



COPY NUMBER 3 OF 7

*From the Secretary of State*SECRET - BURNING BUSH

John Holmes Esq
 Private Secretary to the
 Secretary of State for
 Foreign and Commonwealth Affairs
 Foreign and Commonwealth Office
 Downing Street
 London
 SW1A 2AH

24 August 1982

*Dear John,*EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

Thank you for your letter of 19 August. It is, we think, very important that we should give no impression to the American Administration that we are weakening in our resolve or in the depth of our objection to the embargo. As Mr Pym pointed out in his Telegram Number 1526 of 19 August we regard the Administration's action as quite unacceptable both on grounds of extra-territoriality and retrospection. We would therefore regard action by the American Administration against the British companies concerned as escalating the dispute. If that happened we simply could not stand aside. Provided you feel that the clarity of our own position on this matter is not in any way obfuscated by the terms of the draft message to Shultz then we have no objection, subject to one minor drafting change.

That is that we think that the reference in the third paragraph to "taking forward the Buckley discussions" should be omitted. The Buckley discussions failed, principally due to the French credit agreement on the USSR. We therefore doubt whether any purpose will be served by encouraging the Americans to think that the European allies would welcome the perpetuation of the Buckley discussions, or that further discussions on credit would necessarily lead to the sort of limitations the United States were seeking in the run up to the Versailles Summit.

We note that you are not proposing to clear this approach in advance with the French and Germans and assume that you are satisfied that on balance this is the best course to pursue.

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From the Secretary of State

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We would wish to be consulted about the briefing for the meeting of Economic and Political directors if it takes place.

Copies of this letter go to Flesher (Number 10) and to Hatfield (Cabinet Office).

Yours sincerely

John Whitlock

JOHN WHITLOCK
Private Secretary

SECRET - BURNING BUSH



Foreign and Commonwealth Office

London SW1A 2AH

19 August, 1982

Dear John,

MS
Pme Minister
R
20/8East/West Economic Issues/Siberian Pipeline

/ I enclose a copy of Washington telno 2735 in which our Chargé d'Affaires makes some suggestions as to how we might seek to improve the atmosphere in Washington with the aim of mitigating the American reaction against violations of US restrictions by European companies fulfilling their pipeline contracts.

// Against the background of the recent exchanges between the Prime Minister and President Reagan and the President's very firm linking of his 18 June measures with events in Poland, Mr Pym doubts whether other linkages of the sort suggested by Mr Thomas would be likely to achieve our aim. Nevertheless he is concerned that we should do all we can to improve the atmosphere in Washington, to put the pipeline problem in its right context and therefore to demonstrate our willingness to engage in discussions of the wider East/West economic issues to which we are committed under the Versailles, Bonn and other declarations. I hope, therefore, that you can agree that instructions on the lines of the enclosed draft telegrams should be sent as soon as possible to Washington.

I am sending copies of this letter to Tim Flesher (No 10) and to Richard Hatfield (Cabinet Office). Given the particular forum suggested for the consultations with the Americans I would be grateful if the drafts could be given appropriate handling.

Yours ever

John Holmes

(J E Holmes)
Private SecretaryJohn Rhodes Esq
Private Secretary
Department of Trade

JPD 800

CONFIDENTIAL

DESKBY 160900Z

FROM WASHINGTON 141630Z AUG 82.

TO IMMEDIATE F C C

TELEGRAM NUMBER 2735 OF 14 AUGUST

INFO PRIORITY PARIS, BONN, ROME, UKREP BRUSSELS, UKDEL NATO.

CONFIDENTIAL

cc Moscow (14 11 02)
GRD
and for me
NS
16/viii
KPM

SIBERIAN PIPELINE: ASSESSMENT OF CURRENT US MOOD.

