PREM 19/1645

Confidential filing.

Credit terms for exports to the USSR.

Trade Relations.

West Siberian Pipeline.

Controls on transfer of technology to the Soviet Union.

SOVIET UNION.

Part 1: Sept 1979.

Part 3: Nov 1982.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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~~14.11.82~~		~~31.10.83~~					
~~15.11.82~~		~~14.11.83~~					
~~18.11.82~~		~~17.5.84~~					
~~6.12.82~~		~~23.5.84~~					
~~7.12.82~~		~~23.7.84~~					
~~23.12.82~~		~~8.2.85~~					
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~~17.2.83~~		~~1.3.85~~					
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PART 3 ends:-

CDP to PM 25.10.85

PART 4 begins:-

SS/DTI to PM 22/12/86

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Cabinet / Cabinet Committee Documents

Reference	Date
OD(85) 24	24/10/1985
CC(85) 21	18/09/1985
CC(82) 49th MEETING, ITEM 2	18/11/1982

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 11/6/2015

PREM Records Team

Foreign and Commonwealth Office document

Reference: Diplomatic Report No 214/82

Description: The Siberian Pipeline: Lessons for the Future.

Date: 10 December 1982

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Signed J. Gray Date 11/6/2015

PREM Records Team

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Prime Minister

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C.D.P.

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ACTION

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From the Principal Private Secretary

17 September 1985

Thank you for your letter of 17 September with which you enclosed Secretary of Defence Weinberger's white paper concerning Soviet clandestine acquisition of western technology.

The Prime Minister is, as you may know, now in the Middle East. But I know that she will be grateful that you have been so courteous as to send this office a copy of this important document before it is published.

M.W.

His Excellency The Honourable Charles H Price II

BJM

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

September 17, 1985

Dear Mr. Wicks:

As you may have been apprised, Secretary of Defense Weinberger will be releasing the enclosed white paper concerning Soviet clandestine acquisition of western technology at a news conference in Washington at noon tomorrow.

We thought it important that the Prime Minister be provided with a copy of the paper before its official release.

While unclassified, the report is "enbargoed" until Secretary Weinberger's press conference. Thus, for our part, we intend to refrain until that time from any public comment on its contents.

With best wishes.

Sincerely,

Charles H. Price, II
Ambassador

Enclosure: Unclassified

Mr. Nigel Wicks,
Principal Private Secretary to
The Prime Minister,
10 Downing Street,
London, SW 1.

Soviet Acquisition of Militarily Significant Western Technology: An Update

September 1985

Soviet Acquisition of Militarily Significant Western Technology: An Update

In recent years, the United States Government has learned of a massive, well-organized campaign by the Soviet Union to acquire Western technology illegally and legally for its weapons and military equipment projects. Each year Moscow receives thousands of pieces of Western equipment and many tens of thousands of unclassified, classified, and proprietary documents as part of this campaign. Virtually every Soviet military research project—well over 4,000 each year in the late 1970s and over 5,000 in the early 1980s—benefits from these technical documents and hardware. The assimilation of Western technology is so broad that the United States and other Western nations are thus subsidizing the Soviet military buildup.

Western products and technology secrets are being systematically acquired by intricately organized, highly effective collection programs specifically targeted to improve Soviet military weapon systems. The Soviet intelligence services—the KGB, the GRU, and their surrogates among the East European services—and Soviet trade and scientific organizations are actively involved in obtaining this technology. Targets include defense contractors, manufacturers, foreign trading firms, academic institutions, and electronic data bases. Only recently has the full extent of illegal Soviet technology collection efforts become known.

The purpose of this paper is to reveal in detail the structure of these Soviet programs, and to give examples of Soviet requirements and successes. Understanding the Soviet effort is a critical first step in protecting Western technology and preventing it from being turned against the West.

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Soviet Acquisition of Militarily Significant Western Technology: An Update

Introduction

Overcoming considerable technological inferiority over the past several decades, the Soviets have built the largest military industrial manufacturing base in the world and a massive research establishment to complement it. Their objective is to achieve military-technical capabilities that are at least equal, if not superior, to those of the West.

Their resource commitment is enormous by any measure; it has enabled them in recent years to narrow the Western lead in nearly all key technological areas, particularly microelectronics. In materials, explosive, and sensor technologies applicable to deployed tactical forces such as tanks, artillery, and antitank and surface-to-air missiles the Soviets' technology level is roughly equal to or slightly better than that of the West. They are the world's leaders in a few significant fields, such as chemical warfare and in some areas of laser research for future "star wars" applications.

Nevertheless, in spite of the several decades of massive investment in indigenous research and development, the prospects are small that the Soviets can reduce their dependence on a large variety of Western products and technology in this decade and the next without allowing the technological gap to widen. The main reasons for this continuing need are endemic to the Soviet system: the lack of adequate incentives, inflexible bureaucratic structures, excessive secrecy, and insularity from the West. Even if there were some major Soviet economic or managerial reforms, *no real lessening of the Soviet dependence on Western innovation is anticipated* as long as the USSR perceives the need for military-technological parity with the West, or the need for superiority.

The impact of this dependence could be even more important in the 1990s than it is today. The USSR has been compelled to follow Western direction in technological change, and thus far it has been able to do this satisfactorily because of a mature technological base. The next decade is less certain for the Soviets, however, because of new technological leadership that the West has supplied them. Their dependence is essentially for *innovation*—where they will continue to look to the West—not for maintaining *adequacy*, which they have achieved in nearly all important military technologies. *But today's adequacy will be tomorrow's obsolescence if technology fails to keep pace.*

In May 1982 the US Congress was given a report [1] identifying a massive and global Soviet program to acquire Western militarily significant technology.[2] That report described the Soviets' successes in supplementing their military research and manufacturing capabilities and in narrowing the technology gap with the West, thereby eroding the technological superiority on which US and Allied security depends.

The identification of this Soviet program led the West to undertake greater efforts in counterintelligence and export control. Since then, it has become even more evident that the magnitude of the Soviets' collection effort and their ability to assimilate collected equipment and technology are far greater than was previously believed.

This update of the 1982 report defines the scope of the Soviet effort. It outlines how the Soviets go about acquiring Western technology and identifies examples of specific technologies they seek. It highlights details and statistics of Soviet successes—much more detail than could be revealed previously. This information was obtained directly by the United States and Allied countries. Understanding the Soviet effort is critical in designing ways to protect Western technology from being acquired and used against Western security interests.

[1] *Soviet Acquisition of Western Technology*, April 1982. Exhibit No. 1. Hearings Before the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, United States Senate, Ninety-Seventh Congress, Second Session, 4, 5, 6, 11, and 12 May 1982.

[2] Western technology (hardware, documents, and know-how) includes that of Japan as well as other Free World countries.

Soviet Motivations

A basic question is why do Soviet weapon designers and Soviet manufacturers need to copy design concepts embodied in Western equipment and associated documents? In general, Soviet weapons have historically reflected a commitment to functional designs that can be easily manufactured in labor-intensive factories and readily maintained in the field with a minimum of technical skill. There has always been a struggle between Soviet design simplicity and technical complexity. Soviet weapon designers have not had to face the competitive pressures that drive Western designers to press the state of the art.

Building on a mature research sector and on lessons learned from past performances of weapons in battle, the Soviets are placing more of a premium on technically complex systems. Western system and equipment characteristics increasingly are used as yardsticks against which Soviet technical capabilities are judged. Every major civilian or military project is compared with the best Western technology before it is approved for development. Once in development, Soviet standards mandate the comparison of the quality and technical level of hardware, at different design stages, with foreign counterparts.

With their access to many details of Western weapons and dual-use equipment designs and concepts, Soviet designers are, in effect, competing with Western designers. That competition, supported and encouraged by the Soviet leadership, is probably pressuring the military research establishment to pay increasing attention to technically complex systems. Countervailing pressures for design simplicity are being applied by the manufacturing sector, which is less responsive in adapting to technological change. All of these forces indicate continuing Soviet programs to acquire Western military and dual-use hardware and technical data.

Overview of Two Soviet Programs

Since 1982 it has become clearer that the Soviets have two programs to acquire Western hardware and documents:

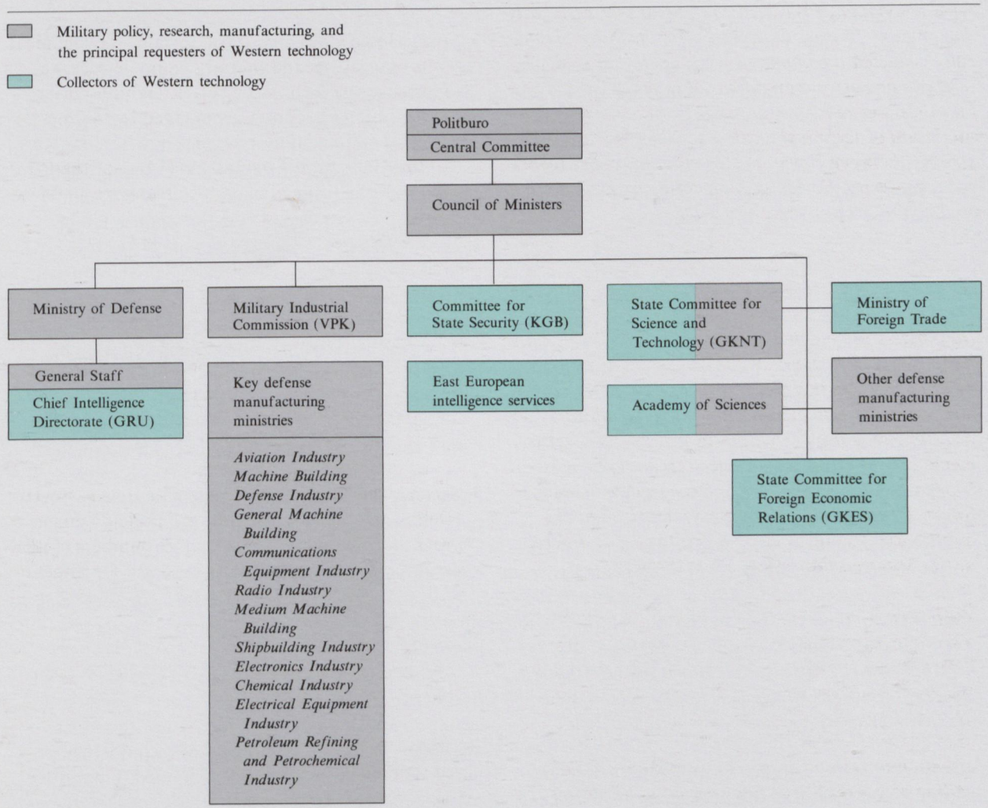
- First, Moscow has a program to raise the technical levels of weapons and military equipment as well as to improve the technical levels of manufacturing processes. This program is managed by the most powerful organization in defense production—the Military Industrial Commission (VPK) of the Presidium of the Council of Ministers (figure 1). Mainly, although not exclusively, through intelligence channels, the VPK seeks one-of-a-kind military and dual-use hardware, blueprints, product samples, and test equipment to improve the technical levels and performance of Soviet weapons, military equipment, and defense manufacturing equipment and reduce any dependency on advanced Western products. This is done in large part by exploiting and adapting design concepts embodied in acquired equipment and associated documents.

- Second, the Ministry of Foreign Trade and Soviet intelligence services administer a trade diversion program to acquire relatively large numbers of dual-use manufacturing and test equipment for direct use in production lines. This program seeks export controlled microelectronics, computer, communications, machining, robotics, diagnostic, and other equipment to increase the throughput of weapon-producing industries.

These two programs, which apparently are administered separately, are the hub of the Soviet effort.

The VPK program is principally, but not exclusively, an industrial security and counterintelligence concern for the West. It involves espionage by hostile intelligence officers, overt collection by Bloc officials, acquisition by scientific exchange program participants, and illegal trade-related activity. The trade diversion

Figure 1
Key Organizations Involved in Managing Military Research and Manufacturing and the Acquisition of Western Technology



The Military Industrial Commission (VPK) coordinates the development of all Soviet weapons as well as the Soviet national-level program to acquire Western technology. The VPK is the most powerful organization in the defense-research establishment, comprising the top executives of the key defense manufacturing ministries (industries). Requests for Western documents and one-of-a-kind hardware from military equipment designers in each of the 12 industries shown above are called requirements (see figure 2).

To satisfy these requirements, the VPK controls a national fund, amounting to some half a billion rubles each year (roughly $1.4 billion in 1980 purchase power equivalents). Once approved by the VPK, requirements are selectively levied among the KGB, the GRU, and at least four other national-level collection agencies, as well as surrogates among the East European intelligence services.

The State Committee for Science and Technology (GKNT) acts as a collector and as the central processor for the national-level program. It also monitors the absorption and assimilation of Western technology by the defense industries.

program principally involves export control and international compliance issues. Characteristics of these programs overlap, further complicating the design of adequate countermeasures:

- Both programs sometimes seek the same products.
- Soviet industrial ministries request technology and equipment through both programs.
- The collection channels overlap and in some cases the same Soviet individuals (intelligence officers and others) are involved in each program.

The VPK Program: Raising the Technical Levels of Weapons and Manufacturing Equipment

The VPK includes the top executives of most of the key Soviet defense manufacturing ministries shown in figure 1. Full VPK membership is given to the Ministers of Aviation, Machine Building (projectiles and explosives), Defense Industry (armor and electro-optics), General Machine Building (strategic missiles and space), Communications Equipment, Radio (radars and large-scale computers), Medium Machine Building (nuclear weapons and high-energy lasers), Shipbuilding, and Electronics. It is a small but powerful group, responsible for centrally overseeing the research, development, and production of all Soviet weapon systems. It coordinates developments between its chief customer, the Ministry of Defense, and the key suppliers, the defense-industrial ministries. As the expediter for weapons development projects, *it is the principal Soviet military instrument for eliminating or circumventing the inefficiencies characteristic of the Soviet economic system.*

As part of its responsibility to enforce schedules and to ensure that technical and performance specifications are met, the VPK translates requests for Western hardware and documents, principally by the design bureaus of 12 industries (figure 1), into lists of collection requirements. In the late 1970s alone about one-half billion rubles (roughly $1.4 billion in 1980 purchase power equivalents) each year was reserved for purchases of one-of-a-kind Western hardware and documents.

Three examples of specific requirements from the VPK lists are shown in figure 2. The first deals with the IBM 370 computer, used by the Soviets as the model for production of their own version, "Ryad," which is a copy of the IBM 370 architecture and functions. The second deals with a cruise missile computer. The VPK apparently assigned it a high priority because of major efforts under way at that time to develop long-range strategic cruise missiles, which require large-capacity digital memories for onboard navigation. The Soviets historically have had reliability and other problems in developing such computers. The third example is a US Fairchild Instrument Corporation/Xincom semiconductor memory tester. It is a good example of the one-of-a-kind dual-use product requested and acquired through the VPK program. Design concepts embodied in the hardware and associated documentation of the tester were copied to develop a Soviet counterpart. The original tester also could be used to help copy or reverse-engineer Western integrated circuits.

Requirements for documents alone can command amounts as considerable as hardware; examples include over 50,000 rubles (roughly $140,000 in 1980 purchase power equivalents) for documents on the US shuttle orbiter control system and over 50,000 rubles for high-energy laser developments. Over 200,000 rubles ($560,000) was approved for acquiring selected research documents on US antimissile defense concepts.

Each year the VPK publishes a report based on the evaluation of the individual ministries. It includes aggregate statistics on numbers of technical documents and samples (hardware) obtained, gross ruble savings, and the numbers and priority of requirements satisfied. This report is sent to the Chairman of the Presidium of the Council of Ministers and to the Central Committee of the Communist Party. Copies also are sent to headquarters elements of the collection organizations.

Figure 2
Examples of VPK Requirements, Mid 1970s - Early 1980s

Mid 1970s

Requester (responsible for producing mainframe computers)	1. Ministry of the Radio Industry
Desired technology	2. Technical documentation on IBM 370 computer models 145, 158, 168 and operating system data, not earlier than 1974. Information about new IBM projects.
Organization charged with collection	3. KGB
Origin or location of technology	4. US: Documents from the IBM firm.

Late 1970s

Joint requirement. Priority code A-I indicates technology needed for potential solutions of a problem in producing a future weapon system	1. Ministries of Aviation, Communications Equipment, and Electronics Industries, A-I, Most Critical
Desired technology	2. Electronic components and programing devices for cruise missile digital computer memory. Samples and documents desired.
Maximum funds allocated for collection of this item	3. 170,000 rubles
Organization charged with collection	4. KGB

Early 1980s

Code B-I indicates substantial reduction in time and expenditure in production of new weapons	1. Ministry of the Electronics Industry, B-I
Desired technology	2. Xincom monitoring and metering equipment for static and functional testing of semiconductor memory units. Sample and documents desired.
Maximum funds allocated for collection of this item	3. 4,500,000 rubles
A nonintelligence organization also charged with assisting collection	4. Ministry of Foreign Trade, KGB

The mid-1970s VPK requirement shown above targets IBM equipment for Soviet military research and development. The Soviets copied the architecture of the IBM 360 and 370 systems to develop their Ryad series of computers. The late 1970s requirement is a very high priority for three reasons: it is identified as "most critical"; it is needed to solve problems in producing a *future* weapon system; and *three* ministries would benefit technically, economically, and jointly from its acquisition. The early 1980s requirement, for a Fairchild/Xincom semiconductor memory test system, is a perfect example of the one-of-a-kind dual-use product (sample) and associated documentation requested for copying as well as for volume purchases for direct use in production lines. This tester was in fact acquired, and design concepts were copied, saving several hundred man-years of Soviet developmental effort.

Soviet requirement data also include the firms and sometimes the names of persons who have the desired hardware and documents. Some 3,000 to 5,000 new, amended, and reapproved requirements for hardware, documents, or both are now issued by the Soviets each year.

Table 1
Summary of Results of the VPK Program, Late 1970s and Early 1980s

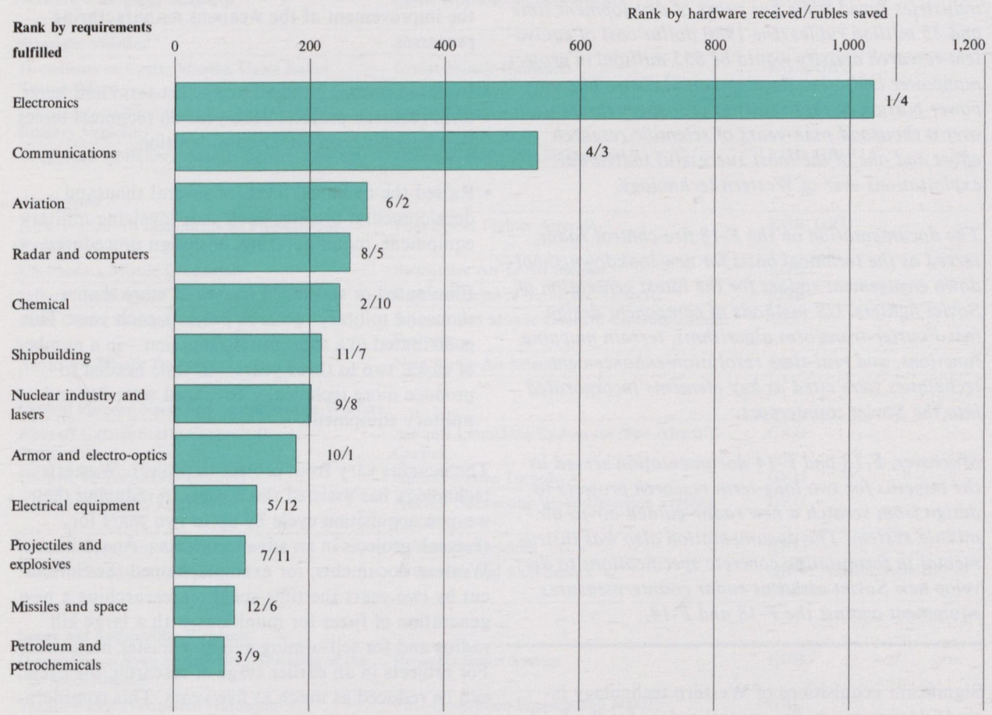
- An average of over 5,000 Soviet military equipment and weapon system research projects per year in the early 1980s benefited from Western hardware and technical documents. Over half of these projects were in the electronics and the armor and electro-optics industries.
- Innovation, new concepts, new directions, higher technical levels of research, accelerated development of more advanced weapons, and the avoidance of major pitfalls are some of the key benefits to Soviet military scientific research projects.
- In the early 1980s more than 3,500 requirements were levied each year for specific Western hardware, documents, or both, with roughly one-third satisfied each year; the other two-thirds still targeted.
- Some half a billion rubles are maintained each year for potential collections against these requirements (roughly $1.4 billion in 1980 purchase power equivalents).
- During the 10th Five-Year Plan (1976-80), over 3,500 requirements were fully satisfied worldwide—roughly 60 to 70 percent of these being fulfilled by the Soviet intelligence services (the KGB and the GRU) and surrogates among the East European intelligence services. Requirements fully satisfied during the 11th Five-Year Plan will exceed 5,000.
- Of the 3,500 satisfied requirements approximately 5 to 10 percent were judged by the Soviets as the most significant to military research projects. The Soviet intelligence services and surrogates among the East European services fulfilled about 90 percent of these most significant requirements each year.
- About half of all VPK requirements fulfilled in the 10th Five-Year Plan (1976-80) and thus far in the 11th Five-Year Plan (1981-85) were for two industries: electronics and communications equipment.
- About 60 percent of that portion of document and hardware acquisitions considered to be the most significant to the Soviets was of US origin, although not necessarily collected in the United States.
- About 70 percent of the documents and hardware acquired in the 10th and so far in the 11th Five-Year Plans, which were judged by the Soviets to be the most significant to their military research projects, probably were export controlled, embargoed, classified, or under some control by Western governments.
- About 50 percent of the 6,000 to 10,000 pieces of hardware acquired annually and 20 percent of the 100,000 documents acquired annually are used by the Soviets in transferring Western technology into their military research projects.
- In the late 1970s about 700 embargoed dual-use manufacturing, diagnostic instrumentation, and other dual-use products were acquired each year for copying embodied designs, reverse-engineering, and probably for selected direct use as key equipment in Soviet military production lines.
- From 1976 to 1980 the greatest savings in research project costs, almost one-half billion rubles (the 1980 dollar cost of equivalent research activity would be $800 million), were realized by two ministries—the Ministry of the Defense Industry (armor and electro-optics) and the Ministry of the Aviation Industry. The Soviet manpower equivalence of these savings alone translates roughly into over 100,000 man-years of scientific research. These savings, however, may be biased. The ruble figures probably reflect operating costs—salaries, bonuses, and sometimes savings in elimination of, for example, test range activity, but not capital costs. Although Soviet managers generally tend to inflate savings to enhance their role, the savings estimated in the VPK program appear to be conservative.

Successes and Benefits

The VPK program is a Soviet success story (table 1). Over 3,500 specific collection requirements for hardware and documents were satisfied for the 12 industrial ministries for just the 10th Five-Year Plan (1976-80). About 50 percent of more than 30,000 pieces of Western one-of-a-kind military and dual-use hardware and about 20 percent of over 400,000 technical documents collected worldwide in response to these requirements were used to improve the technical performance of very large numbers of Soviet military equipment and weapon systems. The benefits and distribution by industry of the fulfilled requirements are shown in figure 3.

According to the Soviets, about one-third of the VPK requirements are totally or partially fulfilled annually, strongly suggesting that Western industrial security, counterintelligence, export controls, and other efforts do have an effect. But each year the number of VPK requirements grows by about 15 percent. This is a strong indication that the expanding Soviet military industrial program continues to rely on Western technical solutions and advances. It also indicates increased collection success and user expectation.

Figure 3
Rank Ordering of Soviet Industries by VPK Requirements Fulfilled, by Rubles Saved, and by Hardware Received, 1976-80



About 50 percent of the VPK requirements that were fulfilled during the 10th Five-Year Plan for Western hardware and documents were satisfied on behalf of two defense industries—electronics and communications. These are key areas where the Soviets' need for militarily significant technology and the West's need for better controls are greatest.

The four industries receiving the most Western military hardware and dual-use products were electronics (over 6,000 pieces of equipment, a large percentage involving microelectronics), chemical (almost 4,000 pieces), petroleum/petrochemicals (over 1,500), and communications (over 1,500), ranked in that order.

The top four industries saving the most rubles in research project development costs in terms of manpower and other resources were the armor and electro-optics industry (almost 20 percent of the 1.4 billion rubles saved in research project costs) and the aviation, communications, and electronics industries. These four industries consistently appear to be the Soviet leaders in requesting, absorbing, and generally getting the most use out of Western hardware and documents. In some cases, such as in the armor area, the Soviets are using Western technology not to catch up, but to enhance a capability that already is equal to or better than that of the West.

Table 2
Selected Worldwide Soviet Acquisitions, Military Applications, and Collectors of Western Documents, Military Hardware, and Dual-Use Products (continued)

Western Technology Acquired	Soviet Application/Improvement	Collector
Manufacturing and Technology		
Kevlar 49 Fiber Documents for Missiles	Improved Missile Development	KGB, GRU
Complete Set of Manufacturing Equipment for Printed Circuit Boards	Copied for 11 Production Assembly Lines for Strategic Missile, Armor and Electro-Optics, and Radar Industries	Ministry of Foreign Trade
DTS-70 Printed Circuit Board Testing System	Military Microelectronic Production System	KGB
Fiberglass Manufacturing Technology	High-Pressure Airtanks for Submarines	KGB, GRU, Ministry of Foreign Trade
Computer Disk Memory Systems	Military Ryad Series Disk Drives	KGB
Bubble Memory Technology	Tactical Missile Onboard Memories	Others
Technical Documents on Tests of Cold-Rolled Steel	Improved Structural Protection of Warships	KGB
High-Accuracy Three-Dimension Coordinate Measuring Machine	Copied for Several Industries	Ministry of Foreign Trade, GKNT, GKES, Academy of Sciences

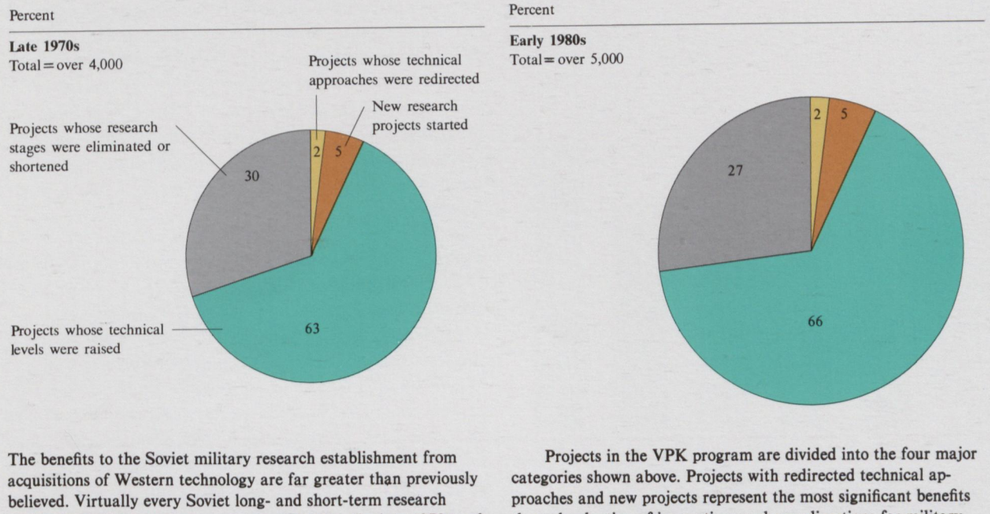
savings doubled between 1976 and 1980 (figure 5) and still are expanding in the 11th Five-Year Plan. The statistics on benefits also point to a massive diffusion of Western technology into Soviet military equipment and weapons. Figure 6 shows how the more than 5,000 military research projects benefiting in the early 1980s were distributed by industry. According to these rough indicators, the electronics, armor and electro-optics, and aviation industries are benefiting the most from Western technology.

Overall, the acquisition of Western technology permits the Soviets to field more sophisticated, versatile, and effective weapons. The basic time for fielding these advanced Soviet weapons, though, remains about the same. It also provides new military capabilities and allows additional resources to be used for the development of additional advanced weapons concepts. The acquisitions also serve to lighten somewhat the burden of continuing growth in Soviet research and defense spending.

Soviet copying and reverse-engineering of Western military and dual-use equipment are major characteristics of the VPK program. Indeed, the majority of VPK requirements for "technology" appears to be for hardware only. In the late 1970s alone, the Soviets acquired about 700 embargoed one-of-a-kind dual-use products each year principally in the area of manufacturing, inspection, instrumentation and test equipment, including key microelectronics production and test equipment. These products were used for making Soviet counterparts or possibly were for use as key manufacturing or test equipment that completed process lines. Examples included computer-controlled integrated circuit testers, aircraft engine vibration control systems, and narrow-band analyzers for submarine quieting.

These practices indicate Soviet deficiencies are in the design, testing, and integration of technologically advanced military systems, not in basic research and applied science. They fall short in the engineering of a

Figure 4
Technical and Time Benefits to Thousands of Soviet Military Research Projects From Western Technology



The benefits to the Soviet military research establishment from acquisitions of Western technology are far greater than previously believed. Virtually every Soviet long- and short-term research project for military systems—well over 4,000 in the late 1970s and well over 5,000 in the early 1980s—is benefiting from the documents and hardware of at least a dozen Western countries. (See figure 6 for a breakout of how these projects were distributed by industry.)

Projects in the VPK program are divided into the four major categories shown above. Projects with redirected technical approaches and new projects represent the most significant benefits through adoption of innovations and new directions for military systems. Major pitfalls are thus avoided. Projects whose technical levels were raised and those whose stages were eliminated or shortened represent improvements in the military state of the art of the Soviet Union and an acceleration in the time when more advanced subsystems are ready for new and future weapons.

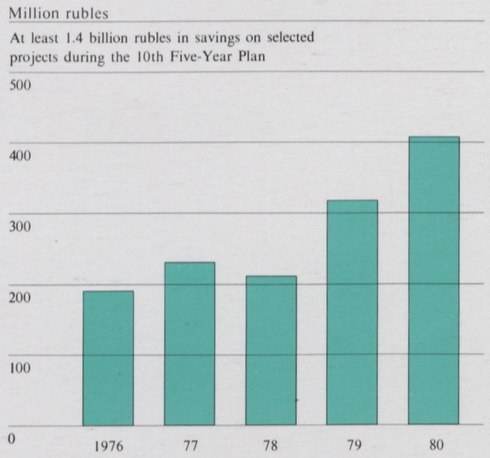
device, technologically advanced by Western standards, into a useful piece of militarily applicable hardware producible in large quantities.

The profile of the VPK program (as well as the trade diversion program) can be used to better define militarily critical technologies as well as better ways to counter Western losses. Both appear principally aimed at acquiring products and technical data. Both show that protecting dual-use products is just as important as protecting the related design know-how. Equipment sales divorced from the transfer of know-how do have long-term significance for the Soviets. The evidence indicates that equipment transfers, both large batch acquisitions and individual samples used for copying embodied design concepts and for reverse-engineering, generally outstrip acquisitions of "technology" in quantity and are of more immediate value to the Soviets.

VPK Collectors and Sources

Analysis of reliable data indicates that in the VPK program the Soviet Bloc intelligence services (the Soviet Committee for State Security (KGB), the Chief Intelligence Directorate of the Soviet General Staff (GRU), and their surrogates among the East European intelligence services) are the collectors most often tasked and the most successful.

Figure 5
Ruble Savings From Only a Part of Soviet Western Technology Acquisitions



The above savings generally are conservative estimates by the Soviets resulting from the elimination of stages of military research and design projects, the reduction in time to carry them out, and the adoption of new technical approaches. The savings are not cumulative. That is, a 20-million-ruble annual saving from the acquisition of US and other Western fiberglass plastics production technology used in manufacturing high-pressure air tanks for submarines was counted for one year only, the year of acquisition.

Roughly 400 million rubles ($640 million) were saved in 1980 for only a portion of the Western technology acquired. Most of these savings were in long-term military research projects for weapons of the late 1980s and early 1990s. They therefore were most likely given in terms of manpower savings. By this measure several tens of thousands of Soviet man-years of scientific research effort were saved in 1980.

During the late 1970s and early 1980s the Soviet intelligence services acquired, through their own efforts and those of the surrogate East Europeans, about 60 to 70 percent of all materials collected in the overall VPK program each year (figure 7). More important, these intelligence services were involved in collecting worldwide about 90 percent of the information judged by Moscow as most significant and used

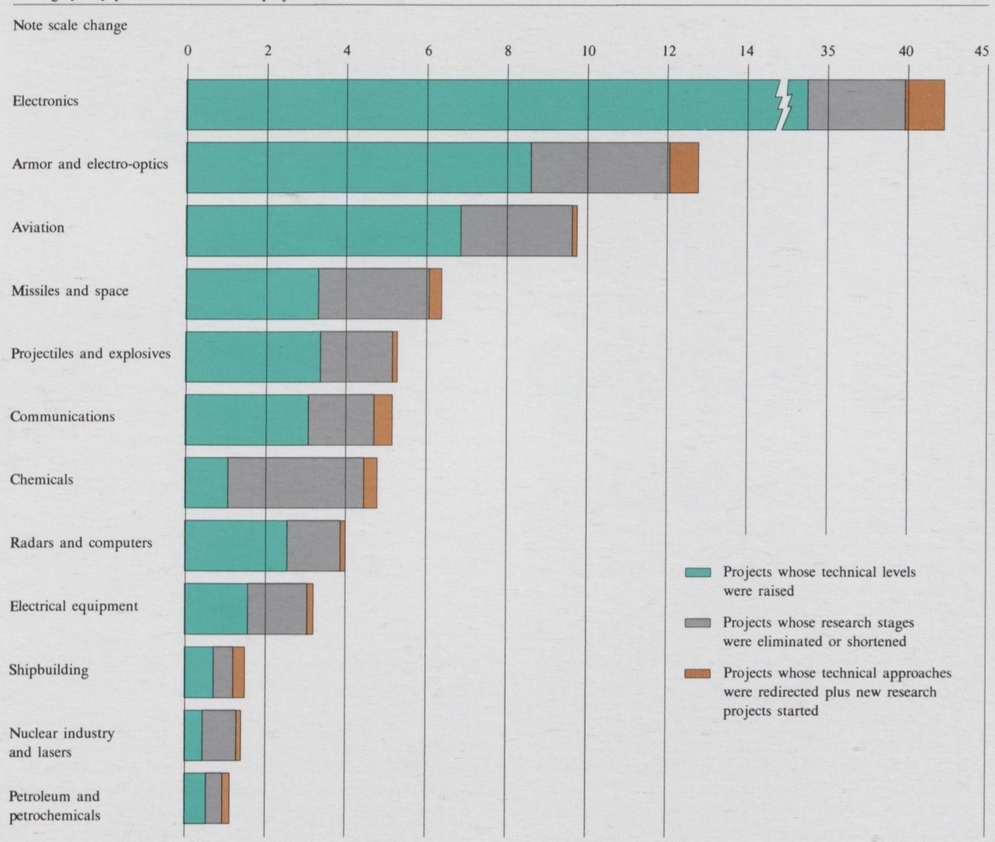
Microelectronics Reverse-Engineering

Soviet collectors have easily acquired many types of Western integrated circuits (ICs) for reverse engineering. Indeed, most Soviet ICs can be traced to a Western original. One of the best examples is their KR580IK80A microprocessor, which is a modified version of the Intel Corporation 8080A 8-bit microprocessor used in many US military systems. In this case, the Soviets even copied the equivalent US part number to avoid confusion (note the KR5 80 IK 80A versus the US 8080A).

Furthermore, the evidence clearly shows that Soviet ICs known as LOGIKA-2 and series 133/155 were directly copied from the Texas Instruments 5400/7400 family. These ICs have been used in Soviet strategic and tactical military systems since the mid-1970s to provide important qualitative improvements. The more advanced Western fabrication equipment acquired by the Soviets in recent years has been used to produce copies of sophisticated Western ICs for their latest generation of weapons. If the Soviets succeed in acquiring the next generation of materials, equipment, and parts, their military capabilities will continue to improve in the area that is the major strength of the West—quality.

The USSR's practice of reverse-engineering, however, may soon run into problems. As US and Japanese ICs become more complex, reverse-engineering will require: (a) tracking hundreds of thousands of connections; (b) understanding how they all fit together; and (c) mastering the complex processing steps used in production. Thus, copying such circuits will require not only much more sophisticated Western equipment but also much more time to duplicate each circuit, causing their overall microelectronics gap with the West to widen.

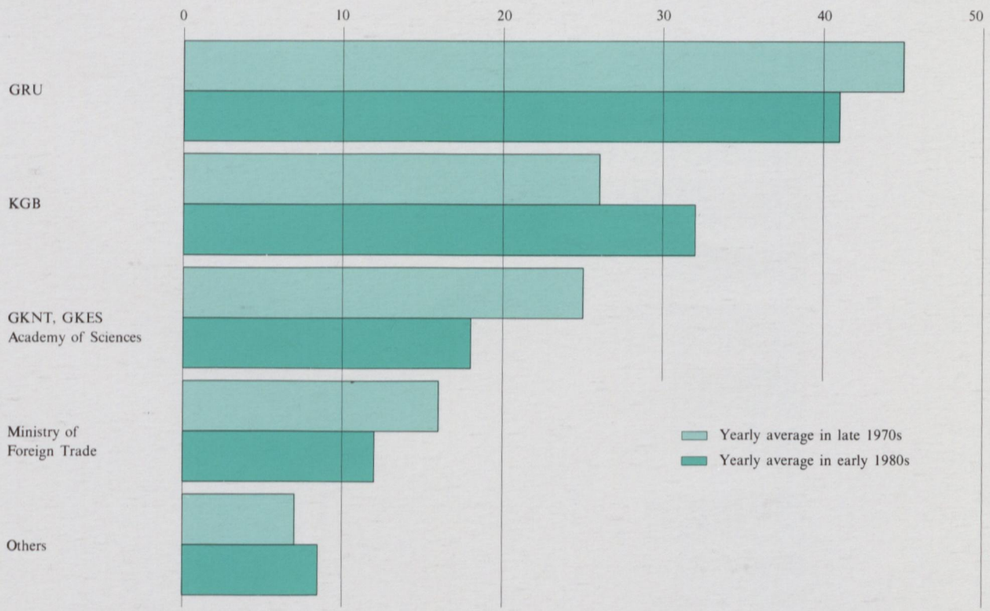
Figure 6
Rank Ordering of Industries by Soviet Military Research Projects Benefiting From Western Technology, Early 1980s



The assimilation of Western technology into Soviet industries conducting military research is considerable. The greatest beneficiaries were the electronics and armor and electro-optics industries, which accounted for over 50 percent (equaling thousands) of all military research projects benefiting from Western technology in the early 1980s.

The general distribution points out the rather broad effect that Western documents and hardware have just on raising the technical levels of Soviet military research. This is particularly true for the top three industries, where advanced technology and innovative design concepts play a significant role in weapon developments.

Figure 7
Soviet Military Requirements Satisfied by Principal Collection Agencies in the Overall VPK Program, Late 1970s and Early 1980s



The distribution shows that the KGB and the GRU (and their surrogates among the East European intelligence services) were the main collectors in the *overall* VPK program. They were involved in satisfying roughly 60 to 70 percent of all VPK requirements completely fulfilled during the late 1970s and early 1980s. (Percentages do not add to 100 because several agencies contributed to fulfilling some of the same requirements.)

Although not evident from the above data, both the KGB and the GRU significantly increased their efforts in the early 1980s because the average *number* of requirements fulfilled so far in the early 1980s (11th Five-Year Plan) increased about 50 percent over the late 1970s.

The State Committee for Science and Technology (GKNT) and associated collectors surprisingly were the third main collecting entity, satisfying a relatively large percentage. Figure 8 shows, however, that they were credited with satisfying about 5 percent of a selected subset of acquisitions, those judged by the Soviets to be the most significant to their military research projects.

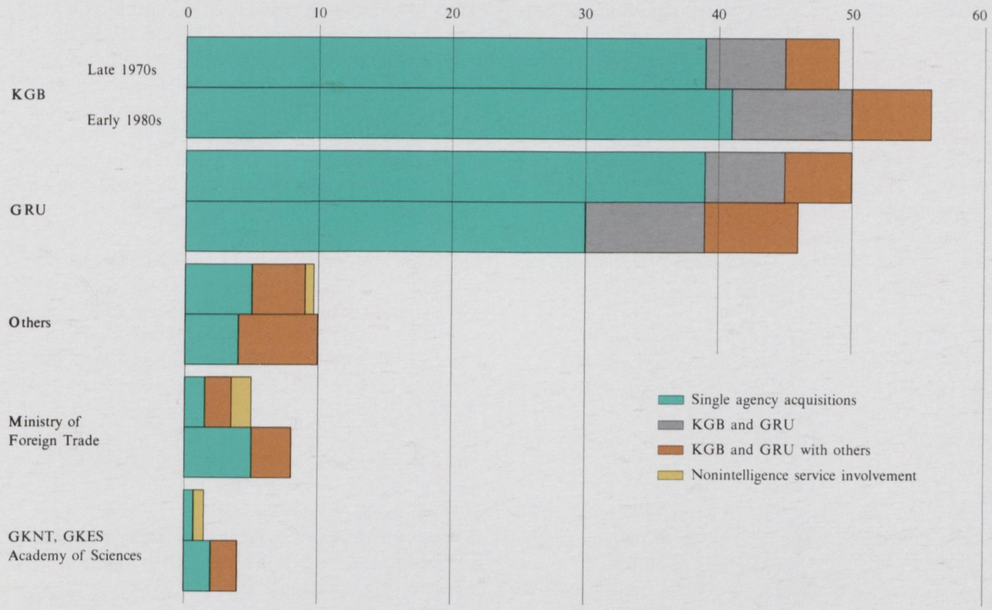
in many hundreds of military research projects (figure 8). Both the KGB and the GRU levy some of the VPK requirements on surrogates among the East European counterpart services. The KGB probably owes a higher percentage of its collection to these East European civilian intelligence services than does the GRU to its East European counterparts. All use human assets worldwide.

Coordination with the East European services is conducted through the liaison functions at both KGB and GRU headquarters as well as through KGB and GRU advisers in the various Warsaw Pact intelligence services. Since the mid-to-late 1970s the surrogates

Figure 8
Most Significant Acquisitions Satisfied by Principal Collection Agencies, Late 1970s and Early 1980s

The KGB and GRU were involved in collecting about 90 percent of the Western acquisitions judged by the Soviets to be the most beneficial to their military development projects (late 1970s and early 1980s.)

Average yearly percent of acquisitions judged by the Soviets to be the most significant



In contrast to figure 7, which shows results for the *overall* VPK program, this figure shows the main collection agencies for a selected subset of acquisitions—those judged by the Soviets to be the most significant to their military research projects for the periods indicated. The Soviet intelligence services and surrogates are the key collectors in the VPK program. Their approximate 90-percent association with the most significant acquisitions (100 percent less the percentages from the categories labeled "nonintelligence service involvement" and nonintelligence "single agency acquisitions") indicates the West has a counterintelligence and industrial security challenge.

About 60 percent of the acquisitions were of US origin (but not necessarily acquired in the United States). The several hundred acquisitions for each period in the statistics above are a small subset of those acquisitions shown in the statistics for the overall VPK program.

among these services have played a major role in the overall VPK collection program, often in return for Soviet economic concessions to their countries. The intelligence services of East Germany, Poland, and Hungary are among the most successful in acquiring Western classified data and export controlled products.

During the late 1970s and early 1980s the GRU probably fulfilled two to 10 times as many VPK requirements as the KGB for the important defense-industrial ministries of:

- Communications Equipment Industry (defense and satellite communications systems)—10 times.
- Machine Building (projectiles and explosives)—five times.
- General Machine Building (strategic missiles and space vehicles)—five times.
- Medium Machine Building (nuclear industry and lasers)—two times.
- Radio Industry (radars and large-scale computers)—two times.

The GRU probably is more successful because of its overall scientific orientation, its bolder operational style, its increased collection opportunities that reflect a wider variety of technology-related cover positions overseas, and its clearer understanding of collection objectives.

The KGB. The First Chief Directorate (foreign intelligence) of the KGB conducts science and technology collection operations through its headquarters component known as Directorate T. Directorate T probably has approximately 1,000 officers, with nearly 300 on foreign assignment. The officers on foreign assignment are organized into components known as Line X, and most of them are scientific specialists by both academic and professional training. The largest KGB complements are probably in Bonn, Cologne, London, New York, Tokyo, and Vienna. (Paris was one of the largest until mass expulsions in 1983.)

Line X officers abroad typically occupy such cover positions as science attaches in a Soviet embassy or equivalent positions in the commercial or economic sections of Soviet missions or an international organization. Other preferred cover positions for these officers are as officials in various Soviet trade missions or as members of scientific or other academic exchanges. Such positions provide easy access to the types of information targeted by the VPK or to foreign personnel who could provide such access. Cover as an "acceptance engineer" at a company with a Soviet contract is also a preferred way to acquire proprietary secrets.

The GRU. The Chief Intelligence Directorate of the Soviet General Staff has emphasized the collection of military scientific data since the earliest days of Soviet military intelligence. Unlike the KGB, the GRU has no headquarters component specifically charged with managing scientific collections; rather, this function is part of the overall responsibilities of four geographic operational directorates. GRU headquarters does, however, have a scientific information analytical directorate that supports scientific collection efforts.

The GRU does not have a separate cadre of career scientific specialists in the field; instead, most GRU officers have technical backgrounds and education as well as years in a military specialization. Approximately 1,500 GRU officers serve outside the USSR. For all of them, scientific collection is an integral part of their responsibilities and a high priority.

The GRU probably has a higher percentage than the KGB of officers with cover positions that provide more access to Western scientific targets and more methods of transporting export controlled products and technical data to the Soviet Union. Some of these positions similar to those of the KGB's scientific specialists are in scientific or commercial sections of Soviet missions or international organizations and various foreign trade offices. In addition, the GRU officers often have positions in Aeroflot (the Soviet airline) and Morflot (the Soviet merchant marine). All Soviet military attaches are GRU officers, of course. The GRU, however, does not seem to use cover positions in academic and technical exchanges to the same extent as does the KGB.

Selected Sources.

US Defense Contractors. Moscow views US and Allied defense contractors with their proprietary and government security controls as difficult targets. Accordingly, the KGB, the GRU, and their surrogates among the East Europeans are the collectors primarily tasked to operate against them. Of the top 100 US defense contractors for 1983, nine of the 10 most frequently cited by the Soviets as sources of needed technology were in the aerospace industry (table 3). The next group most frequently identified was the chemical and petrochemicals industries.

Although the Soviet Bloc intelligence services are the primary collectors of scientific and technological information in the VPK program, it is estimated that about 90 percent of the roughly 100,000 documents acquired each year worldwide are unclassified. About 10 to 20 percent of these unclassified documents are either under proprietary corporate, export, or other government controls. The Soviet intelligence services and their surrogates among the East European services probably provide Moscow with about 10,000 technology-transfer-related classified documents each year from the West. Analysis and operational observations indicate that only a small percentage of these are collected through Soviet intelligence service operations in the United States.

Analysis of hostile intelligence activities indicate that in recent years the surrogates among the East European intelligence services possibly have been more successful than Soviet intelligence against priority defense technologies in the United States. East European services have had considerable success not only in the United States, but elsewhere because:

- They are generally perceived as a lesser threat than the Soviets.
- They often may not be perceived as operating in a surrogate role.
- In some countries, including the United States, they operate under less severe travel restrictions.
- Some, especially the Czechoslovaks and the East Germans, probably find it easier to operate in the West European cultural and commercial climate.

Recent examples of Soviet Bloc espionage operations against US and other Western defense contractor targets are presented in table 4.

As a result of various coproduction arrangements and contract bidding among foreign firms, the availability of much US defense contractor technology overseas in US subsidiaries and in other firms has increased. This enables Soviet Bloc intelligence to seek priority US technologies in many countries around the world.

Commercial Data Bases. Unclassified technical documents from all countries—including engineering analyses and research results—are targeted by Soviet intelligence and other collectors because of their value to Soviet engineers seeking creative designs and alternative engineering approaches. For example, from the mid-1970s to the early 1980s, NASA documents and NASA-funded contractor studies provided the Soviets with their most important source of unclassified material in the aerospace area. Soviet interests in NASA activities focused on virtually all aspects of the space shuttle. Documents acquired dealt with airframe designs (including computer programs on design analysis), materials, flight computer systems, and propulsion systems. This information allowed Soviet military industries to save years of scientific research and testing time as well as millions of rubles as they developed their own very similar space shuttle vehicle.

The individual abstracts or references in government and commercial data bases are unclassified, but some of the information, taken in the aggregate, may reveal sensitive information concerning US strategic capabilities and vulnerabilities. Numerous unclassified US Department of Defense and contractor documents are sought by the Soviets from the Commerce Department's National Technical Information Service. Documents dealing with design, evaluation, and testing of US weapon systems—the Sidewinder air-to-air missile, the F-15, the Redeye shoulder-fired antiaircraft missile, the B-52, and others—are in the data base.

The public and private document clearinghouses—established to efficiently index and disseminate the results of government and government-sponsored military-related technical research—are a fertile ground for KGB, GRU, and other collectors. In recent years, the growing use of electronic data bases has provided the Soviets with an even more efficient means of identifying and procuring such unclassified technical information needed by Soviet designers.

