

PO-CH/NL/0457

PART B



Part .B.

**SECRET**

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Begins: 4/10/88.  
Ends: 13/2/89.

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Chancellor's (Lawson) Papers:  
Visits and Meetings between British and American Ministers 1987-88.

DD's: 25 Years

*Phillips*

7/2/96.

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PT.B.





FROM: J M G TAYLOR  
DATE: 4 October 1988

A large, stylized handwritten signature in the top right corner of the page.

SIR G LITTLER

cc Mr Lankester  
Mr H P Evans  
Mr Mountfield  
Mr Matthews

**COURTESY CALL ON THE CHANCELLOR: M. SCHNEITER**

M. Schneiter, the outgoing Financial Counsellor at the French Embassy, paid a courtesy call on the Chancellor today. He was accompanied by his successor, M. de Rosen.

2. The discussion was very general. Replying to questions, the Chancellor said that he was comfortable with the present level of interest rates. He would, however, continue to watch developments closely. His principal concern remained the need to bear down on inflation. While there must be some room for flexibility on the exchange rate, he would not want to see sterling taking a dive. M. Schneiter wondered whether the outcome of the US Presidential Election would be clear sufficiently in advance of the next Budget. The Chancellor said that things would obviously be clearer sooner if Bush won. But the outcome of the election should have relatively little effect on the sorts of decisions relating to fiscal issues which formed the basis of the Budget.

3. M. Schneiter made a point of expressing his gratitude for all the assistance given to him by Treasury officials during his tour in London.

A handwritten signature, likely of J M G Taylor, located below the main text.

J M G TAYLOR



cc PS/Chancellor  
PS/Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Lankester  
Mr H P Evans  
Mr Edwards  
Mr Scholar



Treasury Chambers, Parliament Street, SW1P 3AG

David Snoxell Esq  
British Information Services  
845 Third Avenue  
NEW YORK, NY 10022 - By Fax

31 October 1988

Dear Mr Snoxell

**VISIT OF THE PAYMASTER GENERAL**

I would just like to follow up my 'phone call with a written apology. As you know, we were powerless to change the date of the EC Budget Council.

2. The Paymaster General appreciates the work that went into the timetable. I hope this will not be entirely wasted and the ground work will serve as a basis for a visit in the New Year. The Paymaster thinks that an invitation from the Chicago CFR will be forthcoming, and we will have to bear this in mind when we come to look at the agenda again. I will be in touch about a date.

**KIM ELLIMAN**  
Private Secretary





*[Handwritten signature]*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

10 November 1988

R C Pratt Esq  
c/o FCO (British Embassy, Washington)  
King Charles Street  
London SW1

*Dear Richard*

... You kindly agreed to arrange for the onward transmission of the enclosed letter from the Chancellor to Mr Baker.

*Yours sincerely*  
*J M G Taylor*  
J M G TAYLOR  
Private Secretary





Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

10 November 1988

The Hon James A Baker III  
Washington DC  
USA

A handwritten signature in black ink, appearing to read "Jim Baker".

Many congratulations on George Bush's splendid election victory, in which you played such a key part, and on your own nomination as Secretary of State. I wish you the best of luck in your new job, and hope we can continue to keep in touch.

A handwritten signature in black ink, appearing to read "Nigel Lawson".  
**NIGEL LAWSON**



① Psetype final: The Hon James A Baker III  
Washington DC  
USA

✓

**DRAFT LETTER FROM CHANCELLOR TO JAMES A BAKER III**

Many congratulations on ~~the most impressive~~ <sup>George Bush's ~~very~~ splendid</sup> election victory, in which you played ~~so vital a~~ <sup>such a key</sup> part, and on your ~~own~~ nomination as Secretary of State. I wish you the best of luck in your new job, and hope we can continue to keep in touch.

**NIGEL LAWSON**

②

RC Pratt, Esq.  
c/o FCO (British Embassy, Washington)  
King Charles St  
London SW1.

You kindly agreed to arrange for the onward transmission of the enclosed letter from the Chancellor to Mr Baker.

AMG T-  
P-5-



BC 16/11

FROM: S W MATTHEWS  
DATE: 11 November 1988

CHANCELLOR

cc PS/Sir P Middleton  
PS/Sir T Burns  
Sir G Littler  
Mr Lankester  
Mr Evans

**BERYL SPRINKEL COURTESY CALL**

I am attaching Dr Sprinkel's CV as it stood at the time of his appointment as Chairman of the Council of Economic Advisers in February 1985. He subsequently became a member of the Cabinet (last autumn).

2. Dr Sprinkel has been chairman of the Economic Policy Committee at the OECD and, when he comes to see you on 17 November, he will have just chaired his final meeting on 14-15 November. We will let you know if there are any significant developments at that meeting.

84.

S W MATTHEWS



VP

THE WHITE HOUSE  
Office of the Press Secretary

For Immediate Release

February 21, 1985

The President today announced his intention to nominate Dr. Beryl W. Sprinkel to be a Member of the Council of Economic Advisors. Upon his appointment the President intends to designate him Chairman of the Council. He will be economic advisor to the President. Dr. Sprinkel will succeed Dr. Martin Feldstein, who returned to his tenured position at Harvard University.

Since March 1981, Dr. Sprinkel has been serving as Under Secretary of the Treasury for Monetary Affairs. Previously, he was Executive Vice President and Economist at Harris Trust and Savings Bank in Chicago, Illinois, where he worked for 28 years. He was director of "Harris Economics," an economic and financial forecasting service published by the bank; a member of Time Magazine's Board of Economists; chairman of the Economic Advisory Committee of the American Bankers Association; and member of the Board of Directors of the U.S. Chamber of Commerce. He also served as a consultant to various government agencies and Congressional committees.

Before joining Harris Trust and Savings, he taught economics and finance at the University of Chicago (1949-1952) and at the University of Missouri School of Business and Public Administration (1948-1949). He is the author of two books, and co-author of a third, on the effects of monetary policy on financial markets and the economy and has written numerous articles.

Dr. Sprinkel received his B.S. degree in Public Administration from the University of Missouri in 1947, M.B.A. degree from the University of Chicago in 1948, and Ph.D. in economics and finance from the University of Chicago in 1952. He was a founding member of the Shadow Open Market Committee. He holds a Chartered Financial Analyst degree from the Institute of Chartered Financial Analysts; an honorary Doctor of Humane Letters degree from DePaul University; and an honorary Doctor of Laws degree from St. Michael's College.

He was born November 20, 1923 on a farm near Richmond, Missouri. He is married to the former Barbara Angus. They have four children and reside in McLean, Virginia.

###

1) cc: MC Raven NAD  
Int Pse WF

2) PF

NS 25/ii





Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

16 November 1988

R Pratt Esq  
c/o FCO (British Embassy, Washington)  
King Charles Street  
LONDON  
SW1

*Dear Richard*

... I should be grateful if you could pass on the enclosed letter from the Chancellor to Mr Brady.

*Yours sincerely*

A handwritten signature in dark ink, appearing to read 'J M G Taylor'.

J M G TAYLOR  
Private Secretary





*[Handwritten signature]*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

16 November 1988

The Hon Nicholas Brady  
Washington DC  
USA

*[Handwritten signature]*

I am delighted that George Bush has announced he will nominate you as Treasury Secretary in his Administration. I much look forward to continuing to work with you.

*[Handwritten signature]*  
*[Handwritten signature]*  
**NIGEL LAWSON**



|                            |                             |
|----------------------------|-----------------------------|
| CH/EXCHEQUER               |                             |
| REC.                       | 18 NOV 1988                 |
|                            | PS/EST.<br>SIR P. MIDDLETON |
| COPIES TO                  | Sr. G. LITTLER              |
|                            | Mr LANKESTER                |
|                            | Mr H. P. EVANS              |
|                            | Mr MOUNTFIELD               |
| From the Private Secretary |                             |



10 DOWNING STREET  
LONDON SW1A 2AA

1 OF 7

16 November 1988

Dear Stephen,

**PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN  
AT THE WHITE HOUSE ON WEDNESDAY 16 NOVEMBER 1988**

Following their tete-a-tete discussion at the White House this morning, which I have recorded separately, the Prime Minister and President Reagan widened their meeting to include Vice-President Bush, Secretary Shultz, Mr. Dubenstein, General Powell, Ambassador Price and Mrs. Ridgway, together with H M Ambassador, Washington.

The Prime Minister said that she wished to say an omnibus thank you to the President for everything which had been achieved during his Presidency. Much of what he had achieved would have seemed impossible back in 1980. The lesson for future generations of politicians was that if you staked out your ground and stuck to what you believed in, you could achieve anything. The President's leadership and determination had been decisive in strengthening the West and advancing the cause of democracy.

The Prime Minister continued that there were one or two items of unfinished business which she and the President might discuss briefly. She would like to start by congratulating him on the success of America's diplomacy in the discussions over Cuban troop withdrawal from Angola. The outcome of the negotiations in Geneva was very encouraging.

The Prime Minister continued that she hoped that the new Administration would be ready to address Middle East problems as a priority. The recent decisions of the Palestine National Council were a step in the right direction but did not go far enough. Their acceptance of UN Security Council Resolutions 242 and 338 was a significant move, although it was a pity they had not given explicit recognition to Israel. They had not clearly accepted the need for negotiations with Israel, and some ambivalence remained on their attitude to violence. Nonetheless, they should be given some encouragement for a modest move in the right direction. Secretary Shultz said he would counsel caution. Political statements issued by the PNC had been hedged in different ways and open to differing interpretations. Habash was already saying that the PLO was not even close to recognising Israel's right to exist. Moreover, by declaring an Independent Palestinian state they were trying to spell out what the outcome of a peace conference



should be. The encouraging development was that all governments in the Middle East seemed now to accept that maintaining the status quo was not an option. The question remained what to change it to, and how.

The Prime Minister said that the elimination of chemical weapons was another item of unfinished business. She was very worried by the proliferation of such weapons in the Middle East. Even countries such as Libya were now acquiring them, and seemed to have little difficulty in obtaining the chemical pre-cursors from Western Europe, in particular Germany. It was also a matter for concern that Gorbachev had not come clean about Soviet activities in this field. She had not yet decided how best to tackle him about this when he visited the United Kingdom in December. She was tempted to take Soviet cheating head on. But there was a problem over revealing sources. Secretary Shultz said that the Americans had remonstrated with the German Government about the supply of chemicals to the Middle East and had given Chancellor Kohl chapter and verse for this. Kohl had promised to make immediate enquiries.

President Reagan said that the question of a human rights conference in Moscow was another item of unfinished business. He very much agreed with the Prime Minister that the Soviet Union must meet certain clear criteria before the West could agree to attend such a conference. The Prime Minister said she had been appalled by the readiness of some European Governments to agree to such a conference without demanding any guarantees. She thought the conditions which the Americans had spelled out to the Russians were good ones. She attached particular importance to a fundamental reform of Soviet law. If we settled for too little, we should simply let down all those in the Soviet Union and Eastern Europe who relied on Britain and the United States not to be hoodwinked by a few cosmetic changes. We must set down criteria and stick to them.

The Prime Minister asked whether the President was worried about the interruption in Soviet withdrawal from Afghanistan. Her own assessment was that the Russians would still meet the deadline of 15 February 1989. Otherwise, their reputation would suffer internationally. Secretary Shultz said the United States Administration shared this assessment. At a recent meeting with the Russians, Shevardnadze had held out the possibility of postponement of Soviet withdrawal but Marshal Akhromeyev had bluntly contradicted him, asserting that Soviet forces would all be withdrawn according to the timetable. Secretary Shultz added that he thought the Russians had miscalculated in escalating the military conflict in recent weeks, to attempt to persuade the Resistance to accept a coalition with members of the present regime. The United States would certainly not urge the Resistance in this direction. Actually matters had gone beyond the point where the United States could exert any significant control over the Resistance. The Prime Minister commented that it was difficult to get the Resistance leaders to agree among themselves on the shape of the new Government. Secretary Shultz said there had been a welcome change in the Pakistani attitude: they no longer gave full support to the most fundamentalist group among the Resistance.



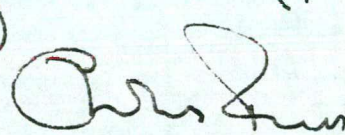
The Prime Minister said that another item on her list of unfinished business was the GATT Ministerial. It was very important to make a success of the mid-term meeting in Montreal. We faced considerable difficulties with the other Europeans on agriculture, but would continue to press for a reasonable negotiating position. The United States must be ready to show some flexibility too. President Reagan said that some of the European countries did not seem to recognise that we were all subsidising products for which there was no market. The United States was as guilty as anyone else. It was essential to get together to make agriculture subject once again to the rules of the market place.

The Prime Minister made a brief reference to debt issues. Secretary Shultz said that the Western Governments had not been tough enough on debt. They ought to say what they thought right and then stick to it. President Reagan added that he would like to see Western Governments encouraging privatisation and sale of assets by debtor countries as a means of reducing their debt.

The Prime Minister said that a major subject for the future would be environmental problems. She was not worried so much by local and regional problems such as pollution of rivers or acid rain. It was where we had interfered with the earth's life support systems that the real problems arose, and there would need to be effective international co-operation to deal with them. She had in mind in particular the greenhouse effect and damage to the ozone layer.

The Prime Minister said that although the discussions had concentrated on unfinished business, this was in reality minor in comparison with the achievements of the eight years of the President's term of office, on which she would once more wish to congratulate him.

I am sending copies of this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office). It contains sensitive material, and should be given a very limited distribution only.

*Jan mark.*  
  
C. D. POWELL

Stephen Wall, Esq.,  
Foreign and Commonwealth Office



|                  |                |
|------------------|----------------|
| CH/EXCHEQUER     |                |
| REC.             | 18 NOV 1988    |
| Sir P. MIDDLETON |                |
| COPIES TO        | Sir G. LITTLER |
|                  | Mr LANKESTER   |
|                  | Mr ROBSON      |

J  
18/11



1 OF 5

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10 DOWNING STREET

LONDON SW1A 2AA

16 November 1988

From the Private Secretary

Dear Stephen,

**PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN  
AT THE WHITE HOUSE IN WASHINGTON ON 16 NOVEMBER**

The Prime Minister met President Reagan for half an hour at the White House this morning, with just notetakers present, before moving on to a wider meeting.

The Prime Minister began by thanking the President for all that had been achieved during his Presidency and for the particular attention which he had given to relations between the United States and the United Kingdom. He had set the world on a different course and had tilted the balance in democracy's favour the world over. She listed some of the President's foreign policy achievements. Vice-President Bush would, of course, bring his own particular style to the Presidency. But she believed he would wish to continue along the broad lines set by the President. She wondered what particular thoughts the President had on the way ahead.

