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Feb 1982

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**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T138/82**

FLASH

S E C R E T

Z 251845Z JUN 82

FM NO. 10 DOWNING STREET  
TO WHITE HOUSE

MESSAGE TO THE PRESIDENT OF THE UNITED STATES.

DEAR RON,

WHEN WE DISCUSSED ON 23 JUNE THE EFFECT ON JOHN BROWN ENGINEERING (JBE) OF AMERICAN SANCTIONS AGAINST THE SOVIET UNION, YOU TOLD ME THAT REPRESENTATIVES OF THE COMPANY HAD INDICATED RECENTLY TO YOUR OFFICIALS IN WASHINGTON THAT THE DECISION TO EXTEND THE SANCTIONS WOULD NOT CAUSE THEM GREAT FINANCIAL DISTRESS. I SAID THAT I WOULD ENQUIRE INTO THE MATTER AND ADVISE YOU FURTHER.

JBE'S VIEWS HAVE BEEN MISUNDERSTOOD IN WASHINGTON. THE COMPANY'S REPRESENTATIVES HAVE REPEATEDLY MADE CLEAR TO US OFFICIALS THEIR DEEP CONCERN ABOUT THE FAR REACHING RESULTS OF THE COMPANY BEING FORCED BY RETROSPECTIVE LEGISLATION TO ABANDON A CONTRACT WHICH THEY ENTERED INTO IN GOOD FAITH AT A TIME WHEN THE GOODS CONCERNED WERE NOT EMBARGOED. LAST WEEK THEY CONFIRMED TO US OFFICIALS THAT FAILURE TO SHIP THE TURBINES WOULD HAVE VERY DAMAGING CONSEQUENCES. THE PRECISE EXTENT OF THE DAMAGE CAUSED CANNOT BE ASSESSED AT PRESENT. AT WORST UNINSURED COSTS AND DAMAGES COULD BE AS MUCH AS POUNDS STERLING 100 MILLION. JBE COULD WELL BE FORCED OUT OF BUSINESS AND THIS WOULD LEAD TO 1700 JOB LOSSES IN THE COMPANY IN AREAS OF HIGH UNEMPLOYMENT IN SCOTLAND; THERE WOULD ALSO BE EFFECTS UPON COMPONENT SUPPLIERS. THE STABILITY OF THE GROUP AS A WHOLE MIGHT BE THREATENED. THE CHAIRMAN OF JOHN BROWN HAS CONFIRMED THESE FACTS TO THE SECRETARY OF STATE FOR TRADE SINCE OUR MEETING IN WASHINGTON.

WE SEE THE FURTHER MEASURES WHICH YOU ANNOUNCED ON 18 JUNE AS WRONG IN PRINCIPLE BECAUSE OF THEIR EXTRA-TERRITORIAL APPLICATION DIRECTLY TO BRITISH COMPANIES. THEY WILL IF PROCEEDED WITH CAUSE SERIOUS ECONOMIC DAMAGE IN THE UK QUITE APART FROM ADDING TO JBE'S PROBLEMS. WE ARE ALREADY RECEIVING REPORTS OF BRITISH COMPANIES FACED WITH LOSSES OR THE THREAT OF CLOSURE AS A RESULT OF THESE MEASURES. YOUR PEOPLE WILL TELL YOU THAT WE HAVE STRONGLY OPPOSED THE EXERCISE OF EXTRA-TERRITORIAL POWERS IN THE PAST, AND ARE THEREFORE BOUND TO REACT TO ITS NEW EXTENSION.

AS YOU KNOW, THE VIEWS AND POLICIES OF OUR TWO GOVERNMENTS ON RELATIONS WITH THE COMMUNIST COUNTRIES ARE IN VERY CLOSE HARMONY. IT WOULD BE UNHAPPY IF, IN PUBLIC EYES, THIS HARMONY WERE TO BE OVERSHADOWED BY THE VERY SEVERE CONSEQUENCES OF YOUR MEASURES FOR BRITISH COMPANIES. I THEREFORE HOPE THAT YOU WILL BE WILLING TO RECONSIDER THESE MEASURES IN THE WIDER POLITICAL, AS WELL AS THE SPECIFICALLY ECONOMIC, CONTEXT.

JBE'S PROBLEM IS NOW BOTH VERY SERIOUS AND URGENT. I WOULD GREATLY VALUE YOUR HELP IN SOLVING THIS PROBLEM BY 2 JULY WHEN THE FIRST SHIPMENTS ARE DUE.

MY BEST WISHES,  
MARGARET.

BT

NNNN

SENT-251908Z JH

RG RG QSL UR MSG AT 1908Z AND PLS IF U HAVE TRF AGAIN  
TO GIVE US SOME BELLS ONT TTY  
ATTN KKK

E.R.  
TEXT OF MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER  
RE JOHN BROWN ENGINEERING

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When we discussed on 23 June the effect on John Brown Engineering (JBE) of American sanctions against the Soviet Union, you told me that representatives of the company had indicated recently to your officials in Washington that the decision to extend the sanctions would not cause them great financial distress. I said that I would enquire into the matter and advise you further.

