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OD(80) 27th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 18 DECEMBER 1980 at 4.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
(Item 1)

The Rt Hon John Biffen MP
Chief Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery
Mr R M Hastie-Smith

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1. CREDIT TERMS FOR BUSINESS WITH THE SOVIET UNION

The Committee considered a Note by the Secretary of State for Trade (OD(80) 75) about an opportunity for Rolls-Royce Limited and possibly other British companies to compete for over £200 million worth of orders in connection with a gas pipeline from West Siberia.

THE SECRETARY OF STATE FOR TRADE said that in his view it would be right to instruct the Export Credits Guarantee Department to match credit offers for the pipeline business within the limits of its normal commercial judgment. Otherwise the business was liable to go elsewhere. German and French firms could at present offer credit for the Soviet Union at more favourable rates than their British competitors. The Germans had unsubsidised credit available at relatively low interest. The new Franco-Soviet credit agreement concluded at the end of 1979 provided for subsidised credit at fixed rates which had at the time been in line with the Consensus agreed within the Organisation for Economic Co-operation and Development (OECD) but had not risen when the Consensus rates rose by $\frac{3}{4}$ per cent in mid 1980. Britain was at present observing the Consensus but would be free under its terms to match lower rates.

In discussion the importance of the potential orders for British industry was accepted but there were doubts whether it would be right to offer additionally subsidised credit at the present time. The following points were made -

- a. Acceptance of the proposal would imply reversion to a trade policy towards the Soviet Union not unlike that obtaining before the Soviet invasion of Afghanistan. There was already United States resentment towards France and Germany for taking over business which would previously have gone to United States firms. It was important for Britain to avoid becoming an additional target for such resentment.
- b. The situation over Poland made the present moment particularly untimely for offering the Soviet Union special credit terms.
- c. The orders would provide employment. But even at Consensus rates the cost to the Government of the interest subsidy would be as high as £18,000 per job year. Matching the French rate would take the level of subsidy to about £20,000 per job year.

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d. Although the Soviet Union had asked Rolls-Royce's bankers to submit financing proposals in early January 1981, Rolls-Royce themselves believed there was scope for a good deal more technical negotiation before decisions were reached. Nor was it yet clear that they were in direct competition with French firms: the pipeline business was very large and it might be necessary for that reason for the Soviet Union to let contracts in several countries. Rolls-Royce in any case had the advantage of a proven round of success in the Soviet Union in supplying gas turbine generators for pipeline compressor stations.

THE PRIME MINISTER, summing up the discussion, said that the Committee were fully agreed on the importance of the potential business, which represented an important economic growth area, but it was not yet clear that it was necessary to match the French level of officially subsidised credit. For political reasons it would be untimely to do so at the moment, not only because of Afghanistan but potentially also because of Poland. Later on, it might be necessary to explain to the United States Government that a decision to match French terms had become unavoidable.

The Committee -

Invited the Secretary of State for Trade -

i. to encourage Rolls-Royce Limited to continue to negotiate for the pipeline business on the basis of officially backed credit at the Organisation for Economic Co-operation and Development Consensus rate;

ii. to report back to the Committee if it became clear that Rolls-Royce could not obtain the business on this basis.

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2. POLAND

THE FOREIGN AND COMMONWEALTH SECRETARY said that Western economic assistance to Poland, particularly in a form which increased the availability of food supplies in Polish shops, would be an important factor in reducing the danger of internal instability and thus of Soviet intervention. Britain like other Western countries had received Polish requests for economic assistance. The basis for her response had been decided by the Committee at its meeting on 10 December. In accordance with that decision, however, she had postponed replying until after a conference of Poland's principal creditors, which had been originally scheduled to meet in Paris on 10-11 December but had been postponed until 22-23 December and might slip further. Meanwhile other Western countries, such as France and West Germany, had been in contact with the Poles, who had been given to understand that the British were inhibiting the general Western response. He therefore sought the Committee's agreement to an immediate British approach to the Polish Government which, within the limits envisaged at their meeting on 10 December, would indicate that Britain would in the first half of 1981 contribute to Poland's needs in terms of the refinancing of old debt and the provision of new credit. No figures need be mentioned. But it should be made clear that new British credit would be available to finance Polish purchases of food from Britain under the food aid package recently agreed within the European Community.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee agreed that an immediate approach to the Polish authorities might be made on the lines suggested by the Foreign and Commonwealth Secretary.

The Committee -

Invited the Foreign and Commonwealth Secretary to arrange for the Polish authorities to be approached as envisaged in the Prime Minister's summing up of their discussion.

Cabinet Office
19 December 1980

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