President Reagan said that tackling the deficit would be a major task. He did not believe it could ever be dealt with successfully unless two steps were taken: a balanced budget amendment to the Constitution and a line item veto for the President. He would be campaigning for these on the 'mashed potato circuit' once he left the White House. He believed there would be wide public support for such changes. Most States already gave their Governors a line item veto and in his experience it was rarely over-ridden.

The President continued that East-West relations would continue to be a major pre-occupation. He and Vice-President Bush would be meeting President Gorbachev in New York in early December. He believed that Gorbachev represented hope. But there was no doubting the scale of the problems he faced. The Soviet Union was an economic basket case. Gorbachev was up against a formidable bureaucracy. From their conversations, he had the strong impression that Gorbachev loathed everything about the Stalin era and looked back to Lenin for guidance.

SECRET



The Prime Minister said that generally speaking she shared the President's assessment of Gorbachev. But some of the signals were contradictory. For instance he appeared to be playing a helpful role over withdrawal of Cuban troops from Angola. But he was also practising a major deceit over chemical weapons. She thought his position could still be vulnerable, particularly if his economic reforms failed to deliver results quite quickly. He also faced considerable difficulty with the nationalities. And the situation in Eastern Europe which could present him with some formidably difficult decisions. Her recent visit to Poland had underlined the dilemma of the Communist societies. They wanted the benefits of economic reform but were afraid of granting political freedom. The President commented that the Hungarians were perhaps most forward on political reform. He had been quite impressed with Mr. Grosz. He was a dedicated Communist but in the Gorbachev mould. The Prime Minister agreed with the President's assessment of Mr. Grosz, adding that he seemed ready to envisage a role for opposition parties.

The Prime Minister asked how the President saw the prospects in Latin America and Central America. She was concerned about political instability in Mexico following the recent elections. The President had done the world a great service in bringing to its attention the threat presented by Communism in the area. The President commented that he thought the overall situation in Latin America had improved. Eight years ago only 30 per cent of Latin American people were living under a democratic system. Now nearly 90 per cent were either living under democratic governments or governments which were moving towards democracy. Nicaragua remained the major exception. The Sandinistas ran an evil regime. He never ceased to be astonished at its success in spreading dis-information about its real nature and in attracting support from gullible governments in Europe and elsewhere.

The President continued that he thought that America's allies sometimes under-estimated the difficulty for a United States President and Administration of operating in a system where the opposition party had a majority in Congress. In his view, the pendulum had in any case swung too far towards Congress and the balance intended by the original drafters of the US Constitution needed to be restored.

MS | The President said there was one final point he wished to make before moving to the wider meeting. He knew that the British Government had some concern about the implications of counting rules in the START negotiations for our choice of the twelve-station bus version of the Trident missile. He could assure the Prime Minister the US would not agree to anything in the negotiations which would in any way put at risk that choice. We could be confident of that assurance. The Prime Minister said we were very grateful to the President and the Administration for taking such careful account of our concerns in this field.



I am copying this letter to Alex Allan ( H M Treasury), Brian  
Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).  
It contains sensitive material and should be given only very  
limited distribution.

Yours truly,

C. D. Powell

C. D. POWELL

Stephen Wall, Esq.,  
Foreign and Commonwealth Office



|                            |  |
|----------------------------|--|
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| From the Private Secretary |  |



10 DOWNING STREET  
LONDON SW1A 2AA

1 OF 8

17 November 1988

Dear Stephen,

**PRIME MINISTER'S MEETING WITH VICE PRESIDENT BUSH  
AT THE VICE PRESIDENT'S RESIDENCE IN WASHINGTON  
ON THURSDAY 17 NOVEMBER**

The Prime Minister had a meeting lasting an hour and a half with the Vice-President over breakfast this morning. The Vice-President was accompanied by Senator Quayle, Mr. Jim Baker and Ambassador Price. HM Ambassador, Washington was also present.

The Prime Minister began by congratulating Vice-President Bush warmly on his election victory. It was a great personal triumph.

US Economy

The Prime Minister continued that she had talked the day before to Dr. Alan Greenspan, Chairman of the Federal Reserve Board, about the economy. She had found him reasonably optimistic. But action was clearly needed on the Federal deficit. VicePresident Bush said that he viewed the deficit with great seriousness and intended to get it down. "I want you to know we are going to do something about the deficit". He was not one of those who believed the deficit did not matter. He was already engaged in discussion with President Reagan over the preparation of the next Budget, and the extent to which it should be a Bush Budget. He had talked widely to members of Congress and was convinced that Congress was not hostile to the action he envisaged.

East/West Relations

Vice-President Bush said that his Administration would continue to work towards improved East/West relations. He was unpersuaded that all was harmonious in the Soviet Union. His approach would be wary but forthcoming. He would continue with the arms control process as it had been mapped out earlier: there would be no hairpin bends. He could give an assurance that he would never negotiate on British and French nuclear forces. As to the proposed meeting in December with Mr. Gorbachev, he had made clear to the Soviets that he would not be ready to talk in depth. It would not be a Summit. Before there was a real Summit, he would send Jim Baker to consult with



NATO leaders and then meet with Mr. Shevardnadze to prepare the ground. He would agree to a Summit when it was clear that concrete progress could be made. He was not interested in a 'snowblower' job, which was all glamour and no substance. He particularly valued the Prime Minister's understanding and leadership on East/West issues and would want to consult closely with her.

The Prime Minister said that it was a time of great change and therefore great uncertainty in East/West relations. The picture had changed dramatically over the last eight years. The text would be the extent to which reforms would really be implemented. She thought Mr. Gorbachev would encounter very considerable difficulties. But we should support him in his efforts while keeping our defences strong. She was grateful for the Vice-President's firm statement on consultation with NATO. This was important in presentational terms: we had to show the Warsaw Pact that NATO was united. It had been suggested to her by Dr. Woerner, the Secretary-General of NATO, that the NATO Ministerial Meeting in London in the first half of 1989 might be converted into a Heads of Government meeting. She could see certain advantages in this. It was crucial to push through decisions on modernisation of NATO's shortrange nuclear weapons, and it would be easier to do this with Chancellor Kohl in the German chair than Foreign Minister Genscher. Kohl knew that there must be modernisation. The Vice-President might like to reflect on the idea of such a Summit. VicePresident Bush enquired when the Economic Summit would be held. The Prime Minister said that it would be on 14 July in Paris. The NATO meeting was something of a moveable feast and the date could be arranged to meet the Vice-President's convenience.

Vice-President Bush said that there was enormous potential for change in Eastern Europe. He had recently talked to Dr. Kissinger about this. The Prime Minister said that she had recently visited Poland which was in a bad mess. They wanted the advantages of economic reform without making political changes. Vice-President Bush said that he did not think much of Prime Minister Rakowski, but had more sympathy with Jaruzelski. The Prime Minister concurred.

Mr. Baker asked about the position on untied loans to the Soviet Union. He recalled there had been some inconclusive discussion of this at the Toronto Economic Summit. He thought the West should have a concerted approach. Otherwise we might face in Eastern Europe and the Soviet Union the same problem we already had with Latin American debt. The Prime Minister said that we should be wary of rushing to help the East-European governments. If we made it too easy for them, they would simply carry on as they were. It was important to tie financial and economic help to real political and economic reform.



Arms Control

Vice-President Bush recalled his earlier discussions with the Prime Minister about a chemical weapons convention and her reservations about the problem of verification. He was committed to trying to achieve a convention to eliminate chemical weapons, but promised that the US would not do anything to take us by surprise. He found the proliferation of these weapons to countries like Libya very alarming. Mr. Gorbachev appeared sincere in his wish for an agreement. The Prime Minister said that she remained very concerned about the difficulties of verifying an agreement. There was also the fact of Gorbachev's deceit over Soviet activities in this area, which made her very suspicious. She had not yet worked out how to tackle him about this when they met in December but would like to confront him directly. We must find a way to let people know about the chemical warfare capability of countries like Libya and Syria if we could do so without compromising sources. That would awaken them to the dangers. It might induce a recognition that the West lacked an effective chemical deterrent. Senator Quayle said that it would be relatively easy for the US to develop one. But the Europeans would never accept storage of US binary weapons in Europe.

SDI

The Prime Minister said that she very much hoped that research on SDI would go ahead. It was vital for the West to keep the technological edge. Vice-President Bush confirmed that the programme would continue. There had been some very promising break-throughs recently, which held out the prospect of a reasonably effective system at a much lower cost than had been foreseen.

Latin America

Vice-President Bush said he wanted the Prime Minister to know in strict confidence that he and Mr. Baker were planning to meet the new Mexican President before he took office. The meeting would probably take place soon in Houston. One aim would be to persuade the Mexicans to be more helpful towards the United States on Western hemisphere issues. The Prime Minister said that she very much welcomed the idea of such a meeting.

The Prime Minister speculated about the purpose of Mr. Gorbachev's visit to Cuba. It might be that he was planning to reduce the Soviet Union's investment of political capital in Cuba and Central America. Vice-President Bush said that he would happily pay Mr. Gorbachev's fare if that was the case. It would be a major break-through to have a more moderate Cuba.

Southern Africa

The Prime Minister welcomed the progress made in the negotiations over Angola/Namibia. Meanwhile, we were constantly trying to encourage more progress in getting rid of apartheid in South Africa. She wanted to tell the Vice-President in strict confidence that she and Chancellor Kohl were planning to send an emissary to see President Botha privately to encourage



him to take further steps. Her views on sanctions remained unchanged: and although it might be tempting providence, she thought that the argument on sanctions had been won. Vice-President Bush said that he was enthusiastic about the idea of an emissary. The Congress continued to treat sanctions as an emotional issue. There was an influential group which favoured taking further measures, and he expected the issue to come back.

#### Middle East

The Prime Minister said it would be very important to launch a fresh drive early in the life of the new Administration to take forward Middle East peace efforts. Vice-President Bush said that he could not agree more. The question was how to do it. We should not read too much into the Palestinian National Council's recent statement. There was a lot of backing and hedging. The Prime Minister said that equally we should not reject it out of hand. It represented a modest advance on which we should try to build. She thought in a way it was a justification of King Hussein's attempt to make the PLO adopt more realistic attitudes. But there were many dangers in the area, above all proliferation of missiles and chemical weapons, and we could not just do nothing. The Vice-President commented that the area was a powder keg.

#### Cambodia

The Prime Minister said that she was fairly sceptical of early progress towards a solution in Cambodia. Prince Sihanouk was an irrepressible balloon of words but not much else.

#### GATT Negotiations

The Prime Minister said that it would be very important to make a success of the GATT Mid-Term Review meeting in Montreal. We would do our best to persuade the other European governments to adopt more reasonable positions on agriculture. Vice-President Bush said that he very much agreed on the importance of the Montreal meeting. He would shortly appoint a new United States Trade Representative. The United States would also soon modify its utopian proposal to abolish all agricultural subsidies by the year 2000. The President was planning to make this clear in a speech very shortly.

#### Intelligence and nuclear relationship

The Prime Minister took the opportunity at the end of the meeting to have a private word with the Vice-President about our special intelligence and nuclear relationship. It was very important that this should continue undisturbed. She proposed that the Cabinet Secretary should come out to Washington early on in the life of the new Administration to confirm the various agreements and understandings, including those about the use of US bases in the United Kingdom. The Vice-President said that he wished the present relationship to continue undisturbed and the necessary procedural steps should be taken.

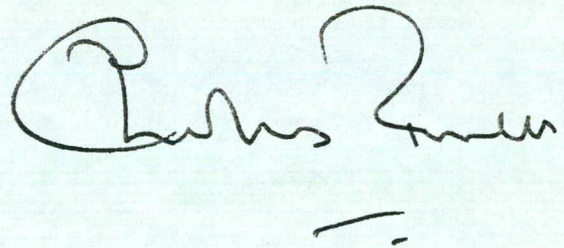


SECRET

- 5 -

I am copying this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office). It contains sensitive material and should be given a very limited distribution only.

Yours sincerely,



C. D. POWELL

Stephen Wall, Esq.,  
Foreign and Commonwealth Office

SECRET



CONFIDENTIAL



✓  
18/11

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|-------------------|---|
| CH/EXCHEQUER      |   |
| REC.              | 18 NOV 1988   |
| <del>APPROV</del> | PS/EST, SIR AMIDGTON  |
| COPIES TO         | SIR GUTTER,<br>MR LANKESTER,<br>MR HIR GARDNER,<br>MR MOUNTREE,<br>MRS S. J. MATTHEWS |

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

18 November 1988

MEETING BETWEEN THE PRIME MINISTER AND DR. GREENSPAN,  
CHAIRMAN OF THE FEDERAL RESERVE BOARD, AT BLAIR HOUSE,  
WASHINGTON DC, 16 NOVEMBER 1988

The Prime Minister had a meeting, lasting forty-five minutes with Dr. Alan Greenspan, Chairman of the Federal Reserve Board. Dr. Greenspan was accompanied by Mr. E. Truman (Federal Reserve Board). H.M. Ambassador, Washington and Mr. Frank Cassell (Minister for the Economy) were also present.

After touching briefly on the latest US trade figures (released that morning), the Prime Minister asked Dr. Greenspan for his view on the current state of the financial markets which, she said, seemed to be intent on trying to talk the dollar down, and generating a follow-up to Black Monday. Dr. Greenspan said that market people hated inactivity; they were intent on encouraging activity, irrespective of its direction. With sophisticated telecommunication systems, any news or statement made anywhere in the world could be in the market within seconds. This created problems for those wanting to keep markets calm. It was no longer enough for policy makers to make appropriate adjustments in their instruments (interest rates, intervention etc), they had also to devise a means of saying something that would be soothing to the market but would not be seen as intended simply to do that.

Asked how he saw prospects for the American economy, Dr. Greenspan replied that it was doing very well: investment, consumption and exports were all growing strongly. It was difficult to find any real elements of weakness. As in the United Kingdom, the problem was that the recent growth of the economy was too good for the total capacity of the system. The authorities were therefore trying to restrain growth, and thereby to prolong it. This was a difficult exercise. Marginal changes in interest rates would have only very modest effects on expenditure. There was no firm evidence that inflation was accelerating but there were pressures against capacity, and a risk that this could lead to an acceleration in wages and prices. If it did, it would endanger the money supply suppression that the Fed had achieved that year. The



Fed was intent on maintaining a degree of pressure in the markets that was just ahead of expectations.

Dr. Greenspan continued that the low level of saving in the American economy worried him. The Prime Minister said that in an international context there was a difficult cultural problem. The Japanese and the Germans expected not to buy, because they preferred to save; but they expected everybody else to buy. Dr. Greenspan said that he saw signs that Japanese saving might be beginning to crumble. However, the Japanese economy was growing rather rapidly - and at capacity: in these circumstances, he did not see great scope for getting the Japanese to spend more.