1. THERE HAS BEEN A GOOD DEAL OF WHEEL-SPINNING THIS WEEK IN THE US GOVERNMENT'S CONSIDERATION OF WHAT TO DO IF AND WHEN A EUROPEAN COMPANY VIOLATES THE US RESTRICTIONS AFFECTING THE SIBERIAN PIPELINE PROJECT. THEY WILL PROBABLY ISSUE WARNING LETTERS EARLY NEXT WEEK TO COMPANIES WHO HAVE SHOWN EVIDENCE OF AN INTENTION TO VIOLATE THE RESTRICTIONS. BUT THEY ARE UNLIKELY TO MOVE TO MORE SPECIFIC ACTION (IMPOSITION OF FINES OR BLACKLISTINGS) UNTIL A SHIPMENT OF EMBARGOED GOODS TAKES PLACE. THEY ARE AWARE THAT JOHN BROWN WILL PROBABLY BE THE FIRST COMPANY TO SHIP AND HAVE NOTE THE CHAIRMAN'S STATEMENT THAT IT MUST DO SO BY THE END OF AUGUST. WE MAY THEREFORE HAVE TWO WEEKS BEFORE A FINAL DECISION IS TAKEN TO IMPOSE SANCTIONS ON JOHN BROWN, UNLESS THE COMPANY DECIDES THAT THEY COULD AFFORD TO LET THE DATE SLIP FURTHER. I HAVE GIVEN THE AMERICANS NO ENCOURAGEMENT TO THINK THAT THIS WOULD BE POSSIBLE.

2. IN THE MEANTIME I BELIEVE THAT THE DANGER OF SERIOUS DAMAGE TO ALLIANCE RELATIONSHIPS IF THIS BUSINESS IS ALLOWED TO ESCALATE FURTHER HAS NOW BECOME MORE WIDELY RECOGNISED IN WASHINGTON. IT HAS ALSO SUNK IN THAT STAGE 1 OF THE PIPELINE IS GOING TO GO AHEAD WHETHER THE AMERICANS LIKE IT OR NOT.

3. THERE IS THEREFORE SOME INCREASED READINESS TO LOOK FOR WAYS OF LIMITING THE DAMAGE AND FINDING A WAY OUT. THIS IS NOT YET NOTICEABLE IN THE PENTAGON. BUT PEOPLE IN THE DEPARTMENT OF COMMERCE AND THE NSC WHO HAVE PREVIOUSLY SEEMED UNRECALCITRANT HARD-LINERS ARE BEGINNING TO SHOW SIGNS OF FEELING THEIR WAY TOWARDS THE MIDDLE GROUND.

4. AT THE SAME TIME, ALL THE PEOPLE I HAVE DISCUSSED THIS PROBLEM WITH DURING THE LAST FEW DAYS RECOGNISE THAT THE ADMINISTRATION IS IN A BOX. THEY SEE NO LIKELIHOOD OF ANY IMPROVEMENTS TAKING PLACE IN POLAND THAT WOULD JUSTIFY LIFTING RESTRICTIONS ON THE TERMS WHICH THE PRESIDENT HAS LAID DOWN. WITHOUT THAT, THE PRESIDENT WOULD LOOK TO THE RUSSIANS AS THOUGH HE WAS VACILLATING UNDER PRESSURE FROM THE ALLIES AND THE ONE THING HE IS DETERMINED NOT TO DO IS TO BECOME 'CARTERISED'. THE FORCE OF THIS ARGUMENT IS NOT WEAKENED BY THE FACT THAT NO ONE OUTSIDE THE WHITE HOUSE IS PREPARED TO DEFEND THE SUPPOSED LINK BETWEEN THE PIPELINE AND EVENTS IN POLAND.

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5. AS A POSSIBLE WAY FOUND, THERE IS SOME READINESS TO LOOK AGAIN AT OTHER POSSIBLE WAYS OF STRENGTHENING ALLIANCE ACTION TO MEET US CONCERNS IN SUCH A WAY AS PERHAPS TO JUSTIFY A RELAXATION OR ADJUSTMENT OF U.S. MEASURES OR AT LEAST A MILD REACTION AGAINST VIOLATIONS BY EUROPEAN COMPANIES. I WOULD NOT WANT TO RATE THE CHANCES OF SUCCESS TOO HIGH BUT THE POSSIBILITIES BOIL DOWN TO PRESENT TO FOUR:-

