

part A

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PART A

Chancellor's (Howe) Papers:

PRIME MINISTERS VISIT TO
THE UNITED STATES OF
AMERICA FEBRUARY 1981

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PART A

Disposal Directions: 25 Year

D. Howe

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PMVH (81)1

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19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25 - 28 FEBRUARY 1981

STEERING BRIEF

Brief by Foreign and Commonwealth Office

INTRODUCTION

The Prime Minister will be the first Western head of Government to visit the United States since President Reagan took office in January. At home the President will be heavily preoccupied with the economy, having just announced a drastic programme of reductions in public spending coupled with tax cuts. Abroad, the first weeks of the new administration have been characterised by emphasis on the need to meet the Soviet threat and the importance of consultation with America's allies. There is now the special problem of El Salvador.

2. The administration has been slow at making appointments below Cabinet level, and some of these are still being held up by Congress. Policies in many fields are undecided, with the likelihood of differences between the State Department and the White House. The American leaders will be ready to listen to an ally whom they much respect and with whose Government they feel they have much in common.

3. A list of the briefs is at Annex A and personality notes are at Annex B.

Invitation to President Reagan

4. The Prime Minister will wish to take an early opportunity of renewing to President Reagan the invitation to visit this country which she extended in her message of congratulation on his election.

British Objectives

5. Our objectives for the visit as a whole are :

- (a) to demonstrate to President Reagan the fundamental importance we attach to our relations with the United States in NATO, in United States/European Community co-operation, and bilaterally, and the value we see in consulting on and co-ordinating policy in all three contexts;
- (b) to strengthen the President in his apparently favourable view of Britain in general, and of the Prime Minister and her Government in particular;
- (c) to reinforce the stated desire of the new President and his Secretary of State to consult closely and frequently with their NATO allies;
- (d) to impress upon President Reagan the importance and value of European political co-operation and the fact that it pulls in the same general direction as United States interests;
- (e) to discuss the need for co-ordinated policies in East-West relations, with particular reference to Afghanistan and South West Asia, the role of arms control and the future of detente;
- (f) to exchange views on policy towards Poland, including the Western response to a Soviet military intervention and the handling of the Polish debt;
- (g) to establish our position as a partner whose views on defence and arms control command the attention of the new administration, to explain the British Government's own defence effort and its

approach to defence equipment collaboration with the United States, and to convince President Reagan of the importance of a defence policy which secures a positive and cohesive response from European allies;

- (h) to elicit from the President some indication of the new administration's views on the Middle East, to explain European objectives in the Middle East, and to persuade him of the need for the United States to take a fresh look at the Palestine question with a view to a co-ordinated allied approach to the problems of the area;
- (i) to persuade the Americans (a) to oppose sanctions against South Africa, but to obtain a price from the South Africans for doing so, and (b) to continue to support the objective of internationally recognised independence for Namibia;
- (j) to seek an indication of the new administration's domestic economic policies and objectives and of their views of the prospects for international economic relations (including aid questions), particularly in advance of the forthcoming North-South Summit in Mexico and the July Economic Summit at Ottawa;
- (k) to seek an agreed approach to international energy issues including the role of the IEA and to press hard for earlier deregulation of United States natural gas prices;
- (l) to ensure that the President is aware of Her Majesty's Government's continued belief in the rightness of our domestic economic policies and our confidence in their ultimate success: and to administer an antidote to recent criticism of those policies in the United States:

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- (m) to give the President and his advisers an account of the realities of the Northern Ireland situation and Her Majesty's Government's policy there and of the efforts we and the Irish are making to develop the 'unique relationship';
- (n) Central America: to reach the closest possible understanding with the Americans on how best to handle the problem of El Salvador; and to ensure that the President and his advisers understand our objectives in Belize and to win their support for early independence for that country with some kind of international defence guarantees.

Probable US Objectives

6. In his first major exchange of views with an European ally, President Reagan is likely to wish :
- (a) to demonstrate the sincerity of his undertaking to consult with America's allies;
 - (b) to show the American public that the conduct of United States foreign policy is in capable hands, and that their new President can perform effectively with, and is respected by, a foreign leader who is herself widely respected in the United States;
 - (c) to demonstrate the essential solidarity of the Alliance, while persuading us to increase or at least maintain our contribution to Western defence and ensuring that we give our full support to the American defence posture in Europe and elsewhere;
 - (d) to persuade us to put pressure on other allies to make a more effective contribution to the allied defence effort overall;
 - (e) to take account of United States views on relations with the Soviet Union and hope to find and maintain a common point of view;

- (f) to exchange views on a co-ordinated Western response in the event of a Soviet invasion of Poland, including significant economic sanctions by the Europeans as well as the Americans;
- (g) to express the need for caution in the Arab-Israel dispute, and for the co-ordination of US and European efforts; and to reiterate the importance the US attach to the security of Israel;
- (h) to ensure that Britain continues to make a permanent contribution to Caribbean security and, in so far as Britain has influence there, to persuade us to work for the re-establishment of stability in Central America; and in any case to secure British support for their new hard-nosed attitude towards Cuban-inspired revolutionary activity in Central America.

RESUME OF BRIEFS.

East-West Relations (including Poland, Afghanistan, Arms Control, detente). Brief No.2

7. We attach importance to close and effective consultation within the Alliance as the best way of managing East-West relations and minimising opportunities for Soviet wedge-driving. High degree of common interest within NATO in withstanding Soviet pressure. We should continue to stress the very serious consequences of any foreign intervention in Poland, while giving the Soviet Union no pretext for claiming that the West is interfering. Over Afghanistan and Pakistan, it will be helpful to know how President Reagan's thinking is developing. Is the United States likely to take steps to apply more effective pressure on the Russians over Afghanistan? The President of Pakistan has expressed the hope that the Prime Minister will represent to President Reagan that the stability and

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integrity of Pakistan are of major interest to the West. Do the Americans aim to develop a closer relationship with Pakistan? Arms control must be aimed primarily at enhancing our security. We support SALT, the double decision on TNF and the French proposal for a CDE; and attach importance to UK-US collaboration on CTB.

Defence Policy in the NATO area (including the NATO Review), the Gulf and S W Asia. Brief No.3

8. Some adjustments to UK defence programme are inevitable for financial reasons, but the UK's commitment to the Alliance is as strong as ever. New challenges face the Alliance at a time of severe recession. Our purpose in suggesting an independent review of NATO is to promote cost-effectiveness and to reinvigorate the Alliance. The UK supports the US determination to improve the defence of Gulf-South West Asia and is ready to make a modest complementary contribution.

UK Defence Programme, equipment co-operation and sales.

Brief No.4

9. A strong European defence industrial base is vital. The more we are able to co-operate in equipment procurement, the better it will be for the whole Alliance. It is in both US and UK long-term interests to make this work, particularly on the AV8B. We should like to see more straight US purchases which would show the American commitment to, and understanding of, the European position.

Northern Ireland (including arms for the RUC and Anglo-Irish relations). Brief No.5

10. In view of the strong stand that Mr Haig has taken on international terrorism, we can look to the new administration to be sympathetic to HMG's very firm line on terrorism in Northern Ireland.

The failure of attempts to make political progress last year was a disappointment, but the most important development has been the concerted effort of the Prime Minister and Mr Haughey to improve relations between the two countries.

Regional Questions. Brief No.6

11. i. Near East, especially Arab-Israel

There is a need for a fresh look at alternatives to Camp David so as to enable the other Arabs, and especially the Palestinians, to participate; we want to complement, not compete with US efforts. The Ten are working on ways to contribute: we may be able to move the Arabs towards recognising Israel.

ii. Southern Africa-Namibia -Zimbabwe

Namibia the first priority. A settlement would allow South Africa breathing space and give the West time to reassess policy. We need to ensure that rapprochement with South Africa yields concrete benefits. A period of quiet US-led diplomacy should, after the South African election, lead to reappraisal of whether grounds for a settlement exist, and at what price. An internationally recognised settlement - ie involving SWAPO - is in western interests. Short-term goal remains to avoid sanctions demands. We hope the US will think carefully about the implications of any support for UNITA in Angola. We would also hope to convince the US of the political necessity of backing Mr Mugabe with generous aid.

iii. The Gulf and Iran-Iraq

Recent progress on co-operation between Gulf States partly designed to ward off unsolicited US military aid, which Gulf States are reluctant to accept in view of US policies over Arab-Israel dispute.

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The US should consult Saudi Arabia and the Gulf States more closely on US policy towards Gulf and Indian Ocean. More high-level US visits would help. The fighting in Iran-Iraq war is now bogged down. No mediatory role for the West to play at the moment. We should concentrate on stopping the war spreading and encourage our friends in the area to maintain pressure on the belligerents to come to the negotiating table. Release of American hostages should help pave way for better relationship between Iran and the West. We want a normal relationship with Iran, but this is not possible while four British detainees are still held.

iv. China

What are the prospects for US-China relations, with particular reference to the Taiwan complication? Our own relations are very satisfactory, although the commercial outlook is discouraging.

v. Caribbean and Central America

In Central America we share the US objectives of encouraging stability and combatting Cuban influence in Central America, although our own role is limited. We hope that the more extreme rightist Governments (El Salvador in particular) will in the longer term be able and willing to tone down their security measures and cooperate with genuinely democratic political elements. We greatly valued Ambassador Eagleburger's visit and US readiness to consult on developments and policy in the region. The visit will provide an opportunity to review economic and political trends in the Caribbean, including US policy towards Cuba. We attach importance to maintaining regular US-UK-Canada consultations on the Caribbean. If the Americans express concern about our granting independence to Caribbean mini-States, we can explain our position and reassure them.

vi. Belize

We hope the Americans will support our efforts to bring Belize to independence. We understand that they may wish to improve relations with Guatemala and hope that any improvement will be conditional on Guatemalan acceptance of an independent Belize. Will the US tell the Guatemalans that, if they are not willing to come to a settlement of the dispute over Belize, they will not have US support; without a settlement would the US participate in international consultative arrangements to help guarantee Belize's security?

vii. Falkland Islands

The visit will provide a good opportunity to inform the President of the outcome of the latest round of talks with Argentina (being held in New York on 23 and 24 February).

Vietnamese Refugees. Brief No.7

12. A defensive brief on Vietnamese refugees in Hong Kong is included. HMG are grateful for what the US Government has done in Hong Kong and will be reviewing its own programme after Lord Carrington's visit in March.

US Internal Political and Economic Scene. Brief No.8

13. President Reagan's landslide victory in November reflected the mood of the country - a wish to see the United States reassert itself. Strong Cabinet team with a prospect of State Department-NSC in-fighting being reduced, at least at first. Policies still at the formative stage. Republican majority in the Senate should ease the passage of Bills.

Exchanges about United States and United Kingdom

Economic Policies. Brief No.9

14. Sympathetic to President Reagan's policy approach. Public expenditure restraint is necessary to free resources for the private sector. UK experience shows the need to get a grip on public expenditure from the outset.

International Economic and Monetary Policy. Brief No.10

15. The world recession has probably now bottomed out. Inflation has fallen from its peak but there is a long way to go before non-inflationary growth can be restored. Meanwhile regrettably high unemployment; but there is little scope for policy relaxations.

Prospects for Mexico and Ottawa Summits. Brief No.11

16. We have said we want to attend the Mexico Summit. US participation is desirable; we think so too. Would President Reagan consider going and on what conditions? Ottawa preparations satisfactory. Progress of industrialised countries in reducing inflation and creating conditions for growth may need review in July.

Energy (international and bilateral). Brief No.12

17. In discussion of energy issues we seek an agreed approach on international aspects, stressing the key role of the International Energy Agency (IEA) and impressing upon President Reagan the need for the United States to proceed with rapid deregulation of US natural gas prices.

Shipping: Civil Actions against UK Companies. Brief No.13

18. The treble damage cases arising from the US Department of Justice investigation into North Atlantic Shipping could threaten the viability of the two UK companies in the trade (damages of the

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order of \$250 million are currently being sought). This is an example of US extra-territorial jurisdiction. HMG may want to return to the subject if the consequences of the cases are as bad as we fear.

Counter-Terrorism. Brief No.14

19. We share the US concern over terrorism and agree on the need for a firm response. No evidence of the Russians trying to control terrorist groups directly although they have provided support for what they define as national liberation movements; the position needs watching. UK-US co-operation on counter-terrorism on a sound basis but US courts reluctant to extradite PIRA members.

Anglo-US Defence Co-operation. Brief No.15

20. The issues here relate to Britain's strategic force. The UK has a direct interest in the continuation of the ABM Treaty. We shall need very close consultation if the US are considering reviewing this. A defensive line is provided in case the President raises Trident or the supply of special nuclear materials.

Brief No.16 provided by the Cabinet Office

UN Matters (for use with the UN Secretary General)

Brief No.17

21. With Mr Waldheim the Prime Minister might usefully discuss Afghanistan, Cambodia, budgetary and staffing questions, refugees, Iran-Iraq and the Delhi meeting of Non-Aligned Foreign Ministers. The UN aspects of other current issues which might arise are covered in this brief.

Foreign and Commonwealth Office

19 February 1981

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PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

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Brief by Ministry of Defence

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Brief by Cabinet Office

17. UNITED NATIONS MATTERS (FOR USE WITH UNITED NATIONS SECRETARY GENERAL)

Brief by Foreign and Commonwealth Office

Cabinet Office

17 February 1981

ANNEX 'B'

PRESIDENT REAGAN

Born 6 February 1911 in Illinois. His father was an Irish Catholic(and an alcoholic) and his mother a Protestant of Scottish descent.

1932: Graduated from the Eureka College (a small liberal arts college) and became a broadcaster for a small radio station in Iowa where was well known, as 'Dutch' Reagan, for his football and baseball commentaries.

1937: Played the part of a radio announcer in his film debut, going on to act in 50 films up to 1957.

1942-46: Served in the Army Air Corps achieving the rank of Captain.

1947-53: President of the Screen Actors' Guild.

1954-62: Hosted 'General Electric Theatre' and 'Death Valley Days'.

1966-75: Two term Governor of California.

1969 : Chairman of the Republican Governors'Conference.

1974-75: Member of Presidential Commission investigating the CIA

1976 : Ran unsuccessfully for the Presidential nomination and subsequently founded the conservative political action group 'Citizens for the Republic' which kept his campaign organisation in being.

1976-78: Nationally syndicated radio commentator and newspaper columnist. Speaker to civic, business, and political groups.

13 November 1979: Announced his candidature for the Republican Presidential nomination.

Reagan's first marriage to actress Jane Wyman ended in divorce when she claimed he was too involved in politics. He married his present wife (Nancy Davis) in 1952. He has two children from each marriage.

GEORGE H W BUSH . Vice President

Born in the state of Massachussets, the son of a banker, 56 year old George Bush made his business career in oil in Texas as the founder and head of the 'Zapata Off Shore Company'. He was twice elected to the House of Representatives in the US Congress from the state of Texas. Unlike Reagan, Bush enjoys a reputation of an experienced statesman. He has been head of the American delegation to the UN, Chairman of the Republican Party National Committee (during the Watergate period), head of the American liaison group in China (1974/75), and also director of the CIA(1975-77).

Bush holds traditional Republican views on the role of the state, budgetary and foreign policy.

ALEXANDER M HAIG Jnr. : Secretary of State

56.

Graduated from the US Military Academy in 1947.

MA in International Relations from Georgetown University 1961.

Haig worked as assistant to Cyrus Vance when the latter was Secretary of the Army (1962-64) and later Deputy Defense Secretary(1964-65).

1966-67 : action in the Vietnam war.

1969-70: Military assistant to the Assistant to the President for National Security Affairs(Kissinger).

1970-73: Deputy Assistant to the President for National Security Affairs.

1972 : Toured China to pave the way or Nixon's visit.

1973 : Vice Chief of Staff US Army Washington

1973-74: Chief of White House Staff

1974-79: Supreme Allied Commander Europe SHAPE

1979 : President United Technologies Corporation.

1980 : Nominated Secretary of State under President REagan

Married with 3 children

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CASPAR (CAP) W WEINBERGER: Secretary of Defence

Born 1917 San Francisco. Married - 2 children.

Educated Harvard and Harvard Law School.

1941 - 45	US Army - served on General Macarthur's Intelligence Staff
1945 - 69	Practising lawyer
1952 - 58	Member of the California legislature
1968 - 70	Director of Finance of the State of California under Governor Reagan
1970	Chairman of the Federal Trade Commission
1970 - 73	Deputy Director then Director of Office of Management and Budget.
1973 - 75	Secretary of Health, Education and Welfare in Nixon and Ford Cabinets.
1975 - 80	Vice-President of the Bechtel Power Corporation, San Francisco.

One of Reagan's closest and most trusted advisers. Was the principal architect of Reagan's efforts to cut public expenditure as Governor of California.

Was one of the main influences on Reagan's economic thinking during the campaign and helped persuade Reagan to opt for a policy of tax cuts combined with cuts in Government expenditure.

He has travelled widely particularly in the Middle East.

No direct defence experience but his closeness to Reagan will make him a key figure in the Cabinet. He has already made clear his support for increased defence spending (notwithstanding his record as an effective budget-cutter earning him the nickname 'Cap the knife'.)Anglophile.

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RICHARD V ALLEN: Assistant to the President for National Security Affairs.

Age 44. President of Potomac International Corporation and former senior staff member of the NSC. At age 32 he was foreign policy coordinator for Nixon's 1968 campaign and was principal assistant to Kissinger in the early days of the Nixon Administration but left because he and Kissinger did not get on. Author of the foreign policy plank of the Republican platform in 1976. Member of the anti-SALT group, 'The Committee on Present Danger.' Approached Reagan in 1977 offering his help in the forthcoming campaign. Accompanied Reagan on visits to Japan and Europe. Regarded as a man of somewhat narrow horizons with an axe to grind against Kissinger. Married with 7 children.

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PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

EAST/WEST RELATIONS (INCLUDING POLAND,
AFGHANISTAN, ARMS CONTROL, DETENTE)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

East/West Relations

1. Close and effective Western consultation essential for management of East/West relations, and minimising opportunities for Soviet wedge-driving.
2. Despite difference of emphasis, a very high degree of common interest in NATO in withstanding Soviet pressure.
3. Afghanistan demonstrated that concept of detente of seventies was applied unequally. Emphasis now on need for 'stabilisation' of East/West relations (Schmidt/Giscard), for Soviet restraint worldwide, and respect for others' interests. If Russians accept these criteria, willing to work for constructive relationship with them.

Poland

4. Jaruzelski's appointment as Polish Prime Minister seems to have provided a breathing space. But situation will remain critical. Poland needs both political and economic stability if Poles are to resolve problems without outside interference.

5. A degree of pluralism in Poland, and Eastern Europe more generally, is in the Western interest. It is the Soviet Union which fears evolution. Western policy should be designed to maximise chance that Poles can resolve crisis without Russian intervention. This includes:

a.. Financial Assistance. Must avoid Polish economic collapse. We welcome American participation in Paris meetings of major Polish creditors. Some form of debt resettlement unavoidable. Officials are keeping closely in touch.

b. Warnings to Russians, privately and when necessary publicly, against intervention and of very grave consequences of an invasion. Must continue to make clear that this would mean end of detente with all that would imply.

c. Giving Russians no pretext for intervention. Important to avoid any action which could be construed as Western interference.

6. Problem of how to react if Polish government resorts to repression. Poles may present this as only way of averting a Russian invasion and preserving some freedom of manoeuvre. Will have to reserve judgement until the event and give much weight to reaction of Polish people themselves.

7. Meanwhile, press on with allied contingency planning. If invasion occurs allies must move quickly and convincingly. If lesser degree of intervention, measures can be adjusted accordingly.

/8. Afghanistan

Afghanistan

8. How is your thinking on Afghanistan and Pakistan developing?

9. Will continue to work for complete Soviet withdrawal. No sign of Soviet flexibility on substance but things are not going their way. International reactions remain strong; best that the Third World continue to keep in lead. No signs of resistance effort slackening though it remains ill-coordinated. Must maintain external and internal pressure as long as necessary until Russians willing to enter genuine negotiations.

10. Pakistan remains the key. President Zia has told us that he hopes for a firmer American and Western commitment to Pakistan. Do you envisage steps in this direction?

11. Pakistan frequently accused of weakening. But their wish to extricate themselves is understandable, given pressures from Soviet Union and refugee problem. Expect them to continue to look for opportunities for negotiations but so far they seem solid on Soviet withdrawal and the other fundamentals.

12. What do you think of French proposal for an international conference? Timing was clumsy but idea may be useful at some stage. Proposal puts the Russians in a corner. We intend to talk to the Pakistanis about it again. If their own initiative for talks gets nowhere they may come to see advantage in a conference. But we should not be misled by talk about negotiations. Entirely possible that the fighting will continue for a long time

/and that Russians

and that Russians will step up military activity now that the Non-Aligned Conference is out of the way.

SE Asia

13. How do you see the Cambodia problem? Cambodia and Afghanistan raise similar issues: non-aligned states agree (Delhi conference). ASEAN deserve firm but discreet Western support. Their long term stability and success as Western orientated developing economies has major significance.

Arms Control

14. Welcome US wish to see SALT process continue. Understand need for full review. SALT renegotiation likely to touch directly on European interests (Backfire, Protocol). SALT of considerable domestic political importance in Europe. Hope for close bilateral and NATO consultation.

15. UK fully supports TNF modernisation: now crucial political test as well as military requirement for NATO. NATO decision firmly based on parallel modernisation/ arms control approaches. Appreciate US will wish to see TNF arms control as part of wider SALT strategy; but early activity on TNF arms control (even cosmetic) highly desirable to ensure continued European support for modernisation.

16. Because of risks to TNF modernisation programme preferable not to give prominence to Enhanced Radiation Warhead issue in Alliance for time being, despite potential value for deterrence. Hope that ERW issue can be handled discreetly and in slow time.

/17. [If raised] We have



17. [If raised] We have not yet reached firm conclusions on what to do about the CTB negotiations. When you are ready we would like to discuss a range of options with you. Until such consultations are complete, it is important to avoid public statements about possible changes in test ban policy. Abandonment of the negotiations, if that is what we jointly decide, carry severe penalties given our longstanding commitment to the CTD.

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BACKGROUND (to be freely used except where indicated)

POLAND

1. The internal situation in Poland remains critical. Polish Government hampered by turmoil within the Party. Differences between conservatives and would-be reformers remain unresolved. The latest reshuffle has left moderate wing in control but the present government cannot afford to make further concessions. Solidarity's deliberately decentralised structure has made it impossible for Walesa and other moderates to establish a concerted approach to the government. Some extremist elements causing trouble. Demand of peasant farmers for their own union has added an additional complicating dimension.
2. Against background of political confusion the economy has continued to deteriorate with a further decline in productivity and exports. Poland's failure to meet export obligations causing serious problems for trading partners, particularly in CMEA. Poland's external debt will amount this year to \$26 billion and has grown to unmanageable proportions. Without help Poland would have defaulted on her international debts at the beginning of 1981. A series of meetings of Western creditors in Paris has resulted in agreement by EC creditors to provide bilateral interim assistance for the first quarter of 1981. UK has offered new credits and refinancing credit to a total of £36 million, of which £15 million is for the purchase of food under a special EC offer. The US extended a substantial loan to Poland for the purchase of American wheat but did not participate in the interim arrangements because of change of Administration.
3. We are now looking to longer term. Western creditors including Americans will meet in Paris from 23-25 February to consider a multilateral debt relief operation, its possible

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terms, and conditions to be required of the Poles. A positive American approach appears to be evolving, but we are concerned lest Americans put too much emphasis on conditionality. Some conditionality is essential, but if Western demands are put in form which the Poles cannot (or dare not) accept, the operation may be delayed with unpredictable consequences; the Poles may declare a moratorium; or the Russians may claim unwarranted interference in Poland's affairs and decide to intervene directly; or the economy may collapse, precipitating an invasion.

