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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** BLAIR, DENNIS: FILES

**Withdrawer**

DLB 7/14/2006

**File Folder** UNITED KINGDOM - 1982 (05/01/1982-07/31/1982)

**FOIA**

F01-055

**Box Number** ~~90223~~ RAC Box 6

CHARTRAND

2

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
26873	MEMO	FROM JIM RENTSCHLER, ROGER FONTAINE, RE: CONTINGENCY PLANNING FOR THE NEXT 24 HRS IN THE FALKLANDS <b>R 1/28/2008 F01-055</b>	1	5/19/1982	B1
26874	CABLE	#192216Z MAY 82	2	5/19/1982	B1
26875	PAPER	RE: FALKLANDS SITUATION <b>R 1/28/2008 F01-055</b>	1	ND	B1
26876	PAPER	FALKLANDS STRATEGY ON EVE OF BRITISH INVASION <b>R 1/28/2008 F01-055</b>	2	ND	B1
26877	PAPER	LIST OF FACTS/STEPS RE: UK-ARGENTINE WAR <b>R 1/28/2008 F01-055</b>	1	ND	B1
26878	MEMO	BLAIR TO BUD MCFARLANE, RE: MEETING WITH PATRICK WRIGHT <b>R 1/28/2008 F01-055</b>	1	6/16/1982	B1
26879	PAPER	BIO <b>D 1/9/2007 F01-055</b>	1	6/1/1982	B1 B3
26880	CABLE	#091658Z JUL 82 <b>R 1/28/2008 F01-055</b>	4	7/9/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
26881	CABLE	#101032Z JUL 82 <b>R 1/28/2008 F01-055</b>	3	7/10/1982	B1
26882	CABLE	#102005Z JUL 82 <b>R 1/28/2008 F01-055</b>	2	7/10/1982	B1
26883	CABLE	#201738Z JUL 82 <b>R 1/28/2008 F01-055</b>	3	7/20/1982	B1
26884	CABLE	#201944Z JUL 82 <b>R 1/28/2008 F01-055</b>	2	7/20/1982	B1
26885	CABLE	#301650Z JUL 82 - LETTER THATCHER TO REAGAN <b>R 10/19/2011 F2001-055/1</b>	2	7/30/1982	B1

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PT, KA

26873

5-19-82

Jim Rentschler  
Roger Fontaine

Subject: Contingency Planning for the next 24 hrs in the Falklands

It seems likely that the UK will take some level of violent action against the Falklands within the next 24 hrs. Against that possibility could you please address the following issues in a contingency paper for use by the Judge at an NSC or SSG meeting tomorrow (Thursday 5/20). Base your analysis on the following assumptions: That the British attack will not be militarily decisive but will drag on for more than a week; that it will disrupt the de Cuellar efforts at the UN; and that the British will not attack the mainland. Under those circumstances how should we act so as to:

- Assure the earliest British success with the least damage to our interests in South America?
- What actions will be required at the UN in connection with the end of the de Cuellar mission; the likely UNGA debate?
- What briefings should be prepared for the Congress?
- What should be our public affairs policy/statements?
- How should we react to pending, and likely escalated UK requests for assistance?

With respect to the ~~Falklands~~ longer term:

Should we bend every possible effort to assisting the British to achieve early decisive results? Can they achieve such prompt results even with our help?

If they cannot achieve early results under any circumstances, what should that imply for our assistance to them? If it is to draw out, when and how should we attempt to resurrect our peace-making efforts?

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NLS FOI-055 #26873  
BY LOJ, NARA, DATE 1/28/08

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26874	CABLE #192216Z MAY 82	2	5/19/1982	B1

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Our objective remains a peaceful resolution of the dispute with as little damage inflicted on the participants as possible: military, political, and economic.

1. No quick British success is likely except at an unacceptable cost to the British. In fact, the U.K. will not be ready for an even credible assault on the Stanley area until after May 26. Any military assistance we would provide that would supplement and therefore assure a quick military victory could not be ready for another several weeks at the minimum.

2. The end of the UN effort will be signalled by the SYG himself. He will report to the Security Council his failure. A British attack on the Falklands will spark an Argentine request for a Security Council meeting. If the Argentines press for a resolution condemning the U.K is forthcoming, the U.K. will veto it but Argentina can claim a moral victory. Our problem will be assessing our own position. Absention is the best route. A likely followup will be a UNGA debate. Argentina's foreign office counts 75 votes in favor of Argentina assuming a British attack on the islands.

3. Congressional leadership should be briefed on the status of the dispute and what our effort will next consist of. The Congress was overwhelmingly pro-British, but feelings run shallow, and there is little mood to thwart another U.S. peace effort, especially if it comes from the President.

4. Our statements should studiously avoid anything that inflames either side. At the proper moment, it should be disclosed the U.S. in light of the SYG's failure is ready to make another effort.

5. Any requests that imply direct combat support for the British should be denied. We should remind the British that the U.S. effort is to secure a peaceful and just solution to this problem, not support a military reconquest of the islands per se.

A. No and no.

B. Resurrecting the peace effort will have to come at the personal and presidential level. It is the President, for example, who must publically call for a ceasefire. It is the President who must send a very personal message to both leaders outling where we are and what is at stake. The two letters must be very different meeting the needs and characteristics of both leaders--forget governments for the moment. The core message remains the same as to what the President proposes to do, but its costuming is very different. The core proposal would revolve around a presidential guarantee for a settlement. The President as arbiter?

It is not the content of the proposals so much as the package.

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NLS F01-055 #26875  
BY LOJ NARA, DATE 1/28/08

~~TOP SECRET~~

~~TOP SECRET~~

26876

FALKLANDS STRATEGY ON EVE OF BRITISH INVASION

U.S. Strategy:

To choose the right moment for another full-strength mediation initiative.

Timing for Peace Initiative:

Before an invasion; after the initial invasion; but before there is a military decision on the islands; after there is a military decision on the islands, or a stalemate occurs.

Judgments: Before the invasion, there is little to no chance for a diplomatic solution; after there is a military decision on the islands, it will dictate the shape of a solution. If the British win, as is probable, they will dictate terms. If they lose, the Thatcher government will fall, and Labor will sue for peace.

After the invasion but before the final military decision is the only opportunity with any chance of success, but that chance remains small. Once fighting has started, the logic of combat will probably overcome hopes for a compromise solution. However, even if the chances are small, the United States cannot afford not to try for a solution.

Method: The only remaining level at which the United States could mount a peace effort will be the President's personal intervention.

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NLS FOI 055-426876  
BY LOJ NARA, DATE 1/28/08

Other Aspects:

~~TOP SECRET~~

Military Support to the U.K. U.S. has very little capability in short term to enhance U.K. chances for a successful invasion. However, a DoD judgment should be made: would intelligence support, or any specific pieces of hardware assist the British invasion? Could provision of this assistance be kept secret?

For the longer term, the U.S. should provide all assistance short of combat support. That is, U.S. forces should not be giving information or material directly to British combat forces. No aerial refueling, for example.

Publicly, we should continue to decline comment on specific aspects of assistance.

Actions at the UN, public policy. Once the British invade, there will be strong pressures at the UN, and publicly, for a disengagement, or ceasefire. The British will undoubtedly resist this pressure. Our posture both at UN and publicly, should be that a ceasefire can only be part of a total settlement of the dispute.