He attached great importance to getting the US budget deficit down. This would lead to "much lower" real interest rates, which in turn should bring higher capital expenditure. Looking back to the early 1980s, it was clear that real interest rates had risen sharply as the budget deficit had opened out, and that these real interest rates in turn had led to a fall in net investment as a share of GNP.

The Prime Minister asked whether he expected a reduction in the US budget deficit to be reflected in an improvement in the trade deficit (recalling that Britain had now moved into large budget surplus while the current account had gone sharply into the red). Dr. Greenspan said that the linkage was not simple. The pattern in the 1980s had been that the higher real interest rates had pulled the dollar higher and worsened America's international competitiveness. But it did not follow that that sequence would work in reverse if the budget deficit were cut. The economy was now at or near full capacity. Higher investment would, in time, enable domestic output to be substituted for imports and also help competitiveness. And what happened to the exchange rate would depend on whether the confidence generated by the reduction in the budget deficit led to an increase in foreigners' propensity to hold dollars.

It was crucial to increase total saving. He had come to the conclusion that the only way of doing this in the US economy was by improving the fiscal balance. He did not believe that lower real interest rates would discourage private saving (the US evidence suggested that saving was not very responsive to interest rates).

Cutting the budget deficit would help to prevent any reacceleration of inflation. In a brief discussion of recent UK experience, it was noted the differences between the UK and US economies lay not only in their fiscal stance but also in the structure of their labour markets: so far the high demand pressures in the US had not fed into pay settlements.

The Prime Minister explained UK experience in getting the budget into surplus and the resultant need to buy back gilt-edged. This had far-reaching implications for the pattern of domestic capital flows. Pension funds had become used to investing a high proportion of their incoming funds



each year in gilt-edged. Now the stock of gilts was falling. In time, this should lead to a revival of the corporate bond market. Dr. Greenspan commented that he was very suspicious of any argument that said it was necessary to continue to supply a certain amount of a particular debt instrument in order to meet the needs of particular investors. By removing an instrument that was no longer needed you were forcing an efficiency process in the market. It was clear that the US was now seeing excessive amounts of debt. Treasury issues had increased rapidly in recent years: the amount outstanding implied a degree of potential liquidity that could become very difficult to handle.

For all these reasons it was important to get the budget deficit down. He knew of no adverse consequence of lowering the deficit, or of lowering it too quickly. There was a potential backlog of capital investment that could offset any fiscal drag arising from the reduction in the deficit. The problem was not economic but political. He thought that there was a reasonably good chance with a new Congress in place (or even before that) that some significant progress might be made towards the longer-term solution of the budget problem. The Fed could hold the fort for a while, but it could only operate on the edges. Without a rebalancing of supply and demand in the economy there was a very serious problem.

Why, if  
it's PM  
of  
Democrats?

The Prime Minister then raised the question of the savings and loan institutions. Dr. Greenspan said that this was extremely serious and would have to be tackled urgently. 100 per cent protection for depositors meant that there was no run on these institutions; in that sense the problem was not a financial one. It could quickly become a fiscal problem because the bailing out of the insolvent thrifts would far exceed the resources of the regulatory bodies. The Prime Minister remarked that if you saved people from the consequences of irresponsibility they will be irresponsible.

Concluding the meeting, the Prime Minister complimented Dr. Greenspan on his handling of the financial markets after Black Monday. He replied that it had certainly been right immediately to put new liquidity into the markets, but he had taken the first opportunity to withdraw it again.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office) and to Trevor Woolley (Cabinet Office).



PP

C. D. POWELL

Alex Allan, Esq.,  
H.M. Treasury.



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MY TELNOS 2742 AND 2743 (NOT TO ALL): PRIME MINISTER'S  
VISIT TO WASHINGTON: 15-17 NOVEMBER: A FIRST ASSESSMENT  
SUMMARY

1. AN HISTORIC VISIT, FULL OF SUBSTANCE AS WELL AS  
CEREMONY. THE PRIME MINISTER SUCCESSFULLY MET HER TWO  
OBJECTIVES OF PAYING TRIBUTE TO PRESIDENT REAGAN AND OF  
DEVELOPING THE RELATIONSHIP WITH PRESIDENT-ELECT BUSH.  
THE VISIT HAS PROVIDED A FIRM FOUNDATION ON WHICH TO  
BUILD FUTURE CONTACTS WITH THE BUSH ADMINISTRATION. BUT  
WE SHALL NEED ALSO TO DEVOTE SOME ATTENTION TO THE NEW  
CONGRESS.

DETAIL

2. YOU MAY LIKE TO HAVE SOME QUICK IMPRESSIONS OF THE  
PRIME MINISTER'S VISIT TO WASHINGTON ON 15-17 NOVEMBER.  
THE RECORDS OF THE PRIME MINISTER'S MEETINGS WITH THE  
PRESIDENT, THE PRESIDENT-ELECT, SHULTZ AND OTHERS ARE BEING  
HANDLED SEPARATELY BY HER OFFICE.

3. APART FROM HER TALKS WITH THE PRESIDENT AND HIS SUCCESSOR,  
THE PRIME MINISTER HAD A FULL DISCUSSION OF A NUMBER OF  
CURRENT ISSUES WITH SHULTZ, AS WELL AS MEETINGS WITH THE  
CHAIRMAN OF THE FEDERAL RESERVE BOARD, DR GREENSPAN: AND WITH  
DR SAKHAROV. THE PROGRAMME ALSO INCLUDED A FORMAL ARRIVAL  
CEREMONY, AND STATE DINNER, AT THE WHITE HOUSE: A LUNCH IN THE  
PRIME MINISTER'S HONOUR GIVEN BY SHULTZ: A WREATH-LAYING  
CEREMONY AT ARLINGTON: AN EXTENDED INTERVIEW WITH THE  
WASHINGTON POST AND NEWSWEEK (MUCH PRAISED SUBSEQUENTLY BY MRS  
GRAHAM): A FULL PRESS CONFERENCE: 11 SEPARATE TELEVISION AND RADIO  
INTERVIEWS : AND A CEREMONY TO MARK MRS THATCHER'S AND MARYLAND  
SCHOOLS' SHARED FAVOURITE SONG QUOTE ACCENTUATE THE POSITIVE  
UNQUOTE.

4. AMERICAN OFFICIALS HAD REPEATEDLY POINTED OUT  
TO US IN THE RUN-UP TO THE VISIT THAT IT WAS A STATE VISIT  
IN ALL BUT NAME, AND THE CEREMONIAL SIDE CERTAINLY LIVED  
UP TO THIS BILLING. BUT THE PROGRAMME ALSO CONTAINED A



GREAT DEAL OF SUBSTANCE, DIVIDED BETWEEN THE REAGAN DAY (16 NOVEMBER) AND THE BUSH DAY (17 NOVEMBER): AND BETWEEN THE TWO MAIN PURPOSES OF THE VISIT - TO PAY TRIBUTE TO PRESIDENT REAGAN, AND TO DEVELOP THE RELATIONSHIP WITH HIS SUCCESSOR.

5. IN TACKLING THE FIRST OBJECTIVE, THE PRIME MINISTER GAVE WARM PRAISE FOR GENUINE ACHIEVEMENT, WHILE AVOIDING WHAT SOME IN THE MEDIA MIGHT HAVE BEEN TEMPTED TO SEE AS EXCESSIVE MUTUAL CONGRATULATION. BY CONCENTRATING, IN PUBLIC AND IN PRIVATE, ON WHAT MRS THATCHER CLEARLY BELIEVED PERSONALLY TO BE REAGAN'S GREATEST ACCOMPLISHMENTS, THE PRIME MINISTER STRUCK JUST THE RIGHT NOTE. BOTH SHULTZ AND HIS DEPUTY (WHITEHEAD) HAVE ALREADY COMMENTED TO US ON THIS, AND ON THE PLEASURE WHICH THE AMERICANS TOOK IN PLAYING HOST TO A VISITOR WHO CAME TO WASHINGTON NOT TO CARP TO THE ADMINISTRATION ABOUT WHAT THEY HAD DONE WRONG, BUT TO PRAISE THEM FOR WHAT THEY HAD DONE RIGHT. AS WHITEHEAD SAID, QUOTE WE LOVE TO BE LOVED UNQUOTE. THE USUALLY RESERVED SHULTZ SEEMED POSITIVELY TO GLOW WITH PLEASURE DURING THE VISIT, AND HE TOLD US AFTERWARDS HOW HE HAD ADMIRERD THE WAY IN WHICH MRS THATCHER HAD QUOTE PUNCHED ACROSS UNQUOTE A NUMBER OF IMPORTANT POINTS OF SUBSTANCE DURING HER MEETINGS WITH THE PRESIDENT AND WITH SHULTZ HIMSELF.

6. ON THE SECOND OBJECTIVE, THE PRIME MINISTER HAD AN EXTREMELY USEFUL 90 MINUTE MEETING WITH BUSH, AT WHICH BAKER AND QUAYLE WERE ALSO PRESENT, AND AT WHICH THE RIGHT ISSUES WERE TOUCHED UPON, ALTHOUGH INEVITABLY NOT IN GREAT DETAIL. THE MAIN IMPRESSION WHICH I TOOK AWAY FROM THE MEETING WAS OF THE OBVIOUS DEPTH OF EXPERIENCE AND DETAILED KNOWLEDGE WHICH BUSH BRINGS TO THE WHOLE RANGE OF FOREIGN POLICY, AND OF HIS WILLINGNESS PERSONALLY TO ENGAGE HIMSELF IN ADDRESSING THE ISSUES. THE MEETING ALSO CONFIRMED THE WIDESPREAD EXPECTATION THAT BUSH AND BAKER WILL OPERATE VERY MUCH AS A TEAM IN FOREIGN POLICY: THE FIRST EVIDENCE OF THIS IS THE MEETING WHICH (NOT YET ANNOUNCED) WHICH THEY PLAN TO HAVE WITH SALINAS OF MEXICO IN TEXAS LATER THIS WEEK OR EARLY NEXT. IT WAS ALSO ENCOURAGING TO HEAR QUAYLE MAKING A NUMBER OF WELL-INFORMED CONTRIBUTIONS TO THE DISCUSSION, NOTABLY ON ARMS CONTROL ISSUES AND SENATE AFFAIRS IN PUBLIC, THE PRIME MINISTER SUCCESSFULLY PAID GENUINE TRIBUTE TO BUSH AND HIS ACHIEVEMENTS, THUS HELPING TO DISPEL THE NOTION EITHER THAT SHE IS LIKELY TO BE THE DOMINANT PARTNER IN THE RELATIONSHIP WITH THE NEW PRESIDENT, OR THAT THE RELATIONSHIP WILL LACK THE WARMTH OF THE



LINK WITH REAGAN. AS SHE TOLD THE PRESS, EACH LEADER HAS HIS OR HER OWN STYLE.

7. ON NONE OF THE MAJOR ISSUES COVERED IN THE PRIME MINISTER'S TALKS, OR ADDRESSED IN HER PUBLIC STATEMENTS, WAS THERE AN INDICATION OF ANY SIGNIFICANT DISAGREEMENT WITH THE AMERICANS. ON EAST/WEST RELATIONS, THE PRIME MINISTER'S SCEPTICISM ABOUT THE LIKELY DEPTH AND DURABILITY OF HUMAN RIGHTS REFORMS IN THE SOVIET UNION WAS WELL TAKEN, AS WAS HER CONCERN TO ENSURE THAT FUTURE ARMS CONTROL NEGOTIATIONS SHOULD BE LOOKED AT AS PART OF AN OVERALL STRATEGY. ON THE MIDDLE EAST, THE AMERICANS WERE MORE SCEPTICAL OF THE PROGRESS SIGNALLED BY THE PNC COMMUNIQUE, BUT THE PRIME MINISTER WAS ABLE TO EMPHASISE THE IMPORTANCE OF GIVING ENCOURAGEMENT TO THE PARTIES TO MOVE IN FURTHER FAVOURABLE DIRECTIONS IMPLIED BY THE COMMUNIQUE. ON THE US BUDGET DEFICIT, THE PRIME MINISTER ADOPTED A LINE, MUCH APPRECIATED BY SECRETARY-DESIGNATE BRADY, OF EMPHASISING THE UNDERLYING STRENGTH OF THE AMERICAN ECONOMY, AND THE RELATIVELY SMALL RATIO OF DEBT TO GDP, WHILE EXPRESSING CONFIDENCE THAT BUSH WOULD IN DUE TIME DEAL WITH THE PROBLEM IN A MEASURED AND RESPONSIBLE WAY.

8. THIS WAS A HIGHLY SUCCESSFUL AND HISTORIC VISIT, WHICH RECEIVED WIDESPREAD COVERAGE IN THE AMERICAN MEDIA, AND WILL HAVE FURTHER INCREASED THE HIGH STANDING WHICH THE PRIME MINISTER ALREADY ENJOYS ON THIS SIDE OF THE ATLANTIC. IF THERE WAS A SINGLE DOMINANT THEME TO THE PRIME MINISTER'S PRIVATE AND PUBLIC REMARKS IT WAS INDEED QUOTE ACCENTUATE THE POSITIVE UNQUOTE. AS WELL AS APPROPRIATELY ROUNDING OFF THE RELATIONSHIP WITH PRESIDENT REAGAN, IT HAS ALSO PROVIDED A SOLID FOUNDATION ON WHICH TO BUILD IN PLANNING THE PATTERN OF CONTACTS WITH THE INCOMING ADMINISTRATION. I SHALL GIVE FURTHER ADVICE ON THIS IN DUE COURSE.

9. IF THERE IS ONE CAUTIONARY NOTE TO SOUND, IT IS THAT, MAINLY BECAUSE MOST MEMBERS OF CONGRESS WERE OUT OF TOWN, BUT ALSO BECAUSE OF THE LENGTH AND STYLE OF THE VISIT, THE PRIME MINISTER INEVITABLY FOCUSED MOST OF HER ATTENTION ON THIS OCCASION ON THE EXECUTIVE BRANCH OF GOVERNMENT. ALL THE SIGNS ARE, HOWEVER, THAT THE LEGISLATIVE BRANCH IS LIKELY TO HAVE A MUCH MORE ASSERTIVE ROLE IN THE RUNNING OF THIS COUNTRY DURING THE BUSH YEARS THAN IT HAD UNDER PRESIDENT REAGAN. ON THIS VISIT, THE PRIME MINISTER HAS CONSOLIDATED HER FIRM BASE AT ONE END OF PENNSYLVANIA AVENUE. ON HER NEXT, SHE MAY NEED TO DEVOTE RATHER MORE ATTENTION TO THE OTHER.

