

Soviet Union

file 110

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

26 July, 1982

JOHN BROWN ENGINEERING

In his minute of 21 July your Secretary of State explained the Directions which he proposed to issue under Section 1(3) of the Protection of Trading Interests Act 1980. He also suggested that the Prime Minister might send a personal message to President Reagan explaining why we were acting as we were.

In his minute of 23 July the Foreign and Commonwealth Secretary agreed generally with these proposals.

Francis Richards' letter of 23 July enclosed a draft of a message to President Reagan.

Your letter of 23 July describes some amendments which your Secretary of State wished to propose to that message and added that Lord Cockfield had not decided when the best time might be to issue Directions under the Act. You also explained to me orally that John Brown were having further discussions with the Soviet Government.

Since the Prime Minister has already agreed in principle that Directions may be issued under the Act (my letter of 12 July) and since it is still not entirely clear when such Directions will be issued, I have not yet shown the Prime Minister the above papers. It would be most helpful if, when as foreshadowed in your letter of 23 July, you send me further proposals you could couch these in the form of a self-contained piece of paper which will give the Prime Minister a comprehensive account of the situation reached and present an agreed draft of the proposed message.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), Caroline Varley (Department of Industry) and David Wright (Cabinet Office).

A. J. COLES

J N Rees, Esq
Department of Trade

859



From the Secretary of State

CONFIDENTIAL

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

23rd July 1982

Dear John,

JOHN BROWN ENGINEERING

1 I have seen a copy of Francis Richards' letter of 23 July to you, enclosing a draft message for the Prime Minister to send to President Reagan. As his letter points out, we have not yet decided when the best time might be to issue a Direction under Section 1(3) of the Protection of Trading Interests Act 1980. We hope to be able to write to you with further proposals early next week. However, it might be helpful to let you have now my Secretary of State's preliminary comments on the draft message attached to Francis Richards' letter.

2 Lord Cockfield has proposed the following amendments:-

First main paragraph, last sentence: "It is because of this that we shall have no option but to follow the provisions of our legislation to protect the interests of John Brown Engineering and other British companies with existing contracts."

Second main paragraph: Delete first sentence, and "But". Delete last sentence and replace by the following passage:-

"I am very anxious that this matter should not be allowed to escalate and thus become a serious irritant in our relations. This is why we are limiting our actions in the way that we are. I would very much hope that your Administration will be able to respond in the same spirit."



From the Secretary of State

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3 There may of course need to be other amendments, in the light of our proposals on timing which, as I say above, we hope to be able to let you have early next week.

4 I am copying this letter to the recipients of Francis Richards'.

Yours ever,

Jonathan Rees

J N REES
Private Secretary

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Foreign and Commonwealth Office

London SW1A 2AH

23 July 1982

*Dear John,*John Brown Engineering

You will remember that I wrote to you on 12[✓] July, enclosing a draft letter for the Prime Minister to send to President Reagan. You later told me that the Prime Minister did not wish to send a message to the President on these lines, and made some helpful suggestions. I now enclose a revised draft, which takes account of these, and of two new factors, namely:

- (a) General Jaruzelski's speech to the Polish Sejm on 21 July, to which he announced some relaxation in the martial law regime; and
- (b) the proposal in Lord Cockfield's minute of 21 July to the Prime Minister that directions should now be issued under Section 1(3) of the Protection of Trading Interests Act requiring certain British companies not to comply with the United States Re-Export Control Regulations - and that the Prime Minister should send a personal message to the President about this. (Mr Pym has written separately about this.)

I understand that it has for practical reasons not yet been possible to fix a date for the Secretary of State for Trade to announce action under (b). Since too long an interval between delivery of the Prime Minister's message to President Reagan and the announcement would inevitably invite determined American efforts to reverse our decision (particularly if Mr Pym's planned visit to Washington on 29 July intervened between the two events) we suggest that no action be taken to deliver the message until this can be sorted out. But it seemed sensible to send you the text before the weekend to give you and other recipients of this letter time to consider it.

