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FM WASHINGTON 061919Z
TO IMMEDIATE FCO
TELEGRAM NUMBER 3598 OF 6 NOVEMBER 1982

SECRET ECLIPSE

21
Soviet Union

MIPT: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

FOLLOWING IS TEXT OF DRAFT PRESIDENTIAL STATEMENT.

I AM PLEASED TO ANNOUNCE THAT WE AND OUR EUROPEAN, CANADIAN AND JAPANESE PARTNERS HAVE JUST REACHED A COMMON UNDERSTANDING ON THE FUTURE CONDUCT OF EAST-WEST ECONOMIC RELATIONS. THIS UNDERSTANDING SHOWS THAT THE WESTERN ALLIANCE IS FUNDAMENTALLY UNITED OVER THIS QUESTION. MORE IMPORTANTLY, IT WILL SERVE TO ENSURE THAT IN THE FUTURE OUR ECONOMIC RELATIONS WITH THE SOVIET UNION WILL BE CONDUCTED IN A WAY THAT PROTECTS OUR COMMON SECURITY INTERESTS.

AS A RESULT OF INTENSE DISCUSSIONS, CHARACTERIZED THROUGHOUT BY GOOD WILL AND UNITY OF PURPOSE, WE HAVE AGREED ON THE BASIC CRITERIA FOR THE CONDUCT OF EAST-WEST ECONOMIC RELATIONS, A SET OF CONCRETE ACTIONS, AND A WORK PROGRAM, INCLUDING A SERIES OF STUDIES, TO IMPLEMENT THIS COMMON APPROACH. IN PARTICULAR, WE HAVE AGREED NOT TO ENGAGE IN TRADE ARRANGEMENTS WHICH COULD CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE OF THE USSR OR SERVE TO SUBSIDIZE THE SOVIET ECONOMY. THE WORK PROGRAM WILL EXAMINE HOW TO IMPLEMENT THESE BROAD AGREEMENTS IN VARIOUS AREAS OF EAST-WEST ECONOMIC RELATIONS. BECAUSE WE AND OUR PARTNERS ARE UNITED IN OUR BASIC OUTLOOK AND COMMITTED TO WORKING TOGETHER -- AS WAS SO EVIDENT IN THESE RECENT DISCUSSIONS -- WE ARE CONFIDENT THAT THE WORK PROGRAM WILL PRODUCE A DETAILED BASIS FOR WESTERN ECONOMIC POLICIES TOWARDS THE EAST WHICH WILL SERVE US FOR THE REST OF THE DECADE AND BEYOND.

PRIORITY ATTENTION WILL BE GIVEN TO TRADE IN HIGH TECHNOLOGY PRODUCTS, INCLUDING THOSE USED IN OIL AND GAS PRODUCTION. WE WILL ALSO STUDY WESTERN ENERGY REQUIREMENTS AND THE QUESTION OF DEPENDENCE ON ENERGY IMPORTS, WITH PARTICULAR FOCUS ON THE EUROPEAN SITUATION.

IN ADDITION, WE HAVE AGREED ON SEVERAL IMMEDIATE ACTIONS:
-- FIRST, WE AND OUR PARTNERS WILL STRENGTHEN THE EFFECTIVENESS OF OUR EXISTING CONTROLS ON THE TRANSFER OF STRATEGIC ITEMS TO THE SOVIET UNION.
-- SECOND, WE WILL ESTABLISH WITHOUT DELAY PROCEDURES FOR MONITORING FINANCIAL RELATIONS WITH THE SOVIET UNION AND WILL WORK URGENTLY TO HARMONIZE OUR EXPORT CREDIT POLICIES.
-- THIRD, EACH PARTNER HAS AFFIRMED THAT NO NEW CONTRACTS FOR THE PURCHASE OF SOVIET NATURAL GAS WILL BE SIGNED OR APPROVED DURING THE COURSE OF STUDY OF ALTERNATIVE SOURCES OF ENERGY.

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THE UNDERSTANDINGS WE AND OUR PARTNERS HAVE REACHED AND THE ACTIONS WE ARE TAKING REFLECT OUR MUTUAL DETERMINATION TO OVERCOME DIFFERENCES AND STRENGTHEN OUR COHESION. IN MY VIEW, WHAT HAS HAPPENED -- AND IS STILL HAPPENING -- IN POLAND HAS SHARPENED THE AWARENESS THROUGHOUT THE ALLIANCE THAT THE SOVIET UNION IS NOT ACTING AS A RESPONSIBLE AND RESTRAINED MEMBER OF THE INTERNATIONAL ORDER. WE DO NOT PLAN TO WAGE ECONOMIC WARFARE AGAINST THE SOVIET UNION, BUT ITS LEADERS MUST UNDERSTAND THAT THEIR AGGRESSIVE CONDUCT HAS ONLY STRENGTHENED OUR COMMON RESOLVE AND DOES NOT SERVE SOVIET INTEREST.