10. PLEASE PASS TO POWELL, 10 DOWNING STREET.



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YYYY

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cc PS/Sir P Middleton  
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Mr S W Matthews



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

21 November 1988

Lyn Parker Esq  
PS/Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
King Charles Street  
LONDON  
SW1A 2AL

*Dear Lyn*

**CALL BY DR SPRINKEL**

Dr Beryl Sprinkel paid a courtesy call on the Chancellor at 3.45 pm on Thursday 17 November. He was accompanied by Dick Ogden, the Economic Minister at the US Embassy, and Ms Stacy Steimal, the Assistant Financial Attache. Sir Peter Middleton was also present.

Dr Sprinkel said he was returning to the private sector. He expected to become involved with some business corporations, and perhaps write some articles. But at this stage his plans were no firmer than that. He expected his successor at the CEA to be either Professor Michael Boskin of Stanford, or Mr Richard Rahn, of the US Chamber of Commerce.

Dr Sprinkel said he did not foresee the Bush Administration making many changes in economic policy. Although the President-elect had a less clearly defined economic philosophy than President Reagan, his general approach was the same. He would aim to cut spending and not increase taxes. He was committed to the G7 policy process, and sensitive to the markets. All in all, Dr Sprinkel took a very optimistic view of prospects.

Continuing, Dr Sprinkel said that the transition between the two Presidencies would be much smoother than usual. In the meantime, the Budget was being prepared. This would be presented on





9 January 1989. The intention was to meet the Gramm/Rudman target which implied cuts of around \$35 billion. The last economic report of the present CEA would be presented on 10 January 1989.

The Chancellor asked about the forecast for the US economy next year. Dr Sprinkel said he expected moderate growth. The economy was close to its production capacity, and there was a need to slow down demand. The long-term growth potential of the US economy was around 3 per cent per annum, and Dr Sprinkel's expectation was that, next year, real growth would be slightly below this.

Dr Sprinkel asked whether the Chancellor was happy with the performance of the economy in the UK. The Chancellor said that on the whole he was content. There had been a need to rein back a little. Although the potential growth rate had undoubtedly increased as a result of the supply side measures the Government had taken, and although investment was at a high level, inflation was edging up. Steps had to be taken to bring it under control. Strong demand had also spilt into imports. But in general the supply side performance was very good. Public expenditure as a proportion of GDP was now below 40 per cent, and there was a substantial public sector surplus.

Dr Sprinkel said that in general the Western economies had come through last year's stock market crash in much better shape than had been expected. In the United States, this was because - unlike 1929 - the Administration had successfully resisted protectionist pressures. The Trade Bill contained some elements which could be used in a protectionist manner. However, most of its worst features had been removed.

I am copying this letter to Charles Powell (No.10) and John Footman (Bank).

*Ymgs cwr*

*JMG*

J M G TAYLOR  
Private Secretary



FROM: MISS M O'MARA  
DATE: 22 November 1988

ECONOMIC SECRETARY

cc: PPS  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Scholar  
Mr H P Evans  
Mr Peretz  
Mr Gieve  
Mr S Matthews  
Mr N P Williams

1. Alex (over the line)  
2. PMP

AMERICAN BID

You asked for a suggested written answer to the second question in Shearsons' list. I suggest:

Q. The dollar has been weakening against the pound and other world currencies. How does Treasury and Bank of England view this development? If they view it adversely, what actions might UK authorities take to check the pound's advance against the dollar?

A. Markets bound to remain uncertain until President-elect Bush takes office and sets out his proposals for tackling the budget deficit. But all G7 countries, including US, firmly committed to maintaining exchange rate stability and to continued close co-operation in monetary field. Will not expect me to reveal market tactics but can take comfort from fact that UK Government has hitherto manifestly fulfilled its obligations under Plaza and Louvre agreements.

*mom*  
MISS M O'MARA



*PH*

EMBASSY OF THE UNITED STATES OF AMERICA  
LONDON

December 2, 1988

*4 ✓ ✓*



Dear Nigel:

I have been asked to deliver the attached message to you from Secretary of State-designate James A. Baker, III.

Sincerely,

*Raymond Seitz for*  
Charles H. Price, II  
Ambassador

Enclosure

The Rt. Hon. Nigel Lawson, M.P.,  
Chancellor of the Exchequer,  
11 Downing Street,  
London, S.W.1.



Dear Nigel:

I deeply appreciate your thoughtful message of congratulations and am grateful for your kind words as I prepare to assume the office of Secretary of State. I look forward to continuing to work with you in strengthening the close relations and ties of friendship between our two countries.

With warm regards,

Sincerely,

James A. Baker, III



*John NF*

To: Chancellor.

*Mr. Nathan  
PS  
see para 4.*

From: Nigel Forman.

7th December 1988.

*ppf*

*cc: PS/FST*

Recent visit to the United States.

1. I think you may be interested in a brief note on the main points which I derived from the people I met in New York and Boston during my recent visit to the United States.
  2. Nearly all the brokers and fund-managers whom I met were concerned about the threat of rising inflation in the U.K., but equally anxious for reassurance that our tightening of monetary policy should not be overdone. As for the future level of the dollar, the consensus seemed to be that it was more likely to rise rather than fall over the medium term, not least because of the growing concern in the markets that capacity constraints in U.S. industry might encourage further inflation which would have to be countered by higher interest rates.
  3. On the prospect of 1992, there was great interest in what this would mean for third countries, such as the United States and Canada; but surprisingly little concern about the dangers of protectionism whether in regard to trade or capital flows. Curiosity rather than concern seemed to be the flavour of their observations.
  4. On venture capital (which interests me considerably following recent lobbying by John Nash and others in the BVCA), it became very clear that the American enterprise culture is quite simply much more conducive to risk-taking by venture capitalists and to the development of entrepreneurial flair among new businessmen. American success in this sphere appeared not particularly dependent upon the tax breaks available for private borrowing, but rather upon a greater willingness to lose money on numerous start-up projects in the confident expectation that even one significant success would far outweigh the costs of numerous failures. In Boston I also saw T.V. advertisements for Venture Capitalist Clubs designed to bring together those with entrepreneurial ideas and those with venture capital to invest who are often, incidentally, wealthy individuals rather than banks or financial institutions.
  5. On leveraged buy-outs, the opinions I heard were uniformly unfavourable and disparaging of those who engage in such essentially asset-stripping activities. However, they also thought that such techniques would turn out to be a short-lived fashion either if the stock market recovered or if interest rates were significantly tightened. They strongly recommended that we should not follow this particular American example, although it was not clear to me what we could do to prevent such practices developing here, if they were to become a powerful fashion.
- 7NF*



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INFO SAVING LOS ANGELES, SAN FRANCISCO

## PRESIDENTIAL PRESS CONFERENCE

## SUMMARY

1. AN UNREMARKABLE, AND PROBABLY FINAL, PRESIDENTIAL PRESS CONFERENCE, FOCUSED MAINLY ON FOREIGN POLICY, PARTICULARLY EAST-WEST ISSUES.

## DETAIL

2. MR REAGAN GAVE WHAT WAS PROBABLY THE FINAL PRESS CONFERENCE OF HIS PRESIDENCY ON 8 DECEMBER. AFTER A SHORT OPENING STATEMENT ON EAST-WEST RELATIONS, HE ANSWERED QUESTIONS FOR ABOUT THIRTY MINUTES. THE ATMOSPHERE WAS THAT OF A FAREWELL APPEARANCE, WITH THE WHITE HOUSE PRESS CORPS TREATING THE PRESIDENT MORE KINDLY THAN ON SOME PREVIOUS OCCASIONS, IN A SPIRIT OF SEASONAL AND END-OF-ADMINISTRATION GOODWILL. NOTHING NEW EMERGED FROM THE PRESIDENT'S REMARKS, AND REAGAN MADE NO SIGNIFICANT MISTAKES.

3. THE ONLY DOMESTIC ISSUES RAISED WERE THE BUDGET DEFICIT AND NEW TAXES. ON THE FORMER, REAGAN EXPRESSED, IN HIS CUSTOMARY ANECDOTAL STYLE, CONFIDENCE THAT THE BUDGET COULD BE BALANCED BY 1993 IF PRESENT POLICIES WERE CONTINUED AND THE GRAMM-RUDMAN TARGETS MET. ON TAXATION, REAGAN SAID THAT HE WOULD BE QUOTE DEEPLY DISAPPOINTED UNQUOTE IF BUSH RAISED TAXES (WHICH HE WAS SURE BUSH WOULD NOT DO). THE BUDGET COULD BE BALANCED WITHOUT CUTTING SOCIAL SECURITY OR RAISING TAXES. THE REAGAN ADMINISTRATION HAD NOT CUT SPENDING ON CERTAIN PROGRAMMES TO HELP THE NEEDY, BUT HAD SIMPLY HELD THE RATE OF GROWTH IN CHECK.

4. ON EAST-WEST RELATIONS, THE PRESIDENT STRESSED THE IMPORTANCE OF CONTINUING QUOTE VIGOROUS DIPLOMATIC ENGAGEMENT UNQUOTE AS WELL AS MAINTAINING MILITARY STRENGTH. QUOTE EXTRAORDINARY



THINGS UNQUOTE HAD HAPPENED SINCE 1985. ASKED ABOUT HIS ATTITUDE TO GORBACHEV, HE PAID TRIBUTE TO THE SOVIET LEADER, DISTANCING HIM FROM HIS PREDECESSORS AND SAYING THAT HE HAD SHOWN NO REASON WHY HE SHOULD NOT BE TRUSTED. GORBACHEV WAS BATTLING A BUREAUCRACY WHICH RESISTED CHANGE BUT THE PEOPLE WERE ON HIS SIDE. THE QUESTION OF A FREE AND OPEN TRADE RELATIONSHIP WITH THE SOVIET UNION WOULD HOWEVER DEPEND ON THEM. IF THEY GAVE UP THE GOAL OF WORLD COMMUNIST DOMINATION AND NO LONGER FOLLOWED EXPANSIONIST POLICIES, THEY MIGHT QUOTE JOIN THIS FAMILY OF NATIONS UNQUOTE. THERE WAS EVIDENCE THAT THEY QUOTE DON'T LIKE BEING A PARIAH UNQUOTE. OVERALL, THE PRESIDENT RECALLED THE FIRST MEETING WITH GORBACHEV IN GENEVA WHEN HE SAID TO HIM QUOTE WE CAN START WORLD WAR III OR WORLD PEACE UNQUOTE. THEY HAD CHOSEN THE LATTER.

5. ON ARMS CONTROL, THE PRESIDENT, IN NOTING THAT IT WAS THE FIRST ANNIVERSARY OF THE SIGNATURE OF THE INF TREATY, SAID THAT THE QUOTE PACE OF PEACE CONTINUES UNQUOTE. BUT HE WENT ON TO SAY THAT THERE WAS NO QUESTION OF A RECIPROCAL US RESPONSE TO GORBACHEV'S ANNOUNCEMENT OF SOVIET CONVENTIONAL FORCE REDUCTIONS UNTIL THE TWO SIDES REACHED PARITY. HE SAID THAT EVEN AFTER IMPLEMENTATION OF THE ANNOUNCED CUTS, THE SOVIET UNION WOULD STILL HAVE FIVE MILLION MEN UNDER ARMS, AND A SUPERIORITY IN TANKS AND ARTILLERY. THE REDUCTIONS WOULD HOWEVER BRING SOVIET FORCES WITHIN RANGE, QUOTE THERE WOULD STILL BE ROOM FOR NEGOTIATIONS UNQUOTE ALONG THE LINES ALREADY PROPOSED.

6. ON OTHER FOREIGN POLICY ISSUES, REAGAN MADE THE FOLLOWING POINTS IN ANSWER TO QUESTIONS:

(A) ON NICARAGUA, WHILE HE WOULD NOT WISH TO PIN PRESIDENT-ELECT BUSH DOWN, HE WAS CONFIDENT THAT BUSH AGREED THAT THE CONTRAS, WHO WERE FIGHTING A TOTALITARIAN COMMUNIST GOVERNMENT, DESERVED CONTINUING SUPPORT IN THEIR STRUGGLE FOR DEMOCRACY.

(B) ON AFGHANISTAN, IT WAS UNREALISTIC TO EXPECT THAT THE MUJAHIDEEN COULD AGREE UNILATERALLY TO DISARM IN PRESENT CIRCUMSTANCES AND FOR AS LONG AS THE PRESENT REGIME REMAINED IN PLACE IN KABUL. A SETTLEMENT IN AFGHANISTAN MUST BE COMPREHENSIVE (IT MUST QUOTE START FROM SCRATCH UNQUOTE).

(C) ARAFAT'S STATEMENT IN STOCKHOLM WAS STILL BEING EXAMINED, BUT IT HAD AGAIN LEFT AMBIGUOUS OPENINGS. PROGRESS WAS ONLY POSSIBLE ONCE PLO RECOGNITION OF ISRAEL AND THE OTHER APPROPRIATE CONDITIONS WERE CLEAR-CUT. ONCE ARAFAT HAD GIVEN CLEAR-CUT ASSURANCES, THE UNITED STATES WOULD BE QUOTE READY FOR HIM



UNQUOTE AND HE WAS SURE THAT QUOTE ISRAEL WOULD BE TOO UNQUOTE. HE DEFENDED THE DECISION TO DENY ARAFAT A VISA AS FULLY CONSISTENT WITH US LAW.

(D) ON HOSTAGES, THERE WAS NO QUESTION OF THE US ADMINISTRATION UNDERTAKING NEGOTIATIONS. THERE WERE CHANNELS FOR NEGOTIATIONS THAT COULD BE LOOKED AT, BUT UNOFFICIAL INTERMEDIARIES WERE NOT HELPFUL. THE AMERICANS WERE READY AT ANY TIME TO TALK TO THE IRANIANS.

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262405 TRSY G  
THE RIGHT HONORABLE NIGEL LAWSON  
CHANCELLOR OF THE EXCHEQUER  
UNITED KINGDOM

Mr Savage

could you look at the papers  
on this & then let's have a word.

W.P.E.  
20/12

**COUNCIL ON FOREIGN RELATIONS NEW YORK** WOULD LIKE TO REISSUE ITS  
INVITATION FOR YOU TO ADDRESS OUR MEMBERS AT MEETING DURING YOUR  
NEXT TRIP TO THE U.S. SHOULD YOU BE ATTENDING IMF/WORLD BANK  
MEETING THIS COMING APRIL, WE WOULD BE PLEASED TO ARRANGE MEETING  
IN NY DURING THAT TIME.

MEMBERS WOULD GREATLY WELCOME OPPORTUNITY TO HEAR YOUR VIEWS ON  
ISSUES OF MUTUAL CONCERN. OF COURSE, TOPIC OF REMARKS WOULD BE YOUR  
CHOICE, AND MEETINGS ARE OFF-THE-RECORD TO ENCOURAGE CANDID AND  
HIGH-LEVEL DISCUSSIONS.

HOPE FOR EARLY AND FAVORABLE REPLY.