4. NATO contingency planning about political and economic reactions, if there is intervention in Poland, is going well. Embargo on trade in goods under new contracts seems a strong possibility. Many lesser measures including interruption of CSCE Madrid Review meeting and arms control negotiations also probable.

AFGHANISTAN

5. Little sign of any significant change within Afghanistan. Pakistanis have made major effort to get talks started. But they continue to take a firm position on fundamental points of UN Resolution: any settlement must include total withdrawal of Soviet troops, self-determination for Afghans and a solution to refugee problem. On 11 February following pressure on him to respond to 20 November UN General Assembly Resolution, Waldheim announced appointment of Perez de Cuellar, a member of the UN Secretariat, as his personal representative to promote political solution to Afghan crisis.

6. Latest Afghan statements suggest Russians/Afghans will not agree to trilateral talks with Iranians and Pakistanis under the aegis of the UN (formula proposed by Pakistan). Waldheim has told us that he will not support talks unless his representative is allowed to play an active part. De Cuellar may have to hold

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bilateral talks with countries involved. Still uncertain whether Russians will agree to receive him in Moscow, an essential part of his work in our view.

7. Pakistanis have dropped several hints to us that they are looking for massive aid and military assistance from Americans. Americans have told us they are conducting a wide-ranging review of US/Pakistan relations. On 19 February a letter from President Zia to the Prime Minister was delivered in London urging increased American and Western assistance for Pakistan and expressing the hope that the Prime Minister will press this course on President Reagan. (The message and a proposed reply will be submitted separately.)

S.E. ASIA

8. [Not for use] No statements by President Reagan or Mr Haig on future policy towards S.E. Asia since the elections, although Mr Haig's role in the Vietnam War period (including the invasion and bombing of Cambodia after 1970) has remained controversial. It will not be an easy subject for them.

9. ASEAN states' current efforts to promote international conference on Cambodia (approved 97-23-22 at 1980 UN General Assembly) have been rejected by Vietnam. Despite pressure from ASEAN, supported by Japan, the EC and Australia, Waldheim has declined to take any initiative to implement this Resolution, saying that USSR and Vietnam have told him they will not participate. The pro-Soviet members of the non-aligned suffered a further defeat when language calling for the withdrawal of foreign forces from Cambodia was included in the 'Statement' of the Delhi meeting.

ARMS CONTROL

10. New US Administration is undertaking a full review of SALT (lasting possibly six months or more) as part of its

pledge to renegotiate SALT II. Key issues will be controversial elements of SALT II Treaty including Soviet heavy missiles; the exclusion of Backfire; verification; and protocol provisions on cruise missiles. There is no indication of new US negotiating position or general SALT strategy. Key factors are likely to be: US strategic requirements; overall policy on East/West relations (linkage); possible Soviet counter demands; and the views of the new Senate.

11. The pursuit of TNF arms control negotiations (following up the initial US/Soviet exchanges that took place in October/November 1980) is becoming a political sine qua non for TNF modernisation particularly in FRG. But the US SALT review will almost inevitably embrace the US TNF arms control position.

There is thus danger of deep transatlantic differences deriving from the European desire for early action on TNF arms control and US inclination to give the strengthening of their military capability priority over progress on SALT and hence TNF.

Failure of TNF modernisation programme would be major political and military setback for Alliance. Important that US Administration remain sensitive to European political differences and find a way of reconciling their own interests with the wider NATO requirement for progress on arms control. Some signs of progress on TNF (even if only cosmetic) essential.

12. Because the revival of the Enhanced Radiation Warhead issue could also aggravate European political difficulties over TNF, the short-term dangers of the new Administration pressing ahead with proposals to deploy ERW in Europe (as publicly favoured by Mr Weinberger on 3 and 11 February) outweigh the deterrent benefits likely to be gained. US military programmes related to ERW seem not to demand early decision.

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13. The tripartite CTB negotiations have made little progress since autumn of 1978 owing to disagreements over duration of the Treaty and verification issues (including the issue of National Seismic Stations (NSS) on UK territory) as well as the deterioration of East/West relations.

[Paragraphs 14-17 not for use]

14. Officials have been reviewing UK policy on CTB in light of recent developments. Options identified (none are easy) are:

- (a) abandon the CTB negotiations;
- (b) continue to negotiate for a 3-year CTB;
- (c) move to a threshold treaty which would lower the existing 150 kiloton threshold in the unratified 1974 US/USSR Treaty.

15. Any change in our public commitment to negotiating a CTB would entail serious political penalties, both internationally and domestically. But a CTB which lasted for more than 1 or 2 years beyond the initial three year period would have serious consequences for our (and the Americans') nuclear weapons capability. A threshold treaty, with a threshold of about 30 kilotons, might be acceptable from the point of view of security but it would not avoid the political penalties mentioned above.

16. The views of the new US Administration are unlikely to become clear for some time yet. But President Reagan will be less sympathetic than Carter to further restrictions on testing and may be inclined to abandon the CTB negotiations. A possible first step might be to ratify the existing US/Soviet Threshold Treaty (although there are lingering doubts in Washington whether some recent Soviet tests have been within 150 kilotons limit which both sides have declared they would respect). Close US/UK coordination essential.

17. National Seismic Stations on United Kingdom territory:

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Russians made their acceptance of 10 NSS on their territory conditional on there being 10 on United Kingdom territory, nine of them in specified dependent territories. We refused more than one (in Scotland) because there is no technical justification for costs of additional NSS. President Carter wanted us to agree to more, but supported our position in the negotiations.

Foreign and Commonwealth Office

19 February 1981

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PMVH(81)3

COPY NO 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

DEFENCE POLICY

(Brief by Ministry of Defence)

POINTS TO MAKE

Defence Expenditure

1. Congratulate President on robust decisions on US defence budget. UK also firmly committed to Alliance defence efforts despite economic problems. Defence budget increasing while other programmes restrained. Met NATO's aim for 3% real growth last year. This year and next taken together will be 5% - precise split between them still uncertain, but does not affect total. We plan 3% thereafter. Now spending over 5% of GDP on defence, close behind US in NATO table.

2. Even so, hard to contain programme within available resources - problem for all Allies, heightened for us by recession (industry concentrating on defence). Some adjustments unavoidable; aim to concentrate resources where most valuable.

NATO Review

3. Alliance has fulfilled its purpose well for over 30 years. But events in South West Asia only the most recent reminder that the world has changed. Time perhaps ripe for NATO to take stock and chart firm course to meet new challenges.

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4. Soviet threat increasing, yet all Allies face rising equipment costs at a time of severe recession. Defence budgets finite. Need for maximum cost-effectiveness Alliance-wide.

5. We are concerned that NATO may not tackle these problems imaginatively through its standing machinery. Possible case for special arrangements eg independent review? Not a substitute for increased resources, but need to get better output from resources. Hard choices inevitable for all Allies - best to make them in co-ordinated way in Alliance framework. Need focus for re-affirmation, re-invigoration, re-direction of Alliance purposes and effort. Valuable both in itself and to demonstrate Alliance's relevance and vigour to unsure public opinion in Europe.

6. Your officials have a note in broad terms - not cut and dried - about the idea of a review. Understand they have misgivings. Issue is simply how best to further common and crucial aims. Accept best not to rush things now. Glad to engage in discussions over next few months about how to proceed and to reach a common view of what the end result should be.

Gulf/South West Asia

7. Welcome new US strategy for Gulf/South West Asia, creation of Rapid Deployment Joint Task Force (RDJTF). US has growing flexibility to inject forces rapidly in South West Asia and beyond. Keeps Russians guessing - good deterrence. Glad to note RDJTF's local facilities being set up in a way that respects Arab feelings (ie not permanent bases) - gives best

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chance of surviving political ups and downs, not aggravating the latter. Will support US fully, have agreed in principle to provide air staging facilities in the UK for RDJTF, subject to joint decision at the time.

8. Glad to have been able to help with Diego Garcia. Hope close US/UK consultation and co-operation will continue.

9. UK contributes direct to Gulf/South West Asian security by defence aid and advice, occasional exercises. Can make force deployments in peacetime or emergency eg four RN warships (always two on station) plus afloat support now committed to Gulf patrol. Our resources complement US effort.

Chemical Warfare (If raised)

10. Great Soviet preponderance worrying for deterrence, could lower nuclear threshold. No clear UK view yet on future policy; we value UK/US dialogue. Difficult subject politically in NATO. Arms control solution would be ideal, albeit difficult; perhaps Russians should be put under pressure on this?

BACKGROUND

Defence Expenditure

11. Republican feeling that European Allies do not pull their weight will keep defence spending and 'burden-sharing' high on NATO's agenda. The Administration is committed to increasing its own spending and will look for solid effort from others. President Reagan on 18 February announced substantial increase in planned US defence budget, while planned social programmes were to be cut. Mr Haig and Mr Weinberger have

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helpfully acknowledged European efforts, but have stressed need for all (including US) to do more. Hints of less emphasis on fixed percentage increases in defence spending, in favour of paying more attention to effective output, were quickly glossed as not implying withdrawal of US support for NATO's 3% aim.

12. To encourage favourable US view of our effort, the Prime Minister might stress its continuing major scale in difficult circumstances, as Mr Nott did on 20 January in explaining adjustments to our 1981/82 programme.

13. The Public Expenditure White Paper to be published on 10 March will show the following figures for the Defence Budget:-

£M (at 1980 Survey Prices)				
<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
9289	9750	9753	10051	10353

The 1980/81 figure assumes a cash overspend of about £260M. This would mean 5% real growth in 1980/81 and nil growth in 1981/82 (leaving aside any "claw-back" for overspend).

NATO Review

14. Attitudes of the new Administration, as so far declared, seem to fit well in some ways with our starting point that all is not well with the Alliance. Mr Weinberger is clearly keen on value for money. We agree. Rising equipment costs and economic problems make it less and less sensible for all nations to try to maintain a wide spectrum of capabilities. Greater specialisation would enable countries to concentrate on

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roles for which they were best suited, and so cut overheads and duplication for national choices. A NATO review, with the main aim of increasing cost-effectiveness, could encourage this process and provide a coherent framework for national choices. An independent exercise would be needed to provide an adequate catalyst.

15. The new Administration will want to rebuild a confident and strong Alliance for the needs of the 1980s. There remains a need to work out the 'burden-sharing' implications for Europe of the diversion of US attention and forces to South West Asia. These could be divisive issues, especially with defence budgets under strain. A collective review could help the Alliance tackle them with less friction and risk of recrimination than through bilateral pressures.

.... 16. A note on our ideas for the review - copy at Annex - has been given informally to US officials (State, Defence, NSC). Reactions during 17/18 February contacts were wary and sceptical. We need not take this as the last word, but the chance of successful launch at May NATO meetings (where US support would be crucial) seems very low. Best course seems to suggest further US/UK discussion in slower time, as new Administration settles in.

17. We have not yet spoken further with FRG and France on the idea - we wanted first to test US support. We would not want US to talk to them before we do.

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Gulf/South West Asia

18. US Rapid Deployment Joint Task Force (RDJTF) inaugurated in March 1980 to give teeth to doctrine that US will resist any outside attempt to control Gulf. Over 200,000 men earmarked, including air and land forces based in US, two carrier groups and some marines ready deployed in Indian Ocean, back-up units in Philippines/Hawaii. Aim is to "surge" a suitable mix of forces into Gulf area when required, to deter a possible Soviet incursion or set up a "trip-wire" to stop it going further. Transit, support and stockpiling facilities negotiated with Oman, Kenya, Somalia and Egypt. No attempt yet to station US combat forces in permanent local bases: this could do more harm than good, especially while Gulf politics remain aggravated by Arab/Israeli impasse. Administration will want to review military viability of RDJTF concept and may come under (especially military) pressure to grasp the nettle on bases.

19. UK reached (non-publicised) agreement with US June 1980 to permit major build-up of facilities at Diego Garcia Island in 1981-5 for support of:-

- (a) US naval deployment in Indian Ocean;
- (b) contingency RDJTF operations.

Secret memorandum signed clarifying HMG's rights to consultation on (b) and other "non-routine" uses of Diego Garcia. US/UK still working together on practical problems of island's development. Official-level US/UK talks on this and other RDJTF issues are taking place quarterly - next due March/April 1981.

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20. Strong feeling in Congress and possibly Administration that Europe must do more to share Gulf burden. UK already active in bilateral aid (Loan Service Personnel (LSP), training, advice, sales - especially Saudi Arabia, Oman, UAE, Qatar); occasional deployment of forces, including exercises; maintaining capability to contribute intervention elements (modest enhancements still under study). We must constantly remind US of our traditional contribution in Gulf and need to dovetail their own efforts with it eg in Oman, where we provide LSP Commanders for all three Services.

Chemical Warfare (Defensive)

21. Soviet Union has large capability for offensive chemical warfare. UK, and NATO as such, have no such capability; US national stocks ageing and limited. Lack of deterrent capability could lower nuclear threshold. Congressional pressure for the US to acquire modern binary chemical weapons; both US Administrations have been reviewing the issue. A UK team visited Washington last year to explore US views on CW; no date yet set for further talks.

22. Since 1977 the US and USSR have been negotiating a ban on CW possession, but Soviet rejection of the essential verification measures (particularly on-site inspection) has prevented agreement. An effective and verifiable ban would be the best way of dealing with the threat; it would also avoid political problems (eg further erosion of European public acceptance of LRTNF) which would arise if the US proposed basing new chemical weapons in Europe. But little chance of early agreement. If the US decide to modernise their capability it will be important

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to be able to demonstrate that all possible steps have been taken to get arms control. We envisage discussing in future UK/US talks ways of bringing greater pressure to bear on the Soviet Union.

Ministry of Defence
19 February 1981

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DISCUSSION NOTE

A REVIEW OF THE ALLIANCE ?

Introduction

1. The NATO Alliance faces challenges today which are different in many ways from those of the past. It is legitimate to ask ourselves whether NATO is as well prepared to meet them as it could be.

2. . In some respects the recent past has brought success. There remains a powerful will towards cohesion, and in all countries of the Alliance the principle of NATO membership commands general political support. Greece has rejoined the integrated military structure. Although difficulties remain, the programme for LRTNF modernisation is going forward. Public and Parliamentary awareness of the Soviet military threat remains high. Against this must be set other factors which are less positive. Vital Western interests are under new threat outside the NATO area, particularly in South West Asia. New collective attitudes may need to be worked out, for example about the role of arms control in defence policy, and about what needs to be done to make up for the diversion of forces away from the NATO area to deal with the threat elsewhere. Forces are often in patchy condition, and the momentum of the LTDP may need re-invigoration. There is public concern in some countries about nuclear armouries and about demands for high military spending at a time when all members of the Alliance face harsh economic problems. Worries have re-emerged about fair distribution of effort for the common security. At a time when money for defence is short and when advanced equipment is getting more costly, there are doubts about whether the Alliance is getting the best return on its aggregate investment. Comparisons are difficult, but there appears to be general acceptance that the Alliance achieves less military output than the Warsaw Pact, for

a larger total input. In the past NATO has relied upon qualitative superiority to make up for deficiencies, but this is no longer an option. NATO now needs to get the fullest possible value for money. Unless it can do so the progressive degradation of its conventional capabilities relative to the Warsaw Pact may well accelerate.

Objectives

3. In the British view the time may have come for a major review of the Alliance in order to determine how the varied challenges and difficulties of the next decade might best be tackled and its agreed strategic doctrine sustained. We do not seek Alliance defence on the cheap; we stand by the agreed Alliance view that increasing resources need to be assigned to defence. Nor do we seek a debate on basic principles - these rather need re-statement and re-affirmation. We endorse the Alliance commitment to a strategy of forward defence and flexible response. What a review might valuably do is to consider how Alliance aims and policies can best be sustained in the economic and political circumstances of the 1980s against the background of new and additional demands. Moreover, valuable as a review would be in itself, it could also help demonstrate publicly that the Alliance is grappling collectively with the challenges of the 1980's - which Alliance Governments could then point to in domestic debate in defence issues.

The Case for an Independent Review and its Scope

4. It is unlikely that any alternative would offer as good a prospect of progress as an independent review. The normal NATO machinery is essentially taken up with day-to-day burdens and commitments. If there are to be broader adjustments, we do not believe that these can readily be brought about by bilateral pressures from one or more member countries on the others; this would be a recipe for divisive and acrimonious argument, which

might merely increase disillusionment about NATO's ability to face up to the threats of the 1980s without leading to any real progress. A mechanism would be needed which bypassed entrenched orthodoxies and offered an opportunity for original and radical thinking. But an independent review would have to be carried out by a high-level team which commanded international respect, had impeccable NATO credentials and was intellectually prepared to think afresh about the new problems which face the Alliance in the 1980s; and was at the same time closely in touch with and responsive to the member countries and the Alliance organisation.

5. Such a team might best comprise at least one representative from each of the political, diplomatic and military fields, and cover a balanced spread of nationalities. It would need the support of a competent staff, allocated full-time. As regards timing, it should be possible to produce a report in nine months from the date of commissioning.

6. The terms of reference for such an enquiry would need to be drawn up with care. East/West relations as a whole must be the context for any review of defence policy. But the terms of reference would need to make clear that it was not the intention to revise or re-interpret the Treaty, to examine the broad purposes for which the Alliance is designed or to open up sensitive issues of doctrine or strategy. At the same time the terms of reference must allow the review to take account of the changes in the focus of Western political/military effort worldwide, and of the unremitting increase in Warsaw Pact capabilities. Indeed it would be against this background of fact that the review would work in its efforts to find means of achieving greater cost-effectiveness across the board. A draft of the kind of terms of reference that might be appropriate is attached. These are drafted in terms broad enough to take account of concerns of other Allies.

The Subject Matter for a Review

7. The review could examine thoroughly the possibilities for greater specialisation in defence tasks, with each nation concentrating on force contributions most appropriate to itself and most valuable to NATO's collective security aims. It makes less and less economic sense for each nation to maintain capabilities across a wide range of military activity. A measure of specialisation already exists within the Alliance, and the difficulties of going further down this road are not inconsiderable. But the time may be more ripe than it was in the mid-70s when earlier NATO studies foundered. The United States, for example, has advocated what amounts to a division of effort with the European Allies doing more to fill the gap in Europe. The Federal Republic has put forward ideas of Arbeitsteilung and, most significant of all, the financial problems of member nations are now such as to compel recognition of the logic of further expanding specialisation.

8. Experience strongly suggest that attempts to foist a complex or ready-made blue print on members of the Alliance would be counter-productive and that success is most likely to be achieved through the adoption of a pragmatic approach in self-contained areas where real achievements are possible.

9. Although a pragmatic approach would be most likely to produce results, an overall concept would be needed as a framework for individual measures. The most promising approach might be one which built on and perhaps sharpened existing patterns of relative strength and emphasis in national contributions. In some cases, this would involve acceptance of the need to concentrate nationally on a narrower range of capabilities than now, and also of a resultant heightening of long-term reliance upon the performance of others. But the emphasis would have to be on improving the effectiveness of national contributions, not on reducing them.

10. It is difficult to be specific about possible outcomes in advance. Specialisation inherently implies adjustments involving several participants, and often entailing uncomfortable change. To suggest particular examples would risk building up opposition before the exercise starts. The best approach would be to initiate dialogue on a broad basis and without set ideas, and to work up our thinking as ideas develop and opportunities open up. There would be enough procedural and other complexities in a multinational exercise of this kind for there to be little risk that countries will find that the work has suddenly run ahead too fast.

11. The existing arrangements for NATO common funding would also warrant review. This would not be a question merely of updating the apportionment of the funding burden under existing arrangements, but rather a thorough-going examination of the current system itself and an imaginative search for better ways of working. For example, the review might consider the possibility of bringing together the infrastructure, military and civil budgets in a common defence fund. This concept would bring more flexibility in resource application. One might also consider widening the scope of common funding to include major new areas of activity common to the Alliance. Action on these general lines would emphasise the collective interests of all the Allies. Alternative systems of collective funding might also be examined.

12. There would also be advantage in taking a hard look at the organisation and structure of NATO in order to identify areas where efficiency might well be improved. This might cover, among other things, the relationship between the civilian and military sides of NATO and an examination of the Committee structure in order to achieve speedier transaction of regular business and more fruitful political consultation.

DRAFT TERMS OF REFERENCE

To examine how the Alliance can best fulfil its agreed strategic objectives in the light of changing political, economic and military circumstances and of the need to make the best use of all the human, material and financial resources available.

To consider what steps can be taken to exploit these resources in a better co-ordinated, more flexible and more cost effective way.

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PMVH(81)4

COPY NO 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

DEFENCE EQUIPMENT
(Brief by Ministry of Defence)

POINTS TO MAKE

Equipment Co-operation/Defence Sales

1. Strong European defence industrial base is vital to the European sense of involvement in defence and to domestic political support; wholesale "buy foreign" impossible. The more the Administration can do to help this by co-operation in equipment procurement, the better for the whole Alliance.
2. Must build upon and develop present achievements in collaboration. May need to look more at some specialisation.
3. We should like to see more straight US purchases when we have the right equipment eg Rapier Low Level Air Defence System and Combat Support Boat as already agreed. More would help with present very uneven balance of defence trade. Would show the American commitment to and understanding of the European position.
4. JP233. Candidly, very hard to do co-operative business when Congress disowns bargains made with Administration. Will funding be restored for JP233?

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5. AV8B. We see advantage in US/UK collaboration if this can be arranged to mutual advantage. Can we look at possibilities together?

6. Stingray. We believe that advanced technology developed for Stingray could be of value to US in their aim to produce an Advanced Lightweight Torpedo.

BACKGROUND

Equipment Collaboration/Defence Sales

7. Wrong and politically unsustainable for Europe to depend on US for most military equipment. It reduces the support for defence commitment that can be derived from an effective defence industrial base (employment technology). Americans often overlook this - tend to look at Europe simply as a ready market in which to exploit uninhibitedly their efficiency and long production runs.

8. The Carter Administration took some useful initiatives. They waived "buy American" restrictions to enable certain European countries to bid for US defence contracts. (1975 UK/US Defence Procurement Memorandum of Understanding set the precedent.) The idea of "packages" was introduced - separate development of complementary weapon systems on each side of the Atlantic. A package agreement on air-to-air missiles (Europe to do short range, US longer-range) reached last year is due for review at the end of 1981. We would like to see the package idea more widely applied.

9. We want to get across to the Administration that it is

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in their long-term interest as well as our own for them to make a real effort to make equipment collaboration work better. We have recently bought several major systems from them. Examples include the Sub-Harpoon and Tow missiles and the Chinook helicopter; the Trident is to come.

10. It has been disappointing that Congress has refused to continue funding the JP233 advanced airfield attack weapon, where US was contributing funds to a new British development, with both countries to share production. We would like to see the funds restored. Informal indications from Washington suggest that the new Administration may be trying to do this and may have good news by the time of the Prime Minister's visit.

11. We have had similar informal suggestions that the new Administration may be intending to go forward with funds for AV8B and may say so during the Prime Minister's visit. We are certainly keen to examine the scope for collaboration here, but could not commit ourselves here and now to funding a programme because of financial difficulties on our side. The right course would be to suggest that this should be looked at by Mr Nott and Mr Weinberger when they meet.

12. USN wants an advanced lightweight torpedo in late 1980s. Their current programme is not going well. Building on our successful Stingray Torpedo development could save USN time and money. (Existing Stingray will not meet US requirement.) The Americans might say that if they took Stingray technology then we should buy their heavyweight torpedo. This is a

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possible option. We are due to choose between an American weapon and an alternative British development this autumn.