Congressional Briefings. With Hill sentiment primarily pro-British, we should have no difficulty briefing key members on the strategy outlined in this paper.



UK - ARGENTINE WAR

1. The war between Great Britain and Argentina may escalate into a full-fledged bloody confrontation any time now.
2. The U. N. mediation seems to have stalled primarily because of the lack of practical guarantee that the international agency can back up the solution.
3. The United States' original mediation effort provided for a degree of softening of the positions on both sides, but did not succeed in removing all obstacles to a peaceful solution.
4. There is now an immediate and urgent need for a dramatic new effort on the part of the United States in order to prevent huge losses on both sides with grave consequences for the entire free world (weakening of NATO, disruption of international financial systems, etc).
5. The new initiative should pass by the regular channels of the State Department in the United States and the Ministry of Foreign Affairs in Argentina in order to provide for direct and instant communication between the decision-making centers in both countries.
6. Judge William C. Clark as Director of the National Security Council and personal friend of the President is a natural choice to head the mission.
7. Judge Clark does not have to travel to Buenos Aires. For the initial low profile contact, it would be even better for the person and/or persons representing him, but who personally know the decision-making group in Argentina (Galtieri, Lami Doso, Anaya), to make the trip as soon as possible.
8. The fundamental positions in the initial contact should be defined in advance in a way acceptable to both sides: a) The long-range transfer of sovereignty over the islands to Argentina which should not be a precondition for negotiation, but considered the main subject for settlement discussions to be resumed immediately after the gradual mutual withdrawal of military presence; b) a strong qualification must be stated that the interests of the islanders will be fully safeguarded and protected under guarantees from the United Nations and the United States.
9. The details of the agreements already reached in the United Nations should be fully utilized and accepted by the Clark mission.
10. The grounds for such a mission has been somewhat tested by private exploratory contacts and conversations.

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 NLS F01-055 #26877  
 BY LOI NARA, DATE 1/28/08



DEPARTMENT OF STATE

Washington, D.C. 20520

82 MAY 5 A 6: 26

May 4, 1982

~~SECRET~~

WHITE HOUSE  
SITUATION ROOM

MEMORANDUM FOR MR. WILLIAM P. CLARK  
THE WHITE HOUSE

SUBJECT: Message to Prime Minister Thatcher from  
the President

I attach the message from the President to Prime Minister Thatcher which Secretary Haig discussed with you earlier this evening. Per our conversation, we would appreciate it if you would arrange to have the message transmitted via the cabinet line to Mrs. Thatcher at midnight Washington time tonight.

L. Paul Bremer, III  
Executive Secretary

Attachment:

As Stated

~~SECRET~~

RDS-3 5/4/02

Department of State  
By *dlb* 7/13/06

~~SECRET~~

MEMORANDUM

NATIONAL SECURITY COUNCIL

File: UK

June 16

MEMORANDUM FOR BUD MCFARLANE

FROM: DENNIS BEAIR

SUBJECT: Meeting with Patrick Wright

The British Embassy (Robin Renwick) has requested that you meet for 30 minutes with Patrick Wright, chairman of the U.K.'s Joint Intelligence Committee.

I recommend that you schedule the meeting - Wright is clearly one of the key behind-the-scenes officials in the British government, and it would be valuable for you to make contact with him.

Because of his background, a discussion of the Middle East situation seems appropriate; another topic it would be worth sounding him on is the U.K. estimate of the West's economic leverage on the Soviet Union.

Recommendation

That you schedule a 30-minute meeting with Patrick Wright the afternoon of June 29th or the morning of June 30th.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

*Sorry Dick  
would like to  
nothing better  
but something  
will go well  
through the  
cracks if  
I do*

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NLS FDI-D55#26878

BY LOT NARA, DATE 1/28/08

~~SECRET~~

6-17-92

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26879	PAPER  BIO	1	6/1/1982	B1

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THE WHITE HOUSE

WASHINGTON

June 18, 1982

Dear Margaret:

We have been and will continue to be in constant communication on the many issues and crises in the world which our countries face together. However, in the press of all this business, I would like to take a moment to thank you for the hospitality which you, your Government and your countrymen extended to Nancy and me during our visit. The visit to Great Britain was the high point of the trip for us, and I know that you and your colleagues put a great deal of work into making it possible.

Thank you for the most enjoyable lunch at 10 Downing Street, and for the opportunity to address Parliament which preceded it. Of the official functions on my schedule, they were among the most enjoyable and least burdensome, because I was among friends. Thank you also for the elegant carriage clock which you gave me and the music box which you gave Nancy. They were very thoughtful gifts and we shall treasure them.

The news of your victory in the South Atlantic is most welcome. I look forward to working with you on a lasting solution to the situation there, and to cooperation on the many other tough challenges facing the West.

With best regards to Denis whom we also very much enjoyed seeing again,

Warmest wishes,



The Right Honorable  
Margaret R. Thatcher, M.P.,  
Prime Minister  
London

THE WHITE HOUSE

WASHINGTON

June <sup>20</sup> 18, 1982

Your Majesty and Your Royal Highness:

Writing this letter brings memories flooding back. Let me simply say that our stay with you in Windsor was the single most pleasant part of a long and arduous trip. Thank you very much for the thoughtfulness, warmth and kindness with which you received Nancy and me.

In particular, thank you for the rare set of Dr. Wall Worcester dessert dishes. We will display these magnificent examples of the British porcelain art with great pride. The silver-framed photographs and the Tudor atlas from the Royal Library at Windsor will also take a place among our most treasured mementos.

The news of your victory in the South Atlantic was received with happiness and relief here. We are glad that you have upheld the principle that armed aggression cannot be allowed to succeed, and in addition, that young men of the United Kingdom and Argentina will no longer be under fire.

With warmest regards,

*Ronald Reagan*

Her Majesty  
Queen Elizabeth II  
and His Royal Highness  
The Prince Philip, Duke of Edinburgh  
London

Finally, may I express <sup>yesterday</sup> the joy of <sup>your</sup> grandchildren  
all Americans at the birth of <sup>to</sup> them and  
we wish the greatest happiness to them and  
their parents.

CONFIDENTIAL  
NATIONAL SECURITY COUNCIL  
MESSAGE CENTER

FILE:  
UK

PAGE 01 OF 02  
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~~CONFIDENTIAL~~ SECTION 01 OF 02 LONDON 14904

NODIS  
E. O. 12065: XGDS-1 7/9/12 (STREATOR, E. J.) OR-M  
TAGS: ETRD, UK  
SUBJECT: US/EUROPEAN TRADE RELATIONS: HMG CONCERN MOUNTS  
OVER SOVIET PIPELINE SANCTIDNS

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. SUMMARY:  
~~HMG OFFICIALS ARE CONCERNED OVER APPARENT U.S. "MISUNDER-  
STANDING" OF THE IMPACT OF SANCTIONS ON JOHN BROWN LTD.,  
AND SEEM TAKEN ABACK BY THE PRESIDENT'S RECENT LETTER TO  
PM THATCHER. STRESSING THAT THE FIRM IS NOW LIVING ON  
BORROWED TIME, WITH UP TO 2,000 JOBS AND A \$200 MILLION  
CONTRACT AT STAKE, THEY IMPLIED FURTHER UK GOVERNMENT  
ACTION "SOONER RATHER THAN LATER." CHARACTERIZING THE  
U.S. DECISION AS "INTENSELY DEPRESSING" AND OUR EXTENDED  
EXTRATERRITORIALITY DISCUSSIONS AS "A DIALOGUE OF THE  
DEAF." THEY WARNED OF A SPILL OVER INTO OTHER AREAS OF OUR  
BILATERAL RELATIONSHIP, SUCH AS COCOM.~~  
END SUMMARY.