SINCERELY,  
MARGARET OSMER-MCQUADE  
VICE PRESIDENT  
DIRECTOR OF PROGRAMS  
COUNCIL ON FOREIGN RELATIONS  
58 EAST 68TH STREET  
NEW YORK, NY 10021  
TELEX: 239852 CFR UR

\*  
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|                | Sir T. BURNS     |
|                | Mr H.P. EVANS    |
|                | Mr WALSH         |

✓  
19/12

TLX RCA/USA 265130+ FOR LIST OF HOLIDAY GRAPHICS TYPE CHRISTMAS



cc **CHEX** DEFST

SIR P MIDDLETON MR SCHOLAR  
MR DJL MOORE MR CULPIN  
MRS GOODMAN  
MR BEIGHTON MR JOHNS  
MR PRESCOTT. BIR

A P Ravenscroft Esq  
Director, Group Control and Financial Services  
BP  
Britannic House  
Moor Lane  
EC2Y 9BU

21 December 1988

Dear Alan,

Thank you for your helpful letter of 9 December elaborating on the point made at our lunch about abandonment and US tax rates. While we probably do not understand the point, it is as well to make sure and I have therefore asked the Revenue to take up your kind offer of further elaboration at official level. They will be in touch with your people shortly.

PETER LILLEY



*Ch. Agree? JS*

FROM: D SAVAGE  
DATE: 3 January 1989

*Agreed; draft  
letter for P.S.  
reply attached cc  
N.C.U  
3.1*

- 1. MR WICKS
- 2. PS/CHANCELLOR

PS/PMG  
Sir P Middleton  
Sir T Burns  
Mr H P Evans

**COUNCIL ON FOREIGN RELATIONS, NEW YORK**

*Agreed.*

The Chancellor has been sent a telex (attached) inviting him to speak to the Council on Foreign Relations (CFR) in April when he will be in Washington attending the IMF Spring meetings. The Council has been in the habit of telexing such invitations direct to British Ministers rather than going through the usual channels.

2. The Chancellor has received similar invitations in the past and has turned them down. The Paymaster General accepted an invitation to speak last November, but had to cancel it because of a re-scheduling of the European Council meeting.

3. I attach FCO notes on the CFR, both as speaking platform and as a Think Tank. I also attach a Private Secretary letter giving a revised assessment of the CFR as a platform, which questions 'its capacity to deliver consistently high quality audiences for British Ministers'.

4. I would not recommend the Chancellor to accept.

*JS.*

D SAVAGE



*Ps type final.*

DRAFT LETTER FOR PS/CHANCELLOR TO SEND TO

Margaret Osmer-McQuade  
Vice President  
Director of Programs  
Council on Foreign Relations  
58 East 68th Street  
New York, NY 10021

The Chancellor of the Exchequer has asked me to reply to your telex of 19 December in which you invite him to address your members at a meeting during his next visit to the USA.

2. The Chancellor is most appreciative of your invitation. But he is not planning to go to New York in what will inevitably have to be a short visit to the USA at the time of the IMF/World Bank meetings in April. He is therefore sorry that he is not able to accept the Council's invitation.

*JMGJ—*

*P—S—*



cc: Sir P Middleton  
Sir T Burns  
Mr H P Evans  
Mr Wicks  
Mr Savage  
Mr Walsh



Treasury Chambers, Parliament Street, SW1P 3AG  
(01 270 8000)

4 January 1989

Margaret Osmer-McQuade  
Vice President  
Director of Programs  
Council on Foreign Relations  
58 East 68th Street  
New York  
NY 10021

*Dear Ms Osmer-McQuade*

The Chancellor of the Exchequer has asked me to reply to your telex of 19 December in which you invite him to address your members at a meeting during his next visit to the USA.

The Chancellor is most appreciative of your invitation. But he is not planning to go to New York in what will inevitably have to be a short visit to the USA at the time of the IMF/World Bank meetings in April. He is therefore sorry that he is not able to accept the Council's invitation.

*Yours sincerely*  
*Jonathan Taylor*

J M G TAYLOR  
Private Secretary





cc: Sir P Middleton  
Sir T Burns  
Mr H P Evans  
Mr Wicks  
Mr Savage  
Mr Walsh

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

4 January 1989

A handwritten signature in dark ink, appearing to be 'PMP'.

Margaret Osmer-McQuade  
Vice President  
Director of Programs  
Council on Foreign Relations  
58 East 68th Street  
New York  
NY 10021

*Dear Mrs Osmer-McQuade*

The Chancellor of the Exchequer has asked me to reply to your telex of 19 December in which you invite him to address your members at a meeting during his next visit to the USA.

The Chancellor is most appreciative of your invitation. But he is not planning to go to New York in what will inevitably have to be a short visit to the USA at the time of the IMF/World Bank meetings in April. He is therefore sorry that he is not able to accept the Council's invitation.

*Yours sincerely*

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR  
Private Secretary



26-12-19 15:11

2624 TRSY B  
THE RIGHT HONORABLE NIGEL LAWSON  
CHANCELLOR OF THE EXCHEQUER  
UNITED KINGDOM

COUNCIL ON FOREIGN RELATIONS NEW YORK WOULD LIKE TO REISSUE ITS INVITATION FOR YOU TO ADDRESS OUR MEMBERS AT MEETING DURING YOUR NEXT TRIP TO THE U.S. SHOULD YOU BE ATTENDING IMF/WORLD BANK MEETING THIS COMING APRIL, WE WOULD BE PLEASED TO ARRANGE MEETING IN NY DURING THAT TIME.

MEMBERS WOULD GREATLY WELCOME OPPORTUNITY TO HEAR YOUR VIEWS ON ISSUES OF MUTUAL CONCERN. OF COURSE, TOPIC OF REMARKS WOULD BE YOUR CHOICE, AND MEETINGS ARE OFF-THE-RECORD TO ENCOURAGE CANDID AND HIGH-LEVEL DISCUSSIONS.

HOPE FOR EARLY AND FAVORABLE REPLY.

SINCERELY,  
MARGARET OSMER-MCQUADE  
VICE PRESIDENT  
DIRECTOR OF PROGRAMS  
COUNCIL ON FOREIGN RELATIONS  
58 EAST 68TH STREET  
NEW YORK, NY 10021  
TELEX: 239852 CFR UR

\*  
262405 TRSY B.....  
DEC 19 1012 RESPOND TO 239852 CFR UR

| CH/EXCHEQUER |                 |
|--------------|-----------------|
| REC.         | 19 DEC 1988     |
| TO           | Mr NICKS        |
| TO           | Sr P. MIDDLETON |
| TO           | Sr T. BURNS     |
| TO           | Mr H.P. EVANS   |
| TO           | Mr WALSH        |

✓  
12/12

TLX RCA/USA 265130+ FOR LIST OF HOLIDAY GRAPHICS TYPE CHRISTMAS



Council on Foreign Relations

58 East 68th Street, New York NY 10021 Tel: 212 734-0400

President: Peter Tarnoff

Director of Programmes: Margaret Osmer-McQuade

Committees on Foreign Relations: Rolland Bushner

The most important off-the-record forum in New York for top-level speakers. It also has extensive library and research facilities, and publishes the quarterly "Foreign Affairs". Membership of the Council, which has been active since the early twenties, is by invitation only, and members include influential business executives (David Rockefeller is the Chairman of the Board of Directors), government officials and academics. Meetings are usually held at 5.15 pm but luncheon, dinner and all-day seminars are also held. In recent years, successive Foreign Ministers have addressed the Council. Speakers may be on-the-record but question time is always privileged. Attendance at CFR luncheons is usually restricted to about 40-50 members.

Under the umbrella of the Council there are some 40 Committee on Foreign Relations in major cities. These provide excellent local platforms for speeches on international questions.

THINK TANKThe Council on Foreign Relations

58 East 68th Street, New York, NY 10021 Tel: 212 734-0400

Despite the fragmentation of the liberal internationalist consensus, the Council on Foreign Relations remains one of the United States' most influential think tanks. The Council is a privately funded, non-profit organisation. From the outset, the CFR has been dominated by the Eastern financial establishment. It remains the most important off-the-record speaking platform in New York and with its extensive library and research facilities, it publishes the influential journal "Foreign Affairs", policy papers on all aspects of international affairs, and a special series of studies on European-American relations.

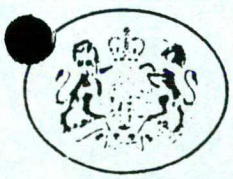
Throughout its 64 year history, the CFR embodied the main precepts of liberal internationalism which, from Franklin Roosevelt through Lyndon Johnson, dominated American foreign policy thinking. This vision was of a well-intentioned interventionist America: its goal was the creation of a benevolent world order: its means: international institutions (such as the UN), international law, and the doctrine of collective security embodied in NATO.

In 1985 the Council on Foreign Relations saw a changing of the guard at a time when the Council itself has been re-evaluating how to maintain its stature. Peter Tarnoff, a former foreign service officer, replaced Winston Lord as President, while David Rockefeller stepped down as chairman and was replaced by Peter Peterson, Commerce Secretary under President Nixon.

BIS contacts: Mr Peter Tarnoff, President; Ms Judith Gustaffson, Deputy Director of Studies; Dr Gregory Treverton, Senior Fellow.

Two New York think tanks, the World Policy Institute - and to a lesser extent -- the Council on Economic Priorities espouse "left isolationism". While they reject pacifism and traditional isolationism WPI and CEP are sceptical of multilateralism: their support for NATO is at best equivocal. Like their pre-World War II socialist and progressive predecessors, WPI and CEP believe that the present international status quo is unjust and that US military power should not be used to preserve it.





Foreign and Commonwealth Office

London SW1A 2AH

15-August 1988

Brian Hawtin Esq  
Private Secretary to  
The Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SWIA 2HB

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| 15 AUG 1988 |
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*Dear Brian,*

COUNCIL ON FOREIGN RELATIONS, NEW YORK

A number of Ministers have received invitations over the last few years to speak to the Council on Foreign Relations (CFR) in New York. The CFR is an important think-tank. But recent experience leads us to doubt its capacity to deliver consistently high quality audiences for British Ministers. The CFR's Secretary, Mrs Osmer-McQuade, has a tendency to oversell the Council and to swamp Ministers' Private Offices with telexes. But the audience is too often a selection of ageing bankers and business executives.

It would be most helpful if you would inform us if the CFR contacts Ministers in your Department. We can then ask the Embassy at Washington, and the British Information Service in New York, for detailed advice. As well as making it easier to plan the overall flow of Ministerial visits to the US (about 50 a year), this will help us to ensure that Ministers time in the US is put to best effect.

I am copying this letter to Neil Thornton (DTI), Martin Donnelly (NIO), Alex Allan (HMT), Shirley Stagg (MAFF), Roger Bright (DOE), Nick Wilson (Demp), Stephen Haddrill (DE), Roy Griffins (DoT) and Myles Wickstead (ODA).

*Yours truly,  
Mark Lyall Grant*

Mark Lyall Grant  
Private Secretary to  
Mrs Lynda Chalcker



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SENATOR LLOYD BENTSEN : VISIT TO LONDON

1. STAFF OF THE SENATE FINANCE COMMITTEE HAVE TOLD US THAT SENATOR LLOYD BENTSEN, ACCOMPANIED BY THREE OR FOUR OTHER SENATORS FROM THE FINANCE COMMITTEE, THEIR WIVES AND A VERY FEW STAFF, PLAN TO VISIT LONDON ARRIVING DURING THE MORNING OF THURSDAY, 30 MARCH, DEPARTING (TO RETURN TO THE UNITED STATES) ON SUNDAY, 2 APRIL. THE VISIT IS THE LAST LEG OF A EUROPEAN TOUR INCLUDING MILAN, GENEVA, BRUSSELS AND POSSIBLY PARIS OR BONN. THE PURPOSE IS TO DISCUSS ECONOMIC AND TRADE POLICY ISSUES GENERALLY, WITH SPECIAL INTEREST IN THE COMMUNITY'S 1992 PROGRAMME (GATT AND THE URUGUAY ROUND AS WELL AS EC-US ISSUES WILL BE IN THE VISITORS' MINDS ALSO, IN THE RUN-UP TO THE APRIL MEETING IN GENEVA TO CARRY FORWARD THE MONTREAL MID-TERM MEETING).
2. AS CHAIRMAN OF THE SENATE FINANCE COMMITTEE SENATOR BENTSEN HAS PLAYED A KEY ROLE IN STEERING ONTO THE STATUTE BOOKS RECENT MAJOR TRADE AND TAX LEGISLATION. HE WILL BE A KEY FIGURE IN NEGOTIATIONS WITH THE BUSH ADMINISTRATION ON WAYS TO REDUCE THE BUDGET DEFICIT AS WELL AS ON ANY TRADE AND ECONOMIC LEGISLATION. AND HIS POLITICAL STATURE HAS BEEN ENHANCED BY HIS ROLE IN THE PRESIDENTIAL CAMPAIGN.
3. THE PROGRAMME WILL BE ARRANGED BY THE US EMBASSY, WHO WILL APPROACH DEPARTMENTS DIRECT. BUT BENTSEN WOULD LIKE TO SEE THE PRIME MINISTER, NOT LEAST TO HEAR FROM HER ABOUT 1992. HE IS WIDELY SEEN AS AN ELDER STATESMAN OF WISDOM AND EXPERIENCE, WELL INFORMED AND VERY INFLUENTIAL. WE SHOULD DO OUR BEST TO GIVE HIM A REALLY WORTHWHILE PROGRAMME AND I STRONGLY RECOMMEND THAT THE PRIME MINISTER SHOULD SEE HIM AND HIS FELLOW SENATORS IF AT ALL POSSIBLE. I HOPE THAT YOU, THE CHANCELLOR, THE TRADE AND INDUSTRY SECRETARY AND THE GOVERNOR OF THE BANK OF ENGLAND WOULD ALSO MAKE TIME FOR HIM AND HIS PARTY AND THAT A SENIOR MEMBER OF THE GOVERNMENT WOULD OFFER THEM AND THEIR WIVES SOME HOSPITALITY.

