



CONFIDENTIAL

Prime Minister

Would you like me to say that you are sympathetic to the approach, subject to the views of our colleagues, and that if there are problems in obtaining general Ministerial agreement you will wish to be consulted in the Far East?

PM/82/77

THE PRIME MINISTER

A.F.C. $\frac{14}{9}$

Yes MB

US Oil and Gas Measures (Pipeline)

1. We agreed in Cabinet on 9 September to maintain our efforts to achieve a solution to the problem acceptable both to the United States and to the European Governments concerned.
2. As you know, I shall be discussing the problem, and broader questions of East/West economic relations, with George Shultz and my French, FRG and Italian colleagues at a meeting in New York at the end of this month.
3. A possible solution to our dispute with the Americans would be for the Europeans to agree a package of measures affecting the Soviet Union in the fields Shultz has suggested - credit, COCOM, oil and gas equipment, and alternative energy sources - which could be offered to the Americans in exchange for their withdrawing the retroactive application of their measures of December and June. Although we must clearly not offer measures which damage the interests of our exporters, we would need to offer enough to enable President Reagan to present them to the American public as a significant contribution by the Europeans to the exercise of pressure on the Russians. This will not be easy. Our European partners, particularly the French, are inclined to argue that it is not for us to offer concessions to the Americans. I nevertheless believe that this approach offers the best available possibility of resolving this damaging transatlantic dispute.
4. I enclose a list of possible measures, which has been agreed inter-departmentally at official level. It is the maximum that officials think the UK could, or should, offer without prejudice to our legitimate commercial interests. You will see that officials have not thought it right to offer concessions on future sales

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of oil and gas equipment to the Soviet Union.

5. I invite colleagues to agree that this list should, as appropriate, be used as our guideline in our contacts with the other Europeans to establish whether it could form the basis of a possible package.

6. I am copying this minute to OD colleagues, the Secretary of State for Industry and Sir Robert Armstrong.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office

14 September 1982

CONFIDENTIAL

A. 'Further restriction of credits to the Soviet Union'

- i. Establishment of information and monitoring systems (eg. half-yearly review meetings, quarterly exchanges of statistical information).
- ii. Agreement, where appropriate, to reduce the level of exposure and increase premium charges.
- iii. In cases of official financing to apply strictly Consensus minima of 12.15 - 12.4%
- iv. To limit official support to 75% of total value.
- v. To try to prevent side financing in excess of 10% of contract price.
- vi. Not to exceed Franco-Soviet protocol terms:
 - Under FF30M - 5 years credit
 - FF30 - 100M - 7 years credit
 - Over FF100M - 8 and half years credit
- vii. No official support for credits financing local costs.

B. 'Further tightening of COCOM regulations'

- i. Agreement in principle that the COCOM List should be extended to cover new advanced technology items; details will of course have to be settled in the List Review (examples: items on robotics and hovercraft)
- ii. Work on strengthening COCOM system to be speeded up (ie. Export Controls Sub-Committee) including facilitating enforcement by cutting out unnecessary items during course of List Review.
- iii. Agreement to consider favourably US proposals to improve communications within COCOM.
- iv. Acceptance of Technology Note. ?
- v. Repeat our agreement to 'conduct special sessions in order to receive and exchange reports from military and defence specialists' (HLM III (iii)).
- vi. An undertaking to be flexible on procedure during List Review discussions.
- vii. Readiness to implement a tighter regime for cases for Poland and the Soviet Union (eg. a no general exceptions policy for Poland, a reduction of the permitted exceptions for the Soviet Union).

C. 'Restricting prospective sales of oil and gas equipment to the Soviet Union'

D. 'Examining alternative energy sources'

- i. We can refer to existing IEA study of gas security issues
- ii. Repeat NAC undertaking to 'reflect' on East/West trade issues including energy: Invite Americans to suggest how this might be pursued.

Soviet Union

Credit Terms Pt 2

14 SEP 1961
BUREAU OF
COMMERCIAL
ATTACHÉ
WASHINGTON
D.C.



Prime Minister (2)

Mus 21/9

PRIME MINISTER

US OIL AND GAS MEASURES (PIPELINE) mf

I have seen your minute of 15 September to Francis Pym agreeing with the proposals outlined in his minute and enclosure to you of 14 September. I am in general agreement with these proposals, subject to the following reservations. I fully accept that we should maintain our efforts to find a solution to the present pipeline dispute with the US. Nevertheless we should not be proposing anything more than cosmetic gestures to get the US to withdraw its retroactive interference with existing European contracts in pursuit of a policy that we and our European allies do not share.

