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Secretary of State for Trade and Industry

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7 February 1985

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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 (on file)

*D. 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





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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.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath.

NORMAN TEBBIT

Defence Sales Pt 5.



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