WRIGHT

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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MY TELNOS 3594 AND 3595: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

SINCE MY TELEGRAM UNDER REFERENCE WERE DRAFTED, WE HAVE BEEN GIVEN IN STRICTEST CONFIDENCE A COPY OF A DRAFT PRESIDENTIAL STATEMENT ABOUT THE EXERCISE COVERED IN THE REVISED U.S. NON-PAPER ON EAST/WEST ECONOMIC RELATIONS. IT HAS BEEN GIVEN TO NO ONE ELSE AND SHOULD NOT BE REFERRED TO IN CONVERSATION WITH ANY U.S. LET ALONE AT THIS STAGE EUROPEAN OFFICIAL. IT IS A STATE DEPARTMENT DRAFT WHICH HAS BEEN SUBMITTED TO THE WHITE HOUSE. IT IS LIKELY TO BE SUBJECTED TO CONSIDERABLE AMENDMENT. BUT IT HELPS TO SHOW THE SORT OF STATEMENT THEY EXPECT THE PRESIDENT WILL NEED TO MAKE.

2. AT FIRST SIGHT A STATEMENT ON THESE LINES WOULD GIVE US LITTLE DIFFICULTY. BUT THE FRENCH AND GERMANS WOULD PROBABLY SEE OBJECTIONS BOTH AS TO TONE AND SUBSTANCE. THAT IS A BATTLE TO BE FOUGHT OUT HERE NEXT WEEK.

3. THE OMISSION OF ANY REFERENCE IN THE DRAFT STATEMENT TO THE LIFTING OF SANCTIONS IS DESIGNED TO MEET FRENCH OBJECTIONS TO ANY EXPLICIT LINKING OF THE TWO QUESTIONS. THE U.S. INTENTION WOULD BE TO ANNOUNCE THE LIFTING OF SANCTIONS SEPARATELY.

4. THE TIMETABLE THE STATE DEPARTMENT ARE AT PRESENT WORKING ON IS AS FOLLOWS:-

- 6/7 NOVEMBER SUBMISSION OF THE NON-PAPER IN ITS NEAR FINAL FORM TO PRESIDENT REAGAN, WITH RECOMMENDATIONS FOR THE LIFTING OF SANCTIONS.
- 8 NOVEMBER (A) MEETING WITH FOUR TO GIVE DETAILS OF WHAT RECOMMENDATIONS ON LIFTING OF SANCTIONS HAVE BEEN PUT TO PRESIDENT.
(B) MEETING WITH SEVEN TO REACH FINAL AGREEMENT ON NON-PAPER, SUBJECT TO AGREEMENT ON OTHER ELEMENTS IN PACKAGE.
- 9 NOVEMBER OR SOME TIME PRESIDENTIAL ANNOUNCEMENT OF AGREEMENT ON EAST/WEST ECONOMIC RELATIONS.
NEXT WEEK.

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THE DANISH AMBASSADOR HAS WARNED THE AMERICANS THAT 9 NOVEMBER MAY BE TOO EARLY TO AIM FOR A PRESIDENTIAL STATEMENT ON EAST/WEST RELATIONS, GIVEN THE NUMBER OF ISSUES THAT STILL REMAIN TO BE SORTED OUT ON SANCTIONS AND ON PUBLIC PRESENTATION. THE AMERICANS ACCEPT THIS AND ARE UNLIKELY TO INSIST ON SUCH A TIGHT SCHEDULE. BUT WITH THE RISKS OF LEAKS, THEY ARE KEEN TO MAINTAIN THE PRESENT MOMENTUM AND PRESS ON TO A CONCLUSION.

WRIGHT

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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TELEGRAM NUMBER 3596 OF 6 NOVEMBER 1982
INFO IMMEDIATE PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO,
UKDEL OECD, UKREP BRUSSELS.

YOUR TELEGRAM 1964: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

1. THE OBJECTIVES SET OUR IN PARA 4 OF YOUR TELEGRAM UNDER REFERENCE ARE MORE EXPLICIT THAN THOSE SET OUR IN EARLIER TELEGRAMS (EG FCO TELNO 1923) AND WE HAVE BEEN THINKING ABOUT HOW BEST TO ACHIEVE THEM.

2. THE STATE DEPARTMENT TELL US IN THE STRICTEST CONFIDENCE (SEE MY TELNO 3595) THAT A MEMORANDUM IS GOING TO THE PRESIDENT THIS WEEKEND FROM SHULTZ AND BALDRICE RECOMMENDING THE LIFTING OF ALL THE DENIAL ORDERS, OF THE JUNE MEASURES AND OF THE DECEMBER MEASURES INSOFAR AS THESE APPLY TO FOREIGN FIRMS. THIS WOULD ENABLE FOREIGN FIRMS TO COMPLETE ALL CONTRACTS SIGNED BEFORE 29 DECEMBER 1981. WE UNDERSTAND THAT SUBJECT TO THE PRESIDENT'S FINAL AGREEMENT THIS MUCH IS AGREED BETWEEN ALL THE AGENCIES CONCERNED.