JBE's views have been misunderstood in Washington. The company's representatives have repeatedly made clear to US officials their deep concern about the far-reaching results of the company being forced by retrospective legislation to abandon a contract which they entered into in good faith and at a time when the goods concerned were not embargoed. Last week they confirmed to US officials that failure to ship the turbines would have very damaging consequences. The precise extent of the damage caused cannot be assessed at present. At worst unensured costs and damages could be as much as £100 million. JBE could well be forced out of business and this would lead to 1700 job losses in the company in areas of high unemployment in Scotland: there would also be effects upon component suppliers. The stability of the group as a whole might be threatened. The Chairman of John Brown has confirmed these facts to the Secretary of State for Trade since our meeting in Washington.

We see the further measures which you announced on 18 June as wrong in principle because of their extra territorial application directly to British companies. They will if

proceeded with cause serious economic damage in the UK quite apart from adding to JBE's problems. We are already receiving reports of British companies faced with losses or the threat of closure as a result of these measures. Your people will tell you that we have strongly opposed the exercise of extra territorial power in the past, and are therefore bound to react to its new extention.

As you know, the views and policies of our two Governments on relations with the Communist countries are in very close harmony. It would be unhappy if, in public eyes, this harmony were to be overshadowed by the very severe consequences of your measures for British companies. I therefore hope that you will be willing to reconsider these measures in the wider political, as well as the specifically economic, context.

JBE's problem is now both very serious and urgent. I would greatly value your help in solving this problem by 2 July when the first shipments are due.

My best wishes,



SECRET

*From the Secretary of State*2  
Top Copy aUN: UNSSOD;  
Feb 1982

John Coles Esq  
10 Downing Street  
London SW1

25th June 1982

Dear John,

As requested in your letter of 24 June to Brian Fall, I attach a draft message for the Prime Minister to send to President Reagan. This has been cleared at official level with the FCO. The passage on JBE has been cleared with Sir John Mayhew Sanders.

We are now receiving reports from a number of British subsidiaries of US companies about the effects of the new measures announced on 18 June. It is too early to assess the full effect but by way of example the Walter Kidde Co, employing 700 people in Northolt has reported that a major part of its current order book is tied up with the Siberian Gas Pipeline and that it may go out of business if the new measures are not withdrawn.

I am copying this to the recipients of yours, Brian Fall and Jonathan Spencer (Industry).

Yours ever,

JONATHAN REES

Private Secretary

SECRET

DRAFT

Addressed to :

~~The Hon Ronald Reagan~~

File No.

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DEPARTMENT OF TRADE

Dear Ron

When we discussed on 23 June the effect on John Brown Engineering (JBE) of American sanctions against the Soviet Union, you told me that representatives of the company had indicated recently to your officials in Washington that the decision to extend the sanctions would not cause them great financial distress. I said that I would enquire into the matter and advise you further.

JBE's views have been misunderstood in Washington. The company's representatives have repeatedly made clear to US officials their deep concern about the far reaching results of the company being forced by retrospective legislation to abandon a contract which they entered into in good faith at a time when the goods concerned were not embargoed. Last week they confirmed to US officials that failure to ship the turbines would have very damaging consequences. The precise extent of the damage caused cannot be assessed at present. At worst uninsured costs and damages could be as much as £100m. JBE could well be forced out of business and this would lead to 1700 job

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File No.

losses in the company in areas of high unemployment in Scotland; there would also be effects upon component suppliers. The stability of the group as a whole might be threatened. The Chairman of John Brown has confirmed *these facts* the foregoing to the Secretary of State for Trade since our meeting in Washington.

*W.C.M.*  
 3 The further measures which you announced on 18 June are ~~objectionable~~ *wrong* in principle ~~to us~~ because of their extra-territorial application directly to British companies. They will if proceeded with cause serious economic damage in the UK quite apart from adding to JBE's problems. We are already receiving reports of British companies faced with losses or the threat of closure as a result of these measures. Your people will tell you that we have strongly opposed the exercise of extra-territorial powers in the past, and are therefore bound to react to its new extension.

4 As you know, the views and policies of our two governments on relations with the Communist countries are in very close harmony. ~~We have given you a great deal of support in your efforts to promote a greater degree of prudence in the management of East/West economic relations.~~ It would be ~~unfortunate~~ *unhappy* if, in public eyes, this harmony were to be overshadowed by the ~~consequences~~ *very serious* of your measures for British companies. I therefore hope that you will be willing to reconsider these measures in the wider political, as well as the specifically economic, context.

5 JBE's problem is now both very serious and urgent. I would greatly value your help in solving this problem by 2 July when the first shipments are due.

*with my best wishes*

*Margaret.*