FALL



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MR KERR  
MR FEARN

ADDITIONAL

7

PS/CHANCELLOR  
PS/S OF S TRADE AND INDUSTRY  
PS/GOVERNOR B OF E  
DTI VICTORIA ST

BANK OF ENGLAND  
HM TREASURY  
ECD/ODA

NNNN



THE INSTITUTE OF INTERNATIONAL FINANCE, INC.  
2000 PENNSYLVANIA AVENUE, N.W. SUITE 8500  
WASHINGTON, D.C. 20006

Horst Schulmann  
Managing Director

9/11  
\*  
Report with  
top copy only

|              |               |
|--------------|---------------|
| CH/EXCHEQUER |               |
| REC.         | 09 JAN 1989   |
| ACTION       | Mr WALSH      |
| COPIES TO    | Mr WICKS      |
|              | Mr LANKESTER  |
|              | Mr H.P. EVANS |
|              | Mr MOUNTFIELD |

January 6, 1989

His Excellency  
Nigel Lawson  
Chancellor of the Exchequer  
H.M. Treasury  
Parliament Street  
London SW1P 3AG United Kingdom

*[Handwritten signature]*

*[Handwritten signature]*  
17/11

Dear *Chancellor,*

On January 11, 1989, the Institute will release a major new report entitled "The Way Forward for Middle-Income Countries" which provides the point of view of the commercial banks on the economic and financial problems of the heavily indebted countries. This is a consensus document drawn from the work of an Institute task force of leading American, Canadian, European and Japanese banks and approved by the IIF Board at its December 1988 meeting. It is meant to serve as a basis for dialogue between commercial banks and governments as the reassessment of the current debt management strategy gets underway.

On behalf of the Board of Directors of the Institute, I am enclosing a copy of that report. As stated in the report, the Institute and its members are prepared to collaborate constructively with creditor governments and the international financial institutions to assist the debtor countries in regaining market access.

Sincerely,

*[Handwritten signature]*





*Prop*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

18 January 1989

Mark Lyall Grant Esq  
PS/Minister of State  
Foreign and Commonwealth Office  
LONDON  
SW1

*Dear Mark*

COUNCIL ON FOREIGN RELATIONS (CFR), NEW YORK

Your letter of 15 August 1988 to Brian Hawtin (MOD) asked Departments to let you know if the CFR contacted Ministers direct with a view to their addressing one of its meetings.

The CFR has recently invited the Chancellor to speak when he next visits the United States. This is a more or less annual invitation, in advance of the Spring IMF/IBRD meetings. As in previous years, we have turned it down.

Mrs Osmer-McQuade telephoned this office yesterday to ask why we had again declined the Council's invitation. She suggested that some more general objection lay behind our stated reason for turning down the invitation (shortness of time). We made clear that there was neither more nor less to say than that which was contained in my letter of 4 January (I enclose the correspondence).

There is indeed no hidden reason behind the Chancellor's decision to decline this invitation, though I need hardly add that Mrs Osmer-McQuade's telephone call is unlikely to encourage us to look more favourably on future invitations. But I thought you would like warning of the new, even more direct, approach which Mrs Osmer-McQuade appears to be adopting.

*Yours sincerely*  
*J M G Taylor*  
J M G TAYLOR  
Private Secretary





Treasury Chambers, Parliament Street, SW1P 3AG  
(01 27 33 0000)

4 January 1989

Margaret Osmer-McQuade  
Vice President  
Director of Programs  
Council on Foreign Relations  
58 East 68th Street  
New York  
NY 10021

*Dear Mrs Osmer-McQuade*

The Chancellor of the Exchequer has asked me to reply to your telex of 19 December in which you invite him to address your members at a meeting during his next visit to the USA.

The Chancellor is most appreciative of your invitation. But he is not planning to go to New York in what will inevitably have to be a short visit to the USA at the time of the IMF/World Bank meetings in April. He is therefore sorry that he is not able to accept the Council's invitation.

*Yours sincerely*  
*Jonathan Taylor*

J M G TAYLOR  
Private Secretary



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OUR TELNO 137 (NOT TO ALL): BAKER'S CONFIRMATION HEARINGS  
SUMMARY

1. AN IMPRESSIVE AND SURE-FOOTED PERFORMANCE BY BAKER, WHICH HAS WON HIM GLOWING TRIBUTES FROM BOTH SIDES ON THE HILL. CONFIRMATION BY THE FULL SENATE (A FORMALITY) PROBABLY ON 25 JANUARY.

DETAIL

2. BAKER CONCLUDED TWO FULL DAYS OF TESTIMONY BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE ON 18 JANUARY. MY TWO IFTS CONTAIN FURTHER KEY EXTRACTS FROM HIS COMMENTS ON GENERAL FOREIGN POLICY ISSUES AND ON DEFENCE AND SECURITY ISSUES RESPECTIVELY. THE FOREIGN RELATIONS COMMITTEE VOTED (UNANIMOUSLY) ON 19 JANUARY TO RECOMMEND BAKER'S CONFIRMATION. THE FULL SENATE IS EXPECTED TO VOTE ON 25 JANUARY. THAT WILL BE THE MOMENT FOR YOUR FURTHER MESSAGE, AS PROPOSED IN MY TELNO 60. MY THIRD IFT (NOT TO ALL) CONTAINS A FIRST DRAFT OF SUCH A MESSAGE, INCLUDING A REFERENCE TO SOME OF BAKER'S REMARKS DURING THE HEARINGS.

3. THIS WAS A POLITICALLY VERY ADROIT PERFORMANCE BY BAKER, WHICH HAS GOT HIM OFF TO A STRONG START WITH THE NEW CONGRESS. AS ONE COMMENTATOR HAS OBSERVED, THE HEARINGS WENT AS SMOOTHLY AS A REPUBLICAN CAMPAIGN EVENT THAT BAKER HIMSELF HAD PLANNED. THE ANALOGY IS A TELLING ONE, BECAUSE (AS WITH THE CAMPAIGN) BAKER AGAIN LEFT NOTHING TO CHANCE. HE MADE A POINT OF CALLING ON EACH OF THE MEMBERS OF THE COMMITTEE IN ADVANCE OF THE HEARINGS. HE DID HIS HOME-WORK ON THE SUBSTANCE VERY THOROUGHLY, AND HE MADE A POINT OF EMPHASISING THE IMPORTANCE HE ATTACHED TO A BIPARTISAN APPROACH TO FOREIGN POLICY, AND OF CLOSE CONSULTATION WITH CONGRESS.

4. IN THE EVENT, HE WAS GIVEN A PRETTY EASY RIDE BY THE COMMITTEE. THE ATMOSPHERE WAS FRIENDLY. THERE WERE NO ATTEMPTS BY DEMOCRATS TO SETTLE SCORES LEFT OVER FROM THE CAMPAIGN. MOST OF THE SENATORS ASKED PREDICTABLE QUESTIONS IN THEIR AREAS OF FOREIGN POLICY INTEREST, AND DID NOT FOLLOW UP VERY VIGOROUSLY.



IN MANY CASES, BAKER HAD A READY ANSWER (ALTHOUGH HIS STAFF HAVE TOLD US THAT THERE WAS NO COLLUSION BETWEEN THE TRANSITION TEAM AND THE COMMITTEE STAFF ON THE QUESTIONS). AND WHEN HE DID NOT KNOW THE ANSWER, BAKER FREELY ADMITTED AS MUCH, AND UNDERTOOK TO CHECK AND GET BACK WITH A DETAILED RESPONSE. AS A RESULT, BAKER AND HIS TEAM HAVE NOTCHED UP A LARGE NUMBER OF OBLIGATIONS TO PROVIDE DETAILED BRIEFING. MANY ARE STRAIGHTFORWARD. BUT SOME MAY TURN OUT TO BE TRICKY (EG SENATOR HELMS'S REQUEST FOR INFORMATION ON WHETHER THE CIA COVERTLY FUNDED DUARTE'S 1984 ELECTION CAMPAIGN). SO SOME SKIRMISHES HAVE ONLY BEEN POSTPONED. BUT THE TACTIC OF LEANING OVER BACKWARDS TO MEET REQUESTS BY SENATORS FOR INFORMATION FITS SQUARELY INTO BAKER'S WIDER STRATEGY OF ESTABLISHING A MORE CO-OPERATIVE CLIMATE FROM THE OUTSET BETWEEN THE NEW ADMINISTRATION AND THE NEW CONGRESS. TO JUDGE FROM THE GLOWING TRIBUTES PAID TO BAKER BY COMMITTEE MEMBERS ACROSS THE POLITICAL SPECTRUM AT THE END OF THE HEARINGS, HE HAS TAKEN A MAJOR STEP IN THAT DIRECTION. NOT SURPRISINGLY, THE TRANSITION TEAM ARE IN EBULLIENT MOOD: AND TOLD US THAT THINGS HAD GONE EXACTLY AS PLANNED.

5. ON THE SUBSTANCE, WE HAVE REPORTED THE MAIN POINTS OF INTEREST. NOTHING VERY NEW EMERGED ON THE MAJOR ISSUES, BUT SOME OF THE EMPHASIS WAS INTERESTING (EG ON MISSILE AND CW PROLIFERATION, AND ON LATIN AMERICA, (ARCAS PLAYED UP BY BUSH IN HIS CAMPAIGN). HAVING MADE A COMPREHENSIVE OPENING STATEMENT, BAKER SKILLFULLY AVOIDED BEING DRAWN BEYOND IT IN RESPONSE TO MOST OF THE QUESTIONS. A PARTICULAR FEATURE WAS THE ATTENTION HE PAID TO KEEPING THE RIGHT (IN THE FORM OF SENATORS HELMS AND HUMPHREY IN PARTICULAR) ON BOARD. HE PLAYED A CAT AND MOUSE GAME WITH HELMS ON THE FUTURE OF AID TO SAVIMBI, ON WHETHER THE ANC WAS A TERRORIST ORGANISATION, AND (AS NOTED ABOVE) ON EL SALVADOR. WITH HUMPHREY, HE SPARRED WITH EQUAL CAUTION ON AFGHANISTAN AND TAIWAN. AS A RESULT HE HAS KEPT RUMBLINGS ON THE RIGHT TO A MINIMUM.

6. IN SUM, BAKER HAS COME THROUGH HIS HEARINGS UNSCATHED. BUT WE UNDERSTAND FROM THE TRANSITION TEAM THAT HE IS STILL BEING VERY CAUTIOUS ABOUT SENIOR APPOINTMENTS: AND THE BULK OF ANNOUNCEMENTS SEEM LIKELY TO BE HELD OVER AT LEAST UNTIL AFTER HIS CONFIRMATION, AND POSSIBLY INTO FEBRUARY.

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## MIPT: BAKER'S CONFIRMATION HEARINGS

1. FOLLOWING ARE EXTRACTS FROM BAKER'S ANSWERS TO QUESTIONS ON THE AFTERNOON OF 17 JANUARY AND ON 18 JANUARY (FOR DEFENCE AND SECURITY ISSUES SEE MIFT):

(I) ON THE MOSCOW HUMAN RIGHTS CONFERENCE QUOTE CONTRARY TO PUBLISHED PRESS REPORTS, I WAS NOT INVOLVED IN THE DECISION

I'VE HAD SOME RESERVATIONS IN WATCHING THE ISSUE DEVELOP, EVEN DURING THE CAMPAIGN, ABOUT THE WISDOM OF HOLDING A HUMAN RIGHTS CONFERENCE IN MOSCOW. BUT HAVING SAID THAT ... I AM IMPRESSED BY THE CHANGES WHICH ARE TAKING PLACE IN THE SOVIET UNION. I THINK THOSE ARE DRAMATIC CHANGES ... MORE IS NEEDED. AND THE REAGAN ADMINISTRATION, IN AGREEING TO THIS CONFERENCE, HAS MADE IT CLEAR THAT OUR PARTICIPATION WILL DEPEND ON ADDITIONAL PROGRESS AND HAS LAID DOWN CERTAIN CONDITIONS AND I THINK THOSE ARE GOOD CONDITIONS ... WE'VE MADE A COMMITMENT AND WE PLAN TO KEEP IT UNQUOTE.

(II) ON EUROPE (SUPPLEMENTING PARA 3(IV) OF OUR TELNO 137) QUOTE IT'S VERY MUCH OUR HOPE THAT THE SINGLE MARKET WILL BE OUTWARD LOOKING IN ITS APPROACH, WILL BE NON-PROTECTIONIST, THAT IN THE COURSE OF BREAKING DOWN BARRIERS AMONG NATIONS IN EUROPE THEY WILL NOT BE TEMPTED TO ERECT BARRIERS TO THOSE OF US ON THE OUTSIDE UNQUOTE. BAKER LATER AGREED WITH A SUGGESTION FROM SENATOR BIDEN THAT THERE SHOULD BE A SINGLE FOCAL POINT IN THE ADMINISTRATION TO FOLLOW WHAT WAS HAPPENING IN EUROPE AND TO CONSIDER WHETHER ANY RESPONSES FROM THE US WERE NECESSARY.

(III) ON VIETNAMESE REFUGEES A NUMBER OF SENATORS EXPRESSED CONCERN THAT THE US HAD BEEN OBLIGED TO SHIFT REFUGEE PLACES FROM SOUTH EAST ASIA TO COPE WITH THE DEMAND FROM THE SOVIET UNION. BAKER COMMENTED QUOTE THIS IS A VERY DIFFICULT PROBLEM. ITS A PROBLEM OF RESOURCES. WE REALLY HAVE MORE SEEKING ADMISSION NOW THAN WE HAVE THE CAPACITY IN TERMS OF FINANCIAL RESOURCES TO ADMIT. AND WE WILL PROBABLY BE COMING BACK UP HERE LOOKING FOR SOME MONEY - THAT'S THE BOTTOM LINE - IF THE POLICY



DOESN'T CHANGE. AND I HAVE NO REASON TO SUSPECT THAT THE POLICY WOULD CHANGE, NOR DO I THINK IT SHOULD CHANGE UNQUOTE.

(IV) ON WESTERN CREDITS TO THE SOVIET UNION QUOTE I FEEL STRONGLY THAT THE QUESTION OF TRADE AND CREDITS AND A WHOLE WIDE RANGE OF ECONOMIC ISSUES MUST BE DEALT WITH IN THE CONTEXT OF THE OVERALL US/SOVIET RELATIONSHIP UNQUOTE. ON THE POSSIBILITY OF IMPOSING CONDITIONS ON WESTERN LENDING QUOTE IT'S GOING TO BE ALMOST IMPOSSIBLE TO GET ALL OF OUR ALLIES IN THAT BOAT IF YOU'RE TALKING ABOUT JUST NORMAL COMMERCIAL RELATIONSHIPS. AND ON CAPITAL CONTROLS ... YOU REALLY DON'T ACCOMPLISH ANYTHING BECAUSE OTHER COUNTRIES' FIRMS WILL JUST PICK UP THE SLACK UNQUOTE. ON THE NEED FOR TRANSPARENCY QUOTE IT'S NOT UNREASONABLE TO THINK THAT WE WOULD LIKE TO SEE A BIT MORE TRANSPARENCY. THE ONLY WAY WE CAN GET IT IS THROUGH BUILDING A CONSENSUS AMONG THE ALLIES. UNQUOTE.