13. Finally, we want the Americans to buy more British equipment - the current defence trade balance with the UK is 3 : 1 in their favour. (Since 1976 \$2111M against \$629M - UK figures, but usually accepted by US for working purposes.) Trident - something like two-and-a-half billion dollars - is still to come. The US have recently decided to buy Rapier Low Level Air Defence System and have brought the Combat Support Boat. We would like them to buy other British equipment in line with their needs eg the 81mm mortar; the Searchwater radar for maritime and patrol aircraft; ship stabilisers; the Wavell computerised battlefield command and control system; the Scorpion light tank and the Hawk Jet trainer.

Ministry of Defence

19 February 1981

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19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

NORTHERN IRELAND

Brief by The Northern Ireland Office

POINTS TO MAKE

1 Confident that new US Administration will follow its predecessor in condemning violence unequivocally and taking practical steps to prevent US assistance to IRA terrorists.

Constitutional and Political Development

2 Northern Ireland problem the product of a divided community. Only solution is one that is acceptable to both sides of that community.

3 Two aspects to the problem: constitutional status of Northern Ireland as part of United Kingdom, and Northern Ireland's system of government. On constitutional status, principle of self-determination applies - Northern Ireland will remain part of United Kingdom as long as that is wish of a majority. (Government of Republic accept that unity can only come with consent.) On system of government, HMG continues to seek an acceptable form of local administration, but local politicians still unable to agree on how the minority should be involved.

Anglo-Irish Relations

4 Good relations between United Kingdom and Republic; further improved following two meetings with Haughey last year. Unique

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relationship between the two countries which we want to develop. Joint studies initiated with Taoiseach last December intended to build on this relationship to our mutual benefit.

5 Restoration of peace and reconciliation in Northern Ireland, where violence and political instability have strained UK/Republic relationship, of prime importance to both Governments. Unionists inevitably suspicious of any close relationship. But we are working to demonstrate their fears groundless. In Northern Ireland's interest generally that UK/Irish relations should develop.

Security (including Cross-Border Co-operation and Prisons)

6 Government's aim to extend normal policing throughout Northern Ireland and bring before courts all offenders. Army's role to assist police only as long as necessary. Policy working and has growing support. Since 1972, steady decline in violence and in number of troops in support of police.

7 UK and Republic recognise common interest in eliminating terrorism, Security co-operation increasing all the time.

8 No political status to terrorist prisoners in face of threats of hunger strike; prison regime humane, but all prisoners must be treated alike.

Arms for the RUC

9 In both our countries' interest that this should cease to be a political issue. I recognise strong feelings, however wrong-headed, of some in Congress, notably Speaker O'Neill.

10 With recent improvement in security situation, RUC's operational requirement for Ruger revolvers has lessened.

Chief Constable now considers he has sufficient appropriate weapons to satisfy his main requirements.

11 Publicly I would propose to say that I raised this issue with you and informed you that there were sufficient Ruger revolvers to meet our main requirements.

BACKGROUND

Constitutional and Political Development

1 The constitutional position is clear. Northern Ireland will not leave the United Kingdom without the agreement of a majority of the people living in the Province. This is in line with the principle of self-determination and consistent with the position of the Republic of Ireland whose Government seeks unity by consent. In successive recent elections, 70% of the vote has consistently gone to parties which favour maintaining the union.

2 HMG recognises the particular problems arising out of the existence of a divided community in Northern Ireland, each part with different political aspirations. That is why such strenuous efforts have been made to devise institutions of government acceptable to both parts of the community. A high level of agreement has been reached between the local political leaders on a number of important points, but not on the crucial issue of how to involve the minority in government.

3 HMG remains committed to transferring responsibilities from Westminster to locally elected representatives in Northern Ireland. However there is no immediate prospect of securing the necessary agreement for such a transfer of powers; therefore

every effort is being made to maximise the efficiency of direct rule and ensure that it is responsive to local needs.

Anglo-Irish Relations

4 The generally good relations between the UK and the Republic were given fresh impetus following the meeting between the Prime Minister and the Taoiseach in May 1980 at which they drew attention to the "unique relationship" between the two countries in a joint communique. At their meeting in Dublin last December they commissioned a number of joint studies covering "the totality of the relationship". These studies are now in hand but details are not being disclosed.

5 The joint studies have given rise to predictable allegations by Dr Paisley and other Protestant leaders that the Government is paving the way for an all-Ireland settlement. The Prime Minister and the Secretary of State for Northern Ireland have made it wholly clear that Protestant fears are groundless. But these sensitivities have to be taken into account if there is to be solid progress. For their part, the Government of the Republic have, on the whole, shown an awareness of the difficulties although domestic political factors, including a possible election this Spring, may tempt them to claim too much for the joint studies too soon.

Security

6 The beginning of 1981 has seen a resurgence - not unexpected of violence, principally from the Provisional IRA, following the lull which accompanied the recent hunger strike. Further attacks can be expected in the coming weeks, though we do not

believe that any terrorist organisation has the capacity to mount and sustain violence at a high level. The second Provisional IRA hunger strike - to begin on 1 March - is unlikely to arouse much public sympathy, or pose severe security problems.

7 Co-operation between the RUC and the Garda continues to work well. The RUC are generally satisfied with response for requests for help and with the Garda's own anti-terrorist activity.

Arms for the RUC

8 History. In 1978 the RUC decided that their standard self-protection weapon, the (small) Walther 9mm semi-automatic pistol, should be replaced by 9,000 US manufactured (larger) Ruger Magnum revolvers, no suitable British weapon being available. This decision was approved by the Government. The US State Department licensed the export of the first 3,000 weapons for deliveries in March/April 1979.

9 Speaker O'Neill of the House of Representatives subsequently attacked the State Department for issuing export licences for the sale of arms to the "paramilitary" RUC. Consequently, in July 1979 the Secretary of State (Mr Vance) agreed that the State Department would conduct a review of the policy and procedures for the export of arms to the RUC: meanwhile further export licences were to be withheld. No export licence has therefore been granted for the second tranche of 3,000 Rugers ordered by the Police Authority. (No order has been placed for the third tranche.)

10 However, despite the ban the RUC have continued to receive small deliveries of Rugers: some 1,300 of the second tranche have now been received. We have avoided asking our

Not to be disclosed

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disclosed

suppliers how they are getting these guns, but they must be coming from the USA. The State Department may well be turning a blind eye to this continuing supply.

11 Operational Requirements. Against this background, and bearing in mind that it is now 2½ years since the first decisions were taken on Rugers, the Secretary of State for Northern Ireland commissioned a fresh assessment of the RUC's requirement. The RUC's considered view is that the Ruger has shown itself in practice to be as valuable as expected. It has, however, proved to be too bulky for use in some circumstances, and the Chief Constable would prefer to retain the (slimmer) existing Walther automatics for use by personnel in plain clothes, or in other circumstances where it is desirable to conceal the firearm. In the Chief Constable's considered view, the RUC's needs will be met by a supply of 6,000 Ruger revolvers - as opposed to the 9,000 originally envisaged. There is no reason to dispute this assessment, which reflects accurately the improving security situation.

Not to be
disclosed

12 The last 3,000 guns have not yet been formally ordered, and there will now be no need to do so. We still need the 1,700 Rugers which are outstanding from the current order, but believe that these will be supplied in the same way as the last 1,300 guns. If there is any shortfall, the Chief Constable believes that the (British) Sterling Magnum revolver (only very recently made available to the RUC for testing) could be an adequate substitute. There is therefore no longer any operational need to press the Americans to grant export licences for weapons for the RUC.

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13 American Attitudes. There has been press speculation that President Reagan might be willing to grant export licences, and the Prime Minister may well be pressed on this issue on her return from Washington. For HMG the best position is for the Americans to lift the ban and for the Prime Minister to be able to say that this has happened. But there is good evidence that Speaker O'Neill remains as deeply opposed as ever, and the assessment of HM Ambassador in Washington is that despite the President's instinctive sympathy for our anti-terrorist effort, insistence on our part in reopening the issue might well make it more difficult to gain wider understanding by the US public of our Northern Ireland policies. [The Washington Embassy have approached the US Government officials to ascertain whether the President intends to lift the ban. The indications are that President Reagan does not wish to oppose Speaker O'Neill on this issue and is not therefore prepared to lift the ban.]

Northern Ireland Office

19 February 1981

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PMVH (81) 6(i)

COPY NO. 11

18 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

REGIONAL QUESTIONS: NEAR EAST

Brief by Foreign and Commonwealth Office

Points to make

ARAB/ISRAEL

1. Dispute greatest single threat to regional peace. Relations with Arabs, including military cooperation, cannot be isolated from it. Important to have Palestinian dimension to policy to match firm commitment to Israel.
2. Autonomy not a workable proposition given Arab/Palestinian attitudes. A fresh look required.
3. Ten not competing with US, which must take the lead, but trying to establish framework for a settlement in consultation with all parties and bring about mutual recognition of rights. Any progress can be taken up by US, perhaps at a later stage.
4. Might be a role for Jordan, but King Hussein will not stick his neck out without PLO acquiescence. No illusions about PLO; organisation must be changed but cannot be ignored.

LEBANON

5. Situation in South dangerous, but difficult to defuse. Both Israel and Palestinians must reduce their presence and interference.

/Background

Background

Arab/Israel

1. The new Administration have so far shown greater interest in strengthening US military capability in the Gulf than in the Arab-Israel dispute. Public statements on the dispute have been cautious and have reflected a desire for time to consider US policy. President Reagan is unlikely to want a detailed exchange on the subject at this stage. We hope the new Administration will take a careful look at the problem before making new moves. But there is a clear danger that efforts to establish a military presence in the Arab world and improve military cooperation will be rebuffed by the Arabs if the Administration is seen either to remain wholeheartedly committed to the Camp David approach or uninterested in the Palestinian issue.

2. So far in US statements there has been no reneging on Camp David, but no sign of urgency in pursuing the autonomy talks either. President Reagan has indicated commitment to Israel, interest in Jordan and distaste for the PLO. He has also said that he regards Israeli settlements in the occupied territories as legal, if unhelpful (his reasoning is not known, but may reflect the partial argument that since Resolution 242 does not specify sovereignty over the West Bank, it cannot be wrong for Jews to live there). Secretary Haig has been more circumspect about the PLO, describing it as an umbrella grouping rather than a simple terrorist organisation (while endorsing the longstanding US policy of refusing dealings with the PLO until the organisation accepts Israel's right to exist). He has also been critical of Israeli settlement policy.

3. The latest indication of US thinking came during Sir J Graham's talks with his opposite number in the State Department on 17 February. A note is attached, together with a copy of the briefing paper used. State Department thinking at this stage will not necessarily reflect that of the President, but it looks as if the Americans will at least not attempt to obstruct European efforts to make progress, and are thinking hard themselves about a new approach.

European efforts

4. Van der Klaauw has now begun his consultation of the parties on behalf of the Presidency. His first meeting with Klibi, the Secretary General of the Arab League, was encouraging in that it led to a serious discussion of the practical problems of a settlement. Van der Klaauw will now go on to Jordan, Iraq and Syria; Washington (with the Dutch Prime Minister); Israel; Lebanon and the PLO; Egypt and Saudi Arabia; the Gulf; the West Bank; and the Maghreb countries. The Dutch intention is to produce an interim report for the European Council meeting at the end of March and a final report for the meeting at the end of June.

Lebanon

5. Tension in the South between the Palestinians on the one hand and Major Haddad's militia and the Israelis on the other, with UNIFIL in an increasingly difficult position in the middle, could escalate into wider conflict at any time. Our efforts to stimulate the Ten into taking action to try to defuse the situation have been unsuccessful. Ideally we would like to see a withdrawal

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by both the PLO and Major Haddad from the area, but this is impossible while Palestinian attempts to infiltrate into Israel continue and Israel maintains her support for Haddad and her policy of pre-emptive strikes against Palestinian positions. The prospects may be better if a Labour Government is elected in Israel. There might then be scope for mediation. We are not aware of any new ideas, but US pressure on Israel for restraint is important.

Foreign and Commonwealth Office
18 February 1981

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PS/Mr Hurd

PS

cc PS/LPS
PS/Mr Blaker
PS/PUS
Mr Bullard
Mr J Moberly
Mr P Moberly
Mr Donald

Heads NENAD
MED
SAD
Defence
Planning Staff

VISIT TO WASHINGTON: TALKS ON THE MIDDLE EAST AND
AFGHANISTAN, WITH THE STATE DEPARTMENT, NSC AND
CONGRESSMAN LEE HAMILTON, 17 and 18 FEBRUARY 1981

1. Accompanied by Mr Miles, I spent 17 February in the State Department talking to Mr Stoessel, Mr Nick Veliotes, who was accompanied at various times by Mr Chet Crocker, and representatives of Politico Military, the European Bureau and the Near East Bureau. We covered the Arab-Israel problem, the defence of South-West Asia and the Gulf region, Afghanistan, the Iraq-Iran war, Iran, Libya (and Chad), Algeria and Lebanon. On 18 February I met Mr Geoffrey Kemp, Captain Sick's successor in the NSC, and Congressman Lee Hamilton, Chairman of the Middle East Sub-Committee of the House Foreign Affairs Committee. Notes on these matters are being prepared by the Embassy in Washington. In all my contacts I made clear that I was speaking for the British Government, although we believed that there was a close identity of view among the Ten.

2. My main impression is that the new Administration has scarcely begun to consider policy in a number of fields. The Arab-Israel question is one to which little consideration has been given and over which there is a clear division of view between the proponents of continuing Camp David in due course and meanwhile pressing on separately with defence arrangements in the Persian Gulf, and those who share our view that a new process is needed and that the two questions are linked. None of my interlocutors at the senior level has been confirmed yet by the Senate, where that is necessary, or in most cases even nominated. However, it did appear that some thought had been given to policy towards Afghanistan and to Libya as well as to the defence of the Persian Gulf area which is regarded as a top priority.

3. In speaking to Mr Stoessel and subsequently in a bigger meeting with Mr Veliotes, I described our belief that progress towards a settlement of the Arab-Israel problem is important, if not essential, if the whole-hearted cooperation of the regional states is to be obtained for the defence of the region; it was not possible to proceed with the latter and leave the former in a separate compartment. I also said that while we believed that the Camp David agreements had been a great achievement and constituted a major break-through, for various reasons that were now history, we did not believe it would be possible to carry forward the Camp David process unchanged to a successful conclusion, a comprehensive settlement. We believed rather that it was necessary to build on the achievement of Camp David, but, in order to enable the other Arabs, especially the Palestinians, to be involved, a new name, and to a large extent a new substance, would be necessary. I believed that many moderate Arabs were now in a mood to take steps which might make their inclusion possible. Notably the PLO - whether or not they represented all the Palestinians, there was no doubt that the PLO was a significant body - was now beginning to move towards a recognition of Israel's right to exist (vide Arafat's statement in the Times of 7 February). It seemed to us in the EC that we could contribute to this process, first, during the Dutch Presidency, by attempting to clear minds among the parties on the various practical questions, and secondly, in the lead-up to the Ministerial meeting of the Euro-Arab Dialogue, by using that leverage to extract a conditional recognition of Israel from the PLO, as a card of entry to the negotiations. We should be working to complement the US efforts, not to cut across them.

4. I went over the same ground in the larger meeting, Mr Veliotes having specifically asked me in private to do so, in response to his own introductory statement which set out the Reagan approach, viz. that the Camp David process should generally be carried forward. There was a clear implication in his private remarks that he agreed with our approach but would find his hand strengthened if the points came from me. In reply to what I said Mr Veliotes made two points: that it would be important not to give EC endorsement to any firm positions which emerged during the consultative approaches envisaged, and that we must at all costs avoid ending up with the EC cast in the role of delivering the Arabs and the US delivering Israel. The US Ambassador in Tel Aviv made the point that no Israeli Government could ever negotiate in any way with the PLO. He was doubtful whether this would change even if the PLO firmly accepted Israel. He also doubted if Peres, whose election was not certain, would be any more flexible than Begin. Others probed us repeatedly on whether the link I had suggested between the Arab-Israel Problem and progress on defence cooperation was firm, or whether it might not be possible. to press on with the latter during the next few months, while

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the Arab-Israel problem was put on one side. We discouraged them, and, again in response to private prompting by Mr Veliotis and for the benefit of some whom he described as 'the opposition', we made the point that in the context of the defence of the region, we did not see Israel as a strategic or military asset in any conflict short of all-out East-West war. (At the end of the day Mr Veliotis spoke 'for the record', saying that some of his people had told him that they did not think he had made clear enough the Reagan policy of carrying on the Camp David process.) We all agreed on the importance of Syria and on her capacity to prevent progress.

5. Mr Kemp of the NSC made very similar points, and in particular said it would be important that the Prime Minister and the Secretary of State should allay anxieties in the minds of President Reagan and Mr Haig about the EC 'initiative'. Congressman Hamilton said that he tended to agree that the Camp David process was 'dead'. He did not believe President Reagan had ever, in any public statement, shown any recognition of the existence of the Palestinians. It was essential that the Prime Minister and Secretary of State should try to 'sensitise' Mr Reagan, and also Mr Haig, to this problem.

6. On Afghanistan, we agreed with the State Department that we had no option but to back up Pakistan. The position of the latter at the Non-Aligned Meeting had been robust, strengthened perhaps by the Taif meeting and by Agha Shahi's visit to Tehran. The new US Administration is still considering its policy on grain sales, but officials are very alive to the implications not only for Afghanistan, but also for Poland, of a decision to lift the embargo. They see the refugees, now 1.52m they said, as an enormous burden on Pakistan and intend to do much more by way of economic and military aid to support them (there is apparently a possibility of a Presidential waiver of the Symington amendment which prohibits aid to a country on the way to acquiring ^{an} nuclear capability).

7. On Libya the US Secretary of State is going to be very tough, despite the presence of 2,000 Americans in Libya and US dependence on Libyan oil. They intend to use their influence to the full to encourage the Nigerians and the OAU to try to supplant the Libyans in Chad.

8. There was a gloomy discussion of the Iraq-Iran war and of Iran. The Administration had decided to carry out the agreement over the hostages, in recognition, in part, of the abiding importance of Iran. Mr Peter Constable, the Deputy Assistant Secretary dealing with Iran, argued for an effort to bring the Iraq-Iran war to an end, because, he believed that Iraq's spring offensive would probably bring

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about a collapse of the Iranian regime - a view that was disputed by some, including me.

9. We also discussed Lebanon. Mr Veliotes wondered whether the US was really justified in sending ambassadors to the Lebanon, where it was only by an accident that they had not lost one ambassador by assassination. Lebanon, he suggested, only existed by reason of the recognition of others. Perhaps it might be possible to obtain Syrian undertakings of protection. We agreed that the Lebanese problem now transcended the Arab-Israeli problem and would not be solved merely by a settlement of that. On the other hand it was difficult to see any way short of an Arab-Israeli settlement of improving the situation in Lebanon, unless, possibly, Mr Peres, if elected, was prepared to reduce Israeli support for Haddad and interference generally.

A handwritten signature in dark ink, appearing to read "J. Graham", with a horizontal line extending to the right from the end of the signature.

John Graham

19 February 1981

THE ARAB/ISRAEL DISPUTE IN 1981

Global Background

1. In the Middle East East/West tension has from time to time reached crisis level. Another local conflict leading to direct East/West confrontation cannot be ruled out. There are a number of possible flash points but the Arab/Israel problem, which in turn complicates all other problems in the area, remains the greatest single threat. A Middle East peace settlement is vital for world peace.
2. The Western strategic position, and the US position in particular, is based on certain key points: traditionally Israel, more recently Egypt, and to some extent the Arabian Peninsula. But an analysis of likely contingencies suggests that it is a fallacy to regard Israel as a strategic asset for the West except in the extreme case of total war between East and West. In other contingencies (eg an intervention in Iran or the Gulf) the West would be unable to use its facilities in Israel because of opposition from Arab states.
3. Over the years, the extent of the West's support for Israel has jeopardised the prospects for Western co-operation with the Arab world against Soviet expansionism and increased the opportunities for the spread of Soviet influence in the area. Radicals have been able to use the West's support for Israel as an argument for turning the Arab world towards the Soviet Union. Even Saudi Arabia, if forced to choose between her Arab vocation and her friendship with the West, would choose the former, both for emotional pan-Arab reasons, and because the present government fears, with some reason, that its internal position is likely to be undermined through too close and obvious identification with the West, so long as the latter is seen by the Arab peoples as the principal prop of Israel. The oil weapon was effective enough in 1973; it will be used still more effectively next time.

4. It is contrary to our interests for the idea to become established that the USA is the champion of Israel while Europe (together with the Soviet Union!) is the champion of the Arabs. This formula will create great tension in the alliance and make no contribution to peace in the region. US and European objectives are the same. Our political and moral commitment to Israel's secure existence remain unshakeable. But this does not involve automatic acceptance of Israeli policies nor absolve us from the responsibility to use our influence on the Israelis.

5. Our objective therefore should be an early solution of the Arab/Israel problem which, while providing for Israel's secure existence, can also deal with the Palestinian problem in a way satisfactory to the Arabs. The European Community believes that such a solution should be based on the principles of Israeli withdrawal from territories occupied in 1967, self-determination for the Palestinians on the West Bank and in Gaza, and adequate security guarantees for Israel. The absence of a solution to the Arab/Israel problem is likely to prove the rock on which efforts to improve military co-operation between the West and the Arabs founder.

Camp David

6. We must find a way together to build on the tremendous achievements of Camp David, peace on Israel's southern front and Israeli withdrawal from Sinai. But the way forward is no longer through the 'Camp David process' as it has developed and there is a need to take a fresh look and establish a new process, under a new name.

7. The Arabs (apart from Egypt) have maintained co-ordinated strong opposition to the treaty and the autonomy talks. This

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rift in the Arab world can only complicate the search for peace. Ways must be found to involve the Arabs (other than, or in addition to, Egypt), and in particular the moderate Arab states, in peace talks.

8. It is axiomatic that any solution must also be acceptable to the Palestinians, although there is room for debate about how the Palestinians should be defined. The Palestinian Diaspora, which for the present at any rate is dominated by the PLO, is a corroding influence on the political structure of the area. If they are excluded by the definition, autonomy offers them, as opposed to the Palestinians of the West Bank, nothing. On the other hand, many Palestinians of the Diaspora are settled in new countries as full citizens. These probably should be excluded. Be that as it may, no global solution will work or will be accepted by even the moderate Arabs unless it gives some satisfaction to a broad spectrum of the Palestinians in the shape of a place on the map. There are no other options available. Jordan may be a useful intermediary between the Israelis and the Palestinians, and this possibility is explored below. The Palestinians may even opt eventually for some sort of relationship with Jordan, but Israel must be prepared to accept the possibility of an independent Palestinian entity in Gaza and the West Bank, and the PLO (which has the support of the vast majority of Palestinians) must be associated in some way and probably directly involved in negotiations.

British and European Policy

9. The European Community wish to make a concrete contribution to peace but recognise the central role which the US must play. The US and Europe can play independent roles but there must not be rival policies. The Community also recognise that there can be no question of imposing a peace settlement; progress can ultimately only be made with the agreement of both sides. But the stated minimum demands of either side cannot necessarily be taken as a starting point for peace efforts.

10. Practical progress towards peace is required. Diplomatic posturing will not suffice. In our view, the best guarantee of future stability and of good relations with the Arab world and with Israel lies in a freely-negotiated comprehensive settlement. Only such a settlement can last. British efforts, which are being pursued within the framework of political co-operation among the European Community, are directed towards establishing a framework on which a settlement fair to both sides can be built and moving both sides towards acceptance of it.

/ 11. The principles set out in the Venice Declaration (attached) are such a framework. Essential aspects are its recognition that neither side to the dispute can dictate the shape of a settlement to the other, since the dispute involves rights on both sides which must be reconciled; and that both sides must be able to decide their own future for themselves within a geographical context set by Israeli withdrawal from occupied territories and Arab acceptance of Israel's sovereignty inside the borders thus drawn. This framework is flexible and leaves a wide range of options open. Principles of themselves will not provide a settlement. But a settlement which does not have these or similar principles at its heart will not be possible.

