

CONFIDENTIAL
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 1535
OF 272300Z JUNE 90
INFO IMMEDIATE ACTOR
INFO PRIORITY OTTAWA, UKREP BRUSSELS, TOKYO, MOSCOW
INFO PRIORITY OTHER EC POSTS

YOUR TELNO. 1133: AID TO THE SOVIET UNION

1. I TOOK BLACKWILL THROUGH THE POINTS IN PARA. 2 OF YOUR TUR ON THE AFTERNOON OF 27 JUNE. HE SAID THE INTERVENTION WAS TIMELY: THERE WOULD BE DISCUSSION OF THE ISSUES WITH THE PRESIDENT LATER TODAY. HE ALSO SAID THE AMERICANS SHARED OUR FUNDAMENTAL JUDGEMENT THAT IT WAS NO GOOD STEPPING BLITHELY INTO THE MAJOR SWAMP OF AID TO THE SOVIET UNION WITHOUT A FIRMER MAP TO GUIDE US. THE RUSSIANS THEMSELVES PROBABLY HAD LITTLE IDEA OF HOW MUCH THEY NEEDED OR HOW BEST TO SPEND IT IF THEY GOT IT. I TOLD HIM WE WOULD BE ENCOURAGING THE IMF AND IBRD TO GET INVOLVED IN WORKING OUT WHAT WAS REQUIRED. HE SAID HE TOOK THE POINT THAT THIS WOULD NOT PREJUDGE USSR MEMBERSHIP: THE AMERICANS REMAINED OPPOSED. THE IDEA OF AN IMF/IBRD INVESTIGATIVE TEAM WAS HOWEVER ONE WHICH WOULD BE UNDER ACTIVE CONSIDERATION WITH THE PRESIDENT. HE WAS GLAD TO SEE OUR VIEWS WERE SO CLOSE.

2. I HAVE ALSO BEEN THROUGH THE ARGUMENTS WITH MCCORMACK (STATE), WHO WELCOMED OUR APPROACH WITH THE HOUSTON SUMMIT IN MIND, AND WE HAVE ALSO TALKED TO NIEHUSS (TREASURY). THE LATTER EMPHASISED THAT THE AMERICANS GREATLY APPRECIATED THE ROLE OF THE PRIME MINISTER IN STOPPING WHAT HAD SEEMED TO BE AN UNSTOPPABLE MOVE TOWARDS AN UNCONDITIONAL AGREEMENT ON AN AID PACKAGE IN DUBLIN. THE AMERICANS WERE REVIEWING THE OPTIONS WITH AN OPEN MIND. CONGRESSIONAL REACTIONS WOULD BE PROBLEMATIC. THE SOVIET CAPACITY TO ABSORB A LARGE AID PACKAGE AND TO WORK OUT AN ADEQUATE REFORM WERE QUESTIONABLE. MONEY TO SUPPORT SHORT TERM CONSUMER DEMAND MIGHT NOT ONLY BE WASTED BUT MIGHT ALSO DELAY REFORM. ON THE OTHER HAND, AMERICAN SUPPORT FOR THE GENERAL PROPOSITION WOULD MAKE STRONG CONDITIONALITY MORE LIKELY, WHICH IN TURN MIGHT HELP REFORM. IT WAS POSSIBLE THE RUSSIANS MIGHT EITHER OPPOSE CONDITIONALITY OR USE IMF/IBRD INVOLVEMENT TO BUTTRESS THEIR CASE FOR IMF MEMBERSHIP. HE THOUGHT THAT, AT HOUSTON, THE FRENCH, GERMANS AND ITALIANS WOULD SUPPORT THE IDEA OF AN AID PACKAGE NOW WHILE JAPAN AND CANADA

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TO IMMEDIATE FCO
TELNO 1528
OF 270001Z JUNE 90
INFO IMMEDIATE MOSCOW, ACTOR
INFO PRIORITY OECD POSTS

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EAST BERLIN TELNO 406 TO FCO: ECONOMIC HELP FOR THE SOVIET UNION

SUMMARY

1. STATE DEPARTMENT BRIEF US ON THE LEGISLATIVE RESTRICTIONS TO AID TO THE SOVIET UNION. A VARIETY OF RESTRICTIONS APPLY TO GOVERNMENT AND PRIVATE ASSISTANCE.

