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TELNO 3432 OF 22 OCTOBER 1982,

INFO PRIORITY PARIS, BONN, COPENHAGEN, UKREP BRUSSELS,
UKDEL NATO, OTTAWA, UKDEL OECD, TOKYO, ROME, LUXEMBOURG,
INFO SAVING OTHER NATO POSTS, DUBLIN, MOSCOW.

EAST-WEST ECONOMIC RELATIONS AND THE PIPELINE

1. EAGLEBURGER, ACCOMPANIED BY WALLIS, BURT AND OTHER STATE DEPARTMENT OFFICIALS, HELD A MEETING THIS AFTERNOON WITH HEADS OF MISSION FROM THE SUMMIT SEVEN COUNTRIES, PLUS THE PRESIDENCY AND THE COMMISSION. DISCUSSION WAS BASED UPON THE SHULTZ NON-PAPER PRESENTED AT THE LA SAPINIERE MEETING (YOUR TELNO 1774 - NOT TO ALL).
2. THERE WAS A GENERAL WELCOME FOR THE US INITIATIVE IN CALLING THE MEETING, IN RESPONSE (AS EAGLEBURGER PUT IT) TO THE PRESIDENCY DEMARCHE LAST WEEK (MY TELNO 3387 - NOT TO ALL). EAGLEBURGER EXPLAINED THAT THE NON-PAPER REPRESENTED THE BEST US EFFORT, FOLLOWING SHULTZ'S TALKS WITH HIS COLLEAGUES, TO ACCOMMODATE VARIOUS POINTS OF VIEW. IT HAD BEEN REVIEWED AT THE HIGHEST LEVELS IN WASHINGTON AND WAS ACCEPTABLE TO THE ADMINISTRATION. THEY NOW HOPED TO REACH FULL ALLIED AGREEMENT ON IT. THE US WOULD BE UNABLE TO TAKE ANY FURTHER UNILATERAL ACTIONS UNTIL AN ADEQUATE AGREEMENT HAD BEEN REACHED ON THE RANGE OF QUESTIONS IN THE NON-PAPER. HOWEVER, EAGLEBURGER CONTINUED, IF FULL AGREEMENT COULD BE REACHED ON A DOCUMENT CONTAINING THE SUBSTANCE OF THE PRESENT NON-PAPER, PERHAPS WITH ADDITIONS OR SUBTRACTIONS, THE ADMINISTRATION WOULD TAKE STEPS TO LIFT SANCTIONS AFFECTING EXISTING CONTRACTS FOR THE PIPELINE. THEREAFTER, BILATERAL DISCUSSIONS WOULD BE NEEDED ON THE PRECISE STEPS INVOLVED FOR EACH COUNTRY DIRECTLY CONCERNED.
3. I EMPHASISED YOUR STRONG WISH THAT WE SHOULD MAKE URGENT PROGRESS TOWARDS REACHING A COMMON APPROACH ON OUR ECONOMIC AND COMMERCIAL RELATIONS WITH THE EAST. WE SAW THE NON-PAPER AS A CONSTRUCTIVE DOCUMENT, WHICH WE WERE PREPARED TO ACCEPT ON THE UNDERSTANDING THAT IT PROVIDED A GENERAL ORIENTATION FOR AN OVERALL APPROACH. IN ACCEPTING THE NON-PAPER, WE AGREED TO ENGAGE IN CERTAIN STUDIES BUT WERE NOT COMMITTING OURSELVES TO THE OUTCOME OF THESE. I NOTED THAT THE PRESIDENT HAD RECENTLY MADE A NUMBER OF PUBLIC STATEMENTS ABOUT HIS DESIRE TO LIFT SANCTIONS AND TO REACH A COLLECTIVE ALLIANCE POLICY TOWARDS THE EAST.

