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PM's visit to Washington 25-28 February 1981 : Policy

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PART 1 ends:-

Donovan Award Speech 28/2/81

PART 2 begins:-

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USA

PLEASE CHECK AGAINST DELIVERY

THE DEFENCE OF FREEDOM

DONOVAN AWARD SPEECH

SATURDAY 28 FEBRUARY

(Courtesies)

The OSS

Mr. Chairman, this evening what has already been for me a memorable visit draws to a memorable conclusion.

I have spent the last three days in the "land of the free" - you will understand if I, as the Prime Minister of Britain, amend that phrase to read "one of the lands of the free".

Tonight, under your flag, I know that I am also in the "home of the brave".

It is deeply reassuring to look round this great room, to recall the service which you, the veterans of the OSS, have given; and to be reminded of the talents and qualities on which the United States can call in time of need.

The OSS in the Second World War constituted an arsenal of this nation's intelligence, in every sense of the word.

What other enterprise could have counted on the services of David Bruce, Archibald Macleish, Arthur Goldberg, Carleton Coon, William Langer, Arthur Schlesinger and so many more.

/ What other

What other than General Donovan's university of courage.

Yours is indeed a fortunate country.

The Donovan Award

I am, of course, greatly honoured that you should have chosen me to receive the Donovan Medal.

The honour lies partly in receiving a medal commemorating General Donovan, a man whose courage and love of freedom are legendary; and partly in being added to a roll which already includes such names as Eisenhower and Mountbatten.

They were men who, like "Wild Bill" Donovan himself, gave their countries and the cause of liberty leadership when the hour was darkest.

Resourceful, resolute and clear-headed, they offered hope when despair might have prevailed.

/ The New Administration

The New Administration

These are also days when there is a need for leadership and clarity of purpose.

It is therefore a particular pleasure to receive the Donovan Medal only a few weeks after President Reagan's Inauguration.

The election of a man committed to the cause of freedom and the renewal of America's strength has given encouragement to all who love liberty.

So also has his devotion to the virtues of plain speaking and less government - virtues in the defence of which I have myself earned some battle scars.

Let me welcome, too, Mr. Chairman, the appointment as Secretary of State of General Alexander Haig.

As Supreme Allied Commander in Europe Al Haig gained the respect and admiration of the entire Alliance.

I have the impression that last month the Senate Foreign Relations Committee learned why.

/ Finally,

Finally, what could be more heartening for us in Britain than to have as the new Director of the CIA a man who ran the Secret Intelligence Section of the OSS in London during the last war and who introduced me so so generously a few moments ago.

Bill Casey's latest appointment crowns a splendid career and offers a fresh tough challenge.

We know he is equal to it.

We are much looking forward to working with him.

Freedom

Mr. Chairman, there can only be one theme for the recipient of the Donovan Award.

That is why I intend this evening to speak about the defence of freedom.

Freedom based on respect for the individual, is an idea whose strength and beauty has remained undimmed down the ages.

Other ideas and other words have been twisted and usurped.

/ But freedom

But freedom resists such treatment.
It is the great gift of Western culture to mankind.
It remains the driving force of the Western democracies today.
It is the source of their strength, of their diversity and of their prosperity.

Freedom is the most contagious of ideas and the one most destructive of tyranny.
That is why tyrants of every kind have fought - still fight - so hard to destroy it.
They will always fail because where freedom is the heritage of centuries, as in your country and mine, it is tenaciously defended: and because where it is newly established, it inspires confidence and hope.
Nowhere and never has it been consciously surrendered: we have just seen that confirmed, happily, in Spain where a constitutional monarch has played such a remarkable role.

/ The Threat to Freedom

The Threat to Freedom

But freedom, like much else that is worth while, is today under threat.

National ambitions and rivalries multiply.

Too often leadership falls to the despotic or the merely unbalanced.

There is poverty and hunger.

There are wars and refugees.

There is a pervasive and destructive atmosphere of uncertainty.

It casts a shadow, the effects of which none of us, in a shrinking world, can altogether escape.

/ Soviet Ambitions

Soviet Ambitions

This time of troubles is a time of opportunity for some.

An audience such as this does not need me to describe the threats to freedom: you have spent your lives fighting them - and defeating them.

Extremism and fanaticism; the pursuit of power for its own sake; the aggressiveness that is sometimes the mask for a deep sense of insecurity - all these are as old as human society itself.

But my generation is having also to deal with a phenomenon of a different kind.

We face a group of states whose leaders believe, or profess to believe, that history has predetermined them and us to a relationship of struggle, and preordained that they and not we should be the winners.

This new creed of struggle is backed by the old tools of pressure.

The Soviet Union itself spends on military purposes about one sixth of the national wealth it produces.

To take some recent figures at random, last year the Soviet Union manufactured 1600 combat aircraft, 3000 tanks and some 1500 missiles of intercontinental of intermediate range.

/ Some of

Some ofthis equipment has been sent abroad to swell the Soviet foreign trade - or foreign aid - statistics: but most of it will simply join the already gigantic Soviet arsenals on land, at sea and in the air.

Does this mean that the Government of the Soviet Union, a founder member of the United Nations and a permanent member of the Security Council, is contemplating direct aggression against the West?
I do not suggest that, and I do not believe that.
I see three other motives:-

Firstly, they seek reassurance for their own fears.
Like many whose consciences are uneasy they find it hard to imagine that others do not conspire as they do;

Secondly, they hope that knowledge of their sheer might will be enough to split Europe and Japan from the United States.
They calculate that a collapse of will in Western Europe would leave them free to determine its fate, and perhaps that of the world, without resort to war;

/ Thirdly,

Thirdly, they want to gain influence outside Europe with the aim of out-flanking the West through the South.

The expansion of Soviet military power has therefore been accompanied by repeated attempts to increase Soviet influence in the Third World, by subversion and by active intervention - directly or through proxies.

In Angola, in Somalia, in Ethiopia the Soviet Union or Cuba have intervened by force in African conflicts thousands of miles from their borders.

In South East Asia Soviet weapons, training and money have enabled Vietnam to impose its will on both Laos and Cambodia.

Fourteen months ago the Soviet Union marched into Afghanistan to rescue a regime tottering under the weight of its own unpopularity.

One in ten of the Afghan population have since fled the country.

Today that new Anschluss is maintained only by the guns of eighty thousand Soviet troops.

/ In the Caribbean

In the Caribbean, Cuba is continually trying to export a Marxist system which in that unhappy island itself has had the most catastrophic consequences.
The latest target for her activities is El Salvador.
I fully agree with President Reagan that Cuban interference in, and arms supplies to that country are totally unacceptable.

The Western Case

This then is the present danger: an unstable world harbouring a super power with a destructive ideology and an expansionist record.
But let us not exaggerate the danger: to measure it dispassionately is the first step to meeting it.
The Soviet lUnion has suffered setbacks over the years.
For all her efforts, she has made no advances in Europe since 1945.
Recent events in Poland have demonstrated the failure of the Soviet system to take root in Eastern Europe.

/ The Soviet Union

The Soviet Union was thrown out of Egypt and has been unable to re-establish herself in any other major Middle Eastern state.

Her relations with China are deeply hostile.

Here in New York at the United Nations, 111 nations have condemned her invasion of Afghanistan, and have called for her complete withdrawal.

/ As that

As that vote suggested the Soviet Union may have a handful of clients but it has few friends or admirers. Which is not surprising - for what is there in the Soviet system to admire?

Material prosperity?

It does not produce it.

Spiritual satisfaction?

It denies it.

After an uninterrupted monopoly of absolute power lasting 63 years the controlled society has failed.

The economy is run on strange principles: <u>from</u> each according to his instructions, <u>to</u> each according to his party status.

The rules of the political system are equally simple: for the <u>few</u> privilege; for the <u>many</u> the part of a studio audience clapping for the cameras.

/ <u>What is</u>

What is to be done?

Recognising this let us set about the defence of our liberties with confidence.

Of course we face economic, social and political problems at home and abroad.

But who on our side would exchange our problems for theirs.

History is not moving, inevitably or otherwise, in favour of Marxism/Leninism.

Its disciples know that their ideas run counter to the deepest and strongest instincts of men.

They are destined, sooner or later, to fail.

What then needs to be done by us?

First, we must find the resolve to avert the dangers presented by Soviet ambitions and Soviet military power.

Firmness and determination must be the order of the day.

Lord Castlereagh said of Russia that acquiescence will not keep it back nor opposition accelerate its march. I agree. / Secondly

Secondly, the free nations of the world must work together as never before.

This does not mean we must agree on everything. The viewpoints of the European countries neighbouring the Warsaw Pact, and of others historically linked to Eastern Europe, may differ somewhat from those of us who live a little further back.

But such variations reflect the liberty which we seek to defend.

They do not undermine the case for co-operation. They merely underscore the need to concert our policies.

The interests we have in common by far transcend any differences between us.

/ Detente

Detente

The translation of our common purpose into practical policies demands a clear understanding of our objectives and how they are to be achieved.
The Soviet Union has in practice interpreted detente as the pursuit of struggle by all means short of war.
We must bring it home to the Soviet leaders that we are ready to live alongside them but not to be the passive target of their activities.
The supreme task of modern statesmanship is the prevention of war.
Therefore we seek detente.
But it must be genuine, two-way, detente based on the recognition of the longing of all peoples for stability, for independence, for freedom.

/ Dealing with

Dealing with the Soviet Government

Meanwhile we must continue to deal with the Soviet Government.
Let us do so with realism and with consistency.
I have looked for example at the speech which President Brezhnev made on Tuesday.
There are many things in it which all of us here would utterly reject.
But there are also things which need to be explained and explored and turned, if possible, to the benefit of the world.

In particular there are signs of a readiness on the part of the Soviet Union to negotiate.
Like President Reagan earlier this week, I welcome that.
In this perilous world, negotiation between governments must continue, particularly in the field of arms control - or better still of arms reduction.
We need to establish a military balance between East and West and to ensure that that balance holds.

/ Defence

Defence

The necessary condition of such negotiations, as for every aspect of East/West relations, is that we ourselves should be strong.

Our first duty to freedom must be to preserve our own.

President Reagan's Administration has recognised the need to prevent the Soviet Union from out-distancing us militarily.

It is recognised too in Europe.

The security of Europe is indivisible from that of North America.

Both are pillars of an Alliance which is one of the enduring achievements of modern history.

Under a resurgent American leadership that Alliance will be revitalised and strengthened.

/ The interests

The interests of the Allies do not stop at the boundaries of the Alliance.

There is an urgent need for a new defence policy beyond the North Atlantic.

We must prevent Soviet encroachment in regions vital to the interests of the members of the Alliance and to the economies of the world.

This is true of parts of Africa, it is true of the Gulf.

I welcome therefore the new President's determination to tackle this problem without delay.

As a loyal ally, Britain will help to the very maximum of her ability.

/ The Developing

The Developing World

For the Third World too there are choices to be made.

The West and the Soviet Union offer the example of their systems - the free or the unfree.

We in the West do not demand alignment or displays of fidelity.

Our ambition is that the countries of the Third World should be at liberty to solve their own problems in their own way.

We are confident that left to themselves most will choose to live in freedom in a free society.

We are happy that we and they should exchange resources, human and material, where the exchange benefits us both.

If, having assessed the dangers, the nations of the Third World take steps to defend themselves, alone or in regional groups, we in the West are ready to respond.

/ Conclusion

Conclusion

Mr. Chairman, we have long known that the 1980s will be a difficult and dangerous decade.
There will be crises and hardships.
But I believe the tide is beginning to turn in our favour.
The developing world is recognising the realities of Soviet ambitions and of Soviet life.
There is new determination in the Western Alliance.
There is new leadership in America, which gives confidence and hope to all in the free world.

I pledge my country to work with the United States in a new and greater effort to promote stability, to prevent aggression and to oppose tyranny.
I call on free peoples everywhere to join with us.
Our way, the way of freedom, will prevail.
It will prevail because we are determined that it shall.

Subject

CONFIDENTIAL

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE SECRETARY GENERAL OF THE UNITED NATIONS, DR. KURT WALDHEIM, IN NEW YORK ON 28 FEBRUARY 1981 AT 1700 HOURS

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Present:

| | |
|---|---|
| Prime Minister | Dr. Waldheim |
| Sir Anthony Parsons | Mr. Urquhart |
| Mr. Bullard | |
| Mr. Alexander | |

* * * * * * *

Dr. Waldheim said that the world seemed to him to be in a bad shape. It would take some time to improve things. Much would depend on the line taken by President Reagan and it had therefore been a good thing that the Prime Minister had been able to see him so early in his term of office. It was essential to re-establish a working relationship between East and West. To say this was not to show weakness but merely to recognise how much depended on the two super powers. President Brezhnev's speech earlier in the week had been interesting. Very similar speeches had been made by President Brezhnev early on in the lives of previous US Administrations. It was intended to signal the Soviet desire to work with the Americans. The Prime Minister agreed about the need for a working relationship but said that it was important that the West should not make unrequited concessions simply to secure an improvement in relations. The Americans would study President Brezhnev's speech carefully. No doubt there would be a bilateral summit eventually. But it would be important not to rush into this. The Americans would have to decide their attitude to SALT first. If there was to be a Summit it would need to be one which would produce results and was therefore carefully prepared. Dr. Waldheim agreed with the last point.

/Namibia

CONFIDENTIAL

Namibia

Dr. Waldheim said there was much concern in the United Nations about the failure of the PIM in Geneva. A very dangerous situation now existed. There would be repercussions throughout black Africa if South Africa remained unyielding. Their concern about Namibia might well be misplaced. As could be seen in Zimbabwe, it would not follow from a solution in Namibia that the whole area would turn communist. The Prime Minister said that she was concerned lest a solution in Namibia should merely result in the "chorus" turning against South Africa itself. Mr. Urquhart said that the Front Line States argued the contrary. They professed to regard the problems of Namibia and South Africa as entirely different. Sir A. Parsons said that there was a chance that if the Namibian problem was resolved, the Africans would pause for thought. They knew that South Africa was qualitatively different. It was not inevitable that they would simply roll on from one problem to the next. Dr. Waldheim said that at the least a solution in Namibia would buy time. The Prime Minister said that she was not disputing the need to find a solution in Namibia. Indeed she regarded it as only a matter of time before an answer was found. But she was concerned about what would follow.

The Prime Minister asked about the situation in Angola. Was there any chance of getting the Cubans out. Dr. Waldheim said that the Angolans felt they needed the Cubans (whom Andrew Young had once described as "stabilizing the situation" in the country). Only the civilian Cubans had the know-how to keep the economy running. If peace were to return they could be replaced by Western experts. President Neto had given him the impression he did not like having them in the country. But as long as the war continued, they relied on them. A solution in Namibia would have a very positive effect.

As regards the situation at the United Nations, Dr. Waldheim said that some difficult debates were in prospect. The OAU were looking for a meeting of the Security Council in mid April. They would probably seek Chapter VII action then. If they did not get it they would probably go for a special session of the

General Assembly. Sir A. Parsons said that it was clear that the sensible thing for the Africans to do would be to await the South African elections on 27 April and the formulation of a clear policy by the new American Administration. However advice to this effect was ignored. Dr. Waldheim commented that the Africans had given up the idea of a March meeting and had moderated their demands somewhat. The Prime Minister said that clearly the South Africans would do nothing before their elections. If the Africans insisted on pushing ahead in the United Nations the only effect would be to ensure the hostility of American public opinion. Dr. Waldheim said that he would be counselling patience.

Afghanistan

Dr. Waldheim said that he had appointed Senor De Cuellar to follow up the two General Assembly resolutions. However the Russians had not yet accepted that the UN had a role. The Pakistanis, who had been criticised by e.g. Mr. Chatti for being too flexible, were feeling isolated. The Iranians would only participate in the discussions if the guerillas were to be represented. A Pakistani representative was at present in Tehran for discussions. These would probably prove unsuccessful. Dr. Waldheim's own view was that the Russians probably wanted to withdraw but would only do so in a negotiating process which was acceptable to them.

El Salvador

The Prime Minister said that it was clear to her from her talks in Washington that the Americans were preoccupied with the situation in El Salvador. The question was how to stop support reaching the guerillas. No-one defended what was being done in the country by either side but it was essential that the people should be left to sort out their own problems.

Middle East

Dr. Waldheim said that he had been reading the statements made by the Prime Minister and the Foreign and Commonwealth Secretary on the Arab/Israel dispute. He thought that the British



/Government's

Government's position was a good one. The Palestinians were the key factor. It was clear that they would have to be associated with any negotiations. The Prime Minister said that Palestinian involvement could go no further than association with the negotiations. It was a pity that there was no other organisation to represent the Palestinians. She recalled that King Hussein and his then Prime Minister Sharif Sharaf had discussed with President Carter the possibility of encouraging the formation of another Palestinian organisation and had regretted that the attitude of the Israeli Government prevented this. The need to make the creation of a new organisation possible remained. Meanwhile it was necessary to "use a long spoon" when dealing with the PLO. Dr. Waldheim commented that he understood that the Foreign and Commonwealth Secretary had acknowledged the PLO as the representative of the Palestinians. Mr. Bullard said that Lord Carrington appeared to have been misreported. His position was that the PLO was considered by many Palestinians to be their representative.

Dr. Waldheim said that without a solution to the Arab/Israel dispute there could be no overall settlement in the Middle East. He hoped that the Europeans would continue to play a helpful role. He had much welcomed the Venice initiative. The Prime Minister said that there would be no solution to the Arab/Israel dispute unless all the Arab countries were associated with it. As a first step it was necessary to obtain more precision about the meaning of the words used by those involved. The search for a settlement so far had been bedevilled by vagueness e.g. in Resolution 242. This was the purpose of the exploration initiated at Venice. Sir Anthony Parsons said that he agreed with the Prime Minister about Resolution 242. He had thought its ambiguity wrong at the time it had been adopted. It was now necessary to have more clarity.

As regards the content of a possible agreement the Prime Minister said that it was not easy to see the way ahead. She did not think that Hussein would want the Palestinians within his own borders. On the other hand she was wary of an independent Palestinian state. She did not think it would be possible to find a solution without the United States and the new Administration

/had

had not yet made up their minds how to proceed. Mr. Peres' ideas would probably prove impractical. Moreover, he was unlikely to yield up in areas vital to Israeli security. Sir A. Parsons said that one useful thing Mr. Peres could do would be to allow the Palestinians to set up an organisation separate from the PLO. The Prime Minister agreed but added that however / it was achieved, it would be essential for Israel to have totally secure borders. Mr. Bullard noted that this to some extent pended on whether Israel's neighbours were to be friends or enemies. The Prime Minister said that it would be a long time before Israel could trust any of them. However Mr. Peres did recognise that something would have to be done. In the longer run she was doubtful whether even a solution of the Palestinian problem would buy stability in the area as a whole. Dr. Waldheim said that he thought the creation of a homeland for the Palestinians would be an enormously important psychological step.

UNIFIL

Dr. Waldheim referred to the problems which UNIFIL was having with the Palestinians in the area where it was deployed. He sometimes thought that it would be better to withdraw the UN presence. However this would merely open the way for a direct confrontation between Israel and Syria. Mr. Urquhart said that the Israeli decision to opt for pre-emptive action had been misguided and had put the United Nations in a difficult position.

UNWRA

Dr. Waldheim described the financial difficulties being experienced by UNWRA and asked for the Prime Minister's help. The Prime Minister was non-committal.

The meeting ended at 1745.

2 March 1981

PRIME MINISTER'S INTERVIEW WITH BARBARA WALTERS ABC "ISSUES & ANSWERS"
SATURDAY 28 FEBRUARY

Q: On Friday evening when you hosted a very lovely, very warm dinner for President and Mrs Reagan and as you walked into the dining-room the band was playing Happy Days are Here Again and they stopped and you said "no no continue to play". I want to ask you about the philosophy. Do you feel that happy days are indeed here again for your country and mine?

A: The atmosphere has felt like that. The talks have gone so well, and the visit had gone so well that that just seemed the right tune and quite wrong that they should have stopped it the moment we walked in. Also I think it indicated that one is completely informal and relaxed in the company of President Reagan and I think that says a great deal for him and Mrs Reagan. And it seemed just absolutely right to say "no no go on".

Q: You had a very good relationship with President Carter and there had been some talk that some of the other European leaders had not but you did. Yet the fact that President Reagan's philosophy is so similar to yours - does that make it an easier relationship, do you have a head start?

A: Can I just confirm that I found President Carter very easy to get on with. Always very thoughtful, very considerate, very frank in discussion and there were no difficulties between discussions between he and me. I think the difference with President Reagan is we both have a common approach to economic problems, a common philosophy so I know the way he's thinking and he knows he will find a ready response in me. Yes it does make a difference, quite a bit of difference.

Q: No surprises perhaps?

A: No, I don't think any surprises. I must say though, that I think he's done wonders in getting such a tremendous public expenditure reduction packet out so quickly and to Congress. I think he's really to be congratulated.

Q: This is the last television interview you're going to be doing in this

country and you leave shortly. What did you accomplish by this visit and if you could tell us as specifically as possible.

A: I think we know one anothers approach. We discussed the many foreign policy issues - you know the worlds a very dangerous place at the moment. There are so many problems and conflicts all, most of them outside the NATO area although there are one or two within, you can do a certain amount through telegrams, a certain amount through Ambassadors but theres absolutely no substitute for getting together, talking about these things, discussing them, debating them, trying to look at them from other people's view point as well as your own. I know that that dosen't add up to a kind of laundry list with items one to twenty. But it's very fortunate that this happened during a period when the American Administration is formulating its policy. I think it will lead to a better policy. completely thought out and I think that will be of benefit both of the American people and the West.

Q: I don't want to use the word influence in asking if you were able to influence his thinking. But if there was something from either Britain's point of view or the European point of view that you thought was very important that he know, that this Administration know. Is there something that you were particularly trying to stress at this point?

A: I think we were very much aware once I'd done one or two interviews that there was a complete misunderstanding about the European initiative on the Middle East. People thought that somehow we were in competition with the American negotiations. Not at all. At the time we started that initiative it was the run up to the elections in the United States and we felt it important that things should be carried forward. And with Namibia for example, we think it important that things should be carried forward. We don't want a vacuum in any negotiations because that's when the unexpected can happen and it can be very nasty.

Q: Did you feel that President Reagan supported the European initiative on the Middle East?

A: I'm not quite sure whether it was fully understood or not. But I think it is now. We're trying to help. Our efforts are complementary not

in competition to that of the United States. No Middle Eastern problem can be solved without the United States. It is the single most important nation and what it does is the single most important thing in the Middle East. And we all understand that in Europe and we'd like our American friends to know that we understand that.

Q: But did he say something like - we'll think about it or take it into consideration, or did he think - yes, yes thats right, full steam ahead?

A: No. We are formulating our policy on the Middle East. There is just a little bit of time because as you know there are Israeli elections coming up in a few months and not a great deal is likely to happen after that. But there really are two aspects of it. There's the Arab/Israeli problem and then there is the Gulf. They're both inter-related and I think we were able to get what I call, the larger understanding. You can never take a part of the world, just look at that and say now that isn't related to any other problem. They all impinge on one another.

Q: And that does seem to be part of his philosophy in general to see it as part of a total Persian Gulf thing?

A: Yes.

Q: I had wanted to talk about the Middle East a bit later but since we are on it. Do you agree or how do you feel about President Sadat's proposal that the PLO become a Palestinian Government in exile. Is that fruitful?

A: Well we in Britain, our politicians have never had contact with the PLO. Officials have had contact with the PLO. We would not, as the Arab world, does recognise them as the sole representative of the Palestinian people. We never have and I do not think that we would agree with that suggestion.

Q: While we're talking about areas in which you agree and do not agree, Lord Carrington said that there were of course some areas of disagreement and he mentioned, in particular, El Salvador and the Middle East. Can you clarify that for us?

A: I think we discussed our view points. We, as you know, before we

came here, were very worried about the hardship, the terrible things that are happening in El Salvador from the viewpoint of the people there. We have been given some evidence by the United States of outside interference so we issued our own communique to say, yes there was evidence of outside interference, it is unwarranted, we hope it will cease, its important that it did, so that the people in El Salvador, like our countries can shape their own destinies in their own way without external interference. That of course is the language we use over Poland, the language we use over Afghanistan. And we also called on the Government of El Salvador to protect both their own institutions and their people.

Q: When you talk however, and you said it yesterday as well, you're very careful of your words and you said El Salvador must sort out its own future in its own way. Are you recommending therefore that the United States also stand aside and out of there?

A: But you know you have a great deal of external interference. I think its important that one tries to see that that does not continue. But how, precisely how is a matter for the United States. If you've got that external interference its very very upsetting indeed. Because its the very thing that stops the people from deciding their own future in their own way. We do condemn the terrible things that are going on there in whatsoever quarter. We always condemn violence from whatsoever quarter it comes, but in the end those people must decide for themselves how they wish to go.

Q: I don't want to put words into your mouth or to assume that what you are saying is that we should also keep our hands off. But the larger question may be our, say the countrys, helping El Salvador, supplying arms to them, look, you just cannot do this and we will not allow it. Is that something that you....

A: It will only de-stabilise - it will enable the violence to continue if those arms are continuing to be supplied to the guerillas. So we will do everything we can to see that it is stopped.

Q: We being Great Britain and the United States?

A: [illegible], it is a matter for the United States. I can quite understand how the United States is worried, it is so near the United States.

Q: Its our department in that sense?

A: It is indeed.

Q: But as far as taking the next step and that is sending advisors, or sending actual military equipment ...

A: The next step is a matter for the United States. We've issued our statement, we've made our position very clear and that statement was welcomed.

Q: I know you've said that you've had more questions asked about El Salvador than the amount of time you spend discussing it with President Reagan which is why we'll go onto another area about the economy. I know that everyone asks if you gave Ronald Reagan any economic advice I would like to ask whether he gave you any economic advice?

A: Well I don't think that he needed any economic advice. He has this very very bold programme which I do indeed applaud. I wish I had been able to get public spending down faster than I have been able to. You know what happens, everyone is for public expenditure cuts in general, but when it comes to particular measures it is much much more difficult to implement them. We have got ours down to the planned totals very considerably. It would have been easier if we'd gone further. Under our circumstances at the time we could not. But we did go quite a long way.

Q: Can you go further now?

A: We're constantly looking at public expenditure programmes. It is not easy at a time of recession when you have various increases because of the recession, various increases in social security benefits. Its not easy. President Reagan is fortunate in one respect that he comes into office at a time when the recession is much further through. WE came in at the beginning of world recession caused by the rapid increase in the price of oil and it was therefore doubly difficult to implement policies at that time.

Q: There was some criticism from Treasury Secretary Donald Regan at

Congressional meeting just when you came here. And he said that you failed to cut taxes sufficiently. Is he right about it?

A: I think he's right. I would have loved to have cut them more. I think that what he was saying was that I hadn't been conservative enough. Its not possible to cut taxes as much as you wish unless you get your public spending down because if you still have quite high public spending and cut taxes you have to borrow so much money you won't be able to do it and then the difficult thing is the tendency and the danger is to print it and that will be the next inflation. So you have higher expenditure than you wish, you must match it reasonably well by higher taxes than you would wish. But never mind. Don't let me underestimate our acheivements. Public spending is very considerably down from our previously planned totals. Direct taxation is very considerably down - one figure - direct taxation on earned incomes, the top earned incomes was 83% when we came to power, its now down to 60%. On savings income it was 98%, we bought it down to 70%. Theres a long way to go but we've made quite a good start.

Q: Chancellor Helmut Schmidt voiced concern that President Reagan's economic programme could deepen European recession. Do you share his concern?

A: I think, what Helmut Schmidt would be worried about would be the very high interest rates. But you see Helmut Schmidt has rightly taken a very strict view of monetary policy throughout his period of office and he in fact has controlled money supply - he's got his inflation right down. The Germans have 5% inflation but they've done it by precisely the method that President Reagan is going to try to carry out. So the answer to our good friend Helmut Schmidt is that you cannot deny the United States the very policy which were so successful in Germany and he'd be the first to accept that. Because if the United States has higher inflation, and it has high interest rates, you must take the right steps, first to get inflation down and thats very important. Its important to the future stability of the world.

Q: Prime Minister, I would like to ask you about the relationship between inflation and unemployment. In Time Magazine last week you said and

I quote "I'm afraid that in the early stages bringing down inflation means that you have increasing unemployment, I don't know any other way of doing it". Is it therefore a fact that as we do try to bring down our inflation we must be aware that we will increase unemployment?
A: In the early stages yes. In politics life is a question of alternative policies. Two policies. Suppose you start off with inflation. You have it, we have it at very high rates. Rates that have gone up over the last decade to far higher rates than you would have thought possible and you also have a certain amount of unemployment. Now, you can do two things, you can reflate. That means sticking inflation on top of inflation. What happens then, when you have unemployment still, is more inflation on top of inflation. So you become the hyper-inflation what I would call 'suitcase money.' Germany had it after the first World War and you get that, you get unemployment on a colossal scale. Now whats the alternative policy. You've got inflation. You try to pursue policies that will get that inflation down. That means not having so much surplus money in the economy so that prices come down. Unless people condition their wage claims to a lesser amount of money then there will be some unemployment. What usually happens is that people still want to take out quite a lot for themselves, they leave less over for others and it comes out in unemployment. But in the longer run you'll not be a competitive industry, have good secure jobs, unless your costs are competitive with other peoples. That means fighting inflation now with short term unemployment but long term good jobs, good prosperity, good prospects.
Q: OK but if we have to bear some unemployment in your country does this mean even that the very high rate, almost 10% of unemployment but you feel that it will go down, that this is what you would consider short term?
A: If I reverse my policies and say I'm now going to reflate the level of inflation we have now, which is 12/13%, all I would be doing would be going to hyper-inflation which means that British industry is not competitive - how can it compete with inflation 5% in Germany. We should

we'd get much much higher unemployment in the long run. So we have to go through short term painful periods in order to come through in the longer run. I know you don't like long answers but can I just point out one thing. In the last 20 years the level of inflation, with each about half decade, has gone steadily upwards. We used to have levels of about 3%, then we went right up to 20/22%. Each pound has gone upwards. In its wake each unemployment level has gone upwards. I've got to break that cycle, get the inflation rate down, down and get it to stay down, then gradually unemployment will come down and then we shall have a foundation for a much more prosperous society We're a very inventive people, a very ingenious people. We've got good supplies of oil, gas and coal and we do happen to be a very formidable competitor and we intend to be.

Q: Its a tough period now and we could spend a great deal of time talking about this. There's so much. I want to switch to foreign policy. In talking about President Brezhnev's call to a summit, and you said don't get into this too quickly and examine it. You used words like it was a very very canny speech and there was a lot more in that speech than has been analysed. I wondered if you might point out some of the things that we have not seen in this speech that Brezhnev was also saying?

A: I think first that the underlying psychological viewpoint that the West - we're naturally peace-loving- we assume that all other countries that that is their prime objective. That they will not just march into other territories. They did, Russia has, she did into Afghanistan. But she knows that the Western love of peace is such that the ordinary western person would say yes we'd love to have a Summit because we think that if a few people sit round a table, they'll all be people of goodwill and we shall come to measures and everything in the garden will be lovely thereafter. That is not necessarily so. We're sitting round the table with a Government that has steadily expanded its power and influence. There's a deep difference in psychology and that's why it was such a canny speech. Now secondly its not what a person says, its what they do. President Brezhnev still has 90,000 forces holding down

Afghanistan by force. That therefore is the kind of person you'll be dealing with. He talks about a moratorium on these things called Theatre Nuclear Forces, medium size nuclear weapons targetted on Europe, in certain circumstances they could reach the United States. Of course we'd like a moratorium. They have the most modern up to date one. The biggest numbers, they are coming into operation at the rate of one every five days. Of course if you have that superiority you would like a moratorium. But thats not a balance of deterrents. He talks about confidence building measures on disarmament so that you notify about manoeuvres and everything else. We do a certain amount of notification in Europe, with pretty near the whole of Europe and we say that confidence building measures would have to extend right to the Urals. He then says alright we'll consider it, extending to the Urals but the west will have to respond in some way to extend their area. But the whole of Western Europe is already affected - where is there to extend to? Or does he mean the United States. We don't know. But perhaps I've said enough to realise that you have to take these things and look at them and also the US would want to know exactly what he wants to do on SALT, exactly what he wants to do on negotiating this balance - which isn't a balance at the moment of the Theatre Nuclear forces. We really must know the person the other side of the table - know every argument, every insinuation, every attempt that is being made and you must in the end go realising that the future of the free world may depend on you, and you mustn't give anything away unless you get something for it and you mustn't do anything that upsets the balance of deterrents, you try to strike it at a lower level.

