

S E C R E T

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SECRET

FM FCO 250900Z MAY 82  
TO PRIORITY WASHINGTON  
TELEGRAM NUMBER 1041 OF 25 MAY  
INFO SAVING PARIS BONN ROME

VERSAILLES SUMMIT: CREDITS FOR SOVIET UNION

1. FOLLOWING IS TEXT OF MESSAGE (TO WHICH WE HOPE TO SEND YOU RESPONSE LATER TODAY OR TOMORROW) DATED 21 MAY FROM HORMATS TO SIR ROBERT ARMSTRONG:

BEGINS - DEAR ROBERT, I HAVE REPORTED TO MY AUTHORITIES ON OUR CONVERSATIONS LAST WEEKEND. ON MOST ISSUES THE PROGRESS WE MADE WAS VERY WELL RECEIVED. BUT ON EAST-WEST ECONOMIC RELATIONS, AND PARTICULARLY THE ISSUE OF SOVIET CREDITS, THAT WAS NOT THE CASE. I MUST TELL YOU CANDIDLY THAT THE REACTION HERE TO JIM BUCKLEY'S BEING TOLD, AT A RELATIVELY LATE DATE IN THIS PROCESS, THAT FRANCE'S BILATERAL PROTOCOL WITH THE SOVIET UNION APPARENTLY PREVENTS IT FROM ENGAGING IN ALMOST ANY KIND OF RESTRAINTS, OR COVERAGE LIMITATIONS, ON CREDITS TO THE SOVIETS, HAS BEEN ONE OF EXTREME DISAPPOINTMENT. WE WERE ALSO TOLD THAT THE PROTOCOL IN QUESTION HAD BEEN NOTIFIED TO THE OECD AND THAT WE SHOULD HAVE BEEN AWARE OF IT. WE ARE OF COURSE AWARE OF AN AGREEMENT, BUT WE HAVE BEEN GIVEN CONFLICTING ACCOUNTS OF ITS STIPULATIONS. IN FACT, THAT AGREEMENT HAS (UNDERLINE NEXT WORD) NEVER BEEN SHOWN TO US IN SPITE OF REPEATED REQUESTS FOR IT. ANOTHER CURIOUS AND PUZZLING FACT POINTED OUT AT THE BUCKLEY GROUP MEETING WAS THAT THE EC NEGOTIATOR HAS FOR SOME TIME HAD A MANDATE WHICH WOULD HAVE ALLOWED CERTAIN OF THE LIMITATIONS WE WERE DISCUSSING. NOW WE ARE TOLD THAT MANDATE IS BEING PULLED BACK, OR IS IRRELEVANT, BECAUSE OF THE BILATERAL PROTOCOL. THIS IS INCONSISTENT WITH THE POSITION OUTLINED TO SECRETARY REGAN THAT THE FRENCH WERE WILLING TO CONSIDER REDUCTIONS IN OFFICIAL COVERAGE. ALL THIS IS, TO SAY THE LEAST, PUZZLING AND FRUSTRATING.

I MUST CONFESS TO SOME DOUBTS AS TO WHERE WE GO FROM HERE

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ON THIS ISSUE. THIS LAST MINUTE CHANGE OF SIGNAL ON AN ISSUE OF SUCH IMPORTANCE, AND ONE WHICH WE HAVE BEEN SEARCHING FOR A CONSENSUS SOLUTION, IS A MATTER OF GREAT CONCERN TO MY GOVERNMENT AND RAISES MANY QUESTIONS. I HAVE, AS I MENTIONED AT LUNCH, FAITH THAT, IF ALL OF OUR COUNTRIES WORK TOGETHER WELL AND PURPOSEFULLY, AN AGREEMENT CAN BE REACHED WHICH AVOIDS THE PROBLEMS OF INEQUITY AND PUTS TO REST THE CONCERNS ABOUT THE 'ECONOMIC WELFARE' WHICH SOME OF YOU HAVE EXPRESSED. THIS IN OUR VIEW MUST GO BEYOND SIMPLY INCREASING DOWNPAYMENTS WHICH, WHILE IMPORTANT IN ITS OWN RIGHT, IS NOT CONSIDERED BY MOST PEOPLE HERE TO BE ADEQUATE. I CAN ONLY REITERATE, HOWEVER, THAT MY PRESIDENT HAS STRESSED THE NEED FOR CONSIDERABLY GREATER PROGRESS THAN HAS BEEN MADE TO DATE TO REACH A SATISFACTORY AGREEMENT BEFORE OR AT VERSAILLES.

AS YOU KNOW, AN EXPERTS MEETING IS BEING SCHEDULED FOR THURSDAY, MAY 20, AT WHICH I ASSUME THE BILATERAL PROTOCOL WILL BE AVAILABLE SO THAT WE CAN JOIN WITH FRANCE IN FINDING A SOLUTION WHICH IS CONSISTENT WITH THE ABOVE OBJECTIVES. WE WILL HAVE TO KNOW BY THE CONCLUSION OF THAT MEETING WHETHER IT WILL BE POSSIBLE TO REACH AGREEMENT ON THIS ISSUE BY THE TIME OF THE SUMMIT. I AM ALREADY UNDER GREAT PRESSURE TO IDENTIFY A VARIETY OF OTHER EAST-WEST ISSUES FOR DISCUSSION AT THE SUMMIT IF AGREEMENT CANNOT BE REACHED ON THIS ONE.

I LOOK FORWARD TO HEARING ANY THOUGHTS YOU HAVE ON THIS MATTER. I RAISE THIS SUBJECT IN THE SPIRIT OF CANDOR, WHICH CHARACTERIZED OUR DISCUSSIONS ON THIS SUBJECT LAST WEEKEND. NOT HAVING BEEN GIVEN AN OPPORTUNITY TO SEE THE PROTOCOL IN QUESTION, I CANNOT KNOW HOW MUCH FLEXIBILITY IT PROVIDES, BUT I WOULD NOTE THAT BEFORE OUR LAST MEETING I WENT TO MY AUTHORITIES IN SEVERAL AREAS TO GET FLEXIBILITY ON THE DECLARATION IN ORDER TO COME TOWARD SOME OF YOUR POSITIONS ON MATTERS IMPORTANT TO YOU, AND WAS GRATEFUL FOR FLEXIBILITY SHOWN BY YOU AND OTHERS IN THAT SAME SPIRIT. WITH A MODICUM OF WILL AND INGENUITY, I AM CONFIDENT THAT WE COULD FIND WAYS WITHIN THE CONTEXT OF THE PROTOCOL TO RESOLVE THIS PROBLEM SATISFACTORILY. I GENUINELY WANT TO AVOID HAVING THIS ISSUE BECOME A DEVISIVE ONE AT

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VERSAILLES, AS I KNOW YOU DO. BUT I CANNOT FAIL TO REPRESENT AS ACCURATELY AS I CAN THE VIEWS WHICH PRESIDENT REAGAN AND SEVERAL MEMBERS OF THE CABINET HAVE STRESSED TO ME ON THIS MATTER.

I LOOK FORWARD TO SEEING YOU SOON AS VERSAILLES.  
WARM REGARDS, /S/ BOB HORMATS - ENDS.

PYM

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ADDITIONAL DISTN.  
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[COPIES SENT TO NO 10 DOWNING ST]

COPIES TO:  
PS/SIR ROBERT ARMSTRONG.

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