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PREM 19/2892

PART 8

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PRIME MINISTER'S VISIT TO

WASHINGTON, JULY 1987

~~ANY POSSIBLE VISIT TO NATO MTG 1988~~

and 15-17 November 1988 and 23-25 November 1989

[Quotation folder: Briefing for Visit 23-25 November 1989.]

USA

PART 1: JANUARY 1981

PART 8: JULY 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~22.7.87~~							
~~18.8.87~~							
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PART ENDS

PART 8 ends:-

speaking Note for Cabinet
30/11

PART 9 begins:-

Sir Antony Acland to CDP 5/2/90

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SPEAKING NOTE FOR CABINET ON 30 NOVEMBER:

MEETING WITH PRESIDENT BUSH

1. Four-and-a-half hours at Camp David. Very friendly and relaxed. The President is very well-informed and his basic instincts on the main domestic and international issues are very sound.

2. Much of the meeting was concerned with East/West and preparation for his meeting with Mr. Gorbachev in Malta. He is taking this very seriously and preparing meticulously. He is not himself planning to launch any new proposals but is preoccupied with the possibility that Gorbachev may spring a surprise, in the form of further troop cuts or some other initiative in relation to Germany. He is more disposed than before to express public support for Gorbachev's policies of reform.

3. Generally, the President seemed to accept the approach to developments in the Soviet Union and Eastern Europe which we have worked out, that is: the first priority should be to establish genuine democracy throughout Eastern Europe and the Soviet Union, and for that

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to succeed we need a background of stability and security. That means keeping NATO and the Warsaw Pact and recognising that German reunification is not on the agenda for now. No one can tell what will happen in ten or fifteen years' time when and if real democracy is established: it will be a very different world. Chancellor Kohl's speech in the Bundestag has stretched agreement not to raise borders fairly close to the limit. But he made clear that German unity was a very distant aspiration, and his proposals for joint committees and 'confederative' institutions imply two states, so it is just compatible.

4. The President expressed concern about seeming to consign Eastern Europe indefinitely to membership of the Warsaw Pact. I said that was not the question: the Eastern European countries themselves were not raising the issue of their membership. They knew it was Gorbachev's bottom line. He also wondered how we would have to react if Gorbachev used force to crack down on the nationalities. I said that our reaction would have to depend on the degree of force: but he seemed to be exercising considerable restraint so far. I discouraged the President from coming out publicly at this stage in support of independence for the

Baltic Republics - it would be cynical to lead them to expect more help than we would actually be prepared to give (remember Hungary in 1956 and Czechoslovakia in 1968).

5. I told the President that it seemed to me that Gorbachev was now concentrating more on preserving socialism than on moving towards a more market-oriented system. This was clear in his sharp reaction to what I said in my Guildhall speech about the failure of socialism. The same is true in East Germany and Czechoslovakia: the aim seems to be socialism with a more human face - which is better than what we had before but not democracy as we know it.

The President is expecting Gorbachev to raise economic issues and is working out how best to advise Gorbachev that his present economic polices have no chance of success. Alan Greenspan, who has recently been to the Soviet Union, told me he thought the economic situation was desperate and could not be improved until Gorbachev adopted much more far-reaching reforms, breaking up State monopolies and setting realistic prices.

7. The President was clearly preoccupied with the difficulties facing him over next year's budget and is hoping that developments in Europe and the outcome of the negotiations on conventional force reductions will enable him to make a significant reduction in the defence budget. I stressed that reductions must be as a result of negotiations and not pre-empt them. When he asked what peace was about, I reminded him that it was about keeping the peace. The starting-point had surely to be what was necessary to keep America safe and maintain its world-wide interests. But it was quite clear that the President is expecting a very difficult time from Congress and that the pressures on the US defence budget will be very severe. This will cause us problems.

8. I told the President how we see the future of the European Community and how we want to keep it outward-looking and opposed to protectionism. That was why, for instance, we were fighting the Social Charter. This led the President to say that perhaps he ought to speak out on some of these issues from the point of view of American interests. This could be helpful to us.

9. The President displayed some irritation with the Germans, in particular over the restrictions which they are putting on training and low-flying. This rather contradicts the public image of an American-German love affair.

10. We covered a very large number of regional issues. The President clearly feels strongly about Nicaragua and intends to raise it in very forthright terms with Gorbachev. He is pessimistic about progress in the Middle East. He is impressed by President Menem in Argentina. Contrary to press reports, we spent hardly any time on Vietnamese Boat People. The President simply observed that he hated to be at odds with us on this. He believes that we must resume contacts with China and does not want Gorbachev to believe that the current difficulties between China and the US are something to exploit.

11. All in all an excellent meeting, and I shall of course be seeing the President again at the NATO Summit.

(C. D. POWELL)

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PRIME MINISTER'S VISIT TO CAMP DAVID

POINTS TO MAKE

Surprises and Initiatives

- Asked for my views on what surprises Gorbachev might try to spring and what initiatives you could launch at Valletta.

- Gorbachev has produced no rabbits out of hats for a while. May of course surprise us at Valletta.

- Arms Control his usual field. But room for manoeuvre limited this time by progress already made. Most likely areas naval (either global negotiations, CSBMs or denuclearised Mediterranean) or CFE (further or deeper cuts in US/Soviet manpower in Europe).

- Political field may appeal this time. Conceivable he might propose four power conference for peace treaty on Europe or establishment of Berlin as a free city. But this would tend to stir up German hopes for major political change. Gorbachev more likely to want to damp them down by insisting on permanence of "post-World War Two realities". Might propose CSCE Summit to launch new Helsinki process, or transformation of alliances from military to political organisations.

- Response: from Western point of view all these alternatives unattractive. Clearly need to undertake to study and to consult allies. Privately express scepticism, particularly if they are simply reworkings of previous initiatives.

- Good case for launching a Western initiative, as a way of making substantial gesture of Western commitment to Perestroika. One idea that has occurred to us is the establishment of an International Management Institute in Moscow to organise management training inside and outside the Soviet Union. Would

also provide a pool of high level management expertise on which the Soviet Union could draw when it wished to look at specific industrial problems.

BACKGROUND

Surprises and Initiatives

President Bush said to the Prime Minister on 17 November that he would welcome her views on what surprises Gorbachev might spring at Valletta and what initiatives President Bush might take.

We know that both the State Department and NSC have been considering which ideas Gorbachev might launch (Washington Telno 2993 attached). The main possibilities that we can foresee are:

a) Arms Control: this is Gorbachev's usual field but his room for manoeuvre is more limited this time by the progress already under way in most areas. The possibilities include:

- naval negotiations (either global reductions, CSBMs or linked to the Mediterranean). Particularly appropriate given the location of the meeting.

- CFE: a proposal to remove all US/Soviet forces from Europe by a date well into the future coupled with a proposal for more dramatic immediate reductions than currently envisaged by NATO.

- SNF: he could again call for negotiations, with the offer of large-scale withdrawal of Soviet missiles at an early date.

- Initiatives on START and CW are unlikely given good progress in these fields.

b) Political: this is not Gorbachev's usual field, but given the current level of interest in the dramatic changes taking place in Eastern Europe Gorbachev might be attracted to this area. The possibilities include:

- a four power conference to negotiate a peace treaty for Europe or the creation of Berlin as a free city. (Given however Gorbachev's concern about pressures for German reunification a peace treaty proposal must be considered improbable.)

- A CSCE Summit to launch a new Helsinki process. Gorbachev has proposed similar ideas in the past but this time the proposal might catch public attention.

- The transformation of alliances from military into political organisations and greater cooperation between the Warsaw Pact and NATO.

c) Economic: conceivably Gorbachev could propose a joint meeting with the Summit 7 or call for Soviet admission to the GATT or other international economic bodies. This is unlikely however to arouse great public interest and would put him in the position of "demandeur" with little prospect of early satisfaction.

Most of these proposals would be unattractive to the West although observer status at GATT or a CSCE summit might be acceptable. President Bush will however not wish to appear totally negative and will presumably undertake to study any proposal (although he should not mislead Gorbachev about the real prospects). Press briefing can be more sceptical, particularly if the initiative is simply a re-hash of previous ideas.

Gorbachev has real difficulties which could endanger his survival: political turmoil, strikes, shortages, and concealed hyper-inflation in the economy, and the nationality issue. Without Gorbachev, progress in democratising Eastern Europe and in arms control negotiations would certainly be slower and might come to a halt. Nothing we can do could provide a quick solution to any of Gorbachev's problems but it would be useful to make a substantial gesture of Western commitment to Perestroika. When

he saw the Prime Minister, Gorbachev stressed the need for Western help with management training. One possibility would be an International Institute of Management in Moscow. All OECD countries could contribute to this institute which could organise management training inside and outside the Soviet Union as well as providing a pool of high-level management expertise on which the Soviet Union could draw when it wished to look at specific industrial problems. The Prime Minister may wish to mention this to President Bush although we will wish to keep a UK tag on this idea.

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PARIS FOR P.M'S PARTY
YOUR TELNO 2105 : BUSH/GORBACHEV MALTA MEETING
SUMMARY

1. INTENSE CRYSTAL-BALL GAZING ON ISSUES GORBACHEV MAY RAISE IN ATTEMPT TO SEIZE ADVANTAGE. DETAILS OF PAPERS PREPARED FOR BAKER AND BUSH. IN ADDITION TO THE EXPECTED AGENDA ON POLITICAL TOPICS, AND EMPHASIS ON RESTRAINT AND REASSURANCE IN THIS CONTEXT, THERE ARE CONCERNS THAT GORBACHEV WILL MAKE PROPOSALS ON NAVAL ARMS CONTROL, ACCELERATED US/SOVIET CUTS IN CFE AND CALL FOR A CSCE SUMMIT.

DETAIL

2. THE AMERICANS HAVE YET TO FORM CLEAR IDEAS OF WHAT NEW PROPOSALS GORBACHEV MIGHT PULL OUT OF HIS SLEEVE IN MALTA. NOR HAVE THEY YET RECEIVED ANY ADVANCE NOTICE OF POINTS FROM THE SOVIET SIDE. THEIR CURRENT BELIEF IS THAT, ON CLOSER EXAMINATION, THE SOVIET ROOM FOR MANOEUVRE MAY PROVE LIMITED. THE PRESIDENT HAS REPEATEDLY MADE IT CLEAR THAT HE DOES NOT WANT THE MEETING TO PRODUCE UNDUE DRAMA, PUBLIC SURPRISES OR SPECIFIC AGREEMENTS. ON THE CONTRARY HE AND HIS SPOKESMEN HAVE GONE OUT OF THEIR WAY TO DAMP DOWN FALSE EXPECTATIONS. THEY MAY BE HELPED IN THIS BY AN INCIPIENT REACTION TO THE EUPHORIA PRODUCED BY LAST WEEK'S EVENTS, AS OPINION FORMERS BEGIN TO LOOK MORE CLOSELY AT THE FINE PRINT.

3. NEVERTHELESS, SPECULATION CONTINUES AND INTENSIVE ACTIVITY IS UNDERWAY IN STATE DEPARTMENT (PLANNING STAFF AND EUROPEAN BUREAU) AND IN THE WHITE HOUSE (A SEPARATE EXERCISE BY THE NSC STAFF) TO UNDERTAKE CONTINGENCY PLANNING AND PREPARE AGAINST THE POSSIBILITY OF SIGNIFICANT INITIATIVES. THE MAIN AREAS COVERED BY THIS WORK ARE SET OUT BELOW, BASED ON OUR DISCUSSIONS WITH A WIDE RANGE OF OFFICIALS INVOLVED.

ARMS CONTROL

4. RECENT PROGRESS ON ARMS CONTROL HAS BEEN SUFFICIENTLY COMPREHENSIVE AND EFFECTIVE AS TO LIMIT THE FIELD FOR PLAUSIBLE FRESH IDEAS. GORBACHEV MUST ALSO, IN THE US VIEW, TAKE ACCOUNT OF THE RISK OF APPEARING UNDULY MANIPULATIVE AND

THEATRICAL IF HE TURNED UP WITH A MAJOR NEW PROPOSAL AT EACH MEETING WITH A HIGH PUBLIC PROFILE. HE HAS ALSO TO AVOID THE DANGER OF APPEARING TO BEHAVE IRRESPONSIBLY, GIVEN THE CURRENT UNCERTAINTIES IN EASTERN EUROPE. BUT THE FOLLOWING ARE OPTIONS UNDER CONSIDERATION.

(A) NAVAL ARMS CONTROL: THIS WOULD BE A NATURAL IN VIEW OF THE LOCATION. RECENT SOVIET STATEMENTS AND BEHAVIOUR (EG CURTAILMENT OF SSN ACTIVITY IN THE MEDITERRANEAN) HAVE BEEN NOTED, AND THERE IS SOME CONCERN THAT GORBACHEV COULD PUT THE AMERICANS IN AN AWKWARD POSITION - AND PLAY EFFECTIVELY TO AREAS OF EUROPEAN OPINION. APART FROM CALLS FOR GENERAL MARITIME ARMS CONTROL, E.G. IN THE CSBM CONTEXT THERE IS A PARTICULAR EXPECTATION THAT HE WILL RUN WITH THE IDEA OF A NUCLEAR WEAPON FREE ZONE IN THE MEDITERRANEAN, BALTIC OR GLOBALLY. IT IS NUMBER ONE ON THE LIST SUBMITTED BY PLANNING STAFF. THE AMERICANS WOULD KICK THIS AS FAR AS POSSIBLE INTO TOUCH.

(B) CFE: THE MAIN OPTION UNDER CONSIDERATION IN THIS AREA IS THAT GORBACHEV COULD PROPOSE AN ACCELERATION OF THE US/SOVIET MANPOWER CUT DOWN TO LEVELS WELL BELOW THE CURRENT US PROPOSAL FOR A 275,000 COMMON CEILING. THIS WOULD BE PART IF A WIDER MANPOWER PAKAGE. IT COULD BE LINKED TO AN OFFER TO COME CLOSER TO THE WESTERN POSITION ON AIRCRAFT. THE RATIONALE BEHIND THIS IS THAT GORBACHEV MIGHT CALCULATE THAT IT IS NOW EASIER FOR HIM TO FACE UP TO RADICAL REDUCTIONS OF SOVIET TROOPS IN EUROPE THAN IT WOULD BE FOR THE AMERICANS OR NATO. THE STATE DEPARTMENT PLANNERS CONSIDER OTHER CFE OPTIONS - EG POSTURING ON CFE II OR CFE III TO BE LESS LIKELY.

(C) CW: A POSSIBLE SOVIET RESPONSE TO THE PRESIDENT'S PROPOSALS AT UNGA, PERMITTING FORMAL AGREEMENT ON ACCELERATED DESTRUCTION OF US/SOVIET STOCKS.

(D) START/DEFENCE AND SPACE. A FURTHER SOVIET PUSH TO PLACE CONSTRAINTS ON SLCM IS EXPECTED, TOGETHER WITH REITERATION OF THE REQUESTS TO VISIT FYLINGDALES AND THULE.

POLITICAL ISSUES

5. IN GENERAL THE AMERICANS ARE SENSITIVE TO THE PRESENT SOVIET NEED FOR REASSURANCE AS WELL AS THE NECESSITY TO ALLOW CHANGE IN EASTERN EUROPE TO TAKE PLACE IN AS STABLE AN ENVIRONMENT AS POSSIBLE. THEY DO NOT THEREFORE EXPECT FURTHER RADICAL PROPOSALS ON THE DESTRUCTION OF THE PACTS. NEVERTHELESS ONE OPTION UNDER CONSIDERATION BY THE PLANNERS IS THAT GORBACHEV MAY PROPOSE A CSCE SUMMIT AS PART OF A CONTINUING ATTEMPT AT LEAST TO MOVE THE PACTS AWAY FROM MILITARY STRUCTURES AND TOWARDS POLITICAL ORGANISATIONS.

AGAIN THIS IS BASED ON THE ASSUMPTION THAT GORBACHEV MAY FEEL THAT HIS OWN MILITARY DAYS IN EUROPE ARE NUMBERED AND THAT THE BALANCE OF ADVANTAGE LIES IN CONTINUING TO KEEP THE US PRESENCE UNDER PRESSURE, ALBEIT IN MODIFIED FORM.

6. ON THE FUTURE OF EUROPE, THE AMERICANS, LIKE US, WERE STRUCK BY THE TONE OF THE RECENT GORBACHEV MESSAGES AND, IN PARTICULAR, BY THEIR EMPHASIS ON THE DANGERS OF TALK ABOUT GERMAN REUNIFICATION. THEY BELIEVE GORBACHEV WILL USE THE SUMMIT TO PUSH THE VIEW THAT CHANGE IN THE GDR IS A PROCESS WHICH MUST BE UNDERTAKEN WITHIN EAST GERMANY AND DOES NOT IN ANY WAY IMPLY THE DISAPPEARANCE OF THAT STATE. THE AMERICANS ARE LIKELY TO STICK ON THEIR HELSINKI COMMITMENTS AND ARE CONSCIOUS OF THE POTENTIAL ACCUSATION MALTA MAY BECOME A SECOND YALTA. THEY WELCOME THE EUROPEAN INPUT INTO THEIR THINKING INCLUDING THAT FROM THE COMMUNITY MEETING ON SATURDAY, 18 NOVEMBER IN PARIS. BUT NO US-SOVIET SUMMIT CAN TAKE PLACE IN PRESENT CIRCUMSTANCES WITHOUT EACH SIDE TRYING TO GROPE TOWARDS SOME SORT OF MUTUAL CONCLUSION AS TO THE FUTURE OF EUROPE. THE CURRENT US EMPHASIS IS ON THE NEED FOR LIBERALISATION IN THE GDR TO BE CONSOLIDATED AND DEVELOPED FIRST BEFORE THE INNER GERMAN RELATIONSHIP CAN BE FURTHER REFINED.

7. A REITERATED SOVIET CALL FOR A 4 POWER CONFERENCE ON BERLIN IS ANTICIPATED AS AN OUTSIDE POSSIBILITY.

ECONOMIC ISSUES

8. THE AMERICANS EXPECT TO BE PRESSED ON JACKSON VANIK AND SUSPECT THE RUSSIANS MAY HAVE IT IN MIND TO PROPOSE SOME MAJOR STEP FORWARD IN THE BILATERAL ECONOMIC AREA. OBSERVER STATUS IN THE GATT IS A POSSIBILITY.

REGIONAL ISSUES

9. THE AMERICANS HAVE A MAJOR BONE TO PICK WITH THE RUSSIANS OVER CENTRAL AMERICA. THE RUSSIANS MAY WANT TO PUT AFGHANISTAN IN THE SCALE AGAINST THAT.

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PRIME MINISTER'S VISIT TO WASHINGTON: 23-24 NOVEMBER

EAST/WEST GENERAL

The Prime Minister may like to open the discussion by examining Western aims in the light of the recent events in the GDR and Eastern Europe. The main considerations should be (as already set out in public by the Prime Minister) to see democracy securely established in the GDR and elsewhere in Eastern Europe without undermining or putting at risk Gorbachev. This balance will require close coordination between the US and the main players in Europe. The Prime Minister may like to make the following points.

The West's Approach

- Welcome current developments. East Europeans must be free to determine their own future. Only this can eliminate the periodic crises of the past.

- Not for West to impose solutions: the East Europeans should be free to exercise the choices denied them for past 40 years. But we should be ready to help eg with political and economic reforms which will help to consolidate freedoms and reduce instability. We are also looking to see how existing international institutions (eg Council of Europe) might play a role as a channel for Soviet and Eastern European aspirations. Observer status at GATT for Soviet Union a possibility: would help improve Soviet understanding of market economies, while showing support of Gorbachev.

- Gorbachev precipitated change himself. His survival is the crucial factor. He sees democracy in Eastern Europe as strengthening Soviet security. Courageous of him. Not fully shared by old guard at home or in Warsaw Pact.

- Valletta summit a well-timed opportunity to re-affirm that West does not want developments to threaten perceived Soviet security. Important therefore we make clear our assumption that existing alliances continue and that reunification is not on the agenda.

- Have also made clear in Paris to our European partners that West must show restraint and discipline, just as we are looking for similar caution from governments and peoples in Eastern Europe. Appreciate strong emotions involved on both sides. But undermining Gorbachev could kill reform altogether.

- Shall be aiming at coherent EC policy at Strasbourg European Council. Locking FRG into West does not mean locking Eastern Europe out.

- Soviet Union at critical stage internally. Western influence limited and will not be decisive. But important to do all we can in support of Gorbachev and reform. Strongly welcome emphasis in recent US statements on backing for reform process. Must avoid taking advantage of Soviet weakness - or triumphalism.

- Should continue to steer clear of involvement in nationalities disputes, in particular in former Baltic States. Gorbachev told me that if Baltics go too far it is curtains for perestroika.

- Believe that more thought should be given to Western help in areas important to Gorbachev's reforms: industrial/economic management training; parliamentary and legislative expertise (refer to Supreme Soviet delegation headed by Politburo member Medvedev 4-10 December). Should we consider more direct help for key sectors: agriculture, food processing, distribution, transport, infrastructure?

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Eastern Europe

- Vital to help East Europeans fill institutional vacuum and repair 40 years of stagnation. Believe Gorbachev sees this in his own interest, providing the overall East/West security balance is maintained.

- West has no direct tools for managing change in Eastern Europe, but Poles and Hungarians very receptive to Western advice. Needs to be tailor-made to deal with novel situation of wholesale transformation to Western-style system. We shall need similar techniques for helping GDR and Czechoslovakia.

- Welcome latest US decision on help for Poland. Shall be announcing increased British help during Walesa's visit (29 November - 3 December).

GDR

- Modrow seems serious about reform. Will be clearer after Party Congress (15-17 December). Genuine elections are the key priority.

- GDR economy deteriorating. We shall need to keep in close touch with FRG about the handling of any requests from the GDR for early economic assistance.

Prime Minister's Visit to Soviet Union: 7-10 June 1990

The Prime Minister may also wish to remind President Bush of her visit to the Soviet Union 7-10 June next year, and to ask that the full US/Soviet Summit should steer clear of those dates.

EAST/WEST GENERAL

BACKGROUND

US/Soviet Summit

1. The Americans are keen that the Valletta Summit should be a measured and undramatic prelude to the full Summit planned for the early summer next year. They realise that Gorbachev may wish to launch an eye-catching initiative and they are trying to spot the sort of surprises which he may try to spring (see separate brief).

2. Meanwhile Washington is preparing for the Summit on three levels:

(a) President Bush hopes to prompt Gorbachev to talk as widely as possible on the developments in the Soviet Union and Eastern Europe and to identify the "outer limits of change". In so doing, the Americans wish to avoid giving any impression that they and the Soviet Union are in any way making deals about Eastern Europe or discussing some form of condominium;

(b) the Americans are prepared for discussion of the Jackson/Vannick most favoured nation issue. They will argue that progress on this is up to the Russians who have to pass the requisite legislation establishing acceptable standards on emigration. The US also expect that Gorbachev may press for membership of GATT and international financial institutions. (Observer status at GATT is in our view a step which would be reasonable at this stage. Full membership would, however, be premature as the Soviet Union still has a long way to go in moving away from a centralised

state trading system to the open market principles which it would require for full membership);

(c) developing the five part agenda: arms control (see separate brief), regional issues, human rights, transnational issues (drugs etc) and bilateral questions. Under the regional heading President Bush is likely to raise the question of East European arms supplies to El Salvador and recent evidence of Soviet export of two MIG 29s to Cuba. The Americans will also wish to lay the groundwork for more specific talks on Cambodia, Southern Africa, the Horn of Africa, and more detailed discussion of the Middle East. Gorbachev can be expected to raise Afghanistan.

3. The most recent major public statement of US policy towards the Soviet Union was contained in Mr Baker's speech on 16 October on East/West relations. Although it contained no substantially new political initiatives, it represented a distinct change in tone, with the emphasis moving away from the need for the West to ensure its own security whether or not Gorbachev's reform process succeeds (the key-note of an earlier speech by Eagleburger), and towards a welcome for Gorbachev's reforms and an acknowledgment that it is very much in the interests of the West that they should be successfully carried through. Mr Baker at the same time stressed that the success or failure of the reform process would depend on domestic Soviet factors, and that the West could best help through offering advice and expertise in support of economic and constitutional reform (eg the recent visit to Moscow by Chairman of the Federal Reserve, Alan Greenspan). This is very much in line with our own thinking.

4. The last high-level US-Soviet bilateral contact was Baker's meeting with Shevardnadze in Wyoming on 22/23 September. Discussion was encouraging and

substantial, focussing on a range of arms control questions, and producing positive results in a number of areas. There was still considerable disagreement on some regional issues, particularly Central America and Afghanistan, but the general atmospherics were extremely good.

Eastern Europe

5. Bulgaria: The removal of Zhivkov and the old guard in response to popular pressure is a major step towards reform and greater freedom. However Mladenov, the new Party leader and Head of State, is an unknown quantity and his reformist credentials have yet to be assessed. His treatment of the Turkish minority will be an important test-case. The economy is in poor shape and his success in this field may be a decisive factor for his future.

6. Czechoslovakia: The current demonstrations - easily the largest since 1968 - are a direct consequence of police brutality on 17 November. But they also reflect the Czechoslovaks' desire not to be left behind by developments elsewhere in the region. For the first time there are signs that the workers are prepared to join the dissidents. The general strike called for 27 November may be a watershed. The hard-line leadership under Jakes must also feel pressure from Moscow to make political concessions. Many Czechoslovaks believe that the Russians will soon repudiate the 1968 invasion, as Poland and Hungary have already done.

7. Hungary: The next major event will be the referendum on the holding on 26 November of the Presidential election. This will decide whether the President will be elected by a direct popular ballot or by the Parliament which will emerge after next year's (free) general election. Imre Pozsgay, who was until recently the front-runner, looks like a loser, as does his party, the re-christened Hungarian Socialist

Party. Meanwhile the government which was set up under the old regime looks increasingly unrepresentative. The economic situation has deteriorated sharply this year, especially the balance of payments. The Government is likely to come under increasing pressure from the IMF to reduce its borrowing and to carry out more radical macro-economic restructuring.

8. Poland: The Mazowiecki government has made an impressive start to coping with the disastrous economic situation which it has inherited. An IMF agreement will be in place early next year and substantial Western aid is on its way. The Government still enjoys widespread popularity and there has so far been little evidence that the Communists left in the administration are seeking to undermine it (although there is much bureaucratic inertia). Mazowiecki knows that he has only a limited period to achieve positive results. Food and energy shortages this winter could greatly complicate his task. Meanwhile the Communist Party is disintegrating and will attempt to transform itself into a Socialist Party, along Hungarian lines, early next year.

9. Yugoslavia: The US and other Western governments support the economic reform programme of the Federal Government under Markovic. However, the fragmentation of the political system and inter-Republican rivalries (especially between Serbs and Slovenes) is hampering its implementation. Markovic is coming under increasing IMF pressure to apply tougher counter-inflationary measures.

GDR

10. Party: Pressure from the Party grass roots for change forced the Central Committee to call a Party Congress next month (15-17 December). Delegates to the Congress will elect a new Central Committee, which will in turn elect the

Politburo and the General Secretary. Sweeping changes seem likely. Krenz has recognised that he may not be re-elected as General Secretary.

11. Government: Hans Modrow, nominated by the Central Committee as Prime Minister, was confirmed in this role by the Parliament (Volkskammer) on 17 November. He has since announced his Government, which contains an increased number of non-Party members (11 out of 28 - previously it was 4 out of 45). His policy address on 17 November promised wide-ranging reforms. Modrow apparently intends that Ministers, controlled by Parliament, will govern the country without interference from the Party apparatus. But the Party keeps most of the key portfolios, including finance, defence, foreign affairs and internal security.

12. Parliament: Modrow has told an FRG Minister that new elections to the Parliament will be held between autumn 1990 and spring 1991. The delay is likely to be welcome to the smaller GDR parties, who will need time to create more distinct identities for themselves. Other parties may also be set up. A new electoral law is being prepared, and the Constitution (which prescribes the leading role of the Party) may be amended.

13. Economy: The economy is Modrow's most pressing problem. The loss of some 200,000 people this year (over 1% of the population) has had a damaging effect. Soldiers have been drafted in to help. But serious problems (e.g. over power supplies) could arise this winter. More recently, the increase in travel out of the GDR has led to a collapse in the value of the GDR currency (non-convertible, but traded openly in West Berlin). Large quantities are being smuggled out of East Berlin (many GDR citizens have substantial savings). Goods (many heavily subsidized) are vanishing from shops in East Berlin, either bought up by Westerners

with cheap East Marks, or by East Germans taking them to sell for hard currency. Modrow seems likely to look for help from the FRG. Chancellor Kohl has promised "a new dimension of economic assistance" once political reforms have been introduced. But Modrow may try to persuade him to give some assistance soon.

A 14. US/GDR: President Bush has sent a message to Krenz (text attached), affirming US support for change in the GDR and expressing willingness to deepen bilateral relations.

ANNEX A

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GDR/US AND FRANCO/GDR RELATIONS

SUMMARY

1. BUSH'S MESSAGE TO KRENZ. MITTERRAND HOPES TO MAKE AN EARLY VISIT.

DETAIL

2. NEUES DEUTSCHLAND (ND) OF 18/19 NOVEMBER PUBLISHES THE FOLLOWING TEXT OF A MESSAGE FROM BUSH TO KRENZ IN THE LATTER' CAPACITY OF CHAIRMAN OF THE COUNCIL OF STATE:

''YOU HAVE ASSUMED YOUR RESPONSIBILITIES AS CHAIRMAN OF THE STATE COUNCIL AT A TIME OF GREAT IMPORTANCE FOR YOUR OWN COUNTRY, FOR EUROPE AND FOR THE FUTURE DEVELOPMENT OF EAST/WEST RELATIONS. THE US WELCOMES YOUR DECISION TO OPEN PERMANENTLY THE FRONTIER OF THE GDR FOR THOSE WHO WISH TO LEAVE THE COUNTRY FOR THE WEST, OR WHO ONLY WANT TO TRAVEL THERE. THIS DECISION, LIKE THE MOVEMENT TOWARDS DEMOCRATIC REFORM, WILL CONTRIBUTE TO THE HISTORIC PROCESS OF EUROPEAN RECONCILIATION. IT IS A PROCESS WHICH THREATENS NO-ONE BUT RATHER INCREASES THE SECURITY OF ALL.

THE US IS IN FAVOUR OF THE PATH OF PEACEFUL AND DEMOCRATIC CHANGE WHICH, IN OUR OPINION, WILL LEAD TO A MORE STABLE FUTURE IN THE HEART OF EUROPE. WE WILL ALSO BE READY IN THE FUTURE, AS WE ALWAYS WERE IN THE PAST, TO WORK FOR THE DEEPENING OF OUR BILATERAL RELATIONS AND TO CONTRIBUTE TO THE DEVELOPMENT OF AN INTEGRATED AND FREE EUROPE''.

3. EARLIER, ND'S WEEKEND EDITION QUOTED ELYSEE SPOKESMAN VEDRINE AS SAYING (AT A PRESS CONFERENCE ON 17 NOVEMBER) THAT MITTERRAND WAS HOPING THAT AGREEMENT WOULD BE REACHED ON AN EARLY DATE FOR HIS STATE VISIT TO THE GDR, WHICH HAD BEEN ANNOUNCED ON SEVERAL OCCASIONS. VEDRINE IS REPORTED AS ADDING THAT THE VISIT WOULD BE THE OCCASION FOR AGREEING CONCRETE STEPS TO DEVELOP BILATERAL RELATIONS SUCH AS ''SIMPLIFIED VISA REGULATIONS FOR GDR CITIZENS WISHING TO VISIT FRANCE''.

COMMENT
4. BUSH'S MESSAGE COMES ONLY A DAY AFTER THAT FROM MITTERRAND (MY TELNO 396), WHO HAD ALSO EXPRESSED THE DESIRE TO DEVELOP THE BILATERAL RELATIONS BETWEEN THE TWO COUNTRIES. MITTERRAND'S COMMENTS AT THE EC SUMMIT ABOUT COOPERATION WITH EASTERN EUROPEAN STATES AND THE FACT THAT A TRADE AGREEMENT (WITH THE GDR) WAS UNDER CONSIDERATION AND THAT NEGOTIATIONS WOULD BE COMPLETED IN THE NEXT FEW WEEKS, WERE APPROVINGLY CARRIED IN NEUES DEUTSCHLAND OF 20 NOVEMBER, AND MAY BE SEEN BY THE EAST GERMANS AS ENHANCING THE ORIGINAL FRENCH MESSAGE.

TM VEDRINE'S REPORTED REMARKS DO NOT APPEAR TO ADD TO OUR INFORMATION ABOUT MITTERRAND'S PLANS BUT THEY DO SUGGEST THAT HE IS ANXIOUS NOT TO BE LEFT TOO FAR BEHIND KOHL. HE FRENCH EMBASSY HERE NEVER FAIL TO WARN US THAT WTH MITTERRRAND A COUP DE THEATRE IS ALWAYS ON THE CARDS, ESPECIALLY SO WHEN POLICY TOWARDS GERMANY, THE SOVIET UNION AND THE ''CONSTRUCTION OF EUROPE'' IS INVOLVED.

BROOMFIELD

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BERLIN/INNER-GERMAN (WIDE) PAGE 2
MR MANNING CABINET OFFICE RESTRICTED
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BACKGROUND

AID FOR EASTERN EUROPEAN COUNTRIES

EC Assistance

1. The Community has already agreed;

- 100 mecu of free food for Poland;

- in principle a 300 mecu package for Poland and Hungary in 1990 covering agricultural reform, environmental protection and manpower/vocational training;

- in principle, the extension of GSP to these countries (detail being worked out and to be adopted at the 27 November FAC);

- a trade, commercial and economic cooperation agreement with ~~between~~ both countries, subsequently reinforced by the abolition of all discriminatory quantitative restrictions from 1 January 1990.

2. For both countries two separate proposals, covering agricultural products subject to tariffs and others subject to levies, are under consideration. Commission is also about to propose abolition of certain non-discriminatory agricultural QRs. Both issues should be for decision at the 27 November FAC.

UK Bilateral Assistance

3. The "Know-how Fund" of £25 million over five years, is geared to providing Poland with the skills and expertise needed to run a free market democracy. Currently some 40 projects are underway, covering programmes in parliamentary democracy (seminars, visits), local government, journalism,

management training, management consultancies, privatisation and capital markets and agriculture.

4. Ministers have announced our readiness to do more, especially to stimulate privatisation and private enterprise. A number of options for a new initiative are under consideration. A "Know-how Fund" for Hungary was announced on 12 October (£25 million over 5 years). It will be run on similar lines to the fund for Poland.

5. The UK is also developing a management training programme for Czechoslovakia and the GDR.

Soviet Union

6. Although there is general agreement in the West that it would not be practical to look at economic aid as such for the Soviet Union, the West can help with training, advice and expertise to assist economic reform. Many Western countries are now trying to help in this area. In addition to direct institution to institution links which are beginning to develop (eg involving Coventry Polytechnic), the Government is funding a series of courses at the London Business School. The first (for twenty senior Soviet managers) took place successfully in April/May. The next two (one for senior managers, the other for younger managers) are due to take place this month and in March. We are also supporting outward visits by British experts who will help "train the trainers" in the Soviet Union.

7. We have invited a Soviet group to the UK in early 1990 to study "conversion" (ie modernising factories and maximising their efficiency) which the Russians hope to see transforming their defence industry into a high quality producer of civilian goods. A further area in which we have offered to help is training for civil servants.

8. We have also offered to help the new Supreme Soviet learn about our parliamentary procedures. This will be one of the themes of the high level visit in December, and we have also offered to help with a lower level group of parliamentary experts expected to come to London in the spring.

9. Others among our partners in the Twelve are running similar programmes. The Germans in particular have a very large management training programme. The US are now agreed that the West can best help the Soviet reform process by offering advice and expertise which can help the economic and constitutional reform process forward. The recent visit to Moscow by Chairman of the Federal Reserve Greenspan is the most high profile example so far of this approach.

Involvement in International Organisations

10. The West should also now be looking at means of consolidating positive change in the Soviet Union and Eastern Europe by examining the scope for new institutions (possibly building on existing structures), and by involving the Russians in international ~~financial bodies~~ organisations (eg GATT) if they can make the necessary economic transformation (which will inevitably be a major task). Although it is difficult to be specific at this stage, it is not too soon to begin creating a positive climate in our discussions with the Americans and other close allies about this sort of eventual transition. We need also to ensure that we are not overtaken by events (eg President Mitterand has already publicly suggested, when he spoke at the European Parliament on 25 October, that the Soviet Union should be given observer status at GATT).

11. Negotiations between the EC and USSR on an economic cooperation Agreement continue. Early agreement is likely.

Other Donors

12. The US Congress agreed on a new assistance package for Poland and Hungary that more than doubles the size of the Administration's proposal. Subject to Presidential approval, some $852 million will go to Poland, and the remaining $86 million to Hungary, over three years. The aid for Poland will comprise:

Emergency food aid:	$125m
Grants for private enterprise:	$240m
Modernisation of telephone system:	$ 25m
Contribution to stabilisation fund:	$200m
Export credit guarantees:	$200m
Establishment of democracy:	$ 12m
Environmental work:	$ 20m
Cultural and scientific exchanges:	$ 14m

13. Chancellor Kohl announced a substantial package of help during his visit to Poland in early November. It included $1.25 billion (DM 2.5 billion) in new export credits (not all linked to an IMF programme), unlimited investment guarantees, and the write-off of arrears on a 1975 DM one billion loan and the conversion of the outstanding amount into zloties for investment in Polish projects. The French have promised export credit insurance of $322 million over three years, a $145 million investment fund and $15 million for training programmes. Italy is offering export credit guarantees up to $400 million.

IMF/Paris Club

14. Firm but tolerable IMF programmes for Poland and Hungary are essential. Fund negotiations with the Poles seem to be going well, and an agreement as early as January 1990 is possible. As well as enabling Poland to draw on IMF resources it would indicate the scale of Polish needs and

release lending from the World Bank. The UK has offered to reschedule Poland's 1989 debt maturities in Paris Club in advance of an IMF programme, but the consensus within the Club favours a rescheduling only after an IMF agreement is in place. Generous rescheduling terms are then likely to be agreed.

15. Hungary's deteriorating economic performance, with ~~expectedly~~ growing deficits on both the balance of payments current account and the budget, are making difficult the negotiations with the IMF on a new agreement to succeed the last Standby Agreement. Hungary's needs for economic assistance may still be less pressing than Poland's. Certainly they have succeeded in meeting all debt servicing obligations so far. But fresh corrective measures now seem needed and will obviously be politically difficult.

Stabilisation Loans

16. The US has offered the Poles a grant of $200 million, as the contribution to a total fund of $1 billion. Other G7 donors have been invited to make up the remainder. The Germans have offered to provide $200 million, apparently as a loan. The purpose of this fund remains unclear. We have so far resisted a precise commitment. The Polish Minister of Finance sought a bridging loan of $500 million to finance immediate import needs. The Chancellor of the Exchequer suggested that this would best be met by a loan from the Bank for International Settlements, linked to the prospective IMF agreement. The Belgians have proposed an EC loan to Hungary for balance of payments assistance, and ~~these are~~ this is currently still under consideration within the Community. The traditional form of such assistance is a bridging loan from the BIS.

Investment Bank for Eastern Europe

17. At the Monetary Committee on 15 November, France proposed informally the establishment of a European Bank for the promotion of Eastern European economies. The Bank would have capital of 10 billion ecu, the majority provided by the EC, member states and the European Investment Bank. According to the French Treasury, the Eastern Europeans would be expected to make some contribution. The Bank would have powers to commit 1-2 bn ecu per year. Its operating charter would be comparable to other international financial institutions, presumably including powers to borrow. Details so far available are sketchy.

18. Following discussion at the Elysee dinner on 18 November, the proposal was remitted for study ~~to the Troika~~. Our preliminary view is that some Eastern European countries notably Poland and Hungary, are already too heavily indebted to benefit from lending by such an institution, and ~~it~~ it could not be a solution for the short term.

Yugoslavia

19. Yugoslavia is mounting a determined effort not to be left out. A Yugoslav memorandum has been circulated to the European Community outlining Yugoslav requests for further assistance. The centre-piece would be a contribution towards a $1 billion fund to help rehabilitate the Yugoslavian banking system. This has been very cautiously received. Only Greece and Italy are enthusiastic. The Commission are making proposals based on the primacy of the IMF's role. But the first priority for Yugoslavia is an IMF programme and action to tackle dangerously high inflation. It is questionable ~~too that~~ whether Yugoslavia needs assistance on this scale; its reserves are high ($5.7 billion) and the balance of payments ~~are~~ is strong. Moreover, the political case is not as strong as in Poland/Hungary.

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THE LEGAL SITUATION IN GERMANY

BACKGROUND

1. Just before the end of the war, the pre-war Germany, such as existed within its borders of 31 December 1937, was divided for the purposes of occupation into three zones. The London Protocol of 12 September 1944 allocated one zone to each Ally (UK, US and USSR), and defined a special Berlin area (Greater Berlin), which was to be occupied jointly. The zones were redrawn to give one to France when France joined the occupation in accordance with an Agreement of July 1945.

2. It was further agreed at the Potsdam Conference in August 1945 that the northern part of East Prussia should be placed under Soviet administration, and that the rest of that part of Germany lying east of the Oder-Neisse line should be placed under Polish administration (see map). Notwithstanding these arrangements, it was also agreed that the final determination of the frontiers of Germany must await a peace settlement.

3. This position was not affected by the termination of the state of war with Germany, or by establishment in 1949 of the Federal Republic of Germany and the GDR. In international law "Germany" continues to exist as a State for which the Four Powers have retained certain rights and responsibilities.

Allied rights and responsibilities for Germany as a whole

4. The basic statement of the Western position is set out in Article 2 of the Convention on Relations (part of the 1955 Bonn/Paris Conventions) between the three Western powers and the FRG:

> "In view of the international situation, which has so far prevented the reunification of Germany and the

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conclusion of a peace settlement, the Three Powers retain the rights and responsibilities, heretofore exercised or held by them, relating to Berlin and to Germany as a whole, including the reunification of Germany and a peace settlement".

5. These rights and responsibilities are not specifically defined but in practice encompass:

a) Reunification and a peace settlement.
b) Questions relating to borders.
c) The stationing of armed forces.
d) Aviation.
e) Berlin

Frontiers

6. On the question of frontiers, the FRG's position is complicated by the fact that in the 1970 Warsaw Treaty the FRG and Poland declared that neither had any territorial claims against the other and that they would not assert any such claims in future. But it was made clear in exchanges of notes between the FRG and the Western Allies that this did not affect the rights and responsibilities of the Four Powers and that the Federal Government could only act in the name of the FRG. The 1970 Treaty was considered in a case brought before the Federal Constitutional Court in 1975. The Court ruled that the Warsaw Treaty could not bind any future reunified German State. This, in effect, only reiterated the FRG's position in 1970.

7. In 1975 the Western Allies made clear, in the CSCE negotiations in Helsinki, that the Final Act did not and could not affect the status of the frontiers in Europe and did not affect Four power rights and responsibilities relating to Germany as a whole. Frontiers could still be changed by peaceful means. At Helsinki in 1975, the then Prime Minister said:

"The Final Act of this Conference is not a treaty; nor is it a peace settlement. It does not, and it cannot, affect the status of present frontiers. It does not, and it cannot, in any way affect the Four Power rights and responsibilities relating to Berlin and to Germany as a whole".

8. The Soviet view in recent years has been that a peace settlement could be reached with the FRG and GDR as separate entities and within existing borders. The Russians have sought to maintain that the Helsinki Final Act sanctified the present border arrangements.

9. Allied support for the continued existence of 'Germany' has both practical and political purpose. The fact that the 'German Question' is still open is part of the rationale for the continued Allied presence in Berlin, which is otherwise anomalous. Politically, it is a gesture of support for the Federal German position: the FRG's Basic Law (not a Constitution) is founded on the assumption that the present situation is only temporary.

10. In recent weeks, some FRG politicians have called for a Four Power Conference (ie UK/US/France/USSR). Chancellor Kohl and Genscher do not favour the idea. Such a Conference would only make sense if reunification were a practical possibility in the near future. This is not the case, and we have no interest in encouraging speculation about it.

11. The Allies consult closely with the FRG over the exercise of their rights and responsibilities. The SPD has tried to make capital recently over alleged infringements of FRG sovereignty. The Federal Government has responded robustly, working closely with the Allies.

Peace Treaty

12. Ultimately, however, the Four Powers as well as the GDR and the FRG would have to be involved in any eventual

settlement of the German Question. If, when the time came, the issue of "reunification" were on the agenda, each of the Four Powers would theoretically have the right of veto since unanimity is required (although this could be argued). It is inconceivable that the Western Powers would not abide by the views of the Germans themselves.

MEETING WITH VICE-PRESIDENT BUSH

Congratulate him again on the election victory. Great personal triumph. Strong support for his Presidency in Britain and Europe. Hope he will pay an early visit to Britain.

- Also hope same very close relationship which you have enjoyed while he has been Vice-President will continue. The President of the United States is automatically the leader of the West. You will give him whatever help and support he wants.

- Believe it is particularly important that the close intelligence and nuclear relationship should continue. Both sides derive advantage; and the supply of Trident is of course crucial to our defence. Hope the Cabinet Secretary can come out to Washington early to confirm certain understandings on nuclear and intelligence matters and the use of US bases.

- Management of East/West relations will be a crucial task. Have to strike balance between encouraging reform and caution over defence and long-term Soviet foreign policy objectives. We need to impose some order on the developing 'detente rush' to Moscow and avoid talk of a Marshall Plan or anything similar. Must be proper pre-conditions for a human rights conference in Moscow.

- Scope for a more forward policy towards Eastern Europe, on the lines of your visit to Poland, which underlines the need for politic and economic reform. With Communism in such a mess, we should not let the East occupy the propaganda high ground.

- Expect the Vice-President is thinking of an early meeting with Gorbachev. Important in presentational terms to go through a process of consultation with NATO governments first, preferably at Head of Government level. This could be done either in Brussels or London (there is a NATO Ministerial planned for June anyway).

- Arms control will remain at the forefront of the East/West relations. It should be possible to get conventional stability talks launched soon. You assume he will want to continue the START negotiations. Emphasise two points: first the importance of not weakening the US submarine-launched deterrent: second, you appreciate the way in which the US has taken account of our Trident interests (twelve station bus) in the negotiations and you hope close consultations will continue. Also, on the nuclear front, it will be important to push through decisions in 1989 on modernisation of NATO's nuclear weapons, particularly a successor to LANCE. Believe Kohl is basicall sound on this but Genscher will create great problems. Acknowledge the Vice-President's public commitment to an early chemical weapons

convention. You are particularly concerned about the problems of verification, given Soviet duplicity to date. Not press on SDI, but any indication of how attached he is to the programme will be of interest.

- Sound him out generally on the budget deficit, without giving any impression that you are harrassing him on this before he has had the time to sort out his policy. The press will be particularly interested in whether this has been a major issue between you.

- You should touch on the importance of the GATT Round and the mid-term meeting in Montreal.

- Urge him to bring the Middle East up the agenda. No time to be lost on this: a very early indication that the new Administration will make it a priority area will in itself be a valuable political signal.

- Hope that the new Administration will continue to consult closely on arms sales which could be a threat to the Falklands.

If there is time, you will want to mention briefly South Africa and the importance of the US and UK working closely together to resist sanctions and to keep up the pressure on President Botha for political reform. (You may want to mention the joint Anglo/German initiative.)

MEETING WITH GREENSPAN

- Does he agree that it is crucial for the budget deficit to be tackled as a matter of urgency after the election?

- How far does he think that President Bush will be constrained by "no new taxes"?

- Can President Bush hope to reach agreement with Congress on such a basis?

- Does he see a real possibility of Congress acting in the next session to deal with the savings and loan industry?

- What is his assessment of the threat to the financial system posed by this problem, particularly if interest rates rise in the short term, before the problem is resolved?

- Does he see any changes in the Fed's main priorities in monetary policy in the aftermath of election?

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 November 1989

PRIME MINISTER'S MEETING WITH PRESIDENT BUSH: MESSAGE TO MR. GORBACHEV

The Prime Minister has approved the enclosed message to Mr. Gorbachev about her meeting with President Bush. Subject to any comments the Foreign Secretary may have I should be grateful if it could be telegraphed immediately to Rome for delivery to Mr. Gorbachev as soon as possible. You will also want to send a copy to Sir Rodric Braithwaite in Moscow. I will try to get the Prime Minister to sign the original as soon as possible.

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

SECRET

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10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

29 November 1989

Dear Mr. President:

As you will know, I met President Bush at Camp David last Friday. I wanted to pass on to you a few key points from our discussion.

The President told me how much he is looking forward to meeting you in Malta. He shares my own view that it is your courage and vision and your commitment to reform which have opened the way to the historic changes which are taking place in Europe today.

The President expects developments in Eastern Europe to figure prominently in your talks as they did in ours. We agreed that the priority must be to see genuine democracy established throughout Eastern Europe and that this should happen against a background of security and stability for all parties. This will require us to preserve existing alliances and borders, as the European Heads of Government agreed in Paris on 18 November.

I know that President Bush will also be keen to hear more about your plans for transforming the Soviet economy and will listen sympathetically to what you tell him about the difficulties which you face.

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President Bush and I also discussed a number of wider issues. He fully shares my view of the importance of the European Community remaining outward-looking particularly at a time of such rapid change in Europe. On defence issues, we both believe strongly that NATO will continue to have a central role to play in keeping the peace in Europe. We agreed on the importance of the negotiations on reductions in conventional forces in Europe and in strategic nuclear weapons, and hoped that both sets of negotiations will lead to agreements next year. The President continues to attach high priority to an agreement on chemical weapons, but remains very conscious of the difficulties of verification.

I found the President concerned about Afghanistan and Central America. In particular, it was very evident how strongly the President feels about the continuing supply of weapons to Nicaragua. Indeed, compared to the democratic revival in other countries traditionally closely allied to the Soviet Union, Afghanistan, Cuba and Nicaragua serve as unfortunate reminders of the days before the advent of new political thinking.

The President and I also exchanged views on China. We agreed that it was important to avoid creating a climate in which the isolation of China affected other important areas of the international agenda such as Cambodia where Chinese influence is a vital ingredient. As East/West relations steadily improve, it will be important for both sides not to allow China to think this will affect her adversely.

The President and I also exchanged views briefly on the Middle East, Cyprus, Southern Africa and the Indian Sub-Continent. Western views on these areas are already well known to you. President Bush wondered whether, on Middle Eastern issues, the Soviet Union might be able to help more with its particular friends in the Arab world. We were both very concerned, as I am sure you are, at developments in Lebanon.

Overall I found the President optimistic and very positive towards the opportunities now opening up. The timing of your

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meeting could hardly be more opportune. I am sure that it will be a success for you both - and thus for us all.

I am sorry that the visit to London of the parliamentary delegation led by Mr. Medvedev has had to be postponed, but I can well understand that pressure of parliamentary business made this necessary. I hope that new dates can be found early in the New Year. I shall look forward to meeting Mr. Medvedev.

I send you my warm, personal good wishes for your meeting with President Bush.

Kind regards,

Yours sincerely

Margaret Thatcher

His Excellency Mr. M. S. Gorbachev

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SECRET AND PERSONAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 November 1989

Dear Patrick,

PRIME MINISTER'S MEETING WITH PRESIDENT BUSH AT CAMP DAVID

I have seen Antony Acland's letter of 28 November to you commenting on the Prime Minister's meeting with President Bush. I very much agree with his observations. The President was clearly very pre-occupied with defence spending and hoping that events in Europe and progress in the CFE negotiations will provide an alibi for doing what Congress will anyway insist upon, that is, make a significant reduction in defence spending.

Yours ever,

(C. D. POWELL)

Sir Patrick Wright, G.C.M.G.

SECRET AND PERSONAL

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SECRET AND PERSONAL

BRITISH EMBASSY
WASHINGTON, D. C. 20008
TELEPHONE: (202) 462-1340

FROM THE AMBASSADOR

By fax

Sir Patrick Wright GCMG
Permanent Under Secretary
of State
Foreign and Commonwealth Office
London SW1A 2AH

28 November 1989

CDS
30/12

My dear Patrick,

MEETING BETWEEN PRESIDENT BUSH AND THE PRIME MINISTER AT CAMP DAVID

1. You will have seen Charles Powell's record of the talks, a copy of which has been sent to me and which we will handle with appropriate discretion here. I thought it an excellent account, giving an accurate impression both of the substance and of the atmosphere. I have nothing to add to it, but thought that I would send just two comments.

2. First, it seemed to me that a very important part of the discussion, from the President's point of view, was after the relaxed lunch alone with the Prime Minister (and Barbara Bush), when he launched into an anxious description of the difficulties facing him over next year's budget. The Administration has, indeed, a very difficult task if the Gramm-Rudman restraints are to be met. The budget deficit is supposed to be reduced to some $74 bn. The President's obvious hope is that events in the Soviet Union and in Europe will justify a significant reduction in the defence budget. I cannot help wondering whether Cheney's recent pronouncements were not made with the President's knowledge and approval, although he told the Prime Minister that he would have preferred the figures not to have come out before his meeting with Mr Gorbachev. In any event, this issue seemed to be much on the President's mind, not least because the Administration has to put forward proposals for the FY 1991 budget to the Congress early next year.

SECRET AND PERSONAL

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3. Second, given all the talk about the significant warming up of the American/German relationship, I was struck by the President's irritation, both with the statements by a member of Genscher's party on Follow-on to Lance - FOTL - (which had to be repudiated by Genscher himself), and also over the German attitude to low-level flying and training exercises in the FRG. As Charles Powell's record shows, the President said that this issue really "burnt him up".

4. Charles Powell will be able to confirm to you whether these points struck him to the extent that they made an impression on me.

5. I thought that the meeting was very relaxed and friendly. I rather expect that the President hoped to get some comfort from the Prime Minister about the possibilities for lower defence spending, or at least to have a wide-ranging discussion about the political problems facing himself and other leaders in this field, and perhaps to have a speculative talk about "whither NATO and the Warsaw Pact" in the future, and in what sort of timescale. In fact, the Prime Minister made it very clear that she considered caution to be the right policy and advised against any lowering of the defence guard. The current arms control negotiations represented, in her view, a significant and fully adequate step forward. So the sort of discussion which the President may have wanted did not materialise. But I may be reading too much into this part of the Camp David exchange. Please also see the telegram that I am sending today about Martin Fitzwater's comments to the press yesterday.

6. The President showed himself well informed (certainly much more so than President Reagan) about people and all the international issues. He can be quite harsh in his judgement of people (see, for example, his comments on Prime Minister Shamir). He has all the right instincts about international and domestic affairs - wanting to maintain security, wanting to keep American forces in Europe, wanting to clean up the environment, improve education, eradicate drugs, and so on. And I believe that he is quite genuine within himself when he states these as policy aims. But he may lack the intellectual rigour to realise that reality, and especially the budget constraints, may well prevent him from achieving these worthy goals. This risks his being categorised as an "all say" but "no do" President although, as we have made clear in our recent report, his popularity rating stands very high.

SECRET AND PERSONAL

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7. In other respects, the President was his usual very pleasant and friendly self but, as I have noted on other occasions, both official and private, he is curiously restless and gives the impression of not having his mind 100% on the matter under discussion. He was, for example, constantly asking the staff to produce coffee, tea, cinnamon toast, mineral water, cookies, and often handed them round himself. He also, after lunch, kept on looking out of the window to see whether any deer had appeared in the field outside his cabin. This must mean that he does not give his undivided attention to the subject under discussion. Whether it is restless energy or inattention, I am not sure.

8. I hope that this letter can be given very limited distribution. You may like to check with Charles Powell whether it reflects his impressions also.

Yours ever

Antony

Antony Acland

cc: C D Powell Esq

SECRET AND PERSONAL

SECRET

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Foreign and Commonwealth Office

London SW1A 2AH

28 November 1989

Dear Charles,

Meeting with President Bush:
Message to Mr Gorbachev

In your letter of 25 November you said that the Prime Minister wanted to send a message to Mr Gorbachev. I enclose a draft which has been agreed by the Foreign Secretary.

You may wish to let the US Government know that a message is being sent to Gorbachev.

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET

SCANNED 6

mem

c: GORBACHEV

Type as letter to Mr. Gorbachev.

FROM: Prime Minister

TO: Mr Gorbachev

HG Mr. M.S.G.

As you will know, I met President Bush at Camp David last Friday. I wanted to ~~let you have~~ pass on to a few key points from our discussion.

The President told me how much he is looking forward to meeting you in Malta. He shares my own view that it is your courage and vision and your commitment to reform which have opened the way to the historic changes which are taking place in Europe today.

~~Not unnaturally~~, the President expects developments in Eastern Europe to figure prominently in your talks as they did in ours. ~~The rapid moves being made towards democratisation offer excellent prospects not only for political relations in Europe but for practical cooperation across the whole continent. The President and I agreed that it is of prime importance~~ that the great changes now taking place ~~should~~ must be able to continue ~~to do so~~ against a background of security ~~for all~~ and stability. The continuation of ~~existing security structures could play an important role~~ NATO and the Warsaw Pact would have an important part in this. ~~Current demands in Eastern Europe are for the establishment of real democracy.~~ President Bush and I agreed that this should not be put at risk by the introduction of wider elements of change which the peoples of Eastern Europe themselves have not placed on the agenda, and which could be perceived as putting Soviet security at risk. ~~This would be in no-one's interest.~~

I know that President Bush will also be keen to hear

We agreed that the priority must be to tell ~~[illegible]~~ genuine democracy established ~~[illegible]~~ throughout Eastern Europe & that this should happen against a background of security & stability for all parties.

This will require us to preserve existing alliances & ~~[illegible]~~ borders, as the European Heads of Government agreed in Paris ~~[illegible]~~ in 18 months

W23AAO/1

from you of your further plans for revitalizing the Soviet economy. I will not conceal from you our concern at the scale of the task facing you. The West would not wish to be thought hesitant about its support for perestroika. In this the President's views are very close to my own. If you were to share with him your thoughts on how the West could best assist you I know that you would find him very ready to listen sympathetically.

President Bush and I also discussed a number of wider issues. He fully shares my view of the importance of the European Community remaining outward-looking particularly at a time of such rapid change in Europe. On defence issues, we both believe strongly that NATO will continue to have a central role to play in keeping the peace in Europe. We welcome every step that allows security and stability at lower levels of forces and weapons. Negotiated arms control agreements have an important part to play. Early progress in these areas and particularly CFE and CW are high on the Western agenda.

I found the President concerned about Soviet military assistance in Afghanistan and Central America. I share his view that in Afghanistan such assistance will only serve to prolong a hopeless war. The Afghan Resistance will remain implacably opposed to the Najibullah regime which they see as having been imposed by the Soviet Union. Real reconciliation cannot take place so long as he remains in office. Compared to the democratic revival in other countries traditionally closely allied to the Soviet Union, Afghanistan, Cuba and Nicaragua serve as unfortunate reminders of the days before the advent of new political thinking.

The President and I also exchanged views on China. We agreed that it was important to avoid creating a climate in which the isolation of China affected other important areas of the international agenda such as Cambodia where Chinese

influence is a vital ingredient. As East/West relations steadily improve, it will be important for both sides not to allow China to see this as adversely affecting her.

The President and I also exchanged views briefly on the Middle East, Cyprus, Southern Africa and the Indian Sub-Continent. Western views on these areas are already well known to you. President Bush wondered whether, on Middle Eastern issues, the Soviet Union might be able to help more with ~~its Arab friends~~. some of the Arab governments. We ~~are~~ were both very concerned, as I am sure you are, at developments in Lebanon.

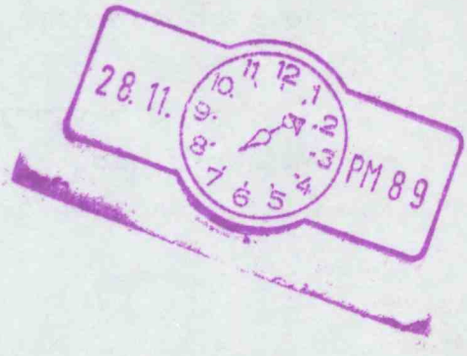
I hope you will find this helpful. I know that you have at times been anxious that the United States has not moved fast enough in the key areas of the East/West dialogue. President Bush makes no secret of pursuing a deliberate policy of step by step progress, an approach which I share. I found him optimistic and very positive towards the opportunities now opening up. The timing of your meeting could hardly be more opportune. I am ~~confident~~ sure that it will ~~provide another important milestone for East and West alike~~ be a success for you both — and thus for us all.

I am sorry that the visit to London of the ~~senior~~ parliamentary delegation led by Mr Medvedev has had to be postponed, but I can well understand that pressure of parliamentary business made this necessary. I hope that new dates can be found early in the New Year. I shall look forward to meeting Mr Medvedev.

I send you my warm, personal good wishes for your meeting with President Bush.

A.

W23AAO/3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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 November 1989

I am writing on behalf of the Prime Minister to thank you for flying her to and from Washington last week. As always, it was very comfortable, very punctual and very enjoyable, and we are all very grateful to you and the members of the crew.

C. D. POWELL

Squadron Leader Knapp

MRN

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 November 1989

PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF THE FEDERAL RESERVE BOARD

I enclose a note of the Prime Minister's meeting in Washington on 24 November with Dr. Alan Greenspan.

I am copying this letter and enclosure to Stephen Wall (Foreign and Commonwealth Office), Paul Tucker (Bank of England) and Sir Antony Acland in Washington.

C. D. POWELL

John Gieve, Esq.,
H.M. Treasury.

CONFIDENTIAL

With the compliments of

THE BRITISH EMBASSY

Copy faxed November 27; original attached for your files.

WASHINGTON, D.C.

CONFIDENTIAL

MEETING BETWEEN THE PRIME MINISTER AND CHAIRMAN GREENSPAN
AT THE AMBASSADOR'S RESIDENCE, WASHINGTON DC
NOVEMBER 24, 1989

The Prime Minister had a meeting, lasting just over one hour, with Dr. Alan Greenspan, Chairman of the Federal Reserve Board; HM Ambassador, Minister (Economic), and Mr. Charles Powell were also present.

The Prime Minister asked Dr. Greenspan why he thought the US had been much more successful than Britain in its monetary management in recent years. She cited in particular the Fed's quick reversal of the easing of monetary conditions following the stock market crash of October 1987. Dr. Greenspan said that immediately before that crash it was becoming apparent that the US economy was over-heating. Once it was clear that the risk of a financial collapse had been averted, the downward pressure on demand from the reduction in wealth (which he put at 1 per cent of GNP) was actually welcome. The Fed could not have created such restraint as quickly by any normal means. This was probably the only stock market break in history whose effects were benevolent.

But the key to successful monetary management then, and since, lay in accurate information about the current state of the economy. The Fed had a very well developed intelligence system based on weekly reports from the twelve regional Federal Reserve Banks. The qualitative information they sent in was cross checked by calls by the FRB to some of the biggest corporations--about orders, price developments, inventories and (something that he had found particularly useful) the bids they had requested for capital projects. He felt fairly confident that the Fed could--most of the time--detect changes in the tempo of the economy as they occurred. And since the M2 and M3 monetary aggregates seem also to contain useful information, he thought the Fed had fairly good indicators of the tightness of monetary policy.

His impression was that the UK authorities did not have such timely information. And their problems had been greatly increased by the "liquidising of capital gains on the housing stock" through mortgage borrowing. This had also happened in the US, but it had been spread over a much longer period, beginning in the early 1970s. The sharp fall in the personal saving ratio in the UK in recent years seemed largely attributable to this borrowing by households. In this situation, he continued, "interest rates are the only tool you have, but they are a sufficient tool".

The Prime Minister sought his views on using the budget surplus to buy back debt. It was often said to her that it would be better not to put the money taken out by the surplus back into circulation. Dr. Greenspan said that while one might argue about the precise balance to be struck, there was no reason to think that the buying back of the debt would fully offset the restraining effect of the fiscal surplus. The surplus had prevented the British economy going off the rails. The Prime Minister commented that she wondered whether it would be possible to concentrate the buying-back on overseas holdings of gilts, which would avoid putting money into domestic hands, but she had been told this was not feasible. Dr. Greenspan said that it was virtually impossible in today's internationally open markets to target debt operations in that way.

The Prime Minister said that in the UK in judging monetary policy we looked mainly at MO, M4, and the exchange rate. She thought that too much emphasis had recently been placed on the exchange rate and that this had at times involved interventions in the markets that had had undesirable effects on domestic monetary conditions. In a brief discussion of intervention, Dr. Greenspan noted that the US Treasury intervened as well as the Fed and probably was more interested in intervention than the Fed.

The discussion then turned to Dr. Greenspan's recent visit to Russia. The information system there was dominated by physical quantities moved by state orders ("tons in, tons out"), which meant that the authorities lacked essential data on how the economy was functioning. That system had now finally and unequivocally failed.

The best brains had for years been assigned to producing for the military. Civilian production had suffered. Thinking had been entirely in terms of big units of production. Silicon-chip systems, and the "down-sizing" of economic production they permitted, had never made it in the Soviet system. But advances in communication technology had made the Russians aware of the higher living standards in Western countries.

The Prime Minister commented that the old system plainly did not work but the new system was not working either. There was a great envy of anyone who did well. Dr. Greenspan agreed. Attitudes had to be changed. Technically the problem of the "rouble overhang" (of pent-up demand) could be fairly easily solved, but this would be of little use unless the State monopolies that dominated the supply of goods could be broken up. The essential need was to create a market economy. But this was a much bigger problem in Russia than in the East European satellites, since no Russian of working age now had any experience--even as a child--of how such a system operated. They had all been brought up in a command economy. The Russians had to work their way towards a market system. But this was going to take years. The question was whether it would be feasible under the existing political structure.

The immediate danger of failing was that the economy would run into serious food and energy shortages. These could lead to an attempt to reverse Perestroika; but it was clear that the old system could not work. The Prime Minister commented that professors (in Russia and Eastern Europe) might say that what was wanted was Socialism with a bit more of a human face and a few more consumer goods, but the plain fact was that socialism could not produce a workable system.

Dr. Greenspan said that the best technical assistance the West could give would be advice on how to dismantle the state monopolies and return the decision-making process to smaller, competitive, production units. Only by this means could be the infra-structure be created that would permit the freeing of prices. This process could be assisted by a switch of resources, and particularly of managerial and scientific expertise, from military to civilian production. He was sceptical of the Soros approach of creating enclaves of enterprise in an otherwise regimented economy; while the enclaves themselves might succeed the rest of the economy could collapse.

Frank Cassell
November 27, 1989
Washington DC

POINTS FOR TV INTERVIEWS [Washington]

1. Cheerful, ebullient, as full of energy as ever.

2. Positive over developments in Eastern Europe. They represent success: they are what we have dreamed of for forty years. Our ideas and our values are winning. But the changes are only a start. They are still talking the language of socialism. Our task is to see genuine democracy established - and that may take a long time.

3. As democracy takes root, so it will be possible to move forward with further measures of arms control, provided they still leave both sides feeling secure. But there will always be a need for defence, for nuclear weapons, for NATO. We can rejoice over what is happening must but must not be euphoric.

4. No, you are not worried about some reduction in US defence spending. We recognise and understand the budgetary constraints. We admire and are grateful for the huge burden which the US bears world-wide. But equally you know that President Bush thinks exactly as you do: it is keeping defences strong which has brought us to this point: we must keep adequate strength in future. You never know where a threat may come from. There will need to be American forces in Europe far into the future.

5. The meeting with Gorbachev in Malta comes at a very important time and there is no-one better qualified to speak for the West [there is, but you cannot say so!] at this time of great hope and opportunity than President Bush. The President's speech on the eve of Thanksgiving expressed what we all feel. You believe the meeting will establish the groundwork for further major progress on arms control and other issues at the Summit planned for next summer.