Q: Just on that point of not giving away without..just this weekend the Soviets asked the United States to set aside political differences and move towards improved trade relations, specifically they talked about the grain embargo. Should we renew trade relations as long as the Soviets are in Afghanistan?

A: There is one paramount thing. We must not accept the presence of Soviet forces in Afghanistan. I know what they're hoping. They're hoping that somehow we'll get used to them being there. We'll get used

to it and it will become a fact of life and they will in fact have altered their frontiers into one other country. We must not do that. Things must not be normal in trade relations for as long as they're still in Afghanistan.

Q: So we should stick to our embargo?

A: You can indeed have some certain areas of trade relations, trade which is mutually beneficial but it was a certain amount of grain and technology that we clamped down on and we were very very anxious that Europe should not send subsidised butter to the Soviet Union.

Q: You called for a number of Summit meetings to come - can you give us a little more detail how many meetings, and would it be head of state?

A: Well we have quite a lot in Europe. We have 3 a year between Heads of Government so there is quite a lot. And they do come round comparatively quickly. But you know again it does help, you really do know and have a chance to discuss.

Q: You mean Summits among the allies?

A: That's Summits among Europe, so we in Europe have 3 a year. The other big summit thats coming up this year is the Ottawa Summit on - known as the Economic Summit which includes 4 European countries in addition to the United States and of course Canada and Japan, so that is where a bigger distribution of the Western world gets together. We also have the Commonwealth Summit in Melbourne in September, so there are quite a lot.

Q: Would you like us to participate more in these, rather just have them

A: Well the economic summit is the one in which you do in fact fully participate.

Q: When you were toasting President Reagan you talked very poignantly of the two in the morning feeling when you have had a particularly bad day perhaps and when one needs courage and you said something like one needs to have then the absolute - I wrote it down - but you must stick with the consequences and see it throughyou said. And I wondered Prime Minister, at two in the morning do you ever have any doubts that what you are doing for your country is not absolutely, the right and only way?

A: When you're in the position of a President of the United States or Prime Minister of Britain there are certain decisions that no-one else can make. The easy ones have been taken somewhere else, perhaps with Ministers. The really difficult ones are left on your plate. Its not a decision between right and wrong, its two or three alternative courses of action. You know all the worries, every single one of them You consider every possible avenue and in the end you may well find that each of them has a considerable numberof drawbacks and dangers - why I call it two o'clock in the morning courage is, you have decide which way to go despite the drawbacks and dangers and when you've decided you have to shoulder the full responsibility, you have to take everything into accountwhen you decide and you must continue and it's yourself - that's why its two o'clock in the morning courage. Sometimes it's different in the short run than the long run, but really, I felt that President Reagan and myself, we're not going to sacrifice the future for popularity of the present. We're long-run Heads of Government.

Q: Thank you Madam Prime Minister.

PRIME MINISTER'S INTERVIEW WITH I.T.V., 28th FEBRUARY 1981

Q. Prime Minister when you came here there were differences over the Middle East and over Central America. Have you been able to do anything to reduce this?

A. I think there were apparent differences. I have noticed that, as I have been questioned by your American colleagues, they have seemed to question me on the basis that the Middle East initiative was in competition with the Camp David process and I have been really explaining that no it wasn't at all. We started that at a time when the United States was very preoccupied with election politics, and we realised that somehow the negotiations in the Middle East ought to go forward. And there were a good deal of points that needed exploring, a lot of phrases that were used that have never been worked out, and so I was really pointing out that our attitude was complementary to theirs, it's not supplanting it in any way; and we recognise that as soon as the Israeli Elections are over the United States will again formulate its policy for the Middle East and will go forward, and we hope that what we have been able to do will be helpful to them. So that was an apparent difference.

Q. You and your European colleagues have been trying for some months to explain that point to successive Administrations. Have you persuaded them?

A. Oh, I think the Administration knows, it was much harder to get across to the media.

Q. Do you know what the Americans are going to do over El Salvador?

A. We made our position very, very clear before we came and I think we are both concerned that there appears to be outside interference, extensive supplies of arms going to the guerillas.

...We

We are both very concerned about what is happening there - there are terrible things happening - and for the people of El Salvador. It is deeply worrying and naturally we hope that the outside interference will stop and we call upon it to stop and call upon the Government of El Salvador to look after and to protect their people. Of course one is concerned, of course the United States is concerned, concerned for the people (inaudible)

Q. I am interested in an expression (inaudible) you use. You said last night that the active interference must be stopped. HOW?

A. One tries to do everything one can to stop the fighting and influence the matter by seeing that the arms do not flow as easily. One knows full well that some of them came from Communist sources. But beyond that one can't say specifically how it shall be stopped. But it is absolutely vital that it be stopped.

Q. Have we been asked to help, specifically?

A. No.

Q. On European Defence, did you encourage the President to develop the so-called neutron bomb?

A. No, they promised to consult us before they make any decisions about that. They have got a tremendous number of decisions to make and they have only been there for a few weeks. I think they are absolutely right first to take their time. Secondly, they have shown full willingness, indeed they want, to consult because they want to be certain that what they do is in step, and is in tune with the feeling of their allies, and so I am quite happy about the way they will go ahead.

Q. Are you in tune on that, you said that you wanted to have an effective anti-tank weapon?

A. One does need an effective and deterrent weapon. I think

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it is a great pity that the neutron bomb was ever called the neutron bomb. It isn't a neutron bomb, it is an effective anti-tank weapon. Precisely what one may choose is of course a matter for further discussion but there is an enormous armoury on the part of the Warsaw Pact countries which could move forward, in enormous waves of power, and naturally we want an effective means of stopping it. The neutron weapon would be one such weapon but there are of course, other possibilities, and they've got to decide which way to go and before they take any decisions they would consult us.

A. We shall be asked, and we shall give our considered judgment, and opinion, when the time comes.

PRIME MINISTER'S INTERVIEW WITH LBC RADIO, 28th FEBRUARY

Q. Prime Minister it is considered that your visit to Washington amounts to the beginning of a new special relationship between the leaders of both countries. What precisely has been achieved?

A. If you ask me to list, say points one to twenty then one can't do it, because we did not come to detailed agreements. You get together with the President, with the Secretary of State for Foreign Affairs, with other Ministers - like the Minister for Treasury, Defence Ministers, Minister of Commerce; and you really discuss your own approach to these problems. We found a trememdous amount of common ground - and you just get to know how they see things, the viewpoint they are taking on particular issue and you have a discussion about this. And you can do it so much better than any amount of telegrams or written documents flying from one to another. And you also get to know the personalities who are dealing with these things, and it is very valuable indeed, and I can't stress that to you too much.

Q. You showed an interest in American rapid deployment force for the Persian Gulf. In a British context how would that work?

A. Well, we still yet have to discuss it. What we have not got is a force that could move rapidly, if there were trouble. It's obviously a wise precaution to have one. We would be interested in it, we are members of NATO and I think that other members of NATO, some of them would be interested, although it wouldn't be under NATO command but under a separate command. But these things have to be worked out, but there is a willingness to go ahead and work them out.

Q. There has been much interest here in the United States on your economic policies. Is there anything that you have learnt from President Reagan's projected policies which could be applied

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in Britain?

A. I think that he has acted very quickly indeed for putting up a very big programme to cut public spending from its previous planned totals. I have been very impressed at the way in which they have put their package together in a few days and presented it to Congress. I think if that goes through it will be a wonderful foundation for the deep cuts in taxation they wish to make which I too would have wished to make. We had a number of things to which we were pledged and we were not quite as free to move as he is and I just hope that his policy goes through Congress.

Q. Before arriving in Washington you issued a Statement deploring the level of outside interference in El Salvador. Does that imply that you are opposed to all interference whatever the source?

A.. Now look there is a lot of outside interference at the moment. To the guerilla forces and that of course has exacerbated the very difficult situation there, and we are concerned, and I think all people are everywhere, about what's happening there. It has a terrible effect on the lives of the people there, in El Salvador, and we stand by that Statement absolutely - it was very well received and our American friends were very pleased with it.

Q. A final question on the Summit. You have suggested that their decision be delayed while Brezhnev's speech is studied. Would that not in fact increase tension for the Super Powers?

A. No what would be absolutely wrong would be to dash into a reply. That speech has been very, very, carefully thought out by President Brezhnev. And you must, before you ever go to summits, know all aspects of the problem, know exactly what you want, and indeed even consider whether you should go, in view of the fact that Afghanistan is still occupied. You must never, never, never make a quick ill-considered instant response to the Soviets; and I am sure that the United States won't do that.

PRIMEMINISTER'S INTERVIEW WITH BBC RADIO, 28th FEBRUARY

Q. Prime Minister: on the defence of the Persian Gulf, is Britain ready to take part in the American concept of the rapid deployment force?

A. Yes, but we already have ships in the Persian Gulf, so have the United States and so have France. So that you can say that there is already the beginnings of a deployment force there. But we are very conscious that we really ought to have a force that could be dispatched to a particular area of trouble and we have not really got an effective one at the moment, and so we are quite ready to discuss with our American allies the possibility that Britain would take part in such a force.

Q. On the summit meeting, what is your impression after this visit, do you think one is likely later this year?

A. They are obviously going to look at every aspect of Mr. Brezhnev's speech, every aspect of events as they are on the ground. The fact that the Russians still occupy Afghanistan, the fact there is still a very heavy theatre nuclear force armoury - one SS 20 joining it every five days. All of these things have to be taken into account. I think that they will take time to consider, time to consider their response; and I think that's right. I think it is absolutely wrong to jump into a reply before the American people have had their discussions.

Q. You have made clear the positive results of this meeting; where are there the differences of emphasis and of national interest?

A. I think we really ranged rather widely over all matters of foreign affairs. Obviously the United States has more immediate interest in Central and in Southern America and events there, than we have; and obviously it is not surprising, because these

...events

events are very very near the United States. But that's just a slight difference in emphasis, but not really a very real difference in views.

Q. Do you think they have got their emphasis right in El Salvador?

A. Well we have made our views very clear, as you know, that the outside interference which is there will cease, because the things that are happening in El Salvador are terrible for the people of El Salvador.

PRIME MINISTER'S INTERVIEW, BBC TV, SATURDAY 28 FEBRUARY 1981

Q: Prime Minister, you have had an extremely warm reception here, but how is that going to translate into practical terms in relations between the two countries.

A: I think it will be enormously helpful. The American Administration is in the process of formulating its policies, particularly in Foreign Affairs. There are many issues, vital issues, that affect us: the Middle East, Namibia, the Gulf, East/West relations. And if you've had a chance to discuss these in general terms, they know our approach to these matters and we know theirs. And we shall keep very closely in touch. It has been extremely valuable to be here at this early stage, and I must say President Reagan and his staff and all the Administration have gone to endless trouble to see us and to talk at length, to attend luncheons and dinners. And in very considerable numbers, it has been very positive.

Q: Do you think you have actually been able to affect the way they see some issues?

A: Oh I think so, it always helps to discuss things with people who have perhaps a slightly different perspective because they are affected differently. We, as well as having a British view-point also know fully the details of our European partners and the approach which they take in the Community and that's been helpful too.

Q: It was noticeable that the Secretary of State seemed to be changing the kind of language he was using about El Salvador. From the type of language he was using before you came, to the type of language he was using as a result of your visit. Do you think that was in fact, as a result of your visit?

A: I think perhaps they are formulating their policies as events unfold. You don't have policies kind of divorced from events on the ground, and they are actually considering this very very carefully. They are of course cross-examined several times a day. And I think that sometimes you might see, nuances which aren't

necessarily there.

Q: You talked I am told about the question of using NATO forces outside the NATO area. Is there any possibility, for instance, of Britain joining a rapid deployment force outside the NATO area?

A. Yes, NATO forces as such under NATO command can't be used outside the NATO area, can't be used outside its boundaries by definition. But some members of NATO could have a rapid deployment force, indeed as you know we already have some ships in the Gulf. The United States has a much bigger number if ships, France has some, so in a way we are already operating there, but not as NATO, we are members of NATO, although France does not have her forces militarily integrated. So it is possible, and I think advisable, to form a rapid deployment force which could be called into action to any trouble spot, and that would be made of a few members of NATO but not under NATO command.

Q. In spite of all the warmth about foreign policy issues, and about relationships between the two countries, there were some very hard words about your own Government's economic performance while you were here. How did you react to that?

A. I think they thought that we should have been more conservative than we have been - that we should in fact have cut public expenditure to a much greater extent. That had we done so, we would not have had some of the problems we have. Had we done so we would have been able to get direct tax down more than we have. I would agree. Life would have been easier, economically, now, had we been able to cut public spending to a greater degree. As you know, we came in having agreed that we would implement the Clegg pay awards in the public sector. We had to honour those awards. They turned out to be very very high indeed. Those awards are over, as you know we are abolishing the Pay Commission, and now the public sector has got a reasonable deal on pay which it felt very strongly about before. So I think that period is over but

certainly it did leave us with very very big blank cheques to pick up from the previous administration.

Q. You don't object to being regarded as the way, perhaps for the present Reagan Administration, not to conduct its policies.

A. No, President Reagan has put up a much more formidable packet of public expenditure cuts to Congress. I think they were very very well programmed, I think we were absolutely with him on it, and I hope he gets it through, because if you can start out by really reducing your public spending as a proportion of the national income, and reducing it on current expenditure and not capital, then it does make it very much easier to effect taxation policies afterwards.

THE WHITE HOUSE

Office of the Press Secretary

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For Immediate Release February 27, 1981

EXCHANGE OF TOASTS
BETWEEN THE PRESIDENT AND
MARGARET THATCHER, PRIME MINISTER OF BRITAIN

The British Embassy
Washington, D.C.

10:33 P.M. EST

PRIME MINISTER THATCHER: Mr. President, Mr. Vice President, ladies and gentlemen: Mr. President, an earlier visitor to the United States, Charles Dickens, described our American friends as by nature frank, brave, cordial, hospitable, and affectionate. That seems to me, Mr. President, to be a perfect description of the man who has been my host for the last 48 hours. (Applause.) And it's not surprising, therefore, that I've so much enjoyed all our talks together, whether the formal discussions in the Oval Office and how very much it suits you, sir, to be there, or in the Cabinet Room or those less formal at the dinner table.

Mr. President, Henry David Thoreau once said that it takes two to speak the truth, one to speak and another to hear. Well, sometimes one of us has spoken and sometimes the other. But together, Mr. President, I would like to think that we have spoken the truth. (Applause.)

During the visit to which I've already referred, Charles Dickens, like me, also visited Capitol Hill. He described the congressmen he met there as "striking to look at, hard to deceive, prompt to act, lions in energy, Americans in strong and general impulse." Having been there and agreeing with Dickens as I do, I'm delighted to see so many Members of Congress here this evening. And if Dickens was right, relations between the legislative and executive branches should be smooth indeed over the next four years. After all, "prompt to act and lions in energy" should mean, Mr. President, you'll get that expenditure cutting program through very easily indeed. (Laughter. Applause.)

In any event I hope, Mr. President, that in serving this evening wine from your own State of California, we British have done something to advance the cause of harmony. (Laughter.) And I hope also that you'll think we've chosen well. I must confess that the Californian berries I've never seen growing on any tree, but of course they are none the worse for that. (Laughter.) You see how much we try to attend to what has customarily become called "the supply side" in all aspects of life -- (laughter) -- not simply in economics.

California, of course, has always meant a great deal to my countrymen from the time, almost exactly 400 years ago, when one of our greatest national heroes, Sir Francis Drake, proclaimed it New Albion in keeping with the bravado of the Elizabethan Age. This feeling of community and curiosity that we have about California exists in the present age when another of our household names made his career there, one of the greatest careers in show business. I refer to Mr. Bob Hope, who is here this evening, and whom we like to claim is partly ours because he was born in the United Kingdom, though he decided to leave when he was only four years old. (Laughter.) Presumably because he thought the golf courses in the United States

were better than those in the United Kingdom. (Laughter. Applause.) I'm glad that my husband Dennis did not agree with him. (Applause.)

It's a great privilege, Mr. President, to welcome you this evening to this Embassy, and we're very sensible of the honor that you do us in coming here. I hope you didn't feel ill at ease as you came up the stairs and passed under the gaze of George the III. (Laughter.) I can assure you that we British have long since come to see that George was wrong and that Thomas Jefferson was right when he wrote to James Madison that "a little rebellion now and then is a good thing." (Laughter.)

Leaving history aside, I hope we've succeeded in making you feel at home. The Embassy has been described as being like a Queen Anne country house. At any rate, it's our own version of El Rancho del Cielo. It is, as they say, in a good neighborhood. After all, the Vice President and Mrs. Bush live next door. (Laughter.) I'm told that they occasionally cast predatory glances on our excellent tennis court. But I feel there's little chance of persuading Nico and Mary Henderson to give it up. Too much useful business gets done on it.Or so they claim. (Laughter.)

It's a singular honor for me, and no less important, a great pleasure for all the other guests this evening,that you should be here, Mr. President. Not just because you are the free world's leading statesman, but because you are a person who has got there by your own efforts and who retains that wonderful personality--natural, forthcoming and wise, whatever the pomp and circumstance in which you find yourself surrounded.

Emerson wrote that nothing astonishes men as much as common sense and plain dealing. In you, Mr. President, to find these qualities is only what one would expect. It's not the time, Mr. President, for me to talk at any length about the relations between our two countries except to say that they are profoundly and deeply right. And beyond that, we perhaps don't have to define them in detail. But after these two days of talks with you and meetings with many of the United States' ministerial and congressional leaders, I have realized what at any rate to me is exceptional about the dealings we two countries have with each other.

We honor the same values. We may not always have identical interests, but what we do have in common is the same way of looking at and doing things. We don't seek to score off the other. We don't seek to involve the other in some commitment against his will. We try rather, in discussing the whole range of world problems that affect us both,

to find common ground and to find the way which protects for humanity that liberty which is the only thing which gives life dignity and meaning.

There will, of course, be times, Mr. President, when yours perhaps is the loneliest job in the world, times when you need what one of my great friends in politics once called "two o'clock in the morning courage". There will be times when you go through rough water. There will be times when the unexpected happens. There will be times when only you can make a certain decision. It is at that time when you need the two o'clock in the morning courage. By definition it means courage. It requires also conviction. Even that is not enough. It requires wisdom. It requires a capacity to evaluate the varying advice that comes your way, the advice from those who say, "Yes, go on, go on, this is your great opportunity to prove what you're made of," the advice which says, "This is the time to make a dignified retreat," and only you can weigh up that advice. Only you can exercise that judgment and there's no one else, and it is the most lonely job, and what it requires is the most wonderful, profound understanding of human nature and the heights to which it can rise. And what it requires is a knowledge on your part that whatever decision you make you have to stick with the consequences and see it through until it be well and truly finished.

Those of us who are here realize what this two o'clock in the morning courage means, what a lonely job it is, and how in the end only one thing will sustain you, that you have total integrity and at the end of the day you have to live with the decision you have made.

I want to say this to you, Mr. President, that when those moments come, we here in this room, on both sides of the Atlantic, have in you total faith that you will make the decision which is right for protecting the liberty of common humanity in the future. You will make that decision that we as partners in the English-speaking world know that, as Wordsworth wrote, "We must be free or die who speak the tongue that Shakespeare spake."

I'd like to thank you, Mr. President, for the hospitality you and your government have given to me, to my family, and to my party on this memorable visit. It's very early days in your administration and you've very heavy preoccupations. But if these meetings have meant a tithe as much to you as they have meant to me and to my team, I shall leave with a pang of sorrow, but happy and contented, eager soon to see you on the shores of Britain. It's in this spirit, Mr. President, that I would ask all our guests this evening to rise and drink a toast with affection, respect, and admiration to the President of the United States and Mrs. Reagan. The President of the United States. (Toast.) (Applause.)

THE PRESIDENT: Prime Minister Margaret Thatcher, Vice President, Prime Minister Bob Hope will know what I mean when I speak in the language of my previous occupation and say you are a hard act to follow. (Laughter. Applause.)

Nancy and I want to thank you for the warmth of those words that you spoke as well as your gracious hospitality. And may I say that I do know something about that "two o'clock courage," but I also know that you have already shown that two o'clock courage on too many occasions to name. (Applause.)

It's been delightful for Nancy and me to be here and with the Thatcher family in these 48 hours and to know them better, to know Mr. Thatcher, to know your daughter Carol. I would also like to think Sir Nicholas and Lady Henderson who have made this house such a gracious center of hospitality in this city.

Winston Churchill is believed to have said that the three most difficult things a man can be asked to do is to climb a wall leaning toward him, kiss a woman leaning away from him, and give a good after dinner speech. (Laughter.) This evening marks the first steps I've taken as a President on foreign soil. (Laughter.) What an honor to visit Great Britain first and how symbolic of the close relationship between our two nations that I only had to go 15 city blocks to do it. (Laughter.) I wonder if this is what is meant by the saying that the sun never sets on the British Empire. (Laughter.) I do hope you agree, Prime Minister, that this city is an excellent vantage point from which to see the brilliant sunlight that still falls upon the Empire. I don't mean the empire of territorial possessions. I mean the empire of civilized ideas, the rights of man under God, the rule of law, constitutional government, parliamentary democracy, all the great notions of human liberty still so ardently sought by so many and so much of mankind.

These are the enduring grandeur of the British heritage and you know, Prime Minister, that we have a habit of quoting Winston Churchill. Tell me, is it possible to get through a public address today in Britain without making reference to him? It is increasingly difficult to do so here, not just because we Americans share some pride in his ancestry, but because there's so much to learn from him, his fearlessness, and I don't just mean physical courage. I mean he was, for instance, unafraid to laugh. I can remember words attributed to Churchill about one somber, straight-laced colleague in Parliament. Churchill said, "He has all the virtues I dislike and none of the vices I admire." (Laughter.)

He once said of one of our best-known diplomats that he was the only case he knew of a bull who carries his own china closet with him. (Laughter.)

The gift of humor can make a people see what they might ordinarily overlook and it supplements that other gift of great leaders, vision. When he addressed Parliament in the darkest moments after Dunkirk, Churchill dared to promise the British their finest hour and even reminded them that they would someday enjoy, quote, "the bright, sunlit uplands," unquote, from which the struggle against Hitler would be seen as only a bad memory. Well, Madam Prime Minister, you and I have heard our share of somber assessments and dire predictions in recent months. I do not refer here to the painful business of ending our economic difficulties. We know that with regard to the economies of both our countries we will be home safe and soon enough.

I do refer, however, to those adversaries who preach the supremacy of the state. We've all heard the slogans, the end of the class struggle, the vanguard of the proletariat, the wave of the future, the inevitable triumph of socialism. Indeed, if there's anything the Marxist-Leninists might not be forgiven for it is their willingness to bog the world down in tiresome cliches, cliches that rapidly are being recognized for what they are, a gaggle of bogus prophecies and petty superstitions. Prime Minister, everywhere

one looks these days the cult of the state is dying, and I wonder if you and I and other leaders of the West should not now be looking toward bright, sunlit uplands and begin planning for a world where our adversaries are remember-d only for their role in a sad and rather bizarre chapter in human history.

The British people, who nourish the great civilized ideas, know the forces of good ultimately rally and triumph over evil. That, after all, is the legend of the Knights of the Round Table, the legend of the man who lived on Baker Street, the story of London in the Blitz, the meaning of the Union Jack snapping briskly in the wind. Madam Prime Minister, I'll make one further prediction, that the British people are once again about to pay homage to their beloved Sir Winston by doing him the honor of proving him wrong and showing the world that their finest hour is yet to come, and how he would have loved the irony of that. How proud it would have made him.

So, ladies and gentlemen, I ask you to join me in a toast to the memory of that great leader of free people, to his vision of bright, sunlit uplands, a toast to his Brittania and all that she's been, all that she is, and all that she will be, and to her finest hour, yet to come. Ladies and gentlemen, to Her Majesty, the Queen. The Queen. (Toast.)

END 10:55 P.M. EST

GR 200

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FM WASHINGTON 280805Z FEBRUARY 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 715 OF 27 FEBRUARY
INFO ROUTINE MEXICO CITY, PARIS, UKDEL OECD, BONN, UKMIS NEW YORK, OTTAWA.

FOLLOWING FROM PRIVATE SECRETARY

MIPT (NOT TO ALL): SECRETARY OF STATE'S MEETING WITH MR HAIG: NORTH/SOUTH SUMMIT.

1. HAIG SAID THAT, AFTER FURTHER CONSIDERATION WITHIN THE ADMINISTRATION, THE PRESIDENT WAS NOW INCLINED TO ATTEND THE SUMMIT ON CONDITION THAT IT WAS POSTPONED TO THE AUTUMN AND THAT CASTRO WOULD NOT BE THERE. THE US WOULD ALSO WISH TO BE SURE ABOUT THE AGENDA. HAIG HOPED FOR BRITISH SUPPORT. IT WOULD BE IMPORTANT TO AVOID A SESSION OF FINGER-WAGGING AGAINST THE WEST. WE HAD A GOOD OPPORTUNITY TO NOURISH THE THIRD WORLD'S CURRENT TENDENCY. THE MEXICO SUMMIT COULD END UP AS SOMETHING VERY POSITIVE.

2. THE SECRETARY OF STATE SAID THAT VERY CLOSE COORDINATION BETWEEN THE WESTERN COUNTRIES WOULD BE REQUIRED. THIS HAD NOT BEEN THE CASE DURING THE GLOBAL NEGOTIATIONS IN NEW YORK, WHERE WE HAD BEEN LEFT TO CARRY THE BURDEN WITH THE US AND THE GERMANS. THE FRENCH HAD NOT SHOWN THEIR HEADS ABOVE THE PARAPET. HE SUGGESTED THAT THE AMERICANS SHOULD URGE ON GISCARD AND GENSCHER THE NEED FOR US ALL TO STAND FIRM AND SUPPORT EACH OTHER. HAIG AGREED.

HENDERSON

THIS TELEGRAM WAS NOT ADVANCED

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10 DOWNING STREET

*From the Principal Private Secretary*

27 February 1981

Dear George,

Prime Minister's Visit to Washington

I attach a copy of the record of the plenary meeting held in the White House on Thursday, 26 February.

In view of what Mr. Haig said subsequently to Lord Carrington about the American position on the Mexico Summit, I have taken a slight liberty with that part of the note and in particular have not recorded President Reagan's statement that he would tell President Portillo that he would attend the Summit if it were held in the autumn.

I am sending copies of this letter and of the record to Brian Norbury (Ministry of Defence) and David Wright (Cabinet Office).

Yours ever,

Oliver Whitmore.

G. G. H. Walden, Esq.,
Foreign and Commonwealth Office.

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FROM UKMIS NEW YORK 271637Z FEB 81
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 3 DATED 27 FEBRUARY 81
INFO F C O

PRIME MINISTER'S MEETING WITH THE UN SECRETARY GENERAL

1. THE PRIME MINISTER MAY WISH TO KNOW THE LATEST STATE OF PLAY ON THE SUBJECTS WHICH MAY ARISE AT HER MEETING WITH WALDHEIM TOMORROW.

2. AFGHANISTAN. THE SECRETARY GENERAL WOULD LIKE HIS PERSONAL REPRESENTATIVE (DE CUELLAR) TO VISIT THE AREA IN THE NEXT TWO WEEKS OR SO, INCLUDING MOSCOW AS WELL AS KABUL, ISLAMABAD AND TEHRAN. THE SECRETARIAT HAVE ONLY RECENTLY BEGUN TO TAKE INFORMAL SOUNDINGS ABOUT HOW DE CUELLAR WOULD BE RECEIVED: THE PROPOSED TIMETABLE MAY THEREFORE BE OPTIMISTIC. THE INITIAL RUSSIAN REACTION WAS NON-COMMITTAL. THEY MADE CLEAR THAT THEY WOULD SEE NO POINT IN THE EXERCISE IF THE PAKISTANIS CONTINUED TO INSIST THAT THEY COULD ONLY TALK TO THE AFGHANS ON A TRILATERAL BASIS, IE WITH THE IRANIANS (AND WALDHEIM'S REPRESENTATIVE) PRESENT. THE CURRENT IRANIAN UNWILLINGNESS TO TALK TO THE AFGHANS AT ALL IS AN OBVIOUS COMPLICATION. THE SECRETARIAT ACCORDINGLY INTEND THAT FORMAL SOUNDINGS SHOULD START WITH THE PAKISTANIS NEXT WEEK.

3. PRESIDENT GISCARD'S PROPOSAL FOR AN INTERNATIONAL CONFERENCE SEEMS TO BE DEAD, OR AT LEAST DORMANT. BABRAK KARMAL REJECTED IT PUBLICLY IN MOSCOW LAST WEEK, AND THE FRENCH MISSION HERE SAY THAT BREZHNEV HAS SENT A MESSAGE TO GISCARD WHICH, WHILE NOT EXPLICITLY NEGATIVE, OFFERS LITTLE HOPE. WALDHEIM'S OWN INITIAL REACTION WAS THAT A CONFERENCE OF THIS SIZE WOULD NOT WORK.

4. CAMBODIA. ASEAN FOREIGN MINISTERS PRESSED WALDHEIM IN DELHI TO CALL THE INTERNATIONAL CONFERENCE PROVIDED FOR IN GA RESOLUTION 35/6. HE ARGUED THAT THE AUGURIES WERE POOR AND URGED ASEAN

TO PURSUE DIPLOMATIC CONSULTATIONS WITH THE VIETNAMESE. HE DID HOWEVER AGREE TO SEND A REPRESENTATIVE TO THE AREA, INCLUDING HANOI AND PHNOM PENH. BUT WHEN I SAW HIM ON 24 FEBRUARY (MY TELNO 167) WALDHEIM SAID MERELY THAT HE DID NOT INTEND TO GO AHEAD AND CALL A CONFERENCE FOR THE TIME BEING AND THAT BOTH ASEAN AND THE VIETNAMESE WANTED FURTHER CONSULTATIONS. THE IMPLICATION WAS THAT HE HAD STAYED HIS HAND AT ASEAN REQUEST. HE MADE NO REFERENCE TO SENDING A REPRESENTATIVE TO THE AREA.

5. IF WALDHEIM TAKES A SIMILARLY DISINGENUOUS LINE WITH THE PRIME MINISTER, MRS THATCHER MAY WISH TO SAY THAT ASEAN HAVE TOLD US CLEARLY, BOTH HERE AND IN THE FIELD, THAT THEY WANT A CONFERENCE SOON AND THAT THEY EXPECT WALDHEIM TO SEND A REPRESENTATIVE TO THE AREA. IT WOULD SEEM IMPORTANT THAT THE APPARENT MISUNDERSTANDING SHOULD BE CLEARED UP URGENTLY.

6. IRAN/IRAQ. AT A PRIVATE MEETING I HAD WITH HIM EARLIER THIS WEEK, PALME INDICATED THAT HE HAD MADE ONLY SLOW PROGRESS ON THE MAIN ISSUE DURING HIS RECENT TRIP TO THE AREA, BUT WAS OPTIMISTIC ABOUT THE SHIPS (MY TELNO 162). WALDHEIM DOES NOT KNOW ABOUT MY MEETINGS WITH PALME AND THE LINE IN THE BRIEF STILL HOLDS.

