

CONFIDENTIAL



10 DOWNING STREET

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From the Private Secretary

MR GOODALL

Supply of Oil and Gas Related Equipment
to the Soviet Union

The Prime Minister has seen your minute of 6 May. Subject to the views of other members of OD and the Secretaries of State for Industry and Energy she agrees that, in the cases listed in the annex to your minute involving the export of oil and gas related equipment to the Soviet Union, ECGD should not be required to withhold offers of cover which are acceptable on the basis of their normal criteria. She notes that so far as current export licensing requirements are concerned, those items in the annex for which export licences may be required will be similarly determined in accordance with normal procedures once the necessary information is available.

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

A. J. COLE

11 May 1983

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Ref: B06780

Prime Minister

✓ RJ. (1)

Agree para. 5, subject to views of
colleagues?

A.J.C. 10/5

Yes m.

MR COLESSupply of Oil and Gas Related Equipment to the
Soviet Union

Last March, the Prime Minister and other members of OD were consulted about the sale of Rolls Royce gas turbine engines for the Chelyabinsk pipeline in the Soviet Union. They endorsed the conclusions of the Cabinet Office note, dated 28th February, in particular that "until the outcome of the post-pipeline study on the export of this equipment is known, we should neither give Rolls Royce formal backing nor discourage them from proceeding with the contract". The Prime Minister's agreement was contained in your minute of 4th March to Mr Hatfield.

2. The question whether Export Credits Guarantee Department cover could be given has not so far arisen; but agreement to offer cover might be seen as signifying the Government's willingness to allow the contract to go forward and by the Americans as prejudging the outcome of the post-pipeline study.
3. There is, however, a growing list of other potential contracts with the Soviet Union involving British companies proposing to sell equipment and services in the oil and gas field. The full list is at Annex. In certain of these cases, negotiations have reached the stage where an offer of ECGD cover is being actively sought. The question therefore arises whether the decision of Ministers in the Rolls Royce case should apply mutatis mutandis to the other potential contracts set out in the Annex.
4. The Official Group on Economic Policy towards Eastern Europe (MISC 64) has examined this question and has unanimously concluded that the Rolls Royce case need not be regarded as constituting a precedent for the other contracts. A specific United States proposal for strategic controls on aero-derived gas turbines was already under discussion in COCOM in February, when the Rolls Royce case arose; and a similar proposal has since been tabled in the study of other high technology (OHT) (see the note by the Chairman of the Committee on Strategic Exports (ODO(SE)), circulated to members of OD under cover of Sir Robert Armstrong's minute of 28th February to the Prime Minister). At the time when Ministers were consulted on the Rolls Royce case, the United States list on OHT had not been tabled and the

complete range of oil and gas related equipment which the Americans wished to see restricted was unclear. Now that the American proposals are on the table, it can be seen that on turbines they relate solely to aero-derived gas turbines and not to the type of turbines or turbine technology involved in the John Brown Engineering or Weir Westgarth contracts. (In so far as we have details of the other oil, and gas contracts listed at Annex, they likewise fall outside the scope of the United States proposals.) Officials therefore see little or no risk of an adverse reaction by the United States Government to a decision to grant ECGD cover in these cases, since such a decision could not be seen as prejudging the post-pipeline studies.

5. Ministers are therefore invited to endorse the conclusion of officials that, in the cases listed at Annex involving the export of oil and gas related equipment to the Soviet Union, ECGD should not be required to withhold offers of cover which are acceptable on the basis of their normal criteria. So far as current export licensing requirements are concerned, those items at Annex for which export licences may be required will be similarly determined in accordance with normal procedures, once the necessary information is available.

6. Since ECGD are being pressed for decisions by certain of their customers, it would be helpful if replies could be received by close of play on Thursday, 12th May.

7. I am sending copies of this minute to the Private Secretaries to the other members of OD, to the Private Secretaries to the Secretaries of State for Industry and Energy, and to Sir Robert Armstrong.

David Goodall

6th May 1983

A D S GOODALL

POTENTIAL MAJOR CAPITAL GOODS CONTRACTS IN USSR FOR WHICH ECGD COVER IS NOT YET COMMITTED

A OIL/GAS TECHNOLOGY CASES

| <u>Exporter</u> | <u>Project</u> | <u>Contract Value</u> <u>£m</u> |
|----------------------------------|--|------------------------------------|
| Ruston Gas Turbines | Gas turbines for West Siberian gas pipeline (WSGP) | 8.5 |
| Walter Kidde & Co | Firefighting equipment for WSGP | 2.7 |
| Tilghman Wheelabrator | Shotblast equipment for WSGP | 0.4 |
| Various Exporters | Astrakhan Sour Gas project up to | 30.0 |
| Weir Westgarth | Rotor blade foundry for gas pipelines | 20.0 |
| John Brown Eng Ltd | 14 gas turbines for Oranburg pipeline | 55.0 |
| Walter Kidde | Firefighting equipment for Oranburg pipeline | 4.0 |
| Plenty Ltd | Gas conditioning equipt. for Oranburg pipeline | 4.0 |
| Seaforth Engineering | Up to 4 semi-submersible dive systems up to | 10.0 |
| Davy McKee (London) Ltd | Tengis oil and gas treatment plant | 175.0 |
| B <u>OTHER CASES</u> | | |
| Carters J & J Ltd | Wheelchair Manufacturing Plant | 32.7 |
| Davy McKee (Oil & Chemicals Ltd) | Carbon Dioxide Recovery Plant | 40.0 |
| John Brown Eng & Constr. Ltd | 100,000 TPA single cell protein Plant | 100.0 |
| GEC | Trolleybus | 35.5 |
| Anderson Strathclyde | Complete coalface installation | 7.5 |
| Baker Perkins Holdings | 10 LC150 wrapping machines | 4.6 |
| Consarc Engineering | Graphitising Furnace Complex | 8.0 |
| Tyne Ship Repair Ltd | Alteration to accommodation of passenger cruise ship | 7.3 |

Soviet Union: Credit terms for
export to USSR
Pt 3