12. Within this framework, the Ten will be exploring with the parties in the first half of 1981 the practical problems which would be involved in the implementation of a balanced framework such as that contained in the Venice Declaration. A number of options have been identified which will form the basis of the Ten's talks with the parties. The main aim will be (a) to lay the foundation for negotiations and an ultimate settlement by mutual recognition of rights; (b) to promote a move on both sides away from rhetoric and towards practical issues. In particular, we want to push the Palestinians into working out

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what sort of settlement they might accept, eg what relationship do they envisage for a Palestinian entity with its neighbours, including Israel, how can self-determination be exercised, and how can the different factions within the PLO be brought along with a negotiated settlement?

13. The Community believes that 1981 is the right moment for an exploration of this kind. If the Israeli elections lead to the election of the Labour Party, the period immediately after their installation will be crucial to the prospects for progress over the next five years. Every opportunity should be taken to influence their thinking from the outset.

A Jordanian Option?

14. The Israeli Labour Party are committed to negotiations with Jordan on the future of the West Bank. They display optimism that King Hussein will be prepared to respond. The public Labour position is based on the principle of territorial compromise with Israel retaining sovereignty over East Jerusalem and for security reasons over the Jordan Valley strip and the Etzion area. There is no possibility of King Hussein negotiating on this basis. His minimum demand is to be able to claim that he is negotiating for the return of the whole of the West Bank *and East* Jerusalem. He will only negotiate if also assured of sufficient Arab support, in particular PLO willingness to allow him to negotiate the end of the Israeli occupation. He will not try to usurp the PLO's position as representative of the Palestinians. Without Syrian acquiescence he is unlikely to be willing or able to negotiate at all and the chances of such acquiescence are poor.

15. Nevertheless, if the Labour Government could at least leave open the future status of the areas in which Israel wishes to maintain troops and of East Jerusalem, and also accept the possibility of the Palestinians ultimately being able to choose
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their future, not excluding an independent state, useful negotiations between a Labour Government and Jordan (as a friend at court of the Palestinians) are conceivable. We believe that pressure should be exerted on both sides in this direction. Much preparation, however, remains to be done and it is important that nothing is said in public to make it more difficult for King Hussein to accept.

A New Negotiating Framework

16. The basis for multilateral negotiations does not at present exist. It is a mistake to set preconditions on either side before negotiations can take place, but a signal from both Israel and the Palestinians of greater readiness to understand and meet the preoccupations of the other would be of immense value. The European Community will be working for this, particularly with the Palestinian side.

17. We are open-minded about future negotiating frameworks (Geneva-type Conference, proximity talks, direct negotiation etc) but believe that Palestinian involvement in one form or another will be indispensable.

18. The Venice Declaration talks carefully of the need for the PLO to be associated with negotiations. There are no other claimants for the role of representative of the Palestinians, nor are any likely to emerge while present Israeli policies on the West Bank continue. The PLO's public position is unacceptable, its continuing involvement with terrorism a major obstacle to peace, and its internal divisions a stumbling block for the emergence of moderate policy. But to pretend that other Palestinians will be ready to negotiate, or to insist on prior moves from the PLO before dealing with them, will not be useful in bringing the PLO towards a more helpful role. The possibility of other Palestinian groups (eg West Bank representatives) playing a separate role at some stage must not be closed off, but for the present the Palestinians can only be represented either directly

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by the PLO or by negotiators enjoying their confidence. There is sufficient willingness to compromise among the PLO leadership to give some hope for the future.

19. The PLO has close links with the Soviet Union and other East European countries. These countries provide not only diplomatic support but also weapons and training. There are groups within the PLO (eg the Democratic Front for the Liberation of Palestine) which hold Marxist views. But for the mainstream leadership, the relationship appears to be little more than a marriage of convenience. The Fatah leadership (particularly Arafat and Qaddumi) have little if any ideological commitment. There is no sense in which they are puppets: the Soviet Union has little control over their actions and follows rather than inspires their views (we believe that the Russians have pressed the PLO to accept Israel's right to exist, as the Russians themselves have always done). It is impossible to predict precisely what would be the relationship between the Soviet Union and any Palestinian entity established as a result of a peace settlement, but we see little reason to believe that such an entity would be Soviet-dominated, with the consequent danger of Soviet military presence. Any Palestinian entity would be weak militarily (it would have to be almost totally demilitarised) and politically; it would be vulnerable to pressure from the surrounding states of Israel and Jordan (both of which would clearly resist Soviet influence); and it would be dependent for economic survival on large-scale aid from the oil-rich Arabs and the West. It is difficult to see the establishment of dominant Soviet influence in these circumstances.

How Can the Parties be Influenced?

20. We enjoy good relations with the Arabs in general and, with the other members of the EC, have established a limited amount of

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credit with them. We shall seek to use this. We are urging the Arabs, particularly the Palestinians, to show greater evidence of their good faith. We have sought to make the PLO aware that we are now awaiting a move from them towards acceptance of a peace settlement negotiated with and accepted by Israel. We will use fora such as the Euro-Arab Dialogue to press this, arguing that we can take our efforts no further in its absence.

21. European influence with Israel is very limited in present circumstances. Mr Begin's government have rejected the Venice Declaration, in particular the principle of Palestinian self-determination and the possibility of talks with the PLO. Labour Party leaders have also reacted negatively. If Israel is to be influenced, the US must play the major role. Influence helpful to a peace settlement need not involve use of financial or other leverage. Israel is able largely to ignore the adoption by Europe of a position with which she does not agree. She cannot do the same if US policy differs substantially and openly from her own. We believe that an American move towards more explicit acceptance of the Palestinian dimension of the Arab-Israel conflict, eg acceptance that ultimately the Palestinians must be allowed to choose how they run the areas from which Israel withdraws without an Israeli veto, would cause a fundamental reappraisal of Israeli policy, particularly on the part of the Labour Party. This could have a profound effect on the prospects for a peace settlement.

22. If a settlement is to be freely arrived at, both sides must be pushed off their respective present positions. There can be no absolute division of labour; but the contacts and influence of the members of the European Community and of the US are different. This should be used.

Near East and North Africa Dept
26 January 1981

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PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

SOUTHERN AFRICA, NAMIBIA AND ZIMBABWE
Brief by Foreign and Commonwealth Office

Points to Make

WESTERN OBJECTIVES

1. Combat communist influence; protect Western interests in South and black Africa. Officials should discuss before policy decisions.

NAMIBIA

NEED FOR SETTLEMENT TO GET INTERNATIONAL ACCEPTANCE

2. Conflict serves Soviet interests. Internationally recognised settlement might help Angola to get rid of Cubans.

KEEP THE UN PLAN ON THE TABLE

3. Mistake to scrap UN plan unless acceptable alternative available. Early US public commitment to principles underlying UN plan would bolster African confidence. UN/SWAPO involvement in some form essential for international recognition.

US CONSULTATIONS: NEED TO ESTABLISH SOUTH AFRICA'S PRICE

4. We need to know South Africa's price for a settlement (even at cost of SWAPO Government).

THE WAY FORWARD: US-LED DISCUSSIONS: AVOID SANCTIONS

5. US less committed to past policies than rest of Five. Need for early US consultations with all parties. Signs of movement best way to restrain African pressure for sanctions. If sanctions resolution put, West must resist, if necessary by veto.

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6. [If pressed to associate HMG with consultations:] We have expended credit without success: the US best placed to investigate a fresh approach initially. Ready and willing to share ideas in private.

SOUTH AFRICA INTERNAL

7. Encourage P W Botha's (so far minimal) reforms, but western alignment with South Africa a gift to the Russians and threat to our interests in black Africa.

SOUTH AFRICA EXTERNAL

8. We should seek to discourage South Africans from destabilising neighbours; encourage modus vivendi. Raids encourage Soviet influence.

ANGOLA

9. We want to see Cubans out of Angola. The way to do this is by a Namibia settlement.

10. Support by UK or US for UNITA could reduce prospects for Namibian settlement and Cuban departure. No harm in African-led moves for a UNITA-MPLA rapprochement (Rowland plan).

ZIMBABWE: AID

11. Mugabe no friend of the Russians. It is in Western interest to support him.

12. Hope, despite general cut in US aid, generous allocation can be found for Zimbabwe, and that US will be represented at a high level at Aid Donors' Conference in Salisbury on 23-27 March. Lord Soames will represent Britain.

13. Despite internal security problems (often exaggerated in press) prospects for economy and agriculture are excellent.

NAMIBIA: NEED FOR A SETTLEMENT

1. Front Line States and SWAPO suspicious of any US inclination to scrap UN plan. South Africa and DTA not willing to implement while they expect SWAPO to win. South Africa fears domestic political cost of a SWAPO victory. Only the US has the leverage to alter South Africa's calculation of costs and benefits. An internal settlement under DTA would not serve western interests: war would go on, Russians expand influence.

US CONSULTATIONS: NEED FOR EARLY MOVES TO AVERT SANCTIONS DEMANDS

2. We have urged probable new Assistant Secretary of State (Mr Crocker) to act soon. He says Africa has low priority for new administration and suggests Prime Minister raises it with President or with Haig. Africans likely to go for sanctions in Security Council by April unless headed off by US activity. General Assembly debate likely 2-4 March.

THE WAY FORWARD

3. Settlement depends on South Africa swallowing likelihood of a SWAPO regime. Moves to by-pass UN or add new assurances to UN plan will not achieve this. P W Botha needs major inducements to overcome National Party penalties of letting in SWAPO.

4. [Not to be revealed] The US may be induced by South Africa to launch new ideas incapable of gaining international support. We should not promise automatic support.

SOUTH AFRICA INTERNAL

5. P W Botha now adopting hard-line stance during election campaign. This may prejudice prospects for return to limited reformism afterwards. (Elections: 29 April).

SANCTIONS

6. South Africa assumes that the new US administration will never contemplate sanctions. We hope the US will exact a South African price for their veto.

SOUTH AFRICA EXTERNAL

7. South Africa is destabilising neighbouring governments and does not accept argument that this strengthens Soviet penetration.

Hope US can reinforce argument.

ANGOLA

8. Angola expanding Western links. But still dependent on nearly 20,000 Cuban troops.

9. Savimbi, leader of the UNITA guerilla movement, wants US help. No likelihood that he could bring down Angolan Government. Support for him would strengthen Cuban/Russian presence. Reconciliation between Savimbi and Dos Santos is desirable but seems improbable.

ZIMBABWE: AID

10. Total British aid so far offered to Zimbabwe is almost £100 million. Lord Soames will offer £10 million more at the Aid Donors' Conference. US aid pledges for 1980/81 total US \$70 million, much less than previously expected by Mugabe from Mr Vance's commitment to aid agricultural development.

ZIMBABWE: SECURITY SITUATION

11. The Zimbabwe Government dealt with recent fighting and Joint High Command were united in their efforts to restore order. Evidence that Nkomo is trying to prevent escalation. Economic life of country (farming and industry) not affected.

12. Almost a year after independence, the Zimbabweans have now agreed to establish diplomatic relations with the Soviet Union. Mugabe remains suspicious of Russian intentions and their links with Nkomo.

FOREIGN AND COMMONWEALTH OFFICE

18 February 1981

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PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

THE GULF AND IRAQ/IRAN

Brief by Foreign and Commonwealth Office

POINTS TO MAKE :

Gulf Co-operation

1. Agreement to set up machinery for closer Gulf co-operation welcome practical step. Regional dangers have concentrated Gulf minds. Have sent personal messages of support.
2. Gulf states other than Oman likely still to have reservations about any overt US or Western presence, particularly in the form of bases, so long as the US remains identified in their eyes with Israel. However, Gulf states share interest with the West in stemming Soviet expansion. They welcome closer consultation with their Western friends and lower profile assistance (eg AWACS).

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Iraq/Iran : The Fighting Boggled Down

3. Stalemate persists - perhaps only to be broken by new tactics. Iraq still militarily stronger. Iranian forces short of essential weaponry (ammunition and spare parts mainly) and disorganised. But not the walkover the Iraqis expected.

Mediation

4. Efforts by Islamic Conference and Non-Aligned Movement have so far failed. No fresh initiative emerged from recent NAM meeting in New Delhi. Good Office Committee appointed by Islamic Conference unlikely to achieve anything. Olaf Palme's role as peacemaker stands best chance of success at present.

UK Attitude

5. Concerned to avoid spread of war and to see fighting end. But no mediatory role for West to play at this stage. A broadly neutral western stance most likely to avoid giving opportunities to the Russians in both Iraq and Iran.

Prospects for Progress

6. Neither side prepared to back down or lose face. Both hoping that internal pressures may force the other's hand. Saddam Hussein appears still to be firmly in command in Iraq, but Arab disenchantment with his adventure may grow. Misplaced euphoria exists in Iran. They believe they can beat the Iraqis : power struggles between the clergy and

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Bani Sadr continue to undermine the Iranian war effort. Iranians unlikely to negotiate while Iraqis occupy their territory.

Sale of Defence Equipment

7. Our policy not to supply arms and ammunition (ie 'lethal' items) to either side. Requests for other items will be considered on a case-by-case basis. Additionally, in the case of Iran, items of defence equipment will not be released unless and until the British detainees are released.

Iran : US Hostages

8. Iran remains an important country for the West. Release of the US hostages should help pave way for better overall relationship between Iran and the West, but cannot count on this while power struggle in Iran continues.

UK/Iran Relations

9. Want now to construct a normal relationship with Iran. But continuing detention of four British subjects in Iran an obstacle to this.

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Prospects for Release of Detainees

10. Continue to be hopeful and work strenuously for this. Signs that Iranians want to see early end to problem, but disagreements among those responsible in Tehran probably delaying response. Meanwhile, anxious to avoid unnecessary public confrontation with Iran that could damage prospects for release.

or [If detainees released by 25 - 28 February]

11. Delighted at release. Owes much to efforts of Archbishop of Canterbury's emissary, and of Swedes. Hope this will remove a basic obstacle to normal relations.

BACKGROUND

The Gulf

1. On 4 February six Gulf states agreed to set up machinery for closer co-operation. (No mention of joint defence, in order not to provoke Iran, but regional security considerations are their main concern.) [Not to be used: one aim may be to show they are moving towards military co-operation in order to ward off unwelcome offers of US help.]

2. New US administration wants to consult closely with us on Gulf regional security, and values our advice on smaller Gulf states, with which our relations are uniquely close. Gulf states and Saudi Arabia feel US does not consult them adequately on policy, and (except Oman) strongly prefer an 'over-the-horizon' presence to the idea of US bases in the Arabian peninsula as canvassed in recent months by many of the Reagan entourage. They will have been heartened by Mr Haig's recent remarks which show awareness of this sensitivity. They have said they would like better contacts with Washington.

3. The US/Saudi special relationship is under strain. Saudis feel their helpfulness on supply and price of oil should be matched by US willingness to sell arms (eg F15) and make progress on Arab/Israel (by pressure on Israel) if only to safeguard Saudis' domestic position. But no sign (especially since Afghanistan) of Saudis' making a real move away from their pro-Western stance.

Iran/Iraq War

4. Now developed into war of attrition. Danger of conflict spreading to other Gulf states receded. Prospects for early end to fighting are bleak. Iraq wants negotiations. But clergy in Iran not interested. They want complete withdrawal of Iraqi troops and downfall of Saddam Hussein. Bani Sadr may be prepared to be more pragmatic and realistic but he also wants to see Saddam Hussein topple. Situation within Iran further complicated by power struggle between clergy and Bani Sadr. No point of real authority. Only Khomeini has ability to unite the country, but so far seems unwilling to use his authority to achieve this. Saddam Hussein for his part cannot back down without putting his own position in jeopardy.

Attempts at mediation

5. Non Aligned Movement, (NAM) and Islamic Council unlikely to be successful mediators. Good Office Committee, comprising Senegal, Gambia, Pakistan, Bangladesh, Turkey, Guinea and PLO, appointed by recent Islamic Conference, unlikely to achieve any progress towards ceasefire and negotiations. Could cut across Olaf Palme's efforts. He returned to the area on 17 February and is hopeful of obtaining both sides' agreement to ceasefire to allow evacuation of trapped ships from Shatt al Arab. A ceasefire, albeit temporary, would be a small but significant step in the right direction.

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A Western initiative

6. The only effective present way of accelerating an end to the war would be for collective pressure to be put on Iraq to evacuate the Iranian territory it has illegally occupied (Western pressure on Iran would be ineffective and risk driving it into arms of USSR). But any attempt now by UK to mobilise pressure on Iraq (whether in UN, Arab or even a Western context) would be opposed by France - which has decided to back Iraq - and exploited to our political and commercial disadvantage with Iraq and the other Arabs. Until British detainees released, it would also be unacceptable to UK public opinion to help Iran by pressing Iraq in the manner suggested. Our best policy is therefore to wait until Arab disillusionment with the Iraqi adventure grows, and meanwhile to work for the continued containment of the fighting and do nothing that would drive Iran towards the Russians.

Arms supplies

7. Since hostilities started, we have supplied Iraq with equipment of a non-lethal nature (radar and radio equipment, tank transporters). The Iraqis have asked us to refurbish captured Chieftain tanks and have expressed interest in other items. If we can, we intend to play for time on difficult items eg overhaul of the tanks, while not opposing discussion on items with long delivery dates. We shall use the visit of the Iraqi Foreign Minister on 9 March to explain our policy and our determination to maintain a position of

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strict neutrality. Our present intention is that we should move towards a similar position for Iran over the supply of non-lethal supplies after the four British detainees have been released. The Kharg remains a separate problem; we are pursuing with the Iranians a suggestion that they might now wish to sell the vessel elsewhere.

8. The French, we believe, have been particularly responsive to Iraqi requests for assistance. They have told us that no new contracts are being concluded or considered (but this may not exclude the use of existing contracts eg Mirages to maintain or even accelerate other supplies). The French have blocked the delivery of three patrol boats to Iran. American policy is to deny US controlled military equipment to either side in the war and to discourage other suppliers from action that would prolong the conflict. This policy will be reviewed by the new Administration but Mr Haig has already said publicly that military equipment will not be supplied to Iran.

Iran: British Detainees

9. Signs during February that Iranians wish to see end of this problem. Statements in Tehran by leading figures (including Bani Sadr and Dr Beheshti, Head of Supreme Court) that charges against the four have no basis, that they are not being held as hostages and that they should soon be released.

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10. Mr Waite of Archbishop of Canterbury's staff has been pursuing discussions in Tehran since 5 February and remains hopeful. British consul and Swedish Ambassador granted access for first time on 7 February to see four detainees. But signs that dissensions within responsible Tehran authorities are causing delay.

UN Human Rights Commission

11. Americans have been pressing strongly to table a Resolution at current Human Rights commission meeting in Geneva condemning Iran's holding of US hostages. We have explained to US the problems relating to present delicate discussions over detainees. US has agreed to postpone discussion at Commission until late February. But they claim to be under considerable pressure to continue the exercise.

Foreign and Commonwealth Office

19 February 1981

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PMVH (81) 6 (v)

COPY NO 11

19 February 1981

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PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

THE CARIBBEAN AND CENTRAL AMERICA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We recognise the US has a great security interest in Central America. We share the general western interest in thwarting the expansion of communist influence.
2. Need to correct public misapprehension on developments but impossible to support excesses of the Colonels who must somehow be restrained. How to bring about a democratic representative government that could be wholeheartedly supported?
3. The more published evidence there is of clandestine military support for the guerillas in El Salvador, the easier it will be to condemn it. What steps do you contemplate to halt communist supplies of arms? [We would need to study and consult with European partners before committing UK to support].
4. Eagleburger and Haig have mentioned need to do something about Cuba. Agree that Cuban trouble-making should if possible be curbed. But important not to give them easy targets or opportunities to undermine us with the Non-Aligned and in the region. What do you have in mind? How would you respond to a renewed flow of refugees?

/6. We

6. We need to help promote economic development in the Caribbean to consolidate the recent favourable political trends. We granted Jamaica a £6 million loan last month, and expect to offer more. We have an extensive programme of security assistance in the Caribbean.

7. (DEFENSIVE, if the Americans complain of our granting independence to Caribbean mini-states). We grant independence when it is clear a majority of the electorate wants it and appropriate constitutional arrangements are in place. Instability might otherwise result. Antigua should become independent this year. Belize apart, no others are likely to attain independence in the next two years.

8. We should keep up the valuable US/UK/Canada consultations.

BACKGROUND

CENTRAL AMERICA

1. Since the overthrow of President Somoza in July 1979 the left wing Sandinista regime in Nicaragua has become steadily more restrictive. The chances of a 'pluralist' government have receded. Nicaragua is moving steadily closer to Cuba and the Soviet Union: there are probably more than 4,000 Cuban advisers in the country, possibly including 500 military: but still dependent to a large extent on Western aid and thus open in some degree to Western influence.

2. El Salvador is currently most at risk. Government control of the situation there rests with the security forces and is still fragile. Right wing paramilitary forces have an almost free hand. The left wing guerrillas (FMLN) have shown by their January offensive that they present a serious threat. This offensive seems now to have failed; the US has resumed military support for the Salvadorean Government.

3. If the Salvadorean Government were to fall it is unlikely that the present military regime in Guatemala could successfully defeat the challenge of left wing guerrillas who have inflicted some local reverses on military units; there has been the familiar pattern of indiscriminate retaliation by the soldiery, and assassination of selected individuals by extreme right wing paramilitary groups.

/4.

4. Of the other countries in the region Honduras is at a delicate stage in the return to democratic government. Costa Rica remains a reasonably stable democracy despite economic problems during the past year. Panama retains quite good relations with Cuba. There are as yet no signs that left wing insurgency is imminent in those countries.

5. The Americans claim to have good evidence that the Salvadorean FMLN are receiving weapons and military training through Nicaragua from Cuba and from Eastern Europe. We have no direct evidence of our own to support this, but Haig's special emissary Ambassador Lawrence Eagleburger left documentary evidence with the Lord Privy Seal when he called on him on 19 February. This is now being studied. The Americans also claim to have evidence of Cuban support for the left wing in Guatemala.

6. The Reagan Administration is taking a tough line. They will step up support for the Salvadorean government and Ambassador Eagleburger made clear they would be asking for UK support for their ^{policy.} /Regardless of the character of the Salvadorean government they are determined to put a stop to clandestine arms supplies to the guerillas. They have undertaken to consult the UK before taking action and will hope both for a public condemnation from the UK of the clandestine arms supplies and for public approval of United States action to interdict them. It is clear that the Americans regard this issue as a barometer for their relations both with the allies and with the bloc.

7. It seems likely that the provision of arms and ammunition and military advisers to the Salvadorean army will be sufficient for them to keep the internal situation under control. We should not expect the US to find it necessary to undertake more direct intervention. If US troops were to be committed to El Salvador, a Soviet invasion of Poland would be easier for Moscow to justify with a 'sphere of interest' argument. A co-ordinated Western response to Soviet action would be the harder to organise.

8. There is much opposition in Europe, from all shades of political opinion, to the Salvadorean regime. There could be no question of EC aid to the Salvadorean Government. There may be some disposition on the part of other Europeans to send help to the opposition. We have made clear our view that all EC relief for the victims of the violence should go through neutral and disinterested agencies.

9. We have very few direct interests in this area. We share US concern at any spread of Cuban, and by proxy Soviet, influence. We should not favour the emergence of extreme left wing regimes in El Salvador or in any other Central American country. But there is great public and Parliamentary concern (not just on the left) at the repressive and brutal nature of the present Salvadorean Government, which stands in urgent need of reform. Our policy is therefore publicly to deplore the violence while avoiding one-sided condemnation of the Government or criticism of American policy. We should however explain our concerns to the US Government and ensure that they are aware of the international implications of over-commitment to the Salvadorean Government. Within Europe we should also try to persuade our

partners to show understanding of the American position. Above all we wish to avoid damage to alliance solidarity at this early stage in the US Administration.

