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TO IMMEDIATE F C O

TELNO 1444 OF 25 APRIL 1982,

INFO UKREP BRUSSELS, BONN, PARIS, ROME.

U S MEASURES AGAINST THE SOVIET UNION : EXISTING CONTRACTS

1. EAGLEBURGER TELEPHONED MINISTER YESTERDAY EVENING ABOUT A REPORT THAT A NUMBER OF EUROPEAN COMPANIES INVOLVED IN THE WEST SIBERIAN PIPELINE PROJECT WERE DUE TO MEET IN PARIS ON 3 MAY TO DISCUSS MAKING ARRANGEMENTS FOR GE ROTORS TO BE MANUFACTURED UNDER EXISTING LICENCES IN FRANCE. THE COMPANIES INVOLVED INCLUDED JOHN BROWN, CREUSOT LOIRE, ALSTHOM ATLANTIQUE AND A NUMBER OF FIRMS FROM ITALY AND GERMANY. THE STATE DEPARTMENT HAD TOLD THE FRENCH, AND WOULD BE TELLING THE ITALIANS AND GERMANS THAT THIS REPORT WAS CAUSING SERIOUS CONCERN. IT WOULD BE A MAJOR MISTAKE FOR THE COMPANIES TO GO DOWN THIS COURSE AT A TIME WHEN A REAL EFFORT WAS BEING MADE THROUGH THE BUCKLEY MISSION TO REACH AN AGREEMENT ON CREDIT POLICIES WHICH IT WAS HOPED WOULD FACILITATE A SENSIBLE DECISION ON EXISTING CONTRACTS AND ON FUTURE STEPS WHICH MIGHT BE TAKEN. EAGLEBURGER URGED US TO DISCOURAGE JOHN BROWN FROM PREJUDICING THIS POSSIBILITY BY TAKING THE WRONG DECISIONS ON 3 MAY.

2. THOMAS SAID THAT HE WOULD TAKE NOTE AND REPORT EAGLEBURGER'S WARNING. HE SAID THAT THE ADMINISTRATION'S DECISIONS OF LAST DECEMBER HAD PUT THE COMPANIES WITH EXISTING CONTRACTS IN AN APPALLINGLY DIFFICULT POSITION AND THIS HAD INEVITABLY AFFECTED THE CLIMATE FOR DISCUSSION OF CREDIT POLICY WHICH THE BUCKLEY MISSION HAD NOW LAUNCHED. IT WOULD OBVIOUSLY IMPROVE THIS CLIMATE IF THE AMERICANS COULD FIND A WAY NOW OF SIGNALLING MORE CLEARLY THAT THEY WOULD BE PREPARED TO ALLOW THE PERFORMANCE OF CONTRACTS SUCH AS JOHN BROWN'S.

3. EAGLEBURGER RECOGNISED THAT THERE WAS A CHICKEN AND EGG PROBLEM HERE. HE SAID IN CONFIDENCE (PLEASE RESPECT) THAT IN INTER-AGENCY DISCUSSIONS HERE THE WHOLE QUESTION OF EXISTING CONTRACTS HAD BEEN EXPLICITLY LINKED WITH THE OUTCOME OF THE BUCKLEY MISSION. IT WAS NOW COMMON GROUND HERE THAT IF A REASONABLE FRAMEWORK COULD BE WORKED OUT ON CREDITS (AND THE RECENT REACTIONS OF THE FRENCH AND EVEN THE GERMANS SUGGESTED THAT THE PROSPECTS FOR THIS WERE LOOKING BRIGHTER) THE ADMINISTRATION WOULD NO LONGER STAND IN THE WAY OF PERFORMANCE OR CONTRACTORS FOR WHICH AMERICAN COMPONENTS HAD ALREADY BEEN SUPPLIED. AGREEMENT WAS NOT QUITE SO CLEAR-CUT ABOUT THE PERFORMANCE OF EXISTING CONTRACTS FOR WHICH US COMPONENTS STILL REMAINED TO BE SUPPLIED, BUT EAGLEBURGER SAID THAT THE STATE DEPARTMENT AND THE DEPARTMENT OF COMMERCE BOTH BELIEVED THAT THESE SHOULD ALSO BE ALLOWED TO GO AHEAD, AND HE WAS HOPEFUL THAT FULL AGREEMENT WOULD BE REACHED ON THIS AS WELL. IF THE BUCKLEY MISSION CAME OUT ALL RIGHT, THEREFORE, WE SHOULD ALL BE OFF THE HOOK AS FAR AS EXISTING CONTRACTS WERE CONCERNED. BUT THE PROSPECTS FOR THIS WOULD BE SEVERELY DAMAGED IF THE COMPANIES DECIDED TO GO AHEAD AT THE MEETING ON 3 MAY ON THE BASIS OF FRENCH PRODUCED ROTORS. GE ITSELF WOULD ALSO TAKE A JAUNDICED VIEW OF THIS.

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4. THOMAS POINTED OUT THE TIME PRESSURES WE WERE UNDER AS REGARDS FULFILMENT OF THE CONTRACTS. HE BELIEVED THAT JOHN BROWN HAD ALREADY MISSED THE DELIVERY DATES FOR ONE LOT OF COMPRESSERS AND WERE LIKELY TO BE BEHIND SCHEDULE ON THE OTHERS. EAGLEBURGER SAID THAT THIS WAS WELL UNDERSTOOD. THAT WAS ONE OF THE REASONS WHY THE ADMINISTRATION FELT THAT THE WHOLE QUESTION MUST BE TIED UP IN TIME FOR THE VERSAILLES SUMMIT. IT WAS WITH THIS JUNE DEADLINE IN MIND THAT THE BUCKLEY INITIATIVE WAS BEING PRESSED AHEAD URGENTLY. THIS WAS ALSO WHY HE WAS PRESSING THE EUROPEAN GOVERNMENTS NOT TO ENCOURAGE THE COMPANIES TO REACH IMPRUDENT DECISIONS ON 3 MAY.

5. THOMAS SAID THAT, SPEAKING PERSONALLY, HE WAS ENCOURAGED BY WHAT EAGLEBURGER HAD SAID ABOUT ATTITUDES WITHIN THE ADMINISTRATION ON EXISTING CONTRACTS. IT CONFIRMED IF RATHER MORE SPECIFICALLY WHAT WE HAD HEARD BEFORE. BUT HE SUGGESTED THAT THE AMERICANS SHOULD SERIOUSLY CONSIDER SENDING A CLEAR SIGNAL NOW, BY INDICATING THAT THEY WOULD NOT OPPOSE PERFORMANCE OF CONTRACTS FOR WHICH US COMPONENTS HAD ALREADY BEEN SUPPLIED, WITHOUT CONDITIONS, BEFORE DECEMBER 1981. THEY HAD GIVEN US THIS KIND OF INFORMAL GREEN LIGHT IN THE CONTEXT OF DEFENCE SALES TO CHINA. IF THEY DID SOMETHING SIMILAR NOW IT WOULD BE AN EARNEST OF GOOD INTENTIONS WHICH COULD ONLY BE HELPFUL TO THE FURTHER DISCUSSIONS.

FCO PLEASE ADVANCE TO BRIDGES.

HENDERSON

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