(6) R. C's approach to

S.N.F.

European forces in Europe

Maritime

Aircraft

ABM / Start.

Chemical

Human Rights Conference 1991

(Emmigration law introduced

Property law

Basic law).

(7) Intention to have freedom + democracy. genuine

a fair way from realisation

Imperative ∴ to be cautious.

No aid until proper full democracy.

Suggest NO commitment to CFE 2

Implementation procedures + fairness

~~[illegible]~~

(8) Other possible Soviet Proposals

Ass^n with Summit 2.

Coop^n on Regional Issues

[Int^n Management Institute] - ours.

? Red^n - nuclear free zones.

6. Talks of German reunification is premature. The first priority is to change the communist system which brought down the Iron Curtain at the end of the war and replace it with genuine democracy - not just the words but the substance. And we shall only achieve that in conditions of stability. Talks of reunification now will not contribute to stability, rather it would set up ~~flaws~~ fears and concerns that would risk bringing the move towards reform and democracy to a halt. That is why the European leaders agreed in Paris last Saturday that borders in Europe are not on the agenda.

7. You are not against Europe in any way. But you are fighting for the sort of Europe which fully matches the democratic, free enterprise, outward-looking ideas which you hold dear and which you believe Americans want to see realised in Europe. You do not think America set Europe back on its feet after World War II and helped defend it for forty-five years to see it become a centralised, bureaucratic, subsidised, protectionist, inward-looking bloc. Yet that is the risk which is inherent in some of the proposals now being considered like EMU. You think that sort of Europe would eventually become exclusive and grow away from the United States. In short, you are all for a United Europe but a Europe which shares the freedom, enterprise and initiative which is the strength and genius of the United States. The battle is for Europe's soul, for the kind of Europe you want to see.

8. No, you do not feel that the relationship with the United States is any less good than in President Reagan's time. We are not in a competition with Germany and France to see who can have the best relations with the United States.

The closest possible co-operation is good for all of us. But you are sure of one thing: when the going gets rough, when times are difficult, the United States can always count on Britain, at least so long as you are there. History has shown that. And it will be just as true in the future.

CD?

(1) Democracy USSR + East Europe

But ? will it ever be allowed

to be non-socialist.

either in USSR or E. Germany

(or elsewhere).

(2). ∴ Do NOT raise borders – could stop

process in USSR of (1).

Helsinki agreement – legal position

under 4 power agreements of E. Germany

& Berlin.

(3) Poland Hungary – Poland enormous German

minority – must keep up aid in food etc –

otherwise they may want to return to Germany

IMF agreements important.

(4). Military structure – stability only through

NATO / Warsaw Pact – [Still need NATO – even if no Warsaw Pact]

if reunification (don't be seduced by word

self-determination)

– end Warsaw Pact and ∴ stability

(5) Disarmament talks – the more successful CFE

the more vital modernisation and nuclear/tactical

response.

FILE DA

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 November 1989

Dear Antony,

It was a great delight to see you and Jenny again and thank you for your very kind and warm welcome. I think the meeting with George was well worthwhile and we seemed generally to be very much in agreement on all the main issues. I am sure he will do very well in the meeting with Gorbachev. It was, as always, very interesting to hear what Alan Greenspan had to say, and I am most grateful to him for finding the time to come in for a talk.

Please tell your staff how grateful I am for all their help - and how sorry to disrupt a holiday period. I do hope the young man in hospital is recovering - we must do whatever is necessary to help.

Denis joins me in sending warm regards to you both.

Yours sincerely

Margaret

His Excellency Sir Antony Acland, G.C.M.G., K.C.V.O.

KK

The National Archives

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10 DOWNING STREET

LONDON SW1A 2AA

25 November 1989

From the Private Secretary

Dear Stephen.

PRIME MINISTER'S MEETING WITH PRESIDENT BUSH AT CAMP DAVID ON FRIDAY 24 NOVEMBER

The Prime Minister had some four and a half hours of discussion with President Bush at Camp David yesterday. The President was supported by General Scowcroft, Mr. Lawrence Eagleburger, Deputy Secretary of State, and the US Ambassador in London. HM Ambassador Washington was also present. The talks ran from 1000 to 1200 and again from 1300 to 1430. The Prime Minister lunched alone with the President and Mrs. Bush. You will have received verbatim reports of the Prime Minister's press conference and interviews after the meeting. I enclose a copy of the statement put out by the White House Press Secretary.

This letter contains sensitive material and should receive a very limited distribution only to those with a strict need to know.

East/West Relations

The President said that his forthcoming meeting with Mr. Gorbachev in Malta was naturally very much at the forefront of his mind. There was no agenda for the meeting and no intention of reaching any specific agreements. He was aware that Mr. Gorbachev had a record of producing surprises at high level meetings, but was sceptical whether he would do so on this occasion. He had shown considerable restraint in the face of rapid change in Eastern Europe, and would not want a contentious encounter with the United States at this stage. Indeed there was plenty of evidence to suggest that he wanted the meeting to be a success. The President continued that he was doing a great deal of preparation for the meeting, but was quite relaxed about it. He was getting advice from many different quarters. But no-one had more experience in the front line of dealing with the Soviet Union than the Prime Minister. He would very much value her advice on the meeting and how he should play it. Although originally intended as little more than a general chat, the meeting was assuming ever more importance in the light of changes taking place in Eastern Europe.

The Prime Minister congratulated the President on his eve-of-Thanksgiving speech which had been first rate. He had spoken for all in the West. She agreed that Mr. Gorbachev was unlikely to come forward with surprises at the meeting in Malta, although he was a bit of a showman and one could never discount the

possibility that he would use the occasion to gain some tactical advantage. It was clear that he wanted a meeting very much and had for a time been rather grumpy about the delay in setting one up. Despite the difficulties which he faced at home, every report indicated that he was in excellent form and more self-assured than ever. There seemed no current threat to his position, although we probably would not know even if there was.

The Prime Minister said that she would like to set out what she thought should be the main lines of the West's approach to the enormous changes sweeping the Soviet Union and Eastern Europe. The first and overriding objective should be to see genuine democracy established throughout Eastern Europe and eventually the Soviet Union. Rather than just containing Communism, the West had in recent years taken its ideas and values on to the offensive and we were now reaping the rewards. The President interjected that the Prime Minister and President Reagan had done the heavy lifting on this. The Prime Minister continued that it would take a very long time to get democracy firmly rooted in Eastern Europe. It would need a background of stability in which no country felt threatened. This meant that we must plan on the basis that NATO and the Warsaw Pact would both remain in existence. We should also make clear that now was not the time to open up the question of borders in Europe. To do so would undermine Mr. Gorbachev's position and put our wider objectives in jeopardy. So German reunification did not arise at present. She would add that reunification was not just a matter of self-determination: the Four Powers had certain responsibilities. The question of borders also led to the problem of Estonia, Latvia and Lithuania. Like the United States we believed that they had been illegally annexed. But to pursue this question now would undermine Gorbachev and it was better to say nothing about it. Should Gorbachev be toppled and our larger vision of democracy in Eastern Europe vanish, then we might want to re-open the matter. President Bush interjected that it was a tough issue for the United States.

The Prime Minister continued that there had been a consensus at the meeting of EC Heads of Government in Paris on 18 November that the issue of borders should not be raised. She thought Chancellor Kohl had acted responsibly in not pressing the question of reunification. No-one could tell what would happen in ten or fifteen years time <u>if</u> we succeeded in our wider aim of seeing democracy established in Eastern Europe. But one had to realise that raising the issue of reunification would not only undermine Gorbachev, it would raise fears in Western Europe as well. To have a country of 80 million people at the heart of the European Community would fundamentally change its nature. Of course we could not prevent the issue arising eventually, if people in both the German States wanted reunification. But the sensible approach was to say that, if we eventually succeeded in getting full democracy in East Europe, then many of the fundamental differences between East and West would disappear and certain things could happen without raising the same fears which they would raise if they were proposed now.

The President said that the accepted the Prime Minister's broad analysis. But how would the West react if Gorbachev was

forced to crack down, either in the Soviet Union or in Eastern Europe? What if he asked the West to show forbearance while he used force? The Prime Minister said that if he really cracked down with force, then it would be the end of an era and our ambitions for democracy in the Soviet Union and Eastern Europe would have collapsed. But one would need to draw a distinction between a real crack down and the use of tear gas and other means of crowd control. He had shown considerable restraint so far in avoiding the use of force, at least since the demonstrations in Georgia. She recognised that the West could be confronted with a very difficult situation in the Baltic Republics. But what would we do if the Baltic Republics tried to secede and asked for Western help? We had not helped Hungary in 1956 and Czechoslovakia in 1968 and it would be cruel to raise false hopes. The President said that it would be very hard to mobilise any sort of military intervention, and indeed he would not want to do so. The Prime Minister interjected that we could not possibly do that. The President continued that the West would presumably just wring its hands as it had done over Tiananmen Square. Equally, we could not give Gorbachev carte blanche to do what he liked. The Prime Minister said she thought Gorbachev would let the Baltic Republics have considerable latitude internally provided they did not try to secede.

The President said he was also troubled about supporting continuation of the Warsaw Pact. He agreed that the West should not take any initiative to try to break it up. But what if pressure to leave it came from inside? The West could not assign countries to stay in the Warsaw Pact against their will. The Prime Minister said that she did not think the situation was likely to arise at this stage. The Eastern European countries were behaving very prudently and realised they could not afford to raise the issue of Warsaw Pact membership.

The President said that, if he was a television interviewer and asked the Prime Minister what was her position on German reunification, how would she reply? The Prime Minister said that she would say the question did not arise at this stage, that we must give priority to establishing genuine democracy in Eastern Europe and then see what happened. The President asked whether this line gave rise to difficulties with Chancellor Kohl. The Prime Minister said that Chancellor Kohl was being very sensible on the issue.

Turning to developments within the Soviet Union, the Prime Minister said that Gorbachev seemed to be increasingly daunted by the problem of moving away from socialism. She detected this in, for instance, the very sharp reaction to her own public comments about the failure of Communism. So great were the economic difficulties facing him, that he seemed to feel there was no alternative but to return to a command system of running the economy, at least for a time. There was also some echo of this in countries like East Germany and Czechoslovakia, where the emphasis was on preserving socialism. If this was correct, then political and economic change would be neither so sweeping nor so rapid as we had hoped. It would also be an extra obstacle to German reunification.

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The President asked about economic aid for the Soviet Union and Eastern Europe. Poland's needs were urgent. He had not, however, been very impressed with Walesa's grasp of the problems or what needed to be done. The Prime Minister described the conclusions reached at the Paris meeting of EC Heads of Government. The Community would continue to give substantial economic help, while establishing a series of agreements with individual Eastern European countries to make them feel more related to Western Europe. She had underlined in her Bruges speech the need for a broader vision of Europe than just the Community.

The President commented that he expected Gorbachev to raise economic issues at Malta, in particular the question of most-favoured-nation treatment for the Soviet Union. All the information reaching him was that the Soviet economy was no better: indeed he had just viewed a briefing film which showed it to be in appalling shape. He wanted to find some way to help in this area without pouring money down the drain. What the Soviet Union really needed was good advice on how to run the economy. This was obviously a sensitive issue and he could not figure out how to put it to Gorbachev tactfully. He was practising. The real problem was that Gorbachev was just not prepared, or able, to extend economic reform far enough. It would be ironic if perestroika were to be challenged from within the Soviet Union while the West was supporting it from outside. The Prime Minister said that she agreed with the President's analysis and thought this was another reason why Gorbachev was so ratty about any criticism of socialism.

European Community

The President asked the Prime Minister to imagine that she was President of the United States. Would she then have reservations about the European Community? The Prime Minister said that she was all for Europe but did not want a more centrally-controlled and bureaucratic Europe, nor one that was protectionist. Some of the proposals at present on the table created real risks that the Community would go down this path. For instance the Social Charter could, if implemented, lead the Community towards protectionism because the extra costs involved would price goods produced in the Community out of world markets. The Delors proposals for economic and monetary union sought to take away powers from national parliaments and transfer them to a body which would not be democratically accountable. She was a passionate European, but she wanted a free Europe and would fight for it. The President commented that perhaps the United States ought to speak out on some of these issues, from the point of view of its own interests. He did not want to see increased barriers. The Prime Minister repeated that she was already fighting this battle and would not object to some help. The key was to keep Europe outward-looking, on the side of free enterprise, and open to the rest of the world. It would not be easy: there was now a socialist majority in the European Parliament. The President said that he would give further thought to this and asked Mr. Eagleburger to discuss it with Secretary Baker.

China

The President said that the United States' relations with China continued to be delicate. He had to demonstrate American outrage at what had happened in Tiananmen Square. But this could not last for ever and it would soon be time to find ways to move forward with China. He intended to let the Chinese know that he would not be using his meeting with Gorbachev in Malta in ways which would adversely affect Chinese interests. He did not wish to push China into the arms of Li Peng who was an "inner kingdom guy". Deng Xiaoping had made clear that Jiang Zemin was his man and needed support. The President added that he was determined to keep a relationship with China. The Prime Minister said that we also had a particular interest because of Hong Kong. We faced a particularly delicate issue over the number of directly-elected seats in the Hong Kong legislature and would need to make direct contact with the Chinese outside normal channels to discuss this issue. The President said that he could not see that it served Chinese interests to be difficult. The United States had major interests in Hong Kong and would be prepared to lend its support if we wished. The Prime Minister said there was a careful balance to be struck between making the contacts necessary to conduct essential business, while not appearing to condone Chinese behaviour. The President said that the Chinese Government was still mad at the United States, but time would take care of that. He did not want Gorbachev to think that current bad relations between the United States and China were a factor which could be exploited.

Cambodia

The Prime Minister observed that the situation in Cambodia and the recent successes of the Khmer Rouge were another factor requiring contact with the Chinese. They were the only ones in a position to be able to restrain the Khmer Rouge. The President said the United States was not happy with the present situation. In particular, he thought the Thais were getting too close to the Hun Sen Government. The Prime Minister said that we would not deal with them: many of them were past members of the Khmer Rouge. The President said there was really no-one on whom the West could rely. Prince Sihanouk was a broken reed, a "real flake", an absurd man whose behaviour at the Paris Conference had been incomprehensible.

Arab/Israel

The President said that he had recently met Mr. Shamir who was a most unreasonable little man. He had been very tough on him, saying that Israel's relationship with the United States was becoming rapidly less special because of Israel's behaviour on the West Bank, their new settlements and their refusal to move towards dialogue. Unfortunately he had made no impact. Shamir had gone out and told the press that there had been an excellent discussion and all was well in US/Israeli relations. The President added that he really did not know what to do next. The Egyptian points seemed to offer the best chance of progress. The Prime Minister said she doubted whether anyone would ever move Shamir on the crucial issue of territory for peace. She

commented on the fact that King Hussein seemed to be playing no significant role. She had been worried by the results of the elections in Jordan and the advance of the Muslim Brotherhood. The President said he had spoken to King Hussein who was putting a brave face on the results. The President continued that the Jewish community in the United States was much less militant in backing Israel than previously. They feared Sharon and thought Shamir ought to be more forthcoming. The Prime Minister acknowledged this was encouraging, but warned that the Jewish community would always support Israel when it appeared under threat. The President wondered whether the Soviet Union would have anything to contribute on the Middle East. They might at least help with the radical countries. The Prime Minister said that she thought the Russians were too pre-occupied with their own problems and developments in East Europe. They did not seem to have much current interest in the Middle East.

The President lamented the assassination of the Lebanese Prime Minister. The Saudis had done well to make progress towards a political settlement. They had bought Syria, but experience suggested it was unlikely that Syria would stay bought.

Nicaragua

The President thanked the Prime Minister for having seen Senora Chamorro. Her prospects in the elections in Nicaragua seemed quite good. He would be telling Gorbachev how strongly the United States felt about Soviet meddling in Nicaragua. He would make clear that this could cause real difficulties in US/Soviet relations and that they really ought to stop propping up the terrible little Ortega. He also intended to raise the subject of Cuba, pointing out that it was a glaring exception to the general trend towards more democratic governments within the Soviet sphere of influence.

Afghanistan

The President continued that some of his advisers expected Gorbachev to say that he would lay off Nicaragua if the Americans ceased support for the resistance in Afghanistan. That was not a deal he was prepared to contemplate. Nonetheless he was disappointed with the situation in Afghanistan. The Administration had always been told that Najibullah would fall once the Soviet Union withdrew, but that had not happened. Prince Sadruddin had recently suggested to him that the United States had become too closely involved with fundamentalist groups supported by the Saudis.

The Prime Minister said that the Soviet Union continued to pour large quantities of arms into Afghanistan and she thought the President ought to confront Gorbachev openly with this. Her advice was that we should both go on supporting the resistance. We could not accept that the Russians could just impose a puppet regime. The President said that he was inclined that way too. The key was to get Najibullah out, but the Soviets still seemed to think they could win. He wondered whether Gorbachev would say that the Russians would stop helping Najibullah if the Americans

stopped helping the resistance. The Prime Minister said that would be no deal. The resistance had been fighting for Afghanistan's freedom and should not be equated with Najibullah who had been installed by the Russians. Anyway the Russians had already given Najibullah so much military equipment that an undertaking to cease supply in future would have little significance.

Iran

The President said that the United States was still on a tight-rope over Iran. They kept trying to find ways to send subtle little signals to Rafanjani, but realised that he could not move yet. He was too boxed in by the radicals.

Cyprus

The Prime Minister said that she recently discussed the Cyprus situation both with President Vassiliou and with the United Nations Secretary-General. Vassiliou had compromised quite a lot but Denktash was just not prepared to negotiate seriously. Both Vassiliou and Perez de Cuellar wanted Britain and the United States to intervene with Turkey. Now that Ozal was President there might be some future in that, although it was too soon to take any action. She recognised that President Vassiliou could sometimes be irritating, particularly by his insistence on raising Cyprus in every possible international forum. But she hoped she and the President might in due course join forces to persuade the Turks to make Denktash negotiate.

The President said that he agreed with the Prime Minister's assessment of Vassiliou and the United States had no problems with him. The encouraging feature was that Perez de Cuellar was willing to get engaged directly once more in the negotiations. The trouble was that the United States had virtually no influence at present over Turkey, because of the problem with the Genocide Resolution in Congress. As a result of this, relations with Turkey were in a cocked hat. The Turks had totally over-reacted: there wasn't even a Resolution yet and there probably would not be one. If the Prime Minister saw an opportunity in due course for joint action with the Turks, he would be ready to join in. But we should not expect the American voice to carry much weight. The main thing was to welcome Perez de Cuellar's renewed efforts.

Argentina

The Prime Minister said that our talks with the Argentinians in Madrid had gone well and commercial relations were being restored. There would be a further meeting early next year. The President said that he had been much impressed with President Menem, despite his Peronist past. He was an extraordinary man who dressed like a Mod., so that you wondered where he had left his guitar. He was proud of his Syrian background and aspired to play a role in the Middle East. He was doing his best to solve Argentina's debt problem. He was about as reasonable an Argentinian leader as we were likely to get. Indeed he was impressed by everything about him except his tennis. The President added that he was pleased with the progress which had

been made in the talks in Madrid. The Prime Minister said that we were continuing to proceed cautiously. Not all the signs were good. We had disturbing information about Argentinia's intention to continue with covert development of the Condor missile.

Defence Spending

The Prime Minister thanked the President for the efforts which the Administration were making to ensure the necessary funding for the Trident D5 missile programme. This was absolutely crucial to us. The President said there was nothing in the agreement which he had reached with Congress on this year's defence budget which would interfere with this. The United States fully understood the importance of Trident to the United Kingdom. There would be no problems.

The President continued that he faced a very difficult problem over the future of the defence budget. In absolute terms, defence spending was at a very high level. Because of the overall pressure on the budget, Secretary Cheney had recently asked the Pentagon to consider a number of options for reducing defence spending. No decisions had yet been reached and he was upset that the matter had become public just before his own meeting with Gorbachev. If the United States was going to make reductions in defence, he wanted to get something for them. There would be no question of undermining the American commitment to NATO. The Prime Minister could be assured of that. But the political reality in the United States was of growing challenge to the scale of military effort which the United States had hitherto undertaken. He was legally bound to reduce the deficit and defence had to take its share of reductions. The end result might be fewer men and fewer carrier groups than he would wish. But there was no question of the United States withdrawing from the world or becoming more isolationist. Whatever the Americans had to do for budgetary reasons, they would maintain very large armed forces with sophisticated weaponry. If there was dramatic progress in the various arms negotiations with the Soviet Union, there was no inherent reason why the United States should not go for more realistic levels of defence spending. But he was most anxious not to give the impression of pulling the rug out from under NATO.

The Prime Minister said that the right approach was to link reductions firmly to the results of negotiations rather than to pre-empt them. She could understand the pressures on the United States budget. What had worried her more was the reason given for cuts, namely that the threat from the Soviet Union was much reduced. There were plenty of countries within Europe already dashing to grab their share of future force reductions.

The President continued that he saw a need for a broader approach to this problem. If the Soviet economy was in as bad shape as we thought, we should be in a strong position to press the Soviet Union for substantial further reductions in its own defence effort, which would enable the West in turn to make reductions. We needed to consider where we wanted to be in five years time. The Prime Minister said that we should not assume

that the Soviet Union would simply go on reducing its defence spending indefinitely. They were bound to want to keep a reasonably strong military position. It was also evident that they had difficulty in destroying equipment and reducing military personnel. At the same time NATO would need to preserve flexible response: and we should implement a CFE agreement before considering further reductions. This would probably take a considerable time. The President said that if conditions in the Soviet Union and Eastern Europe really changed, there must surely be scope for the West to reduce its defence spending. The START talks were an example of what he had in mind. He was always being told that he could not make this or that reduction because of the requirements of targeting. It seemed that targets determined the levels of strategic weapons. But surely the levels ought to be driven by what the Soviets were prepared to do by way of reducing their strategic forces. It should not be necessary to spend "jillions" of dollars to modernise United States strategic weapons if the Russians were seriously prepared to reduce theirs.

The Prime Minister said there would always remain the unknown threat which had to be guarded against. Defence spending was like home insurance in that respect. The President repeated that it was hard to believe that, if the Soviets made significant reductions in their defences, NATO could not come up with a sound military game plan that would allow it to operate below present levels of defence spending. Otherwise what was peace about? The Prime Minister suggested that peace was about keeping the peace. In any event nuclear weapons were not really very expensive measured by the deterrence which they gave you. The savings came from reductions in conventional forces. The problem here was that the United States had a world to police. What if new conflicts broke out for instance in the Middle East? We had to face up to the proliferation of missiles and indeed nuclear weapons as well. The President acknowledged this but pointed to Soviet withdrawal from some areas of the world. If they pulled out of the Horn of Africa, did we really care what happened there?

The Prime Minister said that surely the US defence budget should not be driven by Mr. Gorbachev but by United States' defence interests. The starting point should be what was necessary to keep America safe and maintain its world-wide interests. The President commented that the United States simply could not operate at ever increasing levels of defence spending. It just was not on. The Prime Minister said that the United Kingdom did not see much scope for cuts in its own defence spending. We were close to the minimum. We had Treaty commitments to specific force levels in Germany. If we were to make reductions, there would be a domino effect. Were it not for this fact we might prefer to devote our resources to different defence roles. The President repeated that he saw a need to discuss how NATO could remain a viable entity in the new situation. The Prime Minister said there would always be a minimum defence effort which the United States would have to maintain and it would be a high minimum. The President said gloomily that he was already losing ground in Congress on this issue, even before anyone seriously began to consider a peace

dividend. He expected terrible problems next year. The Prime Minister said once again that she did not think the United States could afford to reduce its defence spending that much.

Arms Control

The Prime Minister said there were signs that the Germans might try to reopen the SNF issue. In her view that had been settled in the Comprehensive Concept adopted by NATO last May and could not be tampered with. The President said that he had found it necessary to raise the matter with Herr Genscher a couple of days previously, after his spokesman had described the prospects of NATO adopting FOTOL as "laughable". Genscher had subsequently made a satisfactory statement. But he was under no illusion that the Germans would not return to the issue. The Prime Minister said that, in her talks with Mr. Gorbachev in September, he had appeared ready to accept equal ceilings on SNF. We should explore this further.

The President said that he was still agonizing over a CW Convention and the difficulties of verification. He very much wanted an agreement and thought the only solution was to extend implementation over a large number of years, so that it would be possible to check on compliance at every stage. At the same time he was being attacked at home for upgrading a small number of United States chemical weapons, even though this was necessary on safety grounds. He had to say he thought it was unlikely the Administration would ever get the money for this from Congress.

The Prime Minister referred to difficulties with Germany over training and low flying. The President said this issue "burns me up". The United States was over there at great expense, yet the Germans wanted to restrict activities which were an essential part of defence. He did not see how the Germans could have it both ways: insist on an American presence yet make it impossible for American forces to fulfil their role properly.

The Prime Minister said that she continued to be worried by the Soviet position on SDI. In her view they remained determined to constrain it unacceptably. The President said that the real difficulties were with Congress: he had fought hard for adequate funding for SDI but had lost.

South Africa

The Prime Minister said that President de Klerk was doing quite well and seemed to be working up to the release of Mandela. If that was accompanied by the unbanning of the ANC, it should be possible to get negotiations going. Her main concern was that de Klerk did not seem to have any very clear idea of what he wanted to achieve in such negotiations. Meanwhile at the recent Commonwealth Heads of Government meeting, she had opened up discussion of the need for carrots as well as sticks. We should begin to think about which of the measures against South Africa we would relax <u>if</u> the South Africans took the right steps. Obviously it would make sense to start with some of the smaller ones rather than go straight for lifting the UN arms embargo.

Temporarily retained 27/4/17 Wayland

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

The President said that he agreed de Klerk seemed to be doing the right things. He had just been reading a report by Bruce Gel of USIA which reported Archbishop Tutu as urging no more sanctions. That was a step forward.

The trouble was many in Congress did still want more sanctions. Although the Administration was not under particular pressure at the moment, the pressure would resume in the spring if there was no real progress in South Africa. The President added that he was uncomfortable about not seeing President de Klerk, particulary given the number of "crazy people" he was required to see.

Vietnamese Boat People

The Prime Minister said there was enormous pressure in Hong Kong over the Vietnamese boat people and we would have to take some action. So far a number - she thought about 500 - had returned voluntarily. But we should now have to go to non-voluntary repatriation of those who were not genuine refugees. We would try to monitor what happened to them, and hoped that in due course the UNHCR would take on this task. We would also make available modest amounts of aid for the villages to which they returned. We really could not delay action any longer. The President said that he hated to be at odds with the United Kingdom on this. He did not know how our respective positions could be accommodated. The Prime Minister recalled that the United States returned illegal immigrants to Haiti and Mexico. The President said there was no political oppression in either country to match that in Vietnam. The United States did not send people back to Cuba. The Prime Minister said that those concerned were not really refugees and were not subject to particular oppression: they were economic migrants. The fact was that Hong Kong simply could not take any more and we would have to act. It was not that we relished doing it, but there wasn't any alternative. Until some were sent back, more would just keep on coming.

India/Pakistan

The President and the Prime Minister both hoped that Mr. Gandhi would win the elections in India, but without much optimism. The President asked how the Prime Minister saw the prospects for Benazir Bhutto. The Prime Minister thought she had done remarkably well but she remained vulnerable. The President commented that the combination of Ms. Bhutto and Rajiv Gandhi was a stabilising factor in the sub-continent.

Sri Lanka

The Prime Minister gave the President a brief account of her recent talk with former President Jayawardene.

Japan

The Prime Minister referred to her visit to Japan in September. She had spoken strongly in support of the United States' Structural Impediments Initiative. The Japanese had

listened politely, but she fully expected them to carry on as before. There were considerable similarities between Japan and Germany: both had high levels of savings and colossal balance of payments surpluses.

The President asked whether there was much anti-Japanese feeling in the United Kingdom. The Prime Minister said that Japanese investment was very welcome. The President said there was rising anti-Japanese sentiment in the United States, especially in Congress, driven mostly by the feeling that there was not a level playing field in trade and economic relations between the United States and Japan.

Czechoslovakia

The Prime Minister and the President were given news at this point of the resignation of the Communist leadership in Czechoslovakia, which they both heartily welcomed.

Australia/New Zealand

The Prime Minister and the President noted that despite the change of Prime Minister in New Zealand there had been no change in the anti-nuclear ships policy. Both thought that Mr. Hawke was likely to be re-elected in Australia, mainly because of the lack of an effective alternative.

El Salvador

The President said the Administration had full confidence in President Cristiani, but the left in the United States were fascinated by the FLMN cause. There had been a whole new wave of anti-government feeling after the killing of the priests in El Salvador. The United States was helping with the investigations. The Prime Minister said she had met President Cristiani and been impressed by him.

The meeting ended shortly after 1430.

The Prime Minister will want to send Mr. Gorbachev a message about her talks with the President. I should be grateful if you could provide me with a draft as soon as possible.

I am copying this letter to Brian Hawtin (Ministry of Defence), John Gieve (HM Treasury) and Trevor Woolley (Cabinet Office). I should be grateful if you could also arrange for Sir Antony Acland to receive a copy on a personal basis.

Yours sincerely,

Charles Powell

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

M

STATEMENT BY THE WHITE HOUSE PRESS SECRETARY

President Bush and Prime Minister Thatcher met for approximately four and one-half hours today at Camp David, discussing a broad range of issues related to East-West Relations and European stability. They had frank and substantive discussions in the relaxed atmosphere of the Camp.

President Bush summarised plans for the Malta Meeting and the two leaders discussed a number of possible subjects to be considered in that meeting. A primary focus was on Eastern Europe. The President and the Prime Minister discussed reforms underway in the Soviet Union and agreed on support for glasnost and perestroika. They both emphasised the pursuit of democracy as the first step in the reform process.

The two leaders agreed on the need for European stability as NATO faces the changes in Eastern Europe.

The Prime Minister emphasised her commitment to the Common Market, and emphasised her vision of a free and open trading system in Europe. President Bush agreed with her view of a European future that avoids protectionism.

The Prime Minister briefed President Bush on the recent Paris Summit of European Community Leaders at which it was agreed that all countries should promote democracy as a part of the Eastern Europe reform process.

The two leaders discussed a number of regional issues, including the mid-east peace process, recent events in Lebanon, China, Cambodia, Central America, Afghanistan, and others.

Their examination of these issues produced very close accord.

Attending today's meeting were General Brent Scowcroft, Deputy Secretary of State Lawrence Eagleburger, Ambassador Catto, British Ambassador Acland, Private Secretary to Mrs Thatcher, Charles Powell.

The Prime Minister departed Camp David at approximately 1445.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1. THOROUGH
INTERESTING
RELAXED
INFORMAL
4½ hours including
lunch alone with President
& Mrs Bush

GENERAL SCOWCROFT
MR. EAGLEBURGER.

2. MAIN DISCUSSION ON
DEVELOPMENTS IN EASTERN
EUROPE AND PREPARATION
FOR PRESIDENT'S MEETING IN MALTA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

ALSO DISCUSSED

- DEFENCE ISSUES
  NATO
- ARMS CONTROL
  FORCE REDUCTIONS
- EUROPE : YOUR VISION
- REGIONAL ISSUES
  : CHINA, CAMBODIA, VIETNAMESE BOAT PEOPLE
  : CENTRAL AMERICA
  : SOUTHERN AFRICA
  : MIDDLE EAST : LEBANON
  : CYPRUS
  : ARGENTINA

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

24 November 1989

Dear Mr. Potter.

I have now received the beautiful hand-carved duck which you asked Congressman Craig Thomas to deliver to the British Ambassador for me. I very much appreciate your kind thought in carving it for me from the famous redwood of California.

You may be sure that I will continue to do all I can to win the fight against drugs, in co-operation with the United States of America and other countries who believe, as I do, that this terrible abuse must be stamped out.

Thank you for the encouragement which you have given me.

With best wishes,

Yours sincerely

Margaret Thatcher

Mr. Peter D. Potter Jr.

fine DTS

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

24 November 1989

Dear Congressman Thomas,

I wanted to let you know that I have received with great pleasure the duck carved by your constituent, Mr Peter D Potter Jr, which you delivered recently to the British Ambassador for me. I was very grateful to Mr Potter for his kind thought and to you for arranging that the carving should reach me during my visit to Washington.

With best wishes,

Yours sincerely

Margaret Thatcher

The Honorable Craig Thomas

DTS

23 2025

PRIME MINISTER'S PARTY
DUTY CLERK (AIRBOURNE)

IMMEDIATE FROM DUTY CLERK, 10 DOWNING STREET

TONIGHT'S HEADLINES

1. Howe rebuffs call to challenge Thatcher and addresses need for Party unity.

2. Trade figures calm interest rate fears.

3. East German ex-leader (Honnecker) faces inquiry.

4. 300,000 demonstrate in Prague.

5. Government cash for food safety.

6. Thatcher leaves for talks with Bush.

There was little change at 1900 except that a man has been charged with the murder of Fiona Jones, the British teacher who was missing in France. The news that haemophiliac AIDS victims are to be given a £19 million boost also appeared. As a matter of interest ITN are running the Thatcher/Howe story last and the BBC first.

Financial Markets
Sterling/dollar opened 1.5615, closed 1.5620.
Sterling/DM opened 2.8321, closed 2.8366.
FTSE 100 closed 2220.5 up 28.2.

Mark Lennox-Boyd has asked if the following can be transmitted to the Prime Minister: Cranley Onslow announced that the close of nominations in the leadership contest is to be next Thursday. He added that it was the unanimous view of the executive that the contest was an "irrelevant and unnecessary distraction". Julian Amery made a powerful speech on the folly of the contest which was warmly supported. Jonathan Sayeed echoed these sentiments.

John Butterfill asked if the rules could be changed so that the proposer and seconder might be known. This was well received. Ian Gow let it be known that he would not be proposing a candidate unless he was asked to nominate the Prime Minister. This was greeted with laughter.

DIANA
DUTY CLERK
23 November 1989
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PRIME MINISTER'S PARTY
DUTY CLERK (AIRBORNE)

IMMEDIATE FROM DUTY CLERK, 10 DOWNING STREET

TONIGHT'S HEADLINES

1. HOWE REBUFFS CALL TO CHALLENGE THATCHER AND ADDRESSES NEED FOR PARTY UNITY.

2. TRADE FIGURES CALM INTEREST RATE FEARS.

3. EAST GERMAN EX-LEADER (HONNECKER) FACES INQUIRY.

4. 300,000 DEMONSTRATE IN PRAGUE.

5. GOVERNMENT CASH FOR FOOD SAFETY.

6. THATCHER LEAVES FOR TALKS WITH BUSH.

THERE WAS LITTLE CHANGE AT 1900 EXCEPT THAT A MAN HAS BEEN CHARGED WITH THE MURDER OF FIONA JONES, THE BRITISH TEACHER WHO WAS MISSING IN FRANCE. THE NEWS THAT HAEMOPHILIAC AIDS VICTIMS ARE TO BE GIVEN A £19 MILLION BOOST ALSO APPEARED. AS A MATTER OF INTEREST ITN ARE RUNNING THE THATCHER/HOWE STORY LAST AND THE BBC FIRST.

FINANCIAL MARKETS
STERLING/DOLLAR OPENED 1.5615, CLOSED 1.5620.
STERLING/DM OPENED 2.8321, CLOSED 2.8366.
FTSE 100 CLOSED 2220.5 UP 28.2.

MARK LENNOX-BOYD HAS ASKED IF THE FOLLOWING CAN BE TRANSMITTED TO THE PRIME MINISTER: CRANLEY ONSLOW ANNOUNCED THAT THE CLOSE OF NOMINATIONS IN THE LEADERSHIP CONTEST IS TO BE NEXT THURSDAY. HE ADDED THAT IT WAS THE UNANIMOUS VIEW OF THE EXECUTIVE THAT THE CONTEST WAS AN ?IRRELEVANT AND UNNECESSARY DISTRACTION?. JULIAN AMERY MADE A POWERFUL SPEECH ON THE FOLLY OF THE CONTEST WHICH WAS WARMLY SUPPORTED. JONATHAN SAYEED ECHOED THESE SENTIMENTS.

JOHN BUTTERFILL ASKED IF THE RULES COULD BE CHANGED SO THAT THE PROPOSER AND SECONDER MIGHT BE KNOWN. THIS WAS WELL RECEIVED. IAN GOW LET IT BE KNOWN THAT HE WOULD NOT BE PROPOSING A CANDIDATE UNLESS HE WAS ASKED TO NOMINATE THE PRIME MINISTER. THIS WAS GREETED WITH LAUGHTER.
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FROM DUTYCLERK AIRBORNE
TO DUTY CLERK NO 10 DOWNING STREET

PLEASE SEND TO AIRBORNE BY IMMEDIATE TELEGRAM DETAILS OF TODAYS FINANCIAL MARKETS CLOSE, TOGETHER WITH HEADLINES FROM 6 PM AND OR 7 PM NEWS.

IF DOUBT OF NOT ARRIVING ON AIRBORNE BEFORE LANDING PLEASE ALSO FORWARD TO WASHINGTON EMBASSY.

GRS 00073
NNNN

END TFC LCB525

for Patricia

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PM has seen

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ADVANCE COPY

CONFIDENTIAL
FM WASHINGTON
TO DESKBY 230900Z FCO
TELNO 3050
OF 230317Z NOVEMBER 89

MY TELNO 3005: PRIME MINISTER'S VISIT TO WASHINGTON: 23-24 NOVEMBER

1. THE WHITE HOUSE HAVE JUST CONFIRMED THAT PRESIDENT BUSH WILL BE SUPPORTED DURING THE TALKS WITH THE PRIME MINISTER BY SCOWCROFT AND EAGLEBURGER, IN ADDITION TO AMBASSADOR CATTO. MR BAKER WILL NOT (NOT) BE PRESENT.
2. THE WHITE HOUSE HAVE ALSO TOLD US THAT PRESIDENT BUSH'S LUNCH WITH THE PRIME MINISTER WILL BE A DEUX FOLLOWED (WEATHER PERMITTING) BY A WALK IN THE WOODS, AGAIN A DEUX.
3. FCO PLEASE PASS IMMEDIATE TO POWELL NO 10.

ACLAND

YYYY

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PS/10 DOWNING ST
PS/MR SAINSBURY
RESIDENT CLERK

NNNN

FROM: R H F Jones, CSCE Unit

DATE: 23 November 1989

CDB

Mr Ratford

PS

separate copies

REQUEST FOR CSCE BACKGROUND DOCUMENTS

1. Please find attached the following documents which may be of use before the Prime Minister's visit to the United States:

- speech by Harold Wilson at the Helsinki CSCE Meeting: 30 July 1975;

- Final Act of the Helsinki Conference on Security and Cooperation in Europe: 1 August 1975;

- Statement by Harold Wilson to the House of Commons and subsequent questions: 5 August 1975;

- speech by Sir Geoffrey Howe at the Madrid CSCE Follow-up Meeting: 7 September 1983;

- speech by Sir Geoffrey Howe at the 10th Anniversary CSCE Meeting, 30 July to 1 August 1985.

Richard Jones

R H F Jones

GENAAC/1

Mr Powell

FROM: Private Secretary

DATE: 22 November 1989

CARVED DUCK FOR THE PRIME MINISTER

1. Congressman Craig Thomas (R-Wyoming) called on the Ambassador on 21 November to give him a duck carved from Californian redwood by one of his constituents. The constituent, Mr Peter Potter, has carved similar ducks for President Reagan and Mr Gorbachev and had asked Congressman Thomas to present this duck to the Prime Minister together with an appeal to continue her fight against drugs. The Ambassador thanked Congressman Thomas and said that he would give the duck to the Prime Minister while she was here this week.

2. I attach 2 draft letters, which the Prime Minister might consider sending to Congressman Thomas and Mr Potter respectively.

E A Oakden

DRAFT LETTER FROM THE PRIME MINISTER

Mr Peter D Potter Jr
252 Sinclair Place
Casper
Wyoming 82609

26

I have now received ~~a~~ the beautiful hand-carved duck which you asked Congressman Craig Thomas to deliver to the British Ambassador for me. I very much appreciate your kind thought in carving it for me from the famous redwood of California.

You may be sure that I will continue to do all I can to win the fight against drugs, in cooperation with the United States of America and other countries who believe, as I do, that this terrible abuse must be stamped out.

Thank you for the encouragement which you have given me.

With ~~very~~ best wishes,

ep

DRAFT LETTER FROM THE PRIME MINISTER

The Honorable
Craig Thomas
1631 Longworth House Office Buildings
Independence Avenue
Washington DC 20515

(2)

I wanted to let you know that I have received with great pleasure the duck carved by your constituent Mr Peter D Potter Jr which you delivered recently to the British Ambassador for me. I was very grateful to Mr Potter for his kind thought and to you for arranging that the carving should reach me during my visit to Washington.

With best wishes and thanks,

eh

21/11

2-3 cpm on Tues 21 Nov. Acc by Liz Brimmer, press sec. Told Hafc. ess 8/11

Ambassador

Congressman Craig Thomas (R/Wyoming) has a constituent who has carved a duck which he would like to present to the Prime Minister. Apparently he has presented carved ducks in the past to Reagan and Gorbachev.

The Congressman would like to present the duck to you and it could then be given to the PM's party so that it could go back to London on the VC-10 (otherwise it is very difficult to get it to London).

Richard Ralph sees no problem with you receiving the duck if you have time. Rep Craig Thomas is a junior Congressman.

Yes

If you agree, I will invite Rep Thomas to come to the Embassy to give you the duck, if I can find a quietish moment.

Pauline
7.11

chex.jp/tt/1

ce JLC

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

22 November 1989

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Charles,

PRIME MINISTER'S VISIT TO USA: MEETING WITH GREENSPAN

You asked John Gieve for some briefing for the Prime Minister's meeting with Alan Greenspan. This is attached.

Yours sincerely,

Tarkowski

T TARKOWSKI
Private Secretary

Rt Hon

You will note that Alan Greenspan visited the Soviet Union recently to give them some advice on their economic problems.

You might ask his impressions.

CBM
22/11

BRIEF FOR MEETING WITH ALAN GREENSPAN
CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
24 NOVEMBER 1989

I ACTIVITY AND INFLATION

1. US GNP growth has slowed significantly this year. Both domestic investment and exports - the engines of growth in 1987 and 1988 - have been rising more slowly.

2. Inflation, which peaked this Spring, has begun to edge downwards, though only slowly. Earnings growth has not been an inflationary problem: even at its peak in early 1989 hourly earnings were rising more slowly than consumer prices.

3. Private Sector forecasters expect growth to remain modest to end-1990, picking up a little in 1991. Inflation is projected to stabilise at a little over a 4 per cent rate.

		GNP growth	Exports	Investment	Consumer price inflation
Outturns:	1987	3.7	17.6	8.4	3.6
	1988	4.4	11.2	3.2	4.1
Forecasts*:	1989	2.9	n.a	3.8	4.9
	1990	1.7	n.a	2.4	4.4
	1991	2.3	n.a	3.2	4.3

*average of forecasts by 51 independent forecasting organisations.

II MONETARY POLICY, THE DOLLAR AND THE TWIN DEFICITS

4. Tighter monetary policy has contributed to the slowdown in US growth and inflation. The Fed began to raise rates in April 1988, about two months in advance of the UK. US interest rates peaked in March this year and have subsequently fallen by around 1.5 per cent.

5. Despite concerted G7 intervention, the dollar remains strong. A rise in relative US interest rates in 1988, followed by political uncertainty in Europe and the Far East appear to have boosted the demand for dollar assets.

6. Prospects for the twin US deficits are mixed. The rise in the dollar, combined with a prospective weakening in US export markets, has led the Administration to concede that the current account deficit may widen in 1990. Recent Congressional legislation purports to reduce the federal budget deficit for the current financial year. But in practice the deficit will almost certainly overshoot current projections, and remain at the $150 billion level we have seen for the past three years.

	US short interest rate	Dollar exchange rate index	Current account deficit	Federal deficit (fiscal year)
1987	6.9	96.9	-144	-150
1988	7.7	92.8	-127	-155
1989(to date)	9.3	98.9	-123	-152
latest	7.9 (Nov 21)	98.5 (Nov 17)	n.a	n.a

III RECENT MONETARY POLICY DEVELOPMENTS

7. Many analysts believe that the focus of Fed policy-making has shifted somewhat towards avoidance of a US recession rather than a further immediate reduction in inflation. Certainly the administration is lobbying hard for early reductions in interest rates. And Greenspan himself admitted to Congress in July that there was always the risk that the Fed had adopted an excessively tight monetary policy.

8. The latest published minutes of Fed policy discussions, for the monetary policy meeting of 3 October, found 9 of 11 voting members agreeing that policy should remain little changed for the moment. (One member voted for a tighter stance, one for looser.) In the event, interest rates were edged marginally lower in mid-October.

9. Two Congressional resolutions have recently addressed the topic of monetary policy-making. The first seeks to establish a 5-year timetable for achieving zero inflation. The second seeks, by various means, to increase Administration control over the Fed. Greenspan is firmly in favour of the former but naturally opposes the latter. Neither resolution appears likely to be enacted.

IV POTENTIAL AREAS FOR DICUSSION

(i) Greenspan's impressions of Soviet economic system and prospects for reform?

10. At the request of the Soviet deputy Prime Minister, Leonid Abalkin, Greenspan visited Moscow over the period 9-11 October and spoke on 10 October on the nature of commercial banks and central banking in a market economy. This visit will have provided insights into the concerns of top soviet economic planners including the Soviet Finance Minister and the Chairman of the Soviet State Bank.

(ii) Any Fed concerns about recent stock price volatility?

11. New York stock prices fell 7 per cent in the closing hour of trading on Friday 13 October following the announced collapse of buyout plans for United Airlines. Prices recovered much of this ground when markets re-opened on Monday. Further smaller, sharp movements have occurred more recently. Greenspan may be willing to comment on public concern that stock index and computer-led trading - such as also occurs in London - contributed to this price volatility.

(iii) Prospects for achieving stable prices?

12. The objective of Fed monetary policy remains long-run price stability. Greenspan may be willing to comment on whether the Fed feels that such a target is feasible in the short to medium-term given the Administration's failure to tackle the fiscal deficit.

(iv) US supply-side reforms?

13. A single market in Europe will generate improved productivity and economies of scale for European producers. US corporations already have difficulty in competing with Japan. Does Greenspan believe that the US has adopted sufficient supply-side reforms in the 1980s to be able to compete in the 1990s? (The Fed are, for example, very concerned about the potentially adverse effects on competitiveness of current US restrictions on domestic banks?).

(v) Prospects for the world economy?

14. What are the prospects for achieving reductions in inflation without undermining the current upswing in world activity? Do developments in Eastern Europe have short-term implications for the activity and inflation in the West?

Economic Department
British Embassy
Washington

cc PC
DC

Foreign and Commonwealth Office

London SW1A 2AH

22 November 1989

Dear Charles,

Prime Minister's visit to Camp David

I now enclose further briefing covering Central and Eastern Europe. The briefs cover:

- an attempt to forecast surprises which Gorbachev might try to spring at the Malta meeting, as requested in your letter of 17 November following the Prime Minister's conversation with President Bush, and a suggestion of an initiative which President Bush himself might consider;

- general East/West questions, incorporating points to make and background;

- a background note on aid which is now being extended to Eastern European countries (and to the Soviet Union) by the European Community, the UK, the US etc;

- a background note on the legal situation concerning Germany, Allied rights and responsibilities and the significance of the Helsinki Final Act.

I am copying this letter to Trevor Woolley (Cabinet Office) and Brian Hawtin (MOD).

Yours,

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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ADDITIONAL DISTRIBUTION - 22/11/89

MY TELNO. 2963 (NOT TO ALL): PRIME MINISTER'S VISIT: THE US SCENE

SUMMARY

1. BUSH'S POPULARITY HAS NOT SO FAR LED TO POLITICAL DOMINANCE, PARTLY BECAUSE OF CONGRESS BUT ALSO THROUGH LACK OF A CLEAR PRESIDENTIAL AGENDA. PRESIDENT'S ROOM FOR MANOEUVRE LIMITED BY NO NEW TAXES PLEDGE. BUT IN VOTING FOR HIM THE COUNTRY VOTED FOR A PERIOD OF CALM.

DETAIL

2. THE PRIME MINISTER MAY LIKE A PICTURE OF THE PRESIDENT'S CURRENT POLITICAL STANDING SOME TEN MONTHS AFTER THE INAUGURATION AND AS THE PRESENT SESSION OF THE CONGRESS COMES TO AN END.

3. ON ONE LEVEL AT LEAST, BUSH IS RIDING HIGH, HAVING ACHIEVED A RECORD RATING IN THE POLLS OF OVER 75 PER CENT LAST MONTH. AROUND TWO-THIRDS OF THE AMERICAN PEOPLE, ACCORDING TO THE LATEST RETURNS, APPROVE OF THE WAY HE IS HANDLING THE PRESIDENCY. SMALLER MAJORITIES APPROVE OF HIS HANDLING OF ALL MAJOR AREAS OF POLICY, INCLUDING THE ECONOMY (NEARLY 70 PER CENT) HIS REFUSAL TO RAISE TAXES (59 PER CENT) AND DEVELOPMENTS IN EASTERN EUROPE (51 PER CENT, IN A QUOTE TIME UNQUOTE POLL THIS WEEK). HIS SUPPORT AMONG MEN HAS DROPPED FROM 60 PERCENT A MONTH AGO TO 46 PER CENT, AND IS 55 PER CENT AT PRESENT AMONG WOMEN. BUT WHATEVER THE DETAILS, ANY PRESIDENT WOULD BE GLAD TO GET THIS SORT OF FIGURES.

4. BUSH HAS NOT, HOWEVER, BEEN ABLE TO TRANSLATE THIS SUPPORT INTO OVERRIDING POLITICAL AUTHORITY OR TO IMPOSE HIMSELF ON EVENTS. THE CONGRESSIONAL ARITHMETIC IS AGAINST HIM, BUT THERE IS MORE TO IT THAN THAT. DESPITE THE POLLS, BUSH HAS FAILED TO DEVELOP THE KIND OF HARD CORE SUPPORT ON WHICH HIS PREDECESSORS RELIED TO SEE THEM THROUGH DIFFICULT TIMES. THE ADMINISTRATION HAS FAILED TO COMMUNICATE TO CONGRESS A CLEAR AGENDA, A FAULT COMPOUNDED BY DECISIONS TO FIGHT A NUMBER OF LOST CAUSES. THUS

THE PRESIDENT SUFFERED DAMAGING - AND IN SOME CASES PREDICTABLE - DEFEATS OVER FOR EXAMPLE THE TOWER NOMINATION, AMENDING THE CONSTITUTION TO OUTLAW FLAG BURNING AND CUTTING CAPITAL GAINS TAX.

5. BUSH HAS COME IN FOR CRITICISM FOR FAILING TO PROVIDE LEADERSHIP ON FOREIGN POLICY ISSUES. THE BUNGLED COUP ATTEMPT IN PANAMA IN OCTOBER HARMED HIS STANDING. HE HAS PROVED UNABLE TO GIVE VOICE TO THE NATIONAL MOOD IN THE WAY THAT REAGEN COULD AND HAS BEEN CRITICISED AT LEAST IN WASHINGTON FOR FAILING TO PROVIDE A SATISFYINGLY DYNAMIC RESPONSE TO EVENTS IN EASTERN EUROPE. BUT HE HAS BEEN SEEN TO REMAIN IN STEP WITH THE MAJORITY OF RESPONSIBLE INTERNATIONAL OPINION AT A TIME OF RAPID AND UNPREDICTABLE CHANGE. DOMESTIC COMMENTATORS ACKNOWLEDGED AFTER THE IMMEDIATEM EXCITEMENT THAT BUSH WAS RIGHT NOT TO OVERDRAMATISE EVENTS.

6. WHETHER OR NOT BUSH WILL BE ABLE TO SOLIDIFY HIS PRESENT POPULAR STANDING WILL, HOWEVER, PROBABLY DEPEND MORE ON HIS APPROACH TO DOMESTIC THAN TO FOREIGN ISSUES. HIS ABILITY TO CUT BUDGET DEFICIT MAY TURN OUT OVER THE LONG RUN TO BE THE MAJOR TEST. CONGRESS AND THE ADMINISTRATION ARE, IF ANYTHING, FURTHER APART THAN AT THE START OF THE YEAR. THE PRESIDENT IS HAMSTRUNG BY HIS ELECTION PLEDGE OF NO NEW TAXES. FOR THE TIME BEING HOWEVER, HE CAN BE COMFORTED BY THE KNOWLEDGE THAT MOST AMERICANS NOT ONLY OPPOSE ANY INCREASE IN TAXES BUT ALSO, BY A MARGIN OF MORE THAN 4 - 1 BLAME CONGRESS FOR THE BUDGET DEFICIT. DESPITE SOME TOUGH TALKING IN THE PAST FEW WEEKS, THE PRESIDENT HAS ACCEPTED A DEAL WITH CONGRESS WHICH COMBINES ACROSS THE BOARD CUTS WITH A SERIES OF MEASURES WHICH REDUCE THE RECORDED DEFICIT LARGELY BY ACCOUNTING CHANGES, OR ONE OFF REVENUE INCREASES. IT IS UNLIKELY THAT, IN PRACTICE, THE OUTTURN FOR THE CURRENT FINANCIAL YEAR WILL BE MUCH BELOW THE US DOLLARS 150 BN FIGURE THAT WE HAVE SEEN IN EACH OF THE LAST THREE YEARS. SO LONG AS CONGRESS CONTINUES TO GET THE BLAME FOR THIS, THERE WILL BE LITTLE SIGNIFICANT PRESSURE ON THE PRESIDENT TO TAKE THE DECISIONS NECESSARY TO MAKE ANY REAL REDUCTION. THE PRESIDENT HAS STILL TO PUT GREATER SUBSTANCE INTO HIS DOMESTIC PROPOSALS (ON EDUCATION, THE ENVIRONMENT AND THE WAR ON DRUGS FOR EXAMPLE) ANNOUNCED IN THE COURSE OF THE YEAR. IF PUBLIC CONCERN ABOUT THESE MATTERS CONTINUES TO RISE, AS IS PROBABLE, IT MAY BE DIFFICULT FOR BUSH TO BLAME CONGRESS ALONE. HE HAS ALSO STRUCK A NUMBER OF BIPARTISAN DEALS INCLUDING BAILING OUT THE SAVINGS AND LOAN INDUSTRY, RAISING THE MINIMUM WAGE, AND CONGRESSIONAL (AND EXECUTIVE BRANCH) PAY AND ETHICS. THE DEMOCRATS HAVE IN ALMOST EVERY CASE FORCED THE ADMINISTRATION TO SPEND A GOOOD DEAL MORE

THAN IT INTENDED OR COULD EASILY AFFORD WITHOUT RAISING TAXES.
7. THE IMPRESSION AT LEAST ON THE HILL AND IN THE MEDIA, BUT NOT NECESSARILY THROUGHOUT THE COUNTRY, IS THAT THE ADMINISTRATION LACKS A CLEAR SENSE OF DIRECTION. IN VOTING FOR BUSH HOWEVER, THE COUNTRY VOTED FOR A PERIOD OF RELATIVE CALM. THE TIME MAY NOT BE RIPE FOR MAJOR INITIATIVES. AT A PRESS CONFERENCE TO MARK THE ANNIVERSARY OF HIS ELECTION, BUSH ACKNOWLEDGED THAT HE HAD QUOTE HONEST DIFFERENCES UNQUOTE WITH CONGRESS ON ISSUES RANGING FROM ABORTION TO CAPITALS GAINS, WHILE PROMISING QUOTE TO CONTINUE TO EXTEND MY HAND TO CONGRESS IN SEEKING SOLUTIONS TO THE CHALLENGES UNQUOTE FACED BY THE US. HE HAS SO FAR MANAGED TO DO BUSINESS ON TERMS WHICH THE AMERICAN PEOPLE EVIDENTLY FIND ACCEPTABLE. GOVERNMENT HAS BEEN CONDUCTED IN AN ATMOSPHERE COMPARATIVELY FREE OF THE PARTISAN RANCOUR WHICH DOMINATED THE REAGAN YEARS: TO CRITICS WHO CLAIMED THAT IMPROVED ATMOSPHERICS HAD BEEN SECURED AT THE COST OF SOLID ACHIEVEMENT, GEORGE BUSH WOULD PROBABLY REPLY THAT THAT WAS A CONSIDERABLE ACHIEVEMENT IN ITSELF: AND ONE WHICH WILL ENABLE HIM TO BUILD UP HIS APPROACH IN THE MONTHS AND YEARS AHEAD. HE WOULD OF COURSE BE GREATLY HELPED IN THAT IF THE UNCERTAINTY AND CONFUSION IN THE DEMOCRATIC PARTY OVER MUCH OF THIS YEAR WERE TO PERSIST.

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21 November 1989

Dear Charles

Cambodia: Prime Minister's Visit to Washington

Stephen Wall wrote to you on 20 November with briefing for the Prime Minister's visit, including material on Cambodia, on which President Bush may express doubts about our policy. You may also find helpful the enclosed telegrams from UIMIS New York (telno 1846) and Washington (telno 2996).

The latter telegram reports American concern in particular about our sending an official to visit Phnom Penh. The intention is to send a First Secretary from the Embassy in Bangkok accompanied by an ODA official to Phnom Penh in early December for about a week to establish contact with NGOs and others involved in aid work in Cambodia. This decision has been announced in Parliament, and to the agencies, who have welcomed it. It is related to the humanitarian aid programme and we shall make it clear that it does not imply recognition of the regime. The Foreign Secretary regards it as an essential part of the recent updating of policy. There would be no point in substituting a visit by a representative from an NGO.

In general, public feeling on Cambodia remains high, and the programme on Central Television (to be repeated this evening, 21 November, with an update) has produced a huge volume of letters to MPs and the Foreign Office protesting against any support, direct or indirect, for the Khmer Rouge. We are strenuously countering this misconception. Should the Khmer Rouge ever look like achieving substantial military victory we would find ourselves deeper in political difficulty but the Foreign Secretary believes that the update of policy, and in particular the changed emphasis on aid, gives us a tenable position for the time being.

As the Foreign Secretary's reply in Parliament made clear, our objective remains a sovereign and independent Cambodia and we are continuing to work with our allies and friends to that end. We shall be glad to resume discussion of Cambodia in the five, as the Americans propose.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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FOR COLVIN (SEAD)
WASHINGTON TELNO 2996: CAMBODIA: U S REACTIONS

SUMMARY
1. FURTHER BACKGROUND TO THE NEGOTIATIONS ON THIS YEAR'S GENERAL ASSEMBLY RESOLUTION ON CAMBODIA.

DETAIL
2. AS YOU KNOW, WE KEPT THE DEPARTMENT INFORMED BY TELEPHONE OF THE FINAL STAGES OF THE NEGOTIATIONS ON THIS YEAR'S DRAFT UNGA RESOLUTION ON CAMBODIA. BUT IN VIEW OF AMERICAN CONCERNS ABOUT THE RECENT SHIFT IN EMPHASIS OF OUR POLICY YOU MIGHT FIND A MORE FORMAL ACCOUNT USEFUL IN PREPARING BRIEFING FOR THE PRIME MINISTER'S VISIT TO WASHINGTON LATER THIS WEEK.

3. AS REPORTED IN MY TELNO 1486, WE TOOK A PROMINENT ROLE WITHIN THE TWELVE IN PERSUADING THE GERMANS AND DUTCH (WHO HAD RECEIVED INSTRUCTIONS TO SUGGEST NUMEROUS DETAILED AMENDMENTS TO THE RESOLUTION) TO ADOPT A MORE THEMATIC APPROACH, WHICH WAS MUCH MORE EFFECTIVE IN PERSUADING THE ASEANS TO MAKE THE NECESSARY CHANGES. PARTLY AS A RESULT OF THE TWELVE'S APPROACH, THE ASEANS AGREED ON 13 OCTOBER TO AMEND THE PARAGRAPH OF THE DRAFT ON THE VIETNAMESE WITHDRAWAL AND MAKE OTHER CHANGES DESIGNED TO AVOID THE IMPLICATION THAT THE GENERAL ASSEMBLY WAS ENCOURAGING A CONTINUATION OF HOSTILITIES. OUR SUBSEQUENT CO-SPONSORSHIP OF THE RESOLUTION ENCOURAGED OTHER WESTERN COUNTRIES TO COME FORWARD AND HELPED THE ASEANS TO SIGN UP NON-ALIGNED CO-SPONSORS, BRINGING THIS YEAR'S TOTAL TO A RECORD 79.

4. SUBSEQUENTLY, HOWEVER, IT BECAME CLEAR THAT THE ASEAN AMENDMENTS WOULD NOT SATISFY SOME, SUCH AS THE SWEDES, WHO FELT, INTER ALIA, THAT THE LANGUAGE OF PREAMBULAR PARA 5 REFERRING TO THE STRUGGLE OF THE KAMPUCHEAN FORCES, WAS TANTAMOUNT TO SUPPORT FOR POL POT. THE SWEDES PUT FORWARD A NUMBER OF OTHER DETAILED AMENDMENTS, BUT THEIR BEHAVIOUR INFURIATED THE ASEANS TO THE POINT WHERE, THOUGH SYMPATHETICALLY INCLINED TO A CHANGE IN THE WORDING OF PREAMBULAR

PARA 5, THEY WERE NOT PREPARED TO CONSIDER IT FOR FEAR OF APPEARING TO GIVE IN TO SWEDISH PRESSURE. WE HAD AT THAT POINT RECEIVED ADVANCE WARNING (YOUR TELECON WITH HUM) OF THE SHIFT IN OUR OWN POSITION AND WERE ABLE, WITHOUT REVEALING WHY, TO PERSUADE THE ASEANS TO MAKE THE CHANGES NECESSARY TO ALLOW US TO CONTINUE TO CO-SPONSOR THE RESOLUTION (MY TELNO 1715).

5. I HOPE THAT IN THESE CIRCUMSTANCES THE AMERICANS WILL ACCEPT THAT WE HAVE INDEED WORKED HARD TO SECURE THE WIDEST POSSIBLE SUPPORT FOR THIS YEAR'S GENERAL ASSEMBLY RESOLUTION. WE HAVE ALSO PRESSED FOR AN EARLY RESUMPTION OF DISCUSSION OF CAMBODIA BY THE PERMANENT MEMBERS OF THE SECURITY COUNCIL. AS REPORTED IN MY TELNO 1852, THE FIVE AMBASSADORS AGREED ON 20 NOVEMBER THAT THEIR COUNSELLORS SHOULD MEET ON THIS SUBJECT EARLY NEXT WEEK, PROBABLY ON 28 NOVEMBER. WE SHALL TELEGRAPH SEPARATELY RECOMMENDATIONS ON THE HANDLING OF THIS MEETING.

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CAMBODIA: US REACTIONS

SUMMARY

1. US CONCERNS ABOUT HMG'S POLICY ON CAMBODIA. THEY ARGUE THAT CLOSER CONTACT WITH THE PRK WILL UNDERMINE PROSPECTS FOR AN EARLY RESUMPTION OF NEGOTIATIONS. THEY ARE PARTICULARLY CONCERNED ABOUT A UK GOVERNMENT OFFICIAL VISITING PHNOM PENH. LIKELY TO BE RAISED AT THE PRIME MINISTER'S MEETING WITH PRESIDENT BUSH.

DETAIL

2. MINISTER (WOOD) WAS SUMMONED ON 18 NOVEMBER BY STATE DEPARTMENT (SOLOMON) TO DISCUSS CAMBODIA. SOLOMON SAID HE WELL UNDERSTOOD THE PRESSURES ON HMG IN PARLIAMENT AND IN THE MEDIA. BUT THE US WERE CONCERNED ABOUT THE UK'S INTENTION TO SEND A UK GOVERNMENT OFFICIAL TO PHNOM PENH, AND ABOUT REPORTS THAT CONSIDERATION WAS BEING GIVEN TO A REDUCTION IN THE UK'S ASSISTANCE TO THE NON-COMMUNIST RESISTANCE. HE POINTED OUT THAT THE PRESENCE OF A UK GOVERNMENT OFFICIAL IN PHNOM PENH WOULD BE EXPLOITED BY THE PRK AS EVIDENCE THAT THEY WERE ENJOYING WIDER INTERNATIONAL SUPPORT. IT WOULD SEND QUITE THE WRONG SIGNAL: THE PRK WERE AN ILLEGITIMATE REGIME, AND THE VIETNAMESE, ACCORDING TO US INFORMATION HAD NOT COMPLETELY WITHDRAWN, THERE WERE STILL VIETNAMESE ARTILLERY OPERATORS, INTELLIGENCE AND LIAISON OFFICERS IN CAMBODIA.

3. MOREOVER OUR ACTION (AND FOR THAT MATTER SIMILAR ACTION BY NEW ZEALAND AND AUSTRALIA) WOULD REDUCE VIETNAMESE/PRK WILLINGNESS TO RETURN TO THE NEGOTIATING TABLE. THE PRK WERE HOPING THAT WESTERN FEARS OF THE RETURN OF THE KHMER ROUGE WOULD RESULT IN GROWING INTERNATIONAL SUPPORT FOR HUN SEN. WE WERE PLAYING INTO THEIR HANDS, BY IN EFFECT SQUEEZING OUT THE NON-COMMUNIST RESISTANCE, AND LEAVING THE INTERNATIONAL COMMUNITY WITH ONLY TWO CHOICES, THE PRK OR THE KHMER ROUGE. HE SAID CAMBODIA WOULD BE ON THE AGENDA FOR THE PRIME MINISTER'S MEETING WITH PRESIDENT BUSH. HE HOPED WE COULD RECONSIDER OUR DECISION TO SEND A GOVERNMENT OFFICIAL. HE WONDERED IF WE COULD SEND AN NGO REPRESENTATIVE.

4. SOLOMON CONTINUED BY SAYING THAT THE US HOPED TO RESTART THE DIPLOMATIC PROCESS BY PROMOTING DISCUSSION OF CAMBODIA AMONG THE FIVE ON THE BASIS OF THE OUTLINES AGREED IN PARIS. THEY HAD MENTIONED THIS TO THE RUSSIANS BUT HAD SO FAR RECEIVED A LUKE-WARM RESPONSE. IT WOULD, HOWEVER, BE ON THE AGENDA FOR THE BUSH/GORBACHEV MEETING. THE RUSSIANS HAD APPARENTLY INDICATED THEY MIGHT BE MORE SYMPATHETIC TO FIVE INVOLVEMENT DURING ROGACHEV'S RECENT VISIT TO PARIS.

5. WOOD UNDERTOOK TO REPORT SOLOMON'S VIEWS. HE SAID THERE HAD BEEN NO CHANGE IN OUR POLICY ON CAMBODIA. WE HAD WORKED HARD TO SECURE THE WIDEST POSSIBLE SUPPORT FOR THE RECENT UNGA RESOLUTION, AND WE WERE KEEN TO RESUME THE DIPLOMATIC PROCESS BY INVOLVING THE FIVE. IN DECIDING TO SEND AN OFFICIAL TO PHNOM PENH TO MONITOR AID WE HAD, OF COURSE, NO INTENTION OF CONFERRING LEGITIMACY ON THE PRK REGIME. HE UNDERTOOK TO REPORT THE PROPOSAL THAT AN NGO REPRESENTATIVE MIGHT GO INSTEAD.

6. PLEASE ADVANCE TO COLVIN/SEAD TO ADVISE ON DISTRIBUTION.

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MR APPLEYARD, CAB OFFICE
SIR P CRADDOCK, NO 10.

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Mr. Lester: To ask the Secretary of State for Foreign and Commonwealth Affairs if he will make a further statement about the Government's policy towards Cambodia.