Table 3
Rank Ordering of Top 100 US Defense Contractors of 1983 Compared With Their Rank Ordering by Approximate Frequency of Soviet Identification for Needed Technology, Selected Periods in Late 1970s and Early 1980s

Dollar Value Rank	Company	Soviet Identification Rank	Dollar Value Rank	Company	Soviet Identification Rank
1.	General Dynamics	8	40.	Soberbio	. . .
2.	McDonnell Douglas	5	41.	Pan American World Airways	32
3.	Rockwell International	4	42.	Harris	32
4.	General Electric	1	43.	Todd Shipyard	. . .
5.	Boeing	2	44.	Eaton	31
6.	Lockheed	3	45.	Goodyear Tire & Rubber (Goodyear Aerospace)	17
7.	United Technologies (Pratt & Whitney)	11			
8.	Tenneco	31	46.	Guam Oil & Refining	. . .
9.	Hughes Aircraft	15	47.	Atlantic Richfield (ARCO)	31
10.	Raytheon	23	48.	Sanders Assoc.	32
11.	Grumman	21	49.	Waterman Marine	. . .
12.	Martin Marietta	7	50.	Signal Co. (Garrett)	19
13.	Litton Industries	20	51.	Royal Dutch Shell Group	23
14.	Westinghouse Electric	6	52.	Motorola	25
15.	IBM	19	53.	North American Philips (Magnavox)	27
16.	LTV	24	54.	E Systems	. . .
17.	FMC	30	55.	Hercules	24
18.	RCA	27	56.	Morrison Knudsen	. . .
19.	TRW	26	57.	Mobil	29
20.	Sperry	17	58.	Ogden	. . .
21.	Honeywell	12	59.	Morton Thiokol	19
22.	Ford Motor (Ford Aerospace)	22	60.	Gould	32
23.	General Motors	14	61.	Congoleum	. . .
24.	AT&T	. . .[a]	62.	Caterpillar Tractor	25
25.	EXXON	28	63.	Emerson Electric	30
26.	Northrop	19	64.	Control Data	30
27.	Allied (Bendix)	9	65.	Standard Oil of Indiana	30
28.	Maersk Line Ltd	. . .	66.	Coastal	. . .
29.	AVCO	16	67.	Penn Central	. . .
30.	GTE	32	68.	Aerospace	24
31.	Textron	32	69.	Fairchild Industries	25
32.	Singer	23	70.	HBH (Hughes Air/Bendix/Holmes)	. . .
33.	Texas Instruments	16	71.	MIT	13
34.	Hughes Helicopters	. . .	72.	Burroughs	24
35.	General Tire & Rubber (Aerojet)	15	73.	Pacific Resources	. . .
36.	ITT	31	74.	Johns Hopkins University	32
37.	Standard Oil of California	30	75.	Oshkosh Truck	. . .
38.	Teledyne	27	76.	Gulf Oil	30
39.	Motor Oil Hellas	. . .	77.	Ashland Oil	31

[a] An ellipsis indicates that no targeting for specific technology or hardware was noted during the sampling period to rank these companies; this is not a complete indication that there was no hostile targeting of those companies. Other companies not among the top 100 are known to have been identified by the Soviets for needed technology.

Table 3 (continued)

Dollar Value Rank	Company	Soviet Identification Rank	Dollar Value Rank	Company	Soviet Identification Rank
78.	Mitre	. . .	90.	Gulf States Oil & Refining	18
79.	Rolls Royce Ltd.	30	91.	SAI	. . .
80.	Du Pont	10	92.	Sunstrand	. . .
81.	Williams International	32	93.	Kaman	. . .
82.	Reynolds Industry	29	94.	Kuwait Petroleum	. . .
83.	Duchossois Thrall Group (Chamberlain)	29	95.	Harsco	. . .
84.	NI Industry (Norris)	. . .	96.	Lear Siegler	30
85.	Sam Whan	. . .	97.	Varian Associates	29
86.	Computer Science	. . .	98.	Southern Union	. . .
87.	Xerox	. . .	99.	Cubic	32
88.	Brunswick	30	100.	Digital Equipment	29
89.	Hewlett Packard	27			

In the VPK program the Soviets issue general guidance to collectors to acquire selected information on, for example, a system (the US Space Shuttle) or a subsystem/technology (electro-optical guidance techniques of the US Maverick or TOW missiles). They follow up this guidance with specific "requirements" and allocate funds for particular pieces of hardware (MK 46 torpedo: more than 1,250,000 rubles (more than $3.5 million), or a U-2 aircraft radio: more than 50,000 rubles), or a document (K-250K-D gyroscope: more than 20,000 rubles), or a dual-use product (excimer laser: more than 20,000 rubles). The government agencies, companies, or contractors that have such information or products are specified. The rank ordering in this table is representative of the number of times a company was specifically identified as a source of needed information and hardware during a selected period. Duplicate numbers beginning with Soviet rank 15 indicate ties in the number of times identified. The data available give a rough indication of large Soviet ongoing needs for innovation in specific aerospace design concepts and hardware as well as for chemical technology and manufacturing equipment.

One solution appears to be to thoroughly screen all candidate data base entries and keep sensitive government information out of the public data bases or limit its availability to US and Allied defense contractors. Unfortunately, this may also inhibit the United States' own national research effort by restricting the ready availability of such information.

Scientific Conferences. Collection of information from professional and academic conferences on applied science and technology has also contributed to the success of the Soviet program. At least 35 conferences worldwide were identified in the VPK program as potential sources of specific data in the late 1970s to assist in solving military research problems. These included conferences on materials, missiles, engines, lasers, computers, marine technology, space, microelectronics, chemical engineering, radars, armaments, and optical communications. The Soviets judged some of the data acquired from these conferences to be among the most significant contributing to their military projects. Conferences in the late 1970s and early 1980s (and Soviet evaluation of the data) ranked in order of significance were the:

- International Radar Conference (improved circuit designs for synthetic aperture satellite radars and aircraft over-the-horizon radars)—Collector: GRU.
- Conference on Integrated Optics (assisted in identifying ways to produce a qualitatively new Soviet category of integrated optical devices for fiber-optics communications)—Collector: KGB.

Table 4
Selected Successful Soviet Bloc Espionage Operations Against US and Other Western Defense Contractor Targets

Agent	Hostile Service	Dates Operated	Access	Impact
William Bell	SB Poland	1978-81	US citizen. Radar specialist, Hughes Aircraft Company. Worked on advanced US radar systems, experimental radar systems, and air-to-air and surface-to-air missiles.	Saved the Soviets several tens of millions of rubles in research efforts; advanced Soviet technology by about five years by permitting them to implement proven design concepts.
Pierre Bourdiol	KGB	1973-83	French engineer.	Currently undergoing trial.
Dieter Gerhardt	GRU	1964-83	South African naval officer who had attended the British Royal Navy College and served at the Embassy in London. Later was a scientific research staff officer.	Passed information on various antiaircraft missiles.
James Harper	SB Poland	1971-81	US citizen. Electronics engineer. Through his girlfriend/wife he had access to Ballistic Missile Defense Advanced Technology Center contracts at Systems Control Inc., California.	Provided dozens of documents on potential US ballistic missile defense programs, ICBM basing modes, and related technology. Afforded Soviets a unique look at potential US future systems concepts.
Manfred Rotsch	KGB	1967-84	West German. Head of the Planning Department of the aviation firm Messerschmitt-Bolkow-Blohm (MBB).	Passed information on the "Tornado" aircraft produced by the European Panavia consortium.

- Conference of the Aerospace and Electronic Systems Society of IEEE (helped technical solutions to existing problems and improved the characteristics of a low-altitude target detection radar)—Collector: KGB.

- International Conference on Radar (assisted development of signal processing for passive jamming suppression methods and for radars to detect distant aircraft targets)—Collector: GRU.

- International Conference on Nontraditional Energy Transformation Systems (refined directions of research on space-based nuclear reactors)—Collector: KGB.

- Conference on Millimetric and Submillimetric Equipment (assisted in design solutions for millimeter wave proximity fuzes)—Collector: KGB.

- Symposium on Solar Energy Conversion (increased efficiency and decreased costs for electron beam deposition of coatings on solar components for space vehicles)—Collector: GRU.

According to Soviet estimates, the information obtained by the KGB and GRU from these conferences alone, particularly the first three, produced savings of millions of rubles in long-range military research projects—savings roughly equivalent to 100 man-years of effort. The fact that numerous professional and scientific conferences are specifically identified as valuable sources in advance by the VPK indicates their exploitation is not fortuitous, but carefully planned.

Ministry of Foreign Trade. The Soviet Ministry of Foreign Trade administers and operates hundreds of foreign trade organizations and firms around the world. This global presence and the ministry's official duties related to technology and transportation make it a practical cover organization for hundreds of KGB and GRU officers involved in technology acquisition efforts. These officers conduct overt and covert collection operations and channel the results through their respective intelligence organizations for accountability in the VPK system.

In addition to providing cover for intelligence officers, the Ministry of Foreign Trade is also a major independent collector in the VPK program and attempts to pursue most of its assigned VPK requirements on an overt basis. During the late 1970s and early 1980s, it helped fulfill about 15 percent of all fully satisfied VPK requirements (figure 7). More important, it fulfilled 9 percent of those satisfied requirements identified as "most critical." Also during that period its role was specialized, focusing largely on the acquisition of microelectronics manufacturing equipment and communications dual-use products. In view of this, it is not surprising that throughout the 10th and thus far in the 11th Five-Year Plans the Ministry of Foreign Trade was assigned to collect the largest percentage of samples (a yearly average of approximately 30 percent) as opposed to documents. The ministry also has a major role in the illegal trade activities discussed later in this report.

Overt and Academic-Related Collectors. The Soviet Academy of Sciences is another collector in the VPK program. So too are the State Committee for Science and Technology (GKNT) and the State Committee for Foreign Economic Relations (GKES). Although these organizations are involved principally in overt collection of information for nondefense industries, they also are involved in worldwide overt collection of information and technical data in response to specific VPK tasking for military research projects. Sometimes they are tasked jointly with the KGB and other collectors to satisfy these requirements.

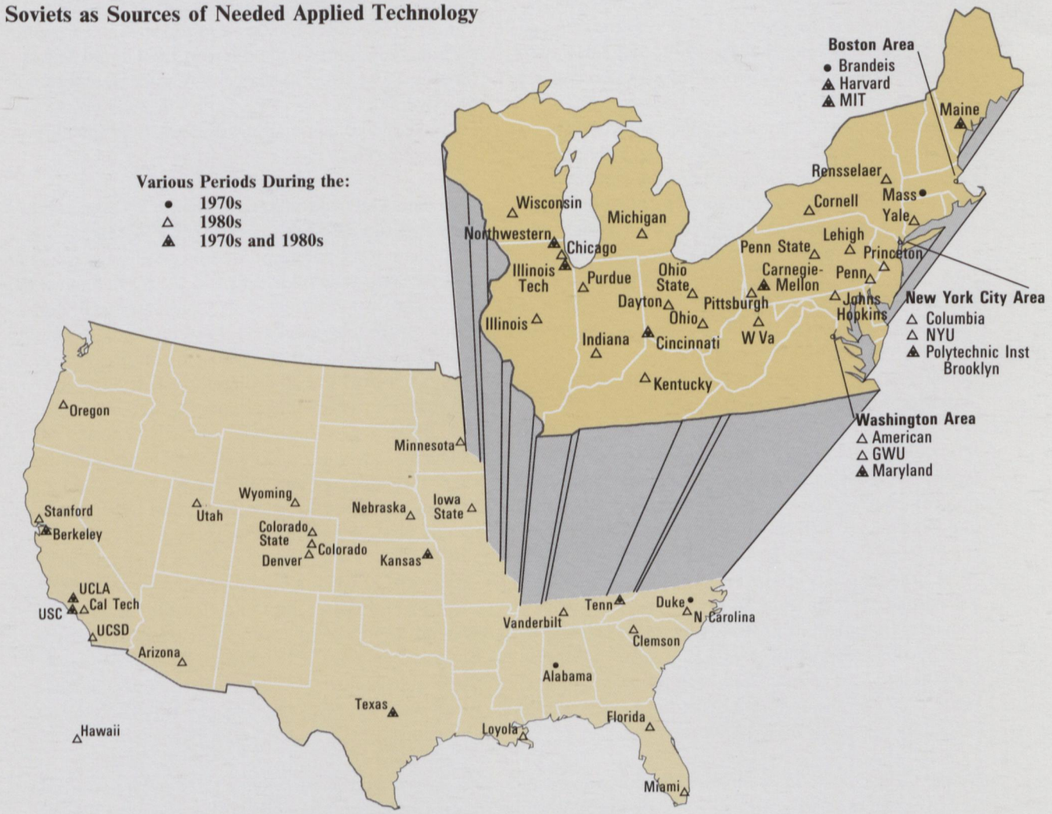
These three collection agencies, especially the Academy of Sciences and the GKNT, operate in the West in a milieu of scientific, academic, and business conferences. They and others help send approximately 2,000 Soviet Bloc citizens to the United States each year in a nontourist status. A portion of those visiting probably respond to high-priority VPK requirements. Additionally, many Soviet scientific personnel have been co-opted to some degree by the Soviet intelligence services to provide assistance to VPK and other collection activities.

During the late 1970s and early 1980s, Soviet scientific collection directives identified numerous universities worldwide that had needed information. Perhaps as a vote of confidence in US academic research, the number of US academic centers targeted has increased from about 20 to over 60 during this period. The universities cited as sources for both applied military-related technology and for civilian scientific data include some of the finest in the United States (figures 9 and 10). The majority of information sought at universities for the VPK program was applied technology and engineering, and not fundamental or basic research.

Carnegie-Mellon, Cincinnati, Kentucky, Massachusetts Institute of Technology (MIT), Michigan, and Wisconsin were among those universities (as well as defense contractors) identified in the VPK program as sources for information on new high-strength, high-temperature alloys, such as titanium, on lightweight structural alloys, and on powder metal processing. California Institute of Technology, Harvard, and MIT were targeted for techniques, methodologies, and results for evaluation of strategic concepts on space, aviation, and missile systems. California Institute of Technology and MIT were also cited as sources for transonic, supersonic, and hypersonic aerodynamic research, as were the Polytechnic Institute of New York (Brooklyn), Princeton, and Stanford. Kansas, MIT, Ohio State, and Penn State were identified for data relating to electrohydraulic control systems applicable to aircraft, helicopters, and the Soviet version of the US Space Shuttle. Research applicable to future high-energy laser and particle beam weapons was sought from MIT, Denver, and Princeton.

As illustrated in figure 7, the three overt and academic-related collectors rank third in the overall VPK program, satisfying about 20 percent of those requirements that were completely fulfilled by all collectors. On the other hand, figure 8 shows that while their overall contribution to Soviet military research collection is large in volume they accounted for about 5 percent of the technology judged most significant by the Soviets during the late 1970s and early 1980s. Acquisitions included information on developing and manufacturing composite materials for missiles and space systems; automated control designs for highly

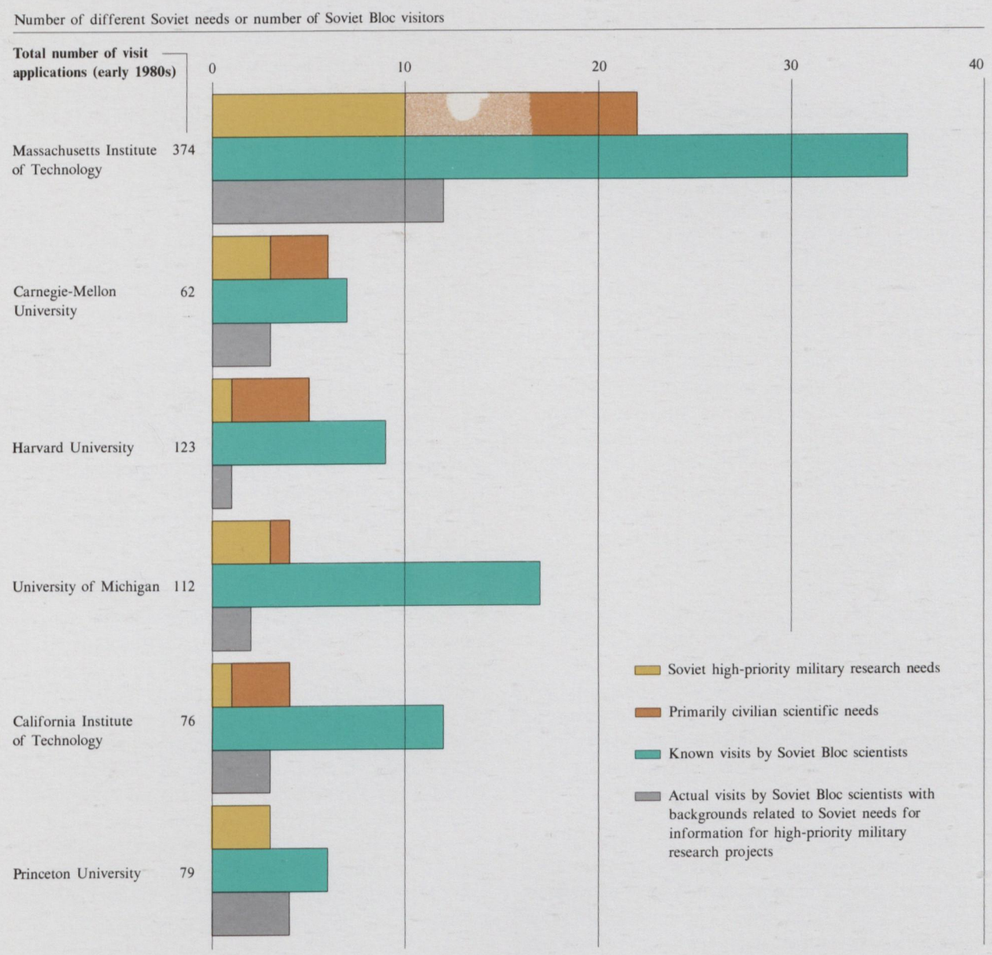
Figure 9
Selected US Universities Identified by the Soviets as Sources of Needed Applied Technology



Over the past decade or so about 40 percent of the US universities shown above were identified in the VPK program as sources of applied science and technology principally for Soviet military aerospace developments. The State Committee for Science and Technology also issues requirements against US universities, but principally for fundamental research for both Soviet military- and civilian-related science developments.

Known Soviet collectors at US and other Western universities include those from the intelligence services, scientists within the Academy of Sciences, and scientists from the State Committee for Science and Technology who come to study in the United States. Many of these collectors are also involved in spotting and assessing US scientists for potential recruitment as agents.

Figure 10
Soviet Needs for Applied Science and Technology From Selected US Universities Compared With Number of Visiting Soviet Bloc Scientists, Early 1980s



The above US universities, as well as Stanford, California at Berkeley, Cornell, and the Illinois Institute of Technology, were identified by the Soviets more often than others during the early 1980s as sources of technology needed for high-priority military and civilian research projects. There is a rough correlation between the number of VPK-identified *military* research needs and the number of visiting Soviet Bloc scientists with backgrounds related to those technical areas. There is, however, little data indicating that specific scientists were tasked to acquire information for Soviet military research projects.

accurate coordinate-measuring machines for quality control of weapon components and subassemblies; information on automatic control systems for optimizing rolling mills; acoustical data for developing low-frequency sonars for submarines; and information on aerial photography, magnetic recording systems, and lasers.

The Trade Diversion Program: Building and Expanding Industries

Numerous sources and data indicate the existence of a program separate and administratively different from the VPK program, but comparable to it in scope. This second program is characterized not by requirements for one-of-a-kind equipment, but by illegal and legal acquisitions of relatively large numbers of dual-use products for Soviet military programs. These products are requested by the defense industries for direct use in manufacturing lines to increase the throughput or output of plants or for designing future equipment. Often manufacturing cells, complete production lines, or even entire plants are sought from the West. Much of this equipment and technology falls into the areas of computers, microelectronics, numerically controlled machine tools, robotics, and material fabrication.

This second Soviet program is probably less structured than that of the VPK, but just as rigidly monitored because of the large amounts of hard currency necessary. This is the Soviet program that appears to be largely responsible for orchestrating and managing most of the worldwide trade diversions, particularly in the areas of computers and microelectronics.

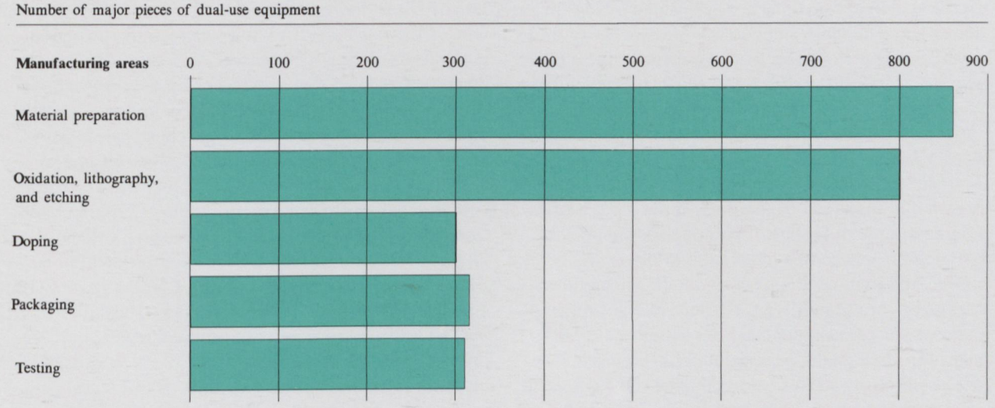
Computers and Microelectronics

Major Soviet diversion efforts are targeted at microelectronics fabrication equipment and computers; nearly half of detected trade diversions fall into these categories. Using unscrupulous Western traders who employ license falsifications, deceptive equipment descriptions, dummy firms, false end users for illegal purchases, and smuggling, as well as assistance from intelligence operations, the USSR has acquired at a minimum several thousand pieces of major microelectronics fabrication equipment during the last 10 years (figure 11). The equipment acquired through these efforts is largely responsible for the significant advances the Soviet microelectronics industry has made thus far, advances that have reduced the overall Western lead in microelectronics from 10 to 12 years in the mid-1970s to four to six years today. Western microelectronics manufacturing equipment has been applied throughout the entire production process—from materials preparation to the final testing apparatus needed for sophisticated production lines. In fact, total design and fabrication lines may have been acquired from single diversion operations.

Volume purchases, legal and illegal, characterize the second Soviet program. Examples of microelectronic products that the Soviets illegally acquired from the United States, Japan, and other countries in one year during the early 1970s include 30 sophisticated crystal pullers, 99 diffusion furnaces, three integrated circuit (IC) testers, and 10 mask aligners. The next year they diverted 24 crystal pullers, 64 diffusion furnaces, three photorepeaters, three pattern generators, three epitaxial reactors, and an IC tester. Such purchases have been used directly in assembly lines for military production. In the future, large quantities of test equipment for sophisticated very-large-scale integrated (VLSI) circuits will be a major target.

Volume purchases of materials are also part of the second program. Before 1980, the Soviets purchased hundreds of tons of electronics-grade silicon (not under export controls at that time). This is the raw material needed for integrated circuits for both military and civilian uses. The silicon originated primarily from the United States, West Germany, and Japan. After the sale of electronics-grade silicon to the USSR was restricted, Soviet acquisitions continued through worldwide diversions. Future acquisitions of silicon very likely will begin to concentrate on the very high-quality silicon produced in the United States, West Germany, and Japan for use in producing VLSI circuits.

Figure 11
Soviet Acquisitions of More Than 2,500 Pieces of Western Microelectronics Manufacturing Equipment, Early 1970s – Early 1980s



Over the past few years the Soviets have virtually completed their entire building construction program for manufacturing military microelectronics components. To equip many of these buildings with advanced production equipment, they acquired more than 2,500 pieces of major Western controlled and uncontrolled microelectronics fabrication equipment covering the entire spectrum of manufacturing operations. They acquired this equipment from the United States, Japan, and Europe, and diverted it through many parts of the world. Years of illegal acquisitions of large numbers of dual-use products through worldwide trade diversions have enabled the Soviets to narrow the microelectronics technological gap with the West from 10 to 12 years a decade ago to about four to six years today.

Integrated circuits intended for direct use in Soviet systems are usually acquired from the United States and Japan by trading companies in various parts of the world, and then shipped in huge numbers to Soviet and East European destinations. As many as 100 million circuits may be shipped in this manner every year.

In direct monetary value, volume acquisitions through illegal trade probably far exceed those of the VPK-directed effort. The Soviets have diverted thousands of different items of high technology in the past two decades, totaling perhaps billions of dollars in hardware value alone. Most of these illegal acquisitions have been facilitated or conducted autonomously by unscrupulous traders. The manufacturers of high-technology production equipment have rarely been knowingly involved in diversions; indeed, they have often been victims.

The Soviets have arranged most diversions through Europe, but their use of Asia as a diversion route is growing. Over 300 firms in more than 30 countries have been identified as engaged in diversions. Many more companies probably exist—some involved in only a few operations and quitting or disbanding before becoming well known or vulnerable.

Participants in the Second Program

The Soviet intelligence services and the Ministry of Foreign Trade are involved in various ways with most of this illegal trade, some of which is conducted through ostensibly normal trade channels. The Ministry of Foreign Trade and industrial ministries operate a large network of foreign trade organizations, commercial offices, joint companies, and foreign procurement offices whose staffs know the hardware markets

and act as ready contacts for technology traders and diverters who may volunteer their services to the Soviets. They are also quite adept at spotting opportunities for diversions and obtaining controlled Western products. These functions are performed by legitimate Soviet trade officials, intelligence officers under trade cover, and trade officials working directly for intelligence officers. Many of the 141 Soviets expelled from 25 countries during 1983 were assigned in some capacity with the Ministry of Foreign Trade.

The Soviet illegal trade program appears to be administered and managed in the trade ministry's Main Engineering and Technical Administration (GITU). Although it is a component of the ministry, GITU is staffed and managed largely by intelligence officers, organized into separate KGB and GRU groups by their respective headquarters. Its subordinate Department for Technical Cooperation with Foreign Countries is similarly staffed and managed. GITU reportedly exercises some supervision over all technical Soviet foreign trade organizations and all technical joint trading companies.

The GITU staff has grown from about 12 in 1970 to about 70 in 1983. Its subordinate Department for Technical Cooperation with Foreign Countries numbers over a hundred. The intelligence officers assigned to GITU, and to the Ministry of Foreign Trade in general, blend into a number of roles in carrying out their assignments. Soviet intelligence service personnel (as well as their East European surrogates) are in embassy commercial sections, trade missions, consulates, commercial organizations, and joint stock companies in the West. Moreover, intelligence officers have been identified as employees of foreign trade organizations in the Soviet Union and their offices elsewhere in the world.

Although GITU is largely a Soviet intelligence service domain (with the GRU probably filling most cover positions), that does not mean that all trade diversion operations are conceived of and supervised on a daily basis by intelligence officers. Some evidence indicates that the GRU is involved with more trade diversion operations than the KGB, but it is unknown if this is by design or rather a practical manifestation of the high proportion of foreign-trade-related GRU cover positions. Legitimate Soviet trade officers in Warsaw Pact countries are also involved in trade diversions, and not merely as intelligence co-optees.

Use of Diverters-for-Hire

One of the most effective and secure trade diversion methods used by the Soviets is the contract or broker diverter. Contractor diverters work for set or negotiated fees; broker diverters receive a commission, usually a percentage of the equipment purchase price. Both are individual traders or businessmen with some affiliation to high-technology manufacturing or trade circles. They are very knowledgeable of high-technology markets and product availability and either volunteer their services to the Soviets or are spotted by Soviet assets in the West or in the USSR. Some have global expertise and connections; some specialize in operations in a few countries or a few technology product lines. In some cases, the Soviets have used diverters with known track records of trading almost exclusively, or in high volume, with the East Europeans.

Whether a volunteer or selected by the Soviets, a potential contract or broker diverter is generally screened to determine the scope and depth of his contacts, range of trade abilities, and access to pertinent high-technology markets and manufacturers. In some cases such an assessment may be a rigorous one, in others perhaps only superficial. A most important quality, however, is the ability to deliver goods as scheduled, for close to the agreed prices, without complications or risks to the Soviet customer.

Although many Soviet intelligence officers are involved with negotiating and contracting with diverters, this procedure is not a classic intelligence operation and is analagous to an intelligence "recruitment" in timing only. The diverter does not accept intelligence discipline as would an "agent." Indeed it makes little or no difference to diverters if they are dealing with intelligence principals as opposed to trade officials, save for the need to avoid the suspicions of espionage. Additionally, most diverters probably do not enter into a permanent relationship with their Soviet principals, but rather into one that is only for the duration of one or a series of formal or informal contracts for specific products or services.

Although there are dissimilarities among contract or broker diversion operations, there are some characteristics that seem consistent:

- The Soviets incur minimal, if any, risk or legal liability. Many, if not most, contracts are scheduled, briefed, signed, or verbally agreed to in Moscow or another convenient denied area or are obscured by the conduct of legitimate overt business.

- Little or no contact is maintained with the diverter. This seems especially true of diverters operating on behalf of a Soviet intelligence service.

- For the most part, the diverter has autonomy in operational decisions, including arranging front organizations, product availability, purchase, shipping, storage, and delivery. At times diverters also perform initial professional setup, testing, and servicing of equipment. In so doing they rely exclusively on professional overt and covert colleagues.

- Fees are negotiable. The Soviets will pay lucrative, but not outrageous prices. Fees can also be raised during the course of the diversion if more costs or risks are entailed by the diverter.

- Payment is generally through letter of credit deposited by the Soviets to the diverter's bank account.

The use of contract or broker trade diverter operations by the Soviets minimizes, if not obviates, the risk to their intelligence residences and trade officials while simultaneously assuring the application of professional business and trade diversion know-how to the technology acquisition task. Because of the low Soviet profile in these operations, more vigorous law and trade control enforcement may be more effective in stemming contract diversion than counterintelligence responses, although both efforts clearly have an important role.

Contract Trade Diverter: Richard Mueller

Richard Mueller, a West German citizen, is wanted in that country and in the United States for many cases involving illegal exports of COCOM-controlled computers, microelectronics, and other products to the USSR. His involvement with illegal technology acquisition on behalf of the Soviet Bloc dates back to the early 1970s. By 1978 Mueller's deals were made almost exclusively with Soviet foreign trade officials; some of these officials were intelligence officers under cover. For his network, Mueller uses numerous dummy and front firms and meets with his Soviet principals in Moscow to mask his activities. At one time he had more than 75 firms operating in Austria, France, Switzerland, the United Kingdom, the United States, and West Germany.

Between 1978 and 1983 Mueller delivered to the Soviets advanced computers, peripherals, and microelectronics manufacturing equipment worth at least several tens of millions of dollars. Perhaps Mueller's best known operation was his attempted diversion to the USSR in late 1983 of seven large US Digital Equipment Corporation VAX computers and related hardware and software. The VAX series of super minicomputers are valuable to the Soviets because of their computer-aided design (CAD) applications for microelectronics fabrication. This equipment was purchased in the United States for Mueller's dummy firms in South Africa and West Germany. Much of it was seized by Sweden and West Germany enroute to the Soviet Union.

Other Diversion Methods

Soviet foreign trade officers also attempt to make small Western firms dependent on Soviet legal orders over a period of years. For such firms, who are not contract or broker trade diverters, the occasional

Soviet request for illegal purchases or a support role in a larger illegal trade operation appears difficult if not impossible to refuse. Indeed, some firms may even be drawn into complicity or support for Soviet diversion operations unwittingly or gradually. It has long been a concern in the West to limit the expansion of Soviet foreign trade organizations abroad because of the opportunities they offer for this type of diversion activity. Although it has become more difficult for the Soviets to conduct this type of activity, Moscow continues to keep these diversion channels open.

The Soviets also acquire technology to modernize manufacturing through another mechanism, the so-called acceptance engineers. They are assigned as quality inspectors on a long-term basis, usually a year or longer, to Western firms engaged in manufacturing items for Soviet end users. These may be intelligence officers or Soviet personnel who are co-opted to steal proprietary production or technical data. They also use this opportunity for agent spotting for immediate or future exploitation. Use of acceptance engineers for collection is especially practical in countries with advanced manufacturing technology. Companies in Western Europe and in Japan have been targeted with this approach.

Prospects for Stemming Losses

The West needs to better organize to protect its military, industrial, commercial, and scientific communities, keeping two objectives clearly in view:

- First, it must seek to maintain its technological lead over the Soviets in vital design and manufacturing know-how.

- Second, it should strictly control key dual-use products, including computer-aided design and manufacturing systems, large volumes of automatic test and inspection equipment, and, most important, the automatic test equipment that can alleviate acute Soviet qualitative deficiencies in the manufacturing of weapons and military equipment.

The ultimate goal should be to deny the Soviets access to Western documents, hardware, and technologies that will accelerate their military programs and simultaneously cause Western defense efforts and costs to increase. Soviet dependence on the West for technological innovation in military research and development and in modernizing Soviet production industries is broad. It is particularly important in microelectronics and computers, and extends to key areas that include command, control, communications, and intelligence (C^3I), computer-integrated design and manufacturing, and materials fabrication (table 5).

The United States and many other Western governments have begun to better recognize that their military and dual-use equipment and technologies have been improving the performance capabilities and manufacturing standards of Soviet weapons. Several positive steps have already been taken by the United States, Western Europe, and Japan, including selective expansion of the COCOM [3] list to deny the Soviets key items. Although the emphasis has varied among countries, most have undertaken individual programs to stem diversions and losses that include some of the following:

- Increased awareness programs, highlighting the magnitude, tactics, and detriment to Western security of the Soviet efforts.
- Improved export control efforts and enhanced law enforcement capabilities.
- Counterintelligence programs specifically targeting the technology transfer activities of hostile intelligence services and their Soviet co-optees and agents.
- Industrial security awareness programs conducted jointly by counterintelligence services, security services, and corporate security professionals.
- Soviet Bloc scientific visitor controls designed to screen high security risk visitors and, in the process, strengthen the spirit and integrity of academic exchanges.
- Better review of government open publications in the prepublication or predistribution phases.

In general, a more difficult operational environment for Soviet intelligence has resulted worldwide.

[3] The Coordinating Committee (COCOM) was established in 1949 to serve as the forum for Western efforts to develop a system of strategic export controls. It is composed of the United States, the United Kingdom, Turkey, Portugal, Norway, the Netherlands, Luxembourg, Japan, Italy, Greece, France, the Federal Republic of Germany, Denmark, Canada, and Belgium.

Table 5
Examples of Dual-Use Equipment and Technology Likely To Be Targeted by the Soviets

Microelectronics

- Advanced Integrated Circuits
  - — GaAs Devices
  - — Memories
  - — Microprocessors and Peripherals
  - — Very-High-Speed Integrated Circuit (VHSIC) Devices
- Automatic Integrated Circuit and Printed Circuit Board Testers
- Chemical Vapor Deposition (CVD) Equipment, Especially Metal-Organic CVD Systems
- Computer-Aided Design (CAD) Systems
- Integrated Optics
- Ion-Beam and Plasma Etchers
- Ion-Implantation Equipment
- Lithography Equipment, Especially Electron-beam, Ion-beam, and X-ray Systems
- Molecular Beam Epitaxy (MBE) Systems
- Semiconductors
  - — III-V and II-VI Compounds
  - — Heteroepitaxial Materials
  - — Specialized Crystal Pullers
  - — Quality Silicon for Very-Large-Scale Integrated (VLSI) Circuits

Computers

- Array-Transform Processors
- Artificial Intelligence Systems
- Data Display Equipment
- High-Density Disk Storage Systems
- Internal Memories
- Software Development Systems
- Stand-Alone Mainframe Computers
- Supercomputers
- Superminicomputers

Command, Control, Communications, and Intelligence (C^3I)

- C^3I Software
- Computer Networking Systems
- Telecommunications
  - — Fiber-Optics Transmission Systems
  - — Digital Switching Systems
  - — High-Speed Modems
  - — Satellite Communications Systems
  - — Terminal Displays

Computer-Integrated Design and Manufacturing

- Computer-Aided Design Software, Methods, and Equipment
- Computer-Aided Manufacturing (CAM) Software
- Computer Numerical Controls for Metalworking Machines
- Coordinate Measuring Machines
- Finite Element Analysis
- Flexible Manufacturing Systems (FMS)
- Plant Control Software
- Robotics

Material Fabrication

- Metals and Alloys
- Composites
  - — High-Strength Fibers and Filaments
  - — Carbon-Carbon Manufacturing
- Ceramics
- Materials Processing
  - — High Temperature Resistant Coatings
  - — Isostatic Presses
  - — Lasers for Surface Conditioning and Material Processing
  - — Material Joining and Bonding Equipment
  - — Nondestructive Test and Evaluation Equipment
  - — Precision Shapers and Formers
  - — Vacuum Furnaces, Including Those for Single Crystal Growth

The worldwide diffusion of advanced products and high technology, however, clearly has increased Soviet collection opportunities. To take advantage of this, the Soviets can be expected to intensify operational acquisition efforts by:

- Expanding their use of contract diverters on a global basis.
- Increasing their dependence on surrogates among the East European intelligence services; increasing use of client states such as Libya, Vietnam, and North Korea.
- Increasing their exploitation of any vulnerable US and Western defense weapon system coproduction arrangements in Allied countries.
- Relying more on third-country espionage operations targeting US personnel and technology (mostly handling covert assets in areas outside the United States).
- Exploiting Third World trade entities dealing with US high technology (the Soviets contend that corporations, officials, and security services in those countries can be easily victimized).

- Attempting broader online access to US and other Western data base systems directly from the Soviet Union.

For effective countermeasures to keep pace with the evolving Soviet acquisition programs, in particular the highly effective operations of the KGB, the GRU, their surrogates among the East Europeans as well as unscrupulous traders, the West should accurately anticipate Soviet tactics. Western countries should continue to improve and modify their responses. In particular, the West needs to improve and refine its knowledge of Soviet military-technical needs and factor this knowledge into meaningful and practical, multilateral export control lists. Most important, however, must be increased multinational coordination of Western programs—for example, a systematic program among the Western customs services aimed at preventing the illegal export and diversion of militarily significant equipment in the face of what clearly will be a geographically expanding Soviet acquisition threat.

Much can be done to stem losses because much is known about Soviet efforts; it is not an insurmountable problem. But the Soviets' appetite for Western technology will continue to be voracious. They will continue to exploit any weaknesses in Western export controls, as well as policy differences among the COCOM countries, to acquire the technologies needed by their military programs for the late 1980s and beyond.

This effort is more difficult and costly for them than at any time in the past. The stakes are high and the Soviets know it; they will devote whatever resources and manpower are required to fulfill their most critical military collection requirements. The West can do no less if it is to succeed in protecting itself as well as frustrating their efforts. All in the West—governments and private industries—will need to participate.

Annex

Several Hundred Examples of Soviet Military Equipment and Weapons Benefiting From Western Technology and Products

There are hundreds of examples of Soviet military equipment and weapons of the 1980s and 1990s that have benefited or will benefit from the technologies and products of at least a dozen different Western countries. New and advanced technical directions will be incorporated into some of the weapon systems, subsystems, and equipment in each industrial area given below. The equipment in many projects will have their technical levels raised or project completion dates shortened principally because of the copying of design concepts embodied in Western technical documents, one-of-a-kind military hardware, and dual-use products.

Aviation	Four New Fighter Aircraft New Tactical Fighter of the 1990s A Supersonic Aircraft Ground Attack Aircraft Airborne Command Post Reduced-Infrared-Signature Aircraft Four Transport Aircraft	Reusable Space Shuttle Air-to-Air Missile (US Phoenix-Like) Fire-Control System for Three Fighters Gas Turbine Engine Ramjet Engine
Projectiles and Explosives	100-mm and 152-mm High-Explosive Shells 203-mm Artillery Shell Sabot Design for Armor-Piercing Tank Round Armor-Piercing Tungsten Penetrator Shell 23-mm Gun Aviation Cluster Bomb Remote Mining Shell Delivered by Artillery, Rockets, and Aircraft Large Caliber Artillery Shell Casing Small Caliber Ammunitions	Noise-Detonated Fuze Microelectronic Radio Fuze Millimeter-Wave Proximity Fuze High-Efficiency Proximity Fuze for Mass Munitions Antisubmarine Torpedo Antisubmarine Missile Munitions Testing Equipment Thermal Decoy Target Protective Blast Structure Solid Propellant Unmanned Target Plane Equipment
Armor and Electro-Optics	Space-Based Photoreconnaissance System Infrared Space Reconnaissance System Space-Based Missile Launch Detection System Space-Based Infrared Image Processor Synthetic Aperture Radar for Space Reconnaissance	T-55 Tank T-64 Tank T-64A Tank T-64B Tank T-72 Tank T-80 Tank 125-mm Tank Gun Industrial Gas Laser

	Aerial Frame Camera	Laser Rangefinder
	High-Altitude Aerial Camera	Antitank Missile
	Coordinate Measuring Machine	Countermeasure Against US Antitank Guided Missile
	Portable Antiaircraft Missile System	Automatic Gun Barrel
	Advanced Night Vision Device	New Artillery Gun Barrel
	Small-Arms Night Sight	Sniper Rifle and Machinegun
	Holographic Fire-Control System	High-Strength Gun Barrel from Electroslag Steel
	Laser-Guided Artillery Shell	Automated Rolling Mill for Military Production
	Laser Gyro	
	Optical Computer for Tactical Ballistic Missile	
	Diamond Turning Device for Mirrors for Future Laser Weapons	
Missiles and Space	A New ICBM	Carbon-Carbon Nosecone for Reentry Vehicle
	A New SLBM	Missile Motor Case Material (Based on DuPont Kevlar 49)
	Maneuvering Reentry Vehicle (MaRV)	Surface-to-Air Missile
	Strategic Cruise Missile	Missile Fuel Tank
	Reusable Space System (Shuttle)	Cryptographic System
	Navigation Satellites	Telemetry System
	Manned Space-Based Orbital Station	
	Reentry Vehicle	
Communications	Aircraft-to-Submarine Communications System	Narrow-Band Signal Analyzer
	High-Altitude Video Reconnaissance System	Cryptographic System Scrambler
	Video Processor for Space Reconnaissance	Magnetic Recorder
	Reconnaissance Radio Receiver	Fiber-Optical Cable
	Strategic Aircraft and Cruise Missile Communication System	Microcomputer for Communications
	Fiber-Optics Communications System	Programmable Oscilloscope
	Electronic Countermeasure Station	Digital Processor
	Signals Intelligence Equipment	Printed Circuit Board Production Equipment for Communications
		Correctable Aerial Bomb
		Remotely Piloted Vehicle
		Electronic Page Teleprinter
Radars and Computers	ABM Radar System Design	Disk Drives for Ryad Computer
	Space-Based Oceanographic Radar	Computer Software
	Three-Dimensional Phased-Array Radar	BESM-6 Computer
	Over-the-Horizon Radar	Magnetic-Bubble Computer for Onboard Missile
	Shortwave-Band Aircraft Radar	Computer Matrix Processor
	High-Capacity Computer	

Nuclear and High-Energy Lasers	Nuclear Weapons Safety System	Space-Based Microprocessor for a Detector
	Space-Based Nuclear Reactor	Radiation Detector
	Nuclear Reactors	Airborne Military High-Power Carbon Dioxide (CO_2) and Carbon Monoxide (CO) Laser Weapon
	Naval Nuclear Reactor	High-Power Gas Dynamic Laser
	Water-Cooled Power Reactor	Space-Based High-Energy Chemical Laser Weapon
	Process for Reactor-Grade Zirconium	
	High-Sensitivity Mass Spectrometer for Uranium Enrichment	
	Isotope Separation Process	
Shipbuilding	New Aircraft Carrier Catapults for High-Performance Airplanes	Magnetometer
	New Submarine	Surface Warship
	Submarine Quieting Equipment and Techniques	Warship-Based Multitarget Radar Fire-Control System
	Antisubmarine Torpedo	Sonar System for Nuclear Submarine
	Telecontrolled Torpedo	Sonar for Surface Ship
	Torpedo Missile	Sonar for Ships and Helicopters
	Laser Submarine Wake-Detection System	Sonobuoy
	Radioactive Submarine Wake-Detection System	Radiowave Underwater Communication System for Diver-Scouts
	Hydrophone for Aircraft-to-Submarine Communications	Ship Demagnetizer
		Gyrohorizoncompass for Naval Ships
		Naval Gun
Electronics and Microelectronics	Photolithography System	Charge Coupled Devices
	Photomask Equipment	Traveling Wave Tube for Military Satellite Communications
	Microelectronics Tester (Fairchild Corporation SENTRY-7 Design)	Space-Based Laser Communication System
	LSI IC Circuit Mask Fabricator	High-Power Microwave Tube for Onboard Radar Against Low-Flying Targets
	Microelectronics for Onboard Weapon Systems	Laser Communication, Detection, and Ranging System (Hughes Aircraft Company 3800 Design)
	Large-Scale Integrated Circuit Tester	Infrared TV System
	Microprocessor (Motorola MC 10800 Series Design)	MIG Aircraft Centimeter Waveband Radar with Onboard Digital Processing
	16-Bit Microcomputer	Compact Analog-Digital Converter
	Computers (Digital Equipment Corporation PDP Series Design)	Quartz Resonator
	Micro- and Mini-computers for Military Purposes (AM 2900, LSI-11M, PDP 11/70 and REDAC Designs and Hardware)	Crystal Grower
		Power Generator
	Memories for Onboard Radar Fire Control Systems	Communication and Telemetry System
	Computer Memories	Microwave Generator
	New Semiconductor Thyristor for Military Equipment	

Chemicals	Hybrid Ramjet Engine for Cruise Missile	Polyamide Composite Materials for Aircraft and Tank Industries
	Solid Rocket Propellant for Strategic Missile	Carbon Fiber Production for Aerospace Applications
	Polyethylene Production System	Radiation Hardening Paint for Radio-electronic Equipment
	Color Aerial Photographic Film	Bonding Material for Spacecraft
	Photographic Film for Air and Space Reconnaissance	Ion-Exchange Resins
	Photographic Film for Space Reconnaissance (Kodak 3414 Film)	Laser Systems for Remote Chemical/ Biological Reconnaissance
	Antistatic Photoreconnaissance Film	Fillers for Deep Sea Vehicles
	Low-Density Polyethylene	New Gas Mask
	Photoresist System for Microelectronic Photolithography	
Electrical Equipment	Space-Based Turbogenerator	Power Sources for Missile Installations
	Tank-Mounted Infrared System	Space-Based Solar Power Cells
	Sodium-Sulfur Battery for Missiles, Space, Tanks, and Submarines	Spacecraft Temperature Control System
	Electric Step-Motors for Aviation Weapon Systems	Ship Electrical Supply System
		Batteries for Naval Ships
Petroleum and Petrochemicals	New Fuel for Strategic Cruise Missiles	Rubberized Fabric Inflated Seal for Supersonic Military Aircraft
	New Jet Engine Fuel	Industrial Rubber for Aerospace and Armored Vehicles
	Polyurethane Binders for Solid Rocket Fuels	Industrial Rubber Seals
	New Zeolite Catalyst for Motor Fuels	High- and Low-Temperature Fluoroelastomer for Aerospace and Armored Vehicles
	Synthetic Motor Oil for Tanks in Arctic Areas (Mobil Oil Company)	Improved Protective Gear for Astronauts and Pilots
	Synthetic Lubricant for Aerospace Equipment	Radar-Absorbing Camouflage Coating
	Radiation-Resistant Additives to Lubricants for Space	
	New Lubricant-Coolant for Motor Vehicles	

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

Prime Minister
Re (not very satisfactory) answers to your questions.
A fuller report on the strategic risks is being prepared.
CDP
11/9

Holiday in C.O in charge

CONFIDENTIAL

Charles Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

11 September 1985

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

Dear Charles

CARBON CARBON TECHNOLOGY: USSR

Thank you for your letter of 10 September recording the Prime Minister's supplementary questions about the export of carbon carbon technology to the Soviet Union.

The name of the company concerned is BEPA Limited, of Motherwell. This is a small private company controlled by Mr Metcalfe, a US citizen who is a Director of Consarc Engineering Limited, which supplied the machinery to the USSR at an earlier stage. BEPA itself appears to have been formed for Mr Metcalfe's private business purposes and has not so far traded. It could not itself carry out the contract to supply engineering services to the Russians, but would have to employ others to do so, or sub-contract the work.

Mr Metcalfe himself is at present in the USSR, with two others, discussing a possible programme of work. He will let officials have details of this on his return in about ten days time. It is likely that no engineering services will be supplied at this stage.

Publicity is difficult. However, I understand that officials from all the Departments concerned met under Cabinet Office Chairmanship today to consider the strategic risk resulting from these activities and possible ways of dealing with it. A report is likely to be made to Ministers very shortly.

CONFIDENTIAL

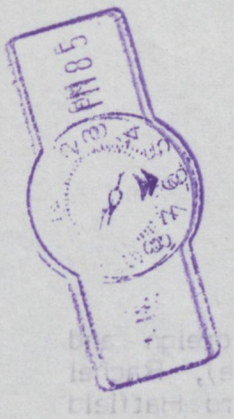
I am copying this letter to Colin Budd and Stuart Eldon (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

Matthew Cocks

MATTHEW COCKS
Private Secretary to the
Minister for Trade (Paul Channon)

Soviet Union: Credit Terms for Exports Pt 3



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CF papers

10 DOWNING STREET

From the Private Secretary

10 September 1985

Dear Matthew,

CARBON-CARBON TECHNOLOGY: USSR

Thank you for your letter of 6 September recounting further developments over the export of carbon-carbon technology to the Soviet Union.

The Prime Minister has a number of supplementary questions on your account:-

- what is the name of the company?

- who is being sent to the Soviet Union?

- are we at liberty to give publicity to the information about the company's activities?

I should be grateful if you could let me have replies on these points.

I am sending a copy of this letter to Colin Budd and Stuart Eldon (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

M. Cocks Esq.,
Department of Trade and Industry.

SRW

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From the Minister for Trade

Prime Minister
CDP
6/9

CONFIDENTIAL

Charles Powell Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

6 September 1985

Dear Charles

CARBON-CARBON TECHNOLOGY: USSR

The Prime Minister will recall that, in February this year, Ministers decided to change the export control law so as to prevent Consarc Engineering Limited, based near Glasgow, completing a contract to supply to the USSR a plant for manufacturing carbon-carbon which has applications in missile technology. Vital parts, without which the plant could not work as intended by the Russians, were prevented from leaving the country.

We have now heard that a company controlled by a Director of Consarc has contracted to supply the Russians with engineers and technical services, apparently with a view to making the incomplete plant perform as originally intended. It is not clear whether they will be able to succeed, but my Minister understands that the view of the experts in the Ministry of Defence has always been that the Russians would be able to make the plant work eventually and it seems that the provision of specialist engineering support will probably make this happen sooner rather than later.

