



Foreign and Commonwealth Office

London SW1A 2AH

26 May 1982

Prime Minister

Content will proposals at X and
attached telegram of instructions?

Dear John,

Yes
A-J.C. $\frac{26}{5}$

Credit Restrictions for the Soviet Union

x Discussion of American proposals to their Summit partners to restrict the supply of official, officially-supported, and officially-guaranteed credit to the Soviet Union, outlined in Lord Carrington's memorandum OD(82)15 of 23 March, has continued among Summit officials. The original proposals of the Americans for volume controls have proved unacceptable to Summit partners, and have been dropped. However, a meeting of Summit credit experts on 20 - 21 May in Washington, at which ECGD officials were present, established that it would be technically and legally feasible for most or all Summit countries to reduce the percentage of official financing for each contract, eliminate official local cost financing or guarantees for it, and increase insurance premiums, guarantees or commitment fees for direct exports.

Summit Economic Directors will meet in Paris on Thursday, 27 May, to examine the experts' report, and the associated questions of burden-sharing and information-sharing. We need to decide whether our Representative at that meeting should be authorised to commit us to these proposals and, if so, on what terms.

In his message to the Prime Minister of 7 May, President Reagan made it clear that the achievement of agreement on credit restraint towards the Soviet Union would be one of his main goals at the Versailles Summit. The Foreign and Commonwealth Secretary believes it is important that we should try to meet the Americans on this point for two reasons.

First, there is a good case on broad political grounds for adopting a constructive attitude to what the Americans have proposed. Quite apart from our general interest in maintaining a close and cordial Transatlantic relationship, current developments in the Falkland Islands conflict make this particularly important at the moment. Furthermore, it is clear that agreement among all concerned on revised terms for the OECD's Export Credit Consensus, of which an uncontroversial element is that export

/credit

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credit interest rates for the Soviet Union should be increased, will not now be reached in advance of the Summit. This strengthens the case for demonstrating to the Americans that we are prepared to do something about restricting the supply of credit to the Soviet Union at the Summit itself.

Secondly, the Americans have established a link between agreement by their partners to restrict the supply of credit to the Soviet Union and the release of two American components for John Brown and other European suppliers of turbines purchased by the Soviet Union for the Siberian gas pipeline. The export from the United States, and the re-export from Europe, of these components is at present blocked by the measures announced by President Reagan on 29 December 1981. The Prime Minister has so far had no reply from President Reagan to the two messages, dated 29 January and 5 April, in which she has brought up this subject. We cannot be certain that an agreement to restrict the supply of credit to the Soviet Union would unblock the export and re-export of the components. We can, however, be sure that failure to do anything to meet the Americans over credit would deprive John Brown and other European companies of the components they need; and might also lead to an extension of the scope of the measures of last December.

I enclose a draft telegram to Washington which sets out the line which the Foreign and Commonwealth Secretary believes our representative at the meeting in Paris on 27 May should be authorised to take. The purpose behind the second paragraph is to strengthen the inclination of the Americans to unblock the export and re-export of their embargoed components. The third paragraph answers the main points of a letter which Hormats sent to Sir Robert Armstrong last week. It would be helpful if you could let me know as early as possible whether the terms of the draft telegram are acceptable to the Prime Minister.

I am sending copies of this letter, and of the draft telegram, to the Private Secretaries of all members of OD and of Sir Robert Armstrong.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