Mr. Hurd: The British Government's objective is a sovereign and independent Cambodia whose people are free to decide their own future. We do not have diplomatic relations with the unelected regime put into power by the Vietnamese. We have consistently made plain our repugnance for the Khmer Rouge. We have never given, and will never give, support of any kind to the Khmer Rouge.

These objectives remain unchanged but we have reviewed their implementation in the light of recent events. Vietnam has withdrawn its combat units from Cambodia. The international conference at Paris failed to reach agreement on a political settlement. Fighting continues within Cambodia itself and the need for humanitarian aid has grown. In these circumstances we have decided:

(i) to build up our humanitarian aid programme. We shall continue to provide substantial help to the many thousands of Cambodians living in camps along the Thai-Cambodia border who have been made homeless by the years of fighting. We stipulate that none of our aid should reach the Khmer Rouge. We shall now increase the humanitarian aid which we give inside Cambodia itself while continuing to channel this aid through the non-governmental organisations and organisations such as UNICEF and not direct to the Phnom Penh regime. As part of this policy, I propose to offer now a further contribution of £250,000 to UNICEF for humanitarian projects inside Cambodia. Arrangements will be made for a member of the British embassy in Bangkok to visit Phnom Penh soon to report on the situation at first hand. I am asking the heads of the NGOs to meet me to discuss details;

(ii) to adapt our stance at the UN. The report of the UN credentials committee again recommended acceptance of credentials of Democratic Kampuchea for the Cambodian seat and was approved without a vote. That question has thus already been settled for the present session. Our long-standing position on this legal and technical matter in no way implies readiness to deal with the Coalition Government of Democratic Kampuchea as a government, much less support for the Khmer Rouge. We have decided with our friends and partners to modify the draft resolution which we, with 74 other UN member states, are co-sponsoring at the United Nations General Assembly in the debate on 15 November. These changes are intended to make clear that the situation in Cambodia has changed and that we do not support the Khmer Rouge in any way.

We wish to see peace and stability restored to Cambodia through a comprehensive political settlement which will create the conditions in which the Cambodian people can elect a government of their choice, free from the fear of Khmer Rouge atrocities, foreign occupation or civil war. In consultation with our friends and allies, notably the ASEAN group of countries, we shall continue to work to this end.

Hong Kong

Dr. Marek: To ask the Secretary of State for Foreign and Commonwealth Affairs if he proposes to take any action in response to the recent Chinese sacking of two members of the Basic Law Drafting Committee in Hong Kong.

Mr. Maude: Members of the Basic Law drafting committee are appointed by the standing committee of the Chinese National People's Congress. The suspension of two members is a matter for the Chinese authorities and the members themselves. We hope that the Chinese Government will take full account of opinion in Hong Kong in their drafting of the Basic Law.

Gibraltar

Dr. Marek: To ask the Secretary of State for Foreign and Commonwealth Affairs why Gibraltar does not have elected representation in the European Parliament.

Mr. Maude: I refer the hon. Member to the observations made on this matter by my right hon. Friend the then Home Secretary on 20 June 1984.

Amnesty International

Mr. Butcher: To ask the Secretary of State for Foreign and Commonwealth Affairs if he will seek to ascertain the reasons for the refusal of the Indian Government to grant entry visas to representatives of Amnesty International in January, March and December 1985, November 1986, November 1987 and March 1989.

Mr. Maude: The Indian Government have made their views on Amnesty International clear in public statements. Equally, we have made known to them that we regard Amnesty International as a serious and responsible organisation. The issuing of visas is a matter for the Indian Government.

WALES

Labour Statistics

Mr. Flynn: To ask the Secretary of State for Wales if he will publish the changes in the totals and percentages of unemployed in *(a)* Wales and *(b)* the area covered by the valleys initiative since (i) July 1986, (ii) July 1987 and (iii) July 1988.

Mr. Peter Walker: The information requested is shown in the table. The figures used are not adjusted for seasonality and are affected by the change in benefit regulations for under 18-year-olds introduced in September 1988.

	Change in number of unemployed	[1]*Change in unemployment rate (Percentage points)*
July 1986-September 1989		
Valleys area	−19,964	−9·1
Wales	−84,592	−8·1
July 1987-September 1989		
Valleys area	−13,718	−6·3

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PRIME MINISTER'S VISIT

1. I SAW GOVERNOR SUNUNU AND DEPUTY SECRETARY OF STATE EAGLEBURGER THIS MORNING (20 NOVEMBER) TO RUN OVER THE PRIME MINISTER'S VISIT.

ATTENDANCE

2. SUNUNU SAID THAT SCOWCROFT AND FITZWATER WOULD BE THERE AND POSSIBLY GATES. HE HIMSELF HAD A CONFLICT OF ENGAGEMENTS WHICH HE WAS TRYING TO RECONCILE BUT THIS MIGHT NOT BE POSSIBLE. SIMILARLY, SECRETARY BAKER MIGHT NOT BE ABLE TO BE THERE. SUBSEQUENTLY THE STATE DEPARTMENT CONFIRMED THAT HE WAS LEAVING FOR TEXAS THIS EVENING (BUT I SUPPOSE HE MIGHT NONETHELESS FLY UP TO CAMP DAVID AFTER A FEW DAYS IN TEXAS). EAGLEBURGER SAID THAT CATTO WOULD BE PRESENT AND WAS INDEED STAYING PRIVATELY ON WITH THE PRESIDENT AFTER MRS THATCHER'S DEPARTURE. I SAID TO BOTH THAT THE PRIME MINISTER WOULD BE BRINGING A VERY SMALL TEAM HERSELF - JUST POWELL, INGHAM AND MYSELF - AND WAS LOOKING FORWARD TO A RELAXED TIME TALKING WITH THE PRESIDENT. SHE WOULD ENTIRELY UNDERSTAND IF OTHERS COULD NOT BE THERE AND WOULD CERTAINLY NOT WANT PEOPLE TO DISRUPT THEIR THANKSGIVING HOLIDAY PLANS. SIMILARLY I STRESSED THAT SHE WOULD WANT A MINIMUM OF FORMALITIES ON ARRIVAL AND WOULD NOT EXPECT A LOT OF PEOPLE FROM THE STATE DEPARTMENT TO UPSET THEIR HOLIDAY IN ORDER TO SEE HER IN.

AGENDA

3. SUNUNU SAID THAT THE PRESIDENT WOULD PLAY IT IN ANY WAY THE PRIME MINISTER LIKED. THEY COULD JUST TALK, MAINLY ABOUT THE SOVIET UNION, EASTERN EUROPE, GERMANY AND ARMS CONTROL ISSUES, OR THEY COULD HAVE MORE STRUCTURED SESSIONS GETTING REGIONAL ISSUES OUT OF THE WAY AND THEN CONCENTRATING ON THE MAIN SUBJECT. IT WAS FOR MRS THATCHER TO CHOOSE. THE ONLY SUBJECT SUNUNU MENTIONED HIMSELF WAS SOVIET INTEREST IN THE GATT. I DESCRIBED OUR POSITION BRIEFLY. SUNUNU ASKED WHETHER WE WOULD FAVOUR SETTING CONDITIONS BEFORE ANY STATUS, EVEN OBSERVER, COULD BE GRANTED. EAGLEBURGER ALSO EMPHASISED THE INFORMALITY OF THE OCCASION BUT ADDED THAT THE STATE DEPARTMENT WERE BRIEFING THE PRESIDENT ON THE FOLLOWING TOPICS:

EASTERN EUROPE/SOVIET UNION (WITH PARTICULAR FOCUS ON THE GDR

AND FRG
VIETNAMESE BOAT PEOPLE
MIDDLE EAST
SOUTHERN AFRICA
ARGENTINA/FALKLANDS
CAMBODIA
CHEMICAL WEAPONS
CFE
US DEFENCE BUDGET CUTS
CHINA (EAGLEBURGER SAID THE PRIME MINISTER MIGHT WANT AN UPDATE ON US/CHINA RELATIONS AFTER US/CHINA RELATIONS AFTER THE RECENT NIXON/KISSINGER VISITS).

I SAID THAT THE PRIME MINISTER MIGHT WANT TO MENTION CYPRUS.

SUBSTANCE

4. I ASKED BOTH WHETHER THEY SAW ANY LIKELY POINTS OF REAL DIFFERENCE. BOTH MENTIONED VIETNAMESE BOAT PEOPLE. SUNUNU SAID THAT THE PRESIDENT WOULD NOT WANT TO RAISE IT HIMSELF BUT THE AMERICAN SIDE EXPECTED THAT THE PRIME MINISTER WOULD. IF HOWEVER THE PRIME MINISTER WANTED TO GO INTO DETAIL, THE PRESIDENT SHOULD BE WARNED SO THAT HE COULD BE BRIEFED ACCORDINGLY. EAGLEBURGER SAID THAT, WHILE HE COULD GIVE ABSOLUTELY NO UNDERTAKING, THE STATE DEPARTMENT, REALISING THE MAGNITUDE OF THE PROBLEM FOR US, HAD BEEN REVIEWING POLICY AND HE HOPED THAT A DECISION WOULD BE TAKEN BEFORE THE CAMP DAVID MEETING. IT MIGHT MEAN THAT THE ADMINISTRATION COULD TAKE A SOMEWHAT MORE HELPFUL STANCE ALTHOUGH THEY WOULD GET INTO CONSIDERABLE TROUBLE WITH CONGRESS. NEITHER EXPECTED ANY OTHER SIGNIFICANT DIFFERENCES, THOUGH EAGLEBURGER SIGNALLED SOUTH AFRICA AS A POTENTIAL PROBLEM FOR THE FUTURE. IF DE KLERK HAD NOT TAKEN SUFFICIENT MEASURES BY NEXT SPRING TO SATISFY CONGRESS, HE THOUGHT THAT THE PRESIDENT WOULD WANT TO DISCUSS POSSIBLE SANCTIONS WITH THE CONGRESSIONAL LEADERSHIP RATHER THAN HAVE MEASURES PASSED AGAINST HIS OPPOSITION. I EMPHASISED THE PRIME MINISTER'S CONTINUED OPPOSITION TO SANCTIONS OR DEADLINES.

DEFENCE CUTS AND FURTHER US AND SOVIET TROOP WITHDRAWALS

5. I TOLD BOTH SUNUNU AND EAGLEBURGER THAT THE PRIME MINISTER WAS VERY CONCERNED INDEED ABOUT THE PROPOSED CUTS IN THE DEFENCE BUDGET AS OUTLINED BY CHENEY OVER THE WEEKEND AND ABOUT THE HINTS THAT THERE MIGHT BE SUGGESTIONS FROM THE AMERICAN SIDE AT THE MALTA MEETING FOR FURTHER US AND SOVIET TROOP WITHDRAWALS. MRS THATCHER ALSO MUCH DISLIKED THE TALK OF MOVING AUTOMATICALLY TO A CFE MARK 2. SUNUNU SAID THAT A PROPOSAL FOR INCREASED TROOP WITHDRAWALS WAS QUOTE NOT ON OUR AGENDA UNQUOTE AND EAGLEBURGER CONFIRMED THIS. BOTH EMPHASISED THAT IT REALLY WAS THE

PRESIDENT'S INTENTION NOT TO HAVE A NEGOTIATING MEETING AND NOT TO PUT FORWARD PROPOSALS FROM HIS SIDE. HE WAS OF COURSE BEING BRIEFED ABOUT POSSIBLE SOVIET INITIATIVES. ON TNE DEFENCE CUTS BOTH WERE AT PAINS TO PLAY THINGS DOWN. SUNUNU SOUGHT TO PRESENT THE CUTS AS BEING NO MORE THAN THE REMOVAL OF PART OF THE BUILT-IN PROVISION FOR INFLATION PROOFING (THOUGH FROM WHAT WE HAVE HEARD, THE CUTS GO CONSIDERABLY FURTHER THAN THAT). HE SAID THAT THIS PROVISION WAS IN FACT CONSIDERABLY HIGHER THAN THE COST OF THE REDUCTIONS MENTIONED BY CHENEY. IN ANY CASE, THESE WERE FAR FROM AGREED AND THE OUTCOME COULD ALMOST CERTAINLY BE A SMALLER REDUCTION. MEANWHILE THOSE WITH VESTED INTERESTS WERE PUTTING ROUND HORROR STORIES. I SAID THAT THERE WOULD STILL HAVE TO BE REAL CUTS IN PROGRAMMES AND SUNUNU CONCEDED THIS TO SOME EXTENT. EAGLEBURGER SAID THAT WHEN HE HAD HEARD CHENEY'S STATEMENTS OVER THE WEEKEND HE REALISED THAT THEY WOULD BE DISTURBING TO MRS THATCHER AND THAT SHE WOULD WANT TO RAISE THE MATTER WITH THE PRESIDENT. HE (AND SUNUNU) THOUGHT THAT THE PRESIDENT WOULD BE REASSURING, AND EFFORTS WERE BEING MADE TODAY THROUGH STATEMENTS BY THE WHITE HOUSE AND STATE DEPARTMENT SPOKESMEN TO PUT THE MATTER IN PERSPECTIVE AND TO REDUCE ADVERSE SPECULATION. EAGLEBURGER ALSO EMPHASISED THAT NO COLLECTIVE DECISIONS HAD BEEN TAKEN.

EASTERN EUROPE

6. NEITHER SUNUNU NOR EAGLEBURGER EXPECTED THAT THERE WOULD BE ANY MAJOR DIFFERENCES ON THE MAIN ISSUES. THE PRESIDENT HAD HAD TO SAY THAT REUNIFICATION WOULD BE WELCOMED IF IT WAS THE RESULT OF THE DEMOCRATICALLY EXPRESSED WILL OF THE GERMAN PEOPLES. BUT THERE WAS NO INTENTION ON THE PRESIDENT'S PART TO SPEED THINGS UP. I SAID THAT THE PRIME MINISTER THOUGHT THAT WESTERN LEADERS SHOULD TAKE ACTION TO SLOW THINGS DOWN IN ORDER TO STABILIZE THE PRESENT SITUATION AND TO CONCENTRATE ON THE IMMEDIATE TASKS OF ENSURING DEMOCRATIC ELECTIONS IN THE GDR AND COMPLETING THE AGENDA FOR THE CREATION OF THE SINGLE MARKET BY 1992.

ACLAND

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OUR TELNOS 2998 AND 3008:US DEFENCE CUTS/PRIME MINISTER'S VISIT

SUMMARY

1. STATE DEPARTMENT SEEK TO REPAIR SOME OF THE DAMAGE CAUSED BY CHENEY'S REMARKS. REASSURANCE ON ANY EARLY US MOVES ON CFE. STILL UNCLEAR WHY CHENEY SPOKE AS HE DID.

DETAIL

2. THE STATE DEPARTMENT SPOKESMAN WAS PRESSED HARD DURING THE COURSE OF 20 NOVEMBER FOR COMMENT ON CHENEY'S REMARKS OVER THE WEEKEND.

3. ON THE REFERENCE TO FURTHER MEASURES IN CFE, TUTWILER RESPONDED IN TERMS DESIGNED TO REASSURE, AS ENVISAGED BY EAGLEBURGER IN SECOND TUR:

QUOTE WE'RE CERTAINLY NOT DISAGREEING AND CERTAINLY NOT DISASSOCIATING OURSELVES FROM THE SECRETARY OF DEFENSE. WE WOULD SAY THAT IT IS VERY PREMATURE TO TALK ABOUT A SECOND CFE. IF WE WERE TO DO SUCH A THING, IT WOULD OBVIOUSLY HAVE TO BE CAREFULLY EXPLORED IN CONSULTATION WITH OUR ALLIES IN THE CONTEXT OF THE VIENNA NEGOTIATIONS. AND I WOULD LIKE TO JUST REMIND YOU THAT THE CFE AGREEMENT THAT IS
ON THE TABLE IN VIENNA IS VERY FAR-REACHING
AND WILL ALREADY CHANGE THINGS MILITARILY IN EUROPE. WE NEED TO COME TO CLOSURE ON THOSE PROPOSALS FIRST. UNQUOTE.

4. AS REGARDS THE PENDING DEFENCE CUTS, TUTWILER SAID THAT THE PRESIDENT HAD YET TO MAKE ANY DECISIONS.QUOTE THE SECRETARY OF DEFENSE WAS SPEAKING TO INTERNAL DEFENSE DEPARTMENT OPTIONS AND THE PRESIDENT MIGHT WELL MAKE HIS DECISION IN THE LIGHT OF WHAT HE LEARNS AND FROM WHAT HE DISCUSSES WITH MR GORBACHEV IN MALTA UNQUOTE.

COMMENT

5. IT REMAINS UNCLEAR WHY CHENEY CHOSE TO SPEAK AS HE DID OVER THE WEEKEND. HIS REMARKS TOOK MOST OF HIS OWN OFFICIALS IN THE PENTAGON BY SURPRISE. THE BUDGET-CUTTING EXERCISE HAS BEEN A FAST-MOVING AFFAIR, TAKING PLACE DURING THE COURSE OF THE LAST WEEK AND INVOLVING ONLY A SMALL NUMBER OF OFFICIALS IN THE THREE

SERVICES. CHENEY'S ATTITUDE TOWARDS REDUCTIONS HAS SO FAR BEEN CONSERVATIVE IN THE EXTREME, WITH THE EMPHASIS ON CAUTION ABOUT DEVELOPMENTS IN THE SOVIET UNION AND THE NEED FOR THE PRESERVATION OF STABILITY AND ALLIANCE CONFIDENCE. PERPLEXED PENTAGON OFFICIALS HAVE TOLD US FOR EXAMPLE THAT AS LATE AS 15 NOVEMBER CHENEY WAS RESISTENT TO ANY IDEA THAT REDUCTIONS IN SOVIET DEFENCE EXPENDITURE AND EQUIPMENT PRODUCTION CARRIED IMPLICATIONS FOR THE TASK CONFRONTING THE ALLIANCE IN THE IMMEDIATE FUTURE. ONE EXPLANATION OFFERED IS THAT CHENEY WAS DELIBERATELY SEEKING TO EXPOSE THE PROBLEMS IN THE WORST POSSIBLE LIGHT AS A LAST DITCH EFFORT TO RALLY SUPPORT AGAINST BUDGET DIRECTOR DARMAN'S DEMANDS. ON TNAT BASIS HE MAY HAVE BEEN HOPING, THROUGH HIS REFERENCES TO A CONTINUING CFE PROCES, TO PUSH MORE OF THE CUTS INTO THE LATER YEARS, WHERE IT WOULD BE EASIER TO ACHIVE THEM BY PROGRAMME CHANGES.. (IT WOULD NOT BE POSSIBLE TO ABSORB REDUCTIONS OF THE MAGNITUDE SOUGHT BY DARMAN IN FY 91 - OF SOME DOLLARS 14BN - WITHOUT MOST OF THE PAIN FALLING ON FORCE STRUCTURES AND OPERATING COSTS). BUT IF THIS WAS INTENDED AS A TRIAL BALLOON, IT HAS CERTAINLY LANDED AWKWARDLY.

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YYYY

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TO..J.S. Wall, Esq., PS/Secretary of State..

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FROM THE AMBASSADOR

BY FAX

J S Wall Esq LVO
PS/Secretary of State
FCO

21 November 1989

Dear Stephen,

ANGLO/US RELATIONS

When I was in London in July, I mentioned that, particularly since the NATO summit, a number of influential American commentators were speculating that the relationship between Washington and London was less important to the Bush Administration than it had been under President Reagan, and that the Americans were beginning to attach greater weight to the relationship with Bonn.

In the run up to today's visit by Herr Genscher and the Prime Minister's talks at Camp David later this week, more comment has surfaced along broadly the same lines. I attach an article from the Wall Street Journal. I see that some of this thinking is also appearing in the British press - see, for example, Peter Jenkins' article in the Independent of 16 November, written apparently during a visit to Washington.

Charles Powell and Bernard Ingham, to whom I am sending copies of this letter, will want to take this into account for the Prime Minister's talks with the President and for the press conference afterwards. Seen from Washington, this sort of comment makes it particularly important that two themes be emphasised to American audiences:

(i) The government's commitment to the Europen Community, to the completion of the Single Market and to Delors Stage 1. (But this need not be at the expense of Britain's relationship with the United States: the two are complementary).

(ii) Britain's leading role in formulating the Community's response to developments in Eastern Europe, for instance the Prime Minister's Guildhall speech and her suggestions at this weekend's discussions in Paris of models for the type of relationship which Eastern European countries might develop with the EC.

The message that we need to get across is that on both these fronts, Britain is at the forefront of Community thinking. That is in fact just where the Americans want us.

As you probably know, there have also been a number of requests recently for Ministers to appear on the national TV weekend political discussion shows here. We expect that these requests will continue. These programmes are influential and a particularly effective means of getting our message across to a wide and serious audience in the US. It would pay dividends if we were able to respond positively to these requests from time to time.

Yours ever

Antony

Antony Acland

cc: C D Powell Esq, No 10 Downing Street
B Ingham Esq, No 10 Downing Street
R A Burns Esq, News Dept, FCO
G D Adams Esq, PS/PUS

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20(a-d)

PRIME MINISTER

MEETING WITH PRESIDENT BUSH

The main themes for your meeting with President Bush will be the developments in Eastern Europe: his own forthcoming meeting with President Gorbachev: and how to cope with any surprise initiatives which Gorbachev may launch. There will be a separate note on that following your meeting with Foreign and Defence Secretaries tomorrow. But there are quite a substantial number of other issues which you will want to raise. They are dealt with at length in the attached note. In summary they are as follows:

Arms Control

Good progress is being made in the Conventional Force Reduction talks, although the problems over Soviet air defence aircraft and their wish to limit European (not just US) stationed manpower have not yet been solved. The Americans are pressing for a verification regime which we find too rigorous and intrusive. They are proposing inspectors in European arms factories and listing of destruction of all equipment produced in them, which would be intrusive and unacceptable to the private sector (US and Soviet factories would not be affected since they are not in the area covered by CFE). More generally the negotiations will be rendered more difficult on the western side by recent US statements on defence cuts, which imply much larger reductions in US forces in Europe than those currently on the table. This could start off a scramble among European members of NATO to make pre-emptive cuts in their own fores. It would be helpful if the President could reiterate - preferably in public - that reductions should take place only in the context of a negotiated CFE agreement and not unilaterally.

There is less recent activity on START, although we have secret evidence of greater Soviet flexibility on some key issues. In our judgement the basic defence/space issue is still not resolved, although the recent heavy cuts in SDI expenditure will have reassured the Russians (unfortunately). You will want to remind the President of the over-riding importance for us of Trident and thank him for the way in which the US continues to

safeguard our interest in the START negotiations. It is also a relief that the Administration's request for funding for the D5 missile has been restored by Congress.

On SNF the position is less happy. Formally we are all bound by the NATO Summit conclusions: but most American officials are writing off the chances of ever getting the Germans to agree to deploy a successor to LANCE. You will want to stress the very great importance of preserving the nuclear element of flexible response and refer to the hints which Gorbachev gave you that the Soviets might be ready to agree to equal ceilings above zero (there is some evidence in Soviet military writings that they are developing their own flexible response doctrine). The President might explore this with Gorbachev.

On chemical weapons there has been no particular advance since President Bush launched his proposals at the UN General Assembly. The next step is a US/Soviet data exchange. The Russians must be pressed very hard to clarify the position on their stocks.

You might suggest to the President that, when he briefs NATO on 4 December, he should propose that Heads of Government reaffirm the conclusions of the last NATO Summit (both on defence and arms control). This would give a helpful signal of NATO's continuing importance and of constancy in defence amid the changes in Eastern Europe.

Regional Issues

You will probably want to run through a large number of regional issues in fairly short order. In very summary form, the main ones are:

- Vietnamese Boat People We are going to start non-voluntary repatriation in early December. It is the only solution: we see no hope of other countries taking non-refugees. We have assurances from the Vietnamese on treatment of returnees, will be monitoring that treatment ourselves (and hope eventually to persuade UNHCR to do so) and will be

giving modest aid to the villages to which they return. We hope at the least that the US Administration will not publicly oppose or criticise us - especially as they have nothing better to offer;

- Cyprus You promised Perez de Cuellar that you would raise this with the President and urge him to agree to a concerted action by the US and UK with Turkey in due course. It is still too early for this: it needs to be done when the talks between Greek and Turkish Cypriots resume. There will be no progress without it. There is some disposition on the part of American officials to argue that Vassiliou must make more concessions: in due course he will, but he has actually gone a long way, while Denktash has just sat tight;

- South Africa There is the prospect of real progress (the President will have seen the same intelligence as you). If Mandela is released in the first part of next year and is free to carry out political activities, some of the emergency restrictions are lifted and the conditions for negotiations created, we ought to be thinking of a start to relaxing measures against South Africa. They need an incentive to go further. We don't like the idea being pushed by US officials for a multilateral consultative group on South Africa: it will rapidly become a forum for pressure for increased sanctions;

- Central America You share American concerns about Nicaragua and El Salvador and support their policy. You recently saw Mrs. Chamorro. You assume the President will raise the issue of arms supplies very firmly with Mr. Gorbachev;

- Arab/Israel The Americans are plugging away at getting the Israelis to agree to preliminary talks with the Palestinians from inside and outside the Territories and Shamir has recently been to Washington. But their attempts hang in the balance and may collapse. The FCO want you to leap in with a suggestion of informal Five Power Talks on the Middle

East: but this will irritate the Americans and is unlikely to have much effect apart from that (except to allow the UK and France to feel they are back at the table). Meanwhile we have heard very little from King Hussein: indeed I cannot remember such a protracted period of silence. You might ask the President to tell you how he sees the way forward;

- Cambodia The Americans are worried about our (so-called) change of policy, and in particular worry that we may be moving towards recognition of the PRK regime in Phnom Penh (I don't blame them). You might say that, as far as you are concerned, we continue to keep the lot in Phnom Penh at arms length, and are concerned mainly to step up humanitarian aid to those affected by the fighting. But we shall all face a difficult problem if the Khmer Rouge begin to get the upper hand in the war. We need to urge the Chinese to hold them back;

- China You will want to ask the President how he envisages normalisation of relations between the US and China (of which he has spoken). The key question is whether the Chinese recognise that this involves changes/concessions by them as well. You will want to consider whether to tell him in strict personal confidence of Sir Percy Cradock's mission. The most helpful step the US could take on Hong Kong would be to devise a scheme to allow a limited number of Hong Kong people to become eligible for permanent residence in the US without being obliged to leave Hong Kong;

- Japan The President may raise the US idea for a Summit Seven for political consultation with Japan, which we support. You can tell him of the strong backing which you gave to the US Structural Impediments Initiative during your visit to Japan in September. The Americans and Japanese are negotiating against a deadline of March next year: if the negotiations fail the US intends to apply the sanctions envisaged in Super 301.

I do not think you need raise any of the EC points which are being adequately dealt with at other levels.

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Finally you may like to say how much you appreciate your regular meetings with Judge Webster and the very close intelligence links we enjoy. You attach the highest priority to continuing these.

There is a fuller note by the FCO in the folder.

CDP

(CHARLES POWELL)

21 November 1989

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19 (a-e).

PRIME MINISTER

MEETING WITH THE FOREIGN SECRETARY AND DEFENCE SECRETARY: VISIT TO WASHINGTON

You have a meeting tomorrow with the Foreign Secretary and the Defence Secretary to discuss your visit to Washington, and in particular what you should say to President about his meeting with Gorbachev, developments in Eastern Europe and about defence issues generally. You will recall that the President said that he would welcome your advice and thoughts on:

- what surprises Gorbachev might try to pull at the Malta meeting?

- what initiatives the President might for his part take?

Washington Meetings: Your Interests

The starting point should be what we want from the meeting in Washington.

The first point is that we want it to be a visible success. This is important from the point of view of the special relationship but also from your personal viewpoint (given there could be a leadership election shortly after your return). The press will as always be looking for points of disagreement and will probably focus on US defence cuts. It will be important to handle this so as to maximise points of agreement i.e. that we should not pre-empt the outcome of conventional force negotiations, that we need to maintain strong defences etc. You also need to dispel the widespread perception that you hanker after President Reagan and don't think Bush is a patch on him. You will want to be complimentary about President Bush in your press and TV interviews.

Second, you want to use the occasion to eliminate a few misconceptions in the American media about your standing both at

home and in Europe. There is a tendency in the US media to reflect the views of papers like the Independent, which portray you as isolated, weakened, embattled, out of tune with the times, etc. You will want to be at your most vigorous, decisive and masterful in your TV and press interviews.

Third, on more specific points you want:

- to ensure that the President shares some of your underlying strategic assumptions: that Gorbachev is the key to continued change and reform in Eastern Europe and needs to be supported: that we shall continue to keep to a strong nATO with nuclear weapons: that we want to avoid/postpone German reunification for as long as possible, because it would be destabilising: that the US/UK special relationship, while in no way excluding good relations with others, nonetheless continues to have a unique quality which is worth preserving (particularly on intelligence and nuclear).

- to avoid any surprises at Malta on nuclear matters, arms control, Germany.

- to get over that it is damaging in the long-term to American's own interests (as well as adding to your difficulties) to imply that the US supports European integration, as opposed to cooperation Integration will mean a more bureaucratic, more centralised, and probably more closed and protectionist Europe. The Americans should make clear that they support closer cooperation in Europe based on genuine free market principles - the sort of Europe you want.

Situation in Eastern Europe

Judging by your telephone conversation, your views and those of the President on Eastern Europe are very similar ('eye to eye' in his words). He should welcome the outcome of the Paris meeting. He will be anxious to secure the longest possible financial

support for Poland and Hungary from the EC. You will want to stress the need to stand out for genuine change, not settle for half a loaf: but also to acknowledge that the Warsaw Pact will continue in existence - without that, there is a risk that the Soviet Union will equate democracy in Eastern Europe with a threat to its security interests.

Soviet Union

You will want to hear the American assessment of Gorbachev's prospects and durability , and any intelligence they have which reflects on this. The main problems are the economy and the nationalities: the potential sources of disaffection are the Party, the Army, the KGB and the radical nationalist movements. If he does come unstuck, what sort of regime do we assume will follow him? How far do we think it would really be possible to reverse the trends on defence spending? Are economic difficulties driving his arms control policies as the recent intelligence suggests?

You will also want to urge the President not to come out publicly for self-determination for the Baltic Republics, at least at this stage. It would seriously undermine Gorbachev. If he were no longer there, it might be a different matter.

German Reunification

The President has backed away from some of his earlier pronouncements endorsing reunification, although has not been as explicit as you in saying there should be no change in borders. You will want to urge him to adopt this line which had wide acceptance at the Paris meeting and best meets the overriding need for stability. No one can tell what will happen in some years time. But the more we say it's not on the agenda now, the better.

Defence

The single most important need is not to allow a tide of opinion

to build up that defence is no longer necessary. The statements by Cheney are unfortunate in this regard: we understand the pressures on the US budget, but it is much better to justify defence cuts by reference to budgetary problems than to changes in Eastern Europe. Also it is important to avoid making cuts in forces in Europe ahead of the outcome of the CFE negotiations. It might be helpful to devise a form of words which could be used at your press conference after the meeting with the President, reflecting the views of both of you.

Possible Surprises that Gorbachev might spring

The main ones which occur to me (no prizes for originality) are:

- making Berlin a free city, with all Allied Forces to withdraw

- signing a Peace Treaty

- commitment now to a second round of CFE negotiations even before the present one has concluded

- proposals for unilateral but balanced reductions in US and Soviet conventional forces in Europe

- limitations on naval arms

- Soviet membership of the Economic Summit Seven

- a summit of all European nations

- renewal of call for immediate negotiations on SNF.

Initiatives by the US

This is harder because we don't want them to take any without full consultation in NATO. But possibilities are:

- an undertaking to cooperate in future on specific/general

regional issues

- an understanding that a balance of nuclear forces in Europe can contribute to stability during what is likely to be a difficult decade in the 1990s.

I attach a minute from the Foreign Secretary, setting out his ideas.

C.D.P

(C. D. POWELL)
21 November 1989
a:defence.pmm

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Foreign and Commonwealth Office

London SW1A 2AH

20 November 1989

Dear Charles,

US Defence Expenditure

The Prime Minister may wish to have some initial analysis (we are awaiting a fuller analysis by the Embassy in Washington as well as an account of Sir A Acland's call today on the White House Chief of Staff) on the remarks of Mr Cheney, the US Defence Secretary, about reductions in the US defence budget which were widely reported in this weekend's press.

Mr Cheney gave a number of interviews to both the press and television on the prospects for the defence budget during the fiscal year 1991 - 1994, the last 4 years of the current 5 year planning period. His reasons for going public were, we understand, that he is in the final stages of negotiating with the Office of Management and Budget (OMB) about expenditure on defence for the period in question; and he expects President Bush to rule on the matter, in favour of the line which OMB had taken, shortly. Mr Cheney seems reconciled to the, from his point of view disappointing, outcome of the negotiations. But he seems to have felt the need, given the past rather hawkish tone he has taken, to prepare the ground. He may also have intended to discourage speculation about differences of opinion within the Administration on how to respond to developments in Eastern Europe.

He did so also against a background where some Congressional spokesmen, for example Congressman Aspin, Chairman of the House Armed Services Committee, have accused the Administration of trying to hide recent revised assessments of Soviet defence expenditure and programmes by the US intelligence agencies which suggest that there is now evidence of a significant slow down in Soviet military production in several key areas and of a cut in real terms in the Soviet defence budget. (An assessment by the Joint Intelligence Committee of trends in Soviet military expenditure and production is in the final stages of preparation. It is likely broadly to confirm that we are now beginning to see some real evidence of change. Soviet tank production, for example, is currently assessed at being around 1,700 units a year compared to past estimates of 3,000+.)

/Exactly

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Exactly how large the reduction in US defence expenditure for the period 1991 - 1994 will turn out to be is not clear. A figure of $180 billion has been mentioned in the press for the 4 year period, out of a budget which currently runs at around $300 billion a year. For 1991 the Defense Department seems likely to receive only $290 billion by comparison with the figure of $311 billion which Mr Cheney originally requested; and there is talk of a decline in real terms of 5% per year throughout the period.

No decisions are thought to have been taken on which programmes would be affected by the budget reductions. Each of the services has been asked to come up with its own "hit list" and the US air force has apparently already come up with a package which would involve the closure of 15 bases, the early retirement of some B52 bombers and delays in the F16 and Stealth bomber procurement programmes. Mr Cheney has also implied that there will be susbstantial reductions of US forces in Europe, going beyond the 30,000 which under current Western proposals would be withdrawn in the context of a CFE Treaty, while making clear that he does not not envisage a complete withdrawal. In private, some senior US army figures have talked in terms of a withdrawal of some 60 - 90,000 personnel; but it is not clear how the US Admnistration relates the timing of a withdrawal of this scale to the implementation of the CFE Treaty now under negotiation or whether they have in mind the early negotiation of a further CFE agreement.

That the US defence budget would come under severe pressure in the period 1991 - 1994 is not in itself surprising. President Bush's determination not to raise taxes imposed a severe constraint; and the programme which Mr Cheney inherited (indirectly) from Mr Weinberger represented a mis-match between commitments and likely available resources. Mr Cheney did not, in his various interviews, explain the reductions in the defence budget simply in terms of their affordability. Rather, he seems to have cited current developments in Eastern Europe as a justification for the cuts. Thus, though in his various interviews he reiterated the need for NATO to remain firm and united, he argued that the likelihood of the Poles, Hungarians and East Germans now joining the Soviet Union in a direct attack on the West was "pretty remote" and that this element of the new East-West equation seemed "irreversible". He added that "the likelihood of a different conflict between the US and the Soviet Union and between NATO and the Warsaw Pact, is probably lower now than it has been at just about any time since the end of World War II."

/I

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I am sending copies ofthis letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours,

(J S Wall)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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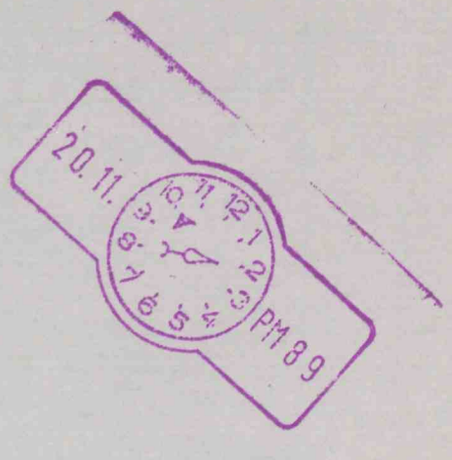
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Foreign and Commonwealth Office

London SW1A 2AH

20 November 1989

Dear Charles,

Prime Minister's visit to Camp David

On 24 November, the Prime Minister will spend some four hours with President Bush at Camp David, from 1000-1400 hrs. The Foreign and Defence Secretaries will meet the Prime Minister on 22 November to discuss the approach to the Camp David meeting. Meanwhile, the Prime Minister may like to have briefing on issues other than the handling of events in Central and Eastern Europe.

The Prime Minister visited Washington over a year ago and last met the President during the July Economic Summit. (She saw Vice-President Quayle on 21 September in the margins of the IPU meeting in Tokyo). She will see President Bush again at the NATO Summit in Brussels on 4 December. No further meeting is planned until the next Economic Summit in Texas, probably in the second week of July. We do not yet know the exact composition of the US side at Camp David. Ambassador Catto and Brent Scowcroft will be there, possibly also Bob Blackwill from the NSC. It is unlikely that Secretary Baker will be present.

Objectives

These will be:

- to achieve the fullest possible identity of views on East-West relations (in particular on developments in the Soviet Union, Eastern and Central Europe);

- to probe the President's approach to the Malta Meeting with Gorbachev on 2/3 December;

- to exchange and coordinate views on arms control, regional and trans-national issues.

The Bush Administration after 10 months in office

The President continues to enjoy an unprecedented public approval rating (more than 70%); but press

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criticism of his leadership style is rising. The failed coup in Panama was something of a catalyst, even though most observers now grant Bush the benefit of the doubt . He is portrayed by the press as a victim of his instinctively cautious and considered approach to problems at a time when many feel that he should be "responding" to the historic events in Eastern Europe. Bush's approach may well come to be regarded as an asset. He is not likely to take precipitate action either in response to the events in Eastern Europe or in the Arms Control area.

President Bush has other problems. The US economy is basically sound, with growth at 2.5%, but the twin deficits remain stubbornly high. After a succession of scandals and a failure to project any alternative policies to those of the Administration, the Democrats are now regaining confidence. They made a clean sweep in recent mayoral and gubernatorial elections, although their successes (eg New York and New Jersey) reflected local rather than national issues; the implications for Congressional elections next year remain unclear.

UK/US Relations

The Prime Minister continues to command great respect in the United States. The President views us in traditionally friendly terms and greatly respects the Prime Minister's experience and achievements, acknowledging her special influence with Gorbachev. Generally speaking, the relationship remains as close, intense and warm as ever across the board.

Germany has moved to centre stage for the Americans following the German performance over SNF and the sudden re-emergence of the German Question. The Germans are regarded as uncomfortable allies. Whatever they may say in public, the Americans view the possibility of reunification as raising difficult problems. As for the French, Bush struck up an unexpectedly good rapport with Mitterrand at Kennebunkport last summer and now communicates with him quite often. The French are seen as playing an increasingly central role in European affairs, which could translate over time into increased French influence with the Administration. The Bush Administration's objective seems to be to stay close to all three major Western European powers. Finally, the Administration appears to have concluded that a cohesive European Community is firmly in the US interest.

Structure of the talks

The Prime Minister may wish to touch briefly on regional issues so as to clear the way for the principal business of East/West relations and Arms Control. President Bush will, of course, wish in particular to discuss with the Prime Minister his approach to the meeting with President Gorbachev on 2-3 December.

Annex A contains briefing on Arms Control issues, Annex B, briefing on priority regional and trans-national issues which the Prime Minister may wish to raise or which President Bush is likely to wish to discuss. Annex C contains briefing on trade issues, international debt and COCOM.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

ANNEX A: SECURITY AND ARMS CONTROL

(a) General

1. In his telephone conversation with the Prime Minister on 17 November President Bush said that he was anxious to spot in advance any surprises which Gorbachev might spring at Valletta. One possible such topic is naval arms control (eg a proposal for a nuclear free Mediterranean or for naval arms control negotiations in general). Another would be for an accelerated reduction of US and Soviet forces from West and East Germany.

2. In remarks to press over the weekend the US Defence Secretary foreshadowed reductions of around $180 billion in the US defence budget in the 3 year period starting with fiscal year 1991. Reductions of this order were expected because of a mismatch between the overly ambitious programmes which Mr Cheney inherited from Mr Weinberger and the likely availability of resources. More worrying was Mr Cheney's justification of such cuts in terms of the disappearance of any threat from the Warsaw Pact as such (as opposed to the Soviet Union); and a tone in his remarks which implied that a substantial lowering of Western military capabilities in Europe was already justified.

3. European members of NATO are unlikely to increase defence spending or sharply improve capabilities. A CFE Treaty provides a means of responding in a negotiated and orderly fashion to pressure on the US to cut back in Europe. But the Americans need soon to stake a claim for their share of any reductions on the Western side. Taking a pro rata cut will preclude them from complaining later of carrying too much of the burden.

4. The Prime Minister might remind President Bush that:-

- Decisions about Western security arrangements must be security-led, not driven by budgetary/domestic considerations.

- Soviet Union still enjoys massive military advantages in Europe. Now is not time to imply that sound Western defence is

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no longer needed. Will only encourage waverers in Western Europe.

- NATO, in its present form and membership, will remain foundation of Western security for foreseeable future. Not for us to prescribe about future of Warsaw Pact: but we should do nothing to imply that we are encouraging or expecting its dissolution.

- As, but not before, military threat declines there can be changes in Western force structure, both nuclear and conventional. But flexible response, based on nuclear deterrence, and a substantial (not just symbolic) presence of US forces in Europe remains best security recipe. US force levels in Europe are not immutable and can be reduced. But this should happen in context of negotiated CFE Treaty, not through unilateral action. Would be helpful to have early indication of how large a share of prospective CFE cuts US would wish to take.

- Hope that at Valletta you can both re-assure Gorbachev about our respect for his security concerns and encourage him in return not to take issue with ours. Best outcome would be private understanding that presence of nuclear weapons and US forces in Europe, albeit perhaps in smaller numbers in both cases than at present, are stabilising elements in Europe's security.

(b) Conventional Forces in Europe (CFE) talks

5. Things in Vienna are going well for the allies, whose proposals have set the agenda. By the time the Prime Minister reaches Camp David, allied delegations should have tabled a draft treaty. By Christmas, agreement may have been reached on tank, artillery and armoured troop carrier definitions and limitations. But on aircraft, the Russians want their air defence forces stationed in the USSR excluded because they are required against US strategic bombers and carrier-borne aircraft. The allies insist on limiting all combat aircraft in Europe. On combat helicopters, the problem

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is more technical. The definition put forward by allies in July under American pressure has proved unworkable.

6. We also have problems with manpower. At the NATO Summit, we accepted President Bush's proposal of a common ceiling of 275,000 on US and Soviet personnel stationed outside their national territory. But fears that the Soviet Union would press for inclusion of UK, French, Dutch, Belgian and Canadian forces in Germany were realised. On production of equipment, we, the French and Italians objected on political and legislative grounds to US proposals for permanent stationing of inspectors in European factories and the listing of the destination of all equipment produced there. Much European armament production (nearly all in the UK) is in the private sector; little Soviet production - and no US at all - would be affected by the regime (see tirets for alternative proposals).

7. On movements, the US wanted advance notification of every piece of equipment into and out of Europe with monitoring through permanent entry and exit points. We and the French regarded this as burdensome politically and bureaucratically (see tiret points for for alternative proposal).

8. The Prime Minister might make the following points:-

- Good progress in CFE talks in Vienna. Determined to try to achieve a treaty in 1990. Broadly compatible with timetable of NATO Summit. But must be realistic: latter half of 1990 more likely and, on basis of Warsaw Pact's performance hitherto, attainable.

- CFE Treaty along lines of Western proposals will be major security gain for NATO. But much will depend on fine print. Must not let speed in negotiation lead to sloppiness in developing our approach.

- European allies have particular interests at stake: unlike US, all our ground and airforces involved - hence need not to allow treaty unreasonably to restrain procurement or flexibility of operations. Inclusion of European stationed manpower

unacceptable. Europeans need flexibility. UK has Treaty commitment to keep certain minimum level in Germany. Soviets must simply be faced down.

- Similarly, verification regime must be rigorous but not too burdensome. Europeans have interests in relation to equipment production (where we have proposed exchanging information on new products and inspection of sites holding significant quantities) and movement (where we have suggested that movement into Europe should be subject to certain thresholds/liability to inspection, but with equipment leaving Europe dealt with less intrusively).

- Sound operational reasons for maintaining flexibility/ confidentiality on out of area operations (eg Falklands), as does the US on US forces transiting Europe for deployment elsewhere.

(c) Other aspects of Arms Control/Defence

9. There are no other defence or arms control issues which the Prime Minister need specifically raise with the President, though she could welcome Soviet flexibility on START. On nuclear testing, the US seems to be moving away from its 1987 understanding with the USSR on further constraints. But they continue to be scrupulous in safeguarding our Trident interests in the negotiations. Moreover, the danger that Congress might slash funding in 1990 for the Trident missile programme has now been averted.

10. The Prime Minister could say:

- Welcome recent signs of some Soviet flexibility in START. Announcement that Krasnoyarsk Radar is violation of ABM Treaty a vindication of US persistence.

- But we do not underestimate remaining difficulties, not least on defence and space, where Soviets have usefully delinked START from an agreement. Achievement of the right START agreement of vital importance to the West.

- Look forward to US/Soviet conclusion of verification protocols which will permit ratification of two nuclear testing treaties (1974 Threshold Test Ban and 1976 Peaceful Nuclear Explosions Treaties). Must be cautious about additional testing constraints. Next UK test at Nevada in early December.

- Welcome restoration of almost all of Administration's funding request for Trident D5 missiles in Defence Appropriations Bill. Any delay in UK Trident in 1994 would have serious consequences.

- On Short Range Nuclear Forces (SNF) the position remains as agreed at the NATO Summit. The Americans agree with us that the time is not ripe to start discussions on the allies' approach to an SNF negotiation. Privately, American officials believe that recent developments in Eastern Europe have made the chances of deploying a LANCE successor in Germany even more remote.

- The UK will host a meeting on 5 - 6 December of the 7 Summit partners in the Missile Technology Control Regime (MTCR) to discuss extending the Regime. So far the Americans have agreed only to expansion to EC countries. If time allows, the Prime Minister might underline the:

- Need to strengthen MTCR. Meeting in London in early December should expand it to all EC: need later to include other technologically advanced Western countries (Australia, Sweden, Norway etc).

Chemical Weapons

11. Recent key developments have been the US/Soviet agreement (in September) on a bilateral MOU on data exchange and verification, and President Bush's subsequent proposals (at UNGA), particularly his offer to reduce to 20% of current US CW stocks if the Russians agree to do the same. A further round of bilateral talks will take place shortly, to exchange the first data and discuss the Bush proposals.

12. Differences between US agencies' estimates of the Soviet stockpile have leaked. In detailed exchanges with the Americans, they have promised in strict confidence to pass us the Soviet data when received. Meanwhile an updated UK draft JIC assessment of Soviet capabilities has been passed to the US agencies for comment before being finalised.

13. The Prime Minister could:-

- Welcome the more energetic US approach to the CW negotiations and the problem of Soviet CW claims;

- agree on the need to keep up pressure to clarify Soviet CW claims and to avoid impression of confusion on our side.

ANNEX B

ARAB/ISRAEL

Bush will be able to tell the Prime Minister about his talks with Shamir on 15 November. Shamir is unlikely to have secured the US assurances he has been seeking in return for agreeing to preliminary Israeli/Palestinian talks in Cairo, namely that their interlocutors will not include anyone linked with the PLO and that they will fully discuss the modalities of Israel's own election plan. The Prime Minister might make the following points:

- Shamir's plan near end of the road. Unless he is prepared to discuss it with Palestinians from inside and outside the Occupied Territories and acknowledge that it may lead to 'land for peace', it will fail.

- If it does fail, we should be ready to make clear where blame lies.

- We should consider now what to do in the event of failure: a vacuum will be dangerous. Early informal talks among the Five an obvious option.

SOUTHERN AFRICA

South Africa

President Bush and Secretary Baker broadly share our views on developments in South Africa and accept that this is not the time to consider new sanctions. But the line on sanctions could soften by mid-1990 if the pace of change in South Africa does not meet unrealistic Congressional expectations. The Administration are not setting deadlines but Congress have indicated that they will want to review developments next June. With mid-term elections due next autumn, Congress may see political points to be scored on South Africa if they can tempt the Administration to do a deal. At the same time the Administration are trying to demonstrate to Congress that they are being active on South Africa. Given the real risk

that our policies will diverge, we must aim to keep closely in touch with the US over the next few months.

The US appear, for the moment, to have dropped an initiative at the UN which we might, in extremis, have had to veto in the Security Council. But next year the pressures to go for more sanctions - or to force others to adopt US measures - will be great. In addition, the Americans seem committed to the idea of a multilateral consultative group (on South Africa), though they may offer some flexibility on timing and composition. Mr Waldegrave spoke firmly on this point during his calls in Washington on 30 - 31 October and again to Mr Kimmitt, Under-Secretary for Political Affairs in the State Department, on 16 November.

The Prime Minister may wish to draw on the following points:

- De Klerk has taken major steps in the right direction. (Release of Sisulu, permission for mass demonstration). Must encourage him to continue down path leading to dialogue.

- Understand your need for publicly avowed multilateral group. We want to help your efforts to deflect Congressional pressure for sanctions.

- But real risk that group would itself quickly set deadlines and lead to pressure for sanctions. Bound to raise suspicions in South Africa of international mediation.

- Would not existing informal frequent contacts - perhaps intensified - suffice?

Namibia

The elections in Namibia have been certified as free and fair by the United Nations Special Representative and Secretary General. SWAPO have won with 57 per cent of the vote, which should be enough to ensure they do not reject the result and which, under the UN

Plan, will mean they must negotiate with other parties on a constitution. The Prime Minister may wish to say that:

- This is a good result: obviously healthy that SWAPO should have to negotiate on a constitution.

- A number of further hurdles. We must obviously work closely together to see that all sides keep to the UN Plan.

Elsewhere in Southern Africa, there has been little recent tangible progress towards internal reconciliation in Angola. In Mozambique peace negotiations have also recently lost momentum. The Prime Minister may, therefore, wish to suggest to President Bush that:

- The US should give dos Santos more encouragement to help him resist MPLA factions arguing for a miitary solution.

- We must encourage President Chissano to continue his efforts to search for peace with African mediation.

FALKLANDS/ARGENTINA/US ARMS SALES

- Following the success of our talks in Madrid with the Argentines last month, the US may be expecting us to relax our position on arms sales. We need to make clear that we remain concerned about the sale to Argentina of weapons which could threaten the security of the Falklands. The President may wish to exchange views on President Menem, who has clearly impressed him (he wrote to the Prime Minister before the Madrid talks). The Prime Minister could draw on the following points:

- Welcome recent progress in Anglo-Argentine relations; but welcome continued US consultation on arms sales; and would still oppose any sales which could increase threat to Falklands.

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- Far too early to say that Argentine military threat has disappeared, or that sensible democratic government here to stay.

- Therefore need to continue with existing consultation procedure, which has served us both well in the past.

- Pleasantly surprised by President Menem's realistic approach so far, particularly on economic issues. But serious problems ahead (wage demands, union problems) mean we cannot yet take this for granted).

VIETNAMESE BOAT PEOPLE

The aim is to return the first group of non-volunteers to Vietnam at the beginning of December, after the US/Soviet Summit but before the resumed high level Steering Group (SC3). The dates for SC3 are not yet agreed, but this suggests the week beginning 4 December. The Prime Minister sent a message to President Bush just before the ICIR in Geneva (13 - 14 June) and spoke to him by telephone the same day. The Americans still object in principle to non-voluntary repatriation but have been considering moving from active to passive opposition.

Points that might be made are:

- Practical and political pressures in Hong Kong are extreme: no alternative to compulsory repatriation. Voluntarism is not working (1% of those definitively screened out are coming forward).

- We plan to return first group of screened-out early in December. We will inform US of precise dates before we proceed.

- An extremely difficult and painful decision. But, if all boat people given refugee status, resettlement countries would not accept them. Would the US?

- That would also destroy the Comprehensive Plan of Action (agreed at Geneva) and encourage a further massive haemorrhage from Vietnam, bringing us back to square one.

- A new interdiction and screening-at-sea arrangement (like US/Haiti agreement) is unnegotiable and unworkable: boat people would simply scuttle vessels and need receiving.

- Have assurances from Vietnam that returnees will be humanely treated and not punished.

- Monitoring after return important. We shall be monitoring first returns ourselves (with non-officials as well as Embassy. Also working to persuade UNHCR to take it on once the programme has started, but need US support.

- Will need to offer some assistance to returnees' villages in Vietnam. But will be limited and not breach Western aid embargo.

- If US cannot support us, hope you will at least not publicly oppose.

HONG KONG

The Prime Minister last raised this with President Bush in London in June. She will now wish to encourage him to consider ways in which the US could help restore confidence in the territory. The House Foreign Affairs Sub-Committe on East Asia and the Pacific (chaired by Congressman Solarz) has recently adopted a Resolution stating that Congress would welcome UK leadership in developing an international initiative to provide the assurance of right of abode outside Hong Kong for a significant number of Hong Kong people. The Resolution also called on President Bush to discuss with the Prime Minister the possibility of convening an international conference on Hong Kong. It will now be considered by the full House Foreign Affairs Committee before going to the floor of the House.

CONFIDENTIAL

The Prime Minister may wish to make the following points:

- Have already made great efforts to rally international support for Hong Kong. Encouraging that Paris Summit Declaration and CHOGM communique both acknowledged that international community has important role to play in maintaining confidence there. Welcome measures already taken by some countries (France and Singapore). Also welcome interest shown by House Foreign Affairs Sub-Committee.
- Working on a scheme to give people whose skills are essential for continued success of Hong Kong confidence to remain in the territory. Aim to make announcement around turn of year.

- Hope that when we announce our scheme, other countries with close economic and social ties with Hong Kong and important strategic interests in region will consider taking comparable measures. For example, would be helpful if US could allow some Hong Kong people to become eligible for permanent residence without being obliged to leave.

- Such a scheme would do more to restore confidence than simply increasing annual quota for immigration from Hong Kong as proposed in Bill already before Congress.

(If asked about the likely Chinese reaction).

- Chinese very suspicious about what they regard as our attempts to internationalise Hong Kong problem, for example, at CHOGM. Have made clear that other countries with economic interests in Hong Kong have a natural interest in its continued stability and prosperity and that we will continue to discuss it with other governments wherever appropriate.

- Hope next meeting of Sino-British Joint Liaison Group in London in early December will mark return to more cooperative working relationship over Hong Kong.

CONFIDENTIAL

(Defensive)

- If President Bush raises the idea of an international conference, we suggest that the Prime Minister takes a non-commital line: she might ask the President what specific commitments the United States might make if such a conference were called.

CHINA

The US and EC response to the suppression of the democracy movement have been similar. The Administration is under pressure from Congress to take a harder line. But President Bush has (stated) publicly his belief that the US and China should both take steps to normalise the bilateral relationship. He told the press on 7 November that he had made some recommendations to the Chinese leadership on private channels as to what might be done to achieve this. American officials claim that the Chinese are beginning to show some understanding that for the West to be willing to relax its policies requires some movement on the Chinese side. The Prime Minister may wish to say that:

- Twin objectives of Western policy should continue to be:

(a) to bring home to Chinese leadership Western concern about suppression of the democracy movement and denial of human rights.

(b) to coax China back towards a cooperative relationship with West.

- Chinese leaders defensive and suspicious; all the more important not to drive them back into isolation.

- Measures adopted at the Madrid European Council remain in force. Will be discussed again at EC Foreign Ministers' meeting on 27 November. Some modifications may be proposed. But significant

changes unlikely in absence of any conciliatory signals from Peking.

JAPAN

The Prime Minister's meeting with Bush offers an opportunity to discuss Western relations with Japan. The Americans recognise that their bilateral relationship can no longer take the full strain of binding Japan politically into the West. They are keen to bring Japan more into Western decision making on a multilateral basis. At the same time there are growing tensions in US-Japan economic relations due to mounting Congressional concern at the persistent bilateral trade deficit. Many Americans fear that Japan's industrial success threatens their technological leadership. Highly publicised Japanese take-overs of American institutions (eg Columbia Pictures and the Rockefeller Centre) have helped to fan anti-Japanese sentiment in Washington.

Against this background the Prime Minister may wish to discuss how to handle Japan, in particular how to balance the political (cooperative) and commercial (competitive) elements in the relationship;

- Fully support US idea of Summit Seven forum for political consultations with Japan.

- Support your efforts to press Japanese to undertake economic reforms through Structural Impediments Initiative (SII). Will help reduce trade imbalance and open Japanese markets.

- What will happen, though, if SII does not produce results in time for interim report to Congress, March 1990?

CAMBODIA

There is an urgent need for renewed diplomatic activity to halt the fighting. The UK was one of 79 co-sponsors of the ASEAN

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Resolution debated by the UN General Assembly on 15 - 16 November. Indonesia is now expected to take soundings in ASEAN for a further meeting of the factions. But discussions will need to bring in those countries directly involved, notably China, the Soviet Union and Vietnam, as well as the other Permanent Members of the Security Council. The Americans have expressed concern about our recent adjustment of policy, mistakenly fearing that we have moved towards some degree of recognition of the PRK regime. The Americans want the Five to discuss Cambodia, and it is also on the agenda for the Bush/Gorbachev Summit.

The Prime Minister might make the following points with the President;

- Following failure of Paris Conference and withdrawal of Vietnamese combat units from Cambodia we have adjusted our policy to reflect these circumstances, and the undeniable need to relieve the suffering of ordinary Cambodians.

- Does not diminish our commitment to a comprehensive political settlement, or affect our present attitude to Hun Sen regime in Phnom Penh.

- Will increase humanitarian aid via NGOs inside Cambodia (not direct to Phnom Penh). Also pledged an additional £250,000 to UNICEF.

- Propose to send two officials (one diplomat, one aid official) to Phnom Penh to report on the situation. Their mission will be aid-related, and their contacts with officialdom in Phnom Penh will be the minimum necessary.

- Have adapted our stance at UN by working for amendments to the UNGA Resolution to avoid implied support for Khmer Rouge.

- Agree need for diplomatic activity now UNGA debate over. What do the Americans expect of the Bush/Gorbachev meeting? And what action with the Chinese?

CYPRUS

The UN Secretary-General will see Vassiliou on 29 November and Mr Denktash a few days later to try to agree a basis for resuming the intercommunal talks, (stalled since June). Mr Perez de Cuellar believes that pressure on Turkey will be needed to get the Turkish Cypriots to adopt a more forthcoming line. The Prime Minister told him, when they met on 8 November, that she intended to discuss with Bush how best to secure Turkey's active support for a further move forward, but that the timing of any approach to the Turks would be crucial.

The Prime Minister might say:

- UN Secretary-General's closer involvement in search for a settlement welcome.

- Believe Vassiliou remains ready to make real concessions. Will continue to press forward but Denktash's inflexibiity a major obstacle to progress.

- Ozal's election as President may provide an opportunity to apply effective pressure on Denktash through the Turks.

- Concerted action by US and UK, and perhaps also FRG, will be necessary.

- Important to get timing right. Should leave our approach until talks have resumed and then concentrate on specific points which do not pose a threat to Turkish, as distinct from Turkish Cypriot, interests.

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THE ENVIRONMENT

We and the US share the same approach: use of existing institutions rather than creating new ones (particularly for funding of the technological needs of developing countries): primacy of the IPCC process, particularly to get the scientific basis right (and agreed) before we go for targets on the control of greenhouse gas emissions, especially carbon dioxide.

However, we are puzzled by General Scowcroft's complaint (to you) that the UK broke ranks with the US at the recent Noordwijk conference in the Netherlands over the question of target dates for stabilising carbon dioxide emissions.

The Prime Minister might say:

- Very pleased we are working so well together in the IPCC, particularly on developing elements for inclusion in a framework Convention on Climate Change.

- Agree the IPCC is the place to develop the basis for further action, eg on targets for controlling greenhouse gases.

- Glad we worked so closely together at Noordwijk Conference (don't understand Brent Scowcroft's complaint to Charles Powell about the UK breaking ranks: there was no accusation from US delegation at the meeting).

- Any plans for a US initiative?

US ARREARS TO THE UN

The US currently owes the UN $622 million (the UN's total annual regular budget is about $700 million) resulting from its earlier policy of witholding payment. President Bush is committed to reversing the plicy and at the time of drafting is fighting a bruising battle with Congress to secure funds: it is clear that the

US will not pay off any of its arrears this year but we expect that it will meet its UN assessed contributions in full or with only a very small shortfall (less than 5%). The Prime Minister might speak on the following lines:

- Aware of the special effort made by the President to deal with this problem: this sends just the right signal to the UN at a time when it is becoming more effective.

- Hope it will be possible to follow through next year by starting to pay off arrears: failure to do so would weaken the Western position at a time when the USSR is seen to be active in the UN and contributing fully.

DRUGS/COLOMBIA

President Barco's crackdown on the drugs barons continues. Six people have been extradited to the US, but no major figures have been caught. Our £3.5m assistance package is under way, with military training teams in Bogota preparing to conduct courses in VIP protection and bomb-disposal. The Prime Minister might comment:

- President Barco continues to show courage and determination. Our assistance package under way and well received.

- Colombian problems underline need for more effective UN anti-drugs role. Welcome US support for proposed restructing of UN drugs bodies and for adequate resources to be allocated to them.

- Pleased that UK/US agreement to trace, freeze and confiscate the proceeds of drug trafficking is now in operation. Important weapon. Welcome establishment of a Financial Action Task Force by the Paris Summit. Look to the Task Force to submit to next year's Summit agreed recommendations to combat money laundering.

- Attach high priority to signature and ratification on 1988 UN Convention on Illicit Trafficking in Narcotic Drugs and Psychotropic Substances: UK hopes to ratify soon (USA has not yet).

CENTRAL AMERICA (Defensive)

President Bush may raise **El Salvador** following the all-out offensive launched by the FMLN guerrillas on 11 November. The Americans say that the Salvadorean Army can contain the offensive, and that the FMLN's call for a popular uprising has not been heeded. They highlight Soviet responsibility for the present violence because of continued provision of arms and funds to the FMLN through Cuba and Nicaragua, and are urging all parties to return to the negotiating table (a third round of talks between the Government and FMLN was due to take place in caracas on 20/21 November). The Prime Minister could:

- Reaffirm our support for US policy and the Cristiani government.

- Suggest that the FMLN offensive bears the hallmarks of a last-ditch attempt to strengthen their negotiating position. It may reflect concern that the Russians and Nicaraguans have decided that FMLN are expendable and that they may not be able to operate effectively in the future with committed support only from Cuba.

- Note that, if the offensive fails, Cristiani's position should be strengthened, provided the army can be restrained from unnecessarily harsh retaliation which would give the guerrillas a propaganda victory.

The Americans may also raise the situation in **Nicaragua**, following President Ortega's decision to end the ceasefire. They have declined to be provoked into a belligerent response and have insisted that Contras indulging in offensive action will forfeit their humanitarian aid. This has forced the Sandinistas onto the defensive, and led to direct Sandinista/Contra talks in New York and

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Washington (the outcome of which is not clear). The Americans are determined to keep the spotlight on the need for free and fair elections. They were, therefore, particularly grateful to the Prime Minister for agreeing to see Senora Chamorro during her recent visit to the UK. In discussion, the Prime Minister might wish to:-

- Reaffirm our support for US policy and the need to keep the spotlight on the Nicaraguan election.

- Note that if the electoral prospects for Ortega start to look bad, he could find a pretext for calling them off. But that the presence of reputable international observers (including Dr Browning of Oxford University) should rule out the option of successful ballot-rigging.

TERRORISM (Defensive)

If President Bush raises Lockerbie, perhaps with the forthcoming anniversary (21 December) in mind, the Prime Minister could express satisfaction that the investigation is continuing to make progress and at the excellence of Anglo-America cooperation; that we deplore recent harmful leaks to the press but still hope for sufficient evidence to prosecute the perpetrators of the attack (but not for some months).

We and the Americans have a common interest in keeping up international pressure on Libya so long as it supports terrorism, including PIRA. EC measures agreed in 1986 remain in place but our Community partners are becoming restive, on the grounds that there is already evidence of a change in Libyan policy. We are not yet convinced. The Prime Minister will wish to:

- Reiterate our profound concern about Libya/PIRA links, placing lives at risk;

- Stress the need for close US/UK co-ordination to ensure Qadhafi is not let off the hook.

In view of the speculation about a shift in the Government's attitude to talks with Sinn Fein on **Northern Ireland**, the Prime Minister might wish to reassure the President that there is no question of speaking to anyone who does not renounce violence. She might say:

- Grateful for continuing American staunchness on Northern Ireland over the Anglo-Irish Agreement, and for support on the MacBride campaign.

- There has been no change in Government determination to extirpate terrorism. The Government want talks between the political parties within the Province and with the Government. But those who continue to support terrorism can have no part.

AFGHANISTAN (Defensive)

US policy on **Afghanistan** is not in good shape. We do not share the CIA's view (controversial in Washington) that current military trends favour the resistance: it seems clear that ousting the regime by military means will take a long time. Nor do we believe that the Afghan Interim Government (whose mandate expires next February) is likely to improve on its dismal showing so far this year; it commands little respect or authority among exiled Afghans, and still less in Afghanistan. the Administration say they will review their policy at the end of the current campaigning season (ie now). The Prime Minister may wish, while assuring the President of our firm support for the resistance and our total rejection of Najibullah, to ask in what direction American thinking is moving.

ECONOMIC/TRADE/DEBT/COCOM

EC/US: EC Concerns

Congress continues to press for a protectionist trade policy. It is vital to the success of the GATT Uruguay Round negotiations, now entering their final year, that the Administration continue to resist such pressures, and make minimum use of its Trade Act powers (Section 301, Special 301, Super 301) for unilateral action against countries whose trade practices are judged harmful to US exports.

The latest US GATT paper on agriculture argues for abolition of price support over 10 years, abolition of export subsidies over 5 years, and replacement of the CAP variable levy with fixed tariffs by 1991. This comes close to the 1988 "zero 2000" proposal, which Bush when Vice-President characterised to the Prime Minister as "Utopian" and which led to deadlock at the Montreal mid-Round review meeting. As such, it has caused consternation in the EC. We should warn the US that while we expect to secure further CAP reform, their bid is too high, and they too need to be flexible.

Protectionist pressures show in current legislative proposals targetted at restricting foreign investment, eg an "earnings stripping" provision in the Reconciliation (Tax) Bill that would limit the tax deductibility of interest payments to foreign parent companies, and the draft regulations implementing the so-called Exon-Florio Amendment to the Trade Act, which would give the Administration powers to block foreign acquisitions of US firms whose operations have an undefined "national security" aspect.

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- US Concerns

Administration rhetoric about "Fortress Europe" has subsided, but suspicions about post-1992 Europe remain strong in Congress. The bulk of EC/US trade (worth $160 bn per annum) is trouble-free, and current disputes (see below) are relatively small beer. There is no compelling need for the Prime Minister to raise trade disputes on this occasion.

However, the Prime Minister will recall President Bush's message about the EC Broadcasting Directive on the eve of its adoption at the October Foreign Affairs Council, with only Belgium and Denmark voting against, and the UK not therefore having the swing vote. The Commission acknowledged that the text as finally adopted would not provide a basis for court action in cases where the 'quotas' for programmes of European origin were breached. With the European market expanding rapidly (125,000 programme hours in 1987: 300,000 expected by 1990) we see no risk of reduced US sales. The EC has agreed to a US request for GATT consultations.

