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Soviet Union

From the Secretary of State

CONFIDENTIAL

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

Prime Minister:

I assume that  
the FCO and Trade will  
be meeting to resolve their  
27 August 1982 differences

Dear John

MS  
JH  
27/8

EAST-WEST ECONOMIC ISSUES/SIBERIAN PIPELINE

Thank you for your letter of 26 August<sup>TPM</sup> enclosing a draft telegram of instructions to Ambassadors.

Since receiving it we have learned that the United States Department of Commerce have issued "temporary denial orders" against Dresser (France) and Creusot Loire and the issue of a similar order against John Brown Engineering must now be considered probable. Thus despite hopes expressed by the Prime Minister and the Foreign Secretary that the United States Administration would avoid escalating the dispute further, it appears that the Department of Commerce have decided to apply summary sanctions against the European firms in advance of an administrative hearing. My Secretary of State is strongly of the view that we should not accept the inevitability of sanctions against JBE or appear to be weakening in our resolve. He considers that if the Americans escalate the dispute - as they now appear to be doing - we should need to consider further the nature of our response.

In these changed circumstances the proposal to hold a meeting of Foreign Ministers needs to be carefully considered:

- (a) We need to be certain as to the precise nature and intent of the temporary denial orders.
- (b) The risks of failure now seem greater given that the atmosphere is likely to have been soured by the action taken against Dresser and Creusot Loire.

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*From the Secretary of State*

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- (c) If in the interim similar action is taken against JBE, our participation might be seen in the United States as tacitly accepting the legitimacy of American actions. The French may take a similar line.
- (d) The timetable seems to be too short for adequate preparation given the nature of the agenda. An advantage of an early meeting would have been to head off summary action by the Commerce Department. Now that this has been taken the need for an early meeting seems less pressing.

Against this background we think that the proposal for the meeting should be put in much more neutral language and modified as follows:-

- (a) senior officials of the European countries involved should meet next week to consider a unified European response in the light of a full assessment of the effect of the temporary denial orders.
- (b) a meeting of Foreign Ministers, assuming there is agreement that this is desirable, would take place at a later date than early September.

Copies go to the recipients of yours.

*Your sincerely*

*John Whitlock*

JOHN WHITLOCK  
Private Secretary



27 AUG 1982

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Foreign and Commonwealth Office

London SW1A 2AH

26 August, 1982

Anne Munster

Dear John,

*Decision by US - 27 Aug.*  
*Letter from French - 27 Aug.*  
*re French position - MB.*

East-West Economic Issues/Siberian Pipeline *27/8*

You will have received my letter of earlier today about exchanges between Mr Shultz and Mr Pym on East-West economic issues and the pipeline. We have now received a written message from Mr Shultz. I enclose a copy. It speaks for itself.

Mr Shultz's message will require consequential amendments to the draft message to the Foreign Ministers of France, Germany and Italy enclosed with my letter of 26 August.

Mr Pym also believes that he should reply to Shultz as soon as possible, making the following points:-

- (a) as far as the US reaction to European pipeline shipments is concerned, we are glad to note that the US response will be 'controlled'. In the spirit of the recent exchanges between the Prime Minister and the President, we look to the United States to refrain from forcing the issue;
- (b) on the agenda, for the suggested Foreign Ministers' meetings, we believe that the items should be neutrally phrased and that the area for discussion should include all the subjects covered by the Versailles, Bonn and other NATO declarations, including agricultural exports to the Soviet Union;
- (c) the French, Germans and Italians are being consulted urgently. But, as was indicated to Mr Shultz on 25 August, it may not be possible to get the other Foreign Ministers together as quickly as he had proposed. In any case, given the complexity of the issues involved, it would be preferable for a meeting of officials to prepare the ground before Ministers meet.

I should be grateful for your agreement by noon tomorrow to a message to Mr Shultz on these lines. This would issue at the same time as Mr Pym's message to his three European colleagues.

Given the possibility of a meeting of officials early next week I hope that the Departments concerned will take this as an early warning of the preparation and briefing likely to be required. Officials here will be in touch with those directly concerned about the detailed arrangements.



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I am copying this letter to Tim Flesher (No 10) and to the Private Secretaries of other members of OD and to Richard Hatfield (Cabinet Office).

Yours ever  
*John Holmes*

(J E Holmes)

John Rhodes Esq  
Private Secretary  
Department of Trade

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SECRET

Dear Mr. Secretary:

I was glad to have the opportunity to talk to you about your recent suggestion, which I welcome, that we have a meeting to discuss a number of aspects of East/West economic relations. As you noted in your letter, there are a number of these matters pressing in on us which are given special importance now by the urgency of several cases involving the sanctions which President Reagan has put in place. As I mentioned to you, if the companies in Europe take actions contrary to these sanctions, we will respond. Our response will be clear, significant, and controlled.

My concern is that before the action-reaction cycle gets beyond our mutual control, we should pick up on your suggestion for an exchange of views hopefully leading to agreement on East/West trade issues. Specifically I believe we should discuss:

- 1) Further restriction of credits to the Soviet Union;
- 2) Further tightening of COCOM regulations;
- 3) Restricting prospective sales of oil and gas equipment to the Soviet Union; and,
- 4) Examining alternate energy sources.

Were it possible for us to reach a mutually satisfactory agreement on the above issues, it would then be possible for the United States to reconsider the retroactive character of the sanctions recently imposed by the President on trade with the Soviet Union.