7. NAMIBIA. THERE WILL BE A RESUMED SESSION OF THE GENERAL ASSEMBLY BEGINNING ON 2 MARCH WITH PROBABLY TEN DRAFT RESOLUTIONS. WE ARE WORKING FOR COMMON ABSTENTIONS AND A COMMON EXPLANATION OF VOTE BY THE FIVE WHICH HAS BEEN THE REGULAR PRACTICE OF THE FIVE OVER THE PAST FOUR YEARS. IT IS HOWEVER UNCERTAIN WHETHER THE AMERICANS WILL BE ABLE TO JOIN US IN COMMON ABSTENTIONS OR A COMMON STATEMENT AS THEIR POLICY REVIEW ON SOUTHERN AFRICA HAS NOT YET BEEN COMPLETED. TO JUDGE FROM WHAT WE HEAR, AND FROM REPORTS FROM THE CURRENT OAU MEETING, THE AFRICANS SEEM TO INTEND THAT THE RESUMED GENERAL ASSEMBLY, WHICH IS LIKELY TO CONTINUE ALL NEXT WEEK, SHOULD BE FOLLOWED SOME TIME IN MARCH OR APRIL BY RESORT TO THE SECURITY COUNCIL AND THEREAFTER BY AN EMERGENCY SPECIAL SESSION OF THE GA IF THE WEST VETO MANDATORY SANCTIONS AGAINST SOUTH AFRICA.

8. THE SECRETARY GENERAL IS WELL AWARE OF HOW UNHELPFULL ALL THIS WOULD BE. HE IS HOWEVER UNABLE TO STEM THE TIDE. THE PRIME MINISTER MAY NEVERTHELESS WISH TO EMPHASISE THE DAMAGE THAT WOULD BE CAUSED AND PERHAPS GIVE HIM SOME ACCOUNT OF HER DISCUSSIONS WITH PRESIDENT REAGAN.

.SOUTH AFRICAN ARMS EMBARGO. THE SECURITY COUNCIL IS HOLDING INFORMAL CONSULTATIONS TODAY ON THE REPORT OF THE ARMS EMBARGO COMMITTEE. IF ANYTHING SIGNIFICANT TAKES PLACE, I SHALL BRIEF MRS THATCHER ORALLY TOMORROW.

10. FINALLY, THERE IS MR BREZHNEV'S DREADFUL PROPOSAL FOR A SPECIAL SESSION OF THE SECURITY COUNCIL ''WITH THE PARTICIPATION OF THE TOP LEADERS OF ITS MEMBER STATES IN ORDER TO LOOK FOR KEYS TO IMPROVING THE INTERNATIONAL SITUATION, AND PREVENTING WAR''. THERE IS A RISK THAT THIS MIGHT HAVE ITS ATTRACTIONS FOR WALDHEIM. HE IS SUSCEPTIBLE TO PROPOSALS WHICH ENHANCE HIS PRESTIGE. AND IF HE HAS DECIDED TO STAND FOR A THIRD TERM AS SECRETARY GENERAL, HE MIGHT SEE ELECTORAL ADVANTAGE IN A MEETING IN SAY OCTOBER AT WHICH HE WOULD HOBNOB WITH WORLD LEADERS.

11. IF WALDHEIM RAISES THE IDEA, WHICH HAS BEEN OVERSHADOWED ELSEWHERE BY BREZHNEV'S PROPOSAL FOR A BILATERAL US/SOVIET SUMMIT, I HOPE THAT MRS THATCHER WILL FIRMLY DISCOURAGE HIM FROM PURSUING IT. SHE COULD POINT TO THE UNWIELDLINESS OF SUCH A MEETING, PARTICULARLY SINCE BREZHNEV HAS SAID THAT ''LEADERS OF OTHER STATES COULD EVIDENTLY ALSO TAKE PART'': ASK QUESTIONS ABOUT HOW ATTENDANCE COULD BE LIMITED, HOW THE AGENDA WOULD BE DECIDED, WHAT THE END RESULT WOULD BE ETC: AND GENERALLY EXPRESS SCEPTICISM.

PARSONS

Subject

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE U.S. SECRETARY FOR DEFENSE, MR. CASPAR WEINBERGER, AT THE PENTAGON AT 1500 HOURS ON FRIDAY 27 FEBRUARY 1981

Present

Prime Minister
Foreign and Commonwealth Secretary
HE Sir Nicholas Henderson, KCMG
Sir Robert Armstrong, KCB, CVO
Sir Michael Palliser, GCMG
Sir Frank Cooper, GCB, CMG
Mr. Julian Bullard, CMG
Mr. Bernard Ingham
Mr. Michael Alexander
Mr. George Walden, CMG
Air Marshal Sir Roy Austen-Smith
Mr. E. Benn
Mr. P.J. Weston

The Hon. Caspar Weinberger
The Hon. Frank Carlucci
Dr. Fred C. Iklé
Mr. Francis J. West
Brig. Gen. Carl Smith
Mr. Ed Streator
Mr. James Timberlake

* * * * * * *

Mr. Weinberger, welcoming the Prime Minister, said the special relationship had been very evident at dinner the preceding evening, which had been a warm and happy event. He was not aware of any differences between our two countries. He had just come from a meeting with the President to discuss the draft defence budget. The expected cost of their defence systems had risen by some $40 billion more than they had anticipated three months ago because it turned out that the inflation estimates for defence spending had been wrong for the past two years. Nevertheless they had found some $3.6b worth of savings which they would otherwise have had to request beyond what was already being asked for.

The Prime Minister said there would next week be a major debate in the House of Commons centering on Britain's strategic nuclear deterrent. What were the new Administration's plans for strategic nuclear weapons? Trident was absolutely vital for Britain, which intended to stay in the independent deterrent

/ business

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business (Mr. Weinberger indicated assent). Then there were cruise missiles and the neutron bomb - a term she wished had never been invented (Mr. Weinberger said his term for it was the low blast weapon). All these things involved difficult decisions. The Russians concentrated a tremendous amount of effort and research and it would be frightening if they were ever to get ahead with some new breakthrough, e.g. in ballistic missile defence.

Mr. Weinberger agreed the prospect was worrying. That was why the United States intended to spend a lot more over the next five years in central strategic systems, in general purpose forces, and in readiness. They needed a stronger ground-based missile. The currently proposed basing system for the MX involved 4,600 shelters and would cost $34b in current dollars. They certainly needed a new missile with enhanced accuracy and ten re-entry vehicles. The present basing for ICBMs was some 85 per cent vulnerable now to first strike. There were some seven different possible basing modes, all of them mobile. He personally was attracted to putting the new missiles on old surface ships which could move around and from which they could be put off and launched. He had asked a group of scientists headed by a Nobel Prize winner to report by June/July on alternatives. He hoped they might be able to come up with a less difficult and less costly solution which could be constructed more quickly. Meanwhile the programme for the missile itself would proceed: the commissioning of the report would involve no additional delay.

Dr. Ikle referred to land-basing. Perhaps the answer was to settle for one solution for the first few years which could be followed up later and if necessary with a difference approach. Referring to high-energy beam technology, he said there was no near-term breakthrough that was likely to frighten them. He was optimistic that they could come up with a mixed solution which would be less costly in money and environmental terms.

/ Mr. Weinberger

Mr. Weinberger said it was important to find a less controversial solution because lawyers could very easily exploit environmental objections in order to delay things. He was also looking at improved SLBMs, and ABM defences would have to be considered. The ABM treaty was up for review in 1982. He did not know whether they would proceed under that or not, but it would be one way of getting the necessary protection. He also referred to a new manned bomber. The B-1 was reasonably well designed, but there was also the possibility of a new high technology bomber which would be very much better. The problem was whether to fund the B-1 now or to wait for something better to come along. Thus they were looking for improvements in all legs of the strategic triad in order to redress the imbalance.

Lord Carrington asked whether there was any intention to alter the TNF modernisation decision. Mr. Weinberger said the Administration endorsed the December 1979 decision and did not wish to change it. But NATO now needed a stronger anti-tank weapon on the central front, when one considered that the Warsaw Pact had 47,000 tanks ranged against 12-13,000 on our side. Thus ERW was a possibility, since it was very effective. But this was not an issue within the Administration at the moment. He recognised that everyone was very nervous on this subject. The Prime Minister said that was because the Russians had won a propaganda battle. Lord Carrington said it was rather because the West had lost that battle. Mr. Weinberger said France supported ERW though the Netherlands and the Scandinavians did not. It was a much more effective anti-tank weapon than any that NATO now had. He would of course consult fully beforehand but in his opinion one ought to think about using it. President Carter's retreat had been "unbelievably unfortunate". The Prime Minister said that President Carter had got no help from Europe. A difficult argument that had to be faced over ERW was the claim that it lowered the nuclear threshold. Lord Carrington said the real problem was that it was regarded (and he meant this quite seriously) as "unsporting" to kill people but not damage property. Mr. Weinberger said one of the

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advantages of ERW was that one's own troops could move in safely behind it after use, much more quickly than they could do after ordinary fission weapons had been employed.

Sir Frank Cooper said one of the difficulties about the idea of putting MX to sea was the risk that it would rebound on the TNF decision and give people an excuse for claiming that there need be no land basing of new deployments in Europe. The United States and the UK knew this was a false analogy, but elsewhere the point would have force. Mr. Weinberger said he knew the argument and he was aware of the edginess about the December 1979 decision and the attempts in Europe to escape from it. The Prime Minister said she would put it rather differently. Most people in Europe knew that one had to have the TNF deployments. The important thing was to make it easier for European politicians to uphold this decision in public. She referred to the trend toward "nuclear pacifism"; people like Schmidt, Forlani, Cossiga had shown political courage over the decision and they would hold to it provided things were made easier for them e.g. by not introducing the complication of ERW.

Lord Carrington said that the arms control component of the December 1979 decision also mattered, not so much for the UK, but certainly for the FRG, Belgium and the Netherlands. He did not have any particular date in mind for talks, but they had to be undertaken sometime or the whole decision would come unstuck. It was for that reason that he had the same morning suggested to Secretary Haig that it would be reassuring to have an early meeting of the Special Consultative Group in NATO. Mr. Weinberger said that at his confirmation hearings he had explained why the Administration did not intend to be rushed into SALT negotiations immediately after 20 January as Senator Percy had suggested during his visit to Moscow. The Administration needed to get across to the Russians the message that there was a new approach. It was not a question of abandoning hopes for arms control negotiations but of acting from a position of strength. Lord Carrington said he realised that SALT negotiations on central strategic systems were for a longer timescale but he thought some move on TNF arms control would provide a tangible sign for the future. This would

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/be done in

be done in a number of ways. President Brezhnev's speech was, in some ways, encouraging. Mr. Weinberger said he agreed. In a sense he had been both surprised and pleased by Brezhnev's references to a possible summit. There should indeed be some signal of the fact that it was a two-track decision.

Referring to an earlier conversation with Sir Nicholas Henderson about the two-way street, Mr. Weinberger said he had a list of items to refer to. He would be strongly recommending to Congress to restore the funding for JP233. Rapier of course had been a success. The Administration were also going to buy AV8B. Mr. Carlucci observed that HMG too had a decision to make. Sir Frank Cooper asked whether the American decision was to fund AV8B for production (this appeared to evince signs of assent). Mr. Weinberger said Congress would himself decide on the new budget between now and October. He would be testifying on the Hill next week. The changes involved would be in effect make it a new draft defence budget. Mr. Carlucci said there should be no problem with AV8B but JP233 might be more difficult. Mr. Weinberger said he would testify that the Administration regarded it as a very effective system, but he had given up trying to explain the actions of Congress. JP233 was a very good weapon.

The Prime Minister referred to Searchwater and to Britain's technological expertise. Mr. Weinberger said that he realised that Britain was paying a large amount for Trident. The Prime Minister said we now had to earn the money to pay for it. She asked about 81mm mortar. Sir Frank Cooper explained this in greater detail. He thought it was a case of the "not invented here" syndrome. He urged that another look be taken at it. The UK had done a very good development programme which could save the Americans from having to reinvent it. Mr. Weinberger said his brief contained no reference to 81mm mortar. Mr. West said his impression was it was a problem of over-regulation. The army surgeon general had pronounced that the overblast was too great. But Mr. West added that "I think we can be positive". The Prime Minister referred in quick succession to Searchwater, Wavell, Giant Viper and ship stabilisers and Sir Frank Cooper added detail, emphasising that in Searchwater we were well ahead of Americans. The Prime Minister

/raised

raised Stingray which she said had been very expensive in R & D. Sir Frank Cooper said this was going well. Some parts of the Stingray programme would be worth the Americans having a look at, in particular the head of Stingray. There ought to be a basis for collaboration in torpedoes. The Prime Minister referred to the Scorpion light tank. Sir Frank Cooper said there was an unresolved difference between the US army with its preference for wheeled vehicles and the British army with its preference for track vehicles to operate in difficult country. The Prime Minister raised the Hawk jet trainer. Mr. Weinberger said he understood the necessity for trying to equalise purchases. The Prime Minister spoke of the need to avoid overlap and duplication in defence R & D. The UK was really doing more such R & D than we ought to or could afford. She hated to raise a whole shopping list but sales would help us all.

After a reference to the 3 per cent real increase (which she emphasised Britain would be exceeding this year), the Prime Minister turned to the question of getting value for money in Alliance defence equipment. She was worried about this and did not quite know how to open up the subject. When she had broached the matter some months earlier with Helmut Schmidt he had misunderstood her to be describing an argument for spending less on defence. This was not her objective at all. She remained of the view that one ought to take a look at this. Britain for example was rather good at both naval and air tasks and also made a great effort on the central front. The whole subject was very complicated because the politics of it were that one had to keep considerable forces in the FRG. But because Britain had put so much into forward defence on the central front, we would stand to lose a lot if the Russians came across there. The question arose whether there would then be enough to cover the UK. Should one therefore put more into defence of the home base? In naval terms Britain contributed 30 per cent of the ships under SACLANT's command. She was unsure how this whole discussion should be brought out, but we ought to take a look at it. Her impression was that NATO looked better than the detailed reality would justify.

Mr. Weinberger said the US faced the same problem in competing demand between its own three armed services. One should make every effort to urge the virtues of standardisation, rationalisation and interoperability. Lord Carrington said NATO countries together contributed greater resources to defence than the Warsaw Pact and yet seemed to get quite a lot less out of it. This was because everybody wanted to do everything. He agreed with the Prime Minister that now might not be the right time to raise it, but if we continued to avoid addressing the question seriously the Alliance would be in danger of lacking credibility. The Prime Minister said that she agreed that the matter needed careful handling but it must be addressed somehow. Mr. Weinberger said his hope was that if the United States under the new Administration could show itself a stronger, more dependable and more consistent ally, this would improve the overall state of affairs, and gradually people would come round to understanding the need for greater effort in defence. He agreed that nuclear pacifism was a worry. Sir Frank Cooper referred to collaboration in air-to-air missiles. The package concept made a lot of sense, saved money and brought people together in a fruitful way. Mr. Weinberger agreeing, referred to his forthcoming attendance at the Nuclear Planning Group and Defence Planning Committee and expressed the wish that there be further consultation before then with UK officials. He was glad that Mr. Nott would soon be visiting Washington.

The Prime Minister referred to the Rapid Deployment Force. Britain committed almost all her resources to NATO, unlike the French who as a result had added flexibility. How was US thinking progressing? Mr. Weinberger said he had spent a good deal of time looking at this whole subject with Mr. Carlucci. He was not very satisfied with the previous Administration's exposition of the concept. He certainly agreed that the US needed the capability to project force. So far as concerned South West Asia, he thought it essential that the US and the UK should act in concert as far as possible. There were some details that needed to be resolved e.g. the command question for the RDF - should it be assigned to



/the European

the European command, or would this cause alarm? He was not of course suggesting that the job be done by NATO as such. The French had expressed a great readiness to act outside Europe. It was important to get a suitable and effective command to facilitate the projection of US and other forces. Lord Carrington said that it was easy for the French since their forces were not assigned to NATO. One way to make it possible for the UK to contribute would be to get the Federal Republic and others to accept that if for example the UK were to earmark some of its forces for use elsewhere, they themselves would have to make good the gap. Mr. Weinberger agreeing, said the United States did not formally assign or draw down NATO forces for the RDF but gave the forces in question specialist training and the necessary command structure. Mr. Carlucci said he was in favour of a broader collaboration taking place between the US and its Allies in the out-of-area region itself. Mr. Weinberger said it was important to keep the Gulf area friendly and free from Soviet interference. If some such agreement could be worked out with the FRG, that would be very helpful. As he had recently observed for himself the troop readiness of the RDF was high, although airlift was not as strong as it should be. He favoured taking UK/US co-ordination further and quickly.

The Prime Minister said the need for quick action was brought out by the suddenness of the Iraq/Iran war which so far as she knew had not been foreseen in any of the available intelligence. She recalled that three days had been spent trying to stop that war from spreading when Lord Carrington was last in Washington. Mr. Weinberger said he assumed that no such intelligence had been available. Lord Carrington said when he had been Defence Secretary in 1970 he had commissioned an inquiry into the 54 occasions since World War II in which there had been a need to use British troops. Only one of these had been foreseen. The Prime Minister asked whether the US was seeking a permanent presence in the area. Mr. Weinberger said he favoured some kind of permanent presence if it could be made locally acceptable. Oman was a start. There was of course Diego Garcia but this was a long way off. The F15 enhancement for the Saudis was intended to make Saudi Arabia more amenable. There was not yet a US military presence as such in

Saudi Arabia, though the AWACS had been one step. Prepositioning could help but not as much as a good solid base. Or should he say facilities? Lord Carrington said bases were a different matter. Mr. Weinberger said he was talking about a place where one could land and operate and get troops and ships in. This would offer a reassurance against further adventurism from the Soviet quarter. The Prime Minister said that if local resolution were not to be weakened she was inclined to agree that nothing short of a permanent presence would do. Mr. Weinberger referred to US acquiescence over Angola and Ethiopia, the comparatively limited response to Afghanistan and now the threat to Poland and El Salvador. He hoped the message would be getting across to the Russians. The Administration would be out to raise two additional carrier battle groups. Sir Frank Cooper stressed the need for continuing bilateral contacts. Mr. Weinberger concurred and repeated that he had always been an advocate of the special relationship. He was delighted with Britain's efforts and wished others would follow the British example. The Prime Minister said we were very grateful about the Trident deal which was absolutely vital. One piece of evidence for growing awareness of the threat in the UK was the demand to spend more on civil defence. Mr. Carlucci said if the debate shifted from deterrence to war fighting and emphasis on civil defence, we would be in for trouble. The Prime Minister referred to the immoral attitude of those in the Netherlands who wished to withdraw from the responsibility of making their own defence efforts. Mr. Weinberger said America too had been through its bouts of isolation. He hoped they would never go back to that. He looked forward greatly to visiting London probably in connection with his visit to the NPG in April.

The meeting ended at 1600 hours.

2 March 1981

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between the Prime Minister & the U.S. Secretary for Defence,

**DRAFT** RECORD OF A MEETING AT THE PENTAGON AT 3 PM on FRIDAY 27 FEBRUARY 1981

Type 1 + Mr Caspar Weinberger,

To:-

From

Telephone No. Ext.

Department

Type for Signature

Present:

| | |
|---|---|
| Prime Minister | The Hon Caspar Weinberger |
| Foreign & Commonwealth Secretary | The Hon Frank Carlucci |
| HE Sir Nicholas Henderson KCMG | Dr Fred C Iklé |
| | Mr Francis J West |
| Sir Robert Armstrong KCB CVO | Brig Gen Carl Smith |
| Sir Michael Palliser GCMG | Mr Ed Streator |
| Sir Frank Cooper GCB CMG | Mr James Timberlake |
| Mr Julian Bullard CMG | |
| Mr Bernard Ingham | |
| Mr Michael Alexander | |
| Mr George Walden CMG | |
| Air Marshal Sir Roy Austen-Smith | |
| Mr E Benn | |
| Mr P J Weston | |

1. Mr Weinberger welcoming the Prime Minister said the special relationship had been very evident at dinner the preceding evening, which had been a warm and happy event. He was not aware of any differences between our two countries. He had just come from meeting with the President to discuss the draft defence budget. The expected cost of their defence systems had risen by some $40 billion more than they had anticipated three months ago because it turned out that the inflation estimates for defence spending had been wrong for the past two years. Nevertheless they had found some $3.6b worth of savings which they would otherwise have had to request beyond what was already being asked for.

/2.



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2. The Prime Minister said there would be a major debate in the House of Commons centering on Britain's strategic nuclear deterrent. What were the new Administration's plans for strategic nuclear weapons? Trident was absolutely vital for Britain, which intended to stay in the independent deterrent business (Mr Weinberger indicated assent). Then there were cruise missiles and the neutron bomb - a term she wished had never been invented (Mr Weinberger said his term for it was the low blast weapon). All these things involved difficult decisions. The Russians concentrated a tremendous amount of effort and research and it would be frightening if they were ever to get ahead with some new breakthrough eg in ballistic missile defence.

3. Mr Weinberger agreed the prospect was worrying. That was why the United States intended to spend a lot more over the next 5 years in central strategic systems, in general purpose forces, and in readiness. They needed a stronger ground-based missile. The ~~present~~ currently proposed basing system for the MX involved 4,600 shelters and would cost $34b in current dollars. They certainly needed a new missile with ~~an~~ enhanced ~~warhead~~ accuracy and ten re-entry vehicles. The present basing for ICBMs was some 85% vulnerable now to first strike. There were some 7 different possible basing modes, all of them mobile. He personally was attracted to putting the ~~a~~ new missiles on old surface ships which could move around and from which they could be put off and launched. He had asked a group of scientists headed by a Nobel Prize winner to report by June/July on alternatives. He hoped they might be able to come up with a less difficult and less costly solution which could be constructed more quickly. Meanwhile the programme for the missile itself would proceed.

4. Dr Iklé referred to land-basing. Perhaps one solution ~~might be to adapt~~ for the first few years which could be followed up ~~with other steps~~ (after the commissioning of the report) with a different approach if necessary. Referring to high-energy beam technology, he said there was no near-term breakthrough that was likely to frighten them. He was optimistic that they could come up with a mixed solution which would be less costly in money and environmental terms. ~~It might not look too difficult to us, but it would to the people in Utah~~

5. Mr Weinberger said it was important to find a less controversial solution because lawyers could (very early explore environmental objections in order to) delay things. ~~very easily if they wanted to~~. He was also looking at improved SLBMs, and ABM defences would have to be considered. The ABM treaty

/was



next week

should involve no additional delay.

the answer was to settle for

was up for review in 1982. He did not know whether they would proceed under that or not, but it would be one way of getting the necessary protection. He also referred to a new manned bomber. The B-1 was reasonably well designed, but there was also the possibility of a new high technology bomber which would be very much better. The problem was whether to fund the B-1 now or to wait for something better to come along. Thus they were looking for improvements in all legs of the strategic triad in order to redress the imbalance.

6. Lord Carrington asked whether there was any intention to alter the TNF modernisation decision. Mr Weinberger said the Administration endorsed the December 1979 decision and did not wish to change it. But NATO now needed a stronger anti-tank weapon on the central front, when one considered that the Warsaw Pact had 47,000 tanks ranged against 12-13,000 on our side. Thus ERW was a possibility, since it was very effective. But this was not an issue within the Administration at the moment. He recognised that everyone was very nervous on this subject. The Prime Minister said that was because the Russians had won a propaganda battle. Lord Carrington said it was rather because the West had lost that battle. Mr Weinberger said France supported ERW though the Netherlands and the Scandinavians did not. It was a much more effective anti-tank weapon than any that NATO now had. He would of course consult fully beforehand but in his opinion one ought to think about using it. ~~The background of~~ President Carter's ~~experience with the Germans~~ retreat had been "~~very~~ unbelievably unfortunate." The Prime Minister said that President Carter had got no help from Europe. A difficult argument that had to be faced over ERW was the claim that it lowered the nuclear threshold. Lord Carrington said the real problem was that ~~people~~ it was regarded (and he meant this quite seriously) as "unsporting" to kill people but not damage property. Mr Weinberger said one of the advantages of ERW was that one's own troops could move in safely behind it after use, much more quickly than they could do after ordinary fission weapons had been employed.

7. Sir Frank Cooper said one of the difficulties about the idea of putting MX to sea was the risk that it would rebound on the TNF decision and give people an excuse for claiming that there need be no land basing of new deployments in Europe. The United States and the UK knew this was a false analogy, but elsewhere the point would have force.



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Mr Weinberger said he knew the argument and he was aware of the edginess about the December 1979 decision and the attempts in Europe to escape from it. The Prime Minister said she would put it rather differently. Most people in Europe knew that one had to have the TNF deployments. The important thing was to make it easier for European politicians to uphold this decision in public. She referred to the trend toward "nuclear pacifism"; people like Schmidt, Forlani, Cossiga had shown political courage over the decision and they would hold to it provided things were made easy for them by not introducing the complication of ERW.

8. Lord Carrington said that the arms control component of the December 1979 decision also mattered, not so much for the UK, but certainly for the FRG, Belgium and the Netherlands. He did not have any particular date in mind for talks, but they had to be undertaken sometime or the whole decision would come unstuck. It was for that reason that he had the same morning suggested to Secretary Haig that it would be reassuring to have an early meeting of the Special Consultative Group in NATO. Mr Weinberger said that at his confirmation hearings he had explained why the Administration did not intend to be rushed into Salt negotiations immediately after 20 January as Senator Percy had suggested during his visit to Moscow. The Administration needed to get across to the Russians the message that there was a new approach. It was not a question of abandoning hopes for arms control negotiations but of acting from a position of strength. Lord Carrington said he realised that Salt negotiations on central strategic systems were for a longer timescale but he thought some move on TNF arms control would provide a tangible sign for the future. Mr Weinberger said he agreed. In a sense he had been both surprised and pleased by Brzezhnev's references to a possible summit. There should indeed be some signal of the fact that it was a two-track decision.

9. Referring to an earlier conversation with Sir Nicholas Henderson about the two-way street, Mr Weinberger said he had a list of items to refer to. He would be strongly recommending to Congress to restore the funding for JP233. Rapier of course had been a successs. The Administration were also going to buy AV8B. Mr Carlucci observed that HMG had a decision to make. Sir Frank Cooper asked whether the American decision was to fund for production (this appeared to evince signs of assent). Mr Weinberger said Congress

himself

would decide on the new budget between now and October. He would be testifying on the Hill next week. The changes involved would in effect make it a new draft defence budget. Mr Carlucci said there should be no problem with AV8B but JP233 might be more difficult. Mr Weinberger said he would testify that the Administration regarded it as a very effective system, but he had given up trying to explain the actions of Congress. JP233 was a very good weapon.

10. The Prime Minister referred to Searchwater and to Britain's ~~prowess in the realm of smart~~ technological expertise. Mr Weinberger said that he realised that Britain was paying a large amount for Trident. The Prime Minister said we now had to earn the money to pay for it. She asked about 81mm mortar. Sir Frank Cooper explained this in greater detail. He thought it was a case of the "not invented here" syndrome. He urged that another look be taken at it. The UK had done a very good development programme which could save the Americans from having to reinvent it. Mr Weinberger said his brief contained no reference to 81mm mortar, ~~and he was therefore a bit lost~~. Mr West said his impression was it was a problem of over-regulation. The army surgeon general had pronounced that the overblast was too great. Mr West added that "I think we can be positive". The Prime Minister referred in quick succession to Searchwater, Wavell, Giant Viper and ship stabilizers and Sir Frank Cooper added detail, emphasising that in Searchwater we were well ahead of Americans. The Prime Minister raised Stingray which she said had been very expensive in R & D. Sir Frank Cooper said this was going well. Some parts of the Stingray programme would be worth the Americans having a look at, in particular the Head of Stingray. There ought to be a basis for collaboration in torpedoes. The Prime Minister referred to the Scorpion light tank. Sir Frank Cooper said there was an unresolved difference between the US army with its preference for wheeled vehicles and the British army with its preference for track vehicles to operate in a difficult country. The Prime Minister raised the Hawk jet trainer. Mr Weinberger said he ~~can accept~~ understood the necessity for trying to equalize purchases. The Prime Minister spoke of the need to avoid overlap and duplication in defence R & D. The UK was really doing more such R & D than we ought to or could afford. She hated to raise a whole shopping list but sales would help us all.

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11. After a reference to the 3% real increase ~~question~~ (which she emphasised Britain would be exceeding this year), the Prime Minister turned to the question of getting ~~best~~ value for money in Alliance defence expenditure. She was worried about this and did not quite know how to open up the subject. When she had broached the matter some months earlier with Helmut Schmidt he had misunderstood her to be describing an argument for spending less on defence. This was not her objective at all. She remained of the view that one ought to take a look at this. Britain for example was rather good at both naval and air tasks and also made a great effort on the central front. The whole subject was very complicated because the politics of it were that one had to keep considerable forces in the FRG. But because Britain had put so much into forward defence on the central front, we would stand to lose ~~the~~ a lot if the Russians came across there. ~~and~~ The question then arose whether there would be enough to cover the UK. Should one therefore put more into defence of the home base? In naval terms Britain contributed 30% of the ships under Saclant's command. She was unsure how this whole discussion should be brought out, but we ought to take a look at it. Her impression was that NATO looked better than the detailed reality would justify.

12. Mr Weinberger said the US faced the same problem in ~~the~~ competing demand between its own three armed services. One should make every effort to urge the virtues of standardisation, rationalisation and interoperability. Lord Carrington said NATO countries together contributed greater resources to defence than the Warsaw Pact and yet seemed to get quite a lot less out of it. This was because everybody wanted to do everything. He agreed with the Prime Minister that now might not be the right time to raise it, but if we continued ~~not~~ to avoid addressing the question seriously the Alliance would be in danger of lacking credibility. The Prime Minister said that she agreed that the matter needed careful handling but it must be addressed somehow. Mr Weinberger said his hope was that if the United States under the new Administration could show itself a stronger, more dependable and more consistent ally, this would improve the overall state of affairs, and gradually people would come round to understanding the need for greater effort in defence. He agreed that nuclear pacifism was a worry. Sir Frank Cooper referred to collaboration in air-to-air missiles. The package concept made a lot of sense, saved

money and brought people together in a fruitful way. Mr Weinberger agreeing, referred to his forthcoming attendance at the Nuclear Planning Group and Defence Planning Committee and expressed the wish that there be further consultation before then with UK officials. He was glad that Mr Nott would soon be visiting Washington.

