue to be the case in future.

I am however instructed to inform you that, in present circumstances, the British Government give their full approval to Rolls Royce Limited's tender for a contract to supply Avon and RB 211 industrial gas generators for use in connection with the proposed pipeline, support the wish of the company to undertake the supply of this equipment, and intend to grant export licences for the equipment which would be supplied by Rolls Royce if they successfully tender for this contract.

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APR 1981

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From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

Peter Blaker Esq MP
Minister of State
Foreign and Commonwealth Office
LONDON
SW1A 2AH

19 February 1981

Dear Peter,

NB PR 1 yet

And 202

WEST SIBERIAN GAS PIPELINE

On 18 December OD considered the question of matching French credit terms in the context of Rolls Royce's bid for a large order from the Soviet Union for Avon and RB211 gas generators which would be used to pump natural gas from Siberia to a number of West and East European countries. The Committee decided that it was premature to consider the need to match and asked us to encourage the company to continue negotiations.

One difficulty which has now arisen is the insistence by the Soviets that they require an exchange of letters at Government level in which we would undertake not to interfere with the supply of generators from the UK once a contract has been signed. The Soviet authorities clearly see this as a useful political bargaining counter. Those directly concerned with the project wish to minimise the risk of disruption to a major undertaking for which they would personally have to account whatever the political circumstances. In particular they do not wish to see a repeat of Soviet experience after Afghanistan when the US Government forced its companies to cancel major contracts.

The question was raised again during the Economic and Industrial Co-operation discussions in Moscow at the end of January. Mr Sushkov, the Deputy Minister for Foreign Trade, indicated that nothing less than a written assurance that we would not interfere with the contact would suffice. Mr Sushkov suggested that the matter should be further discussed with the USSR Trade Delegation in London.

Rolls Royce have been pursuing this project with our full knowledge and support. The question of export licences for the Avon and the RB211 industrial gas generators has been fully discussed within Whitehall. The Avon can be exported without the need for a licence. Strictly speaking the industrial version of the RB211 is not subject

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to export licensing control. However the discussions have taken account of proposed changes to the COCOM rules which would restrict the sale of an industrial generator derived from an aero engine if the technology incorporated in it were less than eight years old. We told Rolls Royce that we would be prepared to grant them export licences for RB211's that incorporated a level of technology that was available in 1975 (based on an expected delivery date of 1983). The transfer of spares technology would not be allowed nor could technology subsequently be provided to update generators supplied or to be supplied. Rolls Royce have continued their negotiations on the basis of these conditions. The Soviets will be aware, in general terms, of the advice we have given Rolls Royce, but this is clearly not regarded as adequate for their purposes.

We do not want to go any further than is absolutely necessary over this issue. However I think that a contract for the pipeline is of such importance to Rolls Royce that we must give serious consideration to giving the Soviets a letter. It is clearly difficult to devise a formula for such a letter that would not compromise our wider position or give rise to legally enforceable commitments on the part of the Government, unlikely as it is that the Soviets would take us to court in the political climate that had caused us to interfere in existing contracts with the Soviet Union. On the other hand, if we suggest too weak a form of words, the result could be more harm than good. Bearing these points in mind my officials have prepared the enclosed draft of an aide memoire. I should be grateful for your reactions to it. In drawing up the Aide Memoire care has been taken not to fetter the discretion of Ministers in the exercise of their statutory powers or to bind future Administrations and to guard against entering into formal obligations which could be regarded as binding in international law. Our legal advice is that the wording meets these criteria. You may wish to ask your legal advisers to confirm this view.

In the event of a Soviet intervention in Poland it is likely that the whole pipeline project would be in jeopardy and Rolls Royce's interest would lapse. If the project nevertheless continued the Aide Memoire would not commit us to providing export licences for Rolls Royce. Of course, Rolls Royce are not due to start delivery of the engines until 1983, and by then the position will be clearer.

The Soviets have said that they intend asking for written assurances only from countries not taking gas from the pipeline. Those intending to take gas would run the risk of not receiving it if they interfered with the supply of equipment (including spares) from their countries. This means effectively that their demands are aimed at the Americans and ourselves. We shall have to keep in touch with the Americans but I hope you agree that we must avoid giving them some sort of veto over our repeating to the Russians assurances which we would readily give to Rolls Royce. A principal aim of the Americans is to secure orders for gas generators produced by General Electric, who are Rolls Royce's only real competitors in this field.

I am copying this letter to the members of OD, Sir Keith Joseph and Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]
CECIL PARKINSON



DRAFT

CONFIDENTIAL

AIDE MEMOIRE

Her Britannic Majesty's Government wishes to assure the Government of the Union of Soviet Socialist Republics that Rolls Royce Ltd has its full approval in tendering for a contract to supply Avon and RB 211 industrial gas generators for use in connection with the proposed West Siberian Gas Pipeline. While Her Majesty's Government is not in a position to guarantee the performance of particular contracts undertaken by Rolls Royce Ltd it nevertheless supports the wish of the company to undertake the supply of this equipment.

While you will appreciate that one Administration cannot bind its successors and that I have no authority to bind Her Majesty's Government in law as to the future exercise of its power to grant, withhold or revoke export licences I can confirm that it is Her Majesty's Government's intention to permit the export of the equipment which would be supplied by Rolls Royce if they successfully tender for this contract.



20 FEB