The US reacted in January to an EC ban on imports of meat from cattle treated with hormones by imposing a 100% tariff on $100 million of EC exports to the US. An EC/US task force has agreed ways of certifying non-hormone treated beef for import to the EC, and the US have agreed to scale down retaliation as trade resumes (only about $4.5 m so far). The task force remains in being: we have blocked Italian attempts to engineer EC counter-retaliation.

A GATT panel is due to report in early December on whether the EC soya regime adversely affects international trade. (We expect it to rule against the EC, but should not reveal

AA

that.) The US Administration is obliged under Section 301 to take action on the dispute no later than end-January. Our aim will be to contain the dispute: provided the US do not over-react, we could contrive to use it as a lever for further CAP reform.

The US lobbied hard against a proposed UK ban on smokeless tobacco products for "snuff dipping" (finely cut tobacco either loose or in a pouch, held in the mouth). The only manufacturer in the UK is US Tobacco, who argue that the ban would represent GATT-illegal discrimination against a US product in favour of "like products" such as chewing tobacco and nasal snuff produced by UK companies. Mr Freeman, Minister for Health, explained to the Administration and on the Hill in September that snuff dipping products carry a higher cancer risk and that we wish to tackle a new habit before it catches on. A three month EC consultation procedure having been completed, the Department of Health plan a December announcement that the ban will go ahead.

Negotiations between US and Airbus governments (UK, FRG, France, Spain) about subsidies to the civil aircraft industry are expected to resume in December. The last round of talks in July made no progress, partly because the Germans would give no ground. We are encouraging the Commission to work on them.

The Prime Minister might wish to say ;

- US and EC share interest in a successful outcome to the GATT Round; vital to maintaining and strengthening open multilateral trading system.

SU7ABH/3

BB

- Welcome Administration resistance to protectionist pressures for bilateral action, which would endanger the Round.

- UK will encourage EC to respond constructively to new US paper on agriculture. But, while right to aim high in a negotiating paper, calling for early abolition of all price support/export subsidies risks reopening the row over "zero 2000". The EC must be flexible: but so must the US.

- UK welcomes US inward investment, and hopes the US attitude to UK investment will remain equally open.

(Following for defensive use).

- EC Broadcasting Directive will not harm US exports. Rapid expansion of European broadcasting offers opportunities to EC and non-EC programme suppliers alike.

- Solutions to hormones dispute possible if both sides show flexibility.

- Will look carefully at GATT panel report on EC's soya regime.

- Final decision on smokeless tobacco ban now due. A health, not trade, measure. Mr Freeman explained our views.

- Airbus dispute at critical stage. Hope both sides will negotiate constructively next month: success will require compromise from both.

SU7ABH/4

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INTERNATIONAL DEBT (Defensive)

President Bush may argue that HMG's unwillingness to put pressure on UK banks to offer debt reduction is hampering the implementation of the "Brady plan". The Prime Minister could say:

- Brady's proposals have been successful in making debt reduction central to negotiations between banks and creditors. (Mexico has agreed a debt reduction deal with banks; Costa Rica and the Philippines have reached agreement in principle; Venezuela, Morocco and Chile are at an advanced stage of negotiations.)

- Such negotiations must be conducted in a commercial framework. A long-term aim of the debt strategy is the return of debtors to normal market access. Pressing banks to make concessions against their commercial judgement would be counter-productive.

- Our tax and regulatory framework does not put unnecessary obstacles in the way of UK banks' participation in debt reduction packages.

COCOM (Defensive)

The Prime Minister might draw on the following:

- COCOM will come under increasing scrutiny as political change develops within the Warsaw Pact.

- COCOM still maintains necessary mechanism to protect genuinely sensitive technology but the export control lists will only be credible and enforceable if they are kept up-to-date and purged of those items less

strategically relevant to-day.

- The Germans will need sensitive handling if we are to retain their commitment. Their arguments for differentiating between members of the Warsaw Pact are attractive. But the need to guard against the diversion of sensitive technology remains paramount.

- Differentiation without leakage would be hard to implement and practise.

TRANS SOVIET LINK (defensive)

President Bush will have been briefed on the so-called Trans Soviet link and may raise it with the Prime Minister. This project involves the Soviet Ministry of Telecommunications and two rival consortia assessing feasibility of laying a fibre optics link across the USSR from Europe to Japan. One consortium is led by US West and includes BT; the other (Project Marathon) consists of Cable and Wireless, GEC and the US firm Pacific Telecoms. Neither scheme yet has the approval of any government; both would require COCOM agreement.

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THE PRIME MINISTER'S MEETING WITH PRESIDENT BUSH, 24 NOVEMBER

1. GIVEN THE RAPID PACE OF DEVELOPMENTS IN EASTERN EUROPE, AND THE BUSH/GORBACHEV SUMMIT, THE TIMING OF THESE TALKS COULD NOT BE BETTER.

2. THE PRESIDENT WILL WANT A FULL EXCHANGE ON THE WAY AHEAD, THE TACTICS FOR THE MALTA MEETING, AND THE HANDLING OF GORBACHEV. I MAY BE ABLE TO SEE BAKER AND SUNUNU IN THE NEXT FEW DAYS AND WILL IN ANY CASE LET YOU HAVE FURTHER THOUGHTS ON HANDLING THIS PART OF THE DISCUSSION.

3. WHILE THE TALKS WILL NATURALLY FOCUS MAINLY ON EAST/WEST RELATIONS, THERE ARE SEVERAL SUBSIDIARY ISSUES ON BUSH'S AGENDA OR THAT WE MIGHT USEFULLY RAISE, AS FOLLOWS:

A) BOAT PEOPLE. BUSH TOLD ME RECENTLY THAT HE DOES NOT RELISH BEING ON A DIFFERENT SIDE FROM THE PRIME MINISTER BUT SEES NO ALTERNATIVE. I RECOMMEND THAT THE PRIME MINISTER SHOULD BRIEF HIM ON OUR INTENTIONS OVER SENDING BOAT PEOPLE BACK TO VIETNAM. ALTHOUGH WE CANNOT EXPECT TO CONVERT THE AMERICANS, THEY SEEM TO WANT TO AVOID A MAJOR ROW. THE OUTCOME SHOULD BE AGREEMENT TO DISAGREE, AND HOPEFULLY IN A LOW KEY.

B) MIDDLE EAST. WE ARE REGARDED AS HELPFUL SUPPORTING PLAYERS, PARTICULARLY VIS A VIS THE PLO. A REVIEW OF PROGRESS ON THE US EFFORTS TO BRING ABOUT AN ISRAEL/PALESTINIAN MEETING WOULD BE USEFUL, PARTICULARLY AS BUSH WILL HAVE SEEN SHAMIR IN WASHINGTON ON 15 NOVEMBER.

C) SOUTH AFRICA. NO SERIOUS DIVERGENCE BETWEEN US AT PRESENT. AFTER EARLIER EQUIVOCATION, THE ADMINISTRATION NOW SEEM REASONABLY SOUND ON FURTHER SANCTIONS. BUT, WITHOUT SIGNIFICANT PROGRESS IN SOUTH AFRICA, CONGRESS WILL UNDOUBTEDLY START AGITATING NEXT SPRING AND THE ADMINISTRATION ARE NOTHING IF NOT SENSITIVE TO CONGRESSIONAL PRESSURES. IT WILL BE WORTH GOING OVER THE ARGUMENTS AGAIN, IF ONLY BRIEFLY, TO STIFFEN THE ADMINISTRATION.

D) JAPAN. UNLESS THE TRADE DEFICIT WITH JAPAN IMPROVES AND, IF THE SO-CALLED STRUCTURAL IMPEDIMENTS INITIATIVE (SII) FAILS TO BRING RESULTS BY NEXT MARCH, US/JAPAN TRADE RELATIONS ARE LIKELY TO DETERIORATE NEXT YEAR. THIS WEEK'S SII ROUND SEEMS TO HAVE GONE BADLY AND THE PRESSURES ARE BUILDING IN CONGRESS FOR TOUGH

ACTION. THE ADMINISTRATION'S VIEW IS SCHIZOPHRENIC: KEEN TO DRAW JAPAN INTO THE COUNCILS OF THE WEST, INTENSELY SUSPICIOUS OF, AND READY TO RETALIATE AGAINST, JAPANESE ECONOMIC AND COMMERCIAL PRACTICES OF WHICH IT (OR CONGRESS) DISAPPROVES. THIS MAY BE AN OCCASION TO DISCUSS HOW TO HANDLE JAPAN, IN PARTICULAR HOW TO BALANCE THE POLITICAL (COOPERATIVE) AND COMMERCIAL (COMPETITIVE) ELEMENTS IN THE RELATIONSHIP. THE PRIME MINISTER'S SPEECH IN TOKYO LAST SEPTEMBER WENT DOWN WELL HERE.

E) ARGENTINA/FALKLANDS. PRESIDENT BUSH MAY WANT TO EXCHANGE VIEWS ON MENEM. THE MADRID AGREEMENT WAS WARMLY WELCOMED HERE AND HAS RELIEVED MUCH OF THE PRESSURE ON US. IN THE CONTEXT OF US ARMS SALES TO ARGENTINA, THE PRIME MINISTER MIGHT SAY MORE ABOUT CONDOR.

F) THE ENVIRONMENT. PRESIDENT BUSH WILL HAVE SEEN THE PRIME MINISTER'S UN SPEECH. ALTHOUGH HE LIKES TO DESCRIBE HIMSELF AS THE ENVIRONMENT PRESIDENT AND HAS PUT FORWARD CLEAN AIR LEGISLATION WHICH IS MOVING SLOWLY THROUGH CONGRESS (AND BEING WEAKENED IN THE PROCESS), THERE MAY BE A FEELING IN THE WHITE HOUSE THAT WE HAVE QUOTE GONE GREEN UNQUOTE ON THE ADMINISTRATION. IF THE WHITE HOUSE ARE STILL EXERCISED ABOUT OUR ALLEGED BETRAYAL AT THE NORDWIJK MEETING, THIS WILL BE THE OPPORTUNITY TO TRY TO REMOVE MISUNDERSTANDINGS.

G) TRADE/ECONOMIC. AT PRESENT, THERE ARE NO SPECIFIC BILATERAL TRADE ISSUES WHICH THE PRIME MINISTER NEED RAISE, OR THAT I WOULD EXPECT BUSH TO HAVE ON HIS MIND. THIS AREA IS TEMPORARILY QUIET, THOUGH THERE ARE SEVERAL ISSUES WHICH COULD CAUSE TROUBLE IN COMING MONTHS (SOYA, HORMONES IN BEEF, AIRBUS, SMOKELESS TOBACCO). THE PRIME MINISTER MIGHT THEREFORE EMPHASISE OUR MUTUAL INTEREST IN HOLDING THE LINE AGAINST US PROTECTIONISM AND UNILATERALISM (EVER-PRESENT CONGRESSIONAL TEMPTATIONS) AND IN KEEPING THE DOORS OPEN TO FOREIGN DIRECT INVESTMENT (ANOTHER AREA OF SOMETIMES UNWELCOME CONGRESSIONAL ATTENTION).

H) CENTRAL AMERICA (POSSIBLE). THE AMERICANS ARE GLAD THE PRIME MINISTER SAW MRS CHAMORRO. BUSH MAY COMPLAIN ABOUT SOVIET ARMS SUPPLIES TO NICARAGUA AND EL SALVADOR. HE MAY ALSO WANT TO TOUCH ON NARCOTICS AND LATIN AMERICA DEBT. ON THE FORMER, I WOULD NOT EXPECT HIM TO PRESS FOR FURTHER BRITISH AID. HE WAS VERY GRATEFUL FOR OUR TIMELY HELP FOR COLOMBIA. ON DEBT, BUSH MAY WANT TO DISCUSS (AGAIN) THE BRADY LDC INITIATIVE AND HMG'S UNWILLINGNESS TO PRESS UK BANKS TO PUT UP NEW MONEY. GIVEN THE PANAMA COUP FAILURE, BUSH IS UNLIKELY TO RAISE THIS, NOR SHOULD WE.

4. I AM TELEGRAPHING SEPARATELY AN ASSESSMENT OF THE STATE OF THE UK/US RELATIONSHIP, AND WILL LET YOU HAVE NEXT WEEK AN

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UP-TO-DATE SNAPSHOT OF THE US DOMESTIC POLITICAL SCENE.

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October 13, 1989

The Honorable Prime Minister Margaret Thatcher
Number 10 Downing Street
London, England

Dear Mrs. Thatcher:

Please accept this hand-carved duck as a symbol of my admiration and appreciation for your contributions and dedication towards a better world for all of us. Please continue your fight against drugs. This is a battle that can only be solved by all nations working together.

I hope our two countries, in the future, will be able to put a halt to the drug abuse. I would like to see you make an appeal to the American people concerning the drug abuse that is a problem for both our countries. Your popularity in the United States would have a tremendous influence on American youth.

This duck is carved of redwood from California, which is former President Reagan's home state. I have made him a similar carving, as well as one for Premier Gorbachev.

Sincerely yours,

Peter D. Potter Jr

Peter D. Potter, Jr.
252 Sinclair Place
Casper, Wyoming 82609
United States of America

SECRET AND PERSONAL

TG 18

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 July 1989

POSSIBLE VISIT BY THE PRIME MINISTER TO THE UNITED STATES

Antony Acland came to see me yesterday to discuss the possibility that the Prime Minister might pay a reasonably early visit to the United States. He thought this important not just from the point of view of contacts with the Administration in Washington but to counter the rather bad press which we had been receiving in the United States at present. He had in mind a visit to Washington, together with a couple of major speeches in other cities.

I explained to Antony that it would be very difficult for the Prime Minister to undertake a visit this autumn given her other commitments. But I would consult her about the possibility of visiting the United States early next year. I have subsequently discussed this with the Prime Minister and her reaction was much as I expected: she would find it hard to contemplate a visit before the early months of next year, and would want the case for a visit then set out clearly.

We now need formal advice from the Foreign Secretary on a possible visit and the timing of it. I should be grateful if you could consider this.

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

SECRET AND PERSONAL

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SECRET AND PERSONAL

PRIME MINISTER

UNITED STATES

Antony Acland came to see me this evening to raise a number of points. His main message was that the Government - and you in particular - were getting a very bad press in the United States at the moment. He left me the attached extracts. The general theme was that you were increasingly isolated and embattled in Europe and that in consequence the special relationship was no longer what it was. The US Administration was paying more attention to President Mitterrand and Chancellor Khol. I said that this was a classic example of short-termism. The issues on which you were "isolated" in Europe were issues on the substance of which the Americans would be entirely in agreement with you. Moreover, you had always foreseen that there would be a period early in the new Administration when there would inevitably be some re-balancing of American relations with the UK, Germany and France. You continued to believe that, when things got difficult, the Americans would soon find out who their true friends were.

Antony accepted this but nonetheless thinks you need to go over to Washington in the reasonably near future for a proper visit and to deliver one or two speeches to set the record straight. I said that I thought you would find it difficult to get over there in the autumn given all your other commitments, particularly if major speeches were involved. I thought the earliest you could contemplate would be the first part of 1990. Antony clearly thought this was a bit late but would welcome a visit as soon as possible in the New Year if that is the earliest you could manage. He thinks in terms of the inside of a week in the United States, with a formal visit to Washington and speaking engagements in two major cities, as well as a lot of media activity.

It would be very helpful to have a steer from you on this. In particular, would you be ready to contemplate a visit to the United States early in the New year? There would have to be some purpose in it

Antony also mentioned a concern he has that the FCO and MOD are being too bureaucratic and niggling on some minor issues and irritating the Americans considerably, to the point where it could be damaging to our much more fundamental interests like Trident. He cited as an example our performance over the counting rules for aircraft in the CFE negotiations. It was quite clear that the Americans would do nothing to interfere with our dual capability aircraft: but they seemed to have a valid point on the definition and inclusion of training aircraft, yet our officials had fought them tooth and nail. He thought that we ought to be more discriminating in the battles we chose.

I said that I knew you were very aware of this consideration: indeed, it had governed your decision to be the first to support President Bush's CFE initiative at the NATO Summit in Brussels. There was some feeling on our side that the Americans were a bit cavalier when it came to the detail, but I accepted that there were only a limited number of battles we could fight and that we must make sure they were really important. I would report his misgivings to you and you might mention them to the Foreign and Defence Secretaries.

Would you be prepared to do this? Yes

C.D.P.

CHARLES POWELL

10 July 1989

L03BKI

BRITAIN'S POSITION: US MEDIA: EXTRACTS

New York Times: 1 June : Whitney from London

"But the hopes Prime Minister Margaret Thatcher once had of achieving a special position of seniority among the European allies, and of becoming a trusted intermediary between Mr Bush and President Mikhail S Gorbachev of the Soviet Union, will clearly never become reality, according to both European and American diplomats here .. .

In the corridors in Brussels, American voices made a similar point. They were whispering not about the need to give ground to Mrs Thatcher, as in Mr Reagan's day, but about the need to accommodate Chancellor Kohl's serious domestic political problems. There was an undercurrent of impatience with the Briton's arrogant style; one United States policy maker said he had "heard one lecture too many from her."

New York Times: 2 June: Apple from London

"President Bush made it sound today as if nothing had changed (in the special relationship)... But in fact things have changed and they will probably keep right on changing ...

The United States is going to pay more attention to the continental powers and a little less to Britain ... A top American official predicted that Mrs Thatcher will find Mr Bush a much less automatic supporter ...

Yet beneath the unity achieved by the alliance this week there lurks a new competition for European leadership, and the United States appears increasingly preoccupied with what West Germany thinks as it shapes a European policy for the new era. Partly, the change reflects geography. Germany is the center of Europe, Britain on the periphery ...

Mrs Thatcher is a reluctant European, resistant to many of the implications of the greater integration that is scheduled for completion in 1992. That undercuts her country's standing in NATO as well as the European Community, and that makes it hard for Washington to visualize London as the avenue into the new Europe."

Washington Post: 2 June: Broder from London

"The policy of caution toward Gorbachev that Mrs Thatcher urged on Bush and that he first seemed inclined to accept has been swept aside by European - especially German - enthusiasm to test the Gorbachev promises."

USA Today: 20 June

"Prime Minister Margaret Thatcher's revolution has met the voters - and lost."

Wall Street Journal: 20 June

"Earlier this year Mrs Thatcher was the strongest leader in Western Europe ...

Six months later Mrs Thatcher seems to be loosing her grip. At last month's NATO Summit, West Germany assumed Britain's role as main interlocutor between East and West. Add the British Conservative Party's setback in the EC parliamentary vote Sunday .. It hurts her as much in Europe as it does in Britain."

New York Times: 28 June: Lewis from Madrid

"She remains clearly out of step with the renewed determination of the other members to coalesce their econimic power .. Mrs Thatcher, like many others worries about the future drift of Germany. But her antidote is to cling to an increasingly illusory "special relation" between Britain and America.

The dominant continental view including that of the Bonn Government, is to anchor West Germany ever more firmly in a well-defined European Community, so it can deal with the East without risking its bearings. (But) Mrs Thatcher sees only immediate political maneuvering .. These summit conferences do involve a lot of petty haggling and posturing. But there is movement under way, bringing long-term change in the European order. Mrs Thatcher's lonely attempt to stop the tide is more evidence that it is running."

CF - Pl. put on F. for VS visits

JOHN J. LOUIS, JR.
ONE NORTHFIELD PLAZA
NORTHFIELD, ILLINOIS 60093

Discussed BI

CDD
5/7.

July 5, 1989

Mr. Bernard Ingham
Press Secretary
10 Downing Street, Whitehall
London SW1A-2AA
England

Dear Bernard:

First of all, I thank you for the time you have given me. It has always been a pleasure to come to Downing Street - for whatever reason.

As you know, I am in London for a few days this week - but mainly to join the prime Minister's reception for the American Margaret Thatcher Fund on July 6th. Daphne Park (Principal of Somerville College at Oxford) and I (Chairman of the Sponsoring Committee) have good news for Mrs. Thatcher.

Now - let me give you a few words on my own personal mission today.

I am an active member of The Commercial Club of Chicago. This 112 year-old institution and its members are described in a separate enclosure with this letter. Membership is by invitation only, and the members represent the business and professional leaders of the Chicago metropolitan area. I am acting for The Commercial Club of Chicago.

We have luncheon meetings every month from October through June -- and we have a speaker who usually talks to us for 30 - 40 minutes and then takes questions from the floor. Our records disclose that the Right Honorable Winston S. Churchill spoke to the Club on October 4, 1929 - Sixty years ago. I suggest that we were getting trained to think globally then.

We (The Commercial Club) would like to invite your Prime Minister to address our members at a luncheon meeting, all of which are off-the-record and without Press presence. The date should coincide with a future visit of Mrs. Thatcher to the united States. The period we are now planning reaches from October 1, 1989 to June 30, 1990.

We do not see any conflict if Mrs. Thatcher were to address a public meeting of The Chicago Council on Foreign Relations or The Economic Club in the evening of her day in Chicago. The Prime Minister might wish to deliver a major foreign policy message from America's second largest city which could be carried by television, cable, and radio.

After my 45 minute visit with Antony Acland on the 21st of June, I came away with proof of my suspicions that we are not the first in America to request such a visit and an address. You must have reams of paper on this subject from hundreds of Americans.

Nonetheless, if Mrs. Thatcher is comfortable in our country, and I think she is, Ambassador Acland and I share the belief that both your leader and our mid-Americans out here would reap lasting benefits from a visit to America's Heartland.

I hope you and your staff will give some consideration to the ideas I have put forward. I would also suggest that our discussion and the contents of this letter should be kept confidential. Obviously, the Prime Minister's presence here would attract huge numbers to whatever public event was being put into being.

If appropriate, would you kindly correspond directly with me until a decision is made. If it is a "go", I would ask Bill Weiss, the president of The Commercial Club to deal directly with you in planning a luncheon event. Should the idea of a public event in the evening come into being, I stand ready to help you and your office with planning here in Chicago.

Yours sincerely,

John J. Louis, Jr.

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Encl.
P. S. Under no circumstances is this letter or our discussion to be viewed as a "quid pro quo" in respect to The American Margaret Thatcher Fund for Somerville, Oxford University.

THE COMMERCIAL CLUB
of Chicago

The Commercial Club of Chicago is believed to be the oldest organization of its kind in the city, having been founded on December 28, 1877. As stated in the Preamble to its By-Laws: "The purpose of The Commercial Club of Chicago is to advance the public welfare and the commercial interests of Chicago by co-operative efforts, social intercourse and a free interchange of views."

FUNCTIONS- Essentially, the Club serves three major functions: (1) it provides a unique forum for the timely discussion of subjects of local, national and international interest; (2) it assists Chicago's business and professional leaders to become well acquainted with each other, to the end that they may work together on matters of public importance; and (3) it recognizes achievement by selecting as members those who have earned a right to recognition.

MEMBERSHIP- Membership is by invitation only, tendered to business and professional leaders in the Chicago metropolitan area, qualified by having distinguished themselves by reason of their position, personality, general reputation and service in the public welfare. Membership in the Club is limited to 275 Active Members. The Associate Member group, numbering approximately 64, is made up of former Active Members now retired. The Non-Resident group of about 50 persons and distinguished Life Members numbering some 80, bring the total membership of the Club to 470. Each member is elected because of leadership in such member's vocation and participation in public affairs. Continued activity in both fields is in harmony with the Club's basic purposes and reflects credit on the Club.

MEETINGS- Meetings are of two general types (1) closed meetings for members only, usually luncheons; and (2) open meetings, either luncheons or formal evening dinners, to which guests may be invited by members. None of the Club meetings is open to press coverage.

COMMITTEES- Special committees are appointed to aid members of the Club to obtain information or to guide the Executive Committee (the Club's ruling body of thirteen) in any action taken.

CIVIC COMMITTEE (Est. 1984)

10 DOWNING STREET

BF if no one has plans to go to Washington.

CPS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 June 1989

The Prime Minister has asked me to thank you for your letter of 26 May. I am sorry to have taken a little time to get back to you. I have taken over from Dominic Morris.

The Prime Minister was very pleased to hear of the support you are getting. She will certainly bear your kind invitation in mind when she is next in Washington. As you will appreciate it will very much depend on the time she has available.

The article you enclosed made very interestin reading.

(CAROLINE SLOCOCK)

Graham N. Webb, Esq.

GR have a file on this but can we retain these pp's.

GRAHAM WEBB INTERNATIONAL

Graham Webb International (Virginia) Ltd
Academy of Hair
Executive Offices: 2625 Wilson Boulevard,
Arlington, Virginia 22201
Tel: (703) 243 9322
Fax: (703) 528 2324

May 26, 1989

Rt. Hon., Mrs. Margaret Thatcher MP F.R.S.
Prime Minister
10 Downing Street
London, SW1A 2AA England

Dear Prime Minister:

I thought you would be interested to see some recent correspondence relating to my British based International Academy of Hair in Arlington, Virginia, USA.

The correspondence is from 1) Congressman Tony Coelho, Majority Whip in the United States House of Representatives, 2) Senator Charles Robb of Virginia, 3) the British Embassy in Washington and 4) the President of Matrix (referred to below).

As you can imagine, Prime Minister, it is not easy to break into the world's largest beauty industry - $25 billion a year - with British techniques and ideas and I am most encouraged to have received such a great deal of support and endorsements both from a large number of leading Senators and Congressmen on Capitol Hill, as well as from within the United States beauty industry itself.

Some of the top hairdressers from Graham Webb International, in England, are the premier show, educational and teaching team for one of America's largest and certainly fastest growing professional hair cosmetics companies, Matrix Essentials, who have an annual turnover of $80 million a year.

This year our team has 27 programs across all parts of America.

This same Graham Webb team from England travels to Japan, Australia, Scandinavia, Canada and the USA frequently and is expected to visit China later this year and, I hope, the Soviet Union in 1990.

GRAHAM WEBB INTERNATIONAL

Recently 15 top hairdressers from Iceland flew to our facility here in Washington for British training with us. We were honoured to welcome the Ambassador from Iceland, His Excellency Ingui S. Ingvarsson, at this time.

Congress invited me to meet with the Honourable Charles Kolb. The Deputy Under Secretary in the US Department of Education to share my British training ideas with him and yesterday we were invited by the "Post Secondary Education Legislature" on the hill to help re-write the federal aid programs next year!

All of our young team are earnestly hoping that you will feel able to accept my invitation for you to visit our International Academy when you are next in Washington, we are only ten minutes or so from the White House.

You are held in such high regard here, Prime Minister, that, as I have said before, a visit from you would truly set the seal as well as give a wonderful boost to our young enterprise here. I do hope you will come.

I will enclose an article from "The Director" magazine, the Journal of the Institute of Directors, where, they feature the problem of "Britain's Bashful Businessmen."

Again, I hope you don't mind me being "too bashful" in keeping you in touch with our programs!

Thank you for your continued kind interest in our activities.

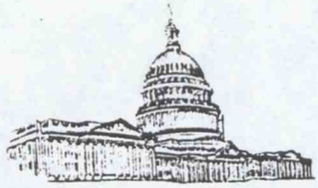
Yours sincerely,

Graham N. Webb

Graham N. Webb
Chairman

GNW:wro

Enclosure



HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

TONY COELHO
MAJORITY WHIP

April 25, 1989

Mr. Graham N. Webb
Chairman
Graham Webb International
Academy of Hair
2625 Wilson Boulevard
Arlington, VA 22201

Dear Graham:

I was pleased to visit with you and your co-director, Dana Story, recently. Thank you for bringing your ideas to this country and for what you are doing to help upgrade the United States' beauty industry. You must be proud of your team's highly regarded educational tours here, and the opening of your international academy of hair in America.

I have noted the strong support you have received from a number of my colleagues in the House and Senate. I do hope you achieve your goal of having Prime Minister Thatcher visit you at your American facility. I am certain that Mrs. Thatcher will be fascinated and impressed at what you have accomplished. Your company's reputation as being on the "leading edge" is well justified.

Congratulations and continued best wishes.

Sincerely,

TONY COELHO

NOT PRINTED AT GOVERNMENT EXPENSE

CHARLES S. ROBB
VIRGINIA

COMMITTEES:
BUDGET
COMMERCE, SC
AND TRANSPOR
DEMOCRATIC P
FOREIGN RELA

United States Senate

WASHINGTON, DC 20510

May 24, 1989

Ms. Carol Cataldo
Executive Director
National Accrediting Commission
of Cosmetology, Arts and Sciences
1990 M Street, N. W., Suite 650
Washington, D. C. 20036

Dear Ms. Cataldo:

I understand that the Graham Webb International Academy of Hair, based in Arlington, Virginia, has applied for accreditation through your organization.

My Chief of Staff visited the Graham Webb Academy recently on my behalf, as a result of recommendations by other Congressmen and Senators to view "a particularly high-grade" cosmetology school. While there, he noted the excellent facility and the tremendous compliments and enthusiasm from the students to whom he spoke.

We are all concerned in Congress at the general level of education being provided by many cosmetology schools, as well as the default problem, of which you are aware.

The Graham Webb International Academy is just the kind of facility that will assist in the upgrading of cosmetology schools in America. I am sure that the Graham Webb Academy will prove to be a "feather in the cap" of NACCAS.

Sincerely,

Charles S. Robb

ccs: Honorable Charles Kolb
Deputy Under Secretary
U. S. Department of Education
Washington, D. C. 20202

Mr. Graham N. Webb
Chairman
Graham Webb International
2625 Wilson Boulevard
Arlington, Virginia 22201

BRITISH EMBASSY.

WASHINGTON, D.C.

Graham Webb, Esq.,
Graham Webb International (VA), Ltd.,
2625, Wilson Boulevard,
Arlington,
Va. 22201

7th March, 1989

Dear Graham,

I just wanted to say how much I enjoyed visiting your wonderful new studio in Arlington last week. It is splendid to see an enterprising Brit leading the way in the beauty business here, and I know this is just the beginning for you. I predict great things, not very difficult since you are so full of enthusiasm and so obviously enjoy and take pride in your working life.

Please thank Dana for being so kind to do all the driving. My geography being somewhat limited, we could have ended up anywhere! Anyway, it was a pleasure to meet him and everyone else connected with Graham Webb.

With very best wishes,

Yours sincerely,

Elise

Elise Moore-Searson

Matrix
ESSENTIALS, INC.
30601 Carter Street · Solon, Ohio 44139 · 216/248-3700

January 6, 1989

Mr. Graham Webb
Graham Webb International
2625 Wilson Boulevard
Arlington, Virginia 22201

Dear Graham:

I am most pleased to take this opportunity to commend you and your talented staff on the professionalism and overall "excellence in education" which you provide the industry through the Graham Webb Academy.

We at Matrix welcome the opportunity to work with such a outstanding organization and look forward to many years of continued success through our joint efforts.

Sincerely,

MATRIX ESSENTIALS, INC.

Arnold M. Miller
President

GREAT EXPECTATIONS
BANGOR MALL
BANGOR, MAINE 04401

Senator William Cohen
202 Harlow Street
Bangor, Maine 04401

Dear Senator Cohen:

It is with great pleasure that I write you this letter. From April 8 thru April 15 I along with several hundred others participated in CutCo Industries Starshine Jamboree. CutCo Industries is the corporate office of Haircrafters and Great Expectations hair salon chains. Headlining the week was the Graham Webb team from London. They presented management and advanced hairstyling seminars each day.

Throughout the week I had the opportunity to personally meet Graham and discuss our goals and ideas in the beauty industry today. I was most pleased to learn that you had offered your congratulations and support to Graham upon his opening of the International Academy of Hair in Virginia. The beauty industry is a 24 billion dollar a year industry and growing. It is through the perseverance of professionals like Graham Webb that help to elevate the public image of the industry today.

I look forward to more positive comments from you and your colleagues regarding the importance of our valuable industry.

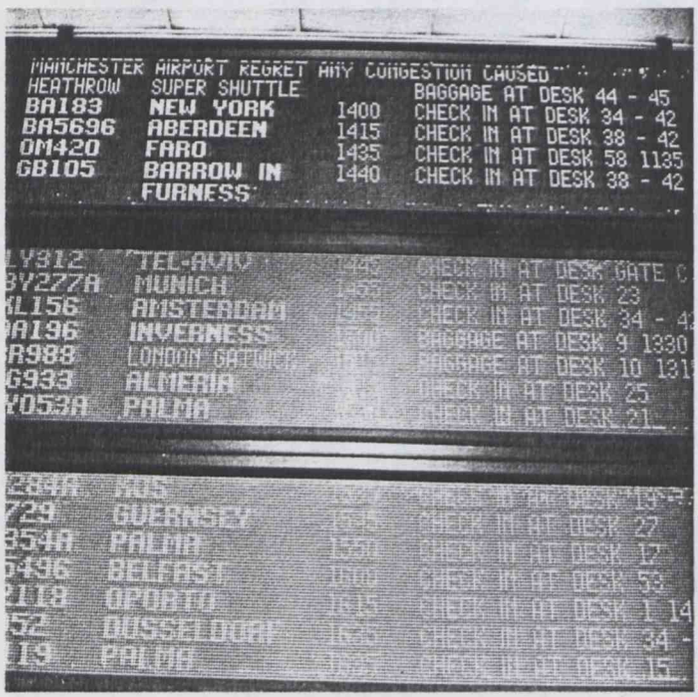
Sincerely,

Cathy Warden

Cathy Warden
General Manager
Great Expectations

BRITAIN'S BASHFUL BUSINESSMEN

Most things in finance and business are influenced, if not dominated, by the US. So why do our business leaders so signally fail to emulate the American skill of self-promotion?



The US: easy to reach, but a world away

Like our weather, our business ideas come from America. The London Stock Exchange is so firmly coupled to the US that everytime Wall Street sneezes, London catches a cold. Yet, after nearly a decade of Thatcherism, British businessmen still retain their diffident, almost civil servant, style when it comes to self-promotion.

Nothing illustrates this difference better than the two books that have dominated the best-seller lists of both countries in recent months: *Making it Happen* by John Harvey-Jones, the former chairman of ICI, and *The Art of the Deal* by Donald Trump, the New York property man.

Trump's style is direct and blunt as he immediately takes us into the world of the New York property scene. "Deals," he writes, "are my art form. Other people paint beautifully on canvas or write wonderful poetry. I like making deals, preferably big deals. That's how I get my kicks."

In contrast, Harvey-Jones starts by talking of the appalling winter of 1946-47 as if he were a civil servant from the Ministry of Fuel making his monthly report. The only really revealing moment in his book comes when he talks of his childhood in India, when for the first five years of his life he was the only white child in an Indian state and had a prince as his closest friend.

Of course the two are very different personalities. Harvey-Jones has a deep scepticism about the "in one mighty bound Jack was free" sort of business world. Trump seems to believe in little else.

Last autumn, Trump's full-page advertisements in US papers offering a whole range of foreign policy advice started a "Trump for White House" rumour. Trump did the usual political striptease much favoured by American presidential hopefuls, adding the suitably modest comment ". . . but if I did run, I'd win." In the US many see the Trump autobiography and its success as part of the hype that could launch a future bid.

Harvey-Jones has no such designs on Number 10. It would, in any case, be impossible. In this country business success might lead to *Question Time* with Sir Robin Day on television but not prime minister's question time in the Commons.

Even the one British businessman who has followed the American route to fame and fortune through self-promotion did it because of a mispronunciation. In 1980, the Norwich-based firm Bernard Matthews decided to advertise its roast turkey products. It had built up large stocks and wanted to shift them quickly. The advertising agency, Ogilvy Mather, suggested that the best person to sell the turkeys in front of the television cameras would be Matthews himself.

The script from the advertising agency had Matthews talking about his beautiful turkeys. When they came to film, Matthews found he had a bit more time than the script allowed for and added two more words: really beautiful. There was one other thing not scripted.

"The ad men," says Matthews, "did not realise that I would mispronounce the word and that it would come out as 'bootiful.' It seemed to hit a nerve, and within a couple of weeks we had sold our stock of roast turkeys."

The mispronunciation did make Matthews something of a national joke, but Matthews knows no other way to pronounce "bootiful" and does not mind how much the public laugh at him. The ads have so boosted his sales that he has became a multimillionaire and has been laughing all the way to the bank ever since.

Matthews' lonely foray into television selling was only made possible by the pioneering efforts of the American Victor Kiam. Having bought the Remington company, Kiam came to Britain in 1979 to discover that the television advertising planned for this country was a beautiful production that was more likely to win television awards than sell razors. It conjured up such a soft, dreamy world – the background music featured a 100-piece symphony orchestra – that the product was completely lost.

Kiam decided to have a simple ad where a man stands in front of a bathroom mirror holding the razor. The advertising company agreed and suggested that the ideal man to appeal to the great unshaven British public would be Kevin Keegan, than at the height of his football glory.

Kiam, whose game is tennis, had never heard of our Kev and wanted to do the ad himself. This caused a near riot in the agency, where the idea of the owner of a company going on television to sell his products was truly revolutionary. Eventually, after overcoming all sorts of hurdles – including whether or not he needed an Equity card – Kiam won, creating in "I liked the razor so much I bought the company" one of the most successful ads in the history of British advertising.

Despite this, few British businessman, other than Matthews have followed Kiam's lead. It is easy to see why. Unlike the US there is no tradition in this country of the businessman combining the role of manager and salesman.

But there is more to this than just the British businessman's distaste for personal publicity. There is a deeply ingrained

antihistorical, almost anti-intellectual bias in the world of British business. It is as if business people want to forget history by ignoring it.

Even the most successful British businessmen go to great pains to obscure their story, like, for example, Siegmund Warburg. This Jewish refugee from Germany had quite the most profound individual influence on post-war merchant banking in the UK, virtually remodelling it and creating the modern City. But when the French author Jacques Attali came to write Warburg's story he found it hard going: Warburg had diligently removed all documents, correspondence or archives that might help a biographer. Had Warburg gone to New York instead of coming to London, his story, I am sure, would have been part of the American immigrant success saga.

So while shelves groan with vast tomes on Americans business dynasties such as the Rockfellers, Morgans and Fords – often written by British authors – Rolls, Royce, Sainsbury, Moores of Littlewoods fame and many of the great British names, who have done as much to make this country as politicians, still await their historians.

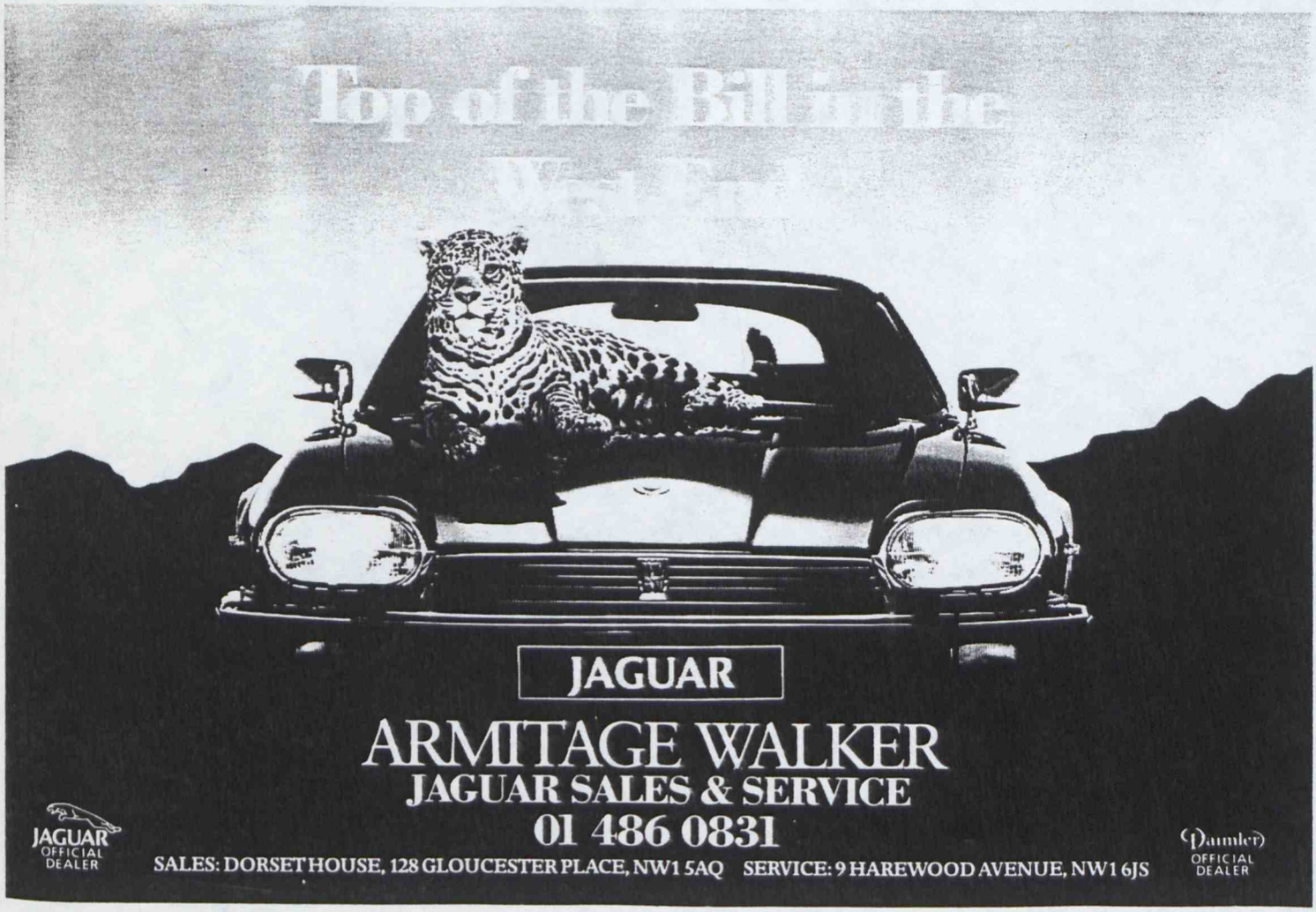
Americans tell us in almost tedious detail the changes in their business scene, yet we remain blissfully ignorant about why in the last 30 years the British cycle and car industries have virtually vanished. Even the dramatic changes in the coal and steel industry seem to merit little interest, and for all the energy of the steam train enthusiasts the best report on British Rail is still "Beeching," produced more than 25 years ago. And that, of course, really was a government report, not a book.

It is not as if we do not have a great business stories to tell or our colourful business figures. Nor is there lack of enthusiasm for the right business book.

The real explanation is that our publishing world is still dominated by a literary establishment that believes that yet another volume on Virginia Woolf and the Bloomsbury set is more important than a business story. In this they are helped by businessmen who, presumably, are too busy making money to tell us how they do it. Perhaps they are worried that their business methods are so magical that if we discover them, the secret will be lost.

Mihir Bose

Mihir Bose is a freelance writer and author of "The Crash."



April 19, 1989

Matrix Essentials - Graham Webb Team

	Distributor	Members	Days	Days of Week	Location	
02/26/89	Macon Beauty Supply	5	1	S	Atlanta, GA	G, J + 3
02/27/89	Carolina Salon Services	5	1	M	Charlotte NC	G, J + 3
03/04/89	IBS Ark	4	4	SSMT	New York, NY	J + 3
03/18/89	Midwest Show Ark	4	4	SSMT	Chicago, IL	J + 3
04/02/89	Di Donato Beauty Supply	4	2	SM	Philadelphia, PA	J Sunday only + 3 workshop
04/09/89	State Beauty Supply Ark	3	2	SM	Kansas City, MO	3
04/10/89	United	3	1	M	Turble, CT	3
05/08/89	Salon Essentials Ltd.	4	2	MT	Long Island, NY	J + 3
06/05/89	Bay State Beauty Supply	3	2	MT	Boston, MA	J + 2 show/workshop
10/01/89	C. B. Sullivan	4	2	SM	Manchester, MA	J + 3
10/08/89	Peel Beauthy Supply	3	2	SM	Wichita, KC	J + 2
10/15/89	Schoenemann Beauty Supply	3	2	SM	Pottsville, PA	J + 2 J only for Sunday M workshop
10/22/89	Emiliani Beauty Supply	4	2	SM	New York	J + 3 Keith 24th
10/28/89	Macon Beauty Supply Co.	3	3	SSM	Macon, GA	3
11/05/89	Beauticians Supply	3	2	SM	Cincinnatti, OH	3
11/05/89	Beauty Craft	4	2	SM	Detroit, MI	J + 3
11/12/89	F. W. Royalty Company	2	2	SM	Indianapolis, IN	J + 1
1990						
04/01/90	Beauticians Supply LTD	4	2	SM	Canada	G + 3 Show G Only Sunday 3 For Workshop
04/29/90	Johnny DE, Inc.	4	2	SM	Seven Springs, PA	J + 3 Request Keith, Anthony, Jed, and Sarah

We have met with, and have strong encouragement from:

- Senator John Warner (Virginia)
- Senator William S. Cohen (Maine)
- Senator Charles Robb (Virginia)
- Senator Paul S. Trible (Virginia)
  (Now running for Governor of Virginia)
- Congressman Don Sundquist (Tennessee)
- Congressman Tony Coelho (California)
  (Majority Whip)
- Congressman Philip Crane (Illinois)
- The Deputy Under Secretary for Education
  The Honourable Charles Kolb

PERSONAL AND CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 November 1988

Dear Stephen,

PRIME MINISTER'S VISIT TO THE UNITED STATES

I might belatedly record three points made to me by Frank Carlucci when I sat next to him at lunch during the Prime Minister's visit to Washington last week:

- He was pleased with the progress over SNF modernisation made during Chancellor Kohl's earlier visit to Washington. Kohl had left little doubt that the Americans could count on him when it came to a decision. Carlucci spoke highly of Sholz' role: he had been extremely helpful on this issue. Carlucci was uncharacteristically venomous in talking about Genscher's views.

- He referred to recent important developments in the SDI programme which made the whole concept more feasible, in particular by bringing down the estimated cost of deploying a system. He spoke - if I heard him right - of "brilliant pebbles" as being part of the system now being studied. He thought it would be very useful if the Prime Minister were to have a further briefing. I said that I had made arrangements for her to see General Abrahamson and his successor. Carlucci also volunteered at one point that no partial deployment could now be contemplated before the year 2000.

- Talking about the future of Colin Powell, he said there was a scheme to make him Chairman of the Joint Chiefs of Staff in succession to Admiral Crowe. But there were procedural problems: he would have to hold a major, 4-star command before he could be appointed, even if only for a very short time. It was not clear whether this would be possible. He thought that otherwise Colin Powell was likely to leave the Army and go into business. He was feeling the financial pinch. Carlucci seemed to think that General Scowcroft was the most likely successor although he also rated quite highly the chances of David Ross either as National Security Adviser or Deputy. He was very close to Bush.

I shall be grateful if the above could be treated in particular confidence.

PERSONAL AND CONFIDENTIAL

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

(CHARLES POWELL)

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

FILE

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 December 1988

Thank you very much for your letter of 5 December enclosing the photographs of the Prime Minister's visit. I am sure she will be most grateful for these and will be writing to the President and Mrs. Reagan.

(C. D. POWELL)

E. A. Oakden, Esq.,
British Embassy,
Washington.

BRITISH EMBASSY,
WASHINGTON, D.C.

C D Powell Esq
Private Secretary
No 10 Downing Street
London SW1

5 December 1988

Dear Charles,

/ I enclose two sets of photographs from the Prime Minister's visit here last month:

(a) Mrs Reagan asked that we forward those from the President's dinner at the White House on November 16 - two have personal messages from the President and Mrs Reagan - together with the one of Mr Thatcher's meeting earlier that day with Mrs Reagan;

(b) Colin Powell asked us to send on those of the Prime Minister's talks with President Reagan at the White House the same morning.

Yours ever,

Edward

E A Oakden

R 28/1r (a)

AMBASSADOR OF THE UNITED STATES OF AMERICA
LONDON

Dear Prime Minister,

I am very sorry indeed in expressing our appreciation to you for our journey back from Washington and enjoyable and interesting drive together.

The entire visit was thrilling and I know how much the President appreciated

the many tributes you paid to him. The special friendship you have shared has benefited me, your nation and the alliance as a whole in more ways than we could have anticipated.

Carol joins in sending our best to you and Denis always.

Yours friend,
Charlie

28 November 1987

SUBJECT
cc masters

CONFIDENTIAL

file PM/AEF
cc PC
cc BG

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 resonably 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.

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 unsolvent 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).

C. D. POWELL

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

Nov. 17, 1988

Seen by PM COB 11/17/88

Mme Prime Minister —

This might be of interest — given our discussion of U.S. Agriculture and the Drought. Thanks for this morning. Sincerely. George

OFFICE OF THE VICE PRESIDENT

WASHINGTON

November 17, 1988

MEMORANDUM FOR THE VICE PRESIDENT

FROM: JAMES L.J. NUZZO

SUBJECT: The drought's effect on American agriculture

While the drought and rising domestic consumption significantly reduced American farm reserves, the country's agricultural supply will be more than sufficient to meet domestic and export needs in FY1989. In spite of the drought, America's share of the world trade in grain and cotton will still be higher than of FY1987.

	FY87	FY88	FY89
Grain	35%	50%	46%
Cotton	10%	27%	21%

Our grain stocks are more than adequate to meet our domestic and export needs despite the severe drought.

- Over 71 million tons of **corn** will come out of storage for current use and there will still be a healthy 37 million ton reserve.
- **Wheat** stocks will be reduced by 20 million tons leaving a 14 million ton carryover supply.
- The greatest impact on stocks will be in **soybeans** where stocks will fall to 3.4 million tons, the lowest since 1983, from last year's 8.2 million tons.
- **Rice** and **cotton** stocks will slightly increase this year.

Unless there is a repeat of this year's drought much of this stock draw down will be replenished by next year's harvest. The Untied States Department of Agriculture will increase the number of total acres under cultivation by 20 to 30 million acres by reducing the number of acres that must be set-aside under its acreage reduction program.

Farm income will remain stable in 1988 due to higher prices, lower production costs and the Disaster Assistance Act of 1988. Total farm debt continued to decline in 1988 and the number of financially vulnerable farms has declined from 11% to 5%.

F6

SUBJECT
CC Master

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 November, 1988.

Dear Stephen,

PRIME MINISTER'S MEETING WITH DR. ANDREI SAKHAROV AT BLAIR HOUSE, WASHINGTON, ON WEDNESDAY, 16 NOVEMBER, 1988

The Prime Minister had a talk with Dr. Sakharov at Blair House during her visit to Washington. Dr. Sakharov came to the meeting direct from seeing Secretary Shultz. He seemed physically in much better shape than when the Prime Minister saw him in Moscow in March last year.

The Prime Minister began by saying that she was firmly behind Mr. Gorbachev in what he was trying to do in the Soviet Union, and hoped he would succeed. At the same time she had misgivings about the notion of a human rights conference in Moscow, unless there was very clear evidence that the Soviet Union's obligations under the Helsinki Accords were being implemented.

Dr. Sakharov recalled that when he and the Prime Minister had last met, he had described perestroika as a very important and positive development. Since then, many things had got better, but a number of contradictions had also emerged. For instance, anti-democratic tendencies had surfaced in various laws and draft legislation. He had the impression that Mr. Gorbachev was trying to achieve democratic aims by non-democratic means. This was serious and potentially dangerous. Moreover, much of the progress made lacked a proper legal basis. There had also been errors in the handling of problems with the nationalities. In his view, a human rights conference in Moscow could be a useful occasion if certain conditions were fulfilled. It could give support to progressive tendencies and strengthen the case for reform. But the West should not give its agreement unconditionally. He himself had proposed two conditions: the withdrawal of Soviet troops from Afghanistan, and the freeing of prisoners of conscience. Some additions to these conditions might be needed. But this was a matter for those more expert in politics and diplomacy to decide.

The Prime Minister said that there seemed to her to be a fundamental problem. The various actions taken so far, such as freeing political prisoners and allowing more people to emigrate, were administrative decisions taken for political reasons, and had no proper legal basis. That meant they could be rescinded or reversed at will. There must be a proper legal structure for liberty. If the West agreed to a human rights conference in Moscow on a flimsy basis, many people

in the Soviet Union and Eastern Europe would think we had been hookwinked.

Dr. Sakharov agreed on the need for a legal basis. The Soviet state must admit that many of its past actions had been unjust. But these were very sensitive matters involving the prestige of state institutions. There was some considerable time still before a possible conference in Moscow. This would give the Soviet authorities time to make changes in the law. The West should certainly give high priority to this. But whether they should make it an absolute condition for attendance at a human rights conference was more difficult to judge.

The Prime Minister asked about the extent of opposition in the Soviet Union to the changes proposed by Mr. Gorbachev. Dr. Sakharov said there were indeed people for whom change was undesirable. He would make two points about the situation. The first was the extreme difficulty of changing the Soviet system. To be effective, change had to be radical. Secondly, perestroika had not so far produced any real improvement in living standards in the Soviet Union. This was causing great political stress.

The Prime Minister asked how the West should treat the Soviet Union in the present situation. Her own approach was to say that we should stretch out a hand across the East-West divide, while at the same time maintaining a strong defence. Dr. Sakharov said that he thought the Prime Minister's general approach was right. The West should certainly not conceal or gloss over the faults of the Soviet system. There was great respect for her in the Soviet Union, and very widespread approval for her visit there and what she had said publicly during that visit. The Prime Minister said that she was grateful for Dr. Sakharov's support, and would continue with her present approach.

I am sending copies of this letter to Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours ever,

C.D. Powell

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

SECRET

16(A-E)

File

SUBJECT
cc mate

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

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 binarry 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.

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 ever,

Charles Powell

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

SUBJECT
cc master

SECRET

15(A-C)

File

(1)

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 November 1988

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.

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 practicising 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.

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 ever,

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

SUBJECT
cc master

14(A-C)

4

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

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

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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. 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 post-ponement of Soviet withdrawal but Marshal Akhromeyev had bluntly contradicted him, asserting that Soviet forces would all be with-drawn 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.

Yours ever,

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

SUBJECT
CC master

SECRET AND PERSONAL

13(A-B)

7

File

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 November, 1988.

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE UNITED STATES SECRETARY OF STATE AT THE STATE DEPARTMENT IN WASHINGTON ON WEDNESDAY, 16 NOVEMBER, 1988

In addition to her discussion with Secretary Shultz about human rights and Southern Africa, which I have recorded separately, the Prime Minister also raised a number of arms control issues. Some of what follows is very sensitive, and I should be grateful if this letter could be given only a very restricted distribution.

The Prime Minister said that she hoped the new Administration would conduct a careful review of the balance of advantage between the United States and the Soviet Union which would result from a START Agreement on the lines presently being discussed. She was uneasy about the scale of reductions in the United States submarine-launched deterrent, particularly against the background of improvements in Soviet anti-submarine warfare capability. Moreover, Soviet steps to modernise and update their ABM system round Moscow were of particular concern. There were also political factors. We had to be ready for a situation where Gorbachev failed and was replaced by an old-style Soviet leader. In such circumstances, the Soviet Union would be able to restore its armaments more quickly than the democracies. There was also the question of Soviet trustworthiness, particularly in the light of their deception over chemical weapons and their continued supply of missiles to Middle East countries. Her basic question was: would we still be safe as a result of a START Agreement? She thought the answer was probably yes, provided it was clear that there would be no further reductions beyond the 50 per cent envisaged.

Secretary Shultz said that the Prime Minister's question related principally to how a START Agreement would affect the structure of United States nuclear forces. In his view the outcome was very much to the United States' advantage, certainly compared with the likely situation were there to be no START Agreement. A higher proportion of United States warheads would be on submarine-launched missiles than was the case for the Soviet Union. This assessment had recently been confirmed by the Joint Chiefs of Staff. The question was rather whether a START Agreement could be achieved, given the difficulties being created by the Soviet Union over SLCMs and a number of other technical issues. He agreed with the Prime Minister, however, that it would not be prudent to go beyond 50 per cent reductions.

SECRET AND PERSONAL

Secretary Shultz continued that we could be confident that our plans for the 12-station bus version of Trident would not be affected by the START negotiations. Counting rules which the United States and the Soviet Union were discussing were perfectly consistent with enabling the United Kingdom to have a larger number of warheads on its Tridents.

The Prime Minister said that she remained concerned about the difficulty of verifying an Agreement to eliminate chemical weapons. Secretary Shultz said this was conceptually correct. Equally, intelligence sources had proved remarkably effective in detecting the presence of chemical weapons as well as research and manufacturing capability in countries such as Libya, Iraq and Syria. They also provided good information on the location of Soviet weapons and facilities. So while it was certainly hard to feel confident about the verification, in practice the United States had been able to detect the presence of such weapons fairly effectively. The real problem was not detection, but the lack of willingness on the part of Governments to condemn the use of such weapons where it had been proven, as in the case of Iraqi use of them against the Kurds. The current development of chemical weapons by Libya was a particular problem. There were a lot of people in Washington who believed that the United States should take out the chemical weapons facility. This was a big issue, and he was not sure what the outcome would be.

The Prime Minister said that she continued to wonder whether a limited chemical weapons capability would not give greater security than total elimination. Secretary Shultz said this would be compatible with the United States proposal for a Chemical Weapons Convention which envisaged a pause in the elimination of weapons after eight years, in order to assess the effectiveness of verification provisions. He fully shared the Prime Minister's concern about the proliferation of chemical weapons and ballistic missiles in the Middle East. The situation was nearly out of control. The Missile Technology Control Regime was a useful institution, and the Soviet Union was showing some interest in it. The United States had also been successful in derailing the planned Argentinian/Egyptian missile programme. There was 'lots cooking' in this area, and the West should work harder on it.

I am sending copies of this letter to Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely.

C.D. Powell

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

FILE

SUBJECT
CC MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 November, 1988.

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE UNITED STATES SECRETARY OF STATE AT THE STATE DEPARTMENT IN WASHINGTON ON WEDNESDAY, 16 NOVEMBER, 1988

The Prime Minister had a talk with Secretary Shultz after his lunch in her honour at the State Department in Washington this afternoon. Secretary Shultz was accompanied by Mrs. Ridgway and Ambassador Price. HM Ambassador, Washington, was also present. This letter records their discussion on human rights and Southern Africa. I am recording separately their talk on arms control.

Human Rights

Secretary Shultz said that he would be meeting Dr. Sakharov later in the afternoon and would be seeking his views about the proposal to hold a human rights conference in Moscow. Sakharov's earlier comments suggested that he was setting only two criteria for such a conference: the release of political prisoners and Soviet withdrawal from Afghanistan. He hoped to enlist Sakharov's support for setting a stiffer test and more extensive criteria.

The Prime Minister said that she just did not like the idea of having a human rights conference in Moscow. She feared that all those who had looked to the West to stand up for human rights would feel let down, and believe that we had allowed the wool to be pulled over our eyes. In her heart, she thought the Soviet system was simply incapable of implementing wholeheartedly the various steps which were necessary, above all the introduction of a genuine rule of law.

Secretary Shultz said that he felt torn on the issue. He shared the Prime Minister's scepticism whether a genuine rule of law was possible in the Soviet Union. But the Russians were talking about it. Perhaps they did not appreciate the meaning of the words. Equally, in their system, rhetoric usually did precede action. They tended to argue conceptually before doing something.

The Prime Minister said that the West would have to be careful that the Soviet Union did not go back on any promises made. This meant that guarantees of human rights must be institutionalised in law. But the thing which continued to worry her most was the fear of disappointing people in the Soviet Union and Eastern

Europe whose hopes had ridden with the West. We would have to be very firm in insisting that our criteria were met, even at some political cost in seeing to be putting obstacles in the way of better relations. Secretary Shultz said that he agreed that changes must be institutionalised. It was worth noting Dr. Sakharov's view that, in the right circumstances, a human rights conference in Moscow could actually be helpful to human rights activists. But at bottom he shared the Prime Minister's scepticism.

Angola/Namibia

Secretary Shultz briefed the Prime Minister on the progress of the negotiations for withdrawal of Cuban troops from Angola, basing himself on the enclosed paper. He added that it remained the American view that no one could give the Angolan Government legitimacy except Savimbi. The Soviets had played a useful role, and seemed to have told the Cubans that they were not willing to pay any more for the war in Angola. The Angolans would be unable to support it on their own. The whole thing was falling apart on their side. The Prime Minister commented that the outcome of the Geneva Meeting was a remarkable success for American diplomacy.

South Africa

The Prime Minister said that she hoped there would not be pressure from the United States for further sanctions against South Africa. There were at last some signs of movement on the situation there. Secretary Shultz said that the Administration had stood up to Congress this year. He did not expect to see the issue of sanctions back again next year: it was basically an election year issue. There was also a growing realisation that sanctions would not do much good. The Prime Minister said that the United Kingdom would continue to stand firm against sanctions. Secretary Shultz said that he had not at all given up hope for progress in South Africa. He welcomed President Botha's visits to other African States.

I am sending copies of this letter to Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C.D. Powell

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

Status of Negotiations and NR in Angola

Assuming the Ad Referendum agreement on Cuban troop withdrawal reached November 15 in Geneva is approved by the Angolan, Cuban and South African governments, there will be an initialing of the interlocking agreements in Brazzaville in late November and a final signing ceremony in New York in early December. Implementation of UNSCR 435 could then be set for early February.

The Ad Referendum agreement on TCTW calls for:

- Cuban standdown from attacks on UNITA.
- 3,000 Cubans to depart Angola between the date of signing and the beginning of 435 implementation.
- All Cubans to be north of the 15th parallel by 4 months after the beginning of 435 implementation and north of the 13th parallel before the 7-month mark (the date set for Namibian elections).
- 50% of the 50,000 Cubans to have departed Angola by 7 months after 435 implementation begins and 2/3 of all Cubans to have left by 1 year.
- 76% of all Cubans to have left by 18 months.
- The residual Cuban presence to be no more than 12,000 at month 21 and all will have departed by month 27.

National Reconciliation

In conjunction with the likely end-of-November meeting in Brazzaville, President Sassou-Nguesso has told us that he will convene Angolan President dos Santos and other African leaders to launch a National Reconciliation process, including a ceasefire and talks between UNITA and the MPLA under African mediation. Pending achievement of NR, our support for UNITA will continue.

There is widespread support for NR, including from the Soviets and Cubans. The MPLA accepts the NR concept and, with the Geneva agreement, will now have to face putting some meat on the bones. The key issue remains the role of Jonas Savimbi. Dos Santos now appears to understand that this will have to be negotiated directly with Savimbi. (He told King Hassan of Morocco that he would agree to meet with Savimbi "under the right circumstances.")

We expect to go over the African game plan for NR with Savimbi early next week, and will be stepping up the pressure on the MPLA through African leaders committed to broker a negotiated end to the Angolan civil war.

Chart 1 -- Current Cuban Troop Dispositions

-- This map illustrates the current location of appproximately 50,000 Cuban troops in Angola. Each figure represents approximately 1, 000 Cuban troops:

-- Most Cuban troops are now located in southern Angola. Some 18,000 are concentrated in southwestern Angola on the border with Namibia. This powerful force is equipped with advanced armor, artillery, attack aircraft, and air defense weapons;'

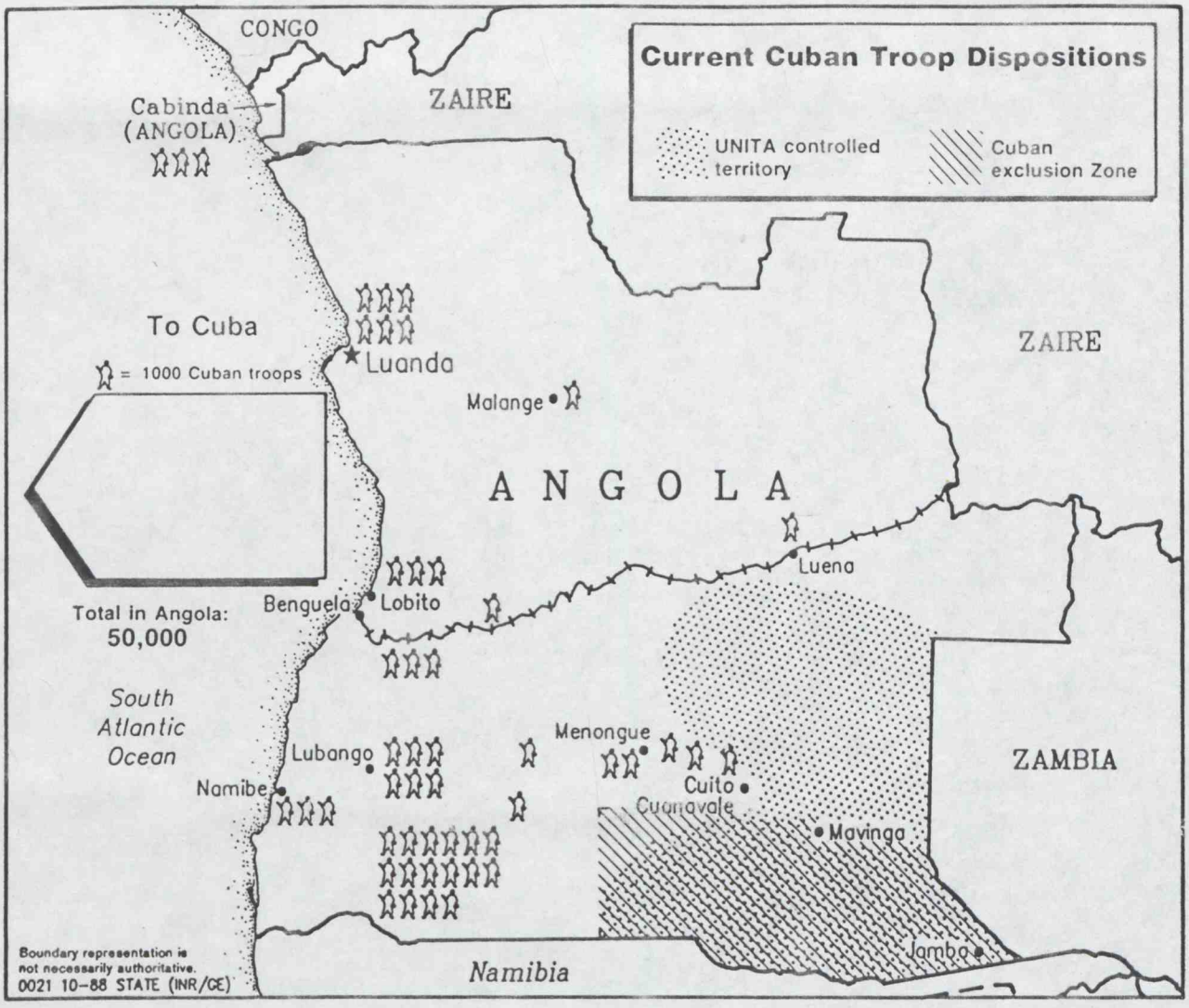
-- Cuban troops are also located at Cuito Cuanavale in southeastern Angola, the traditional jump-off point for offensives by the military forces of the Luanda government (FAPLA) against UNITA's strongholds at Mavinga and Jamba:

-- Cuban forces are also deployed on two East/West lines: one in southern Angola from the port of Naimbe to Cuito Cuanavale and one in central Angola along the line of the Benguela Railway;

-- Small detachments of Cuban troops are located at Luanda, in the oil-producing Cabinda enclave, and at certain scattered locations in northern Angola;

(1)

SECRET *NOFORN*



SECRET *NOFORN*

Chart # 3 -- D-Day + 4 Months

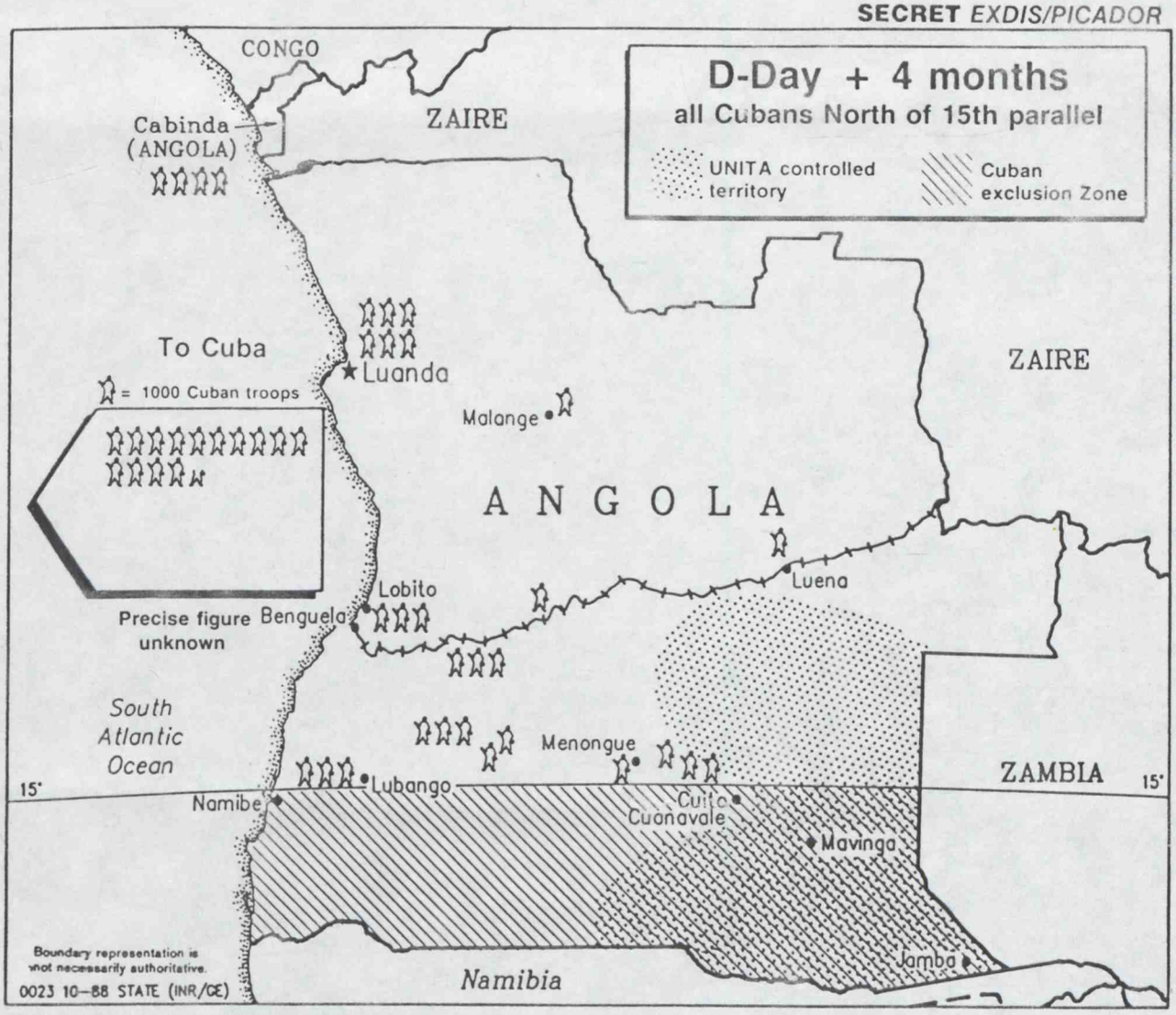
-- Four months into the Cuban withdrawal process, the situation will already have shifted dramatically in favor of UNITA:

-- The Cuban exclusion zone will include all of Angola south of parallel 15. This would compel Cuban evacuation of their current positions in southwestern Angola.

