

US Declassified

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subject

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PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T138/82

CAB/WTE 001/25

ZZ WTE

FLASH

SECRET

Z 251845Z JUN 82

FM NO.10 DOWNING STREET
TO WHITE HOUSE

*g Master
aps*

*Also cc
Sen Union
Expats USSR
Part 2*

MESSAGE TO THE PRESIDENT OF THE UNITED STATES.

DEAR RON,

WHEN WE DISCUSSED ON 23 JUNE THE EFFECT ON JOHN BROWN ENGINEERING (JBE) OF AMERICAN SANCTIONS AGAINST THE SOVIET UNION, YOU TOLD ME THAT REPRESENTATIVES OF THE COMPANY HAD INDICATED RECENTLY TO YOUR OFFICIALS IN WASHINGTON THAT THE DECISION TO EXTEND THE SANCTIONS WOULD NOT CAUSE THEM GREAT FINANCIAL DISTRESS. I SAID THAT I WOULD ENQUIRE INTO THE MATTER AND ADVISE YOU FURTHER.

JBE'S VIEWS HAVE BEEN MISUNDERSTOOD IN WASHINGTON. THE COMPANY'S REPRESENTATIVES HAVE REPEATEDLY MADE CLEAR TO US OFFICIALS THEIR DEEP CONCERN ABOUT THE FAR REACHING RESULTS OF THE COMPANY BEING FORCED BY RETROSPECTIVE LEGISLATION TO ABANDON A CONTRACT WHICH THEY ENTERED INTO IN GOOD FAITH AT A TIME WHEN THE GOODS CONCERNED WERE NOT EMBARGOED. LAST WEEK THEY CONFIRMED TO US OFFICIALS THAT FAILURE TO SHIP THE TURBINES WOULD HAVE VERY DAMAGING CONSEQUENCES. THE PRECISE EXTENT OF THE DAMAGE CAUSED CANNOT BE ASSESSED AT PRESENT. AT WORST UNINSURED COSTS AND DAMAGES COULD BE AS MUCH AS POUNDS STERLING 100 MILLION. JBE COULD WELL BE FORCED OUT OF BUSINESS AND THIS WOULD LEAD TO 1700 JOB LOSSES IN THE COMPANY IN AREAS OF HIGH UNEMPLOYMENT IN SCOTLAND: THERE WOULD ALSO BE EFFECTS UPON COMPONENT SUPPLIERS. THE STABILITY OF THE GROUP AS A WHOLE MIGHT BE THREATENED. THE CHAIRMAN OF JOHN BROWN HAS CONFIRMED THESE FACTS TO THE SECRETARY OF STATE FOR TRADE SINCE OUR MEETING IN WASHINGTON.

WE SEE THE FURTHER MEASURES WHICH YOU ANNOUNCED ON 18 JUNE AS WRONG IN PRINCIPLE BECAUSE OF THEIR EXTRA-TERRITORIAL APPLICATION DIRECTLY TO BRITISH COMPANIES. THEY WILL IF PROCEEDED WITH CAUSE SERIOUS ECONOMIC DAMAGE IN THE UK QUITE APART FROM ADDING TO JBE'S PROBLEMS. WE ARE ALREADY RECEIVING REPORTS OF BRITISH COMPANIES FACED WITH LOSSES OR THE THREAT OF CLOSURE AS A RESULT OF THESE MEASURES. YOUR PEOPLE WILL TELL YOU THAT WE HAVE STRONGLY OPPOSED THE EXERCISE OF EXTRA-TERRITORIAL POWERS IN THE PAST, AND ARE THEREFORE BOUND TO REACT TO ITS NEW EXTENSION.

AS YOU KNOW, THE VIEWS AND POLICIES OF OUR TWO GOVERNMENTS ON RELATIONS WITH THE COMMUNIST COUNTRIES ARE IN VERY CLOSE HARMONY. IT WOULD BE UNHAPPY IF, IN PUBLIC EYES, THIS HARMONY WERE TO BE OVERSHADOWED BY THE VERY SEVERE CONSEQUENCES OF YOUR MEASURES FOR BRITISH COMPANIES. I THEREFORE HOPE THAT YOU WILL BE WILLING TO RECONSIDER THESE MEASURES IN THE WIDER POLITICAL, AS WELL AS THE SPECIFICALLY ECONOMIC, CONTEXT.

JBE'S PROBLEM IS NOW BOTH VERY SERIOUS AND URGENT. I WOULD GREATLY VALUE YOUR HELP IN SOLVING THIS PROBLEM BY 2 JULY WHEN THE FIRST SHIPMENTS ARE DUE.

MY BEST WISHES,
MARGARET.

BT

NNNN

SENT 251908Z JH

RG RG QSL UR MSG AT 1908Z AND PLS IF U HAVE TRF AGAIN
TO GIVE US SOME BELLS ONT TYY
TTYN KKK

Hot Line - Flash.

SECRET

MESSAGE TO THE PRESIDENT OF THE UNITED STATES

Dear Ron,

When we discussed on 23 June the effect on John Brown Engineering (JBE) of American sanctions against the Soviet Union, you told me that representatives of the company had indicated recently to your officials in Washington that the decision to extend the sanctions would not cause them great financial distress. I said that I would enquire into the matter and advise you further.

JBE's views have been misunderstood in Washington. The company's representatives have repeatedly made clear to US officials their deep concern about the far reaching results of the company being forced by retrospective legislation to abandon a contract which they entered into in good faith at a time when the goods concerned were not embargoed. Last week they confirmed to US officials that failure to ship the turbines would have very damaging consequences. The precise extent of the damage caused cannot be assessed at present. At worst uninsured costs and damages could be as much as £100 million. JBE could well be forced out of business and this would lead to 1700 job losses in the company in areas of high unemployment in Scotland; there would also be effects upon component suppliers. The stability of the group as a whole might be threatened. The Chairman of John Brown has confirmed these facts to the Secretary of State for Trade since our meeting in Washington.