CARIBBEAN

10. Moderate pro-Western governments have recently won elections in the independent countries of St Vincent, Dominica and Jamaica and the internally self-governing British West Indies Associated States of St Kitts-Nevis and Antigua. Financing requirement for economic reconstruction in Jamaica is high (IMF estimate over \$300 million for 1981/82). But Mr Seaga looks mainly to private investment to fuel economic recovery. Mr Ridley signed a loan agreement for £6 million during his visit to Jamaica on 23 January. We hope to offer £5 million in financial year 1981/82. This has not yet been disclosed to Jamaica. It should bring our total contribution this year to \$26 million. But the Jamaicans will want more. The US has so far offered \$60 million and have been lobbying other donors to be generous.

11. Britain is also a substantial aid donor to other Commonwealth Caribbean states (about £24 million in 1979). But the 1981/82 allocations may be lower. Our programme of police and coastguard training and equipment and military training covers most of the islands. This reduces the scope for extension of Cuban influence beyond their bridgehead in Grenada.

12. Secretary of State Haig has announced a reassessment of US policy towards Cuba. This points to a tougher line on Cuban adventurism in Africa and elsewhere. But any US action against Cuba itself, in addition to the present US trade embargo (which

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other Western countries do not support), might risk confrontation with the Soviet Union.

13. The last Administration were particularly concerned that the Turks and Caicos Islands, a stop on the drug-smuggling route from South America, might become independent in 1982. This prospect has now receded following a change of government in the Islands.

14. The US are to host the next round of US/UK/Canada consultations, due in the first half of 1981. Mr Ridley usually represents the United Kingdom.

FOREIGN AND COMMONWEALTH OFFICE

19 February 1981

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PMVH (81) 6 (v) Addendum

COPY NO

20 FEBRUARY 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

EL SALVADOR

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Grateful to Americans for making information on communist arms supplies to Salvadorean guerrillas available to us. We shall study carefully material Ambassador Eagleburger left with Lord Privy Seal.
2. Direct British interests in El Salvador minimal. Closed Embassy a year ago because of danger to our staff. But recognise strategic importance of Central America to United States and by extension to Western alliance. Would not wish to see another communist oriented government come to power.
3. Need to correct public misconceptions about nature of insurrection in El Salvador. The more public evidence there is

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/of communist

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of communist military support for the guerrillas, the easier it will be to condemn it.

4. Must recognise that record of oppression of present Junta is viewed with abhorrence by virtually all shades of opinion in Britain. Direct support for it would attract the strongest criticism.

5. How can a more acceptable government be brought about? How to bring moderate politicians now aligned with guerrillas back to the fold? How to bring security forces under control?

6. What steps do Americans contemplate to halt communist supplies of arms [we would need to study and consult with European partners before committing UK to support].

7. [If raised] Quite agree that care should be taken that European food and other emergency aid should not fall into hands of guerrillas, but may need to be channelled through respectable non-governmental agencies.

BACKGROUND

EL SALVADOR

1. For the last 50 years El Salvador has been ruled by a succession of military governments sympathetic to a small and wealthy land-owning oligarchy. Following a coup in October 1979 a five-man Junta including three civilians was set up. Government Ministers appointed included Christian Democrats, Social Democrats and left wing representatives. A reform programme including land and banking reform was introduced with substantial US economic support.

2. The reforms antagonised both left and right wing extremists who reacted with ever increasing violence. Guerilla groups on the left wing have engaged in kidnappings (British businessmen among the victims) and murders (including diplomats). On the extreme right paramilitary groups have been allowed to function with little or no interference from the security forces.

3. In January 1980 the civilian members of the Junta and a majority of the civilian Ministers resigned. They were replaced by Christian Democrats. Continuing support for the military split the Christian Democrat Party some of whom joined the opposition. By September a rift developed between the two leading military figures in the Junta, Colonel Majano and Colonel Gutierrez. The former wished

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to pursue a dialogue with more moderate members of the opposition, which had formed itself into the Revolutionary Democratic Front (FDR). The latter was closely identified with the paramilitary groups and took a hard line against the opposition.

4. In December 1980 Colonel Majano was ousted and is currently in hiding. The Christian Democrat Napoleon Duarte was declared President and Colonel Gutierrez Vice President and Supreme Commander of the armed forces. Shortly thereafter three US nuns and a social worker were killed, leading to the suspension of economic aid by the US; this was resumed after the US government had declared themselves satisfied by the progress of an investigation. However no arrests have yet been made for any such killings.

5. More than 10,000 people were reported to have been killed in acts of political violence in El Salvador in 1980. Many of these deaths can be attributed to the security forces themselves.

INTERNATIONAL ACTIVITY

6. A resolution on human rights violations in El Salvador was introduced at the UN General Assembly in December 1980 by a number of leftist governments. The UK attempted unsuccessfully to persuade the co-sponsors to make minor

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amendments to make it more balanced. We abstained, but in an explanation of vote supported a call for an investigation by the UN Human Rights Commission. The resolution was passed in Plenary by 70 - 12 with 55 abstentions. Of our EC partners France and Italy also abstained while the rest (and Greece) voted for the resolution. The US abstained (the vote was in the wake of the killing of the three US nuns and a social worker). The Human Rights Commission is currently meeting at Geneva where the resolution will be discussed.

RECENT FIGHTING

7. On 10 January the military wing of the FDR launched an offensive. It appears to have failed. The outgoing US administration resumed and increased military aid to El Salvador including military advisers and the supply of arms and ammunition, on the grounds that external military aid was being sent to the guerillas.

8. The Americans claim to have good evidence that the Salvadorean FMLN are receiving weapons and military training through Nicaragua from Cuba and from Eastern Europe. We have no direct evidence of our own to support this, but Haig's special emissary Ambassador Lawrence Eagleburger left documentary evidence with the Lord Privy Seal when he called on him on 19 February. This is now being studied. The

/Americans

Americans also claim to have evidence of Cuban support for the left wing in Guatemala.

US POLICY

9. The Reagan Administration is taking a tough line. They will step up support for the Salvadorean government and Ambassador Eagleburger made clear they would be asking for UK support for their policy. Regardless of the character of the Salvadorean government they are determined to put a stop to clandestine arms supplies to the guerillas. They have undertaken to consult the UK before taking action and will hope both for a public condemnation from the UK of the clandestine arms supplies and for public approval of United States action to interdict them. It is clear that the Americans regard this issue as a barometer for their relations both with the allies and with the bloc.

10. It seems likely that the provision of arms and ammunition and military advisers to the Salvadorean army will be sufficient for them to keep the internal situation under control. We should not expect the US to find it necessary to undertake more direct intervention. If US troops were to be committed to El Salvador, a Soviet invasion of Poland would be easier for Moscow to justify with a "sphere of interest" argument.

EC ATTITUDES

11. The vote at the UN is a fair indication that most EC governments adopt a more critical view of the Salvadorean government than do we. They are also likely to have greater hesitation about supporting US actions towards El Salvador. They gave Ambassador Eagleburger a guarded reception. The Socialist International have already confirmed their belief that the opposition FDR is the most representative body of Salvadorean opinion.

12. The EC Commission will be supplying food and other emergency aid to El Salvador. To meet American concern that this might find its way into the hands of the guerillas it will be routed via the International Committee of the Red Cross.

FUTURE SCENARIO

13. It is unrealistic to expect that in the short term El Salvador will return to a peaceful democratic situation. Violence is endemic and the two sides are too polarised for that to happen. US assistance for the Salvadorean government is likely to ensure its maintenance in power. In the longer term, if it is possible to demonstrate that the threat to security from the left is under control, there might be some chance of persuading the Salvadorean authorities to make some political opening towards moderates. That must be the main long term hope. But it must be accepted that such an aim is probably a long way off.

/THE BRITISH POSITION

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THE BRITISH POSITION

14. British policy so far has been to deplore the violence by all sides. Following the murder of six moderate politicians in November 1980 the Secretary of State sent a message of concern to the Salvadorean Foreign Minister expressing the hope that those responsible would be brought to justice. In Parliament we have resisted attempts to draw parallels between the situation in El Salvador and those existing in Poland and Afghanistan. As part of our neutral stance Ministers have stated that no British military equipment will be supplied to El Salvador.

15. There is however considerable pressure on HMG to dissociate the UK from US policy towards El Salvador and to adopt a sympathetic attitude towards the opposition FDR. Many letters have been received from MPs, the Churches and other religious organisations, and members of the public, the vast majority of which seek to pressure us in that direction.

16. Our direct interests in El Salvador are minimal. Our Embassy there was closed in February 1980 because of the disproportionate cost of providing protection for our staff. We have only a small residual aid programme and a low volume of exports (£4.6m in 1980). Strategically the area is of little importance to us. Our main interest in Central America is an early and orderly disengagement from Belize. US interests in every sphere are much greater. Inasmuch as they wish

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to combat Cuban influence and encourage stability in the area we share their aims. Many of our European partners are not likely to be as understanding as we are of US policy. The possibility exists therefore of a rift.

17. While we should show sympathetic understanding of US concern over El Salvador, because of the widespread public revulsion over the repressive record of the Salvadorean regime we are unlikely to be able to give the Americans all the support they want. We should encourage them to continue to consult us and other EC and NATO countries about their policy and to provide/evidence they can of Cuban activities. For our part, we should seek to encourage our partners to take a realistic view of the situation in El Salvador and the risks of the extension of Cuban influence in Central America generally. We should encourage a greater understanding of the direct strategic threat which the US perceives there.

18. Our public attitude needs to take account of the pressure of public opinion against the El Salvador government. The Government have stated that they support the rights of the Salvadorean people to determine their future peacefully and democratically. But we must accept that such an outcome is not likely in the short term. We could probably say

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publicly that we support efforts by the US and the Salvadorean governments to oppose interference in the affairs of El Salvador by communist countries, but this position will only carry conviction if we have conclusive publicly usable evidence of arms supplies to the guerillas.

FOREIGN AND COMMONWEALTH OFFICE

20 February 1981

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PMVH(81) 6(vi)

COPY NO 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

BELIZE

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Belizean independence long overdue.
2. Negotiations continue to try to find basis for settlement. In best interests of all concerned.
3. Content of negotiations (by agreement with Guatemala and Belize) remains confidential. But it appears from most recent round that Guatemalans might settle without outright cession of territory. Nevertheless, still touch and go.
4. We shall not announce a date for Constitutional Conference while there is still some prospect of a settlement.
5. With British soldiers in Belize solely to meet threat from Guatemala, we hope the US will maintain offensive arms embargo against Guatemala. If the US provide support to the Guatemalan Government we hope it would be conditional on a Guatemalan undertaking in no circumstances to act against Belize.

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6. If Belize goes to independence without a negotiated settlement, we hope the US will join with other regional States in an agreement to consult if Belize were threatened with military aggression.

7. [Defensive, if asked about danger of Cuban penetration of independent Belize]. After 16 years of internal self-government Belize has institutions to resist this. Best guarantee would be a secure and stable Belize free from Guatemalan threat.

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ESSENTIAL FACTS

(PASSAGES IN SQUARE BRACKETS ARE NOT FOR USE)

US Attitude to Guatemala

1. Until November 1980 the US consistently abstained on successive UN resolutions calling for a settlement of the dispute and independence for Belize. The US maintain that any change in the status quo would cause instability in the area. They saw our military presence as precluding unwelcome Cuban involvement in Belize. But before leaving office the Carter Administration voted in favour of the November 1980 UN resolution on Belize. In their statement the US recognised that independence should not be delayed but stressed the importance of achieving a negotiated settlement first.

2. We do not know the new Administration's position. Secretary Haig has said that we would not "get any stick" from him personally or from the Administration but hoped that we could proceed "in tandem and in step". There is no doubt that the Guatemalan government are hoping for a closer relationship with the new Administration than was possible with Carter whose policies were dominated by human rights issues. Guatemala will also be pressing Washington to resume arms sales. We would not wish the US to sell weapons which could be used against our garrison. But we have no wish to dissuade the Americans from developing a closer relationship with Guatemala which could be to our advantage.

3. The Americans may need to be reassured that Belize would be safe from Cuban penetration after independence. As a result of 16 years internal self-government under the British Crown, Belize has the necessary institutions to resist such penetration and Belizean society as a whole tends to be conservative. Guatemalan acceptance of Belizean independence would be the best way of providing an area of stability resistant to Cuban influence.

Belize Independence Process

4. We announced on 2 December that in accordance with the UN resolution, a Constitutional Conference would be held in the near future. The Belize government have published their constitutional proposals for a two-house parliamentary system of

considered publicly in Belize. To be sure of completing the legislative process in time to enable Belize to become independent before the end of the next UN General Assembly (as called for in the UN resolution) the Constitutional Conference should start no later than June. Such timing leaves no room for slippage and assumes Ministers would give the legislative process a high priority. A date for the Conference has not yet been announced.

Negotiations with Guatemala

5. The most recent round in the series which began in Bermuda last May, took place between officials in New York on 5-6 and 12-13 February. Prior to these talks the Guatemalan government's public position had become increasingly hard and belligerent. The Guatemalan negotiating team nevertheless appeared ready to settle the dispute [on the basis of a lease over the Southern Cays], without outright cession of territory, but with an economic and commercial package on the mainland. [Despite this unprecedented Guatemalan position, the talks came close to breakdown as a result of Belizean difficulties over the extent of concessions on the Cays.] With difficulty the Guatemalans were persuaded to attend a further Ministerial meeting which is likely to take place in London at the beginning of March. In the meantime we are trying to persuade the Belizeans to close the gap between them and the Guatemalans. The Guatemalan team made it clear that an announcement of a date for the Constitutional Conference before a settlement is reached would be a signal to them to bring negotiations to an end.

[REDACTED]

Redacted section 2.4. Public Record Act

Defence Guarantee

6. If we are unable to reach a negotiated settlement with Guatemala Belize will go to independence without. Arrangements, acceptable to the Belizeans, will be needed to deter the Guatemalans from taking military action and persuade the international community that we are not leaving Belize undefended. These arrangements would include the presence of the garrison for a strictly limited and clearly defined period of time, the upgrading of the Belize Defence Force (BDF), and some continuing

US participation in such a multilateral arrangement would be crucial. It might commit signatories as follows:-

In the event of any armed attack against Belize externally organised or supported, or the threat of such attack, we shall immediately consult together for the purpose of considering what measures should be taken in relation to such attack or threat.

Post Independence

7. We will continue to provide aid to Belize. Other donors would be welcomed by Belmopan. We expect the international agencies to play an important role with economic and financial aid. Belize has a viable economic foundation.

8. We will give assistance with the training of the BDF and police. Contribution from the US would be welcome.

Foreign and Commonwealth Office

19 February 1981

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PMVH(81)5 Addendum

COPY NO. 11

23 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

NORTHERN IRELAND

Supplementary Brief by the Northern Ireland Office

POINTS TO MAKE

Arms for the RUC

(replacing 9 - 11 of PMVH (81)5)

1 Refusal of previous US Administration to issue licences came as surprise to UK opinion and raised doubts as to firmness of US opposition to PIRA.

2 Confident that new Administration's stand on terrorism will be reflected in its public line on PIRA, and in practical cooperation in combating all forms of terrorism in Northern Ireland.

3 As to limited question of Rugers, recognise strong feelings, however wrong-headed, of some in Congress, notably Speaker O'Neill.

4 With recent improvement in security situation, RUC's operational requirement for Ruger revolvers has lessened. Chief Constable now considers he has sufficient appropriate weapons to satisfy his main requirements.

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5 Publicly I would propose to say that I raised this issue with you and informed you that there were sufficient Ruger revolvers to meet our main requirements. I would also say that we had established common understanding on importance of countering PIRA terrorism, like any other form.

BACKGROUND

Arms for the RUC

1 HM Ambassador recommends that this matter is best approached in the context of our common interest in combating terrorism (cf. brief PMVH (81)14). In this way the President, who will not have the problem in the front of his mind, will be less surprised that the Prime Minister is raising it, only to say that it is no longer a practical problem for us. She will also be able to take a more convincing public line later, since if she can speak of a common stand against PIRA terrorism, it will seem less as though we have dropped the requirement for Rugers merely because the President does not wish to back it.

2 The passage in brackets at the end of PMVH (81)5 is confirmed, ie the State Department say that the new Administration are not about to lift the ban.

US Administration and Northern Ireland

3 A copy of President Carter's statement of 30 August 1977 is attached; though it carries no authority today, it is the last formal statement by a US Government.

Northern Ireland Office

23 February '81

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Throughout our history, Americans have rightly recalled the contributions men and women from many countries have made the development of the United States. Among the greatest contributions have been those of the British and Irish people, Protestant and Catholic alike. We have close ties of friendship with both parts of Ireland, and with Great Britain. 65

It is natural that Americans are deeply concerned about the continuing conflict and violence in Northern Ireland. We know the overwhelming majority of the people there reject the bomb and the bullet. The United States wholeheartedly supports peaceful means for finding a just solution that involves both parts of the community of Northern Ireland, protects human rights and guarantees freedom from discrimination - a solution that the people in Northern Ireland, as well as the Governments of Great Britain and Ireland can support. Violence cannot resolve Northern Ireland's problems: it only increases them, and solves nothing.

We hope that all those engaged in violence will renounce this course and commit themselves to the peaceful pursuit of legitimate goals. The path of reconciliation, co-operation and peace is the only course that can end the human suffering and lead to a better future for all the people of Northern Ireland. I ask all Americans to refrain from supporting, with financial or other aid, organisations whose involvement, direct or indirect, in this violence delays the day when the people of Northern Ireland can live and work together in harmony, free from fear. Federal law enforcement agencies will continue to apprehend and prosecute any who violate US laws in this regard.

US Government policy on the Northern Ireland issue has long been one of impartiality, and that is how it will remain. We support the establishment of a form of government in Northern Ireland which will command widespread acceptance throughout both parts of the community.

However, we have no intention of telling the parties how this might be achieved. The only permanent solution will come from the people who live there. There are no solutions that outsiders can impose.

At the same time, the people of Northern Ireland should know that they have our complete support, in their quest for a peaceful and just society. It is a tribute to Northern Ireland's hard-working people that the area has continued to attract investment, despite the violence committed by a small minority. This is to be welcomed, since investment and other programmes to create jobs will assist in ensuring a healthy economy and combating unemployment.

It is still true that a peaceful settlement would contribute immeasurably to stability in Northern Ireland and so enhance the prospects for increased investment. In the event of such a settlement, the US Government would be prepared to join with others to see how additional job-creating investment could be encouraged, to the benefit of all the people of Northern Ireland.

I admire the many true friends of Northern Ireland in this country who speak out for peace. Emotions run high on this subject and the easiest course is not to stand up for conciliation. I place myself firmly on the side of those who seek peace and reject violence in Northern Ireland."

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PMVH(81) 6(vi)(Addendum)

COPY NO 11

24 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 February 1981

BELIZE

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We are holding talks at Ministerial level with the Guatemalans next week (5-6 March). Negotiations are at a very delicate stage. Important not to rock the boat. We judge that we have enough in our negotiating hand to justify the meeting and give us a fair chance of settlement.
2. Cession of territory, including islands, is out of the question for Belize and we accept this. But there is flexibility in Belizean position. We discussed this with Premier Price in London on 23 February, and continue in close touch.
3. Meanwhile Americans can help by pressing Guatemalans to maintain flexibility in their position. Unhelpful if US support Guatemalan demands for cession of islands. Leave Belizeans to us. Presentation is of the essence to both sides, but with careful work we could still get a settlement.

BACKGROUND

1. Guatemalan Foreign Minister saw Haig in Washington on 21 February. He misrepresented the talks we held in New York by claiming that cession of the Southern Cays to Guatemala had been agreed and that the Belizeans had subsequently backed away from this. This is not true. We have always made it clear that cession of territory was out of the question.
2. The Americans now seem to be backing the Guatemalan position and urging cession of the Sapodilla and Ranguana Cays. The US Consul-General in Belize City has spoken in this sense to Premier Price. Price reacted unfavourably. Further US pressure on Price is likely to be counter-productive.
3. We, not the Americans, are in the best position to work on Price after our discussions in London, they are best placed to work on the Guatemalans. With patience and a delicate touch a settlement could still be reached at the Ministerial meeting in London on 5 and 6 March.

Foreign and Commonwealth Office
24 February 1981

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PMVH(81)6(iv)

COPY NO 11

20 FEBRUARY 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

CHINA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Prospects for US/China relations, with particular reference to the Taiwan complication?
2. US policy on defence sales to China? And to Taiwan?
3. Sino/UK relations satisfactory, Lord Carrington to visit China 1-5 April. Commercial prospects not encouraging. China tightening the belt.
4. Though political and economic scene somewhat less clear, Deng's influence still paramount. Bodes well for future.

BACKGROUND

Sino/US Relations

1. Chinese waiting to see how President Reagan's policies towards China and Taiwan will develop. Angered by campaign statements made by Reagan and advisers about possible re-establishment of official relations with Taiwan. Irritated earlier by Carter's decision to give Taiwan representatives in the US diplomatic privileges and immunities. Further upset by US policies on continued arms sales to Taiwan.

2. For China US recognition of Peking as the sole legal government of China was premise for normalisation; any retreat from that principle would seriously damage relations. Have warned that US cannot take for granted Chinese support against Soviet Union if compromise over Taiwan. Reagan Administration's China policy still not formalised. At Senate Foreign Relations Committee hearings in January, Haig said US would fulfil its obligations to supply 'purely defensive' weapons to 'the people of Taiwan' and also that US had interest in improving relations with China. He avoided being drawn about re-establishing official relations with Taiwan. Carter Administration willingness to sell dual-purpose military equipment to China still not confirmed by Reagan.

3. Sino-US cooperation in finance, insurance and oil drilling nevertheless continues. In October China signed agreement to purchase up to nine million tons of US wheat and corn annually for 4 years from 1981. Visit to Peking in January by Senator Theodore Stevens, deputy Republican leader in Senate, accompanied by Mrs Anna Chennault, (long time supporter of Chinese Nationalists) appears to have encouraged Chinese. But still very sensitive (as demonstrated by their sharp reaction to proposed supply of Dutch submarines to Taiwan).

Lord Carrington's Visit

4. Visit (also including Pakistan, Hong Kong and Japan) postponed from October 1980 because of Iran/Iraq conflict. Part of now regular exchanges, most recently with Foreign Minister Huang Hua in London in October. Talks will cover major international issues and certain bilateral issues including commercial relations and Hong Kong issues.

/China Internal

China Internal

5. Hua Guofeng effectively though not yet formally demoted from Chairman. Successor likely to be Hu Yaobang, another ally of Deng Xiaoping (whose protégé Zhao Ziyang is already Premier). Changes will be confirmed by Plenary meeting of Party Central Committee later this year. Trial of Gang of Four (ended in January) accelerated break with the Cultural Revolutionary past and inflicted further damage on already tattered reputation of Mao Zedong.

6. Reactions of Military and Party and Government bureaucrats uncertain. Some may resent abruptness of break with past and speed of 'demaofication'. Military probably also disgruntled about cuts in defence budget. Problems too on economic front. Drastic reductions announced in capital construction and expenditure, to reduce budget deficit and eliminate bottlenecks. Certain contracts cancelled with Japanese and West German companies. Some UK companies now also affected.

7. Overall picture therefore more uncertain than a few months ago. But despite some resistance, Deng's position nevertheless remains strong. Continues to consolidate power so as to ensure continuity after his death.

