



PM/82/90

PRIME MINISTER

The Prime Minister
saw a copy of
this minute during Prime Minister
her visit to Bonn.

17
2
H

28/10

East/West Economic Relations (Pipeline)

1. We agreed this morning that it would be helpful if I were to set out briefly how things now stand on the pipeline issue.
2. The seven Economic Summit countries (plus EC Presidency and Commission) met in Washington on 22 October and our Ambassador deployed the line which we had agreed in Cabinet on the previous day. In particular Sir O Wright underlined that while we were prepared to accept Mr Shultz's paper as providing a general orientation for an overall approach to the problem, we were not committing ourselves to the outcome of the studies which the paper envisaged.
3. Following that meeting, the Americans redrafted the Shultz paper and I attach a copy of the redraft for ease of reference. The most important change was that they had made the criteria in para 2 (which none of the Europeans had liked) much more balanced and less prejudicial than they were in the original paper. For example, a new criterion had been added, spelling out that it was not our purpose to engage in economic warfare against the Soviet Union. These new criteria have thus made the points of difficulty for us in the rest of the paper (particularly credits and advanced technology) easier to accept. We therefore gave our Ambassador the discretion to accept this new version (including the passages in brackets) on the ~~close~~ ^{clear} understandings
 - (a) that our acceptance of the studies was without commitment on their outcome; and

/(b) that



(b) that the Americans would lift their measures (including the Denial Orders) once the paper was agreed.

4. George Shultz discussed the redraft with the British, French and German Ambassadors on Sunday 24 October. Oliver Wright spoke to his instructions and Shultz formally confirmed our understandings as outlined above. This is an important point, because Shultz has thus specifically recognised that Britain cannot be led down the slippery slope of prior commitments to the outcome of studies that have yet to be undertaken.

5. The French have maintained their reservations on credits, on the principle of not entering into new contracts for gas supplies while the energy studies proceed, and on the examination of possible new controls on advanced technology. But when I spoke to Claude Cheysson in Luxembourg on Monday, he recognised that, in the interests of getting the US measures lifted, it was important to get on with the exercise as rapidly as possible. That, at least, was a step forward.

6. The German and the Italian positions seem close to our own. The Japanese are particularly sensitive over the technology point, but will not hold out against their other Summit partners. On the whole, the Community has proved helpful.

7. We heard yesterday that the State Department is proposing to hold a further meeting of the Seven plus in Washington tomorrow. They aim to circulate beforehand a second revision of their paper to take some account of the French concerns. Our officials will be meeting to consider that redraft and any further instructions to Sir O Wright that may prove necessary. But if the text

/does



does move further in the French direction, it should prove easier for us, and our European partners.

8. Like Arthur Cockfield, I am very conscious that this is a difficult exercise. I recognise that we must not be manoeuvred into accepting commitments which we believe fundamentally mistaken and potentially damaging in order to achieve our aim of getting President Reagan to lift. But I am equally conscious that we have to offer the President a credible package. I also believe that all our essential interests have been skilfully safeguarded by Oliver Wright.

9. I cannot pretend that the outcome is assured. Much still depends upon the French. I am clearer, however, than when I last reported to my colleagues, that the US Administration does want to find a way out of this sterile dispute. I am ~~finally~~^{firmly} persuaded that this course offers us the best prospect of getting the US measures lifted. If we can bring it off, we shall not only have brought great relief to our firms. We shall also have given the Alliance a more coherent basis for framing sensible policies over East-West economic relations.

10. We have, of course, been working closely with all the Departments concerned during these negotiations and will continue to do so.

11. I am copying this minute to Cabinet colleagues, and to Sir Robert Armstrong.


(FRANCIS PYM)

Soviet Union: Credit terms for exp. to
USSR Pt 2.

17 OCT 1992

10 12 1 2
10 11 1 2
10 10 1 2
10 9 1 2

TEXT OF REVISED SCHULTZ PAPER

GRS 930
SECRET

SECRET

253

DESKBY 230630Z
FM WASHINGTON 222355Z OCT 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 3439 OF 22 OCTOBER

MTW 09/12

TOP COPY

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

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.

WRIGHT

LIMITED	ESID	SIR J BULLARD	ADD. DISTN.
TRED	PS	MR EVANS	POLAND SPECIAL
EESD	PS/MR HURD	MR THOMAS	
NAD	PS/MR RIFKIND	MR ADAMS	
LCD(E)	PS/PUS		
ERD			
PLANNING STAFF			

- 2 -
SECRET

COPIES SENT TO
No. 10 DOWNING STREET

DB4

Secret
Lancaster
X

CB BONN /FCO 93 03/29

W

OO FCO DESKBY 290930Z

GRS 180
CONFIDENTIAL
DEDIP
DESKBY 290930Z
FM BONN 290730Z OCT 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 924 OF 29 OCTOBER

ADVANCE COPY

IMMEDIATE

MR COLES NO 10
DOWNING ST

FOLLOWING PERSONAL FROM PRIVATE SECRETARY FOR BONE (PRIVATE OFFICE)

PIPELINE

1. THE PRIME MINISTER HAS SEEN THE SECRETARY OF STATE'S MINUTE OF 28 OCTOBER AND THE TEXT OF THE US PAPER CIRCULATED WITH IT. THE ONE POINT ON WHICH SHE HAS EXPRESSED SOME CONCERN IS THE COMMITMENT IN RELATION TO OIL AND GAS TECHNOLOGY. WHILE SHE RECOGNISES THAT THIS IS ONLY A COMMITMENT TO EXAMINE SHE DOES NOT WISH US TO GET INTO A POSITION WHERE WE MIGHT LATER BE OBLIGED TO PUT BRITISH FIRMS AT A DISADVANTAGE VIS A VIS THEIR EUROPEAN COMPETITORS.
2. AS I UNDERSTAND WHAT IS LIKELY TO EMERGE FROM THIS EXERCISE, THE DANGER SEEMS UNLIKELY TO ARISE IN PRACTICE. BUT IT IS IMPORTANT THAT THE DEPARTMENTS OF ENERGY, INDUSTRY AND TRADE SHOULD BE SATISFIED THAT WE CAN PLAY THE HAND IN A WAY WHICH AVOIDS IT. SUBJECT TO THE DEPARTMENT'S VIEW I THINK IT WOULD BE HELPFUL IF CONTACT COULD BE MADE IN THE COURSE OF TODAY TO MAKE SURE THAT WE HAVE A GAME PLAN WITH WHICH WE ARE BROADLY CONTENT. THIS MAY ALREADY HAVE BEEN DONE AT OFFICIAL LEVEL BUT THE VITAL POINT IS OF COURSE THAT THE MINISTERS CONCERNED SHOULD BE ON BOARD.
3. PLEASE COPY TO COLES (NO 10).

TAYLOR

NNNN

SENT AT 290812Z