

Soviet Union

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10 DOWNING STREET

From the Private Secretary

15 February 1983

GAS TURBINES FOR THE SOVIET UNION

The Prime Minister has seen your Secretary of State's letter of 14 February to the Foreign and Commonwealth Secretary about this question.

Mrs. Thatcher will of course wish to await the advice of the Foreign and Commonwealth Secretary before taking a firm view but has meanwhile commented that she thinks that the United States would be very concerned indeed if we exported these turbines to the Soviet Union.

I am sending copies of this letter to the Private Secretaries to other members of OD, to Jonathan Spencer (Department of Industry), Julian West (Department of Energy) and to Richard Hatfield (Cabinet Office).

A. J. COLES

John Rhodes, Esq.,
Department of Trade.

OMP



From the Secretary of State

Prime Minister

This has the seeds of another major row with the U.S. You may care to await Mr. Pym's view before committing yourself.

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The Rt Hon Francis Pym MC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

A.S.C. 14/2

I think the U.S. would be very concerned indeed if we reported this to us.

February 1983

Francis

GAS TURBINES FOR THE SOVIET UNION

Rolls Royce has approached my Department about the prospect of selling to the Soviet Union four RB2-11 units which, together with spares and maintenance facilities, would be worth about £10 million. The RB2-11 units would replace the company's existing Avon units already in operation on the Chelyabinsk Pipeline. If this first trial order were successful, it could lead to business worth on average about £20 million a year at 1983 prices over a ten year period. This represents a 50% increase in Rolls Royce's total anticipated industrial sales of gas turbines over the period. Given the present poor demand for civil aircraft engines, such sales would clearly be very attractive to the company, and they wish to pursue the opportunity.

Since the units would be for gas pipeline use there are obvious political sensitivities, but I consider these to be outweighed by the strong commercial considerations in favour of seeking the business. Indeed, there is no agreement among Allies restricting the supply of oil and gas transmission equipment.



From the Secretary of State

The Americans have removed their December 1981 and June 1982 measures, and have so far made little progress in developing the case for new ones in the studies of East-West relations which are now in train. Meanwhile European companies have bid, and secured substantial contracts, for the Astrakhan gas project. Apart from Rolls gas generators, the only competing large power-producing systems from the West suitable for gas pipelines are either supplied by United States companies or their licensees. Thus for Rolls Royce to stand back from such business would effectively confer significant monopoly powers on the United States.

Separately, the Americans have proposed new wide-ranging controls on gas turbines which would bring aero-derived industrial equipment within the COCOM net. But neither we, nor other participating countries, have so far been willing to support these proposals. We are, of course, concerned that technology for making key components should not be exported, for both security and commercial reasons. But in this case, the difficulties of "reverse engineering" are such that there is no appreciable risk in making available equipment, which in any case uses technology at least ten years old.

In short, we do not now have any formal basis for blocking a Rolls Royce sale, since the equipment in question is not now subject to export licensing controls. The main argument for discouraging Rolls Royce is the risk of damage to our relations with the United States government. But I do not think that this outweighs the commercial considerations. These extend beyond Rolls Royce; Lord Weinstock has recently expressed his concern that GEC should be free to bid for oil and gas orders, including gas pumping equipment. If, as a result of discussions amongst the Allies, the export rules were to be changed, we would find it difficult not to allow existing contracts to be completed. But in not seeking to stand in Rolls Royce's way on this occasion, we could not of course commit ourselves to the outcome of these discussions.

I hope you will agree that, in the circumstances, we should not seek to obstruct Rolls Royce. To do so would put it at a competitive disadvantage to overseas

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From the Secretary of State

companies including the Americans. It would also run counter to the line we took in April 1981 when our Ambassador in Moscow was authorised to give the Soviet Deputy Minister of Foreign Trade assurances about Government support for Rolls Royce's ultimately unsuccessful West Siberian bid.

I am copying this to the Prime Minister, other members of OD, the Secretaries of State for Industry and Energy, and to Sir Robert Armstrong.

LORD COCKFIELD

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