- (I) BEARING ON THE SOVIET ECONOMY IN ITS PRESENT WEAK STATE:
 - (II) FRUSTRATING CONSTRUCTION OF THE SECOND STAGE OF THE PIPELINE:
 - (III) RATIONING WESTERN CREDIT TO THE SOVIET UNION AND REDUCING THE SUBSIDY ELEMENT IN IT:
 - (IV) TIGHTENING UP ON TRANSFERS OF HIGH TECHNOLOGY WHICH MAY REINFORCE SOVIET DEFENCE INDUSTRY CAPABILITY.
- NONE OF THESE THOUGHTS ARE NEW. NOR IS THERE A CONSENSUS WITHIN THE ADMINISTRATION ABOUT THE RELATIVE IMPORTANCE TO BE GIVEN TO EACH OF THEM. BUT IN ONE GUISE OR ANOTHER THEY KEEP COMING UP IN DISCUSSION HERE AND TAKEN TOGETHER REPRESENT A CONSIDERBLE BODY OF CONCERN.

6. IT WOULD SIGNIFICANTLY STRENGTHEN THE HAND OF THOSE IN WASHINGTON WHO ARE ARGUING THE CASE OF REASON AND MODERATION IF WE AND OTHERS COULD GIVE A CLEAR INDICATION THAT WE WERE STILL READY TO DISCUSS THESE ISSUES SERIOUSLY. THE SECRETARY OF STATE SET THE PACE FOR THIS DURING HIS VISIT ON 29 JULY WHEN HE SUGGESTED TO BUSH AND SHULTZ THAT WE OUGHT TO TRY TO ARRIVE AT A COMMON ASSESSMENT OF OUR OBJECTIVES IN SEEKING TO BEAR ON THE SOVIET ECONOMY AND OF THE BEST METHODS OF DOING THIS. SHULTZ WELCOMED THIS IDEA AND I THINK IT WOULD BE HELPFUL NOW TO TRY TO FOLLOW IT UP WITH SOME SPECIFIC SUGGESTIONS, IF POSSIBLE LINKING THESE TO IDEAS FOR MAKING PROGRESS IN THE DISCUSSIONS ON COCOM AND ON CREDITS TO THE EASTERN BLOC. ONE WAY OF DOING THIS MIGHT BE TO SEND A MESSAGE TO SHULTZ IDEALLY WITHIN THE NEXT WEEK OR TEN DAYS, WITH SOME IDEA ABOUT HOW TO TAKE THE SECRETARY OF STATE'S SUGGESTION FURTHER. AT THE LEAST, THIS WOULD HAVE A BENEFICIAL EFFECT ON THE ATMOSPHERE IN WHICH DECISIONS ABOUT POSSIBLE RETALIATION AGAINST VIOLATORS OF THE US REGULATIONS WILL BE TAKEN LATER IN THE MONTH. IF SUCH A MESSAGE WERE TO INDICATE THAT WE HAD THE SUPPORT OF THE FRENCH GERMANS AND ITALIANS SO MUCH THE BETTER.

THOMAS
LIMITED
TRED
EESD
NAD
ESSD
WED
PLANNING STAFF
PUSD
ESID
NEWS D
SIR J BULLARD
MREVANS
MR GOODISON

ADDITIONAL DISTN
POLAND SPECIAL

COPIES TO
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OUT TELEGRAM

Classification and Caveats

SECRET - BURNING BUSH

Precedence/Deskby

IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET - BURNING BUSH
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO AUGUST 82
PRE/ADD	7	TO IMMEDIATE WASHINGTON
TEL NO	8	TELEGRAM NUMBER
	9	INFO ROUTINE PARIS, BONN, ROME, UKREP BRUSSELS, UKDEL NATO,
	10	MOSCOW (for Ambassador/Minister)
	11	YOUR TELNO 2735: EAST/WEST ECONOMIC ISSUES/SIBERIAN PIPELINE
	12	1. I agree that we should do what we can to improve the
	13	atmosphere in Washington and help those who are disposed to
	14	argue for a relaxation or adjustment of US measures. Against
	15	the background of the recent exchanges between the Prime Minister
	16	and President Reagan and the latter's firm linkage of his
	17	18 June measures to events in Poland, I doubt whether other
	18	linkages of the sort you outline would have the desired effect.
	19	2. Nevertheless I agree that we should try to build on the
	20	talk I had with Mr Shultz on 29 July and seek to get a proper
	21	dialogue going again on the wider East/West economic issues
///	22	covered in the Versailles and Bonn Declarations.
//	23	3. You should hand over the message from me to Shultz in
/	24	MIFT as soon as possible. When doing so you should stress our
	25	willingness to discuss the wider issues involved as well as our