13. The Prime Minister referred to the Rapid Deployment Force. Britain committed almost all her resources to NATO, Unlike the French who as a result had added flexibility. How was US thinking progressing? Mr Weinberger said he had spent a good deal of time looking at this whole subject with Mr Carlucci. He was not very satisfied with ~~the way in which~~ the previous Administration ~~had expanded~~ explaining the concept ~~But~~ He certainly agreed that the US needed the capability to project force. So far as concerned South West Asia, he thought it essential that the US and the UK should act in concert as far as possible. There were some details that needed to be resolved e.g. the command question for the RDF - should it be assigned to the European command, or would these cause alarm? He was not of course suggesting that the job be done by NATO as such. The French had expressed a great readiness to act outside Europe. It was important to get a suitable and effective command to facilitate the projection of US and other forces. ~~The Prime Minister asked how this could be done.~~ Lord Carrington said that ~~in NATO terms one way~~ would be to get the Federal Republic and others to accept that if for example the UK were to earmark some of its forces for use elsewhere, they themselves would have to make good the gap. Mr Weinberger agreeing, said the United States did not formally assign or draw down NATO forces for the RDF but gave the forces in question specialist training and the necessary command structure. Mr Carlucci said he was in favour of a broader collaboration taking place between the US and its Allies in the out-of-area region itself. Mr Weinberger said it was important to keep the Gulf area friendly and free from Soviet interference. If some such agreement could be worked out with the FRG, that would be very helpful. As he had recently observed for himself the troop readiness of the RDF was high, although airlift was not as strong as it should be. He favoured taking UK/US coordination further and quickly.

it was easy for the French since their forces were not assigned to NATO. One way to make it possible for the UK to contribute

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14. The Prime Minister said the need for quick action was brought out by the suddenness of the Iraq/Iran war which so far as she knew had not been foreseen ~~by~~ in any of the available intelligence. She recalled that three days had been spent trying to stop that war from spreading when Lord Carrington was last in Washington. Mr Weinberger said he assumed that no such intelligence had been available. Lord Carrington said when he had been Defence Secretary in 1970 he had commissioned an inquiry into the 54 occasions since World War II in which there had been a need to use British troops. Only one of these had been foreseen. The Prime Minister asked ~~about the need for a prominent~~ whether the U.S. was seeking a permanent presence in the area. Mr Weinberger said he favoured some kind of permanent presence if it could be made locally acceptable. Oman was a start. There was of course Diego Garcia but this was a long way off. The F15 enhancement for the Saudis was intended to make Saudi Arabia more amenable. There was not yet a US military presence as such in Saudi Arabia, though the AWACS had been one step. Pre-positioning could help but not as much as a good solid base. Or should he say facilities? Lord Carrington said bases were a different matter. Mr Weinberger said he was talking about a place where one could land and operate and get troops and ships in. This would offer a reassurance against further adventurism from the Soviet quarter. The Prime Minister said that if local resolution were not to be weakened she was inclined to agree that nothing short of a permanent presence would do. Mr Weinberger referred to US acquiescence over Angola and Ethiopia, the comparatively ~~little~~ limited response to Afghanistan and now the threat to Poland and El Salvador. He hoped the message would be getting across to the Russians. The Administration would be out to raise two additional carrier battle groups ~~and was aiming at a 600 ship navy~~. Sir Frank Cooper stressed the need for continuing bilateral contacts. Mr Weinberger concured and repeated that he had always been an advocate of the special relationship. He was delighted with Britain's efforts and wished others would follow the British example. The Prime Minister said we were very grateful about the Trident deal which was absolutely vital. One piece of evidence for growing awareness of the threat in the UK was the demand to spend more on civil defence. Mr Carlucci

?

said if the debate shifted from deterrence to war fighting and emphasis on civil defence, we would be in for trouble. The Prime Minister referred to the immoral attitude of those in the Netherlands who wished to withdraw from the responsibility of making their own defence efforts. Mr Weinberger said America too had been through its bouts of isolationism. He hoped they would never go back to that. He looked forward greatly to visiting London probably in connection with his visit to the NPG in April. 11/15 The meeting ended at 4 pm.

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NOTE FOR THE FILE

2 March 1981

PRIME MINISTER - HIGH TECHNOLOGY AND INVESTMENT

BACKGROUND

On 27 February I escorted the Prime Minister on a visit to Genex Corporation, a genetic engineering company in Rockville, Maryland. After touring the laboratories, the Prime Minister had a discussion with the President of Genex, Dr. J Leslie Glick and his Scientific Director, Dr. David A Jackson. Sir Robert Armstrong, Secretary to the Cabinet and Derek Thomas, Commercial Minister, British Embassy, were also present. I have recorded highlights of the discussion since it related to high growth - high technology industry and constraints on investment and growth; subjects of special interest to the Prime Minister.

STARTING UP

Dr. Glick described how he formed Genex in 1977 while still working as an academic. He raised some of the money himself and obtained the rest from a venture capital company. Once the company had started and had shown its ability to develop new products there was no shortage of further venture capital. The venture capital companies are primarily looking for growth in the equity value, i.e. in capital gains.

INVESTMENT

Since high technology inevitably goes with high risk less than one in ten of the new ventures survive and succeed. Thus any investment in a new venture has to take account of this large number of failures. The investment capital companies are looking for a twentyfold gain in capital value over five years, because of this. The Prime Minister appreciated the point and said "but it is exciting, and better than backing horses." Dr. Glick stressed that because in the United States the aim is to get capital appreciation, there is a need for reduced taxes on this. The capital gains tax in the US was reduced from 48% to 28% in 1978, and this led to a big increase in the flow of venture capital. The Prime Minister pointed out that in Britain, due to changes in last year's Budget, the top rate of capital gains tax is only 30%, so this should not be a constraint. But she informed Dr. Glicks that his message was "received and understood."

STOCK OPTIONS

Dr. Glick explained that he has managed to recruit very high grade staff mainly by offering stock options. This is more important than high salaries, but requires a low level of tax to get the maximum leverage.

HARNESSING ACADEMICS

It is difficult to recruit the very best academics from universities to get them to work full-time in industry. If they are tenured and in the best universities, they do not want to leave a comfortable and rewarding existence. If they are not tenured, it is easier to attract them by offering financial rewards in the form of equity participation. Dr. Jackson pointed out that he is one of the few tenured academics who have been recruited to industry in the US by this means. He believes that it is not possible for a good scientist to remain in a university and give a full contribution to a company.

PUBLIC FUNDING

Dr. Glick stressed that there is a necessity for considerable public funding in genetic engineering. He believes that this should be concentrated on fundamental research in the universities and elsewhere. He showed figures indicating that the return to the public of such public investment is very large. He claimed that this return comes in the shape of great reductions in the cost of pharmaceutical products and in a yield to the Government in corporate taxes. He gave the Prime Minister a copy of a chapter he has written for a book on the subject of the economics of genetic engineering. The chapter is entitled "Impact of Recombinant DNA Technology on the Economy" and the book is Volume II of "Biomedical Scientists and Public Policy" to be published later this year by Plenum Press, Editor Dr. H Hugh Fudenberg. Since this book has not yet been published, he asked us to restrict circulation of his text until publication. Dr. Jackson gave the Prime Minister a copy of his latest book which deals with the social aspects of genetic engineering, entitled "The Recombinant DNA Debate."

John Thompson

J K L Thompson
Counsellor, STD

Mr C A Whitmore, PPS to Prime Minister

cc Minister (Commercial)
Minister (Economics)
Mr N Witney, Private Office
Dr D Davies, Ch Sc Eng, D Ind
Dr L Goldstone, D. Ind
H of C

Mr Alexander.

X I hope the French know what they are doing. I am not absolutely sure that the Egyptians would prevail in a head on collision. I would have thought it more profitable to cause trouble in Chad.

Secretary of State's second private discussion with Mr Haig: 27 February 1981

Libya/Chad

X Haig said that the French were inciting the Egyptians to move against Qadhafi. The Saudis, to whom the French were increasingly close, were thinking in the same direction.

Middle East

Haig listened to the Secretary of State's exposition of our thinking. His mind was clearly not closed, though he said emphatically that he could not deliver politically either on a Palestinian state or negotiations with the PLO.

China

Haig said that he had inherited from Reagan's election campaign a difficult situation over US relations with Taiwan, and that it would take time to mend America's fences with Peking.

Arms Control

Lord Carrington explained the importance in a European context for continuing to show interest in arms control. Haig took the point.

State Department/White House Relations

Haig was even more emphatic in his private discussion with the Secretary of State than in the formal session of the talks at the State Department about his determination to be the President's main adviser on foreign policy. He told Lord Carrington that if his authority were challenged (eg from the White House or the Defense Department) he would resign.

J. J. Walden

(G G H Walden)

2 March 1981

THE APPEARANCE OF THE PRIME MINISTER, MRS MARGARET THATCHER,

ON THE PBS PUBLIC AFFAIRS PROGRAMME "THE MACNEIL-LEHRER REPORT"

27 FEBRUARY 1981, 7.30 - 8 PM

Tonight from Blair House in Washington a conversation with British Prime Minister, Margaret Thatcher, following her talks with President Reagan.

Interviewer: British Prime Minister, Margaret Thatcher finished two days of talks today with President Reagan and U.S. officials impressed, she said, with the striking similarity between our aims and policies. Mrs. Thatcher is the first major Allied leader to visit the new President and in terms of political and economic philsophy, probably the most sympathetic. They discussed a wide range of issues, from how to respond to Soviet Summit overtures, to the U.S. policies in El Salvador. Earlier this afternoon Jim Lehrer and I discussed some of these issues with Mrs. Thatcher at Blair House.

Interviewer: Prime Minister Thatcher welcome. A short while ago it was announced that you are delaying your departure from Washington in the morning to have a special unscheduled second session with President Reagan. Has something urgent arisen, or something special or what?

Prime Minister: No ~~Well~~ I think it is a lovely idea for my husband and me to go around to the White House to say goodbye and to say how very much we have enjoyed the trip....How valuable we have found the whole visit. How very much we have loved it.

And how we hope that this really will usher in a new era of understanding and cooperation. It isn't something sudden, surprising, questionable. It's just really rather wonderful hospitality. And we are delighted.

Interviewer: We thought that maybe something had come up on El Salvador or something like that. But that's not the case - right?

Prime Minister: I don't think we would be so ham-handed as to do it that way if it had.

Interviewer: Well said! On El Salvador, do you have any doubts now that the Soviet bloc through Cuba and Nicaragua are supplying arms to the leftist guerrillas.

Prime Minister: We have no doubt that there are substantial supplies of arms getting there and that we are pretty certain where they come from. We have no doubt that this is a gross interference with the internal affairs of El Salvador. That everything must be done to try to stop that interference. There are, of course, terrible things going on in El Salvador. If that interference can be stopped, then obviously it's for the people there to sort out their own future in their own way. And we hope that naturally they will come to a fully democratic system.

Interviewer: In your conversations with the President, Secretary Haig and others, were the full range of options that could be employed to stop this outside interference, worse they gone over with you?

Prime Minister: No, actually the proportion of questions I have had on El Salvador from interviewers far exceeds the proportion of time we spent on discussing this particular matter. We did,

of course, talk about it. We talked about a lot of other things as well.

Interviewer: Why didn't you spend more time talking about El Salvador?

Prime Minister: Because there were a lot of other things to talk about as well.

Interviewer: It's not that important then, in the total scheme of things?

Prime Minister: No, I think you are trying to grope for something which one might respectfully say so, some meaning that isn't there. We have a lot of things to talk about. There is the whole of East-West relationship and summitry as you said. There is the Middle East. There are things like Namibia. There are things like NATO. There is the defence effort we are making towards NATO. There is the approach to the economy because, you know, however much you want to do, you just simply can't do it all unless you have a good, strong economy. The United States is a very strong economy and its underlying strength, and President Reagan naturally wishes to mobilise that strength. Now if you take all of those including El Salvador and Central America and some of the things in the Caribbean, it would get things out of perspective if you were to take one thing and devote a fantastic amount of time to it at the expense of the other issues.

Interviewer: Well we don't want to devote a fantastic amount of time to it but I would like to grope a little further.

Prime Minister. Well -- grope away! I assure you, I am very good, you know, at giving you the answer I want to give.

Interviewer: I am sure you are! If the United States

decided to give further military aid to the junta in El Salvador, would it have Britain's support?

Prime Minister: You are asking me to go further, either than I have been asked to go or than I have any reason to think the President wishes to go. If he has he has not told me. ~~I think~~ We issued a statement just before ~~me~~ we came here saying quite clearly that from the evidence we have seen, what was going on was an unwarranted interference in the affairs of El Salvador. The first thing is to try to stop that interference. It's not for us then to say how El Salvador should determine her own affairs. It is a matter for us. We have to try to stop the outside interference, to try to secure that it is stopped. After all the whole of our approach you know to Poland and of course to Afghanistan will be that each country must determine its own future. And have the right to determine its own destiny. And that we must try to stop any outside interference. Once that's done it's for them, not for us.

Interviewer: Well I had a couple of reasons for asking. One was that before that statement that you referred to, the Foreign Office, in the name of your Government, issued a statement on February 19th saying that it was your Government's policy not to arm dubious juntas in the area.

Prime Minister: The first thing is to try to stop the rather large supply of arms that seems to be getting through to the guerrillas. There are things that are going on in El Salvador I don't think anyone would defend. The ordinary people are suffering and suffering a great deal. If one can somehow get rid of the weapons through which those people are suffering, that will be a tremendous step forward.

Interviewer: The other reason I had for asking is that two at least of your Allies in the European Community, France and West Germany, have spoken out in favour of a negotiated political settlement through talks rather than a military solution, and I wondered if you disagreed with that?

Prime Minister: I can't speak for France or Germany. But if we can stop the arms, then it is again for the people of El Salvador. We mustn't interfere too much with what other people are doing. They must be about to ~~from to~~ live their own way of life, but to work it out peaceably. Now they are not being able to do that at the moment because of the arms which are getting there and because of the guerrilla activities. So it seems to be so abundantly clear what you have to try to do to stop that supply, to let them try to sort out their own affairs.

Interviewer: We are going to get off of this in a moment, I promise you. But I have got to pursue one other .....

Prime Minister: You may go on pursuing..... . We'll have lots of questions and my answer won't change.

Interviewer: What about Cuba specifically? The Secretary of State, Alexander Haig, said today that the United States was prepared to stop the arms flow at the source - meaning Cuba. Asked what that meant and what kind of steps would be taken, because you have said many times now that the important thing is to stop the flow of arms. Would you support the United States if it took some action against Cuba? If that was designed to stop the flow of arms?

Prime Minister: I am certain of two things. First that the United States has promised to consult us over any further developments and that even when we are consulted we owe the United States our

judgement. What our judgement is will depend upon the circumstances. And I'll wait until the time and the circumstances to give it. And that is the only wise answer I can give you.

Interviewer: Certainly. Do you support the basis thrust of what the Reagan Administration is doing in this matter ~~which has~~..... apparently the phrase being used here is that the Reagan Administration is drawing the line with the Soviet Union in El Salvador. Do you support that basic.....

Prime Minister: I think you are asking me the same question in a different way. And my answer will be the same one which I have already given.

Interviewer: Will I thought it was a little different in terms of the relationship with the Soviet Union, that to stand up to the Soviet Union and say 'No more' And no more in this case means El Salvador.

Prime Minister: We don't know precisely where the arms are coming from. I believe that the United States probably has a pretty good idea where some of them are coming from. But not we do know ~~know~~ precisely. And the United States will know exactly where to try to stop that supply of arms. That must be done first. In politics you have to take steps, one by one. If you try to take them all together, first you will alter things with the first step. And then your last answer will not be appropriate. And it is absolutely wrong to try to commit yourself to circumstances which have not yet occurred because if you are not careful you can create situations by unwise replies. Now by the time you have been in the answering business as long as I have, you do try not to do that.

Interviewer: What is your view now on what President Reagan should do about the invitation from Mr. Brezhnev to sit down at a Summit meeting?

Prime Minister: That invitation came in a very, very long and detailed speech. You know they make much longer speeches than we do. Thank goodness we are shorter! Very long, it had a lot of points in it. Each one needs to be properly considered, an answer prepared and a whole strategy prepared as to what reply to give. I would have thought a lot more of that speech and the invitation to a Summit, had it been accompanied by a withdrawal of some forces, preferably all of the Soviet forces from Afghanistan.... it was not... the fact that it was not, obviously influences me in the way I would look at that invitation. May I say one thing about Summitry. There is somehow a feeling, particularly in the Western world, which so loves peace - so peace-loving - that it assumes that everyone else is peace-loving. And there is a feeling that all you have got to do is to get round a table, talk about things, the goodwill will come out, and everything in the garden will be lovely after that. That is not necessarily so. You are dealing with a very shrewd person, a very careful statement. And you must prepare your reply, first to those statements and secondly bearing in mind that on the ground things have not changed one whit. The same number of soldiers in Afghanistan. The same number of SS-20s targetted on Europe. The same number of inter-ballistic missiles. The same superiority and conventional forces in Europe. None of those things has changed. It will take time to consider this and to prepare a reply. And it would be wise to take it. After all, the comments that you or I make will die. An action of the Presidents will live to be cross-examined for a very long time. And it must be right.

Interviewer: Would you advise making some gesture of withdrawal from Afghanistan a condition for a Summit meeting?

Prime Minister: I am not going to start to lay down conditions at the moment. That, too, has to be considered. And ~~we~~ you cannot close ~~out~~ off options or pre-empt positions. ~~It is obvious~~ Obviously we have all said that the occupation of Afghanistan is totally unacceptable. It is a whole independent nation being kept down under a government it does not want. Being kept there by Soviet armed forces. We simply cannot tolerate that.

Interviewer: So it would be very odd to enter a high-level negotiation with a nation, another Superpower, which was still perpetrating a totally unacceptable.....

Prime Minister: Well, we have to say this is totally unacceptable. And that is a fact which we have to consider in how ~~we~~ do you reply. The invitation is scarcely out of President Brezhnev's mouth. It just isn't wise to dash into a reply. It's all right for you to dash into comment. But any single thing which we say, will be analysed very carefully. And it might change the situation. And therefore you must get the reply right.

Interviewer: Is your Government optimistic now that Soviet military intervention in Poland can be avoided. How do you assess that danger now?

Prime Minister: One never knows. It's very very unwise to assume that the danger is wholly passed. What you have seen in Poland is something quite new in the Communist world. After all Communism is total, central control. Every action determined by government. No such thing as a morality determined by ethics. Only a morality of what is politically right and politically wrong for

the expediency of the moment determined by the government. Total, central control. What you have seen in Poland is a new ~~sense~~ source of power arising. It is not just the kind of thing that you sometimes get when you get a revolutionary movement - an uprising of people wanting to take over central control. ~~[illegible]~~ It is not that. It is their being a Communist government, a new source of power arising in the state. That has never happened in a Communist country. It will substantially modify Communist control. Now, I have not the slightest shadow of a doubt that the Soviet Union hopes this new centre of power can somehow be absorbed and neutralised, and is probably watching events as closely as we are. We are saying again, just as in the same way as we were previously over El Salvador, Poland must be allowed to work out her own destiny, in her own way. It is absolutely vital that she does so. But it is a very interesting phenomonen. And I have the impression that the whole Communist world is aware of it. Now I wouldn't say that the danger has wholly passed. It would be very unwise to say so. Because you have to watch what is happening and really always try to prepare for what may happen. I hope everyone leaves Poland alone. Poland is something very special ~~for~~ to many people. You have a big Polish minority here. So have we. After all World War II started because of Poland, and it's something very special to the whole of the Western world.

Interviewer: If the Soviet Union elects not to leave Poland alone, is there any way the West can also leave Poland alone?

Prime Minister: If the Soviet Union decided not to leave Poland alone, it would have, I think, a disastrous effect on the whole atmosphere of relations between East and West for a very long time. It ~~virtually~~ would virtually be the end of all possibility of detente. But It hasn't happened yet. He hope It won't happen. And the more we can make

it perfectly clear that Poland must be left alone, the better. What we are trying to do in Europe, and I think the United States too, is to help out with the shortages of food, and to help out with trade credit because the economic situation of Poland is very, very difficult, almost tragic at the moment. And what we are trying to do is to help her get through on the necessities of life, to help her with credits for trade, so that she can put her own economy together and then sort out her internal, political situation.

Interviewer: Moving to another troubled area, and that's the Middle East. It's been widely reported here that your Foreign Secretary, Lord Carrington, has been pushing the United States to go into.. to go with the European plan which would involve, according to reports here, a much larger role for the Palestine Liberation Organisation, the PLO. Is that so?

Prime Minister: No. I wish almost I had got the communique here from Venice. That was absolutely fair in recognising the legitimate interests and the legitimate rights of both Israel and the hopes of the Palestinian people. You know the difficulty in this situation; Israel has an absolute right to exist as a nation behind secure boundaries, and to feel secure in her future. That is one right. You cannot demand rights for yourselves which you deny to others, and therefore it would be reasonable to say that the Palestinian people have a right to expect that they can determine their own future and that they too can have a place to live. So you've got the Palestinian people who must recognise the right of Israel to exist as a nation within secure boundaries, and Israel must recognise the legitimate rights of the Palestinian people; and we said that each side had to recognise that and there had to be total renounciation of terrorism, so that was absolutely evenhanded. Now when you said that (there has been a tremendous amount of vocabulary used in this situation), that a national identity of the Palestinian people, some kind of self-determination for the Palestinian people, no one has ever really sorted out the options of what that could mean; and we thought instead of talking in very vague terms in the interim, ~~between~~, while the American election process

/was....

was on, we could perhaps do a very valuable ~~recognisance~~ reconnaissance of nations, and talking to them, to see exactly what the options were and how we would get there, so we could make this constructive, complementary effort to the American negotiations. It is not competitive in any way. One final thing, I'm sorry to give you a long reply, but these things are rather complicated, the PLO is mentioned in that statement in the sense only that any settlement - in any settlement, the PLO would have to be associated: that was the only way in which its existence was recognised and I think that is a very realistic way. Any settlement wouldn't hold unless the PLO were associated with it. But we're not trying to compete with the United States in this, we were trying to keep some hope of the thing going forward, at a very very difficult time, and we still after all haven't elucidated these questions, and you know, diplomacy is bedevilled by vague phrases which then have to be worked out.

Interviewer: Are you going to continue with the European initiative as it is called?

Prime Minister: We're still trying to sort out these things, what these phrases mean; the secure boundaries of Israel, so far, are based on Resolution 242, but as you know there is room for just a little bit of manoeuvre there in the terms of Resolution 242. What do you mean by self-determination? What do you mean by national identity? As you know there are Palestinian people, quite a lot of them, not on the West Bank .. Well first it's the Gaza strip, there are camps in Jordan, there are camps in Syria, there are Palestinian people flourishing because some of them are very talented and wonderful tradesmen and professional people and, I imagine, that there are a lot of them who would wish to stay where they are now; but all of these things really haven't received the detailed consideration they

warrant and we are gradually continuing to do that and we hope it will be helpful. In the meantime, of course, there will soon be an election in Israel and I don't anticipate that there will be any great moves forward until that has been decided upon.

Interviewer: Senator John Tower, who is the Chairman of the Senate Armed Services, said today that he thought it was probably unwise for the United States to push for deployment of the neutron bomb in Europe because, given the history, political history, it would stir up more political problems - I'm paraphrasing - than the United States needed. Do you agree with him that it would be unwise politically to push for deployment of the bomb?

Prime Minister: Well decisions have not been taken on that yet, but first you know the word 'bomb' is the wrong one here. That is.....Indeed it is in Europe, it should never, never, never have got that name. You know what it is. There's massive tank armour of the Warsaw Pact countries, and this armour can move forward in colossal armourment movements, and what that weapon is, is really an anti-tank weapon and a very effective weapon for stopping those tremendous movements, a very very effective one. We don't, I'm afraid, have that amount of armour and therefore the Soviet Union will not be likely to need that kind of weapon. No decision as yet has been taken upon it. I know what people think. They think that possibly it might lower the nuclear threshold, but you've got in fact to have some effective anti-tank weapon against that colossal threat of armour. What that weapon is has still yet to be decided.

Interviewer: It sounds as though you rather like the idea of the neutron bomb?

Prime Minister: I want an effective anti-tank weapon. I know that massive amount of armour they've got, and what you're talking about really is a movement of what I may call conventional

weapons and arms - one talks about those as if they were almost commonplace, well, they might be commonplace but they're still extremely dangerous, and one wants a proper means of avoiding that. ~~The end of that particular one~~, the neutron one, would be one particular way. So far, as ~~we~~ you know, it has not been produced.

Interviewer: I just wondered, is he right, that, attempting to persuade the European Allies to deploy it, as the Carter Administration once did, then reversed itself, would create so many political problems that it would be ....

Prime Minister: The Carter Administration asked Europe what it thought and the present Administration has said, before further decisions are taken again, that Europe will be consulted. I must say that the present Administration is being very, very firm, that it will consult before these decisions are taken.

Interviewer: Finally on the economy, before you got here, our newspapers were full of stories about the similarities between the economic policies of yours and the economic policies of Mr Reagan. Now in the last couple of days, the Administration spokesmen have been busy denying all of this and they have been saying that you've brought down inflation in Great Britain, but the recession price has been too high through unemployment and reduced production etc. Do you think that's a valid criticism?

Prime Minister: Well of course the main reason for increasing unemployment is the world recession itself. After all you have a fantastic number of motor car workers very tragically out of a job because of the recession in the car trade. I can't have had anything to do with that unemployment created here, nor the unemployment or difficulties in the car industry created for example in France. You've rising unemployment in Germany, in France in Europe in the

United States, this is world recession unemployment, the world recession caused by the enormous world price increase in the price of oil and we are on world prices for our oil, and of course if we have to pay enormous extra sums for oil, there is less to spend on other goods, and therefore you have a recession, and factories go out of business, and people decide not to buy as many cars, and that works right back to the steel, the components and other industries. That is I think one of the worst reasons for unemployment. It has certainly hit us rather harder than a number of other countries, two reasons mainly. First we had very heavy overmanning in British industry, very heavy overmanning indeed. In steel, in cars, in many of our heavy industries, which has made us uncompetitive, so when a factory goes out, more people unfortunately go out of business which is very, very tragic. The other reason we are uncompetitive, is that we have become accustomed in annual wage rounds, I think induced by four or five incomes policies, to expect an annual increase in wages in real terms regardless of the state of production or productivity. Now I'm afraid that has led to inflation, inflation has again made us uncompetitive and led to unemployment. I think President Reagan is more fortunate in a way. He comes in when the recession is much further through than it was - it started actually just about coincident with about the time we came in - he has not had some of these union problems. I think he's had a system in which your wages are more closely geared to output than we have; he's not had heavy nationalised industries which have to be quite heavily subsidised by the taxpayer. So there are some similarities but there are a number of differences.

Interviewer: We have to leave it there, I'm afraid our time is up....

Prime Minister: It's gone very quickly, I'm so sorry. It was just getting to the interesting part.

Interviewer: Thank you very much for joining us this evening.

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MRS THATCHER'S INTERVIEW ON CBS "MORNING NEWS"

FRIDAY 27 FEBRUARY 1981

Q; I would like to, if I may start out by asking some questions about economics. Your programme for economic recovery in Britain is almost identical to the one that President Reagan is proposing here. Do you have any words of advice for him and for us about the course we should be following in the next year or so?

Mrs T: I think he's started off in exactly the right way and I'm amazed at the speed that they got the package of public expenditure cuts before Congress. I hope very much its successful because I think thats the essential first step. To reduce the amount of the national income that the Government takes. That inevitably leaves more for the private sector which is the wealth creating and enterprise sector and secondly it will raise the standard of living of the American people. So I'm very much in favour of that and of course its wonderful to get those expenditure cuts before in fact you have the tax packet along side. And the genius is is that the whole thing fits.

Q; Of course, many Americans are now looking to Britain as a model for what he has proposed for our future. It seems that things have not gone exactly as you had planned. Unemployment is soaring, productivity did not rise as you promised; it's fallen 14% just last year. Were there lessons in what you did for us to learn from?

Mrs T: We came in at a time of the onset of world recession. And it would, I admit, have been very much easier to have done it without that world recession. You will remember the recession was caused by the sharp increase in the price of oil, about 150% over the last 2 years in the world price of oil and we're on world prices of oil. Inevitably that meant difficulties with industries. You've had the same thing here. You had world recession affecting cars, world recession affecting steel, world recession affecting an increase in unemployment. That was a time when we had to start to implement our policies. But some of the unemployment of course is caused

by world recession and not the policies. It's absolutely vital though that if you're to get unemployment down and the number of opportunities for jobs up that you must in fact tackle inflation. Our inflation went up, I'm afraid, to an average annual rate of 22%. We've taken very firm measures to bring it down. It's now down to 13%. But if you take the 6 month figure it's down very much below that, almost into single figures. So we are in fact laying the foundations for a confident economy for the future.

Q: Will we experience worsening conditions - will our unemployment rates go soaring? Is that what is to be expected from the kind of medicine both you and Mr Reagan have prescribed?

Mrs T: That will depend in large part on the course of world recession. Because unemployment has gone up in very nearly all the western countries. It depends on how much is taken out of the economy by increasing prices of oil and of course one watches every OPEC meeting with a certain amount of unease as to whether its going on. But you must in fact continue to get inflation down. You can't have an honest government unless it's going for honest and sound currency.

Q: This Administration keeps telling us that outside forces won't affect our economy that much, that OPEC is not going to make that much of a difference if we cut spending and increase taxes. Are you saying that the outside forces will make a difference?

Mrs T: No, I think probably what they're saying is that there have been countries in the world, Switzerland and Germany are two, where they've not had such rapid inflation as the rest of us. I suppose the real reason is that here (here, I'm thinking that I'm at home) in a way we have almost had the extra money for government policies to accommodate the increase in the price of oil. Now we've tried to stop that. We've said that if you pay much much more for one thing you've less money to pay for something else and then you will not get inflation. Thats the road the Swiss and Germans took and therefore they had a much much lower increase inflation. Its much much more difficult for us to get that rate of growth of money supply

down and therefore its taken longer for us.

Q: One last question on the economy. You have said that really the only way to bring inflation down is to, at least in the beginning to expect some increases in unemployment. Do you still hold to that view?

Mrs T: In the early stages. If you've got inflation you've got surplus money in the system and therefore it goes into increased prices not into increased goods. If it all went into increased goods, rate of growth, it would be marvellous. Now when you're bringing down the amount of surplus money, if your wage increases are within that you will not in fact get higher unemployment. Unfortunately one of the features of the British economy is that people have expected an annual increase in wages regardless of output and it's that in fact, that annual increase, which takes more and more money out of the economy for the people who are in work that causes the unemployment. So people too have a role to play. They take more out for themselves, they'll cause more unemployment for others.

Q: Well of course American workers are going to expect higher wages too.

Mrs T: Higher wages fine - provided they're earned by higher output and higher productivity. Thats what life is about. But higher wages just by demanding them and using industrial muscle - either it comes from someone else or else it has to be financed by printing money, and that's where you get your inflation. So President Reagan will refuse to print the extra money and thats what we've been trying to do as well.

Q; Let me ask you about President Brezhnev's invitation to Mr Reagan for a Summit meeting. Do you think that President Reagan should accept that invitation?

Mrs T: Well, I don't think you want to dash at making a decision at the moment. It was a very long speech , as you know they go on and on making speeches, much much longer than we do, just on and on and it contained a large number of points. Each and every one has to be considered, weighed, the aspects considered and replies prepared. Summits are very important. They should be comparatively occasional. The whole world somehow expects some new philosopher's stone to emerge from them which will solve all problems. Life isn't like that. It's very very careful negotiations, very

careful consideration of the other persons point of view and preparation of alternative courses of action. And I think it would be a great mistake to dash into a reply.

Q: There are some US officials who think Mr Brezhnev's speech and invitation were nothing more than a propaganda ploy to sort of lull the Europeans back into believing in detente. Did you see it that way?

Mrs T: Well I don't think the Europeans or Americans are to be lulled back to as you say, believing in detente. We still believe in detente, but it has to be two-way. But you know the real thing that would have given an earnest of good faith would have been if the Russians had shown any signs of withdrawing from Afghanistan. We have to remember the background of this invitation. That Soviet troops are still in Afghanistan holding down an independent country by force. One has also to remember on the moratorium on what are called Theatre Nuclear Forces that Russia is way way way in advance of us, both with the numbers and sophistication of those Theatre Nuclear Weapons. And the moratorium would suit her. And it's just precisely for that kind of thing that I say we have got to look at every single word of that speech, analyse it and prepare and response. And all that must be done before a reply is given to that invitation.

Q: Do you see genuine signs of conciliation in that speech from what you've read so far, studied so far.

Mrs T: It was indeed a very carefully prepared speech, but it was not followed by withdrawal of forces from Afghanistan. It would have been wonderful if it had been.

Q: One last question on El Salvador. Do you think President Reagan should send American advisors and war material there. Is that the place to draw the line?

Mrs T: The American Administration has provided us with evidence of the number of weapons that are being supplied to the guerillas by outside bodies. And we obviously have condemned that. We issued a statement just before we came here. The El Salvador people must be allowed to decide their own future. We condemn the supply of these arms to the guerillas

and called upon the El Salvador government to protect all the people in El Salvador. And I think the proper and right approach is for them to sort out their own future in their own way. Unhindered by outside interference, unhindered by weapons supplied to the guerillas.

Q: Thank you very much.