FOREIGN AND COMMONWEALTH OFFICE

20 February 1981

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PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

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Cabinet Office

20 February 1981

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PMVH (81) (8)

COPY NO 11

19 FEBRUARY 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25 - 28 FEBRUARY 1981

UNITED STATES INTERNAL POLITICAL AND ECONOMIC SCENE
Brief by Foreign and Commonwealth Office

Internal (General)

1. President Reagan's election by a landslide reflected the American people's dissatisfaction with what they saw as a decline in America's fortunes at home and abroad under President Carter. The prevailing mood favours a high posture abroad now that sufficient time has passed after the trauma of Vietnam and against the immediate background of what is seen as the irresolution of the Carter period (including the humiliation of the hostages episode). Not all observers are however confident that the United States has - or can regain - the economic muscle necessary to form the basis of a strong United States defence posture and a more

decisive role abroad.

2. President Reagan has moved swiftly to fulfil key electoral pledges. At home his recently announced economic package, involving cuts in public spending and in income tax (see below), are as far reaching as he promised. On foreign affairs, the Administration have emphasized the Soviet threat, stepped up defence expenditure and initiated policies in Central America designed to contain the spread of communism.

President Reagan's Team

3. A list of Cabinet and senior White House officials is attached. With the exception of Mr Clark (Mr Haig's Deputy at the State Department) the majority of senior appointees are of a reassuring calibre. Their statements at Senate confirmation hearings have generally been pragmatic and management-oriented. This posture has caused upset among the right wing of the Republican party (notably with Senator Jesse Helms) which for many years has regarded Mr Reagan as its standard bearer and had hoped for a greater say in affairs.

4. The outstanding appointee has been General Haig as Secretary of State. First indications are that he is moving to gather into his hands the reins of foreign policy leaving the NSC, under Mr Richard Allen, to play a much lesser role than in the time of Mr Brzezinski (but a later rally by the NSC is by no means impossible).

5. The Administration have been slow in making appointments below Cabinet level and a number of those already nominated (including for instance Messrs Eagleburger and Crocker at the State Department) have not yet been confirmed by the Senate. This is giving rise to delays in the formulation of foreign and domestic policy

US ECONOMY

Economic Strategy

6. President Reagan presented his Programme for Economic Recovery to the Congress on 18 February. It is based on reducing the role of Government and increasing incentives for the private sector, and has four main elements:

- a. Slower growth in Federal expenditure:
President Carter's plans to be cut \$4bn this fiscal year (ending 30 September) and \$14bn in FY 1982;
- b. Lower Federal taxes? Personal income tax to be cut by 10% in each of the three years starting 1 July 1981 (cost \$118bn by 1983 - 84);
- c. Relief of Federal regulatory burdens; and
- d. Stable monetary policy, consistent with these policies, from the independent Federal Reserve system.

7. Details will be announced in supplementary budget to be sent to the Congress on 10 March. All expenditure is to suffer cuts except 'safety net' and defence programmes,

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for which an increase of \$60bn is requested by 1986. Budget deficit to be \$55bn this year, \$45bn in FY 1982, \$36 in FY 1983 and a small surplus in FY 1984.

Recent Economic Developments

8. GDP fell sharply, by 10% pa in the second quarter of 1980, recovering in the following two quarters to a level of 0.8% below the first quarter peak. The immediate prospect is some weakening of the recovery, with gradual revival in the second half of 1981. Inflation remains a major problem, with consumer prices up by 12.4% in 1980 and the GNP price deflator by 10%. Unemployment was 7.4% in January, and the 1980 trade deficit fell \$5bn to \$32bn with further substantial reductions expected this year.

Administration Economic Forecast

9. The Administration expects GNP growth of 1% this year and 4-5% pa in succeeding years; consumer prices to rise 11% this year, falling to 8% in 1982 and 4% by 1986; and unemployment of 7.8% this year falling to 5.6% by 1986.

Foreign and Commonwealth Office

19 February 1981

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UNITED STATES ADMINISTRATION

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PRESIDENT	Ronald Reagan
Vice-President	George H W Bush
PRESIDENTIAL ADVISERS	
Chairman of the Council of Economic Affairs	Murray Weidenbaum
Assistant to the President for National Security Affairs	Richard V Allen
WHITE HOUSE STAFF (not in order of precedence)	
Counselor to the President	Edwin Meese III
White House Press Secretary	James Brady
Assistant and Deputy White House Chief of Staff	Michael K Deaver
Assistant to the President for Domestic Affairs and Director of Domestic Policy Staff	Martin C Anderson
White House Chief of Staff	James A Baker III
CABINET	
Secretary of Agriculture	John R Block
Secretary of Commerce	Malcolm Baldrige
Secretary of Defence	Caspar W (Cap)Weinberger
Secretary of Education	Terrel H Bell
Secretary of Energy	James B Edwards
Secretary of Health and Human Services	Richard S Schweiker
Secretary of Housing and Urban Development	Samuel R Pierce Jnr
Secretary of the Interior	James G Watt
Attorney General	William French Smith
Secretary of Labor	Raymond J Donovan
Secretary of State	Alexander M Haig Jnr
Secretary of Transportation	Andrew L (Drew) Lewis Jnr
Secretary of Treasury	Donald T Regan
Director of CIA	William J Casey
US Ambassador to the UN with Cabinet rank	Jeane Kirkpatrick
Director, Office of Management and Budget	David A Stockman

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SUB-CABINET

Department of State

Deputy Secretary	William Clark
Under Secretary for Political Affairs	Walter Stoessel
Under Secretary for Economic Affairs	Mike Rashish
Under Secretary for Security Assistance	Jim Buckley
Counsellor	Bud McFarlane
Assistant Secretary for Europe	Lawrence Eagleburger
Assistant Secretary for East Asia and the Pacific	John Holdridge
Assistant Secretary for Africa	Chester Crocker
Assistant Secretary for Economic Affairs	Bob Hormats
Director, Politico-Military	Rick Burt
Head of Policy Planning Staff	Paul Wolfowitz

Department of Defense

Deputy Secretary	Frank Carlucci
Secretary of the Army	John Marsh
Secretary of the Navy	John Lehman
Secretary of the Air Force	Verne Orr
Under Secretary of Defense for Policy	Fred C Ikle

Treasury

Deputy Secretary	Tim McNamar
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Agriculture

Under Secretary	Richard E Lyng
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Justice

Deputy Attorney-General	Edward Schmults
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<u>US Special Trade Representative</u>	Bill Brock
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<u>US Executive Director in the IMF</u>	Richard Erb
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19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 February 1981

INTERNATIONAL ECONOMIC AND MONETARY POLICIES

Brief by HM Treasury

POINTS TO MAKE

1. (i) Interested to hear the President's approach. Believe it may be like Britain's.
- (ii) We have to keep up the fight against inflation on which we agreed at the Tokyo and Venice Economic Summits. In the end this will be better for growth and the future of oil prices; but that means we cannot expect any early dramatic upturn.
- (iii) We have to keep up the effort on new energy production and on conservation to reduce dependence on Middle East. American decisions on decontrol of oil prices therefore right.
- (iv) We have to get right balance between fiscal and monetary policy in fighting inflation so that interest rates do not carry excessive burden. They can upset exchange rates and discourage investment which we badly need.
- (v) What has happened to oil prices has made life harder for many developing countries. But the solution to this must lie in adjustment by LDCs. Aid only part of solution. Evolution of IMF/IBRD will help, but we must resist UN encroachment on them.

BACKGROUND (All information useable)

2. Second oil shock has drained as much purchasing power from OECD countries as the first - around 2 per cent of GNP. But it has been absorbed more smoothly. Output has fallen less than in 1974-75, inflation has not risen as much. Main reasons have been wage moderation (and so less financial pressure on companies); and the general adoption of non-accommodating policies. No one has broken ranks on the declarations at the Tokyo and Venice Summits to give the fight against inflation highest priority.

3. Some success as well in reducing dependence on OPEC oil. OECD area's energy use per unit of output has fallen 4 per cent in last 2 years and its energy production has risen by same amount. Proper energy pricing has been important. US decision to bring forward decontrol of oil prices (by 9 months) is encouraging (though nothing has been said about US gas prices - see brief 12).

4. GNP growth in the main economies fell to less than 1 per cent in 1980 ($\frac{3}{4}$ per cent in 1979). World recession may now have reached its trough, but output could fall again in the US and remains stagnant in Germany. Activity in Japan is quite buoyant but has been disturbingly concentrated on exports. GNP may grow even less in European economies this year than last. Overall major 7 growth unlikely to exceed 1 per cent in 1981.

5. Year-on-year inflation rate in the main economies peaked at around 13 per cent in mid-1980, but only in the UK has it fallen in each month since then. In December the average rate in the major 7 was 11.4 per cent. In the US, consumer prices accelerated quite sharply towards end of last year (December rate 12.4 per cent). In Germany, DMark depreciation has halted the decline in the rate. Little sign of continuous improvement in France, Italy or Canada. With earnings growth starting to accelerate in some countries

(US, France, even Germany) average inflation rate in major 7 unlikely to be in single figures until mid-1981.

6. Announced budget plans or monetary objectives point to some tightening of policy in the major 7 this year. Overall, discretionary fiscal action likely to offset some of the increase in budget deficits resulting from lower activity. Concern in Europe about balance of US policy and techniques of monetary control. High and volatile US interest rates blamed for "imported" inflation (because of currency depreciation, notably of the DMark); and weaker activity, because European interest rates said to be higher than domestically necessary. But Europe has no interest in continuing high US inflation or a weak dollar; criticism of US one-sided. Germany's problem might be partly due to inadequate steps taken to finance its current account deficit.

7. Distribution of current account balances may be less satisfactory this year than last. In 1980 Germany and Japan shouldered more than a third of combined OECD deficit. But Germany was only able to finance its share with a huge loss of reserves: it is increasingly worried about the persistence of a large deficit. Japan's position improving rapidly; it could be in surplus by the second half of 1981. US surplus and the deficits of France and Italy continue to grow.

8. Only a small part of the expected reduction in the OPEC Surplus this year is likely to benefit the smaller OECD countries. And none at all the LDCs. Their combined deficit in 1981 could be much the same as in 1980 (\$60 billion, even if they cut their import growth quite sharply). Adjustment is necessary but will be painful for them. Aid can help to some extent but private capital flows and increased borrowing from the IMF and IBRD will bear the major burden. It is in the interests of developed and developing countries alike to facilitate this.

9. US administration conducting thorough review of its policy towards multilateral aid, including the IBRD and its soft loan arm the International Development Agency (IDA). The UK signed a joint EC démarche "expressing concern" about US proposals for radical cuts in multilateral aid. But US Cabinet said to be unlikely to implement the cuts in full. The US, like the UK, will probably pay more attention to private aid flows. But we attach importance to their adhering to international commitments.

10. New Administration's views on IMF questions not yet clear. Strong US presence in the Fund desirable in the face of third world pressure for UN to encroach on IMF territory; and proposals tending to shift emphasis away from adjustment related loans and towards concessional loans. We accept that Fund must evolve. Recent decisions to increase amount and duration of members drawings and to finance higher level of lending by direct Fund borrowing from, eg, the oil producers are examples of what can sensibly be done. But should not undermine central purpose of Fund in encouraging adjustment of external imbalances.

HM Treasury

19 February 1981

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20 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

EXCHANGES ABOUT UNITED STATES
AND UNITED KINGDOM ECONOMIC POLICY

Brief by HM Treasury

Points to make

1. (i) Share President's economic objectives. Resumption of non-inflationary growth in US very important for rest of the world.
- (ii) Sympathetic to President's policy approach. Lower taxes and public spending best way to stimulate private sector. Welcome announcement of oil price deregulation.
- (iii) UK started down same road two years ago. Experience shows crucial importance of reducing public expenditure at the outset; especially where elbow room limited by indexation and statutory obligations.
- (iv) Does President see a danger of US budget deficit remaining higher than expected - either because of Congressional problems over expenditure cuts, or because economy grows more slowly than expected?
- (v) Some concern in Europe at level and volatility of US interest rates. No one wants fight against inflation to be relaxed. But the burden has to be shared by fiscal policy. Risks if monetary policy has to take too much.

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(vi) UK recession not the result of Government policies.

UK not immune from world recession. Some loss of output inevitable as economy adjusts to lower inflation. Signs that this is now happening. UK progress compares well with other countries. Year-on-year UK inflation rate now less than 1 per cent higher than in US: Six month rate actually lower.

(vii) Accept HMG has had difficulties in meeting money supply targets and restraining public borrowing.

Monetary growth has been boosted by unwinding of past distortions, but overall conditions tight. Public borrowing increased by recession.

(viii) HMG concentrating on medium-term strategy. Public spending plans for 1981-82 £6 billion (~~£~~14½ billion) lower than previous Government's plans. Share Reagan's view that public restraint necessary to free resources for private sector. Tax cuts, abolition of controls etc.

Background (All information useable)

2. Full details of President's 18 February statement not available at time of writing. Following is provisional and subject to amendment.

3. Main economic proposals were: cuts in previously planned public spending of ~~£~~4½ billion in 1981 fiscal year (which ends in October) and of ~~£~~44½ billion in FY1982; 10 per cent cut in personal tax rates in July and a further 10 per cent in each of 1982 and 1983; more generous depreciation allowances for companies backdated to January this year.

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4. Proposed expenditure cuts broadly based (but what they mean in volume terms is not clear at present). Biggest reductions are in federal health, welfare, food and pension programmes. But defence spending to rise \$7.2 billion next year; between 1981 and 1984 share of defence in total public expenditure scheduled to rise from a quarter to a third.

5. Tax cuts are worth \$6 billion this year (only around a tenth of expected fiscal drag). By 1983-84 they would be worth \$118 billion (around $\frac{1}{2}$ per cent of GNP). So little or no reduction in real tax burden. But progressive cut in marginal rates at the top end from 70 to 50 per cent.

6. Federal deficit in 1981 forecast at \$55 billion (2 per cent of GNP and the same as bequeathed by Mr Carter). Deficit forecast to fall to \$45 billion in 1982 and to be eliminated by 1984.

7. Widely reported differences of view on economic strategy within the Administration. The "supply-side radicals", led by Mr Stockman (Director of Office of Management and the Budget) called for tax cuts before spending cuts, to stimulate the economy and help reduce budget deficit. Treasury Secretary Regan more cautious, echoing Mr Volcker's view that "concrete action" on spending should precede tax reductions.

8. The president presented the proposals as a single, simultaneous package. Mr Stockman's proposals watered down. And some retreat from campaign promises. 1981 tax cut has been delayed; 1981 expenditure cuts amount to less than 1 per cent, rather than the 2 per cent originally envisaged; target

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for eliminating budget deficit put back a year. The projected reduction in the deficit depends heavily on achievement of GNP growth well above long-term productivity trends (an average of over 4½ per cent a year in 1982 and 1983).

9. Package does little to alter prospective imbalance between fiscal and monetary policy this year. As Mr Volcker foresaw in his recent meeting with the Prime Minister, pressure on financial markets likely to continue. Inflation in 1981 officially forecast at 11.1 per cent so there seems little room for substantially lower interest rates. President says "better monetary control is not consistent with the management of interest rates in the short-run".

10. Congressional reaction to the package will be crucial. Some suggestion that Democrats, worried about re-election in 1982, may defer to public mood in favour of spending cuts (though individual programmes likely to be strongly defended). But they may be less enthusiastic about tax cuts which mainly benefit the wealthy (though by less, immediately, than Mr Regan originally proposed).

11. The Prime Minister will be aware, from the recent meeting with members of the House Budgetary Committee, that UK economic policy has lately been criticised in the US. Some US commentators have adopted the Galbraith line that HMG has deliberately engineered a recession; others the Friedman line that policies are sound but implementation has not been rigorous enough. Mr Stockman has referred to the "very disturbing" results of the UK monetarist experiment and asserted that there has been a gap between policies and pronouncements.

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20 FEBRUARY 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

PROSPECTS FOR MEXICO AND OTTAWA SUMMITS

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

Mexico Summit (Early June)

1. US participation desirable. We have said that we want to be there. But American absence would render meeting ineffective.
2. Must avoid arousing excessive expectations.
3. Hope that discussion will be informal, relatively unstructured and with no close link to current negotiations in the UN.
4. UK not seeking membership of sponsors group but believe that all participants should be involved in later stages of preparations.

Ottawa Summit (20-21 June)

1. Want full coverage of economic subjects.
2. Relations with developing countries must be treated fully, as promised at Venice, but these questions should be kept in perspective.
3. Questions of Macro Economic Policy likely to be important; too early to judge their precise nature.
4. Little scope for new policies on energy. Focus at Ottawa should be on implementation of policies agreed particularly at Venice.
5. Welcome US proposal to discuss East/West economic questions.
6. Political discussion will be valuable and will require some discreet preparation among close allies. Too early to establish agenda but should use summit to achieve better co-ordination among seven of policy for East/West relations.

Ottawa Summit and Japanese Trade

1. EC have called for discussions at Ottawa. We are seriously

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seriously concerned about Japanese trading policy.

2. EC and US have common interest in bringing pressure on Japanese. Important to keep in step.
3. Hope that Japanese reluctance to have their trading policies discussed at Summit will cause them to take remedial action beforehand.

BACKGROUND

Mexico Summit

1. Sponsors meet in Vienna on 13-15 March to decide on participation, dates, agenda etc. Japan pressing to join sponsors; we are not.
2. President Reagan has been non-committal about the Summit. Mexico and Austria claim that they would go ahead without him. Chancellor Schmidt and President Giscard have agreed to urge President Reagan to attend and to ask the Prime Minister to do likewise.
3. The Russians have made no response to Austrian soundings. Co-sponsors have not yet decided whether China should be invited if Russians do not attend.
4. Italy, Australia and the Netherlands are pressing for places. The latter hope for Community support as Presidency.
5. Cuba also pressing for a place as President of the Non-Aligned Movement.
6. Mexicans and Austrians likely to send personal representatives to seek views of likely participants after the next sponsors meeting. Most participants seem to favour an informal unstructured summit so as not to arouse undue expectations. Most are also opposed to any close link with the Global Negotiations at the United Nations; preparations for these are currently stalled pending a view from the new US Administration.

Ottawa Summit

1. Preparations for Ottawa proceeding satisfactorily. Difficult at this juncture to forecast shape of meeting.
2. If present timing for Mexico Summit is held (and Americans may suggest a postponement) developing world is bound to expect Ottawa Summit to take full account of their concerns. Trudeau will hope to make this the main theme and may be supported by Japanese, Italians and possibly the French. Our preference for balance will be endorsed by the Americans and, perhaps, the Germans.

3. The situation of the US Economy and its implications for other summit countries may well be a matter of concern by July.

4. Energy has dominated the last three Summits. We believe that there is little scope for new ideas and initiatives; rather the task now is to implement the policy lines agreed at earlier Summits, particularly Venice. It follows from this that energy should bulk less large at Ottawa.

5. Discussion of political matters is likely to focus on Poland, Afghanistan and relations with the Soviet Union.

Ottawa Summit and Japanese Trade

1. Text of EC statement at Annex A.

2. The Community's trade imbalance with Japan has increased from less than \$3 billion in 1975 to about \$10 billion in 1980. The US deficit with Japan is of the same order. (The Community also has a deficit of \$10 billion with the US but, apart from problems in the textile and chemical sectors (see brief no 12), this is generally less sensitive because a much broader range of products is involved.)

3. It is important for the Community to secure American support for our efforts to bring home to the Japanese the risks resulting from their trading policies. The Americans may be reluctant. Their major fear is that, if the EC is successful in restraining imports from Japan, there will be unacceptable trade diversion to the US market. Furthermore, they are able to bring pressure to bear on Japan through other aspects of their overall relationship, notably defence. We do not want them settling their own problems on a bilateral basis and then, as they have in the past, telling us that we must avoid 'ganging up' on the Japanese.

Foreign and Commonwealth Office

20 February 1981

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BEGINS

1. THE COUNCIL REAFFIRMED ITS STATEMENT OF 25 NOVEMBER 1980 IN WHICH IT EXPRESSED ITS SERIOUS CONCERN AT THE PRESENT STATE OF TRADE BETWEEN JAPAN AND THE COMMUNITY AND ITS LIKELY FUTURE DEVELOPMENT. IT REGRETTED THAT THE JAPANESE RESPONSE TO THE STATEMENT HAD NOT BEEN SUCH AS TO REMOVE THE COUNCIL'S CONCERN.
2. THE COUNCIL TOOK THE VIEW THAT ECONOMIC FACTORS WERE ONE FACET OF THE OVERALL RELATIONSHIP BETWEEN EUROPE AND JAPAN; THE COMMUNITY SHOULD THEREFORE PRESS ITS PREOCCUPATIONS ON THESE ECONOMIC DIFFICULTIES AT A HIGH POLITICAL LEVEL. THE COMMUNITY'S CONCERN SHOULD BE CONVEYED FORTHWITH BY THE REPRESENTATIVES OF THE MEMBER STATES AND OF THE COMMISSION IN TOKYO.
3. THE COUNCIL NOTED IN PARTICULAR THAT THE SITUATION AS REGARDS JAPANESE CAR EXPORTS CONTINUE TO GIVE RISE TO INCREASING AND VERY SERIOUS CONCERN, IN PARTICULAR THE POSITION IN CERTAIN REGIONS OF THE COMMUNITY ESPECIALLY THE BENELUX COUNTRIES. THE WORK AND THE CONTACTS SHOULD BE PROMPTLY PURSUED IN THIS AND OTHER RELEVANT SECTORS.
4. THE COUNCIL FURTHER NOTED THAT THE COMMISSION INTENDED TO INTRODUCE COMMUNITY-WIDE SURVEILLANCE FORTHWITH IN ORDER TO MAKE MORE RAPIDLY AVAILABLE STATISTICAL INFORMATION ON IMPORTS FROM JAPAN OF PASSENGER CARS, COLOUR TELEVISION SETS AND TUBES AND CERTAIN MACHINE TOOLS. IT REQUESTED THE COMMISSION TO MONITOR THE RESULTS OF THIS SURVEILLANCE AND TO REPORT TO THE COUNCIL AS SOON AS THE OUTCOME FOR THE FIRST THREE MONTHS OF THIS YEAR WAS CLEAR, AND REGULARLY THEREAFTER. /s-
5. THE COUNCIL TOOK NOTE THAT THE COMMISSION HAD CIRCULATED AN INITIAL ANALYSIS OF THE CONCENTRATION OF JAPANESE EXPORTS TO THE COMMUNITY AND INVITED THE COMMISSION TO PURSUE THE STUDIES REQUESTED BY THE COUNCIL IN ITS NOVEMBER STATEMENT.
6. THE COUNCIL RECOGNISED THAT IT WAS FOR EUROPEAN ENTERPRISES TO TAKE ADVANTAGE OF THE GROWING JAPANESE MARKET AND TO DEVELOP POSITIVE STRATEGIES TO DEAL WITH JAPANESE COMPETITION. IT CALLED UPON THE COMMISSION TO CONTINUE TO PURSUE VIGOROUSLY WITH THE JAPANESE AUTHORITIES THE OPENING UP OF THE JAPANESE MARKET.
7. AT THE NEXT EEC/JAPAN HIGH LEVEL CONSULTATIONS WHICH SHOULD BE HELD AS SOON AS POSSIBLE, THE COMMISSION SHOULD CHECK ON THE PROGRESS OF THE VARIOUS DISCUSSIONS AND REPORT TO THE COUNCIL ON THE RESULTS ACHIEVED.
8. SINCE THE QUESTION OF TRADE WITH JAPAN HAS IMPLICATIONS FOR ALL MAJOR INDUSTRIALISED TRADING COUNTRIES, THE COUNCIL TOOK THE VIEW THAT IT SHOULD BE RAISED WITH THEM ON EVERY POSSIBLE OCCASION AND IN PARTICULAR AT THE WESTERN ECONOMIC SUMMIT IN OTTAWA NEXT JULY IN THE CONTEXT OF THE CUSTOMARY EXCHANGE OF VIEWS ON WORLD TRADING PROBLEMS.