2 As to the details set out in the enclosure, I have some hesitation about the proposals on credit. There really seems to be little more we can do in this field without disadvantaging British exporters. Whatever is eventually decided upon must therefore be capable of widespread adoption, eg by the OECD countries.

3 On the COCOM issue I would simply say that I strongly support the earlier Ministerial exchanges (not to all) that we should



only concede progress on the Technology Note (item B(iv) of the enclosure) as a quid pro quo for US acceptance of an improvement of certain other COCOM mechanisms. I suggest that the reference to the Technology Note should therefore be deleted.

4 Quite apart from the issue of principle referred to in paragraph 1 above, it is very clear that any commitment to restrict sales of oil and gas equipment to the USSR would block out a number of British companies such as Rolls Royce, GEC, Ruston Gas Turbines etc, from a market they have already informed us they consider important to them. I am sure we shall be in good company in eschewing any commitment since the French, German and Italian Governments will have similar interests to protect and will not want to concede anything on this.

5 I see from Gerard Vaughan's minute to you of 17 September that he shares some of my reservations and I hope therefore that we may have a further opportunity to assess the scope of the package before any proposals are put to the US.

6 I am sending copies of this to members of OD and Sir Robert Armstrong.

PJ

P J

21 September 1982

*S. J. Wilson*LDX 21
LDX 201

CYPHER

FDW G 161/21

00 TOKYO (DESKBY 212300Z)

GRS 431

IMMEDIATE

CONFIDENTIAL
DESKBY 212300Z
FM FCO 211800Z SEP 82
IMMEDIATE TOKYOTELEGRAM NUMBER 435 OF 21 SEPTEMBER
REPEATED TO IMMEDIATE MEXICO CITY (DESKBY 211900Z) FOR PUS
FOLLOWING FOR THE PRIME MINISTER'S PRIVATE SECRETARY
INTERNATIONAL SITREP

1. PIPELINE: THE PIPELINE WAS DISCUSSED AT THE FOREIGN AFFAIRS COUNCIL IN BRUSSELS ON 20 SEPTEMBER. I OUTLINED OUR THINKING. THE ITALIANS AND GERMANS WELCOMED THE IDEA OF A MEETING A CINQ IN NEW YORK WITH COMMISSION AND PRESIDENCY PRESENT. THE FRENCH REMAINED UNENTHUSIASTIC, THEY WERE CONCERNED BOTH THAT SUCH A MEETING WOULD MAKE THE EUROPEANS LOOK LIKE DEMANDEURS, AND ABOUT PUBLICITY. I SHALL DISCUSS THE QUESTION WITH CHEYSSON IN PARIS ON 22 SEPTEMBER. THE DUTCH PRESSED HARD TO BE INCLUDED IN ANY MEETING, BUT THIS WAS NOT EXPLICITLY AGREED OR REFUSED.

2. FALKLANDS: AT YESTERDAY'S FOREIGN AFFAIRS COUNCIL, THE FRG, ITALY AND THE NETHERLANDS, SAID THEY WOULD FOLLOW THE FRENCH AND LIFT THE ARMS EMBARGO AGAINST ARGENTINA. IT WAS AGREED THAT EC MINISTERS WOULD FINALISE THEIR ATTITUDE ON A UNGA RESOLUTION WHEN THEY MEET IN NEW YORK.

3. GUATEMALA/BELIZE.

(I) THE GUATEMALAN FOREIGN MINISTER HAS RESPONDED POSITIVELY TO OUR SUGGESTION TO HOLD DISCUSSIONS ABOUT OUR BILATERAL RELATIONS. HE HAS PROPOSED NEGOTIATIONS IN NEW YORK AND HAS SUGGESTED THAT BELIZE SHOULD BE REPRESENTED ON THE UK DELEGATION. AS LONG AS THERE ARE NO GUATEMALAN ACTS OF SABOTAGE IN BELIZE AT TODAY'S INDEPENDENCE CELEBRATIONS, WE INTEND TO REPLY SAYING WE WOULD PREFER TO BEGIN WITH EXPLORATORY TALKS ABOUT MODALITIES WHICH MIGHT BEST BE CONDUCTED BY OUR RESPECTIVE DELEGATIONS IN NEW YORK. WE SHALL REMIND THE GUATEMALANS THAT THEY MUST DEAL DIRECTLY WITH THE BELIZE GOVERNMENT OVER THE GUATEMALA/BELIZE PROBLEM.