3. ECONCOUNS AND EMBOFF MET JULY 6 WITH DEPARTMENT OF  
TRADE (DOT) UNDER SECRETARY RUSSELL SUNDERLAND (NORTH  
AMERICA AND EXTRATERRITORIALITY ISSUES) AND ASSISTANT  
SECRETARY JOHN POWNALL (EAST/WEST TRADE) TO REVIEW HMG  
THINKING ON OUR EXPANDED SOVIET SANCTIONS. SUNDERLAND  
REFERRED TO A SERIOUS MISUNDERSTANDING BETWEEN THE US AND  
THE UK ON THE IMPACT OF US SANCTIONS ON JOHN BROWN  
ENGINEERING LTD. AND QUESTIONED HOW SUCH A SITUATION COULD  
HAVE ARISEN. ~~HE SAID HMG HAD CAREFULLY REVIEWED THE  
COMPANY'S SITUATION AND REACHED CERTAIN CONCLUSIONS WHICH  
BECAME THE BASIS FOR REPRESENTATIONS FROM THE PRIME  
MINISTER TO THE PRESIDENT. HE EXPRESSED CONCERN THAT THE  
U.S. SOMEHOW HAD CONCLUDED THE IMPACT WAS MANAGEABLE  
AND SEEMED PARTICULARLY OFFENDED THAT HMG'S WORD WAS NOT  
ACCEPTED. HE REVIEWED THE CORRESPONDENCE BETWEEN THE  
PRESIDENT AND PM THATCHER, ABOUT WHICH EMBASSY IS AWARE  
BUT HAS NOT SEEN.~~ HE SAID THAT HMG WAS TAKEN ABACK BY THE  
PRESIDENT'S LETTER OF ABOUT JULY 5. HE CHARACTERIZED THE  
LETTER AS ACKNOWLEDGING US/UK DIFFERENCES OF VIEWS  
REGARDING THE IMPACT OF SANCTIONS ON JOHN BROWN WHILE  
OFFERING TO PROVIDE HMG WITH DATA SUPPORTING OUR POSITION.

4. SUNDERLAND SAID THAT JOHN BROWN WAS TRULY "ON THE  
HOOK," THAT THE IMPACT WAS SERIOUS, AND THAT THE COMPANY

*Roger Robinson  
sticks again -*

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CONFIDENTIAL

BY LTI NARA DATE 1/28/08

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NATIONAL SECURITY COUNCIL  
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PAGE 02 OF 02 LONDON 4904

DTG: 091658Z JUL 82 PSN: 054397

WAS IN AN EXPOSED POSITION. HE NOTED THAT "ESCAPE FOR JOHN BROWN WAS NEITHER CERTAIN NOR SIMPLE," BUT THAT COMPANY REPRESENTATIVES COULD NOT OVERDRAMATIZE THEIR SITUATION SINCE THEIR STOCK IS PUBLICLY QUOTED. WE EXPRESSED UNDERSTANDING AND SYMPATHY FOR JOHN BROWN'S POSITION, BUT NOTED THAT US COMPANIES SUCH AS CATERPILLAR, WHICH ALSO FACED FINANCIAL DIFFICULTIES, ARE MAKING SIMILAR SACRIFICES. POWNALL RESPONDED THAT "WE DON'T MIND YOU DRIVING YOUR COMPANIES OUT OF BUSINESS, BUT DO MIND WHEN YOU DO OURS."

5. REGARDING THE CURRENT POSITION OF JOHN BROWN ENGINEERING LTD., POWNALL SAID THAT JULY 2 WAS THE FIRST SHIPMENT DATE FOR TURBINES TO THE SOVIETS. CONSEQUENTLY, THE COMPANY IS LIVING "ON BORROWED TIME" AWAITING ONLY THE TWO FINAL CONTRACTUAL REQUIREMENTS FOR SHIPMENT: SOVIET INSPECTION OF THE GOODS; AND NOTIFICATION BY THE SOVIETS THAT A SHIP IS AVAILABLE FOR FOB DELIVERY. SO FAR THE SOVIETS HAVE NOT FOLLOWED UP ON THESE TWO CONDITIONS, BUT THIS SUSPENDED STATE CAN LAST AT MOST FOR A FEW WEEKS.

6. SUNDERLAND STRESSED THAT THESE CIRCUMSTANCES MAKE THE JOHN BROWN CONTRACT A MORE PRESSING PROBLEM FOR HMG THAN DO THE AEG AND NUOVO PIGNONE CONTRACTS FOR FRG AND ITALIAN AUTHORITIES. ACTUAL DELIVERY DATES FOR THESE FIRMS ARE FURTHER IN THE FUTURE. THE DEPARTMENT OF TRADE HAS EXAMINED JOHN BROWN'S CONTRACTS WITH THE SOVIETS. THERE ARE A SERIES OF LATE DELIVERY PENALTIES AFTER WHICH NON-SHIPMENT WILL INVOKE FURTHER LIABILITIES FOR NON-FULFILMENT. THE SOVIETS THEN HAVE THE RIGHT TO CANCEL AND SUE FOR DAMAGES. WHILE THE SOVIETS HAVE NOT SERVED NOTICE THAT THEY WILL TAKE SUCH A STEP, THERE IS REASON TO BELIEVE THEY WILL. ALTERNATIVELY, SUNDERLAND EXPECTS THAT THE SOVIETS WILL PUT PRESSURE ON EC COMPANIES TO PROPOSE AN ALTERNATE SOLUTION, JUST SHORT OF INVOKING THE PENALTY. (SEPTEL WILL REPORT ON MEETING WITH JOHN BROWN EXECUTIVES AND THEIR JULY 2 MEETING WITH THE SOVIETS.)

7. SUNDERLAND WAS ELUSIVE ON STEPS THAT HMG MAY TAKE NEXT UNDER THE PROTECTION OF TRADING INTERESTS ACT (PTI), INVOKED ON JUNE 30 TO BLOCK OUR JUNE 18 EXPORT RESTRICTIONS. WHILE  
BT



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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 14904

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THE PTI CAN REQUIRE AFFECTED FIRMS TO NOTIFY THE DEPARTMENT OF TRADE AND PERMITS THE SECRETARY OF STATE FOR TRADE TO PROHIBIT UK COMPANIES (INCLUDING SUBSIDIARIES OF US FIRMS) FROM COMPLYING WITH US SANCTIONS, DOT OFFICIALS ADMITTED THAT THEY DO NOT HAVE THE POWER TO ORDER A FIRM TO CONSUMMATE AN EXPORT. BRITISH LAW WOULD NOT PREVENT JOHN BRROWN FROM MEETING CONTRACTED OBLIGATIONS WITH THE SOVIETS, BLOCKING USE OF A FORCE MAJEURE DEFENSE IN UK COURTS. POWNALL NOTED THAT US FIRMS, IN CONTRAST, COULD READILY CITE THE EXPORT ADMINISTRATION ACT AS A LEGAL DEFENSE FOR BREACH OF CONTRACT.