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ENDS

[The body of the document contains several paragraphs of text that are extremely faint and illegible due to low contrast and blurring. The text appears to be a formal report or document, but the specific content cannot be discerned.]

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PMVH (81)12 Addendum

COPY NO. 11

24 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

ENERGY (International and Bilateral Issues)

Brief by Department of Energy

PROPOSALS TO REDUCE UK COAL IMPORTS

POINTS TO MAKE

- Not contemplating formal ban. Will naturally respect international obligations.
- Hope to find solution which respects as far as possible workings of the market and within a commercial framework. What we have in mind is to enable NCB to give discounts and so align its coal prices down to those of competing imports.
- This is consistent with our policy of economic energy pricing. Prices would effectively be set by the world market. (But the cost of supporting the NCB will fall on the UK economy).
- Aligning down domestic prices to meet import competition is quite normal.

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BACKGROUND

1. At the Tripartite meeting on 18 February, Mr Howell said on imports that:-

"Coal imports would in any case fall from 7½mt in 1980 to 5½mt in 1981. The Government would be prepared to look, with a view to movement, at what could be done to reduce this figure towards its irreducible minimum."

2. What is contemplated is financial support to NCB which would enable them to discount their prices to BSC and CEGB down to world market levels. On a preliminary estimate the cost might be some £60m.

3. "Aligning down" to world market prices in this way is familiar. It is accepted in ECSC rules.

4. Since USA is a substantial exporter of coal, American interests could be affected. However:-

i. UK accounts for a small part of US coal exports. In 1980, US exports were 90mt; UK coal imports from USA were about 3.5mt, out of total imports of 7.3mt. (In 1979, 1mt out of 4.4mt);

ii. UK coal imports from USA were due to fall any way. At end January, we expect total coal imports in 1981 of 5.6mt, of which 1.5mt from USA. This would be coking coal. CEGB, mainly importers of steam coal, have nearly completed their contracts with USA and did not expect to place more.

iii. delays at US ports, especially on East Coast, are well known. They have pushed up freight rates (the demurrage element is now \$10/tonne) and have limited exports.

5. Government is not envisaging action to break existing contracts.

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PMVH(81)12 Addendum

COPY NO. 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

ENERGY (International and Bilateral Issues)

Brief by Department of Energy

US TAX CREDIT IMPLICATIONS OF UK OIL TAXATION PROPOSALS

POINTS TO MAKE

- General: Well aware of the financial and technological strength of US oil companies. Value their contribution to the development of North Sea oil. Aware of the US companies' interest in a satisfactory double tax relief arrangement for UK oil exploitation.
- Proposed New Tax: The Chancellor of the Exchequer understands the position of US companies, and will take account of the need to mitigate any adverse US tax consequences of the new tax.
- PRT relief changes will prejudice PRT's tax credit status: Changes are now needed to ensure that PRT works as originally intended; accept that US authorities will wish to consider the double taxation implications of these changes.

BACKGROUND

1. The Chancellor announced two oil taxation proposals last November:-

- i. a new tax on gross revenues, less a flat-rate oil allowance; and

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ii. a review of the PRT reliefs.

US companies operating in the North Sea - some 50 per cent. of all UK licence holders - have argued, first, that the new tax is not creditable against US tax (NOT FOR DISCLOSURE: and informal contacts with the US authorities confirm this) and will exacerbate existing double taxation problems; and secondly, that PRT changes may prejudice the creditability of PRT now secured by the UK/US double tax treaty. (NOT FOR DISCLOSURE: US companies have attempted to enlist the support of the State Department in this cause, although no formal Government-to-Government representations have yet been made).

2. The Chancellor proposes to introduce the new tax in the Budget. The questions of when precisely the PRT changes should be introduced and how the double taxation effects of the new tax can best be alleviated are still under consideration. This does not affect the points to make.

Department of Energy
20 February 1981.

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19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

ENERGY (International and Bilateral Issues)

Brief by Department of Energy

POINTS TO MAKE

WORLD OIL SITUATION AND INTERNATIONAL ENERGY AGENCY (IEA)

1. World oil situation easier than last year. If no new interruption, supply should balance or slightly exceed demand for the rest of 1981. But any new interruption in supplies could lead to a tight market and further increases in oil prices. We must work together on how best to handle such situations and on long-term policies to reduce Western dependence on OPEC oil. Market forces will play the main role in achieving these objectives. But some action by Governments individually and in co-operation may be needed. The US Administration's problems with anti-Trust legislation are recognised, but hope that progress can be made on that front.
2. The International Energy Agency the best vehicle for such co-operation. It has the right structure and can involve the oil companies in its work. We should not undermine it - even unintentionally - by making other arrangements for international energy co-operation, eg under the Summit.

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3. Unfortunate France not a member of the IEA. Hope we may in due course persuade her to join. Meanwhile France can be involved in international energy co-operation through the European Community.

US ENERGY POLICY AND PRICES

4. Welcome President Reagan's attitude to the development of United States' energy resources including nuclear, and decision to bring forward oil price deregulation. We hope for early action to deregulate gas prices. This would exemplify United States' commitment to realistic energy pricing to promote conservation, develop alternative energy sources and reduce dependence on OPEC; and would bring welcome relief to our hard pressed textile and chemical industries. Without this political pressures for restrictions on US exports may be hard to resist.

NUCLEAR

5. UK has made steady progress with fast breeder technology. Prototype Fast Reactor in operation five years. Reprocessing plant at Dounreay recently successfully started up. Now reviewing next steps. Ultimate aim capability to build commercial scale reactors in UK. A possible next step could be to build a commercial demonstration fast breeder on which design work well advanced. That step could be taken in collaboration with others. Have talked to the French and Germans. Also wish to explore possible collaboration with US. If President agrees, ready to send team for detailed discussion as soon as the US is ready.

WESTERN DEPENDENCE ON SOVIET ENERGY SUPPLIES

6. (Defensive line to take if raised.)
Agree there may be risks to Western cohesion if Federal Republic becomes too dependent on Soviet energy supplies. Uncertain whether means could be found to replace losses from

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interruptions; in any event costs may be very high. No reason why UK should be sole or even main source of support. Have not got spare gas and oil.

BACKGROUND

WORLD ENERGY SITUATION

7. 1980 saw a further increase in oil prices of about \$7-\$8/bbl (about 14% in real terms) brought about chiefly by the Iran/Iraq war. To meet pressure on the market the December IEA Ministerial agreed to encourage the use of stocks, keep consumption under control and discourage abnormal purchases on the oil market. Since then a fall in demand and some increase in Iranian supplies has kept the market reasonably balanced. It could remain so during 1981 and 1982. But unpredictable events in the Middle East could trigger a shortage and, unless consumer governments take early, careful and co-ordinated action, further sharp price increases could ensue.

8. (Not for disclosure)

There is no reason to doubt US cooperation in a major shortage triggering the formal IEA sharing mechanism, for which there is an exception in US anti-trust legislation. This otherwise inhibits concerted government/industry action to deal with the minor but damaging shortages experienced in 1979/80. The Administration's inclination may anyway be to rely on market forces to ride such situations out.

9. Over the past few years the more moderate members of OPEC have played an important part in seeking to prevent maximisation of OPEC prices. The US/Saudi dialogue has been a key element; a souring in US/Saudi relations could detract from Saudi helpfulness on prices.

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SUMMITS, THE IEA AND FRANCE

10. Energy has dominated the last three Summits. There is little scope for new ideas and initiatives. The task now is to implement the policies agreed at earlier Summits, particularly Venice. But we would support a strong statement by the Ottawa Summit on the importance of nuclear power.

11. French policy of staying outside the IEA is proving a failure. That is why they have sought to develop the energy work of the Summit (which we have resisted to avoid duplicating the work of the IEA). There is little prospect of any progress on French entry until after their elections in April. Thereafter it remains to be seen whether they are prepared to contemplate a policy reversal. But we should be alert to opportunities for getting France into the IEA.

US ENERGY POLICY

12. Considerable progress has been made in US energy policy and performance in the last two years. But there are still weaknesses - energy consumption per capita remains high, low taxes on petroleum products (eg gasoline) and institutional barriers (largely environmental) to swift progress with nuclear and coal; and above all the artificially low price of natural gas. After the 1978 energy legislation the Iranian revolution again focused attention on energy security, which became a major concern of the new Administration and Congress. Low US economic growth and the Carter Administration's measures have caused a significant decline in oil consumption and imports since 1978, reflecting mainly lower demand for petrol. But total energy demand has fallen only slightly. Mr Reagan's attitude to energy matters generally has not yet clearly emerged; but he is likely to be less interventionist and more prone to rely on market forces than his predecessor. He has made an encouraging start by bringing forward from 30 September to 28 January the full decontrol of crude oil and oil product

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prices. President Reagan spoke of this as a first step towards an energy programme "free of arbitrary and counterproductive restraints".

US GAS PRICE

13. Unlike oil, the decontrol of gas prices requires legislation to amend the 1978 Natural Gas Policy Act, the result of an acrimonious two year debate on a Carter Administration Bill to free gas prices. The Act allows for periodic increases to bring gas to parity with other energy prices by 1985. But the escalation formula has not kept pace with sharp oil price increases since 1978. Decontrol of gas prices now would cost US consumers some \$50 to \$80 billion, and could be inflationary. Stockman (Director Office Management and Budget) and others in the Administration argue for quicker but not necessarily immediate movement of gas prices to economic levels to promote greater production and conservation. Key figures in Congress are either reluctant publicly to agree or oppose.

14. The Administration has not formally acknowledged the European Community case that US chemical and textile industries will retain an advantage until gas deregulation is completed. The Community is pursuing the argument at official level, but an early conclusion is unlikely. Moreover, to focus publicly on the US industrial advantage could strengthen Congressional opponents of decontrol.

15. British industry is directly affected by lower US energy and feedstock prices. A range of non-aromatic organic chemicals based on methane and ethane will continue to have a significant feedstock and energy advantage until natural gas prices are deregulated.

NUCLEAR

16. (Not for disclosure)

Ministers decided on 18 December (E(80)46th meeting) that no decision should be taken about possible collaboration with the

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French and Germans on fast reactor development until the scope for collaboration with the US had been explored. These two options would be evaluated, together with that of relying on licensing foreign technology in due course. The Carter Administration was cool about fast reactor development. The new Administration is likely to give more positive support to the fast reactor. Our interest is in collaborating on the development of a commercial scale demonstration reactor; this would also be the logical next step for the US. There has already been contact at the industrial level with US utilities who have impressed upon the Administration advantages of collaboration with the UK. The Secretary of State for Energy plans to visit Washington as soon as convenient.

WORLD DEPENDENCE ON SOVIET ENERGY SUPPLIES

17. The Americans are worried about Western Europe's growing dependence on supplies of Soviet oil and gas. At the moment they are particularly concerned about the proposed Siberian pipeline bringing gas to West Germany, France and Italy. Like the Continentals, they have for some time pressed us to develop a 'surge capacity' for North Sea Oil (and now gas) to supply the Continent in an emergency. Such ideas present considerable technical difficulties and would be very expensive (to develop a gas field for this purpose could cost £1 billion).

(Not for disclosure)

∟If Mr Reagan is particularly pressing, the Prime Minister could suggest an Anglo/American official study, which would at least bring out some of the disadvantages to which the Americans have not yet paid sufficient attention. But she would probably not wish to volunteer this.

Department of Energy
20 February 1981

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PMVH(81)13

COPY NO. 11

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

EXTRA-TERRITORIAL APPLICATION OF US ANTI-TRUST LAWS

Brief by the Department of Trade

POINTS TO MAKE

1. A persistent irritant in UK/US relations is the extra-territorial application by the US of your anti-trust laws, in particular to liner shipping. It has led to the criminal prosecution of and civil penal litigation against British citizens under US law in respect of their dealings outside the United States.
2. I would not be raising this question with you now but for the fact that a current case involving shipping companies in the North Atlantic trade looks as though it could develop with commercial consequences much graver than previous ones.
3. Treble damage claims now faced by the UK companies, in respect of operations which were by no means all conducted in the US, could well result in British liner shipping being entirely driven from the North Atlantic. However, all I want to do now is to record that, depending on developments in the case, I may need to raise this matter with you again.

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BACKGROUND

1. US anti-trust law is very stringent: this would be solely a matter for the US authorities if it was applied only in the US. But their application of it to British companies in respect of their dealings outside the US has repeatedly forced us to protest, and last year to enact the Protection of Trading Interests Act. Our shipping industry is especially vulnerable to this extra-territorial litigation; because its assets must pass within the reach of the US Courts it is affected by US law even when trading outside the US. Other European countries share our concern.

2. A current case against the two British and other European and US cargo lines trading in the North Atlantic has already been settled in the US criminal courts with the largest fines ever awarded under their anti-trust legislation. But there now follow civil damage claims in respect of the same allegations, which if proved must lead to triple damages possibly reaching \$250m. The UK lines, Cunard and Dart Container Line, say damages of this order would certainly drive them from the North Atlantic, leaving it without any UK carriers, ~~COMMERCIAL IN CONFIDENCE~~ - and in Cunard's case would bankrupt them and even threaten their parent company, Trafalgar House⁷.

3. Some of the activities complained of fall within the undisputed jurisdiction of the US Courts. We cannot protest in relation to them. But some took place outside the US and

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in relation to these we look upon the enforcement of US law
as an invasion of our sovereignty.

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4. We do not expect representations to the US administration to force them to intervene in these civil proceedings, even though the prospect of penal triple damages introduces considerations of public policy into them. However this case could have an outcome which raised a long-standing source of friction to a new plane of seriousness, and, if it is eventually settled in the Courts rather than by negotiation, could force UK Ministers to consider using our retaliatory powers to put the US under pressure to abandon its insistence on enforcing its policies on British citizens outside the US. Such measures would of course raise issues between the two governments; and the purpose of the Prime Minister broaching the matter with the President now is simply to warn him of the grave view HMG could be forced to take of these US practices.

Department of Trade

19 February 1981

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PMVH(81)14

COPY NO: 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

COUNTER-TERRORISM

Brief by the Home Office

Points to make

1. HMG's policy is not to let terrorists escape from the consequences of their actions. This was demonstrated in practice during the siege of the Iranian Embassy in May 1980. HMG was glad to note Secretary of State Haig's strong condemnation of terrorism in his first press conference.
2. In practical terms, UK/US cooperation on counter-terrorism is developing well. There are regular bilateral exchanges between officials, the military, the security and the intelligence agencies. The UK wants these to continue.
3. It was useful that the fundamental principle of not giving in to terrorism was included in the Venice Summit communiqué in relation to hostage-taking and attacks on diplomatic and consular premises and personnel.
4. The UN Conventions (against the taking of hostages and on the prevention and punishment of crimes against Internationally Protected Persons), although far from perfect, represent the highest common factor of agreement on counter-terrorism within the UN context. Widespread ratification should be encouraged, but further international agreements in this area would, at the moment, be unlikely to achieve significantly useful results.
5. Attempts to coordinate the international response to acts of terrorism in a predetermined and automatic way are unlikely to be successful. It is doubtful

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if such an approach would be accepted widely enough to be effective. The UK experience is that a flexible response to terrorist incidents, based on the particular circumstances, yields better results.

6. There is a good deal of uncertainty over the precise role played by the Soviet Union in supporting terrorism. The Russians have always drawn a distinction between terrorist organisations and so-called liberation movements. They condemn the first, but claim the right to support the second. There has, of course, been disagreement between them and the West as to which label to apply to a particular group (e.g. the PFLP on the one hand, and the Afghan resistance on the other). There is no doubt that the Soviet Union has been the provider, at safely long range, of arms, explosives and training for what they call 'national liberation' groups, e.g. in the Middle East. But available evidence does not indicate that either the Soviet Union or other Communist countries are trying to control or direct terrorist groups at first hand. Furthermore, it is in the interests of the West to preserve a common approach with the Soviet Union in some areas of the terrorist problem where they have shown themselves cooperative, such as the inadmissability of hijacking and attacks on diplomatic personnel. UK and US intelligence officials should, however, continue to consult closely in order to watch for any change of Soviet policy in this area and evidence of their involvement.

7. In the context of Irish terrorism, successive US Administrations have been very helpful in reducing the flow of arms and money to the Provisional IRA and exposing the facts of terrorism in Northern Ireland to an Irish-American community which tends, for historical reasons, to be sympathetic to PIRA's aims.

8. The US courts, however, have not proved helpful over the extradition of PIRA members to face charges in the UK. They have tended to refuse it on the ground that the crimes should be treated as political. The US Administration has plans to introduce legislation under which declaration that an offence was political would be a function of the Secretary of State, rather than of the courts. This would be welcomed, as would any similar efforts in this area.

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BACKGROUND

1. Secretary of State Haig has suggested that the new Administration would judge a government's attitude towards terrorism rather than its human rights record in deciding its aid programme.

2. The Venice Summit communiqué included a statement reaffirming the determination of the Seven to deter and combat the taking of diplomatic hostages and attacks on diplomatic and consular premises and personnel. (Behind this statement, of course, lay US concern for their hostages in Iran.) The statement also called on states to become parties to the UN Conventions against the Taking of Hostages and on the Prevention and Punishment of Crimes against Internationally Protected Persons, and recalled that every state had a duty to refrain from being associated in any way with terrorist acts in another state. This statement followed the earlier involvement of the Seven in the Bonn Declaration against aircraft hijacking. The Venice statement was followed by a meeting of officials of the Seven in Washington in January which did some modest but useful work in discussing the coordination of counter-terrorist measures.

3. The UK is a party to the Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons (including diplomatic and consular persons and premises), which came into force for the UK in June 1979. Both the UK and US have signed the Convention against the Taking of Hostages and intend to ratify as soon as possible. This Convention needs 22 ratifications to come into force: to date there are only three ratifications among its 33 signatories.

4. The last US Government attempted to have wider issues connected with terrorism considered within the NATO framework. This initiative probably reflected a feeling among parts of the US Administration of exclusion from the cohesiveness of European discussion on counter-terrorism. It failed

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because NATO is an inappropriate forum for such discussions (except for the limited part that the intelligence agencies in the NATO Special Committee can play). But thought will have to be given to how, without undue duplication of work, the US and other countries outside the European Community (within which, in the Trevi framework, regular discussions on counter-terrorism are held) can be brought fully into such consultations.

5. Apart from the example of its generally firm stand, the West also has a lot to gain by giving advice, guidance and training to other countries. Such practical cooperation on terrorist matters has been undertaken by British officials explaining contingency planning arrangements, and by the SAS, Royal Marine Special Boat Squadron and police undertaking training programmes for their counterparts. The US do the same.

6. There are regular bilateral UK/US contacts on the official, security and military fronts. The security and intelligence agencies regularly exchange intelligence and assessments about terrorist organisations. These exchanges have been with the CIA and the FBI. In addition, in relation to Irish terrorism, there are exchanges with US Customs, Bureau of Alcohol, Tobacco and Firearms and INS (as well as with the FBI). There have in the recent past been restrictions on operations in the Irish field, but these have to some extent been lifted. On the military front, the SAS and their American equivalent - Task Force DELTA - held the first part of a two-part joint military exercise in the United Kingdom earlier this month. The second part will be held in the USA at the end of May. It is hoped to hold a joint exercise (possibly in 1982) to test arrangements for a coordinated UK/US response to an incident involving a US nuclear weapon in the UK.

7. The successful conclusion of the six day operation at the Iranian Embassy demonstrated HMG's policy and practice in relation to terrorist acts. Apart from the skilful, courageous and determined assault by the soldiers of the SAS, the crucial factors were:

- a. the firm strategic decision that the Government would not accede to the terrorists' main demands;
- b. the well-rehearsed plans for such contingencies; and
- c. the simple and well-understood chains of command at all levels

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and the accepted and clear demarcation between the interlocking functions of Government (strategic), police (tactical) and military (resolution by force when this was the only option left).

8. While successive US Administrations have been helpful in the Irish terrorist context, the same cannot be said of their courts in the area of extradition. They tend to accept evidence that terrorist crimes should be treated as political, and refuse extradition on that ground. This was the case two years ago with a man who had bombed an army barracks in Yorkshire in 1974. There is currently a case of a man alleged to have tried to shoot a British soldier in West Belfast in 1978. This may be in the news just before the Prime Minister's visit as the hearing is scheduled in a New York Federal Court on 18-20 February. The US Government has plans (as did its predecessor) to introduce legislation under which the responsibility for declaring a crime political in any given case would be given to the Secretary of State (and thus not arrogated by the Court, as often today). This would be welcome, but if the plan does not make progress, it may be necessary to look again at the political exception clause in the UK/US extradition treaty. It serves neither Government's interests that the US should get a reputation as a safe haven for IRA terrorists on the run.

Home Office

19 February 1981

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COPY NO 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES
25-28 FEBRUARY 1981

ANGLO-AMERICAN DEFENCE CO-OPERATION

(Brief by Ministry of Defence)

POINTS TO MAKE

ABM Treaty

1. Support your efforts to strengthen US strategic forces. In all NATO's interest that parity is maintained. Realise that, to reduce ICBM vulnerability, you may consider ABM defences.
2. UK interests directly involved if ABM Treaty re-opened. Extent of Soviet ABM defences affects ability of UK (and France) to pose threat to key Soviet targets.
3. Urge therefore that anything involving re-negotiation of ABM Treaty be approached most warily. Changes might affect costs to us of maintaining effective strategic deterrence.
4. Would welcome close and early consultation if US thinking on ABM could affect UK interests.

Trident

5. Trident firm and crucial part of our forward programme. Happy with deal reached with your predecessor. Good example

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/of Alliance

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of Alliance rationalisation.

6. Financial and operational benefits of commonality with US systems. Wish to follow closely your plans for improving US SLBMs, since this could affect our planned buy of Trident C4.

Anglo-US Nuclear Understandings

7. You may be aware of several Anglo-US understandings on use of nuclear weapons. Need to be reaffirmed whenever Administration in US or UK changes. These are under discussion between officials.

Special Nuclear Materials (If raised)

8. Value highly co-operation over provision of special nuclear materials; makes sense in Alliance cost-effectiveness terms. Have taken some steps to increase our ability to meet our own requirements. May want to talk to US again when current planning studies further advanced.

BACKGROUND

ABM Treaty

9. The 1972 Anti-Ballistic Missile Treaty between US and USSR (and 1974 Protocol) limit ABM defences. Key constraints are:-

(a) Maximum of 100 launchers (without reloads) located round either capital city or one ICBM field.

(b) No land-mobile missiles, sea, air or space-

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based defences allowed.

Treaty is due for review in 1982. Currently no US ABMs deployed; Russians have 32 GALOSH launchers providing area defence for Moscow. Both US and USSR have continued substantial R&D programmes.

10. US are worried about ICBM vulnerability - by 1982 Soviets could theoretically destroy over 95% of 1053 US ICBMs in pre-emptive strike. Reagan Administration are likely to accelerate planned deployment of 200 MX missiles, each with 23 shelters in late 1980s. If Russians increased warhead numbers, as they could do in the absence of SALT constraints, this force would still become vulnerable.

11. Emerging lobby (including members of new Administration) for ABM point-defences for existing ICBMs and MX. Could be cheaper solution than other solutions such as more MX. Systems already in development could be deployed by mid-1980s.

12. UK concerned that if US seek to re-negotiate or amend Treaty in 1982 to allow increased ICBM defence, Soviets might demand right to increase city defences (they will not have ICBM vulnerability problem until MX deployed). This could seriously reduce penetrativity of UK strategic forces and make it much more expensive for us to maintain a credible deterrent. This factor was well understood during 1971/72 negotiations. We would prefer Treaty to stand, but if US intent on modifying it, close and detailed consultation essential.