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/ 4. MY WELCOME

4. MY WELCOME FOR THE NON-PAPER AND ACCEPTANCE OF IT AS A BASIS FOR FURTHER DISCUSSION WAS ECHOED BY ALL OTHER SPEAKERS, INCLUDING THE FRENCH AMBASSADOR. THERE WAS GENERAL AGREEMENT ON THE NEED TO ACHIEVE A COMMON APPROACH ON ECONOMIC AND COMMERCIAL RELATIONS WITH THE EAST. IT WAS ALSO AGREED THAT IT WOULD BE APPROPRIATE TO ENGAGE IN A NUMBER OF STUDIES TO THIS END. HOWEVER, A NUMBER OF SPEAKERS SOUGHT CLARIFICATION, AND, IN SOME CASES, REDEFINITION OF THE PRESENT US LANGUAGE. DETAILED COMMENTS ARE REPORTED IN MIFT.

5. SUMMING UP THE SENSE OF THE MEETING, EAGLEBURGER SAID THERE WAS A RANGE OF VIEWS ON THE ADEQUACY OF THE CRITERIA IN THE NON-PAPER, WITH SOME SPEAKERS REQUIRING MORE SPECIFICITY. HE AGREED THAT AGRICULTURE SHOULD BE INCLUDED IN THE AREAS FOR ANALYSIS. THERE WAS SOME DISAGREEMENT ON OTHER AREAS, ESPECIALLY THE SPECIFIC REFERENCES TO OIL AND GAS SINCE THESE WERE THOUGHT TO PREJUDGE THE ISSUE. HE NOTED THAT, WITHOUT SUCH A REFERENCE, THE FRENCH COULD ACCEPT THE SECOND AREA FOR ANALYSIS (HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE), ALTHOUGH THEY DID NOT NECESSARILY ACCEPT THE IMPLIED LINK WITH COCOM. HE ALSO NOTED THAT, IN THE US VIEW, THERE WAS A DISTINCTION TO BE MADE BETWEEN THE ANALYSIS OF HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE, AND THE IMMEDIATE EXAMINATION OF STRATEGICALLY SIGNIFICANT TECHNOLOGY AND EQUIPMENT TO WHICH PARAGRAPH 3D REFERRED. THE FRENCH COULD ACCEPT THE FORMER, BUT NOT THE LATTER.

6. IN RESPONSE TO A CANADIAN ENQUIRY, EAGLEBURGER CLARIFIED SHULTZ'S REFERENCE TO A FURTHER AND BROADER STUDY, NOTING THAT THIS SHOULD TAKE ACCOUNT OF BOTH ECONOMIC AND POLITICAL FACTORS AFFECTING WESTERN RELATIONS WITH THE EAST AND SHOULD FOCUS ON THE FIVE POINTS IN PARAGRAPH 2 OF THE NON-PAPER, AMONG OTHERS. ON PARAGRAPH 3 OF THE NON-PAPER, EAGLEBURGER NOTED THAT SUB PARAGRAPH A WAS GENERALLY ACCEPTABLE. THE FIRST TWO SENTENCES OF SUB-PARAGRAPH B WERE ALSO ACCEPTABLE, WITH DISAGREEMENT ON THE REST. SUB PARAGRAPH C WAS UNACCEPTABLE TO THE FRENCH, AND THERE WAS AN ITALIAN RESERVATION ABOUT ITS POSSIBLE APPLICATION TO CONTRACTS ALREADY SIGNED, BUT NOT APPROVED BY THE ITALIAN GOVERNMENT. HE THOUGHT PERSONALLY THAT THE ITALIAN PROBLEM WOULD BE TREATED BY THE US AS A SPECIAL CASE. BOTH FRANCE AND JAPAN WOULD FIND IT HARD TO ACCEPT SUB PARAGRAPH D. THE JAPANESE AMBASSADOR THEN INDICATED THAT HIS GOVERNMENT COULD BE READY TO GO ALONG WITH THIS IF ALL THE OTHERS ACCEPTED SUCH AN EXAMINATION. EAGLEBURGER UNDERLINED THE DIFFERENCE THE US SAW BETWEEN THIS SUB-PARAGRAPH, REQUIRING URGENT ACTION, AND THE REMAINDER OF THE PROPOSED STUDIES.