(II) IN BELIZE, MR ONSLOW HAS TOLD PRICE OF OUR DECISION TO WITHDRAW THE GARRISON NOT LATER THAN THE SECOND HALF OF 1983. HE STRESSED THE NEED TO USE THE INTERVENING PERIOD TO FIND OTHER MEANS OF ENSURING BELIZE'S SECURITY, EG. ATTEMPTS TO SETTLE THE DISPUTE WITH GUATEMALA: THE COMMONWEALTH SECRETARY GENERAL'S PLAN FOR INVOLVING OTHER COMMONWEALTH COUNTRIES IN BELIZE'S SECURITY: CLOSER TIES BETWEEN BELIZE AND REGIONAL ORGANISATIONS. PRICE SAID HE FULLY SHARED THESE OBJECTIVES AND BELIZE WOULD PURSUE HER OWN INFORMAL CONTACTS WITH THE GUATEMALANS. BUT HE CLEARLY REMAINED UNHAPPY ABOUT THE PROPOSED TIMING OF BRITISH WITHDRAWAL.

4. HESS: HESS RESPONDED TO TREATMENT FOR PLEURISY AND RETURNED FROM THE BRITISH MILITARY HOSPITAL TO SPANDAU ON 20 SEPTEMBER.

5. FRG INTERNAL: SEE SEPARATE TELEGRAM FROM BONN WHICH WILL REACH YOU SHORTLY.

6. EC BUDGET: I AM TELEGRAPHING SEPARATELY.

PYM

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Prime Minister (2)

Ms 17/9

PRIME MINISTER

US OIL AND GAS MEASURES (PIPELINE)

In Lord Cockfield's absence I am responding to the minute of 14 September from the Foreign Secretary.

2 Subject to the detailed points below I can agree to the use of the list of possible measures prepared by officials as guidelines in contacts with the other Europeans to establish whether it could form the basis of a package. I assume that before any package is put to the Americans, Ministers will have a further opportunity of considering the details.

a) It seems improbably that the French, given their present unwillingness to compromise and their attitude at Versailles, will be prepared to concede much if anything on credits. The substance of the American demands has in any event already been achieved. European Governments have taken steps to reduce their exposure on USSR borrowing for prudential reasons and the minimum rate of interest for officially financed credit for the USSR have been raised in OECD from 8½% in November to 12.4% for credit exceeding 5 years. The fall in domestic interest rates should eliminate the element of interest rate subsidy in the UK for new business and we have placed limits on our exposure in the USSR and increased ECGD premiums. If our firms are not to be placed at a competitive disadvantage we would need to secure the widest possible agreement in EEC and OECD on any further significant restrictions on credit for the USSR, but the changes which have already been made will make agreement on further restrictions hard to achieve particularly if these were perceived as part of a deal with the USA. We can make considerable play with the movement which has already been made towards the American position, but we should be very cautious about proposing any further significant restrictions.

b) There has already been Ministerial correspondence about the Technology Note (item B (iv) of the package) acceptance of which would extend COCOM control to know-how. We are prepared to accept it in principle but have delayed doing so in practice as a means of bringing pressure on the



Americans to accept a proposal which we put forward at the end of 1981 for placing a strict timetable on the handling of requests for exemptions from the COCOM rules. Our proposal, which has the support of all other COCOM members, was intended to curb the recent American practice of using delaying tactics to block requests for exemptions contrary to the normal practice of COCOM. The Americans have made their acceptance of our proposal conditional on the installation of advanced communication equipment in COCOM. We are now proposing (item B(iii) of the package) that we should agree the installation of this equipment and this should open the way to our acceptance of the Technology Note. We do not see that any useful purpose would be served by abandoning our present position on Technology Note. Item B(iv) of the package should therefore be deleted.