However, our powers to control exports are confined to goods and knowhow in tangible form (documents, drawings etc). We have no powers to prevent individuals leaving the country or to prevent the completion of contracts for the supply of services to the USSR. Adding to the list of controlled goods by a quick Statutory Instrument, as was done in February, will not help.

Representatives of the company have asked to discuss their plans with DTI officials and a meeting has been arranged for 6 September. Officials will make it clear to the company that our earlier action to prevent the plant being completed was taken in the interest of national security, that it follows that efforts to make the plant work as originally intended are also

CONFIDENTIAL

contrary to the national interest, and that Ministers are considering the matter urgently. If the company backs off, well and good. But if not, it will be necessary to consider what other action ought to be taken. I understand that officials from the Departments concerned will meet early next week to consider the outcome of the meeting with the company, and will thereafter report to Ministers.

I am sending copies of this letter to Colin Budd and Stuart Eldon (FCO), Richard Mottram (MoD), Rachel Lomax (Treasury), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

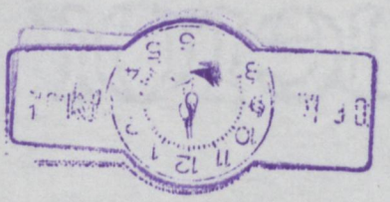
Yours ever

Matthew

MATTHEW COCKS
Private Secretary to the
Minister for Trade (Paul Channon)

999-49

Soviet Union: Credit Terms
Pt 3.



24

NB07
CDP 30/3.

MINISTER OF STATE TREASURY

SECRET

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary to
the Prime Minister
No 10 Downing Street
London SW1

29 March 1985

Dear Charles,

TRANSFER OF CARBON-CARBON TECHNOLOGY TO THE USSR

Rachel Lomax has passed Stephen Nicklen's letter of 25 March to me because the Minister of State has responsibility for Customs and Excise matters at the Treasury.

Customs advise me that the parts of the letter relevant to them were agreed by them and that they are happy to have their powers re-examined in ODO (Strategic Exports). However, they consider that it is worth putting on record at this stage what "radical action" to overcome the problems outlined in paragraph 7 of Stephen Nicklen's letter would entail and why it is their view that this would prove both undesirable and impracticable.

Avoidance of these problems in future would need action in three areas:-

(i) **Customs powers.** Customs would need powers to detain any goods intended for export for which export licences were not currently required but which might become licensable at some time in the future. Primary legislation would be required. The potential scope of such a power would need to be very broad and seemingly arbitrary. It would undoubtedly give rise to serious controversy.

(ii) **Customs procedures.** Customs would need to ensure that full details of all export consignments were submitted to them in good time before shipment. At present, a high proportion of exports are dealt with under simplified arrangements whereby, in order to speed exports, most details are provided post-shipment. It should perhaps be mentioned however that this simplified procedure is

MINISTER OF STATE TREASURY

SECRET

imposing a substantial burden on the Customs due to the poor standards of compliance by the trade. The Customs may be recommending its withdrawal in due course but previous attempts to insist on the submission of full details pre-shipment have been strongly resisted by the exporting community as placing unnecessary barriers and delays on exports.

(iii) **Customs manpower.** Control of exports is at present minimal and any tightening up of control to be effective would involve a massive increase in the workload. To guarantee that no single consignment slipped through the export control net would require a very substantial increase in Customs staff, almost certainly well into three figures.

I am copying this letter to Rachel Lomax (Treasury), Len Appleyard (FCO), Richard Mottram (MoD), Stephen Nicklen (DoTI) and Richard Hatfield (Cabinet Office).

Yours sincerely

MIKE NORGROVE
Private Secretary

Soviet Union Pt 3

Export terms

29 MAR 1985

SECRET

RD

23

10 DOWNING STREET

From the Private Secretary

27 March, 1985

TRANSFER OF CARBON-CARBON TECHNOLOGY TO THE USSR

Thank you for your letter of 25 March setting out the lessons learned from the problem we experienced over CONSARC.

The Prime Minister agrees to the steps proposed by Mr. Channon and set out in summary in paragraph 9 of your letter.

I am sending a copy of this letter to Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury) and to Richard Hatfield (Cabinet Office).

(C D Powell)

S Nicklen Esq
Department of ~~Health and Social Security~~ Trade and Industry

SECRET

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DEPARTMENT OF TRADE AND INDUSTRY
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GTN 215)
(Switchboard) 215 7877

22

From the Minister for Trade

Prime Minister
Agree to the remedial steps proposed in paragraph 9?
25 March 1985
CDP
26/3

SECRET

Charles Powell Esq
Private Secretary to
the Prime Minister
No 10 Downing Street
LONDON
SW1

Dear Charles

TRANSFER OF CARBON-CARBON TECHNOLOGY TO THE USSR

In your letter of 8 February to Richard Mottram, you said that the Prime Minister had asked my Minister to look into the way this matter was handled, to see what lessons can be learned. This letter sets out the results of Mr Channon's enquiries. He has discussed his conclusions with my Secretary of State, who endorses them.

2 We received a first intelligence tip-off from the Americans in February 1984 about a possible export of carbon-carbon manufacturing equipment from the US to USSR via the UK. But it proved too sketchy as a basis for further action. Enquiries in London, following a more specific US approach in November 1984, revealed that CONSARC had asked us in 1982 whether certain equipment they hoped to sell to the USSR was subject to export licensing. They had been told at the time - correctly - that it was not: its performance level was below the limits controlled by COCOM. Changes agreed since 1982 during the 1983/84 COCOM List Review but not in force in November 1984 would not have caught all of CONSARC's equipment. And, in the course of the List Review, the US had not drawn attention to the strategic significance of it. There was doubt whether the US themselves controlled the export of such equipment: we now understand that they did not but are about to do so. In short, it was not clear to officials in November and December that the CONSARC goods were of genuine strategic concern. Differences of view often occur between the US and their allies on the strategic significance of particular equipment. But officials took seriously what the US told us.

3 As is usual when breaches of the embargo are suspected, HM Customs visited CONSARC's factory in November 1984 to check whether any equipment had been shipped, other than that described in their letter of 1982, which was subject to the embargo. They discovered that it had not. They also found that a few parts remained to be shipped. Their significance to the working of the plant as a whole was not apparent at that stage; accordingly there seemed no reason to prevent their export.

Nor did the law, as it stood at that stage, permit this to be done. In response to the company's enquiry whether the goods were, after all, subject to export licensing control, they were told that the position had not changed since 1982. Since there had been no breach of the COCOM controls, there seemed no reason to inform Ministers.

4 During detailed discussions with US officials on 20 December, the Ministry of Defence suggested that their assessment of the strategic implications of Russian possession of the complete plant should proceed in parallel with the Americans. During a visit to the company in January, to take this assessment further, officials were able to identify the elements remaining in the UK. An urgent assessment by the MoD of the significance of these indicated that they were essential to the working of the complete plant: this was the first time this fact had become apparent. The assessment also confirmed that the whole plant was indeed strategically sensitive. Officials concluded that the shipment of these parts, which was due very shortly, should be prevented. Ministers were informed immediately.

5 The case had its origins in the fact that the COCOM rules control exports of equipment above certain specifications but not below. The opportunity to get these cutoffs in the right place is a matter for COCOM List Reviews, which are now to take place on a continuous basis, though there are also procedures for making urgent amendments. Arrangements for more effective assessment of the strategic consequences of technology transfer to the Warsaw Pact are also under discussion in COCOM. Mr Channon believes that we now need to ensue that there are proper controls on carbon-carbon production equipment and technology in all COCOM countries. This is in hand, in consultation with the US. He believes that we also need to complete our assessment of the strategic damage resulting from the partially completed contract, again in consultation with the US.

6 It is a matter for companies to decide whether to enquire whether goods are subject to export licensing control. Enquiries are received and handled by the DTI, usually without reference to the MoD. In handling these enquiries, officials do not consider whether the goods in question ought to be subject to control. This falls to be dealt with in preparation for COCOM List Reviews. Mr Channon believes that we ought to consider whether it is feasible to consider the latter aspect as a matter of routine.

7 At present, Customs have no powers to detain goods which are not subject to export licensing control or which have the necessary licences. Customs officials take the view that their ability to delay shipment by use of administrative procedures (pending amendments to the law) is necessarily limited and could not extend beyond a couple of days. Nor, in Customs' view, given the numbers of staff deployed to control exports and the present simplified documentary system for exports, can there be any guarantee that any particular export can be detected before shipment, particularly when time is short. Customs officials think it unlikely that these problems can be overcome short of radical action, which they believe might well prove both undesirable and impracticable.

8 Although communications with the US were not a central factor in the way this case was handled in Whitehall, Mr Channon believes that they ought to be improved in future. Officials have already put this point to the United States, urging them to use a single channel in future through HM Embassy, Washington.

9 Mr Channon believes that there are important lessons to be learned from the way this case was handled. He considers that officials from the Departments concerned should consider urgently what improvements can be made to existing procedures and how a more effective system for swift inter-Departmental action can be devised. This might involve expanding the use of the existing Cabinet Office machinery to monitor individual cases of this kind (ODO(Strategic Exports)) with a view to:

a quickly and clearly attributing responsibility for strategic assessment; investigation of companies' activities and determination of the licensing position;

b establishing target dates and chasing progress; and

c considering whether and when Ministers ought to be informed.

In reviewing the machinery, officials also ought to look again at the handling of enquiries about export licenses (paragraph 6) Custom's powers (paragraph 7) and communications with the United States (paragraph 8). If the Prime Minister agrees to this way of proceeding, Mr Channon thinks it important that this work should be completed quickly; and that officials should report by the end of May.

10 I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defency), Rachel Lomax (Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely

Stephen

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

Soviet Union Pt 3

Great

25 MAR 1985

SECRET

2

NBPM

Ref. A085/770

MR BUTLER

The Prime Minister will remember that it was agreed at a meeting which she held that we should seek to ensure that a decision to refuse an export licence for certain carbon-carbon manufacturing equipment should not be evaded.

2. She will be glad to know that the vital items of the equipment were intercepted at Hull and have not been sent to Russia. What has already been shipped to the Soviet Union will not be of much use to the Russians unless they can somehow acquire the crucial missing items somewhere else.

RTA

ROBERT ARMSTRONG

14 March 1985

SECRET

SOVIET UNION: Credit Terms

AB

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DEPARTMENT OF TRADE AND INDUSTRY
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SWITCHBOARD 01-215 7877

JU65
PS/ *Secretary of State for Trade and Industry*

1 March 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

NBPM
CDP
1/3

Dear Charles,

EXPORT OF CARBON-CARBON TECHNOLOGY TO THE USSR: CONSARC ENGINEERING LIMITED

In my letter of 27 February I warned you that we could face an awkward situation given the belief that ECGD's liability towards Consarc was much less extensive than had originally been supposed. I then said that the situation would be explored further with the company at a meeting to be held on 28 February.

2 At the meeting yesterday a number of new facts emerged about the circumstances in which the company had arranged for the contract in question to be covered by ECGD. As a result ECGD have now confirmed that the extent of their liability towards the company is in fact the same as had been thought at the time of the Prime Minister's meeting: they will be paid some 90 to 95 per cent of the contract value. The danger of the company going into liquidation has passed; and adverse publicity is unlikely.

3 I am sending copies of this letter to Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Rachel Lomax (Treasury), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours ever,

Callum

M C McCARTHY
Private Secretary

Soviet Union : Credit Terms A73

(2)
20B

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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JU59
Secretary of State for Trade and Industry

DTI have asked for this letter to be disregarded CDP 28/2.

27 February 1985

CONFIDENTIAL

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister
A much smaller liability to HMG than we feared.
But when the news of the company's liquidation becomes public, it may be treated by the Opposition as you sacrificing British jobs to earn President Reagan's favour.
CDP 27/2

Dear Charles,

TRANSFER OF CARBON-CARBON TECHNOLOGY TO THE USSR: CONSARC ENGINEERING LIMITED

The Prime Minister will wish to be aware of developments following Ministers' decision on 8 February to amend the Export of Goods (Control) Order to prohibit the export of the Carbon-Carbon manufacturing equipment remaining at Consarc's factory near Glasgow.

THE ECGD POSITION

2 It emerged last week, when the details of the company's own contracts became available to ECGD, that their liability to Consarc is much more limited than had been thought at the time of the Prime Minister's meeting. The effect of Consarc's contract with the Russians (which from the seller's point of view is extremely weak) read together with the ECGD guarantee is that ECGD is liable only for 90 per cent of the value of the goods which have been prevented from being shipped (because of denial of export licences) - some £400,000; and not 90 per cent of the entire contract value (some £7 million). The company has been informed.

EXPORT LICENCES

3 These have been refused and the company has been informed.

THE COMPANY'S POSITION

4 In the light of this information, the company has been advised by its lawyers that it cannot continue to trade. It originally told us that, unless we can agree today (27 February) to indemnify it, it will apply to the Court tomorrow (28 February) to appoint a Liquidator; and will issue a press

release. (It has subsequently told us that it will postpone a decision whether to apply for a liquidator until tomorrow evening). Officials have told the company, on the instruction of Ministers, that the relevant legislation does not provide for compensation and that it is the Department's long-standing practice not to compensate exporters for the effects of imposing export licence controls. A meeting in London between officials and the company has been arranged for tomorrow. If the company then argues that there are special grounds in this case why compensation should [redacted] be paid, officials will put them urgently to Ministers.

COMPENSATION

5 My Secretary of State has had legal advice that no legal liability should arise from the advice which the Department gave in 1982 that the goods were not subject to export licensing. The bare possibility of such liability cannot be completely excluded, since the company might argue that the Department's advice did not explicitly state that the law at the time might be amended at a future date. This slight possibility would justify an ex gratia payment, but against this must be set the fact that the company has conceded that it knew that the law could in fact be changed. There is otherwise no legal liability attaching to the actions of the Department. Quite apart from our legal liability, we expect the company to argue that we have a moral obligation to it on the basis that the decision was particularly intended to frustrate the export of the goods in this case and that the consequences fell unexpectedly heavily on this company. But to accept this argument would go against previous policy and would be difficult to distinguish from other cases. My Secretary of State will, however, consider what the company says about the question of possible compensation, or the liability of ECGD, in the light of the meeting with the company tomorrow. But there is a fair prospect, on the facts as we now know them, that there will be no case justifying an ex gratia payment, and the company will very soon go into liquidation, with the loss of about 75 jobs.

PUBLICITY

6 We must assume that this case will become public knowledge very shortly, whether or not the company apply for the appointment of a Liquidator. Suitable briefing is being prepared for the Prime Minister's Questions tomorrow.

7 I shall send you a further report as soon as possible answering the questions the Prime Minister asked at the meeting about the handling of this matter.

8 I am sending copies of this letter to Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Defence), Rachel Lomax (Treasury), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours ever,

Cathy McCarthy

M C McCARTHY
Private Secretary

Saw Wallow
Exports

20A

10 DOWNING STREET

Prime Minister

Carbon - Carbon Equipment

A consignment from Contarc was intercepted on the quayside in Hull this afternoon. It is not yet certain that it is the equipment in question but is thought likely to be.

If so, we were just in time.

CDP.

20

Prime Minister

CDP 8/2.

SECRET AND PERSONAL

B.06949

SIR ROBERT ARMSTRONG

c Mr Powell, No 10

Consarc (UK): Export of Carbon-Carbon Technology to the Soviet Union

Following the Prime Minister's meeting this morning to discuss this problem, at which it was agreed that the DTI should issue today an order prohibiting the export of the equipment concerned, I told you that the Prime Minister had also directed that the Security Service should be asked to do everything possible to prevent the evasion of the export ban by Consarc (UK). She had asked that you should be informed of this so that the necessary action could be put in hand.

2. As you were engaged in another meeting, you asked me to take the necessary action on your behalf. I therefore telephoned Sir John Jones on a secure line at 11 a.m., explained the background to him, gave him the address of Consarc (UK)'s factory (in Strathclyde) and informed him of the Prime Minister's wish that everything possible should be done to prevent the illegal export of the controversial equipment. Sir John took careful note and said that he would at once make such arrangements as he could. In particular, he would take steps to reduce any possibility of the Soviet Embassy in London being used as a conduit for the delivery of the equipment to the Soviet Union. He stressed, however, that, particularly if the equipment was small and portable, he could not be very sanguine about the Security Service's chances of detection or interception. (I have since established that there appears to be considerable doubt as to the size and portability of the remaining items concerned: the consensus seems to be that we are talking of crates rather than suitcases.)

3. I gave Sir John the names of the officials directly concerned in the MoD, FCO and DTI; he said that his people would take it from there.

Bryan Cartledge.

B G Cartledge

8 February 1985

SECRET AND PERSONAL

SUBJECT
C. Master Set

EL3AEB.

cc PC. 19

10 DOWNING STREET

From the Private Secretary

8 February 1985

Transfer of Carbon-Carbon Technology to the USSR

The Prime Minister held a meeting this morning with the Defence Secretary, Mr Channon, Mr Luce and Mr Hayhoe to discuss the problem posed by the export of certain machinery by Consarc Engineering Ltd to the Soviet Union. Sir Percy Cradock and Mr Cartledge were also present.

The Defence Secretary said that the machinery concerned could be employed in manufacturing critical carbon-carbon components for missiles. The specifications for the contract had been written in such a way as to evade COCOM restrictions. We were under strong pressure from the United States to prevent export of the machinery in question. There were strong grounds to be suspicious about Consarc Engineering: the American parent company appeared to have directed the contract to its British subsidiary in order to evade American controls: the Managing Director's wife was a Soviet citizen. An urgent decision was required, as there was a risk that an attempt would be made to export the equipment in question before the middle of the month.

The Minister of Trade agreed that export of the machinery must be prevented. But during the Siberian pipeline dispute we had made the sanctity of contracts a point of principle. It would be an undesirable precedent to override retrospectively contract terms which had been entered into perfectly legally. There could also be serious implications for our trade with the Soviet Union just at the moment when we were hoping for a considerable expansion following Mr Gorbachev's visit. The possibility of persuading the Americans to stop the delivery should be explored. It should be noted that there would be a liability of £7 million on ECGD if the contract was broken.

In discussion it was pointed out that action by the United States might well involve unacceptable exercise of their extraterritorial jurisdiction. The case was not on a par with the Siberian Pipeline dispute, since national security considerations were quite clearly involved. The machinery in question might be small and portable and steps would be needed to ensure that a ban on export was not evaded.

Summing up, the Prime Minister said that it was quite clear that an important national security consideration was involved. An order should be made without delay to ban the export of the machinery. The liability on ECGD would have to be accepted. The decision should be presented to the Soviet Government as an exceptional one, taken on national security grounds and without implications for our overall attitude towards trade with the Soviet Union. In informing the US Administration of our action, we should underline that it was the activities of an American company which had forced us to put our wider trade interests at risk. Every effort must be made to ensure that the ban was not evaded. It was regrettable that matters had been allowed to reach such a critical stage before Ministers were alerted to the issue, even though we had apparently received the American assessment of the risks more than two months previously. The Minister of Trade should look into the handling of the matter, to see what lessons could be learned.

I understand that the consignment has subsequently been intercepted.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Callum McCarthy (Department of Trade and Industry), Rachel Lomax (HM Treasury) and Bryan Cartledge (Cabinet Office).

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

PM/85/13

PRIME MINISTER

Transfer of Carbon-Carbon Technology to the USSR

1. I understand that you are calling a meeting this morning to discuss the exchange of letters between Michael Heseltine and Norman Tebbit and my own minute of 6 February.

2. I shall not be able to attend and have asked Richard Luce to come in my place. I thought it might be useful for you to have in advance my views on Norman Tebbit's suggestion that we explore the possibility of asking the Americans to take some action to prevent shipment of this material. I sympathise with the practical difficulties that have led Norman Tebbit to suggest this approach. But I have to say that I see some drawbacks. Time is the main problem. Given the possibility that shipment may take place as early as the beginning of next week, any action at the American end is likely to take too long. The other potential practical difficulty is that the US company, or its British subsidiary, might simply refuse to cooperate. I therefore believe that if the meeting concludes that there are overriding national security reasons for preventing this shipment from going ahead, we should need to find an alternative approach which is both foolproof and can be effected very quickly. The precise mechanisms are of course a matter for Norman Tebbit, though I understand that one option that has been considered is an amendment to the Export of Goods (Control) Order of 1981.

3. I am copying this letter to Michael Heseltine, Norman Tebbit, Nigel Lawson, George Younger and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
8 February 1985

18

SECRET

CDP F/L.

PRIME MINISTER

Transfer of Carbon-Carbon Technology to the Soviet Union

As a supplement to the brief which I have submitted to you for your meeting at 9.45 a.m. today, I offer these further thoughts:

i) Security. The validity of the assessment of the relevance of the technology involved to the Soviet missile programme is crucial. To what extent is this an independent United Kingdom assessment and to what extent is the Ministry of Defence simply reflecting and endorsing a United States assessment? How easily could the Soviet Union acquire this technology elsewhere, perhaps in the context of a different civilian contract?

ii) COCOM. This case highlights one of many deficiencies in the COCOM list which (like the ABM Treaty) tends to lag behind technological advance. We are already co-operating actively with the Americans to tighten up COCOM. Could we not put it to them, if they raise this current case, that the answer is not to frustrate contracts legitimately concluded but to accelerate our work on updating the rules?

iii) Public handling. You will already have in mind Government statements in Parliament, during the pipeline dispute, about the importance of preserving the sanctity of contracts.

Bryan Cartledge.

B G Cartledge

8 February 1985

SECRET

8 FEB 1985

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~990~~ 7022 XXXXX 218 2111/3

MO 15/3

7th February 1985

Dear Maureen

TRANSFER OF CARBON-CARBON TECHNOLOGY TO THE SOVIET UNION

My Secretary of State has seen Mr Tebbit's letter of earlier today, on the transfer of carbon-carbon technology to the Soviet Union. He has not, however, yet had an opportunity to discuss the issues raised with officials here.

During the course of this week officials have refined their assessment of the strategic importance of the equipment which Consarc(UK) Ltd propose to export. They remain of the view that shipment should be prevented, and have received indications that it could take place during the course of next week. We have also continued to receive representations from thePentagon, whose assessment is, of course, similar to our own.

The solution which your Secretary of State has suggested is now being studied by officials here, although many of the issues raised are, of course, more for the FCO than ourselves. Their initial reaction is that it might not achieve the desired result. We are not aware of any pressure which the US Government could employ, to persuade the American parent to buy out the contract. Moreover, it would be very difficult to do so within the necessary timescale.

I understand that it is now the intention to discuss the way forward at a meeting at No 10, to be held at 0945 tomorrow morning.

I am copying this to David Barclay (No 10), Peter Rickets (Foreign and Commonwealth Office), Philip Wynn Owen (HM Treasury), Eddie Gowans (Scottish Office) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours ever

Simon Lowe

(S H LOWE)
Private Secretary

Ms Maureen Dodsworth D51

-7 FEB 1985

Covering SECRET

B.06947

MR POWELL

Transfer of Carbon-Carbon Technology to the USSR

I understand that the Prime Minister has now agreed to hold a meeting at 9.45 a.m. tomorrow, 8 February, to discuss the issues which have arisen from the Defence Secretary's minute MO/15/3 of 1 February and subsequent correspondence. I attach a brief.

in folder

B G Cartledge

7 February 1985

SECRET

EPC 17

Prime Minister
CDP
7/2

B.06948

PRIME MINISTER

c Sir Robert Armstrong

Transfer of Carbon-Carbon Technology to the USSR
Meeting of Ministers - 8 February at 9.45 am.

BACKGROUND

A

In his minute MO/15/3 of 1 February the Defence Secretary sought advice from the Secretary of State for Trade and Industry on possible ways of stopping the export of certain machinery to the Soviet Union. Both the Ministry of Defence and the United States Defence Department consider that this machinery could be employed in manufacturing critical carbon-carbon components for missiles and that denial would set the Russians back by up to five years. Most of the equipment has already been shipped to the Soviet Union under a contract concluded in 1983 by Consarc Engineering Limited, a British subsidiary of a United States concern, but key elements remain in this country.

B

The Foreign and Commonwealth Secretary considers, in his minute FCS/85/28 of 6 February, that priority should be given to security considerations and that the shipment should be prevented, despite the risk to our commercial relations with the Soviet Union. Both the Defence Secretary and the Foreign and Commonwealth Secretary agree that this issue is likely to be raised in your discussions with President Reagan later this month.

C

The Secretary of State for Trade and Industry, on the other hand, has underlined in his minute JU948 of 7 February the wholly exceptional action which would be needed to prevent shipment at this late stage and has emphasised the adverse effects on the current surge in Anglo-Soviet trade. He has suggested an approach to the Americans with the object of persuading the United States parent company to buy out its United Kingdom subsidiary and stop the delivery.

2. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Defence Secretary and the Secretary of State for Trade and Industry have been invited to attend your meeting.

HANDLING

3. You should invite the Defence Secretary to open the discussion with his views on the security aspects of this order. The Foreign and Commonwealth Secretary should then advise on the implications of this export, or its denial, both for Anglo-Soviet and Anglo-American relations. Finally, the Secretary of State for Trade and Industry should advise on the legal and financial implications of interfering with the execution of a contract which had previously been cleared with his Department.

4. You may wish to structure the discussion to cover the following issues -

(a) The importance of the technology transfer involved

Given the export of the bulk of the machinery involved, you may wish to press the Defence Secretary on what will be lost by the shipment of the remaining components. Why did the normal screening processes fail to pick up the nature of the technology transfer involved during the two year period covered by the negotiation and execution of the contract? The Defence Secretary and the Secretary of State for Trade and Industry should advise.

(b) Political and trade implications for our relations with the Soviet Union

D

Both the Secretary of State for Trade and Industry and HM Embassy in Moscow (Moscow telegram No 162 of 6 February) have stressed the potentially damaging effects of denial on the recently improved trading position with the Soviet Union. What does the recent increase in Anglo-Soviet trade really

owe to political factors? The Embassy are also concerned that we should not be seen to be leading in the denial of advanced technology to the Russians. Is the middle course suggested by the Secretary of State for Trade and Industry (of seeking to put the onus of stopping the shipment on to the Americans) an acceptable proposition? Is it realistic in terms of the time available before shipment takes place? Can the Customs and Excise delay the shipment sufficiently to allow negotiations through the State Department to proceed? Is this in any case a prudent course, given the possibility that the Americans might use such an approach in other cases to our disadvantage, e.g. to circumvent United Kingdom relations governing the export of arms to such countries as Argentina? The Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry should advise with guidance being given by the Chancellor of the Exchequer on Customs aspects.

(c) Legal and financial position

The Secretary of State for Trade and Industry has indicated that in his view a liability of around £7 million would fall on the ECGD if the contract is broken, given the circumstances of its negotiation. However, is the Trade and Industry Secretary sure that we have the legal authority to prevent the shipment? Is there any chance that the company could go ahead with the export, demonstrating to all concerned including the Soviet Union and the United States, that we had tried but failed to frustrate the contract? In the event of a decision to deny shipment, how should this best be presented to a) the United Kingdom exporter, b) the Soviet authorities and, if necessary, c) Parliament, given the Department of Trade and Industry's repeated assurance to the exporter that the equipment concerned was not licensable. The Secretary of State for Trade and Industry should advise.

CONCLUSION

5. Subject to the view taken of the practicality of the middle course proposed by the Secretary of State for Trade and Industry in his minute of 7 February, you could guide the meeting to a decision on whether direct action should be taken to prevent the shipment and how this should be presented to the parties concerned.

Bryan Cartledge.

B G Cartledge

7 February 1985

CCFC
16F

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU948
Secretary of State for Trade and Industry

CDP
8/2

7 February 1985

CONFIDENTIAL

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

cc PS/Mr Channon
PS/Sir Anthony Rawlinson
Mr Roberts
Mr Hutton OT2
Mr Corley CTP
Mr Mingay MEE
Mr Healey OT2
Mr George OT3 (outfile)

Dear Michael,

TRANSFER OF CARBON CARBON TECHNOLOGY TO THE SOVIET UNION

Thank you for your letter of 1 February.

I recognise the importance you attach to preventing the Soviet Union acquiring this technology. But I believe it would be wrong to change the law to prevent the export of the equipment still in this country. If we did, we would retrospectively override contract terms which had been entered into perfectly legally after proper consultation with my Department. I attach great importance to the principle of contract sanctity, which was one of the main elements of our policy during our dispute with the United States over the Siberian Gas Pipeline. I know that the principle has very occasionally been broken, but so far as I am aware only when hostilities involving the UK were thought to be imminent, for example over the Falklands.

Moreover, I believe that acting in the way you propose would have a serious adverse effect on the prospects for our trade with the Soviet Union. Senior Soviet spokesmen have repeatedly given credit to British firms for honouring their contractual commitments. They have said that they would be giving John Brown a lot more business just because they had stood by their commitments during the pipeline affair. I believe that this consideration has contributed to the current surge in Anglo-Soviet trade - a rise of 65% in 1984. Although the Soviet market is not a large one, there are good prospects of further increases in the sales of British goods following the Gorbachev visit. There would also be a liability of around £7m falling on ECGD if the contract was broken.

It therefore seems to me essential to explore the possibility of some middle way. Large amounts of potential trade would be safeguarded if the Americans could be prevailed upon to stop the delivery, for example by getting the US parent to buy out its UK

CONFIDENTIAL

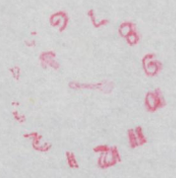
subsidiary's contract. We should, of course, have to watch that the Americans did not do so by unacceptable exercise of their extraterritorial jurisdiction. I think there is much to be said for an early approach to the Americans: I understand that nearly all our dealings on this topic with the US administration have been with the Department of Defense. I would expect the State Department (and perhaps also the National Security Council) to be more sensitive to the principle of contract sanctity and to recognise more readily than the Pentagon that the United States authorities are asking us to do more than they themselves have done to control the export of equipment of this kind.

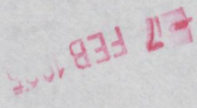
I hope that the Ambassador in Washington can be instructed on these lines as soon as possible.

I am sending copies of this letter to Geoffrey Howe, Nigel Lawson and George Younger.

NORMAN TEBBIT

Defence Sales Pt 5.





GR 317 SECRET

16E

SECRET

DESKBY FCO 061715Z FEBRUARY

FROM MOSCOW 061630Z FEBRUARY
TO IMMEDIATE FCO
TELEGRAM NUMBER 162 OF 6 FEBRUARY

YOUR TELNO 124 : TRANSFER OF CARBON-CARBON TECHNOLOGY TO THE USSR.

FOLLOWING FROM RATFORD IN AMBASSADOR'S ABSENCE ON TOUR.

1. I AM AS DISMAYED AS YOU DOUBTLESS ARE .

2. I SEE NO ALTERNATIVE TO THE ARGUMENT IN THE LAST THREE SENTENCES IN YOUR PARA 6. WHATEVER WE SAY, THE RUSSIANS WILL NOT BELIEVE THAT THE TERMINATION OF THIS CONTRACT WAS NOT THE RESULT OF FRESH WESTERN ''SANCTIONS'' AND , IN PARTICULAR, PRESSURE FROM THE USA. NEVERTHELESS , I DO NOT FAVOUR THE OPTION IN YOUR PARA 5. THIS WOULD BE MORE DAMAGING TO US IN THE LONG RUN AS CONCRETE EVIDENCE OF OUR BUCKLING UNDER US PRESSURE , AND THEREFORE OF OUR UNRELIABILITY AS A TRADE PARTNER. IT WOULD BE PREFERABLE TO COME AS CLEAN AS POSSIBLE AND TO TAKE A STAND ON OUR OWN INTERPRETATION OF WHAT OUR NATIONAL SECURITY DEMANDS.

3. EVEN WITH THE CORRECTION IN YOUR TELEGRAM NUMBER 125 WE FIND THE MEANING OF THE FIRST SENTENCE IN BRACKETS IN PARA 3 OF TUR OBSCURE . BUT WE SEE TWIN DANGERS IN THIS AREA : FIRST THAT THE RUSSIANS MUST BE NOT ABLE TO CIRCUMVENT OUR OWN REFUSAL TO SUPPLY SEMICLN BUT SECONDLY , THAT THEY SHOULD NOT SEE US AS LEADING THE FIELD IN PREVENTING THEM FROM GAINING ACCESS TO ADVANCED TECHNOLOGY .

4. THE RUSSIANS WILL INEVITABLY MAKE THREATENING NOISES ABOUT THE TURNKEY AND OTHER MAJOR PROJECTS NOW UNDER NEGOTIATION. IF WE FAIL TO GET ONE OR ALL OF THESE CONTRACTS , SECTIONS OF BUSINESS , POLITICAL AND PRESS OPINION WILL VERY LIKELY ARGUE THAT THIS WAS THE RESULT OF THE FRUSTRATION OF THE CONSARC(UK) CONTRACT. BUT I CONTINUE TO BELIEVE THAT THE SOVIET DECISIONS ON THESE PROJECTS WILL ULTIMATELY BE TAKEN ON GROUNDS OF TECHNOLOGY, PRICE AND FINANCING. WE SHOULD PRE-EMPT SOVIET THREATS BY ARGUING NOW THAT IT IS INCONCEIVABLE THAT,AT A TIME WHEN,FOLLOWING GORBACHEV' VISIT ,HE UK IS AIMING FOR BIG CONTRACTS AND THE INCREASE OF TRADE BY UP TO FIFTY PERCENT , WE WOULD UNDERTAKE AN ACTION OF THIS KIND UNLESS WE WERE UTTERLY PERSUADED THAT OUR NATIONAL SECURITY REQUIRED IT.

SECRET

15.

5. HMT WOULD BE COMPATIBLE WITH THE ABOVE APPROACH TO TAKE THE INITIATIVE IN EXPLAINING OUR DECISION TO THE RUSSIANS RATHER THAN TO LET THEM LEARN HMT FROM THE COMPANY. BUT H DOUBT WHETHER TO DO SO WOULD DIMINISH THEIR ADVERSE REACTION.

SUTHERLAND

LIMITED
SOV D
TRED
RESEARCH D
NEWS D
PS
PS/MR RIFKIND
PS/PUS
MR DEREK THOMAS
MR BRAITHWAITE
MR MAUD
MR JENKINS.

COPIES TO:
MR GEORGE, OT/DTI.

PC
16D

FCS/85/28

CDP 7/2

Secretary of State for Trade and Industry

Transfer of Carbon-Carbon Technology to USSR

with cop?

1. I have read with concern Michael Heseltine's letter of 1 February about the export of Carbon-Carbon technology to the Soviet Union. In view of his Department's assessment that there is a real prospect that the Russians would apply the technology to development of strategic missiles, I see no alternative to supporting his proposal that measures should be taken without delay to prevent completion of the CONSARC shipment. The matter is of course urgent, since the shipment could take place in the next week.

2. I quite understand that there will be practical difficulties in your dealings with the firm if the export is frustrated. We shall also have to address urgently the problems in handling the Russians. We must assume that they badly want this equipment, and will be correspondingly angry if they do not get it. There is a real risk that they will try to extract a political and economic price. I understand that your officials are looking at ways of getting round the problem, for example by working through the Americans and the American parent company. If however our hand is forced before that can be fixed up, we shall need to think very carefully how best to manage the Russians so as to minimise any damage.

3. Although it is perhaps of secondary importance, I agree with Michael Heseltine that the Americans would be very seriously concerned if we do not take the necessary preventative action swiftly. I would certainly expect the matter to be raised with the Prime Minister during her visit.

.../4.

4. I am copying this to the Prime Minister, Michael Heseltine Nigel Lawson and George Younger, and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

6 February 1985

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16C
CP
(2)

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 15/3

1st February 1985

Prime Minister
CDP
5/2

TRANSFER OF CARBON-CARBON TECHNOLOGY TO USSR

I am writing to seek your urgent advice in connection with a problem which our officials have been jointly examining.

A contract has been concluded by Consarc Engineering Ltd, a British subsidiary of a US concern, to export certain machinery to the Soviet Union. Although ostensibly for civil use, this machinery could be employed in manufacturing critical carbon-carbon components for missiles. The Pentagon, who drew this to our attention, maintain that there is a real prospect that the Russians do indeed intend to apply the technology in this way. Experts here are in agreement, and believe that the denial of this equipment would set the Russians back by up to 5 years. The Americans have urged, at a high level, that we take all means at our disposal to prevent its export.

The equipment is not subject to embargo under existing British and COCOM rules (although steps are now being taken to correct this) and your Department therefore raised no objection when consulted by the company last year. The order has been carried out at the company's Bellshill works and most of the equipment has been shipped out to the Soviet Union. But, fortuitously, key elements, without which the

The Rt Hon Norman Tebbit MP

Russians would be unable to perfect the necessary techniques, have not yet left the country, although they are expected to do so at any moment. In view of the strategic assessment of the consequences of the Russians acquiring this technology, I believe that determined efforts should be made to prevent shipment of the outstanding items.

I do not underestimate the practical and financial difficulties, but I hope that a way around them can be found. I am not only concerned here with the strategic case for preventing the Russians from making headway in this crucial field, although I find this convincing. It is also necessary to demonstrate to the Americans the importance we attach to taking effective action, to control the transfer of key technology and thereby contribute to our mutual defence. I anticipate that the matter could well be raised with either the Prime Minister or me during our visit to Washington later in the month.

I should therefore welcome your early views, as well as those of Geoffrey Howe, and Nigel Lawson in view of his responsibility for HM Customs and Excise who, I would hope, will be able to delay shipment if the material should be presented while we are considering the way ahead.

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson and George Younger and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

5 FEB 1985

cc dc
NBPM
27/7.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/9

25th July 1984

Dear Norman

COCOM

I have seen Geoffrey Howe's minute to you of 19th July, recording his pleasure at the successful outcome of the COCOM List Review, which has been underway since October 1982. I would like to add my congratulations to his.

As you know my own officials have been closely involved in this process. I know that it has not been easy to balance our commercial, strategic and political objectives on the items under review in the face of considerable pressure from the Americans, most notably during the final discussions on computers, software and communications switching. However I believe that the measure of agreement reached by COCOM member nations on these complex technical issues, and the constructive nature of the dialogue between the nations which continued throughout the review period, represent a major prize. We can now look forward to a period when the scope for tensions within the Alliance, which many both here and abroad would seek to exploit, will be much reduced.

I am copying this letter to the Prime Minister and other members of OD.

Yours ever

Michael Heseltine

The Rt Hon Norman Tebbit MP

Soviet Union pt 3

Credit Terms | Trade Relations

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

23 July 1984

NBPM
CBD.

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

Dear Geoffrey,

COCOM

Thank you for your minute of 19 July, recording the successful outcome of negotiations on the major outstanding items of the COCOM list review.

2 This is simply to say that I agree with your assessment - although some companies are bound to be disappointed that we could not achieve everything they were looking for - and am as delighted as you are with the achievement of Mr Peter Corley and his team.

3 I am sending a copy of this letter to the Prime Minister and other Members of OD

Yours ever
Norman

NORMAN TEBBIT

JH4AEZ

CONFIDENTIAL

OD: LCO MOD
FCO LPS
HMT CDL
LPO CO
DTI

FILE

RM

cc: P.C.

10 DOWNING STREET

From the Private Secretary

23 July, 1984

COCOM: SUCCESSFUL CONCLUSION OF LIST REVIEW

The Prime Minister has noted with satisfaction the successful outcome of the COCOM List Review, recorded in Sir Geoffrey Howe's minute of 19 July.

I am sending a copy of this letter to the Private Secretaries to members of OD and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

L. Appleyard, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CCPC

(4)

Prime Minister

CDP
19/7

FCS/84/209

SECRETARY OF STATE FOR TRADE AND INDUSTRY

MT

COCOM: Successful Conclusion of List Review

1. I was pleased, as I am sure were you, to see Paris telegram number 867 reporting the successful negotiation last week of the major outstanding items of the COCOM List Review and thus the successful conclusion of the List Review itself. This is a noteworthy achievement, particularly in view of the considerable gap which separated the positions of COCOM members on the various issues until almost the very end of discussions. It is especially satisfying that agreements on the computers, software, and switching items were reached within the terms of the UK delegation's negotiating mandate. In making the compromises necessary to achieve the result we have thus yielded less than at first seemed likely and perhaps gained more than we at first thought possible.

2. I need hardly add that much depended on this successful outcome: failure could well have called into question the public credibility of the strategic embargo, and could have reopened within the Alliance the divisive issues which were put to rest after the Siberian pipeline dispute. The completion of the List Review represents the closure of the final chapter on that era. I believe that, with the agreement in Paris, the prospect of the sort of US unilateral action which led to the pipeline dispute has substantially diminished, and that we can now look forward to a more stable period in West/

/West

West economic relations. Our negotiating team, led by Mr Peter Corley, is to be congratulated on its achievement.

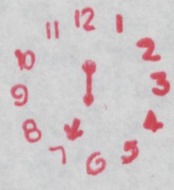
3. I am copying this minute to the Prime Minister and other members of OD.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
19 July 1984

Soviet Union : Credit terms
Pt 3

18 JUL 1984



10 DOWNING STREET

From the Private Secretary

23 May 1984

Subsidised Food Exports to the Soviet Union

Thank you for your letter of 21 May, the contents of which the Prime Minister has noted.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A J COLES

David Dawson, Esq.,
Ministry of Agriculture, Fisheries and Food.

cc PC

(2).

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

Prime Minister.

You asked who took the decision in 1981 and why.

A.J.C. 21/5

CONFIDENTIAL

John Coles
Private Secretary
10 Downing Street
LONDON
SW1A

21 May 1984

Dear John

SUBSIDISED FOOD EXPORTS TO THE SOVIET UNION

I refer to your letter of 17 May to Ivor Llewelyn.

The 1981 decision on instructions to be given to United Kingdom representatives at Management Committees was taken in an exchange of correspondence in May that year between the then Minister here (Mr Peter Walker) and the then Foreign and Commonwealth Secretary (Lord Carrington). These were copied to 10 Downing St but for your convenience I attach further copies. I think these letters are self-explanatory as to the reasons for which the decision was taken. As indicated towards the end of paragraph 4 of the letter from the Foreign and Commonwealth Secretary, it has been made clear to the Commission that we expect them to bring to the attention of Coreper any proposals for unusually large sales to the Soviet Union or of sales at an especially favourable rate of refund.

I am copying this to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours ever

David Dawson

DAVID DAWSON
Private Secretary

Soviet Union credit terms Pt 3

CONFIDENTIAL

Mr Parkhouse, for possible action please.
Betty Read

Private Office
Mr Davies
Mr Andrews
Mrs Archer
Mr Gatford
Mr Dixon
Mr Hadley
Mr Myers
Mr Wilson
Mr Sewell
Mr Wilkes
Mr Griffiths

SB
HI
DK558

FCS/81/53

MINISTER FOR AGRICULTURE, FISHERIES AND FOOD

2 copy to Miss Brown, Miss Taylor

Agricultural Exports to the USSR

Please note "X" for Minister's correspondence USSR.

1. Thank you for your letter of 5 May.

2. The American decision to lift their partial grain embargo was regrettable. Once the US embargo had gone, the Community's restrictions on food sales, which were imposed in support of that embargo, were bound to follow.

3. I agree with you that the line to be taken by our representatives in the various commodity management committees (for whose efforts since January 1980 to secure proper enforcement of the Community embargo I am most grateful) must now be altered to take account of these new circumstances. In most cases, I agree that it would not be appropriate for them to decide their line on the basis of market management considerations and our own economic interests.

4. At the same time I very much agree that we would want the Commission in future to take more account than they have in the past of the potential political sensitivity of proposals for sales to the USSR. The problem is how to achieve this. I fear that efforts by us to seek agreement in advance to the principle that the Commission should be obliged to raise such proposals in COREPER would inevitably

/founder

CONFIDENTIAL

founder on opposition from both the Commission and a number of member states. It would be better not to try than to try and fail. Instead, I therefore suggest that Sir M Butler should be instructed to make clear to the Commission our view that COREPER should be given the opportunity to consider the political aspects of proposals for export restitutions on unusually large sales to the Soviet Union or for especially favourable rates of refund for sales. I doubt if he will get a satisfactory answer, but at least the Commission will have been forewarned that they will have trouble on their hands from us if they act in a cavalier fashion in future. At the same time it is fair to point out that the Commission are already showing some political sensitivity by retaining the existing restrictions on butter sales and keeping in place the new monitoring arrangements. When I am in Brussels on 18 May I shall try to have a quiet word with both Thorn and Dalsager to bring home to them the importance we attach to this issue.

5. As to our public presentation, I agree with the line proposed in the penultimate paragraph of your letter. We shall also be able to say that we have made clear to the Commission that member states should be consulted on proposals for sales which are politically controversial

6. I am copying this minute to the Prime Minister, to other colleagues on OD and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

14 May 1981

PM

(Mr Parkhouse's minute of 1 May to Mr Davies and Mr Davies' minute to Miss Timms refer)

(857)

40 6/5

cc: Mr Steel, Ms Nazon, Mr Lebrecht, Mr Robbs, Mr Davies, Mr Andrews, Mrs Archer, Mr Catford, Mr Dixon, Mr Hadley, Mr Myers, Mr Wilson, Mr Parkhouse, Mr Sewell, Mr Wilkes, Mr Griffiths

D 558

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

5 May 1981

RA 7/5

1. Mr Anderson (o/r)
2. Miss Brown

Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London SW1A 2HH

12/5

SALES OF FOOD TO THE USSR

Last week's meeting of COREPER concluded that the Foreign Affairs Council's resolution of 15 January 1980 was no longer applicable as a result of the American decision to lift their embargo on grain sales to Russia. Consequently, as agreed following the discussion in Cabinet yesterday, our representative abstained when the Cereals Management Committee voted on a proposal to resume sales of cereals to Russia on the grounds that we objected to the way the issue had been handled by the Commission. We now have to decide the general line for our officials to take in Management Committees on proposals involving export refunds on sales to the Russians.

I understand you think that, as the United Kingdom has accepted the cancellation of the 1980 Council resolution (albeit objecting to the way this has been done), it would be inconsistent for us to maintain our general opposition to proposals for refunds on exports to Russia. Without the cover of the Council resolution it would not be sensible for us to continue to oppose export refunds that might apply to sales to Russia in the Management Committees. Indeed, it would considerably weaken our ability to influence decisions in support of British interests and a reasonable Community policy.

Now that the embargo has been lifted I think that, in determining our line in the Management Committees on export refunds that might apply to sales to Russia, we should be guided primarily by market management criteria, unless there are exceptional circumstances of a politically

/controversial nature

controversial nature such as a proposal for the export to Russia of unusually large quantities of a product or for especially favourable rates of refund for Russia. In such circumstances I agree with the suggestion in your telegram No 364 of 29 April to Brussels that the Commission should inform COREPER so that the political aspects can be considered before a proposal is voted on in the Management Committees. In such cases our line in the Committees would be determined in the light of the discussion in COREPER. However, the principle that the Commission should inform COREPER in such cases will first have to be agreed in COREPER or in the Foreign Affairs Council. Without such agreement it will be pointless for our Management Committee representatives to argue against such proposals being put to the vote.

In the case of butter we should clearly support the Commission's stated intention to retain the existing restrictions on exports to Russia in present market conditions. If, as is to be expected, Community stocks build up again following increased summer milk production, it would not be unreasonable, on market management grounds, for the Commission to propose refunds on sales to Russia. But here again I agree that before a decision is taken the Commission should consult COREPER.

It is helpful that the Commission are proposing to maintain the monitoring arrangements which have been set up since the invasion of Afghanistan. Bearing in mind the possibility of Russian action in Poland leading to a renewed embargo to Russia, I think we should support the Commission on this.

In reply to questions in Parliament and elsewhere we might say that, with the lifting of the US embargo and cancellation of the 1980 Council resolution, it would normally be appropriate to determine our line in the Management Committees on the basis of market considerations. This does not represent any change in our attitude to the Soviet invasion of Afghanistan. To act otherwise would seriously limit our capacity to safeguard our interests in the Management Committees. We could also point out that even with the refunds sales to Russia would not be below world prices.

I should be glad to know as soon as possible if you agree with what I have suggested above. I am sending copies of this letter to the Prime Minister, to the other members of OD and to Sir Robert Armstrong.

PETER WALKER

CONFIDENTIAL

RETYPED COPY

LETTER FROM OFFICE OF THE UNITED KINGDOM PERMANENT REPRESENTATIVE TO THE EUROPEAN COMMUNITIES TO M. CLAUDE VILLAIN (DIRECTOR-GENERAL) DG VI ON 3 JULY 1981

SUBSIDISED EXPORTS TO THE SOVIET UNION

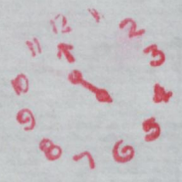
"Following the Community's decision of 30 April to lift restrictions on grain sales to the Soviet Union, my authorities have been giving thought to the lessons to be drawn from the embargo for the handling of future decisions on agricultural exports to the Soviet Union.

We very much welcomed the Commission's recognition, embodied in the assurances given at the Foreign Affairs Councils of 15 January 1980 and 17 March 1981, that member states should be kept fully informed at the political level and, where appropriate, consulted when agricultural exports had clear political implications.

Routine decisions concerning sales to the Soviet Union are now once again being taken in management committees on the basis of market management considerations and we should not wish to suggest any change to this practice. Nonetheless, in the light of the Community's concern at Soviet conduct internationally, such sales are found to remain a sensitive matter and their political implicatiosn cannot be ignored. This leads us to the conclusion that, in the case of proposals for export restitutions on unusually large sales to the Soviet Union or for especially favourable rates of refund for such sales, it will be appropriate for Coreper to continue to be given the opportunity to consider the political aspects before decisions are reached. This would ensure that major decisions on agricultural exports to the Soviet Union were consistent with the Community's political aims.

The excellent co-operation between the Commission and Council institutions over the past 18 months, on the basis of the assurances to which I referred above, lead us to believe that such a procedure should be acceptable, and I should be grateful if you would draw these views to the attention of the Commission."

