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TO IMMEDIATE FCO

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CREDITS FOR SOVIET UNION : DISCUSSION AT RAMBOUILLET 24 APRIL

1. UNDER-SECRETARY BUCKLEY (STATE DEPARTMENT) CALLED A MEETING OF ECONOMIC SUMMIT AMBASSADORS TO EXPLAIN THE IDEAS HE WILL BE PUTTING AT RAMBOUILLET ON SATURDAY.

2. BUCKLEY SAID THE AMERICANS STARTED FROM TWO PREMISES:

(A) WE NEEDED A COMMON DATA BASE. THE CIA WERE DOING AN ANALYSIS, WHICH WOULD BE PRESENTED AT RAMBOUILLET AND IF POSSIBLE CIRCULATED IN WASHINGTON AND IN CAPITALS BEFORE THEN.

(B) ANY REGIME FOR CONTROLLING CREDITS TO THE SOVIET UNION SHOULD BE "PRUDENT, APROPRIATE AND FAIR". THE AMERICANS WERE HIGHLY CONSCIOUS OF THE NEED FOR EQUITY AMONGST CREDITOR COUNTRIES IN THE LIGHT OF DIFFERENT NATIONAL SITUATIONS.

3. PRELIMINARY AMERICAN IDEAS WERE SET OUT IN A PAPER WHICH BUCKLEY CIRCULATED (SUMMARY IN MIFT, TEXT BY BAG; NOT TO ALL). BUCKLEY EMPHASIZED THAT THE PROPOSED REGIME CONCERNED ONLY CREDIT TO THE SOVIET UNION AND NOT TO EASTERN EUROPE; THAT IT WAS NOT INTENDED TO STOP TRADE WITH THE SOVIET UNION; AND THAT ANY REGIME WOULD DOUBTLESS NEED TO BE MODIFIED, PERHAPS QUITE SOON, IN THE LIGHT OF CHANGING CIRCUMSTANCES.

4. THE AIMS OF THE REGIME WOULD BE:

(A) TO AVOID AN EXCESSIVE BUILD-UP OF SOVIET DEBT, AND THE REVERSE LEVERAGE WHICH THE SOVIET UNION WOULD THEREBY ACQUIRE OVER ITS WESTERN CREDITORS;

(B) TO REVERSE THE PRESENT NET FLOW OF RESOURCES TOWARDS THE SOVIET UNION (ON WHICH THE CIA STUDIES WERE VERY INFORMATIVE);

(C) TO ENSURE A FAIR SHARING OF THE BURDEN AMONGST WESTERN CREDITORS.

5. CORNELL (DEPUTY ASSISTANT SECRETARY IN THE TREASURY) EXPANDED. THE AMERICAN PAPER DID NOT ATTEMPT TO QUANTIFY THE POSSIBLE FORMULAE MENTIONED IN THE PAPER; THAT COULD BE DONE WHEN THE DATA WERE CLEARER AND WHEN AGREEMENT HAD BEEN REACHED ON THE EXACT FORM AND PACE OF THE PROGRAMME THAT WOULD BE UNDERTAKEN. BUT THE OPTIONS WERE TO MANAGE EITHER NEW COMMITMENTS ON OFFICIAL DEBT; OR ACTUAL DISBURSEMENT OR TOTAL EXPOSURE. A PRACTICAL SYSTEM WOULD DOUBTLESS HAVE TO COMBINE ELEMENTS OF ALL THREE. IT WOULD HAVE TO TAKE ACCOUNT OF THE FACT THAT DEBT FLOWS VARIED FROM COUNTRY TO COUNTRY AND FROM YEAR TO YEAR; SOME SYSTEM OF "AVERAGING" WOULD DOUBTLESS BE NECESSARY TO ENSURE EQUITY.

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6. IN ANSWER TO QUESTIONS, BUCKLEY AND CORNELL SAID THAT:
- (A) THE CIA'S ANALYSIS WAS BASED ON EXPERIENCE OVER THE PAST DECADE, ON A CONSERVATIVE ESTIMATE OF FUTURE SOVIET REQUIREMENTS FOR WESTERN IMPORTS, AND ON A JUDGEMENT ABOUT FUTURE SOVIET CAPACITY TO EARN FOREIGN CURRENCY.
 - (B) THE AMERICANS HOPED THAT THE COMMUNITY, JAPAN, AND APPROPRIATE NEUTRALS WOULD COLLABORATE IN THE PROPOSED REGIME, IF ONLY FOR REASONS OF FINANCIAL PRUDENCE.
 - (C) THE AMERICANS LOOKED FOR TANGIBLE RESULTS FROM THE VERSAILLES SUMMIT (IN THIS REGARD THE BUCKLEY DISCUSSIONS WOULD BE SEPARATE FROM THOSE THE SHERPAS WOULD BE HAVING ON OTHER SUMMIT ISSUES).
 - (D) CREDIT ISSUES COULD ALSO BE DISCUSSED IN THE OECD AND NATO.
 - (E) THE AMERICANS ASSUMED THAT THE PROPOSALS FOR DEBT RECLASSIFICATION DISCUSSED IN THE OECD IN MARCH WOULD BE ACCEPTED BY ALL. TOGETHER WITH A LIMIT ON THE PROPORTION OF GOVERNMENT-BACKED CREDIT, THIS WOULD SIGNIFICANTLY INCREASE INTEREST RATES ON CREDIT TO THE SOVIET UNION.
 - (F) THE PROPOSED REGIME WOULD COVER NEW CREDITS ONLY: THE AMERICANS DID NOT WISH TO TAMPER WITH EXISTING CREDITS.
 - (G) THE AMERICANS APPRECIATED THE DELICACY OF ALL THIS, AND THE NEED FOR CONFIDENTIALITY, BUT BUCKLEY WOULD HAVE TO SPEAK NON-COMMITTALLY AT SENATE HEARINGS DUE ON 22 APRIL.

7. FCO PLEASE ADVANCE TO SIR KENNETH COUZENS AND CAREY (TREASURY).

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