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7. HE THEN PROPOSED THAT OVER THE WEEKEND THE US WOULD TRY THEIR HAND AT A NEW DRAFT, USING BRACKETS WHERE NECESSARY. THIS WOULD BE CIRCULATED TO PARTICIPANTS AS IN THE PRESENT MEETING WHO COULD SEND IT TO CAPITALS FOR COMMENT, PRIOR TO ANOTHER MEETING LATER NEXT WEEK. HE CONCLUDED, THAT IN HIS VIEW, THERE WERE STILL SOME 'UNBRIDGABLE DIFFERENCES'. THESE SHOULD BE LAID OUT CLEARLY, WITH A VIEW TO FURTHER DISCUSSION AT THE NEXT MEETING.

8. AFTER REFERENCES TO TODAY'S PRESS LEAKS (MY TELNO 3427) IT WAS AGREED THAT, IF ASKED ABOUT THE PRESENT MEETING, WE WOULD ONLY SAY THAT THE SUMMIT SEVEN PLUS THE PRESIDENCY AND THE COMMISSION HAD MET TO DISCUSS EAST-WEST ECONOMIC RELATIONS.

9. RESIDENT CLERK: PLEASE ALERT BULLARD AND R EVANS

FCO PASS SAVING:- ANKARA, ATHENS, BRUSSELS, LISBON, DUBLIN, OSLO, THE HAGUE, REYKJAVIK, MOSCOW.

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TELEGRAM NUMBER 3433 OF 22 OCTOBER

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NATO, TOKYO, OTTAWA, UKDEL OECD, LUXEMBOURG.

INFO SAVING OTHER NATO POSTS, DUBLIN, MOSCOW.

MIPT: EAST-WEST ECONOMIC RELATIONS

1. AT TODAY'S MEETING OF THE SUMMIT SEVEN, THE PRESIDENCY AND THE COMMISSION WITH STATE DEPARTMENT OFFICIALS, THE FOLLOWING DETAILED POINTS WERE MADE ON THE SHULTZ NON-PAPER PRESENTED AT LA SAPINIERE.

2. GOTTLIEB (CANADA) ACCEPTED THE THREE CRITERIA IN PARAGRAPH 2, NOTING THE NEED IN THE COURSE OF THE PROPOSED STUDIES TO ACHIEVE A COMMON UNDERSTANDING OF THE MEANING OF QUOTE STRATEGIC ADVANTAGE UNQUOTE AND QUOTE SUBSIDISING UNQUOTE, AND THE EXTENT TO WHICH WE WERE TO DIFFERENTIATE BETWEEN EASTERN COUNTRIES. ON PARAGRAPH 3, CANADA ACCEPTED SUB-PARAGRAPH A, SO LONG AS THIS WAS NOT TO BECOME A REDEFINITION OF COCOM PROCEDURES AND CONTROLS. SUB-PARAGRAPH B WAS ALSO ACCEPTABLE, IF IT DID NOT AMOUNT TO MAKING THE SUMMIT PROCEDURES TOO BUREAUCRATIC. HARMONISATION ON CREDIT POLICY WAS WELCOME, ESPECIALLY ON THE BASIS OF THE OECD CONSENSUS. THE SOVIET UNION SHOULD NOT BE SINGLED OUT FOR SPECIAL TREATMENT. AN OVERALL AGREEMENT ON THE DEFINITION OF THE AIMS OF SUB-PARAGRAPH D WOULD BE NEEDED. DID THE U.S. PROPOSE TO FOCUS SOLELY ON OIL AND GAS, OR ON OTHER AREAS AS WELL? WHAT RELATIONSHIP WITH COCOM WAS ENVISAGED?

3. IN RESPONSE BURT (STATE DEPARTMENT) SAID THAT THE U.S. DID NOT ADVOCATE A FUNDAMENTAL RESTRUCTURING OF COCOM, WHICH SHOULD CONTINUE TO FOCUS ON MILITARILY RELEVANT TECHNOLOGIES. THEY SAW THE REVIEW MECHANISM AND THE HARMONIZATION EFFORT ON CREDIT TAKING PLACE IN THE FRAMEWORK OF OECD. THERE WAS NO RISK OF MAKING THE SUMMIT STRUCTURE TOO BUREAUCRATIC. IN THE AREA OF HIGH TECHNOLOGY, THEY FELT OIL AND GAS EQUIPMENT SHOULD BE EXAMINED, BUT SOME COUNTRIES MIGHT WISH TO CONSIDER OTHER AREAS. THE U.S. WERE NOT PRE-JUDGING THE OUTCOME OF THIS STUDY, ONLY SEEKING AGREEMENT TO EXAMINE THE SUBJECT WITH URGENCY. COCOM AS AN EXISTING MECHANISM COULD BE USEFUL IN WORKING OUT JOINTLY-AGREED CONTROLS, BUT THE RELATIONSHIP BETWEEN THE ADMINISTRATION OF THESE AND THE PRESENT COCOM MACHINERY COULD REMAIN LOOSE.