21 MAY 1984



FUS

cc: SPC

10 DOWNING STREET

From the Private Secretary

17 May, 1984

Subsidised Food Exports to the Soviet Union

The Prime Minister has seen your letter of 16 May. With reference to your penultimate paragraph, Mrs. Thatcher has asked who took the decision in 1981 that in future the United Kingdom representatives at Management Committees should vote so as to support the most economical way of dealing with surpluses, and not so as to oppose in principle any refunds on exports to the USSR. She has also asked for clarification of the reasons for this decision.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

Ivor Llewelyn, Esq.,
Ministry of Agriculture, Fisheries and Food

010

(2)

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

Prime Minister.
You will wish to note,
in particular, the last sentence.
A.J.C. 16/5.

John Cole Esq
10 Downing Street
LONDON
SW1A

16 May 1984

Dear John

SUBSIDISED FOOD EXPORTS TO THE SOVIET UNION

The Prime Minister will be aware of the concern which Mr Teddy Taylor and other members of the House have expressed about subsidised exports of food and wine to the Soviet Union. In particular she was asked about this on 10 May by Mr Richard Body. I attach a copy of exchanges with Mr Body, the PQ which prompted Mr Body's question and a press statement which Mr Teddy Taylor issued on the same day. I am writing to you because we believe that you may find it useful to have a little of the background on this for future reference.

As you will know one of the objectives of the Common Agricultural Policy is to ensure the availability of supplies but over time this has led to the production of considerable surpluses of some products for which there is no economic outlet within the Community. The cheapest means of disposal of these surpluses is often to sell them on the world market with the benefit of subsidies called export refunds to enable Community exporters to match the prices offered by other sellers. The Soviet Union is a major purchaser of such produce, partly because of the failure of its own agricultural policies. We have to face the fact that even if the Community did not sell its agricultural produce to the Russians they would still be able to acquire comparable supplies from other sources at equivalent prices. Alternative ways of disposing of Community surpluses such as food aid or subsidised sales within the Community would in general increase the burden of agricultural support on Community taxpayers. The Government's policy has therefore been to concentrate on the need for achieving a better balance between supply and demand within the Community, thereby reducing surpluses of products for which there are no economic outlets inside or outside the Community. Recently we have made

/significant progress on ...

significant progress on this particularly in the milk sector.

As the Prime Minister recognised in her reply to Mr Body, decisions on the fixing of export refunds are taken by the Commission subject to the opinion of the relevant management committee. However, the arrangements in these bodies are such that member states individually have little power if the Commission are determined on a particular course.

In 1981 when the Community lifted most of the restrictions on exports to the USSR, which had been imposed after the Soviet invasion of Afghanistan, it was decided that in future the United Kingdom representatives at Management Committees should vote so as to support the most economical way of dealing with surpluses, and not so as to oppose in principle any refunds on exports to the USSR. Butter was a special case where the payment of refunds on goods sent to the USSR was not removed until March 1983 (when the United Kingdom delegate voted against the resumption). Currently therefore instructions to delegates in Management Committees are not to oppose refunds on the grounds that they would apply to exports to the USSR, but to oppose vigorously, and if need be, to vote against any proposal for specially favourable terms for exports to the Soviet Union.

I hope this is helpful.

I am copying this to Roger Bone (FCO) and Richard Hatfield (Cabinet Office).

Yours Sincerely

Ivor Llewelyn

C I LLEWELYN

stadium, but took place both before and after the match. A special committee was set up after previous examples of violence in Luxembourg. It will report shortly. I am happy to take my hon. Friend's invitation and condemn the violence. It was a disgrace to Britain and we deeply apologise for it.

Q4. **Mr. Dormand** asked the Prime Minister if she will list her official engagements for Thursday 10 May.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Dormand: Will the Prime Minister confirm that a line in a well-known prayer, which she recited to the nation in 1979,

"grant that I may seek . . . to understand rather than to be understood"

still guides her in her duties? If so, will she now intervene in the miners' dispute as the only possible way of breaking the deadlock? Will she cease to play the role of Pontius Pilate by washing her hands of the dispute? Is that not the way to seek greater understanding?

The Prime Minister: I seek both to understand and to be understood. I hope that I do not have great difficulty in either. I believe that the way to end the coal dispute is by taking advantage of the consultation procedures that already exist and which are being attended by some of the miners' unions.

Mr. Richard Body: In the course of today, will my right hon. Friend reflect on the answer to the written question tabled by my hon. Friend the Member for Southend, East (Mr. Taylor) regarding the vast quantities of surpluses still being exported to Soviet Russia? In particular, will she consider the vast quantities of wine sold at no less than 2½p a pint? So long as wine is sent to Russia at 2½p a pint on such a vast scale, can we say that there is any reason for an increase in the own resources of the EEC?

The Prime Minister: As my hon. Friend is aware, decisions on the export of surplus foodstuffs and wine in Europe are taken by a management committee. Those decisions are taken by a majority. Although we vote against them, we are not able to stop exports at highly subsidised prices. We disagree with those decisions and hope eventually to persuade others likewise. In the meantime, what my hon. Friend says reinforces the Government's present attitude and approach. This time, as part of the budget settlement, we must have strict financial guidelines on expenditure for ensuing years, including for agricultural expenditure.

Mr. Kinnock: As the Government have had the report and recommendations of the independent review body on nurses' pay since early April, will the Prime Minister say why she is making the nurses wait for several more weeks before telling them whether she will honour the report's recommendations?

The Prime Minister: I believe that the time taken to decide on review bodies' reports in general is in keeping with what happened previously. Obviously, we like to consider them all together.

I remind the right hon. Gentleman that those who report on review bodies do not have the duty of Governments who not only have to examine the amount recommended but how the money will be found.

Mr. Kinnock: But that still does not explain why it will be two months or more between the time of the submission of the report and when the Prime Minister said that she may make an announcement. Does not the right hon. Lady understand that nurses deserve a higher pay rise—one well above the current rate of inflation—and that she has no plausible reason whatever for denying that or continuing the delay? Why does not the Prime Minister announce now that she will honour the report and the figure recommended in it?

The Prime Minister: If the right hon. Gentleman had listened, he would have heard my reply. We now have all the reports of the top salary review body and the special review bodies. We like to consider them together and to ensure that we know where the money will come from to meet whatever recommendations are made. That is a sound financial principle.

I remind the right hon. Gentleman that since we came to office nurses' pay has increased by over 80 per cent., which is ahead of both average earnings and prices. In addition, nurses have benefited from a reduced working week. This Government have a very good record on nurses' pay.

Mr. Kinnock: I am sure that you, Mr. Speaker, and the Prime Minister would agree that nurses are worth everything that they can get. In her answer, was the Prime Minister suggesting that nurses' pay is in any way dependent on the allocations which she may choose to make to people on some of the highest salaries in the land? If so, things are much worse than we thought. It really is time that the Prime Minister made it absolutely clear that no other considerations about top salaries can inhibit the proper pay settlement which nurses deserve.

The Prime Minister: No. The right hon. Gentleman attempts to put words in my mouth, but he will not succeed. I merely suggest that we shall examine all the review bodies' reports together. Before we make a pronouncement, we shall know exactly where the resources will come from.

Of course, a Labour Government would not consider where the money would come from. They would only try to pay it out and jolly soon they would go back to the IMF. Indeed, we are now paying back money that they borrowed.

Q5. **Mr. Hal Miller** asked the Prime Minister if she will list her official engagements for Thursday 10 May.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Miller: Will my right hon. Friend confirm her support for the refusal of the Secretary of State for Trade and Industry to intervene in the recent dispute between the owner and editor of *The Observer* despite the urgings of the Opposition whose noisy clamour on that contrasts deafeningly with their silence on the current issue of freedom of the press at the *Daily Express* in the light of the SOGAT issue?

The Prime Minister: I confirm that I wholly agree with the line taken by my right hon. Friend the Secretary of State for Trade and Industry on the matter relating to *The Observer*. We stand four square behind the freedom of the press. That freedom would soon be lost if threats to production succeeded in obtaining space in a newspaper for the propagation of particular points of view.

PQ: 4937

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

PARLIAMENTARY QUESTION

Question No: Priority Written 21 Date: Wednesday 9 May 1984

Mr Teddy Taylor (Southend East): To ask the Minister of Agriculture, Fisheries and Food, pursuant to his reply of 2nd February to the honourable Member for Cardiff West, Official Report, column 319, if he will express the average sale prices of exports of flour, butter and butteroil, beef and veal, pigmeat and sugar in terms of pence per pound; and if he will express the exports of wine in terms of pence per litre.

MR MACGREGOR:

The following is the information requested:

EUROPEAN COMMUNITY EXPORTS OF THE MAIN AGRICULTURAL PRODUCTS SOLD TO THE SOVIET UNION

	January - June 1983	
	Quantity '000 tonnes	Average Unit Value p/lb
Flour	178	5.0
Butter and Butteroil	8	53.6
Beef and veal	68	40.3
Pigmeat	2	40.2
Sugar (refined)	475	7.5
Wine	40	6.7*

Conversion rate 1 ECU + £0.575875

* pence per litre converted using the equivalence of 1 tonne = 9.8 hectolitres.

D H Andrews
W E Mason
Mrs Attridge
D A Hadley
Mrs Archer
J E Dixon
G E Myers

Press Association

Minister's Office

Minister of State (L)

Minister of State (C)

Parliamentary Secretary

Permanent Secretary

Mr Colmer

Mr Shepherd

Mr Stiles

WINE FOR RUSSIA AT 7P-A-LITRE

THE SOVIET UNION IS BUYING SURPLUS WINE FROM THE COMMON MARKET AT A 'STAGGERING' 7P A LITRE, ACCORDING TO FIGURES PUBLISHED THIS MORNING BY AGRICULTURE MINISTER JOHN MACGREGOR.

TORY MP TEDDY TAYLOR, SECRETARY OF THE INFLUENTIAL CONSERVATIVE EUROPEAN REFORM GROUP, HAS DEMANDED IMMEDIATE ACTION TO STOP THE SALE OF CHEAP FOOD AND DRINK TO RUSSIA AND ITS SATELLITES.

THE TABLE OF PRICES SHOWS THAT FLOUR COSTS THE RUSSIANS 5P A POUND, BUTTER 53P A POUND, BEEF 40P A POUND, PIG MEAT 40P A POUND AND SUGAR 7P A POUND.

MR TAYLOR (SOUTHEND EAST) SAID: ''LAST YEAR 40P IN EVERY £ SPENT BY THE COMMON MARKET WAS SIMPLY ON THE DISPOSAL, DESTRUCTION OR DUMPING OF SURPLUS FOOD.

''BRITAIN MUST MAKE IT ABUNDANTLY CLEAR THAT A CONDITION OF ANY INCREASE IN RESOURCES FOR THE EEC IS THAT THE PAYMENT OF VAST SUBSIDIES FOR EXPORTS OF CHEAP FOOD TO RUSSIA AND ITS ALLIES SHOULD BE STOPPED.

''THE CHEAP FOOD AND WINE SHOULD BE OFFERED TO BRITISH AND OTHER CONTINENTAL CONSUMERS, PERHAPS ON A RATION BOOK BASIS WITH THE SURPLUSES BEING DIVIDED UP,'' HE ADDED.

01108 MAY 84

PRESS OFFICE

10/5/84

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU889
Secretary of State for Trade and Industry

14 November 1983

Copy to N. Owen.

A.S.C. 15/11

J.a.

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear John,

Thank you for your letter of 31 October 1983.

We have noted the Prime Minister's reaction to Mr Tebbit's letter. In the event there was no further discussion of "killer clauses" during the remainder of the latest round of discussions on computers, which ended last week. However, a "policy level" meeting on computers has been proposed by the US, at which this subject might usefully be discussed. Once the timing is settled we propose to seek further negotiating guidance from Ministers on this matter.

I am copying this to the Private Secretaries to the Members of OD and Sir Robert Armstrong.

Yours sincerely,
Ruth

RUTH THOMPSON
Private Secretary

Soviet Union Trade Relations

Pt 3

15 NOV 1983

CONFIDENTIAL FILE

da

cc CO FCO
CSL LCO
LPSO HO
MOD
LPO
HMT

10 DOWNING STREET

From the Private Secretary

31 October, 1983

Dear Ruth,

COCOM: Computers

The Prime Minister has seen your letter of 28 October.

She agrees with Mr. Tebbit that we should continue to object to a killer clause which would have the effect of preventing the legitimate export of computers without any strategic potential simply because they were destined for a particular industry. But she is still inclined to think that we need killer clauses related to the nature of the equipment under discussion.

I am copying this letter to the Private Secretaries to the members of OD and Sir Robert Armstrong.

Yours ever

Lol Cole.

Miss Ruth Thompson,
Department of Trade and Industry

CONFIDENTIAL

cc NO ①

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ JF4641
Secretary of State for Trade and Industry

28 October 1983

CONFIDENTIAL

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister.

Agree with Mr. Tebbit that we should continue to object to killer clauses of the type described below?

Dear John,

COCOM : COMPUTERS

Thank you for your letter of 17 October. attached. Yes A.J.C. 28/10 - but we need killer clauses related to equipment not

2 Mr Tebbit shares the Prime Minister's view that the nature of the Soviet system is such that advanced equipment ostensibly destined for civilian purposes can be readily diverted to military use. The case the Prime Minister has in mind - precision grinders exported by a US company to the USSR for civilian ball bearing manufacture but eventually used to make miniature ball bearings for SS18 missile guidance systems - was in our view a mistaken decision by the US authorities to release equipment with a potential military application. We know of other examples of such mistakes.

3 This case exemplifies our view that it is the performance levels and capabilities of the equipment in question, not the identity of the end-user, which should constitute the criterion for deciding whether or not to permit an export. It is for this reason that we object to a "killer clause" which would have the effect of preventing the legitimate export of computers without any strategic potential simply because they were destined for a particular industry. The American definition of "defense priority industries" to which strategically harmless computers could not be exported is very wide. We have recently had difficulty in securing US agreement in COCOM to exporting a computer for calculating wages to a Czech end-user on the grounds that part of the sale organisation is engaged in steel manufacture which is a "defense priority industry".

/4 I ...

4 I understand that this issue arose during the COCOM discussions on computers last week, when most Member States other than the US took a line similar to that argued above. Mr Tebbit hopes that in the light of this explanation, the Prime Minister will feel able to agree that our delegation can indicate at the discussions, which continue this week, that it too is opposed to a "killer clause" of this kind.

5 I am copying this letter to the Private Secretaries to the members of OD and Sir Robert Armstrong.

Yours sincerely,

Ruth Thompson

RUTH THOMPSON
Private Secretary

Sov. Union : Trade Relations #3

28 OCT 1983

4.52 RESTRICTED

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 October 1983

A J Coles Esq
10 Downing Street
LONDON
SW1

Dear John,

COCOM: COMPUTERS

The Chancellor has seen the minute of 10 October to the Prime Minister from the then Secretary of State for Trade and Industry. He is content with the COCOM steering brief which was enclosed.

I am copying this letter to the Private Secretaries of members of OD Committee and Sir Robert Armstrong.

Yours sincerely,
Margaret O'Mara

MISS M O'MARA
Private Secretary

CONFIDENTIAL

cc MOD LPO
HO LPS
LCO CDL
FCO CO
HMT

10 DOWNING STREET

From the Private Secretary

17 October 1983

COCOM: Computers

The Prime Minister has seen Mr. Parkinson's minute of 10 October, Sir Geoffrey Howe's minute of 13 October and Mr. Ian Stewart's minute of 14 October on the above subject.

As I told you on the telephone this morning, the Prime Minister is content with paragraphs 10-13 of the steering brief, subject to one point. In paragraph 12c of the steering brief it is suggested that we should resist the inclusion of "killer clauses" proposed by the US. Mrs. Thatcher has asked whether we do not need "killer clauses" of some kind. She would regard it as odd to agree on the one hand to restrict the transfer of technology to industry directly related to the defence sector but then be willing to sell it to civil industry. She recalls the case which came to her attention some weeks ago involving the supply to civil industry in the Soviet Union of ball bearings which were then put to effective military use.

We agreed on the telephone that the UK delegation at today's meeting would therefore not be able to follow the line suggested in the brief on "killer clauses" and that you would let me have a more detailed note on this point as soon as possible.

BF/

I am copying this letter to the Private Secretaries to other members of OD and Sir Robert Armstrong.

A. J. COLES

Miss Ruth Thompson,
Department of Trade and Industry.

CONFIDENTIAL

16B

PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE PROCUREMENT

Prime Minister

The MoD agree with the Trade Secretary's proposals.

A.J.C. 14/10

USofS(DP) 7/24/1

14 October 1983

Prime Minister

COCOM - COMPUTERS

On behalf of Michael Heseltine I am writing to confirm that I am fully in agreement with the proposals put forward by Cecil Parkinson in his minute of 10 October. The line which the United States has adopted over the control of computers in COCOM seems unnecessarily rigid. It has been examined in detail by members of the Defence Scientific Staff and the Defence Intelligence Staff who have concluded that the full extent of the controls proposed are neither practicable nor necessary in that they cover computers which are freely available from retail outlets and also more powerful machines which the Soviet Union can already manufacture for itself.

2. In resisting the American proposals and protecting our own commercial interests, we are naturally most anxious to avoid a further dispute within the Alliance which, like the pipeline dispute last year, is likely to do more damage to the West than the East. Officials from MOD will therefore be taking every opportunity to moderate the American line in bilateral contacts already planned over the next few weeks. But it is very doubtful whether we will have much success and in the end this is an issue on which we would have to stand firm.

3. I am copying this minute to members of OD Committee and to Sir Robert Armstrong.

IS

IAN STEWART

04 OCT 1983

Prime Minister

The Foreign Secretary agrees with the Trade Secretary's proposals. A.J.C. 13/10.

PM/83/79

PRIME MINISTER

COCOM - Computers

1. I have seen Cecil Parkinson's minute of 10 October to you covering the steering brief for the next round of COCOM List Review discussions on computers, commencing 17 October.

2. I agree with the brief and with the points raised in Cecil's minute.

3. We have important interests at stake in these negotiations. We must resist US attempts to impose unrealistically tight controls on the export of computers to COCOM-proscribed destinations. We need to work for a compromise which both the Americans and our European partners can accept. We need to show the Americans that we want to make COCOM controls effective and that we will support them where we think they have a good case. We shall need to emphasise to them that the only way to achieve effective controls in COCOM is by reaching a consensus which all the partners regard as being to their advantage. We shall also need to ensure that the Americans are fully alive to the damaging consequences to our bilateral relations and to western cohesion that could flow from any US attempt to impose controls unilaterally.

4. I am copying this minute to members of OD Committee and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
13 October, 1983

10 DOWNING STREET

John - 11/10.

DTI rang re. their minute of 10/10 about cocoon computers.

You asked if a reply is needed by the end of the week. The answer is no a reply by Monday is OK, but they asked that the reply comes no later than Monday as the meeting referred to is on that day

Cameron

11/10.

In Paris box. Open file when papers return.

JH 748

CONFIDENTIAL

PRIME MINISTER

COCOM: COMPUTERS

I am writing to you as Chairman of OD Committee to seek the agreement of OD colleagues to the attached steering brief for the next stage in discussions in COCOM on strategic controls on computers. The draft brief has been agreed inter-departmentally in the official ODO(SE) Sub-Committee, which continues to keep this and other aspects of the COCOM List Review under consideration.

2 There is a major divergence of view between the US and the remainder of COCOM on the desirable level of future strategic controls on computers. In recent weeks it has become clear that there are also major divergences of view within the US Administration, with the US Department of Defense taking a very hard line. This could develop into another confrontation within the Alliance similar to the pipeline dispute, if the hard-liners prevail and the US seeks to impose unilateral controls on computer exports outside COCOM. The attached brief makes it clear that in a number of major respects the levels of control being sought by the US are not justified on either strategic or practical grounds. The controls proposed would, for example, catch personal computers, such as the BBC micro-computer, which are freely available through retail outlets. Although there are

minor differences of emphasis, all other COCOM members favour much less extensive levels of control, similar to those we ourselves have proposed.

3 The present COCOM List definition of computers is badly out of date and needs revising. The UK industry has made it clear, however, that it would prefer to retain the present unsatisfactory List definition rather than accept the levels of control for which the US continues to press. If there is no agreement in COCOM on a new definition, the present one will continue by default.

4 It is in our interest to reach a compromise settlement and we should continue to seek one. But until the US Administration are prepared to abandon their most extreme positions, there is no basis for a compromise which would be generally acceptable to us or to other COCOM partners.

5 I should be grateful if colleagues could agree the line set out in the attached draft steering brief, (paragraphs 10-13). Because of the timetable for the forthcoming talks, I would be grateful for responses by 15 October.

6 I am sending copies of this minute and the draft brief to members of OD Committee and Sir Robert Armstrong.

C P

10 October 1983

Department of Trade and Industry

COCOM LIST REVIEW : COMPUTERS

1. Ministers are invited to endorse the line set out below to be taken in the forthcoming discussion on computers in COCOM. This item is particularly contentious, with the US unable to co-ordinate its own position and with the US Department of Defense in particular pressing for far more controls in this sector than we and other COCOM members consider justified.

Background

2. Substantial agreement is likely to be reached on many of the proposals under consideration in the current COCOM List Review. The Industrial List Computer Item (IL1565) is one major exception. The present version of IL1565 is that which was agreed at the 1974 List Review. Attempts to reach agreement on revisions at the 1978 Review were unsuccessful (discussions were held over the years 1978-1981). Since any change requires unanimous agreement the 1974 version (promulgated in 1976) is still current. This was based on comparisons between 1974 technology then available in the West and the Sino-Soviet Bloc; it is now badly out of date. Advances in technology and acquisition of it by the Soviet Bloc (either legally or illegally) since then require the levels of the controls to be revised upwards and modified to deal with new technologies. Failure to reach agreement in 1978 was due

to substantial differences of opinion between the United States and the rest of the committee over which classes of computers and related equipment should qualify for various levels of release. Following the events in Afghanistan and Poland, the US attitude hardened further and attempts to reach agreement were finally abandoned. The US proposals on computers in the current List review are equally hard line. Following extensive discussions in COCOM a composite proposal has been drawn up as a basis for further discussion but the US remain isolated in seeking significantly more restrictive levels of control than the other COCOM members.

The Current COCOM Framework

3. Arrangements had been made to discuss the composite proposal during the three weeks beginning on October 17. However it recently became clear that the US Administration were having difficulty in co-ordinating their position. On 24 September Mr W A Root, the senior (non-political) State Department official who chaired the COCOM working group which prepared the composite proposal and who had just resigned in protest, addressed an open letter to the President and Congress (copy attached). In this he attacked US, and particularly Department of Defense tactics in COCOM. The US have now (4 October) sought to postpone discussions on

computers, hardware and software until after a high level meeting which they have requested to discuss policy in early December. Preliminary indications are that this will be unacceptable to other COCOM countries.

The United Kingdom Defence Policy Viewpoint

4. The military application of modern digital computers offers scope for great improvements in weapon system performance. Intelligence reports show that the Soviets have, in the past copied Western computers and set up their own production lines using Western production technology. Similar exploitation by the Soviets of up-to-date powerful and light-weight Western computers would constitute a very serious military threat to the West. Export of both the computers and the manufacturing technology must therefore be controlled.

5. There is no evidence however that the Soviets undertake large scale purchase of Western electronic sub-systems for incorporation into military equipment of their own manufacture. Therefore although in theory the acquisition of large numbers of personal computers by the Soviet Union could constitute a military threat in practice it is judged that it does not do so. The export of personal computers available over the counter at retail outlets should not (and indeed could not) therefore be controlled. Similarly the Soviet Bloc has already acquired

and now produces its own versions of the IBM 360/370 series and the PDP-11 computers. These are powerful machines although now out-of-date and a complete embargo at this level of capability would now achieve little in military terms. It is therefore proposed that computers based on this level of performance should be embargoed but licenseable at national discretion. Since the capability of machines in this segment of the market is increasing rapidly the performance criteria below which national discretion should apply will need regular upward revision.

US Attitude

6. The US position so far has been to press for controls which would have the effect of inhibiting nearly all trade with the Soviet Bloc in computer equipment in current production. This reflects US Department of Defense concerns about any leakages of computer technology (but we do not agree with the basis of their assessment for the reasons given in paragraph 5 above).

Attitude of other COCOM Members

7. Although there are minor differences of emphasis, all COCOM members with the exception of the US are in favour of broadly similar levels of control to those we ourselves favour, and have resisted US pressure for more restrictive levels.

UK Commercial interests

8. So far as exports from the UK are concerned, the present levels of control under IL1565 are generally very inhibiting. Virtually every export from ICL for even a £20,000 system, requires a full COCOM submission and is often met with US veto. Some companies by means of imaginative interpretation of the rules, manage to stay within the national discretion limits and have developed a substantial market in the Bloc (eg 35-45% of Rediffusion Computers' business, who employ some six hundred people, is in the Bloc countries). Certainly there are companies who would go out of business if the market area was closed. There are many more companies in the process control and instrumentation areas whose products are computer controlled and who are doing substantial business with the Bloc. The proliferation of microprocessors to all areas will affect many others in the future.

9. The view of those areas of industry so far consulted is that they would rather live with the present outdated controls than those currently being proposed by the United States since these are in many respects more restrictive than those agreed in 1974. The effect of those proposals if accepted would be to preclude all computer exports likely to be of interest to suppliers and to customers in Bloc countries. The value of such exports is currently running at £115 million

a year but as computers is a major growth area the future prospects in non-strategically sensitive areas of business are important. UK industry maintains that the current level of trade is artifically low and reflects the lack of change in the performance limits applied by COCOM.

General Line

10. In February Ministers agreed that the United Kingdom should follow certain general policy lines in the List Review. The following are relevant here:

"a) As a general rule, we should undertake to examine United States proposals on their merits relating them to our own independent analysis of the risks, costs and benefits of permitting the technology in question to be transferred from West to East.

b) We should avoid becoming detached from our European Community partners. On all the main issues most other Members of COCOM can be expected to share our approach and we should exploit this fact to avoid exposing or isolating ourselves.

c) Where we judge that the Americans have a good case, we should support them vigorously and not as hitherto, adopt a stance that is merely passive. We should also be as helpful as possible over

procedural matters where these cost us nothing in terms of substance. (We have given the US strong support in the field of enforcement and more generally in procedural matters)."

These general policy lines are still valid.

Application to Computers

11. On the basis of MOD/Intelligence assessments of likely Soviet Bloc acquisition targets the line proposed below is fully consistent with our security and commercial interests. The line hitherto taken by the US goes too far. The embargo exists to prevent the transfers of technology or materials which could be of significant military potential and to maintain a "technology gap" between East and West. This "technology gap" can be maintained by means of strictly limiting true "technology" transfer (in the form of design development and production information and capability) as well as of advanced machines whilst still permitting under controlled conditions, the sales of equipment of modest performance levels.

The main issues

12. The composite proposal upon which it was intended that discussion should proceed in COCOM is a complex set of definitions and parameters designed to establish different

levels of control (eg free from licensing control; subject to control but licenseable at national discretion; licenseable subject to the agreement of COCOM partners, but favourable consideration assumed; licenseable subject to standard general exception procedures). The proposal contains a number of points of major importance to the UK as well as many detailed points upon which the UK will have to take a position. The Annex to this paper lists the main issues of concern to the UK and the line which it is proposed the UK should take. The most important issues are as follows:

a) The performance levels of computers which would be completely free of embargo, and of those which would be licenseable for export at national discretion

We should continue to press for the current embargo on personal computers which are freely available on the consumer market to be lifted. Apart from the merits of the case (see para 5 above) the proliferation of systems at this level means that the embargo is becoming increasingly difficult and costly to administer in staff terms. We should also press for national discretion procedures to be applicable to older more powerful computers already acquired and copied by the Soviet Bloc.

b) Software

A new software Item is proposed. The UK should continue to press for a very specific embargo list consisting only of those classes of software which are recognised to be of significant strategic concern. This differs from the US proposal to embargo large areas of software and to release only a specific list of "approved" classes of software thereby embargoing by default anything which is undefined.

The UK have further suggested that exports of software of a non-embargoed class, even if specially written for a Bloc-built system, should be permitted.

c) "Killer Clauses"

We should resist the inclusion of so called "killer clauses" proposed by the US. These clauses effectively embargo or severely restrict the circumstances in which computers would otherwise be released, by overriding the effect of any relaxation of the parameters. Examples of these are:

i) total exclusion of sales to what the US consider to be "defence priority" industries. While the UK supports current controls which allow us to ban exports to industry directly related to the defence sector, the US proposals would

extend unacceptably to much wider sectors of civil industry; and

ii) exclusion of equipment with an interface facility which is an International standard used on most laboratory equipment and instrumentation.

Negotiating Line

13. Ministers are invited to confirm that:-

a) in the discussions on the Computer item in the List Review the UK negotiators should continue to be guided by the general line set out in paragraph 10 above and by the particular guidelines set out in paragraph 12 and the Annex. The negotiators should deal with detailed issues in a manner consistent with this general framework;

b) the UK delegation should work towards a resolution of as many minor issues as possible;

c) if it appears, contrary to expectation that a consensus is likely to emerge on a compromise on any of the major issues listed in the Annex, on a basis that ensures proper safeguarding of our industrial interests the UK delegation should give its assent ad referendum (final agreements are in any case not usually made at the COCOM negotiating table).

The major issues (there are many subsidiary ones) and the UK position on each for which endorsement is sought are as follows:-

1. "Free from embargo" level

Low performance level home and small business computers and equipment particularly if freely available on the consumer market via retail outlets in Western or third countries should be recognised as uncontrollable and freed from embargo. This would also have the desirable effect of reducing the burden on licensing authorities.

2. "National Discretion" level

This is a fundamental issue. The levels agreed here carry over into other areas (eg the types of otherwise embargoed goods which would be caught because they contained an embedded computer which could be just a micro-processor chip). The UK should continue to press for realistic levels which will permit many mini-computers and small mainframe computers with the necessary related equipment to qualify (such as the level based at around the lowest ICL 2900 range system (2957)).

3. "Favourable Consideration" level

Extra conditions are imposed at this level and each case is subject to International Committee examination.

Performance levels which equate to the next highest ICL system (2958) ie about twice those proposed for the "National discretion" level are proposed.

4. Embedded Computers

Computers are often embedded in and used to control other equipment which may or may not be covered elsewhere in the COCOM Lists. The UK should continue to argue that if such equipment is covered elsewhere in the Lists then it is the performance of that equipment which should determine the control status rather than the performance of the embedded computer without which the equipment concerned will not function.

5. Peripheral Equipment levels

The UK should continue to press for release under the "national discretion" and "favourable consideration" procedures of appropriate peripheral equipment in current production. This applies particularly to magnetic disc drives which are crucial to most modern computer systems for which the US has proposed controls at levels of performance inappropriate for most systems. The US refuse to take account of the fact that many suppliers have standardised on particular classes of disc drive without which their systems are useless.

6. Computer-controlled Telecommunications Switching

The proposal for a total embargo on all stored program control circuit switching systems (eg System X and all modern PBXs) should be resisted. The UK should continue to press for retention of the present licensing at National Discretion level: (System X is presently qualified for licensing at National Discretion level as an administrative exception to the present embargo).

7. Special purpose computers

These are computers with special characteristics, eg high "fault tolerance", "image enhancement" "real time processing". The US wishes to impose a total embargo (save for very limited medical applications) on these computers. The UK should argue against a total embargo, and in favour of different levels of control depending on the characteristics (including total embargo on the most sensitive).

8. Networking

The proposal for a total embargo on any computer networking capability which would cover even simple office word-processor networks, Local Area Networks and Wide Area Networks should be resisted. The UK should support the control of Local Area Networks at the National Discretion level and above. (The BBC

personal computer has a networking capability and would be caught by the US proposal).

9. Medical Equipment

The UK should follow the line of supporting the relaxation of controls on all types of computer-controlled medical equipment.

10. The US 'Red-Line' Proposals

The US proposal is for a presumption of denial for exemption requests above certain performance levels yet to be determined. This would remove the possibility which presently exists and is frequently invoked, of submitting for Committee approval requests for exemption for equipment with performance levels above those eligible for "favourable consideration". The UK should support the retention of the existing exemption arrangements.

From W A Root, former leader of US Delegation to COCOM computer discussions.

September 24, 1983

OPEN LETTER TO THE PRESIDENT AND TO THE CONGRESS

The arrogance of the United States Government is rapidly eroding the effectiveness of controls on the export of strategic equipment and technology. Those who proclaim the loudest the need to strengthen these controls are doing the most to weaken them.

In his television speech following the Korean Airlines 007 incident, the President stressed the need to "redouble our efforts with our Allies to end the flow of military and strategic items to the Soviet Union." Since that time we have, instead, been redoubling our efforts to convey to our Allies that their views do not count, that we know best, and that they had better shape up. This is no way to obtain cooperation. It most certainly does not constitute efforts "with" our Allies.

Corrective action is needed immediately. We have set a time bomb in COCOM, the Coordinating Committee where NATO nations and Japan coordinate such controls. It is set to go off on October 17.

The most significant COCOM control in terms of number of cases reviewed is the computer item. The COCOM computer definition is obsolete, having been last revised on the basis of 1974 proposals. COCOM has been unable to reach agreement on a revised definition during the past five years of negotiations because of U.S. insistence that the Allies simply accept U.S. proposals. The Allies have been receptive to a wide range of U.S. strengthening proposals, for both hardware and software. But they have also submitted many constructive proposals of their own which would make the controls more effective.

During many months of negotiations over the past year a composite draft reflecting everyone's views was hammered out. COCOM accepted the U.S. proposal that a session to reach final decisions on differences not yet resolved begin on October 17. The United States is not prepared to negotiate at that session.

On September 14, on the eve of the September 15 deadline for submission of comments on the composite draft, Defense advised State and Commerce of its views that (1) COCOM was an inadequate forum to negotiate the important computer item; (2) the United States should not deviate from its pre-composite draft proposals at the October meeting; and (3) the real negotiations should take place later in an unspecified forum at which a senior Defense official would represent the United States.

The clear (though unstated) Defense objectives are to demonstrate that (a) COCOM as it is now constituted is ineffective and should be replaced by a military committee and (b) Defense should replace State as the agency responsible to conduct the negotiations. Reasonable people can differ on these jurisdictional questions. But we have no alternative but to proceed on the basis of the existing COCOM framework and the existing statutory authorization for State to conduct negotiations, until one or both are changed.

If the United States cannot get its act together, our Allies will conclude that they must use their national discretion to decide what to license and what not to license. Indeed, this has already happened in several important cases as a result of frustrations from the already protracted negotiations. The fundamental objective of COCOM is to avoid diverse actions taken at national discretion by coordinating the national export control decisions of the member governments.

On October 17, there will be a major, justified explosion of Allied resentment of U.S. contempt for the COCOM process.

U.S. arrogance stems directly from the kind of thinking which led to section 10(g) of the Export Administration Act. This section requires the President to report to the Congress any U.S. export control case for which the recommendation of the Defense Department is not followed. Although it does not literally apply to differences between State and Defense on COCOM negotiations, a spin-off effect has eliminated the kind of cooperation between those two Departments which is essential for such negotiations.

The President has never over-ruled Defense on an export control case and probably never will as long as Section 10(g) is on the books. The required report to the Congress would indicate that the Commander-in-Chief was not master in his own house. Defense personnel know that their views have prevailed on several occasions when it was generally believed that the President held different views. Accordingly, they see no reason to listen to the views of other agencies or of other governments. They are no doubt sincere in believing that they are thereby protecting the nation's security. However, the end-result is a situation in which it is impossible to conduct negotiations with our Allies. Effective controls depend upon negotiations, because the United States is not a unique supplier of most strategic items.

The issue is whether to have ineffective unilateral controls (the result of rigid adherence to U.S. proposals) or effective multilateral controls (which can be achieved through cooperative negotiations).

Our perverse efforts have been in the strategically less significant oil and gas area as well as in the computer area. Much attention has been given recently to recommendations to put our oil and gas proposals to COCOM under unilateral security controls and to deny a pending $40 million case for submersible pumps. The U.S. oil and gas proposals now before COCOM are the subject of on-going negotiations. The Allies have been extraordinarily cooperative in helping to find well-justified and clearly defined oil and gas related items which should be put under multilateral control. But it is apparent that substantial revision in our original proposals will be necessary to further our common objective at the next scheduled meeting on this subject in January. Any stiffening of our unilateral licensing policy based on the original proposals would greatly damage the cooperative atmosphere. This atmosphere was re-established with much difficulty after the 1982 pipeline controls controversy. Without it there can be no strengthening of multilateral controls in this area.

What should be done? The Administration should (1) negotiate the computer item on October 17 on the basis of the composite draft and (2) revise the U.S. oil and gas proposals to take into account the constructive suggestions of our Allies. The Congress should repeal Section 10(g) of the Export Administration Act when renewing this Act (which expires on September 30).

Sincerely,

William A. Root

William A. Root
Director, Office of East West Trade, Department of State until his resignation in protest concerning the above on September 15

SECRET

16

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 August 1983

Tim Flesher Esq
10 Downing Street

Dear Tim, 9/8

SECURITY EXPORT CONTROLS

The Chancellor has seen Sir Robert Armstrong's minute of 29 July, covering the paper by the Chairman of the Official Sub-Committee on Strategic Exports. He accepts the recommendations, provided that the limited additional resources involved can be absorbed within the relevant departmental programmes. He has noted from the minute of 4 August from the Secretary of State for Trade and Industry to the Prime Minister, that his Department are prepared to make their additional resources available by making manpower savings elsewhere.

I am copying this letter to the Private Secretaries of other members of OD and Sir Robert Armstrong.

Yours sincerely,

Judith

MISS J C SIMPSON
Private Secretary

SECRET

Foreign Aff.: Entebbe
Relations 73

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CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

2 August 1983

3/8

Dear Tim,

Security Export Controls

Thank you for copying to us your minute and enclosure of 1 August to Richard Hatfield.

Sir Geoffrey Howe has seen the report of the Official Sub-Committee on Strategic Exports and agrees with its recommendations.

I am sending copies of this letter to the Private Secretaries to other members of OD and Sir Robert Armstrong.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

T Flesher Esq
10 Downing Street

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NBPM

PRIME MINISTER

SECURITY EXPORT CONTROLS

I have seen Sir Robert Armstrong's minute (A083/2287) to you of 29 July about the Cabinet Office Sub-Group's report on the above. I agree with the report's recommendations, and accept in principle the need to increase the effectiveness of our controls; we shall be seeking the necessary (if modest) additional resources by making manpower savings elsewhere within the Department.

2 We need more effective controls in our own direct interest. In addition, by showing the United States that we have taken effective action, we would avoid the risk of them taking further measures to restrict their exports of technology, which could have adverse consequences for our industry, and would strengthen our position in relation to the Export Administration Bills currently before Congress.

3 I am copying this to Members of OD and to Sir Robert Armstrong.

C P

C P

4 August 1983

Department of Trade & Industry

Foreign Pol;
East/West Relations
P+3

5 AUG 1983

file

14 da

For. Pol

SECRET

cc HO MOD
NCO WRSO
FCO CAB
HMT D/TM
WPO

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD
CABINET OFFICE

Security Export Controls

The Prime Minister has seen Sir Robert Armstrong's minute of 29 July (A083/2287). Subject to the views of colleagues, she is content with the recommendations of the Official Sub-Committee on Strategic Exports and agrees that the Departments concerned should discuss with the Treasury how the resources necessary to implement the Committee's recommendations are to be provided.

I am sending copies of this minute to the Private Secretaries to the members of OD.

C.F.S. Rickett

1 August 1983

SECRET

SECRET

Prime Minister B

The official committee's recommendations are at paragraphs 3 and 7 (Flags A and B). If you agree I'll let the departments concerned with discuss how the necessary resources can be found (you will see from para 5 that Customs & Excise have doubts).

Content?

Ref. A083/2287

PRIME MINISTER

Yes ms

Security Export Controls

The attached report by the Chairman of the Official Sub-Committee on Strategic Exports invites Ministers to note the progress made in the COCOM List Review since I last reported to you (my minute of 28 February 1983); to confirm that they attach priority to the enforcement of security export controls; to agree the implementation of a package of measures devised to strengthen the United Kingdom's capability to enforce security export controls, and to endorse other actions being taken to strengthen this capability. The recommendations are set out at paragraph 9 of the report.

GM 29/7

2. The resource implications of the measures proposed are relatively small, involving at most the allocation of some thirty staff at a cost of £300,000 to duties connected with enforcement. It could be argued that this is the least the United Kingdom should be prepared to do by way of allocating increased resources to a task which is important not only in its own right, but also for our general relationship with the United States. The Departments concerned (Trade and Industry and HM Customs and Excise) will discuss with the Treasury how the additional resources are to be provided. If irreconcilable conflicts of priority emerge, the matter will be referred back to Ministers.

3. In view of the intensive interdepartmental consultations that have gone into the report, it seems unlikely that OD will need to meet to discuss it; but a meeting could be arranged after the Recess if you wish.

4. I am copying this minute to members of OD.

RA

ROBERT ARMSTRONG

29 July 1983

SECRET

SECURITY EXPORT CONTROLS

Note by the Chairman of the Sub-Committee on Strategic Exports

---

Background

1. With his minute of 28 February 1983, the Secretary of the Cabinet forwarded to members of the Defence and Oversea Policy Committee my report on the various issues that had arisen within COCOM following the ending of the dispute with the United States over the Siberian pipeline. Ministers noted the position that had been reached, endorsed certain specific results which had been achieved, and approved the recommended United Kingdom approach to the next stage of the negotiations within COCOM. Since February, the first round of the COCOM List Review has been completed. The second round will begin in September, and a number of potentially difficult issues, particularly as regards their effect on relations between the United States and other COCOM countries, will need to be addressed. Details are at Annex A. The United Kingdom's detailed negotiating position on these issues will be presented for Ministerial endorsement in early September.

The United Kingdom's capability to enforce Security Export Controls

2. In the meantime, officials have been examining the United Kingdom's capability to enforce security export controls. An effective capability is important for a number of reasons. It is in the United Kingdom's own security and economic interests that the Soviet bloc's military capability should not be enhanced by the illicit acquisition of western advanced technology. It is also in our interest to be able to demonstrate to the United States that we share, and are taking seriously, their concerns in this area; if they felt that our response to the present position was unsatisfactory they might be driven to take retaliatory measures which would be damaging to our defence interests and to British industry, as well as being detrimental to the general Anglo/American relationship. Finally, it is in our interests to be able effectively to prevent the export of such advanced technology as is subject to export control: the law must not be flouted with impunity.

3. An interdepartmental Working Party, under Cabinet Office chairmanship, has accordingly reviewed the United Kingdom's existing capability for enforcement of security export controls. Its broad conclusion was that there was a need to strengthen the existing enforcement activities and make them more effective rather than to introduce new controls. (The conclusions and recommendations are reproduced at Annex B). It recommended that -

a. experts in high technology should be available to examine suspect shipments of goods at short notice;

b. HM Customs and Excise should examine the scope for enhanced scrutiny of computer produced schedules of particular consignments for particular destinations;

c. HM Customs and Excise should create a small team of specialist investigators;

d. international co-operation with other enforcement agencies should be increased, particularly to tighten controls on exports to the Soviet bloc via third countries;

e. There should be more co-operation within COCOM on enforcement;

f. a confidential network of designated officials in the Foreign and Commonwealth Office, the Ministry of Defence, the Department of Trade and Industry and the intelligence agencies should be created;

g. greater publicity should be given to the penalties to the West of technology transfer and to the increased steps being taken to prevent it;

h. stiffer penalties for infractions should be introduced and prosecution be undertaken wherever the evidence seem sufficient to obtain a conviction;

i. an inter-departmental enforcement unit should be created, co-ordinated by the Department of Trade and Industry and reporting to the Sub-Committee on Strategic Exports.

4. If the United Kingdom decides to implement such a package of improvements, it will be important to persuade other COCOM members to take similar steps to improve their enforcement machinery so as to ensure that British exporters are not put at a disadvantage. The implementation of this package by the United Kingdom will not result in a water-tight system of export controls; evaders will continue to try to find ways around the system. Nevertheless, such a package would provide a significant deterrent to those seeking to breach the present arrangements. This would benefit the United Kingdom's interests and would probably go a long way to allay the concerns of the United States.

5. Of the nine measures identified four (a, b, c and d) have resource implications. The basic staff costs involved in implementing the package in full would amount to some £300,000 a year. Details are at Annex C. HM Customs and Excise, who would be most affected, do not believe that they can divert the resorces needed to implement these recommendations without detrisment to their other responsibilities. They remain under strong pressure to improve their controls in several other areas, for example drugs, textile and steel quotas, pornography, including "video nasties". But the option of implementing only the five measures which have no resource implications would be insufficient to effect an improvement and be largely cosmetic; all nine measures are needed if they are to be effective. Accordingly, Ministers are invited to endorse the implementation of the package as a whole, subject to further consideration of those measures with resource implications between Departments concerned and the Treasury.

6. The implications of the Working Party's report are being drawn to the attention of the Joint Intelligence Committee.

Related matters

7. Ministers will also wish to be aware that in order to strengthen the Ministry of Defence's analytic capability in the field of technology transfer. Approval is being sought separately within the Ministry of Defence for the establishment of a small technology transfer unit within the Defence Intelligence Staff. The task of the unit will be to analyse the target areas to which the Soviet Union attaches high priority; in consultation with other

Departments to advise our representatives in COCOM; and to supply up to date information to the enforcement agencies. Work is also in hand to examine the effectiveness of the United Kingdom's arrangements for vetting applications for visas for Soviet bloc scientific visitors to enter this country.

Conclusion

8. Unless our enforcement machinery is strengthened, and a high priority attached to work in this field, the United Kingdom risks a number of consequences all of which would be damaging to British interests. We should be failing to implement our COCOM undertakings and failing to help check the illegal flow of high technology to the Soviet bloc. This would be damaging to our defence and strategic interests; damaging in particular to our relationships with the United States; and damaging to British industry.

Recommendations

9. Ministers are invited to -

a. confirm that they attach high priority to the strengthening of our enforcement arrangements;

b. note the progress made so far on the current COCOM List Review; and that officials will seek further guidance as necessary;

c. agree in principle the implementation of the package of measures set out in paragraph 3, subject to further consideration of those measures with resource implications between Departments concerned and the Treasury;

d. endorse the other actions, described in paragraph 7, which are being taken to strengthen the United Kingdom's capability for security export control.

Signed A D S.GOODALL

Cabinet Office
28 July 1983

ANNEX A

ACTIVITY IN COCOM FOLLOWING THE ENDING OF THE PIPELINE DISPUTE

Introduction

This note summarises the position reached in COCOM on the issues set out in the report dated 24 February 1983.

List Review

The first round of the current List Review has been completed. Agreement has been reached on a number of items including a tightening of controls on printed circuit boards, and the introduction of new controls on ceramics and spacecraft. As agreed at the COCOM High Level Meeting in April, controls on these items will be introduced by member governments in the autumn. Appendix 1 lists items which have been agreed unanimously or are likely to be agreed in the near future. These have been considered interdepartmentally and are now all acceptable to the United Kingdom; they need to be put into effect by making the necessary amendments to the Export of Goods (Control) Order.

The second round of the Review will start in September with more than half of the total task still to complete. Agreement needs to be reached on a number of important items including computers, robotics, automated industrial control systems and gas turbines. For many items it will be necessary to reach agreement on definitions (for example there is still a need to define features of robot systems) as well as on the substantive issue of how far new controls should extend. Substantial differences between the United States and other COCOM members will have to be reconciled. The British computer industry has already made it clear that it would prefer to continue with the existing unsatisfactory COCOM List entry for computers rather than accept the present United States proposals over software as well as hardware. Ministers will be asked in September to endorse instructions for the United Kingdom negotiators during the second round.

Other High Technology (including oil and gas)

Detailed consideration of the United States' proposal for control of certain exports of oil and gas equipment and technology has been put off until January 1984 to avoid impeding the progress of the List Review.

Inventory of Emerging Technologies

Agreement has been reached in principle to establish an inventory to give early warning of technologies in the early stages of development the export of which may need to be controlled at a later date. Further discussion has been put off until January. The United Kingdom has now implemented the control of technologies relating to existing List items.

Enforcement and Harmonisation

The COCOM Sub-Committee on Enforcement and Harmonisation will meet at a senior level at the end of September.

Appendix 1 to ANNEX A

COCOM LIST REVIEW: INTERIM CHANGES

I Industrial List

a. Unanimous Agreement reached on -

1300 Machinery for manufacturing printed circuit boards - new item covering sophisticated equipment in this area.

1357 Filament Winding Machines (used in the production of materials for rocket motor casings, torpedo bodies and submarine hulls) - limited extension of existing controls.

1400 Spacecraft and launch vehicles - new item

1564 Substrates for printed circuit boards (viz, high quality versions of the basic component of printed circuit boards, to be used in eg ruggedized military computers or high frequency devices) - extends existing controls to ceramic and metal substrates.

1700 Ceramics (for use in high temperature applications in eg aerospace engines and space technology) - new item covering ceramics and precursor materials.

1701 Lead Azide (used in manufacture of detonators and initiators) - to be decontrolled because of equivalent Bloc capability.

1715 Boron (partial deletion; boron carbide boron nitride and certain borides) now to be covered under List No 1700 ceramics.

1757 Compounds and materials (silicon for use in production of advanced microcircuits) - amends and up-dates existing control.

1763 Fibrous and filamentary materials (for, eg, helicopter drive shafts and other lightweight load-bearing structures, and filament-wound aerospace products) - extends existing control to cover newly developed composite materials.

B Agreement near on:

1300 Manufactures of ceramic material (for use with other materials in eg aerospace and marine propulsion units) - new item. (Netherlands outstanding.)

1400 Floating Docks - new item intended to cover naval applications, (Netherlands and Norway outstanding).

1460 Aircraft engines - tightens existing control permanently to cover military gas turbines. (France outstanding).

1600 Vanadium (used in production of super conduction filament wire used in, eg, shipboard propulsion, power sources for directed energy weapons). (France and Japan outstanding).