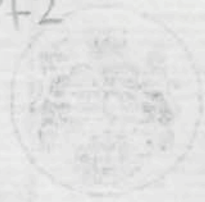
c) We could not support any restrictions on oil and gas equipment to the USSR. GEC and Rolls Royce see good prospects for exports and have already made their concern known about such a possibility.

3 I am copying this to OD colleagues, the Secretary of State for Industry and Sir Robert Armstrong.

Gerard Vaughan

17.9.82

Soviet Union
Credit Terms
Pt 2



CONFIDENTIAL

LDW 570

LDX 759/17

FDW G 140/17

00 TOKYO (DESKBY 172300Z)

GRS 552

CONFIDENTIAL

DESKBY 172300Z

FM FCO 171720Z SEPTEMBER 82

TO IMMEDIATE TOKYO

TELEGRAM NUMBER 413 OF 17 SEPTEMBER

FOLLOWING FOR THE PRIME MINISTER'S PRIVATE SECRETARY

INTERNATIONAL SITREP

1. THE PIPELINE: THE FRENCH HAVE NOW AGREED TO A MEETING OF THE FOUR EUROPEAN FOREIGN MINISTERS WITH SHULTZ IN NEW YORK. THE COMMISSION AND THE PRESIDENCY WILL PROBABLY BE INVITED. THE AGENDA HAS NOT YET BEEN FIXED. WEINBERGER REPEATED TO HM AMBASSADOR IN WASHINGTON YESTERDAY THAT PRESIDENT REAGAN'S GOAL WAS TO BRING ABOUT AN IMPROVEMENT IN THE POLISH SITUATION BY MAKING THE RUSSIANS PAY A PRICE OVER THE PIPELINE. BUT HE ADDED THAT THE US WAS ALSO WORRIED ABOUT THE BOOST THE PIPELINE WOULD GIVE TO SOVIET HARD CURRENCY EARNINGS AND THE EFFECT THIS MIGHT HAVE ON SOVIET DEFENCE EXPENDITURE. NEVERTHELESS WEINBERGER STRESSED THAT THE DISPUTE SHOULD NOT AFFECT THE SPECIAL BILATERAL RELATIONSHIP, OR DISRUPT NATO. SIR O WRIGHT WILL DISCUSS THE PIPELINE WITH SHULTZ THIS AFTERNOON (FRIDAY).
2. TALKS WITH TINDEMANS: MY MEETING WITH TINDEMANS IN BRUSSELS ON 16 SEPTEMBER WAS FRIENDLY BUT NOT ESPECIALLY PRODUCTIVE. THE MAIN TOPICS COVERED WERE TRANSATLANTIC RELATIONS, POLAND, THE MIDDLE EAST AND THE FALKLANDS. ON THE EC BUDGET, TINDEMANS AGREED WITH US OVER 1982 REFUNDS AND SAID THAT THE COMMISSION SHOULD MAKE PROPOSALS OF ITS OWN ACCORD ON THE BUDGET FOR 1983 AND BEYOND. ON OTHER ISSUES HIS VIEWS COINCIDED MORE OR LESS WITH OUR OWN, BUT HE NOTED THAT PRESSURE TO EASE THE ARMS EMBARGO ON ARGENTINA WAS DEVELOPING. TINDEMANS MENTIONED HIS CONCERN THAT THE WAY DUTCH POLICY ON INF EVOLVED WOULD HAVE AN IMPORTANT IMPACT ON BELGIAN OPINION.
3. NAMIBIA: THE SOVIET ACTING PERMREP AT THE UN HAS WRITTEN TO THE SECRETARY GENERAL COMPLAINING THAT THE AMERICANS AND SOUTH AFRICANS ARE QUOTE ILLEGALLY UNQUOTE LINKING THE NAMIBIAN NEGOTIATIONS WITH THE PRESENCE OF CUBAN TROOPS IN ANGOLA. THE LETTER ALLEGES THAT THE AUTHORITY OF THE UN IS BEING UNDERMINED BY ATTACHING CONDITIONS TO THE IMPLEMENTATION OF THE UN PLAN, AND BY THE WAY THE NEGOTIATIONS ARE BEING CONDUCTED WITHOUT UN MEMBER STATES BEING PROPERLY INFORMED. OUR PRELIMINARY ASSESSMENT IS THAT THIS PROBABLY DOES NOT (NOT) REPRESENT A MORE OVERT AND ENERGETIC SOVIET ATTEMPT TO UNDERMINE THE NAMIBIAN NEGOTIATIONS, BUT IS DESIGNED TO WARN THE WEST, THE SECRETARIAT AND THE FRONT LINE STATES THAT THE RUSSIANS ARE KEEPING A CLOSE WATCH ON THE POSITION. WE EXPECT THEM TO EXPLOIT ANY OPPORTUNITIES FOR MISCHIEF MAKING, EG. AT THE SECURITY COUNCIL DEBATE ON 20 SEPTEMBER ABOUT THE UN ARMS EMBARGO AGAINST SOUTH AFRICA.
- RM HESS: HESS WAS ADMITTED TO THE BRITISH MILITARY HOSPITAL ON 15 SEPTEMBER. HE HAS PLEURISY BUT IS RESPONDING TO TREATMENT. HIS SISTER WAS ALLOWED TO VISIT HIM ON 16 SEPTEMBER. HIS IS EXPECTED TO REMAIN IN HOSPITAL UNTIL AT LEAST 20 SEPTEMBER.
5. THE MIDDLE EAST:
- (I) LEBANON: THE ISRAELIS HAVE REFUSED TO COMPLY WITH THE US DEMAND THAT THEY SHOULD WITHDRAW FROM WEST BEIRUT (LIKELY TO BE ECHOED BY THE SECURITY COUNCIL LATER TODAY). AMIN GEMAYEL HAS BEEN NOMINATED BY THE KATAEB AS THE PRESIDENTIAL CANDIDATE. NO DATE HAS YET BEEN SET FOR NEW ELECTIONS.
- (II) ARAB/ISRAEL: THERE HAS BEEN NO APPROACH YET FROM THE ARAB COMMISSION FOLLOWING UP THE FEZ SUMMIT. MR HURD HAD A GOOD TALK WITH KING HUSSEIN, WHO IS KEEN TO RESPOND TO THE REAGAN PROPOSALS BUT SO FAR LACKS SAUDI AND PLO SUPPORT.