4. HERMES (FRG) NOTED THE NEED TO DEFINE MORE CLEARLY SOME OF THE LANGUAGE IN THE NON-PAPER. IT MUST ALSO BE CLEAR THAT, IF WE WERE TO MOVE TOWARDS A COMMON POLICY FOR THE EAST, BURDENS WOULD BE

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FAIRLY SHARED, AND PARTICULAR COUNTRIES WOULD NOT WIN COMPETITIVE ADVANTAGE. HE COULD NOT AGREE TO THE NON-PAPER BEING MADE PUBLIC, A POINT LATER ECHOED BY THE JAPANESE.

5. DENMAN (COMMISSION) NOTED THAT A RANGE OF ISSUES IN THE NON-PAPER CAME WITHIN COMMUNITY COMPETENCE. THE TEN WERE TRYING TO COORDINATE THEIR APPROACH TO THESE, AND THE COUNCIL IN LUXEMBOURG ON 25/26 OCTOBER WOULD PROBABLY DISCUSS THEM. BORCH (PRESIDENCY) EMPHASISED THE SPECIAL DANISH RESPONSIBILITY TO ENSURE THAT ANY AGREEMENT ACCORDED WITH COMMUNITY REGULATIONS. HE REFERRED TO HIS EARLIER DEMARCHE TO EAGLEBURGER (NY TELNO 3397).

6. PETRIGNANI (ITALY) NOTED THAT PARAGRAPH 3(C) WOULD BE UNACCEPTABLE IF IT MEANT THAT THE CONTRACT ALREADY SIGNED BY AN ITALIAN COMPANY WITH SOYUZGAS BUT NOT YET APPROVED BY THE ITALIAN GOVERNMENT WOULD CONTRAVENE THE AGREEMENT, SHOULD THE GOVERNMENT DECIDE TO APPROVE IT. HE COULD AGREE TO STRICTER CONTROL OVER THE VOLUME OF CREDITS, AND NOTED THAT SOME OF THE CONCERNS EXPRESSED BY OTHERS WERE SHARED BY ITALY.

7. I SAID THAT WE WOULD HAVE A DETAILED INPUT TO MAKE TO THE STUDIES WHEN THEY BEGAN. FOR EXAMPLE, THERE WOULD BE EVIDENT PROBLEMS IN HARMONISING CREDIT POLICY. THE STUDY ESTABLISHED UNDER PARAGRAPH 3(D) SHOULD FIRST DECIDE WHETHER CONTROLS WERE NEEDED, AND WHAT THEIR AIM WOULD BE. I EMPHASISED THAT OUR AGREEMENT TO ACCEPT THE NON-PAPER AS A BASIS FOR WORK DID NOT IMPLY ACCEPTANCE OR PREJUDGEMENT OF THE OUTCOME OF THE STUDIES. EAGLEBURGER COMMENTED THAT THE U.S. APPROACH WAS IDENTICAL TO OURS.

