

SECRET



file

27

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 *Trade and Industry*
Department of ~~Health and Social Security~~

SECRET



TOTAL COPIES 16

17/223/2006

10/85

COPY No. 1

①

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

22

Telephone (Direct dialling) 01-215 5144
GTN 215
(Switchboard) 215 7877

From the Minister for Trade

SECRET

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

Prime Minister
Agree to the remedial
steps proposed in
paragraph 9?
25 March 1985

Dear Charles

CJP
26/3

Yes mt

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 ensure 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 Defence), Rachel Lomax (Treasury) and Richard Hatfield (Cabinet Office).

*Your sincerely
Steve*

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

Soviet Union Pt 3

Credit



25 MAR 1985
MAR 1985