3. WHAT REMAINS IN DISPUTE BETWEEN THE AGENCIES IS WHETHER THE BAN ON THE FUTURE EXPORT BY AMERICAN COMPANIES OF US OIL AND GAS GOODS AND TECHNOLOGY SHOULD REMAIN IN FORCE. STATE AND COMMERCE DEPARTMENTS ARE RECOMMENDING A COMPLETE LIFTING; OTHERS ARE OPPOSED HOWEVER THIS ARGUMENT COMES OUT, WHAT IS CERTAIN IS THAT BEYOND THE OIL AND GAS SECTORS, THE AMERICANS WILL RESERVE THE RIGHT TO PREVENT THE EXPORT OF AMERICAN GOODS BY AMERICAN FIRMS IF THE ADMINISTRATION JUDGES THE PROPOSED END-USE TO BE OBJECTIONABLE (A RIGHT WHICH HMG WOULD PRESUMABLY ALSO CLAIM AT LEAST IN TIME OF WAR). THEY WILL CONTINUE TO REGARD IT AS FOR FOREIGN CUSTOMERS TO ENSURE THAT THEIR CONTRACTS CONTAIN THE APPROPRIATE FORE MAJEURE CLAUSE.

4. UNTIL WE KNOW WHAT THE PRESIDENT HAS DECIDED, IT WILL NOT BE POSSIBLE TO SEE PRECISELY WHERE OUR COMPANIES STILL STAND. BUT THE LIKELIHOOD ON PRESENT FORM IS THAT THEY WILL BE FREED FROM ALL DENIAL ORDERS AND ABLE TO COMPLETE ALL CONTRACTS SIGNED BEFORE 29 DECEMBER IMPORTING THE NECESSARY US GOODS AND TECHNOLOGY TO ENABLE THEM TO DO SO. AS TO FUTURE CONTRACTS, RE-EXPORT LICENCES WOULD AS BEFORE HAVE TO BE OBTAINED FOR GOODS SUBJECT TO US LICENSING ARRANGEMENTS. NO DOUBT THE STATE DEPARTMENT WOULD ARGUE TO THE PRESIDENT THAT IT WOULD BE OPEN FOR THE AMERICANS TO PRESS FOR MUTUALLY AGREED TIGHTER ARRANGEMENTS IN THE STUDIES UNDER 3(A) OF THE SHULTZ NON-PAPER. BUT AT LEAST UNTIL THOSE STUDIES WERE COMPLETED, THEY WOULD REGARD IT AS UP TO THE AMERICANS TO DECIDE THEMSELVES WHAT GOODS AND TECHNOLOGY SHOULD BE UNDER US CONTROLS. HOW MUCH UNILATERAL FREEDOM OF ACTION THEY WANT TO RETAIN AFTER THAT WILL DEPEND ON THE OUTCOME OF THE EXAMINATION OF THE NEED FOR WIDER COLLECTIVE CONTROLS.

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5. WE HAVE MADE IT QUITE CLEAR TO THE AMERICANS ON THE BASIS OF EARLIER INSTRUCTIONS, WHERE WE WANT THE CURRENT NEGOTIATIONS TO END UP. AS FOR THE WIDER ISSUES OF EXTRA-TERRITORIALITY, THIS AFFAIR HAS GIVEN US AN EXCELLENT OPPORTUNITY TO GET TO GRIPS WITH A PHENOMENON WHICH IS DEEPLY ROOTED IN AMERICAN POLITICAL AND LEGAL THOUGHT AND PRACTICE. OUR EUROPEAN PARTNERS ARE FOR THE FIRST TIME CONVINCED THAT THIS IS A MAJOR ISSUE ON WHICH IT IS ADVANTAGEOUS TO ACT TOGETHER. AMERICAN BUSINESS IS AT LAST REALISING HOW BADLY ITS OWN INTERESTS CAN BE HURT BY AMERICAN EXTRA-TERRITORIAL PRETENSIONS. WE CANNOT EXPECT THE AMERICANS TO ABANDON THEIR DEEPLY INGRAINED ATTITUDES ALL AT ONCE. BUT THE WAY IS OPEN FOR A DETERMINED CAMPAIGN, AND THE AMERICANS HAVE BEEN TOLD THAT THIS IS WHAT THE EUROPEANS INTEND. THE PROBLEM WILL BE TO KEEP UP THE PRESSURE FOR A LONG HAUL ONCE THE IMMEDIATE EXCITEMENT IS OVER. WE HAVE ALREADY MADE SOME SUGGESTIONS TO LONDON.

WRIGHT

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