The only point on which the Department have not followed your suggestions is the use of the phrase "we must work for more fundamental developments". This might be taken by the President to mean that we agree with his view that far-reaching changes can be brought about in the Soviet system by a concerted campaign of sanctions. We do not altogether share American views on this point, and have therefore omitted the phrase in the latest version.

/Because of

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Because of action pending under the Protection of Trading Interests Act, I am copying this letter to Jonathan Rees (Department of Trade), Caroline Varley (Department of Industry) and David Wright (Cabinet Office).

Yours ever.

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street



JUL 1982



Vertical text or markings on the right side of the page, possibly a date or location, partially obscured by a red stamp.

DRAFT: ~~minute/letter/teletype/dep.atch/note~~ MESSAGE

TYPE: Draft/Final 1+

FROM:
The Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

President Reagan

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your message of 2 July.

CAVEAT.....

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well founded. If different accounts have reached you, this could be because the Company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British comapny if it is prevented from exporting the equipment which it is under contract to supply. It is because of this that we shall announce very soon further measures to protect the interests of John Brown Engineering and other British companies with existing contracts.

Enclosures—flag(s).....

I realise that this will come as a disappointment to you. But you will know from our talks together that I believe, as a matter of principle, that existing commercial contracts should be honoured. I should like

/to stress

to stress that we are taking, and will continue to take, no more than the absolute minimum action. In this way, it should be possible to prevent this whole issue from becoming too much of an irritant in our relations.

On the broader issues, I do not think there is much difference between us. I do agree with you about the need for the authorities in Poland to return to a course of reconciliation and reform. Following the Declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed against Poland and against the Soviet Union. Of course we must continue to work together closely. Our immediate task must be to consider carefully with our NATO partners the relationship between the latest relaxations announced by General Jaruzelski on 21 June and the objectives we have set ourselves.

The question of economic relations with the East certainly needs to be discussed further. I hope that this problem will be high on the agenda when Francis Pym is able to have his first meeting with George Shultz. The Alliance, and the West as a whole, need an agreed and united strategy for East/West economic relations. We shall be happy, indeed anxious, to work with you to promote this.

N. S. P. A.

MR 29.
7PM/82/63PRIME MINISTERAmerican Measures Against the Soviet Union

1. Arthur Cockfield copied to me his minute to you of 21 July, proposing that he issues Directions under Section 1 (3) of the Protection of Trading Interests Act to John Brown and other companies with existing contracts for the Siberian Pipeline which have been affected by President Reagan's measures of 29 December 1980 and 18 June.
2. I agree that Directions should be issued to John Brown and the other companies he names under the conditions he proposes, and that this should be done and announced in the House of Commons as soon as possible. The faster we act the less the risk of leaks, and of subsequent accusations of collusion with the companies concerned.
3. I believe it is right to limit the action we are taking to those companies with existing, legally-binding contracts. Although the PTI Act is designed to counteract all foreign legislation with extra-territorial effect, I see advantage in applying it in this case only to our existing contracts, about which President Reagan and his Administration already know we hold strong views.
4. It would be very helpful if you could give advance warning to President Reagan. This might be embodied in a reply to his message of 2 July: we shall be suggesting some wording later today. We shall also give detailed instructions to our Embassy in Washington about the timing, nature, and scope of our action. I believe we should also ask our Embassies to tell the French, Germans and Italians what we propose.



5. I am copying this minute to the Secretaries of State for Trade and Industry and to Sir Robert Armstrong.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office

23 July 1982

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PRIME MINISTER

N.B.P.R.

ML 29.
7

We now need to issue Directions under Section 1(3) of the Protection of Trading Interests Act of 1980 requiring certain named British companies, principally John Brown, not to comply with the United States Re-Export Control Regulations. This ought to be done fairly soon because of the risk of leakage of what might be regarded as market sensitive information. Nothing has emerged from yesterday's Foreign Affairs Council which should cause us to change our minds. The Directions would apply to John Brown Engineering Limited plus the following companies, provided we can be assured that the issue of a Direction would be in their interest:-

Baker Oil Tools;
Howmet Turbine;
American Air Filters.

