



PM/82/80

PRIME MINISTER

Considerable progress towards a package on E/W relations which might lead the U.S. to lift sanctions. Due in large part to a U.K. initiative (Dr. Syms) + Schultz's advocacy. A.J.C. 12/11.

US Oil and Gas Measures: Pipeline

1. Since sending you my minute of 14 September I have held a series of bilateral and multilateral meetings in New York and Canada with the American Secretary of State and European and NATO colleagues. These culminated in the meeting of NATO Foreign Ministers at La Sapiniere near Montreal, of which the outcome is recorded in FCO telno 260 to UKDEL NATO (copy enclosed).
2. Shultz's summing up in paragraph 9 of the telegram puts a somewhat American gloss on the outline agreement reached in earlier discussions at the official level between the Americans and their closest allies including ourselves. But it was clearly understood to be an oral statement only. In my view it represents a significant advance in reconciling American and European thinking and opens the door to the kind of comprehensive policy towards the Soviet Union and Eastern Europe for which I have been arguing for some time.
3. The next steps will be further meetings in NATO, OECD and elsewhere to decide how the various pieces of work mentioned by Shultz are to be organised and to fix a rough timetable. Our objectives must be to participate constructively in this work and at the same time to promote the legitimate interests of British firms. Shultz, as he made clear to me in New York, is trying to put together a package which, if the Allies endorse it, will enable him to persuade the President to lift sanctions, possibly even before the mid-term elections in November. It is too early to say how near he may be to his objective; but we are doing what we can to keep up the momentum.
4. I am copying this minute to OD colleagues, the Secretary of State for Industry and Sir R Armstrong.

Foreign and Commonwealth Office
11 October 1982

(FRANCIS PVM)

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TO IMMEDIATE UKDEL NATO

TELEGRAM NUMBER 260 OF 4 OCTOBER

INFO IMMEDIATE WASHINGTON, PRIORITY BONN, PARIS, UKDEL OECD, TOKYO,
ROUTINE OTHER NATO POSTS.

INFORMAL WEEKEND, LA SAPINIERE, 2-3 OCTOBER.

SUMMARY.

1. A VERY USEFUL MEETING. DISCUSSION WAS LARGELY DEVOTED TO EAST/WEST RELATIONS, IN PARTICULAR THOSE ECONOMIC ASPECTS. THANKS MAINLY TO A SENSITIVE AND EFFECTIVE PERFORMANCE BY SHULTZ, AGREEMENT WAS REACHED ON A SERIES OF CRITERIA TO FORM THE BASIS OF AN ALLIANCE APPROACH TO THE ECONOMIC ASPECTS OF EAST/WEST POLICY, AND ON THE INITIATION OF STUDIES ON A NUMBER OF INDIVIDUAL ASPECTS OF EAST/WEST ECONOMIC RELATIONS. THERE WAS VIRTUALLY NO DISCUSSION OF THE PIPELINE AS SUCH. THERE WAS GENERAL ACKNOWLEDGEMENT OF THE NEED FOR STRONG DEFENCES, AND OF THE CENTRAL ROLE OF ARMS CONTROL NEGOTIATIONS IN MAINTAINING PUBLIC SUPPORT FOR ALLIANCE POLICIES. THERE WAS ALSO AGREEMENT THAT THERE SHOULD BE MORE COOPERATION AGAINST INTERNATIONAL TERRORISM.

DETAIL.

2. SHULTZ SAID THAT BECAUSE OF THE SOVIET ARMS BUILD UP AND SOVIET BEHAVIOUR AROUND THE WORLD, THE EAST/WEST RELATIONSHIP WAS STRAINED AND TENSE. NATO'S BROAD MILITARY STRATEGY REMAINED EFFECTIVE: DETERRENCE WAS WORKING, AND THE ALLIANCE WAS ON THE RIGHT TRACK. AS FAR AS NON-MILITARY ASPECTS OF THE EAST/WEST RELATIONSHIP WERE CONCERNED, ECONOMIC CONTACTS BROUGHT CERTAIN SPECIFIC BENEFITS, FOR EXAMPLE TO AMERICAN FARMERS AND IN