-- More importantly, it would compel Cuban evacuation of Cuito Cuanavale, the traditional jump-off point for Cuban offensives against UNITA.

-- In addition to removing Cuban logistical and advisory support, the departure of Cuban troops will erode FAPLA morale and undermine the psychological climate for offensive action against UNITA.

(3)


CONGO
ZAIRE
Cabinda
(ANGOLA)
D-Day + 4 months
all Cubans North of 15th parallel
UNITA controlled territory
Cuban exclusion Zone
To Cuba
= 1000 Cuban troops
Precise figure unknown
Luanda
Malange
ZAIRE
ANGOLA
Lobito
Benguela
Luena
South Atlantic Ocean
Menongue
ZAMBIA
15°
15°
Namibe
Lubango
Cuito Cuanavale
Mavinga
Jamba
Namibia
Boundary representation is not necessarily authoritative.
0023 10-88 STATE (INR/GE)

SECRET/SENSITIVE

Chart #2 -- Pre D-Day

-- This and subsequent charts depict thei impact of Cuban troop withdrawal on UNITA's strategic situation.

-- The term D-Day refers to the date for the formal beginning of Cuban troop withdrawal from Angola and implementation of the UN plan for independence in Namibia;

The parties have agreed that 3000 Cuban troops will depart Angola before D-Day.

SECRET/SENSITIVE

(2)

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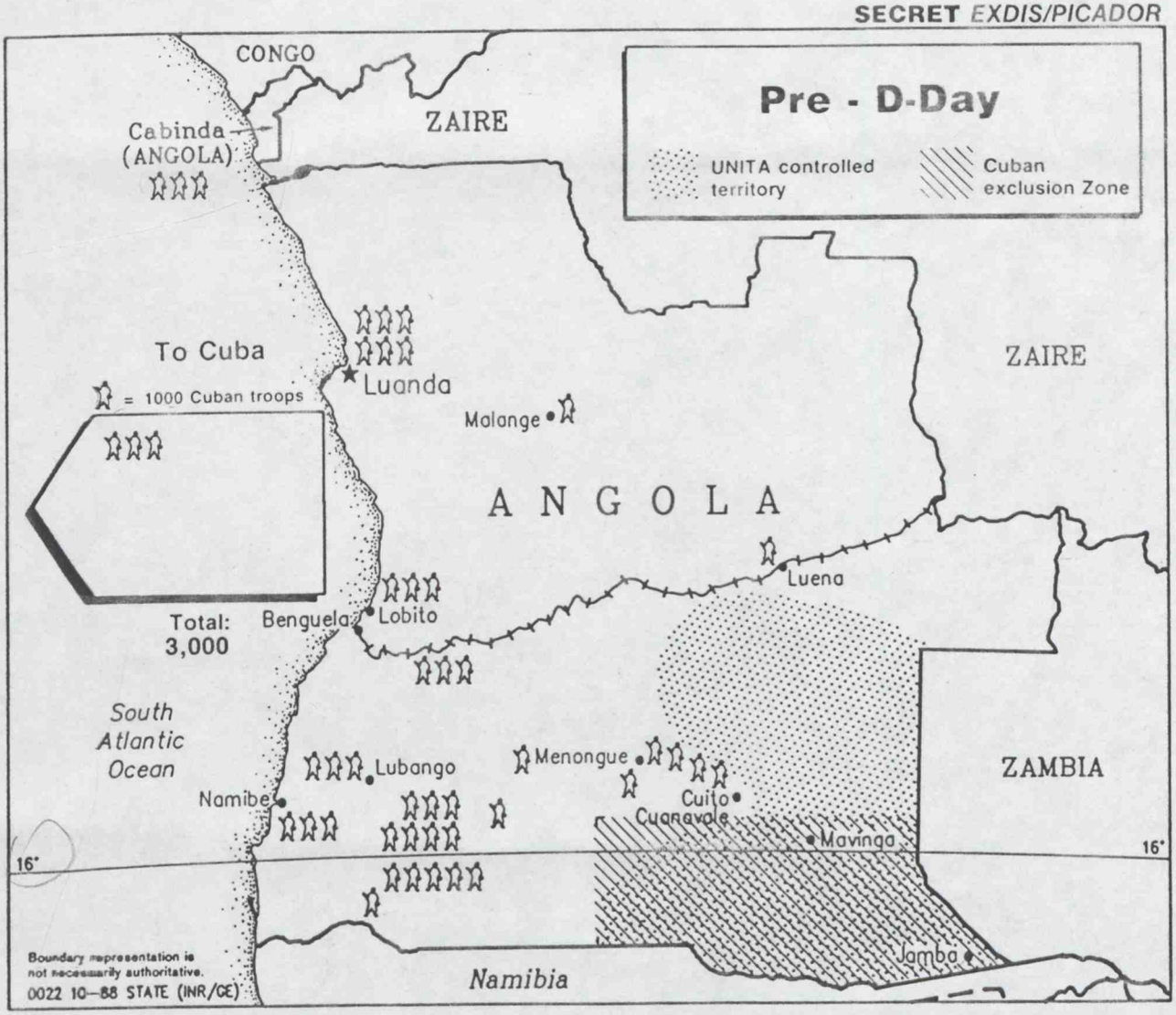


SECRET *EXDIS/PICADOR*

Chart # 4 -- D-Day = 7 Months

-- Seven Months into the withdrawal process, Cuban troops would be effectively removed as a factor in the UNITA-MPLA military equation;

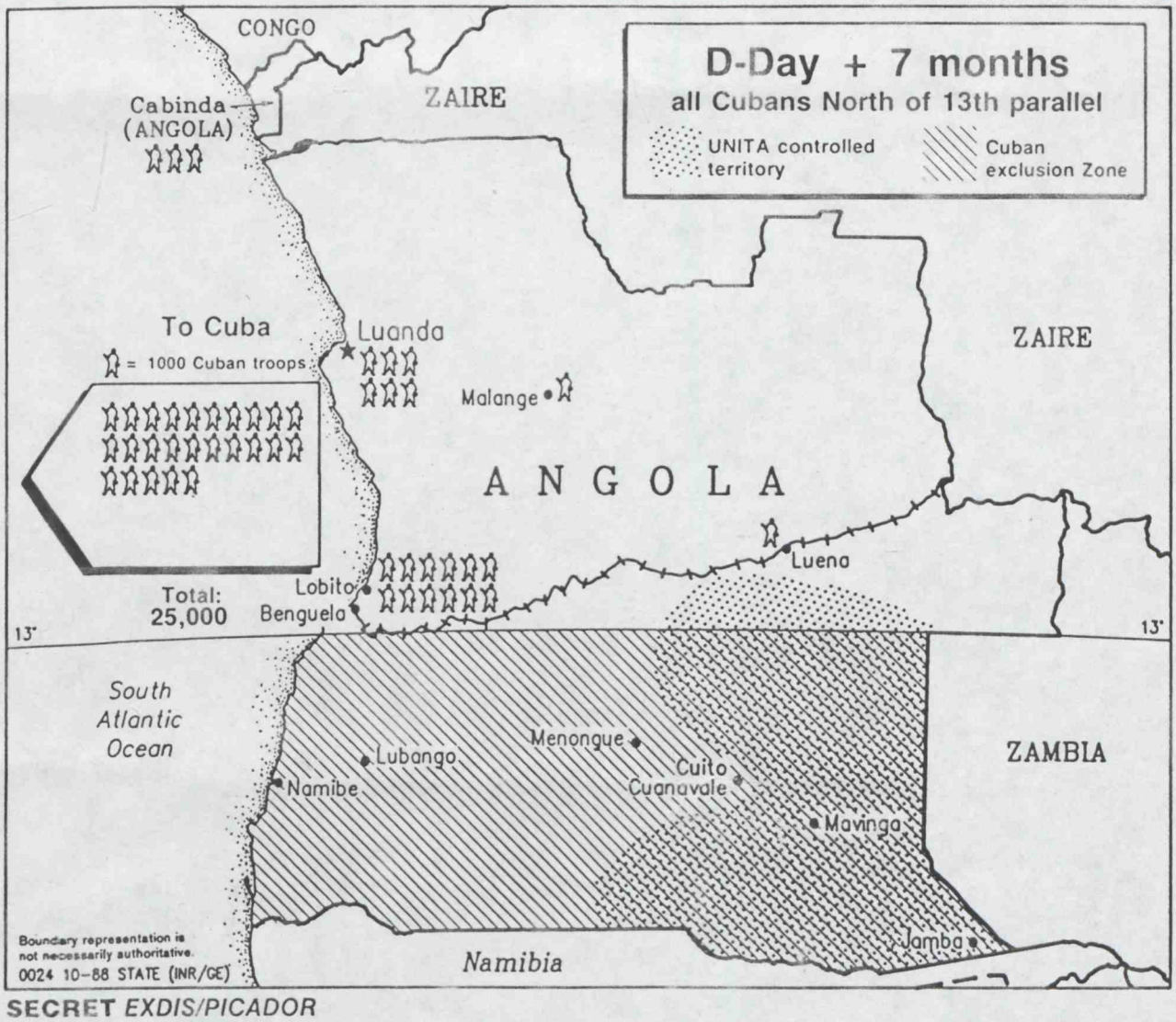
-- A total of 25,000 Cuban troops (1/2 of the Cuban troops now in Angola) will have left for Cuba;

-- Remaining Cuban troops will be excluded from all Angolan territory south of parallel 13. Thus, no Cuban troops would be permitted within hundreds of kilometers of UNITA's key strongholds;

-- In order to provide security for their continuing withdrawal, Cuban troops would almost certainly be concentrated at the ports of Lobito and Benguela, thus further increasing the distance between them and UNITA base areas;

-- With no Cuban presence at all in southern Angola, UNITA would be free to take on FAPLA on extremely favorable terms. This shift in the military balance woudl generate overwhelming pressure on the MPLA to negotiate an end to the civil war with UNITA.

(4)


D-Day + 7 months
all Cubans North of 13th parallel
UNITA controlled territory
Cuban exclusion Zone
CONGO
ZAIRE
Cabinda (ANGOLA)
To Cuba
= 1000 Cuban troops
Total: 25,000
Luanda
Malange
ANGOLA
ZAIRE
Lobito
Benguela
Lueno
13°
13°
South Atlantic Ocean
Lubango
Namibe
Menongue
Cuito Cuanavale
Mavinga
ZAMBIA
Jamba
Namibia
Boundary representation is not necessarily authoritative.
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SECRET/SESITIVE

Chart #5 -- D-Day + 12 months

-- At 12 months into the withdrawal process, 33,000 Cuban troops (66% of all Cuban troops now in Angola) will have left for Cuba;

-- The remaining 17,000 Cuban troops will remain confined north of parallel 13

(5)

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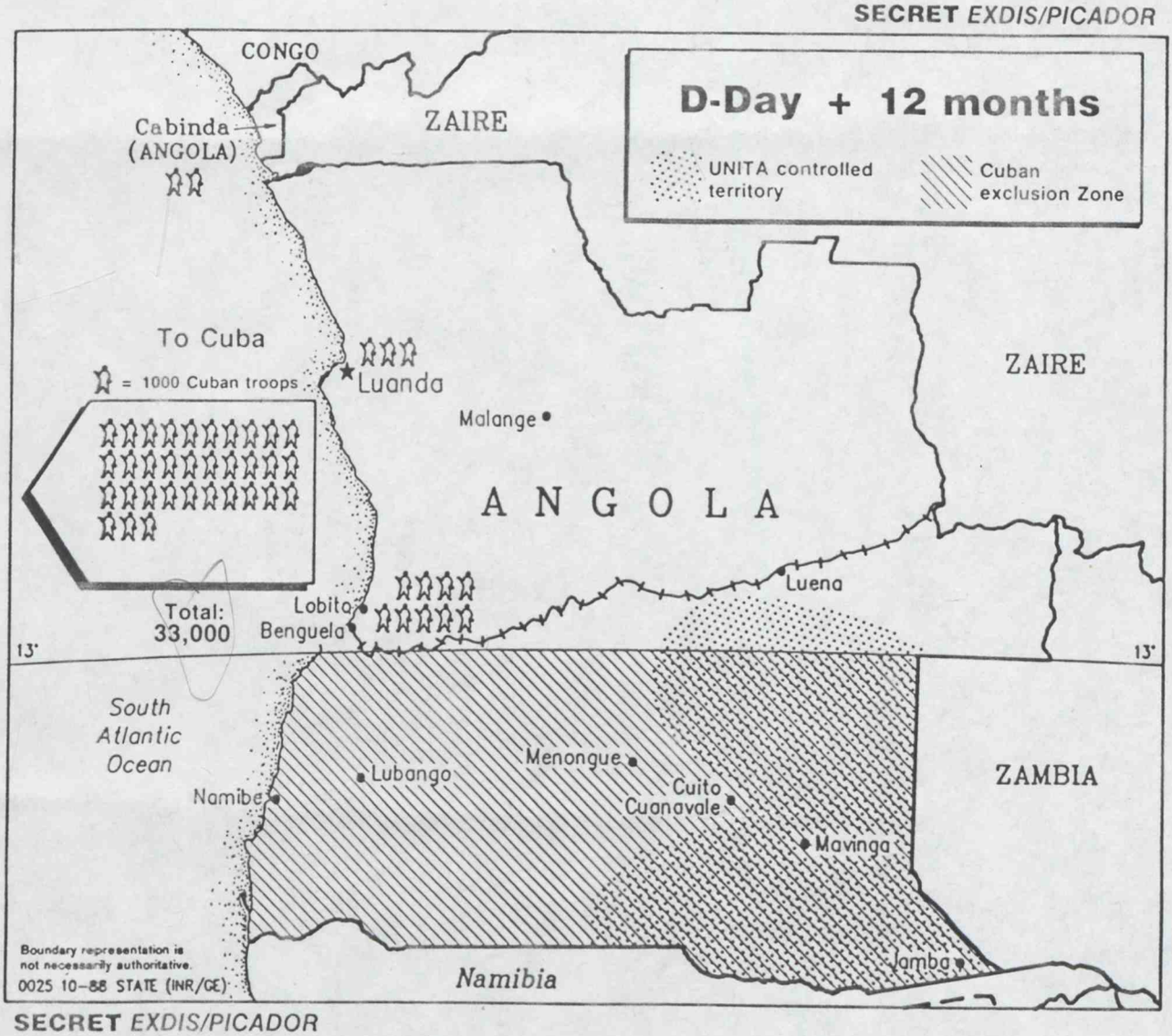

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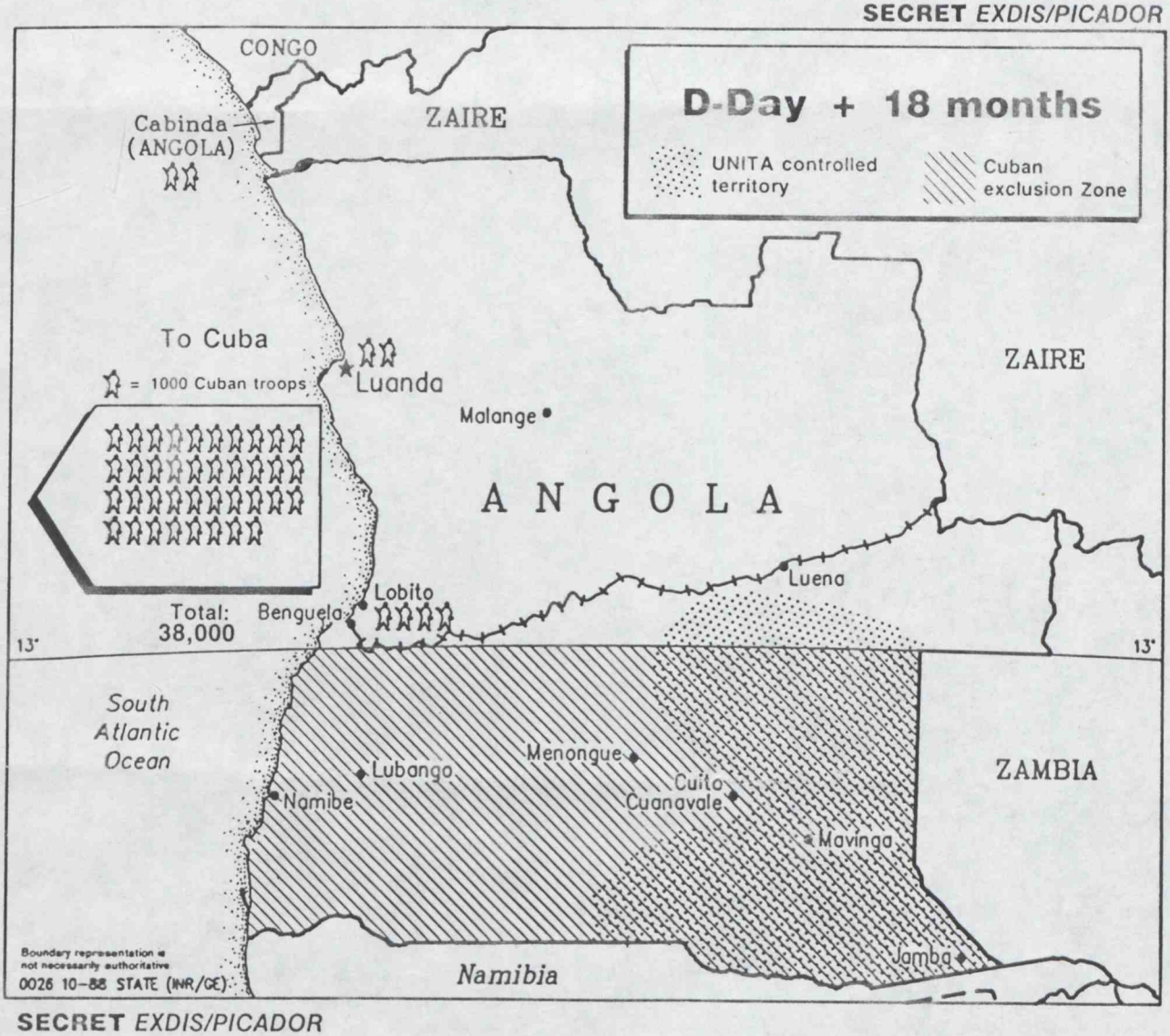
Chart # 6 -- D-Day + 18 months

--At 18 months into the withdrawal process, 38,000 Cuban troops will have left for Cuba.

--The dwindling number of Cuban troops remaining in Angola will continue to be confined north of parallel 13 and would have a negligible impact on the country-wide UNITA-MPLA military balance.

--The departure of all remaining Cuban troops would take place over the next nine months.

(6)


D-Day + 18 months
UNITA controlled territory
Cuban exclusion Zone
CONGO
ZAIRE
Cabinda (ANGOLA)
To Cuba
= 1000 Cuban troops
Total: 38,000
Luanda
Malange
ANGOLA
ZAIRE
Lobito
Benguela
Luena
13°
13°
South Atlantic Ocean
Lubango
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Boundary representation is not necessarily authoritative
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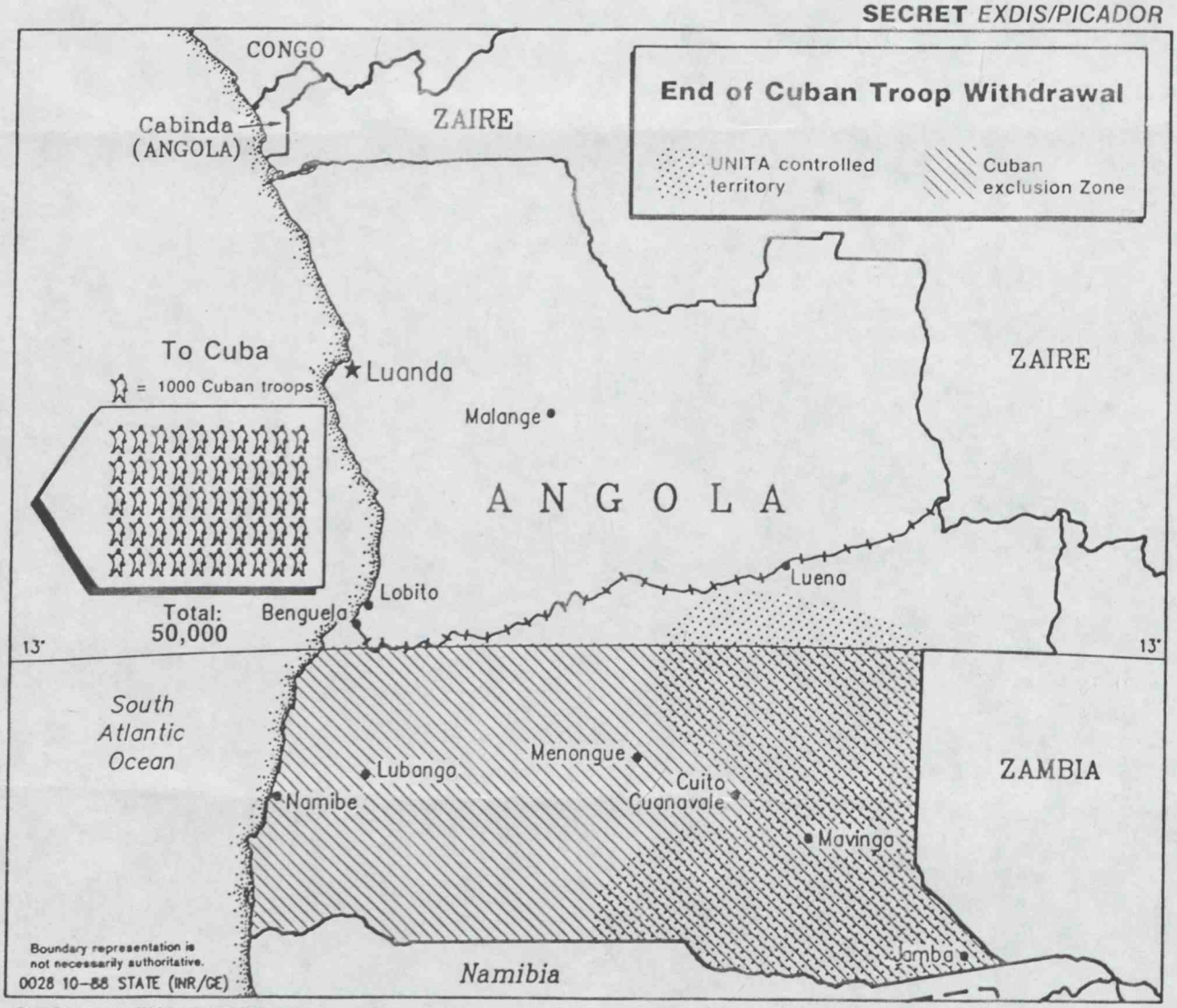

SECRET *EXDIS/PICADOR*

MR. POWELL

cc.

Mr. Ingham

THE DEFICIT

At Secretary Shultz's lunch I sat next to Nicholas Brady, Secretary of the Treasury, and inevitably we talked a bit about the deficit.

He said that the truth was that the Vice-President, Secretary Baker and he and many others had been so busy with the Election that they had had no time to work out a strategy for action. The Vice-President would continue to be very pre-occupied with putting his team together. Furthermore, people outside Washington did not realise that an Administration was far from being a free agent. They had Congress to contend with and to negotiate with, and often Congress was on the other side of the fence.

He said that the Prime Minister must always make up her own mind on what she should say in answer to questions. He thought it would be helpful to the Vice-President and to him if she could point out some of the difficulties seeing that the Election had only just taken place, and that it was unreasonable to expect an immediate and coherent plan of campaign, but that she knew that this was a very important issue which the new Administration would want to tackle responsibly and in a managed way. The outside world must not expect quick announcements, and after all the Inauguration would not take place until 20 January. Meanwhile, in many respects the American economy was in very good shape, and as a proportion of GDP the deficit was not unduly high. The latest trade figures were a little bit better than the previous ones.

AA
16.11.88

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Foreign and Commonwealth Office

London SW1A 2AH

15 November 1988

No action
PSS 15/11

Dear Charles,

Prime Minister's visit to Washington: CST

We have sent the enclosed brief in the form of a telegram to reach you in Washington but you may like to have this copy to take with you on the plane.

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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OUT TELEGRAM

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FOLLOWING FOR POWELL, PRIME MINISTER'S PARTY, FROM PRIVATE SECRETARY

PRIME MINISTER'S VISIT TO WASHINGTON: CONVENTIONAL STABILITY TALKS (CST)

1. Washington report that Reagan, Bush and Shultz have at the last minute been briefed to raise conventional arms control with the Prime Minister. There are two developments which are causing the Americans concern:

i) The inclusion in the Alliance's CST proposal of a measure which would divide the Atlantic To The Urals (ATTU) area on the Western side into 3 zones. Most European members of the Alliance believe that a zonal arrangement is necessary, both to prevent the Soviet Union from concentrating its forces on one part of the East-West dividing line and as the price for getting the French to accept the idea of equal ceilings between East and

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OUT TELEGRAM (CONT)

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West (which Mitterrand dislikes for its ''bloc-to-bloc'' flavour). We have moved the French a long way by persuading them to accept equal ceilings in 3 zones (which means that there will in fact also be equality in the ATTU area). But the only zonal arrangement which has a fair chance of being accepted is one which consists of all the countries relevant to the central front (including Denmark, the UK, Spain and Porgugal), leaving small zones to the North (Norway and Iceland) and South (Greece and Turkey) semi-colon

ii) A late move by Mitterrand to reinterpret the compromise worked out between France and the US at Reykjavik last year on the relationship between the CST negotiations and the CSCE process. Last week the French put to the US, UK, FRG and Italy a string of proposals to ''clarify'' the link between CST and CSCE. Some are reasonable semi-colon but others would undermine the Reykjavik agreement in the Alliance that CST should have ''autonomy as regards subject matter, participation and procedures''. (In other words the CST negotiations must not be subordinated to CSCE or interrupted for CSCE review meetings).

2. The US line is likely to be as follows:

i) The French must not be allowed to undermine the Reykjavik Compromise.

ii) It is important that the West should have an agreed proposal ready for the launching of CST.

/// // / iii) The Alliance should avoid any zonal arrangement which risks undermining the strategic unity of the West.

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iv) (Possibly) The fact that the French are asking for procedural changes should be used to put greater pressure on them to make concessions on the substance of the Western proposal (especially one equal ATTU-wide ceiling).

3. Our reading is that US leaders are being briefed on this subject, not because they have a particular problem with the British or German positions, but because they look in particular to us and the FRG for support in finding a satisfactory Alliance position. The US Government will want to make sure that the Germans do not get too close to the French on the remaining issues to be resolved. The US will also want our support, because we have been taking the lead in drafting the Alliance CST proposal. Their hope will be that we will be persuaded to solve the zones versus equal ceilings problem by skilful redrafting. We have indeed prepared a redraft, which retains a 3 zone arrangement, but as a subordinate element in a model where all the emphasis is on measures which apply right across the ATTU area. We did not circulate it last week, partly because of the French bombshell about the CST/CSCE link but partly because we wanted to consult the US and the flank countries further in order to take maximum account of their thinking.

4. If the points mentioned above are raised, the Prime Minister might comment as follows:

- we need no reminder of the importance of keeping the Alliance show on the road. We worked very hard to get agreement to the Reykjavik formula and we agree on the need to avoid any undermining of the position agreed at Reykjavik. We share the American view of the importance of an agreed Western proposal for the launching of CST. We agree that the Alliance

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should avoid any zonal arrangement which risks undermining the strategic unity of the West. Our own proposal, which does not undermine this strategic unity, looks like being the only way to bring the French on board. The Foreign Secretary spoke both to Dumas and Genscher at the WEU Ministerial meeting in London on Monday. Genscher shared our anxiety about the French tendency to go back on the Reykjavik compromise. Dumas himself appeared to want to cooperate with us and to keep the negotiations on the agreed route.

5. More detailed points the Prime Minister might like to draw on are as follows:

i) Reykjavik Compromise

We have already told the French that we will not accept anything which goes against the hallowed formula (''autonomy as regards subject matter, participation and procedures''). We rather than the US took the lead in ruling out some of the French proposals as soon as they were made.

ii) Alliance Proposal

Totally agree that we must have a robust proposal ready for the opening of CST. If not, the Warsaw Pact will enjoy the initiative from the start. That is why the UK has taken the lead in working out a compromise acceptable to all Allies. We intend to circulate a new draft, but not until we have had further discussion with the US and flank countries. We are also waiting to see whether we can use France's preoccupation over the CST/CSCE link in order to force concessions on substance. We have already discussed this strategy with the US and FRG.

iii) A Zonal Arrangement

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OUT TELEGRAM (CONT)

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The idea of a zonal division is not new or heretical: it features in the NATO Summit statement on conventional arms control. It also makes good military and arms control sense. But we agree that it should be at most a subordinate part of the Western proposal, which should emphasise the strategic unity of the Alliance. If the French can be persuaded to accept equal ceilings without a 3 zone model (possibly using only a central zone) that may be the best outcome. But important to remember that it is not just the flank countries which are sensitive about the zonal issue.

HOWE

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HD SEC POL DEPT
MR MORTIMER, SEC POL DEPT
PS/DEFENCE SECRETARY
PS/SIR R BUTLER, CABINET OFFICE

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mr Powell

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FROM PRIVATE SECRETARY FOR PS/PRIME MINISTER
ARAB/ISRAEL: ALGIERS PNC: PRIME MINISTER'S MEETING WITH BUSH

1. YOU WILL HAVE SEEN ALGIERS TELNOS 314 AND 315 REPORTING THE PALESTINE NATIONAL COUNCIL (PNC) MEETING IN ALGIERS ON 12-15 NOVEMBER. THE TEXTS ADOPTED, SOME OF WHICH ARE AVAILABLE ONLY IN ARABIC, WILL REQUIRE DETAILED STUDY, BUT OUR PRELIMINARY ANALYSIS IS THAT THEY CONTAIN A NUMBER OF SIGNIFICANT NEW POINTS.

2. THE AFFIRMATION OF THE NEED FOR AN INTERNATIONAL CONFERENCE IN ACCORDANCE WITH SCRS 242 AND 338 AND THE PALESTINIAN RIGHT TO SELF-DETERMINATION IS THE FIRST EXPLICIT ACCEPTANCE BY THE PLO OF SCR 242. THOUGH QUALIFIED BY THE REFERENCE TO SELF-DETERMINATION AND SET IN THE CONTEXT OF A CONFERENCE, THIS IS A SIGNIFICANT IMPROVEMENT ON PREVIOUS PLO AND ARAB FORMULATIONS (EG THE FEZ DECLARATION). IT IS ALSO SIGNIFICANT THAT THE DECISION WAS TAKEN BY MAJORITY VOTE AND THAT THE OPPONENTS ANNOUNCED THEIR WILLINGNESS TO ABIDE BY THIS DECISION.

3. SECONDLY, WHILE THE STATEMENTS OFFER NO EXPLICIT RECOGNITION OF ISRAEL, RECOGNITION IS IMPLICIT THROUGHOUT, NOTABLY IN THE ACCEPTANCE OF SCR 242, THE CALL FOR ISRAEL'S WITHDRAWAL ONLY FROM TERRITORY OCCUPIED SINCE 1967 AND THE REJECTION OF THE USE OF FORCE AGAINST THE TERRITORIAL INTEGRITY OF OTHER STATES.

4. THE PLO HAVE ALSO REAFFIRMED THEIR REJECTION OF TERRORIS-, THOUGH THIS IS QUALIFIED BY A CLAIM THAT THE PALESTINIANS ARE ENTITLED TO RESIST FOREIGN OCCUPATION.

5. THE PLO HAVE DECLARED AN INDEPENDENT PALESTINIAN STATE WITH JERUSALEM AS ITS CAPITAL (BUT WITH NO DETAILED REFERENCE TO BOUNDARIES). THIS IS OBVIOUSLY PREMATURE, SINCE THE STATUS OF THE OCCUPIED TERRITORIES AND JERUSALEM CAN BE SETTLED ONLY BY NEGOTIATION. NEVERTHELESS, THE DECLARATION OF INDEPENDENCE IS QUALIFIED BY A MORE REALISTIC STATEMENT TO THE EFFECT THAT RELATIONS BETWEEN JORDAN AND THE PALESTINIANS WILL BE ON A CONFEDERAL BASIS. THE WAY IS THEREFORE STILL OPEN FOR JORDAN TO PLAY A MAJOR ROLE IN ANY NEGOTIATED SETTLEMENT.

6. THE FOREIGN SECRETARY JUDGES THAT THE PLO HAVE MOVED SOME WAY TOWARDS MEETING OUR (AND US) CONDITIONS FOR HIGH-LEVEL CONTACT. THEY HAVE NOT EXPLICITLY RECOGNISED ISRAEL OR RENOUNCED VIOLENCE IN THE OCCUPIED TERRITORIES. BUT GIVEN ISRAEL'S RESPONSE TO THE UPRISING THERE WAS REALLY NO CHANCE OF THEM GOING FURTHER. THEY HAVE, HOWEVER, GIVEN A SIGNAL OF THEIR INTEREST IN A PEACEFUL SOLUTION. WE SHOULD RECOGNISE AND ENCOURAGE THIS TREND AND URGE THE US AND ISRAEL TO RESPOND CONSTRUCTIVELY. (FIRST REACTIONS FROM ISRAEL HAVE BEEN WHOLLY NEGATIVE).

7. THE FOREIGN SECRETARY THEREFORE RECOMMENDS THAT, IN ADDITION TO THE POINTS IN MY LETTER OF 9 NOVEMBER, THE PRIME MINISTER SHOULD SUGGEST TO BUSH THAT ALTHOUGH THEY HAVE STILL NOT GONE AS FAR AS WE WOULD LIKE, THE PNC DECISIONS SEEM A SIGNIFICANT STEP FORWARD WHICH COULD HELP PREPARE THE WAY TO PARTICIPATION IN PEACE NEGOTIATIONS. THEIR ACCEPTANCE OF AN INTERNATIONAL CONFERENCE IN ACCORDANCE WITH SCR 242 GIVES BUSH AND HIS TEAM A GOOD DEAL TO BUILD ON. BUT THE PLO ARE UNLIKELY TO MOVE FURTHER WITHOUT SOME POSITIVE RESPONSE FROM THE ISRAELIS. IN OUR VIEW THE US PRIORITY NOW SHOULD BE TO SECURE A PARALLEL COMMITMENT FROM THE NEW ISRAELI GOVERNMENT TO NEGOTIATIONS ON THE BASIS OF SCR 242 - TERRITORY FOR PEACE.

8. WITH THE MEDIA, THE PRIME MINISTER MIGHT TAKE THE LINE THAT THE PNC DECISIONS ARE A POTENTIALLY IMPORTANT STEP FORWARD WHICH WE SHALL BE STUDYING CAREFULLY. ACCEPTANCE OF UNSCR 242 IN THE CONTEXT OF AN INTERNATIONAL CONFERENCE IS A GOOD BASIS ON WHICH TO BUILD. WE CALL ON ALL PARTIES TO RENEW EFFORTS TO REACH AGREEMENT ON ARRANGEMENTS FOR A CONFERENCE. IF PRESSED ON THE DECLARATION OF A STATE, THE PRIME MINISTER MIGHT SAY THAT THIS IS PREMATURE. THE FUTURE OF THE OCCUPIED TERRITORIES MUST BE SETTLED BY NEGOTIATION.

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SAKHAROV'S VISIT TO THE US

SUMMARY

1. SAKHAROV MAKES CLEAR TO PRESIDENT REAGAN (AND IN PUBLIC) THAT HE TO SUPPORTS PERESTROIKA BUT THAT THERE ARE STILL SERIOUS SHORTCOMINGS IN THE SOVIET HUMAN RIGHTS PERFORMANCE.

DETAIL

2. SAKHAROV SPENT 40 MINUTES WITH PRESIDENT REAGAN ON 14 NOVEMBER.

3. ACCORDING TO A CONTACT ON THE NSC STAFF WHO ATTENDED THE MEETING, SAKHAROV TOOK THE LINE THAT SOVIET PERFORMANCE ON HUMAN RIGHTS ISSUES WAS MIXED. GORBACHEV HAD REEASED SOME POLITICAL PRISONERS. BUT MANY REMAINED IN JAIL. HE DREW THE PRESIDENT'S ATTENTION TO THE CASES OF MELANOV AND KUKOBAKA, BOTH OF WHOM HAD APPARENTLY BEEN IMPRISONED FOR SUPPORTING SAKHAROV AT AN EARLIER STAGE. SAKHAROV SAID THAT HE WAS ALSO CONCERNED ABOUT THE TREATMENT OF NATIONAL MINORITIES IN THE SOVIET UNION, AND GAVE AS AN EXAMPLE THE TREATMENT OF THE DISURBANCES IN NAGORNO-KARABAKH. HE ALSO SAW DANGERS IN THE CONCENTRATION OF POWER IN THE HANDS OF GORBACHEV.

4. ON ECONOMIC REFORM, SAKHAROV SAID THAT HE HAD FREQUENTLY BEEN ASKED SINCE HIS ARRIVAL IN THE US WHETHER IT WAS IN THE WEST'S INTERESTS THAT PERESTROIKA SHOULD SUCCEED, AND WHETHER THE WEST SHOULD THEREFORE TRY TO HELP GORBACHEV. HIS ANSWER WAS THAT IT WOULD BE WORSE BOTH FOR THE SOVIET UNION AND THE WEST IF PERESTROIKA FAILED. THE SOVIET AUTHORITIES WOULD ALWAYS FIND THE RESOURCES NEEDED BY THE MILITARY SECTOR. BUT IF PERESTROIKA AND THE DEMOCRATISATION PROCESS FAILED, THAT WOULD MAKE THE SOVIET UNION A MORE DANGEROUS PLAYER ON THE WORLD STAGE.

5. THE ONLY SPECIFIC POLICY ISSUE RAISED BY SAKHAROV WERE START (ON WHICH HE EXPRESSED SUPPORT FOR AN EARLY AGREEMENT) AND SDI (WHICH HE SAID) WOULD NOT WORK, AND WOULD NOT LEAD TO GREATER SECURITY. THE PRESIDENT APPARENTLY DEMURRED, BUT THIS EXCHANGE WAS IN LOW KEY AND DID NOT SPOIL THE EXTREMELY WARM ATMOSPHERE OF THE MEETING. SAKHAROV DID NOT RAISE THE PROPOSAL

FOR A HUMAN RIGHTS CONFERENCE IN MOSCOW.
6. IN HIS PUBLIC COMMENTS, SAKHAROV HAS NOT BEEN PULLING HIS PUNCHES ABOUT THE SITUATION IN THE SOVIET UNION. IN THE COURSE OF SPEECHES TO THE ACADEMY OF SCIENCES AND THE HELSINKI WATCH COMMITTEE IN NEW YORK ON 11 NOVEMBER SAKHAROV:
(I) ACCUSED THE SOVIET AUTHORITIES OF RESUMING ARRESTS OF POLITICAL DISSIDENTS
(II) URGED THE ADMINISTRATION TO KEEP UP THE PRESSURE ON THE SOVIET UNION TO COMPLETE ITS WITHDRAWAL FROM AFGHANISTAN ON TIME AND TO MAKE THIS A CONDITION FOR WESTERN PARTICIPATION IN A MOSCOW HUMAN RIGHTS CONFERENCE
(III) CHARGED THAT THE NEW SOVIET LAWS ON FREEDOM OF SPEECH WERE BEING DRAFTED IN SECRET WITH NO OPPORTUNITY FOR SOVIET PEOPLE TO EXPRESS THEIR VIEWS
(IV) ENCOURAGED THE WEST TO HOLD OUT FOR THE RELEASE OF ALL PRISONERS OF CONSCIENCE BEFORE AGREEING TO PARTICIPATE IN THE MOSCOW CONFERENCE.
7. SAKHAROV BALANCED THIS BY MAKING CLEAR THAT PERESTROIKA NEEDED WESTERN SUPPORT. GORBACHEV SHOULD BE HELPED: QUOTE BUT HE SHOULD BE HELPED IN A CRITICAL WAY. ONE SHOULD NOT THINK THAT ALL THE PROBLEMS HAVE BEEN SOLVED UNQUOTE.
8. PLEASE ADVANCE TO POWELL (NO 10).

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London SW1E 6RB

Switchboard
01-215 7877

Telex 8813148 DIHQ G
Fax 01-828 3258

Direct line 215 6499
Our ref
Your ref
Date 15 November 1988

Dear Gray,

VAUXHALL MOTORS LTD

1 I have just been told by Mike Waller (Treasury) that an urgent brief on Vauxhall's Ellesmere Port paint shop investment is needed against the possibility that the Prime Minister meets Mr Roger Smith, the GM chairman, during her visit to the USA.

2 If she does so, it would in our view be positively helpful if she were to raise the issue with him - though at the minimum she needs to be sighted in case he mentions it.

3 For reasons of time, I am sending this to you direct rather than through our Private Office.

Yours sincerely,
Stephen Bowen.

S J BOWEN

cc PS/Secretary of State, DTI
PS/Chancellor of the Duchy
PS/Sir Brian Hayes
Mr Williams
Mr Cochlin CVM
Miss Carter CVM5c
Mr Chastney IDU/IDA5
Mr Waller, Treasury

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VAUXHALL MOTORS: ELLESMERE PORT PAINT SHOP

BACKGROUND

1 The Prime Minister may meet Mr Roger Smith, chairman of General Motors, during her visit to the USA. If so, it would be helpful if she would raise an issue concerning GM's UK subsidiary, Vauxhall Motors Ltd.

2 Vauxhall have applied for Regional Selective Assistance (RSA) of £10m for a £56.25m project to build a new enamel paint shop at their Ellesmere Port car plant on Merseyside. They say that they will not proceed without assistance because they have adequate capacity elsewhere in Europe to meet growing demand for the higher quality enamel finish. If they do not proceed, car output at the plant would fall from 125,000 to 95,000 units a year and about 1,600 of the 5,000 employees would lose their jobs.

3 The case is complicated by Mr Roger Smith's personal involvement in the decision. He has an antipathy to Ellesmere Port, which he regards as inefficient and a last bastion of uncooperative trade unions. He has tied approval of the project to:

(i) direct financial assistance; and/or

(ii) satisfaction on an aspect of Vauxhall's tax affairs (where he is said to be incensed that tax will be charged at 40 per cent on the withdrawal of about £60m surplus funds from the company's pension fund even though, because Vauxhall were loss-making for many years, they received no tax relief when payments went into it).

4 On the first issue, we have just secured Ministerial and Treasury approval for an RSA offer in the range £6.452m to £8.065m. After negotiation, we have made Vauxhall a final offer of £7.5m, at the same time making clear that the tax aspect will have to run its own course. On that, Treasury Ministers have concluded that, since any tax relief (which would require legislation) would have to apply generally and therefore involve considerable potential cost, no concession can be made.

5 It thus remains to be seen whether the £7.5m RSA offer on its own is enough to persuade Mr Smith. A decision is due to be taken at a GM meeting in New York on 6 December.

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LINE TO TAKE

6 (a) know that GM are working hard to build more cars in the UK and to source more components there;

(b) very much hope that this will include investment in a new paint shop at Ellesmere Port. Without it, understand that the plant will be left producing cars with inferior finish and in smaller volume, so leading to significant job losses;

(c) we cannot change our tax law to deal with your pension fund problem. What we can do is offer you some financial assistance. We have proposed final figure of £7.5m. That represents over 13 per cent of the project cost - proportionately much more generous than Ford secured for their Bridgend engine plant (£26m assistance for a £725m project, or 3.6 per cent).

Consumer and Vehicles Markets Division
Branch 1

Department of Trade and Industry
15 November 1988

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The National Archives

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Foreign and Commonwealth Office

London SW1A 2AH

15 November 1988

Dear Charles

Prime Minister's meeting with President-elect Bush, 17 November: Afghanistan

When we framed the advice set out in Stephen Wall's letter of 9 November, there seemed no reason to highlight Afghanistan. Since then the situation has changed with Soviet threats to suspend troop withdrawal, the use of SCUD missiles and the intensification of the Soviet aerial bombing campaign (including the employment, for the first time in Afghanistan, of Backfire bombers).

The Prime Minister may wish to tell Vice-President Bush that we judge that the Soviet Union still intends to withdraw by the 15 February Geneva deadline, but that it is trying to intensify pressure on the resistance and Pakistan to do a deal with the Kabul regime which would save Soviet face and preserve some Soviet influence in Kabul. We shall be speaking to the Russians at senior official level to emphasise that they must complete their withdrawal by the deadline; that we deplore their introduction of more advanced weaponry into Afghanistan; and that stepping up the war at this late stage is a futile exercise which cannot save the doomed Kabul regime but which will increase the sufferings of the Afghan people. The Foreign Secretary will be pressing his colleagues in the Twelve at the Political Cooperation Ministerial meeting on 21 November to make an early public statement on these lines.

The Prime Minister may also want to express the hope that the Americans will encourage the incoming Pakistani government to take an early look at its Afghan policy, with the aim of avoiding Zia's excessive bias towards some resistance leaders (ie Gulbeddin Hekmatyar) at the expense of others. It is particularly important that they should adopt an even-handed approach to the proposed elections in refugee camps and resistance-held areas of Afghanistan to a Shoura (Council). These ought to be a step towards the establishment of a truly representative government. But if hijacked by arch-fundamentalists in the resistance, the elections could produce a narrowly-based "interim government" unacceptable to the Afghan people as a whole. The Pakistanis should be advised to use their influence to help ensure that, if the Shoura process goes ahead, it serves to heal the divisions within the resistance, not to exacerbate them. It might then provide a basis for a comprehensive settlement.

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There will probably be no need to go over this ground with President Reagan on 16 November. But the Prime Minister may wish to touch on the Soviet agreement to withdraw from Afghanistan as one of the major achievements of the President's tenure.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

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CCPC

Foreign and Commonwealth Office

London SW1A 2AH

14 November 1988

Dear Charles.

Prime Minister's meeting with President-Elect Bush, 17 November

WITH CCP?

Please refer to my letter of 9 November containing briefing for the Prime Minister's meeting with George Bush.

You will now have seen Washington telno 2743. It contains one new point, namely a recommendation that the Prime Minister should emphasise to Mr Bush the importance of sustaining confidence in Hong Kong up to 1997, and the part the US can play in that. Washington rightly note that Bush's own experience equips him to understand this well. We hope that the Prime Minister will be able to put this point across. It will greatly assist confidence if the new Administration can take the line that the Joint Declaration provides a firm basis for Hong Kong's stability and prosperity after 1997; that they will be looking for its scrupulous implementation; and that they expect Hong Kong to remain an important partner in trade and investment in the years ahead.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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MIPT: PRIME MINISTER'S VISIT TO WASHINGTON: MEETING WITH PRESIDENT-ELECT BUSH

1. BUSH IS CONSCIOUS, AND HAS STRESSED IN PUBLIC, THAT HE IS NOT YET THE PRESIDENT. HE HAS MADE CLEAR THAT, FOR THE MOMENT, HIS ATTENTION IS FOCUSSED MORE ON THE TRANSITION PROCESS THAN ON SUBSTANCE. HE WILL THEREFORE APPROACH HIS MEETING WITH THE PRIME MINISTER NOT AS AN OCCASION FOR TAKING DECISIONS, OR INDEED FOR DISCUSSION OF DETAIL, BUT AS AN OPPORTUNITY FOR A WIDE-RANGING AND REFLECTIVE DISCUSSION OF THE MOST IMPORTANT INTERNATIONAL ISSUES. OF THESE, I WOULD EXPECT HIM TO PREFER TO SPEND MOST OF THE LIMITED TIME AVAILABLE ON THE IMPLICATIONS FOR THE WEST OF THE CHANGES TAKING PLACE IN THE SOVIET UNION AND EASTERN EUROPE, PERHAPS TAKING AS A STARTING POINT THE PRIME MINISTER'S IMPRESSIONS OF HER VISIT TO POLAND (HE HIMSELF WAS THERE IN 1987).

2. ALTHOUGH TIME WILL BE SHORT, THE PRIME MINISTER COULD ALSO TOUCH BRIEFLY ON A NUMBER OF SPECIFIC POINTS WHICH IT WILL BE USEFUL TO LODGE IN BUSH'S MIND AT THIS EARLY STAGE:

(I) THE IMPORTANCE OF AN ALLIED HEADS OF GOVERNMENT MEETING BEFORE BUSH'S FIRST SUMMIT WITH GORBACHEV. BUSH'S COMMENTS AT HIS PRESS CONFERENCE THIS WEEK SHOW THAT HE IS ALIVE TO THE NEED FOR CONSULTATION, BUT THE PRIME MINISTER COULD EMPHASISE THE VALUE IN ALLIANCE TERMS OF A MEETING WITH HEADS OF GOVERNMENT BEFORE A US/SOVIET SUMMIT. DEPENDING ON THE TIMING OF THE LATTER, THIS COULD BE A QUICK MEETING IN BRUSSELS, OR (IF A SUMMIT WITH GORBACHEV SLIPS INTO THE SECOND HALF OF THE YEAR, AS SOME HERE EXPECT) A MEETING IN LONDON IN JUNE 1989, WHICH COULD TAKE THE PLACE OF THE REGULAR SPRING MINISTERIAL AND ALSO MARK NATO'S 40TH ANNIVERSARY.

(II) THE NEED FOR CONTINUING CLOSE CO-OPERATION ON SECURITY ISSUES. THE PRIME MINISTER COULD SAY THAT THE SECRETARY OF THE CABINET WILL BE HOPING TO MAKE EARLY CONTACT WITH THE NEW NSC ADVISER ABOUT BILATERAL NUCLEAR AFFAIRS, AND THAT WE SHALL ALSO PLAN TO KEEP IN CLOSE TOUCH ON THE FULL RANGE OF FORCE MODERNISATION AND ARMS CONTROL ISSUES CONFRONTING THE ALLIANCE.

(III) THE IMPORTANCE FOR THE SUCCESS OF THE GATT ROUND OF A STRONG US CONTRIBUTION TO THE MONTREAL MID TERM MEETING IN EARLY DECEMBER. THIS FALLS (AWKWARDLY FOR THE THE US) IN THE MIDDLE OF THE TRANSITION PERIOD. IT WILL BE IMPORTANT THAT US TRADE REPRESENTATIVE YEUTTER SHOULD BE SEEN TO SPEAK FOR THE INCOMING AS WELL AS OUTGOING ADMINISTRATION.

X/ (IV) THE IMPORTANCE OF SUSTAINING CONFIDENCE IN HONG KONG UP TO 1997, AND THE PART WHICH THE US CAN PLAY IN THAT. (BUSH, WITH HIS CHINA EXPERIENCE, WILL READILY UNDERSTAND THE SENSITIVITIES AND COULD BE HELPFUL IF WE NEED HIM).

(V) ON THE FALKLANDS, THE IMPORTANCE WE ATTACH TO THE CONSULTATION ARRANGEMENTS ON US ARMS SALES THAT COULD POSE A THREAT TO THE ISLANDS.

3. FINALLY, THERE IS THE POSSIBILITY OF THE PRIME MINISTER VISITING WASHINGTON NEXT APRIL TO ADDRESS THE AMERICAN SOCIETY OF NEWSPAPER EDITORS. I CONTINUE TO BELIEVE THAT THIS WOULD BE BOTH AN EXCELLENT PLATFORM AND A GOOD OCCASION FOR FURTHER TALKS WITH THE NEW PRESIDENT. IF THE PRIME MINISTER AGREES IT WOULD BE SENSIBLE TO PUT DOWN A MARKER WITH BUSH NOW, GIVEN THAT THE PROGRAMME OF VISITORS TO WASHINGTON NEXT SPRING WILL QUICKLY BECOME VERY CROWDED.

4. FCO PLEASE ADVANCE TO POWELL (NO.10), PRIVATE SECRETARY, PS/PUS, GILLMORE, FEARN AND HEAD/NAD.

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Foreign and Commonwealth Office

London SW1A 2AH

14 November 1988

Dear Charles,

Prime Minister's visit to Washington: 15-17 November: Meeting with the Sakharovs

The Prime Minister will be having tea with the Sakharovs at Blair House at 5 o'clock on 16 November. She last met them during her visit to Moscow last year. I attach a personality note on Dr Sakharov which covers the background and his extraordinary personal history.

After many refusals, Dr Sakharov is making his first trip outside the Soviet Union for many years to attend a meeting organised by the Foundation for the Survival and Development of Humanity (an organisation with which Gorbachev is personally associated and which was set up earlier this year in Moscow; the main American involved is Robert Macnamara). Dr Sakharov's rehabilitation since 1986 has also continued in other ways. He has recently been elected to the Praesidium of the Soviet Academy of Science, and speaks regularly to Western visitors (including Chancellor Kohl) and the Soviet and Western press. He has also been involved with plans to erect a memorial to the victims of Stalinism. He is trying to concentrate more on his own scientific work and cut down the time he spends being a media star and pole of attraction for Western interviewers, but this is difficult. He is said by those who have met him recently to appear old and tired much of the time. He already looked that way last March when the Prime Minister met him.

Dr Sakharov is a strong supporter of Gorbachev and his reforms and since his return to Moscow from Gorky has been ready to lend his endorsement to Gorbachev's ideas even when they may not entirely coincide with his own. This has led to occasional suggestions that he had been "bought off". But his recent remarks, not least in the US, make clear that he has retained his independence of thought and speech.

The meeting will provide a valuable opportunity for the Prime Minister to hear first-hand how a leading dissident from the 1970s views developments inside the Soviet Union, both political and in the human rights field. In recent statements Dr Sakharov has on the one hand warned of the danger that Gorbachev is concentrating too much power in his own hands (which could easily be abused by those who follow him), while on the other arguing that the West should actively support perestroika as being in the interests of both the Soviet people and the outside world. He has warned of the dangers for the world if perestroika fails. The Prime Minister may

wish to ask Dr Sakharov about Gorbachev's prospects, the strength and nature of the "opposition", the scale of the problems facing perestroika, the likely timescale for real change, not least in the economy, and the sort of help he believes the West can or should offer (it is unclear whether he has in mind simply verbal encouragement or something more tangible). His views on developments on the nationality issue, and whether Moscow can go on allowing development in the Baltic States to move at such astonishing speed, would be of interest. Dr Sakharov has also recently spoken out in favour of unilateral Soviet military reductions and a cut in the length of military service. The Prime Minister could ask about official reactions to these ideas.

One specific issue which the Prime Minister may wish to raise with Dr Sakharov is his current view of the proposed Moscow Human Rights Conference. In the past he has suggested that the West should go along with a Conference, which could be useful in keeping up the pressure for change within the Soviet Union, but only as long as the Russians withdraw from Afghanistan and release all political prisoners. He has recently repeated that, although he himself is free, many others are not, including some who campaigned for his own freedom. In January this year, at the inaugural meeting of the Foundation for the Survival and Development of Humanity, he gave Gorbachev a list of 200 prisoners of conscience. The Prime Minister could ask him for his views on how many Soviet "political" prisoners he believes there are now, using a broad definition to include prisoners of conscience and those in psychiatric institutions and internal exile; how far he accepts Soviet promises about future releases; and whether he thinks that even the Soviet authorities themselves have a definitive list. (There is no one agreed list in the West, although most estimates are in the 200-300 range. It is not in our interests to suggest that we have one since this could lessen the pressure on the Russians to help those of whom we know nothing).

I am copying this letter to Trevor Woolley (Cabient Office).

Yours,
Stephen Wall

for (L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

DR ANDREI SAKHAROV

Born 1921. Sakharov was the son of a professor of Physics. He graduated from the physics Faculty of Moscow University in 1942, worked at a military factory until 1945. He studied for his higher degree at the Lebedev Physics Institute under the famous theoretical physicist I Tamm and received his doctorate (at the age of 26) for work on cosmic ray theory. In 1948 Sakharov began work on the hydrogen bomb. For the next 20 years he was constantly engaged in highly secret defence work for which he was awarded the Order of Lenin, a Stalin Prize and the title of Hero of Socialist Labour (the highest civilian award) 3 times. He drew a very high salary and enjoyed every privilege excpet foreign travel. (He was later - in 1969 - to give away his entire fortune for a new cancer research institute). In 1953 he was elected a full member of the USSR Academy of Sciences and in 1957 was praised in Pravda for his research on controlled nuclear reaction. He wrote in 1981:

> "From 1953-1968 my socio-political views underwent a major evolution. In particular, as early as 1953-62 my participation on work on thermonuclear weapons... [and] experiments was accompanied by an increasingly acute realisation of the moral problems arising from them. At the end of the 50's I began actively to support the cessation or limitation of nuclear weapons testing. In 1962 I had a clash with Khrushchev in this connection ... Beginning in 1964 ... and particularly from 1967 the area of questions agitating me began to widen increasingly. My first appeals on behalf of repressed people went back to 1966 - 67".

In 1968 Sakharov caused a considerable stir with a long essay entitled Progress, Co-existence and Intellectual Freedom which stressed the need for liberalisation and approved of the Czechoslovak reforms. He was dismissed in 1969 from his post of chief consultant to the State Committee for Atomic Energy and his security clearance was withdrawn.

Sakharov stepped up his involvement in human rights activity, becoming a founder-member of a Human Rights Committee in 1970. In the same year he married (his first wife had died) Elena Bonner, whose father - shot c 1939 - had been a prominent member of the Armenian Communist Party and had become head of the personnel department of the Comintern. Mrs Bonner became a founder-member of the Moscow Helsinki group in 1976: Sakharov himself was never a member, although he sympathised with the group's objectives. In the first of his many interviews with Western journalists in 1972 declared: "I would no longer label myself a Socialist...I would call myself a liberal". Eight years later he wrote: "My ideal has become an open, pluralist society... with a mixed economy". Official pressure on Sakharov and members of his family increased from 1972. In 1973 he was interrogated by the KGB for the first time and hints were dropped that he might be prosecuted for giving away State secrets. He was awarded the Nobel Peace Prize in 1975 but was not permitted to receive it in person. The Soviet press described him as a "traitor" and a campaign of denunciation was whipped up. In January 1980 he was seized on the street and, together with his wife, put on an aircraft for Gorky, a town closed to foreigners. He wrote that he lived there:

> "under conditions of almost complete isolation and under round-the-clock militia surveillance at the door. This act by the authorities is completely illeg al..."

Sakharov asked to be put on trial in order to be given a chance to clear his name of the accusations hurled at him by the press. At the same time as he was 'administratively exiled', he was deprived of all State awards. His wife for a time was able to provide a tenuous link with the outside world. However, in August 1984 she was sentenced to 5 years' internal exile in Gorky.

Although Sakharov continued with his scientific work as best he could, he was deprived of all but occasional, controlled, contacts with his former colleagues. All other contacts were firmly discouraged. He was even unable to listen to foreign broadcasts in his flat because they were personally jammed. On several occasions he criticised his fellow scientists for their pusillanimity. In 1981 the KGB stole his autobiographical writings (although he has since made good this loss). Also that year he and his wife were able to secure the emigration to the USA of the fiancée of Mrs Bonner's son through hunger-strike. Sakharov again went on hunger-strike, for a total of 207 days in 18 months of 1984 - 85, in order to pressure the Soviet authorities into allowing his wife to receive further medical treatment in the West. A considerable disinformation effort was launched by the KGB, involving the use of misleading and secretly-taken films in order to suggest his health was good. In fact, Sakharov was maltreated eg by being brutally force-fed. After undertaking not to hold any press conferences abroad, Mrs Bonner was permitted to leave for medical treatment in November 1985, returning to the USSR in June 1986. She rejoined her husband in Gorky.

On 15 December 1986 KGB technicians installed a telephone in the Gorky flat, warning Sakharov to expect a call. The following day Gorbachev rang him up in person to tell him he was free to return to Moscow with his wife. No conditions were made. The couple returned to a triumphal welcome on 23 December. Sakharov was welcomed back to the Academy of Sciences and accepted an invitation to

participate in an international peace forum in February 1987 addressed by Gorbachev.

From 1987 onwards he began to turn his mind back to scientific work in the nuclear and cosmological fields. He was allowed to meet Westerners but told that he would still not be able to leave the Soviet Union because of his past access to State secrets. He continued to speak out on human rights themes and on such issues as the leadership's handling of the Nagorno-Karabakh crisis and the role of the KGB. He has also spoken out against SDI.

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PRIME MINISTER

cc Mr Ingham

VISIT TO WASHINGTON

Papers for your visit to Washington are in the attached folder. The programme divides neatly between a Reagan day, which will be devoted to paying tribute to the accomplishments of the present Administration and to tidying up some items of unfinished business: and a Bush day, which is an opportunity to influence the President-elect as he sets about drawing up his Administration's policies.

Reagan Day

You will have a short tête-a-tête with the President (plus note-takers) followed by an expanded meeting at which Shultz and General Powell will be present. But only one hour is allocated for the two sessions. There will be separate meetings later in the day with Shultz and Greenspan.

You will want to start by thanking the President for granting you the distinction of being his last official visitor, and for making it a State Visit in all but name. You might go on to thank him for the attention which he has always given to relations with Britain and congratulate him on the historic changes brought about during his term of office. His policies have tilted the balance in democracy's favour the world over and his will be seen as one of the great Presidencies of America's history.

You will want to say how delighted you are by George Bush's victory because it means continuity in the main policies which the President has pursued. The most important task will be to maintain the same firmness and consistency of approach, which have served the West so well.

You might single out some of the President's most significant achievements in foreign policy. The rebuilding of America's defences: the firm line with the Soviet Union which opened the

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way for the INF agreement: his consistent support for human rights: the brilliant concept of the SDI: the help he has given to the Afghan resistance, to UNITA and other similar movements:; his resistance to protectionism: his firm action in the Gulf: his steady opposition to sanctions against South Africa: his action over Libya: his largely successful efforts to dissuade Americans from contributing funds to the IRA: and at home the five years of continuous growth. These are remarkable achievements.

You will want to express particular thanks to the various members of his Administration with whom we have worked closely, in particular George Shultz, Cap Weinberger, Frank Carlucci, Jim Baker, Colin Powell, General Abrahamson. (You might also mention Bud McFarlane's name.) You might also make a special mention of Charlie and Carol Price.

You will also want to thank him for the support given to Britain over the Falklands, over Trident and in the intelligence field.

You might ask for his assessment of four broad issues: the prospects for Gorbachev in the Soviet Union, the outlook for SDI, the future balance between President and Congress in making US foreign policy, and the willingness of the American people to go on supporting foreign burdens.

Finally there are a number of items of unfinished business. The main ones are:

- a human rights conference in Moscow. You welcome the agreement reached between the US and UK on the criteria which must be met by the Soviet Union for such a conference to be held. We must dig in firmly on this.

- the Middle East. Despite George Shultz's efforts, the West has failed to create a real momentum towards a settlement. You hope the President will encourage his

successor to tackle this early on, even though a Shamir government will make it even more difficult.

- Afghanistan. The slow-down of Soviet withdrawal should not deter us from continuing to support the Resistance.

- GATT Ministerial meeting. The President's strong stand against protectionism has been crucial to world prosperity. We want the forthcoming meeting in Montreal to be a success. We will bring the Europeans along as far as we can. But the Americans will have to compromise a bit too.

- Angola/Namibia. We hope the Americans will continue their efforts to get a settlement right down to the change of Administration and beyond.

You will want to cover some of these issues in greater detail in your meeting with George Shultz. You may also want to ask for his reflections on dealing with the Soviet leaders, the realistic prospects for further nuclear arms control agreements and how he sees the outlook for the US economy. You will also want to say how sorry you are not to be able to address his Stanford University conference in London next April.

With Alan Greenspan you will want to focus on the US economy and policy priorities. There are a number of specific questions to ask:

- Does he agree that it is crucial for the budget deficit to be tackled as a matter of urgency after the election?

- How far does he think that President Bush will be constrained by "no new taxes"?

- Can President Bush hope to reach agreement with

Congress on such a basis?

- Deos he see a real possibility of Congress acting in the next session to deal with the savings and loan industry?

- What is his assessment of the threat to the financial system posed by this problem, particularly if interest rates rise in the short term, before the problem is resolved?

- Does he see any changes in the Fed's main priorities in monetary policy in the aftermath of election?

Bush Day

You are to have breakfast with Vice-President Bush on Thursday morning, followed by a working session. He will have Jim Baker present and also wants to introduce you to Senator Quayle.

It will be important not to try to get through too much at this meeting or overload it with detail (the FCO letter is too full). Time will be limited: and Vice-President Bush is only in the early stages of setting his Administration's policies. You will want to focus on the most important issues and leave him with a clear impression of your priorities.