The Directions would apply only to goods supplied or to be supplied under existing contacts: and only to goods supplied in relation to the Siberian Gas Pipeline.

It is to be expected that when these Directions are issued, other companies who so far have not made representations or who are involved in other non-Pipeline projects, will ask that they should be protected by the issue of similar Directions. We will have to consider these cases on their merits, and further Directions may have to issue. Directions under Section 1(3) are not statutory instruments and do not have to be laid. Nevertheless the issue of further Directions would complicate matters as our hope throughout has been that the American Administration would either not take

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enforcement action against John Brown, or if they did only nominal fines would be imposed. But the more companies covered by Directions the more difficult it would be for the American authorities not to react adversely. There is the further problem that the more extensive the coverage, the more likely it is that the American Courts - if matters went to the Courts - would take the view that there had been collusion between the United Kingdom Government and the companies concerned.

My objective throughout has been to limit the damage done to Anglo-American relations by the embargo. This is why I have proposed restricting action at this stage in the way I have described - ie to a handful of named companies and in respect of existing contracts only: and not attempted to challenge the American embargo across the board. This is in line with what was said in your Private Secretary's letter of 12 July and the letter of the same date from the Foreign Secretary's Private Secretary.

In the light of this approach I would think it appropriate and helpful if you could see your way to sending a personal message to the President explaining why we were acting as we were; stressing that we were taking, and would continue to take, no more than the absolute minimum action we needed to take; and therefore that in the same spirit the President would accept that enforcement action should not be taken. I hope very much you agree.

I am copying this to the Foreign and Commonwealth Secretary, the Secretary of State for Industry and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET

21 July 1982

2

Arthur Cockfield
LORD COCKFIELD

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21 JUL 1962



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B/F ✓
Soviet Union

10 DOWNING STREET

From the Private Secretary

19 July 1982

John Brown Engineering

Your letter of 12 July enclosed a further draft letter for the Prime Minister to sent to President Reagan. As I told you last week, the Prime Minister does not wish to send a message in these terms. She minuted that we have always been closer than the rest of Europe to the United States on the question of economic relations with the East. Mrs. Thatcher also considers ^{that} to reject the approach in President Reagan's message of 2 July would do great harm to Anglo/American relations.

B/A

In the light of the Prime Minister's views, one course would be not to continue the correspondence. This seems rather difficult, however, given the fact that President Reagan's latest message incorporates the suggestion that the United States and the United Kingdom should undertake a serious dialogue both on how we can bring pressure to bear on Moscow and Warsaw and also on a common approach to economic relations with the USSR over the longer term. I have discussed this with the Prime Minister and think that she might be prepared to sign a letter on the lines of the enclosed revised draft. But before I put this to Mrs. Thatcher I should be grateful to know whether you are content with it.

JL

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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DRAFT MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

Thank you for your message of 2 July.

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well founded. If different accounts have reached you, this could be because the Company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply.

My own worry relates, as you know, to a matter of principle.- that existing commercial contracts should be honoured. On the broader issues, I do not think there is any difference between us.

I do of course agree with you about the need for the authorities in Poland to return to a course of reconciliation and reform. Following the Declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed both against Poland and against the Soviet Union. I agree that the improvements in Poland since then have been only superficial and that we must work for more fundamental developments.

/ The question

The question of economic relations with the East certainly needs to be discussed further. I hope that this problem will be high on the agenda when Francis Pym is able to have his first meeting with George Schultz. The Alliance, and the West as a whole, need an agreed and united strategy for East/West economic relations. We shall be happy to work with you to promote this.

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JU470



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

16 July 1982

J Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

A.S.C. 16/7
k.a.

Dear John,

JOHN BROWN ENGINEERING

Thank you very much for sending me copies of the recent correspondence between yourself, the Department of Trade and FCO about the problems caused for John Brown Engineering by US sanctions against the Soviet Union.