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PERMITTING HUMAN CONTACTS. BUT THE EVIDENCE SUGGESTED THAT THERE WERE IMPORTANT PROBLEMS. A LOT OF EAST/WEST TRADE WAS IN GOODS OF DIRECT MILITARY VALUE, AND THE SOVIET MILITARY BUILD UP WAS BEING ACCELERATED BY THE ACQUISITION OF TECHNOLOGY FROM THE WEST - INCLUDING THE US. HE HOPED IT WOULD BE POSSIBLE TO ADDRESS THIS AT THE FORTHCOMING COCOM MEETING. SOME AREAS - EG ENERGY - WERE OF SPECIAL STRATEGIC IMPORTANCE. WHY SHOULD THE WEST GIVE THE SOVIET UNION THE TECHNOLOGY IT NEEDED FOR THE DEVELOPMENT OF ITS ENERGY RESOURCES? HE COULD, MOREOVER, SEE NO REASON FOR PROVIDING SUBSIDIES TO THE SOVIET ECONOMY. CREDIT TO THE SOVIET ECONOMY HAD EXPANDED RAPIDLY, INCREASING THE CAPACITY OF THE EAST TO EXERT LEVERAGE ON THE WEST. THIS ARGUED FOR RESTRICTING FURTHER CREDITS. ON GAS, THE SOVIET UNION MIGHT GET INTO A QUASI MONOPOLY POSITION WHICH WOULD ENABLE IT TO GO TO WESTERN EUROPEAN CUSTOMERS AND OFFER ENERGY PRICES LOW ENOUGH TO DETER THE CUSTOMER FROM DEVELOPING ITS OWN ALTERNATIVE SOURCES OF ENERGY. GIVEN THE LOWER CURRENT LEVEL OF ENERGY DEMAND, THIS COULD PRODUCE AN UNDESIRABLE DEGREE OF DEPENDENCE ON SOVIET SUPPLIES. AS FAR AS EVENTS LIKE POLAND WERE CONCERNED, HE ACCEPTED THAT THE WEST'S PRACTICAL ABILITY TO AFFECT THE SITUATION WAS VERY LIMITED. THE WEST WOULD PERHAPS BE WISE TO AVOID SETTING STANDARDS FOR EASTERN BEHAVIOUR WHICH WERE NOT GOING TO BE MET.

3. ON INTERNATIONAL TRADE, SHULTZ RECALLED THAT THE RECESSION OF THE 1930S HAD BEEN MADE FAR WORSE BY EXTREMES OF PROTECTION, NOT LEAST IN THE US. SINCE THE WAR, THE OPEN MARKET IN TRADE, TECHNOLOGY AND IDEAS HAD MUCH EXPANDED WORLD TRADE. BUT WITH THE DECLINE IN THE REAL VALUE OF WORLD TRADE IN RECENT YEARS, THERE WERE RENEWED CALLS FOR PROTECTIONISM. IN THE US, THE ADMINISTRATION WAS UNDER PRESSURE IN CONGRESS AND FROM INDUSTRY. THE SITUATION WAS GETTING WORSE. ONE THIRD OF NON-COMMUNIST WORLD TRADE WAS NOW OUTSIDE GATT. SCIENTIFIC ADVANCE WAS CHANGING THE NATURE OF TRADE, AND NOW THERE WAS AN OPPORTUNITY FOR POSITIVE THINKING. LACK OF CONFIDENCE WAS BEING PRODUCED BY UNCERTAINTY IN WORLD TRADING CONDITIONS. ALL THIS MADE THE FORTHCOMING GATT MINISTERIAL MEETING VERY IMPORTANT, BUT IT WAS NOT BEING TAKEN SERIOUSLY ENOUGH OR

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ADEQUATELY PREPARED FOR. WHILE THIS FELL OUTSIDE NATO'S FIELD, IT WAS VERY RELEVANT TO THE ALLIANCE.