NNNN ends telegram	BLANK	Catchword hope
File number	Dept Private Dept	Distribution Limited: EESD PS/Mr Hurd TRED PS/Mr Rifkind ERD PS/PUS ECD(E) Sir J Bullard Defence Dept Mr Evans Planning Staff Mr Goodison ESID Mr Hannay NAD PUSD News Dept
Drafted by (Block capitals) J E HOLMES		
Telephone number 233 4641		
Authorised for despatch		
Comcen reference	Time of despatch	ESSD PS

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 hope that not only the rhetoric but also the scope of any US
 measures will allow these wider discussions to proceed in a
 constructive manner.
 PYM
 NNNN

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OUT TELEGRAM

Classification and Caveats

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Precedence/Deskby

IMMEDIATE

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	10	NATO
	11	EAST-WEST ECONOMIC ISSUES/SIBERIAN PIPELINE
	12	1. Text of message as follows:
	13	BEGINS
	14	Following our very valuable talk on 29 July I have been
	15	giving some thought to the range of East/West economic issues
	16	on our current agenda. On the pipeline we have of course since
	17	taken the limited action to which the Prime Minister referred in
	18	her message of 2 August to the President. We have been careful
	19	to keep the rhetoric down so as not to threaten wider and more
	20	important Western interests, and I know that you will be
	21	concerned to respond in the same spirit.
///	22	There are other aspects of East/West economic relations
//	23	which need to be examined, such as credit, high technology and
/	24	agricultural exports to the East, and also Eastern European
	25	debt. Our two governments and others are committed to

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File number		Dept Private Dept	Distribution Limited:	
Drafted by (Block capitals) J E HOLMES			EESD	PS/Mr Hurd
Telephone number 233 4641			TRED	PS/Mr Rifkind
Authorised for despatch			NAD	PS/PUS
Comcen reference		Time of despatch	Planning Staff	Sir J Bullard
			Defence Dept	Mr Evans
			ECD(E)	Mr Goodison
			ESID	
			PUSD	
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			WED	
			News Dept	
			PS	

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1 ZCZC
 2 discussing these questions in the OECD and NATO, as well as in
 3 COCOM. COCOM issues aside, our preference would be for OECD
 4 to undertake the bulk of the data collection and basic
 5 analytical work. But there is a fair amount of overlap and
 6 we will need to take a view on how to coordinate the various
 7 discussions.
 8 I think it would be helpful in the coming months if you
 9 and your principal allies could work closely together to inject
 10 some order into this process and promote the maximum consensus,
 11 taking forward the discussions with Jim Buckley earlier this
 12 year. I have therefore been wondering whether the Four
 13 Political Directors could meet in the next few weeks, with
 14 economic colleagues present also, in order to try to isolate the
 15 most pressing questions and develop a plan of action. They
 16 could do this either when they meet during or just before the
 17 autumn session of the UN General Assembly, or earlier if this
 18 were feasible.
 19 It does seem to me very desirable to try, between the four
 20 of us, to chart the way forward on the consultations to which
 21 we are all committed by the Versailles, Bonn and other
 22 declarations. Without some degree of prior consultation and
 23 agreement in the Four I fear that these discussions could all
 24 too easily lose their way and lead to nothing except a further
 25 bout of the kind of disagreement and recriminations we all wish
 26 to avoid.
 27 I should be interested to know your thoughts on this subject
 28 as soon as you are able to let me have them. Meanwhile I am not
 29 saying anything to either our French or our German colleagues.
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 31 PYM
 32 NNNN
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 34

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19 AUG 1962