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Trident

13. US have embarked on development programme to give improved accuracy to Sub-Launched Ballistic Missiles (to give them capability against Soviet ICBM silos). Could either be fitted in modified C4 (Trident I) or they may proceed with their large D5 missile (Trident II). Existing C4 guidance production being run-down already. May present difficult choice for UK of:-

(a) sticking with existing C4 guidance (with loss of commonality with US guidance systems):

or retaining benefits of commonality by either:-

(b) following US, and buying C4 with improved accuracy (at extra capital cost); or,

(c) contemplating buying D5, at considerable extra capital cost for submarine, missile, and shore facilities.

Too soon to be sure what MOD's preferred choice would be, but the resource implications of (c) are such that it would clearly entail collective Ministerial review.

Special Nuclear Materials

14. UK is presently dependent on the US for the supply of Highly Enriched Uranium (HEU) for the submarine propulsion programme and has a loan arrangement for the supply of plutonium. Likely shortfall in special nuclear materials needed for defence nuclear programmes. MOD are considering how this shortfall

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could be made up in UK, but likely that US assistance will be required. Because of pressure on supplies from their own programmes, previous US Administration officials said that UK should as far as possible meet its own needs before seeking US assistance. MOD are studying the implications of seeking greater long-term independence in this respect, including costs (which could be substantial).

Anglo-US Nuclear Understandings

15. The Prime Minister will be aware of the highly sensitive understandings on consultation/joint decision on the use of nuclear weapons which are reaffirmed each time there is a change of Prime Minister or President. Steps have been taken at official level to set in hand the necessary exchange of letters with President Reagan in accordance with standard practice.

SECRET

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PMVH(81)17

COPY NO. 11

19 February 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

UNITED NATIONS MATTERS

(For Use With UN Secretary-General)

Brief by Foreign and Commonwealth Office

Points to make

MEETING OF NON-ALIGNED FOREIGN MINISTERS

1. At first sight, the Delhi meeting shows that the movement has become more critical of the USSR. What are Waldheim's impressions of the Conference?

AFGHANISTAN

2. Pressure must be maintained until the Russians are ready to withdraw. May take some time but things are not going their way. International condemnation and the resistance effort continue.

/3.

3. How will your representative (de Cuellar) proceed in the attempt to promote talks? Essential that Russians are engaged in negotiations at some point. They are the cause of the situation and hold the key to a solution.

4. What do you think of the French proposal for an international conference? Have you had any Soviet reaction? We are still thinking about it. It might be a useful device at some stage.

CAMBODIA

5. Close parallels Cambodia/Afghanistan. ASEAN's attempts to provide for a peaceful, negotiated solution deserve active support. May 1979 Geneva meeting on S E Asia Refugees showed that Vietnam (and Soviet Union) can be made to respond to international political pressure. Inaction encourages those who seek to settle international issues by force.

IRAN/IRAQ

6. Stalemate persists. Strongly support efforts of Mr Olaf Palme at mediation. Believe his rôle as peacemaker more acceptable to both sides than initiatives of non-aligned movement and Islamic Conference. Has he achieved any progress during his current trip to the area?

/7.

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7. UK concerned to see fighting end. But do not believe West has mediatory rôle to play at this stage. Best to concentrate on stopping spread of war, and encourage friends in area to maintain pressure on belligerents to negotiate.

UN BUDGET

8. World in recession and many Governments cutting public expenditure. UN budget should show zero real growth. If some programmes need to grow, others must be cut back to make room.

SUCCESSION TO BRIAN URQUHART

(Only suitable for private use)

9. Thank you for your reply to my letter. We feel strongly that we should provide the successor and will produce an excellent candidate when the time comes.

/Background

Background

MEETING OF NON-ALIGNED FOREIGN MINISTERS

1. Meeting took place in Delhi from 9 to 13 February. Waldheim addressed the meeting. Moderates (notably Singapore and Yugoslavia) were very energetic at Delhi, helped by the parallel between Kampuchea and Afghanistan which has produced a natural alliance between ASEAN and the Islamics. The declaration contained language on Afghanistan and Cambodia which was unwelcome and embarrassing to the Soviet Union and its friends. There was the usual tough language on the Middle East and Southern Africa. The general tone appears to have been less imperative and anti-Western than some previous texts. For the moment, the movement is not a major force in international politics, although a number of non-aligned countries separately and jointly play a major rôle.

AFGHANISTAN

2. Waldheim has avoided taking a strong line on Afghanistan. He probably believes that he must maintain his ability to talk to all parties, including the Russians, if the UN is to be involved in setting up negotiations.

3. On 11 February, at the Non-Aligned Meeting of Foreign Ministers in New Delhi, he announced the appointment of Mr de Cuellar, a senior member of the UN Secretariat, as his

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personal representative to follow up his efforts to bring about a settlement of the Afghanistan problem. He has not revealed how he sees his representative operating. The Prime Minister's talks with Mr Waldheim are an opportunity to clarify this and to press Waldheim to ensure that the Russians are engaged in any negotiations.

4. On 27 January President Giscard proposed a conference on ending foreign intervention in Afghanistan. He envisages it being attended by the permanent members of the Security Council, Pakistan, India, Iran and an Islamic representative. Waldheim's initial reaction was that a conference of this size would not work. It would be useful to find out if his thinking has developed. We propose to discuss the French proposal further with the Pakistanis. A conference might be useful at some stage. But until we have cleared our lines with the Pakistanis it will be better not to take Waldheim into our confidence.

CAMBODIA

5. The 1980 General Assembly approved an ASEAN draft resolution calling for an early international Conference by 97-23-22. When ASEAN approached Waldheim in January to ask him to take action, he claimed that he was only obliged /to do so

to do so when ASEAN had secured the agreement of all concerned. He repeated this line in response to a supporting démarche by the EC Presidency on 2 February. This restrictive interpretation of the resolution probably reflects a firm Soviet indication that they support Vietnam's outright rejection of any conference other than one on their terms which would merely acknowledge their puppet régime in Phnom Penh.

6. The Delhi Non-Aligned Foreign Ministers' meeting marked a further defeat for Vietnam's efforts to obtain public acceptance of their 'fait accompli'. Moderate delegations led by Singapore succeeded in securing a call for the withdrawal of foreign forces. This is likely to make Vietnam even more intransigent in the short term. But the coming months will provide a severe economic test for Vietnam, which is suffering acute food and economic shortages, and may test the Chinese assumption that only sustained pressure will induce the Vietnamese leadership to accept a compromise in Cambodia.

IRAN/IRAQ

7. Mr Palme returned to the area on 17 February when he hoped to conclude the arrangements for the evacuation of trapped ships from the Shatt Al Arab. By achieving a temporary ceasefire to allow the evacuation to take place, he hopes to

/strengthen

strengthen his position as a peacemaker. Acknowledgement by the belligerents that the UN has a mediatory rôle to play will be a step forward.

8. [Note for use]. We continue to provide Mr Palme with sanitised JIC assessments on the conflict. He has confided the results of his activities more closely to us than to others.

UN BUDGET

9. Supplementary budget providing for 1.4% real growth was adopted by Assembly in December. Members (including UK) together contributing more than 70% voted against. Indications are that this has impressed the Secretariat, who will work for maximum restraint in proposals for next biennium but new programmes supported by the developing country majority in the course of the next Assembly will tend to inflate the figures.

10. UK Contributions to UN Aid System. In 1980 UK voluntary aid to UNDP, UNICEF, UNHCT and UNRWA totalled £33.4m (a substantial reduction on the 1979 figure of £49.7m, mainly due to a large cut in our UNDP contribution). We remain one of the largest contributors. Figure for 1981 will again be around £34m.

/URQUHART SUCCESSION

URQUHART SUCCESSION

11. Urquhart occupies the key political job in the UN Secretariat. It is clearly in the UK interest that he should be succeeded by another Briton, nominated by the government.

12. The Prime Minister made our views plain to Waldheim during his official visit to London in May 1980. Lord Carrington did the same in New York last September. Waldheim's replies were non-committal. Following receipt of confidential information that the French are seeking the job when Mr Urquhart retires, the Prime Minister wrote to Mr Waldheim on 30 December. His reply, though not constituting a commitment, was much more forthcoming. Copies of letters at Annex B. He has since given our Permanent Representative a categorical oral assurance that he will ask us to propose a successor (if he himself is still Secretary-General at the time).

/(Additional Background: May
be drawn on as necessary)

(Additional Background. May be drawn on as necessary)

ARAB/ISRAEL

13. No immediate UN action is likely, although the Security Council is due to consider soon a further report from its three-member Commission on Israeli settlements. We have been able to vote in favour of past resolutions critical of this aspect of Israeli policy. The Arabs may also wish to bring the 'Question of Palestine' back to the Council soon because of Israeli non-compliance with the Special Session deadline of 15 November 1980 for unconditional withdrawal. A renewed and more insistent call for sanctions is likely.

LEBANON

14. The level of military activity in the South has been increasing although the Israelis exaggerate the level of cross-border activity by the Palestinians. The pressure on the United Nations force (UNIFIL) has correspondingly been stepped up and the force has suffered reverses. We regard the maintenance of the force as vital to the stability of the area despite the difficulties which the various contingents face.

NAMIBIA

15. Waldheim reported on the Geneva meeting (7-13 January) to the Security Council on 19 January. A full debate is

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likely in March or April. The OAU Liberation Committee (19-23 January) and the Non-Aligned Foreign Ministers' Meeting in New Delhi (9-12 February) both called for sanctions. Decisions on tactics will be put off until the OAU Council of Ministers (23 February - 1 March).

16. African countries want the Western Five to keep working on South Africa for the implementation of the UN plan. However, US coolness towards the UN plan leads us to be cautious in responding to requests for assurances that policy will be unchanged. We shall try to persuade the US to continue the search for a settlement, and to consult all concerned, including the Front Line States.

BELIZE

17. Belize has been discussed in the United Nations Decolonisation (Fourth) Committee every year since 1975. In 1980, the General Assembly approved a Resolution by 139-0, with 7 abstentions, recognising the right of Belize to self-determination, independence and territorial integrity. For the first time a target date was set for Belizean independence - before the conclusion of the 1981 session of the Assembly. The Resolution called on us to convene a Constitutional Conference and prepare for the independence of Belize. It also urged us and Guatemala to continue their efforts to reach a negotiated settlement.

18. We announced on 2 December that we would convene a Constitutional Conference in the near future with the intention of bringing Belize to early independence. We are also continuing to seek a negotiated settlement with Guatemala. Talks are expected to resume shortly at Ministerial level. By mutual agreement, the contents of the talks remain confidential.

GLOBAL NEGOTIATIONS

19. Informal discussions last autumn made some progress towards reaching agreement on agenda and procedures for the Global Negotiations. FRG President of the General Assembly (von Wechmar) resumed his efforts in mid-January. No progress is expected until the Americans have taken a position, probably not before mid-March. Developing countries accept that such a delay is inevitable.

20. (Not for use.) Some developing countries believe that, if agreement is not reached by May, there will be no point in pursuing consultations. Such an outcome would be satisfactory to us but we should not be seen to be working for a failure.

NORTH/SOUTH SUMMIT

21. Further preparatory meeting of co-sponsors to be held in Vienna on 13-15 March. Algerians have pressed for a close

link with the Global Negotiations but others have resisted. Waldheim has avoided direct involvement in this Summit because of the invidiousness of selective participation. We prefer an informal Summit and hope that it will lead to effective action.

CYPRUS

22. UN has done well to reestablish intercommunal talks on regular basis. Atmosphere good, but both sides inflexible. As requested by Waldheim, Prime Minister urged flexibility on Kyprianou in London in December.

23. Only possible basis for final settlement is loose biregional federation, with Greeks conceding on constitution, and Turks on territory. (UK, US and Canada proposed this in 1978.) Neither side interested. UN aiming instead at interim agreement, whereby Turks concede Varosha (Greek Famagusta) and Greeks allow reopening of Nicosia airport (partial lifting of economic blockade). Prospects poor but not hopeless.

24. We maintain close contact with parties and UN, urging flexibility on both sides. Ready to help further if asked; will do nothing to cut across UN efforts.

/SECURITY COUNCIL ENLARGEMENT

SECURITY COUNCIL ENLARGEMENT

25. There have been moves, led by India, to enlarge the UN Security Council from 15 to 21. We oppose enlargement. It would seriously detract from the Council's efficiency and upset the existing balance between regional and political groups. It is evident from repeated postponements of the vote on this item that a considerable number of countries share our reservations about enlargement, and recognise that confrontation on this subject could seriously prejudice the continuing work of the Security Council. We hope that the Indian proposal will be withdrawn.

1981 ELECTIONS FOR THE UN SECRETARY-GENERAL

26. Mr Waldheim's second term as Secretary-General expires on 31 December. Elections will be held by the Security Council in the autumn. Until recently, Waldheim's intensive programme of travel and consultations was taken to indicate that he intended to seek a third term, but there are signs that he may have had enough. Other potential candidates are the Commonwealth Secretary-General, Mr Ramphal, and the Tanzanian Foreign Minister, Mr Salim (formerly Permanent Representative in New York and 1979 President of the General Assembly).

27. The Prime Minister will wish to avoid any commitment

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to Waldheim's candidacy, if he indicates his intention to run, pending further knowledge of the field.

Foreign and Commonwealth Office

20 February 1981

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PERSONALITY NOTE

WALDHEIM, KURT

Secretary-General of the United Nations.

Austrian. Born 1918. Military service with German army 1938-42 (medical discharge after service on Eastern front). Graduated from University of Vienna as Doctor of Jurisprudence 1944 (but prefers to be addressed as 'Mr' rather than 'Dr'). Austrian Diplomatic Service 1945-68; Federal Minister of Foreign Affairs 1968-70; Permanent Representative to the UN 1970-72. Elected UN Secretary-General in 1972; re-elected 1977. Term expires December 1981.

Although his outlook has broadened in recent years, Waldheim's values and perceptions remain those of old style Austrian diplomacy; he is fundamentally decent, disciplined and somewhat paternalistic. He retains a strong belief in the provisions of the UN Charter and is staunch in defence of the authority and prestige of the UN and the office of the Secretary-General.

He works long hours but is not a good manager of business or staff. He has a painstaking approach to problems and

/is

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is cautious about taking initiatives which might court unpopularity. Not an outstanding Secretary-General, but has succeeded in maintaining the authority of the United Nations and has been more active than is frequently recognised through quiet diplomacy and use of the Secretary-General's 'good offices'. Though aware that when first elected the UK had reservations about his candidacy, he trusts and likes Britain.

Speaks English, French and Italian. Interests are horses and the UN. Autobiography ('The Challenge of Peace') published Spring 1980.

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Annex B

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22 January 1981

(By hand: Dear Prime Minister,)

I wish to thank you for your letter of 7 January 1981, on the question of a possible successor to Mr Brian Urquhart when he retires as Under-Secretary-General for Special Political Affairs. I recall that we discussed this on the occasion of my visit to London last summer and I have also discussed it with Lord Carrington.

I fully understand the position of the British Government in this matter and, as far as it lies with me, I have every intention of respecting that position when the time comes. As you are certainly aware, I do not know how long I myself shall be Secretary-General, since the election of the Secretary-General is on the agenda of the General Assembly at its next session, nor is it certain how long Mr Urquhart will continue to occupy his present post. It would be my personal wish, which is also yours, that he should continue for some years yet, but this is a matter which in the long run he himself has to determine, in agreement with the Secretary-General.

In these circumstances, I wish to assure you that I shall do all I can to respect the wishes of Her Majesty's Government in this important matter.

With all best wishes,

(By hand: Yours sincerely,)

Kurt Waldheim

Her Excellency
The Rt.Hon. Margaret Thatcher, M.P.
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
London

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COPY

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7 January 1981

Dear Secretary-General

You will recall that when I had the pleasure of seeing you here in London last May I mentioned the close interest that the British Government would in due course take in the choice of a person to succeed Mr Brian Urquhart as Under-Secretary General for Special Political Affairs. I understand that Lord Carrington also raised this matter with you when he was in New York in September. Now that the 35th Session of the General Assembly has been suspended I wish to take this further opportunity to make our position clear. My colleagues and I hope that Mr Urquhart will continue for some years yet to occupy his important post. I believe that that is your wish too. We have followed with admiration the determination and skill with which, in addition to his other tasks, he has in recent weeks pursued the effort to achieve agreement on implementation of the UN plan for Namibia. But in due course the time will come for him to retire. At that time the British Government will consider it a matter of the greatest importance that you should appoint someone from the United Kingdom to succeed him. I say this not only because I believe that as a Permanent Member of the Security Council the United Kingdom can expect to provide at least one Under-Secretary General in a central job at Headquarters but also, and more specifically, because I believe that for reasons of history and national character the United Kingdom is particularly well able to supply the experience and skills required for the kind of job Mr Urquhart has been doing. I can assure you that when the time comes the British Government will produce a first-class candidate to succeed him.

Yours sincerely

Margaret Thatcher

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Faint text at the bottom of the page, possibly a signature or reference.

PMVH(81)18

COPY NO 11

24 FEBRUARY 1981

PRIME MINISTER'S VISIT TO THE UNITED STATES

25-28 FEBRUARY 1981

ENSERCH/DAVY

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (Defensive only)

1. No decision yet on whether to refer Enserch proposal to Monopolies and Mergers Commission (MMC). A decision to refer would imply no more than that issues involved merited further study. MMC would take all relevant considerations into account.
2. Our attitude is not 'nationalistic'. We support the free movement of investment. However, Enserch proposal does raise significant issues. One major concern is that a merger could damage Davy's exports from this country, because of the long arm of US law. We think it unfair that the practice of extraterritorial jurisdiction subjects foreign companies owned by US corporations to US trade law.
3. Further issues raised by proposal include effect on UK industries connected with Davy, employment, export prospects and balance of payments.

BACKGROUND

1. Enserch is a Dallas-based power company principally involved in production and supply of oil and natural gas and in engineering and construction for the electricity industry. Davy is the largest and

most important UK contractor, producing processing plant for a wide variety of industries.

2. On 18 December 1980 Enserch announced intention to offer some £140 million for Davy. Davy is resisting the merger. The Office of Fair Trading has recommended that the Secretary of State for Trade refer the proposal to the MMC. The Secretary of State for Trade intends to refer the proposal, subject to the views of the Secretary of State for Foreign and Commonwealth Affairs and the Secretary of State for Industry. It would be a 'merger reference' rather than a 'monopolies reference'.

3. Concern about the Enserch proposal focusses on the consequences for US-owned subsidiaries of US claims to extraterritorial jurisdiction. A body of recent UK legislation provides wide powers of interference with trade. Davy argue that the 20% of their trade which is with East Europe and the Soviet Union could be especially at risk.

4. Other arguments against the Enserch proposal include: risk of US interference at management level, affecting amount of sub-contracting given to UK suppliers and willingness to support operations which are not consistently profitable; possible effects on employment in UK; disappearance of Davy as national flag-carrier for UK; possible long-term effect on UK balance of payments because of remittance of profits to the US and loss of sub-contracting work.

5. In favour of their proposal, Enserch have argued that merger would give Davy a broader base to operate from and stronger finance (to enable them to take on bigger contracts). They say that they intend that Davy should continue as a separate business under its present management.

6. Former Governor Connally of Texas telephoned Lord Carrington's office on 13 February to make representations in favour of the Enserch proposal. He argued that he saw no reason for referring the case to the MMC and said that UK resistance to the proposal on nationalistic grounds would amount to a serious restraint of trade. He hoped that Lord Carrington would press for the case to be treated on its merits.



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

BF with 28
Gabon misc. brief

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8 May 1981

I agree with x below.

1. MR DALTON
2. PRIVATE SECRETARY TO THE MINISTER OF STATE (COMMONS)
3. PRIVATE SECRETARY TO THE CHANCELLOR OF THE EXCHEQUER

AS 8/11 The MST(C) agrees, although it surely refers to the IMF meeting in Gabon 11 May

THE CHANCELLOR'S VISIT TO THE UNITED STATES

UNITARY TAXATION

I attach briefing on unitary taxation in the United States for the Chancellor's visit to Washington later this month.

As explained in the brief, Mr Rees recently sent a letter on this issue to Dr Norman Ture, the Under Secretary for Tax and Economic Affairs at the US Treasury. When John Anson of the Embassy delivered the letter Dr Ture indicated that he considers legislation in both California and at the Federal level to be desirable; but stressed that the Administration's efforts this year would be concentrated on its main domestic tax-cutting bill.

In view of this statement of the Administration's priorities on tax matters for this year we doubt whether there is anything to be gained by the Chancellor raising the question of unitary tax with Treasury Secretary Regan in Washington - except perhaps as a matter of public relations here to demonstrate that the Government is actively pursuing this issue.

M A Keith

M A KEITH
Assistant Secretary

cc Mr Battishill
Mr Corlett
Mr Cropper

Sir Lawrence Airey
Mr Dalton
Mr Keith
Mr Twiddy

UNITARY TAXATION

UNITARY TAXATION IN THE UNITED STATES

The application of the unitary basis of taxation to US subsidiaries of foreign companies by certain American States, California in particular, is an important matter for British business and investment in the US. It is also a sensitive issue of American domestic politics.

The unitary basis is so called because it works on the premise that it is unreal to compute the profits of any one operation of a multinational business in isolation, because the whole business is a single unit and all its component parts contribute to the profits of that unit. The basis involves taxing a subsidiary company operating in a State on a proportion of the worldwide profit made by the group as a whole and ignores the actual performance of that company in the State. The proportion is determined by various arbitrary criteria such as the ratio of payroll, gross receipts or assets in the State to their world counterparts.

It is a basis which is contrary to the generally accepted international principle of taxing subsidiaries on the profits they actually earn, adjusted if necessary to the profits which would have been made if they had been independent companies dealing at arm's length with the parent company or other associates.

Article 9(4) of the new UK/US Double Taxation Convention, which entered into force on 25 April 1980, prohibits the use of the unitary basis by the respective

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national governments. As originally drafted the Article also prohibited its use by individual States in the USA. The US Senate rejected this, however, essentially on the constitutional point that the Federal Government should not seek to interfere with State taxing rights by means of tax treaties with foreign powers.

On 19 March 1980 a Note was presented to the State Department by the Italian Government on behalf of the nine EEC Governments expressing concern about the application of the system and urging support for legislation proposed at Federal level. Subsequently on ratification of our Convention on 25 March 1980 a further Note was presented by the UK Government deploring the continuance of the system.

Several Bills were introduced in Congress during 1979 to prevent the unitary basis from taking into account the income of companies outside the US. Hearings on the Bills were held in March and June last year but, despite US Treasury support, no progress was made before the Presidential election. Two further Bills have recently been introduced but it is too early to assess their prospects. We fear that the constitutional issue may still be significant.

A similar Bill (the Hughes-Mori Bill) was introduced in California in early 1980

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to prevent that State from taking account of the income of a foreign company which is not controlled by US residents and has the major part of its operations outside the US. This failed by a narrow margin in its final stages last autumn as a result of a political and procedural clash between the two Houses of the Legislature. The principal point at issue was whether foreign energy companies should be protected. Three new Bills have been introduced in California. The Senate Bill (which includes energy companies in its scope) has passed its first Committee hearing whilst a more limited version put forward by Mrs Hughes is due for hearing in early May. A further complication has been the introduction of a third Bill which applies to domestic US corporations as well as foreign owned corporations. The energy company question and the State's budgetary problem could be stumbling blocks thus making prospects uncertain.

The Minister of State (Commons) wrote to the newly appointed Under Secretary for Tax and Economic Affairs at the US Treasury, Dr Norman Ture, on 24 March 1981 expressing the hope that the new Administration would support legislation to curb the unitary basis. Dr Ture has indicated that he is in favour of such measures and it is reasonable to suppose that the unitary issue will at least be considered as a candidate for inclusion in the Administration's proposed second-tier tax legislation. The timing of this legislation is however uncertain. As priority is being given to the primary tax measures in President Regan's economic programme it is doubtful whether the second bill will be introduced this year.

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IRENE RIPLEY



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