(V) ON THE SECURITY OF AIR TRAVEL FOLLOWING PAN AM 103 QUOTE I THINK THERE IS A DUTY PERHAPS TO ADVISE WHEN YOU HAVE VERY SPECIFIC AND CONCRETE EVIDENCE ... IF WE GET EVIDENCE OF A SPECIFIC THREAT, WE WORK WITH SECURITY OFFICIALS IN THE COUNTRIES AFFECTED AND THE CARRIERS INVOLVED. AND WHAT NORMALLY HAPPENS IS THAT THE FLIGHT IS CANCELLED. .. THIS IDEA THAT SOMEHOW IT IS INCUMBENT UPON US EVERY TIME WE GET WIND OF ANY PARTICULAR THREAT TO ISSUE A PUBLIC ADVISORY - WE HAVE TO LOOK AT THAT VERY VERY CAREFULLY UNQUOTE.

(VI) ON CHINA QUOTE IT IS A RELATIONSHIP THAT WE INTEND TO NURTURE VERY CAREFULLY. WE WOULD LIKE TO SEE AN EXPANSION OF IT, NOT JUST POLITICALLY AND DIPLOMATICALLY BUT ECONOMICALLY AS WELL. UNQUOTE. ON SINO/SOVIET RELATIONS QUOTE WE DO NOT BELIEVE THAT THAT MEANS ANYTHING LIKE THE RAPPROCHEMENT THAT TOOK PLACE IN THE 1950S. UNQUOTE.

(VII) ON EASTERN EUROPE QUOTE I THINK THERE ARE GREATER OPPORTUNITIES TODAY THAN THERE WERE YESTERDAY, AND THERE WILL BE GREATER OPPORTUNITIES TOMORROW THAN THERE ARE TODAY. I THINK THERE IS SIGNIFICANT CHANGE UNDERWAY IN EASTERN EUROPE, AND I THINK IT PRESENTS US WITH SOME REAL OPPORTUNITIES IN TERMS OF LONG-STANDING OBJECTIVES OF OURS IN THAT AREA UNQUOTE. ON POLAND AND THE IMF QUOTE THEY ARE NOT MOVING AS RAPIDLY AS WE HAD HOPED THEY MIGHT IN THE ECONOMIC AREA .. WE THINK THAT THERE IS A LOT MORE THEY CAN DO THERE. THEY WOULD LIKE TO SEE US SUPPORT THEM FOR A STANDBY PROGRAMME IN THE IMF, AND WE HAVE SAID: IF YOU TAKE THE STEPS THAT ARE NECESSARY TO BEGIN OPENING UP YOUR ECONOMY, WE CAN TAKE A LOOK



AT THAT DOWN THE ROAD ... THEY ARE BEGINNING TO MAKE MUCH BETTER PROGRESS, IT SEEMS TO ME ON THE POLITICAL SIDE UNQUOTE. (VIII) ON CENTRAL AMERICA SENATOR LUGAR SUGGESTED THAT EL SALVADOR, NICARAGUA AND PANAMA COULD ALL REQUIRE IMMEDIATE ATTENTION. BAKER REPLIED QUOTE I DON'T SEE AN ISSUE COMING AT US ANY QUICKER THAN THIS ONE. IT'S GOING TO BE RIGHT ON OUR DOORSTEP WHEN WE TAKE OFFICE ... THAT'S WHY I THINK IT'S SO EXTRAORDINARILY IMPORTANT THAT WE GET TOGETHER AS A LEGISLATIVE AND EXECUTIVE BRANCH ON WHAT OUR POLICY OUGHT TO BE DOWN THERE UNQUOTE. ON THE CONTRAS QUOTE I DO NOT THINK THAT ON HUMANITARIAN GROUNDS OR MORAL GROUNDS WE CAN ABANDON THE CONTRAS ... THAT'S NOT TO SAY THAT I THINK THAT THEIR STRATEGY OR TACTICS IS TO MOVE QUICKLY ON A REQUEST FOR MILITARY ASSISTANCE UNQUOTE. ON THE ARIAS PLAN QUOTE WHAT WE NEED IN ORDER TO FASHION A BIPARTISAN APPROACH DOWN THERE IS PERHAPS SOME SCHEDULE AND SOME MECHANISM TO PERMIT THE ARIAS PLAN TO SUCCEED UNQUOTE.

(IX) ON MEXICO AND DRUGS QUOTE IT'S A DIFFICULT BALANCE ... WE HAVE EVERY RIGHT TO EXPECT THEIR FULL CO-OPERATION WITH US ON NARCOTICS. ON THE OTHER HAND, ITS SOMETIMES VERY EASY FOR US TO BLAME SOME OF OUR PROBLEMS ON OTHERS ... WE HAVE ACHIEVED SOME REAL PROGRESS IN COMPLIANCE BY THE MEXICAN GOVERNMENT WITH REQUESTS THAT WE HAVE MADE. UNQUOTE.

(X) ON TROOP WITHDRAWALS FROM KOREA QUOTE MOST SOUTH KOREANS, AND I THINK ALMOST ALL AMERICANS, VALUE THE SECURITY RELATIONSHIP AND DON'T WANT TO SEE US TROOPS WITHDRAWN UNLESS WE KNOW FOR SURE THAT THE THREAT FROM THE NORTH IS RECEDING UNQUOTE.

(XI) ON THE US/PLO DIALOGUE, BAKER REITERATED THE FAMILIAR THREE CONDITIONS FOR THE DIALOGUE AND ADDED QUOTE I THINK IT'S APPROPRIATE THAT WE SEE IF THE PLO IS PREPARED TO ACT IN A WAY THAT MAKES IT POSSIBLE TO TRANSLATE THESE PRINCIPLES INTO REALITY. UNQUOTE.

(XII) ON ARAB/ISRAEL QUOTE OUR VIEW IS THAT THE ESTABLISHMENT OF AN INDEPENDENT PALESTINIAN STATE IS NOT THE WAY TO GO, THAT WE THINK PERHAPS IT WOULD BE MORE APPROPRIATE TO SEE SOME SORT OF A CONFEDERATION ARRANGEMENT OF SOME TYPE.

(XIII) ON THE DECISION-MAKING PROCESS QUOTE I BELIEVE THAT WE ARE GOING TO MAKE THE SYSTEM WORK THE WAY THE SYSTEM SHOULD, THAT WE ARE GOING TO RESPECT THE PROCESS, THAT RESPONSIBLE OFFICIALS ARE NOT GOING TO BE CIRCUMVENTED, THAT WE ARE GOING TO MAINTAIN STRICT ACCOUNTABILITY, AND THAT WE ARE GOING TO LIVE BY THE RULES WITH RESPECT TO CONGRESSIONAL OVERSIGHT UNQUOTE.

(XIV) ON THE QUESTION OF CAREER AMBASSADORS QUOTE THERE IS NO



MAGIC NUMBER AT WHICH YOU SHOULD DRAW THE LINE BETWEEN POLITICAL AND CAREER AMBASSADORS. THE VICE PRESIDENT HAS MADE HIS HIGH REGARD FOR THE FOREIGN SERVICE KNOWN IN A NUMBER OF WAYS SINCE HIS ELECTION ... THE PRESIDENT IS GOING TO WANT INDIVIDUALS WITH THE VERY BEST QUALIFICATIONS SERVING AS OUR AMBASSADORS ABROAD, PRETTY MUCH WITHOUT REGARD TO WHETHER THEY ARE POLITICAL OR CAREER FOREIGN SERVICE UNQUOTE.

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MIPT: BAKER'S CONFIRMATION HEARING: FURTHER POL/MIL ISSUES  
1. THE FOLLOWING ARE THE MAIN STATEMENTS MADE BY BAKER ON  
DEFENCE AND ARMS CONTROL DURING THE LATTER HALF OF THE HEARING:  
BEGINS

I) BURDENSARING

QUOTE WELL, I'D LIKE TO SEE US START REFERRING TO IT, FIRST OFF,  
AS CREATIVE RESPONSIBILITY SHARING OR  
DIVISION OF LABOR, BECAUSE I THINK IT'S BROADER THAN JUST BURDEN  
SHARING IN TERMS OF THE DEFENSE RELATIONSHIP. SOMETIMES I THINK  
THAT THE ALLIES DO A BIT MORE THAN IS ACKNOWLEDGED, AND I  
CERTAINLY THINK IT'S IMPORTANT THAT WE COUNT HOST NATIONS SUPPORT  
AND CONSCRIPTION EXERCISES AND THINGS LIKE THAT, THAT ARE DONE  
ON THEIR TURF. I THINK BURDEN SHARING, DIVISION OF LABOR,  
SHOULD REMAIN HIGH ON OUR AGENDA. WE SHOULD CONTINUE TO PRESS  
FOR GREATER BURDEN SHARING BY OUR ALLIES. I DO BELIEVE THAT  
WE'VE GOT TO RECOGNIZE THAT JAPAN IS MOVING MORE AND MORE IN  
THIS DIRECTION. FRANCE DOES SOME THINGS IN AFRICA THAT I THINK  
COULD QUITE PROPERLY BE COUNTED UNDER THE HEADING BURDEN  
SHARING. IT IS A MATTER THAT I FELT, AS SECRETARY OF THE  
TREASURY, AND WILL FEEL AS SECRETARY OF STATE, IS QUITE PROPER  
FOR US TO INQUIRE INTO AND TO NEGOTIATE WITH OUR ALLIES WITH  
RESPECT TO. UNQUOTE

II) US BASES IN THE PHILLIPINES

QUOTE WE HAVE A VERY LARGE STAKE IN THAT AREA, EXTREMELY LARGE STAKE  
IN THE AREA. IT'S IMPORTANT TO US IN TERMS OF SECURING THE  
NATIONAL INTERESTS OF THE UNITED STATES THAT WE MAINTAIN THOSE  
BASES. IT'S VERY IMPORTANT TO US IN TERMS OF OUR ABILITY TO  
PROJECT POWER IN THE INDIAN OCEAN AND THE PERSIAN GULF, AND I  
DARESAY WE WOULD HAVE HAD A DIFFICULT TIME DOING WHAT WE'VE  
DONE IN THE PERSIAN GULF HAD WE NOT HAD THOSE BASES.  
SO IT'S A VERY DIFFICULT ISSUE. IT'S ONE THAT WE NEED TO  
CONTINUE WORKING AT, AND FRANKLY, I REALLY BELIEVE THAT IN THE  
FINAL ANALYSIS, WE WILL BE SUCCESSFUL. WE WILL BE ABLE TO  
RENEGOTIATE THEM ON A REASONABLE BASIS. UNQUOTE



## III) UNILATERAL SOVIET REDUCTIONS.

QUOTE WELL, I DO THINK THAT THE BALANCE OF POWER IS COMPLEX AND IT'S DYNAMIC, OF COURSE, BUT I THINK THE FACT REMAINS THAT THE SOVIETS HAVE A SUBSTANTIAL ADVANTAGE IN MANY CATEGORIES. I THINK CAUTION IS APPROPRIATE. I'M REMINDED OF THE PRESIDENT'S SAYING, QUOTE TRUST BUT VERIFY UNQUOTE. I DON'T THINK WE OUGHT TO CHANGE THAT. I THINK TRUST BUT VERIFY IS A GOOD STANDARD. I THINK PRUDENCE IN OUR APPROACH, AS I'VE INDICATED IN MY OPENING STATEMENT, I THINK REALISM IN OUR APPROACH - ALL OF THOSE ARE GOOD WAYS, UNQUOTE

## IV) CW: PRE-EMPTIVE STRIKES

(ASKED ABOUT THE USE OF FORCE AGAINST STATES PRODUCING, OR INTENDING TO USE, CW) QUOTE

I THINK THAT THE POLICY OF THE UNITED STATES IS THAT UNDER CERTAIN CIRCUMSTANCES, THE USE OF FORCE IN SITUATIONS LIKE THAT IS NOT INAPPROPRIATE UNQUOTE.

## V) PNET/TTBT

MR CHAIRMAN QUOTE IT'S OUR THOUGHT THAT THE TWO SHOULD BE SUBMITTED JOINTLY, IF POSSIBLE. AND AS YOU KNOW - AS YOU JUST STATED, THEY ARE CLOSE TO BEING READY. WE'VE COMPLETED THE VERIFICATION PROTOCOL FOR THE PEACEFUL NUCLEAR EXPLOSIONS TREATY, AND WE'RE WORKING ON THE VERIFICATION PROTOCOL FOR THE THRESHOLD TEST BAN TREATY. AS SOON AS WE COMPLETE THE LATTER, IT WOULD BE MY THOUGHT THAT WE WOULD SUBMIT THE TWO TREATIES TO THE SENATE FOR RATIFICATION. I THINK THEY ARE COMPLETELY RESOLVED WITH RESPECT TO THE PEACEFUL NUCLEAR EXPLOSIONS TREATY. AND WE'VE MADE VERY GOOD PROGRESS ON THE THRESHOLD TEST BAN TREATY - VERY CLOSE TO BEING READY. I'D BE AFRAID TO PUT A DATE ON IT (SUBMISSION TO CONGRESS) BECAUSE I DON'T KNOW SPECIFICALLY WHAT'S LEFT WITH RESPECT TO THE VERIFICATION PROTOCOL ON THE THRESHOLD TEST BAN TREATY. UNQUOTE.

## VI) POSSIBLE EUROPEAN SECURITY

QUOTE WELL, I THINK IT'S SOMETHING THAT WE COULD LOOK AT. I DON'T HAVE AN OPINION ON IT BECAUSE FRANKLY, I HADN'T CONSIDERED IT BEFORE YOU JUST MENTIONED IT. BUT I REALLY WONDER, IN LIGHT OF WHAT I SAID YESTERDAY ABOUT THE IMPORTANCE OF THE UNITED STATES LEADING NOT JUST ECONOMICALLY, BUT IN FOREIGN POLICY, AND THE IMPORTANCE OF THE UNITED STATES LEADING THE ALLIANCE, WHETHER THAT IS SOMETHING THAT WE SHOULD DO. THE ALLIANCE HAS WORKED - THERE'VE BEEN SOME - THERE HAVE BEEN PLENTY OF STRAINS, ADMITTEDLY, BUT THE ALLIANCE HAS WORKED



PRETTY DARN WELL OVER FORTY YEARS, AND I WONDER IF A CHANGE OF THAT NATURE WOULD MOVE US IN THE RIGHT DIRECTION. IT'S SOMETHING WE COULD LOOK AT. UNQUOTE

VII) INF - (ASKED ABOUT A POSSIBLE VIOLATION BY REFUSING ACCESS FOR US X-RAY EQUIPMENT) THIS IS THE FIRST TIME I HAVE HEARD THAT THERE WAS AN OUTSTANDING VIOLATION, AN UNCORRECTED VIOLATION, UNDER THE INF TREATY. AND AS I INDICATED, THE BRIEFINGS I'VE RECEIVED ARE BASICALLY TO THE EFFECT THAT THE SPECIAL VERIFICATION COMMISSION HAS MET THREE TIMES, THAT THEY HAVE, AS YOU SUGGESTED, ENTERTAINED SUGGESTIONS OF NONCOMPLIANCE ON BOTH SIDES, AND THAT ALL OF THOSE HAVE BEEN CORRECTED. THAT'S THE INFORMATION I HAVE, AND I'VE HEARD NO ONE SUGGEST OTHERWISE UNTIL I HEARD THE QUESTION. I SHOULD CHECK INTO IT, WHICH I'M PLEASED TO DO. UNQUOTE.