8. VERNIER-PALLIEZ (FRANCE) MADE A LENGTHY CRITIQUE OF THE NON-PAPER. DEALING FIRST WITH THE CRITERIA, FRANCE COULD ACCEPT THE FIRST CRITERION BUT WOULD PREFER MORE PRECISE LANGUAGE ON QUOTE THE MILITARY CAPACITY UNQUOTE OF THE SOVIET UNION. THEY WOULD PROPOSE NEW WORDING. THE REFERENCE TO QUOTE SUBSIDIZING UNQUOTE IN THE SECOND CRITERION COULD BE CONFUSING. FRANCE WOULD PREFER TO MAINTAIN THE IDEAS OF QUOTE NO PREFERENTIAL TREATMENT OF THE SOVIET UNION UNQUOTE, AND QUOTE STRICT BALANCE BETWEEN ADVANTAGES AND OBLIGATIONS UNQUOTE. THE WORD QUOTE STRATEGIC UNQUOTE IN THE THIRD CRITERION NEEDED FINER DEFINITION. OTHERWISE IT COULD BE AMBIGUOUS. VERNIER-PALLIEZ ALSO PROPOSED THAT QUOTE NEGATIVE CRITERIA UNQUOTE SHOULD BE ADDED TO THE NON-PAPER. FOR EXAMPLE, THERE SHOULD BE A REFERENCE TO THE FACT THAT WESTERN COUNTRIES DID NOT OPPOSE TRADE WITH THE EAST, NOR DID THEY WISH TO DAMAGE THE ECONOMIES OF THE EAST

9. CONTINUING HIS CRITIQUE OF PARAGRAPH 2, HE SUGGESTED THAT THE REFERENCE TO DIFFERENTIATING BETWEEN EASTERN COUNTRIES SHOULD BE ELABORATED. A CLEAR DISTINCTION SHOULD ALSO BE DRAWN BETWEEN STUDIES AND ACTIONS TO BE TAKEN BY GOVERNMENTS. THE FIRST AREA

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FOR ANALYSIS IN PARAGRAPH 2 PRESENTED NO PROBLEM. HIGH TECHNOLOGY WAS ALSO ACCEPTABLE AS AN AREA FOR ANALYSIS, BUT THERE SHOULD NOT BE A REFERENCE TO OIL AND GAS, SINCE THIS WOULD PRE-JUDGE THE OUTCOME OF THE STUDIES. IF SUCH EQUIPMENT HAD A MILITARY RELEVANCE, THEN IT COULD BE SUBSUMED WITHIN COCOM PROCEDURES. IF IT DID NOT, WE SHOULD NOT TRY TO BLOCK THE TRANSFER OF SUCH TECHNOLOGY. AGRICULTURAL GOODS SHOULD BE INCLUDED IN THE AREAS FOR ANALYSIS, A POINT EAGLEBURGER IMMEDIATELY ACCEPTED. ON CREDITS, VERNIER-PALLIEZ NOTED THAT THIS PROBLEM HAD ALREADY BEEN STUDIED EXTENSIVELY. IT WOULD BE HARD FOR FRANCE TO INCLUDE THIS AMONG AREAS FOR ANALYSIS (ALTHOUGH VERNIER-PALLIEZ DID NOT SAY THEY WOULD NOT AGREE). AS IN THE CRITERIA, THE PROBLEM MIGHT BE APPROACHED ALONG THE LINES THAT PREFERENTIAL TREATMENT SHOULD NOT BE GIVEN TO THE SOVIET UNION. A STUDY OF ENERGY POLICY WOULD BE WELCOME, AS ONE OF THE MAJOR PROBLEMS FOR THE WEST.

10. IN PARAGRAPH 3, SUB PARAGRAPH A WAS ACCEPTABLE; AS WAS SUB PARAGRAPH B, WITH THE EXCEPTION OF THE LAST SENTENCE. BUT HE WOULD LIKE THE INCLUSION OF QUOTE COMMERCIAL UNQUOTE AS WELL AS ECONOMIC AND FINANCIAL, RELATIONS WITH THE EAST AS HAD BEEN AGREED AT VERSAILLES. FRANCE COULD NOT ACCEPT SUB PARAGRAPH C, SO LONG AS IT IMPLIED ACTION. RATHER THAN A STUDY BY GOVERNMENTS. NOR, AT PRESENT, COULD FRANCE ACCEPT SUB-PARAGRAPH D. IF IT AMOUNTED TO A STUDY SIMILAR TO THE OTHERS, THEY WOULD RECONSIDER THEIR POSITION. HOWEVER, THE SAME PROBLEM AS BEFORE APPLIED TO THE REFERENCE TO OIL AND GAS, WHICH WOULD PREJUDGE CONCLUSIONS OF THE STUDY.