4. I DREW ATTENTION TO THE WIDER CONTEXT. IT RELATED ABOVE ALL TO SECURITY AND STABILITY, WHICH WERE THE PREREQUISITE OF GREATER PROSPERITY. THE FIRST PRIORITY MUST BE STRONG ENOUGH DEFENCE TO DETER AGRESSION, BALANCED BY THE MAINTENANCE OF A DIALOGUE ON ARMS CONTROL, CSCE, HUMAN RIGHTS, ETC: IT WAS VITAL TO DEMONSTRATE TO OUR PUBLICS THAT WE WERE DOING OUR BEST TO ACHIEVE SECURITY AT A LOWER COST. IT WAS IMPORTANT THAT THE ALLIES BE SEEN TO BE MAINTAINING AN EAST/WEST DIALOGUE IF THEY WERE TO RETAIN PUBLIC SUPPORT FOR THE FORTHCOMING DEPLOYMENT OF CRUISE MISSILES. SHULTZ HAD ADDED AN ECONOMIC DIMENSION TO OUR STRATEGIC THINKING: THERE WERE CLEARLY A NUMBER OF PRESSURE POINTS THROUGH WHICH WE COULD INTENSIFY THE ECONOMIC DIFFICULTIES OF THE SOVIET UNION, AND I STRONGLY FAVOURED FULL AND POSITIVE CONSIDERATION OF THIS ISSUE AND ITS IMPLICATIONS. THIS WOULD TAKE SOME TIME, AND SHOULD BE SEEN AS A LONG TERM POLICY ISSUE. MEANWHILE IT WAS VITAL THAT THE ALLIES SHOULD NOT BE DEFLECTED FROM THE CENTRAL REQUIREMENT FOR ADEQUATE DEFENCE.

5. CHEYSSON AGREED. ECONOMIC AND POLITICAL ASPECTS OF POLICY MUST BE INCORPORATED INTO A STRATEGY BASED ON OVERALL SECURITY. IT WAS IMPORTANT TO CONSIDER THE ROLE OF JAPAN (A THEME TO WHICH HE REVERTED LATER MORE THAN ONCE): THE OECD WOULD BE HELPFUL IN THIS CONTEXT. HE POSED THE QUESTION OF WHETHER THE WEST, IN ITS ECONOMIC STRATEGY, SHOULD DISTINGUISH BETWEEN THE SOVIET UNION AND ITS SATELLITES: THE WEST HAD BEEN ABLE TO ENCOURAGE THE PROCESS OF LIBERALISATION BY GRANTING CREDIT FACILITIES TO POLAND, AND IT WOULD BE WRONG TO FOREGO THE OPTION OF ENCOURAGING CHANGE IN THIS WAY AGAIN. THERE WAS, HOWEVER, A CONTRADICTION IN TRYING TO MAKE THINGS DIFFICULT FOR THE SOVIET UNION, WHILE HELPING THE SOVIET ECONOMY INDIRECTLY THROUGH THE EASTERN EUROPEAN ECONOMIES. HE DID NOT KNOW THE ANSWER, AND THIS WAS NOT THE RIGHT SETTING TO LOOK FOR IT. THE OECD, OR PERHAPS BILATERAL CONTACTS, WOULD BE BETTER. NO PREFERENTIAL TREATMENT SHOULD BE GIVEN TO THE SOVIET

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UNION. THE UNDERSTANDING REACHED AT VERSAILLES ON MONITORING HAD NOT BEEN IMPLEMENTED AS IT SHOULD HAVE BEEN, SECTOR BY SECTOR.

6. COLOMBO SAID THAT WE MUST NOT DELUDE OURSELVES: THE ALLIANCE WAS NOT IN GOOD SHAPE. EAST/WEST RELATIONS REPRESENTED THE CRISIS POINT. GUIDELINES WERE NECESSARY. WESTERN BELIEF IN DETENTE HAD LED TO A NEGLECT OF MILITARY CAPABILITY, RESULTING IN SOME IMBALANCE: WHILE DETENTE MUST STILL BE PURSUED, MILITARY CONSIDERATIONS MUST BE FED INTO THE MIX (HE APPEARED TO BE IMPLYING THAT A GREATER WESTERN MILITARY EFFORT WAS NECESSARY). THE QUESTION WAS WHAT PLACE ECONOMIC MATTERS SHOULD HAVE IN RELATIONS WITH THE EAST. HE WONDERED WHETHER IT WOULD BE POSSIBLE TO GUIDE OECD ON THE BASIS OF VIEWS EXPRESSED AT THIS MEETING. ENERGY TECHNOLOGY SHOULD BE STUDIED IN A MORE TECHNICAL FORUM. ACTION MUST NOT BE POSTPONED: THERE WAS A RISK THAT FARMING OUT WORK TO OTHER AGENCIES MIGHT PRODUCE DELAY.