DETAIL

2. STATE DEPARTMENT HAVE TOLD US THAT THERE ARE A NUMBER OF LEGISLATIVE OBSTACLES TO US ASSISTANCE FOR THE SOVIET UNION. THESE ARE:

(A) JACKSON-VANIK AMENDMENT TO THE 1974 TRADE ACT

3. FOR NON-MARKET ECONOMIES, INCLUDING THE USSR, JACKSON-VANIK MAKES FREEDOM OF EMIGRATION A PRECONDITION FOR MFN TARIFF STATUS, US GOVERNMENT CREDITS OR CREDIT AND INVESTMENT GUARANTEES. FOR JACKSON-VANIK TO BE WAIVED, THE PRESIDENT MUST CERTIFY THAT SOVIET REFORMS WILL CONTINUE TOWARDS MEETING JACKSON-VANIK CONDITIONS AND THAT A PRESIDENTIAL WAIVER WILL ITSELF PROMOTE FREE EMIGRATION. SUCH A WAIVER IS NOT SUBJECT TO CONGRESSIONAL VETO.

(B) THE BYRD AMENDMENT TO THE 1974 TRADE ACT

4. THE BYRD AMENDMENT STATES THAT NO US AGENCY SHALL APPROVE LOANS, GUARANTEES OR INSURANCE FOR EXPORTS TO THE SOVIET UNION OVER DOLLARS 300 MILLION WITHOUT PRIOR CONGRESSIONAL APPROVAL. THE ONLY EXCEPTION IS FOR THE US CREDIT COMMODITY CORPORATION TO FACILITATE THE PURCHASE OF SURPLUS US FARM PRODUCE.

(C) THE STEVENSON AMENDMENT

5. THE 1974 STEVENSON AMENDMENT TO THE EXIMBANK ACT OF 1945 SETS A CEILING OF DOLLARS 300 MILLION ON OFFICIAL US EXIMBANK CREDIT GUARANTEES IN SUPPORT OF US EXPORTS TO THE SOVIET UNION. STEVENSON ALSO LIMITS LENDING AND GUARANTEES FOR EXPLORING FOSSIL FUEL ENERGY RESOURCES TO DOLLARS 40 MILLION.

6. STATE HAVE TOLD US THAT THE LEGISLATION AND LEGISLATIVE HISTORY OF THE BYRD AND STEVENSON AMENDMENTS PROVIDE THAT THE DOLLARS 300 MILLION LIMIT ON EXIMBANK CREDITS COULD BE EXCEEDED BY THE PRESIDENT IF HE DETERMINED THIS WAS IN THE NATIONAL

INTEREST, AND IF CONGRESS APPROVED BY A CONCURRENT RESOLUTION. STATE ADD THAT A 1983 SUPREME COURT RULING APPARENTLY RENDERED THE REQUIREMENT FOR CONGRESSIONAL APPROVAL UNCONSTITUTIONAL. AS A RESULT THE PRESIDENT MIGHT BE ENTITLED TO RAISE THE EXIMBANK CREDIT CEILING WITHOUT EXPLICIT CONGRESSIONAL APPROVAL. LEGAL ADVISERS ARE STILL RESEARCHING THIS POINT. WHATEVER THE CONCLUSIONS, STATE SUGGEST THAT IT WOULD BE PRUDENT FOR THE PRESIDENT TO PROCEED ONLY AFTER CONSULTATION WITH CONGRESS.

