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Covering SECRET

B.06947

MR POWELL

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Transfer of Carbon-Carbon Technology to the USSR

I understand that the Prime Minister has now agreed to hold a meeting at 9.45 a.m. tomorrow, 8 February, to discuss the issues which have arisen from the Defence Secretary's minute MO/15/3 of 1 February and subsequent correspondence. I attach a brief.

in folder

Bryan Cartledge

B G Cartledge

7 February 1985



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Prime Minister
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PRIME MINISTER

c Sir Robert Armstrong

Transfer of Carbon-Carbon Technology to the USSR
Meeting of Ministers - 8 February at 9.45 am.

BACKGROUND

A
In his minute MO/15/3 of 1 February the Defence Secretary sought advice from the Secretary of State for Trade and Industry on possible ways of stopping the export of certain machinery to the Soviet Union. Both the Ministry of Defence and the United States Defence Department consider that this machinery could be employed in manufacturing critical carbon-carbon components for missiles and that denial would set the Russians back by up to five years. Most of the equipment has already been shipped to the Soviet Union under a contract concluded in 1983 by Consarc Engineering Limited, a British subsidiary of a United States concern, but key elements remain in this country. The Foreign and Commonwealth Secretary considers, in his minute FCS/85/28 of 6 February, that priority should be given to security considerations and that the shipment should be prevented, despite the risk to our commercial relations with the Soviet Union. Both the Defence Secretary and the Foreign and Commonwealth Secretary agree that this issue is likely to be raised in your discussions with President Reagan later this month. The Secretary of State for Trade and Industry, on the other hand, has underlined in his minute JU948 of 7 February the wholly exceptional action which would be needed to prevent shipment at this late stage and has emphasised the adverse effects on the current surge in Anglo-Soviet trade. He has suggested an approach to the Americans with the object of persuading the United States parent company to buy out its United Kingdom subsidiary and stop the delivery.

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2. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Defence Secretary and the Secretary of State for Trade and Industry have been invited to attend your meeting.

HANDLING

3. You should invite the Defence Secretary to open the discussion with his views on the security aspects of this order. The Foreign and Commonwealth Secretary should then advise on the implications of this export, or its denial, both for Anglo-Soviet and Anglo-American relations. Finally, the Secretary of State for Trade and Industry should advise on the legal and financial implications of interfering with the execution of a contract which had previously been cleared with his Department.

4. You may wish to structure the discussion to cover the following issues -

(a) The importance of the technology transfer involved

Given the export of the bulk of the machinery involved, you may wish to press the Defence Secretary on what will be lost by the shipment of the remaining components.

Why did the normal screening processes fail to pick up the nature of the technology transfer involved during the two year period covered by the negotiation and execution of the contract? The Defence Secretary and the Secretary of State for Trade and Industry should advise.

(b) Political and trade implications for our relations with the Soviet Union

D
Both the Secretary of State for Trade and Industry and HM Embassy in Moscow (Moscow telegram No 162 of 6 February) have stressed the potentially damaging effects of denial on the recently improved trading position with the Soviet Union. What does the recent increase in Anglo-Soviet trade really



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owe to political factors? The Embassy are also concerned that we should not be seen to be leading in the denial of advanced technology to the Russians. Is the middle course suggested by the Secretary of State for Trade and Industry (of seeking to put the onus of stopping the shipment on to the Americans) an acceptable proposition? Is it realistic in terms of the time available before shipment takes place? Can the Customs and Excise delay the shipment sufficiently to allow negotiations through the State Department to proceed? Is this in any case a prudent course, given the possibility that the Americans might use such an approach in other cases to our disadvantage, e.g. to circumvent United Kingdom relations governing the export of arms to such countries as Argentina? The Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry should advise with guidance being given by the Chancellor of the Exchequer on Customs aspects.

(c) Legal and financial position

The Secretary of State for Trade and Industry has indicated that in his view a liability of around £7 million would fall on the ECGD if the contract is broken, given the circumstances of its negotiation. However, is the Trade and Industry Secretary sure that we have the legal authority to prevent the shipment? Is there any chance that the company could go ahead with the export, demonstrating to all concerned including the Soviet Union and the United States, that we had tried but failed to frustrate the contract? In the event of a decision to deny shipment, how should this best be presented to a) the United Kingdom exporter, b) the Soviet authorities and, if necessary, c) Parliament, given the Department of Trade and Industry's repeated assurance to the exporter that the equipment concerned was not licensable. The Secretary of State for Trade and Industry should advise.



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CONCLUSION

5. Subject to the view taken of the practicality of the middle course proposed by the Secretary of State for Trade and Industry in his minute of 7 February, you could guide the meeting to a decision on whether direct action should be taken to prevent the shipment and how this should be presented to the parties concerned.

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