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FM WASHINGTON 120004Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3660 OF 11 NOVEMBER

INFO IMMEDIATE BTDO NEW YORK (FOR PS/S OF S)

PRIORITY PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, UKDEL OECD,

UKREP BRUSSELS, ROUTINE TOKYO, OTTAWA, BRUSSELS AND THE HAGUE

INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG

YOUR TELNO 2000: EAST WEST ECONOMIC RELATIONS (PIPELINE)

1. THERE WAS NO SIGN TODAY OF A U S DECISION ON SANCTIONS. MINISTER THEREFORE TOOK ADVANTAGE OF THE LULL TO GO OVER THE GROUND COVERED IN YOUR TELEGRAM UNDER REFERENCE INFORMALLY WITH A SENIOR CONTACT IN THE STATE DEPARTMENT.
2. THE REACTION OF THE OFFICIAL CONCERNED (WHO HAS BEEN CLOSELY INVOLVED IN THE WHOLE PROCESS) WAS ONE OF GENUINE DISMAY AND SURPRISE. THE AMERICANS HAD BEEN CONFIDENT THAT EITHER OF THE OPTIONS DESCRIBED IN MY TELNO 3648 WOULD MEET THE MAIN CONCERNS OF EUROPEAN GOVERNMENTS ABOUT DAMAGE TO THEIR COMPANIES' INTERESTS RESULTING FROM THE DECEMBER AND JUNE SANCTIONS. AS THE AMERICANS HAD UNDERSTOOD THE PROBLEM, OUR CONCERNS AROSE PRIMARILY FROM THE RETRO-ACTIVE AND EXTRA TERRITORIAL ELEMENTS IN THE U S MEASURES. THE ADMINISTRATION HAD BEEN TOLD ON MANY OCCASIONS (AND OFTEN IN THE STRONGEST TERMS) THAT WHAT THEY DID TO U S FIRMS WAS THEIR OWN BUSINESS BUT THEY SHOULD NOT BE DOING IT TO COMPANIES IN OTHER COUNTRIES, ABOVE ALL RETROSPECTIVELY. WHEN IT CAME TO LOOKING FOR WAYS OF LIFTING THE SANCTIONS THEREFORE THEY HAD CONCENTRATED ON THEIR RETRO-ACTIVE AND EXTRA TERRITORIAL PROVISIONS. AT THE SAME TIME THE PRESIDENT HAD TO LOOK OUT FOR HIS RIGHT FLANK. U S OFFICIALS THOUGHT THEY HAD FOUND A COMPROMISE SOLUTION THAT WOULD FULLY MEET THE PROBLEMS OF THE EUROPEANS WITHOUT EXPOSING THE PRESIDENT TO EXCESSIVE CRITICISM FROM HIS OWN SUPPORTERS AND INDEED FROM SOME OF HIS OWN TOP ADVISERS FOR TOTALLY CHANGING TACK. THIS WAS THE BACKGROUND AGAINST WHICH THE SECOND OPTION NEEDED TO BE SEEN.
3. THOMAS REPLIED THAT THIS WAS ONLY PART OF THE STORY. WE AND OTHERS HAD MADE CLEAR FROM THE BEGINNING THAT IN ADDITION TO THE RETRO-ACTIVE AND EXTRA TERRITORIAL ASPECTS OF THE U S MEASURES WE OBJECTED TO THEIR TAKING UNILATERAL DECISIONS AFFECTING THE WHOLE ALLIANCE WITHOUT ADEQUATE CONSULTATION. HE AGREED THAT WE HAD COMPLAINED VIGOROUSLY ABOUT THE FRUSTRATION OF EXISTING CONTRACTS, BUT WE HAD ALSO ARGUED AT ALL LEVELS THAT THIS WAS AN AREA WHERE THE NECESSARY FIRST STEP WOULD HAVE BEEN TO SIT DOWN AMONG THE ALLIES AND WORK OUT THE BASIS FOR A COMMON APPROACH. IN THE NEGOTIATION OF THE NON-PAPER WE HAD NOW BUILT A FRAMEWORK FOR THIS. BUT IF THE AMERICANS ADOPTED OPTION 2, THEY WOULD BE PREJUDGING AN IMPORTANT PART OF THAT EXERCISE BY MAINTAINING A BAN ON THE EXPORT OR RE-EXPORT

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10 DOWNING STREET

Prime Minister

I have some doubts
about this.

