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TELEGRAM NUMBER 3557 OF 3 NOVEMBER

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

INFO ROUTINE TOKYO, OTTAWA, BRUSSELS, THE HAGUE

INFO SAVING ATHENS, DUBLIN, LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

EC MEETINGS

1. AT THE MEETING OF THE FOUR WITH THE PRESIDENCY AND THE COMMISSION, AND SUBSEQUENTLY WITH ALL COMMUNITY REPRESENTATIVES, BORCH REPORTED ON HIS CALL TODAY ON EAGLEBURGER, WHO HAD PROVIDED A REVISED VERSION OF THE US NON-PAPER. THIS INCORPORATED THE EUROPEAN PROPOSALS FOR THE FIRST CRITERION, BUT OMITTED IN THE SECOND CRITERION THE WORD QUOTE THEREFORE UNQUOTE. EAGLEBURGER HAD UNDERLINED THAT THE US WOULD NOT PRE-JUDGE THE DEFINITION OF THE WORD QUOTE SUBSIDIZE UNQUOTE. THE NON-PAPER HAD ALSO ACCEPTED THE FRENCH SUGGESTION FOR A QUALIFICATION OF THE COMMON LINE OF ACTION IN SECTION 2.2., BUT BELIEVED THAT SPELLING THIS OUT (AS PROPOSED BY THE FRENCH) IN SECTION 1 WAS UNNECESSARY.

2. IN SECTION 3(A) THE US NON-PAPER HAD REPLACED QUOTE FOLLOWING ON UNQUOTE WITH QUOTE BUILDING ON UNQUOTE. IT ALSO CONTAINED A REDRAFTED FINAL SENTENCE IN SECTION 3(B). IN THIS CONTEXT, EAGLEBURGER HAD REFERRED TO THE CONSIDERABLE ACCOMMODATIONS MADE BY THE US TOWARDS EUROPEAN WISHES. HE PERSONALLY HAD BEEN SURPRISED THAT THE ADMINISTRATION COULD ACCEPT THE PRESENT LANGUAGE, WHICH HAD BEEN REVIEWED AT THE HIGHEST LEVEL. (LATER DISCUSSION ESTABLISHED THAT THE PRESENT LANGUAGE WAS SHULTZ'S OWN WORK) HE HOPED THAT THE ENTIRE PAPER WOULD NOW BE ACCEPTABLE TO THE EUROPEANS.

3. THE ITALIAN AMBASSADOR, REPORTING ON SPADOLINI'S DISCUSSIONS HERE, ARGUED THAT THE NON-PAPER REPRESENTED THE US BOTTOM-LINE. US OFFICIALS HAD ALSO EMPHASISED THEIR NEED TO MAKE CLEAR IN PUBLIC THE GENERAL SENSE OF THE UNDERSTANDING, AND THEIR INTENTION THE FOLLOWING DAY TO ANNOUNCE THE LIFTING OF SANCTIONS WITHOUT DRAWING ANY LINK BETWEEN THE TWO STEPS.

HE SUPPORTED HIS STRONG PLEA THAT THE PAPER SHOULD NOW BE ACCEPTED BY THE COMMUNITY. THE GERMAN AMBASSADOR TOOK THE SAME LINE. HE WOULD ADVISE HIS GOVERNMENT NOT TO PROPOSE NEW CHANGES. WE WERE SAFE TO ACCEPT THE PAPER SINCE IN DOING SO WE WERE NOT SUBSCRIBING TO NEW COMMITMENTS.