8. POWNALL STRESSED THAT IF JOHN BROWN ENGINEERING LTD. LOSES THE SOVIET CONTRACT AND IS SQUEEZED TO THE LIMIT, IT ALMOST CERTAINLY WILL HAVE TO CLOSE. EMPLOYMENT LOSSES BY THE FIRM WOULD TOTAL APPROXIMATELY 1,700 PEOPLE, IF JOHN BROWN COULD SHIP THE PRE - DECEMBER 31, 1981 ROTORS NOW IN STOCK, THE JOB LOSS WOULD BE SMALLER, PERHAPS 250. THE IMPACT ON SUB-CONTRACTORS AND OTHER FIRMS DEALING WITH JOHN BROWN WOULD PERHAPS BE 200-300 JOBS, IN TURN DEPENDING ON THE FINANCIAL POSITION OF THESE OUTSIDE FIRMS.

9. ON THE IMPACT OF OUR ACTION ON UK SUBSIDIARIES OF US FIRMS AND UK LICENSEES, THE DEPARTMENT OF TRADE PRESENTLY IS CONDUCTING A SURVEY AND HAS NO DATA YET. SINCE INVOCATION OF THE PTI, FIRMS ONLY NOW ARE REPORTING THEIR POSITION TO THE DEPARTMENT OF TRADE. SUNDERLAND GUESSED THAT, AT A MINIMUM, OUR DECISION MAY AFFECT CONTRACTS WORTH SEVERAL TENS OF MILLIONS OF POUNDS. AGAIN, SOME OF THESE SUBSIDIARIES AND LICENSEE HOLDERS MAY FACE LIQUIDATION. (NOTE: THIS EMBASSY ALSO IS UNAWARE OF THE IMPACT ON US-CONTROLLED SUBSIDIARIES. CALLS FROM SUBSIDIARIES AND UK SOLICITORS INDICATE CONTRACTS IN VARIOUS STAGES, RANGING FROM ONE TO FOUR HUNDRED AND FIFTY MILLION DOLLARS.)

10. SUNDERLAND CANDIDLY EXPRESSED HMG'S BELIEF THAT IT WAS MISLED IN THIS ISSUE, PERHAPS BECAUSE THEY DID NOT BELIEVE EUROPEAN CONCERNS WOULD BE DISREGARDED AND THAT SANCTIDNS WOULD BE EXTENDED IN THE SAME OIL AND GAS AREAS (READ AS OPPOSED TO A GRAIN EMBARGO).

11. HE SAID HAD THE BRITISH GOVERNMENT A CLEARER IDEA IN EARLY JANUARY OF OUR LATER SANCTIONS, THE IMMEDIATE DECISIONS OF HMG AND JOHN BROWN ENGINEERING LTD. MIGHT

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HAVE BEEN DIFFERENT -- THOUGH UK OBJECTION NO LESS VIGOROUS. SUNDERLAND SAID HMG FIRMLY BELIEVED THE PROSPECT FOR SOMERESOLUTION OF THIS DISAGREEMENT HAD SEEMED LIKELY WITH ADVANCES ON RESTRICTING SOVIET CREDITS AND THE DISCUSSIONS AT VERSAILLES. HMG FULLY EXPECTED SOME QUID PRO QUO FROM THE US FOR THIS PROGRESS. HE SAID THE NEW SANCTIONS NOW HAVE LEFT HMG WITH NO ROOM FOR MANEUVER.

12. CHARACTERIZING US ACTIONS AS "INTENSELY DEPRESSING," HE NOTED THAT THE CONSIDERABLE EFFORTS OF HIGH LEVEL HMG OFFICIALS IN BILATERAL DISCUSSIONS WITH THE USG ON EXTRATERRITORIALITY OVER THE LAST YEAR APPEAR NOW "TO HAVE BEEN NDTHING MORE THAN A DIALOGUE OF THE DEAF." HE SAID HMG FINDS US CONTROLS PARTICULARLY OBJECTIONABLE IN TWO AREAS: THE RETROACTIVE ELEMENT OF THE REGULATIONS AS THEY RELATE TO EXISTING CDNTRACTS AND LICENSING AGREEMENTS; AND THE INTERFERENCE WITH UK COMPANIES WHICH ARE SUBSIDIARIES OF US FIRMS. HE STRESSED THAT OUR ~~BILATERAL DISAGREEMENT NOW IS ON A VERY FAST TIME TRACK AND "FURTHER HMG ACTIONS WILL HAVE TO OCCUR SOONER RATHER THAN LATER."~~ POWNALL NOTED THAT THIS DISPUTE CANNOT BUT SPILL OVER INTO OTHER ASPECTS OF OUR RELATIONSHIP, PARTICULARLY IF JOHN BROWN GOES UNDER, ~~HE CITED AS BUT ONE EXAMPLE THE UPCOMING COCOM REVIEW WHICH "SOME EUROPEANS EASILY COULD MUDDLE UP."~~ LOUIS  
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TO SECSTATE WASHDC 2155

~~CONFIDENTIAL~~ SECTION 01 OF 02 LONDON 14919

NODIS  
E. O. 12065: GDS 7/9/88 (STREATOR, E. J.) OR-M  
TAGS: EEWT, UK, UR  
SUBJECT: US/EUROPEAN TRADE RELATIONS: MEETING WITH JOHN BROWN REPRESENTATIVES

1. ~~1~~ - ENTIRE TEXT.
2. SUMMARY:  
JOHN BROWN'S CHAIRMAN CLAIMS THAT BROADENED US SANCTIONS WILL FORCE THE ENGINEERING DIVISION TO SHUT DOWN WITH THE LOSS OF 1700 JOBS AND 104 MILLION POUNDS STERLING IN SALES. HE ASSERTED THAT US ACTIONS AND BRITISH INVOCATION OF THE PROTECTION OF TRADING INTERESTS (PTI) ACT HAVE PLACED JOHN BROWN IN AN UNTENABLE POSITION WITH ITS FUTURE IN JEOPARDY WHETHER IT OBEYS US OR BRITISH LAW. JOHN BROWN EXPECTS THAT THE SOVIETS WILL COLLECT SUBSTANTIAL HARD CURRENCY RECEIPTS IN PERFORMANCE BONDS POSTED BY US AND EUROPEAN BANKS FOLLOWING CONTRACT DEFAULTS, THE SOVIETS HAVE GIVEN THE FIRM A TEMPORARY EXTENSION ON THE JULY 2 DELIVERY DATE FOR SIX TURBINES ALREADY MANUFACTURED AND READY FOR SHIPMENT.  
END SUMMARY'
3. ECONCOUNS AND CG EDINBURGH MET ON JULY 7 WITH SIR JOHN MAYHEW-SANDERS, CHAIRMAN, JOHN BROWN AND CO. LTD., TO REVIEW JOHN BROWN'S SITUATION IN LIGHT OF JUNE 18 DECISION TO BROADEN RESTRICTIONS ON SALE OF OIL AND GAS EQUIPMENT TO USSR.
4. MAYHEW-SANDERS SAID HE WAS FAMILIAR WITH EXCHANGE OF CORRESPONDENCE BETWEEN PRESIDENT AND PRIME MINISTER AND HAD, IN FACT, SUPPLIED DATA ON POTENTIAL JOB LOSSES AND ECONOMIC IMPACT TO PM'S OFFICE. IF ANYTHING, HE BELIEVED THE PM WAS OVERLY CAUTIOUS IN DESCRIBING JOHN BROWN'S SITUATION, HE DID NOT UNDERSTAND HOW ALLEGED DIFFERENCES BETWEEN US AND UK OVER THE IMPACT OF US ACTIONS ON THE FIRM COULD HAVE ARISEN.
5. HE DESCRIBED JOHN BROWN'S SITUATION AS "VERY SERIOUS." IF THE SANCTIONS ARE NOT LIFTED, THERE IS A HIGH PROBABILITY THAT JOHN BROWN ENGINEERING IN CLYDEBANK (NEAR GLASGOW) WOULD CLOSE WITH A LOSS OF 1700 JOBS AND 104 MILLION POUNDS STERLING IN TURBINE ORDERS WITH THE USSR, MAYHEW-SANDERS FEARED THAT EVEN THOUGH JOHN BROWN HAS TWO

