

CONFIDENTIAL*From the Secretary of State*

The Rt Hon Francis Pym MP
Secretary of State for
Foreign and Commonwealth Affairs

27 October 1982

Dear Secretary of State

You will remember that on 2 August I issued a Direction under s.1(3) of the Protection of Trading Interests Act to Baker Oil Tools UK Ltd, ordering them not to comply with the US embargoes in respect of oil and gas equipment to the USSR.

A new case, involving a sister company of Baker, has come to my attention very recently. The company is SEACO North Sea Sales Services Limited (SEACO), an oil and gas equipment supply company located in Aberdeen, which employs about 100 people. This company, previously all-British, was acquired by the US-based Baker Organisation in June, before the Presidential embargo announced on 22 June. The company is now therefore a US subsidiary. It has two small pre-existing contracts, totalling some £800,000, for the supply of replacement sets of lubricating equipment to the Russians for oil and gas related activities. The company must be ready to deliver by 30 October or face loss of the contract. The Russians will not extend the deadline any further. Precise date of delivery depends on the arrival of a ship, but will probably be some time next week. The equipment is now ready for despatch. If I do not issue a S.1(3) Direction, I understand that the company will almost certainly break their contract with the Russians. The Russians have told them that in that event, they would not only claim

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damages (against which SEACO, under a contract made under Swedish law, would have no defence); they would also award the contract to a Canadian competitor whom the US regulations cannot reach. SEACO believe that if that happened, it would wreck their chances of doing business with the Russians in future. (SEACO are relying on future business with the USSR in their plans for rapid expansion). However, SEACO have told us that if it came to the point the Group would sacrifice SEACO rather than face the likelihood of US sanctions in the form of a Denial Order against all the overseas subsidiaries, and the risk of personal penalties on the US management. But if I issue a S.1(3) Direction, and so provide SEACO with a defence in US law of 'foreign sovereign compulsion', it is clear that the company will fulfil the contract.

The only difference between this case and the previous one where I have given Directions under the PTI Act is that the equipment in question is not known to be destined for the Siberian pipeline project. The equipment is sold to the Russians who then do what they like with it afterwards.

After due consideration, I believe that a Direction under S.1(3) of the PTI Act should be given to SEACO, and quickly. If you agree, I should be grateful if you could let me know by midday on 29 October, so that the company may be informed before the weekend. I apologise for the very short notice; the company themselves only realised the position they were in a few days ago.

I am copying this letter to the Prime Minister, to Patrick Jenkin, and to Sir Robert Armstrong.

Yours sincerely
John Whitton

for LORD COCKFIELD

[Approved by the Secretary of State and signed in his absence]



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Soviet Union

Prime Minister (2)

FCS/82/173

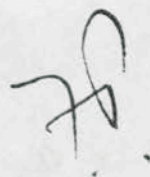
SECRETARY OF STATE FOR TRADE

To see what was
agreed today.

MCS 29/10

Protection of Trading Interests Act (PTI)

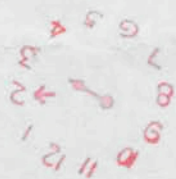
1. Thank you for your letter of yesterday. I agree, subject to the views of others, that a Direction should be issued to SEACO. It is awkward to do so during the current talks in Washington which we hope will resolve this dispute. But having already agreed to issue Directions to British companies with existing contracts I do not think it would be right for us to refrain from doing so now.
2. I am copying this minute to the Prime Minister, to Patrick Jenkin, and to Sir Robert Armstrong.


(FRANCIS PYM)

Foreign and Commonwealth Office

29 October 1982

Soviet Union, Credit Terms, Pt 2



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