(D) MARXIST/LENINIST PROVISIONS IN THE EXIMBANK ACT

7. THE EXIMBANK ACT AS AMENDED PROHIBITS THE BANK FROM GUARANTEEING, INSURING OR EXTENDING CREDIT, OR PARTICIPATING IN THE EXTENSION OF CREDIT TO THE SOVIET UNION (AS WELL AS A LIST OF OTHER QUOTE MARXIST/LENINIST UNQUOTE COUNTRIES), UNLESS THE PRESIDENT DETERMINES SUCH CREDIT SUPPORT TO BE IN THE NATIONAL INTEREST. A FURTHER PROVISION REQUIRES A SEPARATE PRESIDENTIAL DETERMINATION FOR EACH TRANSACTION GREATER THAN DOLLARS 50 MILLION. IN 1972 A DETERMINATION WAS MADE WITH RESPECT TO THE SOVIET UNION WHICH EFFECTIVELY SET ASIDE THE FIRST (GENERAL) REQUIREMENT, BUT LEAVES INTACT THE SPECIAL REQUIREMENT FOR DETERMINATIONS IN RESPECT OF EACH LOAN OF MORE THAN DOLLARS 50 MILLION. A REPEAL OF THE LATTER WOULD REQUIRE LEGISLATION.

(E) LEGISLATION AFFECTING PRIVATE CREDIT

THE JOHNSON DEBT DEFAULT ACT

8. THE JOHNSON ACT MAKES IT A CRIME FOR ANYONE IN THE US TO MAKE LOANS TO THE SOVIET UNION WHICH ARE NOT TIED TO EXPORTS, OR TO BUY OR SELL SOVIET FINANCIAL INSTRUMENTS AS LONG AS THE SOVIET UNION IS IN DEFAULT IN ITS DEBTS TO THE US GOVERNMENT. SOVIET DEBTS DERIVE FROM THE 1918 BOLSHEVIK REPUDIATION OF DOLLARS 187.7 MILLION IN US GOVERNMENT LOANS TO KERENSKY'S PROVISIONAL GOVERNMENT.

9. US AND SOVIET OFFICIALS HAVE BEEN NEGOTIATING TO TRY TO SETTLE THE DEBTS. STATE HAVE TOLD US THAT, ALTHOUGH BOTH SIDES HAVE AGREED ON THE OUTLINE OF A SETTLEMENT, THERE IS STILL A WIDE GAP BETWEEN THEM ON THE AMOUNT THE SOVIET UNION WOULD PAY.

(D) OTHERS

10. STATE DEPARTMENT HAVE POINTED OUT THAT THERE IS AN OECD CONSENSUS ON WESTERN LENDING TO THE SOVIET UNION: IN 1982 THE SOVIET UNION WAS RECLASSIFIED AS A CATEGORY I COUNTRY, ELIGIBLE FOR OFFICIAL EXPORT CREDITS ONLY AT VIRTUAL MARKET RATES. STATE ADDED THAT THE 1988 ECONOMIC SUMMIT REAFFIRMED THE ALLIED COMMITMENT TO ELIMINATE CREDIT SUBSIDIES TO THE USSR.

(E) AID

11. UNDER THE FOREIGN SERVICE ASSISTANCE ACT THE SECRETARY OF STATE MUST SEEK CONGRESSIONAL APPROVAL FOR AID TO ANY COMMUNIST

COUNTRY.

COMMENT

12. STATE ARE STILL EXAMINING THE IMPLICATIONS OF ALL OF THIS. OFFICIALS THINK THAT JACKSON-VANIK IS CRUCIAL, AND THAT THERE IS LITTLE CHANCE OF CONGRESSIONAL AGREEMENT TO ASSISTANCE UNTIL JACKSON-VANIK IS WAIVED. THIS DEPENDS ON WHEN MOSCOW ENACTS ITS NEW EMIGRATION LAW (NOW THOUGHT TO BE SEPTEMBER). BEYOND THAT, THE LEGAL IMPLICATIONS OF THE LEGISLATION AFFECTING OFFICIAL CREDIT ARE UNCLEAR, BUT THERE IS SUFFICIENT LEGISLATION ON THE BOOKS FOR THE ADMINISTRATION TO BE CAUTIOUS ABOUT PROCEEDING WITHOUT BEING SURE OF GENERAL CONGRESSIONAL SUPPORT.

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