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TO IMMEDIATE FCO
TELNO 813 OF 10 MAR 82
INFO PRIORITY ROME PARIS BONN UKREP BRUSSELS UKDEL NATO
INFO SAVING WARSAW MOSCOW.

YOUR TELNO 448 : BUCKLEY MISSION

1. BUCKLEY ASKED ME TO CALL THIS AFTERNOON TO GIVE ME A FIRSTHAND ACCOUNT OF THE SCOPE AND PURPOSE OF HIS MISSION. HE WAS ALSO DUE TO SEE THE AMBASSADORS OF THE OTHER EUROPEAN COUNTRIES HE WOULD BE VISITING, AND WOULD BE TALKING TO THE JAPANESE AMBASSADOR, THE US EMBASSY IN TOKYO WOULD FOLLOW THIS UP WITH THE JAPANESE GOVERNMENT.
2. BUCKLEY CONFIRMED THAT HIS MAIN FOCUS WOULD BE ON HOW TO ACHIEVE SIGNIFICANT REDUCTIONS IN OFFICIAL EXPORT CREDITS AND CREDIT GUARANTEES TO THE SOVIET UNION. DRAWING ON SOME WRITTEN TALKING POINTS (COPY BY BAG TO THE DEPARTMENT) HE SAID THAT THERE WAS AN OPPORTUNITY NOW TO TAKE STEPS TOGETHER WHICH, WHILE EMPHASIZING CONTINUED CONCERN OVER POLAND, WOULD SIGNIFICANTLY STRENGTHEN THE WESTERN SECURITY POSITION. THE PRESIDENT HAD DECIDED TO DEFER FURTHER ACTION ON THE MEASURES ANNOUNCED LAST DECEMBER, PENDING BUCKLEY'S REPORT ON THE RESULTS OF HIS MISSION. HE HAD TAKEN THIS DECISION DESPITE CRITICISM FROM CONGRESS AND THE US PUBLIC THAT HE WAS ACTING TOO HESITANTLY.
3. THE PRESIDENT BELIEVED STRONGLY THAT THE WEST, THROUGH ITS CREDIT POLICIES, HAD HELPED TO SUBSIDISE THE ECONOMIC DEVELOPMENT OF THE SOVIET UNION AND THUS HAD WORKED AGAINST WESTERN SECURITY INTERESTS THROUGH THE UNCONTROLLED AND UNCOMPETITIVE PROVISION OF CREDIT. IT MADE NO SENSE FOR THE WEST, FACING AN UNPRECEDENTED ARMAMENTS BUILDUP WHICH DIRECTLY THREATENED ITS SECURITY, TO BE SPENDING MORE AND MORE MONEY ON DEFENCE AND THEN TO LEND MONEY TO THE SOVIET UNION AT SUBSIDISED RATES. MOREOVER THERE WAS NO JUSTIFICATION FOR GRANTING THE SOVIET UNION CONCESSIONAL CREDIT AT THE EXPENSE OF WESTERN TAX PAYERS WHEN OUR CITIZENS WERE ALSO FACING HIGH INFLATION AND HAVING TO PAY HIGH INTEREST RATES. THE PRESIDENT SAW AN URGENT NEED TO INJECT SOME SENSE INTO ALL THIS.
4. BUCKLEY CONTINUED THAT THE AMERICANS RECOGNISED THAT THIS WAS A COMPLEX AREA AND NO COUNTRY SHOULD BE ASKED TO BEAR A DIS-PROPORTIONATE BURDEN. AGREEMENT WOULD NOT BE EASY. BUCKLEY WOULD THEREFORE BE COMING WITH A PROPOSAL IN TWO PARTS
 - (I) EARLY AGREEMENT ON AN INTERIM MORATORIUM ON NEW CREDITS;
 - (II) A MEETING IN SLOWER TIME INVOLVING NOT ONLY THE FOUR COUNTRIES HE WOULD BE VISITING BUT ALSO OTHER CREDIT-EXTENDING COUNTRIES,

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TO EXPLORE THE POSSIBILITY OF REACHING AGREEMENT NOT ONLY ON THE SUBSIDY ELEMENT IN OFFICIAL CREDITS BUT ALSO ON THEIR TOTAL VOLUME. (IN MAKING THIS POINT ON VOLUME HE APPEARS TO HAVE GONE BEYOND WHAT WAS IN HIS TALKING POINTS. HE MADE IT CLEAR THAT HE MEANT SOME KIND OF CREDIT RATIONING SYSTEM).