OUT TELEGRAM

Classification and Caveats

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Precedence/Deskby

IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO
PRE/ADD	7	TO IMMEDIATE WASHINGTON
TEL NO	8	TELEGRAM NUMBER
	9	YOUR TELNO 1844: CREDITS FOR THE SOVIET UNION
	10	1. Please tell Hormats that Bridges has been authorised to
	11	agree in principle on 27 May to those restraints over the grant
	12	of credit to the Soviet Union which were found generally
	13	feasible at last week's meeting of experts (para 5 of your TUR).
	14	His agreement will be conditional only on the readiness of
	15	other countries to go as far as their legal obligations allow
	16	(see para 3 below) <i>and on equitable burden-sharing.</i>
	17	2. Please mention to Hormats the link which the Americans have
	18	made between progress on credit restraint towards the Soviet
	19	Union and the impact on European companies of the measures
	20	announced by President Reagan on 29 December. It would be
	21	extremely helpful for us (and, we are sure, for others) if the
///	22	Americans could intimate on 27 May that a satisfactory
//	23	understanding about credit restraint towards the Soviet Union
/	24	will enable them to look sympathetically at the problems faced
	25	by John Brown and other companies through their inability to

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File number		Dept	Distribution LIMITED	
Drafted by (Block capitals) PRIVATE SECRETARY			TRED	
Telephone number 233 4831			EESD	
Authorised for despatch			ERD	Mr Evans
Comcen reference		Time of despatch	ESID	cc: Poland Standard
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			PS/Mr Rifkind	
			PS/PUS	
			Lord Bridges	
			Mr Bullard	

OUT TELEGRAM (CONT)

Classification and Caveats

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export and/or obtain American components for the turbines which they are under contract to supply to the Soviet Union.

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3. Finally, please tell Hormats that Armstrong has received his letter about the discussion of East/West economic relations at the meetings held in and near Paris over the weekend before last. He too was worried about the way in which this discussion went, but is hopeful that the experts meeting last week has now reopened the way to general agreement. We, of course, have been working for such agreement and will continue to do so. You could add that, like the Americans, we have never seen the text of the Franco/Soviet protocol on export credit and that the delay in reaching an agreed Community position about the revision of the OECD's Export Credit Consensus has nothing to do with the Soviet Union. All member states are agreed that the Soviet Union should be promoted from Category 2 to Category 1.

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telegram

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Catchword



126 MAY 1982

Soviet Union

From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

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SWITCHBOARD 01 215 7877

F N Richards Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

*A. J. C. 26
J
h.a.*

26 May 1982

Dear Francis,

Thank you for your letter of 26 May addressed to John Coles at No. 10.

We have already reached decisions on restrictive measures in the field of credit for the USSR on grounds of financial prudence. The measures now under discussion in the Summit context go further in that they would involve stiffening the terms of credit for the USSR to a greater degree than is provided for even in the proposed amendments to the OECD Consensus. These, if implemented, would affect the interests of those UK companies which have over the years built up trade with the USSR to the advantage of German and Japanese competitors. This possible damage is acceptable but can be defended only if:

- (a) existing contracts are released from the effect of the American embargo announced at end December 1981;
- (b) measures agreed on credit for the USSR are sufficiently flexible to enable ECGD to match competing offers by other Summit countries providing that they are also agreeable. If the others however, seek more general matching (ie on offers by third countries) we shall have to reconsider our position;
- (c) the Consensus as a whole remains in being. (But tightening arrangements should be outside the Consensus and not complicate the Consensus further.)



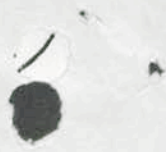
The draft telegram does not adequately reflect (a) above but will serve to put the Americans on notice that the issue will be raised. The brief for the delegation should however take account of these points. I suggest that the reference to the Franco/Soviet protocol should be omitted.

I am copying this to the recipients of yours.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary to the
Minister for Trade (PETER REES)



21 9 11/11/1982



cc: HO
FCO
CDL
MOD
CO

file BK

10 DOWNING STREET

From the Private Secretary

26 May 1982

Credit Restrictions for
the Soviet Union

As I told John Holmes on the telephone earlier today, the Prime Minister has seen your letter of 26 May and has approved the enclosed draft telegram to Washington subject to the deletion of the word "only" in paragraph 1 and the insertion at the end of that paragraph of the words " and on equitable burden-sharing".

I am copying this letter to the Private Secretaries to all members of OD and to David Wright (Cabinet Office).

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office

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