11. OKAWARA (JAPAN) SPOKE OF THE NEED TO DEFINE MORE CLEARLY THE CRITERIA IN PARAGRAPH 2. IN PARAGRAPH 3, SUB PARAGRAPH A WAS ACCEPTABLE, AND JAPAN FAVOURED SOME CONTROLS (SUB PARAGRAPH B) OVER OFFICIAL CREDITS IF THESE WERE TO APPLY TO TERMS AND CONDITIONS RATHER THAN VOLUME (AS HAD BEEN AGREED BEFORE VERSAILLES). SUB PARAGRAPH C WAS ACCEPTABLE BUT SUB PARAGRAPH D COULD LEAD TO CONTROLS ON OVERALL EAST-WEST TRADE, IF COCOM PROCEDURES WERE EXTENDED BEYOND THEIR PRESENT SCOPE. IT WAS NOT CLEAR WHETHER THIS WOULD BE PRACTICAL OR WISE, AND JAPAN THEREFORE FOUND IT HARD TO ACCEPT SUB PARAGRAPH D AT THIS POINT. JAPAN WOULD ALSO NEED SPECIAL TREATMENT OVER SAKHALIN.

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/ 12. HERMES

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12. HERMES (FRG) MADE NO FURTHER SPECIFIC COMMENTS, EXPLAINING THAT HIS CONCERNS HAD ALREADY BEEN EXPRESSED BY OTHERS. THE PRESIDENCY AND COMMISSION REPRESENTATIVES HAD NO SPECIAL COMMENTS.

RESIDENT CLERK: PLEASE ALERT BULLARD AND R EVANS.

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PERSONAL FOR BULLARD

MY TWO IMMEDIATELY PRECEDING TELEGRAMS:

MEETING OF THE SEVEN ON EAST/WEST ECONOMIC RELATIONS

1. AS YOU WILL SEE FROM MY TWO IPT'S WE HAVE MOVED A LITTLE SINCE YESTERDAY. AT LEAST THE FRENCH NOW ACCEPT THE SHULTZ NON-PAPER AS A BASIS FOR DISCUSSION. BUT AGAINST THIS, TO THEIR EARLIER OBJECTIONS ON CREDITS AND ON THE EXAMINATION OF HIGH TECHNOLOGY EXPORTS, THEY HAVE ADDED AN OBJECTION TO ACCEPTING A COMMITMENT NOT TO ENTER INTO NEW ENERGY CONTRACTS WITH THE SOVIET UNION WHILE THE ENERGY STUDY IS UNDER WAY.
2. THE GOOD NEWS IS THAT ALMOST EVERYONE, EXCEPT THE FRENCH, ARE ON BOARD FOR THE BULK OF THE SHULTZ NON-PAPER. SUCH DIFFICULTIES AS WERE RAISED TODAY BY THE OTHERS CAN PROBABLY BE TAKEN CARE OF BY DRAFTING. THE JAPANESE MADE IT CLEAR THAT THEIR ONLY REAL DIFFICULTY WAS THE PROPOSAL FOR AN IMMEDIATE EXAMINATION OF WHETHER CONTROLS WERE NEEDED ON THE EXPORT OF HIGH TECHNOLOGY, BUT TRUE TO FORM ADMITTED THAT IF EVERYONE ELSE COULD GO ALONG WITH IT SO COULD THEY.
3. EAGLEBURGER HAS COMMISSIONED A REDRAFT OF THE SHULTZ NON-PAPER WHICH HE HOPES TO LET US, THE FRENCH AND THE GERMANS HAVE TONIGHT. HE DOES NOT EXPECT THAT, THIS TIME ROUND, THE REDRAFT WILL MEET ALL THE FRENCH OBJECTIONS. BUT HE HOPES THAT IT WILL HELP TO FLUSH OUT WHATEVER THE REAL FRENCH DIFFICULTIES MAY BE.
4. EAGLEBURGER IS FAIRLY CONFIDENT THAT THE PROBLEM OVER THE TREATMENT OF OIL AND GAS TECHNOLOGY IN THE LIST OF AREAS TO BE COVERED IN THE OVERALL ANALYSIS (PARATRAPH 2 OF THE SHULTZ NON-PAPER) CAN BE TAKEN CARE OF BY DRAFTING. IT MIGHT POSSIBLY BE DONE BY INCLUDING IT UNDER ENERGY RATHER THAN UNDER HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE.
5. HE IS LESS SURE WHETHER THE GAP ON CREDITS CAN BE BRIDGED. HE HAS YET TO TEST WHETHER THE FRENCH CONCEPT OF AVOIDING QUOTE PREFERENTIAL TREATMENT UNQUOTE INSTEAD OF QUOTE SUBSIDISING UNQUOTE WOULD DO FOR THE AMERICANS. (IT WOULD PRESUMABLY CAUSE US NO PROBLEMS). HE HIMSELF THOUGHT PRIVATELY THAT IT MIGHT BE MADE TO RUN HERE, BUT I IMAGINE THERE WOULD STILL BE AMERICAN PRESSURE FOR QUOTE ESTABLISHING THE MEANS TO HARMONISE NATIONAL