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4. HOWEVER, THE FRENCH AMBASSADOR COULD NOT JOIN THIS CONSENSUS. ON SECTION 3(B) HE MADE IT CLEAR THAT HIS GOVERNMENT NEEDED TO OMIT THE PHRASE QUOTE BUILDING UPON THE AGREEMENT ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT UNQUOTE. IF THE AMERICANS FOUND THIS HARD TO ACCEPT, THE FRENCH, WHILE STILL OMITTING THIS PHRASE, WOULD BE READY TO ADD AFTER QUOTE HARMONIZE FURTHER UNQUOTE THE FOLLOWING: QUOTE OFFICIAL AND NON-OFFICIAL GUARANTEED AND NON-GUARANTEED CREDITS CONCERNING INTEREST RATES, MATURITIES, DOWN-PAYMENTS AND FEED UNQUOTE. IN AN AT TIMES HEATED DISCUSSION, THE GERMAN AMBASSADOR MADE IT CLEAR THAT THE SECOND PROPOSAL WOULD BE UNACCEPTABLE IN BONN. VERNIER-PALLIEZ EQUALLY STUCK TO HIS GUNS IN REFUSING TO HAVE ANY REFERENCE TO THE OECD ARRANGEMENT, ON THE GROUNDS THAT THIS WOULD PREJUDGE THE EXERCISE AND LIMIT IT TO THE SAME RANGE OF DISCUSSIONS AS WAS CURRENTLY CONDUCTED WITHIN THE OECD. AFTER IT HAD BEEN POINTED OUT THAT THE PHRASE QUOTE BUILDING UPON ETC UNQUOTE HAD BEEN A CANADIAN SUGGESTION (MY TELNO 3502, PARA 9), IT WAS AGREED THAT THE PRESIDENCY WOULD SEEK US AGREEMENT TO DELETE THE PHRASE, PROVIDED THAT THE FRENCH AMBASSADOR COULD SECURE AGREEMENT IN PARIS TO THE FORMULA QUOTE WORK URGENTLY TO HARMONIZE ETC UNQUOTE.

5. THE FRENCH ALSO OBJECTED TO THE OMISSION OF THE QUOTE THEREFORE UNQUOTE IN THE SECOND CRITERION. ALTHOUGH OTHER COMMUNITY REPRESENTATIVES EMPHASISED THAT SHULTZ HAD MADE IT PLAIN THAT THIS OMISSION WAS A US SINE QUA NON, VERNIER-PALLIEZ ARGUED THAT A DEFINITION, IMPLIED BY QUOTE THEREFORE UNQUOTE, WAS REQUIRED OF THE WORD QUOTE SUBSIDIZE UNQUOTE. THE REST OF US TOOK STRONG ISSUE, NOTING THAT WE HAD ALREADY HAD AN UNDERTAKING FROM THE US SIDE THAT THEY WOULD NOT TRY TO ENFORCE ON US THEIR INTERPRETATION OF SUBSIDIZING. AT THE SAME TIME, WE COULD NOT EXPECT TO FORCE OURS ON THEM. DENMAN (COMMISSION) SAID THAT IT WOULD BE HARD TO EXPLAIN TO EUROPEAN COMPANIES THE CONTINUATION OF SANCTIONS AGAINST THEM ON THE GROUNDS THAT WE COULD NOT AGREE TO AMIT THE WORD QUOTE THEREFORE UNQUOTE. OTHER AMBASSADORS ARGUED STRONGLY THAT WE COULD NOT HOPE TO SUCCEED IN THE PRESENT EXERCISE IF AT THIS STAGE WE CONTINUED TO PRODUCE A RAFT OF NEW PROPOSALS FOR THE AMERICANS.

6. FINALLY, THE FRENCH AMBASSADOR RESISTED THE STRONG ARGUMENTS OF ALL OTHER COMMUNITY REPRESENTATIVES TO ACCEPT THE US PROPOSAL OF QUOTE BUILDING ON UNQUOTE AT THE BEGINNING OF SECTION 3(A). HE ARGUED THAT THIS IMPLIED, IN A WAY UNACCEPTABLE TO FRANCE, THAT THE EXERCISE WITHIN COCOM MIGHT GO BEYOND THE CONCLUSIONS OF THE HIGH-LEVEL MEETING. I POINTED OUT THAT BY ACCEPTING THE REST OF THE SUB-SECTION, WHICH HAD ALREADY BEEN AGREED, THE FRENCH HAD DEFINED THE MEANING OF QUOTE BUILDING ON UNQUOTE. HOWEVER VERNIER-PALLIEZ REMAINED OBDURATE ON THE RETENTION OF QUOTE FOLLOWING ON UNQUOTE.