2 My Secretary of State has asked to be kept in touch with the discussions over possible action and I should be grateful, therefore, if you and copy recipients could arrange to circulate any future correspondence to this Department.

3 I am copying this letter to Francis Richards (FCO), Jonathan Rees (Trade) and David Wright (Cabinet Office).

Yours ever

Caroline Varley

CAROLINE VARLEY
Private Secretary

DEPARTMENT OF INDUSTRY
ASHDON HOUSE
121 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE: 01-834 7000
FACSIMILE: 01-834 7000



2



160 JUL 1982

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

To note Foreign Secretary's views. 12 July 1982
A.J.C. 12/7

Dear John,

John Brown Engineering

Mr Pym has seen Jonathan Rees' letter of 8 July to you. He agrees that the prospects for our obtaining the exemption of John Brown's contracts from the American measures look increasingly bleak, but that we should continue to try.

He has no objection in principle to the issuing of a direction to John Brown under Section 1(3) of the Protection of Trading Interests Act. Such a step would be unprecedented and certain to increase transatlantic tension, but the American measures are in themselves unprecedented. However he believes that we should not decide whether or not to issue the direction until John Brown has decided at their Board meeting on 15 July whether the company wishes to proceed with the shipment later this month of the first six units which include the rotors already in Scotland. There would not seem to be much advantage in issuing the direction if the company decides not to make shipment.

Mr Pym believes that the issuing of directions under Section 1(3) of PTI to other British companies affected by the American measures should be considered by the Ministers most concerned on a case-by-case basis.

I am copying this letter to the Private Secretaries to the Secretary of State for Trade and Sir R Armstrong.

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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2 PPS ①



We have always been closer to the United States on this issue than any other country. To refuse this proposal would do great harm to Anglo-American relations.

Foreign and Commonwealth Office
London SW1A 2AH

12 July, 1982

Dear John,

Prime Minister

Agree to send this further message to President Reagan?

A.J.C. 12/7

John Brown Engineering

In your letter of 2 July to Jonathan Rees you asked for advice on the latest message from President Reagan.

Mr Pym agrees with the Prime Minister's comment (your letter of 5 July) that the President's letter is very disappointing. He understands that the Americans have written similarly to the Japanese, the Italians and probably others who asked for the decision of 18 June to be reconsidered.

No

The President's letter however contains two points of particular application to Britain: the suggestion that the United States is better informed than the British Government about the situation of John Brown Engineering, and the proposal for bilateral Anglo-American talks on economic relations with the Soviet Union and Poland. The enclosed draft letter, agreed with the Department of Trade, deals with both these points. On the second, Mr Pym assumes that the American purpose is to undermine the unanimity which exists at the moment between America's principal European allies, and this is his reason for suggesting that the idea of private bilateral consultations should not be taken up. But he sees everything to be gained by discussing the problem himself as soon as possible with the new American Secretary of State, who is on record as believing that governments should be cautious in seeking to use trade and economic relations as a political lever against the East. We are in touch with the Embassy in Washington about how and when the Foreign and Commonwealth Secretary could most conveniently meet Mr Shultz.

I am sending copies of this letter and enclosure to Jonathan Rees (Dept of Trade) and David Wright (Cabinet Office).

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

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DRAFT MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

Thank you for your message of 2 July.

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well-founded. If different accounts have reached you, this could be because the company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply.

On the broader questions, I do of course agree with you about the need for the authorities in Poland to return to the course of reconciliation and reform. Following the declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed both against Poland and against the Soviet Union. I agree that the improvements in Poland since then have been only superficial. Where I part company with you is on the question whether the Polish situation is likely to change for the better as a result of the national measures which you announced on 18 June, and whether these measures are wise in themselves. I need not repeat here what I said in my earlier messages and in the House of Commons last week.

The question of economic relations with the East certainly needs to be discussed further, and frameworks for this already exist. I hope that this problem will be high on the agenda when Francis Pym is able to have his first meeting with George Shultz. What the Alliance and the West as a whole need, in both the short and the longer term, is a strategy for East/West economic relations based on an agreed assessment of all the considerations and an agreed analysis of the net costs of particular courses of action to East and West respectively. We are a long way from this at present.