# PRESS RELEASE

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## BRITISH PRIME MINISTER SPEAKS ON THE ECONOMY

In a major speech at Georgetown University, Washington, on 27 February 1981, the British Prime Minister, the Right Honourable Margaret Thatcher MP, offered four propositions for dealing with the dangers facing the free economies of the world:

- The soundness of money must be restored
- Peoples' expectations must be matched to a world in which growth will be slower: "in public expenditure and in the running of private industry the coat must match the cloth"
- Internationally and nationally, markets must be allowed to function more freely, and governments must intervene in them less
- The excessive dependence of the Western economies on imported oil must be reduced

Mrs Thatcher said that in her discussions with President Reagan she was "impressed with the striking similarity" between their aims and their policies. Both Administrations had the goals of a stable price level, freeing the individual from government restraint, reducing public spending, and cutting direct taxes.

The full text of Mrs Thatcher's speech is attached.

Mr Chairman,

When the scholars of this great university reflect on the history of Western civilisation, they, like those in other institutions of learning, must be struck by its magnificent achievements. And nowhere have those achievements been more impressive than in the United States. The vast expansion of individual liberty, under a common law, has been one of the most remarkable developments of Western man - and you citizens of this great Republic now enjoy a liberty unprecedented in history. The quality of our freedom in the Western democracies can be measured against the repression and drabness of totalitarian states. That freedom has provided a fertile ground for the varied talents and inventiveness of our peoples. We cherish it. We must defend it.

In reflecting on liberty many think mainly in terms of political freedoms. These are founded in a rule of law which protects personal rights against the arbitrary actions of political authority. The right to elect legislators and holders of great executive offices is one of the pillars of our own freedom. But alone it is not enough to support a just and free society. The other great pillar is economic freedom.

In the Declaration of Independence we find the principle of economic freedom firmly embedded in the "pursuit of happiness". This freedom - the freedom for a man to work for whoever he will, to enter into voluntary agreements and partnerships, to buy and to sell, to save and to invest - this freedom for enterprise is the foundation upon which the unparalleled prosperity of the West is built.

Economic freedom requires a system of law that identifies and

safeguards the right to property and the right to enter into contractual arrangements. Of course, these rights cannot be absolute. Society may very properly decide, for example for the sake of health or safety, that certain freedoms have to be circumscribed. But such constraints should be the exception rather than the rule. Freedom of contract is the presumptive basis of our system.

These are the ideals of a free society. Yet I fear that both in the United Kingdom and also, as President Reagan has said, in the United States, some of these ideals have been eroded.

For many years the state has intervened more and more to limit or even to direct the behaviour of both individuals and corporations. Usually the motives for such regulation have been laudable. It is claimed by some that the results of a free enterprise system are unfair. More and more state intervention has been justified on the grounds that it will provide an outcome which can be seen to be fair to all. But such intervention in the end gives rise to consequences which are neither fair nor free.

Let me make it perfectly clear that the Administration I lead accepts the need for government action to soften some of the harsher consequences of change. In a recession many, through no fault of their own, may find their livelihood disappears. They need hope and deserve help. Similarly, all of us subscribe to the principle of helping those who cannot help themselves - the poor, the sick, and the old.

Thus the role of government in a free society should be to ensure that people can go about their business freely and without fear and to protect the weak and those in need. But both in Britain

and also in the United States the reach of government has far exceeded this limited role. Instead, governments in both our countries have pursued policies of extensive and detailed intervention far beyond those one would expect to find in a free society.

I want to discuss one or two of these interventions which we have tried in Britain but which I believe have failed. One of the most pervasive attempts at state intervention has been the control of incomes. In Britain during the last 20 years we have seen many incomes policies under governments of both political complexions. The ostensible objective was to ensure that we did not pay ourselves in aggregate more than we produced, and that the national product was shared fairly and equitably. We have found to our cost that none of these incomes policies has produced the effects which their sponsors so ardently claimed for them.

The control of incomes was supposed to be the only effective and fair way of reducing inflation. But our experience has clearly demonstrated that inflation is not contained by such measures. True, incomes policies seemed to stem the inflationary tide for a while: but then the pressure of wage demands became too great; the dam was breached; and the economy was flooded with a massive surge of inflation. While they were in place wage controls gave rise to rigidities, inefficiency and manifest injustice. They eroded incentives, telescoped differentials and sapped the springs of effort and invention. The essential link between improved performance and increased rewards was virtually eliminated. It is inefficient to destroy incentive. It is also unjust.

The control of prices was also supposed to avoid the injustices of the market. But price controls discourage production, distort

competition, encourage waste and strangle innovation. This means extra costs for business and extra costs for government; and in the end they do not slow down inflation.

In many cases the intervention of the state has gone much further and has taken great industries into public ownership. In Britain coal, electricity, railways, telecommunications are all nationalised state monopolies. Large parts of other industries such as steel, shipbuilding and airlines are also in state ownership and control.

Nationalisation was supposed to make these great industries financially self-sufficient and havens of industrial peace and understanding between management and workers. Public corporations were also alleged to be more responsive to the needs of their customers and more ready to adopt new technology. Alas, the reality has been very different. Now in Britain we know the appalling cost. In 1980 the prices of the publicly owned industries increased more than twice as fast as those of private business. Yet such price increases have not prevented massive deficits which are now being borne by the long suffering taxpayer.

This was the controlled, regulated and much nationalised economy which the Government inherited when it came to power in 1979. Restoring economic freedoms to Britain was one of the great tasks which the Government set itself. After some 22 months in office some considerable progress can be reported. But we still have a long way to go.

One ofthe first tasks of the government in 1979 and 1980 was to abolish controls on prices, wages and dividends. Incomes in the private sector are once again determined by free negotiation.

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One ofthe first tasks of the government in 1979 and 1980 was

Another task has been to end exchange controls. Many commentators warned that, without this protection, sterling would sink to new lows. In fact, as you know, sterling climbed to its highest value in five years. Capital did not flow out of Britain in an unstoppable tide. On the contrary. Many foreigners now see Britain as a safe and profitable home for their assets. Free exchange is an essential attribute of a free society.

We have also embarked on the long and complex process of returning state-owned enterprise to private ownership, starting with British Aerospace. Legislation has been passed or is under way to denationalise many other public owned concerns, including British Airways and British Telecommunications. We are restructuring corporations such as the British Steel Corporation and British Shipbuilders, again with a view to returning them or parts of them to private ownership as soon as we can. We shall pursue these changes with firm purpose but also with consideration for those whole livelihoods depend upon these industries. This will take time, and it takes a lot of money. That is the price of the folly of public ownership.

A controlled society also means a heavy and growing burden on the taxpayer. An essential element in our programme, like that of President Reagan's Administration, is to bring down rates of direct taxation. Only by allowing people to keep a larger percentage of the incomes they earn can we develop incentive and enterprise in a free society. We have made some progress by reducing the rates of income tax. But so far we have not lightened the tax burden as much as I would have wished. And this is because of the immense difficulties we have experienced in trying to reduce government expenditure at a time of world recession and the rising unemployment which goes with it.

Nevertheless in 1981/82 the Government still intends to reduce public spending by almost £6 billion below the level planned by the previous Government. Our objective is to ensure that the taxpayer gets value for his money. Only then can we expect people to trust their government in its traditional role as the guardian of the public purse and custodian of the currency.

This trust in government has been eroded not merely by many years of profligate spending but also by the persistent depreciation of the currency. The internal purchasing power of the pound in 1980 was worth only 28 per cent of its value ten years earlier. And over the last 30 years the trend of inflation rates has been persistently upwards: it was 3 per cent in the 1960s and 12 ½ per cent in the 1970s. Although the United States has experienced rates of inflation somewhat lower than those of Britain, the trend here is also inexorably upwards.

For many years we have been told that a little bit of inflation is good for you. Many economists assured us - indeed some still do so assure us - that inflation is necessary to maintain full employment, to facilitate growth and to keep the economy moving. The message was: spend your way to prosperity, and when the economy faltered, spend and spend again.

Of course it was difficult for governments to resist such siren voices. Britain was among the first large economies in the West to pursue these policies. We learned a hard lesson - monetary expansion stimulates only a brief and temporary growth. Decay soon sets in. But such monetary expansion does have a

permanent effect - albeit an unfortunate permanent effect. It raises the rate of increase of the price level. Inflation comes to stay.

With the hindsight of this sad history, we can easily see how the inflation rate rose persistently throughout these decades. But more strikingly, the average level of unemployment has also risen. The average unemployment was less than 2 per cent in the 1960s, 4.1 per cent in the 1970s and 6.8 per cent in 1980. Our higher inflations have merely brought lower growth and rising unemployment.

The lesson is clear. Inflation devalues us all.

But the erosion of the currency not only has insidious effects on the health of the economy; it also breaks a trust between the government and the governed. The fabric on which so much of our life depends rests on the maintenance of money values. A reliable and safe currency is a central responsibility of government. Once people lose their trust in money the freedom of men and women in society will be diminished or even, eventually, destroyed.

That is why my administration has put the <u>permanent reduction of inflation</u> as its first economic priority. In a free society this can be achieved only by reducing permanently the rate of growth of the stock of money. We knew that the transition could not be painless and smooth. After these many years of inflationary drift the costs of recovery have to be paid.

But even now at this early stage we can already begin to see the <u>benefit.</u> The year on year rate of inflation has come down from over 22 per cent in May 1979 to 13 percent in January 1981.

The underlying rate is less than this - probably in single figures. This reduction is even greater than we had forecast. We are laying a firm foundation for a permanent prosperity.

In the United States President Reagan's objective is to restore people's trust in the dollar. Your currency, however, far transcends the shores of the United States. The size and strength of the United States economy and the freedom to hold and deal in dollars has meant that much international trade is transacted in US dollars. Banks, governments and commercial enterprises hold balances of dollars as reserves and as a basis for their trade. The dollar is the world's money.

In the years up to the middle of the 1960s the world was happy to hold dollars. Their value was assured. They were "as good as gold". The average rate of inflation in the United States from 1955-1965 was only 1½ percent. Virtually all currencies were defined in terms of the stable dollar and defence of the dollar parities was the main objective of policy. While these parities were maintained and while the United States maintained more or less stable prices, there could be no world inflation.

Gradually - and at the time imperceptibly - a sea change occurred. From the mid 1960s onwards the rate of growth of the supply of dollars began to increase. There were many reasons for this surge in money - the Vietnam conflict, President Johnson's welfare programmes and the policy prescriptions of "the New Economics". The effect was clear. A surfeit of money gave rise, as always, to a fall in its value. The prices of goods began moving inexorably upwards, first slowly (at 5 percent a year between 1965 and 1974) and then, by the late 1970s, at

gathering pace.

The dollar was in double jeopardy. There was an increasing flood of dollars looking for willing holders and yet the declining and uncertain value of the dollar made it less and less attractive to hold. In the latter half of the 1960s the flight from the dollar assumed alarming dimensions. Most countries in the West were reluctant to import the United States inflation. European central banks traded many of their dollars for gold. Finally, in 1971 the United States formally renounced the gold standard. And the rapid erosion of the dollar thereafter brought about the collapse of the international monetary system which had lasted since Bretton Woods.

There have been many attempts to fill the gap created by the faltering dollar. The deutschemark, the yen, sterling and various baskets of currencies have in part taken on the role of the currency of international trade and reserves. But none of these currencies can adequately assume the immense tasks of the United States dollar. Only the United States has that combination of institutional structure, size and strength, to sustain the responsibilities of a world reserve currency. The world must rely primarily on the dollar for its trade and its reserves.

You can understand why the free world is so concerned that the faith in the value of the dollar be restored. The dollar is our money as well as yours. And the restoration of trust in the dollar will bring great benefits to you citizens of the United States as well as to the world at large.

I began by saying that political and economic freedom go hand in hand. That applies to the world economy as to our domestic

economies. The free economies have become more and more international. The free movement of trade, of capital and of investment is essential to them. In the difficult years of the 1970s, we have done well in defending these freedoms. The free economies still show great resilience but they face greater dangers in the 1980s.

I offer 4 propositions for coping with these dangers and reaching the end of the decade with our economic freedoms in better shape. The first is that we must restore the soundness of money. All that I have said about fighting inflation and strengthening the dollar as the main prop of the international monetary system is part of that. Secondly, we have to relearn the old lesson of cutting our coat according to our cloth. We have to persuade our peoples to match their expectations to a world in which growth is likely to be slower than in the early 1970s and increases in living standards have to be hard-earned. In public expenditure and in the running of private industry the coat must match the cloth.

My third proposition is that, internationally and nationally, we must let markets function more freely and we must intervene in them less. That includes the free movement of trade and capital to which I have referred. But those countries which expect to export goods freely must also be prepared to import goods freely. Free and fair trade is a two-way business.

And my fourth proposition is that we must reduce the excessive dependence of the Western economies on imported oil. That dependence has increased inflation and unemployment and reduced growth. I applaud the steps President Reagan has taken to free oil and gasoline prices from control and to let the market play its full role in reducing that dependence.

I believe that sustained pursuit of these 4 interrelated propositions would give us our best chance of reducing unemployment and improving the lives of the peoples of the developing as well as the developed countries.

In my discussions with your President I have been impressed with the striking similarity between our aims and our policies. The President's goal is a stable price level. Ours too. The President's aim is to free the individual from government restraint. Ours too. The President's objective is to reduce public spending and cut direct taxes. Ours too.

These policies are neither new nor experimental. Two hundred years ago the foundations of a free society were laid down by two wise Scotsmen and by your founding fathers. We have rediscovered these old verities. Individual freedom and responsibility are the springs of our prosperity as well as the foundations of our moral order.

FATHER PRESIDENT,

the road to recovery is paved not with good intentions but with hard decisions. I believe that both our countries are now on the right road. We in Britain wish your new President and his administration success and Godspeed.

PRIME MINISTER's INTERVIEW ON NBC's "TODAY SHOW", 27 FEBRUARY

Q Madam Prime Minister there has been a lot of talk about Summitry this week, do you think it would be a good idea for President Reagan to hold an early Summit Meeting with the Soviet Union?

A I think he will want to consider absolutely every aspect of Mr. Brehznev's speech before he decides precisely what to do. Whenever you go in for summitry the essential thing is that you must be extremely carefully prepared, you must have had a look at every single part of Mr. Brehznev's speech - and have prepared a policy line on it and a negotiating line on it. That takes an immense amount of time and I think it is wise - because it was an important speech just to take time before giving a quick answer.

Q What is wrong with simply meeting with the Soviet Union President and talking things over with him, getting to know each other?

A. Because I just don't think that would achieve very much. First the hopes of the world would be on the Summit, Secondly just to meet and chat is not necessarily what is required. You really have a very great many serious things to talk about. The future of SALT, arms control, all kinds of other negotiations about what is going on in the rest of the world and you really must have had all that prepared first.

Q Do you foresee a Summit Meeting this year?

A Where are we? We are just about February still - I think that it will take a bit of time to prepare the reply. You are trying to push me further than I am prepared to go. I can't answer for President Reagan I can only answer for myself, as I haven't had an invitation the question doesn't arise.

Q I know Prime Minister the Reagan Administration has focussed a great deal of attention on El Salvador Do you think that is the correct place to draw the line with such emphasis against Soviet Communist expansionism?

A. The American administration very kindly let us have some evidence of the arms that have been going to the guerillas. The evidence was very powerful evidence indeed where the arms were coming from. We issued a statement before we came here condemming such interference, condemming it very strongly and calling on the El Salvador Government to protect all peoples and to really leave people there to determin their own future.

Q The French and the Germans are expressing some apprehension about a military solution in El Salvador and the emphasis is on a military solution and a calling for political negotiation. Do you share that ~~apprehension~~ apprehension?

A. This again is an internal matter, you have got internal guerillas with an internal government. Usually the essential thing is the rest of us keep out under those circumstances. What is most important is that the source of arms going to those guerillas should cease.

Q Do you think it is a good idea for El Salvador now to become a symbol of Western resolve against...

A. I am not quite sure who is making it a symbol. You have in fact some terrible things going on over there, really dreadful, immense guerilla activity. It is not for us necessarily to get involved. I do think it is for us to point out where the arms are coming from, because so long as there are those terrible supplies of arms there seem, to be dreadful things these people can do. And that will be to the harm and disadvantage of the El Salvador people as a whole.

Q Madam Prime Minister I would like to ask you about economics because I know you and President Reagan have many parallel views on economics. Based on your experience thus far in Great Britain, in which you have some continuing inflation and more severe recession than many of the people there would like, how would you forwarn the President about his economic programme, about what he can expect?

A. We are suffering from the same world recession. Your car industry, and steel industry are and so are we. I had a look at President Reagan's package, I thought it was most impressive. The speed with which it had been prepared, the thoroughness and I just hope that in particular his expenditure cuts go through, becuase it seems to me that is the most important first thing to do to try to get Government spending less of the Nations income and to use more resources for the rest of the private sector. And if he is successful in that, in the package before Congress, he will really will have laid the foundation for building a new economic future, for tax cuts

because he believes as I do that there is a tremendous lot of talent, energy, enterprise in the people of this country. The American economy is an enormously strong one and I believe the steps that he has taken really will prove very fruitful for the future for a rising standard of living and for the creation of wealth in the United States.

Q. If I may follow that up for one moment Madam Prime Minister, the part of the criticism in this country is based as you well know on the fact that Ronald Reagan's plans are based on economic theory rather than on a strong economic model. Your plan, as bold as it is, has not come around as rapidly as I suspect you would like it to have in Great Britain, but what are the assurances that the American people will have that it will work here?

A. Look I don't believe that President Reagan's plan is based on economic theories. It seems to me it is very very much more based on faith in the talent and energy and ability of the American people and that if he therefore takes less in Government spending and leaves more resources for them to develop then he will get the results. It is an enormously human programme, not based on any economic theory, you who talk about economic models, it seems to me that you are more concerned with graph paper economics than I am or President Reagan.

Q. Le me ask you about the Middle East Madam Prime Minister. The Reagan Administration has said that it is going to focus more on the Soviet Security threat in the Persian Gulf area in the Middle East than on negotiations between the Arab/Israelis. Your country is taking the initiative, the Europeans are taking a new initiative towards the Middle East, they want to set up a Palestian State, take East Jerusalem away from the Israelis. Did President Reagan tell you that this initiative is unhelpful ?

A. No, ~~it~~ is because we have always made it perfectly clear that the VEnice initiative was not in any way meant to be in competition with the negotiations going in the United States. We took that at a time when the United States was going to be very occupied with the elections and we felt that there ought to be some obvious negotiations in progress. We felt that people had been using certain words for years without sorting out what they meant. You know, a National home for the Palestinian people, self determination, an absolutely secure future for Isreal behind secure borders. We thought it best really to try to sort what some of these things meant. And so Mr. Gaston Thorn went around the various leaders in the area to try to sort out how we could get to where we wanted to be or what options there were and just exactly the steps taken to get there.

Q. So you are going to pursue it, you wouldn't give it up?

A. Well I think that it is worth pursuing.

SECRET

cc: PS/PUS
Sir N Henderson
Mr Bullard
Mr Fretwell

5.

Mr Alexander

The Secretary of State had a preliminary private discussion with Mr Haig while the Prime Minister was talking to the President at the White House this morning.

Quadripartite Consultations

Mr Haig saw no problem here. But he wanted more consultation in NATO. Francois-Poncet had indicated that the French would be less obstructive in NATO, providing there were no political communiques. Haig said that "the French were looking for romance" in their relationship with the Americans.

FRG Policies towards the East

Haig accepted that what had been said about his misgivings on German policies had been greatly exaggerated. The Secretary of State described Schmidt's current mood, as revealed in Marrakech; and Genscher's determination not to agree to any changes in the FRG's defence policies (as expounded by Genscher at the Tripartite Meeting in Bonn on 12 February). Haig agreed that Genscher was a "good guy".

Secretary-General of NATO

Haig said that he had sent his message to Lord Carrington because Luns had told him that he would be retiring at the end of this year.

Afghanistan

Haig said that there were signs that the Russians were finding the resistance highly inconvenient. They kept asking the Americans to stop the Pakistanis helping the freedom fighters. Lord Carrington told Haig about President Zia's message to the Prime Minister. Haig said that the Americans were putting a big aid package together. This would be difficult to get through Congress, but he was determined to succeed. Lord Carrington explained that President Zia was sound on the need to withstand Russian pressure. Agha Shahi had become rattled at one point, though the Delhi non-aligned meeting and the Islamic Summit at Taif had put more back-bone into him.

Lord Carrington also gave some indication of our own efforts to help the resistance.

Middle East

Haig gave the impression that he planned to try to persuade the Saudis during his forthcoming visit to agree to a regional conference on the Soviet threat to the area. Lord Carrington warned that the Arabs tended to take the line that this was difficult to divorce from the Arab/Israel dispute.

(G G H Walden)

26 February 1981

THE WHITE HOUSE

Office of the Press Secretary

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PRESS BRIEFING
BY
JIM BRADY

February 26, 1981

The Briefing Room

1:40 P.M. EST

MR. BRADY: Well, I think that Mrs. Thatcher and the President covered pretty much the same talking points that I would have in characterizing what was covered at the meeting. As you know, the first meeting in the Oval Office was a one-on-one that lasted about 30 minutes at which time the two were joined by Lord Carrington and Secretary Haig for another meeting that ran for about 45 minutes.

Then the group moved into the Cabinet Office for an expanded meeting that lasted probably another 45 minutes and then returned to the Oval Office and the exit that you saw on the South Lawn. And as I say, I think that the talking points that the President went through accurately reflected what was covered at the meeting. Obviously East-West was covered, Central and South America, Middle East, Europe --

Q What did she mean when she said, "We'll be going to many summits this year"?

MR. BRADY: I think she was referencing the fact that there are upcoming summits. I think speaking of Ottawa, speaking of a potential summit in Mexico, and others not yet --

Q What is that?

Q With Margaret Thatcher in Mexico?

MR. BRADY: I think those were the two that she referenced.

Q I don't know about that.

Q She said, "summits together,"didn't she? She said summits that we'll be going to together?

MR. BRADY: It was her view that this would be a year for some summits, and that the United States and Britain with a sameness of purpose, whenever they were together at any of these, would be aid and comfort to one another.

Q Are you saying that Mrs. Thatcher was talking about something other than the Economic Summit of the Western industrialized nations in Ottawa that I suppose they'll both be at -- that they're both going to attend?

MR. BRADY: Well, we're not making an announcement from here today that we're attending Ottawa because we didn't make that in the meeting. She said that she would be going to Ottawa, and that was the primary reference.

Q What's your point about Mexico?

Go back to that.

MR. BRADY: I had no point about Mexico. You asked me what were some summits that were potential places where -- that they would be together, and I mentioned Ottawa and possibly a summit in Mexico.

Q Jim, that's new.

Q Mexico, when and on what?

Q Jim, you've committed news, as you said yesterday.

Q Tell us about Mexico.

Q Give us the figure.

MR. BRADY: That's it.

Q When and on what subject?

MR. BRADY: I don't think there's a date and there aren't subjects.

Q Who else would be likely to go besides Thatcher, Mexico and the United States?

Q Presumably the President of Mexico.

MR. BRADY: Let me go back to your initial question because I really can't flush this out anymore. One was Ottawa and the other was a potential meeting in Mexico.

Q On Latin America or --

MR. BRADY: Helen.

Q Isn't it the North-South Dialogue Conference that the Mexicans have been organizing for the past couple of years?

MR. BRADY: That is a possibility, yes.

Q On another subject, within the framework of the Thatcher talks, did either Mrs. Thatcher or Lord Carrington discuss or present their view of the role that the PLO should play in future Middle East negotiations?

MR. BRADY: Not -- I attended only the expanded meeting and it was not discussed in the expanded meeting.

Q Can you say that the U.S. and Great Britain share comparable views on what that role should be?

MR. BRADY: I can't, no.

Q Can I suggest that you're getting into a similar situation to yesterday when you wouldn't give us a range? By not giving us a little more on this Mexico, you're going to have every reporter in this room on the phone for the rest of day trying to find out what you're talking about. So can't you just give us a little more help to calm us down on this?

Q We want to go to lunch.

Q That's right. We want to go to lunch.

MR. BRADY: Yes.

Q Mexico, United States -- Is it the North-South Conference?

MR. BRADY: It's a potential one, Lesley, but --

Q What month is that being held?

MR. BRADY: I don't know, Sam.

Q Is there another potential Mexico summit other than the North-South?

MR. BRADY: You put grenades on this.

Q Are they coming to the consulate?

MR. BRADY: Not that I know of.

Q Do you gather that Mrs. Thatcher supports the President holding a summit conference with Brezhnev?

MR. BRADY: I think that there's a commonality of views that one should look at that very carefully and she pointed out that they too were in the process of studying the speech for what it might contain. But I think that it was something that should be studied but entered into with all due attention.

Q What was the discussion, if any, of the troubles in Northern Ireland as it's effected by American contributions, American-Irish contributions?

MR. BRADY: The Irish issue, unless it was raised in the one-on-one or the meeting with the Foreign Minister and the Secretary of State, it was not raised in the expanded meeting.

Q Mrs. Thatcher said last week that one of the things she would be seeking is an improvement in the machinery of joint consultations. Were any agreements reached today on how those procedures might be upgraded?

MR. BRADY: Certainly not mechanically. At the expense of being redundant, the lines "no surprise" and "full and close consultation" was one of the set pieces of the dialogue.

Q Was El Salvador talked about?

MR. BRADY: Yes, it was.

Q To what degree?

MR. BRADY: I'm not going to characterize what was talked about in El Salvador.

Q Why not?

Q Were their views compatible or were they divergent?

MR. BRADY: No, I think they were compatible.

Q Was this a question of the President explaining to her what he's doing and what he thinks?

MR. BRADY: No, it was a joint dialogue.

Q Jim, did he, in this discussion of El Salvador, explain to the Prime Minister what Ambassador White meant by his claim that he was dismissed as an act of vengeance?

MR. BRADY: No.

Q Does the President --

MR. BRADY: Surprisingly, that didn't come up at all.

Q What is the President's view on Ambassador White's claim? Because I understood the Reagan administration doesn't believe in revenge, and here's a foreign service officer still on your payroll who claims that he's a victim of vengeance. What does the President feel about that, Jim?

MR. BRADY: I don't think the President has a feeling on Mr. White one way or the other. That's certainly Mr. White's personal view that he's expressing.

Q But is there any truth in his claim that he was a victim of Reagan vengeance?

MR. BRADY: No.

Q There's no truth. Well, shouldn't foreign service officer tell the truth or should they --

MR. BRADY: They should tell the truth.

Q And if they don't tell the truth shouldn't they be terminated? (Laughter) I mean not just that he says there is truth in it. He testified there is a truth and now -- (Laughter)

MR. BRADY: I think the Secretary of State will do whatever's appropriate with Mr. White.

Q As long as we're on El Salvador, can I ask a question?

Q Are you saying he's going to be removed from the foreign service as a career diplomat?

MR. BRADY: No, I didn't say that at all.

Q In your plans which are under consideration which might include American arms or weapons shipped to El Salvador to bolster the existing government there, does President Reagan have any plans for demanding that in return for this American assistance, either advisers or arms, that he would demand some sort of social reform in that country?

MR. BRADY: He has made no decisions nor any statements on that.

Q Is the NSC meeting that was cancelled yesterday back on the schedule today?

MR. BRADY: No.

Q Tomorrow then?

MR. BRADY: I will find out when it is.

Q So, no decisions will be made today?

MR. BRADY: That's correct.

Q Did they not discuss economics at all?

MR. BRADY: They discussed in great detail the world recession. They discussed dependence on Middle East oil and that how difficult it is to combat economies at home that are in trouble when we're in the midst of a world depression.

Q Did she give him any advice?

Q The depression or world depression?

MR. BRADY: She did not give him any advice.

Q Depression or recession?

MR. BRADY: Let me -- I'll tell you. Just a minute and I'll tell you which one it is. I think I said -- should have been world recession, I believe. World recession.

Q In confirming the NATO Resolution of December is -- the President specifically mentioned the two parts of that decision, one being the modernization of nuclear forces; the second part, being the arms control dialogue with the Soviet Union. Did they in any get more specific on that latter subject?

MR. BRADY: They did not in the expanded meeting, but they may have in the one-on-one or the meeting with the Foreign Ministers.

Q Was there any talk about the neutron bomb?

MR. BRADY: There was no talk about the neutron bomb.

Q Jim, is the President going to go to Prince Charles' wedding? Any invitation or any idea at this end to go?

MR. BRADY: I have nothing on that now. It did not come up in the meeting.

Q But separate from the meeting, is there any interest on the part of the President or Mrs. Reagan to go?

MR. BRADY: I don't know that they've even been invited, Leo.

Q Jim, elsewhere in the field of travel, I was wondering in the need to cut the budget by what was termed yesterday "several billion more" --

MR. BRADY: Later learned to be a range of --

Q 3.7.

MR. BRADY: Yes.

Q What my question is; Will the President spend the millions of dollars recommended by the Washington Post to take trips to California if its an insignificant sum or does he feel he ought to sacrifice along with the rest of the people?

MR. BRADY: I don't think he'll spend the millions.

Q Well, it's a quarter of a million dollars they estimate each week-end. In other words, we may presume that the President will

definitely cut down on these week-ends, rather than follow the Washington Post's advice?

MR. BRADY: He will.

Q He will. Thank you.

Q Jim, did they talk about Mrs. Thatcher's Urban Enterprise Zone Program compared to what the Reagan people are going to do with theirs?

MR. BRADY: They did not, Marie.

Q -- on the failures --

MR. BRADY: No.

Q Nothing?

Q What do you mean --

Q On the Northern Ireland, you said it was nothing. Was there any question --

MR. BRADY: There was nothing in the expanded meeting. Now, it may have come up in the one-on-one or the meeting when the Secretary of State and the Foreign Minister was there.

Q I was just wondering -- arms embargo --

MR. BRADY: Was there what?

Q Arms embargo -- the sale of arms to the Ulster constabulary have been embargoed for over a year.

MR. BRADY: That was not in the expanded meeting.

Q Was the possible summit the major topic in this expanded meeting?

MR. BRADY: I'd say probably -- actually, no. It was discussed, but I wouldn't say that it was the major topic.

Q But was the Ottawa --

Q What was the major topic?

MR. BRADY: I don't think you could say one was major. They discussed East-West, they discussed South and Central America, Europe and the Middle East.

Q The Prime Minister referred to discussion of the expansion theatre nuclear forces. What specifically was she talking about? Did you hear that part of the discussion?

MR. BRADY: Yes, but I'd ask you to get whatever you could on that from State because I wasn't in that part of the meeting and as to the technical part of that --

Q The President was the one that said that.

MR. BRADY: Well, he talked about the subject, but there wasn't an announce-- there isn't an announcement here on TNF.

Q He's carrying out the Carter administrations' decision on TNF, wasn't it?

MR. BRADY: Well, I'm not going to characterize what it was.

Probably for a very good reason. I don't know.

Q Jim, just how did this Northern Ireland business come up? Did Reagan make a suggestion or ask her about it?

MR. BRADY: No -- It did not in the expanded meeting or in -- it did not come up in the expanded meeting.

Q So, it didn't come up at all?

MR. BRADY: To my knowledge, it didn't. But it could have come up in the one-on-one or the meeting with the foreign ministers.

Q Jim, Marty Schram's piece in the Post this morning about the division of power on the foreign policy side, was his piece accurate as you read it?

MR. BRADY: I think it was substantially accurate, yes.

Q Can you tell us -- explain to us if you can, the relationship between Dick Allen and Ed Meese?

Q Father and son. (Laughter)

MR. BRADY: Close friends and colleagues.

Q How does that work between them? Is Meese his boss? Does he report to Meese and Meese to the President? How does it work?

MR. BRADY: The National Security Council, which consists of the President, the Vice-President, the Secretary of State, Secretary of Defense, the Chairman of the Joint Chiefs of Staff, and the statutory members, the Director of Central Intelligence and the Chairman of the Joint Chiefs, Chief of Staff Baker and Counselor to the President make up the National Security Council.

The National Security Council staff is chaired by the Assistant to the President for National Security Affairs and that's Dick.

Q Who does he report to?

MR. BRADY: Dick would report to the Counselor to the President.

Q So, he reports to Meese?

