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[TYPISTS]

Mr J Ballard

C O N F I D E N T I A L

Mr Evans

DESKBY 020830Z

Mr Thomas

FM WASHINGTON 020059Z NOV 82

Mr Lyndine

TO IMMEDIATE F C O

Mr Hanning

TELEGRAM NUMBER 3524 OF 1 NOVEMBER

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INFO PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKREP BRUSSELS,

Mr SUNDERLAND } DO

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INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG

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MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE): SEVEN PLUS TWO MEETING

1. AFTER BORCH (PRESIDENCY) HAD PRESENTED THE EUROPEAN PROPOSALS FOR REVISIONS, THERE WAS A BRIEF DISCUSSION OF SECTION 3 (C) - NEW GAS CONTRACTS. IT WAS AGREED THAT THE US WOULD PROVIDE ASSURANCES (WRITTEN OR ORAL, AS REQUIRED) THAT THE PRESENT LANGUAGE WOULD NOT PREVENT THE ITALIANS FROM APPROVING THE ENI/SOYUZGAS CONTRACT, THE GERMANS FROM PURSUING THE INCLUSION OF WEST BERLIN IN THE RUHRGAS/SOYUZGAS CONTRACT OR THE JAPANESE COMPLETING THE SAKHALIN PROJECT. NO OTHER PARTICIPANTS QUESTIONED THIS INTERPRETATION OF THE LANGUAGE

SOYUZGAS CONTRACT OR THE JAPANESE COMPLETING THE SAKHALIN PROJECT. NO OTHER PARTICIPANTS QUESTIONED THIS INTERPRETATION OF THE LANGUAGE.

2. AT MY SUGGESTION, THE OPENING PASSAGE IN SECTION 2.3 WAS REDRAFTED TO READ: QUOTE THE OVERALL ANALYSIS OF ECONOMIC RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES WILL TOUCH ETC UNQUOTE. THE CANADIANS AND JAPANESE ACCEPTED THE REST OF THE EUROPEAN PROPOSALS, THE LATTER ON THE UNDERSTANDING THAT THE LANGUAGE ON CREDITS WOULD ALLOW THEM IN THE FOLLOWING STUDIES TO ARGUE FOR A HARDENING OF CREDIT TERMS BUT NOT RESTRICTIONS ON VOLUMES OF CREDITS.

3. SUMMING UP, EAGLEBURGER SAID THAT THE US WOULD NOW STUDY THESE PROPOSALS. FOLLOWING CONSULTATION WITH SHULTZ AND (PERHAPS) THE PRESIDENT, HE HOPED TO PROVIDE COMMENTS OR A REVISED DRAFT IN THE NEXT 24 HOURS. HE DENIED VIGOROUSLY, ON SHULTZ'S INSTRUCTIONS, THAT THERE HAD BEEN ANY QUESTION OF THE US BEING MOTIVATED BY ELECTION CONSIDERATIONS IN THEIR APPROACH TO THE PRESENT EXERCISE. THEY HAD BEEN TRYING TO ESTABLISH CERTAIN BASES FOR A COMMON APPROACH TO THE EAST WHICH WOULD SERVE THE PURPOSES OF ALL PARTICIPANTS. IT WAS IMPORTANT THAT EVERY COUNTRY SHOULD FEEL THAT THE EXERCISE WAS USEFUL. IF SOME HAD TO BE DRAGOONED INTO AGREEMENT, THE VALUE OF THE SUBSEQUENT STUDIES AND OF THE EXERCISE ITSELF WOULD BE SHARPLY REDUCED. THE US WERE CONCERNED ABOUT THE EVIDENT LACK OF ENTHUSIASM FOR THE EXERCISE ON THE PART OF SOME OF THE OTHER PARTICIPANTS. THE ADMINISTRATION HAD STARTED WITH A NUMBER OF DESIDERATA. SOME OF THESE HAD BEEN ADJUSTED IN THE PROCESS OF DISCUSSION. BUT THE POSITION OF SOME COUNTRIES ON CREDITS HAD REMAINED UNCHANGED. HE THOUGHT THAT THE US POSITION REMAINED THE SAME. HE WAS NOT OPTIMISTIC ABOUT SHULTZ'S REACTION TO THE PRESENT DRAFT.