7. VAN AGT SPOKE OF THE PARAMOUNT IMPORTANCE OF SECURITY, AND THE CRUCIAL ROLE OF ARMS CONTROL. ECONOMIC MEASURES HELD OUT THE PROSPECT OF CURBING SOVIET MILITARY CAPABILITY AND INFLUENCE: BUT THEY WOULD NOT HAVE ANY EFFECT ON SOVIET BEHAVIOUR. HE AGREED THAT SUBSIDIES AND THE TRANSFER OF TECHNOLOGY TO THE SOVIET UNION WERE WRONG. BUT TO TRY TO PUT PRESSURE ON THE RUSSIANS WOULD DO NO GOOD, AND WOULD DAMAGE THE WESTERN IMAGE IN THE EYES OF THE REST OF THE WORLD. WE COULD NOT WIN AN ECONOMIC WAR, WE SHOULD NOT START ONE.

8. MACKEACHEN WELCOMED SHULTZ'S MESSAGE THAT SECURITY DID NOT DEPEND ON MILITARY FACTORS ALONE. THE STRENGTH OF THE ALLIANCE DEPENDED ON THE VIABILITY OF WESTERN ECONOMIC INSTITUTIONS. HE TOO WONDERED WHETHER IT WAS RIGHT TO WAGE ECONOMIC WAR ON THE SOVIET UNION. SHULTZ DENIED THAT THE KIND OF IDEAS HE HAD BEEN DISCUSSING BORE ANY RESEMBLANCE TO AN ECONOMIC WAR.

9. OPENING DISCUSSION THE FOLLOWING MORNING, SHULTZ, READING FROM WRITTEN NOTES, SUMMARISED WHAT HE BELIEVED TO BE THE COMMON

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VIEW OF THE MINISTERS PRESENT. ALLIED GOVERNMENTS MUST CONDUCT EAST/WEST RELATIONS ON THE BASIS OF A COMPREHENSIVE STRATEGY, INCLUDING ECONOMIC ASPECTS. THERE WERE THREE CRITERIA WHICH SHOULD GOVERN WESTERN ECONOMIC DEALINGS WITH THE SOVIET UNION WITH EASTERN EUROPE:

(I) TRADE SHOULD NOT CONTRIBUTE ACTUALLY OR POTENTIALLY TO THE MILITARY CAPABILITY OF THE SOVIET UNION:

(II) IT WAS NOT IN THE WESTERN INTEREST TO SUBSIDISE THE SOVIET ECONOMY THROUGH TRADE:

(III) THE WESTERN COUNTRIES SHOULD TAKE NO STEPS WHICH CONTRIBUTE TO THE STRATEGIC ADVANTAGE OF THE SOVIET UNION.

THERE SHOULD BE A THOROUGH EXAMINATION OF HOW THESE CRITERIA SHOULD BE APPLIED, TOUCHING IN PARTICULAR ON STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE: HIGH TECHNOLOGY OF STRATEGIC IMPORTANCE, INCLUDING OIL AND GAS EQUIPMENT: OTHER TRADE, INCLUDING AGRICULTURE AND FOOD STOCKS: CREDIT POLICY: AND ENERGY. ON ENERGY, THE EUROPEAN ALLIES SHOULD MAKE A STUDY OF THEIR PROJECTED ENERGY REQUIREMENTS OVER THE NEXT DECADE AND BEYOND AND OF HOW THESE MIGHT BE MET.