5. IN ADDITION TO THE QUESTION OF CREDIT, BUCKLEY SAID THAT SUBSIDIARY OBJECTIVES OF HIS VISIT WOULD BE TO DISCUSS THE POSSIBILITY OF COMMON RESTRAINTS ON IMPORTS FROM THE SOVIET UNION AND THE SCOPE FOR REDUCING EUROPEAN ENERGY DEPENDENCE ON SOVIET RESOURCES OF ENERGY.

6. I ASKED BUCKLEY WHETHER HE WOULD NOT WANT TO DISCUSS THE GENERAL OBJECTIVE OF ECONOMIC POLICY TOWARDS THE SOVIET UNION: WHETHER IT WAS TO PUNISH THEM, TO MAKE LIFE MORE DIFFICULT FOR THEM, TO REDUCE THE LEVEL OF COMMERCIAL EXCHANGES, OR WHAT. IN ANY DISCUSSION OF STEPS TO BE TAKEN IT SEEMED IMPORTANT TO AGREE WHAT OUR OBJECTIVES WERE. BUCKLEY'S REPLY SUGGESTED THAT THE AMERICANS WERE MORE CONCERNED WITH CUTTING OUT THE NEEDLESS SUBSIDISATION OF THE SOVIET ECONOMY THAN WITH PUNISHMENT. BUT HE MADE IT CLEAR THAT THE MAIN IMMEDIATE OBJECTIVE WAS TO FIND A METHOD OF SETTING LIMITS ON THE VOLUME OF OFFICIAL CREDIT GOING TO THE SOVIET UNION. HE REFERRED TO THE POSSIBILITY OF ESTABLISHING PERMANENT MECHANISM SOMEWHAT EQUIVALENT TO COCOM, FOR THE CONTROL OF OFFICIAL CREDITS TO THE SOVIET UNION IN SUCH A WAY AS TO PLACE EACH COUNTRY ON THE SAME COMPETITIVE BASIS. HE RECOGNISED THAT THIS WOULD NOT BE EASY.

7. I PICKED UP WHAT BUCKLEY HAD SAID ABOUT DIVERSIFYING THE EUROPEAN SOURCES OF ENERGY. THIS WAS A VERY IMPORTANT SUBJECT. I HOPED THERE WAS NO MISUNDERSTANDING ABOUT THE LIKELIHOOD THAT SUPPLIES OF GAS ON ANYTHING LIKE THE SCALE ENVISAGED FOR THE WEST SIBERIAN PIPELINE PROJECT WOULD BE FORTHCOMING FROM THE UK'S NORTH SEA RESOURCES. BUCKLEY SAID THERE WAS NO SUCH EXPECTATION IN US MINDS THOUGH THE RECENT VISIT OF US EXPERTS TO NORWAY HAD SUGGESTED THAT THE UK MIGHT BE A TRANSFER POINT FOR NORWEGIAN GAS. HE UNDERSTOOD THAT THE NEW NORWEGIAN GOVERNMENT WAS DISPOSED TO LOOK MORE POSITIVELY ON SUCH POSSIBILITIES THAN ITS PREDECESSOR.

8. AS REGARDS IMPORTS FROM THE SOVIET UNION, BUCKLEY SAID THAT THEY WOULD BE LOOKING FOR COMMON GROUND RULES.

9. IN THE COURSE OF THIS DISCUSSION THE FOLLOWING ADDITIONAL POINTS OF INTEREST AROSE:

- (1) THE AMERICANS DID NOT THINK WHAT THEY WERE PROPOSING ON CREDIT WOULD GIVE RISE TO DIFFICULTIES WITH THE GERMANS. NEVERTHELESS, DURING GENSCHER'S VISIT, THE GERMANS HAD SUGGESTED DISCUSSING ALL THIS IN OECD. THE AMERICANS WERE NOT PREPARED TO CONTEMPLATE THIS.
- (11) THE BUCKLEY MISSION IN ITS PRESENTATION IN CAPITALS WILL DRAW

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ON RECENT CIA AND OTHER MATERIAL ABOUT THE STATE OF THE SOVIET ECONOMY AND IN PARTICULAR ITS EXTERNAL POSITION. BUCKLEY AGREED THAT IT WOULD BE IMPORTANT TO TRY TO ESTABLISH A COMMON ECONOMIC ASSESSMENT AS A BASIS FOR JUDGMENT ABOUT THE LIKELY EFFECTIVENESS OF THE KIND OF MEASURES THEY WERE CONTEMPLATING ON CREDIT:
(III) BUCKLEY DOES NOT ANTICIPATE EXTENSIVE DISCUSSION ABOUT COCOM.