4. I ARGUED THAT WE HAD COME A LONG WAY SINCE THE SITUATION PRIOR TO LA SAPINIÈRE. AT THAT POINT WE WERE TALKING PAST EACH OTHER. BUT FOLLOWING THE SHULTZ INITIATIVE WE WERE NOW TALKING TO EACH OTHER. COMPROMISES HAD BEEN MADE ON BOTH SIDES, AND WE RECOGNISED THAT THE US HAD COME A FAIR WAY TO MEET OUR PREOCCUPATIONS. WE WOULD FIND IT HARD TO ACCEPT, HAVING COME SO FAR, THAT WE COULD NOT REACH FULL AGREEMENT. THE MATTERS STILL UNDER DEBATE PALED INTO INSIGNIFICANCE COMPARED WITH THE PRIZE OF ONCE MORE REESTABLISHING HARMONY WITHIN THE ALLIANCE OVER OUR APPROACH TO THE EAST. WE ALL HAD A CLEAR DESIRE TO DO SO.

5. THIS LINE WAS STRONGLY SUPPORTED BY ALL OTHER PARTICIPANTS. THE FRENCH AMBASSADOR EMPHASISED THE IMPORTANCE OF THE PRESENT EXERCISE

5. THIS LINE WAS STRONGLY SUPPORTED BY ALL OTHER PARTICIPANTS. THE FRENCH AMBASSADOR EMPHASISED THE IMPORTANCE OF THE PRESENT EXERCISE, WHICH WOULD HELP TO AVOID SIMILAR PROBLEMS IN THE FUTURE. AMBIGUITY COULD SOLVE SHORT-TERM PROBLEMS BUT WOULD CREATE MORE PROBLEMS IN THE LONGER TERM. HENCE THE GREAT ATTENTION PAID BY THE FRENCH TO CLARIFY KEY ELEMENTS IN THE AGREEMENT. HERMES UNDERLINED THE COMMITMENT OF ALL REPRESENTATIVES TO PURSUING THE STUDY IN GOOD FAITH, WITH A VIEW TO PRESENTING RESULTS TO THE ECONOMIC SUMMIT NEXT YEAR. THE GERMAN GOVERNMENT WAS FULLY COMMITTED TO BRING THE PRESENT EXERCISE TO A SUCCESSFUL CONCLUSION.

6. EAGLEBURGER AGREED WITH VERNIER-PALLIEZ THAT THE EXERCISE CONCERNED CLARIFICATION AND HAD BEEN LARGELY SUCCESSFUL. WE HAD MANAGED TO REMOVE MANY DOUBTS ABOUT THE POSITIONS OF ALL PARTICIPANTS. HOWEVER, A MAJOR DIFFERENCE STILL REMAINED. TO SOME THIS WAS A NON-PROBLEM BUT TO OTHERS IT REMAINED REAL. IF THIS DIFFERENCE COULD NOT BE RESOLVED, IT MIGHT NOT BE WISE OR POSSIBLE TO PURSUE CURRENT EFFORTS FURTHER. HE DOUBTED WHETHER FURTHER DRAFTING WOULD HELP TO REMOVE THIS OBSTACLE, THE SOLE REMAINING ISSUE BETWEEN US, AND HOPED THAT A SOLUTION COULD BE FOUND. HIS EARLIER JUDGEMENT HAD BEEN BASED ON HIS PERSONAL EVALUATION OF HOW THE ADMINISTRATION WOULD REACT.

FCO PASS SAVING ATHENS, DUBLIN AND LUXEMBOURG

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TO IMMEDIATE F C O

TELEGRAM NUMBER 3522 OF 1 NOVEMBER

INFO PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKREP BRUSSELS, UKDEL NATO, UKDEL OECD

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INFO SAVING DUBLIN ATHENS LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. FOLLOWING IS TEXT OF LATEST VERSION OF US NON-PAPER, INCORPORATING AMENDMENTS PROPOSED TODAY BY THE PRESIDENCY IN THE NAME OF THE FOUR, AND AGREED BY OTHER COMMUNITY REPRESENTATIVES.