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YEARS' OF ORDERS ON THE BOOKS, THEIR CUSTOMERS WOULD TURN TO OTHER SOURCES IF THE SOVIET SALE COLLAPSES BECAUSE OF UNCERTAINTY ABOUT JOHN BROWN'S RELIABILITY AS A SUPPLIER AND ITS DEPENDENCY ON US COMPONENTS. (THE ECONOMIST FOR JULY 10 REPORTS THAT THE FIRM HAS OUTSTANDING ORDERS IN ABU DHABI, OMAN, AND PAPUA NEW GUINEA.)

6. HE SAID US ACTION AND THE SUBSEQUENT BRITISH DECISION TO INVOKE THE PTI PUT JOHN BROWN IN AN UNTENABLE POSITION IF IT ABIDES BY US EXPORT CONTROL REGULATIONS AND DOES NOT EXPORT THE TURBINES TO THE USSR, IT WILL LOSE SUBSTANTIAL SALES AND FUTURE CUSTOMERS, AND BECOME LIABLE FOR SIZEABLE PENALTIES FOR NON-COMPLIANCE UNDER THE CONTRACT. THE SOVIETS COULD ALSO CALL IN PERFORMANCE BONDS HELD BY US AND EUROPEAN BANKS WHICH, IN EFFECT, WOULD MEAN THAT THE SOVIETS GET THE HARD CURRENCY, IF NOT THE EQUIPMENT. ON THE OTHER HAND, IF HMG ISSUES AN ORDER UNDER THE PTI WHICH PROHIBITS JOHN BROWN FROM COMPLYING WITH US EXPORT CONTROLS, THE US DEPARTMENT OF COMMERCE WILL BLACKLIST JOHN BROWN, AND THE ENGINEERING DIVISION WILL GO OUT OF BUSINESS SINCE IT RELIES EXCLUSIVELY ON GE FOR MAJOR TURBINE PARTS.

7. MAYHEW-SANDERS THOUGHT THAT JOHN BROWN HAD A GOOD LEGAL CASE AND MIGHT WIN IN US COURTS ON THE RETROACTIVE NATURE OF US SANCTIONS, BUT LEGAL RELIEF PROBABLY WOULD NOT COME SOON ENOUGH TO SAVE THE ENGINEERING DIVISION,

8. HE PREDICTED THAT THE POLITICAL FALLOUT FROM THE BROADENED US SANCTIONS COULD BE SUBSTANTIAL, PARTICULARLY IN SCOTLAND WITH ITS HIGH UNEMPLOYMENT.

9. WE ASKED MAYHEW-SANDERS WHETHER JOHN BROWN HAD PAID ANY PENALTIES YET FOR NON-DELIVERY, SINCE JULY 2, REPORTEDLY THE OUTSIDE DATE, HAD COME AND PASSED. HE SAID IN STRICTEST CONFIDENCE THAT ON HIS TRIP LAST WEEK TO THE USSR THE SOVIETS HAD GIVEN JOHN BROWN AN INDEFINITE EXTENSION, BUT THAT WAS FOR A PERIOD OF DAYS, NOT WEEKS.

10. COMMENT: THROUGHOUT THE DISCUSSION, MAYHEW-SANDERS

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~~CONFIDENTIAL~~ SECTION 02 OF 02 LONDON 14919

MAINTAINED A DEMEANOR OF CONTROLLED RAGE, HE SEEMED  
PARTICULAALY UPSET ABOUT THE ALLEGED MISUNDERSTANDING  
BETWEEN THE TWO GOVERNMENTS OVER THE IMPACT OF US SANCTIONS  
ON HIS FIRM, WE DO NOT KNOW HIM PERSONALLY, BUT BELIEVE  
HE SPOKE FRANKLY AND HONESTLY ABOUT JOHN BROWN'S POSITION.  
END CCMMENT. LOUIS  
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EXDIS  
E. O. 12065: GDS 7/10/88 (BURT, RICHARD)  
TAGS: PGOV UK  
SUBJECT: HMG CONCERNS OVER US EXPORT CONTROLS

REF: LONDON 14904

1. ENTIRE TEXT ~~CONFIDENTIAL~~.

2. FOLLOWING FOR THE EMBASSY INFORMATION IS MATERIAL ON STATUS OF JOHN BROWN ENGINEERING WHICH DEPARTMENT PASSED TO BRITISH EMBASSY.

BEGIN TEXT

DURING A MEETING ON JUNE 17 BETWEEN NSC STAFF MEMBERS AND OTHER ADMINISTRATION OFFICIALS AND A REPRESENTATIVE OF JBE AND THE UK COMMERCIAL ATTACHE (JOHN GOLDSTEIN), THE SERIOUS FINANCIAL LOSSES FACED BY JBE IF DELIVERY OF GAS TURBINES DOES NOT TAKE PLACE IN JULY WERE FULLY DISCUSSED. THEY REPORTEDLY ARE:

- (A) LIKELY FORFEITURE OF A \$7 MILLION PERFORMANCE BOND;
- (B) CANCELLATION OF THE SOVIET TURBINE CONTRACT IF ALTERNATIVE SOLUTIONS TO THE GE ROTORS ARE NOT FOUND IN SIX MONTHS.
- (C) POTENTIAL LOSS OF ITS \$44 MILLION INVESTMENT (UNSOLD INVENTORY) AND ITS ABILITY TO COMPETE IN THE WORLD TURBINE MARKET;
- (D) LOSSES COULD RESULT IN THE SUBSIDIARY GOING OUT OF BUSINESS;
- (E) THE SOVIET CONTRACT PROVIDES NO RELIEF THROUGH "FORCE MAJEURE" CLAUSE. INSTEAD ONLY A CLAUSE THAT ALLOWS JBE SIX MONTHS TO FIND ALTERNATIVE SOLUTION TO MEET DELIVERY SCHEDULE AND THIS GRACE PERIOD ENDS JULY 1, 1982.

JBE REPORTEDLY ENTERED THE GAS TURBINE BUSINESS IN 1967 AND WAS AWARDED THE CONTRACT FOR THE SIBERIAN PROJECT IN 1981 AT WHICH TIME THE INVESTMENTS WERE MADE. THE FIRM HAS SIX GE ROTOR PACKAGES IN INVENTORY, ALL OF WHICH WERE DELIVERED PRIOR TO THE DECEMBER 29 SANCTIONS. DELIVERIES WERE TO BEGIN ON JULY 1, BUT SHIPMENT PRESENTLY CANNOT BE MADE DUE TO THE SANCTIONS.