10. TOWARDS THE END OF OUR TALK, BUCKLEY MADE IT CLEAR THAT HE WAS NOT EXPECTING, DURING THIS VISIT, TO GET INTO THE SUBSTANCE OF QUESTIONS OF NON-UNDERMINING OR OF EXISTING CONTRACTS. HE SAID THAT HE WAS NOT SUPPOSED TO ADMIT THERE WAS A LINK BETWEEN THE QUESTION OF FUTURE CREDITS AND THESE OTHER ISSUES, THOUGH HE RECOGNISED THAT IN PRACTICE THERE WAS. HE ALSO UNDERSTOOD PERFECTLY WELL THAT THE EUROPEAN REACTION TO US IDEAS ON FUTURE CREDITS WOULD BE TO SOME EXTENT CONDITIONED BY WHAT HE COULD SAY TO THEM ABOUT THE TREATMENT OF EXISTING CONTRACTS. BUT HIS REACTION ON THIS SUGGESTED THAT IT WOULD HAVE TO BE DEALT WITH DELICATELY AND MIGHT BEST BE DONE INFORMALLY. THE OFFICIAL US POSITION WAS THAT THE PRESIDENT WOULD BE TAKING DECISIONS ON ALL THAT IN THE LIGHT OF THE FINDINGS OF THE BUCKLEY MISSION.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 767 OF 5 MARCH

INFO PARIS, BONN, ROME, UKREP BRUSSELS, UKDEL NATO
INFO SAVING TO WARSAW, MOSCOWMY TELNO 682: BUCKLEY MISSION

1. I UNDERSTAND THAT DATES HAVE NOW BEEN PROPOSED FOR THE BUCKLEY MISSION AND THAT THEY ARE AIMING TO BE IN LONDON ON 15 AND 16 MARCH. I ALSO UNDERSTAND THAT BUCKLEY WILL BE ASKING ME TO CALL NEXT WEEK TO GO OVER THE OBJECTIVES FOR THE MISSION. IN THE MEANTIME MINISTER CALLED TODAY ON NILES (DEPUTY ASSISTANT SECRETARY, EUROPEAN AFFAIRS, STATE DEPARTMENT) FOR A PREVIEW AND HAS DISCUSSED THE MISSION AGAIN WITH HORMATS.

2. THE BASIC U.S. OBJECTIVE WILL BE TO START A DIALOGUE ABOUT THE POSSIBILITY OF CONSTRAINING MEDIUM AND LONG TERM CREDITS TO THE SOVIET UNION. SECONDRY OBJECTIVES WILL BE TO DISCUSS ENERGY SECURITY, RESTRICTIONS ON SOVIET IMPORTS, NOT UNDERMINING EACH OTHER'S MEASURES, AND THE PROBLEM OF EXISTING CONTRACTS.

3. IN SHIFTING THE FOCUS TO FUTURE CREDITS, THE AMERICANS ARE AWARE THAT THEY ARE EMBARKING, NOT FOR THE FIRST TIME, ON A VERY COMPLICATED AREA. THEY RECOGNISE THAT THIS IS NOT DIRECTLY RELATED TO THE SITUATION IN POLAND. IT IS SOMETHING WHICH THIS ADMINISTRATION WOULD ANYWAY HAVE WISHED TO PURSUE, IN PARALLEL WITH THE PROBLEM OF TECHNOLOGY TRANSFER TO THE SOVIET UNION. THEY FEEL THAT IT IS PROFOUNDLY WRONG OF THE WESTERN DEMOCRACIES TO BE COMPETING WITH EACH OTHER TO FINANCE AND SUBSIDISE THE DEVELOPMENT OF THE SOVIET ECONOMY. THEY BELIEVE THAT IT IS IMPORTANT TO SEE WHAT CAN BE DONE AS THEY PUT IT, TO PLACE OUR COLLECTIVE ECONOMIC RELATIONSHIP WITH THE SOVIET UNION ON A SOUNDER FOOTING.