MR. BRADY: Yes.

Q When did President Reagan come in on this negotiation where --

MR. BRADY: On what, Diane?

Q When did President Reagan come in on this discussion on the NSC?

MR. BRADY: Uh.

Q Trasby said he never did.

Q What was the question?

MR. BRADY: When did President Reagan come in on the negotiations?

Q What negotiations?

Q On the NSC.

MR. BRADY: On the NSC. The much heralded Haig document that supposedly was given to the President on Inaugural Day in morning suit which in fact was not was a document that, lo, back then went to the National Security Council, became a joint product of the National Security Council staff and the Secretary of State. That was paper number one.

Paper number two became a joint product of the Secretary of Defense and the Secretary of State with NSC staff input. Iteration three had a refinement of those positions and the addition of CIA Director Casey and some others. Iteration four was the compilation of all of the prior drafts.

Q Iteration?

MR. BRADY: Iteration. And then all four of those were put together that formed the basis for the meeting yesterday, the document that was discussed.

Q Who put together that paper four?

MR. BRADY: That was put together through Meese's office.

Q And Allen.

MR. BRADY: As the staff --

Q Paper one originated --

Q When did the President come in on it?

MR. BRADY: Paper one originated from State through the proper channels which would be National Security Council and then the product, the number one was really NSC staff and Secretary of State Haig.

Q So, Haig gave it to the President?

MR. BRADY: Pardon me. These were memos to the President.

Q Yes, so, well, the question was --

MR. BRADY: Well, Diane said, "When did they get involved?" And the first memo, I went back was --

Q The question was when did Reagan --

Q You said he never received the first -- you said it was inaccurate to say it had been given to him on the --

MR. BRADY: Yes, it was because it hadn't been.

Q But it was eventually given to him?

MR. BRADY: It was eventually given to Meese as the first document.

Q Well, the question is Mr. Schram's story which had a -- who else wrote it with you, Marty -- said that in the final meeting the President was not involved, that he was not physically present.

MR. BRADY: The President was not physically present, but --

Q Did he approve this? Did he say, "Do it this way"? Or did Ed Meese say, "We'll do it this way"?

MR. BRADY: He was aware of the options for setting up the arrangement and he concurred with the final result.

Q After it had been taken?

MR. BRADY: No, before it had been taken.

Q What? Before yesterday's meeting?

MR. BRADY: He signed off on the options and concurred with the final result. This was done by a consensus decision.

Q So he wasn't aware of it, he just said to Meese "Go ahead and come up with a consensus after the meeting"?

MR. BRADY: No, he didn't say that. He was presented with the various options. He was presented with a compilation of the drafts, the set-piece paper, that was the basis for the meeting.

Q Are we to understand from that that the President would have been satisfied if any of the four options had been settled upon? In other words, had he told Meese and company, "Go ahead. Whatever you do is fine with me"?

MR. BRADY: The President makes the final decision on this.

Q But you said, "He signed off on the options." What does that mean?

Q "Signed off on the options," meaning that he might have been happy with any of them.

MR. BRADY: No, no, no, I don't mean to say that at all.

Q Then why "options," plural?

MR. BRADY: It would be a recommendation if it wasn't options, if he looked at options and said, "This looks like the one that I prefer," and then would sign off with various guidance to Meese.

Q Did they proceed on developing this based on instructions or feelings that were voiced by the President, as was described as the procedure with economic package?

MR. BRADY: Of course.

Q Oh, okay.

MR. BRADY: Well, see he meets with Meese, Baker and Deaver every morning. It's the first thing that happens. He meets with them again at the end of each day, and it is at those meetings that this type of thing comes up. This was a major meeting where a major apparatus of his presidency was decided, and you know, he's the person that makes the final decision.

Q Jim, Jim Baker said at the breakfast this morning that the very beauty of this whole operation was that the President didn't have to get involved, that it would be -- was able to be worked out below him without his attention being necessary. Now, are you contradicting that?

MR. BRADY: I'm contradicting it in the sense, Lloyd, that it's something that in fact was worked out in a meeting in Ed Meese's office without the President having to be there and having to referee, but not in the sense of not having input on this, having given guidance in his morning meetings with Baker, Meese, Deaver at all, that this would be something that would be discussed.

Q Was there a struggle?

Q Doesn't the President have more than input into the decision made by his staff?

Q Was there a struggle in view of your saying "referee"?

MR. BRADY: The President makes the decision. The staff does not make the decision.

Q You just said, "A major meeting where a major apparatus of his presidency was decided," and he wasn't there.

Q Deniability. (Laughter.)

Q It's either one way or the other. I mean, it was either decided at the meeting in the absence of the President, or the President made the decision at some other point, either before or after the meeting.

MR. BRADY: Cannot the President give guidance to his people and say that this appears to be way to go?

Q But did he give the same guidance to all of the people, and if so, why was a meeting necessary?

MR. BRADY: First of all, it was a consensus decision.

Q The President had one voice in that consensus?

Q Was the President one of the consentees or is he the President? I don't understand, Jim. I'm really a little confused. I mean, is he a mere invisible participant in a meeting to make a major decision on a major aspect of his presidency, giving guidance beforehand, or is the decision not made at the meeting as you said it was?

Q He was with them in spirit is what you mean.

MR. BRADY: He was with them in spirit, Lester.

Q Did he send Meese into the meeting with instructions as to what his sentiments were?

MR. BRADY: Well, I don't think it was solely with Meese.

Q Or others.

MR. BRADY: Yes.

Q Jim, could I --

MR. BRADY: It was called guidance.

Q Well, why is a meeting necessary then?

Q Did he give guidance to the CIA Director and Meese, Secretary of State and the Secretary of Defense?

MR. BRADY: I'm sorry.

Q Give guidance to all those individuals?

MR. BRADY: No, I don't think he has to. It was a consensus decision.

Q So, he did not sign off on it. The decision was made before he knew about it.

MR. BRADY: The decision was made consistent with his views and his guidelines. And you're saying, "Was he physically in the room," and I don't think he has to be.

Q You're saying he exercised a veto power over the final decision?

MR. BRADY: Pardon me.

Q He exercised a veto power?

MR. BRADY: He exercises veto power over any final decision and this will be implemented with a final order by the President which is not -- obviously we'd have it out here today. We're commenting on a story prior to the drafting of a memorandum that the President would sign off on. The question was, "Is the story accurate?" And I said, "It is substantially accurate".

Q Was it a leak?

MR. BRADY: Pardon?

Q Was the story a leak?

MR. BRADY: It was a tidal wave. (Laughter)

Q Are you making any effort to find out who leaked --

MR. BRADY: I didn't hear you.

Q Are you concerned about it? You say it's a tidal wave. Does that express concern, Jim?

MR. BRADY: You asked me to comment on the story and that's what I'm doing.

Q The President has not signed an order yet on this. Will there be documents signed by the President?

MR. BRADY: Yes.

Q To set up this apparatus?

MR. BRADY: There will be a staffing plan that will be formalized in a document that will be signed by the President.

Q Do you know when that will be done?

MR. BRADY: No.

Q This week?

MR. BRADY: I would imagine either this week or the first part of next week.

Q Can we go back to the economic summit for a moment? How much was the Ottawa summit discussed and how vague -- is there some point --

MR. BRADY: No, not at all. It was discussed very little.

Q Jim, did the President discuss with the Prime Minister her efforts of bringing peace to Zimbabwe? Did he congratulate her on that or not?

MR. BRADY: Not to my knowledge, Lester.

Q They didn't discuss Zimbabwe?

MR. BRADY: Not to my knowledge.

Q Was there any decision made today on budget cuts to conform with the --

MR. BRADY: Not decisions. We continue to get the material in which is due in by Friday on the budget cut.

Q Did the President discuss with Mrs. Thatcher --

MR. BRADY: From the agencies.

Q -- the failure of her economic program to produce anything of note on the --

MR. BRADY: No.

Q On the Thatcher question, back to Thatcher, may I ask a question? In his welcoming remarks, the President said, "So the free world must do whatever is necessary to safeguard its own security". What does he expect the British to do in addition to what

they're presently doing now?

MR. BRADY: I don't have anything specific on that.

Q Was there any discussion of an increased contribution to NATO?

MR. BRADY: Not in the expanded meeting.

Q Jim, to get back to the Thatcher and British economy question, on the South Lawn,both of them declared themselves free enterprise apostles against -- they pursue basically the same policies. How does the President, though, expect to avoid the very kind of economic mess she's created over there if he's going to follow the same policy?

MR. BRADY: Well, I don't think the situations are parallel.

Q In what way? Why can we expect a different scenario here with the same policies being followed by Reagan?

MR. BRADY:
Because while the tax rates were lowered at the top, the value-added tax -- the sales tax was doubled.

Q That's a consumers' tax. That doesn't have any investment or savings and --

MR. BRADY: It's an increase to the tax burden. You can't lower one taxes with one hand and double another tax with the other hand.

Q Well, you don't want people to spend the money on consumer goods anyway. You want them to save the money, so a consumers' tax is not really against what you would think --

MR. BRADY: Well, it's very -- the question revolves --

Q What are the differences, Jim? I'm still trying to get -- is that --

MR. BRADY: You have a country in which the unions are extremely strong. You have a country which has a very, very large segment of it that's nationalized as opposed to here and I think you have the difference between reducing the entire tax burden as opposed to not taking with one hand and giving back with the other.

Q But you've got your own consumer tax in your own budget to the extent of $4 billion in the next two or three years with your user fees. Those are consumer taxes, so it may not be as sharp as doubling DAT, but you're going in that direction right now.

MR. BRADY: I think the key -- what you said was it's not something with the effect of doubling the value-added tax.

Q So, you fully foresee the United States --

MR. BRADY: One of the things we have prepared, which I'll be happy to give you, is a staff paper that compares the economy in Britain with our economy and the approach, if that would be helpful.

Q Have you got that?

MR. BRADY: Yes. I can get that.

Q Does the President approve of Chairman Volcker's -- the decision by the Fed to restrict the growth of the money supply as Volcker testified yesterday?

MR. BRADY: Certainly not expanding the growth of the money supply. One of the problems that happened in Britain was the Bank of England monetized them to debt and that had a profound effect on their economy.

Q So, the President approves of what Volcker said the Fed was going to do?

MR. BRADY: He certainly approves of that direction.

Q Is today's Cabinet meeting going to zero in on the new cuts that have to be made in the economy?

MR. BRADY: They're--at today's Cabinet meeting, the President's economic recovery plan will be updated and studied.

Q Thank you.

Q How about a press conference, Jim. When is the President going to have a press conference?

MR. BRADY: Excuse me. I forgot to make an announcement here. Mr. Cleland's resignation has been accepted and the acting administrator of VA is Rufus H. Wilson. He is currently the Deputy Administrator of VA. Has been there for many years. And we're handing out a hand-out on this.

Q And will you have--appoint the new VA administrator?

MR. BRADY: Yes, we will.

Q He's just acting as --

MR. BRADY: He's just acting now.

END 2:12 P.M. EST

THE WHITE HOUSE

Office of the Press Secretary

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For Immediate Release February 26, 1981

EXCHANGE OF TOASTS
BETWEEN THE PRESIDENT AND
MARGARET THATCHER, PRIME MINISTER OF BRITAIN

The State Dining Room

9:24 P.M. EST

THE PRESIDENT: Prime Minister Thatcher, Nancy and I welcome you, Mr. Thatcher, and your daughter Carol to this house and it's my deep hope that as the leaders of two nations whose relationship is vital for the preservation of human freedom that we'll be in close and frequent consultation in the years ahead. Absolute trust between the Prime Minister of the United Kingdom and the President of the United States will continue to be the hallmark of Anglo-American cooperation. (Applause.)

Roosevelt and Churchill, Attlee and Truman, Eisenhower and MacMillan. These names inseparably link in recent history. The legacy of their relationships is nothing less than the security and the freedom enjoyed by our nations today. We will continue in this great tradition, not only because it's essential, but also because our two peoples expect and insist on it.

Our joint love of liberty was spawned by a common heritage. It was English history and tradition, with the Magna Carta and the Common Law which gave birth to our Declaration of Independence. It was men of enormous intellectual capacity and courage, John Locke, Adam Smith, Thomas Jefferson, Alexander Hamilton, and John Stewart Mill whose powerful ideas fed our notions of individual freedom and the dignity of all people.

In her London address last month to the Pilgrim Club the Prime Minister affirmed that her own political convictions are founded in that love of freedom, that rejection of tyranny and repression which inspired the pilgrim fathers and those who followed them to America. Well, it's widely known that I share many of your ideals and beliefs, Prime Minister Thatcher. My admiration for you was reinforced during today's productive meeting. I believe, however, that our relationship goes beyond cordiality and shared ideals. In these days the survival of our nations and the peace of the world are threatened by forces which are willing to exert any pressure, test any will, and destroy any freedom.

Survival in this era requires us, as those who preceeded us, to take freedom in the palm of our hands and never to cower behind a veil of unrealistic optimism. We shall learn from those who spoke of the need for vigilance, even when speaking out was not popular. Winston Churchill was such a man, a man more than any other who symbolizes the link between our two nations. He was the son of Britain, but the child of a New World woman. His dedication to principle was not without hardship, yet his courage never wavered. We, undeniably, are the beneficiaries of the freedom he loved and the peace that he sought.

MORE

He had two nations in his soul but he touched all nations with his spirit. But today peace, Churchill's peace, is in danger. It may serve us to look to the wisdom of his words. He said, and I shall quote him, "The peace will not be preserved without the virtues that make victory possible in war. Peace will not be preserved by pious sentiments expressed in terms of platitudes or by official grimaces and diplomatic correctitude, however desirable these may be from time to time. It will not be preserved by casting aside in dangerous years the panoply of warlike strength. There must be earnest thought; there must also be faithful perseverence and foresight. Great Heart must have his sword and armor to guard the pilgrims on their way. Above all, among the English speaking peoples there must be the union of hearts based upon conviction and common ideals."

After our discussions today I am confident that we too will be as Great Heart and guard the world's pilgrims on their way. Together we'll strive to preserve the liberty and peace so cherished by our peoples. No foe of freedom should doubt our resolve. We will prevail because our faith is strong and our cause is just and the same Winston Churchill that I quoted with that lovely passage also had the wit and humor that in Canada in the dark days of World War II he could call attention to the fact that the enemy had threatened to wring the neck of the United Kingdom, and after the Battle of Britain, as he was speaking, who will ever forget him leaning over that podium and saying, "Some chicken. Some neck." (Laughter. Applause.)

MORE

I ask you now to honor our most welcome guest this evening and her country by joining me in a toast to Her Majesty, the Queen. The Queen.

You are very welcome here. We're delighted that you'd come. (Applause.)

PRIME MINISTER THATCHER: Mr. President, ladies and gentlemen, may I first thank you, Mr. President, for your wonderful hospitality this evening, for this remarkably beautiful banquet, and for the lovely music which you arranged for our delight.

I thought as I heard that song"I'll be seeing you in all the old familiar places." This is quite a nice, old, familiar place in which to see you, Mr. President.(Laughter.) And I hope we'll be able to sing that song for very, very many years. And what was the other? "There will be bluebirds over the White Cliffs of Dover tomorrow when the dawn is free." Well, the dawn is free now. And you and I have to try to make something of it which would match the hopes of those who made it free.

We started this momentous day on your lawn, Mr. President, in weather, that when it occurs at some public occasion with us, we describe as royal weather. And it's a great pleasure to end the day in your house at this glittering dinner party as guests of you and Mrs. Reagan.

We've heard so much of your oratory as a speaker and it's been such a delight to hear you speak. And I've been very moved by what you've said.

I'm told, Mr. President, that when you and Mrs. Reagan were inspecting your new home where we're dining this evening to see what refurbishment was needed, you came across some charred areas, vestiges of certain heated events in 1812.(Laughter.) I don't think I need apologize for them because I'm relieved to hear that Mrs. Reagan saw in this not a source of historical reproach, but an opportunity for redecorations (laughter) and very beautiful it is. (Applause.)

This sense of renewal that's in the air is making itself felt far beyond this lovely house. You, Mr. President, won a massive victory in November after a marvelous campaign in which you made clear your determination to set your country on a fresh course. You underlined that determination last week in a budget speech which I very much admired and so it seemed to me did all those who heard it.

Mr. President, when you come to visit us in Britain, and I do hope it will be soon, you'll find that there's been change and renewal in the Old World too. Indeed, not long ago I was reading a book whose author had visited London shortly after the war. He wrote that "in spite of the homesickness, the hunger and annoyance at socialist bumbling, my farewell to London held its measure of regret. There were friendships made and cherished to this day.

Mr. President, you were that homesick and hungry author. You will remember the book which you wrote after, I think, you'd been making a film. Was it the Hasty Heart in London?

Well, I doubt whether I'll be able to do much about your homesickness. You may even feel hunger if you're in search of a real American jelly bean in London. (Laughter.) But when you do come over, I can promise you two things. The first is the friendship of the British people and the second that the years of socialist bumbling are at an end. (Applause.)

I am proud to lead a Conservative administration in Britain. For me, and I know for you, too, conservatism does not mean maintenance of the status quo. It means maintenance of the old values, the only background against which one could make the changes and adaptations which have to be made to keep abreast of the technological change that we need to embrace for a prosperous future.

Conservatism means harnessing, but still more, the liberation of the fundamental strengths and resources which make a country great, which make its people prosperous and self-reliant.

MORE

As a Conservative I want determined and decisive government. But that's something very different from an all-powerful government. You and I, Mr. President, believe in strong governments in areas where only governments can do the job, areas where governments can and must be strong, strong in the defense of the nation, strong in protecting law and order, strong in promoting a sound currency. If we do these things very well we shall indeed be leaders of strong government doing the things that only government can do.

But for too long and in too many places we've seen government assume the role of universal provider and universal arbiter. In many areas of our daily life there are hard but essential choices to be made. But in a free society those choices ought not to be made by government but by free men and women and managers and workforce alike whose lives and livelihood are directly affected.

Mr. President, wall-to-wall government is no substitute for that freedom of choice. Wall-to-wall government is economically inefficient and morally demeaning to the individual. Just take a look at those countries where the art has been brought to its cold, callous perfection to see where that leads.

Mr. President, in Britain's case we've set ourselves to reverse a process of industrial decline which has lasted decades. We too seek to release the real energies of the wealth-creating sector in the first place and, above all, by conquering the crippling forces of inflation. We're winning that battle. The cost is heavy, particularly in terms of the present levels of unemployment. But we won't solve that problem just by reflation, whatever the short term attractions.

The only true solution is a revitalized economy, providing real jobs of permanent economic viability. That is our goal and we're going to stick to it. Now above all is the time to stay on course. I say that, Mr. President, not least because only a firmly based economy can enable us to act as a strong and effective partner in an alliance, and that we are determined to be. Because an enduring alliance with the United States is fundamental to our beliefs and our objectives. Never in the post-war years has that alliance been more essential to us all. You spoke of Winston Churchill. We all do. Nearly 50 years ago Winston told our two countries that together there is no problem we cannot solve. We are together tonight. Together let us prove him right.

Mr. President, it is my very, very great pleasure to ask the assembled company to rise and drink a toast to our wonderful host, the new leader not only of the United States but of the whole of the western world. I give you the toast, the President of the United States, President Reagan. (Toast.) (Applause.)

THE PRESIDENT: Madam Prime Minister, thank you very much. And now may I invite all of you to go to the Green and the Blue and the Red Rooms for coffee and liqueurs and from there then make your way into the East Room where you started this evening and where we are going to be entertained for a period by the Harlem Ballet. So I think we shall lead the way and all have our coffee in there.

That is as soon as the news media gets out of the way.

END 9:41 P.M. EST

MRS THATCHER AT BLAIR HOUSE - WASHINGTON PRESS CLUB

PRESS CONFERENCE - US PRESS

THURSDAY 26 FEBRUARY

Mrs Thatcher; First may I apologise for keeping you waiting. As always happens the meetings on Capital Hill over-ran just a little bit because there were so many questions. We've had really a wonderful day, the centrepiece of course, after the welcoming ceremony this morning, was the talks I had with President Reagan and Secretary Haig which ranged over most of the major international problems of the day, and of course also naturally I am not a little interested in some of the economic programmes which have been announced. I think one is very impressed indeed with the amount of care and thought that is being given to working out the policies of almost each and every one of the international problems. And the care and thought not to pronounce before those policies are fully worked out. It is a conservative, with a small "c" approach and if I may say so, I think it's absolutely right. There are a tremendous number of really big issues, some of which have so far defied elucidation which do need the steps to be carefully analysed before they are embarked upon. You would natu rally expect that there has been a meeting of minds. Where you have an Administration which is so much in tune with the views that we take, both internationally and on economic matters, its not surprising if the dialogue does go rather well and rather easily. The points of time of course, of approach is slightly different. I'm in the period where one has embarked on the policies and one is having to stick them through some of the difficult times that we are getting. And here of course the fortunate thing is that the policies here are being embarked upon, I think must feather through the world recession from the one which I had to face and that undoubtedly will be an advantage. But we very very much enjoyed the day. More than enjoyed the day. We do realise that the lines of policy have been laid down in general and are now

being worked out steadily, systematically and deeply in detail. Now I think it may be as well if you ask questions, and I will try to answer them as briefly and quickly as I can.

Q; (Associated Press) ...differences in the American and British economic policies. What to and not to look out for?

Mrs T: No indeed, I think he's chosen just those very things which we also embarked upon and I think he's chosen to do them very boldly indeed, particularly the programmes to cut expenditure and it is the one thing which I could have wished that we had been even more successful at. It would have helped us very much more now, had we been able to get more off current expenditure than we have. We were faced with a number of problems which do not effect him. We were faced with an end of an incomes policy at which all the distortions induced by that policy unwide and put very heavy burdens on the Treasury. He is not faced with that and I think therefore the chances should be greater than ours of securing larger reductions in current spending. He is also not faced with a number of other problems but I won't go on about those.

Q; (Wall Street Journal, Karen House) Regarding US/UK/European Security Pact in the Gulf

Mrs T: I'm not sure that we're quite of one mind about this, or I've fully understood you. Because I don't quite see the difficulties which I think you see. Because obviously you can only do it with the consent and co-operation of those in the region. If you've got the consent and co-operation and facilities there, then it consists of co-operation between certain members of NATO. It cannot be done by NATO under NATO command. Because NATO's writ does not by definition run beyond NATO boundaries. It can nevertheless be done by members of NATO acting together for any rapid deployment force with which we would be

interested in trying to help. But I don't quite see the subtlety thats in your mind.

Q: Inaudible

Mrs T: With due respect we have some ships there, although most of our naval forces are seconded from NATO. For example 30% of the force, the NATO naval forces, comes from Britain. Nevertheless we still have some ships in the Gulf. Our French friends do, though of course they are not seconded to NATO so they were able to detach theirs more quickly. We keep our secondments to NATO, we've still got some NAval forces in the Gulf. So of course, does the United States. So you've actually got the naval forces there. We do of course have contacts in the area for a very long time, and there would be nothing new to Britain about the Gulf, and indeed of course we do do a certain amount of co-operation with Oman as it is. So its not new to us in any way. And I think you are perceiving difficulties which I am afraid I don't visualise at the moment.

Q; (Westinghouse Broadcasting, Jerry Edwin) Whether the Government should help the weak industries

Mrs T: Well now we have a whole series of a kind of industry which you don't. We have a number of nationalised monopoly industries and a number of others which are in the public sector but not monopolies. Let's deal with the nationalised monopolies like Coal, electricity, telecommunications. All of these are nationalised monopolies. All of them suffer through a recession. If they were in the private sector they would probably have had to adapted before that recession came.. Being in the public sector it is very much more... they don't adapt so well be cause theres no substitute for competition. And inevitably it

does mean it is a considerable drain on the Treasury, first which of course is financed by the tax-payer. So we have to meet some of those while urging them the whole time to slim down their labour force. Now when it comes to the otherpublic sector industries. Like for British Airways, is a public sector industry, but not a monopoly. British Leyland is a public sector industry but not a monopoly, British Steel Corporation, public sector but not a monopoly. Now we're tackling British Steel and British Leyland again though it had enormous investment put into them by trying to cut down their over-manning, to get rid of demarcation disputes and for the first time to have the right number of people suitable to the latest investment and technology. That will be the first time that that has happened. One of the endemic problems of Britain has been over-manning and demarcation disputes. And one of the side effects of the really rigerous economic policy or disciplined economic policy which we are pursuing is to get the manning levels where they should be. So those we indeedhave to help. But we do it on the basis that they slim down to a size at which they will become viable and profitable. Now others, there are a number of pieces of legislation under which we could help. But it's rare for us to do so outside what we call a development area. A development area, being one of course where we have unusually high employment which signifies the development area where we have special legislation to see them through a difficult period. The policy that we have followed is yes, we will try to see them through a difficult period provided we're working with the market and not against it. That is to say, we're not just prepared to subsidise yesterdays jobs if they haven't a future tomorrow. We will look at those industries and say - we'll try to help you through the effects of change, but you must in fact make the change. Is that clear? Good.

Q; (Eaton.....) Would the Prime Minister be rejected by her own party in six months time due to her economic policies?

5

Mrs T: But I don't expect political defeat. Look what we are doing economically, its top priority - we have to fight inflation. Now Britain was the first, I think, to adopt the reflationary policies time and time again through the last 30 years. And what has happened in Britain is that as we've had each main Parliament, we were in for about 13 years and then the Labour party was in for a time, then were in, then the labour party. If you take each of those periods you'll find that the average rate of inflation has gone steadily up. We started with about 3% in MacMillan's time and even before that and now the average rate of inflation in the last Parliament was about 15% - average - the heights of inflation under Socialism was 26.9% - the average was 15%. You have the average rate of inflation going up and its been followed by the average rate of unemployment going up. Now if we were to follow the same policy we would still have that average rising of inflation and unemployment. What I set out to do is to break that steady increase, and the way to break it is to break the inflationary grip first and then you will have the basis of building up more investments and the confidence to develop and get real jobs and get your unemployment down. So the way to tackle that terrible grip, that terrible upward turn of inflation and unemployment is really to tackle inflation, which we are doing now, down now from its height which this time was 22% - we're down to 13% at an annual rate and you can take it overthe last 6 months and anualise that, its about 9%. So we really are getting that down. And then we believe that eventually the unemployment rate will come down. But it will take a little bit of time, because we could of course produce a very good deal more than we are even with the present force of employed people. One further thing. We in Britain have a very high proportion of the population of working age, age 16 - 64 seeking work and in work. If you take Europe as a whole only Denmark has a higher proportion of the labour force from 16 - 64. Only a higher proportion than we do actually seeking, I say seeking, IN the labour force. The reason is we have

a large proportion of married women in it. And even with our levels of unemployment we believe that after Denmark we have the highest proportion of the 16 - 64 age group actually in jobs. So I shall persist in trying to get down inflation much further. If we don't we shall not be competitive with Europe, where German inflation is about 5% and you can't be competitive if you've got an inflation rate of 10 or 13% and they're 5%. You've got to get British industry to be competitive. And thats the only way through to get more genuine jobs and a higher rate of prosperity in the future. Sorry, that was a long reply.

Q; (The Times, Patrick Brogan) How would the U.K. help the U.S. in El Salvador?

Mrs T: We did in fact issue a statement before we came which has been very well received.

Q; (A.B.C., Bob Clarke) At what date did you decide to scale down taxes? Should a tax decrease take place regardless of what happens with the economy?

Mrs T: Well there never anything of regardless of what happens to the economy. There can't be because no Government can avoid some of the realities that you face. So no-one can ever say regardless of what happens to the economy. You can have a very firm strategy, sometimes you can get it in the time scale you want, sometimes you can't. And what happened in our case was that we came into power and the increase in oil prices was starting then and as you know proceeded apace since and I think the actual oil prices have gone up by about, dollar per barrel, as we of course have kept to the world price of oil all the time - gone up by about 50%. Now that has caused a world recession

has affected our industries. As our industries were over-manned we suffered worse than some of our continental competitors. It has in fact reduced the revenue coming in, it has at the same time increased the expenditure going out because of the nationalised industries which I've explained. We've got a defence where all the orders were completed earlier and therefore the bills had to be paid earlier and also because there was a higher level of unemployment than one had anticipated. So you have got reduced revenue, increased expenditure and you could obviously just not cut your taxes to the same level as you would have wished to have done. Had we come in not at a time of world recession it would have been easier. But the world recession was a reality. It hit our car industry, it hit your car industry. It hit our steel industry, it hit your steel industry and the same on the Continent. Now these are realities. That is why of course the level of taxation has not come down as much as one would have wished. The level of expenditure is higher than one would have wished. But in fact we did take down the direct rate of tax in our first budget. But I'm the first to admit that we've switched some of it, or most of it to an indirect rate of tax. But theres no way of avoiding the world reality. There just isn't.

Q; (Peggy Simpson....) With the Prime Minister's experience of her economic policy could she predict what the U.S. unemployment and inflation rate will be in 9 months time?

Mrs T: My dear, I have one rule - never predict these things. You can't, you'll be wrong.

Q; (Peggy Simpson....) Has there been a backlash against your policies

Mrs T: Well, I wouldn't necessarily say that there has been a backlash against ones policies. Of course when you're getting rising unemployment and a number of bankruptcies, of course there is great concern and I'm one of the first people to be concerned. But I know that if we are to break that terrible rising curve of inflation and unemployment. I have to break it, if we're ever to have any hope of having something much more akin to a stable currency and a higher level of jobs than we've got now. I know we have to go through with it and I think that one of the worst things a government can do is to take the short term easy popular road knowing full well that it is sacrificing the longer term future of its people. And its because I think of many many people in Britain realise that many knew the over-manning, they knew the demarcation disputes. They knew that, though they thought they were efficient some of them they were not and they are in factbecoming efficient. They know that they'll be more competitive and fitter and they know that they will in fact have a better future and a better chance of prosperity but in fact we still have a tremendous support for the road that we're on. I must leave President Reagan to take responsibility for his problems.

Q; (Wall Street Journal, Walter Mossberg) Why was there a European initiative on the PLO/Middle East?

Mrs T: Well I never discuss details of what was said. Of course one discusses the Middle East and may I make clear the position on the European iniative. It is not meant in any way to compete with American negotiations. It was taken at a time when there was not likely to be a great deal happening on the Middle Eastern front as it was coming up to an election period. Nevertheless at that time there were clearly a number of factors which needed to be clarified and elucidated. We have been for ages in connection with the Middle

Eastern problems been using old series of words - the legitimate rights of the Palestinian people. A self-determination, a home for the Palestinian people, the right to Israel to exist behind secure borders. No-one had in fact translated those general phrases into actual practical propositions which could be reached by a series of options. No-one had in fact gone round and discussed these terms with a number of the adjacent countries or the countries interested. We thought we could do that during that particular period and that process is under way. It is in fact a slow process - its a complementary process to the American negotiations and how the American Administration wishes to continue its negotiations in the Middle East is I believe, being very carefully studied at the present time. There is of course an election in Israel and doubtless not a great deal will happen before that election is over but then I expect the American Administration will carefully consider how they can go ahead. We're not in a business to compete with it. We are in a business of trying to elucidate some of these problems so that when they are elucidated we might be better able to go ahead on this very difficult and long-standing problem.

Q; (Toronto Star , Jack Ward ?) What is the present situation in regard to the constitution between the U.K. and Canada?

Mrs T: We have not yet received a request from the Canadian Government for the ? of the Canadian constitution. In the meantime a Select Committee of the House of Commons has considered the matter and has produced a Report and the Government will have to reply to that report in detail as soon as we are ready to do so. I don't think it would help if I went very much further. When we get the request from the Canadian Parliament we will try to deal with it as expeditiously as we can in accordance with precedent and the law of the land.

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Q; (St. Louis Post-Dispatch, Richard Dudman) What is the Prime Minister's view of the Brehznev speech and the possibility of a Summit meeting resulting from it?