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JBE BELIEVES THAT A DELAY OF 3-4 YEARS WILL RESULT IF THERE IS A NEED TO INSTALL FULLY ASSEMBLED ROTORS IN COMPRESSOR STATIONS AT THE URENGOI END OF THE PIPELINE. THE APPROACH OF INSTALLING THE ROTORS IN THE TURBINES AFTER THE LATTER ARE IN PLACE IS NOT PRACTICAL BECAUSE OF METAL SHRINKAGE.

ALTHOM SUBSTITUTE ROTORS ARE SUBSTANTIALLY MORE EXPENSIVE THAN THE GE EQUIVALENT AND MAKES THE SOVIET CONTRACT CONSIDERABLY LESS ATTRACTIVE. MOREOVER, ALTHOM MIGHT BE AWARDED A NEW CONTRACT TO SUPPLY BOTH THE ROTOR KITS AND THE TURBINE ASSEMBLIES WITH JBE PRESUMABLY LOSING THE BUSINESS.

JOHN BROWN LTD. (HOLDING COMPANY)

JOHN BROWN COMPANY, LTD. IS A HIGHLY DIVERSIFIED CONGLOMERATE IN THE FOLLOWING BUSINESSES: GAS TURBINES (JBE) (11 PERCENT OF TOTAL SALES); PLASTICS AND TEXTILE MACHINERY (17 PERCENT); MACHINE TOOLS (11 PERCENT) AND GENERAL ENGINEERING AND MISCELLANEOUS (11 PERCENT).

IN THE FISCAL YEAR ENDING 3/81 (LATEST FIGURES AVAILABLE), JBE (ONLY 11 PERCENT OF SALES) WAS ONLY OPERATING DIVISION POSTING A LOSS. THE GROUP'S TOTAL PROFITS AFTER TAX WERE ABOUT \$40 MILLION.

THE HOLDING COMPANY'S TOTAL ASSETS WERE ABOUT \$640 MILLION (1.7 EXCHANGE RATE) WITH A TOTAL NET WORTH OF ABOUT \$180 MILLION. THIS IS A SUBSTANTIAL NET WORTH CUSHION WHICH COULD PRESUMABLY ABSORB THE LEVEL OF ANTICIPATED LOSSES FROM JBE. WHEN PRESSED, THE JBE REPRESENTATIVE ADMITTED THAT NOT ALL OF THE \$44 MILLION INVESTED (NOW IN INVENTORY) WOULD BE LOST IF THE SOVIETS CANCELLED THEIR CONTRACT.

WE UNDERSTAND THAT THE SUBSIDIARY IS ALREADY ACTIVELY ATTEMPTING TO IDENTIFY OTHER POTENTIAL MARKETS TO RECOVER PART OF THE INVESTMENT AND THAT JOHN BROWN LTD. WILL DOWN-STREAM SUFFICIENT CASH TO KEEP JBE AFLOAT IN A "WORST CASE" SCENARIO. THERE ARE ALSO ACTIVE DISCUSSIONS BETWEEN THE COMPANY AND THE UK GOVERNMENT CONCERNING POTENTIAL GOVERNMENT INTERVENTION. THIS ALTERNATIVE IS NOT THOUGHT TO BE NECESSARY DUE TO THE OVERALL STRENGTH OF THE JOHN BROWN GROUP.

BETWEEN 1980-81 THE JOHN BROWN GROUP WAS SUFFICIENTLY STRONG TO PURCHASE AT LEAST TWO US COMPANIES; OLOFSSON CORPORATION FOR \$44.4 MILLION AND LEESONA CORPORATION (1980). THIS LATTER INVESTMENT YIELDED PROFIT OF \$10.9 MILLION IN THE PERIOD 1980-81.

INVESTORS CHRONICLE, A UK BROKERAGE REPORT, IN OCTOBER 1981 DESCRIBED JOHN BROWN LTD. AS "A FINANCIALLY SOUND COMPANY." IN FEBRUARY 1982, PROSPECTS FOR THE LARGEST DIVISION OF THE COMPANY, THE PROCESS ENGINEERING AND CONSTRUCTION DIVISION, WERE UPGRADED TO "VERY GOOD." END TEXT. STOESEL  
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~~C O N F I D E N T I A L~~ SECTION 01 OF 02 LONDON 15704

EXDIS  
E. O. 12065: RDS-1 7/20/12 (LOUIS, J. J.) OR-M  
TAGS: EEWT, ETRD, UK  
SUBJECT: US/EUROPEAN TRADE: JOHN BROWN'S FINANCIAL  
- SITUATION  
REF: LONDON 14919

1. ~~1.~~ - ENTIRE TEXT).
2. SUMMARY: JOHN BROWN LTD'S (JBL) CHAIRMAN SIR JOHN MAYHEW-SAUNDERS TOLD THE AMBASSADOR THAT JOHN BROWN STANDS TO LOSE 137 MILLION POUNDS IF IT IS NOT ABLE TO DELIVER THE SIX TURBINES WITH GE ROTORS FOR THE SOVIET PIPELINE PROJECT. JOHN BROWN ENGINEERING WILL BECOME INSOLVENT AND JBL'S OWN SURVIVAL WILL BE IN DOUBT. YET, IF JBL SHIPS THE TURBINES IN DEFIANCE OF U. S. EXPORT CONTROLS, U. S. BLACKLISTING WILL MAKE IT IMPOSSIBLE TO COMPLETE FUTURE ORDERS FROM VARIOUS FOREIGN BUYERS DUE TO THE SUBSIDIARY'S TOTAL DEPENDENCE ON GE COMPONENTS. WHILE SYMPATHIZING WITH JBL'S FINANCIAL SITUATION, THE AMBASSADOR STRESSED THAT THE U. S. HAD IMPOSED THE SANCTIONS BECAUSE OF THE SITUATION IN POLAND. SINCE CONDITIONS HAD NOT IMPROVED, WE FOUND IT NECESSARY TO TAKE ADDITIONAL STEPS TO DEMONSTRATE OUR CONTINUED CONCERN OVER DEVELOPMENTS THERE. END SUMMARY.
3. MAYHEW-SAUNDERS CALLED ON THE AMBASSADOR ON JULY 19 AT THE FORMER'S REQUEST TO EXPLAIN JBL'S FINANCIAL SITUATION IN THE WAKE OF U. S. PIPELINE SANCTIONS.
4. HE CLAIMED THAT IF JBL DOES NOT SHIP THE TURBINES THE FIRM WILL SUFFER DAMAGES AS FOLLOWS: 6.4 MILLION POUNDS IN FORFEITURE OF PERFORMANCE BONDS, 104 MILLION POUNDS IN CANCELLED CONTRACTS, 27 MILLION POUNDS IN OTHER DAMAGE CLAIMS, AND 5 MILLION POUNDS IN LEGAL FEES. LOSSES WOULD BE TOTAL 137 MILLION POUNDS; JOHN BROWN ENGINEERING WOULD BE INSOLVENT; 1700 WORKERS WOULD LOSE THEIR JOBS. JBL ITSELF PROBABLY COULD NOT SURVIVE SINCE ITS NET WORTH IS ONLY ABOUT 150 MILLION POUNDS. CONTRARY TO WHAT U. S. HAS SUGGESTED, JBL DOES NOT HAVE A COMFORTABLE FINANCIAL CUSHION WHICH WOULD ALLOW IT TO ABSORB A LOSS OF THIS MAGNITUDE.
5. ON THE OTHER HAND, IF JBL SHIPS THE TURBINES IN DEFIANCE OF U. S. EXPORT CONTROL REGULATIONS, THE FIRM WILL

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BE IN NO BETTER SHAPE. IT RELIES EXCLUSIVELY ON GE COMPONENTS FOR ITS TURBINES. U. S. BLACKLISTING WOULD FORCE JOHN BROWN ENGINEERING TO CANCEL FORWARD ORDERS FOR TURBINES STRETCHING OUT OVER THE NEXT TWO YEARS.