II Military List

All twenty existing items in the Military List have been subject to proposals for 'redefinition' (mostly amendments of an editorial nature in the interests of clarity) and the United States have proposed two new items covering artificial graphites and laser systems. Agreement is not expected to be difficult to achieve on any of these proposals, and indeed has already been reached on the following, which entail editorial changes only unless shown otherwise -

ML2 - Large calibre armaments

ML5 - Fire control equipment and rangefinders

ML7 - Toxicological agents and tear gas

ML10 - Aircraft and Helicopters

ML14 - Specialised Military training equipment

ML17 - Miscellaneous Equipment and Materials (United States proposal to delete bayonets agreed since neither bayonets nor their materials of manufacture are considered developing technology and are of minimal strategic concern)

ML19 - Environmental chambers

In addition, the United Kingdom has agreed to the proposed amendments to the following items, on which confirmation by other countries is still awaited -

ML3 - Ammunition (Belgium, France and Japan awaited)

ML4 - Bombs, Torpedoes, Rockets and Missiles (France and Japan awaited)

ML6 - Tanks and Vehicles (France awaited)

ML15 - Military Infrared and Image intensifier equipment (Canada and Denmark awaited)

ML18 - Production equipment for ML items (Denmark and Italy awaited)

ML N12 - Laser systems (Denmark, France and Japan awaited).

On the remaining items discussions are still continuing -

ML - Small Arms and Machine guns
Belgium is reconsidering its proposal to exempt sporting guns because of the difficulty in differentiating between military end uses.

ML8 - Powders, Explosives, Propellants and Fuels
The United States are to redraft their proposal to avoid both double coverage with Industrial List items, and embargoing certain general commercial substances.

ML9 - Vessels of War and Special Naval Equipment

The United States are to redraft their proposed inclusion of Steel Alloys and Hull Penetrating fittings because of suggestions that these should be (or are already) covered by the Industrial List.

ML11 - Electronic Equipment

The United States proposal to include computer software caused some difficulties over whether this should be included in the Industrial List item on Computers. A United States proposal clarifying existing definition agreed.

ML12 - Photographic Equipment

United States proposed inclusion of Infra Red Line Scanners was redrafted at the table, and awaits agreement from capitals.

ML13 - Special Armoured Equipment

United States to produce a revised version of their new definition of 'Armour Plate'. Belgium concerned that the sale of body armour for police use will be allowed.

ML16 - Munitions components and materials

This item is to be amended since sub-item a. is now covered by ML4.

ML20 - Cryogenic equipment

The United States proposal is close to agreement, but revisions required since coverage in the Industrial List is considered more appropriate.

MLNI1- Artificial Graphites

These substances are now to be covered by ML4 so the United States proposal will be withdrawn.

ANNEX B

PART E: CONCLUSIONS AND RECOMMENDATIONS

68. The Working Party's broad conclusion is that there is clear scope for improving and tightening the enforcement of COCOM controls by the British authorities. Some of these improvements would require the allocation of further resources, in terms both of money and manpower; others may be achievable by reordering priorities and switching current resources. The Working Party stresses that publicity is a vital ingredient, necessary both to convince the United States and other allies that energetic steps to tighten up are being taken and to deter potential offenders. The equivalent American enforcement programme, including Operation Exodus, owes much to publicity and presentation although it also involved the recruitment of 160 additional enforcement officers in the seven month period from March to October 1982.

69. The Working Party's detailed conclusions are as follows.

Physical examination and control

70. The scope and value of increased physical control is clearly limited unless it can be targetted by accurate intelligence. Random blitzes are ineffective and would cause unacceptable disruption to trade. There is a prima facie need for experts in high technology to be available at short notice to examine particular shipments in order to determine their true identity; this task is beyond most Customs Officers.

Document verification

71. Pre-entering of shipments by exporters and improved legibility and accuracy of trade descriptions are pre-conditions for improvements in this area. If they can be achieved, Customs should concentrate more than in the past on uncovering potential misdescriptions. There could also be scope for enhanced scrutiny of computer prepared schedules if further resources were to be made available. A particular problem which should be further examined is the mismatch between TTC headings and the listing of controlled strategic goods. If this could be corrected, computer scrutiny would be much more effective.

Enhanced investigative activity into suspect firms

72. Improved information and intelligence, with more rigorous but selective follow-up of suspect firms, hold the key to improved licensing control and enforcement. Customs should pursue the possibility of setting up a small team of specialist investigators. There is room for greater co-ordination between our own and the enforcement agencies of other countries, in particular to tighten up on diversions through third countries. There is scope for more regular exchanges between enforcement officials in COCOM capitals. Further initiatives in this whole area in COCOM should be examined.

Improved information on suspect transactions

73. Similar considerations apply to controlling and checking individual shipments and transactions, on a routine operational basis. A confidential network of designated officials in the DTI, MOD, FCO, Customs and the intelligence agencies, who can quickly and effectively exchange all relevant information, should be created, possibly including the setting up of a centralised data bank. The JIC machinery should review the intelligence requirement laid upon the intelligence community in this respect. Efforts should also be made to improve the exchange of information internationally. Advance information of US denial lists would be particularly valuable.

Publicity, including advice to businessmen

74. As already noted, publicity has a major role to play in improved enforcement. General awareness of COCOM controls, the reasons for them and the potential penalties for evasion should be increased. A better flow of information to and from industry is vital.

Sanctions/Penalties

75. Stiffer penalties for evasions are likely to be needed although they could not be introduced for COCOM offences in isolation. The Keith Committee on the enforcement powers of the Revenue Departments whose final report is expected later this year may have something to say on the subject of penalties

generally. Customs should be less willing to compound in future and more willing to give publicity to cases of evasion which come to light. The expulsion of Sovbloc intelligence officers when detected in unacceptable activity relating to technology transfer should continue.

Resource implications

76. As noted, many of the recommendations outlined above have significant resource implications for the Departments concerned. These are set out in Annex C. The case for increased resources should be considered by Ministers collectively; it would be unreasonable to expect individual Departments to bear the cost of a policy imposed for reasons which go beyond the confines of their own Departmental responsibilities.

Follow-up

77. A small inter-Departmental Enforcement Unit, coordinated by the DTI and reporting to ODO(SE), should be created. Its task should be to consider in greater detail and on a permanent basis the problems of improved enforcement which this report has identified.

Recommendations

78. The Working Party's recommendations are as follows:

a. experts in high-technology should be available to examine suspect shipments at short notice (paras 45 and 70);

b. Customs should examine the scope for enhanced scrutiny of computer schedules (paras 48, 49 and 71);

c. Customs should create a small team of specialist investigators (paras 54 and 72);

d. international cooperation with other enforcement agencies should be increased, particularly to tighten up on third-country diversion (paras 53 and 72)

e. COCOM should do more work in the field of enforcement (paras 52, 57 and 72);

f. a confidential network of designated officials in the DTI, MOD, FCO and the intelligence agencies should be created (paras 56 and 73);

g. greater publicity should be given to the penalties to the West of technology transfer and to the increased steps being taken to prevent it (paras 58 to 63 and 74);

h. stiffer penalties for infractions should be introduced and the practice of compounding abandoned wherever possible (paras 64 to 67 and 75);

i. an inter-Departmental Enforcement Unit should be created, coordinated by DTI and reporting to ODO(SE) (para 77).

ANNEX C

RESOURCE IMPLICATIONS OF WORKING PARTY'S RECOMMENDATIONS

a. Experts in high technology to be available to examine suspect shipments*

An additional 2X Grade 1 Professional and Technical Officers (PTOs) for IT Division, DTI.

Annual staff costs would amount to £33,000

b. Study of improved methods of scrutiny of computer prepared schedules

An additional complement of between 3 EOs (for a limited programme) and 3/EOs and 12 data processing operatives (for a more ambitious programme) for Customs and Excise. Annual staff costs for the limited scheme would be £37,000; for the more ambitious programme the cost would be £107,000

c. Creation of a small team of specialist investigators in Customs and Excise

1 x Senior Investigating Officer
3 x HEOs
3 x EOs
1 x CO
Annual staff costs would amount to £120,000

(Note: there would be a small additional resource cost to the Adminstrative and Legal Branches, depending on the results achieved).

d. Additional DTI requirement to support the Customs investigation team*

2 x Grade 2 PTOs
1 x HEO
Annual staff costs would amount to £40,000

e. Increased publicity, including advice to businessmen

Additional demands would be placed on DTI services, including Regional Offices. The extent to which they could be absorbed without additional resources (other than those in a. and d. above) would depend on the scale and duration of the programme.

* Note: These estimates assume that the necessary electronic and computer equipment will be made vailable; a feasibility study is currently under way within the DTI for the installation of this equipment.

SECRET

12

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

TECHNOLOGY TRANSFER

The Prime Minister has seen your minute of 30 June about the article which appeared in the Sunday Times on 26 June. Mrs. Thatcher has made no comment.

A. J. COLES

1 July 1983

Prime Minister 11

A.J.C. 30/6.

Ref.A083/1910

MR COLES

Technology Transfer

The Prime Minister may have seen the attached article which appeared in the Sunday Times on 26 June. It purports to describe the state of play between the United States and the United Kingdom on technology transfer, and reveals that the subject was raised by Mr Weinberger at his meeting with the Prime Minister last week (but not that he handed over a message from President Reagan).

2. The article criticises the United Kingdom's performance and (excepting the reference in the first paragraph to the Strategic Exports Working Party) appears to be based entirely on American briefing, almost certainly by Mr Richard Perle. Mr Perle accompanied Mr Weinberger for his call on the Secretary of State for Defence (though not on the Prime Minister), and the Foreign and Commonwealth Office have said that he gave a briefing to British correspondents about technology transfer towards the end of last week. The Sunday Times article is presumably one of the results. Mr Perle has all along been a leading proponent of a COCOM Military Sub-Committee, and has taken the line that the supply of United States high technology to Europe could be curtailed unless the Europeans make a greater effort to curb technology transfer to the Soviet Union. In a recent testimony to Congress Mr Perle made misleading use of statistics to show that Britain had the worst record in Europe for allowing high technology to leak to Eastern European countries. The Sunday Times piece contains these points.

3. The Foreign and Commonwealth Office believe that Mr Perle, on this subject as on others, does not reflect the views of the United States Administration and certainly not of the State Department, which recognises that the United Kingdom has been consistently helpful on technology transfer in the follow-up to the Shultz paper and is the only European ally to be taking effective measures to improve its enforcement arrangements. The Foreign and Commonwealth Office are however taking steps to ensure that

the Secretary of State is briefed on this subject for his forthcoming visit to Washington, and that he will leave the Americans in no doubt as to the extent to which the United Kingdom is co-operating in the efforts which the United States is making to tighten up on technology transfer to Communist countries.

RtA

ROBERT ARMSTRONG

30 June 1983

Security clamp on high tech smugglers

by Linda Melvern and Mark Hosenball

A TOP SECRET working party, under the supervision of the Cabinet Office, has been set up to examine and reinforce efforts to stop the illegal exports to the eastern bloc of technology that could be militarily useful. Under the code-name SXWP, it includes members of the Joint Intelligence Committee, representatives from MI5 and MI6, and the customs service.

There is increasing cabinet concern at the pressure from the Americans, who consider Britain to have the worst high-technology smuggling record in Europe. The working party was set up in the past two weeks, following threats from the United States that American supplies will be cut off unless efforts are stepped up to curb the illegal exports.

The subject was discussed last week during meetings between the prime minister and the American defence secretary, Caspar Weinberger – the first member of the Reagan administration to visit Britain since the election.

Weinberger lobbied Mrs Thatcher to support a secret proposal for setting up an international panel of military experts to review individual export licences to the communist bloc. During the past two years this proposal has been rejected by America's European allies.

The Americans have objected that the Co-ordinating Committee for Multi-Lateral Export Control (Cocom) lacks military presence. The job of Cocom, which is based in Paris and has representatives of all Nato countries, and Japan, is to agree on equipment which should not be sold to the eastern bloc.

At the moment, it is deadlocked. The refusal of the allies to agree to military representatives on the committee was described last week by a senior Pentagon official as a "terrible institutional error." He added: "We have been concerned for a long time that military judgement needs to be brought to bear and we have been refused this by the UK."

Mrs Thatcher is said to be taking a very hard line with the Americans. She is keen on controlling the export of strictly military equipment to the eastern bloc, but does not support blanket control of other high technology items because of possible damage to exports. The Americans are arguing that in many cases no line can be drawn between equipment that is militarily useful and that which is not.

One result of the talks is that in September both countries will hold discussions on high-technology exports. Senior representatives from the State Department and the Pentagon will meet with their counterparts from the Foreign Office and Ministry of Defence.

The prime minister is also under pressure from civil servants to increase staff in the customs service. There are doubts that staffing levels are sufficient to control the illegal export of strategic military equipment prescribed by Cocom.

SUNDAY TIMES OF 26 JUNE 1983

Soviet Credit terms Pt 3

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

13 May 1983

A.D.C. 13/5

Dear David,

L.a.

Supply of Oil and Gas Related Equipment to the Soviet Union

The Foreign and Commonwealth Secretary has seen your minute of 6 May and John Coles' minute of 11 May. Subject to the views of the other members of OD and the Secretary of State for Industry and Energy, he agrees that normal ECGD facilities should be available for the cases listed in the Annex to your minute.

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

Yours ever

John Holmes

for (R B Bone)
Private Secretary

A D S Goodall Esq CMG
The Cabinet Office
70 Whitehall
LONDON SW1A 2AS

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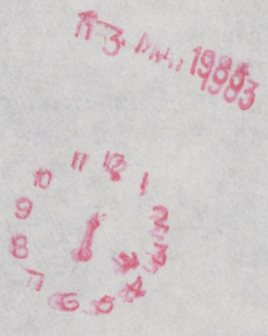


Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 May 1983

A J Coles Esq.
10 Downing Street
LONDON
SW1

A.J.C. 12/5
L.a.

Dear John,

The Chancellor has seen David Goodall's minute of 6 May about the supply of oil and gas related equipment to the Soviet Union; and agrees with the recommendations in it.

Copies of this letter go to its other recipients, and to David Goodall.

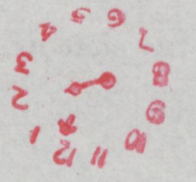
Yours ever,

John Kerr.

J O KERR
Principal Private Secretary

SOVIET UNION: Credit Terms

PT3



12 MAY 1983

CONFIDENTIAL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

N. B. J.R.
A.J.C. 12/5.

J Coles Esq
10 Downing Street
London
SW1

11 May 1983

Dear John

My Secretary of State has seen David Goodall's minute of 6 May to you, and has asked me to say that he endorses the conclusion reached by officials that ECGD should not be asked to withhold offers of cover, which are acceptable on the basis of their normal criteria, for the oil and gas contracts under consideration.

Copies of this letter go to the Private Secretaries to members of OD, the Secretaries of State for Industry and Energy and Sir Robert Armstrong.

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL

SOVIET UNION: Credit Terms

Pt 3

12 MAY 1983

CONFIDENTIAL

cc DN MJ
DOI
CO
CDLO
DOT
LPSO
MOD
LPO
HMT
FCO
LCO
HO

10 DOWNING STREET

From the Private Secretary

MR GOODALL

Supply of Oil and Gas Related Equipment to the Soviet Union

The Prime Minister has seen your minute of 6 May. Subject to the views of other members of OD and the Secretaries of State for Industry and Energy she agrees that, in the cases listed in the annex to your minute involving the export of oil and gas related equipment to the Soviet Union, ECGD should not be required to withhold offers of cover which are acceptable on the basis of their normal criteria. She notes that so far as current export licensing requirements are concerned, those items in the annex for which export licences may be required will be similarly determined in accordance with normal procedures once the necessary information is available.

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

A.J. COLES

11 May 1983

CONFIDENTIAL

MJ

11 May 1983

British-Soviet Joint Commission

Thank you for your letter of 10 May, the contents of which the Prime Minister has noted.

AJC

John Rhodes Esq
Department of Trade.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

(2)

Prime Minister

To note.

A.D.C. 7/5.

From the Secretary of State

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

10 May 1983

Dear John,

BRITISH-SOVIET JOINT COMMISSION

1 Jonathan Rees (PS/Minister for Trade) wrote to you on 5 May about the eleventh session of the British-Soviet Joint Commission. This was due to take place in London on 18/19 May under the co-chairmanship of his Minister and Mr Yuri Brezhnev, Soviet First Deputy Minister for Foreign Trade.

2 We have now been informed - before yesterday's General Election announcement - that Mr Brezhnev will not be available. No reason has been given but the Russians have stressed that there are no political implications. The Soviet team will be led by Mr Manzhulo, who is a Deputy Minister for Foreign Trade.

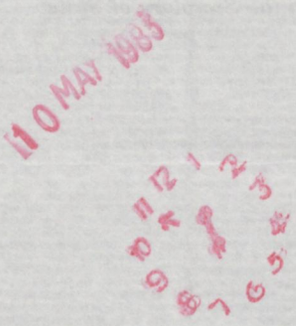
3 In the circumstances, we believe that our team should be led at official level. The occasion is to be strictly business-oriented, with eight senior industrialists on our team. The Commission is considered very important by business: it is very much a commercial rather than a political event. Lord Cockfield does not feel that the General Election need interfere with it and Mr Rees' involvement will be limited to hosting a Dinner and possibly attending a signing ceremony at the end of the Joint Commission's proceedings. While it would not be sensible to try to conceal that the Joint Commission was taking place, there would be no need to give it any particular publicity.

4 Copies go as before to the Private Secretaries to members of OD and to the Private Secretaries to the Secretary of State for Industry and the Minister for Agriculture.

Yours sincerely,

JOHN RHODES
Private Secretary

SOVIET UNION: Credit Terms Pt 3



Prime Minister

Agree para. 5, subject to views of colleagues?

A.J.C. 10/5

Yes MT.

Ref: B06780

MR COLES

Supply of Oil and Gas Related Equipment to the Soviet Union

Last March, the Prime Minister and other members of OD were consulted about the sale of Rolls Royce gas turbine engines for the Chelyabinsk pipeline in the Soviet Union. They endorsed the conclusions of the Cabinet Office note, dated 28th February, in particular that "until the outcome of the post-pipeline study on the export of this equipment is known, we should neither give Rolls Royce formal backing nor discourage them from proceeding with the contract". The Prime Minister's agreement was contained in your minute of 4th March to Mr Hatfield.

2. The question whether Export Credits Guarantee Department cover could be given has not so far arisen; but agreement to offer cover might be seen as signifying the Government's willingness to allow the contract to go forward and by the Americans as prejudging the outcome of the post-pipeline study.

3. There is, however, a growing list of other potential contracts with the Soviet Union involving British companies proposing to sell equipment and services in the oil and gas field. The full list is at Annex. In certain of these cases, negotiations have reached the stage where an offer of ECGD cover is being actively sought. The question therefore arises whether the decision of Ministers in the Rolls Royce case should apply mutatis mutandis to the other potential contracts set out in the Annex.

4. The Official Group on Economic Policy towards Eastern Europe (MISC 64) has examined this question and has unanimously concluded that the Rolls Royce case need not be regarded as constituting a precedent for the other contracts. A specific United States proposal for strategic controls on aero-derived gas turbines was already under discussion in COCOM in February, when the Rolls Royce case arose; and a similar proposal has since been tabled in the study of other high technology (OHT) (see the note by the Chairman of the Committee on Strategic Exports (ODO(SE)), circulated to members of OD under cover of Sir Robert Armstrong's minute of 28th February to the Prime Minister). At the time when Ministers were consulted on the Rolls Royce case, the United States list on OHT had not been tabled and the

complete range of oil and gas related equipment which the Americans wished to see restricted was unclear. Now that the American proposals are on the table, it can be seen that on turbines they relate solely to aero-derived gas turbines and not to the type of turbines or turbine technology involved in the John Brown Engineering or Weir Westgarth contracts. (In so far as we have details of the other oil and gas contracts listed at Annex, they likewise fall outside the scope of the United States proposals.) Officials therefore see little or no risk of an adverse reaction by the United States Government to a decision to grant ECGD cover in these cases, since such a decision could not be seen as prejudging the post-pipeline studies.

5. Ministers are therefore invited to endorse the conclusion of officials that, in the cases listed at Annex involving the export of oil and gas related equipment to the Soviet Union, ECGD should not be required to withhold offers of cover which are acceptable on the basis of their normal criteria. So far as current export licensing requirements are concerned, those items at Annex for which export licences may be required will be similarly determined in accordance with normal procedures, once the necessary information is available.

6. Since ECGD are being pressed for decisions by certain of their customers, it would be helpful if replies could be received by close of play on Thursday, 12th May.

7. I am sending copies of this minute to the Private Secretaries to the other members of OD, to the Private Secretaries to the Secretaries of State for Industry and Energy, and to Sir Robert Armstrong.

David Goodall

6th May 1983

A D S GOODALL

ANNEX

POTENTIAL MAJOR CAPITAL GOODS CONTRACTS IN USSR FOR WHICH ECGD COVER IS NOT YET COMMITTED

A OIL/GAS TECHNOLOGY CASES

Exporter	Project	Contract Value £m
Ruston Gas Turbines	Gas turbines for West Siberian gas pipeline (WSGP)	8.5
Walter Kidde & Co	Firefighting equipment for WSGP	2.7
Tilghman Wheelabrator	Shotblast equipment for WSGP	0.4
Various Exporters	Astrakhan Sour Gas project up to	30.0
Weir Westgarth	Rotor blade foundry for gas pipelines	20.0
John Brown Eng Ltd	14 gas turbines for Oranburg pipeline	55.0
Walter Kidde	Firefighting equipment for Oranburg pipeline	4.0
Plenty Ltd	Gas conditioning equipt. for Oranburg pipeline	4.0
Seaforth Engineering	Up to 4 semi-submersible dive systems	up to 10.0
Davy McKee (London) Ltd	Tengis oil and gas treatment plant	175.0

B OTHER CASES

Carters J & J Ltd	Wheelchair Manufacturing Plant	32.7
Davy McKee (Oil & Chemicals Ltd)	Carbon Dioxide Recovery Plant	40.0
John Brown Eng & Constr. Ltd	100,000 TPA single cell protein Plant	100.0
GEC	Trolleybus	35.5
Anderson Strathclyde	Complete coalface installation	7.5
Baker Perkins Holdings	10 LC150 wrapping machines	4.6
Consarc Engineering	Graphitising Furnace Complex	8.0
Tyne Ship Repair Ltd	Alteration to accommodation of passenger cruise ship	7.3

Soviet Union: Credit terms for export to USSR
Pt 3

Soviet Union Credit Terms
010

V253

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the Minister for Trade

John Coles
Private Secretary
10 Downing Street
London SW1

5th May 1983

Mr. Rees may to say the position had changed - await a further letter. A.J.C. 9/5.

Dear John,

BRITISH/SOVIET JOINT COMMISSION

I am writing to let you know that the eleventh session of the British-Soviet Joint Commission is due to take place in Lancaster House on 18 and 19 May. My Minister leads the UK delegation and the Soviet team will be headed by Mr Yuri Brezhnev, First Deputy Minister for Foreign Trade and son of the late President.

The Joint Commission is an annual event, aimed at the development of mutually beneficial trade with the Soviet Union and our team for this session includes eight senior British businessmen with active interests in the Soviet market. Our aim will be to keep the discussions businesslike, and to use the opportunity to further the interests of British companies. The Joint Commission is bound to attract some press attention although we shall keep the event as low-key as possible.

Copies go to the Private Secretaries to Members of OD and to the Secretary of State for Industry and the Minister for Agriculture.

Yours sincerely,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PETER REES)

CONFIDENTIAL

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/9

20th April 1983

N. B. P. R.

A. J. C. 21/4

Thank you for sending me a copy of your letter to Francis Pym of 11th April, about early implementation of agreed COCOM measures to embargo high technology trade with the Eastern Bloc.

I support your proposal, for all the reasons you quote. This proposal has a useful tactical advantage given the other difficulties we face with the Americans over the Shultz studies. In addition, of course, the MOD sees a positive reason for giving early effect to any decisions to control the transfer of high technology to the East which may help to strengthen the Warsaw Pact's own military potential.

I am copying this letter to the other recipients of yours.

Yours ever

Michael Heseltine

Peter Rees Esq QC MP

CONFIDENTIAL

For PDT: East West Routs

PT3

Foreign Ad

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the Minister of State

Norman Lamont MP

Peter Rees Esq QC MP
Minister for Trade
Department of Trade
1 Victoria St
London SW1

18 April 1983

A.J.C. 19/4

J.a.

Dear Peter

EAST WEST TRADE

I am content with the proposals set out in your letter of 11 April to Francis Pym, and agree with you that they are worth implementing if they attract the support of our COCOM partners.

I am copying this letter to the recipients of yours.

Yours

Norman

NORMAN LAMONT

Foreign Policy
A-3
East-West Relations

13 APR 1995

cc RS
Foreign Pol
A.J.C. 14/4
h.a.

FCS/83/76

MINISTER FOR TRADE

East/West Trade

1. Thank you for your letter of 11 April about implementing COCOM changes. I have also seen John Coles's letter of 12 April.

2. I strongly support your proposal, which seems to me to be both in our security interest and a timely initiative, demonstrating our willingness to respond to American concern about technology transfer, as we approach the Williamsburg Summit, which is bound to touch on COCOM activities.

3. If colleagues can all agree to what you propose, I will arrange to consult COCOM partners informally before COCOM's High Level Meeting late this month. If, as I hope, our partners respond positively, we could make the proposal formally during the course of that meeting.

4. I am copying this minute to other members of OD, to the Secretary of State for Industry, and to Robert Armstrong.

F. P.

Foreign and Commonwealth Office
14 April 1983

(FRANCIS PYM)

Foreign Pol.
East/West
Relations, Pt 3

LIBRARY APR 1963

file

OD cc RJ

HO LPSO
LCO DTrade
FCO CJLO
HMT
LPO + CO
MOD D/Ind.

10 DOWNING STREET

From the Private Secretary

12 April 1983

EAST WEST TRADE

The Prime Minister has seen your Minister's letter of 11 April to the Foreign and Commonwealth Secretary. Subject to the views of the other recipients of Mr. Rees' letter, the Prime Minister is content that, if prior consultation with COCOM partners indicates sufficient support, we should propose in COCOM that we should seek to achieve agreement by mid-1983 on a number of non-priority items, implementation by national administrations following thereafter.

I am sending copies of this letter to the Private Secretaries to the members of OD, to Jonathan Spencer (Department of Industry) and to Richard Hatfield (Cabinet Office).

A. J. COLES

Jonathan Rees, Esq.,
Office of the Minister for Trade,
Department of Trade.

CONFIDENTIAL

cc Mini-Ab. Site

Foreign and Commonwealth Office

London SW1A 2AH

11 April 1983

Prime Minister

You told Mr. Pym last year that you were opposed to a visit to Moscow by a senior Minister but could perhaps envisage a visit at a lower level, provided it had a clear purpose and the Americans were given advance warning.

Agree that Malcolm Rifkind should visit Moscow at the end of the month?

A.J.C. 11/4.

Yes - but! See letter point in the visit.

Yours John.

You will recall that, when the Foreign and Commonwealth Secretary discussed East/West relations with the Prime Minister on 17 November last year, one of the points he mentioned was that Mr Rifkind might pay a visit to Moscow.

During his visit to this country in February, the Soviet Deputy Foreign Minister, Mr Ryzhov, issued a formal invitation to Mr Rifkind to visit Moscow. The dates of 24-29 April would be convenient for both sides. Subject to confirmation that the Russians would offer an appropriate and business-like programme, Mr Pym believes that it would be useful for Mr Rifkind to undertake the visit. There are a number of bilateral Anglo/Soviet issues on which discussion needs to be carried forward: and there would be advantage in putting across our views on arms control and other East/West issues at this level.

The Americans have been told that Mr Rifkind hopes to make such a visit.

Mr Rifkind would be accompanied by his Private Secretary and by one other official from the FCO.

Yours ever

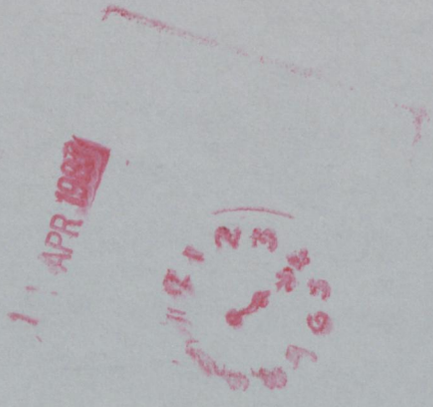
Roger

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

Foreign Pol: East/West Relations Pt 3
(Cab 2)



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

RJ (1)

From the Minister for Trade

Rt Hon Francis Pym MC MP
Secretary of State
Foreign & Commonwealth Office
Whitehall
London SW1

11 April 1983

Prime Minister

Agree, subject to OD, that we should seek cocom agreement before Williamsburg to a number of "non-priority" items?

A.J.C. 11/4.

Dear Francis

EAST WEST TRADE

I have been considering what further steps we might initiate in the COCOM field to prevent the topic of East/West Trade distracting attention from more important matters at the Williamsburg Summit.

The outcome of the studies on Other High Technology (OHT), now underway in COCOM, will almost certainly fall well short of what the US is proposing; whether it will be sufficient to enable Mr Shultz to persuade the President that enough has been achieved remains to be seen. The US have also expressed some concern about the progress of the COCOM List Review which started last October, and which, because of the complexity and extent of US proposals on computers and robotics, seems likely to continue into 1984.

In accordance with normal practice the changes agreed during a COCOM List Review are all implemented together at the end of the Review. On this occasion it has been agreed exceptionally to implement certain "priority items" to which the US drew attention at the COCOM High Level Meeting last year, as they are agreed during the course of the List Review. There are however a number of non-priority items on which unanimous agreement in COCOM could probably be secured by mid 1983 and implementation by national administrations could follow thereafter. If this departure from precedent were agreed by COCOM it would be a useful demonstration of willingness to respond to US concerns and might help to defuse US concerns in other areas. It would also be in line with our security interests. Such a move would cost little or nothing - List Review items are considered individually on their merits and there are no trade-offs with other items.

CONFIDENTIAL

I suggest that we should make a proposal in COCOM on these lines if prior consultation with other COCOM partners indicates sufficient support. There would be no purpose in launching such an initiative if it were likely to encounter strong opposition.

Subject to your agreement and those colleagues to whom this letter is copied, I propose that officials should proceed accordingly.

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

Yours ever Peter

PETER REES

CONFIDENTIAL

11 APR 19

Soviet Union
WH 7/4

Foreign and Commonwealth Office

London SW1A 2AH

From the Parliamentary Under Secretary of State

5 April 1983

UK/USSR MARITIME TREATY: NEGOTIATING OBJECTIVES

Thank you for sending me a copy of your minute of 22 March to Lord Cockfield setting out the DOT's commercial objectives for the forthcoming renegotiations of the UK/USSR Maritime Treaty. I endorse these objectives and understand our officials are in contact about the handling of these negotiations.

I am copying this letter to colleagues on MISC 19, the Prime Minister and Sir Robert Armstrong.

Malcolm Rifkind

Iain Sproat Esq MP
Parliamentary Under Secretary of State
Department of Trade
1 Victoria Street
LONDON SW1

Soviet Union
Credit Terms
pg 3

7 APR 1983

CONFIDENTIAL

A.S.C. 30/3
pa.

PARLIAMENTARY UNDER-SECRETARY OF STATE
DEPARTMENT OF TRADE (MR SPROAT)

UNITED KINGDOM/USSR MARITIME TREATY: NEGOTIATING OBJECTIVES

1 Thank you for your minute of 22 March.

2 I am entirely content with the commercial negotiating objectives you propose. As you have noted, our security objectives in re-negotiating the Treaty are under consideration by the Defence and Oversea Policy Committee.

3 Unless colleagues on MISC 19 indicate to the contrary by 5 April, I shall assume that silence means consent and that the Group will not need to meet to discuss the subject.

4 I am copying this minute to the Prime Minister, colleagues on MISC 19 and to Sir Robert Armstrong.

A.C.

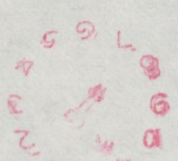
LORD COCKFIELD

Department of Trade
1 Victoria Street
London, SW1H OET

30 March 1983

CONFIDENTIAL

Soviet Union: Credit Terms pt 3



30 MAR 1983

Soviet Union

N 03253

A.J.C. 4/3

SECRETARY OF STATE FOR TRADE

c Mr Coles, 10 Downing Street

UK/USSR MARITIME TREATY: NEGOTIATING OBJECTIVES

- original to PM Bot (copy attached)

1. Mr Sproat's minute to you of 22 March seeks MISC 19's endorsement of the commercial objectives to be pursued in renegotiating the Anglo-Soviet Maritime Treaty. He records that you have already agreed his proposals. He also notes that our security objectives in relation to Soviet merchant shipping are being considered separately by Ministers in the Defence and Oversea Policy Committee. In fact, a Note by Officials for clearance out of Committee by OD is expected to be circulated in the week beginning 28 March.

2. It might expedite matters to set a timescale for the replies of colleagues on MISC 19. You may therefore care to reply to Mr Sproat endorsing the objectives he proposes, and adding that you will assume that no meeting of MISC 19 will be required unless colleagues indicate otherwise by 5 April.

... I attach a draft.

D H COLVIN

Cabinet Office
24 March 1983

CONFIDENTIAL

DRAFT MINUTE FROM THE SECRETARY OF STATE FOR TRADE TO:

THE PARLIAMENTARY UNDER-SECRETARY OF STATE,
DEPARTMENT OF TRADE (MR SPROAT)

UK/USSR MARITIME TREATY: NEGOTIATING OBJECTIVES

1. Thank you for your minute of 22 March.

2. I am entirely content with the commercial negotiating objectives you propose. As you have noted, our security objectives in renegotiating the Treaty are under consideration by the Defence and Oversea Policy Committee.

3. Unless colleagues on MISC 19 indicate to the contrary by 5 April, I shall assume that silence means consent and that the Group will not need to meet to discuss the subject.

4. I am copying this minute to the Prime Minister, colleagues on MISC 19 and Sir Robert Armstrong.

March 1983

CONFIDENTIAL

SOV UNION
credit terms
pt 3

25 MAR 1983

(2)

CONFIDENTIAL

010

Prime Minister

To be aware.

A.J.C. 25/3

Secretary of State

UK/USSR MARITIME TREATY: NEGOTIATING OBJECTIVES

One of the measures we took last year in response to the imposition of martial law in Poland was to give notice to the Soviet Union of our intention to renegotiate the Anglo/Soviet Maritime Treaty. The Defence and Overseas Policy Committee has been considering the objectives the UK should pursue in the security field and has already decided to seek to amend the Treaty to be able to exclude Soviet ships from certain designated UK ports. The purpose of this minute is to seek the endorsement of MISC 19 to the commercial objectives that you have agreed and which are set out below. I hope it will be possible to clear these through correspondence.

COMMERCIAL OBJECTIVES

Bilateral Trade

We consider that we need amendments to the Treaty that will give HMG a stronger hand in deciding the commercial conditions in this trade than we have at present, or would want to have in a normal trading environment. At the moment because the Russians only buy and sell on terms which enable them to organise the shipping, they have an effective stranglehold on the trade. Their State trading organisations are, for example, able to impose their decisions on freight rates. We must ensure that the revised Treaty gives HMG an equal voice by requiring our agreement to the freight rates and other commercial conditions that should apply. Under such arrangements agreements would not of course be guaranteed, but the Soviets would be under greater pressure to consider our interests than they are now.

CONFIDENTIAL

23 MAR 1983

The revised Treaty should also make it clear that the UN Code of Conduct for Liner Conferences will apply in this trade. Within the small conference that currently serves the trade, this would have the effect of ensuring parity of carryings between the British and Soviet shipping lines.

Cross-Trades

The current Treaty refers to each country following "in international shipping, principles of free and fair competition". This means little to a State trading country, and is of little use to us in combating the kind of non-commercial pressures that have recently been brought to our attention by the UK cruise liner operators, or have been suffered over the years by our cargo liner companies. We propose that we should therefore seek to introduce a new provision requiring each side to consult the other on their cross-trading activities out of each others ports at the annual bilateral Joint Maritime Commission, and not to make significant changes without prior agreement.

THE NEXT STEPS

We reminded the Soviets, during the Anglo-Soviet Maritime Commission last November, of our intention to renegotiate the Treaty and the Soviets said they were ready to consider our proposals.

We wish to present our package of proposals to the Soviet Union (covering both security and commercial objectives) shortly, and I would welcome early clearance on these commercial objectives from colleagues on MISC 19, to whom I am also copying this minute. Copies go also to the Prime Minister and Sir Robert Armstrong.

I.S.

22 March 1983

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

SOVIET UNION

From the Secretary of State

Mr A J Coles
Private Secretary
10 Downing Street
London
SW1

18 March 1983

N.S.P.R.

Dear John,

SALE OF ROLLS ROYCE GAS TURBINES TO THE USSR

Following the exchange of correspondece on this matter it was agreed that the position should be explained orally to Rolls Royce. This has now been done.

I am sending copies of this letter to the Private Secretaries of the other members of OD; to the Private Secretaries to the Secretaries of State for Industry and for Energy and to the Private Secretary to Sir Robert Armstrong.

Yours sincerely,

JOHN RHODES
Private Secretary

Confidential

cc. Sir A. Parsons.
Soviet Union

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 March 1983

R P Hatfield Esq
Cabinet Office
70 Whitehall
LONDON SW1

A.J.C. 16/3

Dear Richard,

The Chancellor has seen the paper on the sale of Rolls Royce Gas Turbines to the Soviet Union which you circulated on 2 March. He agrees with the recommendations in its paragraph 15.

I am copying this letter to John Coles at No 10, and to the Private Offices of other members of OD, and the Secretaries of State for Industry and Energy.

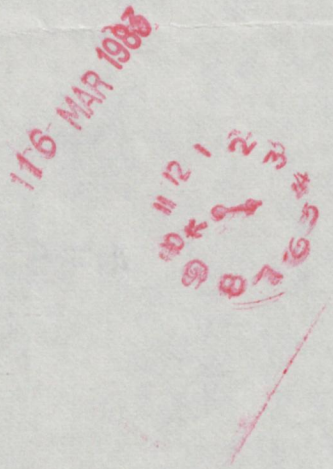
Yours ever,

J O KERR

Confidential.

Soviet Union : Credit terms

Pt 3



Foreign Pol.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

MO 14/10

9th March 1983

A.J.C. 10.
3
L.a.

Dear John,

EAST/WEST ECONOMIC RELATIONS

My Secretary of State has noted the paper submitted to the Prime Minister by Sir Robert Armstrong on 28th February and is quite content with the recommendations.

I am copying this to the Private Secretaries of OD members, to Jonathan Spencer (DOI) and to Richard Hatfield.

Yours ever,

Jane Ridley

(J E RIDLEY) (MISS)

A J Coles Esq

CONFIDENTIAL

Soviet Union (2)

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01~~-930 7022~~ 218 2111/3

MO 14/10

4th March 1983

Prime Minister
To note
A.J.C. 5/3
cc Sir A. Parsons
Mr. Fulling.

Dear John,

GAS TURBINES FOR THE SOVIET UNION

The Secretary of State for Defence has seen the paper on this subject which Mr Hatfield forwarded to you on 2 March.

My Secretary of State is quite content with this paper. There is no security objection to Rolls Royce supplying this equipment provided they adhere to technical parameters already laid down which will ensure that the technology of the engines is approximately 10 years old. He shares the Prime Minister's concern that a decision to go ahead at this stage, shortly before the studies commence on future Western policy towards the supply of oil and gas equipment to the Soviet Union, could draw an adverse reaction from the United States government who place considerable store on the programme of work agreed at the time the pipeline sanctions were lifted. He is most anxious to avoid a further dispute of this kind, which might affect our bilateral defence relationships, and he fully agrees that we should give Rolls Royce no firm indication of government backing until the post-pipeline study is completed.

I am copying this to the recipients of Mr Hatfield's minute.

Yours ever,

Jane Ridley

(J E RIDLEY) (MISS)

A J Coles Esq

CONFIDENTIAL

Soviet Union;
Credit terms;
pt 3

bc. Sir A. Parsons

CONFIDENTIAL

Soviet Union.

10 DOWNING STREET

From the Private Secretary

Mr. Hatfield

Sale of Rolls-Royce Gas Turbines to the Soviet Union

Thank you for your minute of 2 March.

The Prime Minister has read the note on the above matter which was prepared by the Cabinet Office and agreed by Misc 64. Subject to the views of her OD colleagues and the Secretaries of State for Industry and for Energy, Mrs. Thatcher agrees with the recommendations in paragraph 15 of the note.

I am sending copies of this minute to the Private Secretaries of other members of OD and of the Secretaries of State for Industry and for Energy.

A. J. COLES

4 March, 1983.

CONFIDENTIAL

bc

CONFIDENTIAL

Prime Minister

This is much clearer than the previous papers.

2. Subject to views of ministerial colleagues, agree to recommendations in para. 15?

A.J.C. 2/3

Ref. A083/0698

MR COLES

copy: Sir A. Parsons

Sale of Rolls-Royce Gas Turbines to the Soviet Union

You wrote to Mr Bone on 17 February to ask for a detailed assessment of the likely United States reaction if this sale goes ahead.

2. The Foreign and Commonwealth Office agreed that the task of preparing an assessment could best be entrusted to MISC 64, the Official Group on Economic Policy towards Eastern Europe. The enclosed note has therefore been prepared by the Cabinet Office and agreed by MISC 64. Paragraph 15 sets out specific recommendations for handling the matter.

3. It would be helpful if these recommendations could be endorsed soon, if possible in the course of this week. Although negotiations between Rolls-Royce and the Russians are unlikely to come to fruition for a considerable time, the story may leak and precipitate a damaging row with the Americans. The sooner, therefore, that the proposed consultations with Rolls-Royce take place, the better.

4. I am sending copies of this minute and the enclosure to the Private Secretaries to the other members of OD and to the Private Secretaries to the Secretaries of State for Industry and for Energy.

R P HATFIELD

2 March 1983

CONFIDENTIAL

SALE OF ROLLS ROYCE GAS TURBINES TO THE SOVIET UNION

Note by Officials

INTRODUCTION

1. Rolls Royce Limited hope to sell gas turbine engines, spares and maintenance facilities to replace their existing Avon engines in operation with the Chelyabinsk Pipeline in the Soviet Union. The deal would be part of a larger contract that includes the associated power turbines and compressors, to be supplied by a United States company (Cooper Industries). Rolls Royce have asked Department of Trade officials what attitude the Government is likely to adopt towards their involvement in the deal. The timing of any Soviet decision to award a contract to Rolls Royce is uncertain; while it could come as early as May, past experience of major contract negotiations with the Soviet Union make a substantially later date (eg Autumn 1983) no less likely.

2. This paper assesses the likely reaction of the United States Administration; and summarises the advantages of Rolls Royce going ahead with the sale and the disadvantages of not doing so.

LIKELY UNITED STATES REACTION

3. Her Majesty's Embassy Washington (telegram number 401) believe the sale would be seen as a "gratuitous slap in the face"; and see "some risk" that the Administration's critics would use it as further evidence that the Americans had been taken for a ride by the Europeans and got little or nothing in return for lifting pipeline sanctions. Because the sale would be seen as pre-judging the outcome of the post-pipeline studies, United States confidence in the seriousness of the United Kingdom's approach could be undermined. Similarly, the position of our friends in the Administration, whose moderating influence we shall need in the run-up to Williamsburg, might be weakened. The Embassy's tactical advice is therefore against our giving official blessing to Rolls Royce, who should make their own judgement; and in favour of playing the matter long, if possible until after Williamsburg.

4. The accuracy of this judgement depends crucially on the extent to which Administration opinion is coming to accept that the United States will gain little more from the studies than greater transparency in, and better oversight of, East-West trade in other high technology (OHT), perhaps combined with a continuing scrutiny of emerging technologies. Such an outcome, which represents

the highest conceivable common denominator, could be plausibly presented as a positive achievement but would fall well short of an embargo or ban. The question therefore is whether Administration opinion has yet come to accept that such a minimalist outcome is the best they can expect. If it has not, the Embassy view may be right. But if it has, the Americans might accept that they would lose more than they would gain from making an issue of the Rolls Royce deal.

5. Another relevant factor, not mentioned by the Embassy, is that the Americans themselves will face a dilemma if and when they learn of the involvement in the project of a United States company, Cooper Industries (CI). Having scrapped their December 1981 and June 1982 measures, the Americans, like ourselves, have no powers to prevent CI from seeking to sell the products concerned as they do not fall under COCOM controls. Unless, therefore, the Americans decide to reintroduce controls specifically to frustrate a deal between CI and the Russians, they are hardly well placed to criticise the British Government for failing to act. And if they were to reintroduce controls, this would prejudge the outcome of the studies.

ADVANTAGES OF GOING AHEAD WITH THE SALE

6. Business worth £10 million initially is at stake. There is potential business to the value of £200 million (£20 million per year over ten years at 1983 prices). This represents a 50 per cent increase in Rolls Royce's total anticipated industrial sales of gas turbines over the period.

7. We do not see a signficant risk of technology transfer. The equipment concerned uses technology which is now ten years old. There would be difficulties of "reverse engineering" (eg if the Soviets tried to replicate the turbine blades). Moreover, the initial order, and at least some of the follow-up orders, are replacements for existing (but smaller) Rolls Royce Avon engines. To this extent the contract does not break new ground.

8. During the pipeline dispute last year, we persistently stated that the sale of oil and gas equipment did not pose a security risk. We have also stated that, while we were ready to participate constructively in the follow-up work

on East/West economic relations, we were not prepared to prejudge the outcome. (This includes the discussions of possible new controls on oil and gas equipment). It would thus be wholly inconsistent with our policy throughout the period to seek to frustrate this deal.

DISADVANTAGES OF NOT GOING AHEAD WITH THE SALE

9. Loss of the order would be a serious blow for Rolls Royce at a time when demand for civil aero-engines is low. Other potential business might be prejudiced, not only for Rolls Royce but also for other United Kingdom companies including General Electric (GEC) and John Brown Engineering (JBE). Since the Government supported Rolls Royce in their bid for the West Siberian gas pipeline and supported other British companies in bidding for the Astrakhan gas project, it would be a major reversal of policy to intervene now to frustrate the deal.

10. Such action could also damage our relations with our European Community partners (principally France and FRG) who have similarly opposed United States attempts to extend export controls beyond those required by existing COCOM strategic criteria. Indeed, it would be seen as prejudicial to European industrial interests generally. Japan would react similarly.

11. The Government would have to introduce a new Statutory Order to prevent the export of this equipment. Export licences are not at present required and the equipment is not subject to COCOM embargo. Moreover, it is unlikely that COCOM will agree to a United States proposal in the current COCOM List Review to control the export of aero-derived industrial gas turbines. Ministers are being invited separately to endorse a negotiating line in COCOM that the United Kingdom should oppose controls on the export of such equipment but support controls on the export of the sensitive technology involved. There are informal indications that most other COCOM countries support this line. If, as seems probable, no COCOM controls are agreed, there would be no obligation upon the United States to restrain their companies (or upon other COCOM countries to restrain foreign licensees of United States firms) from offering aero-derived turbines or the heavyweight GE turbines supplied for the West Siberian pipeline, Rolls Royce's only competition in this field. Thus if Rolls Royce were to be restrained from exporting aero-derived engines, the commercial initiative would pass to the United States which would enjoy an effective monopoly.

12. A Government decision to restrain Rolls Royce would be bound to become public. The Financial Times has already carried an article on the prospective business. Such a decision would be seen as a response to United States pressure and would arouse controversy, with Rolls Royce itself feeling unreasonably subject to political and financial pressures.

13. Finally, preventing this sale may serve to encourage the hardliners in Washington to press harder for controls on Western exports of such equipment to the Soviet Union. It could be invoked as evidence that America's allies will fall into line provided sufficient pressure is applied.

CONCLUSIONS

14. There are strong arguments for allowing Rolls Royce to go ahead. To turn them down would be inconsistent with our previous attitude; and would prejudge the current discussions on technology transfer. There are limits to the extent to which we can permit our legitimate commercial interests to be dictated by likely reactions from Washington which we (and other European countries and Japan) believe to be ill-founded.

15. However, HM Embassy Washington sees a clear risk of a hostile United States' reaction. To minimise this risk, while retaining consistency, the following course of action is recommended:-

a. Until the outcome of the post-pipeline study on the export of this equipment is known, we should neither give Rolls Royce formal backing nor discourage them from proceeding with the contract. If Rolls Royce discover in the course of negotiation that absence of a formal United Kingdom backing is likely to prejudice their position, Ministers will need to reconsider the matter.

b. We should explain the position orally to Rolls Royce.

c. If the Americans approach us, we should explain that we have no legal powers to prevent Rolls Royce from bidding for the business and that there are no current United Kingdom controls on the export of such equipment. To introduce export controls would be to prejudge the outcome of discussions in COCOM.

Cabinet Office
28 February 1983

Soviet Union-
Credit Terms,
P4-3

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

EAST/WEST ECONOMIC RELATIONS: ACTIVITY IN COCOM

The Prime Minister has seen your minute of 28 February forwarding a report by the Chairman of the Sub-Committee on Strategic Exports.

Subject to the views of OD colleagues and the Secretary of State for Industry, the Prime Minister is content to note the progress made so far on the current List Review; to authorise the United Kingdom representative on COCOM to agree to the priority proposals relating to spacecraft, silicon, vanadium, aero-engines and floating dry-docks (the last two on the conditions set out in paragraph 11(b) of the report); and to endorse the United Kingdom position on those priority items on which no agreement has yet been reached. Further, Mrs. Thatcher endorses the guidance to the United Kingdom negotiators contained in paragraph 10 of the report.

The Prime Minister does not think that a meeting of OD will be necessary.

A. J. COLES

1 March 1983

CONFIDENTIAL

CONFIDENTIAL

1

Prime Minister:

The Committees recommendations are flagged. Sir Robert does not think a meeting of OD necessary. Agree? RA 28/2

Ref. A083/0676

PRIME MINISTER

Yes ms

East/West Economic Relations: Activity in COCOM following the Ending of the Pipeline Dispute

The Official Sub-Committee on Strategic Exports (ODO(SE)) has been examining the various issues that have arisen in COCOM following the ending of the dispute with the United States over the Siberian pipeline. The Chairman's report is attached.

2. It would be helpful to our negotiators in the COCOM discussions, above all in dealing with the Americans, if Ministers could note the present position, endorse certain specific results that have been achieved so far and approve the recommended United Kingdom approach to the next stage of the negotiations. The recommendations are set out in detail in paragraph 11 of the report.

3. In view of the intensive interdepartmental consultations that have gone into the report, it seems unlikely that OD will need to meet to discuss it. But a meeting can of course be arranged if you wish.