As we discussed, I am prepared to respond to your suggestion for an early meeting by traveling to Europe right away if you can arrange it with our French, German and Italian colleagues. We can plan for September 2-3 if you find that is agreeable to them. If you are able to arrange an early meeting, we will give your Embassy and others here some more detailed thoughts on what we would like to discuss so that we can all come to the meeting prepared to talk specifics.

I await your further word on how you think we should proceed.

Sincerely yours, George P. Shultz

SECRET

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister:

26 August 1982

Mr Schultz has proposed a Foreign Ministers meeting to discuss the pipeline. Mr Pym thinks we should agree.

Agreed. If however the whole range of issues on our agenda following Versailles are to be discussed they will need an Economic strand

Dear John,

JF

26/8

East/West Economic Issues/Siberian Pipeline

As you know, Mr Pym sent a message to the US Secretary of State which was delivered on 24 August. The aim was two-fold: first to express our expectation that the deliberately moderate line we were taking here over the pipeline contracts would be reciprocated by the US authorities; and second to improve the atmosphere in which the Americans would reach their decisions. Mr Pym suggested that the US and its closest allies might meet at official level to try to bring some order into the general complex of East/West economic issues which we are committed to discuss under the Versailles, Bonn and other declarations.

Mr Shultz lost no time in replying. On the telephone on 25 August he said that he was in favour of a meeting. He went on to propose that it might be held next week, attended by the Foreign Ministers of France, Germany, Italy, as well as the UK and the US.

Mr Pym believes that in the present situation with more open clashes over the pipeline looming and other issues also festering, notably steel, we must respond positively to this suggestion. There is a risk that a highly public meeting to resolve transatlantic problems might fail and leave us worse off than before. The other three Europeans, notably the French, might also be reluctant to involve themselves in such a meeting. But it must be to our advantage to make a positive response to the US. And there is a chance of defusing what might develop into a serious Alliance crisis. I therefore enclose a draft telegram of instructions to our Ambassadors in the capitals concerned. I would be grateful for your early agreement that these instructions issue. Given the urgency, Mr Pym would like them to be sent by midday on 27 August.

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/I am



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I am copying this letter to Tim Flesher (No 10) and to the Private Secretaries of other members of OD and to Richard Hatfield (Cabinet Office).

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

John Rhodes Esq  
Department of Trade  
1 Victoria Street

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OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	CONFIDENTIAL	IMMEDIATE

ZCZC - 1 ZCZC  
 GRS 2 GRS  
 CLASS 3 CONFIDENTIAL  
 CAVEATS 4  
 DESKBY 5  
 FM FCO 6 FM FCO  
 PRE/ADD 7 TO IMMEDIATE BONN  
 TEL NO 8 TELEGRAM NUMBER  
 9 AND TO IMMEDIATE PARIS, ROME, WASHINGTON  
 10 RFI IMMEDIATE UKREP BRUSSELS, UKDEL NATO, ROUTINE TO MOSCOW  
 11 EAST-WEST ECONOMIC ISSUES/SIBERIAN PIPELINE  
 12 1. Please pass the following message from me to Genscher, Cheysson  
 13 and Colombo and seek as early a response as possible.  
 14 BEGINS: I have been thinking about how we might deal with the  
 15 current difficulty over the pipeline contracts which is one ele-  
 16 ment in the complex of East-West economic questions which also  
 17 includes credit, exports of high technology, agricultural  
 18 commodities and energy generally. I discussed these matters in  
 19 general terms with Secretary Shultz when I was in Washington on  
 20 29 July. He has told me this week that he would be in favour of  
 21 an early meeting with the Foreign Ministers of the four countries  
 22 most directly affected by the US measures on the Siberian pipeline.  
 23 I undertook to consult you about the possibility of organising  
 24 such a meeting in London.  
 25 I think, given the complexity of the issues involved, that

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OUT TELEGRAM (CONT)

Classification and Caveats  
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1 <<<<

2 it would be better if such a meeting were prepared by a round of  
3 talks by officials on say 1 September and that the Ministerial  
4 Meeting might be held as soon as you might find it possible  
5 thereafter. Possible days for me would be pm 3 September,  
6 6 September and pm 8 September.

7 From what I hear from Washington I think there is a chance  
8 that the US is looking for a way of defusing the effects of  
9 their regulations on the pipeline. While I do not underrate the  
10 difficulties, a meeting of the five of us to discuss the whole  
11 range of issues which are on our agenda following the Versailles,  
12 Bonn and other declarations could improve the atmosphere in which  
13 decisions are taken and indicate whether there is a real possibility  
14 of a way out of the damaging impasse in which we find ourselves.

15 I would be grateful for your views as soon as possible. In  
16 the meantime the British companies concerned with these contracts  
17 will continue to act on the basis of the directions we have given  
18 them and their own assessment of their economic interests. ENDS  
19 2. For Washington. You should not hand over the text of this  
20 message to the Americans but should indicate that, as agreed on  
21 the telephone between Shultz and me on 25 August, we have put out  
22 a proposal for an early meeting of the five Ministers, possibly  
23 preceded by a round of discussions at official level on 1  
24 September. We will keep the Americans informed of the responses.

25  
26 PYM

27 NNNN

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Catchword



26 AUG 1992

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