7. SUMMING UP THESE DISCUSSIONS, BORCH SAID THAT HE WOULD RECOMMEND TO THE PRESIDENCY, AND HE HOPED OTHERS WOULD REPORT TO THEIR CAPITALS, THAT THERE WAS GENERAL AGREEMENT WITHIN THE COMMUNITY THAT WE SHOULD ONLY PROPOSE ESSENTIAL CHANGES, THAT THE NUMBER OF CHANGES WAS IMPORTANT, AND THAT ALL EXCEPT THE FRENCH FELT THAT ONLY ONE CHANGE (IN SECTION 3(B)) WOULD BE BEST. VERNIER-PALLIEZ UNDERTOOK TO REPORT THIS TO PARIS, EXPRESSING PESSIMISM ABOUT THE RESULT. I INTERVENED TO UNDERLINE THE NEED FOR ALL PARTICIPANTS TO BE AWARE OF THE RESULTS OF FAILURE TO REACH AGREEMENT WITH THE AMERICANS. SANCTIONS WOULD NOT BE LIFTED, NOR WOULD WE ACHIEVE AN OVERALL CONSENSUS ON OUR APPROACH TO ECONOMIC RELATIONS WITH THE EAST. IN OTHER WORDS, THE TWO MAIN AIMS OF THE ENTIRE EXERCISE WOULD HAVE BEEN LOST. I RECEIVED STRONG SUPPORT FROM MY ITALIAN AND GERMAN COLLEAGUES AND FROM THE COMMISSION. HERMES SAID THAT HIS GOVERNMENT WOULD REGRET DEEPLY ANY FAILURE TO REACH AGREEMENT WHEN IT WAS SO CLOSE.

8. IN THE SMALLER MEETING, THE PRESIDENCY HAD ALREADY REFERRED BACK TO THE IRISH PROBLEMS WITH THE INTRODUCTORY PASSAGE (MY TELNO 3529 PARA 3). IN ADDITION TO THE PRESENTATION TO THE US OF THEIR RESERVATIONS MENTIONED YESTERDAY, THE IRISH NOW WISHED TO REDRAFT A SECTION OF THIS PASSAGE IN THE NON-PAPER AS FOLLOWS: QUOTE.

.. AMERICA AND REPRESENTATIVES OF CANADA, THE FRG, FRANCE, ITALY, JAPAN AND THE UK ON THE SUBJECT OF EAST-WEST RELATIONS, IN WHICH REPRESENTATIVES OF THE EUROPEAN COMMUNITY ALSO PARTICIPATED, A CERTAIN NUMBER OF CONCLUSIONS HAVE BEEN REACHED ON BEHALF OF THE (UNDERLINE LAST WORD) GOVERNMENTS REPRESENTED. UNQUOTE. INITIALLY, THERE WAS SOME RELUCTANCE AMONG THE FOUR AND THE COMMISSION TO ACCEPT YET ANOTHER REVISION OF THE PRESENT NON-PAPER.

9. FOLLOWING FURTHER DISCUSSION WITH THE TEN, HOWEVER, IT WAS AGREED THAT THIS FORMULATION COULD CLARIFY THE POSITION OF OTHER COMMUNITY GOVERNMENTS, NOT MEMBERS OF THE SUMMIT SEVEN AND THEREFORE NOT DIRECTLY PARTICIPATING IN THE PRESENT EXERCISE. THE LANGUAGE WOULD BE SUBMITTED TO CAPITALS FOR URGENT STUDY AND APPROVAL, AND (IF POSSIBLE) PROPOSED TO EAGLEBURGER TOMORROW AFTERNOON. IT WAS ALSO AGREED THAT WE SHOULD CONSIDER URGENTLY THE SUGGESTION THAT THE COMMISSION, IN A SIDE-LETTER TO THE US, WHICH WOULD DRAW ON THE LUXEMBOURG CONCLUSIONS, SHOULD POINT OUT THAT COMMUNITY COMPETENCE APPLIED TO CERTAIN AREAS COVERED IN THE NON-PAPER AND THAT IN THOSE AREAS NORMAL COMMUNITY DECISIONS AND PROCEDURES WOULD APPLY TO THE FOLLOW-UP ON AND PARTICIPATION IN PRESENT DECISIONS. DENMAN UNDERTOOK TO PRODUCE APPROPRIATE LANGUAGE ALONG THESE LINES.