POLICIES UNQUOTE ON CREDITS WHICH MAY BE WHERE THE HEART OF THE FRENCH DIFFICULTY LIES.

6. EAGLEBURGER ALSO THINKS IT IS GOING TO BE EXTREMELY DIFFICULT TO SHIFT THE AMERICAN POSITION BACK ANY FURTHER ON THE LAST POINT IN THE SHULTZ NON-PAPER (PARAGRAPH 3D) WHICH CALLS FOR AN IMMEDIATE STUDY ON WHETHER THE SECURITY INTERESTS OF THE ALLIED GOVERNMENTS REQUIRED CONTROLS ON EXPORTS OF STRATEGICALLY SIGNIFICANT ADVANCED TECHNOLOGY AND EQUIPMENT, INCLUDING OIL AND GAS TECHNOLOGY. WHEN THEY ORIGINALLY PUT FORWARD THIS IDEA THEIR SUGGESTION WAS THAT WE SHOULD AGREE NOT SIMPLY TO STUDY THE QUESTION BUT TO IMPOSE CONTROLS ON SUCH EXPORTS. EAGLEBURGER WOULD CLEARLY HAVE GREAT DIFFICULTY IN GETTING AGREEMENT HERE TO FURTHER DILUTION OF THIS CONCEPT.

7. ALTHOUGH THEREFORE TODAY'S MEETING WAS AGAIN MODERATELY ENCOURAGING, THE AREAS OF DISAGREEMENT WERE LEFT JUDICIOUSLY IMPRECISE. PERHAPS THE MOST IMPORTANT THING IS THAT THE PROCESS IS STILL IN TRAIN. BUT A LOT OF CONCESSIONS STILL REMAIN TO BE MADE ON ONE SIDE OR THE OTHER IF WE ARE TO FINISH UP WITH AN AGREEMENT THAT WILL ENABLE THE AMERICANS TO LIFT THE SANCTIONS.

9. THERE WILL BE ANOTHER MEETING OF THE SEVEN PLUS THE PRESIDENCY AND THE COMMISSION, LATER NEXT WEEK TO GO OVER THE AMERICAN REDRAFT. OUR OWN POSITION IS SUFFICIENTLY FLEXIBLE TO ENABLE US IN THE MEANTIME TO ENABLE TO CONTINUE TO PROMOTE AN AGREEMENT THAT WILL NOT DAMAGE OUR OWN INTERESTS. BUT IT WILL BE IMPORTANT TO AVOID GETTING LOCKED INTO A COMMUNITY POSITION NEXT WEEK. I HOPE THAT AT THE COUNCIL MEETING IN LUXEMBOURG ON 25 OCTOBER WHEN THE PRESIDENCY AND THE COMMISSION WILL MAKE A REPORT ON TODAY'S DISCUSSIONS, THE DISCUSSION CAN BE CONFINED TO TAKING NOTE OF THE PROGRESS MADE, IN THE MOST POSITIVE TERMS THAT CAN BE MUSTERED. FOR THIS IT MAY BE HELPFUL THAT THE AMERICANS DO NOT EXPECT TO CIRCULATE THEIR REVISED DRAFT MORE WIDELY UNTIL AFTER IT HAS BEEN DISCUSSED BY THE FOUR.

