

cc. Mr Coles (No 10) P

Mr Goodall (Cabinet Office)

2745 - 2 J.H.H. 18/2.

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TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 289 OF 17 FEBRUARY
GAS TURBINES FOR THE SOVIET UNION

A.S.C. 2 1/2

f-a.

1. MINISTERS ARE CONSIDERING WHETHER TO GIVE ROLLS ROYCE THE BLESSING THE COMPANY HAVE SOUGHT TO OFFER TO SELL FOUR RB2-11'S (AND PERHAPS MORE UNITS LATER) TO THE SOVIET UNION. THESE WOULD REPLACE EXISTING AVON TURBINES IN USE ON THE CHELYABINSK GAS PIPELINE.

2. THE ARGUMENTS IN FAVOUR ARE THAT THE INITIAL CONTRACT WOULD BE WORTH POUNDS STERLING 10 MILLION WITH THE POSSIBILITY OF FURTHER ANNUAL SALES OF POUNDS STERLING 20 MILLION UNTIL 1993. THERE ARE AT PRESENT NO COCOM CONTROLS ON THIS EQUIPMENT. THE TECHNOLOGY IS AT LEAST TEN YEARS OLD. NOR ARE COCOM PARTNERS LIKELY TO ACCEPT THE NEW US PROPOSALS THAT INDUSTRIAL TURBINES SHOULD BE ADDED TO THE COCOM LISTS. THE AMERICANS HAVE NOT YET CIRCULATED SPECIFIC LISTS OF OTHER HIGH TECHNOLOGY EQUIPMENT, INCLUDING OIL AND GAS EQUIPMENT, WHOSE FUTURE EXPORT TO THE SOVIET UNION THEY WISH TO BAN. TO DISCOURAGE ROLLS ROYCE FROM BIDDING WOULD BE TO PREJUDGE THE RESULTS OF THESE DISCUSSIONS. IT WOULD BE INCONSISTENT BOTH WITH OUR EARLIER AGREEMENT THAT BRITISH COMPANIES SHOULD TENDER (AGAINST FRENCH, GERMAN AND CANADIAN COMPETITION) FOR THE ASTRAKHAN GAS PROJECT, AND WITH THE SUPPORT WE GAVE ROLLS ROYCE IN 1981 FOR THEIR ULTIMATELY UNSUCCESSFUL BID TO SUPPLY TURBINES FOR THE WEST SIBERIAN PIPELINE. THOUGH IT IS PERHAPS ONLY A PRESENTATIONAL POINT, CHELYABINSK GAS IS NOT FOR DIRECT EXPORT TO THE WEST. WE BELIEVE THERE ARE NO IRREPLACEABLE US COMPONENTS FOR THE TURBINES THEMSELVES, SO ROLLS ROYCE WOULD NOT BE OBLIGED TO APPLY FOR RE-EXPORT LICENCES. AND THE COMPANY HAS TAKEN INTO ACCOUNT THE TRANSATLANTIC IMPLICATIONS FOR THEM OF GOING FOR THIS CONTRACT. OTHER BRITISH COMPANIES (EG RUSTON AND GEC)

JMAY

MAY ALSO WISH TO BID FOR SIMILAR BUSINESS.

3. AS AGAINST THIS, WE RECOGNISE THAT THE AMERICAN REACTION MIGHT BE ADVERSE. WE DO NOT KNOW IF OR WHEN THE DEAL MIGHT BECOME A FIRM PROSPECT, BUT WE WOULD GUESS THAT THE AMERICANS WOULD FIND OUT AS SOON AS IT DID. WE REALISE THAT, DEPENDING ON HOW SOON ROLLS ROYCE'S NEGOTIATIONS BEGAN AND HOW WELL THEY WENT, THIS MIGHT BECOME A BILATERAL ISSUE IN THE RUN-UP TO WILLIAMSBURG. WE ASSUME THAT AMERICAN REACTIONS MIGHT PARTLY DEPEND ON HOW THEY ASSESSED THE PROGRESS ON THE VARIOUS BITS OF FOLLOW-UP WORK ON EAST/WEST ECONOMIC RELATIONS. IT IS TOO EARLY TO PREDICT THAT NOW.

4. AN ADDITIONAL FACTOR IS THAT THE ONLY FOREIGN COMPETITION IN THIS FIELD COULD COME FROM US COMPANIES AND LICENSEES. SO FOR REASONS OF COMMERCIAL CONFIDENTIALITY WE WOULD NOT WANT TO ALERT THE AMERICANS AT THIS STAGE.

5. GRATEFUL FOR YOUR PERSONAL ASSESSMENT, IF POSSIBLE BY 181300Z, OF WHETHER THIS SALE WOULD BE LIKELY TO LEAD TO A MAJOR ADVERSE AMERICAN REACTION OR WHETHER THEY WOULD NOT BE DISPOSED TO MAKE A MAJOR ISSUE OF IT.

PYM

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HD/TRED

HD/LESD

HD/NAD

PS

PS/HR RIFKIND

PS/PUS

SIR J BULLARD

HR EVANS

HR THOMAS

8 FEB 1983

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