I fear that it will be
regarded by the U.S. as
an attempt to exploit
the situation following
Brezhnev's death to obtain
what we want on the
pipeline issue. It may not
have the effect we want.

A.J.C.

EAST/WEST ECONOMIC RELATIONS: PIPELINE

The Prime Minister has asked that you should convey to the White House as soon as possible her view, and that of her colleagues, that, given Brezhnev's death and the period of uncertainty which is now likely to ensue, we regard it as of the greatest importance that the West should be, and be seen to be, united. Against this background, it is more than ever essential that the pipeline issue should be very rapidly resolved. To achieve this, we trust that the President will lift both the June and the December measures and the temporary Denial Orders.

It is too late now
and it would need
a larger rather than a
persuasive message to be
effective.

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INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG

MIPT: ALTERNATIVE US OPTIONS ON LIFTING SANCTIONS.

1. THE TWO ALTERNATIVES WHICH WE UNDERSTAND WERE SUBMITTED
YESTERDAY TO PRESIDENT REAGAN WERE:

- (I) COMPLETE LIFTING OF THE DECEMBER 1981 AND JUNE 1982 MEASURES
IN ALL THEIR PARTS. THIS WAS THE ALTERNATIVE PREPARED BY THE
DEPARTMENT OF COMMERCE. TECHNICALLY IT WOULD BE THE
SIMPLEST OPTION. THE MAIN OBJECTION IN INTER-AGENCY
DISCUSSIONS WAS THE POLITICAL ONE: THE US WOULD APPEAR TO
HAVE BEEN Routed BY THE ALLIES.
- (II) REMOVAL OF THOSE PARTS OF THE DECEMBER 1981 AND JUNE 1982
MEASURES WHICH AFFECTED EXISTING CONTRACTS (AND RELATED
SERVICE CONTRACTS) BUT RETAINING LICENSING PROCEDURES FOR
EXPORTS AND RE-EXPORTS TO THE SOVIET UNION WITH CERTAIN
SPECIFIED EXCEPTIONS.
THIS ALTERNATIVE WAS SPECIFICALLY DESIGNED TO MEET THE
PROBLEMS OF EUROPEAN AND JAPANESE COMPANIES WHICH HAD BEEN
AFFECTED BY THE JUNE AND DECEMBER CONTROLS, LEAVING A
LOOPHOLE FOR SPECIAL CASES.

THE NSC (WHO FAVORS THIS ALTERNATIVE) TELLS US THAT THIS
TIME THE PROCEDURES FOR ALLOWING EXCEPTIONS WOULD BE PROPERLY
WORKED OUT WITH THE COMMERCE DEPARTMENT TO AVOID A REPETITION
OF THE CHAOS OF THE LAST FEW MONTHS. EVEN SO WE SUSPECT THERE
WOULD INEVITABLY BE ARGUMENT AND DELAYS AS INDIVIDUAL SPECIAL
CASES ARE CONSIDERED BY THE LICENSING AUTHORITIES.

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MIFT CONTAINS THE TEXT OF THIS RELEVANT PASSAGE FROM THE SUBMISSION TO THE PRESIDENT WHICH HAS BEEN GIVEN TO US IN STRICTEST CONFIDENCE. OUR KNOWLEDGE OF IT SHOULD NOT BE REVEALED TO U.S. OR OTHER OFFICIALS.

2. IT IS NOT YET CLEAR WHICH WAY THE CAT WILL JUMP. STATE DEPARTMENT OFFICIALS THINK THE PRESIDENT IS MORE LIKELY TO GO FOR THE SECOND ALTERNATIVE.

FCO PASS SAVING: ATHENS, DUBLIN AND LUXEMBOURG

WRIGHT

(REPEATED AS REQUESTED)

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No. 10 DOWNING STREET

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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