2. TEXT BEGINS:

DURING CONVERSATIONS IN WASHINGTON BETWEEN THE SECRETARY OF STATE OF THE UNITED STATES OF AMERICA AND REPRESENTATIVES OF THE EEC, CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY,

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Mr Evans

Mr Thomas

Mr Spedding

Mr Hennip

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Mr SUNDERLAND } DC

Mr KNIGHTON } DC

Mr GOODALL - bob O

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[TYPISTS

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THE EEC, CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY, JAPAN AND THE UNITED KINGDOM ON THE SUBJECT OF EAST-WEST RELATIONS, A CERTAIN NUMBER OF CONCLUSIONS HAVE BEEN REACHED ON BEHALF OF THEIR GOVERNMENTS. THE SUMMARY OF THESE FOLLOWS.

1. THEY RECOGNIZE THE NECESSITY OF CONDUCTING THEIR RELATIONS WITH THE USSR AND EASTERN EUROPE ON THE BASIS OF A GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE THEIR COMMON FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY CONSCIOUS OF THE NEED THAT ACTION IN THE ECONOMIC FIELD BE CONSISTENT WITH THAT GLOBAL AND COMPREHENSIVE POLICY AND THUS BE BASED ON A COMMON APPROACH, ACCORDING TO THE DOMAINS IN QUESTION. THIS APPROACH COULD TAKE THE FORM OF EITHER COLLECTIVE MECHANISMS, OR HARMONIZATION OR APPROPRIATE CONSULTATION. THEY ARE RESOLVED TOGETHER TO TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES THAT HAVE ARISEN 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.

French proposal

2. 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, OR TAKE STEPS, WHICH CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE AND CAPABILITIES OF THE USSR.

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

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC WARFARE AGAINST THE SOVIET UNION. TO BE CONSISTENT WITH OUR BROAD SECURITY INTERESTS, TRADE WITH THE USSR MUST PROCEED, INTER ALIA, ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES.

IT IS AGREED TO EXAMINE THOROUGHLY IN THE APPROPRIATE BODIES 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 IN THE SPIRIT OF PARAGRAPH 1. 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 EASTERN EUROPEAN COUNTRIES.

THE OVERALL ANALYSIS OF ECONOMIC RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPEAN COUNTRIES WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

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

(COCOM):

- OTHER HIGH TECHNOLOGY ITEMS:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

Underlined
IN THEIR ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS, IT IS AGREED TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT TO BE JOINTLY DETERMINED. THIS IMMEDIATE EXAMINATION OF WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT WILL INCLUDE TECHNOLOGY AND EQUIPMENT WITH DIRECT APPLICATIONS TO THE OIL AND GAS SECTOR.

IN THE FIELD OF ENERGY, THEY WILL INITIATE A STUDY OF THEIR PROJECTED ENERGY REQUIREMENTS AND DEPENDENCE UPON IMPORTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THESE REQUIREMENTS, WITH PARTICULAR ATTENTION BEING GIVEN TO THE EUROPEAN ENERGY SITUATION. THE STUDY WILL BE CONDUCTED UNDER THE AUSPICES OF THE OECD.

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

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

French proposal
(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 NECESSARY PROCEDURES FOR THIS PURPOSE WILL BE ESTABLISHED WITHOUT DELAY. HAVING IN MIND THE CRITERIA IN PARAGRAPH TWO ABOVE, THEY WILL ALSO EXAMINE THE POSSIBILITIES OF FURTHER HARMONIZATION OF CREDIT POLICIES.

Underlined
(C) THEY HAVE INFORMED EACH OTHER THAT DURING THE COURSE OF THE STUDY ON ENERGY REQUIREMENTS, THEY WILL NOT SIGN, OR APPROVE THE SIGNING BY THEIR COMPANIES OF, NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3521 OF 1 NOVEMBER

INFO PRIORITY PARIS BONN ROME COPENHAGEN UKREP

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INFO SAVING DUBLIN ATHENS LUXEMBOURG

YOUR TELNO 1920: EAST-WEST ECONOMIC RELATIONS (PIPELINE): SUMMARY

1. FOLLOWING MEETINGS TODAY OF THE EUROPEAN FOUR PLUS TWO, OF ALL COMMUNITY REPRESENTATIVES, AND OF THE SEVEN PLUS TWO CHAIRED BY EAGLEBURGER, THE AMERICANS ARE TO CONSIDER FURTHER THE LATEST