We see the further measures which you announced on 18 June as wrong in principle because of their extra-territorial application directly to British companies. They will if proceeded with cause serious economic damage in the UK quite apart from adding to JBE's problems. We are already receiving reports of British companies faced with losses or the threat of closure as a result of these measures. Your people will tell you that we have strongly opposed the exercise of extra-territorial powers in the past, and are therefore bound to react to its new extension.

/ As you know,

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- 2 -

As you know, the views and policies of our two governments on relations with the Communist countries are in very close harmony. It would be unhappy if, in public eyes, this harmony were to be overshadowed by the very severe consequences of your measures for British companies. I therefore hope that you will be willing to reconsider these measures in the wider political, as well as the specifically economic, context.

JBE's problem is now both very serious and urgent. I would greatly value your help in solving this problem by 2 July when the first shipments are due.

My best wishes,
Margaret.

SECRET



10 DOWNING STREET

Duty Clerk

- 1) Please dispatch the message to President Reagan on the hot line as soon as possible

today.

- 2) Please copy it to
Mr. Nees DOT
Mr. Holmes F/C.O.
Mr. Spenser DOI.

A.S.C. $\frac{25}{6}$



SECRET

From the Secretary of State

John Coles Esq
10 Downing Street
London SW1

25th June 1982

Dear John,

As requested in your letter of 24 June to Brian Fall, I attach a draft message for the Prime Minister to send to President Reagan. This has been cleared at official level with the FCO. The passage on JBE has been cleared with Sir John Mayhew Sanders.

We are now receiving reports from a number of British subsidiaries of US companies about the effects of the new measures announced on 18 June. It is too early to assess the full effect but by way of example the Walter Kidde Co, employing 700 people in Northolt has reported that a major part of its current order book is tied up with the Siberian Gas Pipeline and that it may go out of business if the new measures are not withdrawn.

I am copying this to the recipients of yours, Brian Fall and Jonathan Spencer (Industry).

Yours ever,

JONATHAN REES

Private Secretary

File No.

DRAFT

Addressed to :

~~The Hon Ronald Reagan~~

Copies to :

Originated by:
(Initials and date)

PMSC 25/6/82

Seen by :
(Initials and date)

Enclosures :

Type for signature of

PM
.....
(Initials and date)

Dear Ron

DEPARTMENT OF TRADE

When we discussed on 23 June the effect on John Brown Engineering (JBE) of American sanctions against the Soviet Union, you told me that representatives of the company had indicated recently to your officials in Washington that the decision to extend the sanctions would not cause them great financial distress. I said that I would enquire into the matter and advise you further.

JBE's views have been misunderstood in Washington. The company's representatives have repeatedly made clear to US officials their deep concern about the far reaching results of the company being forced by retrospective legislation to abandon a contract which they entered into in good faith at a time when the goods concerned were not embargoed. Last week they confirmed to US officials that failure to ship the turbines would have very damaging consequences. The precise extent of the damage caused cannot be assessed at present. At worst uninsured costs and damages could be as much as £100m. JBE could well be forced out of business and this would lead to 1700 job

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File No.

losses in the company in areas of high unemployment in Scotland; there would also be effects upon component suppliers. The stability of the group as a whole might be threatened. The Chairman of John Brown has confirmed *these facts* the foregoing to the Secretary of State for Trade since our meeting in Washington.

W. M.
 3 The further measures which you announced on 18 June are *objectionable* in principle ~~to us~~ because of their extra-territorial application directly to British companies. They will if proceeded with cause serious economic damage in the UK quite apart from adding to JBE's problems. We are already receiving reports of British companies faced with losses or the threat of closure as a result of these measures. Your people will tell you that we have strongly opposed the exercise of extra-territorial powers in the past, and are therefore bound to react to its new extension.

4 As you know, the views and policies of our two governments on relations with the Communist countries are in very close harmony. ~~We have given you a great deal of support in your efforts to promote a greater degree of prudence in the management of East/West economic relations.~~ It would be *unhappy* ~~unfortunate~~ if, in public eyes, this harmony were to be overshadowed by the *very severe* consequences of your measures for British companies. I therefore hope that you will be willing to reconsider these measures in the wider political, as well as the specifically economic, context.

5 JBE's problem is now both very serious and urgent. I would greatly value your help in solving this problem by 2 July when the first shipments are due.

With my best wishes

Margaret.

SECRET

file

RAM

cc Masters

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SUBJECT



10 DOWNING STREET

From the Private Secretary

24 June 1982

Dear Brian,

PRIME MINISTER'S TALKS WITH PRESIDENT REAGAN

I enclose the record of the conversation which took place at the White House on 23 June.

There is one point which requires rapid action. The Prime Minister told President Reagan that she would make enquiries as to the precise facts about John Brown's attitude to the recent American decision to extend the embargo on the export of certain goods to the Soviet Union, since the Americans seemed to have obtained from the firm the impression that they were not particularly concerned about it. The Prime Minister would be grateful if the Secretary of State for Trade could take this matter up urgently with John Brown and let her have an account of the situation which can then be conveyed to the US Government. It would be most helpful if contact with the firm could be made this week.

B/E /

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I am copying this letter and enclosure to John Rhodes (Department of Trade), David Omand (Ministry of Defence), John Halliday (Home Office) and David Wright (Cabinet Office).

I should be grateful if circulation of the record could be closely restricted to those who have an operational need to know its contents.

Yours ever
John Major

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SECRET

Handwritten mark