PYM

NNNN

Fos Jelens

New York Meeting on Pipeline

Background

1. The Foreign Ministers of the United Kingdom, United States, France, Italy and West Germany are to meet in New York towards the end of this month.

Mr. Suzuki may express interest in the Japanese Foreign Minister taking part.

Line to Take

2. We have just heard that this long-delayed meeting will indeed take place towards the end of this month. France, initially reluctant, has now agreed to take part.

3. There have been considerable difficulties in arranging the meeting which the United Kingdom wanted some time ago. We can certainly ask the other participants about Japan's inclusion: But they may see difficulties. Some European countries, e.g., Netherlands, which are affected by US measures, will not be present. Nor will the European Commission.

4. There may well be a need for wider consultation after this preliminary meeting in New York. We could be in touch with Japan later.

5. All the participants in the New York meeting are (a) involved in a particular project (Siberian pipeline) (b) have had US denial orders issued against particular shipments. Japan not quite in the same situation?

New York meeting on pipeline

BACKGROUND

1. The Foreign Ministers of U.K., U.S., France, West Germany and West Germany are to meet in New York towards the end of this month.
Mr. Suzuki may express interest in the Japanese Foreign Minister taking part.

LINE TO TAKE

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10 DOWNING STREET

From the Private Secretary

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15 September 1982

US Oil and Gas Measures (Pipeline)

The Prime Minister has seen the minute of 14 September by the Foreign and Commonwealth Secretary. Mrs Thatcher is sympathetic to the approach proposed by Mr. Pym, namely that the Europeans should try to agree upon a package of measures affecting the Soviet Union which could be offered to the Americans in exchange for their withdrawal of the retroactive application of the measures they have taken in respect of the pipeline. Subject to the views of OD colleagues, she agrees that discussions could commence with the other Europeans to establish whether the list annexed to Mr. Pym's minute could form the basis of a possible package. If difficulties arise in formulating an agreed position on the proposal, the Prime Minister would like to be consulted during her visit to the Far East.

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

A J COLES

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

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