I suggest that you proceed as follows:

- congratulate him again on the election victory, which was a great personal triumph. There is very strong support for his Presidency in Britain and Europe. You hope he will pay an early visit to Britain.

- you also hope that the same very close relationship which you have enjoyed while he has been Vice-President will continue. The President of the United States is automatically the leader of the West.

You will give him whatever help and support he wants.

- you believe it is particularly important that the close intelligence and nuclear relationship should continue. Both sides derive advantage; and the supply of Trident is of course crucial to our defence. You would hope the Cabinet Secretary could come out to Washington early in the life of the new Administration to confirm certain understandings on nuclear and intelligence matters and the use of US bases.

- the management of East/West relations will be a crucial task. We have to strike the right balance between encouraging reform and caution over defence and long-term Soviet foreign policy objectives. We need to impose some order on the developing 'detente rush' to Moscow and avoid talk of a Marshall Plan or anything similar. There must be proper pre-conditions for a human rights conference in Moscow. Equally there is scope for a more forward policy towards Eastern Europe, on the lines of your visit to Poland, which underlines the need for political and economic reform. With Communism in such a mess, we should not let the East occupy the propaganda high ground.

- you expect the Vice-President is thinking of an early meeting with Gorbachev. It will be important in presentational terms to go through a process of consultation with NATO governments first, preferably at Head of Government level. This could be done either in Brussels or London (there is a NATO Ministerial planned for June anyway).

- arms control will remain at the forefront of the East/West relationship. It should be possible to get conventional stability talks launched soon. You assume he will want to continue the START negotiations. You might emphasise two points on these: first the importance of not weakening the US

submarine-launched deterrent: second, you appreciate the way in which the US has taken account of our Trident interests (twelve station bus) in the negotiations and you hope close consultations will continue. Also, on the nuclear front, it will be important to push through decisions in 1989 on modernisation of NATO's nuclear weapons, particularly a successor to LANCE. You believe Kohl is basically sound on this but Genscher will create great problems. Finally, you will want to acknowledge the Vice-President's public commitment to an early chemical weapons convention. You are particularly concerned about the problems of verification, given Soviet duplicity to date. I doubt you will want to press him on SDI, but any indication of how attached he is to the programme will be of interest.

- you will want to sound him out generally on the budget deficit, without giving any impression that you are harrassing him on this before he has had the time to sort out his policy. The press will be particularly interested in whether this has been a major issue between you.

- you should touch on, but not get into detailed discussion of, the importance of the GATT Round and the mid-term meeting in Montreal.

- you will want to urge him - and particularly Jim Baker - to bring the Middle East up the agenda. There is no time to be lost on this: a very early indication that the new Administration will make it a priority area will in itself be a valuable political signal.

- you should mention briefly our hope that the new Administration will continue to consult closely on arms sales which could be a threat to the Falklands.

- if there is time, you will want to mention briefly South Africa and the importance of the US and UK working closely together to resist sanctions and to keep up the pressure on President Botha for political reform. (You may want to mention the joint Anglo/German initiative.)

There is one final point. Antony Acland is keen for you to propose that you visit Washington in April for a fuller discussion (combined with a speech to the American Society of Newspaper Editors). I am not sure whether you will want to commit yourself at this stage. You might see if he raises the subject of a visit.

You will find in the folder:

- a note by Sir Percy Cradock
- a telegram from Sir Antony Acland
- an FCO letter on your meeting with President Reagan
- an FCO letter on your meeting with Vice President Bush
- a note on intelligence co-operation.
- a despatch by Antony Acland on the Reagan Years.

C D.?

Charles Powell
11 November 1988

MJ2CYH

Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

11 November 1988

Dear Charles,

Prime Minister's talks in Washington: Berlin Air Services

The management of Berlin air services has been a controversial subject in UK/US relations this year. The latest round of UK/US/French negotiations concluded on 8 November. We see no reason for the Prime Minister to raise this subject. But we understand that Mr Shultz said (while the negotiations were still under way) that he wanted to be fully briefed in advance of the Prime Minister's visit. You may, therefore, find it helpful to be armed with the following background and contingency line.

On the basis of post-War agreements, only the airlines of the three wartime Allies fly to West Berlin. All airline schedules and route applications have traditionally been approved by consensus of the three Allied governments. The introduction of new airlines and new services this year has created new pressures on the previously routine approval process. Allied disagreements have been given a bad press in Germany, and particularly in Berlin itself.

In June, the Americans obtained Allied agreement to the entry of two new US airlines, TWA and American Airlines, and to major increases in the capacity and frequency of flights by their carriers. They played rough, but had to concede some extra capacity both for British Airways and for the French. The Allies also agreed on the need for a new long-term framework for Berlin air services. In the end, however, American Airlines decided not to enter the market for commercial reasons.

In the latest round of negotiations (end-October/early November), the United States was principally concerned to consolidate their market share (of around 60%). They claimed the right to reallocate the capacity granted to American Airlines to other US carriers, and made protectionist proposals for the longer term. Their airlines were particularly afraid of the competitive challenge posed by a new French airline, Euroberlin (in which Lufthansa have a 49% stake). The Americans attempted to block Euroberlin's entry

to the market as well as British Airways' plans to begin services on a route (Berlin-Frankfurt) which had been agreed in principle in June. Our objectives were to obtain agreement to a more liberal régime for the longer term, and in the meantime to protect BA's legitimate commercial interests while continuing to fulfil our political commitments to Berlin.

In the end, the new French airline has been approved, as has British Airways' new route (although American tactics meant that we had initially to authorise it unilaterally). Some points which the Americans wanted (including reallocation) have been shelved, on our insistence, until a longer-term framework can be worked out (by 1 February 1989). We are determined that this framework should allow airlines much greater freedom to decide for themselves what services they offer, subject only to the overriding political considerations deriving from Berlin's status. We see no need for all three Allies to have to approve all frequencies to Berlin. But such a liberal approach seems likely to be resisted by the United States in their recent mood, and possibly also by the French, whose airline practice elsewhere is generally restrictive.

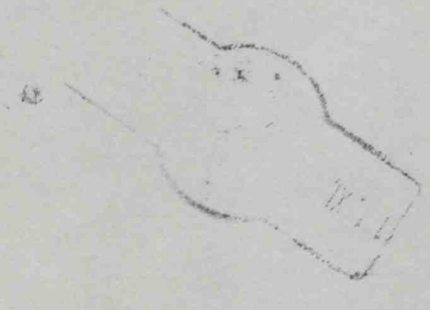
In the unlikely event that the subject is raised in Washington, the Prime Minister could emphasise the importance of reaching early agreement on a new long-term framework so that the Allies can avoid damaging disputes in the future. In our view, the interests of the Allies and Berliners will best be served by the principle of free competition. Such a framework would make it possible to resolve the outstanding issues of concern to the US, including reallocation.

I am copying this letter to Trevor Woolley (Cabinet Office) and Roy Griffins (Dept of Transport).

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street



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PRIME MINISTER'S VISIT TO WASHINGTON: 15-17 NOVEMBER
SUMMARY
1. A SNAPSHOT OF THE WASHINGTON POLITICAL SCENE AS THE TRANSITION PROCESS BEGINS, AND A FEW SPECIFIC POINTS ON WHICH IT WOULD BE USEFUL TO PUT DOWN MARKERS WITH THE PRESIDENT-ELECT.
DETAIL
2. THE PRIME MINISTER WILL FIND PRESIDENT REAGAN, HAVING EVIDENTLY ENJOYED HIS ENERGETIC BURST OF CAMPAIGNING ON BEHALF OF BUSH, BOTH UNDERSTANDABLY PLEASED AT HAVING PASSED ON THE BATON TO A REPUBLICAN SUCCESSOR AND SOMEWHAT WISTFUL AT THE PROSPECT OF SURRENDERING CENTRE STAGE. THE REAGAN LIBRARY IS BEGINNING TO TAKE SHAPE ON THE CALIFORNIA COAST, BUT REAGAN'S RETIREMENT PLANS ARE LIKELY TO PROVE MORE EXTROVERT AND COULD INCLUDE A GOOD DEAL OF PUBLIC SPEAKING ON WHAT HE REFERS TO AFFECTIONATELY AS THE MASHED POTATO CIRCUIT.
3. THE PRESIDENT-ELECT HAS AS YET BARELY DRAWN BREATH AFTER A LONG AND GRUELLING CAMPAIGN (ALTHOUGH BY THE TIME OF THE PRIME MINISTER'S VISIT HE WILL HAVE FITTED IN A SHORT FISHING HOLIDAY IN FLORIDA). BUT HE HAS ALREADY EMBARKED ON PREPARATIONS FOR HIS ADMINISTRATION. HE HAS ANNOUNCED HIS FIRST CABINET NOMINATION (BAKER FOR SECRETARY OF STATE: OUR TELNO 2721), AND HAS APPOINTED TWO OF HIS PERSONAL STAFF (FULLER AND TEETER) AS CO-DIRECTORS OF THE TRANSITION TEAM. (THIS IS AT FIRST SIGHT A CURIOUS DECISION, LEAVING SCOPE FOR MUDDLE: THE EXPLANATION IS PROBABLY THAT BAKER WILL HELP BUSH KEEP A CLOSE EYE ON THE TRANSITION PROCESS IN THE PERIOD BEFORE HE TAKES UP HIS NEW JOB). FURTHER SENIOR NOMINATIONS MAY FOLLOW SHORTLY. BUSH HAS MADE PLAIN THAT HE INTENDS TO INTRODUCE A QUOTE BRAND NEW TEAM UNQUOTE, ALTHOUGH SOME PEOPLE WOULD BE ASKED TO STAY ON (THE PRESS BELIEVE THAT ONE IN THAT CATEGORY, TREASURY SECRETARY BRADY, MAY BE ANNOUNCED SOON.) BUSH MET WITH THE PRESIDENT ON 9 NOVEMBER FOR A FIRST DISCUSSION ON MANAGING THE TRANSITION: A PROCESS FOR WHICH THE ADMINISTRATION HAVE ALREADY MADE AVAILABLE OFFICE SPACE FOR 400 PEOPLE AND A BUDGET OF DOLLARS 3.5 MILLION.
4. IN SHORT, MINDS ARE TURNING TO THE SHAPE OF THE NEXT

ADMINISTRATION, ALTHOUGH BUSH HAS MADE CLEAR THAT QUOTE I WILL NOT BE USING THE TRANSITION TO TRY TO MAKE OR UNDULY INFLUENCE DECISIONS THAT ARE PROPERLY THE PRESIDENT'S: RATHER, I WILL BE USING THE TRANSITION TO ASSEMBLE THE VERY BEST POSSIBLE TEAM TO MEET THE CHALLENGES THAT LIE BEFORE US UNQUOTE.

5. EARLY MEDIA COMMENT SUGGESTS THAT THE CHALLENGES WILL BE CONSIDERABLE. THE PRESS ARE GIVING BUSH A MUTED WELCOME. THEY POINT TO HIS WIDE EXPERIENCE AND TENACITY, AND AGREE THAT HIS FIRST STATEMENTS AND APPOINTMENTS AFTER HIS VICTORY HAVE SOUNDED THE RIGHT NOTE. BUT THEY EMPHASISE THAT HIS CAMPAIGN DID NOT CHART A CLEAR COURSE OF PROPOSED ACTION, THAT HE FACES A STRENGTHENED AND ANTAGONISTIC DEMOCRATIC PARTY IN THE CONGRESS AND THAT HIS QUOTE FLEXIBLE FREEZE UNQUOTE WILL NOT BE ENOUGH TO COPE WITH THE BUDGET DEFICIT.

6. THE PRIME MINISTER WILL FIND THE DEFICIT ISSUE NEAR THE TOP OF MANY PEOPLE'S MINDS IN WASHINGTON NEXT WEEK. BUSH MADE A POINT OF HOLDING OUT AN OLIVE BRANCH TO CONGRESS IN HIS VICTORY SPEECH. AND THERE ARE ALREADY HINTS THAT HE WILL GIVE HIMSELF MORE ROOM FOR MANOEUVRE BY INTERPRETING HIS PLEDGE AGAINST TAX INCREASES NARROWLY. NEVERTHELESS, WITH THE DEFICIT FOR FY90 LIKELY, ON CURRENT POLICIES, TO BE SIGNIFICANTLY ABOVE THE DLRS 110 BILLION GRAMM RUDMAN CEILING, THE PUNDITS ARE PREDICTING A ROUGH PASSAGE OF ARMS BETWEEN HIM AND THE CONGRESS ON MEASURES TO BRING THE BUDGET DEFICIT UNDER CONTROL.

7. THE PRIME MINISTER'S MEETING WITH THE PRESIDENT-ELECT ON 17 NOVEMBER WILL PROVIDE AN OPPORTUNITY TO GET A FEEL FOR HIS APPROACH TO THESE MAJOR DOMESTIC ISSUES, AND TO THE FOREIGN POLICY CHALLENGES THAT CONFRONT THE ALLIANCE. MIFT CONTAINS ADVICE ON SPECIFIC POINTS THAT IT MIGHT ALSO BE USEFUL TO TOUCH ON.

8. FCO PLEASE ADVANCE TO POWELL (NO 10), PRIVATE SECRETARY, PS/PUS, GILLMORE, FEARN AND HEAD/NAD.

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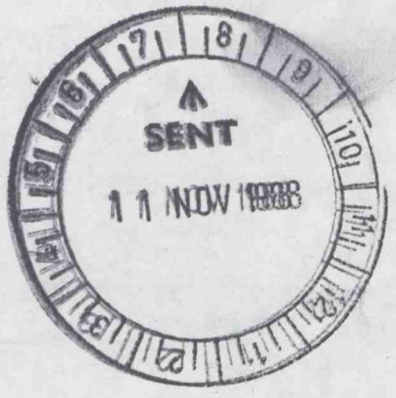

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MIPT: PRIME MINISTER'S VISIT TO WASHINGTON: MEETING WITH PRESIDENT-ELECT BUSH

1. BUSH IS CONSCIOUS, AND HAS STRESSED IN PUBLIC, THAT HE IS NOT YET THE PRESIDENT. HE HAS MADE CLEAR THAT, FOR THE MOMENT, HIS ATTENTION IS FOCUSSED MORE ON THE TRANSITION PROCESS THAN ON SUBSTANCE. HE WILL THEREFORE APPROACH HIS MEETING WITH THE PRIME MINISTER NOT AS AN OCCASION FOR TAKING DECISIONS, OR INDEED FOR DISCUSSION OF DETAIL, BUT AS AN OPPORTUNITY FOR A WIDE-RANGING AND REFLECTIVE DISCUSSION OF THE MOST IMPORTANT INTERNATIONAL ISSUES. OF THESE, I WOULD EXPECT HIM TO PREFER TO SPEND MOST OF THE LIMITED TIME AVAILABLE ON THE IMPLICATIONS FOR THE WEST OF THE CHANGES TAKING PLACE IN THE SOVIET UNION AND EASTERN EUROPE, PERHAPS TAKING AS A STARTING POINT THE PRIME MINISTER'S IMPRESSIONS OF HER VISIT TO POLAND (HE HIMSELF WAS THERE IN 1987).

2. ALTHOUGH TIME WILL BE SHORT, THE PRIME MINISTER COULD ALSO TOUCH BRIEFLY ON A NUMBER OF SPECIFIC POINTS WHICH IT WILL BE USEFUL TO LODGE IN BUSH'S MIND AT THIS EARLY STAGE:

(I) THE IMPORTANCE OF AN ALLIED HEADS OF GOVERNMENT MEETING BEFORE BUSH'S FIRST SUMMIT WITH GORBACHEV. BUSH'S COMMENTS AT HIS PRESS CONFERENCE THIS WEEK SHOW THAT HE IS ALIVE TO THE NEED FOR CONSULTATION, BUT THE PRIME MINISTER COULD EMPHASISE THE VALUE IN ALLIANCE TERMS OF A MEETING WITH HEADS OF GOVERNMENT BEFORE A US/SOVIET SUMMIT. DEPENDING ON THE TIMING OF THE LATTER, THIS COULD BE A QUICK MEETING IN BRUSSELS, OR (IF A SUMMIT WITH GORBACHEV SLIPS INTO THE SECOND HALF OF THE YEAR, AS SOME HERE EXPECT) A MEETING IN LONDON IN JUNE 1989, WHICH COULD TAKE THE PLACE OF THE REGULAR SPRING MINISTERIAL AND ALSO MARK NATO'S 40TH ANNIVERSARY.

(II) THE NEED FOR CONTINUING CLOSE CO-OPERATION ON SECURITY ISSUES. THE PRIME MINISTER COULD SAY THAT THE SECRETARY OF THE CABINET WILL BE HOPING TO MAKE EARLY CONTACT WITH THE NEW NSC ADVISER ABOUT BILATERAL NUCLEAR AFFAIRS, AND THAT WE SHALL ALSO PLAN TO KEEP IN CLOSE TOUCH ON THE FULL RANGE OF FORCE MODERNISATION AND ARMS CONTROL ISSUES CONFRONTING THE ALLIANCE.

(III) THE IMPORTANCE FOR THE SUCCESS OF THE GATT ROUND OF A STRONG US CONTRIBUTION TO THE MONTREAL MID TERM MEETING IN EARLY DECEMBER. THIS FALLS (AWKWARDLY FOR THE THE US) IN THE MIDDLE OF THE TRANSITION PERIOD. IT WILL BE IMPORTANT THAT US TRADE REPRESENTATIVE YEUTTER SHOULD BE SEEN TO SPEAK FOR THE INCOMING AS WELL AS OUTGOING ADMINISTRATION.
(IV) THE IMPORTANCE OF SUSTAINING CONFIDENCE IN HONG KONG UP TO 1997, AND THE PART WHICH THE US CAN PLAY IN THAT. (BUSH, WITH HIS CHINA EXPERIENCE, WILL READILY UNDERSTAND THE SENSITIVITIES AND COULD BE HELPFUL IF WE NEED HIM).
(V) ON THE FALKLANDS, THE IMPORTANCE WE ATTACH TO THE CONSULTATION ARRANGEMENTS ON US ARMS SALES THAT COULD POSE A THREAT TO THE ISLANDS.
3. FINALLY, THERE IS THE POSSIBILITY OF THE PRIME MINISTER VISITING WASHINGTON NEXT APRIL TO ADDRESS THE AMERICAN SOCIETY OF NEWSPAPER EDITORS. I CONTINUE TO BELIEVE THAT THIS WOULD BE BOTH AN EXCELLENT PLATFORM AND A GOOD OCCASION FOR FURTHER TALKS WITH THE NEW PRESIDENT. IF THE PRIME MINISTER AGREES IT WOULD BE SENSIBLE TO PUT DOWN A MARKER WITH BUSH NOW, GIVEN THAT THE PROGRAMME OF VISITORS TO WASHINGTON NEXT SPRING WILL QUICKLY BECOME VERY CROWDED.
4. FCO PLEASE ADVANCE TO POWELL (NO.10), PRIVATE SECRETARY, PS/PUS, GILLMORE, FEARN AND HEAD/NAD.

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Foreign and Commonwealth Office

London SW1A 2AH

9 November 1988

Dear Charles,

Prime Minister's talks with President Reagan, 16 November

As the programme for 16 November now stands, the Prime Minister will have a tête-à-tête with the President at 1030, and then be joined by Shultz, General Powell and possibly others, finishing at 1130. The Prime Minister will have a meeting with Shultz at the State Department, and Greenspan will call on her at Blair House at different times that afternoon; she will be Shultz's guest at lunch at the State Department, and guest of honour at the State Dinner hosted by President Reagan that evening.

While this will be the main occasion for the Prime Minister to acknowledge the accomplishments of President Reagan and his Administration, and to express our thanks for the particular concern they have shown for relations with the UK, she may like to use opportunities during the day to register points of particular importance to us.

The President will certainly wish to hear the Prime Minister's assessment of the Polish situation, following her visit. Increased Western interest in Eastern Europe over the last few years has strengthened pressure for reform. The Prime Minister might make that point, and reaffirm our view that the improvements in East-West relations generally, which have taken place during President Reagan's time in office, owe a very great deal to the President's firm and consistent approach. We hope this will continue under his successor. There have been considerable changes over the last three years in Soviet policy, internal and external. The West are now in a position, unique in recent years, to take advantage of these developments to achieve real movement in human rights, in arms control, in regional disputes and in other areas. This should be the West's goal, rather than ill thought out attempts to meet Gorbachev halfway or give him inappropriate help he has not asked for. Western unity is more than ever essential.

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This is particularly true in our approach to the CSCE and the Soviet proposal for a human rights conference in Moscow. The Prime Minister may wish to thank the President for his reply to her letter on this subject and express satisfaction that the US and UK have been able to reach agreement on a set of rigorous conditions for a conference. (By 16 November it should be clear whether or not the other Allies can be brought on board.)

On the Middle East, the Prime Minister might express our appreciation of Shultz's efforts on the peace process, and notably the initiative he launched last February (reacting at least partly to UK encouragement). The Prime Minister will be speaking against the background of the Israeli elections (1 November) and the Palestinian National Council meeting in Algiers (12-14 November). The Israeli election result is a recipe for paralysis. Nonetheless, there is more worldwide concern about the problem, and a greater readiness among the parties to grasp the nettle, than there has been for many years. The Prime Minister will have an opportunity to urge the President and Shultz to do all they can to see that the incoming team relaunches the peace process as a matter of priority.

The Prime Minister will wish to thank the President for his Administration's contribution to sustaining the open multilateral trading system in the face of protectionist pressures, and for their strong support for the Uruguay Round negotiations. It will be vital that the Mid-Term Meeting in December lays the groundwork for a successful conclusion to the Round, not least by progress on sustained reform of agriculture.

We see no need to raise Northern Ireland. Nonetheless, if opportunity offered, it would be appropriate to thank the Reagan Administration for its staunch support of British efforts in Northern Ireland, notably over the Anglo-Irish Agreement. The State Department have been consistently helpful in opposing the campaign based on the MacBride principles. Although it has yet to be tested, the Supplementary Extradition Treaty of 1986, which eliminated the "political" defence, should be of use for the future.

If Chemical Weapons are raised, the Prime Minister might note that, while some useful progress has been made in the negotiations for a global CW ban, important issues remain to be agreed, in particular on verification. We welcome the constructive contribution of the US delegation in Geneva, in particular the draft CW Treaty

tabled by Vice President Bush in 1984, which has formed the basis for much of the current draft; the important contribution which the US binary programme makes to Western security; and President Reagan's proposal for an international conference on the 1925 Geneva Protocol (Paris, 7-11 January 1989). This Conference will provide an important opportunity to focus attention on CW use and proliferation.

On the United Nations, we welcomed the announcement in September that the US was releasing funds for the UN, and intending to repay arrears. The financial crisis at the UN has focused minds on the need for reform and we must ensure that US repayments do not lead to a resurgence of UN extravagance. The US decision came at the right time; the UN is in the international limelight and we should work together to avoid letting the Soviet Union seize the high ground. It is possible that the US are becoming nervous of too much co-operation among the Five Permanent Members (particularly if this is exploited by the Russians to obtain a role in Arab/Israel). The Prime Minister may wish to reassure the President by pointing out that co-operation among the Five was a major factor in the UN's work in Iran/Iraq. We support joint action by the Five wherever practicable, but we recognise that the Five are a delicate plant; our interests do not always coincide. But, where possible, we think it important that the Five act to further the maintenance of international peace and security in the way intended by the UN Charter.

Finally, when Greenspan calls on her, the Prime Minister may wish to congratulate him on his deft handling of monetary policy over his first year and a bit in office. As one of the few key managers of US economic policy likely to continue in office after the election, his views on prospects for the US economy and policy priorities will be of interest. Does he agree that it is crucial for the budget deficit to be tackled as a matter of urgency after the election ? How far does he think that President Bush will be constrained by "no new taxes" ? Can President Bush hope to reach agreement with Congress on such a basis ? Does he see a real possibility of Congress acting in the next session to deal with the savings and loan industry ? What is his assessment of the threat to the financial system posed by this problem, particularly if interest rates rise in the short term, before the problem is resolved ? Does he see any changes in the Fed's main priorities in monetary policy in the aftermath of election ? The Prime Minister might say that we attach particular importance to

securing further substantial progress in reducing the budget deficit which is vital for confidence and the world economy.

I am writing separately about the Prime Minister's meeting with President-Elect Bush.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET UK EYES A

10A-11

Foreign and Commonwealth Office

London SW1A 2AH

9 November 1988

Dear Charles,

Prime Minister's meeting with President-Elect Bush, 17 November

The Prime Minister will meet George Bush during her visit to Washington. We are waiting to hear precisely what arrangements the Americans propose and will be in touch again.

The meeting is an obvious opportunity to consolidate the good relations which the Prime Minister already has with President-Elect Bush. It is an opportunity to invite Mr Bush to pay an early visit to the UK during his Presidency; and to alert him to our concerns on key issues, before he begins work on setting his policies generally.

On East-West issues, the Prime Minister might welcome the combination of firmness on security issues and an open mind towards developments in the Soviet Union, which have enabled President Reagan and Mr Bush, as Vice President, to make considerable achievements in this area during the present Administration. The Soviet Union has seen changes which few observers would have dared predict three years ago, but there is still much which needs to change. Reform of the economy has barely started in earnest. Events in the Baltic states - and developments we may see in Eastern Europe - will be a test both of Gorbachev's true intentions and of his strength. It will be in the West's interests to do what we can to encourage reform, but in doing so to work for the genuine practical changes we want to see - internally and externally - rather than offering unrequited concessions. She could illustrate this point with reference to her trip to Poland. The main point, as always, is Western unity and firmness of purpose. On this score, the Prime Minister may wish to assure President-elect Bush that we would firmly support a continuation of these policies under his Presidency; and that there are no major divisions of substance between the UK and our European partners on East-West issues (but on German attitudes to modernisation, see below). Our aims and analyses are broadly the same: such differences as do exist are largely of tone rather than of substance. The Prime Minister could also usefully distinguish between the commercial credit which

British and other European bankers are offering to support hoped-for increases in trade, and soft loans of a Marshall Plan-type, for which there is neither a Soviet request nor serious support in Europe.

On the CSCE Vienna meeting, the Prime Minister may wish to say that we hope for a conclusion soon to enable conventional arms control negotiations to start. But this is no reason for sacrificing substance for timing. The Soviet proposal for a Moscow human rights meeting is a case in point. The Prime Minister has corresponded with President Reagan on this issue. She may wish to point out to Mr Bush that the UK would only consider attending such a meeting if the Russians were prepared to meet very strict preconditions, of the kind the Americans have themselves now proposed following her letter to President Reagan.

The Prime Minister will wish to express our appreciation for the way in which the Administration has taken account of our Trident interests in the START negotiations. They have assured us that they will give no commitments in the Treaty which could adversely affect US/UK nuclear co-operation. They have consulted us and continue to consult us closely on verification issues insofar as these could have an indirect bearing on UK Trident. We attach the greatest importance to this consultation continuing under a new Administration.

Our understanding of SDI has left us with a number of anxieties regarding the consequences of the deployment of strategic defences; that is why we continue to express our support for the ABM Treaty. Mr Bush has taken a more cautious line on SDI and its funding than President Reagan. The Prime Minister might say that she hopes that in the New Year our officials will be able to discuss these points with their US counterparts in an effort to understand better how the US aims to handle the issue. We could then aim to follow up in our early contacts with the new Administration.

The Prime Minister will wish to underline that the most difficult management problem facing the Alliance over the next few years is that of nuclear modernisation. We and the Americans are at one in the view that it must not be held hostage to arms control. Managing the concerns of the Germans within the Alliance will nonetheless be vitally important if we are to obtain the decisions which we will need. This is especially true of modernisation in the short range (SNF) field, essentially the introduction of a follow-on to LANCE combined with the modernisation and reduction of nuclear artillery warheads. The first essential is that the US should identify clearly an option for the LANCE follow-on, with a clear procurement timetable to which Alliance decisions can be related. Thereafter it will be necessary to engage Chancellor Kohl (whom Mr Bush will have seen two days previously) personally in order to discover whether, and if so on what terms, he is prepared to take

such decisions in 1989, before his elections. Public pressure on Chancellor Kohl is likely to produce the wrong result. We shall need patient, private persuasion. As regards intermediate range adjustments, the political inhibitions may be less strong; and decisions on deploying more dual-capable aircraft to Europe, on assigning some SLCMs to SACEUR and on the introduction of a tactical air-to-surface missile can, we hope, be taken in 1989. We want to ensure, however, that the UK is not the only European country in which the additional dual-capable aircraft are stationed in peacetime: not because of any domestic political concerns, but because of our belief that, for risk and burdensharing reasons, and for effectiveness, nuclear deployments in Europe should be spread among a number of countries. We will wish to stay in close touch with the Reagan and Bush Administrations on these points; as well as on the elaboration of the Comprehensive Concept, the conclusion of which will be a German requirement for decisions on modernisation.

It will be important that, as President, Mr Bush meet the NATO Allies before he meets Mr Gorbachev and we recommend that the Prime Minister raise the question of a summit with him. The UK will be hosting the regular spring meeting of the North Atlantic Council in June in London. This will be the 40th anniversary meeting and, if Mr Bush favoured the idea, it might be appropriate to hold it at Summit level. For the nuclear modernisation aspects, a June Summit would be better than a meeting in the very early part of the year when, for both technical and political reasons, it would probably not be possible to take decisions. But June is close to the July meeting of the G.7 in Paris, which Mr Bush will be expected to attend. In a speech in Michigan on 21 October, Mr Bush called for an early NATO Summit. If Mr Bush has it in mind to hold a summit with Mr Gorbachev before June, then a quick meeting of NATO Heads of Government could be organised in Brussels beforehand. It could also be used to set the course for decisions at the North Atlantic Council in June. (Mr Bush set out the following objectives for a Summit: the adoption of an agreed strategy for the Conventional Stability Talks; the efficient procurement and deployment of Allied forces - Mr Bush's office have told the Embassy that this means, among other things, a "non-confrontational" approach to burdensharing (see Annex); agreement on common diplomacy towards Eastern Europe and the Soviet Union; and regenerated public diplomacy for NATO.)

In his speech in Toledo, Ohio, on 21 October, Mr Bush spoke of his "solemn mission" to achieve a complete ban on CW. The Prime Minister might welcome his commitment to a global, effectively verifiable CW ban, while noting that important verification issues remain to be resolved. The 1984 US draft CW Treaty (tabled by Mr Bush) has formed the basis for much of the current draft text. We look forward to discussing CW further, in particular Mr Bush's "6-point plan" on CW and a missile technology control regime outlined in Toledo. The Prime Minister might also refer to the

important contribution the US binary programme makes to Western security and welcome the forthcoming international conference on the 1925 Geneva Protocol (Paris, 7-11 January 1989) which aims to focus worldwide attention on CW use and proliferation.

Mr Bush's position on Southern Africa is similar to ours. The Republican platform indicated that Mr Bush will not support further sanctions against South Africa which, like us, he regards as counter-productive. US-led negotiations to secure Cuban troop withdrawal from Angola and independence for Namibia are also likely to continue without interruption. The Bush Administration will nonetheless want to reassess its policy in the region, including the possibility of increased assistance to the Front Line States. The incoming Administration will be under some pressure to consider ways of putting symbolic distance between the US and South Africa. Domestic pressures for sanctions will continue and it may be difficult for Mr Bush to sustain a Presidential veto of Congressional legislation in this field.

The Prime Minister might say how glad she is that Mr Bush shares our opposition to sanctions, which have only made the internal situation worse. She hopes that we can continue to count on a joint UK/US veto of sanctions in the UN Security Council; that, as President, he will oppose Congressional pressures for new US sanctions; and will resist gestures in the area of non-economic sanctions, since this would only encourage the sanctions lobby - worldwide. The accent should instead be on positive assistance to South African blacks and to the Front Line States. She might refer to our own support for Mozambique as an example of how such assistance can bring about beneficial internal change and increase stability. We are also anxious that the US-mediated talks between the South Africans, Angolans and Cubans on Cuban troop withdrawal and independence for Namibia (whose progress owes so much to the vigorous diplomacy of the Reagan/Bush Administration) should continue without interruption and come to a successful conclusion. We shall continue to play an active part in support.

The Prime Minister may wish to suggest that it would be helpful if, during the Transition period, key FCO officials came out from London for consultations with Mr Bush's new African team. This would help to ensure a smooth transition and maintenance of the close co-operation and solidarity of the Reagan years which have served both sides so well.

The Prime Minister should encourage Mr Bush to make the Middle East a priority: the continuing violence in the Occupied Territories and the proliferation of missiles and other weapons in the region underline the need for new peace efforts. She could suggest that the Americans can best help by being ready to tell the Israelis unequivocally that a negotiated settlement on the basis of land for peace is in their own best interests, and to move firmly towards

accepting the Palestinians' right to self-determination (on a conditional basis, if that is necessary for tactical reasons). Both the US and Israel accepted at Camp David the "legitimate rights" of the Palestinians and President Reagan used the phrase in his meeting in September with Peres and Abdel Magid. If it means anything, it must surely include self-determination. In discussing the Middle East, the Prime Minister will wish to bear in mind that, in the campaign, Vice President Bush has ruled out the possibility of an independent Palestinian state. We need to get it across to him that this does not prevent him from accepting Palestinian self-determination, as we have done. Political realities will dictate that the latter will be limited in practice to what can be achieved in negotiation. American readiness now to espouse this concept would both put pressure on Israel and encourage the Palestinians to maintain their constructive attitudes. Western interests (and the US relationship with Israel) are best served if Palestinian aspirations are met through negotiation with the help of moderate Arabs such as Mubarak and Hussein. An international conference still seems to us the best framework for such negotiations. We continue to believe Jordan is likely to have a significant part to play in an eventual settlement. The Prime Minister might like to suggest early talks at senior official level to discuss how these ideas might be carried forward.

On Argentina and the Falklands, we can never forget US support in 1982 and we deeply appreciate the consultation process over supplies of sensitive arms. We have a shared interest in seeing democracy in Argentina firmly entrenched. But provision of major weapons which would pose a threat to the Falklands would not be understood in the UK. We are both concerned about the possible election of Menem and about Argentine acquisition of medium range missiles. These reinforce the need to preserve the present arrangements for consultation. We hope that officials can keep in close touch on these questions.

President-elect Bush will be familiar with the Northern Ireland background, and we can expect continuity of policy. Our recent measures on security (media access, right to silence) are controversial and may have raised doubts in the US as to whether HMG is putting as much effort into securing political advance as was hoped following the signature of the Anglo-Irish Agreement. It would be as well to reassure Mr Bush that our whole policy in Northern Ireland is based on democratic choice by the people of Northern Ireland, and on equality in the treatment of both communities, notably over fair employment: forthcoming legislation will render the MacBride legislation in individual states as superfluous as it is now counter-productive.

American support for the Agreement has been tangibly expressed in contributions of $120 million (spread over three years) to the International Fund. Congress has now approved a further $10 mn for

FY 1989, and urged the Administration to add an extra $10 mn on top of that. It would be helpful to make the point to the President-elect that, while we appreciate that there is great competition for the unallocated foreign aid funds, we hope that an American contribution can be maintained beyond 1989. The Fund has - with American support - brought real practical benefits on the ground, and a continuing US contribution would underline at the political level the US's continuing support for peace and reconciliation in the North.

The Prime Minister will wish to reaffirm our commitment to strengthen and expand the open multilateral trading system as the keystone of an expansionist multilateral economic policy. We have appreciated the vigour with which the US has pursued our common aims of using the Uruguay Round to strengthen the GATT system, extend its coverage to agriculture and new issues (notably services and intellectual property) and to pursue the closer integration of the LDCs. The December MTM will be the best opportunity for some time to advance these aims, and to mark substantive progress on issues including improvement of GATT disciplines and tropical products. We share American objectives of bringing agriculture more into line with market forces by sustained and significant reductions in support and protection. We shall continue to work within the Community to encourage a constructive and realistic EC contribution to the negotiations. But the US will need to show flexibility. The latest US paper, headed "A Framework for Agricultural Reform" does not show the flexibility we had hoped for, and could make it very difficult to evoke a positive response from the Community at Montreal. If the MTM is to succeed, we must begin very soon to try to find common ground - and that will require movement by everyone.

The Prime Minister may like to say that, although the MTM falls awkwardly in the interregnum, it is important that there should be a clear and public commitment by the incoming Administration to the central importance of GATT in their trade policy, and in particular to the success of the Round and to a constructive approach to the MTM. Any signs of wavering will only give comfort to protectionists at home and abroad, and put the success of the Round at risk. As regards "1992", we are determined that the EC Single Market shall remain open - as the Hanover European Summit said it should - and contribute to global liberalisation. It cannot be protectionist and succeed. We believe that it should benefit our trading partners. We shall look to the US to implement the Trade Act in a non-protectionist way. The EC and US must prevent trade disputes from getting out of hand and detracting from our overall relationship.

The Prime Minister should be able to take as read President-elect Bush's continued commitment to the sort of economic policies effectively pursued by the G.7 countries since the early 1980s. But she could emphasise the importance of early action by

the new Administration to prove its commitment to bring under control - not necessarily to eliminate - the budget deficit. Bush may be rather too complacent about these problems. The financial markets will expect firm guidance from the new President. Although Bush is unlikely to be receptive to the message, it will be important to stress the need for tough decisions, particularly on the budget deficit; "revenue enhancement" measures should not be ruled out. The latest estimate for the federal budget deficit in FY 1988 (which ended in September) is $155 bn, little different from FY 1987. Congress has agreed a budget for FY 1989 which the Office of Management and Budget project will come within the critical Gramm-Rudman threshold of $146 bn. But the IMF and other forecasters expect the outturn to be higher if there is no further action. The trend for the trade deficit looks more encouraging, though the markets will want to see clearer improvement here too.

We welcomed the US announcement in September of the release of funds for the United Nations and the US's expressed intention of repaying arrears. The financial crisis at the UN has focused minds on the need for reform and we must ensure that US repayments do not lead to a resurgence of UN extravagance. The US decision came at the right time: the UN is in the international limelight and we should work together to avoid letting the Soviet Union seize the high ground.

As mentioned in my separate letter about the Prime Minister's meeting with President Reagan, we suspect that the US are becoming nervous of too much co-operation among the Five Permanent Members (particularly if this is exploited by the Russians to obtain a role in Arab/Israel). The Prime Minister may wish to reassure President-elect Bush by pointing out that co-operation among the Five was a major factor in the UN's work in Iran/Iraq. We support joint actions by the Five wherever practicable: it is important that the Five act to further the maintenance of international peace and security in the way intended by the UN Charter.

Finally, the Prime Minister may wish to mention Cyprus as a priority area where we and the Americans need to support Mr Perez de Cuellar's drive for a negotiated settlement, given the very important British assets there, which the Americans also value highly. The Prime Minister is to meet President Vassiliou again on 25 November after the New York talks. The FCO Political Director will debrief Mr Denktash a few days later.

I attach an Annex with defensive briefing.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours, Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

ANNEX

DEFENSIVE BRIEFING: POINTS WHICH MR BUSH MIGHT RAISE

The more the burdensharing issue can be played down the better, although if Mr Bush raises it, the Prime Minister could express support for the commitments which he has given during the campaign to keep strong US forces in Europe (in his Michigan speech, the Vice President said "the US can start by ruling out unilateral American troop withdrawals"); and underline her view that in the years ahead the Europeans should indeed identify more practical contributions which they could make to the common defence. She should also refer to the decisions which the British government has recently taken over defence expenditure for the next three-year planning period. Taking account of decisions made last year, £3 bn has been added to the defence budget, providing for a return to positive real growth.

If Mr Bush raises conventional arms control, the Prime Minister might stress the importance of holding firm, over what may be a very long negotiation, to proposals which will fully test Gorbachev's claimed willingness to eliminate asymmetries in the conventional balance. We may well face pressure from some Allies in the medium term to water down militarily sensible proposals, if they feel a political need to inject movement into a deadlocked situation.

It is likely that nuclear non-proliferation will have a higher profile under the Bush Administration than it has under President Reagan, particularly since there is a Non-Proliferation Treaty (NPT) Review Conference in 1990, and the Treaty itself will expire in 1995 unless renewed. The President-elect is reported to be particularly exercised about nuclear weapons proliferation in the sub- continent. If the subject is raised, the Prime Minister may wish to say that we attach great importance to the maintenance and strengthening of the non-proliferation regime, and as an NPT depositary power (along with the US and the USSR) want to continue to work closely with the Americans in this field. As regards the sub-continent, we hope the US will co-operate with the USSR to encourage both India and Pakistan to exercise restraint.

Mr Bush included in a speech at the University of Toledo on 21 October a plan to curb missile proliferation through an expanded and binding Missile Technology Control Regime bringing in the Russians and the Chinese. The Prime Minister may like to welcome the continuing US interest in this problem, and say we hope to maintain our existing close and useful collaboration.

Mr Bush may raise equipment procurement and lobby hard for the selection of M1 Abrams to replace Chieftain. If so, the Prime Minister might stress the emphasis we place on achieving the best value for money from our procurement programme and that competition

is a major means of achieving this. We are very grateful for the available on Abrams. We are currently evaluating the possible options but it is too early to indicate which tank will be selected.

We expect Mr Bush to attach higher importance than Mr Reagan to good relations with Latin America and, since Mr Baker has been appointed Secretary of State, he is likely to bring debt up the list of the Administration's policy priorities. The Prime Minister might note that schemes for middle income debt seem bound to be a significant issue at next year's Paris Economic Summit. We strongly endorse the scepticism expressed by Mr Brady and all the other G.7 in Berlin about schemes which transfer the risk from the banks to creditor country taxpayers. The need (with which we fully sympathise) to reduce the risks of financial and political collapse in Latin America must not weaken the principle that external finance from the international financial institutions and bilateral creditors should be conditional on stringent measures of economic reform.

There have been recent signs of US concern, particularly in Congress, about the scale of credits being offered to the Soviet Union by Western Europe. The Prime Minister might like to emphasise that the credits involved are being offered by private banks on a commercial basis, with no special government guarantees. They are designed to encourage trade which our businessmen believe worthwhile. There is no sudden rush by West Europeans to lend to the Russians (who are in any case cautious borrowers and likely to take up the credits slowly) and no question of Western credit "propping up the Soviet system". Trade credits cannot seriously contribute to the maintenance of Soviet military spending. Talk of a "Marshall Plan" is misplaced: no European leader has seriously suggested this and Mr Gorbachev himself has made clear that the USSR is not looking for this kind of help.

SECRET AND PERSONAL 9

Foreign and Commonwealth Office

London SW1A 2AH

9 November 1988

Dear Charles.

Prime Minister's visit to Washington, 15-17 November
Intelligence and Security Cooperation

I have written to you separately providing briefing for the Prime Minister's visit to Washington. The Foreign Secretary considers that it would also be useful if the Prime Minister could refer briefly to the excellent state of our intelligence and security cooperation with the Americans both with President Reagan and President Elect Bush.

The Prime Minister may wish to emphasise the importance we attach to maintaining the high level of cooperation GCHQ, SIS and the Security Service have enjoyed with their US counterparts. In our view this has never been better. We are grateful for the help the US has given us in areas where we are not able to operate and are pleased to have been able to help them in areas where the US effort is constrained. This is an important form of transatlantic burden-sharing. We have been grateful for US help on the Irish terrorist threat and for cooperation on SIGINT. The US remains by far our most important intelligence partner and we believe that the relationship is of great value to both sides. For our part we will do everything in our power to ensure that it continues.

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET AND PERSONAL

COVERING CONFIDENTIAL UK EYES A

BRITISH EMBASSY
WASHINGTON, D. C. 20008
TELEPHONE: (202) 462-1340

FROM THE AMBASSADOR

11/A.

C D Powell Esq
Private Secretary
10 Downing Street
London SW1

9 November 1988

Dear Charles.

In view of the Prime Minister's visit, I thought you might like to have an informal advance copy of a despatch I have today sent to the Foreign Secretary about the Reagan Presidency.

Yours ever

Antony

Antony Acland

COVERING CONFIDENTIAL UK EYES A

THE REAGAN YEARS

SUMMARY

1. Reagan's interest in preserving, rather than adding to, his record over the next 70 days, and his meetings with the Prime Minister on 16 November, justify an otherwise premature valedictory. Bush's victory is one of Reagan's more remarkable achievements (paras 1-4).

2. The picture of the Reagan Presidency is one of peaks and troughs, almost defying generalisation. Some considerable achievements, and set-backs, but nevertheless a remarkable Presidency. Reagan's great personal qualities would not have been enough to handle a real crisis. The neo-conservatives upon whom Reagan relied for support set the Administration a number of revolutionary goals (paras 5-10).

3. In most areas, however, the Right failed to secure its objectives: senior appointments; reduction in the size and role of the Federal government; reduced spending as well as tax cuts; and the conservative social agenda. In foreign and defence policy, a mixed record, but with some substantial achievements (paras 11-20).

4. The revolution failed because neither the President nor the American people wanted one, at least on the terms proposed by the Right. Reagan offered instead what middle America really wanted: security, prosperity and greater confidence in their country. But he did shift the terms of political debate to the right (paras 21-30).

5. Reagan's personal qualities made him "a hell of a king"; many Americans likely to see him as an outstanding President. Luck on the international stage, particularly in Gorbachev's arrival, helped (paras 24-27).

6. Reagan's great affection for Britain, and for the Prime Minister and the Royal Family. Despite that, and Bush's victory, we need nowadays to work to create Anglophiles - a lesson successfully applied by Mrs Thatcher. The Prime Minister's visit testimony to her rapport with Reagan. We shall retain in the President and his successor two good friends of Britain (paras 28-31).

BRITISH EMBASSY

WASHINGTON DC

9 November 1988

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
FCO
London SW1

Sir,

THE REAGAN YEARS

1. As the coach of the New York Yankees used to say, it ain't over till it's over. I am well aware of the danger of leaving my seat to write my review of the Reagan years before the final curtain. Ronald Reagan will remain President of the United States until President Bush takes the oath of office on 20 January 1989, and it is possible that the 70 or so days between now and the inauguration will produce something which significantly affects an overall assessment of the Reagan Presidency. Possible, but not very likely - unless some unexpected emergency arises and takes control of events.

2. Failing that, I would expect Reagan over the next couple of months to show more interest in presenting and preserving his record than in adding to it; he probably sees his meetings with the Prime Minister on 16 November in that light; and an otherwise premature valedictory may therefore be justified.

3. I am sending separately by telegram an analysis of the election results and preliminary comments on the prospects for the Bush Administration; but Bush's victory must nevertheless be the starting point for an assessment of the Reagan years.

4. That victory may itself be one of Reagan's more remarkable achievements. For the first time in over 150 years an incumbent Vice-President has been elected President. In Bush's case, he has done so with the vigorous help and on a platform closely aligned with the policies of his predecessor. Had President Reagan been able to run for a third term, as he has said more than once, and only half-jokingly, that he would have liked to have done, there can be little doubt that he

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would have won, and won handsomely. Instead Reagan, and the American people, have settled for what they believe to be the next best thing. Most of the credit for the Vice-President's triumph must go to Bush himself, and to Jim Baker; but Reagan has ensured that he and his Administration have done all that they reasonably could to help. Although the President has become an increasingly enthusiastic supporter of his Vice-President, his motives have not been disinterested: how history sees many of Reagan's more substantive achievements may depend in large part on how they are handled by the next President.

5. It is at the same time important to remember that the election was not primarily about what President Reagan had done in the past, but about what candidates Bush and Dukakis were thought likely to do in the future. A proper assessment of the Reagan Presidency needs to look more carefully at what he inherited and what he will leave behind; to evaluate the differences between his inheritance and his legacy; and to comment on the policies which brought those differences about. This cannot be done in a short despatch or with the broad brush alone, and I therefore attach a memorandum, for which I am most grateful, compiled by the Chancery and other Departments of this Embassy, and which, while not exhaustive, looks in more detail at a number of the more important areas of policy.

6. When the achievements of President Reagan's Administration are set against the policy commitments which he made in 1980 and 1984, the picture which emerges is one of peaks and troughs, and might almost have been designed to defy generalisation. For example, the American economy will in 1988 have marked its fifth successive year of respectable growth; and unemployment is at its lowest level for a decade. But this achievement is overshadowed by trade and budget deficits which will be difficult to cure and dangerous to sustain. In national security affairs, Shultz, Carlucci and Powell make a reassuringly competent and cohesive team, but it has been a painfully long time coming. The INF agreement is a significant success, and a great deal of ground has been covered on the way to a START agreement; but the Administration have failed to work out, and agree with Congress, what land-based strategic systems the US should deploy if a START agreement as at present envisaged were actually reached; and the President himself has been disturbingly prone to look for a quick fix to the "nuclear dilemma" through both technology (the SDI) and imprudent negotiation (the near-disaster at Reykjavik).

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7. Although it would be easy to go on in the same vein, my purpose here is not to list the pluses and the minuses but rather to try to make sense of the sum. And in this respect, although it is fair enough to award President Reagan very high marks in some areas and very low ones in others, it will not do simply to tot them up and divide, and to conclude that his was an average performance. It was on the contrary, and in every sense, a remarkable Presidency.

8. The conventional wisdom is that Ronald Reagan is a thoroughly nice man but not a very clever one. There are some who would take issue with one or other of these points; but, in my experience, the conventional wisdom has it about right, although most commentators and overseas observers have tended greatly to underestimate the political resilience and canniness of the man. The Americans have for eight years had a President who is very widely liked, perhaps more than any other this century at a similar stage in his Presidency; who, despite the Iran-Contra affair, is almost as widely trusted; but who would not have had the intellect, the mental and physical stamina or the managerial ability to take real charge in a real crisis. We are lucky to have been at peace.

9. The Americans have also had a President who campaigned for his office, both successfully in 1980 and unsuccessfully twice before, as the candidate of the right wing of the Republican Party; or perhaps more accurately of its two right wings. The Christian fundamentalists and Southern and rural conservatives claiming to represent the Moral Majority have little in common with the intellectual neo-conservatives whose aims are to bring about fundamental changes not only in most areas of policy but also in the size and role of government itself. It is the latter group, and their supporters among party activists, who wanted and worked fervently for a "Reagan revolution".

10. The neo-conservatives have never been a homogeneous group, with a recognised leader, and there has been no single blueprint for such a revolution. But it is nevertheless possible to identify benchmarks which would be widely recognised as among their objectives. In party political terms, the Republicans wanted to establish themselves as the majority party, drawing permanently into their fold the Southern conservative and Northern ethnic voters whose traditional affiliation had been Democratic. On the intellectual front, there were hopes of capturing the commanding heights of the the educational system, and particularly of the universities. Government was

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to shrink, not only through a bit of deregulation here and there, but more radically to a point where, for example, the Departments of Energy and or Education would cease to exist; and where the economy would look after itself within a minimal framework of monetary control. Power was to be returned to the States. The ranks of the Federal judiciary were to be filled with judges who believed in judicial restraint, and who would look to the letter rather than the spirit or intent of the Constitution. Foreign policy was to be more assertive, with the implicit assumption that the United States was uniquely qualified to distinguish right from wrong, and, having done so, strong enough to draw its own conclusions. And the nation's defences were to be greatly reinforced, with some at least inclined to test their belief that, if the chariots of the arms race were driven hard enough, it would be the Soviet rig that over-turned.

11. Has there in fact been any such revolution? Within the Republican Party, the Right has certainly exerted enormous influence over the party machine and the Conventions (a fact of political life of which George Bush showed himself keenly aware at New Orleans). But it never succeeded in controlling the Reagan Administration. Even Reagan's first, crucial, round of senior appointments was at its higher levels longer on those chosen for managerial competence than for ideological soundness. And in general it was the ideologues who abandoned the field before (and in some cases well before) the final whistle, leaving behind a preponderance of pragmatists to tidy things up.

12. Indeed, in most areas of political life, the ideologues can be forgiven for wondering where the lasting achievements really lie. Government is no smaller: the Federal civilian work force has grown by 2% over the past eight years, the Departments of Energy and Education have survived, and a Veterans' Department is about to be created. And, if one looks - as one should - to the State and local as well as the Federal levels, the picture is one of more, not less, government, ironically in part at least the result of Reagan's determination to return power to the States. Nevertheless, in 1980 Federal spending in the United States devoured 22.1% of GNP; for 1987 the figure was 22.8%. And one of the more interesting political phenomena over the last eight years has been the way in which State Governments, Republican- and Democrat-controlled, have moved with energy and imagination to fill the gaps left in a number of social and economic fields by a deliberately less active Federal Administration.

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13. As far as the economy is concerned, if there has been a revolution, it is one the consequences of which were predicted long ago by Mr Micawber. The two deficits cannot in the long run be sustained; and, in the short run, I do not see any painless way to reduce them. There is not a Reagan model of the US economy that can be shown to be a coherent whole, or better than the alternatives. The bitter disappointment for the ideologues has been that the President, having implemented his promises on the income side of the ledger by cutting taxes, consistently failed to follow through with matching cuts on the expenditure side, all the while attributing the blame to Congress.

14. The President has also blamed Congress, perhaps with more justification, for the failure to implement the conservative social agenda. But, as right-wing activists have often pointed out, Reagan has from the first preferred to promote the conservative social agenda through rhetoric and symbolism, rather than by vigorous government action. Even on the Supreme Court and the Federal bench, it is too early to say whether Reagan's appointments will in practice prove anything like as conservative as advertised. Most alarming of all, and not just for the Right, has been the way in which the problems of crime and drugs have gone from bad to worse after eight years of conservative government.

15. In foreign policy too, the Reagan Administration started by sounding an assertive note. But I do not think that the evil empire speech, or Jeane Kirkpatrick's way of handling the UN, or Richard Perle's way of handling the allies, added anything substantive to the balance sheet. Indeed, there have been times when a combination of some of the President's rhetoric and some of the President's men, their effect amplified by the cowboy caricatures, served to make life needlessly more difficult for America's friends in Western Europe and elsewhere.

16. The policy of support for freedom-fighters in the Third World (described by the press as the Reagan Doctrine - a term quickly adopted by the Administration as a way of suggesting both newness and coherence of the activity undertaken or advocated in various corners of the globe) could hardly claim to be revolutionary in its intent, if one remembers the proclamations of Truman and Kennedy; nor has it proved revolutionary in its effect.

17. On the credit side, however, the Administration has, through hard work and good fortune, presided over a quiet

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growth in democracy in Latin America and Asia (Korea and the Philippines). And enough has been done, and done sensibly and competently, to make the Soviet Union feel the burden of overstretch in Afghanistan, and to a lesser extent Angola. But, despite Grenada and the strike on Libya, and Shultz's consistent advocacy of the limited use of force, the Administration as a whole (and paradoxically the Pentagon in particular) have generally hesitated to accept or implement the argument that a superpower needs on occasion to use direct force in pursuit of its foreign policy objectives. In Congress and among the public at large, any prospect of action overseas involving possible American casualties has been deeply unpopular. This reluctance to undertake any operation the success of which has not been virtually guaranteed has affected in particular US policy in Central America, where the survival of the Sandinistas and of Noriega illustrate all too clearly the limits of American power.

18. In the field of East-West and West-West relations, we travelled a rocky road in the first half of the Reagan Presidency; but, thanks to a combination of factors, including luck, Presidential perseverance and the arrival of Gorbachev, ended up in a situation incomparably better than anyone would have imagined possible at the start of the decade. The INF Treaty will almost certainly be seen as Reagan's single most impressive foreign policy achievement. The climate of East-West relations has been transformed, albeit at times in ways uncannily reminiscent of the mid-1970s. And, although we may now be rediscovering the old truth that it is easier to hold the Alliance together when the wind from the East blows cold, it has held together remarkably well and has notched up some significant achievements, owing in large part to the efforts which the Reagan Administration have made, especially in recent years, to consult and inform the European Allies.

19. Reagan at the same time presided over a massive surge in defence spending, which has meant that the US defence budget has grown by an average of 4 per cent per annum in real terms over the past eight years. That is a considerable achievement, especially when compared with a post-war annual average of one per cent real growth. But the figures disguise the fact that most of the build-up took place in Reagan's first term, and that the budget has actually fallen slightly in real terms over the past two or three years. It is moreover by no means certain that the budget can be sustained even at its present level.

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20. Strategic defence has been one area where Reagan's aims at least have remained throughout truly revolutionary. The President's deep dislike of nuclear weapons has never been far from the surface: we have been lucky that, Reykjavik apart, the chimera of rendering the United States invulnerable to nuclear attack has been pursued through the Strategic Defence Initiative rather than hastily prepared disarmament proposals. For the true believers, the SDI has offered both the prospect of an escape from the nuclear nightmare, and a powerful symbol of American strategic and technological pre-eminence. Even Dukakis has acknowledged that the case for research into strategic defence remains strong. But, while the technical difficulties of introducing some form of limited defence may not be as great as appeared at first sight, Reagan and his advisers have not given due weight to the strategic and political consequences (not least for the British and French deterrent) of introducing such a defence system. It has thus been left to others, including the Prime Minister, to ensure that the walls of present strategic orthodoxy have not been prematurely torn down.

21. It has taken me some time to reach the not wholly surprising conclusion that there has not been a Reagan revolution, at least not in the terms advertised by the New Right. In my view, however, the target is more than an Aunt Sally: there were people who wanted a revolution; who worked for Reagan's victory in 1980 as a means of bringing one about; and who worked on in transition teams and in the Administration itself to keep the torch alight. They failed, and their failure is one of the more significant things about the last eight years of American politics.

22. They failed because neither the American people nor the American President really wanted such a thorough-going revolution. The former voted for the latter not so much because they saw an ideological need for substantive change, but because they felt a psychological need for cosmetic change: away from a Presidency that came to be symbolised by the agonised face of a Jimmy Carter who had jogged to the point of physical exhaustion on too hot a day; and towards an image projected with effortless charm by a Ronald Reagan - part Romantic and part Regular Guy - who appealed on both counts to middle America. There is a good deal of middle America in a majority of Americans. And what middle America wanted was essentially security, continued prosperity and a greater feeling of confidence in their country. This is what Reagan offered, and what to a great extent he has successfully provided.

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23. But, if Reagan did not bring about a revolution in the terms in which he set out to do in 1981, he has significantly changed the parameters of American political debate. As elsewhere in the Western world, the centre of political gravity in the United States has shifted to the right in the Eighties, and at least some of this shift looks as if it is there to stay. Whether Ronald Reagan was a cause or a symptom of that phenomenon will be for the historians to decide; but it is already apparent that he has been an important catalyst of the reaction against what is now seen as the high-tax big-spending Democratic ideology which began with the New Deal and continued through the period of postwar reconstruction and beyond. And he played a major part in accelerating the decline of union power (his decision to sack the air traffic controllers in 1981 was one of the most courageous of his political life). This remarkable change in the political landscape was reflected in the election campaign which ended yesterday: it was no coincidence that all the Republican candidates for the Presidency this year counted themselves conservatives; and that Dukakis, at least until the last ten days of the campaign, portrayed himself as a pragmatist, prepared to build on what Reagan had achieved, and preoccupied with competence, not ideology.

24. Former Speaker Tip O'Neill summed President Reagan up by saying that he had "known every President since Harry Truman ... and Ronald Reagan was the worst ... but he would have made a hell of a king". In a sense, that is exactly what Reagan was, and did; and he did it at a time when the United States - not yet fully recovered from Vietnam, Watergate or the disconcertingly un-American display of angst by Carter - needed just that. To this day, Reagan refuses to see himself as politician, or even as part of the government. In his own eyes, he is still the ordinary outsider, running against Washington and the liberal establishment. He remains wholly untouched by arrogance or affectation. It is here, in his ability at all times simply to be his natural and attractive self, that his political genius lies. That, coupled with an unerring instinct for putting the American people's preoccupations in words and ways they understand, is what will prompt many Americans to regard Reagan, for all his shortcomings, as an outstanding President.

25. In a nation still surprisingly uncertain of itself and what it stands for in the wider world, Reagan's extraordinary personal qualities have combined with his major policy achievements to restore Americans' belief in themselves. Under Reagan, Americans have again felt pride in the Presidency

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and the vast and heterogeneous nation which it helps bind together. Ronald Reagan has been a President obviously at ease with himself and his high office; and one not ashamed to exploit nationalistic symbols and sentiment, and the mythology of the American Dream, to generate a powerful revival of American self-confidence.

26. Thus, I suspect that it is what Tip O'Neill might call the "Good King Ron" view which will govern the way the Americans look back on the Reagan years, even if historians subsequently hold Reagan's economic or other policies responsible for some unforeseen future set-back. In the immediate future, however, and among the American public, it will be this view of Reagan as a popular and successful monarch which will prove more significant than the views of the frustrated revolutionaries on the right. And it may also prove more significant than the views of the liberal establishment, who disagreed strongly with Reagan on grounds of ideology and policy, especially in the economic and social fields; who were embarrassed by his apparent shallowness; and who blamed him (with some justification) for having given insufficiently controlled access to the levers of power to too many people with question marks over their competence, integrity or both.

27. On the international stage, Reagan has been lucky too, particularly in the arrival of Gorbachev. The latter is wielding a new broom with a speed which may yet cause plenty of trouble for Western statesmen and negotiators. But the immediate result has been Soviet acceptance - in arms control, in Afghanistan, and perhaps in Angola and over human rights - of a good number of Western positions; and this has given Reagan the rare bonus of being able to show that specific policies and attitudes were not only right, but successful. It has also been helpful to have evidence from the horse's mouth that it is the Soviet Union that needs radical change if it is to move into the next century with a plausible claim to super-power status. All this has made it not too difficult to argue that things are going well for America in the world; and it is one of Reagan's political strengths that the American people are much more likely to give him a share of the credit for that than to blame him personally for the deficits or for the Iran-Contra fiasco.

28. From the British point of view, we have had in Reagan a President who liked and admired the Prime Minister; who, with his wife, had a great affection for the Royal Family, and was unfeignedly delighted to spend his 31st wedding anniversary on board Britannia; who recognised and valued

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the contribution which Britain made to the Alliance, and who thought it right to deliver his most important speech on freedom and democracy in an address in the Royal Gallery at Westminster.

29. There is a lesson in all this for those who tend to read too much into the purely geographical aspects of the often exaggerated phenomenon of continental drift: there is certainly much warmth towards Britain to be found on the West Coast as well as the East, and a Dukakis can be brought up and well-educated in the East without visiting either Britain or Western Europe. But that is to digress. The real lesson about Reagan and Britain is that, despite Bush's victory, we are in general dealing now with a United States where we need to help make Anglophiles, rather than assume that we shall find born ones when and where we need them. The lesson is one which the Prime Minister - with the considerable help of the Royal Family - applied with conspicuous success to the Reagans; and it was rare indeed that a message (or, on really important occasions, a visit) from Mrs Thatcher did not do the trick. There may have been a slight downside to that, insofar as the American bureaucracy came increasingly to believe that, if there was not such a message, we did not really mean it. But that was a problem of success, and they are usually the easier to have to deal with.

30. Reagan has been a President who has helped us when we needed help - over the Falklands, over Trident, in the way he has dealt with Irish questions; who has listened, and agreed on the record, when we had urgent advice to give, as at the two crucial meetings with the Prime Minister at Camp David (at each of which - first on the SDI, and then on disarmament policy after the shock of Reykjavik - the result was what was needed for the Alliance as a whole, as well as for Britain); and who evidently liked doing business with us: it made sense to him (though much less to his advisers, who were pressing for the North Atlantic Council in Brussels) that he should stop over in London on his way back from a Moscow Summit that was the culmination of much that he had worked for.

31. As American officials proudly point out, the Prime Minister's visit on 15-17 November will be a State Visit in all but name, and the last by a political leader during the Reagan Presidency. That is exactly as the Reagans themselves would wish it, and in itself is eloquent testimony to the remarkable political and personal rapport between the President and the Prime Minister over the past eight years, and of the consequent benefits for Anglo-American and trans-Atlantic

/relations

relations. We have been fortunate in all that, even if we have had to work for our good fortune. We are fortunate too that, although it will soon be a case of "the king is dead, long live the king", we shall retain in this President and in his successor two very good friends of Britain.

32. I am sending copies of this despatch to the Chancellor of the Exchequer and the Secretaries of State for Defence and for Trade and Industry; the United Kingdom Permanent Representatives to the United Nations and the European Community, and on the North Atlantic Council; HM Ambassadors at Bonn, Moscow and Paris; the British High Commissioner in Ottawa; and to Consuls-General in the United States.

I have the honour to be,
Sir,
Your obedient servant

Antony Acland

Antony Acland

FILE

[Annex to Washington despatch on the CBP Reagan Years]

13/ai

ANNEX

THE REAGAN YEARS

A: FOREIGN POLICY

EAST/WEST

1. When President Reagan took office, East/West relations were at a low ebb. Governor Reagan had tirelessly given his explanation for this on the campaign trail : the late 1970s had been a period of Soviet expansionism in the Third World, culminating in the invasion of Afghanistan; the West had been tricked into lowering its guard by wishful thinking about detente and disarmament ; SALT II was "fatally flawed" ; and the Russians were now trying to undermine allied unity over INF. Reagan's attitude to the Soviet Union was simple and of long-standing : as he said at his first press conference "they reserve unto themselves the right to commit any crime, to lie, to cheat ... ". In order to deal with them, it was first necessary to rebuild US military and economic strength; to restore allied unity and self-confidence; and to stand up to the Soviet Union and their clients in the Third World. The US should only negotiate with the Russians from a position of strength.

2. For Europeans anxious to build on the achievements of the early 1970s, the prospects for East/West relations looked bleak in 1981. Yet, eight years on, the INF Treaty has been signed and ratified. Soviet troops are leaving Afghanistan, and after summits in Washington and Moscow, Reagan has described US/Soviet relations as better than at any time since the end of World War II.

3. There were a number of different forces at work in producing this transformation. Reagan deserves his share of the credit. He has combined his belief in peace through strength with an unexpected streak of pragmatism in dealing with Gorbachev. But other factors were equally important. It was fortuitous that Reagan's first term emphasis on recouping US self-confidence and military strength coincided with a period of stagnation and then transition in the Soviet Union. When Reagan began to turn his mind to a more constructive relationship with Moscow after his re-election, Gorbachev was in power and was for his own reasons looking for a more stable relationship with the US.

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4. Reagan was able to carry with him a large part of US Congressional and public opinion as his views of the value of dialogue with the Russians matured during his second term. One poll after the Washington summit showed that by a margin of 57% to 32%, Americans did not consider the Soviet Union to be the "Evil Empire". Reagan's impeccable conservative credentials have helped, but even so he has taken care to guard his right flank, in particular by a firm approach to human rights and regional issues.

(i) Human Rights. The Administration made this an integral and visible part of the dialogue - and with top priority - from the outset. In the process, they gave the Russians an incentive to orchestrate token releases of well-known dissidents and surges in emigration, to improve the atmosphere before major US/Soviet meetings. But the issue is now firmly established on the agenda, and Gorbachev's recent switch to a more cooperative approach probably owes something to the pressure from the US (and others in the West including ourselves) on this issue.

(ii) Regional Issues. Reagan has demonstrated that a constructive relationship with the Soviet Union is not incompatible with hard-nosed support for groups fighting Soviet-backed regimes in the Third World. This "Reagan doctrine" is examined further below. But the case of most direct relevance to East/West relations is Afghanistan. Here the Administration have pursued a consistent policy of support (economic and military) for the Mujahideen, and have worked with the Allies to keep international pressure on the Soviet Union, for example at the UN. The Administration (with bipartisan support from Congress) repeatedly made clear that Afghanistan was a litmus test of Soviet sincerity in seeking a more stable international environment. This, together with the continuing supply of advanced weapons, particular Stinger missiles which increased Soviet air losses, will surely have been a factor in Gorbachev's decision to cut his losses.