6. JBL'S BOARD HAS REVIEWED ITS POSITION AND CONCLUDED: (A) IT WILL NOT SHIP THE TURBINES UNLESS HMG, IN EFFECT, ORDERS IT TO DO SO BY INVOKING SECTION 1-3 OF THE PROTECTION OF TRADING INTERESTS (PTI) ACT (JBL EXPECTS THE GOVERNMENT TO TAKE SUCH ACTION SHORTLY); (B) IF HMG INVOKES PTI, JBL WILL EXPORT THE TURBINES REGARDLESS OF U. S. EXPORT CONTROLS. HE SAID THAT THE BOARD FEELS STRONGLY THAT THE FIRM CANNOT WALK AWAY FROM A CONTRACT SIGNED OVER TWO MONTHS BEFORE IMPOSITION OF MARTIAL LAW AND APPLICATION OF U. S. SANCTIONS. ITS CREDIBILITY AS A SUPPLIER IS AT STAKE. IF IT FAILS TO DELIVER, TRADITIONAL CUSTOMERS WILL TURN TO OTHER SUPPLIERS KNOWING OF JOHN BROWN'S DEPENDENCE ON U. S. PARTS AND ITS VULNERABILITY, THEREFORE, TO POLITICALLY-MOTIVATED INTERRUPTIONS IN THE SUPPLY CHAIN.

7. MAYHEW-SAUNDERS CONCLUDED THAT HE AND HIS BOARD MEMBERS FOUND THEMSELVES IN AN EXTREMELY DIFFICULT POSITION. THEY APPROVED OF THE GENERAL DIRECTION OF U. S. EAST-WEST ECONOMIC POLICY AND ACKNOWLEDGED THE DESIRABILITY OF ELIMINATING OR REDUCING THE SUBSIDY ELEMENT IN THAT TRADE. CONSEQUENTLY, THEY WERE UNCOMFORTABLE IN APPEARING TO DEFY THE PRESIDENT'S POLICIES, OR AS BEING PARTIAL TO THE USSR, OR AS TACITLY SUPPORTING SOVIET INTERVENTION IN POLAND. FROM JBL'S PERSPECTIVE THE IDEAL SOLUTION-- AND PROBABLY THE ONLY ONE THAT WOULD ALLOW JOHN BROWN ENGINEERING AND JBL TO REMAIN SOLVENT-- WOULD BE TO RECEIVE U. S. AUTHORIZATION TO SHIP THE SIX TURBINES ALREADY ASSEMBLED, JBL BELIEVES THAT IT COULD RENEGE ON ITS COMMITMENT TO DELIVER THE ADDITIONAL 15 TURBINES ON THE GROUNDS THAT KEY COMPONENTS (I. E. GE ROTORS) ARE NOT AVAILABLE. JBL CANNOT MAKE THAT ARGUMENT IN THE CASE OF THE FIRST SIX TURBINES SINCE THE SOVIETS KNOW THAT THE

FIRM HAS THE PARTS, HAS ASSEMBLED THE TURBINES, AND HAS THEM NEARLY READY FOR SHIPMENT.

8. MAYHEW-SAUNDERS PLANS TO TRAVEL TO MOSCOW EARLY IN AUGUST TO SEEK A FURTHER EXTENSION IN DELIVERY DATES. HE BELIEVES THAT THE FIRM PROBABLY HAS UNTIL THE END OF AUGUST EITHER TO SHIP THE SIX TURBINES OR FACE DAMAGE CLAIMS. HE HOPES FOR SOME POLITICAL SOLUTION BEFORE THAT  
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 15704

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9. AMBASSADOR SAID THAT HE WOULD CONVEY INFORMATION PROVIDED TO WASHINGTON. HE EMPHASIZED, HOWEVER, THAT WE HAD IMPOSED THE SANCTIONS BECAUSE OF THE SITUATION IN POLAND, THAT POLITICAL CONDITIONS HAD NOT IMPROVED IN THE SEVEN MONTHS SINCE THE IMPOSITION OF MARTIAL LAW AND THE APPLICATION OF U. S. SANCTIONS, AND THAT THE U. S. DEEMED IT ESSENTIAL TO DEMONSTRATE OUR CONTINUED CONCERN OVER SOVIET REPRESSION OF POLAND BY SLOWING WORK ON THE PIPE-  
LINE THROUGH OUR EXPORT CONTROLS. LOUIS  
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C O N F I D E N T I A L LONDON 15760

EXDIS  
E. O. 12065: RDS-1 7/20/12 (MCCORMACK, R. J.) OR-M  
TAGS: ETRD, EEW, UR, UK  
SUBJECT: US/EUROPEAN TRADE: PIPELINE TALKS WITH DEPARTMENT  
OF TRADE

REF: (A) LONDON 15535; (B) STATE 191669; (C) STATE  
195379; (D) LONDON 14904

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY:

IN MEETING WITH DEPARTMENT OF TRADE (DOT) OFFICIALS, WE PASSED INFORMATION ON JOHN BROWN LTD. (JBL) AND REVIEWED RATIONALE OF U. S. SANCTIONS ALONG LINES OF EARLIER DISCUSSION WITH FCO (REFTEL A). DOT REITERATED ITS STRONG OPPOSITION TO FORCED ABROGATION OF EXISTING CONTRACTS AND THE EXTRATERRITORIAL REACH OF OUR SANCTIONS. OFFICIALS STRESSED THAT LOSSES TO JOHN BROWN COULD EXCEED 200 MILLION DOLLARS AS THE FIRM IS EXPOSED TO LIABILITIES ARISING THROUGH THE CHAIN OF SUBCONTRACTS.  
END SUMMARY.

3. ECONCOUNS AND EMBOFF MET JULY 16 WITH DEPARTMENT OF TRADE UNDERSECRETARY RUSSELL SUNDERLAND AND ASSISTANT SECRETARY JOHN POWNALL, TO FOLLOW UP EARLIER CONVERSATION (REF D) ON VIABILITY OF JOHN BROWN & COMPANY LTD. WE RAN THROUGH TALKING POINTS IN REF C AND SUMMARIZED RATIONALE FOR SANCTIONS ALONG LINES OF REF A. WE LISTED CONTRACTS LOST BY U. S. FIRMS SINCE DECEMBER 29 AND RESPONDED TO THE USUAL ARGUMENTS ABOUT THE INCONSISTENCY OF CONTINUED U. S. GRAIN SALES TO THE USSR IN THE FACE OF AN EMBARGO ON OIL/GAS EQUIPMENT.