4. I am copying this minute to members of OD and to the Secretary of State for Industry.

RA

ROBERT ARMSTRONG

28 February 1983

CONFIDENTIAL

10A

EAST/WEST ECONOMIC RELATIONS: ACTIVITY IN COCOM FOLLOWING THE ENDING OF THE PIPELINE DISPUTE

Note by the Chairman of the Sub-Committee on Strategic Exports (ODO(SE))

INTRODUCTION

1. Under the terms of the 'Shultz non-paper' whose negotiation led to the ending of the Siberian pipeline dispute with the United States, the United Kingdom is committed to playing a full part in follow-up work on various aspects of East/West economic relations. Two of these relate to the transfer of technology from West to East and are to be undertaken in COCOM.

2. The two issues are -

a. "steps to enhance the effectiveness of our existing system for preventing the transfer of military-related technology to the East" which are under consideration in COCOM: the most important of these is the COCOM List Review. The Americans are seeking early progress on a number of priority items;

b. a study of "other high technology (OHT), including oil and gas equipment, the transfer of which could be inimical to our security", work on which has been slow to begin.

3. This report brings Ministers up to date on the work that is taking place within COCOM; and invites them to endorse the objectives which the United Kingdom negotiators are seeking to achieve.

GENERAL APPROACH

4. It is in our broad interest, following the pipeline dispute, for the Shultz proposals to make progress and for the United Kingdom to be seen to contribute constructively to this end. Similarly, we need to ensure, not only that the COCOM system is preserved, but also that the Americans do not come

to feel so frustrated by the system's limitations that they seek to impose controls of their own. The pipeline sanctions were one example; and their apparent intention to maintain the extraterritorial jurisdiction of the United States Export Administration Act is another. This is the general background against which the specific COCOM related issues need to be considered.

COCOM LIST REVIEW

5. COCOM operates on the basis of unanimous decisions, taken in relation to agreed strategic criteria (see Annex A). The participating countries (ie NATO member states, less Iceland and Spain, but including Japan) implement the agreed controls through their own national legislation. List Reviews take place regularly at intervals of three to four years and usually last around ten months.

6. The present Review, like the earlier ones, is intended by all partners to up-date and make more effective controls on Warsaw Pact access to sensitive technology: it began in late 1982 and will last well into 1984 because of the number and scope of the mostly American proposals. Effective progress was an early objective of the Reagan Administration which first raised the subject at Ottawa in June 1981. They then sought a High Level Meeting (HLM) in January 1982 at which, inter alia, they attempted to extend the scope of COCOM controls by amending the strategic criteria to cover equipment and technology less directly relevant to the military balance. This proposal was overwhelmingly rejected. The HLM nevertheless agreed to up-date the embargo lists in the current List Review, to give priority attention to those items of greatest concern to the Americans (originally called "critical technologies" but now known as "priority items"), to streamline COCOM procedures, harmonise national control policies and improve enforcement.

7. Current positions on priority items are set out at Annex B. The Americans are exerting pressure for these proposals to be agreed and brought into effect as soon as possible; in practical terms this means they seek final, rather than conditional, agreement where this is possible before the end of the first round of the List Review and in advance of the next HLM, now likely in April 1983. Many of these proposals are broadly-worded and if adopted,

would in some cases deliberately embargo non-strategic items. Discussions have therefore generally aimed at refining the American proposals in order to subject to control only those items directly relevant to the military potential of the Warsaw Pact. In this there has been considerable progress although problems have arisen which will be difficult to overcome (eg how to handle emerging technologies).

COCOM STUDY OF OTHER HIGH TECHNOLOGY (OHT)

8. As noted above, the present American Administration has persistently sought to extend the scope of COCOM controls to cover equipment and technology less directly relevant to the strategic balance. The priority proposal concerning marine and industrial gas turbines is an example (paragraph 11 of Annex B). Their call for a study of other high technology is undoubtedly aimed at bringing this equipment under control if, as they expect, the Europeans argue that it is not caught by the strategic criteria. They can be expected to maintain, or even increase, this pressure. The question, therefore, is how best to resist this, in the light of our undertaking to participate constructively in the OHT study (an undertaking that is without commitment on the outcome) without rekindling the passions evoked by the pipeline crisis and thereby putting at risk important British interests in the defence, nuclear, intelligence and technological fields where we are net beneficiaries in our exchanges with the United States.

9. In these circumstances, it seems essential that we should maintain a clear distinction between the on-going follow-up to the 1982 HLM, work which is directly related to the military balance and is central to COCOM's objectives, and the study of "other high technology" which is bound to be both contentious and divisive. In the latter case, we are concerned with a damage limitation exercise; and we should judge our approach accordingly. It is clear, for example, that we should aim, in discussion of OHT, to educate the Americans as well as listen to what they have to say. At the end of the day, the Americans may come to recognise that OHT transfers should be placed under some kind of oversight, rather than embargo.

NEGOTIATING MODALITIES

10. With these considerations in mind, the following guidance might be given to our negotiators in dealing with the Americans over both priority items and the OHT study -

i. We should resist the idea that, in the OHT study, discussion of detailed proposals for the control of specific technologies should take place in advance of discussion of whether they should be controlled at all. And, while it would be useful to address the question of emerging technologies, this should be done by reference to the existing strategic criteria.

ii. As a general rule, we should undertake to examine United States proposals on their merits, relating them to our own independent analysis of the risks, costs and benefits of permitting the technology in question to be transferred from West to East. Steps are being taken to strengthen our intelligence gathering and analytical capacity in this regard. Both are essential if we are to develop a capacity for independent judgement and are to be seen by the United States to be addressing the problem seriously.

iii. Where we judge that the Americans have a good case, we should support them vigorously and not, as hitherto, adopt a stance that is merely passive. We should also be as helpful as possible over procedural matters where these cost us nothing in terms of substance.

iv. We should avoid becoming detached from our European Community partners. On all the main issues, France and Federal Republic of Germany can be expected to be negative and we should exploit this fact to avoid exposing or isolating ourselves.

v. We should remain alert to the danger that the Americans might threaten our (and others') interests in other areas if they thought we or other COCOM partners were being insufficiently forthcoming; and Ministers should be alerted if and when any such retaliation seems likely.

RECOMMENDATIONS

11. Bearing in mind that work on COCOM is important in its own right and that (together with OHT) it is one of the main elements in the so-called Shultz package, Ministers are invited to -

a. note the progress made so far on the current List Review; and that officials will seek further guidance as necessary;

b. authorise the United Kingdom representative to agree to the priority proposals in Annex B relating to spacecraft, silicon, vanadium, aero-engines (if United Kingdom provisions for existing contracts are accepted) and floating dry-docks (if a consensus develops), to be implemented by amendments to the Export of Goods (Controls) Order 1981;

c. endorse the United Kingdom position on those priority items on which no agreement has yet been reached and note that further guidance from Ministers will be sought as the situation develops;

d. endorse the guidance to United Kingdom negotiators in paragraph 10 above.

Signed A D S GOODALL

Cabinet Office
24 February 1983

ANNEX A

STRATEGIC CRITERIA (Dated 11 April 1978)

The purpose of the embargo is to restrict the export of only those goods and technologies conforming with the three strategic criteria, provided they are such as to make a significant contribution to the military potential of proscribed destinations and thus have an adverse effect on the security of the member states.

a. Materials, equipment and technologies which are designed specially or in peacetime used principally for the development, production or utilisation of modern arms, ammunition or implements of war.

b. Materials and equipment incorporating unique technological know-how, the acquisition of which by proscribed destinations may reasonably be expected to give significant direct assistance to the development and production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or delivery, or of counter-measures to them.

c. Materials, equipment and technologies, of which proscribed destinations have a deficiency which may reasonably be expected to be critical in relation to the production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or delivery, or of counter-measures to them, and which they could not overcome within a reasonable period.

ANNEX B

COCOM LIST REVIEW: CURRENT POSITIONS ON PRIORITY ITEMS

1. Computers and software (including switching)

The most important item on which there is wide disagreement between the United States and the rest. Other members consider that the United States is seeking to impose an embargo going well beyond what is necessary for security reasons. Compromise proposals to be formulated and considered in the spring; agreement unlikely before the autumn.

2. Robotics

No agreement in sight, even on defining robots. The United States have proposed an interim overall ban on the export of robotics know-how. With the exception of robotics for direct military use, the United Kingdom is strongly opposed because robotics is one of a series of important new growth industries which Her Majesty's Government is actively encouraging and Eastern Europe is considered an important market by the industry.

3. Floating dry-docks

Widespread opposition on the grounds that dry-docks fall outside the strategic criteria. There is no technological gap between East and West, and large floating dry-docks can be obtained from countries outside COCOM. However, such dry-docks are used to support Soviet fleet operations in areas which they would otherwise have difficulty in covering. No United Kingdom commercial interest and we could support it if there is a general consensus. The key questions are whether the integrity of the strategic criteria can be protected and whether there is any prospect of United States or COCOM pressure persuading third countries not to sell such dry-docks to the Soviets.

4. Spacecraft and launch vehicles

The original United States proposal covered every type of satellite and rocket. (United States strategic concerns include surveillance and military command/communications uses, relevance to ballistic missile programmes and ability, through acquisition, to determine the West's capabilities and

limitations). While there is little United Kingdom commercial involvement with proscribed countries at the moment in spacecraft and launchers, we and other delegations have sought a definition limited to strategically important items. Some progress has been made in this direction and the United Kingdom can agree to the modified proposal.

5. Ceramics

Ceramics and their composites have a wide range of military and civil uses. This is a new item and considerable difficulty has been encountered in defining an acceptable boundary between civil and military uses. We await a Dutch redraft of the United States proposal.

6. Electronic grade silicon

Silicon is used in solar energy devices and nuclear radiation detectors and can be used for making sophisticated micro-circuits with many military applications. United Kingdom commercial interest lies chiefly in the equipment for "pulling" silicon crystals, and we accept that there are strategic reasons for controlling exports. The original United States proposal covered lower grades of silicon on which we felt controls would be unjustified. Having obtained a dispensation on these, we can agree to the United States proposal.

7. Gas turbine aircraft engines

The strategic use of these engines is self-evident, but the United Kingdom has a major commercial interest in exports for civil airline use. The current United States proposal is that engines and technology shall only ever be freely exportable for civil purposes and that for military purposes they shall be controlled permanently (because even small sub-sonic aero-engines can have strategic uses, eg for cruise missiles). Officials consider that the United States proposal, which has already undergone some alteration at the table, can be accepted subject to an exclusion for Rolls Royce Viper engines for military use which are the subject of existing contractual obligations with Romania (jointly with Yugoslavia). This position was suggested to our COCOM partners during discussions last October without any obvious opposition at the table, and it has since been accepted by Rolls Royce. A form of words has been proposed in discussions and accepted ad referendum by ourselves, the United States and our other COCOM partners.

8. Advanced composites

A revised United States proposal is awaited on these materials which are increasingly used in modern armours and aircraft structures.

9. Metallurgical processes

This encompasses a range of proposals dealing with metalworking technology and a range of sensitive metals and the technologies for producing them. Constructive discussions have clarified thoughts on metal-working technology, aluminides, titanium, clad steel and refractory coatings, for which revised United States proposals are awaited. There is disagreement over "pressure pipes and tubes" (used, for example, in submarine snorkel exhaust and ballast blow piping systems) where our intelligence advice is that Soviet capabilities are greater than the United States thinks they are. On vanadium, however, the United States proposal as clarified and revised at the table can be accepted by the United Kingdom. Vanadium is being used in the development of a super-conducting multi-filament wire to be used in ship propulsion systems, aircraft power systems and certain types of thermonuclear reactors. Those United Kingdom companies who were likely to be interested said they would not be affected by the proposal which would control vanadium for the first time.

10. Printed Circuit Boards (PCBs) and related technology

Certain PCBs with electrical/mechanical characteristics for the mounting of very high speed and microwave devices and multi-layered boards could well have military applications. However, a PCB is the basic building block of the electronics industry. All equipment from simple domestic items, eg washing machines and cameras through to the most sophisticated computers use PCBs. There is therefore considerable United Kingdom commercial interest. A number of United Kingdom firms, who have specialised in exporting simple PCB manufactured systems to Eastern Europe would be hard hit by the United States proposal, which for the first time would embargo some machinery and equipment specially designed for the manufacture of PCBs and also extend existing controls on such equipment and on PCBs themselves. The United States proposal is too widely drawn and the United Kingdom has two specific problems. The first concerns what is meant by "memory" when associated

with punched paper tape controllers. There is a danger that the simple punched paper tape control systems could become embargoed and the United States has been asked for clarification. The second problem relates to the design concept/logic structure of computers. The United Kingdom would have difficulty in agreeing to the PCB proposal before the relevant section in the computers item is agreed.

11. Marine and industrial gas turbine engines

Because these items depend on the outcome of the aero-engines proposal (which envisages controls on engines derived from aero-engine technology), only preliminary discussion has been possible in the List Review. We could have a major problem with the United States. Marine and industrial engines may also feature as a separate item (under OHT) in the Shultz studies. Rolls Royce and General Electric Company have substantial future potential in this field (for pipeline applications and power generation), particularly in the USSR: Ministers have been informed separately of Rolls Royce's interest in securing a contract for gas turbines for the Chelyabinsk gas pipeline. We propose to support any moves to make limits on export of marine gas turbine technology more specific. Since civil aero-engines are freely exportable to genuine civil end-users it would be illogical to adopt a more restrictive approach for industrial gas turbines. It appears that other COCOM members are likely to be sympathetic to our line, particularly our resistance to control of the export of industrial gas turbines themselves. We should therefore continue to oppose controls on exports of the turbines but support an embargo on exports of the sensitive technology involved in their manufacture.

CONFIDENTIAL

Soviet Union
cc/RJ.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Lord Cockfield
Secretary of State for Trade

18 February 1983

N.S.P.M.

A.J.C. 21/2

GAS TURBINES FOR THE SOVIET UNION

Thank you for sending me a copy of your letter of 14 February to Francis Pym.

I am sure that it is right, as the Prime Minister suggests, to make a careful assessment of the likely US reactions if Rolls Royce get this business, for we would have to explain to them a decision to let a sale go ahead. But my own instinct, like yours, is that we should not prevent Rolls Royce from trying to clinch the deal.

Copies of this letter go to the other recipients of yours.

GEOFFREY HOWE

Soviet Union
Credit Terms
#3

21 FEB 1964

CONFIDENTIAL

JH 960

BT

cc RJ

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

17 February 1983

Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

We await a letter pap.

N.S.P.R.

Dear Arthur,

A.J.C. 4/3.

GAS TURBINES FOR THE SOVIET UNION

I have seen the Prime Minister's comments on your letter of 14 February to Francis Pym. with ASC

2 I fully understand the concern that has been expressed about the undoubtedly adverse US reaction to such a sale. It is awkwardly timed. Nevertheless, I do not think that it provides us with sufficient basis for attempting to interfere with the company's ability to sell equipment that is not subject to export control. I am certain that the company would react vigorously in the light of comments made by Lord McFadzean at the height of last year's pipeline row, when he said that:

(a) no company with private shareholders could voluntarily refrain from bidding without risking a shareholders' suit;

(b) Rolls Royce had every intention of bidding for the second phase of the Soviet pipeline; having lost out in the first round they were not prepared to sit back and see US-designed equipment win the second round too.

3 I therefore share your view that we should not seek to obstruct Rolls Royce. This is business they cannot afford to ignore. In my view we must face up to any reaction from the US when, as I hope, Rolls Royce secures the business. There is, moreover, the natural consquence that if we interfere with Rolls Royce we shall probably have to do likewise with Ruston Gas Turbines and John Brown Engineering, both of whom are tendering to the USSR for related equipment.

4 I am copying this letter to the recipients of yours.

Yours ever

Patrick

Soviet Union -
Credit Tennis,
A73

7 FEB 1983

cc. Mr Coles (No10) PS

Mr Goodall (Cabinet Office)

D E D I P CONFIDENTIAL

2745 - 2 J H Holmes 18/2.

A.J.C. 22/2

F.A.

OO WASHINGTON
GRS470
CONFIDENTIAL
D E D I P
FM FCO 171815Z FEB 83
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 289 OF 17 FEBRUARY
GAS TURBINES FOR THE SOVIET UNION

1. MINISTERS ARE CONSIDERING WHETHER TO GIVE ROLLS ROYCE THE BLESSING THE COMPANY HAVE SOUGHT TO OFFER TO SELL FOUR RB2-11'S (AND PERHAPS MORE UNITS LATER) TO THE SOVIET UNION. THESE WOULD REPLACE EXISTING AVON TURBINES IN USE ON THE CHELYABINSK GAS PIPELINE.

2. THE ARGUMENTS IN FAVOUR ARE THAT THE INITIAL CONTRACT WOULD BE WORTH POUNDS STERLING 10 MILLION WITH THE POSSIBILITY OF FURTHER ANNUAL SALES OF POUNDS STERLING 20 MILLION UNTIL 1993. THERE ARE AT PRESENT NO COCOM CONTROLS ON THIS EQUIPMENT. THE TECHNOLOGY IS AT LEAST TEN YEARS OLD. NOR ARE COCOM PARTNERS LIKELY TO ACCEPT THE NEW US PROPOSALS THAT INDUSTRIAL TURBINES SHOULD BE ADDED TO THE COCOM LISTS. THE AMERICANS HAVE NOT YET CIRCULATED SPECIFIC LISTS OF OTHER HIGH TECHNOLOGY EQUIPMENT, INCLUDING OIL AND GAS EQUIPMENT, WHOSE FUTURE EXPORT TO THE SOVIET UNION THEY WISH TO BAN. TO DISCOURAGE ROLLS ROYCE FROM BIDDING WOULD BE TO PREJUDGE THE RESULTS OF THESE DISCUSSIONS. IT WOULD BE INCONSISTENT BOTH WITH OUR EARLIER AGREEMENT THAT BRITISH COMPANIES SHOULD TENDER (AGAINST FRENCH, GERMAN AND CANADIAN COMPETITION) FOR THE ASTRAKHAN GAS PROJECT, AND WITH THE SUPPORT WE GAVE ROLLS ROYCE IN 1981 FOR THEIR ULTIMATELY UNSUCCESSFUL BID TO SUPPLY TURBINES FOR THE WEST SIBERIAN PIPELINE. THOUGH IT IS PERHAPS ONLY A PRESENTATIONAL POINT, CHELYABINSK GAS IS NOT FOR DIRECT EXPORT TO THE WEST. WE BELIEVE THERE ARE NO IRREPLACEABLE US COMPONENTS FOR THE TURBINES THEMSELVES, SO ROLLS ROYCE WOULD NOT BE OBLIGED TO APPLY FOR RE-EXPORT LICENCES. AND THE COMPANY HAS TAKEN INTO ACCOUNT THE TRANSATLANTIC IMPLICATIONS FOR THEM OF GOING FOR THIS CONTRACT. OTHER BRITISH COMPANIES (EG RUSTON AND GEC)

/MAY

D E D I P CONFIDENTIAL

MAY ALSO WISH TO BID FOR SIMILAR BUSINESS.

3. AS AGAINST THIS, WE RECOGNISE THAT THE AMERICAN REACTION MIGHT BE ADVERSE. WE DO NOT KNOW IF OR WHEN THE DEAL MIGHT BECOME A FIRM PROSPECT, BUT WE WOULD GUESS THAT THE AMERICANS WOULD FIND OUT AS SOON AS IT DID. WE REALISE THAT, DEPENDING ON HOW SOON ROLLS ROYCE'S NEGOTIATIONS BEGAN AND HOW WELL THEY WENT, THIS MIGHT BECOME A BILATERAL ISSUE IN THE RUN-UP TO WILLIAMSBURG. WE ASSUME THAT AMERICAN REACTIONS MIGHT PARTLY DEPEND ON HOW THEY ASSESSED THE PROGRESS ON THE VARIOUS BITS OF FOLLOW-UP WORK ON EAST/WEST ECONOMIC RELATIONS. IT IS TOO EARLY TO PREDICT THAT NOW.

4. AN ADDITIONAL FACTOR IS THAT THE ONLY FOREIGN COMPETITION IN THIS FIELD COULD COME FROM US COMPANIES AND LICENSEES. SO FOR REASONS OF COMMERCIAL CONFIDENTIALITY WE WOULD NOT WANT TO ALERT THE AMERICANS AT THIS STAGE.

5. GRATEFUL FOR YOUR PERSONAL ASSESSMENT, IF POSSIBLE BY 181300Z, OF WHETHER THIS SALE WOULD BE LIKELY TO LEAD TO A MAJOR ADVERSE AMERICAN REACTION OR WHETHER THEY WOULD NOT BE DISPOSED TO MAKE A MAJOR ISSUE OF IT.

PYM

LIMITED
HD/TRED
HD/EESD
HD/NAD
PS
PS/HR RIFKIND
PS/PUS
SIR J BULLARD
HR EVANS
HR THOMAS

8 FEB 1983

CONFIDENTIAL

VB

bc: Sir A. Parsons

10 DOWNING STREET

c. CDL, D/TRADE, LPSO, MOD, LPO, HMT, LCO, HO, +below

From the Private Secretary

17 February 1983

Gas Turbines for the Soviet Union

I wrote to John Rhodes on this subject on 15 February.

The Prime Minister has since seen the minute of 16 February by the Foreign and Commonwealth Secretary.

Before taking a final view on this matter the Prime Minister would be grateful for a more detailed assessment of the likely United States reaction if the sale goes ahead. In view of other questions at stake in our relations with the United States, Mrs Thatcher feels that we must make the best possible assessment of whether the sale is likely to lead to a major adverse American reaction or whether they will not be disposed to make a major issue of it.

BF

I think the Prime Minister would also find it helpful if your reply could summarise the advantages of going ahead with the sale and the disadvantages of not doing so.

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

ASC

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

VB

10 DOWNING STREET

Prime Minister

Gas Turbines for the Soviet Union

Rt. Hon and Lord Cockfield want to let Rolls Royce go ahead. You expressed reservations.

2. I think there are strong reasons for letting Rolls Royce proceed but nowhere in these papers is there an assessment of the likely U.S. reaction. Will everything else that is at stake in our relations with the U.S., including dual key, we must know whether the Rolls Royce sale will result in a big row or a little one.

3. May I say that you would like a careful assessment of the likely U.S. reaction? Yes please MT

A.J.C. 16/2.

FCS/83/35

SECRETARY OF STATE FOR TRADE

Gas Turbines for the Soviet Union

1. Thank you for your letter of 14 February. I have also noted the Prime Minister's initial comment in Mr Coles's letter of 15 February.

2. I agree that the Americans may well be unhappy. But, on balance and for the reasons you set out in your letter, I agree with you that we should let Rolls Royce go ahead with this prospective sale.

3. President Reagan will undoubtedly wish to discuss at Williamsburg Western policy on the export of oil and gas equipment and technology to the Soviet Union. For this reason, I think that we should tell the Americans at a suitable level of our decision, and why we have taken it. But we should not do so until immediately after Rolls Royce have won the order.

4. I should be happy to discuss this if the Prime Minister wishes.

5. I am copying this to the Prime Minister, other members of OD, the Secretaries of State for Industry and Energy, and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
16 February 1983

Soviet Union:

Credit terms Pt 3

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file

cc: HO LPS
LCO CDLO
FCO +CO
HMT D/N
LPO DOI
MOD

10 DOWNING STREET

From the Private Secretary

15 February 1983

GAS TURBINES FOR THE SOVIET UNION

The Prime Minister has seen your Secretary of State's letter of 14 February to the Foreign and Commonwealth Secretary about this question.

Mrs. Thatcher will of course wish to await the advice of the Foreign and Commonwealth Secretary before taking a firm view but has meanwhile commented that she thinks that the United States would be very concerned indeed if we exported these turbines to the Soviet Union.

I am sending copies of this letter to the Private Secretaries to other members of OD, to Jonathan Spencer (Department of Industry), Julian West (Department of Energy) and to Richard Hatfield (Cabinet Office).

A. J. COLES

John Rhodes, Esq.,
Department of Trade.

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(2)

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

Prime Minister

This has the seeds of another major row with the U.S. You may care to await Mr. Pym's views before committing yourself.

A.J.C. 14/2.

CONFIDENTIAL

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

I think the U.S. would be very concerned indeed if we signed these agreements.

14 February 1983

Dear Francis,

GAS TURBINES FOR THE SOVIET UNION

Rolls Royce has approached my Department about the prospect of selling to the Soviet Union four RB2-11 units which, together with spares and maintenance facilities, would be worth about £10 million. The RB2-11 units would replace the company's existing Avon units already in operation on the Chelyabinsk Pipeline. If this first trial order were successful, it could lead to business worth on average about £20 million a year at 1983 prices over a ten year period. This represents a 50% increase in Rolls Royce's total anticipated industrial sales of gas turbines over the period. Given the present poor demand for civil aircraft engines, such sales would clearly be very attractive to the company, and they wish to pursue the opportunity.

Since the units would be for gas pipeline use there are obvious political sensitivities, but I consider these to be outweighed by the strong commercial considerations in favour of seeking the business. Indeed, there is no agreement among Allies restricting the supply of oil and gas transmission equipment.

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From the Secretary of State

The Americans have removed their December 1981 and June 1982 measures, and have so far made little progress in developing the case for new ones in the studies of East-West relations which are now in train. Meanwhile European companies have bid, and secured substantial contracts, for the Astrakhan gas project. Apart from Rolls gas generators, the only competing large power-producing systems from the West suitable for gas pipelines are either supplied by United States companies or their licensees. Thus for Rolls Royce to stand back from such business would effectively confer significant monopoly powers on the United States.

Separately, the Americans have proposed new wide-ranging controls on gas turbines which would bring aero-derived industrial equipment within the COCOM net. But neither we, nor other participating countries, have so far been willing to support these proposals. We are, of course, concerned that technology for making key components should not be exported, for both security and commercial reasons. But in this case, the difficulties of "reverse engineering" are such that there is no appreciable risk in making available equipment, which in any case uses technology at least ten years old.

In short, we do not now have any formal basis for blocking a Rolls Royce sale, since the equipment in question is not now subject to export licensing controls. The main argument for discouraging Rolls Royce is the risk of damage to our relations with the United States government. But I do not think that this outweighs the commercial considerations. These extend beyond Rolls Royce; Lord Weinstock has recently expressed his concern that GEC should be free to bid for oil and gas orders, including gas pumping equipment. If, as a result of discussions amongst the Allies, the export rules were to be changed, we would find it difficult not to allow existing contracts to be completed. But in not seeking to stand in Rolls Royce's way on this occasion, we could not of course commit ourselves to the outcome of these discussions.

I hope you will agree that, in the circumstances, we should not seek to obstruct Rolls Royce. To do so would put it at a competitive disadvantage to overseas

From the Secretary of State

companies including the Americans. It would also run counter to the line we took in April 1981 when our Ambassador in Moscow was authorised to give the Soviet Deputy Minister of Foreign Trade assurances about Government support for Rolls Royce's ultimately unsuccessful West Siberian bid.

I am copying this to the Prime Minister, other members of OD, the Secretaries of State for Industry and Energy, and to Sir Robert Armstrong.

LORD COCKFIELD

SOVIET UNION. 10

S E C R E T

44148 - 1

OO WASHINGTON
OO OTTAWA
GR 268
SECRET
FM FCO 231630 DECEMBER 82
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 2206 OF 23 DECEMBER
AND TO PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, UKDEL OECD,
TOKYO, CANBERRA, WELLINGTON, UKREP BRUSSELS, OTTAWA
INFO SAVING MOSCOW, OTHER EC POSTS
EAST/WEST ECONOMIC RELATIONS

1. PLEASE PASS FOLLOWING TO SECRETARY SHULTZ IN REPLY TO HIS MESSAGE OF 22 DECEMBER TO ME (SEE MIPT).

BEGINS:

1. MANY THANKS FOR YOUR MESSAGE OF 22 DECEMBER. I CONGRATULATE YOU ON WHAT YOU ACHIEVED ON YOUR EUROPEAN TRIP. THE APPROACH YOU OUTLINE ON EAST/WEST ECONOMIC RELATIONS ACCORDS WITH MY OWN VIEWS. YOU CAN COUNT ON US TO PLAY OUR FULL PART IN MOVING THE WORK FORWARD.

2. I AGREE WITH WHAT YOU PROPOSE SHOULD BE DONE IN COCOM. THIS IS AN IMPORTANT AREA AND WILL NEED CAREFUL HANDLING. AS COCOM'S RESOURCES ARE FULLY COMMITTED ON THE LIST REVIEW, WE SHALL HAVE TO CONSIDER HOW IT CAN BE REINFORCED TO COPE WITH THE ADDITIONAL WORK.

3. I AGREE ALSO WITH YOUR VIEWS ON THE WORK TO BE DONE IN OECD. I TAKE IT YOU WILL BE IN TOUCH WITH VAN LENNEP ON THIS.

4. I ALSO AGREE WITH YOU THAT NATO IS THE RIGHT FORUM FOR THE OVERALL STUDY OF THE SECURITY ASPECTS OF EAST/WEST ECONOMIC RELATIONS. I SHOULD LIKE TO SEE THIS STUDY DRAWING TOGETHER THE WORK DONE ELSEWHERE, FOR CONSIDERATION AT THE NATO MINISTERIAL MEETING IN JUNE. THE BEST WAY TO BRING THE FRENCH ALONG MAY BE TO BUILD ON THEIR PARTICIPATION IN THE VARIOUS STUDIES WHICH WE HAVE NOW ALL AGREED TO EMBARK ON.

5. THE TRIO METHOD OF ASSOCIATING JAPAN, AUSTRALIA, AND NEW ZEALAND HAS WORKED WELL IN THE PAST, AND I AGREE THAT IT MIGHT USEFULLY BE USED AGAIN.

S E C R E T

6. MERRY CHRISTMAS.

PYM

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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INFO SAVING MOSCOW, OTHER EC POSTS
EAST/WEST ECONOMIC RELATIONS

1. FOLLOWING IS TEXT OF MESSAGE TO ME FROM SHULTZ DATED 22 DECEMBER. REPLY IS IN MIFT.

BEGINS:

UPON MY RETURN FROM WHAT I REGARD AS HIGHLY ENCOURAGING DISCUSSIONS ON THE STATE OF OUR ALLIANCE, I WANT TO SHARE WITH YOU MY IMPRESSION OF WHERE WE STAND ON DEVELOPING FOLLOW-ON WORK ON EAST-WEST ECONOMIC RELATIONS. I HAVE REPORTED TO THE PRESIDENT ON MY MEETINGS IN EUROPE AND HE IS PLEASED WITH THE RESULTS. THE SUBSTANCE OF THE CONSENSUS, WHICH I BELIEVE WE HAVE DEVELOPED AMONG THE MAJORITY OF ALLIANCE MEMBERS INVOLVES THE FOLLOWING APPROACH, UTILIZING EXISTING INSTITUTIONS.

IN COCOM WE WOULD CONSIDER STEPS TO ENHANCE THE EFFECTIVENESS OF OUR EXISTING SYSTEM FOR PREVENTING THE TRANSFER OF MILITARY-RELATED TECHNOLOGY TO THE EAST. IN THAT SAME FORUM, WE WOULD STUDY OTHER HIGH TECHNOLOGY, INCLUDING GAS AND OIL EQUIPMENT, THE TRANSFER OF WHICH COULD BE INIMICAL TO OUR SECURITY.

THE OECD SHOULD MOVE FORWARD IN THREE MAJOR AREAS. AN EX-POST MONITORING OF TRADE AND FINANCIAL FLOWS TO THE EAST SHOULD BE UNDERTAKEN: A STUDY OF ALTERNATIVE ENERGY REQUIREMENTS, FOR WESTERN EUROPE BUT ALSO INCLUDING NORTH AMERICA AND JAPAN, SHOULD BE PREPARED IN CONJUNCTION WITH THE IEA AND OTHER RELEVANT BODIES: AND A STUDY OF POSSIBLE MEANS OF HARMONISING CREDIT AND OTHER FINANCIAL FLOWS TO THE EAST SHOULD ALSO BE CARRIED OUT.

FINALLY, IN NATO, BUT DRAWING AS APPROPRIATE ON NATIONAL

CONTRIBUTIONS AND OECD STUDIES AND DATA, WE SHOULD PREPARE AN OVERALL STUDY OF THE SECURITY ASPECTS OF EAST-WEST ECONOMIC RELATIONS. IT IS MY HOPE THAT THESE SIX STUDIES CAN BE CONCLUDED IN TIME FOR CONSIDERATION, AS APPROPRIATE, BY THE OECD AND NATO MINISTERIAL IN MAY AND JUNE OF NEXT YEAR.

IN ORDER TO BROADEN OUR EFFORT TO INCLUDE OTHER KEY FRIENDLY NATIONS, I BELIEVE IT WILL BE NECESSARY TO SEEK THE ACTIVE INVOLVEMENT OF JAPAN IN THE NATO STUDY. IN ADDITION, AUSTRALIA AND NEW ZEALAND SHOULD BE ASSOCIATED WITH IT: PERHAPS THE QUOTE TRIO UNQUOTE FORMULA USED IN LINKING THESE TWO COUNTRIE TO OUR DISCUSIONS ON POLAND COULD BE DEVELOPED FURTHER TO ASSURE THIS COOPERATION. I WOULD WELCOME YOUR VIEWS ON THESE POINTS.

WITH WARM REGARDS

ENDS.

PYM

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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A.S.C. 8/12.

CONFIDENTIAL

SIR ROBERT ARMSTRONG

EAST-WEST ECONOMIC RELATIONS

Foreign Pol, East/West Relations, PT3.

Thank you for sending me a copy of your minute of 30 November to the Prime Minister. Concern was expressed in Cabinet at an earlier stage that participation in the studies envisaged in the Schultz paper could lead us towards policies which were not in our national interest. This point has been properly noted in the aims set out in the paper by officials on how the studies should be organised, but we shall need to keep it clearly in mind as the discussions evolve.

I am sending copies of this minute to OD colleagues and to the Secretaries of State for Industry and Energy and to the Minister for Agriculture, Fisheries and Food.

Arthur Cockfield

LORD COCKFIELD

Department of Trade
1 Victoria Street
London, SW1H OET

7 December 1982

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8 DEC 1982

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SECRET

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PP WASHINGTON

GRS 1241
SECRET
FM FCO 061300Z DEC 82
TO PRIORITY WASHINGTON
TELEGRAM NUMBER 2123 OF 6 DECEMBER
INFO PARIS, BONN, ROME, COPENHAGEN UKDEL NATO, UKREP BRUSSELS
INFO SAVING UKDEL OECD, OTTAWA, TOKYO, MOSCOW.

EAST/WEST ECONOMIC RELATIONS

FOLLOWING IS TEXT OF MESSAGE TO ME FROM SHULTZ DATED 4 DECEMBER.
BEGINS

LOOKING AHEAD TO OUR MEETINGS IN EUROPE AND THE SESSION OF THE NATO COUNCIL, I WANTED TO SHARE WITH YOU MY THOUGHTS ON TWO OF THE KEY ISSUES BEFORE US: OUR CONSULTATIONS ON EAST-WEST ECONOMIC RELATIONS AND THE TRANSITION IN THE SOVIET UNION TO THE POST-BREZHNEV ERA.

ONE SUBJECT WHICH I WILL WANT TO DISCUSS BILATERALLY WITH YOU DURING MY VISIT TO LONDON IS HOW WE SHOULD FOLLOW-UP ~~TO~~ THE CONSENSUS ON EAST-WEST ECONOMIC RELATIONS CONTAINED IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. AS YOU KNOW, THIS IS A MATTER TO WHICH THE PRESIDENT ATTACHES GREAT IMPORTANCE, AND I BELIEVE IT IS ESSENTIAL THAT WE AGREE AMONG OURSELVES ON HOW WE SHOULD MOVE AHEAD IN THE VARIOUS AREAS ENUMERATED IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE.

WHILE I DO NOT WISH TO GO INTO THEM IN DETAIL AT THIS TIME, I THOUGHT IT WOULD BE USEFUL TO PREPARE FOR OUR MEETING IF I GAVE YOU SOME IDEA OF HOW WE ENVISAGE THE FOLLOW-UP PROCESS DEVELOPING.

AS A GENERAL RULE, WE BELIEVE THE SEVEN-NATION GROUP, WITH THE PARTICIPATION OF THE EC PRESIDENCY AND THE COMMISSION, WHICH WORKED TOGETHER SO EFFECTIVELY, SHOULD CONTINUE TO BE USED IN SOME WAY TO ~~COORD~~INATE THE FOLLOW-UP PROCESS. AT THE SAME TIME, WE RECOGNISE THE DESIRABILITY OF USING EXISTING INTERNATIONAL ORGANISATIONS WHENEVER POSSIBLE, AND WE WOULD MINIMISE THE ESTABLISHMENT OF ANY NEW INSTITUTIONS EITHER TO CONDUCT THE

FOLLOW-UP WORK OR AS A RESULT OF THAT WORK.
IN THE FIELD OF ENERGY, WE PROPOSE THE CREATION OF AN AD HOC SUMMIT GROUP ON ENERGY TO CONDUCT THE ENERGY STUDY REFERRED TO IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. THIS GROUP WOULD BE EXPANDED TO INCLUDE OTHER DIRECTLY CONCERNED COUNTRIES. THE AD HOC GROUP WOULD COMMISSION THE OECD COMBINED ENERGY SECRETARIAT TO PREPARE THE ENERGY STUDY BASED ON TERMS OF REFERENCE AND GUIDANCE FROM THE GROUP. THE GROUP WOULD DRAW POLICY CONCLUSIONS BASED ON THE OECD/IEA ANALYSIS AND MEMBER COUNTRY CONTRIBUTIONS. WE WOULD HOPE THIS GROUP COULD BE CONVENED SOON, PERHAPS AS EARLY AS DECEMBER 15 IN PARIS, IN ORDER FOR THE GROUP TO COMPLETE ITS WORK BY EARLY MAY 1983.
ON CREDITS, WE SEEK TO BUILD ON POST-VERSAILLES PROGRESS IN THE OECD EXPORT CREDIT ARRANGEMENT AND OTHER OECD WORK TO HARMONISE EXPORT CREDIT POLICIES TOWARD THE USSR AND ENHANCING THE TRANSPARENCY OF WESTERN ECONOMIC RELATIONS WITH THE USSR AND EASTERN EUROPE. WE ALSO WISH TO ESTABLISH A FRAMEWORK WITHOUT FURTHER DELAY FOR PERIODIC EX POST REVIEW OF EAST-WEST ECONOMIC RELATIONS WHICH WOULD DRAW ON OECD DATA AND ANALYSES. A MONITORING GROUP CONSISTING OF SUMMIT SEVEN AND EC PARTICIPATION WOULD PROBABLY BE MOST EFFICIENT BUT WE ARE OPEN TO OTHER PROPOSALS. WE PROPOSE THAT A MEETING OF THIS GROUP BE HELD EARLY IN JANUARY TO DISCUSS PROCEDURES FOR THE REVIEW AND PROPOSALS FOR FURTHER WORK ON HARMONISATION OF EXPORT CREDIT POLICIES.
THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE REINFORCES THE AGREEMENT AT THE JANUARY, 1982 HIGH-LEVEL MEETING TO STRENGTHEN COCOM. WHAT WE NEED IS A STOCK-TAKING EXERCISE TO REVIEW WHERE WE STAND AND WHAT REMAINS TO BE DONE TO ACHIEVE OUR COMMON OBJECTIVE. FOR THIS PURPOSE, I PROPOSE THAT REPRESENTATIVES OF THE SEVEN MEET NEXT FEBRUARY, AT THE LEVEL OF UNDER SECRETARIES. WE SUGGEST THAT THE MEETING BE INFORMAL, AND THAT IT BE HELD WITHOUT PUBLICITY.
AT THE OPENING OF THE LIST REVIEW ON OCTOBER 4, THE US SUGGESTED THAT A SECOND HIGH-LEVEL MEETING OF ALL COCOM PARTICIPANTS BE HELD SOMETIME IN 1983. SUCH A MEETING MIGHT BE HELD IN JULY, FOLLOWING THE SECOND ROUND OF THE LIST REVIEW.

BEFORE MAKING A FORMAL PROPOSAL IN COCOM ON THIS, WE WOULD LIKE TO DISCUSS OUR IDEAS WITH YOU IN FEBRUARY. IN ADDITION, WE PROPOSE THAT THE FEBRUARY MEETING REVIEW THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM IN GENERAL AND WHAT SHOULD BE DONE TO STRENGTHEN COCOM INSTITUTIONALLY.

ON OTHER HIGH TECHNOLOGY, WE BELIEVE THAT OUR FOLLOW-UP SHOULD BE CONDUCTED IN STAGES. WE WOULD LIKE TO MEET WITH THE SUMMIT SEVEN GROUP AT AN EARLY DATE TO DISCUSS THE OIL AND GAS SECTOR. WE WILL BE PREPARED TO EXCHANGE VIEWS WITH YOU ON THE REASONS WHY CONTROLS IN THIS SECTOR WOULD BE IN OUR MUTUAL SECURITY AND ENERGY INTEREST. WE ARE UNDERTAKING AN INTERNAL STUDY OF HOW OTHER TECHNOLOGIES CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE OF THE USSR. WE WOULD HOPE TO BE ABLE TO GIVE YOU AN INDICATION OF OUR THINKING AT A MEETING IN FEBRUARY, WHICH COULD BE HELD IN CONJUNCTION WITH THE MEETING WE WOULD LIKE TO HAVE ON COCOM MATTERS.

TO ENSURE THAT OUR ECONOMIC RELATIONS WITH THE SOVIET UNION ARE CONSISTENT WITH OUR STRATEGIC INTERESTS, WE SHOULD GO FORWARD WITH OUR AGREEMENT TO CONDUCT EXPEDITIOUSLY AN OVERALL STUDY ON EAST-WEST ECONOMIC RELATIONS. WE ENVISAGE THIS STUDY VERY MUCH ALONG LINES DEVELOPED IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. I REMEMBER THAT WE ALL ATTACHED GREAT IMPORTANCE TO THIS EFFORT, AS IT WILL PROVIDE US WITH A COMMON ASSESSMENT OF EAST-WEST ECONOMIC RELATIONS AND THEREBY ENABLE US TO IMPLEMENT THE PRINCIPLES ON WHICH WE AGREED. IN OUR VIEW, A SPECIAL GROUP SHOULD BE FORMED TO CONDUCT THIS STUDY ON THE BASIS OF CONTRIBUTIONS FROM THE PARTICIPATING COUNTRIES. THIS GROUP COULD WELL CALL UPON THE OECD AND NATO FOR CONTRIBUTIONS IN THEIR RESPECTIVE AREAS OF EXPERTISE. A SECRETARIAT ROLE FOR ONE OF THESE INSTITUTIONS (OR THE TWO JOINTLY) IS ALSO A POSSIBILITY TO BE EXPLORED.

FINALLY, IT IS CLEAR TO US THAT SOME INFORMAL MECHANISM WILL BE NEEDED TO SUPERVISE THE FOLLOW-UP PROCESS AS A WHOLE. THE WASHINGTON AMBASSADORIAL GROUP HAS SERVED WELL IN THIS CAPACITY, BUT WE MAY WANT NOW TO CONSIDER OTHER POSSIBILITIES. I THINK YOU WILL AGREE THAT, AS FAR AS EAST-WEST ECONOMIC

SECRET

RELATIONS ARE CONCERNED, WHILE MUCH OF THE SUBSTANCE OF OUR CONSULTATIONS HAS CONCERNED MATTERS DEALT WITH IN OTHER BODIES, IT NEVERTHELESS IS IMPORTANT THAT NATO HAVE A SIGNIFICANT ROLE IN THE ON-GOING CONSULTATIVE PROCESS. ONE AREA WHERE THE RESOURCES OF THE ALLIANCE COULD BE PUT TO EXCELLENT USE, WITHOUT CONFLICTING WITH WORK DONE ELSEWHERE OR THE MISSIONS OF OTHER ORGANISATIONS, WOULD BE AN IN-DEPTH STUDY OF THE PROSPECTS FOR THE SOVIET ECONOMY, INCLUDING ITS ABILITY TO SUSTAIN PRESENT AND PROJECTED FUTURE LEVELS OF DEFENSE EFFORT. WE PLAN TO INTRODUCE PROPOSALS FOR THIS SPECIAL STUDY INTO THE COMMUNIQUE DRAFTING PROCESS AT NATO IN THE NEXT FEW DAYS.

ANOTHER THOUGHT I HAD ON WHICH I WOULD VALUE YOUR OPINION CONCERNS HOW THE ALLIANCE CAN MOST EFFECTIVELY DEAL WITH THE QUESTION OF THE SOVIET UNION'S POLICIES POST-BREZHNEV AND THEIR IMPLICATIONS FOR US. BREZHNEV'S DEPARTURE AND ANDROPOV'S EMERGENCE COULD WELL MEAN THAT DEVELOPMENTS IN MOSCOW, AND THEIR MEANING FOR THE WEST, WILL BE HIGHLY COMPLEX. I BELIEVE, THEREFORE, THAT A NATO STUDY ON LIKELY TRENDS IN SOVIET POLICIES, AND THEIR IMPLICATIONS FOR EAST-WEST RELATIONS, POST-BREZHNEV WOULD BE VERY TIMELY.

THIS IS AN IDEA WE MIGHT PROFITABLY DISCUSS. IF OUR EXCHANGE SUGGESTS THAT SUCH AN INITIATIVE HAS MERIT, WE MIGHT THEN INTRODUCE IT FOR MORE GENERAL DISCUSSION DURING THE SUPER-RESTRICTED SESSION OF THE NAC ON DECEMBER 9, WHICH WILL IN ANY CASE BE AN OCCASION FOR REVIEWING THE FULL SCOPE OF EAST-WEST RELATIONS IN THE POST-BREZHNEV ERA. IF THERE IS AGREEMENT THERE, THIS INITATIVE TOO, COULD BE INCLUDED IN OUR COMMUNQUE.

I LOOK FORWARD TO HEARING YOUR REACTION TO THESE IDEAS.

ENDS.

PYM

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TELEGRAM NUMBER 1139 OF 26 NOVEMBER 1982
INFO IMMEDIATE TO WASHINGTON
INFO PRIORITY BONN, ROME, UKDELNATO, UKREP BRUSSELS
INFO ROUTINE TOKYO, OTTOWA AND MOSCOW

Prime Minister

This is much gloomier on the French attitude than I had thought. Trouble ahead between the U.S. and France.

A.J.C. 26/11.

MEETING BETWEEN THE PUS AND THE SECRETARY-GENERAL OF THE QUAI: EAST/WEST ECONOMIC RELATIONS

1. IN HIS DISCUSSION WITH THE SECRETARY-GENERAL AT THE QUAI YESTERDAY AFTERNOON, THE PUS INVITED GUTMANN TO EXPLAIN WHERE FRANCE NOW STOOD ON THE STUDY OF EAST/WEST ECONOMIC RELATIONS BY WESTERN GOVERNMENTS.

2. GUTMANN REAFFIRMED HIS STRONG OBJECTION TO ANY DIRECTING ROLE FOR NATO IN THESE DISCUSSIONS. HE REFERRED TO THE SHULTZ NON-PAPER AS QUOTE THE NON-EXISTING NON- PAPER UNQUOTE. HE SAID THAT PRESIDENT REAGAN'S STATEMENT ON 13 NOVEMBER HAD GIVEN THE FRENCH THE IMPRESSION THAT THE PRESIDENT BELIEVED IT POSSIBLE TO HAVE A KIND OF NATO TREATY GOVERNING ECONOMIC RELATIONS WITH THE SOVIET UNION. BUT THIS WAS UNREALISTIC AND CONTRARY TO THE NATIONAL INTERESTS OF EUROPEAN GOVERNMENTS. FRANCE WAS READY TO HOLD TALKS ON ALL ASPECT OF EAST/WEST RELATIONS, PROVIDING THESE WERE COMPREHENSIVE. THEY SHOULD COVER ALL CREDITS AND ALL SUBSIDIES. BUT FRANCE DID NOT BELIEVE THAT SUCH TALKS COULD LEAD TO THE ELABORATION OF A PRACTICAL STRATEGY. NATIONAL INTERESTS WERE TOO DIVERSE FOR THAT.

3. PAYE (ECONOMIC DIRECTOR) ADDED THAT MOST OF THE STUDIES

3. PAYE (ECONOMIC DIRECTOR) ADDED THAT MOST OF THE STUDIES REFERRED TO IN THE NON-PAPER HAD BEEN IN PROGRESS FOR YEARS IN VARIOUS FORA, E.G. COCOM AND OECD. BUT WHAT WAS IMPORTANT WAS THE SPIRIT IN WHICH THESE DISCUSSIONS WERE APPROACHED. IF THE US WANTED TO INJECT A SPIRIT OF ANTI-SOVIET ECONOMIC WARFARE THERE WOULD BE GRAVE DIFFICULTIES. IF HOWEVER THE US GOVERNMENT TOOK INTO ACCOUNT THE VIEWS OF ITS PARTNERS THERE WAS THE POSSIBILITY OF REACHING BETTER UNDERSTANDING AND BETTER HARMONISATION IN SOME AREAS. WE SHOULD NOW FORGET THE QUOTE INCIDENT UNQUOTE OF 13-14 NOVEMBER AND THE PROCESS WHICH LED TO IT, AND LOOK AHEAD.

4. THE PUS AGREED THAT ALL THE PARTICIPANTS IN THE EXERCISE HAD DIFFERNT STARTING POINTS, DETERMINED BY GEOGRAPHY AND HISTORY. IT WAS DOUBTFUL WHETHER A DETAILED STRATEGY COULD BE ELABORATED TO COVER EVERY INTEREST. THE BRITISH GOVERNMENT HAD BEEN PREPARED TO ENTER INTO DISCUSSION OF THE NON-PAPER, BUT WITHOUT PREJUDICE TO THE OUTCOME. IT WAS NOW IMPORTANT TO AVOID OVERT DISAGREEMENTS THAT WOULD ONLY BENEFIT THE USSR. EVANS ADDED THAT SOME FORM OF OVERALL COORDINATION OF THE VARIOUS STUDIES OF EAST/WEST ECONOMIC RELATIONS WOULD BE NECESSARY AND ADVISABLE, NOT LEAST TO ENSURE THAT THE JAPANESE WERE FULLY INVOLVED. NEVERTHELESS, IT SEEMED CLEAR FROM THIS DISCUSSION, AND FROM THE SUBSEQUENT TALK BETWEEN PAYE AND EVANS, THAT THE FRENCH WILL RESIST AN EARLY MEETING OF THE SEVEN PLUS TWO IN WASHINGTON TO FOLLOW UP THE SHULTZ NON-PAPER.