Mrs T: As a speech which must be very very carefully considered in all its aspects before any reply is given. But when one goes to Summits the steps and every aspect must be very very carefully prepared. I know journalists tend to love Summits and they've a tendency, especially on the part of our people who think that if only everyone gets round a table all the problems which have not been solved will miraculusly be solved. That is not so, and its absolutely vital that the steps be very very carefully prepared and that each and every aspect of is carefully considered before an answer was given. I had to reply in the House of Commons to a similar question and said virtually what I said now but I really thought that you must bear one of two things in mind. First that if there is a genuine wish to improve relations it could so easily done by a withdrawal from Afghanistan which would have been something very tactical which goes a great deal further than rhetoric. Secondly that I have noticed the apparent desire to have a moratorium on Theatre Nuclear Forces. But I noticed that that desire for a moratorium came at a time when the Soviet Union had vastly superior Theatre Nuclear Force to the West. Vastly superior and that those Theatre Nuclear Forces, multiple war-heads are coming into operation at the rate of one every five days. And third that I noted what you said about ? building measures which of course has been one of t he great proposals of our French allies as they've said the confidence measures must go down to the and there must be an enlargement of the area by the West but as you know the whole of Western Europe is involved it didn't seem to me that that made - we didn't quite know what that meant because we would be in the sea. If all

of western Europe was involved in those we would like to know just exactly what some furthe r response from the West meant in that connection. So there are a tremendous numbe r of things to be considered and really it would be wise to do before any reply is given.
Q: Marjorie Hunter ... inaudible

A: Well I have a lot of Summits as you know. I have all the European Summits and I think its absolutely vital that various of the European countries will of course confer with President Reagan. We the European Head of Government meet 3 time a year - I'm here now and I have not the slightest doubt that other heads of Government will be here so we will keep in regular contact as regards to those Summits. The main Summit of course that is also attended by the President of the United States is the economic Summit, the next one is held in Ottawa in July which President Reagan will be there, and we shall also be there.

Subject.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER, THE RT. HON. MARGARET THATCHER, MP, AND MEMBERS OF THE U.S. HOUSE OF REPRESENTATIVES HELD AT THE U.S. CAPITOL, WASHINGTON, D.C., AT 1655 ON THURSDAY 26 FEBRUARY 1981

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Those present: (List attached)

Following speeches of welcome by Congressman Zablocki Chairman, Foreign Affairs Committee), Congressman Trent Lott (Minority Whip) and Congressman Jim Wright (Majority Leader), the Prime Minister noted that she was the first Head of Government officially to visit the new President. The people of Britain and the United States had the privilege of being free: it was up to them what they made of their future. The new Administration had set down a new course very early on and she hoped that it would have the resolve to see it through. She herself was beyond the setting down period and into the resolve period.

The Prime Minister said that she and President Reagan had very similar views on the need of the free world to be determined to defend its own freedom and to extend the frontiers of freedom. The West must proclaim the case of freedom unceasingly. There was an important battle to be fought and refought, particularly vis a vis those countries which might be susceptible to Soviet influence: they should be reminded that accepting arms from the Soviet Union could involve the surrender of freedom. The West faced a danger that the NATO line, which itself had held firm, would be undermined by hostilities and subversion elsewhere in the world. It was a tremendous asset to have such a close identity of analysis and prescription between the British and U.S. Governments.

Turning to the economy, the Prime Minister said that it was time to return greater freedom to the private sector which meant reducing the level of public spending. To make

/ restrictions

restrictions hampered the creation of wealth. Governments on the whole did not create wealth; they were rather better at spending the money that others had created. A bold and courageous step had been taken by the new Administration to reverse this process.

Congressman Biaggi (Ad-hoc Committee for Irish Affairs) asked the Prime Minister whether, following the success of her meeting with Mr. Haughey in Dublin in December, she would consider negotiations to include all sections involved in fighting in Ireland. The Prime Minister said that meetings such as those between herself and Mr. Haughey took place within the framework of the European Community and were bilateral meetings. The significant thing about the last occasion was that, for the first time, such a meeting had taken place in Dublin. It was important to proceed gently so as not to alarm people about what the intentions of the two Governments were.

Congressman Wolpe (D Michigan) asked about developments in Zimbabwe. Lord Carrington replied that one of the most useful things which the United States could do would be to provide economic help for Zimbabwe. South Africa apart, Zimbabwe was one of the strongest economies in the region. If Zimbabwe could be put on its feet it would have a robust economy and would be a stable bastion of freedom in the area.

Congressman Bethune (R Arkansas) asked about the psychology of entitlement expectation. The Prime Minister said that for the past 15-20 years Britain had had a series of incomes policies, each of which had been broken in its turn and had led to massive increases in pay, regardless of what the country could afford. Her own policies were based, not on new economics, but on old principles, i.e., bringing down both inflation and wage rates. There was now no Government norm for wages so no distortions to unwind at the end of a period of wage policy.

/ Congressman Dornan

Congressman Dornan (R California) referred to the building of the B1 bomber in California and asked whether it would be an idea to keep such a strategic force alive through a cooperative venture. The Prime Minister said that a number of new ideas in aerodynamics had come from Britain and alluded to the export success of the Hawk Trainer, the Harrier aircraft and Tornado.

Congressman Solarz (D New York) asked what the appropriate Western response should be in the event of a Soviet move into Poland. The Prime Minister said it would be undesirable to set out a laundry list, particularly as one could not predict the precise circumstances of any intervention. But it was vital that the West compare notes and be in a position to respond immediately. It was obvious that if the Soviet Union moved into Poland the whole pattern of relations would be drastically altered with detente coming to an end.

Congressman Kemp (R New York) said that the Camp David Accords had been one of the major achievements of the Carter Administration. There was concern in the United States that the European Community had trespassed on the negotiating process in the Venice Declaration. The Prime Minister said that it was not the European Community's intention to compete with the United States but to do something complementary to US efforts. It was vital to keep alive movement towards a settlement. There were a number of phrases which were constantly used in the Middle East context but which had never been defined e.g., self-determination for the Palestinians legitimate rights; a homeland; secure boundaries for Israel etc. The European Community had set out to do a reconnaissance and that was continuing. President Reagan for his part would wish to give earnest and deep consideration to the next steps, and it was right that he should take his time bearing in mind the forthcoming elections in Israel. The President would wish to decide thereafter what to do.

Congressman Jack Brooks (D Texas) hoped that Britain would be able to meet her pro rata share of NATO costs. The Prime Minister said that Britain had achieved a 3% increase in real terms in the first year and would achieve at least 8% in real terms over a three year period. She could not promise 9% but Britain was trying to pull her weight.

/ Congressman Lagomarsino

Congressman Lagomarsino (R California) asked about Britain's economic future. The Prime Minister said that the last six monthly figures showed an inflation rate of 9% on an annual basis which was a remarkable achievement and had not been easily brought about. Currently there was high unemployment in Britain but this would ultimately be brought down. The level of unemployment was higher than the reduction in output would lead one to expect, which was in turn an indication of previous overmanning. This overmanning was now coming to an end so that companies should be in a position to take part in an expansion in world trade.

The meeting ended at 1730 hours.

4 March, 1981.

DSR 11C

Typescript wins.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER, THE RT HON MARGARET THATCHER MP, AND MEMBERS OF THE US HOUSE OF REPRESENTATIVES HELD AT THE US CAPITOL, WASHINGTON DC AT 1655 ON THURSDAY 26 FEBRUARY 1981

Those present:

(List attached) [NOT to be typed up!]

[Change PrsT to Prime Minister throughout.]

1. Following speeches of welcome by Congressman Zablocki (Chairman, Foreign Affairs Committee), Congressman Trent Lott (Minority Whip) and Congressman Jim Wright (Majority Leader), ~~the Prime Minister~~ Mrs Thatcher noted that she was the first head of government officially to visit thenew President. The people of Britain and the United States had the privilege of being free: it was up to them what they mqde of their future. The new Administration had set down a new course very early on and she hoped that it would have the resolve to see it through. She herself was beyond the setting down period and into the resolve period.

2. Mrs Thatcher said that she and President Reagan had very similar views on the need for the free world to be determined to defend ~~their~~ its own freedom and to extend the frontiers of freedom. The West must proclaim the case of freedom unceasingly. There was an important battle to be fought and refought, particularly vis a vis those countries which might be susceptible to Soviet influence: they should be reminded that accepting arms from the Soviet Union could involve the surrender of freedom. The West faced a danger that the NATO line, which itself had held firm, would be ~~outflanked~~ undermined by hostilities and subversion elsewhere in the world. It was a tremendous asset to have such a close identity of analysis and prescription between the British and US Governments.

3 Turning to the economy, Mrs Thatcher said that it was time to return greater freedom to the private sector which meant reducing the level of public spending. To make

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(D New York)
7. Congressman Solarz asked what the appropriate Western response should be in the event of a Soviet move into Poland. Mrs Thatcher said it would be undesirable to set out a laundry list, particularly as one could not predict the precise circumstances of any intervention. But it was vital that the West compared notes and be in a position to respond immediately. It was obvious that if the Soviet Union moved into Poland the whole pattern of relations would be drastically altered with détente coming to an end.

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The meeting ended at 1730 hrs.

*Tea/Meeting*

*in honor of*

# *The Right Honorable Margaret Thatcher, MP*

*Prime Minister of the United Kingdom of Great Britain and Northern Ireland*

*with Members of the*

*House of Representatives*

*and the*

*Committee on Foreign Affairs*

---

*Hosts:*

The Honorable THOMAS P. O'NEILL, Jr.
*Speaker of the House of Representatives*

The Honorable CLEMENT J. ZABLOCKI
*Chairman, Committee on Foreign Affairs*

Thursday, February 26, 1981
4:30 p.m.

2172 Rayburn HOB

# *Guest List*

## Guests of Honor From Great Britain

The Rt. Hon. Margaret Thatcher, MP, *Prime Minister*

The Rt. Hon. The Lord Carrington KCMG MC, *Secretary of State for Foreign and Commonwealth Affairs*

Sir Robert Armstrong KCB CVO, *Secretary of the Cabinet*

Sir Michael Palliser GCMG, *Permanent Under Secretary of State, Foreign and Commonwealth Office*

Sir Frank Cooper, KGB CMG, *Permanent Under Secretary of State, Foreign and Commonwealth Office*

Sir Nicholas Henderson GCMG, *Her Majesty's Ambassador to the United States*

Mr. C. A. Whitmore, *Principal Private Secretary to the Prime Minister*

Mr. J. L. Bullard CMG, *Deputy Under Secretary of State, Foreign and Commonwealth Office*

Mr. M. J. E. Fretwell CMG, *Her Majesty's Minister, British Embassy, Washington*

Mr. B. Ingham, *Press Secretary*

Mr. N. M. Fenn, *Head of News Department, Foreign and Commonwealth Office*

Mr. M. O'D B. Alexander, *Private Secretary to the Prime Minister*

Mr. G. G. H. Walden CMG, *Private Secretary to the Secretary of State for Foreign and Commonwealth Affairs*

Mr. J. Stephen Wall, *First Secretary, British Embassy, Washington*

## Leadership, House of Representatives

The Honorable Jim Wright, *Majority Leader*
The Honorable Thomas S. Foley, *Majority Whip*
The Honorable Bill Alexander, *Chief Deputy Majority Whip*
The Honorable Richard A. Gephardt, *Deputy Majority Whip*
The Honorable Joe Moakley, *Deputy Majority Whip*

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The Honorable Trent Lott, *Minority Whip*
The Honorable Jack F. Kemp, *Chairman, House Republican Conference*
The Honorable Edward R. Madigan, *Chairman, Republican Policy Committee*
The Honorable Guy Vander Jagt, *Chairman, National Republican Congressional Committee*

## Members of the Committee on Foreign Affairs

The Honorable Clement J. Zablocki (Democrat, Wisconsin)
The Honorable L. H. Fountain (Democrat, North Carolina)
The Honorable Lee H. Hamilton (Democrat, Indiana)
The Honorable Jonathan B. Bingham (Democrat, New York)
The Honorable Stephen J. Solarz (Democrat, New York)
The Honorable Andy Ireland (Democrat, Florida)
The Honorable Michael D. Barnes (Democrat, Maryland)
The Honorable Howard Wolpe (Democrat, Michigan)
The Honorable Geo. W. Crockett, Jr. (Democrat, Michigan)
The Honorable Bob Shamansky (Democrat, Ohio)
The Honorable Sam Gejdenson (Democrat, Connecticut)
The Honorable Mervyn M. Dymally (Democrat, California)
The Honorable Tom Lantos (Democrat, California)
The Honorable David R. Bowen (Democrat, Mississippi)
The Honorable William S. Broomfield (Republican, Michigan)
The Honorable Edward J. Derwinski (Republican, Illinois)
The Honorable Paul Findley (Republican, Illinois)
The Honorable Larry Winn, Jr. (Republican, Kansas)
The Honorable Tennyson Guyer (Republican, Ohio)
The Honorable Robert J. Lagomarsino (Republican, California)
The Honorable Joel Pritchard (Republican, Washington)
The Honorable Millicent Fenwick (Republican, New Jersey)

The Honorable Robert K. Dornan (Republican, California)
The Honorable Jim Leach (Republican, Iowa)
The Honorable Arlen Erdahl (Republican, Minnesota)
The Honorable Toby Roth (Republican, Wisconsin)
The Honorable Olympia J. Snowe (Republican, Maine)
The Honorable John LeBoutillier (Republican, New York)

## Other Members of the House of Representatives

The Honorable Beryl Anthony, Jr. (Democrat, Arkansas)
The Honorable Les Aspin (Democrat, Wisconsin)
The Honorable Don Bailey (Democrat, Pennsylvania)
The Honorable Anthony C. Beilenson (Democrat, California)
The Honorable Douglas K. Bereuter (Republican, Nebraska)
The Honorable Ed Bethune (Republican, Arkansas)
The Honorable Edward P. Boland (Democrat, Massachusetts)
The Honorable Jack Brooks (Democrat, Texas)
The Honorable Phillip Burton (Democrat, California)
The Honorable Don H. Clausen (Republican, California)
The Honorable Tony Coelho (Democrat, California)
The Honorable E. Thomas Coleman (Republican, Missouri)
The Honorable Silvio O. Conte (Republican, Massachusetts)
The Honorable William L. Dickinson (Republican, Alabama)
The Honorable John D. Dingell (Republican, Michigan)
The Honorable Floyd J. Fithian (Democrat, Indiana)
The Honorable William D. Ford (Democrat, Michigan)
The Honorable Wyche Fowler, Jr. (Democrat, Georgia)
The Honorable Sam Gibbons (Democrat, Florida)
The Honorable Dan Glickman (Democrat, Kansas)
The Honorable Tony P. Hall (Democrat, Ohio)
The Honorable John Paul Hammerschmidt (Republican, Arkansas)
The Honorable W. G. (Bill) Hefner (Democrat, North Carolina)
The Honorable Frank Horton (Republican, New York)
The Honorable James J. Howard (Democrat, New Jersey)
The Honorable Jerry Huckaby (Democrat, Louisiana)
The Honorable Manuel Lujan, Jr. (Republican, New Mexico)
The Honorable Robert McClory (Republican, Illinois)
The Honorable Joseph M. McDade (Republican, Pennsylvania)
The Honorable Stewart B. McKinney (Republican, Connecticut)
The Honorable Joseph G. Minish (Democrat, New Jersey)

The Honorable G. V. (Sonny) Montgomery (Democrat, Mississippi)
The Honorable John P. Murtha (Democrat, Pennsylvania)
The Honorable James L. Oberstar (Democrat, Minnesota)
The Honorable Donald J. Pease (Democrat, Ohio)
The Honorable Melvin Price (Democrat, Illinois)
The Honorable James H. (Jimmy) Quillen (Republican, Tennessee)
The Honorable Frederick W. Richmond (Democrat, New York)
The Honorable J. Kenneth Robinson (Republican, Virginia)
The Honorable Peter W. Rodino, Jr. (Democrat, New Jersey)
The Honorable Fernand J. St Germain (Democrat, Rhode Island)
The Honorable Norman D. Shumway (Republican, California)
The Honorable Floyd Spence (Republican, South Carolina)
The Honorable J. William Stanton (Republican, Ohio)
The Honorable Louis Stokes (Democrat, Ohio)
The Honorable Samuel S. Stratton (Democrat, New York)
The Honorable Paul S. Trible, Jr. (Republican, Virginia)
The Honorable Morris K. Udall (Democrat, Arizona)
The Honorable Bruce F. Vento (Democrat, Minnesota)
The Honorable Harold L. Volkmer (Democrat, Missouri)
The Honorable William C. Wampler (Republican, Virginia)
The Honorable Jamie L. Whitten (Democrat, Mississippi)
The Honorable Chalmers P. Wylie (Republican, Ohio)

### U.S. Members of the Accompanying Party

The Honorable Leonore Annenberg, *Chief of Protocol, Designate, of the United States*
The Honorable Edward J. Streator, *United States Chargé d'Affaires, ad interim, to the United Kingdom*

### House of Representatives Officer

The Honorable Benjamin J. Guthrie, *Sergeant-at-Arms*

### House of Representatives Staff

Dr. John J. Brady, Jr., *Chief of Staff, Committee on Foreign Affairs*
Ms. Elizabeth Daoust, *Staff Coordinator/Protocol*

Subject

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MEMBERS OF THE US SENATE AT 1545 ON THURSDAY 26 FEBRUARY 1981 ON CAPITOL HILL, WASHINGTON, D.C.

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Those present: (List attached)

Senator Baker (Senate Majority Leader) welcomed the Prime Minister, whose visit was very timely since the new US Administration were just beginning to shape a new course for the United States. The US Government's policies would be designed to further the liberty of the free world and would be shaped in consultation with the United States, as in the past.

Senator Robert Byrd (Senate Minority Leader) described Anglo/US friendship as unique and said that close Anglo/US relations were essential to the free world. The United States was pleased to know that the British Government shared their concern about events in Poland.

The Prime Minister said that it was very exciting for her to visit a new Administration which had laid down in advance and very clearly the principal lines of its policy and had had that policy endorsed by the electorate. President Reagan would give clear leadership to the Western world. The British Government welcomed the appointment of Secretary Haig who knew Europe well and was respected by his European colleagues. Britain was doing her bit within the Alliance and did not take the US contribution for granted; the US presence in Europe was essential. The British Government had increased its contribution to NATO by 3% in real terms in its first year in office and this year's figure would be slightly above that.

Referring to Theatre Nuclear Forces, the Prime Minister said that everybody wished nuclear weapons had never been invented but the Soviet Union had more such weapons than the West and if the West wished to have a policy of deterrence than it must be able to deter. Britain had been robust on the TNF issue, as had the Germans and Italians. Some public doubts remained in Belgium and the Netherlands though the governments of those countries agreed with the NATO position. The West should be prepared to talk about

/ reducing

reducing the level of Theatre Nuclear Forces needed to maintain the balance, but that balance must be a true one - verified and monitored.

The Prime Minister said that because the NATO shield was an effective one the Soviet Union had to look elsewhere to foment trouble and thus one saw outbreaks of hostility girdling the globe. It was characteristic of the behaviour of a communist country that Vietnam had chosen to attack her communist neighbour, Cambodia, rather than improve the living standards of her own people.

Turning to President Brezhnev's recent speech suggesting a US/Soviet summit, the Prime Minister referred to its extreme canniness. Her own reaction in the House of Commons had been to undertake to study it carefully but to make the point that the withdrawal of Soviet troops from Afghanistan would have been the most effective signal that could be made to the West.

The Prime Minister said that the Polish situation represented a fundamental change from anything that had gone before. We were seeing the rise of a new centre of power in a communist country. Since this was something which no communist state could stand, we were in effect seeing the most serious challenge to communism ever mounted. It was vital that there should be no outside interference in Poland.

The Prime Minister said that while the West faced many problems, it must not be downhearted and should look on what appeared to be a catalogue of gloom and doom as a challenge.

Senator Percy (Chairman, Foreign Relations Committee) asked the Prime Minister to comment on the US economic programme. The Prime Minister said that the American economy was very strong and she endorsed the President's approach of trying to unleash the energies of a free enterprise economy and reduce the level of public expenditure. To do that while increasing defence expenditure was a difficult task but she was confident that the US would come through her difficulties more quickly than Britain had done.

/ In reply

In reply to a question about the economy from Senator Pell (Democrat - Rhode Island) the Prime Minister said that her Government had succeed in cutting public expenditure but not in reducing the overall burden of taxation. We were too much a consumer society with too little investment. She hoped that the level of investment in Britain would now improve, although we did not always get the best possible return because of union demarcation disputes and restrictive practices.

Senator Thurmond (Chairman, Judiciary Committee) asked the Prime Minister for her views on the free enterprise system in contrast to what he called the tyranny of socialism. The Prime Minister said that it was impossible to have a free society without free enterprise and we did not shout that fact from the rooftops as much as we should. It was in controlled societies that there were massive food shortages and from such societies that there came the largest number of refugees.

Senator Helms (Chairman, Agriculture, Nutrition and Forestry Committee) said that some of the US media were playing a requiem for Mrs. Thatcher's Government. What was her assessment of the British people's willingness to pull through? The Prime Minister said that the level of unemployment was the principal continuing problem but it was essential to squeeze inflation out of the system so as to restore confidence and sound money. There was always a period during an illness when the medicine was more unpleasant than the disease but you should not stop taking the medicine. She felt that there was deep recognition among the British people that her policies were right. News of a requiem for these policies was exaggerated and premature.

Senator Glenn (Democrat - Ohio) said that Mr. Geoffrey Pattie had made a notable contribution at the recent Werkunda meeting. However, some of the US participants had been shaken by news of the limited contribution NATO allies were willing to make e.g. the Germans who had referred to reducing military force levels. The Soviet Union were on the march and threatening the West's vital supplies of minerals and metals. France was maintaining

/ her position

her position at arms length from the Alliance and the French Foreign Minister, during his recent visit, had made clear that while he thought the Alliance was vital, France was not willing to re-enter it. He wanted to know how the European allies proposed to meet the growing threat. The Prime Minister replied that the Federal Republic would, she believed, meet the 3% target, If war were to break out in the near future Europe would provide the bulk of naval, army and air forces and quite rightly so. In his speech, Mr. Pattie had considered the question of a rapid deployment force (RDF) outside NATO. The NATO countries could not formally operate outside the NATO area and the Germans were prevented from doing so by their Constitution. It would however be a different matter for a number of member countries of NATO to do what they could with the United States to put together an RDF. Britain was willing and anxious to help. As far as Theatre Nuclear weapons were concerned, the West would have enough cruise missiles to meet the threat from Soviet SS20s but there was a parallel duty to try to enter talks to reduce the number of such weapons on either side. One should not underestimate the problems facing the Soviet Union e.g. in Afghanistan and Poland. The fact that the majority of members of the Non-Aligned Movement had turned against the Soviet Union was a major plus.

Senator Lugar, (Chairman, European Affairs Sub-Committee) asked whether, with the wisdom of hindsight, the Prime Minister wished she had cut taxes and expenditure more drastically in Britain. The Prime Minister said that Britain had been bedevilled by a series of incomes policies which had set the norm for two or three years but which had led, when the policy broke down, to a massive surge of wage increases and to inflation. She begged the United States never, never to go the route of such an incomes policy. It was also important to avoid being bedevilled by enormous nationalised monopolies such as existed in Britain which were forever seeking either higher prices or larger Government subsidies.

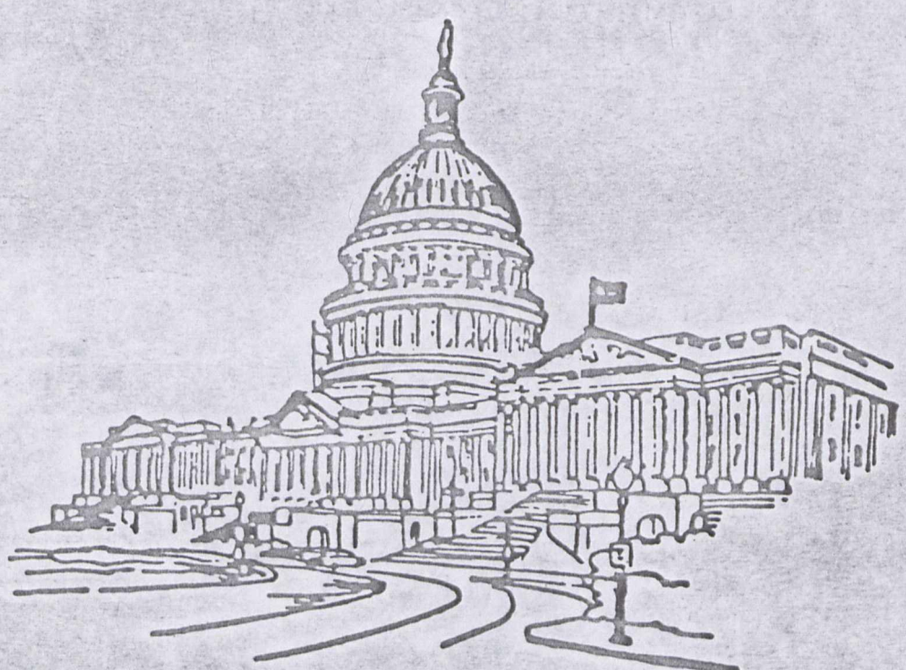
Senator Moynihan (Ranking Minority Member, Select Intelligence Committee) asked what response the West should make to a Soviet intervention in Poland. The Prime Minister said that if the Soviet Union did intervene in Poland there would be a total change in

/ the world

the world atmosphere with an end to detente. It would be unwise to spell out reactions in advance but the West would have to look at trading policies. Already, Britain did not permit high technology sales. She thought that the Soviet Union had a pretty good idea of the kind of Western reaction they would have to face.

The meeting ended at 1630 hours.

4 March 1981



THE UNITED STATES SENATE
COMMITTEE ON FOREIGN RELATIONS

Senator Charles H. Percy, *Chairman*
Senator Claiborne Pell, Ranking Minority Member

and

THE LEADERSHIP, UNITED STATES SENATE:

Senator Howard H. Baker, Jr.
The Majority Leader

Senator Robert C. Byrd
The Minority Leader

# MEETING WITH

# THE RIGHT HONORABLE

# MARGARET THATCHER M.P.

# PRIME MINISTER OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

Thursday, February 26, 1981
3:30 P.M.

S–207 The Capitol
Mansfield Room
Washington, D.C.

## BRITISH GUESTS

The Right Honorable Margaret Thatcher M.P.
Prime Minister of the United Kingdom of Great Britain and Northern Ireland

The Right Honorable The Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs

Sir Robert Armstrong KCB CVO
Secretary of the Cabinet

Sir Michael Palliser GCMG
Permanent Under Secretary of State, Foreign and Commonwealth Office

Sir Frank Cooper GCB CMG
Permanent Under Secretary of State, Ministry of Defense

Sir Nicholas Henderson GCMG
H.M. Ambassador to the United States of America

Mr. Clive Whitmore
Principal Private Secretary to the Prime Minister

Mr. Julian L. Bullard CMG
Deputy Under Secretary of State, Foreign and Commonwealth Office

Mr. Bernard Ingham
Press Secretary, No. 10 Downing Street

Mr. Nicholas M. Fenn CMG
Head of News Department, Foreign and Commonwealth Office

Mr. Michael B. Alexander
Private Secretary to the Prime Minister

Mr. George Walden CMG
Private Secretary to the Secretary of State for Foreign and Commonwealth Affairs

Mr. M J. E. Fretwell CMG
H.M. Minister, British Embassy, Washington, D.C.

Mr. Stephen Wall
First Secretary, British Embassy, Washington, D.C.

## DEPARTMENT OF STATE

Mrs. Leonore Annenberg
Chief of Protocol-designate

Mr. Edward J. Streator, Jr.
Deputy Chief of Mission, American Embassy, United Kingdom

## UNITED STATES SENATE

### PRESIDENT PRO TEMPORE

Strom Thurmond (Republican, South Carolina)

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Howard H. Baker, Jr. (Republican, Tennessee)
Jesse Helms (Republican, North Carolina)
S. I. Hayakawa (Republican, California)
Richard G. Lugar (Republican, Indiana)
Charles McC. Mathias, Jr. (Republican, Maryland)
Nancy L. Kassebaum (Republican, Kansas)
Rudy Boschwitz (Republican, Minnesota)
Larry Pressler (Republican, South Dakota)
Claiborne Pell (Democrat, Rhode Island), *Ranking Minority Member*
John Glenn (Democrat, Ohio)
Paul S. Sarbanes (Democrat, Maryland)
Christopher J. Dodd (Democrat, Connecticut)

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Henry M. Jackson (Democrat, Washington)
Jennings Randolph (Democrat, West Virginia)
Harrison A. Williams, Jr. (Democrat, New Jersey)
Howard W. Cannon (Democrat, Nevada)
John G. Tower (Republican, Texas)
Harry F. Byrd, Jr. (Independent, Virginia)
Ernest F. Hollings (Democrat, South Carolina)
Mark O. Hatfield (Republican, Oregon)
William V. Roth, Jr. (Republican, Delaware)
Lawton Chiles (Democrat, Florida)
Robert T. Stafford (Republican, Vermont)
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Bob Packwood (Republican, Oregon)
Pete V. Domenici (Republican, New Mexico)
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Gordon J. Humphrey (Republican, New Hampshire)
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## OFFICERS, UNITED STATES SENATE

William F. Hildenbrand
Secretary of the Senate

Howard S. Liebengood
Sergeant at Arms

## STAFF, COMMITTEE ON FOREIGN RELATIONS

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Minority Staff Director

Patrick Balestrieri
Professional Staff Member, Majority

Diana Smith
Professional Staff Member, Majority

Cranwell Montgomery
Special Counsel to the Majority Leader

DSR 11C

RECORD OF A MEETING BETWEEN THE PRIME MINISTER, THE RT HON MARGARET THATCHER MP, AND MEMBERS OF THE US SENATE: 1545 ON THURSDAY 26 FEBRUARY 1981 ON CAPITOL HILL, WASHINGTON DC

[Change Rt T to Prime Minister throughout]

Those present:

(List attached) [NOT to be typed up!]

1. Senator Baker (Senate Majority Leader) welcomed the Prime Minister, whose visit was very timely since the new US Administration were just beginning to shape a new course for the United States. The US Government's policies would be designed to further the liberty of the free world and would be shaped in consultation with the United Kingdom, as in the past.

2. Senator Robert Byrd (Senate Minority Leader) described Anglo/US friendship as unique and said that close Anglo/US relations were essential to the free world. The United States was pleased to know that the British Government shared their concern about events in Poland.

3. The Prime Minister said that it was very exciting for her to visit a new Administration which had laid down in advance and very clearly the principal lines of its policy and had had that policy endorsed by the electorate. President Reagan would give clear leadership to the Western world. The British Government welcomed the appointment of Secretary Haig who knew Europe well and was respected by his European colleagues. Britain was doing her bit within the Alliance and did not take the US contribution for granted; the US presence in Europe was essential. The British Government had increased its contribution to NATO by 3% in real terms in its first year in office and this year's figure would be slightly above that.

4. Referring to theatre nuclear forces, the Prime Minister said

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said that everybody wished ~~such~~ nuclear weapons had never been invented but the Soviet Union had more such weapons than the West and if the West wished to have a policy of deterrence then it mustbe able to deter. Britain had been robust on the TNF issue, as had the Germans and Italians. Some public doubts remained in Belgium and the Netherlands though the governments of those countries agreed with the NATO position. The West should be prepared ~~to~~ to talk about reducing the level of theatre nuclear forces needed to maintain the balance, but that balance must be a true one - verified and monitored.

5. The Prime Minister said that because the NATO shield was an effective one the Soviet Union had to look elsewhere to foment trouble and thus one saw outbreaks of hostility girdling the globe. It was characteristic of the behaviour of a communist country that Vietnam had chosen to attack her communist neighbour, Cambodia, rather than improve the living standards of her own people.

6. Turning to President Brezhnev's recent speech suggesting a US/Soviet summit, the Prime Minister referred to its extreme canniness. Her own reaction inthe House of Commons had been to undertake to study it carefully but to make the point that the withdrawal of Soviet troops from Afghanistan would have been the most effective signal that could be made to the West.