4. THEIR SIGHTS ARE SET ON OFFICIAL CREDITS AND OFFICIAL GUARANTEED CREDITS TO THE SOVIET UNION (NOT THE REST OF EASTERN EUROPE). THEY WILL AIM DURING BUCKLEY'S VISITS TO EXPLORE THE POSSIBILITY OF RESTRAINING OR REDUCING THE VOLUME OF CREDIT INVOLVED AS WELL AS THE TERMS ON WHICH IT IS OFFERED, PAYING PARTICULAR ATTENTION TO ANY ELEMENT OF SUBSIDISATION.

5. THE AMERICANS DO NOT SEE THIS EXERCISE AS PART OF ANY PACKAGE OF SANCTIONS. THEY CLAIM THAT THEY ARE NOT SEEKING TO PUNISH THE SOVIET UNION BUT THEY HOPE TO BE ABLE TO DEMONSTRATE THAT CONSTRAINTS ON WESTERN OFFICIAL CREDITS WILL IMPOSE SIGNIFICANT ADDITIONAL BURDENS ON THE SOVIET ECONOMY, THUS MAKING IT MORE DIFFICULT FOR THE SOVIETS TO FINANCE THEIR OWN ECONOMIC AND MILITARY DEVELOPMENT.

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6. THE BUCKLEY MISSION IS NOT EXPECTING TO NEGOTIATE RESULTS DURING THIS TOUR. IT WILL RETURN TO WASHINGTON TO REPORT REACTIONS TO THESE GENERAL IDEAS. PENDING THEIR REPORT, THE PRESIDENT HAS DEFERRED DECISIONS ON OTHER POSSIBLE ACTION BY THE US GOVERNMENT AND ON THE VEXED QUESTION OF EXISTING CONTRACTS. THE AMERICANS ARE RELUCTANT TO BE DRAWN ON THE PRECISE LINKS THAT MAY BE MADE BETWEEN THESE ISSUES. BUT NILES AND OTHERS HAVE MADE IT CLEAR TO US THAT IF THE BUCKLEY MISSION CAN REPORT A GENERALLY POSITIVE ATTITUDE AMONG THE EUROPEANS ON THE IMPORTANCE OF TRYING TO TACKLE THE QUESTION OF CREDIT AND A READINESS, DESPITE THE DIFFICULTIES AND COMPLEXITIES, TO HOLD FURTHER DISCUSSIONS TO SEE WHAT CAN BE ACHIEVED, THIS WILL STRENGTHEN THE HAND OF HAIG AND OTHERS HERE WHO ARE TRYING TO AVOID ACTION WHICH WOULD BE DAMAGING TO ALLIANCE RELATIONSHIPS.

7. IN DISCUSSION WITH NILES AND OTHERS WE HAVE BEEN MAKING IT CLEAR THAT THIS WILL NECESSARILY BE A TWO-WAY PROCESS AND THAT THE EUROPEAN REACTION TO AMERICAN IDEAS ON FUTURE CREDITS WILL BE INFLUENCED BY THE SENSE THEY GET OF US READINESS TO FIND SOLUTIONS TO THE PROBLEMS THEY HAVE THEMSELVES CREATED FOR THE EUROPEANS, PARTICULARLY OVER EXISTING CONTRACTS.

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TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 385 OF 2 MARCH
REPEATED TO FOR INFO PRIORITY UKREP BRUSSELS, BONN, ROME, PARIS
UKDEL NATO, WARSAW

YOUR TELNO 568: MEASURES AGAINST THE SOVIET UNION

1. IT IS USEFUL TO HAVE EAGLEBURGER'S OUTLINE OF THE PURPOSE OF THE BUCKLEY MISSION. WE THINK IT IMPORTANT THAT THE AMERICANS AND EUROPEANS SHOULD HAVE A FULL DISCUSSION OF THEIR POLITICAL AND ECONOMIC OBJECTIVES IN ANY FURTHER MEASURES AGAINST THE SOVIET UNION. WE NEED TO EXPLORE US OBJECTIVES IN RAISING CREDIT POLICY, EG WHETHER THEY ARE THINKING OF SOVIET UNION OR EASTERN EUROPE AS A WHOLE: WHETHER THEY PROPOSE ACTION ON SUBSIDIESED CREDITS ALONE, OR ON ALL OFFICIALLY GUARANTEED EXPORT CREDITS ALONE, OR ON CREDITS MORE GENERALLY: LEGAL BASIS: EVENTUAL EFFECT ON TRADING PATTERNS: IMPLICATIONS FOR THE INTERNATIONAL BANKING SYSTEM? THESE ARE ALL QUESTIONS WHICH WE SHALL PUT TO BUCKLEY BUT WE SHOULD BE GRATEFUL FOR ANY CLARIFICATION THAT YOU CAN OBTAIN.