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Mr Thomas

Mr Lynderson

Mr Hancock

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Mr GOODALL - Sub of

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[TYPISTS]

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~~EAGLEBURGER, THE AMERICANS ARE TO CONSIDER FURTHER THE LATEST~~
EAGLEBURGER, THE AMERICANS ARE TO CONSIDER FURTHER THE LATEST
EUROPEAN PROPOSALS FOR REVISIONS OF THE US NON-PAPER (MY TELNO
3506). EAGLEBURGER HOPED, FOLLOWING CONSULTATIONS WITH SHULTZ AND
(PERHAPS) THE PRESIDENT, TO LET US HAVE A FORMAL US RESPONSE WITHIN
24 HOURS.

2. ALMOST ALL THE NON-PAPER (CURRENT TEXT, AS AMENDED BY
EUROPEAN REVISIONS, IN MIFT) IS NOW ACCEPTABLE TO THE SEVEN
PLUS TWO. THE GERMAN PROBLEM OVER NEW GAS CONTRACTS HAS BEEN
SATISFACTORILY RESOLVED (AS HAVE ITALIAN AND JAPANESE RESERVATIONS
ON THE SAME POINT). THE AMERICAN SIDE HAVE INDICATED THAT, WITH
ONE EXCEPTION, THE REST OF THE EUROPEAN REDRAFT SHOULD BE LARGELY
ACCEPTABLE TO THEM.

3. HOWEVER, THE PRESENT FORMULA ON CREDITS (A GERMAN SUGGESTION)
REMAINS EXTREMELY HARD FOR THEM TO ACCEPT. IN SUMMING UP THE
MEETING THIS AFTERNOON, EAGLEBURGER DID NOT DISGUISE HIS
SCEPTICISM THAT THE ADMINISTRATION WOULD AGREE TO IT. I ARGUED
STRONGLY, AND WAS SUPPORTED BY THE OTHER PARTICIPANTS, THAT
THE PRESENT EXERCISE HAD BEEN AN EXTREMELY USEFUL ONE, THAT IT
HAD ALLOWED US TO ESTABLISH THE BASIS FOR A COMMON APPROACH
TOWARDS ECONOMIC RELATIONS WITH THE EAST OVER THE COMING YEARS,
AND THAT THE SOLE REMAINING DIFFICULTY SHOULD NOT BE ALLOWED
TO PREVENT AGREEMENT ON THE OVERALL PACKAGE.

4. DETAILED REPORT ON POINTS MADE AT ALL THREE MEETINGS TODAY
FOLLOWS IN MY SECOND AND THIRD IFTS.

5. THE NEXT STEP IS TO AWAIT THE CONSIDERED US RESPONSE. THEREAFTER
FURTHER BILATERAL CONTACTS MAY BE NEEDED. YOUR OWN INTERVENTIONS
TODAY WITH CHEYSSON AND GENSCHER HAVE BEEN EXTREMELY USEFUL IN
REMOVING GERMAN HESITATIONS. THE FRENCH HAVE TRIED TO BE
ACCOMODATING AND THE LANGUAGE ON CREDITS IS NOW CLOSE TO WHAT
MOST PEOPLE WANT. BUT IT MAY STILL BE LESS THAN THE MINIMUM
THE AMERICANS REQUIRE, AND EAGLEBURGER'S CONCLUDING REMARKS
SHOWED VERY CLEARLY THAT WE ARE NOT YET OUT OF THE WOODS.

FCO PASS SAVING TO DUBLIN ATHENS AND LUXEMBOURG

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Prime Minister

To note

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PRIME MINISTER

EAST/WEST ECONOMIC RELATIONS

I have seen Francis Pym's minute of 28 October and also the subsequent redraft of the American paper which is currently under discussion. I fully agree with the line Francis proposes. While there are risks in accepting the paper, our essential interests have been protected, and this does appear to be the only way out of the present impasse.

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

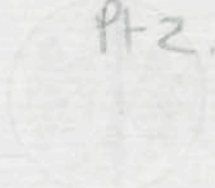
Department of Trade
1 Victoria Street
London, SW1H 0ET

2 November 1982

Arthur Cockfield
LORD COCKFIELD

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Soviet Union : Credit Terms for
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