10. AT THE END OF THE MEETING BORCH MENTIONED TWO FURTHER POINTS RAISED WITH HIM EARLIER BY EAGLEBURGER:

1. THE LATTER'S HOPE THAT ALL WERE CLEAR THAT IN THE ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS TO WHICH SECTION 2.4 REFERRED, THE US DID NOT INTEND TO FORCE ON OTHERS THEIR OWN INTERPRETATION OF QUOTE SECURITY INTERESTS UNQUOTE OR OF QUOTE OTHER HIGH TECHNOLOGY

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ITEMS UNQUOTE. CONVERSELY, THE US WOULD NOT ACCEPT A VETO FROM OTHERS ON THE US INTERPRETATIONS. (IN OTHER WORDS, THERE COULD CONTINUE TO BE, AS IN COCOM, DIFFERENT NATIONAL INTERPRETATIONS).  
11. ON THE LIFTING OF SANCTIONS, EAGLEBURGER HAD NOTED THE NEED TO DISCUSS THE PRACTICAL STEPS WITH THE FOUR. HOWEVER HE HAD ALSO NOTED THAT WE COULD NOT EXPECT THE TOTAL ABSENCE OF US CONTROLS ON EXPORTS IN THE FUTURE. HE HAD INDICATED TO BORCH THAT THE US WOULD WISH TO REMOVE RETROACTIVE SANCTIONS, BUT HE EXPECTED THERE TO BE FURTHER DISCUSSION ON EXTRATERRITORIALITY AT A LATER STAGE.

11. IN DISCUSSION OF THESE POINTS, IT WAS AGREED THAT THE FIRST, BUT NOT THE SECOND, COULD BE COVERED AT THE NEXT (AND PERHAPS LAST) MEETING OF THE SEVEN PLUS TWO WITH EAGLEBURGER TOMORROW AFTERNOON AT 1500 HOURS. PRIOR TO THAT THERE WILL BE A COMMUNITY COORDINATION MEETING AT 1200 NOON.

F C O PASS SAVING ATHENS, DUBLIN, LUXEMBOURG

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## EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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INFO PRIORITY PARIS BONN ROME COPENHAGEN UKDEL NATO UKDEL OECD  
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 INFO SAVING ATHENS DUBLIN LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. FOLLOWING IS TEXT OF REVISED VERSION, DATED TODAY, OF US  
 NON-PAPER:

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, 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. 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

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. 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; TRADE 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 ONE AND THE ABOVE CRITERIA. 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 USSR AND THE EASTERN EUROPEAN COUNTRIES WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM):
- OTHER HIGH TECHNOLOGY ITEMS:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

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) BUILDING 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.

(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 AND BUILDING UPON THE AGREEMENTS ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT, THEY WILL WORK URGENTLY TO HARMONIZE FURTHER NATIONAL CREDIT POLICIES COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS AND FEES.

(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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FCO PLEASE PASS SAVING ATHENS DUBLIN LUXEMBOURG

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TELEGRAM NUMBER 3555 OF 3 NOVEMBER

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

INFO ROUTINE TOKYO, OTTAWA, THE HAGUE, BRUSSELS

INFO SAVING TO ATHENS, DUBLIN, LUXEMBOURG.

MY TELNO 3528: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. THE AMERICANS PROVIDED THE PRESIDENCY THIS MORNING WITH A FURTHER REVISION OF THEIR NON-PAPER (TEXT IN MIFT). THIS WAS DISCUSSED IN MEETINGS OF THE FOUR PLUS TWO, AND OF THE TEN LATER TODAY (DETAILED REPORT IN MY SECOND IFT).

2. THE FRENCH ARE NOW WHOLLY ALONE IN BEING UNABLE TO ACCEPT THE NON-PAPER IN ITS PRESENT FORM. THEY STILL HAVE RESERVATIONS ON THREE POINTS, THE MOST IMPORTANT APPARENTLY BEING THE LAST SENTENCE OF SECTION 3(B) ON POSSIBLE HARMONISATION OF CREDITS. THERE IS, HOWEVER, NO GUARANTEE THAT THEIR POSITION ON TWO LESS IMPORTANT POINTS WILL CHANGE BEFORE THE MEETING WITH EAGLEBURGER SCHEDULED FOR 1500 HOURS LOCAL TOMORROW, AT WHICH (AS MY GERMAN COLLEAGUE PUT IT) WE SHALL MAKE A LAST DITCH EFFORT TO REACH FULL AGREEMENT.