2. MORE GENERALLY, THE AMERICANS DO NOT YET SEEM TO APPRECIATE THE STRENGTH OF EUROPEAN OPPOSITION TO THE RESTRICTION OF CREDIT FOR THE SOVIET UNION. THE FRENCH AND GERMANS, AT LEAST, ARE OPPOSED ON BOTH POLITICAL AND ECONOMIC GROUNDS TO DELIBERATE ACTION TO CUT BACK EAST/WEST TRADE. THEY WOULD ALSO HAVE LEGAL PROBLEMS. ACTION TAKEN FOR POLITICAL REASONS TO CURTAIL CREDIT FOR EASTERN EUROPE (IF THAT IS WHAT THE AMERICANS HAVE IN MIND) WOULD STRIKE THEM AS SENSELESS. OUR FIRST REACTION, THEREFORE, IS THAT A JOINT MEETING CENTERED ON THESE ISSUES WOULD QUICKLY RUN INTO SERIOUS DIFFICULTY. THERE MIGHT BE ADVANTAGE IN THE AMERICANS LEARNING EUROPEAN VIEWS SEPARATELY AND AT FIRST HAND IN CAPITALS. WE ALSO HAVE IN MIND THAT A MEETING BETWEEN BUCKLEY AND FOUR EUROPEAN OFFICIALS WOULD PROBABLY BECOME PUBLIC,

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AFTER THE ARTICLES IN THE US PRESS. THE REACTION OF OUR OTHER EUROPEAN PARTNERS, AND JAPAN, WOULD BE DECIDEDLY NEGATIVE.

3. OUR EARLIER SUGGESTION OF A MEETING OF THE FIVE (FCO TELNO 249 TO YOU - NOT TO ALL) WAS MADE IN THE CONTEXT OF 'NOT UNDERMINING'. WE ENVISAGED A CONFIDENTIAL MEETING OF ECONOMIC DIRECTORS THAT WOULD HAVE BUILT ON THE OUTCOME OF THE MEETING HELD IN THE US EMBASSY IN LONDON ON 2 FEBRUARY. WE REMAIN ANXIOUS TO PURSUE A SOLUTION ON THE BASIS PROPOSED IN THE PRIME MINISTER'S MESSAGE OF 29 JANUARY TO PRESIDENT REAGAN. HOWEVER, THE AMERICANS HAVE SUBSEQUENTLY RAISED AND GIVEN PROMINENCE TO THE ISSUE OF CREDITS FOR THE SOVIET UNION. WE SHOULD BE GRATEFUL FOR YOUR ASSESSMENT OF WHETHER A BARGAIN ON THE ORIGINAL BASIS REMAINS POSSIBLE OR ARE THE AMERICANS LIKELY TO INSIST ON ADDITIONAL CONCESSIONS, FOR EXAMPLE ON CREDITS FOR THE SOVIET UNION?

4. OUR CENTRAL CONCERN REMAINS THE PRESERVATION OF ALLIANCE UNITY. SUBJECT TO INFORMAL SOUNDINGS OF THE THREE EUROPEANS WE WOULD BE PREPARED TO RECOMMEND TO MINISTERS THAT WE HOST A CONFIDENTIAL MEETING OF THE FIVE TO PURSUE THE QUESTION OF 'NOT UNDERMINING' (IF THE AMERICANS SO REQUEST). IF THE AMERICANS WERE TO SEEK A JOINT MEETING COVERING THE WIDER ISSUES, WE WOULD HAVE TO SEEK MINISTERIAL INSTRUCTIONS.

5. THE US EMBASSY TOLD BRIDGES TODAY THAT THEY EXPECT BUCKLEY TO VISIT ROME, PARIS, LONDON AND BONN (IN THAT ORDER) BETWEEN MARCH 9 AND 19. LIKELY DATES FOR LONDON WOULD BE BETWEEN MARCH 14 AND 17. THEY DID NOT REFER TO A JOINT MEETING.

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