VIII) BURDENSARING - JAPAN

QUOTE THEY CAN DO IT IN WAYS THAT WOULD NOT RAISE THE SPECTER OF PROBLEMS WITH THEIR CONSTITUTION OR A REARMING OF JAPAN. WE'VE TALKED TO THEM AS WELL ABOUT ADDITIONAL CONTRIBUTIONS BY WAY OF DEALING WITH PROBLEMS SUCH AS THE THIRD WORLD DEBT PROBLEM. THERE ARE LOTS OF WAYS THAT IT SEEMS TO ME THAT JAPAN, AS THE WORLD'S SECOND LARGEST ECONOMY, CAN CONTRIBUTE WITHOUT TYING IT TO DEFENSE EXPENDITURES, AND CONTRIBUTE TO THE SECURITY OF THE PACIFIC BASIN. UNQUOTE.

IX) BALLISTIC MISSILE PROLIFERATION

I THINK THE PRC'S SALE OF SOME MISSILES TO SAUDI ARABIA, MORE THAN ANYTHING ELSE HIGHLIGHTED THE NECESSITY TO WORK TO ACHIEVE STRONGER INTERNATIONAL CURBS ON THIS MISSILE TECHNOLOGY TRANSFER. WE'VE STRESSED TO THE CHINESE AND TO OTHERS, AS PART OF A GLOBAL EFFORT, OUR CONCERN OVER THE DESTABILIZING NATURE OF TRANSFERS OF THESE KINDS OF WEAPONS SYSTEMS, AND ON A NUMBER OF OCCASIONS, SECRETARY SHULTZ AND SECRETARY CARLUCCI, IN TRIPS TO CHINA LAST YEAR HAVE EXPRESSED OUR CONCERN OVER THE DANGERS THAT ARE POSED BY MISSILE PROLIFERATION, PARTICULARLY IN UNSTABLE AREAS OF THE WORLD, AND THE CHINESE LEADERSHIP HAS RESPONDED THAT THEY WILL TAKE A PRUDENT AND RESPONSIBLE ATTITUDE REGARDING THESE SALES. OUR PRESENT POLICY IS TO CONTINUE TO URGE CHINA AND OTHER NATIONS TO REFRAIN FROM EXPORTING MISSILES WITH A RANGE GREATER THAN 300 KILOMETERS AND A PAYLOAD OF OVER 500 KILOGRAMS. BOTTOM LINE IS, WE ARE MAKING PROGRESS IN THIS AREA. UNQUOTE.

X) ABM TREATY INTERPRETATION

QUOTE WHAT'S IMPORTANT IS ... THE POLICY OF THE NEW PRESIDENT OF THE UNITED STATES. HIS POLICY HERETOFORE HAS BEEN TO RESPECT THE



NARROW BUT RESERVE ON THE QUESTION OF THE BROAD. (THE EXTRACT READ BY SENATOR BIDEN) IS THE PERSONAL VIEW OF BRENT SCOWCROFT, A PRIVATE CITIZEN. IT'LL BE INTERESTING TO SEE WHETHER THE VICE PRESIDENT IS GOING TO CHANGE HIS POSITION OR STICK TO THE POSITION THAT HE HAD AS VICE PRESIDENT FOR TWO REAGAN TERMS. OF COURSE, THE ISSUE OF RATIFICATION AND ALL OF THE REST IS MORE PROPERLY DEBATED, I SUPPOSE, IN THE JUDICIARY COMMITTEE. BUT, WHAT HAPPENS IF THE INTERPRETATION COMES ABOUT MANY YEARS - FOR OR FIVE YEARS - DOWN THE LINE? SUPPOSE YOU GET A DEVELOPMENT OF NEW IDEAS, NEW TECHNOLOGIES, NEW PRINCIPLES, AND THERE'S AN INTERPRETATION THAT PRESENTS ITSELF, AND THE NEGOTIATING RECORD IS SILENT ON IT. AND THERE'S NEVER BEEN ANY SUGGESTION THAT IT WAS THE SUBJECT OF DISCUSSION OR CONSIDERATION BY THE SENATE WHEN IT WAS RATIFIED. ARE YOU SAYING THAT THE EXECUTIVE AT THAT POINT IS NOT ENTITLED TO PUT AN INTERPRETATION ON THE TREATY UNLESS IT COMES BACK UP HERE? UNQUOTE IN ANSWER TO SENATOR BIDEN'S STATEMENT THAT IF A TREATY IS INCONSISTENT WITH US VITAL INTEREST, THE US CAN GIVE NOTICE OF WITHDRAWAL, BAKER SAID QUOTE RIGHT UNQUOTE.

XI) CW - BINARY PRODUCTION/GLOBAL BAN

QUOTE I DON'T THINK WE WOULD SEE THE SOVIETS AS ANXIOUS FOR A CW TREATY

AS THEY NOW APPEAR TO BE HAD WE NOT RESUMED PRODUCTION OF BINARY WEAPONS. I UNDERSTAND THE LOGIC OF THE ARGUMENT THAT WAS MADE IN PARIS, BUT THE FACT REMAINS ... I HAPPEN TO BELIEVE THAT IT WAS OUR RESUMPTION OF BINARY PRODUCTION THAT ENCOURAGED THE SOVIETS TO MOVE. WE HAVE HAD THE WEAPONS, AND WE HAVE NOT USED THEM. AND WE DO SUPPORT THE CONCEPT OF A COMPLETE BAN ON CHEMICAL WEAPONS, AND WE'D BE VERY QUICK TO SIGN UP ONCE WE OVERCOME THE VERIFICATION PROBLEMS. WE WOULD ELIMINATE OURS IF EVERYBODY ELSE WOULD ELIMINATE THEIRS. UNQUOTE.

XII) BW - ALLEGED IRAQI PRODUCTION

I CAN'T COMMENT ON THAT, MR CHAIRMAN, OTHER THAN TO SAY THAT THE DIRECTOR OF CENTRAL INTELLIGENCE HAS SAID THAT THERE ARE 10 COUNTRIES THAT ARE CURRENTLY PRODUCING BIOLOGICAL WARFARE AGENTS. WE REALLY CAN'T SAY PUBLICLY WHO THEY ARE OR WE MIGHT RUN THE RISK OF COMPROMISING SOURCES AND METHODS OF INTELLIGENCE. UNQUOTE.

XIII) CW: SANCTIONS

QUOTE I THINK THAT THE KINDS OF EFFORTS THAT ARE MADE AT THE PARIS CONFERENCE IS WHAT'S REQUIRED. I AGREE THAT WE NEED TO BE SERIOUS ABOUT SANCTIONS ON USE. AND I AM AWARE THAT YOU



INTRODUCED THAT LEGISLATION AND THAT WE TOOK A POSITION - OR JHE  
ADMINISTRATION TOOK A POSITION IN OPPOSITION. I'M NOT SO SURE  
THAT WOULD HAVE BEEN THE POSITION I WOULD HAVE TAKEN HAD I BEEN  
SITTING THERE AT THE TIME, BECAUSE I REALLY DO BELIEVE WE HAVE  
GOT TO GET ABSOLUTELY SERIOUS ABOUT THESE CHEMICAL WEAPONS  
VIOLATIONS. BUT THE WAY YOU - THE WAY I THINK YOU MOVE IS TO  
BRING THEM INTO THE DISCUSSIONS AND THE DEBATE ABOUT ACHIEVING  
A COMPLETE BAN. UNQUOTE

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MIPT: BAKER'S CONFIRMATION HEARINGS: DRAFT MESSAGE FROM SECRETARY OF STATE

1. FOLLOWING IS TEXT OF POSSIBLE DRAFT MESSAGE, FOR DELIVERY ONCE THE FULL SENATE HAVE VOTED ON CONFIRMATION (EXPECTED TO BE 25 JANUARY).

QUOTE

I WAS DELIGHTED TO HEAR THAT BOTH THE SENATE AND THE SENATE FOREIGN RELATIONS COMMITTEE HAVE VOTED UNANIMOUSLY TO CONFIRM YOUR CONFIRMATION AS SECRETARY OF STATE. I SEND MY SINCERE CONGRATULATIONS.

YOU CERTAINLY PRODUCED A VIRTUOSO PERFORMANCE AT YOUR CONFIRMATION HEARINGS. I KNOW FROM EXPERIENCE IN THE HOUSE OF COMMONS HERE HOW TAXING IT IS TO HAVE TO SWITCH RAPIDLY BETWEEN CONTINENTS AND ISSUES: YOU KEPT IT UP ADMIRABLY.

I WAS PARTICULARLY STRUCK BY THE SENTENCE IN YOUR ELOQUENT OPENING STATEMENT: QUOTE WE ARE AT ONCE AN ATLANTIC POWER AND A PACIFIC POWER, AND THERE SHOULD NOT BE ANY THOUGHT TO EXPAND ONE RELATIONSHIP AT THE EXPENSE OF THE OTHER UNQUOTE. AS A CLOSE ALLY SHARING WITH YOU AN ATLANTIC OUTLOOK AND PACIFIC INTERESTS, WE WARMLY WELCOME THAT SENTIMENT.

AND I WAS GLAD TO HEAR THE EMPHASIS WHICH YOU PLACED, IN YOUR OPENING STATEMENT AND IN RESPONDING TO QUESTIONS, ON THE IMPORTANT PART THAT AN OUTWARD-LOOKING EUROPE CAN PLAY IN THE WORLD. YOU CAN COUNT ON US TO CONTINUE TO WORK IN THE DIRECTION THAT YOU DESCRIBED, AND FOR THE REASONS THAT YOU INDICATED.

I MUCH LOOK FORWARD TO DISCUSSING ALL THIS, AND THE MANY OTHER ISSUES THAT WE SHALL HAVE TO TACKLE TOGETHER, WITH YOU BEFORE TOO LONG.

UNQUOTE

2. SINCE THE TRANSITION TEAM HAVE NOT YET CONFIRMED A MEETING IN TOKYO, AND SINCE WE HAVE NOT YET DECIDED ON DATES FOR YOUR VISIT TO WASHINGTON, WE THINK ON REFLECTION, THAT IT WOULD BE BETTER NOT TO USE THIS MESSAGE AS A VEHICLE FOR FIXING YOUR



FIRST MEETING WITH BAKER. WE SHALL PURSUE THAT SEPARATELY  
NEXT WEEK.

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FROM: N L WICKS  
DATE: 27 JANUARY 1989

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton

**PRESIDENT BUSH, SECRETARY BAKER AND SECRETARY BRADY AND THE US  
INTERNATIONAL DEBT STRATEGY**

Mulford provided some interesting background to current Administration discussions about the evolution of the debt strategy.

2. Mulford stressed, perhaps predictably, that the US Treasury were in the driving seat in managing the debt strategy. Jim Baker could be expected to take an informed interest, but he did not envisage that he would encroach on Treasury turf, partly because he was too astute a politician and partly because he would be too busy at State. The White House might take more interest, and perhaps unhelpfully so, in debt issues. President Bush was an acknowledged expert in foreign policy with contacts at Head of State/Government level throughout the world. He had much less knowledge of economic, financial and debt issues. There was a real possibility that Heads of State/Government would use their contacts with Bush for direct level appeals. These could cause problems if not properly handled. A great advantage here was that Brady was a "very close friend" of Bush. Tietmeyer chimed in to say that there was a similar risk of Head of Government involvement in Germany. Chancellor Kohl was susceptible to high level approaches, eg from people like President Mabaruk. I refrained from comment.

3. Mulford made two points about Secretary Baker's attitude to debt issues, neither of which may be new to you. First, he believed strongly that the existing strategy, which he had helped to devise, was right. He was violently opposed to using Government money for bank or other bail-outs. If the US Treasury espoused the approach on debt described by Mulford to the Deputies, their hardest task would, in his view, be to persuade Jim Baker to go along with it.

WICKS  
TO  
CX  
27JAN



4. Baker had an extremely negative view of the IFIs. Camdessus had handled his relationships with him very badly. The Fund was "running out of control". Relationships with the World Bank were unhappy, but they thought that they could manage Conable. Brady had still to come to a view.

*N.L.W.*

N L WICKS





DEPARTMENT OF TREASURY  
 FACSIMILE COVER SHEET  
 15TH & PENNSYLVANIA AVE., N.W.  
 WASHINGTON, D.C. 20220

*1*  
*Ru A Allan*  
*P/S Governor of*  
*Bank of Ceylon*  
*f/o Washington field*  
*01/27/89*  
*N.C.V*

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FAX MESSAGE NUMBER-----

DATE-----

NUMBER OF PAGES TO FOLLOW:----- *30-1*

TO: Nigel Wicks H.M. Treasury London, United Kingdom

ADDRESSEE'S FAX NUMBER: 9 0 1 1 4 4 1 8 3 9 2 0 2 9

ADDRESSEE'S CONFIRMATION NUMBER-----

FROM: David Mulford Dept of the Treasury Washington, D.C. 566-5363

SENDER'S FAX NUMBERS: (202) 566-8066 (202) 535-3807

SENDER'S CONFIRMATION NUMBER: (202) 566-8114

COMMENTS/SPECIAL INSTRUCTIONS:



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
 WASHINGTON

JAN 27 1989

Dear Colleague:

It has become necessary to change the location of the G-7 working dinner on February 2, 1989. The dinner will now take place at Anderson House, 2118 Massachusetts Avenue, N.W., Washington, D.C. As indicated earlier, the dinner will begin at 7:00 p.m.

Please advise your Minister and Central Bank Governor of the change in plans.

Sincerely,

*David*

David C. Mulford  
 Assistant Secretary  
 International Affairs

cc: Messrs. Wicks, Tietmeyer, Gyohden, Trichet, Sarcinelli, and Ms. Dobson





A handwritten signature in dark ink, appearing to be "S J Feest", written over a vertical line.

**FROM:** MISS S J FEEST  
**DATE:** 13 February 1989

**MR P W FAWCETT - IR**

cc 2 PS/Chancellor  
PS/Financial  
Secretary  
Mr Scholar  
Mr Gilhooly  
Mrs Chaplin  
Mr Tyrie  
Mr Isaac  
PS/IR

**US STUDY OF INTERCOMPANY PRICING**

The Financial Secretary was grateful for your minute of 9 February 1989 and is content for you to present your views to the US authorities.

A large handwritten signature, possibly "Susan", with the initials "SSG" written below it.

**SUSAN FEEST**