

CONFIDENTIAL Prime Minister



PRIME MINISTER

The proposed message to President Reagan was redrafted at my request to avoid the confrontational tone of the earlier draft.

Yes - the point doesn't need to be made with George & Hubert will need reviewing not.

2. Content that it should issue, as Lord Colfield requests, over the weekend (I will consult you again if any major amendments are proposed)?

A.S.C. 25/7

As I explained in my minute of 21 July we now need to issue Directions under Section 1(3) of the Protection of Trading Interests Act 1980 requiring certain named British companies, principally John Brown Engineering, not to comply with the United States Re-export Control Regulations. The Foreign Secretary and I agree that we should not seek to challenge the American embargo across the board, but should limit our action at this stage to those companies with contracts pre-dating the American measures which seek to interfere with these contracts. The Directions would therefore apply only to goods supplied in relation to the Siberian Gas Pipeline, and to existing contracts, about which President Reagan and his Administration know we already hold strong views. I therefore propose that a Direction be issued to John Brown Engineering Limited, which as you know has most at stake, and to four other companies with Pipeline contracts, not to comply with United States Re-export Control Regulations. The companies are Baker Oil Tools, Howmet Turbine, American Air Filters, and McEvoy Oil Field Equipment.

It is to be expected that when these Directions are issued, other companies which have so far not made representations or which are involved in non-Pipeline projects, will ask that they be protected by the issue of similar Directions. Both the Foreign Secretary and I think we will have to consider these cases on their merits, and further Directions may have to be issued. Much will, of course, depend on the response that the United States Administration takes to our measures. I therefore think it would be appropriate

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and helpful if you could send a personal message to the President explaining why we were acting as we were, and stressing that we were taking and would continue to take no more than the absolute minimum action we needed to take, and therefore that in the same spirit the President should accept that enforcement action should not be taken. I enclose a draft message making these points. This has been drafted by the Foreign Office and myself in consultation.

The outstanding problem is therefore one of timing. The two main factors determining how soon the Directions could be issued are the Foreign Secretary's forthcoming visit to Washington (29 July) and the negotiations John Brown are planning to undertake in Moscow (28/29 July). John Brown will be seeking in Moscow to mitigate, and I hope avoid, penalties from late delivery of turbines caused by the United States measures. They feel that their hand might be weakened in these negotiations if a Direction had just been issued by the British Government. I accept this view. I understand too that Francis would not wish Directions to be issued immediately before or after his first formal meeting with Mr Shultz. If nothing transpires, meanwhile, this points to issuing the Directions on Monday 2 August. It is four weeks since I made the enabling Order under Section 1(1) of the Protection of Trading Interests Act, and it is necessary to show our continuing support for the firms involved as well as to demonstrate that the Act is no paper tiger. We must also show that our determination is no less than that expressed in recent statements by Chancellor Schmidt and the French government.

The firms involved would be told after trading on the Stock Exchange had closed for the day. John Brown may well want to see a short suspension of their shares.

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Our aim must be to present the Directions, both in Europe and in Washington, as the minimum response we could take to the continuing imposition of the United States measures. We will therefore seek to handle the publicity in as low key a way as will be possible for this very significant step. In this context, I think it would be helpful, if you agree, that the personal message to President Reagan should be sent this coming weekend. The final text may need some further up-dating following Francis' Washington visit, and as a result of further discussions today in NATO.

I am copying this to the Foreign and Commonwealth Secretary, the Secretary of State for Industry and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET

28 July 1982

Arthur Cockfield

LORD COCKFIELD

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DRAFT MESSAGE FOR THE PRIME MINISTER TO SEND
TO PRESIDENT REAGAN

Dear Ron,

Thank you for your message of 2 July.

I note what you say about John Brown Engineering. I have no doubt that my anxieties on that score are only too well founded. If different accounts have reached you, this could be because the company must naturally be careful not to encourage doubts in the United States about its own future stability. I can only reiterate my very serious concern about the outlook for this British company if it is prevented from exporting the equipment which it is under contract to supply. It is because of this that we shall have no option but to follow the provisions of our legislation to protect the interests of John Brown Engineering and other British companies with existing contracts.



Dear Hon.

You will know from our talks together that I believe, as a matter of principle, that existing commercial contracts should be honoured. I should like to stress that we are taking, and will continue to take, no more than the absolute minimum action. I am very anxious that this matter should not be allowed to escalate and thus become a serious irritant in our relations. This is why we are limiting our actions in the way that we are. I would very much hope that your Administration will be able to respond in the same spirit.

On the broader issues, I do not think there is much difference between us. I do agree with you about the need for the authorities in Poland to return to a course of reconciliation and reform. Following the Declaration by the North Atlantic Council on 11 January, we ourselves announced measures on 5 February directed against Poland and against the Soviet



Union. Of course, we must continue to work together closely. Our task will now need to be to consider further with our NATO partners the relationship between the latest relaxations announced by General Jaruzelski on 21 July and the objectives we have set ourselves.

The question of economic relations with the East certainly needs to be discussed further. *Francis Pym has just had most useful talks on* ~~I hope that this problem will be high on the~~ *the subject will George Bush and George Schultz,* ~~agenda when Francis Pym is able to have his~~ *which we look forward to following up.* ~~first meeting with George Schultz.~~ The Alliance, and the West as a whole, need an agreed and united strategy for East/West economic relations. We shall be happy, indeed anxious, to work with you to promote this.

Yours ever

* * * * *

Margaret



THE NATIONAL ARCHIVES

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Foreign and Commonwealth Office

London SW1A 2AH

30 July 1982

Dear John,

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John Brown Engineering

In your letter of 29 July to John Rhodes, you asked that any proposed revisions to the message from the Prime Minister to President Reagan should reach you by 1800 hours today, so that the message can be despatched over the weekend.

We have only one revision to propose. In the light of the Foreign and Commonwealth Secretary's talks in Washington yesterday, we suggest the following to replace the second sentence in the final paragraph:

'Francis Pym has just had most useful talks on the subject with George Bush and George Shultz, which we look forward to following up.'

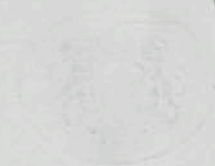
I am copying this letter to John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and Richard Hatfield (Cabinet Office).

Yours ever.

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

Federal Bureau of Investigation
Washington, D.C. 20535



30 JUL 1982

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10 DOWNING STREET

From the Private Secretary

29 July 1982

John Brown Engineering

The Prime Minister has seen your Secretary of State's minute of 28 July. She is content with what is proposed and, in particular, agrees that a message should be sent to President Reagan, on the lines of the draft you enclosed, over the coming weekend. We shall need to consult about minor revisions, for example the reference to the meeting between the Foreign and Commonwealth Secretary and Mr. George Schultz. I should be grateful if you and other recipients of this letter could let me know by 1800 hours tomorrow of any revisions which you think necessary.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

A. J. COLES

John Rhodes Esq
Department of Trade

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