John - This shall be done.
 Ray! Have a word
 me



Secret unless file

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CO.

10 DOWNING STREET

From the Private Secretary

12 July 1982

John Brown Engineering

Thank you for your letter of 8 July.

Subject to the views of the Foreign and Commonwealth Secretary, the Prime Minister is content that your Secretary of State should issue directions under Section 1(3) of the Protection of Trading Interests Act 1980 to the British companies concerned where he is satisfied that such directions would assist the completion of existing contracts and would be of benefit to the firms concerned.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

A. J. COLES

Jonathan Rees, Esq.,
Department of Trade.



①

Prime Minister

Contact that Trade Secretary should issue direction to British companies concerned where he is satisfied that this will help the companies?

From the Secretary of State

J Coles Esq
10 Downing Street
London SW1A

28 July 1982

A.P.C. 7/82

Dear John,

Yes no

JOHN BROWN ENGINEERING

My Secretary of State has seen your letter to me of 2 July on this subject and the accompanying text of President Reagan's message to the Prime Minister. The President does not seem to be greatly worried that, by interfering with existing contracts, his Administration is imposing a high cost on our firms - probably higher than on the Russians who can claim damages under these contracts.

Lord Cockfield's conclusion is that continuing efforts to resolve this matter privately by agreement do not now have much chance of success, but, since this is the preferred outcome, we should keep on trying. At the same time we must be prepared, if necessary, to take more overt action, including further use of the Protection of Trading Interests Act 1980. Subject to the views of the Prime Minister and the Foreign and Commonwealth Secretary, he has in mind to issue directions under Section 1(3) of this Act to British companies requiring them not to comply with the United States Re-export Control Regulations referred to in the Order already made under Section 1(1) of the Act. Such directions would only be issued in cases where my Secretary of State was satisfied that they would materially assist the completion of existing contracts and would be of benefit to the firms concerned.

I note that you have asked FCO for advice on the President's proposals for a dialogue and on longer term relations with the Soviet Union. DOT will be in touch with the FCO about the economic and trade aspects of this; our approach to these and related issues is bound to be one of concern to protect the legitimate trading interests of British firms and to avoid a repetition of the damage they are currently suffering at American hands.

I am copying this to Francis Richards (FCO) and David Wright (Cabinet Office).

Yours ever,

Jonathan Rees

JONATHAN REES
Private Secretary



TRADE MARK SECTION

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10 DOWNING STREET

From the Private Secretary

5 July 1982

JOHN BROWN ENGINEERING

I sent you a copy of my letter of 2 July to Jonathan Rees enclosing a copy of President Reagan's reply to the Prime Minister's letter of 25 June about the problems caused for John Brown Engineering by US sanctions against the Soviet Union.

Pending the advice which you will be providing on President Reagan's latest letter, you may care to know that the Prime Minister has minuted that it is "very disappointing".

Francis Richards, Esq.,
Foreign and Commonwealth Office

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RM



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Sullivan

10 DOWNING STREET

From the Private Secretary

2 July, 1982

BF

JOHN BROWN ENGINEERING

Following your letter of 25 June the Prime Minister sent a message to President Reagan about the problems created for John Brown by American sanctions against the Soviet Union.

I now enclose a copy of a reply which the Prime Minister has just received from President Reagan. The reply goes wider than the immediate issues and suggests that we and the Americans should undertake as soon as possible a serious dialogue on how pressure might be brought to bear on Moscow and Warsaw and also that we should work out a common approach to economic relations with the Soviet Union over the longer term. It will be for the Foreign and Commonwealth Office to lead on our response to this latest proposal and I should be grateful if Francis Richards could let me have further advice as soon as possible.

I am copying this letter and enclosure to Francis Richards (FCO) and to David Wright (Cabinet Office).

A. J. COLES

J Rees, Esq
Department of Trade

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