5. Reagan has the weaknesses of his strengths in East/West policy as elsewhere. The sharpness of his early rhetoric created suspicions in Soviet minds, and uneasiness in the Alliance. That took several years of patient diplomacy by Shultz to overcome. The strength of Reagan's convictions (for example on a non-nuclear world) enabled Gorbachev to lure him further than was prudent at the ill-prepared Reykjavik meeting : the effect on confidence in Western Europe may prove longer-lasting than we would wish; but the Prime Minister's speedy and

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effective intervention did much to limit the immediate damage and get an apparently still sound vehicle back on the right road. And the concentration on US/Soviet relations, particularly in the second term, left little time for Eastern Europe. Having been burned early on by the crisis in Poland in 1981, Reagan was slow to thaw relations as the situation eased, and the Administration is even more reluctant than the Europeans to agree to an IMF programme. Elsewhere in Eastern Europe, and despite the enthusiasm of Deputy Secretary Whitehead, relations have been thin, and neither Reagan himself nor Shultz put much effort into pursuing the stated policy of differentiation.

6. Some aspects of Reagan's East/West legacy should endure. In addition to the specific achievements of an INF treaty, and of significant progress towards a START treaty, the disarmament process in general has been given a seal of approval from the most right-wing US President since the War. Beyond that, Reagan has established a broad dialogue with the Soviet Union and has consciously set the agenda to comprise regional issues, including those where the US and Soviet Union are adversaries; increasingly candid exchanges on human rights; a vigorous exchange programme; bilateral discussions in many other fields, and a US public opinion more accustomed to regular summits, without expecting major accomplishments from each one. In short, he leaves US/Soviet and East/West relations in much better shape than he found them.

SECURITY POLICY

Defence

7. During the early years of the Reagan Administration, US defence expenditure increased massively, and produced major improvements, both quantitative and qualitative, across the board. During Reagan's second term, growth in expenditure levelled out, and then began to fall in real terms as congressional and budgetary pressures made themselves felt. But 8 years and over two trillion dollars later, the legacy is apparent in all areas. The goal of a 600 ship modern Navy is largely achieved; strategic modernisation plans set in train in 1981 were (almost) fully realised; the quality of manpower in all Services is unprecedentedly high, thanks to substantially improved military pay; there are plentiful stocks of spares, ammunition and support items needed for sustained operations; and the R & D programme ensured that emerging 'smart' technologies were exploited and are now about to be fielded. With the benefit of hindsight the money could have been better spent. Weinberger felt initially (perhaps rightly) that detailed planning would only delay the

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urgent task of rebuilding. But this unfocused build-up was never properly subjected to stringent disciplines, particularly in the field of procurement, with the result that certain major inadequacies remain such as insufficient airlift for reinforcement. Moreover the forward equipment programme, particularly for the Air Force, is unrealistically ambitious, given resource constraints and reducing expenditure. Nevertheless the fat years have allowed provision for the lean. They built up negotiating muscle for the second half of the Reagan Presidency. Although unaffordable plans will have to be trimmed, Reagan leaves Office with all services stronger and in better shape than ever before in peacetime.

Arms Control

8. It would be less than accurate to analyse the achievements on disarmament as a consequence of a change of gear in Washington during Reagan's second term. It is true that there was stalemate in the first administration, and success in the second. But the movement on substance came largely from the Soviet side, as they came to accept the strength of the Western case. Continuity and doggedness were the trademark of the US position; they may have been partly due to a collective inability to agree on anything else; but the record does much to confound the critics. Perseverance paid off and the result was success. INF will rightly be seen as the jewel in the crown. It may not be a diamond to all, but it is a stone of worth nonetheless, and cut to our own specifications (dual track, asymmetric reduction, zero option). The progress on START is a similar tribute to steadfastness, fulfilling in large measure the goals set by the President in June 1982. There have been achievements too on verification of nuclear testing, on nuclear risk reduction and confidence building. The SDI, for all the evident good sense in the prudential aspects of the programme, cannot be counted as a success for a President who personally contributed to the inflated rhetoric and unrealistic expectations of the campaign. But it would have been at least equally wrong to assume that the ABM Treaty had settled unambiguously and for all time the place of defence in a dynamic strategic equation. There is now the prospect that these difficult questions can be addressed with the care they deserve, both within the Alliance and in negotiation with the Soviet Union.

Alliance Management

9. The Reagan record on Alliance management overall was better than the spectacular exceptions suggest. At Reykjavik he took

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the Alliance to the brink of disaster. But even there, the Alliance has managed, largely through the efforts of the Prime Minister, to pocket the gains, and paper over the cracks. Less adroit was the way consultations with the Alliance was often handled, particularly over INF. German sensitivities again bore the brunt, as they did during the Carter Administration. Nevertheless these should not obscure the Administration's record of making enormous efforts to consult as well as to inform Allies on policy and dealings with the Soviet Union during the second term. Before and after each important meeting, American advisers fanned out over the globe to further this process of consultation. Since the beginning of 1985 there were over fifty special meetings of the NATO Council at which US Cabinet officials or their immediate deputies reported on the progress of East/West and arms control negotiations.

MIDDLE-EAST

10. International opinion would award no bouquets to Reagan on the Middle East peace process. There is certainly nothing to compare with Carter's major and highly personal achievement at Camp David. The 1982 plan which bore Reagan's name died at birth after Begin's rejection. The Shultz plan was too little, too late, the Jordanian option finally evaporating - for the time being at any rate. Israeli interests were allowed to dominate throughout, though the Arabs contributed to the failure by their inability to get their act together at crucial moments. It was a period of missed opportunities. And at no stage did Reagan take a close personal interest in the process.

11. The broader Reagan record in the region was also negative, combining outright disasters (the Marine Barracks bombing in 1983; the Iraqi attack on the USS Stark in 1987), embarrassing mishap (the mining of the Bridgtown in 1987; the shooting down of the Iranian airbus in 1988), deceipt and incompetence (the Iran-Contra affair), and controversial use of force (the New Jersey bombardment off Beirut in 1983; and the raid on Tripoli in 1986). Even where credit might have been claimed, for example for the leading US role in international efforts against terrorism, the Iran-Contra scandal has left the record stained. President Carter's failure to free the US hostages in Tehran was a trump card for Reagan in the 1979 campaign. But at the end of his own watch US hostages remain in captivity in Lebanon, and his Administration can have no claim to a consistently virtuous, tough policy of no concessions.

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12. But the domestic political judgement of the Reagan record in the region would be more generous, based mainly on the weight which the President and Shultz have placed on US-Israeli strategic co-operation (despite the invasion of Lebanon, the Pollard spy scandal and other Israeli provocations). Many Americans forgive Reagan personally for the Iran-contra scandal in recognition of his emotional commitment to the release of the hostages. The use of US military power against Libya and Iran - almost without US casualties - attracted solid public support. And there is a willingness to excuse the failure of peace efforts since Camp David as the fault of Arab obduracy.

13. Iran's acceptance of SCR 598 has brought hope for a more permanent reduction in tension in the Gulf. Though this is not to any great extent the product of US diplomacy, naval muscle or (least of all) US attempts to stem the flow of arms supplies to Iran (Operation Staunch), the US will gain some credit and - unlike in the Lebanon - they have at least lasted the course. US standing in the Gulf reached a dismal low in late 1986. It is better now, thanks to the naval patrolling operation, but not yet fully recovered; and it seems reasonable to expect continuing damage to US security assistance relationships in the region from Congressional actions prompted by pro-Israeli sentiment, which the White House has accommodated rather than challenged. The US will have its work cut out if it is to respond effectively to the more imaginative Soviet diplomacy now emerging.

THE THIRD WORLD : REAGAN DOCTRINE AND SUPPORT FOR DEMOCRACY

14. There have been two principal themes in Reagan's approach to the Third World, bringing together two of his most deeply held beliefs : the "Reagan Doctrine" (US support for those fighting for their freedom against Soviet-backed regimes in e.g. Afghanistan, Nicaragua, Angola, Cambodia); and the trend towards democracy (ten countries in Latin America moved from military to civilian rule on Reagan's watch, and similar transitions occurred in Asia : Philippines, Korea, and Taiwan).

15. The trend towards US support for freedom fighters began before Reagan took office, when Carter decided to support the Afghan resistance. From the outset, Reagan gave the issue greater prominence. He saw it as a way to deter further Soviet expansionism, to increase the cost to the Russians of their gains during the 1970s, and possibly even to roll them back.

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16. As usual with Reagan, the implementation was more pragmatic than the rhetoric would have suggested. It rapidly became apparent that it was relatively easy to persuade Congress to supply the funds for conflicts on the other side of the world, where the risk of direct US military involvement was slight (Afghanistan, Angola, Cambodia). Closer to home (Nicaragua) was a different story. And the amount and form of aid varied greatly,depending on the conflict's relevance to East/West competition;for example, the Cambodian resistance, little known throughout the United States, received only 3.5 million dollars per year in economic aid . The much larger US military and economic support to the Afghan resistance may well have made a significant difference there. In other regional disputes, US support for resistance movements was probably less important than other factors in determining the course of events.

17. The key point for Congress, and for public opinion, was the likelihood of direct involvement of US troops. Memories of Vietnam were still fresh (and were intensified in 1983 by the destruction of the Marine barracks in Beirut). Grenada was the exception that proved this rule. There, the most often stated motive (the rescue of US students from a thuggish regime) was uncontestable in domestic political terms, and it was in any case a limited and rapidly successful operation. But Nicaragua was a very different case. The US public were in general sympathetic with the Administration's aim (no consolidation of a communist beachhead on the American mainland). But disagreement about the means led to bitter political divisions throughout the Reagan years. This was partly because the Administration never made quite clear what their chosen instrument, the Contras, were intended to achieve : victory on the battlefield, or enough pressure to bring the Sandinistas to the negotiating table ? As a result, Congressional funding for the Contras became intermittent and inadequate, and lethal aid finally came to a halt in early 1988. By late 1988 the Contras were disintegrating as a fighting force.

18. In all this, Congress fairly accurately reflected US public opinion : polls showed consistent opposition to Contra aid by about 2:1 of respondents. Many feared that a failed Contra policy would in the end lead to the deployment of US forces in Nicaragua. In fact, there was never a serious risk of that, unless the Nicaraguans had given major provocation, e.g. by acquiring Soviet jet fighters or openly supporting the overthrow of a neighbouring regime. President Reagan understood too well the dangers of plunging a deeply divided country into a war against the well-armed - if small - enemy. But Reagan's inability to create a stable political

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coalition in favour of the Contra policy meant that the initiative passed to Congress (and in his second term a more heavily Democratic Congress) through its power of the purse. By late 1988, the President was in effect left without a policy towards Nicaragua beyond continued sanctions and verbal defiance.

19. Nicaragua has dominated Reagan's approach to the hemisphere for much of his Administration. Relatively little attention was given to Cuba. Apart from defiant words early on about going to the source of instability in the region, Castro has largely been left in peace. Reagan has taken pride in US support for El Salvador through a period of vicious insurgency and regarded the return of civilian rule there in 1984 as a major achievement; and the Administration are proud of the fact that civilian governments replaced military regimes in nine other countries in the hemisphere on his watch. However, US support was not in most cases the critical factor. And the gains are in some places fragile (Honduras, Guatemala and, with the disappearance of Duarte from the scene through ill health, El Salvador itself, where the extent of political polarisation is worrying the Americans). The concentration on Nicaragua has also left little time to spare for developing closer political relations with Mexico and with the major South American countries (Reagan's staunch support for Britain in the Falklands War has left a legacy of suspicion in Argentina and elsewhere in South America which has still not been fully overcome.) And in Panama, Reagan is likely to leave unfinished business for his successor : another case of willing the ends but not the means, which has further undermined US credibility in the region. In short, Reagan leaves his successor with a mess in Central America, and a legacy of neglect further down the continent.

20. Reagan has had more luck in his efforts to promote democracy in Asia. The close US relations with the Philippines and Korea gave Reagan a role in influencing the transitions there, but in each case domestic factors were more important. And in the Philippines, the positive outcome only partially made up for the impression that Reagan had remained loyal too long to Marcos : and had ditched that former US ally only in the nick of time.

21. More generally, US relations with Asia have been well managed under Reagan. A great deal of attention has been paid to the alliance with Japan, and the Americans took full advantage of the opportunity presented by Nakasone's Prime Ministership to encourage the Japanese to build up their defence budget, take on a greater share of the defence burden in their immediate area, to increase their aid programme significantly and to play a larger part in

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wider Western political counsels. Although trade frictions have sometimes loomed large, the Administration also deserve some of the credit for managing the explosion in export-led growth in Japan and the Newly Industrialised Economies of Asia, while heading off the most damaging protectionist proposals on the Hill.

22. In Africa, the most assertive aspect of American policy, and the only example of the Reagan doctrine in action, has been support for UNITA in Angola. With American (and South African) help, Savimbi successfully maintained pressure on the MPLA despite an increasingly substantial Cuban military presence. Elsewhere in black Africa, American policy has been much more cautious and pragmatic. American objectives have been directed towards encouraging the development of free market economies through the careful use of aid and economic policies. Results are far from spectacular, but the Administration would claim some qualified success : a number of African countries (for example Ghana and Tanzania) have instituted economic reforms at least indirectly traceable to American efforts.

23. In American domestic political terms, the dominant issue has remained the handling of policy towards South Africa. The Administration's instinctive preference for constructive engagement was compromised by Congress's insistence in 1986 on the imposition of limited sanctions, and pressure for further steps is likely to be even stronger in the next Administration.

24. As the Reagan presidency draws to an end, attention remains focussed on the prospects of progress in the delicate Angola/ Namibia negotiations. By late 1988, there were signs that the Russians were bringing their weight to bear in encouraging the MPLA to agree on a negotiated settlement, including the phased withdrawal of Cuban troops. If this transpires, the Administration will be able to point to a welcome tangible result of many years patient diplomacy in the region. Most, if not all of the credit will be due to the persistence and the skill of Chester Crocker, the Assistant Secretary for African Affairs, and the longest serving Assistant Secretary of a major State Department bureau since 1938.

THE US AND THE UN

25. Finally, a word on the US relationship with the UN, on which the dying days of the Administration have seen a remarkable sea change. From the start and until well into

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1988, the Reagan Administration was critical of the organisation, believing it to be hostile to US interests and bureaucratically inept if not corrupt. The Administration found it difficult to adjust to the changes in the UN during the early 1980s which in their view produced too radical a tilt in favour of the extravagances and irresponsibilities of the Third World. In addition to which, the US often found itself politically isolated on Middle East issues because of its almost unqualified support for Israel.

26. Now, at the end of 1988, events have come full circle, not least because developments in the Gulf and in Afghanistan have induced a more rational appraisal both within the Administration and on the Hill of the potential contribution of the UN to keeping the peace. The Administration have encouraged the process of closer consultation among the five permanent members of the Security Council. And the President has tasked the Administration with finding a way of repaying the arrears in US contributions to the UN budget, as well as with paying contributions in full in future. The will is therefore now there. But at a practical level difficulties still remain. The Administration has paid some $130 million to the UN over the past two months. However, the extent of the outstanding US arrears debt is so large (in the order of $340 million) that it will not be easy to reconcile a desire to repay with the heavy constraints on increasing budget expenditure in the years immediately ahead.

B. ECONOMIC AND DOMESTIC POLICY

THE ECONOMY

27. Conventional wisdom has it that the President inherited an economy that was in the doldrums - suffering from President Carter's "malaise" - and which had performed poorly throughout the 70s. The same conventional wisdom then points to the substantial pick-up in the 80s with faster growth, lower unemployment and lower inflation. While this is true so far as it goes, the full picture is not so starkly black and white. The relatively weak US performance in the 70s and stronger performance in the 80s was a pattern reflected in other industrialised countries too. Indeed, when Reagan assumed office, the fight against inflation was already well underway. Moreover, whereas in 1979 the economy inherited by President Reagan was in broad structural balance, the economy bequeathed to Reagan's successor is in severe imbalance.

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ECONOMIC OBJECTIVES AND PERFORMANCE

28. President Reagan came into office with the intention of reducing the role of the Federal government in the economy, and, in particular, reducing direct personal taxation. More generally, the aim was to reduce Federal regulation, abandon active exchange rate intervention (except during 'severe disorder in the market') and operate a free trade policy (even international economic policy coordination was viewed with some scepticism). These measures would, it was argued, free the private sector and encourage enterprise and growth. In particular, the reduction in tax rates would so stimulate growth that tax revenues would increase.

29. Since 1980, according to domestic indicators the economy has performed well. A growth rate of less than 3 percent in the 1970s was pushed up to an average of 4 percent during an upswing that is the longest in a period when the West was not at war. Tight monetary policies have substantially reduced inflation, helped by lower world commodity prices. As Reagan leaves office, although growth appears to be slowing, it is nevertheless still likely to be around 3 percent up on a year earlier by the end of 1988. Unemployment remains low and there is little sign of any marked resurgence of inflation, which is still around 4 percent.

30. The flexibility and resilience of the US economy has been particularly manifest in its labour market. Despite the long upswing, wage increases have on average remained below inflation, although this statistical average may, in part, reflect a marked change in the composition of the workforce. A large increase in the labour force - particularly through increased participation by women - has been absorbed while unemployment has been reduced to 5 - 5.5%, which most believe to be close to a full employment level. Over the 8 year period of the Administration some 17 million jobs were created.

31. The responsiveness and flexibilty of the labour market has been enhanced by the Administration's efforts to weaken the trades unions. Led by the President's successful stand against the air traffic controllers, employers have taken a more aggressive anti-union stance. They have been helped by Administration action - for example, by appointing to the National Labor Relations Board, individuals who were known to be hostile to unions, who allowed long delays in hearing union claims for recognition, and who interpreted the existing law to the benefit of employers resisting unionisation. As a result the balance between unions and employers changed in the latter's favour. Unionisation fell to around 13 percent of the workforce.

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32. The Administration thus enhanced an already impressive degree of labour mobility. During the 8 year period of the Administration, GNP growth was spurred by labour force growth rather than productivity, which grew only 1 percent a year. It remains to be seen whether the flexibility of the economy will enable it to sustain growth through increased productivity now that the period of rapid labour force expansion is over.

REGULATION AND PRIVATISATION

33. The President's efforts to promote a more competitive and efficient economy included major deregulation of the financial markets, intercity bus services and the broadcasting sector. But the process of financial deregulation was badly managed and in the case of the "thrifts" (the US equivalent of building societies) was fatally flawed. The thrift industry as a whole is losing money and some 500 institutions are either insolvent or chronically undercapitalised. The industry is very vulnerable to a rise in interest rates and could suffer a sharp loss of confidence amongst investors which could threaten other parts of the financial system. A considerable cost probably exceeding $50 billion will almost certainly eventually fall on the US taxpayer.

34. Anxieties about the financial system were also raised by the stock market collapse of October 1987. This added weight to the arguments of those who wanted more regulation of the stock-market and who did not want to see banks allowed to deal in securities. However, others pointed out that these anxieties needed to be tempered by the fact that, over the period of the Reagan Administration as a whole, the stock market showed substantial growth, despite the October '87 crash.

35. The tide against regulation has now moderated and in some areas may even have turned. Many regulatory agencies originally headed by ardent anti-regulators are now managed on a more pragmatic basis. Privatisation has followed a similar path from early enthusiasm to increasing caution : a freight railroad and some government loans have been transferred to the private sector; but the much more important targets of the Post Office and various power authorities have been left as they were.

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THE TWIN DEFICITS

36. While the record on domestic growth is strong, it has been achieved at the expense of substantial structural imbalance in the budget and trade deficit. It was intended that the very substantial cuts in income tax in 1981 would be paid for by improved revenues from enhanced growth (the Laffer curve) and by overall cuts in Federal spending despite increases in defence. In practice, the assumptions made about prospective economic growth in the 1981 budget were already very optimistic and despite the stimulation of the tax cuts, GNP growth in the following year was less than assumed in the budget. Moreover, the Administration failed to persuade Congress to enact enough spending cuts to balance the tax reductions and the increases in defence expenditure.

37. The result was a large structural deficit in the budget and high interest rates, leading to capital inflows to the US, a strong dollar and a huge trade deficit. The budget deficit peaked in terms of its proportion of GNP in 1983, but the problem of financing it was exacerbated by a sharp fall in the private sector savings ratio. Although much rhetoric has been used in denouncing the budget deficit, it has proved very difficult to take decisive action. A major cut reduced the deficit from $220 billion in FY 86 to around $150 billion in FY 87 (although partially achieved by asset sales and one-off tax measures). The stock market crash in 1987 prompted a further Administration/Congress agreement that held the deficit at $150 billion for FY 88 and probably FY 89. But most commentators do not expect the deficit to fall much below $150 billion in the next few years, unless there is a significant deficit-cutting initiative.

38. The need to finance the deficit from abroad, the corresponding capital inflows and the counterpart current account deficit have transformed the US from the world's largest creditor, earning $30 billion in net service payments, into the largest debtor. This will make it more difficult for the US to correct its current account deficit for it now needs a trade surplus to cover the cost of servicing its debt. Although some progress has been made in reducing the trade deficit in the final year of the Administration, largely as a result of the fall in the dollar, there are some signs that this improvement is now slowing. The improvement in the current account has been far less impressive.

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TRADE AND INTERNATIONAL POLICY CO-ORDINATION

39. The large current account deficit led to increased protectionist sentiment at home. This, combined with growing policy pragmatism in the Administration and the need to deal with the international consequences of the imbalances in the US economy, eventually led to a more active approach to economic and financial diplomacy. The switch was made possible when Regan and Baker exchanged their positions as Treasury Secretary and White House Chief of Staff. The dollar was talked down, the Japanese and Germans were encouraged to stimulate domestic demand. The rise in US (and world) interest rates, together with weak commodity prices, also compounded developing country debt problems. The US were again slow to intervene, and when they eventually took an initiative, by launching the Baker Plan in the autumn of 1985, they were activated mainly by the desire to safeguard the US banks from the consequences of a default by one of the major Latin American debtors rather than by a recognition of the plight of the poorest of the over-indebted countries. Throughout, they have been more concerned with the problems of the "middle income debtors" than with those of Sub-Saharan Africa. Nevertheless the steps taken in the mid-80s (rescheduling the liabilities of the largest debtor nations and encouraging further commercial lending case by case, on an increasingly wide menu of instruments) probably helped avert a financial crisis. But, as recent events in Argentina and Mexico have shown, the Administration has still not evolved a wholly coherent policy for the debt problem.

ECONOMIC PERFORMANCE - SUMMARY

40. The good news on the performance of the domestic economy has therefore to be tempered by overhanging problems of the thrift industry and the large structural imbalances that Reagan bequeathes to his successor. The US economy remains heavily reliant on the willingness of foreigners to buy US government securities. Action to remove these imbalances will be tough. Inaction may result in adjustments forced by a loss of confidence by the markets, with a result that is tougher still. Reagan's critics have argued that anyone can achieve a boom by borrowing $200 billion a year from foreigners. While that is an excessively harsh analysis and ignores the real gains on the supply side of the economy, the fact remains that Reagan leaves his successor with tough problems to face to cure the structural imbalances.

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TRADE AND AGRICULTURE

41. Despite a genuine Administration commitment to free trade, the macroeconomic policies which produced the soaring trade deficit (zero in 1980: $130 billion in 1988) and the high dollar, with its effects on US competitiveness, together with the perceived high-tech threat from Japan, led to enormous pressure for government and legislative action. With Baker's move to the Treasury in 1985, the Administration resolved to seize the initiative from Congress by working with Congress to improve US trade legislation, by fostering exchange rate collaboration and aggressive pursuit of negotiations or retaliatory action to open markets judged to be unfairly closed to the US. Another priority was an ambitious multilateral trade round to cover services and agriculture.

42. The resulting "greater use of trade laws than any Administration for 50 years" (Jim Baker) - though directed mostly against Japan - together with support for farm exports and farmers' income (imposed by Congress) led to friction with trading partners, including the EC, especially on agriculture but also on, for example, Airbus. This aggressive approach produced some minor US successes in market-opening, and a major effort with Japan on a number of more or less important sectors (and some farm products) led to considerable success on paper. But the greater success lay in creating the domestic impression that "something was being done".

43. The most public, and acclaimed, achievement was probably the free trade agreement with the largest trade partner, Canada. Ratification now depends on the Canadians. An earlier free trade agreement with Israel was of greater political than economic importance.

44. The Omnibus Trade Act does not itself impose or require more protection, but makes it more difficult for any Administration to resist the pressures for it. It does nothing for the trade deficit which was its main impetus, but the Administration put a major and largely successful effort into defeating the most protectionist features of earlier versions, helped by the perhaps surprising lack of appeal of out-and-out protectionism to the American electorate (witness the failure of protectionist candidates such as Gephardt in the 1988 primaries).

45. During the Reagan years, Congress has moved to increase protection, for example, by Buy American provisions as well as the Trade Act. The Administration has also given in to some protectionist pressures, notably for machine tools and against Japanese

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microchips as well as the steel VRAs. By 1987, according to the World Bank, 43% of US imports were subject to some kind of non-tariff barrier. But the Administration has withstood the worst protectionist pressures, not only in the Trade Act but also by rejecting legislation to increase textile protection (twice) and moves to protect the US footwear and copper industries. It leaves as its legacy a continuing high but declining trade deficit, record foreign indebtedness and a commitment (disputed by neither presidential candidate) to the GATT round, the multilateral process and free but "fair" trade - with all the disputes inherent in that.

RELATIONS WITH CONGRESS

46. The record of the Reagan years in relations with Congress has been one of increasing conflict and mistrust. Whereas in the first two years of his Presidency, Reagan largely succeeded in imposing his will on Congress, the subsequent years saw a return to the stalemate which has characterised relations between the executive and legislative branches throughout much recent US history. The figures for the percentage of Congressional votes supporting positions favoured by the President are revealing. In 1981/2 nearly two-thirds of votes in the House, and well over 80 percent of those in the Senate, supported the President. By 1984/5, the House figure had fallen to below 50 per cent (though the Republican-controlled Senate still remained heavily supportive). But by 1987, only one-third of votes in the House and a little over half of those in the (by then Democrat-controlled) Senate were supporting the President.

47. In the first two years of his Presidency, Reagan took advantage of the large number of Republicans who were swept into Congress on his coat-tails and succeeded in forging a majority Congressional coalition of Republicans and conservative Southern Democrats. This enabled him to push through his agenda of tax cuts and increased defence expenditure. There was even talk at that time of a return to an "imperial" style of Presidency, following a period of Congressional dominance in the aftermath of Watergate and the Vietnam War and under the uncertain leadership of Carter.

48. But all this began to change in the second half of Reagan's first term. After Republican losses in the 1982 mid-term elections, Reagan was no longer able to put together a winning coalition in Congress. While he remained enormously popular in the country as a whole, his consistently anti-government attitudes and, above all, his reluctance to go out and negotiate directly with Congress, led to increasing tension

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between the two branches of government. In foreign policy, the Marine deaths in Beirut in October 1983 were a turning point: although Reagan, like previous Presidents before him, never accepted that he was bound by the provisions of the War Powers Act of 1973, Congress effectively used that act to secure the withdrawal of US forces from the domestically unpopular involvement in Lebanon. And in Central America the President had his hands tied from 1983 onwards by a series of hard-fought Congressional amendments limiting (and in recent years, cutting off altogether) US military aid to the Contras.

49. The second Reagan Administation saw a further steady deterioration in relations with Congress. Don Regan lacked Jim Baker's sure touch as White House Chief of Staff (and even the subsequent appointment of Senator Howard Baker proved to be something of a disappointment in terms of the management of Congressional relations). The Reagan defence build-up was sharply reined back by Congress, and by 1986 the President was losing many of his major Congressional battles, for example, over South African sanctions, on which his veto was overridden). The Democrats' success in recapturing the Senate in the 1986 elections, together with the appointment of the more assertive Jim Wright to succeed Tip O'Neill as Speaker of the House, further exacerbated relations between the White House and Congress. Congress (and Wright) seized the initiative on Central American policy; there was a bruising battle (which Reagan lost) over the Bork nomination; and the President was forced to resort (sometimes unsuccessfully) to increased use of the veto in his attempts to block Congressional initiatives on subjects ranging from public works and social policy to arms control and trade.

50. But the issue which, above all else, soured the atmosphere of the last two years of the Reagan Administration, was the Iran-Contra affair. However limited the President's personal knowledge of the affair, Congress (Republicans as well as Democrats) resented the fact that members of the Administration had been allowed to go behind their backs in defiance of established policy and arguably (in the case of the diversion of profits to the Contras) of existing law. One consequence was that, during Reagan's final two years, Congress responded by seeking increasingly to tie the President's hands with laws containing absurdly detailed reporting requirements and micro-management of government programmes. This was not only wasteful of bureaucratic effort but led at times to near-paralysis of the policy-making process.

/RELATIONS

RELATIONS WITH THE MEDIA

51. Just as Reagan failed to establish good working relations with Congress because of his unwillingness to go out and cut deals with the Members, so too his reluctance to subject himself to live press conferences created barriers between himself and the media. While he could always produce a good (and sometimes much better than that) performance in a set-piece speech on television, his relative inaccessibility to journalists (and regular gaffes on the occasions when he did appear) evoked much criticism in the press. So too did the perception much fuelled by the Iran-Contra affair that he was inatttentive to and losing control of his staff; and that when figures like Lt Col North and Edwin Meese had clearly transgressed, his instinct was to support them blindly and stubbornly. But the public always seemed inclined to give him the benefit of the doubt, and it is a measure of his extraordinary resilience in the opinion polls that, even at the height of the Iran-Contra revelations in 1986/7, his personal popularity rating never dropped below about 42 percent (higher than Eisenhower's at a comparable stage) and has climbed in recent months to well above 50 percent (higher than that of any other recent President in the final stages of his Presidency).

SOCIAL POLICY

52. Reagan's domestic policies have been underpinned by his conviction, spelt out in a speech in Chicago in 1976, that virtually all economic and social ills "stem from a single source - the belief that government, particularly the Federal government, has the answers to our ills". The main theme of President Reagan's social policies has thus been, as he put it in his first inaugural address, "to curb the size and influence of the Federal establishment". But here, as elsewhere, his achievements have fallen far short of the rhetoric which he continues to use. Although Reagan has cut the volume of Federal regulations and checked, but not reversed, the growth in the Federal bureaucracy, his success in turning over Federal programmes to State and local government has produced a surge in uncoordinated activity by local government to fill the vacuum. His promise to restrict welfare payments to the "truly needy" was blocked by Congressional opposition on behalf of the more articulate of the groups affected, notably the elderly and the middle-class.

53. Although Reagan promised to abolish both the Energy and Education Departments, he ended up keeping both, and in October

/1988

1988 established another, for Veterans. Paradoxically, the Education Department led the national debate over public education, but found no magic formulae to improve its quality. Only in 1987 did the average test score for high school seniors return to its 1975 level of 906, far below the 1963 level of 980. Another alarming statistic, to which Dukakis has constantly pointed, is the rise in the number of Americans without any form of health insurance,from 29.6 million in 1980 to 37.1 million in 1987.

54. But the greatest social problem of the eighties has been the alarming increase in the spread of drugs, particularly among young people. The Administration devoted increasing resources to strategies aimed at cutting off the supply of drugs available to users, particularly crop eradication, border interdiction and domestic law enforcement. But by mid-1988 more drugs than ever, in larger shipments, hidden particularly in containers, were reaching the United States, and a recent report from the National Institute of Drug Abuse suggested that by their mid-twenties 80% of today's young American adults have tried illicit drugs. The Administration gave more emphasis during Reagan's second term to stemming demand though carefully targeted education programmes. Mrs Reagan received well deserved praise for adding her personal authority and commitment to the national crusade against drugs, although the "Just say no" programme has been criticised for striking a superficial note in an area where it remains much easier to forge consensus on the ends than on the means. There is a desperately long way to go.

LEGAL AND CONSTITUTIONAL ISSUES

55. President Reagan's lack of success in implementing the conservative social agenda was highlighted by his failure to persuade Congress to endorse constitutional amendments on abortion and school prayer. But, despite the debacle over the nomination of Judges Bork and Ginsburg to the Supreme Court, he has seated three Justices, including the first woman, and leaves the Court with a Conservative majority. And the more than 330 judges in lower Federal courts chosen by him may well provide his most enduring judicial legacy. The Administration's efforts to roll back affirmative action programmes have encountered considerable opposition, not least in Congress, which overrode the President's veto of an important civil rights bill in March 1988. The Administration will also be remembered for the fact that more than 100 of its senior officials, including members of the Cabinet, have been accused of illegal or unethical conduct.

/C.

C. THE BILATERAL RELATIONSHIP

56. The fact that the special relationship endures is partly a consequence of the unique co-operation between Britain and the US in two sensitive areas: strategic nuclear matters and intelligence. Both have flourished in the Reagan years.

57. THE NUCLEAR RELATIONSHIP

The depth and breadth of political, military and scientific contact flowing from the 1958 and subsequent Agreements lie at the heart of any explanation as to why US/UK relations still transcend those with any other ally. Although the exchange is now weighted heavily in our favour, successive US administrations have judged that it also serves US interests, given the professional quality of the British technical and military contribution and the political value of an ally prepared to carry its full share of the Western defence burden. This view has been held particularly strongly by Reagan and his advisers, in recognition of British determination to proceed with the Trident D5 Programme, to modernise UK Theatre Nuclear weapons and to uphold the principles of nuclear deterrence in an increasingly difficult Alliance environment. The extent to which the US Administration has gone to ensure that UK interests, particularly on Trident, will be protected under any START regime underlines the sincerity of the US commitment under President Reagan. At the same time, the shadow which has recently been cast across some aspects of nuclear submarine co-operation as a result of the possible sale of British SSNs to Canada illustrates that the institutional framework and indeed Presidential goodwill are not in themselves sufficient guarantees for a continuation of the golden era which currently exists.

58. THE INTELLIGENCE RELATIONSHIP

Britain remains the only ally with whom the US can conduct a full exchange of assessments on a worldwide basis. Although the US resources in this area are vastly larger than our own, the two communities complement each other well. The Americans retain the highest regard for the quality of the British product, and welcome British views as a highly professional cross-check on their own. The relationship works very much to British advantage, given that we obtain far more in terms of volume than we contribute in return, and that much of the work done by the US community would be beyond Britain's own resources. But President Reagan's two Directors of Central Intelligence, Casey and Webster, have concluded that

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the relationship serves US interests too. It is greatly in our interest that their successors should do the same.

59. UK/US co-operation on terrorism and narcotics has also increased greatly over the last 8 years. Despite the embarrassment of the Iran/Contra affair, the Administration have worked closely with British interlocutors at policy and analytical levels, and in international fora, in developing a vigorous counter-terrorism policy. Co-operation on the military side is also close. And on drugs in particular, despite occasional US insensitivity, American and British concerns about Caribbean involvement have provided a basis for close links with the US on operational and political aspects.

60. On a number of foreign policy issues, British interests have been particularly well served by the close US/UK relationship:

(i) the Falklands conflict. The Administration's prompt material assistance played a significant part in the achievements of our own Forces. For this, the Administration paid a price in Latin America : and since the conflict, many in the Administration have tried hard to shift the balance of US policy back towards Argentina. It is thanks mainly to President Reagan (and to Mr Weinberger as Secretary of Defence) that these conflicting pressures have not been allowed to affect either the security of the Islands, or our bilateral relations.

(ii) On Irish affairs and particularly following the Anglo-Irish Agreement, the Administration has been unfailingly helpful. In 1986, after much work by the Administration and this Embassy, the Senate approved the Supplementary Extradition Treaty designed to prevent IRA terrorists finding haven in the United States.

(iii) On Hong Kong the US followed our negotiations with the Chinese closely. The US statement of support for the Joint Declaration was very helpful in shoring up confidence in Hong Kong at a difficult moment.

61. Inevitably there have been issues on which we have not seen eye-to-eye. On Grenada Americans were disappointed at apparent British disapproval of the "rescue" mission, which they saw as contrasting with the support which the US had given to Britain on the South Atlantic the previous year. No lasting damage was done, however, and any memories of the differences over Grenada were expunged by British support for the attack on Libya in April 1986.

/62.

62. There have been frictions too when the Administration tried to pursue its foreign policy objectives through economic measures. Their extraterritorial application caused problems for the allies even when, for example, over Libya and drugs issues (laundering of illegal funds) Britain generally shared US objectives. When the Allies did not, problems were more acute:

- The Siberian pipeline affair damaged the Alliance more than the intended target, the USSR.

- Efforts to improve the effectiveness of COCOM were needed, but progress was hampered by US insistence on controlling re-exports of dual-use, ie civil products.

- The Laker affair (in which in 1984 the President took the unprecedented step of stopping Department of Justice criminal proceedings against British Airways and others on anti-trust grounds) brought home the need to find ways of avoiding, or at least managing disputes arising from US assertions of extraterritorial jurisdiction, which threatened to have wider and often far-reaching consequences.

63. In the later years of the Administration, US officials became much more sensitive to these dangers. Trade sanctions imposed on other countries on foreign policy grounds (for example Syria, Iran) have generally steered clear of extraterritorial jurisdiction. But there is a need for constant vigilance in view of the tendency in Congress and in law enforcement circles to assume that wrong-doing under US law should be prosecuted wherever the activity may have taken place. This still leads to problems in the anti-trust, export control, securities law and narcotics control areas.

THE SPECIAL PERSONAL RELATIONSHIP

64. The most distinctive feature of UK/US relations since January 1981 has been the extraordinarily close political relationship between the President and the Prime Minister. The outward and visible symbol of this has been the series of highly successful visits paid by both leaders to each other's country, starting with the Prime Minister's visit to Washington in February 1981 and ending with that which Mrs Thatcher will make here on November 15, 1988. The highlights in between have included the Prime Minister's address to a Joint Session of Congress in February 1985; her receipt of the Churchill Award in September 1983; what later became known as Camp David I and Camp David II, in December 1984 and November 1986 respectively; and, in the other direction, the President's visit to London, and his address to both House of Parliament,

/in

in June 1982; and his stop-over in London, and speech at Guildhall, in June 1988.

65. In American eyes, and especially those of the President and Mrs Reagan, Britain's other incomparable asset is of course the Royal Family. They have played an enormous part in promoting British interests in this country over the past seven and a half years. If the highspot was the triumphant visit which The Queen and The Duke of Edinburgh paid to the West Coast in the spring of 1983, during which the Reagans were able to celebrate their 31st wedding anniversary on board "Britannia", a close second was that by The Prince and Princess of Wales to Washington in November 1985, during which Their Royal Highnesses opened the incomparable "Treasure Houses of Britain Exhibition". Another successful event which benefitted greatly from a Royal visit was UK/LA 88 in March 1988, when The Duke and Duchess of York paid their first official visit to the United States. And there have been numerous other Royal Visits, including private visits, each of which has in its own unique way contributed to promoting Britain's interests across the country.

66. Under President Reagan, the bilateral relationship has flourished in many different ways. The "Britain Salutes New York" festival in the spring of 1983 was one example. Another, more mercantile one, is the continuing healthy figures for British exports (including defence sales) in the United States. And the fact that the United Kingdom, with assets here worth perhaps as much as $80 billion, remains the largest foreign investor in the United States has not gone unnoticed. The catalogue is almost endless, but the fundamental message is the same : the relationship between the United Kingdom and the United States, already quite unlike that between any other two nations, has prospered greatly under President Reagan.

PRIME MINISTER

8 November 1988

VISIT TO WASHINGTON

Before your visit to Washington next week you may find it useful to talk over some of the main issues you will be raising with the President elect.

On Trident, there should be a paper reaching you by the end of the week. It seems we have been unable to complete our work on the implications of an 8-station bus. The preliminary indications are that it may be more difficult than we thought to reconcile with our deterrence criteria; but there is more work to be done. You will probably therefore want to confine yourself to appreciation of the way the Administration has taken account of our Trident interests in the START negotiations and a reminder of the need to continue this consultation.

On CW, the Cabinet Office will be submitting a paper which addresses in a more realistic way than the joint minute by the Foreign and Defence Secretaries the options facing us. Even so, in the version I have seen, it fails to bring out our recognition that a CW convention will be virtually unverifiable and it does not explore satisfactorily the option of preparing a break-out capability while continuing to negotiate.

With Bush you will in any case need to take account of his public commitment to seeking an early CW convention. We shall probably therefore need to give the new President and Administration time to learn for themselves that the task is tougher than they may now think. In a first talk you may wish to confine yourself to pointing out the extreme difficulties of verification and the Soviet record of double dealing to date.

On SDI, there is a paper by the Chiefs of staff emphasising the seriously adverse effect a relatively small improvement in Soviet ballistic missile defence would have for Trident. The Foreign and Defence Secretaries may want to add to that by suggesting you raise SDI in a cautionary way. I doubt whether this would be wise. The Chiefs' point is a useful reminder; but, given continuing Soviet research in BMD, it does not follow that US back-tracking on SDI would avoid the dangers to Trident posed by Soviet defences. In any event we have hitherto been neutral to positive on SDI and careful to avoid getting into controversy with the Americans on it. In your first talk with Bush I feel we should keep things that way.

You will obviously wish to exchange thoughts on East/West relations, drawing on your experience in Poland. The overriding needs at the present time, as I see it, are:

a) to strike the correct balance between encouragement of reform on the one hand and caution over defence and long-term Soviet foreign policy objectives on the other.

b) to lay down some broad guidelines for alliance policy towards the Soviet Union and Eastern Europe. Bush may favour an early NATO meeting and there would be merit in this. It should precede any meeting between him and Gorbachev. We need in particular to impose some order on the developing detente rush to Moscow and to avoid unrequited gestures. We see no need to help Gorbachev avoid the hard choices between civil and military spending. We also need to reassert proper preconditions for any human rights conference in Moscow. Bush's thinking on most of this should be fairly close to yours.

c) to plan for early alliance decisions on nuclear modernisation in Europe, for which 1989 is likely to be the critical year. (Post-INF adjustments and a follow-on to Lance.) The latest reports are that the Germans are likely to be co-operative but will need to be able to refer to solid alliance pressure.

d) in presentational terms we need to consider whether we in the West cannot adopt a more forward policy, as you did in Poland, stressing the acknowledged failure of communist systems and the need for political as well as economic reform. It is unacceptable that Gorbachev, running a bankrupt system and promoting inadequate reforms, should still contrive to occupy the propaganda high ground. Again, this is not unlike Bush's call for a "regenerated public diplomacy" for NATO.

Bush has also shown interest in the Missile Technology Control Regime (MTCR), which fits in with his fears of chemical proliferation. Here again our concerns are similar and we shall want to assist in any efforts to strengthen the regime, while acknowledging the problems (eg Russian and Chinese non-adherence) and its only limited success to date.

This would lead on naturally to the growing danger of the Arab/Israel situation and the need for the new Administration to put it high on its agenda.

PERCY CRADOCK

CONFIDENTIAL

Original with Political Office Requested 21/11

CC PC CC Bup

Foreign and Commonwealth Office

London SW1A 2AH

4 November 1988

Dear Charles,

Prime Minister's Meeting with the European Democratic Group: 7 November

The Prime Minister has agreed to meet EDG Members on 7 November. Representatives of the 44 British Conservatives, 17 Spanish members of the Alianza Popular and 4 Danish Conservatives who make up the group will be present, led by Christopher Prout QC. The Prime Minister will be aware that the Group recently lost one of its more dynamic members with the death in September of Basil de Ferranti. A memorial service is due to take place in London on 9 November, and the Prime Minister may wish to make an appropriate reference. The by-election in the Hampshire Central seat will be on 15 December.

The EDG have been taking a helpful line recently in the European Parliament. They scored a notably success at the EP plenary on 27 October, when the Parliament voted down a report alleging UK violation of the EURATOM Treaty in safeguards arrangements at Sellafield. The report, which had been drawn up by a British Labour MEP (Llewellyn Smith), called for the Commission to release confidential details of the safeguards. The EP's total rejection of the report followed extensive lobbying and an impressive effort by the EDG, in particular the British members, to help secure the necessary votes against the report.

The EDG generally take a helpful line on CAP reform. At the first reading of the 1989 budget on 27 October, they successfully supported the 3.8 becu savings proposed by the Commission in an amending letter on 19 October. This includes 2.4 becu EAGGF savings. Some (mostly French) MEPs were opposed to building in the agricultural savings in this way. The EP decision makes it more difficult for member states opposing the EAGGF savings to reject them at the Council second reading later this month.

In general discussion of current EC issues and the prospects for Rhodes, the Prime Minister might like to draw on the following:

/- Welcome

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- Welcome Commission proposal for 3.8 becu savings for 1989 budget. Shows Brussels European Council decisions on Budget Discipline working.

- Same is true of stabilisers - glad to note price cuts for oilseeds of up to 20 per cent now triggered this year.

- At the GATT Mid-term meeting EC must claim credit for what has been achieved and be prepared to commit itself to further reductions in support/ protection as part of a multilateral effort. Agriculture must become more responsive to market forces.

- Rhodes prospect is for a constructive discussion: of the Commission's 1992 (Article 8b) mid-term report: of the environment (ozone layer, greenhouse effect etc): and on the Community's relations with the wider world (new US Administration, developments in Moscow).

[as necessary]

Monetary and tax issues will be for later: Delors group report not due until April: ECOFIN to consider, after Rhodes, Commission's reaction to this autumn's criticisms/glosses on Cockfield plan from several member states.

- On "social dimension" we have agreed to double the Structural Funds (including the Social Fund); and urged more action on training/retraining to combat unemployment (1986 Employment Resolution). But we reject mandatory worker participation: bad for productivity and hence jobs.

I am copying this letter to Roger Lavelle (Cabinet Office).

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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NT SR

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c.c. ~~FCO~~
CDD
22/7.

July 13, 1988

Prime Minister Margaret Thatcher
10 Downing Street
London SW1A 2AA
ENGLAND

Dear Prime Minister Thatcher:

Thank you very much for your reply to our letter of June 6 at top. We were hoping that you could adjust your visit in November so that we could make this presentation to you. We would prefer to wait until you might be able to accept this award here. I say this because conservatives at this stage are very discouraged and I think, frankly, that having you inspire them with the will to continue and with the message that we must persevere no matter how difficult things are is one which, regardless of the results in November, leadership in the movement will need to hear.

If you will be in touch with us regarding any future trips that you will make here, we will work around your schedule.

Best regards.

Sincerely,

Jeffrey H. Coors

Jeffrey H. Coors
Chairman of the Board

A Non-Profit, Tax-Exempt Educational Organization

721 Second Street, N.E. Washington, D.C. 20002 202-546-3004

USA : PM visit pt 8

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 June 1988

Dear Mr. Coors,

I am most grateful for your very kind letter of 6 June in which you tell me that the Free Congress Foundation has decided to present me with the Free Congress Governance Medal and Prize. I am very touched by the honour which you thereby do me and certainly accept the Medal and Prize with great pleasure. But I have to say that it will not be easy for me to come to Washington to accept it. My visit in November will be very brief indeed. I wonder, therefore, if it would be possible to make the presentation in London, in the event that you or any of your colleagues happen to be over here later in the year. I shall, of course, entirely understand if you prefer to await some future date when I am in the United States and perhaps able to attend a small ceremony.

May I once again thank you for your kindness in putting me forward for this honour. Could I please ask you to extend my best wishes also to Mr. Weyrich and Senator Armstrong.

Yours sincerely

Margaret Thatcher

Mr. Jeffrey H. Coors.

EL

(3)

PRIME MINISTER

FREE CONGRESS RESEARCH AND EDUCATION FOUNDATION

This organisation has written to you on the advice of the US Secretary of Education to say that you have been elected to receive the Free Congress Governance Medal and Prize. Their letter is attached.

The Embassy in Washington say that the Foundation is a reputable organisation with close links to the Heritage Foundation. The award itself is a new one, but the Embassy would regard it as entirely appropriate for you to accept, but it will probably be best to say that you would like to receive the award here in the United Kingdom rather than postpone it until some future visit to the United States. If you are content, agree to sign the attached letter?

CDP

CHARLES POWELL

23 June 1988

Foreign and Commonwealth Office

London SW1A 2AH

22 June 1988

Dear Charles,

Trustees of the Free Congress

Thank you for your letter of 10 June enclosing one about the Free Congress Governance Medal and Prize.

We have consulted our Embassy in Washington. They tell us that the Foundation is a reputable organisation, closely associated with the Heritage Foundation. The Free Congress Governance Medal and Prize appears to be a new award which is largely the brain-child of Mr Paul Weyrich, a well-known lobbyist who is also a trustee of both the Free Congress and Heritage Foundations. The award seems to some extent to have been created specially for the Prime Minister. The Embassy consider that it would be entirely appropriate for the Prime Minister to accept. We recommend that she do so in principle, and seek in the first instance to have the presentation in London. While it would be possible for her to receive it during a later visit to the US, such an event might not sit easily with a visit designed to bring her close to a new Democratic President, if one were to be elected. If Mr Bush is the next President, there would of course be no problem.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

USA: Pm's visit Pt-8

FILE
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Ack/ 10 June 1988

I enclose a copy of a letter to the Prime Minister from the Trustees of the Free Congress Research and Education Foundation informing her that she has been awarded the Free Congress Governance Medal and Prize and inviting her to accept it at a ceremony in Washington during her visit in November.

I should be grateful for advice on whether it would be appropriate for the Prime Minister to accept the award; and on whether it would be possible for her to do so without having to attend the ceremony in Washington which it will not be possible to fit into the very brief programme for her visit in November. You will no doubt wish to consult the Embassy in Washington but I should be grateful for a reply within ten days.

(C.D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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10/6 → CDP

To see. I assume, that, even if there were time in the programme this wd be a 'regrets'!

DM 10/6.

June 6, 1988

Prime Minister Margaret Thatcher
10 Downing Street
London SW1
ENGLAND

Dear Prime Minister Thatcher:

We write on the advice of Secretary of Education, William J. Bennett, and at the behest of many leaders of the American conservative movement. The Board of Trustees of the Free Congress Foundation, strongly prompted by the conservative leaders we mention above, has elected to present you the Free Congress Governance Medal and Prize.

We recognize you as the world's leading example of effective conservative governance. Our Trustees, listed on this letterhead and themselves distinguished conservative leaders, understand that you are planning to come to Washington sometime next November or December, at President Reagan's invitation, immediately following the United States' general election. We hope that your schedule will permit a time to accept this award.

In making this invitation, we are speaking on behalf of over 100 of the leading U.S. mainstream conservative organizations. The majority of their leaders and supporters will be present for the Award Dinner. All of them stand solidly for the cornerstones of strong, effective conservative governance: family, strong defense, free market, limited governance, and traditional values.

The Governance Award and Prize presentation will call attention to America's leadership that our success in achieving our goal of promoting these cornerstones will depend on <u>our commitment</u> to govern. You exemplify that commitment. It is a commitment desperately needed in our country at this time. We consider you the single most important voice for governance. Your call for that commitment of the exact leaders we will assemble for this occasion could greatly affect the course of events just now in American matters of policy.

A Non-Profit, Tax-Exempt Educational Organization

721 Second Street, N.E. Washington, D.C. 20002 202-546-3004

Thank you for your kind consideration of this invitation. Of course, we will make all arrangements for your visit exactly according to your wishes and your convenience. We have insured that all appropriate security arrangements will be made between our respective officials. At the proper time, we will initiate all details with your designated staff.

Very sincerely yours,

Jeffrey H. Coors
Chairman, Board of Trustees

Paul M. Weyrich
President

Senator William Armstrong
Chairman, Governance Dinner Committee

cc: The Honorable William J. Bennett

SECRET

PRIME MINISTER

YOUR VISIT TO WASHINGTON

I understand from Charlie Price that Wednesday 16 November would suit the President and he is likely to confirm that to you tomorrow.

The only possible complication I have unearthed is that Chancellor Kohl will be making a private visit to New York on 13/14 November and is to have lunch at the White House with the President on 15 November. His will not be an official visit like yours, with all the trappings and the formal White House dinner. Kohl is the one who will suffer from the contrast. It is still slightly irritating that he will be there the day before. But there is no way in which you can bring forward your visit.

CDP

CHARLES POWELL

1 June 1988

SECRET

SECRET 6

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a Tessa G.
PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 May 1988

PRIME MINISTER'S VISIT TO WASHINGTON

I have been discussing with the (moving) White House possible dates for the Prime Minister's visit to Washington in the autumn. There were very considerable difficulties for the Prime Minister with dates proposed by the Americans in November. I accordingly suggested 9 and 16 December.

The White House subsequently came back to say that the President felt that these were simply too late in his Presidency. He wondered whether the Prime Minister could look again at possible dates in November. He hoped that agreement on dates could be reached and announced following his meeting with the Prime Minister on Thursday this week.

I have discussed this further with the Prime Minister and she has identified Wednesday 16 November as virtually the only day she could manage in November. Her intention would be to travel out to Washington after Prime Minister's Questions on Tuesday 15 November, spend Wednesday 16 November carrying out an official programme in Washington followed by a dinner at the White House. She would then hope to see the newly elected President on the morning of Thursday 17 November before returning to the United Kingdom later that day.

I am now putting this proposal back to the Americans and will let you know the outcome. I will also mention it to Antony Acland when I see him this evening.

Charles Powell

A.C. Galsworthy, Esq., CMG.,
Foreign and Commonwealth Office.

SECRET

SECRET

PRIME MINISTER

VISIT TO WASHINGTON

The "Moscow" White House have been in touch about your visit to Washington in the autumn. Their aim is to tie up details and announce the visit when you see the President on Thursday.

You will recall that we explained to them the difficulties of various dates in November and counter-proposed 9 or 16 December. The White House now say that the President feels this is too late in his Presidency and would run up against various departure and farewell events. They have asked that we look again at possibilities between 9-30 November (the Presidential election is on 8 November).

I attach the relevant section of the diary to illustrate the difficulties. The main problems are:

- inward State Visit on 8 and 9 November
- Remembrance Day events on 12 and 13 November
- Lord Mayor's Banquet on 14 November
- State Opening of Parliament on 23 or 29 November. (Uncertainty about this is one of the major problems).
- European Council on 2/3 December.

The White House now seem to think that it would definitely be better not to come before the Presidential election. (Earlier they seemed more relaxed about this.)

Looking at the diary, there seem the following possibilities:

- visit Washington on Wednesday 16 November (going out on the evening of 15 November and returning overnight 16/17 November for Cabinet. The President wants to do a dinner, which would mean either going virtually straight to dinner from the airport or leaving Washington very late after dinner on 16 November.

SECRET

- visit Washington Friday 18 November, going out on the evening of 17 November. This would mean cutting the Diplomatic Reception - which you would not mind. BUT you would probably have to pospone addresing the Federation of Business and Professional Women on 19 November. It is also close to one of the dates for the State Opening.

- visit Washington on Monday 21 or Wednesday 23 November. But this would be possible only if the State Opening was definitely the following week. I don't know at what point this will be decided.

- visit Washington on Thursday 1 December, flying direct from there to the European Council in Rhodes.

None of these is very attractive, although 21 or 23 November would be feasible if we knew that the State Opening was definitely the following week.

Could I please have your views?

C.D.P.

CHARLES POWELL

30 May 1988

VC3BAS

We had better leave immediately after Cabinet on Tuesday 15th November - so we have one night in Washington Full day Wednesday 16th - return after the dinner on that night for Thursday. - unless we could We should then be able to see the Concord

SECRET both ways - Out Tuesday - back Thursday in time for Thursday evening, or

NOT TO BE COPIED
COPY NO: 5

Tuesday 11 - Friday 14 October
PARTY CONFERENCE

Sunday 16/Monday 17 October
KEEP FREE ?

Monday, 17 October
House returns?
?OVERSEAS

Tuesday, 18 October
AUDIENCE

Wednesday 19 October
LUNCH WITH DAILY EXPRESS + TP

Thursday 20 October
1945 for 2000 Dinner for the Kennedy Memorial Trust No.10

Friday 21 October
OVERSEAS
TO CHEQUERS ?

Monday 24 October
Keep free
? **ATTEND DINNER FOR THE BHAVAN**

Tuesday 25 October
AUDIENCE

Thursday 27 October
GUEST OF HONOUR AT A DINNER ORGANISED BY HEBREW UNIVERSITY OF JERUSALEM - LONDON

Friday, 28 October
FINCHLEY LADIES LUNCH

Monday 31 October
1500-1600 First meeting for Lord Mayor's Banquet Speech
1830-2000 General Reception

Tuesday 1 November
AUDIENCE?
1830-2000 Reception for Wightman Cup No.10

Wednesday 2 November
LUNCH WITH CHRISTIES?
1500 Grantham Rotary Club Photocall

Thursday 3 November
2000 Dinner for CTS sponsors

NOT TO BE COPIED
COPY NO: 5

Sunday 6 November
?1930 SIR GEORG SOLTI CONCERT RFH

Monday. 7 November
1830-1930 Drinks with European Democratic Group - No.10

Tuesday 8 November
State Visit?
AUDIENCE
STATE BANQUET?

Wednesday 9 November
? Lunch for Overseas Visitor?
pm and evening Keep free for Lord Mayor's Banquet Speech

Thursday 10 November
pm RETURN STATE BANQUET?

Friday 11 November
Keep free for speech

Saturday 12 November
FINCHLEY FAIR
REMEMBRANCE DAY SERVICE +DT ROYAL ALBERT HALL

Sunday 13 November
REMEMBRANCE SUNDAY

Monday 14 November
0830 Hair
1000 Week Ahead Meeting
1030 Diary Meeting?
1215 Meeting of colleagues?
followed by Lunch?
pm Keep free for speech
? LORD MAYOR'S BANQUET GUILDHALL

Tuesday 15 November
AUDIENCE

Wednesday, 16 November
Keep free? [possible lunch for Reparations]

Thursday, 17 November
1830-1900 LOOK IN AT LADY PORTER'S RECEPTION
? DIPLOMATIC CORPS RECEPTION - BUCKINGHAM PALACE

Friday, 18 November
REGIONAL TOUR - Cuk

Saturday 19 November
ADDRESS UK FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN - LONDON

NOT TO BE COPIED
COPY NO: 5

Monday 21 November
Keep free + CDP (or 25th)

Tuesday 22 November
? AUDIENCE
ATTEND DINNER TO MARK LORD FORTE'S 80th BIRTHDAY
GROSVENOR HOUSE

Wednesday 23 November
KEEP FREE ? [State opening]

Friday 25 November
Lunch with British Sports Association for the Disabled
Keep free + CDP (or 21st)

Monday 28 November
1100 PLANT A TREE TO MARK NATIONAL TREE WEEK

Tuesday 29 November
KEEP FREE? [State opening]
AUDIENCE

Friday, 2 - Saturday 3 December
EUROPEAN COUNCIL - RHODES

Monday 5 December
Look in at Reception for NSPCC?

Tuesday, 6 December
AUDIENCE

Wednesday, 7 December
am only REGIONAL TOUR

Thursday 8 December
1700-1930 ADDRESS PER CENT CLUB
RETURN TO NO.10

Friday 9 December
FINCHLEY

Monday 12 December
pm ?Keep free
2015-2030 ATTEND DINNER GIVEN BY HRH PRINCESS ALEXANDRA FOR THE AMERICAN AMBASSADOR AND MRS. PRICE + DT - 25 ST. JAMES'S PALACE

Tuesday, 13 December
AUDIENCE

SECRET

PM has seen 4
CDP
19/5

PRIME MINISTER

POSSIBLE VISIT TO THE UNITED STATES

Charlie Price has come back to me again on the question of the President's invitation to you to pay an official visit to Washington in the autumn. He confirmed the President would extend the invitation formally when you see him on 2 June. The White House obviously hope that it can be agreed there and then so that an announcement can be made following your meeting.

Charlie Price has also made the point that the President now wants the visit to take place after the Presidential Election on 8 November. Dates suggested by the White House are 10, 28, 29 or 30 November. None of these are much good. We have an inward State Visit here on 10 November and anyway it falls just before the Lord Mayor's Banquet and you will not wish to be away. The latter dates could clash with the State Opening of Parliament (although it could equally be the week before). They also fall immediately before the European Council in Rhodes. It will actually be extremely difficult to find any dates in November and you may like me to explore with Charlie Price the possibility of dates in early to mid December after the European Council. It does seem to me that it would not matter much from the President's point of view whether it was November or December.

CDP

Charles Powell
19 May 1988

DG2CSI

SECRET

SECRET

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Me Powell
cc PC

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 May 1988

THE PRIME MINISTER'S VISIT TO WASHINGTON

The Prime Minister and the Foreign Secretary discussed this evening President Reagan's impending invitation to the Prime Minister to pay an official visit to Washington at the end of the year. They noted that the invitation was now directed to the period after the Presidential elections on 8 November and agreed that, in the circumstances, the Prime Minister should certainly accept. However, the dates so far suggested by the White House of 10, 28, 29 and 30 November were all open to objection. It was agreed that I should explore with Ambassador Price alternative dates in early December after the European Council. I will let you know the outcome.

C. D. POWELL

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

SECRET

SECRET AND PERSONAL 2 FILE VC3A-1S

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 May 1988

Dear Tony,

POSSIBLE VISIT BY THE PRIME MINISTER TO WASHINGTON

I understand from Charlie Price that President Reagan is thinking of inviting the Prime Minister to pay an official visit to Washington in September/October as one of his last acts as President. The invitation would be intended as a major mark of personal respect and friendship and the arrangements would be similar to those for a State Visit. I believe that Charlie Price has also told Antony Acland of this in strict confidence.

The point which is bound to give some cause for reflection is whether such a visit would be construed as interfering in some way in the United States Presidential election campaign. General Powell is very dismissive of this suggestion. The visit would be entirely connected with President Reagan not with either of the two candidates and linked to the celebration of his last months in office. It would of course be open for the Prime Minister to meet both the Presidential candidates during the visit if she so wished.

I imagine that the President will invite the Prime Minsiter when he comes here on 2 June. I am sure that the Prime Minister would welcome some advice on how she should respond. But I should say tht her first instinct is in favour of accepting the invitation.

I should be grateful if knowledge of this could be kept very restricted for the time being.

Yours ever,

C.D. POWELL

A.C. Galsworthy, Esq., CMG,
Foreign and Commonwealth Office.

SECRET AND PERSONAL

KK

SECRET

PRIME MINISTER

POSSIBLE VISIT TO WASHINGTON

Charlie Price telephoned me this morning, having just got back from two weeks in the United States. He had been to the White House at the end of last week and had been told there by General Powell that President Reagan very much wanted to invite you to pay an official visit to Washington in September/October, as one of his last acts as President. This would be intended as a major mark of personal respect and friendship for you and the arrangements would be similar to those for a State Visit, i.e. big dinner at the White House.

Charlie told General Powell that he thought you might have some misgivings about seeming to interfere in the US Presidential election campaign. General Powell had dismissed this. The visit would be entirely connected with President Reagan and the note on which he wanted to end his Presidency. It would of course be possible for you to meet both Presidential candidates if you so wished.

I said that I would put this idea to you and obtain your reaction. In the meantime I hoped that it could be kept very quiet. Charlie said that he had mentioned it to Antony Acland.

Perhaps we could discuss it when you have a moment.

C.D.P.

CHARLES POWELL

16 May 1988

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 August 1987

I am writing on behalf of the Prime Minister to thank you for your letter of 20 August with which you enclosed one from Herr Helmut Kohl. I shall place your letter before the Prime Minister immediately.

Mark Addison

Baron Hans von Stein, KCVO.

Box

cc PC.

cc FCO

BOTSCHAFT
DER BUNDESREPUBLIK DEUTSCHLAND
Embassy
of the Federal Republic of Germany
Baron Hans v. Stein

London, 20 August 1987

Prime Minister.
For information. I have acknowledged.
MEA 21/8

Dear Prime Minister,

I have the honour to transmit to you the enclosed letter from Herr Helmut Kohl, Chancellor of the Federal Republic of Germany.

A courtesy translation is also attached.

I am, dear Prime Minister,

Yours sincerely,

Hans v. Stein

Chargé d'Affaires

Her Excellency Margaret Thatcher
Prime Minister of
the United Kingdom of
Great Britain and
Northern Ireland

010

CCPC

Foreign and Commonwealth Office

London SW1A 2AH

18 August 1987

C D Powell Esq
PS/No 10 Downing Street

CF
Pl confirm the PM has seen telno 360.
/MEA

NIT Tel 360 but as the PM has written to King Fahd again since file on MEA's instructions

Dear Charles,

MESSAGE FROM KING FAHD TO THE PRIME MINISTER

DATED 27.7.87

I enclose the original with translation of King Fahd's reply to the Prime Minister's message of 8 July.

The Prime Minister has already seen the text of King Fahd's message in Riyadh telno 360.

Yours ever,

Fiona Paterson

Fiona Paterson (Miss)
Assistant Private Secretary
to Mrs Lynda Chalker

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T160A/87

Courtesy Translation

SUBJECT
CC OPS
MASTER

11.8.87

Letter

from

Herr Helmut Kohl,
Chancellor of the Federal Republic of Germany

to

Her Excellency Margaret Thatcher
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland

Prime Minister,
dear Margaret,

Thank you for your letter, which has been transmitted to me by the British Embassy on 23 July 1987 and in which you gave me your impressions on the talks you had in Washington.

I am most grateful for this information. I am looking forward to our forthcoming discussions in September on the occasion of the IDU-Partyleader-Conference in Berlin.

Yours sincerely

BUNDESREPUBLIK DEUTSCHLAND
DER BUNDESKANZLER

Bonn, 11. August 1987

Ihrer Exzellenz
Frau Margaret Thatcher, MP
Premierminister des
Vereinigten Königreichs
Großbritannien und Nordirland

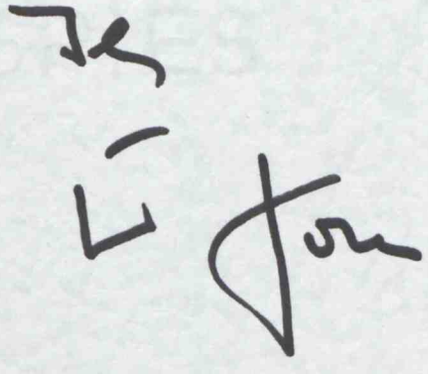
London

Sehr geehrte Frau Premierminister,
liebe Margaret,

herzlichen Dank für Ihr Schreiben, das mir durch die britische Botschaft am 23. Juli 1987 zugesandt wurde und in dem Sie mir Ihre Eindrücke von den Gesprächen übermitteln, die Sie in Washington geführt haben.

Ich bin Ihnen für diese Unterrichtung sehr dankbar und sehe auch meinerseits gerne dem Gespräch entgegen, das wir im September am Rande der IDU-Parteiführerkonferenz in Berlin führen können.

Mit freundlichen Grüßen



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T150AA/87

SUBJECT
CC MASTER
OPS

TRANSLATION OF THE TEXT OF A PERSONAL MESSAGE FROM
KING FAHD BIN ABDUL AZIZ AL SAUD TO THE PRIME MINISTER

The Right Honourable Margaret Thatcher
Prime Minister of the United Kingdom

After Greetings

My thanks and appreciation for Your Excellency's letter about the principal points for your discussion with President Ronald Reagan during your visit to the United States. I am grateful for the good efforts which you are exerting.

The lowering of tension in the Gulf and the maintenance of the freedom of navigation there is a matter of the highest importance. There is no doubt that the achievement of this objective serves vital interests, which we must continue to protect. The passing of the latest Security Council Resolution about the Iran/Iraq War is the fruit of effective efforts. It is our great hope that these efforts continue, aiming at stability and security and so removing the causes of the tension.

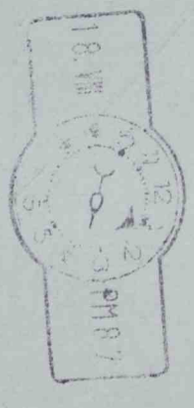
I also appreciate Your Excellency's intention to draw President Reagan's attention to the importance of maintaining momentum towards a solution of the Palestinian issue. I hope for the success of all efforts in this direction.

Your Excellency referred to the satisfactory agreement concluded in relation to the Yamamah project. I should like to express my pleasure at this result, confirming at the same time our sincere wishes for everything that strengthens the relationship and cooperation between our two friendly countries and which serves our mutual interests.