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FOLLOWING PERSONAL FOR BULLARD

MY TELNO 3434: EAST-WEST ECONOMIC RELATIONS

1. FOLLOWING IS TEXT OF U.S. REDRAFTED PAPER, FOR DISCUSSION AT FOUR-POWER MEETING WITH SHULTZ ON 24 OCTOBER: QUOTE

1. OUR GOVERNMENTS RECOGNIZE THE NECESSITY OF CONDUCTING THEIR RELATIONS WITH THE USSR ON THE BASIS OF A GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE OUR OWN FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY CONSCIOUS OF THE NEED FOR A COMMON APPROACH IN THE ECONOMIC FIELD, WHERE ACTIONS MUST BE COORDINATED WITHIN THE FRAMEWORK OF THEIR GLOBAL STRATEGY. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES AND TO ENSURE THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP AS A WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND IN A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

2. THEY AGREE THAT THE FOLLOWING CRITERIA SHOULD GOVERN THE ECONOMIC DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES.

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS WHICH CONTRIBUTE TO THE MILITARY CAPABILITIES OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE SOVIET ECONOMY: TRADE SHOULD BE CONDUCTED IN A PRUDENT MANNER WITHOUT PREFERENTIAL TREATMENT.

-- THAT THEY WILL TAKE NO STEPS THAT WEAKEN THE STRATEGIC POSITION OF THE WEST.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC WARFARE AGAINST THE SOVIET UNION. TRADE WITH THE SOVIET UNION AND EASTERN EUROPE SHOULD PROCEED ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES AND OBLIGATIONS.

THEY AGREE TO EXAMINE THOROUGHLY HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW TO AGREEING ON A COMMON LINE OF ACTION. THEY WILL PAY DUE ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE COUNTRIES.

THIS OVERALL ANALYSIS WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

-- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM):

SECRET

- HIGH TECHNOLOGY OF POSSIBLE STRATEGIC IMPORTANCE INCLUDING OIL AND GAS EQUIPMENT:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

IN THE FIELD OF ENERGY, THE EUROPEAN GOVERNMENTS, AS THEY ARE HEAVILY DEPENDENT ON IMPORTS OF ENERGY, WILL INITIATE A STUDY OF PROJECTED EUROPEAN ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THOSE REQUIREMENTS. THE UNITED STATES WILL PARTICIPATE IN THIS STUDY. IT WILL BE PREPARED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION THE FOLLOWING DECISIONS ALREADY MADE, THEY HAVE AGREED ON THE FOLLOWING:

(A) THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THE CONTEMPORARY SECURITY INTERESTS OF THE ALLIANCE. THE LIST OF STRATEGIC ITEMS WOULD BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY FURTHER AGREE TO TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE ALLIES ARE AGREED ON THE NEED TO ESTABLISH WITHOUT DELAY THE NECESSARY MECHANISM FOR THIS PURPOSE. (BEGIN SQUARE BRACKETS) HAVING IN MIND THE OBJECTIVE OF NOT SUBSIDIZING THE SOVIET ECONOMY, ALLIED GOVERNMENTS WILL ALSO ESTABLISH THE MEANS TO HARMONIZE NATIONAL POLICIES WITH RESPECT TO THE EXTENSION OF CREDITS, COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS, AND FEES. (END SQUARE BRACKETS)

(C) (BEGIN SQUARE BRACKETS) DURING THE COURSE OF THE STUDY ON ENERGY, ALLIED GOVERNMENTS WILL NOT APPROVE NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS FOR WHICH NEGOTIATIONS HAVE NOT BEEN CONCLUDED. (END SQUARE BRACKETS)

(D) (BEGIN SQUARE BRACKETS) ALLIED GOVERNMENTS AGREE TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF STRATEGICALLY SIGNIFICANT ADVANCED TECHNOLOGY AND EQUIPMENT, TO BE JOINTLY DETERMINED, BUT INCLUDING TECHNOLOGY WITH DIRECT APPLICATION TO THE OIL AND GAS SECTOR. ANY ACTIONS WOULD BE AGREED UPON AND IMPLEMENTED WITHIN A FRAMEWORK TO BE AGREED. (END SQUARE BRACKETS)

UNQUOTE.

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