3. IT IS POSSIBLE THAT THE AMERICANS CAN BE BROUGHT TO ACCEPT ONE FURTHER CHANGE IN THE CREDITS SECTION AND THAT THE FRENCH ALSO WILL BE DRAGGED RELUCTANTLY INTO AGREEMENT ON THIS. HOWEVER, THE AMERICANS HAVE ALREADY MADE GREAT EFFORTS TO COME THIS FAR

3. IT IS POSSIBLE THAT THE AMERICANS CAN BE BROUGHT TO ACCEPT ONE FURTHER CHANGE IN THE CREDITS SECTION AND THAT THE FRENCH ALSO WILL BE DRAGGED RELUCTANTLY INTO AGREEMENT ON THIS. HOWEVER, THE AMERICANS HAVE ALREADY MADE GREAT EFFORTS TO COME THIS FAR AND JUDGING FROM THE LATEST PRIVATE COMMENTS BY SHULTZ AND EAGLEBURGER, I CANNOT SEE THEM MAKING ANY FURTHER CONCESSIONS OF SUBSTANCE. THE FRENCH, ON THE OTHER HAND, HAVE GOT ALMOST ALL THEY WANTED AND APPEAR TO BE STRAINING AT A GNAT. IF THEY REJECT THE PRESENT, WEAKER COMMITMENT TO WORK URGENTLY TO HARMONIZE ETC, THE AMERICANS (AND NO DOUBT THE REST OF US) MUST CONCLUDE THAT THEY HAVE NOT BEEN SERIOUS ABOUT THE EXERCISE FROM THE START, DESPITE THEIR PROTESTATIONS TO THE CONTRARY. FURTHERMORE, THEIR REFUSAL TO ACCEPT ANY REFERENCE TO THE OECD ARRANGEMENT IS HARDLY LOGICAL SINCE, EVEN IF THIS PHRASE WERE OMITTED, THE ARRANGEMENT WOULD HAVE TO BE A PRIME SUBJECT FOR DISCUSSION IN THE URGENT WORK ON HARMONISATION OF CREDIT POLICIES WHICH THE NON-PAPER ENVISAGES.

4. YOUR PREVIOUS INTERVENTION WITH CHEYSSON (YOUR TELNO 586 TO PARIS) WAS OF MUCH VALUE IN MOVING THE FRENCH FORWARD. I FEAR THAT IN THESE CIRCUMSTANCES I CAN DO NOTHING BUT RECOMMEND THAT YOU HAVE ANOTHER, FINAL GO AT HIM. THE ARGUMENTS WILL ALREADY BE FAMILIAR. BUT I STILL SEE SOME POINT IN REEMPHASISING THE DANGER THAT WE WILL LOSE THE WHOLE EXERCISE (NOT TO MENTION THE LIFTING OF SANCTIONS) IF FRENCH OFFICIALS CONTINUE TO REMAIN WEDDED TO POINTS WHICH, IN THE VIEW OF THE REST OF THEIR COMMUNITY PARTNERS AND THE SUMMIT SEVEN, CONTAIN NO REAL SUBSTANCE.

5. EAGLEBURGER TOLD THE DANISH AMBASSADOR TODAY THAT HE WOULD BE LEAVING WASHINGTON FOR TWO WEEKS ON SATURDAY. ALTHOUGH DISCUSSION COULD OF COURSE CONTINUE IN HIS ABSENCE, I DO NOT DOUBT THAT HIS PERSONAL EFFORTS HAVE CONTRIBUTED HEAVILY TO THE PROGRESS WE HAVE MADE IN BRINGING THE AMERICANS AROUND TO OUR POINT OF VIEW. I THEREFORE HOPE THAT WE CAN WRAP UP AT LEAST AGREEMENT ON THE NON-PAPER BY THE WEEKEND.

6. WE HAVE YET TO TOUCH IN SUBSTANTIVE TERMS ON PUBLIC HANDLING OF ANY AGREEMENT, ALTHOUGH THE POSITION OF VARIOUS PARTICIPANTS IS ALREADY FAIRLY CLEAR. IN FURTHER DISCUSSION (OF WHICH THERE WAS NONE TODAY BETWEEN COMMUNITY REPRESENTATIVES), I SHALL BEAR IN MIND THE POINTS MADE IN TELECON J THOMAS/D THOMAS TODAY.

FCO PASS SAVING ATHENS LUXEMBOURG AND DUBLIN

WRIGHT