I take this opportunity to express my wish for Your Excellency's continued health and happiness and for the continued prosperity of the friendly British people.

Signed Fahd bin Abdul Aziz Al Saud

27 July 1987



بسم الله الرحمن الرحيم

دولة السيدة مارغريت تاتشر

رئيسة وزراء المملكة المتحدة

تحية وبعد ،

فقد تلقيت رسالة دولتك التي تضمنت الاشارة الى النقاط الرئيسية التي سيتم بحثها مع فخامة الرئيس رونالد ريجان اثناء زيارة دولتك للولايات المتحدة الامريكية. . ومع شكرى وتقديرى لما تضمنته الرسالة اوءكد ان المساعي والجهود الخيرة التي ستبذل من قبل دولتك هي محل التقدير.

ان تخفيف التوتر في منطقة الخليج والمحافظة على حرية الملاحة فيه امر في غاية الاهمية ولاشك ان الوصول الى هذه الغاية امر يخدم المصالح الحيوية ويحافظ على استمرارها ، هذا وان صدور قرار مجلس الامن الاخير بشأن الحرب العراقية الايرانية ياتي ثمرة للجهود الفعاله. وان املنا كبير بان تستمر هذه الجهود لما يؤدى الى خدمة الامن والاستقرار ويزيل اسباب التوتر.

وبالنسبة لما ذكره دولتك عن لفت نظر فخامة الرئيس رونالد ريجان الى اهمية الحفاظ على استمرار زخم التحرك تجاه حل القضية الفلسطينية فلا شك ان ذلك ايضا محل التقدير من الجميع واننا لنأمل ان توفق كل الجهود والمساعي الطيبة في هذا السبيل.

../..

وحـــول ما اشـــار اليـــه دولتـــك عـــن الاتفـــاق العرضـــي الـــذى تـــم الوصـــول اليـــه بشـــأن مشـــروع اليمامـــة فـــاود ان ابـــدي ســـروري لهـــذه النتيجـــة مؤكـــدا فـــي الوقـــت نفســـه رغبتنـــا الصـــادقـــة في الســـعي الـــى كل مايعـــزز العلاقـــات والتعـــاون بـــين بلدينـــا الصديقيـــن خدمـــة لمصالحهمـــا المشـــتركـــه .

واغـتـنم هـذه المناسـبة لاعـرب عـن تمنيـاتي الشخصيـة لدولتكـم بدوام الصحـة والسـعادة وللشعب البريطاني الصـديق بدوام الرخـاء . ،،،

فهـد بن عبد العزيز آل سـعود

جـده في ٢ ذو الحجـه ١٤٠٧هـ.
الموافـق ٢٧ يوليـة ١٩٨٧م .

Mr Powell:

With the compliments of

Lyn Parker

THE PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

* CCN

Here file
CDS 21/7

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CONFIDENTIAL
FM WASHINGTON
TO TELELETTER FCO
TELELETTER NFR
OF 272000Z JULY 87

FOLLOWING FOR P J FOWLER ESQ, NAD, FCO
FROM M E PELLEW, WASHINGTON

PRIME MINISTER'S VISIT TO WASHINGTON : CONGRESS

YOU ASKED ON 24 JULY FOR A RECORD BY TELELETTER. FOLLOWING IS A DRAFT WHICH YOU MAY LIKE TO PASS TO NO. 10. WE HAVE BRIEFED THE NSC AND STATE (AT THEIR REQUEST) ON THE EXCHANGES RELATING TO MOZAMBIQUE :

BEGINS

1. THE PRIME MINISTER MET A BIPARTISAN GROUP OF SENATORS IN THE CAPITOL BUILDING FROM 4.15 TO 5.15 PM ON 17 JULY. THOSE PRESENT ON THE MAJORITY SIDE WERE SENATORS BYRD, BENTSEN, INOUYE, MOYNIHAN, CRANSTON, HOLLINGS AND SASSER. REPUBLICAN SENATORS PRESENT WERE DOLE, LUGAR, DANFORTH, HATFIELD, CHAFEE, BOSCHWITZ, HELMS, HEINZ AND WARNER.

2. AFTER OPENING COURTESIES FROM SENATOR BYRD (MAJORITY LEADER), THE PRIME MINISTER SAID THAT SHE WAS A FRIEND AND ADMIRER OF THE UNITED STATES. BRITAIN WAS GRATEFUL TO AMERICA FOR THE MARSHALL PLAN, FOR US LEADERSHIP IN NATO AND FOR THE UNIQUE US ROLE IN DEFENCE OF FREEDOM THROUGHOUT THE WORLD. IT WAS NATURAL THAT, AT THE START OF HER THIRD TERM AS PRIME MINISTER, HER FIRST OVERSEAS VISIT SHOULD BE TO THE UNITED STATES. SHE WAS PARTICULARLY GLAD ON THIS OCCASION TO BE MEETING MEMBERS OF THE SENATE AS WELL AS THE ADMINISTRATION.

3. THE PRIME MINISTER COVERED THE FOLLOWING POINTS IN HER OPENING REMARKS :

(A) EAST/WEST RELATIONS - THE FUNDAMENTAL ISSUE WAS STILL THE CLASH OF IDEOLOGY BETWEEN EAST AND WEST AND THE STRUGGLE FOR INFLUENCE IN THE THIRD WORLD. BUT THE PRIME MINISTER BELIEVED THAT A HISTORIC CHANGE WAS TAKING PLACE WITHIN THE SOVIET UNION. WE SHOULD NOT UNDERESTIMATE GORBACHEV'S COURAGE. ENLARGEMENT OF LIBERTY WOULD EVENTUALLY LEAD TO GREATER ECONOMIC PROSPERITY FOR THE SOVIET PEOPLE, AND IT WAS IN OUR INTERESTS TO ENCOURAGE THIS. HER OWN UNCENSORED TELEVISION INTERVIEW DURING HER RECENT VISIT TO MOSCOW HAD SHOWN HOW FAR THE SOVIET AUTHORITIES HAD ALREADY COME.

(B) ARMS CONTROL - MANY PEOPLE WERE NOW ASKING WHETHER THE SOVIET UNION WAS DRAGGING ITS FEET ON AN INF AGREEMENT. THE PRIME MINISTER'S OWN VIEW WAS THAT THE SOVIET UNION WANTED AN AGREEMENT AND THAT PRESENT DELAYS WERE LARGELY TACTICAL. VERIFICATION WAS A DIFFICULT ISSUE AND IT WAS IMPORTANT TO TAKE TIME TO GET IT RIGHT. WE WERE ALL AGREED IN NATO ON THE NEED TO STAND FIRM ON THE EXCLUSION OF THE GERMAN PERSHING 1AS.

(C) GULF AND MIDDLE EAST - IT WAS SIGNIFICANT THAT THE FIVE PERMANENT MEMBERS HAD WORKED TOGETHER TO BRING ABOUT A CEASEFIRE RESOLUTION IN THE GULF WAR. IT WOULD BE IN THE INTERESTS OF BOTH PARTIES TO OBSERVE SUCH A CEASEFIRE. THE PRIME MINISTER ALSO BELIEVED THAT, WITH THE SUPPORT OF THE MAJOR POWERS, IT SHOULD NOW BE POSSIBLE TO MOVE FORWARD TOWARDS AN ARAB/ISRAEL SETTLEMENT. THE EUROPEAN COMMUNITY COUNTRIES HAD ENDORSED THE IDEA OF AN INTERNATIONAL CONFERENCE AS A FRAMEWORK WITHIN WHICH THE PARTIES CONCERNED COULD NEGOTIATE DIRECTLY. IN HER TALKS WITH THE ADMINISTRATION, SHE HAD BEEN EXPLORING WAYS OF TAKING THIS FORWARD.

(D) SOUTH AFRICA - THE PRIME MINISTER REFERRED TO THE FORTHCOMING COMMONWEALTH CONFERENCE IN VANCOUVER AND TO THE POSSIBILITY OF RENEWED PRESSURE IN CONGRESS FOR FURTHER US SANCTIONS AGAINST SOUTH AFRICA. SHE DID NOT BELIEVE THAT SANCTIONS WOULD SOLVE THE PROBLEM, AND WAS STRONGLY OPPOSED TO UNIVERSAL ECONOMIC SANCTIONS. IT WAS SIGNIFICANT THAT SOME COMMONWEALTH AFRICAN COUNTRIES HAD NOT IN FACT IMPOSED THE MEASURES TO WHICH THEY HAD COMMITTED THEMSELVES.

(E) MOZAMBIQUE - THE PRIME MINISTER SAID THAT SHE BELIEVED IT WAS IMPORTANT THAT NOTHING SHOULD BE DONE TO UNDERMINE THE ONE GOVERNMENT IN THE AREA WHICH TOOK A THOROUGHLY REALISTIC VIEW OF SOUTH AFRICA AND SANCTIONS. CHISSANO HAD SHOWN GREAT COURAGE IN UPHOLDING THE NKOMATI ACCORD WITH SOUTH AFRICA WHICH HAD BEEN SIGNED BY MACHEL. HE HAD RECENTLY CALLED ON THE PRIME MINISTER IN LONDON AND HAD IMPRESSED HER AS A MODERATE AND SENSIBLE LEADER WHO WAS ANXIOUS TO MAINTAIN LINKS WITH THE WEST. THE UK WAS PROVIDING HIS GOVERNMENT WITH SOME MODEST ECONOMIC AID AND MILITARY TRAINING ASSISTANCE. IF THE US GOVERNMENT WERE TO EMBRACE RENAMO, THIS WOULD BE THE SUREST WAY TO PUSH CHISSANO INTO THE ARMS OF THE SOVIET UNION.

(F) TRADE - THE PRIME MINISTER SAID THAT SHE HAD LED THE CAMPAIGN AGAINST THE PROPOSED OILS AND FATS TAX IN EUROPE. BUT SHE WOULD NOT BE ABLE TO KEEP UP THIS SORT OF FIGHT IF CONGRESS WERE SIMULTANEOUSLY IMPOSING CUSTOMS USERLOND OTHER FEES ON ITS TRADING PARTNERS. SHE WAS AGAINST ALL FORMS OF PROTECTIONISM, WHICH SHE BELIEVED COULD ONLY GIVE RISE TO RETALIATION AND COUNTER-RETALIATION. THE UK KEPT ITS MARKETS VERY OPEN. WE ALL HAD PROBLEMS WITH AGRICULTURAL SUBSIDIES : BUT WE WOULD NOT SOLVE THEM SIMPLY BY PASSING THEM ON TO OTHERS.

4. SENATOR BENTSEN (D-TEXAS, CHAIRMAN OF THE FINANCE COMMITTEE) AGREED ABOUT THE DANGERS OF PROTECTIONISM AND THE NEED TO PROMOTE FREE MARKETS AND LIMIT SUBSIDIES. HE BELIEVED THAT THE TRADE BILL WHICH THE SENATE WAS ABOUT TO PASS WOULD BE A POSITIVE STEP TOWARDS THE EXPANSION OF FAIR TRADE. THE PRIME MINISTER REPLIED THAT SHE HOPED THE TRADE BILL WOULD NOT CONTAIN PROVISIONS FOR UNILATERAL ACTION TO ABROGATE MULTILATERAL AGREEMENTS (SHE MENTIONED THE 1 PER CENT TARIFF FOR TRADE ADJUSTMENT). SHE ADDED THAT SHE FAVOURED TOUGH MEASURES AGAINST JAPAN : THE JAPANESE COULD DO MUCH MORE TO OPEN UP THEIR MARKETS.

5. SENATOR BOSCHWITZ (R-MINNESOTA) ASKED ABOUT UK AND EUROPEAN VIEWS ON THE US PROPOSAL TO ELIMINATE AGRICULTURAL SUBSIDIES OVER 10 YEARS. THE PRIME MINISTER SAID THAT THE RECENT US PROPOSAL WAS COURAGEOUS AND WE WELCOMED IT. BUT HELP TO FARMERS WAS SOMETIMES NECESSARY FOR REASONS OTHER THAN AGRICULTURAL. THE UK FAVOURED GETTING RID OF SUBSIDIES, BUT DOUBTED WHETHER THIS COULD BE ACHIEVED IN EUROPE IN 10 YEARS. OF THE WHOLE EC BUDGET OF 33 BILLION ECUS, NO LESS THAN 17 BILLION ECUS WAS CURRENTLY SPENT ON DISPOSING OF AGRICULTURAL SURPLUSES.

6. SENATOR DOLE (R-KANSAS, MINORITY LEADER) THANKED THE PRIME MINISTER MOST WARMLY FOR HER PUBLIC STATEMENTS OF SUPPORT FOR THE PRESIDENT EARLIER IN THE DAY. HE WENT ON TO ASK ABOUT UK AND OTHER ALLIED NAVAL ACTIVITY IN THE GULF. THE PRIME MINISTER MADE CLEAR THAT THE ALLIES WERE SHARING THE BURDEN. THE ROYAL NAVY WERE CURRENTLY ESCORTING ABOUT 3 SHIPS PER WEEK, MAKING A TOTAL OF ABOUT 150 SHIPS ESCORTED SO FAR. THE FRENCH AND DUTCH WERE ALSO THERE. THE US WAS NOT ALONE.

7. SENATOR HELMS (R-N. CAROLINA) REVERTED TO MOZAMBIQUE AND RENAMO. HE CHALLENGED THE ADMINISTRATION'S REFUSAL TO DEAL WITH ANTI-COMMUNIST FREEDOM FIGHTERS IN A MARXIST COUNTRY. THE PRIME MINISTER SAID THAT RENAMO WAS TOTALLY UNLIKE SAVIMBI'S UNITA. IT HAD BEEN STARTED BY IAN SMITH DURING THE RHODESIAN INDEPENDENCE STRUGGLE, AND HAD NO INDIGENOUS HISTORY WITHIN MOZAMBIQUE. IN A FURTHER EXCHANGE, SENATOR HELMS CONTINUED TO QUESTION WHETHER RECONCILIATION COULD BE ACHIEVED IN MOZAMBIQUE BY DEALING WITH ONLY ONE SIDE. HE DISAGREED WITH THE PRIME MINISTER'S ASSESSMENT OF RENAMO IN HER RECENT LETTER TO CONGRESSMAN BURTON. THE PRIME MINISTER ONCE AGAIN REPEATED HER VIEW THAT THE US SHOULD SUPPORT CHISSANO. THIRD WORLD

COUNTRIES WERE BEGINNING TO REALISE THAT THE WEST HELPED THEM, WHEREAS THE SOVIET UNION ONLY SOLD THEM WEAPONS WHEN THEY NEEDED FOOD.

8. SENATOR SASSER (D-TENNESSEE) WONDERED WHETHER THE US WAS PAYING TOO HIGH A PRICE FOR THE DEFENCE OF THE FREE WORLD. COULD THE EUROPEANS MAKE A LARGER CONTRIBUTION TO EUROPEAN DEFENCE, PARTICULARLY AS REGARDS CONVENTIONAL FORCES ? THE PRIME MINISTER SAID THAT THE EUROPEANS WERE IMMENSELY GRATEFUL FOR THE 330,000 US SERVICEMEN IN EUROPE. BUT THESE TROOPS WERE DEFENDING AMERICA'S FRONT LINE AS WELL AS EUROPE'S. AND IN PROPORTION TO THE SIZE OF THEIR ARMIES SOME EUROPEAN COUNTRIES WERE DOING EVEN MORE (66,000 IN THE CASE OF THE UK). THE SOVIET UNION WAS CONSTANTLY UPGRADING ITS CONVENTIONAL FORCES. THE ONLY WAY IN WHICH WE COULD HOPE TO ACHIEVE PARITY WOULD BE IF THE SOVIET UNION WERE TO COME DOWN TO OUR LEVEL. SENATOR SASSER SUGGESTED THAT WE MIGHT USE THE BAIT OF FURTHER NUCLEAR CUTS IN ORDER TO ENCOURAGE GORBACHEV TO MAKE CONVENTIONAL REDUCTIONS. THE PRIME MINISTER REJECTED THIS. WE WERE CUTTING TWO NUCLEAR SLICES WITH THE DOUBLE ZERO OFFER ON INF. THE NEED FOR NUCLEAR DETERRENCE IN EUROPE REMAINED AS STRONG AS EVER, PARTICULARLY AS WE WERE AT A DISADVANTABE IN HAVING NO CW CAPABILITY. WE SHOULD GO NO FURTHER UNTIL PARITY HAD BEEN ESTABLISHED IN CONVENTIONAL FORCES AND CHEMICAL WEAPONS HAD BEEN ELIMINATED. ENDS.

SIGNED : M E PELLEW

YYYY

ORWBAN 3239

NNNN

(12)

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Mr Frakwell
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INFO IMMEDIATE WASHINGTON, UKDEL NATO, PARIS, BONN, MODUK
INFO IMMEDIATE UKMIS NEW YORK

MT

MY TELNO 1067: PRIME MINISTER'S MESSAGE TO GORBACHEV

SUMMARY

1. I CALLED ON SHEVARDNADZE ON 24 JULY TO DISCUSS THE PRIME MINISTER'S MESSAGE. SHEVARDNADZE WELCOMED HIGH LEVEL DIALOGUE, LOOKED FORWARD TO YOUR VISIT IN NOVEMBER AND TO MEETING YOU IN NEW YORK. HE TOOK A HARD LINE ON PERSHING 1AS AND EXPRESSED PESSIMISM ON STRATEGIC WEAPONS. THE SOVIET UNION IS IN NO HURRY TO COMMIT ITSELF TO FOLLOW UP ON IRAN/IRAQ. PROGRESS TOWARDS A MIDDLE EAST CONFERENCE WELCOMED. DIALOGUE SHOULD CONTINUE.

DETAIL

2. I CALLED ON SOVIET FOREIGN MINISTER SHEVARDNADZE FOR AN HOUR AND A HALF TODAY, 24 JULY. I EXPLAINED THAT I HAD BEEN INSTRUCTED TO DELIVER THE PRIME MINISTER'S MESSAGE TO FIRST DEPUTY FOREIGN MINISTER VORONTSEV IN ADVANCE (MY TELNO 1067) AS YOU AND THE PRIME MINISTER WOULD WELCOME INDICATIONS OF THE SOVIET UNION'S LATEST THINKING ON THE IMPORTANT INTERNATIONAL ISSUES COVERED IN THE PRIME MINISTER'S MESSAGE AND IT HAD THEREFORE SEEMED SENSIBLE THAT SHEVARDNADZE SHOULD HAVE TIME TO READ THE MESSAGE BEFORE MY CALL ON HIM. I ALSO POINTED OUT THAT THE MESSAGE HAD BEEN WRITTEN BEFORE GORBACHEV'S PUBLIC ACCEPTANCE OF ''GLOBAL DOUBLE ZERO'' AND SAID THAT I HAD BEEN INSTRUCTED TO SAY THE THE PRIME MINISTER WAS ENCOURAGED BY HIS STATEMENT AND WOULD STUDY THE DETAILS OF THE NEW SOVIET POSITION WITH INTEREST.

3. SHEVARDNADZE THEN OFFERED HIS OWN COMMENTS ON THE PRIME MINISTER'S MESSAGE. HE WOULD BE CONVEYING IT TO GORBACHEV LATER IN THE DAY AND KNEW THAT IT WOULD BE READ WITH GREAT INTEREST. THE MAINTAINANCE OF THIS HIGH LEVEL DIALOGUE WAS A VERY USEFUL PRACTICE. THE SOVIET LEADERSHIP APPRECIATED THE PRIME MINISTER'S POSITIVE ASSESSMENT OF INTERNAL SOVIET DEVELOPMENTS AND THE FACT THAT SHE HAD AFFIRMED IT IN

APPRECIATED THE PRIME MINISTER'S POSITIVE ASSESSMENT OF INTERNAL SOVIET DEVELOPMENTS AND THE FACT THAT SHE HAD AFFIRMED IT IN PUBLIC ON SEVERAL OCCASIONS. INCREASED AWARENESS OF EVENTS IN BOTH COUNTRIES WAS IMPORTANT TO THE DEVELOPMENT OF TRUST AND CONFIDENCE. THE SOVIET LEADERSHIP WAS GLAD THAT THE PRIME MINISTER HAD WARM MEMORIES OF HER VISIT: THESE WERE SHARED IN MOSCOW. IT HAD BEEN AN EXTRAORDINARY EVENT IN ANGLO/SOVIET RELATIONS AND IF DEVELOPMENTS CONTINUED IN THE SAME WAY, RELATIONS WOULD BECOME MORE DYNAMIC. THE SOVIET LEADERSHIP ALSO APPRECIATED THE PRIME MINISTER'S READINESS TO SHARE HER IMPRESSIONS OF PRESIDENT REAGAN AND THE AMERICAN SITUATION. THE SOVIET UNION HAD NO WISH TO TAKE ADVANTAGE OF INTERNAL CONTRADICTIONS IN US SOCIETY. THE SOVIET UNION WANTED TO DO BUSINESS WITH A STRONG AMERICAN PRESIDENT AND WELCOMED THE PRIME MINISTER'S ASSESSMENT THAT PRESIDENT REAGAN WAS IN GOOD FORM.

4. SHEVARDNADZE WENT ON TO PICK OUT FOR COMMENT SELECTED POINTS FROM THE PRIME MINISTER'S MESSAGE:

(A) ARMS CONTROL: PERSHING 1AS

SHEVARDNADZE QUOTED THE PASSAGE FROM PARAGRAPH 4 OF THE PRIME MINISTER'S MESSAGE ABOUT NATO'S READINESS 'TO ELIMINATE ALL US AND SOVIET WEAPONS IN THE LRINF AND SRINF CATEGORY ON A GLOBAL BASIS'. THE PRIME MINISTER WAS UNDOUBTEDLY A POLITICIAN WHO KEPT HER WORD. IF THIS DID INDEED REFLECT NATO'S VIEWS, THERE WERE IMPROVED PROSPECTS FOR AN AGREEMENT. HE ASKED SPECIFICALLY WHETHER THIS WORDING COVERED THE PERSHING 1AS. I SAID THAT THE P1A WAS A HYBRID SYSTEM AND UNIQUE. IT PRE-DATED THE SS20 DEPLOYMENT AND NATO COUNTER-MEASURES. SOVIET EXPERTS AGREED THAT HIS OBSOLESCENT SYSTEM WAS MILITARILY INSIGNIFICANT. WE RECOGNISED THAT IT RAISED POINTS OF PRINCIPLE AND AROUSED EMOTIONS ON THE SOVIET SIDE BUT HOPED THAT THE SOVIET UNION UNDERSTOOD THAT IT GAVE RISE TO SIMILAR POINTS OF PRINCIPLE AND POLITICAL DIFFICULTIES ON THE WESTERN SIDE RELATIVE TO INTRA-ALLIANCE RELATIONSHIPS. THERE WAS NO INCONSISTENCY BETWEEN THE PRIME MINISTER'S MESSAGE AND THE UNITED STATES' POSTION ON P1AS. THE PRIME MINISTER WAS REFERRING TO WEAPONS SYSTEMS, NOT WARHEADS, AND SPECIFICALLY TO THOSE SYSTEMS WHICH HAD BEEN UNDER NEGOTIATION SINCE THE START OF THE GENEVA TALKS. WE HOPED THAT NEW ISSUES WOULD NOT BE ALLOWED TO OBSTRUCT PROGRESS AT THE LAST MOMENT, PARTICULARLY SINCE WE WERE WHOLLY CONFIDENT THAT SOVIET SECURITY INTERESTS WOULD NOT BE DAMAGED IF THE P1AS SURVIVED A DOUBLE-ZERO AGREEMENT: REMAINING WEAPONS SYSTEMS ON THE SOVIET SIDE WOULD PROVIDE A MORE THAN ADEQUATE RESPONSE. A BROADER APPROACH TO EUROPEAN SECURITY ISSUES AS A WHOLE WOULD BE HELPFUL.

AFTER A JOCULAR ASIDE ABOUT THE DESIRABILITY OF CONSERVATION MEASURES FOR AGEING AND UNIQUE WEAPONS SYSTEMS, SHEVARDNADZE SAID THAT GENSCHER HAD UNDERTAKEN THAT THE FRG WOULD NOT RAISE OBSTACLES TO AN INF ACCORD. THE SOVIET UNION DID NOT OBJECT TO THE 'SCRAP IRON' OF THE MISSILES THEMSELVES: BUT THE WARHEADS MUST BE DESTROYED. IF THEY WERE NOT, WHY SHOULD THE SOVIET UNION DESTROY HERS? SHE COULD STORE EQUIVALENT WARHEADS ELSEWHERE AND MAINTAIN LAUNCHERS IN THE GDR AND CZECHOSLOVAKIA. ARGUMENTS BASED ON OBSOLESCENCE DID NOT HOLD WATER. IF THEY WERE OBSOLESCENT THEY WERE NOT NECESSARY AND COULD BE REMOVED. IN THE SOVIET UNION'S VIEW, THEY WERE NOT SO HARMLESS. THEY HAD NOT ENTERED THE DISCUSSION BEFORE BECAUSE SRINF HAD ONLY BEEN PUT ON THE AGENDA AFTER DISCUSSION OF A GLOBAL DOUBLE-ZERO BETWEEN SHULTZ AND GORBACHEV. A GLOBAL DOUBLE ZERO AGREEMENT MUST INCLUDE ALL ITS ELEMENTS. SYSTEMS

DOUBLE ZERO AGREEMENT MUST INCLUDE ALL ITS ELEMENTS. SYSTEMS COULD NOT BE DISCUSSED WITHOUT THEIR WARHEADS. THE WESTERN POSITION LACKED EVEN ELEMENTARY LOGIC.

(B) VERIFICATION

SHEVARDNADZE SAID THAT THE SOVIET UNION WANTED THE FULLEST POSSIBLE VERIFICATION. THIS SHOULD INCLUDE BASES, TRAINING CENTRES, RANGES AND PRODUCTION FACILITIES. THE UK'S VOICE IN THIS COULD BE IMPORTANT. I SAID THAT VERIFICATION MEASURES AFFECTING UK TERRITORY WOULD NEED EXTREMELY PRECISE AND CAREFUL DEFINITION.

(C) START

SHEVARDNADZE SAID THAT THERE WERE GROUNDS FOR PESSIMISM. THE US HAD TOUGHENED THEIR POSITION POST-REYKJAVIK WHILST THE SOVIET UNION ADHERED TO WHAT THEY HAD AGREED. THEY HAD TABLED BASIC PROVISIONS COVERING THE WHOLE TRIAD AND STRENGTHENING OF THE ABM REGIME. IN A FEW DAYS THEY WOULD TABLE THE TEXT OF A DRAFT AGREEMENT BUT WOULD NEVER ACCEPT EROSION OF THE ABM TREATY. THE SOVIET UNION KNEW THAT THE PRIME MINISTER FAVOURED RETENTION OF THE ABM TREATY. THE SOVIET UNION WOULD NOW AWAIT AMERICAN REACTIONS TO ITS DRAFT TREATY.

(D) THE GULF

SHEVARDNADZE SPOKE WARMLY OF OUR COOPERATION IN THE SECURITY COUNCIL: WE SHOULD BUILD ON THIS. THE SITUATION WAS DANGEROUS AND EXPLOSIVE, WITH TALK ON THE ONE HAND OF FREEDOM OF NAVIGATION BUT ON THE OTHER A MASSIVE NAVAL BUILD-UP WITH ULTRA-MODERN WEAPONS. GIVEN THE IRANIAN ATTITUDE TO THE RESOULTION, IF AN END TO THE WAR WERE NOT FOUND THE CONSEQUENCES COULD BE DANGEROUS AND UNPREDICTABLE. SOVIET VIEWS ON THE FOREIGN NAVAL PRESENCE WERE WELL-KNOWN. THE NEXT STEP SHOULD BE SUPPORT FOR THE UN SECRETARY GENERAL'S MISSION. THE SOVIET UNION WAS CONSULTING WITH BOTH IRAN AND IRAQ IN SUPPORT OF THIS. HE THOUGHT IT USEFUL TO CONTINUE BOTH THE SECURITY COUNCIL AND A BILATERAL DIALOGUE. THE SOVIET UNION'S IMPRESSION FROM MEETINGS WITH IRAN AND IRAQ WAS THAT POSSIBILITIES FOR ENDING THE WAR WERE FAR FROM EXHAUSTED. I SAID THAT WE WELCOMED SOVIET SUPPORT FOR THE SECRETARY GENERAL'S ROLE. WE HOPED THAT THE SOVIET UNION'S GOOD RELATIONS WITH IRAQ WOULD HELP TO SUSTAIN A MORATORIUM ON ATTACKS ON SHIPPING AND REMOVE PRETEXTS FOR IRANIAN RETALIATION. I ASKED ABOUT THE SOVIET ATTITUDE TO A FOLLOW-UP RESOLUTION AND A POSSIBLE ARMS EMBARGO. SHEVARDNADZE SAID THAT NO-ONE COULD GUARANTEE A MORATORIUM ON SHIP ATTACKS. AS TO FOLLOW-UP, CAREFUL THOUGHT SHOULD BE GIVEN IN THE NEW POST-RESOLUTION SITUATION. THE SECRETARY GENERAL'S MISSION SHOULD BE GIVEN TIME AND THE PERMANENT MEMBERS WHOULD KEEP IN TOUCH. THE EVOLVING SITUATION SHOULD BE CAREFULLY ANALYSED BEFORE SANCTIONS WERE CONSIDERED. WE SHOULD ALSO NEED TO BE SURE THAT A SANCTIONS RESOLUTION COULD BE IMPLEMENTED: CARE WAS NEEDED. THE SECURITY COUNCIL COULD NOT RISK ''LOOSING OFF A BLANK CARTRIDGE AGAIN''.

(E) MIDDLE EAST

SHEVARDNADZE WELCOMED INDICATIONS THAT EVERYONE SEEMED TO BE COMING TO THE CONCLUSION THAT A UN CONFERENCE SHOULD BE HELD. INDICATIONS IN THE PRIME MINISTER'S MESSAGE THAT THE AMERICANS WERE BEGINNING TO SHARE THIS VIEW WERE IMPORTANT. THE CONFERENCE NEEDED TO BE PREPARED CAREFULLY. IT SHOULD NOT BE MERELY AN UMBRELLA BUT SHOULD TAKE DECISIONS, IN ADDITION TO FACILITATING BILATERAL AND MULTILATERAL CONTACTS. WITH THE PERMANENT MEMBERS AND THE ARABS AGREED ON THE PRINCIPLE OF A CONFERENCE AND, DESPITE THE LACK OF ISRAELI REACTION, SOME

PERMANENT MEMBERS AND THE ARABS AGREED ON THE PRINCIPLE OF A CONFERENCE AND, DESPITE THE LACK OF ISRAELI REACTION, SOME INDICATIONS OF ISRAELI MOVEMENT IT WAS NOW TIME TO CONSIDER THE STRUCTURE AND CONTENT OF A POSSIBLE CONFERENCE. THIS DID NOT NEED TO BE AT A PREPARATORY COMMITTEE, SO LONG AS PREPARATION WAS THOROUGH AND INVOLVED THE CONSENT OF ALL THE PERMANENT MEMBERS. WHILST WE STILL DIFFERED ON OUR CONCEPTUAL APPROACH AS SHOWN IN THE PRIME MINISTER'S MESSAGE, WE SHOULD CONTINUE CONTACTS. AS IN THE CASE OF IRAN/IRAQ THIS COULD BE DONE BETWEEN PERMANENT REPRESENTATIVES AND ALSO BILATERALLY. THE FUNDAMENTAL QUESTION WAS WHETHER THE CONFERENCE WAS TO BE CONVENED ONLY FOR THE SAKE OF FACILITATING DIRECT TALKS OR WHETHER IT WOULD HAVE A MULTILATERAL DIMENSION AS WELL.

(F) BILATERAL

SHEVARDNADZE SAID IT HAD BEEN AGREED IN PRINCIPLE THAT YOU SHOULD VISIT MOSCOW ''IN THE FIRST HALF OF NOVEMBER''; PRECISE DATES COULD BE AGREED WHEN YOU AND HE MET IN NEW YORK. (I AM SEEKING CLARIFICATION AS TO HIS PRECISE NEW YORK DATES AND SHALL REPORT FURTHER). HE SAID THERE WAS MUCH TO DISCUSS AND HE WOULD BE READY TO DISCUSS ALL ISSUES ON THE INTERNATIONAL AGENDA, INCLUDING THOSE IN THE PRIME MINISTER'S MESSAGE. I TOLD SHEVARDNADZE THAT I HAD BEEN INSTRUCTED TO REAFFIRM THAT THE BRITISH GOVERNMENT, FOLLOWING THE GENERAL ELECTION, MAINTAINED ITS STRONG COMMITMENT TO STRENGTHENING BILATERAL AND EAST/WEST RELATIONS AND THE PRIME MINISTER STRONGLY HOPED THAT MR GORBACHEV WOULD BE ABLE TO VISIT BRITAIN NEXT YEAR. SHEVARDNADZE SAID THAT GORBACHEV WOULD REPLY TO THIS HIMSELF: THERE MANY INTERESTING DEVELOPMENTS AND BRITAIN AND THE SOVIET UNION HELD CLOSE OR IDENTICAL VIEWS IN MANY AREAS. WE SHOULD EXTEND OUR COOPERATION FROM AREAS SUCH AS CHEMICAL WEAPONS INTO, FOR EXAMPLE, THE NUCLEAR AREA.

5. SHEVARDNADZE ENDED THE MEETING BY ASKING ME TO CONVEY HIS BEXT WISHES TO YOU AND BY SAYING THAT GORBACHEV, WHO KNEW THAT OUR DISCUSSION WAS TAKING PLACE, HAD ASKED FOR HIS GOOD WISHES TO BE SENT TO THE PRIME MINISTER.

6. FOR SOVIET DEPT. PLEASE REPEAT TO OTHER INTERESTED POSTS IN CONSULTATION WITH THE PRIVATE OFFICE AND NO.10.

CARTLEDGE

CCN: PARA 4 (F) BILATERAL

PRECISE DATES COULD BE AGREED WHEN YOU AND HE MET IN NEW YORK . (I AM SEEKING CLARIFICATION AS TO HIS PRECISE NEW YORK DATES AND SHALL REPORT FURTHER).

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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T149F/87

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SUBJECT
CCOPS
MASTER

TO DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 July 1987

Your Majesty,

I greatly valued the opportunity of your very successful State Visit to Britain last week to discuss the problems of the Middle East. I now want to let you have an account of my talks on 17 July with President Reagan and his colleagues in Washington.

As we discussed, I used my talks in Washington to press for more active US support for an international conference on the Middle East. I emphasised to President Reagan and his colleagues that it would not be acceptable for Mr. Shamir to have an effective right of veto over international efforts to convene a conference. I also urged the US Administration to continue the process of engaging the Soviet Union in efforts to advance the peace process.

I found President Reagan and his Administration receptive to these arguments, although they (in particular Secretary Shultz) stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful resolution. As you will have seen from my departure statement on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged

by this clear determination on the part of the President and his Administration to put the peace process back towards the top of their agenda. We shall continue to do all we can to help.

The President and I devoted particular attention to the Iran/Iraq conflict and to the rising tension in the Gulf. We strongly supported the mandatory Resolution passed on 20 July by the Security Council. We must now hope that both parties will comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a halt to attacks on shipping.

We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there will be a real chance to bring about a de-escalation of the tension in the Gulf.

I hope that we can stay in close touch on these issues over the coming months.

Yours sincerely

Margaret Thatcher

His Majesty King Hassan II.

SUBJECT
CC OPS
MASTER

10 DOWNING STREET
LONDON SW1A 2AA

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T149E/87

THE PRIME MINISTER

24 July 1987

Dear Prime Minister,

Over the past month, I have been able to talk about the Arab/Israeli conflict to a number of leaders from the region. It was also one of the principal subjects which I discussed with President Reagan in Washington on 17 July. In my view we have now reached an important stage in efforts to permit direct negotiations between Israel and its neighbours to achieve a peaceful settlement. I therefore want to give you my assessment of where matters stand.

I see the proposal to convene an international conference on the Middle East as the most practical way forward to direct negotiations. That view is widely shared in Europe. I believe that agreement can be reached on the conditions for a conference which would enable it to act as a framework for direct negotiations, without giving it any powers to impose a settlement or to veto agreements reached between the participants. Indeed it is on that basis alone that a conference would have my support. A conference on these lines would have no power or scope to put unfair pressure on any participant. It could therefore present no threat to Israel's right to negotiate in a manner which protects her vital security interests.

The growing consensus on direct negotiations in the framework of a conference gives us a new opportunity to secure for Israel the lasting peace and recognition which she needs and deserves. Moreover I believe that the prospect of Soviet participation offers a unique opportunity for Israel

to bring about the release of thousands of Soviet Jews, and permission for them to emigrate to Israel. If we fail to take the opportunity, the Soviet Union will be encouraged to increase its activities in the area, and will find more fertile ground for them.

President Reagan and I committed ourselves to a new effort to help find a way forward. In my departure statement from the White House, I used the following words specifically agreed with the President and Secretary Shultz:

> "We discussed the prospects for peace in the Middle East. We agreed - and here, Mr. President, I use words which we both formally endorse - we agreed that direct negotiations between the parties are the only practical way to proceed.
>
> "We explored how an international conference might contribute to bringing about such negotiations. Clearly, it would not have the right to impose solutions or to veto agreements reached by the parties and we must continue to make progress in the peace process and commit ourselves to work for that."

Much preparatory work remains to be done and many difficult issues, including the role of the Soviet Union, have yet to be addressed. I know that some of them face you with hard choices. But I would urge you to explore in a constructive spirit this possible opening to achieve Israel's long-standing aspiration to live at peace with her Arab neighbours. We in Britain are ready to offer whatever help we can and I hope that you will let me know your thinking.

Yours sincerely

Margaret Thatcher

Mr. Yitzhak Shamir.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T149/87

10 DOWNING STREET
LONDON SW1A 2AA

SUBJECT
CCOPS
MASTER

THE PRIME MINISTER

24 July 1987

Your Majesty,

I greatly valued hearing Your Majesty's views on the situation in the Gulf, conveyed to me by your Foreign Minister, before I went to Washington. Our views on ways of reducing tension in the region and achieving an end to the conflict between Iran and Iraq are evidently close. Thank you also for your separate message about our relations with Iran on which I am still reflecting. I now want to let you have an account of my talks on 17 July with President Reagan and his colleagues in Washington.

I had already resolved to use my talks in Washington on 17 July to press for more active US support for an international conference on the Middle East. I emphasised to President Reagan and his colleagues that it would not be acceptable for Mr. Shamir to have an effective right of veto over international efforts to convene a conference. I also urged the US Administration to continue the process of engaging the Soviet Union in efforts to advance the peace process.

I found President Reagan and his Administration receptive to these arguments, although they (in particular Secretary Shultz) stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful resolution. As you will have seen from my departure statement on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in

the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and his Administration to put the peace process back towards the top of their agenda. We shall continue to do all we can to help.

The President and I devoted particular attention to the Iran/Iraq conflict and to the rising tension in the Gulf. We strongly supported the mandatory Resolution passed on 20 July by the Security Council. We must now hope that both parties will comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a halt to attacks on shipping.

We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there will be a real chance to bring about a de-escalation of the tension in the Gulf.

As I explained to your Foreign Minister, I see risks in formal tripartite talks between the US, the UK and Oman which might be misrepresented as directed against Iran. This would not be in Oman's interests. But we are very ready to have consecutive bilateral contacts. I also hope that we can maintain the closest possible consultation over the coming months. World attention will remain focussed on the Gulf region and we value deeply the co-operation of Oman in seeking to achieve an end to the conflict which has preoccupied us all for so many years.

With warm regards,

Yours sincerely

Margaret Thatcher

His Majesty Sultan Qaboos Bin Said Al Said.

SUBJECT
CC OPS
MASTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T149c/87

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 July 1987

Your Majesty,

As I promised when we met on 13 July, I used my talks with the President and others in Washington on 17 July to press for more active American support for the proposal to convene an international conference on the Middle East. In particular, I urged a strong US lead to carry forward the important understandings you have reached with Mr. Peres. I used the arguments that we discussed during our meeting, in particular that it was not acceptable to give Mr. Shamir an effective right of veto over a conference, and that inactivity by the United States would only leave the field free for the Soviet Union to promote its own interests.

I found President Reagan, Secretary Shultz, and others whom I met receptive to these arguments. As you will have seen from the statement which I made on leaving the White House on 17 July, the President agrees that there is now an opportunity to take a major step forward in the peace process. We committed ourselves to a renewed effort to exploit this opportunity. But where I found the Administration adamant - and this applies particularly to Secretary Shultz - was their insistence on the need to broaden support in Israel for a conference and to bring Shamir aboard. Only then, in their view, would a conference have a chance of achieving useful results. I made the point that as long as Shamir believed that he could block a conference, he would do so. The most effective way to restrict his scope for this would be a clear statement of US support for an international conference.

I think that my advocacy made some impression, and the form of words about a conference which I used in my departure statement, and which was specifically agreed with the President, does take us a step forward. I am encouraged by President Reagan's clear determination to give the peace process higher priority and to make a renewed effort to achieve progress. I think that the Americans do now accept that there must be a conference on the lines to which you and Mr. Peres subscribe, and that the main problems are now tactical - although that does not necessarily make them any less difficult. We shall continue to do everything we can to help. I am writing to a number of other Heads of Government in the Middle East to share my views. I hope you will let me know how you see matters, and in particular what more can be done to bring Shamir to accept a conference.

The President and I devoted particular attention to the Iran/Iraq conflict and to the tension in the Gulf. We both strongly supported the mandatory Resolution, subsequently passed on 20 July by the Security Council. We must now hope that both parties will comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed that the most important step towards reducing tension would be to halt attacks on shipping, and that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If therefore Iraq's friends are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there is a real prospect of the de-escalation of tension in the Gulf which we both want to see.

Yours sincerely

Margaret Thatcher

His Majesty King Hussein bin Talal

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SUBJECT
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MASTER

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 July 1987

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 1490/87

Sir,

I was very glad to have your comments on my message to you in advance of my recent visit to Washington. I now want to let you have an account of my talks on 17 July with President Reagan and his colleagues.

I used my talks in Washington to press for more active US support for an international conference. I emphasised that it would not be acceptable for Mr. Shamir to have an effective right of veto over international efforts to convene such a conference. I also urged the US Administration to continue the process of engaging the Soviet Union in efforts to advance the peace process.

I found President Reagan and his Administration receptive to these arguments, although they stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful conclusion. As you will have seen from my departure statement on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and his Administration to put the

peace process back towards the top of their agenda. We shall continue to do all we can to help.

The President and I devoted particular attention to the Iran/Iraq conflict and to the rising tension in the Gulf. We strongly supported the mandatory Resolution passed on 20 July by the Security Council. We must now hope that both parties will comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a halt to attacks on shipping.

We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there will be a real chance to bring about a de-escalation of the tension in the Gulf.

I hope that we can stay in close contact on these issues over the coming months. World attention will remain focussed on the Gulf region and we look forward to co-operating with Saudi Arabia in seeking to achieve an end to the conflict which has preoccupied us all for so many years.

Yours sincerely

Margaret Thatcher

Custodian of the Two Holy Mosques King Fahd Bin Abdul Aziz.

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10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

24 July 1987

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 149A/87

Dear Mr. President,

I regret that we were not after all able to meet for a talk before my visit to Washington last week. But I was most grateful for your oral message.

I share all the main points of your analysis. I had already resolved to use my talks in Washington on 17 July to press for more active US support for an international conference on the Middle East. I emphasised to President Reagan and his colleagues that it would not be acceptable for Mr. Shamir to have an effective right of veto over international efforts to convene a conference. I also urged the US Administration to continue the process of engaging the Soviet Union in efforts to advance the peace process.

I found President Reagan and his Administration receptive to these arguments, although they (in particular Secretary Shultz) stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful resolution. As you will have seen from my departure statement on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and

his Administration to put the peace process back towards the top of their agenda. We shall continue to do all we can to help.

We need now to build on the growing awareness that the current opportunity must be seized. I am sure that your Foreign Minister's visit to Israel will have made an important contribution and look forward to hearing your assessment of his talks there.

The President and I devoted particular attention to the Iran/Iraq conflict and to the rising tension in the Gulf. We strongly supported the mandatory Resolution passed on 20 July by the Security Council. We must now hope that both parties will comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a halt to attacks on shipping.

We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there will be a real chance to bring about a de-escalation of the tension in the Gulf.

I hope that we can continue to keep closely in touch about these problems.

Yours sincerely

Margaret Thatcher

His Excellency President Mohamed Hosni Mubarak.

SECRET AND PERSONAL

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T 149B/87

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 July 1987

Dear Mr. Peres,

I want to let you have a personal account of my talks in Washington on 17 July which I used to press for more active American support for the proposal to convene an international conference on the Middle East. In particular, I urged a strong US lead to carry forward the important understandings you have reached with King Hussein. I emphasised that it was not acceptable for Prime Minister Shamir to have an effective right of veto over these efforts, and that inactivity by the United States would give the Soviet Union an opportunity to promote its own interests.

I found President Reagan, Secretary Shultz, and others whom I met, receptive to these arguments. As you will have seen from the statement which I made on leaving the White House on 17 July, the President agrees that there is now an opportunity to take a major step forward in the peace process. We committed ourselves to a renewed effort to exploit this opportunity. But where I found the Administration adamant - and this applies particularly to Secretary Shultz - was their insistence on the need to broaden support in Israel for a conference and thus to overcome the reservations of Prime Minister Shamir. Only then, in their view, would a conference have a chance of achieving useful results. I asked whether they thought that Prime Minister Shamir really intended to negotiate. If the answer was no, it would be a mistake to make it possible to obstruct a conference indefinitely. The most effective way to prevent this would be a clear statement of United States

support for an international conference.

I think that my advocacy made some impression, and the form of words about a conference which I used in my departure statement, and which was specifically agreed with the President does take us a step forward. I am encouraged by President Reagan's clear determination to give the peace process higher priority and to make a renewed effort to achieve progress. I think that the Americans do now accept that there must be a conference on the lines to which you and King Hussein subscribe, and that the main problems are now tactical - although that does not necessarily make them any less difficult. We shall continue to do everything we can to help. I am writing to a number of other Heads of Government in the Middle East to share my views. I hope you will let me know how you see matters, and in particular what more can be done to bring Prime Minister Shamir to accept a conference.

The President and I devoted particular attention to the Iran/Iraq conflict and to the tension in the Gulf. We both strongly supported the mandatory Resolution, subsequently passed on 20 July by the Security Council. We must now hope that both parties will in practice comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed that the most important step towards reducing tension would be to halt attacks on shipping. We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so, and that we should encourage Iraq's friends to urge her to suspend attacks. I believe that this offers the best prospect of de-escalation.

Yours sincerely

Margaret Thatcher

Mr. Shimon Peres

CCAC

Foreign and Commonwealth Office

London SW1A 2AH

24 July 1987

CM

Dear Charles

Washington Follow-Up at Tab

As requested in your letter of ~~19~~ July, I enclose, in the form of a draft telegram to Riyadh, a draft message from the Prime Minister to King Fahd, giving an account of her talks in Washington on Arab/Israel and Iran/Iraq. I also enclose draft messages to the Amir of Kuwait (who wrote to the Prime Minister on 12 July) and to Sultan Qaboos (to follow up the meeting between Yusuf Alawi and the Prime Minister on 10 July).

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

OUT TELEGRAM

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MIDDLE EAST

1. Please deliver as soon as possible the following message from the Prime Minister to King Hussein:

BEGINS

Your Majesty,

As we discussed on 13 July, I took the opportunity of my talks in Washington on 17 July to press for more active US support for the proposal to convene an international conference on the Middle East. In particular, I urged a strong US lead to carry forward the important understandings you have reached with Mr Peres. I emphasised that it would be unacceptable for Mr Shamir to have an effective right of veto over these efforts, and that inactivity by the United States would only leave the field free for the Soviet Union to promote its own interests.

I found President Reagan, Secretary Shultz, and others with whom

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OUT TELEGRAM (CONT)

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I discussed ~~these issues,~~ this receptive to these arguments. As you will have seen from the statement which I made on leaving the White House on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to make a renewed effort to seize this opportunity. But where I found them adamant — and this applies particularly to Secretary Shultz — was ~~in~~ ~~The Administration - and in particular Secretary Shultz - are concerned that a broad measure of consensus will be required in~~ their insistence on the need to broaden ~~support~~ support Israel, for a conference & to bring Shamir aboard. I made the point that ~~if the negotiations are to be carried through to a successful conclusion. I left them in no doubt that~~ the most effective means of ~~promoting this consensus is through~~ doing this would be a clear statement of US support for an international conference ~~along the lines you have been working on with Mr Peres~~. As long as Shamir believed that he could block a conference he would do so. // I think that my ~~cat~~ advocacy ~~made~~ ~~made~~ made some impression, & the form of words about a conference which I used in my ~~I am~~ encouraged by President Reagan's evident determination to give the peace process higher priority and to make a renewed effort to achieve progress. We ~~in Britain will~~ shall continue to do everything we can to help. ~~I hope that we can continue to keep closely in touch and look forward to your further thoughts on how our joint efforts can best be taken forward.~~ am writing to ~~other Heads of Govt~~ a number of other Heads of Government in the Middle East to share my views. I hope you will let me know how you see the way forward, and in particular what more can be done to bring Shamir to accept a conference.

The President ~~Reagan~~ and I also devoted particular attention to the Iran/Iraq conflict and to the ~~rising~~ tension in the Gulf. We strongly support the mandatory Resolution passed on 20 July by the Security Council. We hope that both parties will comply with the demand for a cease-fire and cooperate with the Secretary-General in the difficult task laid on him by the Security Council. ~~Both parties must be encouraged to grasp this opportunity to achieve a just and honourable settlement of the conflict.~~ The President and I agreed ~~on the need to reduce tension in the Gulf. We hope the Resolution will lead to a lull in~~ that the most important step towards reducing tension would be to halt attacks on shipping. ~~to the benefit of all states with~~

departure statement, & which was specifically agreed with the President, does take us a step ~~forward~~ forward. ~~I am~~ ~~also~~ I think that they do now clearly accept that there must be a conference on the lines ~~which~~ ~~you~~ to which & Mr. ~~Pe~~ Peres subscribe, & that the main problems are ~~not~~ now tactical — although that does not necessarily make them any less difficult

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OUT TELEGRAM (CONT)

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interests in the region.

We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends could encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there would be some hope of real and lasting de-escalation in the Gulf. The root cause of tension there would be reduced, and the chances of compliance with the UN Resolution enhanced.

I should greatly welcome your Majesty's reaction to these ideas.

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MIDDLE EAST

1. Please deliver as soon as possible the following message from the Prime Minister to King Fahd.

BEGINS

I was very glad to have your comments on my ~~recent~~ message to you in advance of my recent visit to Washington. I ~~wanted~~ now to let you have ~~straight away~~ an account of my talks on 17 July with President Reagan and his colleagues.

~~As we discussed,~~ I used my talks in Washington to press for more active US support for an international conference. I emphasised that it would ~~be un~~ not acceptable for Mr Shamir to have an effective right of veto over international efforts to convene such a conference. I also urged the US Administration to continue the process of engaging the SovietUnion in constructive efforts to advance the peace process.

I found President Reagan and his Administration receptive to these arguments, although they stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through

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to a successful conclusion. As you will have seen from my departure statement on 17 July, President Reagan agrees ~~and~~ that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and his Administration to ~~push~~ put the peace process back towards the top of their agenda. We shall continue to do all we can to help.

President Reagan and I also discussed the Iran/Iraq conflict and the ~~recent~~ rising tension in the Gulf. We strongly support the mandatory resolution passed on 20 July by the Security Council. We hope that both parties will comply with the demand for a ceasefire and cooperate with the Secretary-General ~~for~~ in the difficult task laid on him by the Security Council. Both parties must be encouraged to grasp this opportunity to achieve a just and honourable settlement to the conflict, and I was glad to hear from our Ambassador in Riyadh that you had already made contact with the President of Iraq to urge him to do that.

The President and I agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a ~~cut in~~ HALT TO attacks on shipping to the benefit of all states with interests in the region. We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends could encourage her not to attack shipping, but to defend herself against ~~any~~ Iranian attacks only when and where they ~~took~~ take place, there ~~would~~ will be some hope of real de-escalation in the Gulf. The root cause of tension there ~~would~~ will be reduced and the chances of compliance with the UN Resolution enhanced.

I hope that we can stay in close contact on these issues over the coming months. World attention will remain focussed on the

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Gulf region and we ~~shall value the cooperation of~~ LOOK FORWARD TO COOPERATING WITH Saudi Arabia in seeking to achieve an end to the conflict which has preoccupied us all for so many years.

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9
10 YOUR TELNO 382: ARAB/ISRAEL
11 1. Please deliver the following reply from the Prime Minister
12 to President Mubarak:
13
14 BEGINS
15
16 Your Excellency,
17
18 I regret that we ~~did~~ not ~~have the opportunity for~~ a talk before
19 my visit to Washington last week. But I was most grateful for
20 your oral message ~~and wise counsel~~.
21
22 I share all the main points of your analysis. I had already
23 resolved to use my talks in Washington on 17 July to press for
24 more active US support for an international conference on the
25 Middle East. I emphasised to President Reagan and his colleagues
/// 26 that it would be ~~un~~acceptable for Mr Shamir to have an effective
// 27 right of veto over international efforts to convene a conference.
/ 28 I also urged the US Administration to continue the process of
29 engaging the Soviet Union in ~~constructive~~ efforts to advance the

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peace process.

I found President Reagan and his Administration receptive to these arguments, although they (in particular Secretary Shultz) stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful resolution. As you will have seen from my departure statement on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and his Administration to ~~push~~ pur the peace process back towards the top of their agenda. We shall continue to do all we can to help.

We need now to build on the growing awareness that the current opportunity must be seized. I am sure that your Foreign Minister's visit to Israel ~~can make~~ will help mark an important contribution and look forward to hearing your assessment of his talks there.

The President and I devoted particular attention to the Iran/Iraq conflict and to the rising tension in the Gulf. We strongly support~~ed~~ the mandatory Resolution passed on 20 July by the Security Council. We ~~hope~~ urge now that both parties will comply with the demand for a cease-fire and cooperate with the Secretary-General in the difficult task laid on him by the Security Council. ~~Both parties must be encouraged to grasp this opportunity to achieve a just and honourable settlement of the conflict.~~ The President and I also agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a ~~cut in~~ HALT TO attacks on shipping ~~to the benefit of all states with interests in the region.~~

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We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends ~~could~~ are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there would be ~~some hope of~~ a real ~~and lasting~~ chance to bring about a de-escalation in the tension in the Gulf. ~~The root cause of tension there would be reduced, and the chances of compliance with the UN Resolution enhanced.~~

I hope that we can continue to keep closely in touch about these problems.

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10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

24 July 1987

I regret that we were not after all able to meet for a talk before my visit to Washington last week. But I was most grateful for your oral message.

I share all the main points of your analysis. I had already resolved to use my talks in Washington on 17 July to press for more active US support for an international conference on the Middle East. I emphasised to President Reagan and his colleagues that it would not be acceptable for Mr. Shamir to have an effective right of veto over international efforts to convene a conference. I also urged the US Administration to continue the process of engaging the Soviet Union in efforts to advance the peace process.

I found President Reagan and his Administration receptive to these arguments, although they (in particular Secretary Shultz) stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful resolution. As you will have seen from my departure statement on 17 July, President Reagan agrees that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and

his Administration to put the peace process back towards the top of their agenda. We shall continue to do all we can to help.

We need now to build on the growing awareness that the current opportunity must be seized. I am sure that your Foreign Minister's visit to Israel will have made an important contribution and look forward to hearing your assessment of his talks there.

The President and I devoted particular attention to the Iran/Iraq conflict and to the rising tension in the Gulf. We strongly supported the mandatory Resolution passed on 20 July by the Security Council. We must now hope that both parties will comply with the demand for a cease-fire and co-operate with the Secretary-General in the difficult task laid on him by the Security Council. The President and I also agreed on the need to reduce tension in the Gulf. We hope the Resolution will lead to a halt to attacks on shipping.

We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends are able to encourage her not to attack shipping, but to defend herself against any Iranian attacks only in the theatre where they take place, there will be a real chance to bring about a de-escalation of the tension in the Gulf.

I hope that we can continue to keep closely in touch about these problems.

His Excellency President Mohamed Hosni Mubarak.

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MIDDLE EAST

1. Please deliver as soon as possible the following message from the Prime Minister to the Amir of Kuwait, in response to his message of 12 July (my telno. 108):

BEGINS

I was most grateful to receive Your Highness's message of 12 July. It was timely to receive your views on the situation in the Gulf region before my visit to Washington.

I fully share your deep concern at the prolongation of the conflict between Iran and Iraq and the threat that it poses to peace and stability. The ~~senseless~~ fighting has already ~~caused~~ cost hundreds of thousands of lives, and untold damage to both countries. We are especially conscious of the difficult position into which Kuwait ~~occupies~~ has been thrust so close to the battlefield, and have been watching anxiously the rising tension in the Gulf which has so directly affected Kuwaiti interests. The UN Resolution voted unanimously on 20 July is an important step forward. The UK helped to launch this Resolution and has worked ~~tirelessly~~ closely with other members of the Security Council in recent months to ensure its successful adoption. It is a balanced Resolution

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which offers both parties a just and honourable means of settling the conflict, and we shall be doing our utmost to ensure that its terms are complied with and a ~~genuine~~ start made on the process of bringing the conflict to an end. ~~We hope that all those with influence in Baghdad and Tehran will do what they can to encourage a ceasefire to take hold, so that the Secretary-General can exercise the heavy mandate~~ DIFFICULT laid upon him.

When I was in Washington I laid great stress on the need to EASE ~~de-escalate~~ the TENSE situation in the Gulf. The UN Resolution offers an opportunity to tackle the immediate cause of tension, namely attacks on shipping, from which ~~you have so greatly~~ KUWAIT IN PARTICULAR has suffered. Iran has stated publicly that she will refrain from attacks on shipping provided Iraq does likewise. We hope that Iraq's friends will persuade her not to resume attacks on shipping, but to confine her military activity to ~~firing~~ REPLY EXPANDING only when and where her forces may be the subject of attack. In this way, we may be able to achieve a ~~moratorium on~~ HALT TO attacks on shipping, and improve the climate for implementation of the UN Resolution as a whole.

~~I sympathise with~~ I NOTED WITH MUCH INTEREST your decision EARLIER THIS YEAR to seek protection for ~~your~~ KUWAITI shipping from the United States and the Soviet Union. We are all concerned to uphold the principle of freedom of navigation. That is why we ourselves maintain a Royal Naval presence in the Gulf to protect British flag vessels. You have asked for Kuwaiti ships to be re-registered under the British flag. As we explained to Mr al Osseimi on 21 July, this is a legal and administrative matter in the UK: and depends on your ships meeting ~~normal~~ THE PRESCRIBED requirements. The re-registering procedure does not need the blessing of ~~the~~ THE BRITISH Government. HOWEVER, any re-registered ships would benefit ONLY from the same limited degree of naval protection AS IS AFFORDED ~~offered~~ to other British ships. As you may know, the Armilla Patrol operates mainly in the Straits of Hormuz and the lower Gulf.

WE HOPED PLACE NO OBSTACLES AT ALL IN THE WAY OF RECONCILIATION AND MADE DURING THIS YEAR IN PUBLIC

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May I reassure Your Highness of the deep value we attach to our warm and long-standing links with your country. We are ~~anxious to find ways of developing cooperation between us~~. We are particularly conscious of the threats to Kuwait's neutrality in her difficult situation ~~on the periphery of this fierce conflict between her two neighbours~~. You can count on our diplomatic support in the weeks to come and on all the practical assistance we can provide. I hope ~~we~~ can keep in close contact during this crucial period.

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Thank you also for your separate message about our relations with Iran on which I am still reflecting

MIDDLE EAST

1. Please deliver as soon as possible the following message from the Prime Minister to Sultan Qaboos.

BEGINS

I greatly valued hearing Your Majesty's views on the situation in the Gulf, conveyed to me by your Foreign Minister, before I went to Washington. ~~It is heartening how close~~ Our NEWS ~~analyses are~~ on ways of reducing tension in the region and achieving an end to the conflict between Iran and Iraq are distinctly close. I ~~wanted~~ now to let you have an account of my talks on 17 July with President Reagan and his colleagues in Washington.

Aut Arrend

I used my talks in Washington to press for more active US support for an international conference. I emphasised that it would be unacceptable for Mr Shamir to have an effective right of veto over international efforts to convene a conference. I also urged the US Administration to continue the process of engaging the Soviet Union in constructive efforts to advance the peace process.

I found President Reagan ~~adn~~ and his Administration receptive to

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these arguments, although they stressed their concern that a greater consensus will need to be developed in Israel in favour of a conference if the negotiations are to be carried through to a successful conclusion. As you will have seen from my departure statements on 17 July, President Reagan agrees ~~and~~ that there is now an opportunity to take a major step forward in the peace process. We made a joint commitment to renew our efforts to seize this important opportunity. I am encouraged by this clear determination on the part of the President and his Administration to push the peace process back towards the top of their agenda. We shall continue to do all we can to help.

President Reagan and I also discussed the Iran/Iraq conflict and the ~~recent~~ rising tension in the Gulf. We strongly support the mandatory Resolution passed on 20 July by the Security Council. We hope that both parties will comply with the demand for a ceasefire and cooperate with the Secretary-General ~~for~~ in the difficult task laid on him by the Security Council. Both parties must be encouraged to grasp this opportunity to achieve a just and honourable settlement to the conflict.

I spoke in clear terms to the President about the need for restraint in the Gulf and not to provoke Iran. We hope the Resolution will lead to a ~~lull in~~ halt to attacks on shipping to the benefit of all states with interests in the region. We agreed that Iran might in practice agree to refrain from such attacks as long as Iraq did so. If Iraq's friends could encourage her not to attack shipping, but to defend herself against Iranian attacks only when and where they may take place, there will be some hope of real de-escalation in the Gulf. The root cause of tension there will be reduced and the chances of compliance with the UN Resolution enhanced.

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As I explained to ~~Youssuf bin Alawi~~ your Foreign Minister, I see ~~some~~ risks in formal tripartite talks between the US, the UK and Oman ~~as Your Majesty proposed.~~ If news of these leaked, ~~it~~ they might be presented as ~~collaboration~~ collaborative activity directed against Iran, which would not be in Oman's interests. But we are very ready to have consecutive bilateral contacts ~~of the kind we have just enjoyed, and which allow us to put our shared concerned to our American friends.~~ Indeed I hope we can maintain the closest possible consultation over the coming months ~~on these difficult issues~~. World attention will remain focussed on the Gulf region and we value deeply the ~~d~~cooperation of Oman in seeking to achieve an end to the conflict which has preoccupeid us all for so many years.

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MIPT: MIDDLE EAST

1. Please deliver the following message from the Prime Minister to Mr Shamir. You should give a copy on a strictly personal basis to Peres or Novik.

BEGINS

Over the past month, I have had ~~valuable~~ useful discussions of the Arab/Israeli conflict with a number of leaders from the region and, on 17 July, with President Reagan. In view of the important stage we have now reached in efforts to establish a basis for negotiations to achieve a peaceful settlement, I would like to share with you my view of where matters stand.

You will have noted the series of statements, issued both in London and by Foreign Ministers of the European Community meeting in Copenhagen on 13 July, in which we identify the proposal to convene an international conference on the Middle East as the ~~only~~ major practical way forward to direct negotiations. I am

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convinced that agreement is possible on a conference format which will not allow for the imposition of a settlement or for the conference to veto agreements reached by any of the participants. Such a format with no mechanism for applying pressure on any participant can present no threat to Israel's right to negotiate in a manner consistent with her vital security interests.

The growing consensus on ~~key elements of modalities for a~~ ~~direct~~ direct negotiations ~~to establish~~ in the framework of Geneva conference gives us a new opportunity to take a ~~decisive~~ step forward ~~towards a peaceful and comprehensive resolution of~~ ~~Israel's remaining differences with her Arab neighbours.~~

President Reagan ~~has joined me in~~ committing ourselves to a new effort to help you seize this opportunity. ~~Of course~~ much preparatory work remains to be done. Many difficult issues, including the role of the Soviet Union, have yet to be addressed. I know that some of them face you with hard choices.

But I ~~trust and pray that your government will continue to~~ explore in a constructive spirit this possible opening to achieve Israel's long-standing aspiration to live at peace with her Arab neighbours. We in Britain are ready to offer whatever help we can.

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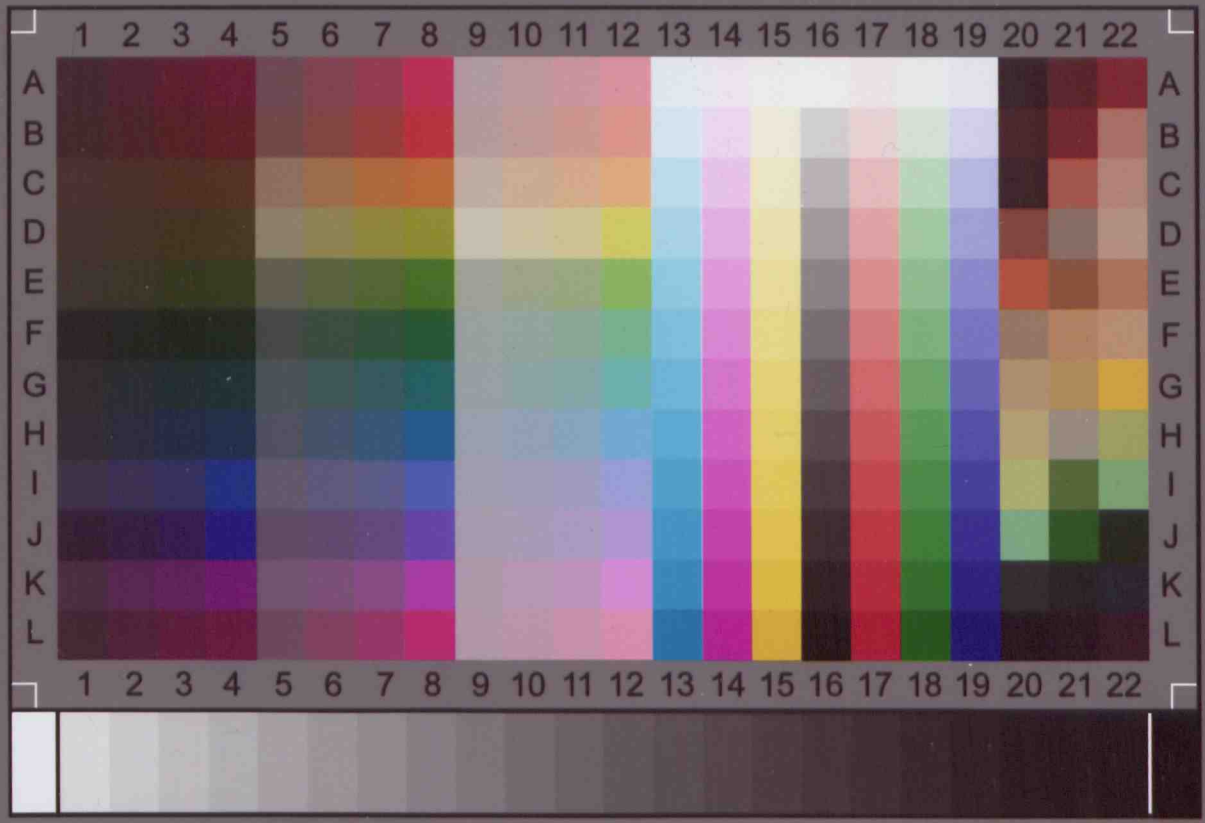

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