THE STUDY, IN WHICH THE US WOULD PARTICIPATE, MIGHT BEST BE CONDUCTED UNDER OECD AUSPICES. THE MINISTERS SHOULD AGREE IMMEDIATELY ON FOUR POINTS:

(I) A REVIEW OF THE LIST OF STRATEGIC ITEMS SHOULD BE PUT IN HAND AT THE COCOM REVIEW MEETING ON 4 OCTOBER. THEY SHOULD DO WHAT IS NECESSARY TO MAKE COCOM MORE EFFECTIVE AND RESPONSIVE AND SHOULD IMPROVE THEIR NATIONAL MACHINERY IN WHATEVER WAY WAS NEEDED TO ENFORCE COCOM DECISIONS:

(II) MACHINERY (PERHAPS INVOLVING OECD FINANCE MINISTERS) SHOULD BE SET UP AT ONCE TO CARRY OUT THE PERIODIC EX-POST REVIEW OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE AGREED ON AT VERSAILLES. WE SHOULD ESTABLISH THE MEANS TO HARMONISE OUR POLICIES ON CREDITS, IN ORDER NOT TO SUBSIDISE THE SOVIET ECONOMY:

(III) WHILE THE ENERGY STUDY WAS BEING CARRIED OUT, THE ALLIES SHOULD EXERCISE RESTRAINT IN CONCLUDING NEW CONTRACTS FOR SOVIET NATURAL GAS:

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(IV) THE ALLIES SHOULD CONSIDER IMMEDIATELY WHETHER CONTROLS WERE NEEDED ON EXPORTS TO THE USSR AND EASTERN EUROPE OF TECHNOLOGY OF STRATEGIC IMPORTANCE. WHAT WOULD CONSTITUTE SUCH TECHNOLOGY SHOULD BE JOINTLY DECIDED, BUT SHOULD IN ANY CASE INCLUDE TECHNOLOGY DIRECTLY RELATED TO THE OIL AND GAS SECTOR. ANY DECISIONS EMERGING FROM THIS STUDY WOULD BE IMPLEMENTED IN A COCOM RELATED FRAMEWORK.

10. FURTHER DISCUSSION REVEALED UNANIMOUS ACCEPTANCE OF THE APPROACH OUTLINED BY SHULTZ. SEVERAL DELEGATIONS, NOTABLY THE FRENCH, DISCOURAGED THE US FROM TRYING TO REACH AGREEMENT ON A TEXT THERE AND THEN, AND NO TEXT WAS THEREFORE CIRCULATED.

OTHER ISSUES.

11. PEREZ LLORCA SAID THAT SPAIN WOULD REMAIN IN THE ALLIANCE, BUT THAT THE SPANISH GOVERNMENT WOULD HAVE TO WORK FOR THIS IN SPAIN: THE ALLIANCE COULD HELP THEM TO DO THIS. IN THIS CONTEXT HE MENTIONED TWO ISSUES - COOPERATION OVER TERRORISM, AND THE ACCELERATION OF SPAIN'S EC ACCESSION NEGOTIATIONS. TURKMEN ALSO REFERRED TO TERRORISM AS A FACTOR TO BE TAKEN INTO ACCOUNT IN ASSESSING WESTERN SECURITY. THE ALLIES SHOULD RECOGNISE TURKEY'S ACHIEVEMENT IN CURBING TERRORISM AT HOME, AND HER SITUATION AS A TARGET OF TERRORISM ABROAD. THIS SHOULD BE FURTHER DISCUSSED IN NATO. LUNS INDICATED THAT HE WAS FULLY SEIZED OF THIS NEED. CHEYSSON SAID THAT SINCE TERRORISTS WERE ARMED BY EASTERN EUROPE THE SUBJECT HAD ACQUIRED AN EAST/WEST CONNOTATION.

12. SEE MIFT FOR TEXT OF NOTES USED BY LUNS AT PRESS CONFERENCE.

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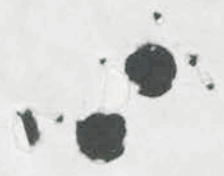
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SOVIET UNION: CREDIT TERMS FOR EXPORTS TO THE USSR.



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Secretary

15 October 1982

US OIL AND GAS MEASURES: PIPELINE

The Prime Minister was grateful for the minute of 11 October by the Foreign and Commonwealth Secretary and has noted its contents.

AJC

Roger Bone, Esq.,
Foreign and Commonwealth Office.