4. SUNDERLAND STATED THAT THE LOSSES OF JOHN BROWN ENGINEERING LTD. WILL CREATE A SERIOUS CASH FLOW PROBLEM FOR THE PARENT JBL, PLACING DEMANDS WHICH "CALL INTO SERIOUS QUESTION THE STABILITY OF THE GROUP." HMG WAS AWARE OF INFORMATION PROVIDED TO BRITISH EMBASSY WASHINGTON (REF B), AND SAID THEY WOULD REVIEW OUR ASSERTIONS IN DETAIL. SUNDERLAND ADDED THAT MUCH WORK HAS GONE INTO FINDING A WAY OUT FOR THE COMPANY; NOTHING SEEMS READILY APPARENT. JOHN BROWN SIMPLY HAD NOT FORESEEN THE POSSIBILITY OF THIS U. S. ACTION AND THEREFORE HAD NOT BUILT ANY CONTINGENCY INTO ITS CONTRACTS. HE ADDED THAT IT CERTAINLY WOULD NOT HAPPEN AGAIN, AND SPECULATED ON LONG-TERM CONSEQUENCES OF THESE ACTIONS ON REPUTATION OF U. S. AS RELIABLE SUPPLIER.

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BY - [Signature] NARA DATE 1/28/08

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5. POWNALL POINTED OUT THAT THE LIABILITY OF JOHN BROWN ENGINEERING, A SUBCONTRACTOR WITH CREUSOT LOIRE, COULD GREATLY EXCEED THE 104 MILLION POUND STERLING PIPELINE SALE. THE SUBCONTRACTOR WHO DEFAULTS IS LIABLE NOT ONLY FOR HIS OWN PENALTIES AND NON-PERFORMANCE, BUT ALSO FOR THOSE OF OTHER FIRMS CONSEQUENTLY AFFECTED AS THEY FILTER THROUGH THE CHAIN OF CONTRACTS. JOHN BROWN'S LIABILITY THEREFORE COULD AMOUNT TO BOTH THE COST TO THE SOVIETS OF SUBSTITUTING OTHER EQUIPMENT AND THE DELAY COSTS OF OTHER SUBCONTRACTORS ATTRIBUTABLE TO JOHN BROWN'S FAILURE TO PERFORM.

6. SUNDERLAND SAID HMG HAD REALIZED THAT FURTHER STEPS WERE POSSIBLE FOLLOWING THE PRESIDENT'S MESSAGE OF DECEMBER 30. HOWEVER, NEITHER THE FIRMS NOR HMG EXPECTED "FURTHER EXTRATERRITORIAL ACTION WHICH STEPS OUTSIDE THE U. S. AREA OF LEGAL CONTROL." HE NOTED THAT WHILE U. S. SANCTIONS ARE AIMED AT THE PIPELINE, THEY HAD AFFECTED OTHER SMALL NON-PIPELINE OIL DEALS. HE CHARACTERIZED U. S. ACTION AS "DISPENSING ROUGH JUSTICE, HITTING OUT WITH AN INSENSITIVE ATTACK" ON PARTS OF U. K. INDUSTRY.

7. WE TOLD SUNDERLAND WE COULD NOT ACCEPT THIS CHARACTERIZATION, REPEATED RATIONALE FOR U. S. DECISION, AND DREW ATTENTION TO SACRIFICES ALREADY MADE BY U. S. FIRMS.  
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WHITE HOUSE SITUATION ROOM

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Send a copy to  
Cape David.  
Send action copy  
to Rentschler and  
Robinson. They  
should coordinate

TO WHITE HOUSE

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TELEGRAM NUMBER MISC 176 DATED 30 JULY 1982.  
MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN.

DEAR RON,

THANK YOU FOR YOUR MESSAGE OF 2 JULY.

I NOTE WHAT YOU SAY ABOUT JOHN BROWN ENGINEERING. I HAVE NO DOUBT THAT MY ANXIETIES ON THAT SCORE ARE ONLY TOO WELL FOUNDED. IF DIFFERENT ACCOUNTS HAVE REACHED YOU, THIS COULD BE BECAUSE THE COMPANY MUST NATURALLY BE CAREFUL NOT TO ENCOURAGE DOUBTS IN THE UNITED STATES ABOUT ITS OWN FUTURE STABILITY. I CAN ONLY REITERATE MY VERY SERIOUS CONCERN ABOUT THE OUTLOOK FOR THIS BRITISH COMPANY IF IT IS PREVENTED FROM EXPORTING THE EQUIPMENT WHICH IT IS UNDER CONTRACT TO SUPPLY. IT IS BECAUSE OF THIS THAT WE SHALL HAVE NO OPTION BUT TO FOLLOW THE PROVISIONS OF OUR LEGISLATION TO PROTECT THE INTERESTS OF JOHN BROWN ENGINEERING AND OTHER BRITISH COMPANIES WITH EXISTING CONTRACTS.

YOU WILL KNOW FROM OUR TALKS TOGETHER THAT I BELIEVE, AS A MATTER OF PRINCIPLE, THAT EXISTING COMMERCIAL CONTRACTS SHOULD BE HONORED. I SHOULD LIKE TO STRESS THAT WE ARE TAKING, AND WILL CONTINUE TO TAKE, NO MORE THAN THE ABSOLUTE MINIMUM ACTION. I AM VERY ANXIOUS THAT THIS MATTER SHOULD NOT BE ALLOWED TO ESCALATE AND THUS BECOME A SERIOUS IRRITANT IN OUR RELATIONS. THIS IS WHY

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WE ARE LIMITING OUR ACTIONS IN THE WAY THAT WE ARE. I WOULD VERY MUCH HOPE THAT YOUR ADMINISTRATION WILL BE ABLE TO RESPOND IN THE SAME SPIRIT.

ON THE BROADER ISSUES, I DO NOT THINK THERE IS MUCH DIFFERENCE BETWEEN US. I DO AGREE WITH YOU ABOUT THE NEED FOR THE AUTHORITIES IN POLAND TO RETURN TO A COURSE OF RECONCILIATION AND REFORM. FOLLOWING THE DECLARATION BY THE NORTH ATLANTIC COUNCIL ON 11 JANUARY, WE OURSELVES ANNOUNCED MEASURES ON 5 FEBRUARY DIRECTED AGAINST POLAND AND AGAINST THE SOVIET UNION. OF COURSE, WE MUST CONTINUE TO WORK TOGETHER CLOSELY. OUR TASK WILL NOW NEED TO BE TO CONSIDER FURTHER WITH OUR NATO PARTNERS THE RELATIONSHIP BETWEEN THE LATEST RELAXATIONS ANNOUNCED BY GENERAL JARUZELSKI ON 21 JULY AND THE OBJECTIVES WE HAVE SET OURSELVES.

THE QUESTION OF ECONOMIC RELATIONS WITH THE EAST CERTAINLY NEEDS TO BE DISCUSSED FURTHER. FRANCIS PYM HAS JUST HAD MOST USEFUL TALKS ON THE SUBJECT WITH GEORGE BUSH AND GEORGE SHULTZ, WHICH WE LOOK FORWARD TO FOLLOWING UP. THE ALLIANCE, AND THE WEST AS A WHOLE, NEED AN AGREED AND UNITED STRATEGY FOR EAST/WEST ECONOMIC RELATIONS. WE SHALL BE HAPPY, INDEED ANXIOUS, TO WORK WITH YOU TO PROMOTE THIS.

YOURS EVER

MARGARET

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