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TELNO 3721 OF 17 NOVEMBER 1982,
INFO PARIS, BONN, ROME, UKREP BRUSSELS.

PIPELINE: LIFTING OF THE DENIAL ORDERS AGAINST EUROPEAN FIRMS

1. HUNT, ASSISTANT GENERAL COUNSEL AT THE DEPARTMENT OF COMMERCE, HAS INFORMED US THAT THE DEPARTMENT YESTERDAY FILED MOTIONS WITH THE HEARINGS COMMISSIONER TO VACATE THE TEMPORARY DENIAL ORDERS PREVIOUSLY IMPOSED ON EUROPEAN FIRMS. THE HEARINGS COMMISSIONER, IN TURN, IMMEDIATELY VACATED THE ORDER OF 9 SEPTEMBER AGAINST JOHN BROWN ENGINEERING AND THE SIMILAR ORDERS AGAINST THE OTHER EUROPEAN FIRMS. THE HEARINGS COMMISSIONER'S ORDER (COPIES BY BAG), WHICH ARE EFFECTIVE FROM 16 NOVEMBER, ARE TO BE PUBLISHED IN DUE COURSE IN THE FEDERAL REGISTER.

2. THIS BRINGS TO A CLOSE THE PROCEEDINGS AGAINST ALL THE EUROPEAN FIRMS CONCERNED.

3. ALTHOUGH WE EXPECTED THIS RESULT (OUR AGREEMENT TO THE NON-PAPER WAS CONTINGENT ON IT AMONG OTHER THINGS), IT IS NEVERTHELESS UNPRECEDENTED IN THE HISTORY OF US EXPORT CONTROLS ENFORCEMENT. ALTHOUGH THE US REGULATIONS, ON WHICH THE ENFORCEMENT ACTION WAS BASED, WERE RESCINDED THE EUROPEAN FIRMS CONCERNED DID, IN US EYES, VIOLATE THOSE REGULATIONS WHEN IN FORCE. WE BELIEVE THAT IN PREVIOUS CASES OF THIS KIND (BUT NOT OF THE POLITICAL DIMENSION OF THE PIPE-LINE SANCTIONS) THE ADMINISTRATION HAS ALWAYS SOUGHT TO PROSECUTE OR AT LEAST REACH AN OUT OF COURT SETTLEMENT BY WAY OF A CONSENT DECREE WITH QUOTE OFFENDERS UNQUOTE. THE UNILATERAL TERMINATION OF ACTION AGAINST THE EUROPEAN FIRMS THEREFORE REPRESENTS A SIGNIFICANT CLIMB DOWN BY THE ADMINISTRATION AND A LANDMARK DECISION WHICH LAWYERS WILL UNDOUBTEDLY CITE IN THE YEARS TO COME. THIS IS NOT AN ASPECT TO BE EXPLOITED IN PUBLIC BUT IT IS A MEASURE OF THE LENGTHS THE ADMINISTRATION HAVE BEEN PREPARED TO GO TO MEND FENCES.

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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TELEGRAM NUMBER 733 OF 15 NOV
INFO IMMEDIATE: WASHINGTON, PARIS, BONN, (PERSONAL FOR AMBASSADORS/MINISTERS)

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH SHULTZ: PIPELINE

1. SECRETARY OF STATE HAD A BRIEF WORD WITH SHULTZ TETE A TETE ON THE EVENTS OF SATURDAY. SHULTZ MADE IT CLEAR THAT PRESIDENT REAGAN HAD BEEN EXTREMELY ANGRY AT THE FRENCH PERFORMANCE. HE HAD WONDERED ABOUT HOW TO REACT AND HAD CONCLUDED THAT THE BEST ANSWER WAS TO LIFT THE SANCTIONS AND GET THE THING OVER WITH. MR PYM SAID THAT HE THOUGHT THIS HAD BEEN THE RIGHT DECISION: THE FRENCH HAD BEHAVED VERY BADLY, THE SANCTIONS HAD BEEN A RUNNING SORE AND HE WAS GLAD THAT THEY HAD BEEN LIFTED. HE THANKED SHULTZ FOR THE EFFORTS WHICH HE PERSONALLY HAD MADE TO GET THIS DONE.

2. SHULTZ WENT ON TO SAY THAT HE HOPED THAT EVERYONE WOULD NOW AGREE TO GO AHEAD WITH THE WORK WHICH HAD BEEN ENVISAGED. MR PYM AGREED AND SAID THAT WE WOULD PLAY OUR FULL PART IN THE SPIRIT OF THE AGREEMENT WHICH HAD BEEN REACHED.

3. SHULTZ MADE IT CLEAR THAT THIS EPISODE WITH THE FRENCH HAD CAUSED HIM TO DRAW CONCLUSIONS ABOUT THE RELIABILITY OF CHEYSSON AS AN INTERLOCUTOR.

4. SUBSEQUENT DEVELOPMENTS HERE ARE RECORDED IN MOSCOW TELS NO 718 AND 721.

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INFO IMMEDIATE MOSCOW WASHINGTON AND BONN
INFO ROUTINE ROME COPENHAGEN UKREP BRUSSELS UKDEL NATO TOKYO AND OTTAWA

Read in full.

MY TELNO 1082: GAS PIPELINE

SUMMARY

1. GUTMANN, SECRETARY GENERAL AT THE QUAI, CALLED IN EC AMBASSADORS THIS MORNING TO GIVE AN ACCOUNT OF THE WEEKEND'S EVENTS. HE SOUGHT TO JUSTIFY FRENCH ACTIONS BUT ALSO TO CONVEY A REASSURING IMPRESSION THAT THERE WAS NO NEED FOR DRAMA OR CRISIS AND THAT FRANCE WAS READY TO GO AHEAD WITH DISCUSSIONS ON THE CONCERTATION OF POLICIES ON EAST/WEST TRADE. HE REJECTED CATEGORICALLY ANY IDEA THAT THE NON-PAPER MIGHT NOW BE PUBLISHED.

DETAIL

2. GUTMANN SAID THE FRENCH GOVERNMENT WAS AS READY AS ANY OTHER TO IMPROVE CONCERTATION IN MANY SPHERES OF EAST/WEST RELATIONS. THEY WERE CONCERNED AT THE DAMAGE DONE BY UNILATERAL ACTIONS OVER THE LAST TWO YEARS AND HAD AGREED THAT CERTAIN SUBJECTS SHOULD BE STUDIED IN APPROPRIATE FORA SUCH AS OECD. THEY APPROVED THE IDEA OF A PROGRAMME OF WORK IN WHICH DIFFERENT SUBJECTS WOULD BE TACKLED TO ACHIEVE VARYING DEGREES OF CONCERTATION. IN THIS SPIRIT THEY HAD PARTICIPATED IN DISCUSSIONS OVER THE LAST FEW WEEKS. BUT THEY HAD HELD TO THE PRINCIPLES THAT SOVEREIGNTY AND THE DEFENCE OF NATIONAL INTERESTS SHOULD BE SAFEGUARDED, THAT THERE WAS EQUALITY BETWEEN THE PARTICIPANTS - PARTNERSHIP NOT LEADERSHIP- AND THAT WHILE IT WAS RIGHT TO AVOID REINFORCING SOVIET MILITARY CAPACITY THERE SHOULD BE NO ECONOMIC WAR AGAINST THE SOVIET UNION.

3. GUTMANN SAID THAT ON MODALITIES THE FRENCH GOVERNMENT HAD INSISTED THAT DISCUSSIONS WERE DIRECTED TOWARDS ''JOINT REFLEXION'' NOT A FORMAL ACCORD, THAT THE DOCUMENT UNDER DISCUSSION SHOULD NOT BE PUBLISHED SINCE THIS WOULD MAKE IT FORMAL AND WOULD LEAD TO CONFLICTING COMMENTARIES ON IT, AND THAT THERE SHOULD BE NO SORT OF CONDITIONALITY IN THE FORM OF A LINK WITH SANCTIONS. NO CONCERTATION WOULD BE POSSIBLE UNDER THREAT. THIS WOULD MERELY INVITE THE US TO TAKE FURTHER EMBARGO MEASURES IN THE FUTURE TO EXERCISE PRESSURE ON RECALCITRANT PARTNERS.

4. THE GOVERNMENTS CONCERNED HAD BEEN VERY CLOSE TO AN UNDERSTANDING, BUT ALL ELEMENTS OF THE PUZZLE HAD TO BE IN PLACE. AT THE LAST MOMENT THE US HAD INSISTED ON PUBLICATION OF THE DOCUMENT. REAGAN'S MESSAGE ON SATURDAY MORNING ALSO SHOWED THAT HE STILL WANTED A LINK WITH SANCTIONS AND WITH THE SITUATION IN POLAND. THIS WAS CONTRARY TO FRENCH VIEWS. ON SATURDAY AFTERNOON THE AMERICANS HAD TELEPHONED THE ELYSEE TO PRESS FOR PUBLICATION. THE ELYSEE REPLIED AT 1700 HOURS THAT THEY NEEDED TIME FOR MORE STUDY INCLUDING FURTHER CONSIDERATION OF THE ACTUAL CONTENT OF THE DOCUMENT. AT 1800 HOURS THEY HEARD OF REAGAN'S BROADCAST.

5. REAGAN'S BROADCAST WAS UNACCEPTABLE FOR SEVERAL REASONS: IT IMPLIED A FORMAL AGREEMENT: IT INDICATED OPERATIONAL DECISIONS HAD BEEN TAKEN: IT MADE A LINK WITH THE LIFTING OF SANCTIONS: IT IMPLIED US LEADERSHIP: AND IT SET THE WRONG TONE, SOMEWHAT IN THE SPIRIT OF A HOLY ALLIANCE AGAINST THE SOVIETUNION. ALL THIS WAS EVIDENCE OF AT LEAST A SERIOUS MISUNDERSTANDING, PERHAPS SOMETHING WORSE. SO THE QUAI PROMPTLY PUT OUT ITS STATEMENT, WHICH HAD BEEN INSTIGATED PERSONALLY BY MITTERRAND. GUTMANN HAD RECEIVED THE US AMBASSADOR AT 2100 HOURS ON SATURDAY IN ORDER TO AVOID FURTHER MISUNDERSTANDING.

6. THE FRENCH GOVERNMENT NOW WISHED TO AVOID DRAMATISING THE AFFAIR, & BUT ALSO TO AVOID ANY AMBIGUITY. IF THE US WAS REALLY AIMING TO RALLY OTHER COUNTRIES AGAINST THE SOVIET UNION FRANCE WOULD HAVE NOTHING TO DO WITH IT. BUT IF SATURDAY'S EVENTS WERE DUE TO EXCESSIVE HASTE AND DID NOT REFLECT THE REAL WILL OF THE US GOVERNMENT AND IF THEY SOUGHT GENUINE CONCERTATION, NOT IN A SPIRIT OF LEADERSHIP OR ECONOMIC WARFARE, THIS COULD GO AHEAD. FRANCE HAD NO WISH FOR A CRISIS.

7. I ASKED IF THERE WAS ANYTHING IN THE NON-PAPER TO WHICH THE FRENCH GOVERNMENT OBJECTED. GUTMANN AVOIDED A DIRECT ANSWER AND REFERRED TO THE RESONANCE AND THE COLORATION WHICH HAD BEEN GIVEN TO THE NON-PAPER IN THE FINAL STAGES OF DISCUSSION. THIS WAS WHAT HAD NECESSITATED A PAUSE FOR REFLECTION. ANDREANI SAID THAT TWO POINTS WERE STILL OPEN, THE REFERENCES TO SUBSIDISATION AND TO A COMMON APPROACH. THAT WAS WHY THE SIDE-LETTER WAS IMPORTANT. SHULTZ'S ATTEMPT TO BLOCK SIMULTANEOUS PUBLICATION OF THE SIDE-LETTER WAS EVIDENCE THAT THERE WAS A DISAGREEMENT ON SUBSTANCE HERE.

8. I ALSO ASKED HOW THE FRENCH NOW VIEWED THE POSSIBILITY OF PUBLICATION OF THE NON-PAPER. GUTMANN REACTED STRONGLY. HE SAID THAT IF IT WERE PUBLISHED FRANCE WOULD TAKE ITS DISTANCE

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FROM THE WHOLE EXERCISE AND WOULD DISAVOW THE PAPER. THIS WAS NOT HOWEVER WHAT HE WANTED: HE LOOKED FOR A QUIET CONTINUATION OF DISCUSSION. WORK COULD GO AHEAD IN COMING WEEKS ON IMPROVING CONCERTATION. THERE WAS NO NEED FOR DRAMA.

FRETWELL

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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PRIORITY MOSCOW UKDEL NATO TOKYO OTTAWA

PARIS TELNO 1081: EAST WEST ECONOMIC RELATIONS (PIPELINE)

FOLLOWING FROM THOMAS IN THE ABSENCE OF SIR O WRIGHT.

1. SINCE THE INITIAL FRENCH REACTION REPORTED IN SIR J FRETWELL'S TELEGRAM UNDER REFERENCE, I UNDERSTAND THAT THE QUAI D'ORSAY HAVE PUT OUT A COMMUNIQUE STATING THAT FRANCE IS NOT PARTY TO THE AGREEMENT ANNOUNCED THIS AFTERNOON IN WASHINGTON. THIS HAS BEEN VERY BADLY RECEIVED HERE. THE FRENCH AMBASSADOR HAD ASKED FOR AN APPOINTMENT THIS EVENING WITH DAM (DEPUTY SECRETARY) IN THE ABSENCE OF SHULTZ. THE STATE DEPARTMENT (PLEASE PROTECT) HAVE ADVISED DAM NOT TO RECEIVE HIM FOR THE TIME BEING.

2. IT IS NOT EASY TO SORT OUT THE RIGHTS AND WRONGS OF TODAY'S EVENTS. THE FIRST SHOCK WAS ADMINISTERED BY THE FRENCH, WHEN THE ELYSEE TELEPHONED THE STATE DEPARTMENT THIS MORNING TO SAY THAT FRANCE DID NOT ACCEPT THE NON-PAPER ON EAST WEST ECONOMIC RELATIONS. SINCE THE PAPER HAD BEEN CAREFULLY NEGOTIATED AND AGREED BY ALL PARTICIPANTS, INCLUDING THE FRENCH AMBASSADOR, THIS PIECE OF NEWS CAUSED CONSIDERABLE DISMAY. BUT THE AMERICANS TOOK IT ON THE CHIN AND SHOWED SIGNS OF BEING PREPARED TO RE-OPEN THE DISCUSSIONS TO EXAMINE WHATEVER ADDITIONAL CONCERNS THE FRENCH MIGHT EXPRESS.

3. THE AMERICANS THEN HAD TO WRESTLE WITH THE PROBLEM OF WHETHER OR NOT THE PRESIDENT SHOULD SAY ANYTHING ABOUT THIS SUBJECT IN HIS

3. THE AMERICANS THEN HAD TO WRESTLE WITH THE PROBLEM OF WHETHER OR NOT THE PRESIDENT SHOULD SAY ANYTHING ABOUT THIS SUBJECT IN HIS WEEKLY BROADCAST. WE AND THE DANES PRIVATELY ADVISED AGAINST. BUT NEWS OF THE PRESIDENT'S DECISION TO LIFT THE PIPELINE SANCTIONS HAD ALREADY BEGUN TO LEAK. THE LATE MORNING RADIO BROADCASTS WERE FORECASTING AN ANNOUNCEMENT DURING THE WEEKLY BROADCAST. THIS INCREASED THE PRESSURE ON THE PRESIDENT TO SAY SOMETHING ABOUT THE WIDER AGREEMENT ON EAST WEST RELATIONS IF HE WAS NOT TO BE ACCUSED BY THE REPUBLICAN RIGHT WING OF CAPITULATING TO THE EUROPEANS AND TO HIS OWN INDUSTRY.

4. THE FINAL DECISION WAS NOT TAKEN UNTIL 2 MINUTES BEFORE REAGAN WENT ON THE AIR. IN THE EVENT, HIS STATEMENT WAS A REASONABLY FAIR ATTEMPT TO PRESENT THE OUTCOME IN A BALANCED WAY. THERE ARE A FEW PASSAGES WHICH TILT IN THE DIRECTION OF CLAIMING MORE FOR THE AGREEMENT THAN WE MIGHT WANT. BUT WHAT WILL HAVE INFURIATED THE FRENCH PARTICULARLY WAS THAT THE LIFTING OF THE SANCTIONS AND THE AGREEMENT ON EAST WEST ECONOMIC RELATIONS WERE DEALT WITH IN THE SAME ANNOUNCEMENT. THIS WAS A LINKAGE WHICH THEY HAD ALWAYS MADE EXPLICITYLY CLEAR THEY COULD NOT ACCEPT. ON THE OTHER HAND, THE AMERICANS HAD BEEN CAREFUL TO TAKE ACCOUNT OF THE ONLY TWO POINTS TO WHICH THE FRENCH HAD RAISED OBJECTION IN THE DRAFT OF POINTS FOR INCLUSION IN A PRESIDENTIAL STATEMENT: USE OF THE WORD QUOTE SUBISIDISE UNQUOTE AND THE REFERENCE TO POLAND AT THE END OF THE DRAFT. PAYE HAD COMPLAINED TO SIR J FRETWELL THAT THE PROCEDURE WHICH REAGAN HAD ADOPTED DID NOT REFLECT WHAT WAS UNDER DISCUSSION HERE. IN FAIRNESS, HE HAD A POINT. THE ASSUMPTION HAD BEEN THAT IF AGREEMENT TO PUBLISH THE NON-PAPER COULD NOT BE REACHED (AND AS OF THIS MORNING THE FRENCH WERE STILL BLOCKING IT) WE WOULD HAVE A FURTHER DISCUSSION OF WHAT THE PRESIDENT MIGHT SAY IN AN ANNOUNCEMENT, AND WHAT WE MIGHT ALL SAY IN RESPONSE.

5. THE FRENCH MAY ALSO FEEL THEY HAVE A MORE SUBSTANTIVE POINT. IT WAS UNDERSTOOD AMONG THE SEVEN THAT THE THREE ELEMENTS UNDER DISCUSSION (THE NON PAPER, THE LIFTING OF SANCTIONS, AND PUBLIC HANDLING) FORMED AN INTEGRAL PACKAGE. AGREEMENT ON EACH WAS CONDITIONAL UPON AGREEMENT ON THE WHOLE. THE FRENCH MAY ARGUE THAT SINCE AGREEMENT HAD NOT YET BEEN REACHED ON PUBLIC HANDLING, THE CONDITIONS FOR THEIR AGREEMENT TO THE NON-PAPER WERE NOT FULFILLED. THEY WILL BE CONFIDENT THAT THE AMERICANS, HAVING LIFTED THE SANCTIONS, WILL NOT NOW RE-IMPOSE THEM. THEY MAY THEREFORE FEEL THAT THEY CAN HAVE THE SATISFACTION OF GETTING WHAT THEY WANTED FOR NOTHING.

6. THE AMERICANS ARE TOO ANGRY TONIGHT TO BE MAKING MUCH SENSE. THEY ARE UNWILLING TO TALK TO THE FRENCH AT ALL, AND I UNDERSTAND YOU MAY FIND SHULTZ OF MUCH THE SAME MIND WHEN HE REACHES MOSCOW. (I UNDERSTAND THAT THE PRESIDENT TRIED TO TELEPHONE MITTERRAND THIS MORNING BEFORE THE BROADCAST AND THE WHITE HOUSE BELIEVE MITTERRAND REFUSED TO TAKE THE CALL). THERE IS THEREFORE NOT MUCH TO BE DONE AT PRESENT EXCEPT TO LET TEMPERS COOL. BUT IF THE ALLIANCE IS NOT TO BE IN A WORSE STATE OF DISARRAY THAN BEFORE AS A RESULT OF THIS EXERCISE, IT WILL BE IMPORTANT TO PICK UP WHERE WE LEFT OFF - BUILDING, AS SIR J FRETWELL SUGGESTS, ON THE DEGREE OF AGREEMENT ON THE SUBSTANCE OF THE NON PAPER AND PROCEEDING ON THAT BASIS. TO DO OTHERWISE WOULD SMACK HERE OF MAKING A MONKEY OUT OF THE PRESIDENT OF THE UNITED STATES AND WOULD GIVE A GRATUITOUS FILLIP TO THE MOOD OF CRITICISM OF ALLIES IN GENERAL, AND EUROPEANS IN PARTICULAR, WHICH NEVER LIES FAR BELOW THE SURFACE.

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TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 2013 OF 13 NOVEMBER 1982
INFO IMMEDIATE (PERSONAL FOR AMBASSADORS) PARIS, BONN, ROME,
UKDEL NATO, UKREP BRUSSELS.

YOUR TELNO 3675 AND TELCONS PAKENHAM/THOMAS:
EAST/WEST ECONOMIC RELATIONS (PIPELINE)
1. FOLLOWING IS TEXT OF PRESIDENT REAGAN'S MESSAGE TO THE PRIME MINISTER OF 12 NOVEMBER:
BEGINS

I HAVE JUST GIVEN MY APPROVAL TO THE FINAL PROVISIONS OF THE AGREEMENT AMONG OUR COUNTRIES AND OUR OTHER FRIENDS AND ALLIES CONGERNING OVERALL ECONOMIC RELATIONS WITH THE EAST. YOUR AMBASSADOR HAS BEEN INFORMED OF MY SEPARATE DECISION ON THE ECONOMIC SANCTIONS RELATED TO POLAND. I AM GRATIFIED THAT WE HAVE REACHED A CONCENSUS ON THESE VITAL QUESTIONS. IT IS A VICTORY FOR THE WESTERN ALLIANCE WHICH WILL BRING TO AN END THE SOVIET UNION'S APILITY TO TAKE ADVANTAGE OF THE DIVISIONS AMONG US AND REDUCE THE COMMERCIAL BENEFITS OF PLAYING ONE WESTERN COUNTRY OFF AGAINST ANOTHER.

WE HAVE ALL APPROVED THE TERMS OF THE CURRENT CONSENSUS WHICH WERE WORKED OUT BY OUR FOREIGN MINISTERS AND AMBASSADORS. IN THIS LETTER I WOULD LIKE TO EMPHASIZE TWO POINTS WHICH I CONSIDER OF THE GREATEST IMPORTANCE.

FIRST, I BELIEVE IT IS VITALLY IMPORTANT THAT WE ADOPT A COMMON APPROACH ON THE PUBLIC PRESENTATION OF OUR AGREEMENT AND, AVOID THE RISK OF DIFFERING STATEMENTS IN ALLIED CAPITALS, AS HAPPENED AFTER OUR LAST ECONOMIC SUMMIT. THIS WOULD GIVE THE ERRONEOUS IMPRESSION OF CONTINUED DISAGREEMENT RATHER THAN THE REALITY OF AN ALLIED CONSENSUS. FOR MY OWN PART, I PROPOSE

TO TREAT THE ANNOUNCEMENT TOMORROW MORNING IN MY WEEKLY RADIO ADDRESS. AT THE SAME TIME I WILL ANNOUNCE THE LIFTING OF OUR POLAND-RELATED SANCTIONS IMPOSED ON DECEMBER 29TH AND JUNE 22ND. I REALIZE TIME IS SHORT, BUT I INVITE YOUR APPROVAL OF THIS PROCEDURE. IT ALSO SEEMS TO ME THAT THE OFFICIAL RELEASE OF THE SO-CALLED QUOTE NON-PAPER UNQUOTE IN ALL OUR CAPITALS WOULD BE BY FAR THE BEST APPROACH TO FORGING A COMMON PUBLIC UNDERSTANDING I REALIZE THAT AT THE BEGINNING OF THE DISCUSSIONS BETWEEN OUR FOREIGN MINISTERS IN NEW YORK THAT THERE WAS CONSIDERABLE SENTIMENT FOR KEEPING WHATEVER EMERGED AT THE END OF THE PROCESS A CONFIDENTIAL DOCUMENT. HOWEVER, I FEEL THAT NOW ALL OUR INTERESTS ARE BEST SERVED BY RELEASING THE TEXT AND ALLOWING IT TO SPEAK FOR ITSELF.

SECOND, THE DECISION BY THE UNITED STATES TO MODIFY OUR SANCTIONS WAS TAKEN WITH THE CLEAR EXPECTATION THAT THE JOINT WORK PROGRAM LAID OUT IN THE AGREEMENT ON EAST-WEST TRADE WILL BE CONDUCTED EXPEDITIOUSLY. IT IS MY STRONG HOPE THAT IN A MATTER OF MONTHS WE WILL HAVE JOINT POLICIES WHICH WE ALL CAN SUPPORT IN THE AREAS OF ENERGY ALTERNATIVES TO ADDITIONAL CONTRACTS FOR IMPORTS FROM THE SOVIET UNION, TIGHTENED CONTROLS ON HIGH TECHNOLOGY ITEMS AND HARMONIZED CREDITS POLICIES. I EXPECT THAT WE WILL BE ABLE TO ACHIEVE CONCRETE RESULTS IN A FEW MONTHS' TIME. I INTEND TO ASSIGN HIGH-LEVEL, KNOWLEDGEABLE PEOPLE TO THESE STUDIES, AND WILL PERSONALLY FOLLOW THE DEVELOPMENT OF THE IMPLEMENTING PROCESS. WE MUST DEVELOP A SECURITY-MINDED, REALISTIC, DURABLE AND JOINT SET OF POLICIES TOWARDS THE EAST IN THE ECONOMIC AREA. WE OWE NO LESS TO OUR OWN PEOPLE, WHO PAY THE PRICE FOR THE MILITARY FORCES WE MUST FIELD TO DETER THOSE OF THE SOVIET UNION. WE OWE NO LESS TO THE PEOPLE, OF POLAND, WHOSE SUFFERING UNDER A MARTIAL LAW REGIME HAS BROUGHT HOME TO ALL OF US THE REPRESSIVE AND AGGRESSIVE NATURE OF THE SOVIET SYSTEM. I AM CONFIDENT THAT THE POLICIES WHICH RESULT FROM OUR STUDIES WILL BOTH PROTECT OUR VITAL INTERESTS AND HAVE A MORE SUBSTANTIAL IMPACT ON THE PRESENT AGGRESSIVE BEHAVIOR OF THE SOVIET UNION THAN THE UNILATERL U.S. MEASURES WHICH WE HAVE

BEEN OBLIGED TO TAKE IN THE PAST YEAR.

MARGARET, I WOULD LIKE TO EXPRESS PARTICULAR APPRECIATION TO YOU, FOREIGN MINISTER PYM AND AMBASSADOR WRIGHT FOR THE CONSTRUCTIVE ROLE THE UNITED KINGDOM HAS PLAYED IN WORKING OUT THIS CONSENSUS. I THINK WE HAVE SUCCEEDED IN MOVING OUR FRIENDS CLOSER TO THE U.S./U.K. POINT OF VIEW OF EAST-WEST ECONOMIC RELATIONS THAN MANY WOULD HAVE THOUGHT POSSIBLE A YEAR AGO.
ENDS.
2. FOLLOWING IS TEXT OF PRIME MINISTER'S REPLY:
BEGINS.

THANK YOU FOR YOUR MESSAGE TELLING ME OF YOUR DECISION TO LIFT THE SANCTIONS IMPOSED IN DECEMBER AND JUNE. THIS IS VERY GOOD NEWS. I AM PLEASED THAT WE HAVE ALL BEEN ABLE TO REACH AGREEMENT ON A COMMON APPROACH TO THE HANDLING OF EAST/WEST ECONOMIC RELATIONS, PARTICULARLY AT A TIME WHEN WE MUST BE SEEN TO BE STANDING TOGETHER.

I AGREE WITH THE WAY YOU PROPOSE TO HANDLE THE ANNOUNCEMENT AND THAT THE NON-PAPER OR SUMMARY OF CONCLUSIONS AS IT HAS COME TO BE CALLED SHOULD BE PUBLISHED. WE HAD ALREADY ASKED OUR AMBASSADOR IN PARIS TO URGE THIS COURSE ON THE FRENCH.

AS TO THE FUTURE, ALTHOUGH AS GEORGE SHULTZ KNOWS WE CANNOT BE COMMITTED IN ADVANCE TO THE OUTCOME, I WILL INSTRUCT MY OFFICIALS TO CONTRIBUTE WHOLEHEARTEDLY AND EXPEDITIOUSLY TO THE AGREED PROGRAMME OF WORK.

I AM GRATEFUL FOR YOUR KIND WORDS ABOUT THE BRITISH CONTRIBUTION. FOR OUR PART WE HAVE ADMIRED THE ROLE PLAYED BY GEORGE SHULTZ AND YOUR SENIOR OFFICIALS IN STEERING THE NEGOTIATIONS TO THIS SUCCESSFUL CONCLUSION. ENDS.
PYM

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PS/PUS
MR EVANS
MR THOMAS

COPIES TO
MR GOODALL
CABINET OFFICE

COPIES SENT TO
No. 10 DOWNING STREET

SIBERIAN PIPELINE ADVANCE COPIES B 20

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PS/PUS
MR EVANS
MR THOMAS
RESIDENT CLERK
HD/NEWS D.

MR GOODALL CABINET OFFICE

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FLASH

UNCLASSIFIED
DESKBY 140700Z MOSCOW
DESKBY 140800Z PARIS
DESKBY 140800Z BONN
DESKBY 140800Z ROME
DESKBY 140800Z UKREP BRUSSELS
FM WASHINGTON 131929Z NOV 82
TO FLASH FCO
TELEGRAM NUMBER 3685 OF 13 NOVEMBER
INFO IMMEDIATE BTDO NEW YORK (FOR PS/S OF S FOR TRADE), PARIS, BONN, ROME, UKREP BRUSSELS, COPENHAGEN, UKDEL NATO, UKDEL OECD, MOSCOW, TOKYO, OTTAWA, BRUSSELS, THE HAGUE, PRIORITY ATHENS, DUBLIN AND LUXEMBOURG.

EAST WEST ECONOMIC RELATIONS (PIPELINE)

1. FOLLOWING IS TEXT OF PRESIDENT REAGAN'S STATEMENT ON EAST-WEST ECONOMIC RELATIONS AND THE LIFTING OF SANCTIONS, DELIVERED AT 1205 (WASHINGTON TIME) TODAY ON THE RADIO: -

1205 (WASHINGTON TIME) TODAY ON THE RADIO:

BEGINS.

MY FELLOW AMERICANS, DURING THE CAMPAIGN TWO YEARS AGO, I SPOKE OF THE NEED FOR THE UNITED STATES TO RESTORE THE BALANCE IN OUR RELATIONSHIP WITH THE SOVIET UNION. FOR TOO MANY YEARS, WE HAD STOOD STILL WHILE THE SOVIETS INCREASED THEIR MILITARY STRENGTH, AND EXPANDED THEIR INFLUENCE FROM AFGHANISTAN TO ETHIOPIA AND BEYOND.

I EXPRESSED A BELIEF, WHICH YOU SEEMED TO SHARE THAT IT WAS TIME FOR THE UNITED STATES TO CHART A NEW COURSE. SINCE THEN, WE HAVE EMBARKED UPON A BUILDUP OF OUR DEFENSE FORCES IN ORDER TO STRENGTHEN OUR SECURITY AND, IN TURN, TO STRENGTHEN THE PROSPECTS FOR PEACE. WE STILL HAVE A LONG WAY TO GO. BUT THE FACT THAT WE HAVE STARTED ON A NEW COURSE HAS ENABLED US TO PROPOSE THE MOST COMPREHENSIVE SET OF PROPOSALS FOR ARMS REDUCTION AND CONTROL IN MORE THAN A QUARTER OF A CENTURY.

IT HAS ALWAYS BEEN MY BELIEF THAT, IF THE SOVIETS KNEW WE WERE SERIOUS ABOUT MAINTAINING OUR SECURITY, THEY MIGHT BE MORE WILLING TO NEGOTIATE SERIOUSLY AT THE BARGAINING TABLE. IN THE NEAR FUTURE I WILL BE SPEAKING TO YOU IN MORE DETAIL ABOUT THIS MATTER OF ARMS CONTROL AND, MORE IMPORTANTLY, ARMS REDUCTIONS.

BUT RIGHT NOW, I HAVE SOMETHING IN THE NATURE OF NEWS I WOULD LIKE TO BRING YOU. THE BALANCE BETWEEN THE UNITED STATES AND THE SOVIET UNION CANNOT BE MEASURED IN WEAPONS AND BOMBERS ALONE. TO A LARGE DEGREE, THE STRENGTH OF EACH NATION IS, ALSO, BASED ON ECONOMIC STRENTH. UNFORTUNATELY, THE WEST'S ECONOMIC RELATIONS WITH THE U.S.S.R. HAVE NOT ALWAYS SERVED THE NATIONAL SECURITY GOALS OF THE ALLIANCE.

THE SOVIET UNION FACES SERIOUS ECONOMIC PROBLEMS. BUT WE, AND I MEAN ALL OF THE NATIONS OF THE FREE WORLD, HAVE HELPE THE SOVIETS AVOID SOME HARD ECONOMIC CHOICES BY PROVIDING PREFERENTIAL TERMS OF TRADE, BY ALLOWING THEM TO ACQUIRE MILITARILY RELEVANT TECHNOLOGY, AND BY PROVIDING THEM A MARKET FOR THEIR ENERGY RESOURCES EVEN THOUGH THIS CREATES AN EXCESSIVE DEPENDENCE ON THEM.

BY GIVING SUCH PREFERENTIAL TREATMENT, WE HAVE ADDED TO OUR OWN PROBLEMS -- CREATING A SITUATION WHERE WE HAVE TO SPEND MORE MONEY ON OUR DEFENSE TO KEEP UP WITH SOVIET CAPABILITIES WHICH WE HELPED CREATE. SINCE TAKING OFFICE, I HAVE EMPHAS-

OUR OWN PROBLEMS -- CREATING A SITUATION WHERE WE HAVE TO SPEND MORE MONEY ON OUR DEFENSE TO KEEP UP WITH SOVIET CAPABILITIES WHICH WE HELPED CREATE. SINCE TAKING OFFICE, I HAVE EMPHASIZED TO OUR ALLIES THE IMPORTANCE OF OUR ECONOMIC, AS WELL AS OUR POLITICAL RELATIONSHIP, WITH THE SOVIET UNION. IN JULY OF 1981 AT THE ECONOMIC SUMMIT MEETING IN OTTAWA, CANADA, I EXPRESSED TO THE HEADS OF STATE OF THE OTHER MAJOR WESTERN COUNTRIES AND JAPAN MY BELIEF THAT WE COULD NOT CONTINUE CONDUCTING BUSINESS AS WE HAD. IS SUGGESTED THAT WE FORGE A NEW SET OF RULES FOR ECONOMIC RELATIONS WITH THE SOVIET UNION WHICH WOULD PUT OUR SECURITY CONCERNS FOREMOST. I WAS NOT SUCCESSFUL AT THAT TIME IN GETTING AGREEMENT ON A COMMON POLICY.

THEN IN DECEMBER OF 1981, THE POLICH GOVERNMENT AT SOVIET INSTIGATION IMPOSED MARTIAL LAW ON THE POLICH PEOPLE AND OUTLAWED THE SOLIDARITY UNION. THIS ACTION SHOWED, GRAPHICALLY, THAT OUR HOPES FOR MODERATION IN SOVIET BEHAVIOR WERE NOT LIKELY TO BE FULFILLED. IN RESPONSE TO THAT ACTION, I IMPOSED AN EMBARGO ON SELECTED OIL AND GAS EQUIPMENT TO DEMONSTRATE OUR STRONG OPPOSITION TO SUCH ACTIONS AND TO PENALIZE THIS SECTOR OF THE SOVIET ECONOMY WHICH RELIES HEAVILY ON HIGH TECHNOLOGY, MUCH OF IT FROM THE UNITED STATES.

IN JUNE OF THIS YEAR, I EXTENDED OUR EMBARGO TO INCLUDE NOT ONLY U.S.COMPANIES AND THEIR PRODUCTS BUT SUBSIDIARIES OF U.S. COMPANIES ABROAD AND ON FOREIGN LICENSEES OF U.S. COMPANIES.

NOW, THERE'S NO SECRET THAT OUR ALLIES DIDN'T AGREE WITH THIS ACTION. WE STEPPED UP OUR CONSULTATIONS WITH THEM IN AN EFFORT TO FORGE AN ENDURING, REALISTIC AND SECURITY-MINDED ECONOMIC POLICY TOWARD THE SOVIET UNION. THESE CONSULTATIONS HAVE GONE ON OVER A PERIOD OF MONTHS.

I'M PLEASE TODAY TO ANNOUNCE THAT THE INDUSTRIALIZED DEMOCRACIES HAVE THIS MORNING REACHED SUBSTANTIAL AGREEMENT ON A PLAN OF ACTION. THE UNDERSTANDING WE'VE REACHED DEMONSTRATES THAT THE WESTERN ALLIANCE IS FUNDAMENTALLY UNITED AND INTENDS TO GIVE CONSIDERATION TO STRATEGIC ISSUES WHEN MAKING DECISIONS ON TRADE WITH THE USSR.

AS A RESULT, WE HAVE AGREED NOT TO ENGAGE IN TRADE ARRANGMENTS WHICH CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE OF THE USSR OR SERVE TO PREFERENTIALLY AID THE HEAVILY MILITARIZED SOVIET ECONOMY

...ESSENTIALLY AID THE HEAVILY MILITARIZED SOVIET ECONOMY.

IN PUTTING THESE PRINCIPLES INTO PRACTICE, WE WILL GIVE PRIORITY ATTENTION TO TRADE IN HIGH TECHNOLOGY PRODUCTS, INCLUDING THOSE USED IN OIL AND GAS PRODUCTION.

WE WILL ALSO UNDERTAKE AN URGENT STUDY OF WESTERN ENERGY ALTERNATIVES AS WELL AS THE QUESTION OF DEPENDENCE ON ENERGY IMPORTS FROM THE SOVIET UNION.

IN ADDITION, WE'VE AGREED ON THE FOLLOWING IMMEDIATE ACTIONS: FIRST, EACH PARTNER HAS AFFIRMED THAT NO NEW CONTRACTS FOR THE PURCHASE OF SOVIET NATURAL GAS WILLBE SIGNED OR APPROVED DURING THE COURSE OF OUR STUDY OF ALTERNATIVE WESTERN SOURCES OF ENERGY. SECOND, WE AND OUR PARTNERS WILL STRENGTHEN EXISTING CONTROLS ON THE TRANSFER OF STRATEGIC ITEMS TO THE SOVIET UNION. THIRD, WE WILL ESTABLISH WITHOUT DELAY PROCEDURES FOR MONITORING FINANCIAL RELATIONS WITH THE SOVIET UNION AND WILL WORK TO HARMONIZE OUR EXPORT CREDIT POLICIES.

THE UNDERSTANDING WE AND OUR PARTNERS HAVE REACHED AND THE ACTIONS WE ARE TAKING REFLECT OUR MUTUAL DETERMINATION TO OVERCOME DIFFERENCES AND STRENGTHEN OUR COHESION.

I BELIEVE THIS NEW AGREEMENT IS A VICTORY FOR ALL THE ALLIES. IT PUTS IN PLACE A MUCH NEEDED POLICY IN THE ECONOMIC AREA TO COMPLEMENT OUR POLICIES IN THE SECURITY AREA.

AS I MENTIONED A MOMENT AGO, THE UNITED STATES IMPOSED SANCTIONS AGAINST THE SOVIET UNION IN ORDER TO DEMONSTRATE THAT THEIR POLICIES OF OPPRESSION WOULD ENTAIL SUBSTANTIAL COSTS.

WELL, NOW THAT WE'VE ACHIEVED AN AGREEMENT WITH OUR ALLIES WHICH PROVIDES FOR STRONGER AND MORE EFFECTIVE MEASURES, THERE IS NO FURTHER NEED FOR THESE SANCTIONS AND I AM LIFTING THEM TODAY.

THE PROCESS OF RESTORING A PROPER BALANCE IN RELATIONS WITH THE SOVIET UNION IS NOT ENDED. IT WILL TAKE TIME TO MAKE UP FOR THE LOSSES INCURRED IN PAST YEARS. BUT, ACTING TOGETHER, WE AND OUR ALLIES ARE MAKING MAJOR PROGRESS. AND I'M HAPPY TO SAY THE PROSPECTS FOR PEACE ARE BRIGHTER.

I HAVE JUST RETURNED TO THE WHITE HOUSE FROM THE SOVIET

I HAVE JUST RETURNED TO THE WHITE HOUSE FROM THE SOVIET EMBASSY WHERE I SIGNED THE BOOK OF CONDOLENCE FOR PRESIDENT BREZHNEV. NEW LEADERS ARE COMING TO POWER IN THE SOVIET UNION. IF THEY ACT IN A RESPONSIBLE FASHION, THEY MEET A READY AND POSITIVE RESPONSE IN THE WEST.

'TIL NEXT SATURDAY AT THIS SAME TIME, GOODBYE AND GOD BLESS YOU.

ENDS

WRIGHT

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HD/ECD(E)
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PS/MR HURD
PS/MR RIFKIND
PS/PUS
MR EVANS
MR THOMAS
RESIDENT CLERK

MR GOODALL CABINET OFFICE

ELASH

CONFIDENTIAL

FM PARIS 131150Z NOV 82
TO FLASH FCO
TELEGRAM NUMBER 1080 OF 13 NOVEMBER 1982
INFO IMMEDIATE WASHINGTON, BONN, ROME, MOSCOW, COPENHAGEN,
UKDEL NATO, UKDEL OECD (PASSED BY PARIS),
INFO ROUTINE TOKYO, OTTAWA, BRUSSELS, THE HAGUE
INFO SAVING TO ATHENS, DUBLIN, LUXEMBOURG.

WASHINGTON TELNO 3681: GAS PIPELINE

FOLLOWING CONFIRMS MY TELECONS WITH THOMAS AND GOWLLAND.

SUMMARY

1. AT OFFICIAL LEVEL THE FRENCH CONTINUE TO OPPOSE PUBLICATION OF THE NON - PAPER. THE QUESTION WILL NOW BE REFERRED TO CHEYSSON IN KUWAIT AND TO MITTERRAND. ONLY A DIRECT INTERVENTION WITH ONE OR BOTH NOW OFFERS A CHANCE OF SHIFTING THE FRENCH POSITION.

DETAIL

2. I PUT THE ARGUMENTS FOR PUBLICATION TO ANDREANI, POLITICAL DIRECTOR IN THE QUAI, LAST NIGHT. HE DID NOT REACT, EXCEPT TO SAY THAT THE MATTER WOULD HAVE TO GO THE THE PRESIDENT WHOSE STRONG PERSONAL VIEWS HAD MADE IT DIFFICULT FOR THE QUAI TO HANDLE THE PIPELINE QUESTION THROUGHOUT ALL THE DISCUSSIONS.

3. I SPOKE TO ANDREANI AGAIN THIS MORNING. HE WAS JUST EMERGING FROM A MEETING WITH GUTMANN IN WHICH THEY HAD AGREED ON THE ADVICE TO BE SUBMITTED TO CHEYSSON IN KUWAIT AND THEN, SUBJECT TO HIS VIEWS, TO THE PRESIDENT. HE SAID THIS ADVICE WOULD BE TO CONTINUE TO REJECT PUBLICATION. THE TEXT HAD NOT BEEN INTENDED FOR PUBLICATION. IF THIS HAD BEEN ENVISAGED IT WOULD HAVE BEEN DRAFTED DIFFERENTLY IN CERTAIN PLACES. MOREOVER IF THE TEXT WERE PUBLISHED THE SIDE - LETTER WOULD HABE TO BE PUBLISHED TOO. PUBLICATION WOULD NOT BE POSSIBLE WITHOUT FULL AGREEMENT IN THE COMMUNITY AND THIS WOULD RAISE THE WELL - KNOWN DIFFICULTIES WITH THE GREEKS AND IRISH.

4. I REMINDED ANDREANI AGAIN OF THE RISK OF LEAKS AND OF THE

AGREEMENT IN THE COMMUNITY AND THIS WOULD RAISE THE WELL - KNOWN DIFFICULTIES WITH THE GREEKS AND IRISH.

4. I REMINDED ANDREANI AGAIN OF THE RISK OF LEAKS AND OF THE DAMAGING CONSEUQENCES WHICH COULD FOLLOW. HE SAID THAT THE ONLY PLACE IN WHICH THE DOCUMENT MIGHT LEAK WAS WASHINGTON AND THAT IT WAS A FRENCH PRINCIPLE NOT TO MAKE CONCESSIONS TO THE TURP - ITUDE OF OTHERS. THEY WOULD NOT YIELD ON THE MATTER OF PUBLICATION BECAUSE THE AMERICANS WERE INCAPABLE OF MAINTAINING CONFIDENTIALITY. I WARNED THAT EVEN AT THIS LATE STAGE THERE WAS A RISK OF THE WHOLE PACKAGE COMING UNSTUCK. ANDREANI SAID THAT IN HIS VIEW THERE WAS NO URGENCY IN REACHING A CONCLUSION. THE MATTER HAD DRAGGED ON FOR MONTHS AND COULD CONTINUE FOR A FEW MORE DAYS OR EVEN ANOTHER MONTH. THERE WAS PLENTY OF TIME. IN THE FRENCH VIEW THE AMERCIANS WERE NOW DESPERATELY EAGER TO RAISE SANCTIONS IN ORDER TO MAKE A GESTURE TO ANDROPOV. THEY WOULD TAKE THEIR OWN DECISION ON THIS WHETHER THE EUROPEANS MADE FURTHER CONCESSIONS OR NOT.

5. AFTER SOME FURTHER ARGRMENT ANDREANI CONCLUDED THAT IN THE FRENCH VIEW THE BEST SOLUTION WOULD BE FOR PRESIDENT REAGAN TO MAKE HIS OWN DECLARATION. IF THIS CONTAINED UNACCEPTABLE ELEMENTS THE OTHERS WOULD BE ABLE TO COMMENT ON IT AS THEY SAW FIT. THE RESPONSIBILITY FOR ANY CONSEQUENT DISAGREEMENT WOULD REST WITH THE AMERICANS.

COMMENT.

6. I SEE NO POSSIBILITY OF SHIFTING THE FRENCH HERE BY FURTHER ARGUMENT AT OFFICIAL LEVEL. IT WOULD BE WORTH TRYING AN APPROACH TO CHEYSSON IN KUWAIT IF HE COULD BE REACHED OR FAILING THAT A MESSAGE TO MITTERRAND. IT WOULD ALSO BE WORTH GETTING THE GERMANS TO WEIGH IN.

7. FOR THE FRENCH THIS IS ESSENTIALLY A MATTER OF FACE. REAGAN MUST BE SEEN TO CLIMB DOWN WITHOUT IT APPEARING THAT HE HAS NEGOTIATED ANYTHING OUT OF MITTERRAND IN RETURN. PUBLICATION OF AN AGREED TEXT WOULD MAKE IT APPEAR THAT A PRICE HAS BEEN PAID.

FCO PLEASE PASS SAVING TO ATHENS, DUBLIN, LUXEMBOURG

FRETWELL.

FLASH

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PS/MR RIFKIND
PS/PUS
MR EVANS
MR THOMAS
RESIDENT CLERK

MR GOODALL CABINET OFFICE

IMMEDIATE

N° 10 ~~DS~~ (2)

CONFIDENTIAL
DESKBY 130800Z
FM WASHINGTON 130150Z
TO IMMEDIATE F C O
TELNO 3681 OF 12 NOVEMBER 1982,
INFO IMMEDIATE BTDO NEW YORK (FOR PS/SOST), PRIORITY PARIS, BONN, ROME, MOSCOW, COPENHAGEN, UKDEL NATO, UKDEL OECD, UKREP BRUSSELS, AND ROUTINE TOKYO, OTTAWA, BRUSSELS, THE HAGUE,
INFO SAVING ATHENS, DUBLIN, LUXEMBOURG.

MY TWO IPT'S (NOT TO ALL): EAST/WEST ECONOMIC RELATIONS (PIPELINE): MEETING OF THE FOUR.

1. AFTER TODAY'S MEETING WITH THE AMERICANS REPORTED IN MY TELEGRAM UNDER REFERENCE, THE FOUR MET AGAIN AT THE DANISH EMBASSY TO DISCUSS THE SITUATION WE HAD NOW REACHED.
THERE WERE AGAIN THREE POINTS TO BE COVERED.
(I) PUBLIC HANDLING.
(II) THE INTERPRETIVE SIDE LETTER.
(III) EXTRA-TERRITORIALITY.

2. ON THE FIRST POINT, THE FRENCH AMBASSADOR, ON INSTRUCTIONS, PUT FORWARD TWO NEW ARGUMENTS AGAINST PUBLICATION OF THE SUMMARY OF CONCLUSIONS. FIRST, IF THE DOCUMENT WAS OFFICIALLY PUBLISHED THERE WOULD BE A RISK THAT IT WOULD PROVOKE CONTRADICTORY COMMENTARIES IN THE PRESS OR WORSE FROM OFFICIAL SPOKESMEN. THIS COULD EASILY DEVELOP INTO EXCHANGES OF CONTRARY INTERPRETATIONS AS WE HAD SEEN AFTER VERSAILLES. THIS COULD DAMAGE FROM THE START THE WHOLE PROCESS WE WERE TRYING TO ESTABLISH. SECONDLY, THE PROBLEMS OF THE GREEKS AND THE IRISH COULD MORE EASILY BE HANDLED IF THE DOCUMENT

PROCESS WE WERE TRYING TO ESTABLISH. SECONDLY, THE PROBLEMS OF THE GREEKS AND THE IRISH COULD MORE EASILY BE HANDLED IF THE DOCUMENT WERE NOT PUBLISHED.

3. IN THE DISCUSSION THAT FOLLOWED, A NUMBER OF COUNTER-ARGUMENTS WERE PUT FORWARD BY THE GERMANS AND OURSELVES:-

(I) THE DOCUMENT WAS BOUND TO LEAK, PROBABLY SOONER THAN LATER. THE RISK OF COUNTER-COMMENTARIES WAS THEREFORE PRESENT WHETHER THE DOCUMENT WAS PUBLISHED OFFICIALLY OR NOT. WHAT WAS NEEDED IN EITHER CASE WAS A SELF-RESTRAINING ORDINANCE.

(II) IF WE TRIED TO KEEP THE DOCUMENT SECRET, IT WOULD BE REGARDED AS MORE RATHER THAN LESS SIGNIFICANT (''A NEW SECRET STRATEGY'') BETTER MAKE IT PUBLIC AT THE BEGINNING SO THAT IT COULD BE SEEN FOR WHAT IT WAS. IN ANY CASE, IT WOULD BE DRAGGED OUT OF US AFTER A FEW WEEKS, PARTICULARLY IF IT LEAKED IN BITS, WHICH COULD DISTORT THE WHOLE PICTURE IN WAYS THAT COULD BE DAMAGING TO US.

(III) IF IT WAS OFFICIALLY PUBLISHED, THERE WOULD BE LESS PRESSURE FOR COMMENT THAN IN THE CASE OF INDIVIDUAL NATIONAL STATEMENTS.

(IV) THE TONE OF THE DOCUMENT WAS LOW-KEY. THE US DRAFT FOR A US PRESIDENTIAL STATEMENT WAS, ON THE CONTRARY, COUCHED IN MORE AGGRESSIVE TERMS. THE AMERICANS WOULD CERTAINLY WANT TO KEEP SOMETHING OF THAT FLAVOUR. THIS WOULD RISK PRODUCING EVEN STRONGER COUNTER-COMMENTARIES THAN THE DOCUMENT.

(V) THE TIMING POINT WAS ALSO RELEVANT. IF PRESIDENT REAGAN MADE A BRIEF REFERENCE IN HIS BROADCAST TOMORROW ON THE LINES WALLIS HAD SUGGESTED (PARA OF MY FIRST IPT) THIS WOULD WOULD BE LIKELY TO ATTRACT MINIMUM ATTENTION AND COMMENT, GIVEN ALL THE OTHER THINGS THAT WOULD BE HAPPENING (BREZHNEV'S FUNERAL, ANDROPOV'S APPOINTMENT, WALESA'S RELEASE ETC).

(VI) THE FRENCH HAD REFERRED TO THE DANGER OF REPEATING WHAT HAD HAPPENED AFTER VERSAILLES. BUT THERE WAS LESS RISK THIS TIME. THE DOCUMENT HAD BEEN CAREFULLY NEGOTIATED. IF INDIVIDUAL AMERICAN SPOKESMAN CLAIMED MORE FOR IT THAN WE THOUGHT JUSTIFIED, WE COULD SIMPLY REFER TO THE TEXT OF THE DOCUMENT, ASSUMING IT HAD BEEN PUBLISHED. IF IT HAD NOT BEEN PUBLISHED, WE WOULD BE MUCH MORE LIKELY TO HAVE TO CONTRADICT THE COMMENT.

4. THE CONSENSUS AT THE END OF THIS DISCUSSION WAS ONCE AGAIN IN FAVOUR OF PUBLICATION. BUT THE FRENCH AMBASSADOR COULD NOT AGREE ON THE BASIS OF HIS PRESENT INSTRUCTIONS. HE ARGUED THAT THE FOREIGN MINISTERS OF THE FOUR HAD AGREED AT HESSELET THAT THE DOCUMENT SJOULD NOT BE PUBLISHED. ONLY THEY COULD REVERSE THAT AGREEMENT. THE PRESIDENCY SUGGESTED THAT THE FOREIGN MINISTERS CONCERNED SHOULD CONTACT ONE ANOTHER BY TELEPHONE TOMORROW TO TRY TO REACH AGREEMENT ON THIS IN TIME TO MEET THE AMERICAN DEADLINE (1330Z). THE FRENCH AMBASSADOR SAID THAT CHEYSSON WAS IN KUWAIT BUT COULD

AGREEMENT ON THIS IN TIME TO MEET THE AMERICAN DEADLINE (1330Z). THE FRENCH AMBASSADOR SAID THAT CHEYSSON WAS IN KUWAIT BUT COULD PROBABLY BE CONTACTED. HE SUGGESTED THAT IT WOULD BE NECESSARY TO AGREE BOTH ON WHETHER TO CONSENT TO PUBLICATION AND ON THE NEED FOR ALL THE PARTICIPANTS TO EXERCISE MAXIMUM RESTRAINT IN SUBSEQUENT COMMENT.

5. DISCUSSION OF THE NEED FOR AN INTERPRETATIVE SIDE LETTER (PARA 3 OF MY FIRST IPT) WAS BRIEF AND CONSTRUCTIVE. WE ALL AGREED, INCLUDING THE FRENCH, THAT THE TERMS OF SHULTZ'S MESSAGE TODAY TO THE FOUR EUROPEAN FOREIGN MINISTERS (MY SECOND IPT) FULLY MET THE TWO POINTS ON WHICH THE FRENCH HAD EXPRESSED RESERVATIONS. THERE WAS THEREFORE NO NEED TO INSIST ON A SIDE LETTER.

6. DISCUSSION OF THE PROBLEM OF EXTRA-TERRITORIALITY (PARA 4 OF MY FIRST IPT) WAS SIMILARLY BRIEF. WE AGREED THAT WALLIS'S RESPONSE TO THE DANISH AMBASSADOR'S REMARKS TODAY WAS ADEQUATE. THE DANISH AMBASSADOR WILL RECORD THIS EXCHANGE AND SEND IT TO THE STATE DEPARTMENT AS OUR UNDERSTANDING OF WHAT WAS SAID. THE IMPORTANCE WE ATTACH TO THIS QUESTION AND OUR INTENTION OF PURSUING IT AS A MATTER OF URGENCY THEN BE CLEARLY ON RECORD.

7. PLEASE SEE MIFT.

FCO PASS SAVING ATHENS DUBLIN LUXEMBOURG.

WRIGHT

NNNN

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MR EVANS
MR THOMAS
RESIDENT CLERK

IMMEDIATE

MR GOODALL CABINET OFFICE
No 10 DS (2)

SECRET
DESKBY 130800Z
FM WASHINGTON 130145Z NOV 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 3680 OF 12 NOVEMBER
INFO IMMEDIATE BTDO NEW YORK (FOR PS/S OF S FOR TRADE) PARIS
BONN ROME UKREP BRUSSELS PRIORITY MOSCOW

MIPT: EAST WEST ECONOMIC RELATIONS (PIPELINE)
FOLLOWING IS TEXT OF SHULTZ'S LETTER TO FOREIGN MINISTERS:

BEGINS

I AM SURE YOU SHARE MY SENSE OF SATISFACTION OVER THE GREAT PROGRESS WHICH OUR REPRESENTATIVES HAVE MADE DURING THE PERIOD SINCE OUR MEETINGS IN NEW YORK AND AT LA SAPINIERE IN REACHING A CONSENSUS ON THE BASIC ELEMENTS OF A LONG-TERM ALLIED STRATEGY FOR OUR ECONOMIC RELATIONS WITH THE USSR. WITH THE AGREEMENT ON THE NON-PAPER AND CERTAIN UNILATERAL MOVES WHICH PRESIDENT REAGAN IS PREPARED TO TAKE, WE ARE EFFECTIVELY LEFT WITH ONLY ONE ISSUE, NAMELY THE QUESTION OF HOW WE SHOULD ANNOUNCE PUBLICLY THE RESULTS OF OUR DISCUSSIONS.

AS UNDER SECRETARY ALLEN WALLIS MADE CLEAR TO YOUR REPRESENTATIVES AT THE MEETINGS HERE ON NOVEMBER 8, WE HAVE COME TO THE CONCLUSION THAT THE BEST WAY TO ENSURE THAT THERE ARE NO UNHELPFUL PUBLIC SIGNS OF DISAGREEMENT AMONG US WOULD BE TO RELEASE OFFICIALLY THE TEXT OF THE NON-PAPER ON WHICH WE HAVE AGREED. THIS PAPER, ACCOMPANIED BY BRIEF STATEMENTS WELCOMING THE ALLIED AGREEMENT, WOULD ENABLE US TO AVOID A SITUATION IN WHICH STATEMENTS BY ONE GOVERNMENT COULD CAUSE PROBLEMS FOR ANOTHER. THE PAPER ON WHICH WE HAVE NOW REACHED AGREEMENT WOULD, TO A VERY LARGE DEGREE, SPEAK FOR ITSELF, AND ALLOW US TO AVOID UNHELPFUL AND UNPRODUCTIVE PRESS SPECULATION AS TO THE NATURE OF OUR AGREEMENT. I KNOW THAT SOME OF THE

ALLOW US TO AVOID UNHELPFUL AND UNPRODUCTIVE PRESS SPECULATION AS TO THE NATURE OF OUR AGREEMENT. I KNOW THAT SOME OF THE ALLIED GOVERNMENTS HAVE PROCEEDED ON THE ASSUMPTION THAT THE DOCUMENT WE HAVE BEEN WORKING ON WOULD NOT BE RELEASED TO THE PUBLIC. HOWEVER, I HAVE COME TO THE CONCLUSION THAT OUR INTERESTS CAN BE BEST SERVED BY THE RELEASE OF THE DOCUMENT, AND I URGE THAT YOUR GOVERNMENT AGREE TO THIS PROPOSAL AS THE MEANS BEST CALCULATED TO PRESERVE AND STRENGTHEN THE SUCCESS WE HAVE ACHIEVED.

I ALSO UNDERSTAND THAT YOUR REPRESENTATIVE AND THOSE OF THE OTHER EC PARTICIPANTS HAVE PROPOSED TO SEND A SO-CALLED "SIDE LETTER" WHICH WOULD RECORD YOUR POINT OF VIEW ON THE QUESTION OF HOW THE COMMON ALLIED APPROACH SHOULD BE STRUCTURED ACCORDING TO THE ISSUES INVOLVED. LET ME SAY THAT YOUR POINT STRIKES ME AS A STATEMENT OF FACT. OBVIOUSLY, THE DEGREES TO WHICH OUR COUNTRIES SEEK TO COORDINATE OUR POLICIES WILL VARY ACCORDING TO THE ISSUE IN QUESTION. HOWEVER, PRESENTING THIS FORMULATION IN A UNILATERAL "SIDE LETTER," WHICH WOULD BECOME PUBLIC, COULD HAVE NEGATIVE CONSEQUENCES DETRACTING FROM OUR COMMON PURPOSE. IT COULD LEAD TO INTENSIVE QUESTIONING REGARDING THE MEANING OF THE INTERPRETATION ITSELF, THEREBY UNDERMINING OUR CONSENSUS AND PREVENTING THE NON-PAPER FROM SPEAKING FOR ITSELF.

THE SAME IS TRUE OF YOUR CONCERN OVER THE WORD "SUBSIDIZE" ON WHICH I UNDERSTAND YOU ALSO WISH TO RECORD YOUR VIEWS IN THE PROPOSED SIDE LETTER. HERE, TOO, THERE CAN BE NO QUESTION BY ANY ONE WHO IS FAMILIAR WITH OUR DISCUSSIONS OVER THE PAST MONTH THAT THE PRACTICAL MEANING OF THIS WORD WILL BECOME CLEARER DURING THE STUDIES WHICH WE HAVE AGREED TO CONDUCT. YOU MAY BE SURE THAT THE UNITED STATES WILL NOT ATTEMPT TO USE THE AGREEMENT ON THE NON-PAPER AS A BASIS TO ARGUE THAT FULL AGREEMENT ON THE PRACTICAL MEANING OF THIS TERM HAS BEEN REACHED. THUS, THERE IS IN OUR VIEW NO BASIS ON WHICH ANY UNILATERAL INTERPRETIVE STATEMENT IN THIS REGARD IS REQUIRED.

CONSEQUENTLY, I URGE THAT YOU DROP YOUR REQUEST FOR A SIDE LETTER WHICH REPEATS POSITIONS WHICH THE UNITED STATES ALREADY FULLY UNDERSTANDS, PARTICULARLY SINCE THIS "SIDE LETTER" APPROACH CARRIES THE POTENTIAL OF HARMING OUR JOINT ENTERPRISE.

I BELIEVE WE CAN ALL BE QUITE PLEASED WITH THE SUCCESS WE HAVE ACHIEVED. WE, ON OUR SIDE, LOOK FORWARD TO THE FOLLOW-UP STUDIES WHICH WE HAVE AGREED TO CONDUCT. I AM PERSONALLY CONVINCED THAT WE HAVE NOT ONLY RESOLVED A SERIOUS DISAGREEMENT WITHIN OUR ALLIANCE: MORE IMPORTANTLY, WE HAVE LAID THE GROUNDWORK FOR FUTURE COOPERATION IN AN AREA OF GREATEST IMPORTANCE.

ENDS

WRIGHT

SIBERIAN PIPELINE ADVANCE COPIES ~~20~~

HD/TRED
HD/EESD
HD/NAD
HD/PLANNING STAFF
HD/ECD(E)
PS (6)
PS/MR HURD
PS/MR RIFKIND
PS/PUS
MR EVANS
MR THOMAS
RESIDENT CLERK

IMMEDIATE

MR GOODALL CABINET OFFICE

No 10 DS (2)

MG

CONFIDENTIAL
DESKBY 130800Z
FM WASHINGTON 130140Z NOV 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 3679 OF 12 NOVEMBER
INFO IMMEDIATE BTDO NEW YORK (FOR PS/S OF S FOR TRADE) PARIS BONN ROME UKREP BRUSSELS COPENHAGEN UKDEL NATO UKDEL OECD PRIORITY MOSCOW ROUTINE TOKYO OTTAWA BRUSSELS THE HAGUE
INFO SAVING ATHENS DUBLIN LUXEMBOURG

MY TELNO 3675 (NOT TO ALL): EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. AT THIS AFTERNOON'S MEETING OF THE SEVEN PLUS TWO, UNDER THE CHAIRMANSHIP OF UNDER-SECRETARY WALLIS, THERE WAS DISCUSSION OF PUBLIC HANDLING: OF THE E C SIDE-LETTER AND OF THE NEED FOR THE EUROPEANS TO ENGAGE URGENTLY IN DISCUSSIONS OF THE EXTRA-TERRITORIAL PROBLEM.

PUBLIC HANDLING AND PUBLICATION OF THE NON-PAPER.

2. WALLIS REPORTED THAT THE PRESIDENT WOULD MAKE ONE OF A REGULAR SERIES OF BROADCASTS ON RADIO AT 12 NOON TOMORROW (WASHINGTON TIME). IF ALL THE OTHER GOVERNMENTS CONCERNED COULD AGREE TO PUBLICATION OF THE NON-PAPER THEN THE PLAN WAS THAT THE PRESIDENT WOULD MAKE A VERY BRIEF STATEMENT ON RADIO ANNOUNCING AGREEMENT OF ALL THE GOVERNMENTS CONCERNED ON THE NON-PAPER (WHICH WILL BE CALLED A QUOTE SUMMARY OF CONCLUSIONS UNQUOTE). NO POINTS WOULD BE SCORED AGAINST ANY OTHER GOVERNMENTS. THE AGREEMENT WOULD BE ANNOUNCED AS A VICTORY FOR THE ALLIANCE AND WOULD BE REGARDED AS A JOINT, COLLABERATIVE ACCOMPLISHMENT. WALLIS HOPED ALL THE GOVERNMENTS CONCERNED WOULD LOOK ON IT IN THIS WAY AND TRY TO FOLLOW A COMMON PRESS LINE. BUT THIS PLAN WOULD BE POSSIBLE ONLY IF AGREEMENT COULD BE REACHED TO PUBLISH THE NON-PAPER. HE URGED ALL OTHERS TO AGREE TO PUBLICATION. THE STATE DEPARTMENT WOULD NEED TO BE INFORMED BY 0830 TOMORROW (WASHINGTON TIME) IF ALL WERE AGREED. IF THIS HAPPENED AND THE PRESIDENT SUBSEQUENTLY ANNOUNCED THE AGREEMENT ON RADIO, THEN THE

(WASHINGTON TIME) IF ALL WERE AGREED. IF THIS HAPPENED AND THE PRESIDENT SUBSEQUENTLY ANNOUNCED THE AGREEMENT ON RADIO, THEN THE SANCTIONS WOULD BE LIFTED AUTOMATICALLY BY THE COMMERCE DEPARTMENT WITHOUT SEPARATE ANNOUNCEMENT. IF NOT THEN THE PRESIDENT'S ANNOUNCEMENT WOULD HAVE TO BE POSTPONED AND THERE WOULD BE A NEED FOR FURTHER MEETINGS TO RESOLVE THE PUBLIC HANDLING. WALLIS EMPHASISED, HOWEVER, THAT THE RISK OF DAMAGING LEAKS WOULD BE GREAT NOW THAT THE PRESIDENT HAD TAKEN A PROVISIONAL DECISION ON SANCTIONS. THE ONLY GOVERNMENT STILL UNWILLING TO PUBLISH IS THE FRENCH (SEE MY SECOND I F T).

PROPOSED E C SIDE-LETTER

3. THE U.S. URGED THE EUROPEANS TO DISPENSE WITH THE NEED FOR A SEPARATE SIDE-LETTER. WE WERE GIVEN THE TEXT OF A LETTER FROM SECRETARY SCHULTZ TO FOREIGN MINISTERS OF U.K. F R G, FRANCE, ITALY AND TO PRESIDENT THORN. (SINCE THIS IS NOT DUE TO BE DELIVERED UNTIL TOMORROW MORNING IN LONDON, TEXT IS IN M I F T). THIS REQUESTS AGREEMENT TO PUBLISH THE NON-PAPER AND ARGUES FOR DISPENSATION OF THE E C SIDE-LETTER. THE PRESIDENCY TOOK NOTE AND SAID THIS WOULD NEED TO BE DISCUSSED AMONG THE FOUR (SEE MY SECOND I F T). WITH THE AGREEMENT OF THE STATE DEPARTMENT, THE DANISH AMBASSADOR LATER GAVE A COPY OF THE SHULTZ LETTER, IN STRICT CONFIDENCE, TO AMBASSADORS OF THE OTHER E C COUNTRIES NOT PRESENT AT THE MEETING OF SEVEN PLUS TWO.

FOLLOW-UP TALKS ON EXTRA-TERRITORIALITY.

4. THE DANISH AMBASSADOR WITH THE AGREEMENT OF OURSELVES AND THE FRENCH, MADE A BRIEF STATEMENT THAT THE EUROPEANS REGARDED IT AS IMPORTANT THAT THERE BE URGENT DISCUSSIONS ON THE LEGAL, COMMERCIAL AND OTHER ISSUES WHICH ARISE FROM UNILATERAL MEASURES, IN ORDER TO AVOID FUTURE CONFLICTS. WALLIS GAVE WHAT APPEARED TO BE A HELPFULL AND SYMPATHETIC RESPONSE. BUT HE EMPHASISED THAT THIS QUESTION WOULD HAVE TO BE TREATED SEPARATELY FROM THE REST OF THE EXERCISE.

TEXT OF PAPER.

5. THE STATE DEPARTMENT HANDED ROUND A FINAL COPY OF THE NON-PAPER (SUMMARY OF CONCLUSIONS). THIS AGREES WITH THE TEXT IN MY TELNO. 3640 (AS AMENDED BY MY TELNO. 3656) WITH ONE MINOR EXCEPTION. IN LINE 5 OF THE CHAPEAU, OF THE AMERICAN VERSION, THE WORD QUOTE ALSO UNQUOTE HAS BEEN DELETED. THIS IS ACCEPTABLE TO THE E C. THE U.S. TEXT IS THEREFORE NOW THE AUTHENTIC TEXT OF THE SUMMARY OF CONCLUSIONS.

PLEASE SEE MY THREE I F T 'S

F C O PASS SAVING ATHENS DUBLIN LUXEMBOURG

WRIGHT

SUBJECT.

US Declassified

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 216 A/82

6

cc. Master set
Foreign Policy: F/W
Relations: Pc3.

000 WTE24
DE WTE £8074 3162030
O 122037Z NOV 82
FM THE WHITE HOUSE
TO CABINET OFFICE, LONDON
ZEM
S E C R E T VIA CABINET OFFICE CHANNELS WH8074

NOVEMBER 12, 1982

DEAR MARGARET:

I HAVE JUST GIVEN MY APPROVAL TO THE FINAL PROVISIONS OF THE AGREEMENT AMONG OUR COUNTRIES AND OUR OTHER FRIENDS AND ALLIES CONCERNING OVERALL ECONOMIC RELATIONS WITH THE EAST. YOUR AMBASSADOR HAS BEEN INFORMED OF MY SEPARATE DECISION ON THE ECONOMIC SANCTIONS RELATED TO POLAND. I AM GRATIFIED THAT WE HAVE REACHED A CONCENSUS ON THESE VITAL QUESTIONS. IT IS A VICTORY FOR THE WESTERN ALLIANCE WHICH WILL BRING TO AN END THE SOVIET UNIONS ABILITY TO TAKE ADVANTAGE OF THE DIVISIONS AMONG US AND REDUCE THE COMMERCIAL BENEFITS OF PLAYING ONE WESTERN COUNTRY OFF AGAINST ANOTHER.

WE HAVE ALL APPROVED THE TERMS OF THE CURRENT CONSENSUS WHICH WERE WORKED OUT BY OUR FOREIGN MINISTERS AND AMBASSADORS. IN THIS LETTER I WOULD LIKE TO EMPHASIZE TWO POINTS WHICH I CONSIDER OF THE GREATEST IMPORTANCE.

FIRST, I BELIEVE IT IS VITALLY IMPORTANT THAT WE ADOPT A COMMON APPROACH ON THE PUBLIC PRESENTATION OF OUR AGREEMENT AND, AVOID THE RISK OF DIFFERING STATEMENTS IN ALLIED CAPITALS, AS HAPPENED AFTER OUR LAST ECONOMIC SUMMIT. THIS WOULD GIVE THE ERRONEOUS IMPRESSION OF CONTINUED DISAGREEMENT RATHER THAN THE REALITY OF AN ALLIED CONSENSUS. FOR MY OWN PART, I PROPOSE TO TREAT THE ANNOUNCEMENT TOMORROW MORNING IN MY WEEKLY RADIO ADDRESS. AT THE SAME TIME I WILL ANNOUNCE THE LIFTING OF OUR POLAND-RELATED SANCTIONS IMPOSED ON DECEMBER 29TH AND JUNE 22ND. I REALIZE TIME IS SHORT, BUT I INVITE YOUR APPROVAL OF THIS PROCEDURE. IT ALSO SEEMS TO ME THAT THE OFFICIAL RELEASE OF THE SO-CALLED +NON-PAPER+ IN ALL OUR CAPITALS WOULD BE BY FAR THE BEST APPROACH TO FORGING A COMMON PUBLIC UNDERSTANDING. I REALIZE THAT AT THE BEGINNING OF THE DISCUSSIONS BETWEEN OUR FOREIGN MINISTERS IN NEW YORK THAT THERE WAS CONSIDERABLE SENTIMENT FOR KEEPING WHATEVER EMERGED AT THE END OF THE PROCESS A CONFIDENTIAL DOCUMENT. HOWEVER, I FEEL THAT NOW ALL OUR INTERESTS ARE BEST SERVED BY RELEASING THE TEXT AND ALLOWING IT TO SPEAK FOR ITSELF.

SECOND, THE DECISION BY THE UNITED STATES TO MODIFY OUR SANCTIONS WAS TAKEN WITH THE CLEAR EXPECTATION THAT THE JOINT WORK PROGRAM LAID OUT IN THE AGREEMENT ON EAST-WEST TRADE WILL

END OF PAGE 01

BE CONDUCTED EXPEDITIOUSLY. IT IS MY STRONG HOPE THAT IN A MATTER OF MONTHS WE WILL HAVE JOINT POLICIES WHICH WE ALL CAN SUPPORT IN THE AREAS OF ENERGY ALTERNATIVES TO ADDITIONAL CONTRACTS FOR IMPORTS FROM THE SOVIET UNION, TIGHTENED CONTROLS ON HIGH TECHNOLOGY ITEMS AND HARMONIZED CREDITS POLICIES. I EXPECT THAT WE WILL BE able TO ACHIEVE CONCRETE RESULTS IN A FEW MONTHS TIME. I INTEND TO ASSIGN HIGH-LEVEL, KNOWLEDGEABLE PEOPLE TO THESE STUDIES, AND WILL PERSONALLY FOLLOW THE DEVELOPMENT OF THE IMPLEMENTING PROCESS. WE MUST DEVELOP A SECURITY-MINDED, REALISTIC, DURABLE AND JOINT SET OF POLICIES TOWARDS THE EAST IN THE ECONOMIC AREA. WE OWE NO LESS TO OUR OWN PEOPLE, WHO PAY THE PRICE FOR THE MILITARY FORCES WE MUST FIELD TO DETER THOSE OF THE SOVIET UNION. WE OWE NO LESS TO THE PEOPLE OF POLAND, WHOSE SUFFERING UNDER A MARTIAL LAW REGIME HAS BROUGHT HOME TO ALL OF US THE REPRESSIVE AND AGGRESSIVE NATURE OF THE SOVIET SYSTEM. I AM CONFIDENT THAT THE POLICIES WHICH RESULT FROM OUR STUDIES WILL BOTH PROTECT OUR VITAL INTERESTS AND HAVE A MORE SUBSTANTIAL IMPACT ON THE PRESENT AGGRESSIVE BEHAVIOR OF THE SOVIET UNION THAN THE UNILATERAL U.S. MEASURES WHICH WE HAVE BEEN OBLIGED TO TAKE IN THE PAST YEAR.

MARGARET, I WOULD LIKE TO EXPRESS PARTICULAR APPRECIATION TO YOU, FOREIGN MINISTER PYM AND AMBASSADOR WRIGHT FOR THE CONSTRUCTIVE ROLE THE UNITED KINGDOM HAS PLAYED IN WORKING OUT THIS CONSENSUS. I THINK WE HAVE SUCCEEDED IN MOVING OUR FRIENDS CLOSER TO THE U.S./U.K. POINT OF VIEW ON EAST-WEST ECONOMIC RELATIONS THAN MANY WOULD HAVE THOUGHT POSSIBLE A YEAR AGO.

SINCERELY,

RON

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NNNN

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GR 600

SECRET

SECRET
DESKBY 130800Z
FM WASHINGTON 130145Z NOV 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 3680 OF 12 NOVEMBER
INFO IMMEDIATE BTDO NEW YORK (FOR PS/S OF S FOR TRADE) PARIS
BONN ROME UKREP BRUSSELS PRIORITY MOSCOW

MIPT: EAST WEST ECONOMIC RELATIONS (PIPELINE)
FOLLOWING IS TEXT OF SHULTZ'S LETTER TO FOREIGN MINISTERS:

BEGINS

I AM SURE YOU SHARE MY SENSE OF SATISFACTION OVER THE GREAT PROGRESS WHICH OUR REPRESENTATIVES HAVE MADE DURING THE PERIOD SINCE OUR MEETINGS IN NEW YORK AND AT LA SAPINIERE IN REACHING A CONSENSUS ON THE BASIC ELEMENTS OF A LONG-TERM ALLIED STRATEGY FOR OUR ECONOMIC RELATIONS WITH THE USSR. WITH THE AGREEMENT ON THE NON-PAPER AND CERTAIN UNILATERAL MOVES WHICH PRESIDENT REAGAN IS PREPARED TO TAKE, WE ARE EFFECTIVELY LEFT WITH ONLY ONE ISSUE, NAMELY THE QUESTION OF HOW WE SHOULD ANNOUNCE PUBLICLY THE RESULTS OF OUR DISCUSSIONS.

AS UNDER SECRETARY ALLEN WALLIS MADE CLEAR TO YOUR REPRESENTATIVES AT THE MEETINGS HERE ON NOVEMBER 8, WE HAVE COME TO THE CONCLUSION THAT THE BEST WAY TO ENSURE THAT THERE ARE NO UNHELPFUL PUBLIC SIGNS OF DISAGREEMENT AMONG US WOULD BE TO RELEASE OFFICIALLY THE TEXT OF THE NON-PAPER ON WHICH WE HAVE AGREED. THIS PAPER, ACCOMPANIED BY BRIEF STATEMENTS WELCOMING THE ALLIED AGREEMENT, WOULD ENABLE US TO AVOID A SITUATION IN WHICH STATEMENTS BY ONE GOVERNMENT COULD CAUSE PROBLEMS FOR ANOTHER. THE PAPER ON WHICH WE HAVE NOW REACHED AGREEMENT WOULD, TO A VERY LARGE DEGREE, SPEAK FOR ITSELF, AND ALLOW US TO AVOID UNHELPFUL AND UNPRODUCTIVE PRESS SPECULATION AS TO THE NATURE OF OUR AGREEMENT. I KNOW THAT SOME OF THE ALLIED GOVERNMENTS HAVE PROCEEDED ON THE ASSUMPTION THAT THE DOCUMENT WE HAVE BEEN WORKING ON WOULD NOT BE RELEASED TO THE PUBLIC. HOWEVER, I HAVE COME TO THE CONCLUSION THAT OUR INTERESTS CAN BE BEST SERVED BY THE RELEASE OF THE DOCUMENT, AND I URGE THAT YOUR GOVERNMENT AGREE TO THIS PROPOSAL AS THE MEANS BEST CALCULATED TO PRESERVE AND STRENGTHEN THE SUCCESS WE HAVE ACHIEVED.

I ALSO UNDERSTAND THAT YOUR REPRESENTATIVE AND THOSE OF THE OTHER EC PARTICIPANTS HAVE PROPOSED TO SEND A SO-CALLED "SIDE LETTER" WHICH WOULD RECORD YOUR POINT OF VIEW ON THE QUESTION OF HOW THE COMMON ALLIED APPROACH SHOULD BE STRUCTURED ACCORDING TO THE ISSUES INVOLVED. LET ME SAY THAT YOUR POINT STRIKES ME AS A STATEMENT OF FACT. OBVIOUSLY, THE DEGREES TO WHICH OUR COUNTRIES SEEK TO COORDINATE OUR POLICIES WILL VARY

/ACCORDING

ACCORDING TO THE ISSUE IN QUESTION. HOWEVER, PRESENTING THIS FORMULATION IN A UNILATERAL ''SIDE LETTER,'' WHICH WOULD BECOME PUBLIC, COULD HAVE NEGATIVE CONSEQUENCES DETRACTING FROM OUR COMMON PURPOSE. IT COULD LEAD TO INTENSIVE QUESTIONING REGARDING THE MEANING OF THE INTERPRETATION ITSELF, THEREBY UNDERMINING OUR CONSENSUS AND PREVENTING THE NON-PAPER FROM SPEAKING FOR ITSELF.

THE SAME IS TRUE OF YOUR CONCERN OVER THE WORD ''SUBSIDIZE'' ON WHICH I UNDERSTAND YOU ALSO WISH TO RECORD YOUR VIEWS IN THE PROPOSED SIDE LETTER. HERE, TOO, THERE CAN BE NO QUESTION BY ANY ONE WHO IS FAMILIAR WITH OUR DISCUSSIONS OVER THE PAST MONTH THAT THE PRACTICAL MEANING OF THIS WORD WILL BECOME CLEARER DURING THE STUDIES WHICH WE HAVE AGREED TO CONDUCT. YOU MAY BE SURE THAT THE UNITED STATES WILL NOT ATTEMPT TO USE THE AGREEMENT ON THE NON-PAPER AS A BASIS TO ARGUE THAT FULL AGREEMENT ON THE PRACTICAL MEANING OF THIS TERM HAS BEEN REACHED. THUS, THERE IS IN OUR VIEW NO BASIS ON WHICH ANY UNILATERAL INTERPRETIVE STATEMENT IN THIS REGARD IS REQUIRED.

CONSEQUENTLY, I URGE THAT YOU DROP YOUR REQUEST FOR A SIDE LETTER WHICH REPEATS POSITIONS WHICH THE UNITED STATES ALREADY FULLY UNDERSTANDS, PARTICULARLY SINCE THIS ''SIDE LETTER'' APPROACH CARRIES THE POTENTIAL OF HARMING OUR JOINT ENTERPRISE.

I BELIEVE WE CAN ALL BE QUITE PLEASED WITH THE SUCCESS WE HAVE ACHIEVED. WE, ON OUR SIDE, LOOK FORWARD TO THE FOLLOW-UP STUDIES WHICH WE HAVE AGREED TO CONDUCT. I AM PERSONALLY CONVINCED THAT WE HAVE NOT ONLY RESOLVED A SERIOUS DISAGREEMENT WITHIN OUR ALLIANCE: MORE IMPORTANTLY, WE HAVE LAID THE GROUNDWORK FOR FUTURE COOPERATION IN AN AREA OF GREATEST IMPORTANCE.

ENDS

WRIGHT

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

LIMITED

TRED
EESD
NAD
PLANNING STAFF
DEFENCE D
ECD (E)
WED
ESID
PUSD
ES & SD
NEWS D

ERD
PS
PS/MR HURD
PS/MR RIFKIND
PS/PUS
SIR J BULLARD
MR GOODISON
MR ADAMS
MR HANNAY
MR THOMAS
MR EVANS
MR GILLMORE

ADDITIONAL DISTRIBUTION
POLAND SPECIAL

COPIES TO:-
MR SUNDERLAND DOT
MR KNIGHTON DOT

COPIES SENT TO
10 DOWNING STREET

SUBJECT.

US Declassified

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 218/82

FLASH
122355Z NOV 82
SECRET

FROM CABINET OFFICE LONDON
TO WHITE HOUSE

FROM PRIME MINISTER THATCHER

MESSAGE TO PRESIDENT REAGAN

DEAR RON

THANK YOU FOR YOUR MESSAGE TELLING ME OF YOUR DECISION TO LIFT THE SANCTIONS IMPOSED IN DECEMBER AND JUNE. THIS IS VERY GOOD NEWS. I AM PLEASED THAT WE HAVE ALL BEEN ABLE TO REACH AGREEMENT ON A COMMON APPROACH TO THE HANDLING OF EAST/WEST ECONOMIC RELATIONS, PARTICULARLY AT A TIME WHEN WE MUST BE SEEN TO BE STANDING TOGETHER.

I AGREE WITH THE WAY YOU PROPOSE TO HANDLE THE ANNOUNCEMENT AND THAT THE NON-PAPER OR SUMMARY OF CONCLUSIONS AS IT HAS COME TO BE CALLED SHOULD BE PUBLISHED. WE HAD ALREADY ASKED OUR AMBASSADOR IN PARIS TO URGE THIS COURSE ON THE FRENCH.

AS TO THE FUTURE, ALTHOUGH AS GEORGE SHULTZ KNOWS WE CANNOT BE COMMITTED IN ADVANCE TO THE OUTCOME, I WILL INSTRUCT MY OFFICIALS TO CONTRIBUTE WHOLEHEARTEDLY AND EXPEDITIOUSLY TO THE AGREED PROGRAMME OF WORK.

I AM GRATEFUL FOR YOUR KIND WORDS ABOUT THE BRITISH CONTRIBUTION. FOR OUR PART WE HAVE ADMIRED THE ROLE PLAYED BY GEORGE SHULTZ AND YOUR SENIOR OFFICIALS IN STEERING THE NEGOTIATIONS TO THIS SUCCESSFUL CONCLUSION.

YOURS EVER
MARGARET

NNNN

cc. Master set
ops.

Foreign Pol. E/W Relations
Pt 3

MESSAGE TO PRESIDENT REAGAN SECRET

US Declassified

Dear Ron

Thank you for your message ~~giving~~ telling me your decision to lift the sanctions imposed in December and June. I ~~too~~ am ~~gratified~~ pleased that we have all been able to reach agreement on a ~~more coherent~~ common approach to the handling of East/West economic relations, particularly at a ~~moment~~ time when we must be seen to be standing together, ~~as the Soviet leadership changes~~.

I agree with ~~what you propose about the handling of your~~ the way you propose to handle announcement. ~~For my part I can agree~~ I am content that the summary of conclusions should be published ~~for the reasons you give~~. /I had already asked our Ambassador in Paris to urge this course on the French./

As to the future, although as George Schultz knows we cannot be committed in advance to the outcome, I ~~am~~ will ~~prepared to~~ instruct my officials to contribute wholeheartedly and expeditiously to an agreed programme of work.

I am grateful for ~~what you said~~ your comments about the British contribution. For our part we have admired the role played by George Schultz and your senior officials in steering the negotiations to this successful conclusion.

Yours ever

Margaret

GR 500 CONFIDENTIAL
CONFIDENTIAL
DESKBY 130800Z
FM WASHINGTON 130200Z NOV 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 3682 OF 12 NOVEMBER
INFO IMMEDIATE TO BTDO NEW YORK (FOR PS/SOFSTRADE)
PRIORITY TO PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, UKDEL OECD, UKREP BRUSSELS ROUTINE TO TOKYO, OTTAWA, BRUSSELS, THE HAUGE AND MOSCOW
INFO SAVING ATHENS, DUBLIN AND LUXEMBOURG.

MY THREE IPTS (NOT TO ALL): EAST/WEST ECONOMIC RELATIONS (PIPELINE): PUBLIC HANDLING

FOLLOWING FROM THOMAS IN ABSENCE OF SIR O WRIGHT ON WEST COAST.

1. WITH THE PRESIDENT'S DECISION ON SANCTIONS UNDER OUR BELT, WE HAVE MADE ANOTHER STEP FORWARD TODAY. THE ONLY REMAINING PROBLEM IS HOW TO MAKE PUBLIC THE NATURE OF THE AGREEMENT WE HAVE REACHED ON EAST/WEST ECONOMIC RELATIONS.

2. I SUSPECT THE FRENCH HAVE A HIDDEN AGENDA ON THIS ISSUE. THEIR REAL CONCERN IS SURELY NOT THE RISK OF CONTRADICTORY COMMENTARIES, WHICH HAS NEVER BEEN KNOWN TO WORRY THEM IN THE PAST. IT IS RATHER THAT THEY WOULD PREFER A UNILATERAL STATEMENT BY THE US PRESIDENT AS SOMETHING FROM WHICH THEY CAN DISTANCE THEMSELVES IF THEY WISH. MOREOVER, A UNILATERAL U.S. STATEMENT WOULD HAVE LESS OF A FLAVOUR OF BEING THE RESULT OF A NEGOTIATION, TO WHICH THE FRENCH HAVE ALWAYS OBJECTED. FINALLY, IT WOULD BE THE CLOSEST THEY COULD COME TO GETTING PRESIDENT REAGAN TO EAT HUMBLE PIE.

3. I UNDERSTAND THAT SIR J FRETWELL HAS SPOKEN TO ANDREANI ABOUT THIS TODAY AND THAT ANDREANI UNDERTOOK TO CONSULT PRESIDENT MITTERRAN D URGENTLY. PERHAPS THERE WILL BE SOME RESPONSE TO THAT APPROACH TOMORROW. IF NOT, HOWEVER, YOU MAY THINK IT WOULD BE WORTH TRYING TO CUT THE KNOT BY HAVING A FURTHER WORD WITH GENSCHER, OR CHEYSSON, OR BOTH. THE GERMAN AMBASSADOR INCIDENTALLY WAS ARGUING VERY STRONGLY TODAY IN FAVOUR OF PUBLICATION OF THE TEXT, PRESUMABLY ON INSTRUCTIONS.

4. IT WOULD NOT BE THE END OF THE WORLD IF WE CANNOT GET AGREEMENT TO PUBLICATION OF THE DOCUMENT. THE FRENCH NOW SEEM TO BE RESIGNED TO A US PRESIDENTIAL STATEMENT ON THE LINES OF THE POINTS SET OUT IN MY TELEGRAM NO 3613, PROVIDED ANOTHER WORD CAN BE FOUND FOR QUOTE SUBSIDISE UNQUOTE AND PROVIDED THE REFERENCE TO POLAND IS DROPPED. THERE IS GENERAL AGREEMENT AMONG THE SIX HERE ON THIS LATTER POINT ESPECIALLY IN PRESENT CIRCUMSTANCES. IT SHOULD NOT BE IMPOSSIBLE THEREFORE TO REACH AGREEMENT ON WHAT PRESIDENT REAGAN SHOULD SAY AS AN ALTERNATIVE TO PUBLICATION OF THE TEXT. NEVERTHELESS, IT WOULD BE A POOR START FOR THE PROCESS OF FORGING A COMMON ALLIANCE APPROACH ON THESE QUESTIONS IS WE COULD NOT EVEN AGREE TO SAY IN PUBLIC WHAT WE HAD AGREED IN PRIVATE. THE PITY IS THAT THERE IS SO LITTLE TIME TO GET AGREEMENT IF PRESIDENT REAGAN IS TO BE ABLE TO SAY WHAT HE HOPES IN HIS BROADCAST TOMORROW.

CONFIDENTIAL

/FCO

FCO PASS SAVING ATHENS, DUBLIN AND LUXEMBOURG

WRIGHT

CCN

3. I UNDERSTAND THAT SIR J FRETWELL HAS SPOKEN TO ANDREANI ABOUT THIS TODAY AND THAT ANDREANI UNDERTOOK TO CONSULT PRESIDENT MITTERRAND URGENTLY. PERHAPS THERE WILL BE SOME RESPONSE TO THAT APPROACH TOMORROW. IF NOT, HOWEVER, YOU MAY THINK IT WOULD BE WORTH

(REPEATED AS REQUESTED)

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

LIMITED

TRED
EESD
NAD
PLANNING STAFF
DEFENCE D
ECD (E)
WED
ESID
PUSD
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ERD
PS
PS/MR HURD
PS/MR RIFKIND
PS/PUS
SIR J BULLARD
MR GOODISON
MR ADAMS
MR HANNAY
MR THOMAS
MR EVANS
MR GILLMORE

ADDITIONAL DISTRIBUTION
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Soviet (Russia) 2

SECRET

GRS 400

SECRET
FM WASHINGTON 122000Z NOV 82
TO FLASH FCO
TELEGRAM NUMBER 3669 OF 12 NOVEMBER

INFO IMMEDIATE PARIS BONN ROME UKREP BRUSSELS
BTDO NEW YORK FOR PS/SOST

EAST-WEST ECONOMIC RELATIONS (PIPELINE) : LIFTING OF US SANCTIONS.

1. THE STATE DEPARTMENT CALLED A MEETING WITH THE FOUR THIS AFTERNOON AT AN HOUR'S NOTICE TO INFORM US OF THE PRESIDENT'S DECISION, EFFECTIVE FROM TODAY, TO LIFT IN THEIR ENTIRETY THE DECEMBER AND JUNE SANCTIONS AS WELL AS THE ASSOCIATED DENIAL ORDERS IMPOSED ON EUROPEAN COMPANIES. OLMER, WHO WAS PRESENT ALONG WITH NSC STAFF, CONFIRMED THAT THE EFFECT OF THIS DECISION WAS TO RESTORE US CONTROLS ON EXPORTS AND RE-EXPORTS TO WHAT THEY HAD BEEN BEFORE THE DECEMBER MEASURES WERE IMPOSED. FULL DETAILS WOULD BE ANNOUNCED AS SOON AS POSSIBLE IN THE FEDERAL REGISTER.

2. IN THE MEANTIME, THE STATE DEPARTMENT ASKED ALL CONCERNED TO RESPECT THE ABSOLUTE SECRECY OF THE PRESIDENT'S DECISION UNTIL THE QUESTION OF PUBLIC-HANDLING OF THE EXERCISE ON EAST/WEST ECONOMIC RELATIONS HAD BEEN RESOLVED. A FURTHER MEETING HAS BEEN CALLED FOR LATER TODAY TO DISCUSS THIS QUESTION. THE STATE DEPARTMENT EXPLAINED HOWEVER THAT THE PRESIDENT WISHED IF POSSIBLE TO MOVE VERY QUICKLY ON THIS. THEY WOULD STRONGLY PREFER TO RELEASE THE NON-PAPER. THERE WOULD THEN BE NO NEED FOR ANYTHING BUT A SHORT PUBLIC STATEMENT. THE PRESIDENT HOPED THIS COULD BE DONE TOMORROW (EVIDENTLY WITH A VIEW TO SAYING A WORD ABOUT IT DURING HIS WEEKLY BROADCAST TOMORROW AFTERNOON.)

3. THE FRG AMBASSADOR ASKED ABOUT COMPENSATION FOR FIRMS WHICH MAY HAVE BEEN DAMAGED THROUGH LOSING BUSINESS AS A RESULT OF THE SANCTIONS, OLMER (DEPARTMENT OF COMMERCE) MADE IT CLEAR THAT THE PRESIDENT'S DECISION WAS EFFECTIVE FROM TODAY. THERE WAS NO SUGGESTION THAT THE DECEMBER AND JUNE MEASURES HAD BEEN IMPROPER IN ANY WAY DURING THE PERIOD THEY APPLIED. THE MATTER OF COMPENSATION DID NOT THEREFORE ARISE.

/4. THOMAS

SECRET

4. THOMAS SAID THAT IF THE PRESIDENT'S DECISION MEANT WHAT IT APPEARED TO MEAN, IT WOULD BE WARMLY WELCOMED IN LONDON AS A WISE AND STATESMANLIKE MOVE. THIS VIEW WAS SUPPORTED GENERALLY BY THE OTHERS.

WRIGHT

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

LIMITED

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PLANNING STAFF
DEFENCE D
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PUSD
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NEWS D

ERD
PS
PS/MR HURD
PS/MR RIFKIND
PS/PUS
SIR J BULLARD
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TELEGRAM NUMBER 3675 OF 12 NOVEMBER
INFO FLASH B T D O NEW YORK (FOR PS/SOS TRADE) IMMEDIATE PARIS
BONN ROME UKREP BRUSSELS

MY TELNO 3669: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

1. AT THIS AFTERNOON'S MEETING OF THE SEVEN PLUS TWO OLMER INFORMED ALL PRESENT THAT, CONTRARY TO WHAT WE WERE TOLD EARLIER THIS AFTERNOON (MY TELEGRAM UNDER REFERENCE), THE PRESIDENT'S DECISION ON THE LIFTING OF THE SANCTIONS IS NOT (NOT) EFFECTIVE FROM TODAY BUT CONTINGENT ON THE AGREEMENT ON THE PUBLIC HANDLING (AGREEMENT TO THE NON-PAPER HAVING ALREADY BEEN ACHIEVED).

WRIGHT

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

LIMITED

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NAD
PLANNING STAFF
DEFENCE D
ECD (E)
WED
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PS/MR HURD
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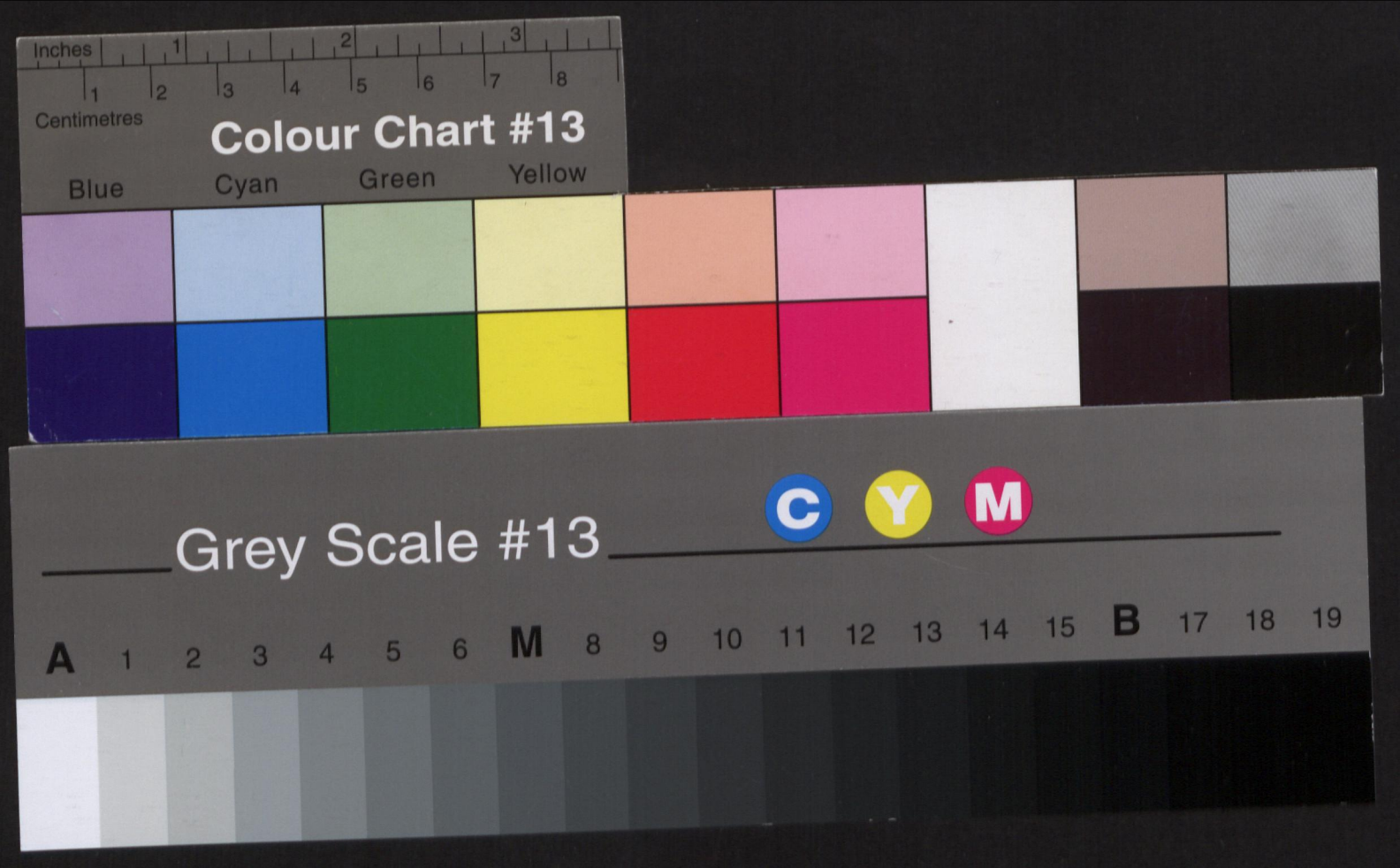
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