7. The Prime Minister said that the Polish situation represented a fundamental change from anything that had gone before. We were seeing the rise of a new centre of power in a communist country. Since this was something which no communist state could stand, we were in effect seeing the most serious challenge to communism ever mounted. It was vital that there should be no outside interference in Poland.

8. The Prime Minister said that while the West faced many problems, it must not be downhearted and should look on what appeared to be a catalogue of gloom and doom as a challenge.

9. Senator Percy (Chairman, Foreign Relations Committee) asked the Prime Minister to comment on the US economic programme. The Prime Minister said that the American economy was very strong and she endorsed the President's approach of trying to unleash the energies of a free enterprise economy and reduce the level of public expenditure. To do that while increasing defence expenditure was a difficult task but she was confident that the US would come through her difficulties more quickly than Britain had done.

10. In reply to a question about the economy from Senator Pell (D-Rhode Island), the Prime Minister said that her Government had succeeded in cutting public expenditure but not in reducing the overall burden of taxation. We were too much a consumer society with too little investment. She hoped that the level of investment in Britain would now improve, although we did not always get the best possible return because of union demarcation disputes and restrictive practices.

11. Senator Thurmond (Chairman, Judiciary Committee) asked the Prime Minister for her views on the free enterprise system in contrast to what he called the tyranny of socialism. The Prime Minister said that it was impossible to have a free society without free enterprise and we did not shout that fact from the rooftops as much as we should. It was in controlled societies that there were massive food shortages and from such societies that there came the largest number of refugees.

12. Senator Helms (Chairman, Agriculture, Nutrition and Forestry Committee) said that some of the US media were playing a requiem for Mrs Thatcher's Government. What was her assessment of the British people's willingness to pull through? The Prime Minister said that the level of unemployment

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unemployment was the principal continuing problem but it was essential to squeeze inflation out of the system so as to restore confidence and ~~influence~~ sound money. There was always a period during an illness when the medicine was more unpleasant than the disease but you should not stop taking the medicine. She felt that there was deep recognition among the British people that her policies were right. News of a requiem for these policies was exaggerated and premature.

13. Senator Glenn (D- Ohio) said that Mr Geoffrey Pattie had made a notable contribution at the recent Werkunde meeting. However, some of the US participants had been shaken by news of the limited contribution NATO allies were willing to make eg the Germans who had referred to reducing military force levels. The Soviet Union were on the march and threatening the West's vital supplies of minerals and metals. France was maintaining her position at arms length from the Alliance and the French Foreign Minister, during his recent visit, had made clear that while he thought the Alliance was vital, France was not willing to re-enter it. He wanted to know how the European allies proposed to meet the growing threat. The Prime Minister replied that the Federal Republic would, she believed, meet the 3% target. If war were to break out in the near future Europe would provide the bulk of naval, army and air forces and quite rightly so. In his speech, Mr Pattie had considered the question of a rapid deployment force (RDF) outside NATO. The NATO countries could not formally operate outside the NATO area and the Germans were prevented from doing so by their Constitution. It would however be a different matter for a number of member countries of NATO to do what they could with the United States to put together an RDF. Britain was willing and anxious to help. As far as ~~Theatre~~ Nuclear weapons were concerned, the West would have enough

cruise missiles to meet the threat from ~~the~~ Soviet SS20s but there was a parallel duty to try to enter talks to reduce the number of such weapons on either side. One should not underestimate the problems facing the Soviet Union eg in Afghanistan and Poland. The fact that the majority of members of the Non-Aligned Movement had turned against the Soviet Union was a major plus.

14. Senator Lugar (Chairman, European Affairs Subcommittee) asked whether, with the wisdom of hindsight, the Prime Minister wished she had cut taxes and expenditure more drastically in Britain. The Prime Minister said that Britain had been bedevilled by a ~~number~~ series of incomes policies which had set the norm for two or three years but which had led, when the policy broke down, to a massive surge of wage increases and to inflation. She begged the United States never, never to go the route of such an incomes policy. It was also important to avoid being bedevilled by enormous nationalised monopolies, such as existed in Britain which ~~were forever required to~~ would either seek higher prices ~~or large and~~ or larger Government subsidies.

15. Senator Moynihan (Ranking Minority Member, Select Intelligence Committee) asked what response the West should make to a Soviet intervention in Poland. The Prime Minister said that if the Soviet Union did intervene in Poland there would be a total change in the world atmosphere with an end to détente. It would be unwise to spell out reactions in advance but the West would have to look at trading policies Already, Britain did not permit high technology sales. She thought that the Soviet Union had a pretty good idea of the kind of Western reaction they would have to face.

The meeting ended at 1630hrs.

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Subject.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER, THE RIGHT HONOURABLE MARGARET THATCHER MP AND THE SENATE MAJORITY LEADER, SENATOR HOWARD BAKER OF TENNESSEE, IN THE SENATE, WASHINGTON DC, AT 1520 HRS ON THURSDAY, 26 FEBRUARY, 1981

Present:-

Prime Minister
Secretary of State for Foreign and Commonwealth Affairs
Sir Michael Palliser
Sir Nicholas Henderson
Mr C A Whitmore
Mr M O'D B Alexander
Mr J S Wall

Senator Howard Baker (Senate Majority Leader)
Senator Charles Percy (Chairman, Foreign Relations Committee)
Senator John Tower (Chairman, Armed Services Cttee)
Senator Paul Laxalt (R. Nevada)
Senator Mark Hatfield (Chairman, Appropriations Cttee)
Senator James McClure (Chairman, Energy & Natural Resources Cttee)

Senator Baker noted a remarkable change in international attitudes. He was fascinated by Mr Brezhnev's suggestion of a summit meeting. Given the previous attitude of the Soviet Union, he thought this represented a remarkable change. Senator Percy commented that he had found President Brezhnev very much in control during his own recent visit to Moscow.

Lord Carrington said that Mr Brezhnev's speech was very interesting and subtle and contained all the ingredients of advantage to Mr Brezhnev: it made him look very reasonable to the Third World; it had the potential of dividing the United States from Europe if talks were rejected; but to accept talks too soon would be against the Western interest. Senator Baker commented that the speech was nonetheless remarkable in that it was at variance with everything that President Brezhnev had said previously. It was perhaps a reflection of the changes which had taken place in the United States and was a good sign, indicating that the Soviet Union was not quite as resistant to dealings on US terms as people

/had

had been led to believe. Senator Percy thought that President Brezhnev had made a shrewd move in making a concession on advance notification of military manoeuvres. Lord Carrington commented that Mr Brezhnev's speech was open to the interpretation that he was prepared to concede verification as far as the Urals provided the US allowed verification on her own territory as well.

Senator McClure commented on the Soviet advantage in not having to worry about public opinion. The Prime Minister said that this was a factor in the Polish situation. Public opinion filled a unique role in informing leaders. Mrs Gandhi had found during her first period in office that censorship had meant that she did not know what was going on within the country. Mrs Thatcher added that what was happening in Poland was much more fundamental than anything that had occurred in Afghanistan; we were witnessing the creation of a new centre of power in a communist state. Senator Hatfield commented that one of the keys to what had happened in Poland was the fact that the Catholic Church had maintained control of the schools and had thus given a focus for political developments. Lord Carrington said that during his recent visit to Poland some of the Polish leaders had said that they thought that they could settle their own affairs peacefully but that they could not be sure, because they were Poles.

Senator Laxalt said that the Prime Minister had pioneered the economic course now being followed by the new Administration. Were there any lessons to be drawn? The Prime Minister said that the single most important thing was to put through large expenditure cuts at the outset which then left room for tax cuts. Everyone was in favour of expenditure cuts until they started to take effect. Such cuts would be difficult to carry through if the US increased defence expenditure and there would be a rough period. Senator Laxalt asked whether the Prime Minister believed in supply side economics. The Prime Minister said that the supply side theory was absolutely valid. The weakness of demand economics was shown by the fact that increasing demand by 10 - 12% did not increase supply. A policy of pumping more money into the economy did not work.

The meeting ended at 1540 hrs.

4 March, 1981

DSR 11C

RECORD OF A MEETING BETWEEN THE PRIME MINISTER, THE RT HON MARGARET THATCHER MP, AND THE SENATE MAJORITY LEADER, SENATOR HOWARD BAKER OF TENNESSEE, IN THE SENATE, WASHINGTON DC AT 1520 ON THURSDAY 26 FEBRUARY 1981

Those present:

The Rt Hon Margaret Thatcher MP

The Rt Hon The Lord Carrington
Sir Michael Palliser
His Excellency Sir Nicholas Henderson

Mr C A Whitmore

Mr M O'D B Alexander

~~Mr G G H Walden~~

Mr J S Wall

Type for signature.

Senator Howard Baker (Senate Majority Leader)

Senator Charles Percy (Chairman, Foreign Relations Committee)

Senator John Tower (Chairman, Armed Services Committee)

Senator Paul Laxalt (R- Nevada)

Senator Mark Hatfield (Chairman, Appropriations Committee)

Senator James McClure (Chairman, Energy and Natural Resources Committee)

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2. Lord Carrington said that Mr Brezhnev's speech was very interesting and subtle and contained all the ingredients of advantage to Mr Brezhnev: it made him look very reasonable to the Third World; it had the potential of dividing the ~~Third World~~ United States from Europe ~~and it was designed to draw the US Administration into~~ if talks were rejected; but to accept would be against talks too soon ~~for~~, the Western

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interest. Senator Baker commented that the speech was nonetheless remarkable in that it was at variance with everything that President Brezhnev had previously said. It was perhaps a reflection of the changes which had taken place in the United States and was a good sign, ~~It perhaps~~ indicating that the Soviet Union was not quite as resistant to dealings on US terms as people had been led to believe. Senator Percy thought that President Brezhnev had made a shrewd move in making a concession on ~~defence~~ advance notification of military manoeuvres. Lord Carrington commented that Mr Brezhnev's speech was open to the interpretation that he was prepared to concede verification as far as the Urals provided the US allowed verification on her own territory as well.

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4. Senator Laxalt said that the Prime Minister had pioneered the economic course now being followed by the new Administration Were there any lessons to be drawn? Mrs Thatcher said that

single most important thing was to put through large expenditure cuts at the outset which then left room for tax cuts. Everyone was in favour of expenditure cuts until they started to take effect. Such cuts would be difficult to carry through if the US increased defence expenditure and there would be a rough period. Senator Laxalt asked whether the Prime Minister believed in supply side economics. Mrs Thatcher said that the supply side theory was absolutely valid. The weakness of demand economics was shown by the fact that increasing demand by 10-12% did not increase supply. A policy of pumping more money into the economy did not work.

The meeting ended at 1540 hrs.

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 26, 1981

REMARKS OF THE PRESIDENT
AND
PRIME MINISTER THATCHER
UPON HER DEPARTURE

The South Lawn

12:35 P.M.

THE PRESIDENT: I just have a few words here -- both of us, but I also want to say that due to the schedule that has been arranged and the meetings of the Prime Minister yet to go to, there will be no time for any questions.

It's both appropriate and timely, I think, that Prime Minister Thatcher should be the first Western European leader to visit here in the new administration. Our deep ties and perceptions we share give us much to talk about. Together we're confronting an extremely grave international situation. We do so with determination and optimism. We're both committed to safeguarding fundamental Western interests worldwide, including Europe, the Persian Gulf, Southwest Asia and Central America.

Our partnership in NATO is a vital part of that effort. We're determined to consult closely with each other and with the rest of our allies on all matters involving our common security. In that connection, we affirmed our support for the Alliance's decision of December,1979 to modernize long-range theatre nuclear forces and to pursue arms control efforts at the same time, in parallel.

We've also noted the Soviet proposal for a summit meeting. We believe this proposal needs to be carefully studied, and we will be consulting closely on this matter. For our part, we certainly have an interest in pursuing serious,constructive dialogue with the Soviets on those issues which divide us.

And again, let me say, Madame Prime Minister, we're just delighted to have you here with us.

PRIME MINISTER THATCHER: Thank you. Mr. President, friends, may I just add one or two things to what the President has said? We're very sensible in Britain of the honor you do us, Mr. President, by asking us to make the first official visit of head of government to see you here, and we have indeed taken advantage of the opportunity afforded us to discuss many things which will be extremely important in the coming months.

The President and I had a tete-a-tete for some time and then were joined by the Vice President and the Foreign Secretaries. We discussed many of the wider issues the world over. Of course, we take the same view in the United States and Britain that our first duty to freedom is to defend our own.

And our second duty is to try somehow to enlarge the frontiers of freedom so that other nations might have the right to choose it. It is indeed a very difficult time the world over, and we have, of course, discussed the many problems, as the President said, including President Brezhnev's recent speech, the problems in Africa, the problems in the Middle East

and the problems in Central and Southern America.

I really regard it as the beginning of a process of consultation. We shall both of us be going to a number of summit meetings this year. It is absolutely vital that we coordinate our efforts and decide upon a common line for the many problems that will face us.

Mr. President, thank you very much for the wonderful welcome you've given us. Thank you for giving us so much time and for talking in so much detail about the things which concern us both, which concern our peoples, and which concern the peoples in the world everywhere. And I think, if I may -- can I just end on a note of optimism? Yes, there are enormous problems. Yes, there have always been enormous problems, but I believe, together, we have the capacity to solve some of them, and those which we do not solve, I believe we can improve so that we can set them on their way to a solution in the end.

Ladies and gentlemen, thank you.

THE PRESIDENT: Thank you.

END 12:40 P.M. EST

CONFIDENTIAL

Subject

RECORD OF A MEETING HELD AT THE WHITE HOUSE ON THURSDAY 26 FEBRUARY AT 1145 A.M.

Present: Prime Minister
Foreign and Commonwealth Secretary
Sir Nicholas Henderson
Sir Robert Armstrong
Sir Michael Palliser
Sir Frank Cooper
Mr. Julian Bullard
Mr. Clive Whitmore
Mr. Michael Alexander
Mr. George Walden
Mr. Bernard Ingham

President of the United States
Vice President of the United States
Secretary of State Haig
Mr. Ed Meese
Mr. James Baker
Mr. Richard Allen
Mr. Michael Deaver
Mr. Larry Eagleburger
Ambassador Walter Stoessel
Mr. James Rentschler

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President Reagan extended a warm welcome to the Prime Minister and the members of her party. He said that, in their tete-a-tete meeting, he and the Prime Minister had discussed a number of subjects which were to the forefront of their minds at present. In deciding how to tackle the problems facing the world the United States would not take anybody by surprise. They would always consult their allies before taking action. He regarded it as particularly vital to maintain the relationship which had existed for years between the United States and the United Kingdom: this required close consultation and co-operation.

/ The Prime Minister

The Prime Minister thanked the President for his very warm welcome. She thought that it would be helpful if the discussion could cover the East/West relationship, the problems of Central and South America and the proposed Mexico Summit. She added that our difficulties in dealing with the many political problems facing our two countries and our allies were made all the greater by the world recession which was still continuing. The industrialised countries still had to come to terms with the monopoly power of the oil-producing countries to fix oil prices. We still had not decided how to concert our relationship with them.

East/West Relations

The Prime Minister said that the West needed to consider very carefully its response to President Brezhnev's recent speech. The line he had taken had been a subtle one which had appealed to the West's inherent weaknesses. So far she had responded to questions about whether the West would accept President Brezhnev's invitation to an International Conference by saying that we were still considering our response. In taking this holding line in the House of Commons she had pointed out that there was really nothing new in the speech and that if the Soviet Union wanted to give an earnest of its good intentions, it should first withdraw its forces from Afghanistan. She had also commented that it was not surprising that the Russians were proposing a moratorium on theatre nuclear forces in Europe, for with their present advantages in both numbers and sophistication in such weapons this would be greatly to their benefit. She did not believe, however, that the West could refuse to parley with the Soviet Union. But we would need to take several long spoons to sup with them.

President Reagan agreed that a meeting with the Soviet Union would need a great deal of preparation and could take place only after there had been full consultation between the United States and its allies. He did not believe that such a meeting could be confined to arms control matters: rather it would also have to cover such other issues as Afghanistan and Soviet backing for Cuba's efforts to export revolution. It would be no use going into a Summit meeting pretending that these other problems did not exist. Publicly his position on President Brezhnev's proposal that there should be an International Conference was neither "no" nor "yes", but that he was interested in it.

/ Central and South America

Central and South America

President Reagan said that Central and South America had become a part of the /predominant international problem facing the West today. The villain in this area was the same one who confronted the world at large, and the form it took here was revolution exported by Cuba with Soviet backing. Over the years the United States had tried to follow a variety of programmes in relation to its neighbours in the South, but although full of good intentions, they had behaved insensitively. All too often they /had appeared to the countries of Central and South America as the colossus of the North who produced plans which they were expected to accept. He wanted a new approach to these countries based on a common love of freedom and a determination to oppose totalitarianism. He had tried to establish a fresh relationship with Mexico at his recent meeting with President Portillo. He had told him that he positively wanted to hear his views, and their discussions had been friendly and, he believed, had broken through a number of barriers.

President Reagan continued that he remained very concerned about the position in El Salvador. There seemed to be at the moment a lull in the supply of arms to the guerillas there but this might be only temporary. There was no doubt about what Cuba was doing: they were clearly interfering as an outside power in the internal affairs of El Salvador. The United States was simply trying to preserve the Government of the country. Their forces were not well trained and they needed equipment. Even though they were in the middle of a civil war, they were still trying to introduce social reforms, including land reform.

The Prime Minister said that it was very important that the West did not lose the propaganda war over El Salvador. At the moment the Left were taking advantage of every difficulty in the position of the American and El Salvador Governments. One particular difficulty was that if the United States were seen to be attempting to keep a particular regime in power, it might be accused of doing precisely what the Russians were doing in Afghanistan. The most useful line the West could take publicly was to expose what Cuba

/ was doing

was doing to supplying the guerillas with arms and training. The British Government had recently put out a statement condemning the guerillas and this had been well received.

Secretary of State Haig said that the United States must not let El Salvador be a repeat of history where they became deeply involved mainly in a country where social problems were at the root of the trouble. They should try to go to the source of these problems rather than get drawn into a bloody local war. He was convinced that without Cuban involvement the present El Salvador Government would survive and thrive. A Marxist regime was not attractive to the population. The guerillas had thought that they would bring about a popular uprising, but this had not happened and they were fighting without the support of the people. The United States were conscious of European sensitivities, but it was essential that they helped El Salvador with economic aid, military training and some arms if they were to be sustained and brought through their present difficulties.

/ Mr. Haig

Mr. Haig then raised the subject of Belize. The Guatemalan Foreign Minister had recently visited Washington and appeared ready to abandon his Government's earlier position on territorial claims on Belize and to want to settle the issue. The sticking point now seemed to be the cays. If these could be transferred to Guatemala in some appropriate way, agreement appeared to be within reach. It was essential that Prime Minister Price took part himself in future meetings and not Mr. Shoman, who was particularly disliked by the Guatemalans. The United States would like to see this long-standing dispute settled peacefully. It might help if the United Kingdom would consider leaving their forces in Belize after independence.

The Foreign and Commonwealth Secretary said that the Guatemalan Government had indeed moved a very long way. Their present position was that they were demanding two groups of cays: they were no longer seeking territory on the mainland. He had recently seen Mr. Price and he thought that he would be ready to give up one of the groups but not the other. Mr. Price's problem was that any deal had to be sold to the people of Belize and the cession or leasing of territory was dynamite politically for him. Even so, he believed that he had moved him sufficiently on the cays for it to be worth while holding a meeting the following week with him and the Guatemalans. It might be possible to push Mr. Price a little further but if Britain did that, the United States would have to push Guatemala too.

If agreement was reached with Guatemala, there would be no need for British forces to stay in Belize, though the United Kingdom would be spending some money training a small Belizean defence force. If, on the other hand, Belize became independent without a settlement with Guatemala, British forces would probably have to remain in the country for a while. He recognised American fears that even if

/ there was

there was a settlement, Belize might be open to infiltration by Cuba or, even worse, might actively turn to Cuba for help. He doubted whether Mr. Price who, though a Socialist, was a strong Catholic, would look to Cuba. But Mr. Shoman might and it was therefore essential to keep Mr. Price firmly in the saddle. It would, however, be difficult to leave British troops behind after independence in order to keep an eye on possible Cuban involvement in Belize, though if we trained the Belizean forces, there would be a limited British military presence in the country still.

Mr. Haig agreed that such a training presence would help stop Belize turning to Cuba.

President Reagan said that Mr. Seaga's victory in Jamaica had been very encouraging. Nonetheless, there was concern about the state of affairs in Jamaica where American weapons left in Vietnam had begun to turn up. The economy had been shattered by the actions of the previous Government, and the United States was giving economic aid. Mr. David Rockefeller was chairing an American group which was seeing what could be done by the private sector to stimulate the Jamaican economy and to provide new jobs.

The Prime Minister said that Britain too gave large amounts of aid to Jamaica. More generally, it was notable that when Caribbean islands were allowed a free vote, they were at present turning out left-wing regimes and replacing them with more right-wing governments.

/ Mexico-Summit

Mexico Summit

The Prime Minister said that the timing of the Mexico Summit depended to a large extent on whether President Reagan would attend. If he did not go, it might jeopardise the new relationship between the United States and Mexico which he had described earlier. There were arguments for postponing the meeting which was provisionally planned at present for 12/13 June. If it were put back to later in the year, this would make it possible for the West to concert its position at the Ottawa Summit.

Mr. Haig said that he was inclined to believe that it would be a good idea to delay the Mexico Summit. No decision had yet been taken, however, about President Reagan's attendance: they had to bear in mind who else would be there, e.g., Dr. Castro. Nonetheless, he recognised that it would probably help in the development of the new US/Mexican relationship if President Reagan attended the Summit.

The Foreign and Commonwealth Secretary added that it might be helpful if there could be some indication of President Reagan's intentions before the meeting of the sponsors of the Conference in Vienna in mid-March.

The meeting ended at 1230.

27 February 1981

Mrs Thatcher

THE WHITE HOUSE

Office of the Press Secretary

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For Immediate Release February 26, 1981

EXCHANGE OF REMARKS
BETWEEN THE PRESIDENT AND
MARGARET THATCHER, PRIME MINISTER OF GREAT BRITAIN
AT ARRIVAL CEREMONY

10:11 A.M. EST

THE PRESIDENT: Prime Minister Thatcher, on behalf of the American people, Nancy and I extend to you and your family a warm welcome to the United States. Your visit here renews the personal friendship we began in your country just before you took office and today as we meet in Washington at the start of my administration we also renew the friendship and alliance of our people.

Great Britain and the United States are kindred nations of like-minded people and must face their tests together. We are bound by common language and linked in history. We share laws and literature, blood, and moral fiber. The responsibility for freedom is ours to share.

When we talked in London just over two years ago, when neither of us was in office, I was impressed by the similar challenges our countries faced and by your determination to meet those challenges. You have said that we enter into a decade fraught with danger, and so we have. But the decade will be less dangerous if the West maintains the strength required for peace, and in achieving that goal there is one element that goes without question: Britain and America will stand side by side. (Applause.)

Outside Cambridge curving rows of simple white markers testify to a time when peace was lost and Britons and Americans united and turned back threats to freedom. Our challenge today is to ensure that belligerence is not attempted again by the false perceptions of weakness. So long as our adversaries continue to arm themselves at a pace far beyond the needs of defense, so the free world must do whatever is necessary to safeguard its own security. A stronger, more vigilant NATO must be the background of that security and of our effort for equitable arms control.

The Atlantic Alliance will continue to be the steadfast center of our mutual security. But we're also both concerned with the totality of the East-West relationship. The Soviet invasion in Afghanistan was a brutal invasion, and you, Mrs. Prime Minister, took a lead in rallying world opinion against it and for that we commend you. The tension in Poland commands the attention of the world. Clearly, the Polish people must be allowed to work out their own solutions to their problems. Outside intervention there would affect profoundly and in the long term the entire range of East-West ties.

MORE

RICHARD BOYD
NORTH AMERICAN REPORTING
456-2690, 544-1144

There are problems in other parts of the world such as regions of Africa and Central America where Anglo-American cooperation is key to the success of Western efforts to find solutions.

Americans are grateful for British efforts to bring the American prisoners home from Iran. We remember and are grateful for the support you gave us when you visited here a little more than a year ago. We remember your words of encouragement. They gave us heart. And together we will work to continue to confront the scourge of international terrorism.

Finally, our two nations know that there is no true security unless there is economic stability. We have both suffered from substantial economic difficulties. They might be different in their complexities and require appropriately different solutions. But we know that we share one basic commitment. We believe that our solutions lie within the people and not the state. We are committed to unleashing the natural power of the individual to produce more and to make a better life for all. We believe that people will stay free when enterprise remains free, and we believe that there are no insurmountable problems when we let individuals make decisions outside the restricting confines of government.

Prime Minister Thatcher, I look forward to our discussions, to the pleasure of renewing our friendship, and the opportunity to fortify the commitment between our countries. On behalf of all Americans I welcome you and your family to the United States. (Applause.)

PRIME MINISTER THATCHER: Mr. President, I count it a double joy that I am once again in the United States and as I'm being greeted here by you, Mr. President, newly in office, after a splendid victory but long since for me a trusted friend. Your warm welcome in this deeply moving ceremony will strike a chord in the hearts of British people everywhere.

Mr. President, these are not easy times in which to assume and to bear the responsibilities of national and international leadership. The problems are many, the dangers real, the decisions difficult. Indeed, weaker spirits might even be tempted to give way to gloom. But others like you, Mr. President, are stirred by the challenge. And that's why I value so greatly the opportunity to come to Washington to talk with you and to discuss the way ahead on so many of the problems of which you've spoken this morning.

We start from a common basis of understanding. For generations our two countries have cherished the same ideals. We've defended the same causes. We've valued the same friendships and together we've faced the same dangers. Today, once again, our sense of common purpose and common resolution is being tested. It will not be found wanting.

The message I have brought across the Atlantic is that we, in Britain, stand with you. America's successes will be our successes. Your problems will be our problems, and when you look for friends we will be there.

Mr. President, the natural bond of interest between our two countries is strengthened by the common approach which you and I have to our national problems. You have mentioned some of the relevant things. We are both trying to set free the energies of our people. We are both determined to sweep away the restrictions that hold back enterprise. We both place our faith not so much in economic theory but in the resourcefulness and the decency of ordinary people.

Mr. President, you've spoken of a time for renewal. If we are to succeed in the battle of ideas, if we are to hold fast and extend the frontiers of freedom, we must first proclaim the truth that makes men free. We must have the courage to reassert our traditional values and the resolve to prevail against those who deny our ideals and threaten our way of life.

You, Mr. President, have understood the challenge. You've understood the need for leadership. In Britain you will find a ready response, an ally, valiant, staunch, and true. (Applause.)

END 10:25 A.M. EST

PRIME MINISTER

## Points to Cover in your Talks with President Reagan

EAST WEST RELATIONS

President Brezhnev's speech - some interesting features (in particular extension of area covered by CBMs) but nothing really new. Need for a considered reaction. President's reaction to Summit proposal.

Poland - assessment of present situation. Mildly encouraging? Need to maintain a "hands off" posture.

Afghanistan - Western objectives unchanged. Importance of Pakistan's position. Message from President Zia. Does the President envisage strengthening US commitment to Pakistan?

NEED FOR ALLIANCE CO-ORDINATION

Importance of NATO and, more specifically, quadripartite machinery. Possibility of a directive from Foreign Ministers about the priority to be given to quadripartite consultation. President's attitude to quadripartite summits.

DEFENCE POLICY

Nuclear understandings.

TNF deployment and arms control. Importance of maintaining both halves of NATO's double decision. Particularly significant for the Germans.

/ MIDDLE EAST

MIDDLE EAST

Arab/Israel dispute: how do the Americans see the continuation of Camp David? Role for Europe? Seen by us as complementary not competitive.

Iran/Iraq: will the hostilities spread or stabilise? Importance of the Gulf. Welcome signs of co-ordination among the Gulf states. Will the Americans pursue the Rapid Deployment Force? UK willing in principle to help. Your visit.

SOUTHERN AFRICA

Namibia: does President Reagan envisage pursuing a policy similar to that of the previous administration? Possibility of present OAU meeting resulting in General Assembly debate and, ultimately, Chapter 7 Resolution. The veto?

CENTRAL AMERICA — & South America

El Salvador: sympathise with US objectives. But what action is proposed? Difficulties of publicly supporting extremist regimes (Schmidt's attitude).

Belize/Guatemala: desirability of early agreement. Hope that Guatemala can be encouraged to moderate claims.

WORLD ECONOMY

Recession and the causes thereof: Ottawa Summit - President Reagan's views on attendance and agenda.

North/South: Mexico Summit - does President Reagan plan to attend? Is he seeking postponement? If so, for how long?

/ FAST REACTORS

FAST REACTORS

Is the new administration interested in Anglo/American co-operation in this field?

IRELAND

Likelihood that hunger strikes are about to recommence. HMG will not change position on political status.

Invitation to Visit.

26 February 1981

10 DOWNING STREET

THE PRIME MINISTER

25 February, 1981.

C.F.

Jon may have papers??

Dear Eldon,

Thank you so much for your note and for your background on Ronald Reagan. This will be most helpful.

I fear that it is simply not going to be possible for me to see Alex Massad in New York. My programme is already overcrowded. I am so sorry about this.- especially as you asked.

Yours ever,

(SGD) MT

Eldon Griffiths, Esq., MP.

EL SALVADOR

STATEMENT BY FCO SPOKESMAN: 25 FEBRUARY

HMG have now had an opportunity to study the information provided by the US Government about arms supplies to insurgent groups in El Salvador. This points to activities which can only be regarded as gross interference in the internal affairs of El Salvador and HMG support the Government of the United States in calling for it to end.

HMG note, with concern, the continuing violence inside El Salvador and the suffering and hardship this causes to the people of that country. HMG condemn such violence from whatever quarter. They look to the Government of El Salvador to take all possible steps to protect the Salvadorean people from violations of basic human rights and, in particular, to exercise firm control over all government institutions and organisations.

HMG consider that the people of El Salvador should be able to determine their own future peacefully and democratically.

USA Policy

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T33/81

Subject copy
Anglo-French Relations

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PARIS FROM LONDON
CONFIDENTIAL GOVERNMENTAL 0028
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C O N F I D E N T I A L
MESSAGE FROM THE PRIME MINISTER TO PRESIDENT GISCARD

MY DEAR PRESIDENT,

AS YOU KNOW, I AM LEAVING LONDON TODAY FOR A THREE-DAY VISIT TO THE UNITED STATES DURING WHICH I SHALL BE SEEING PRESIDENT REAGAN AND THE LEADING MEMBERS OF HIS ADMINISTRATION, AS WELL AS DR. WALDHEIM IN NEW YORK. I THINK THAT YOU, CHANCELLOR SCHMIDT AND I HAVE A VERY GOOD UNDERSTANDING ON THE SUBJECTS WHICH ARE LIKELY TO ARISE. MY IMPRESSION IS THAT MR. REAGAN AND HIS TEAM ARE SOME WAY FROM HAVING MADE UP THEIR MIND ABOUT MANY OF THE IMPORTANT QUESTIONS. I BELIEVE ALSO THAT THEY ARE SINCERE IN SEEKING CLOSER CONSULTATION AND HARMONISATION OF POLICY WITH THEIR EUROPEAN ALLIES. THIS GIVES US IN EUROPE AN OPPORTUNITY OF WHICH I SHALL TRY TO MAKE THE BEST USE, AS I HAVE NO DOUBT JEAN FRANCOIS-PONCET IS DOING DURING HIS OWN VISIT THIS WEEK. IT MIGHT BE USEFUL FOR HIM TO EXCHANGE IMPRESSIONS LATER WITH PETER CARRINGTON, WHO WILL IN ANY CASE BE BRIEFING THE COMMUNITY AMBASSADORS IN WASHINGTON ON FRIDAY.

I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO CONFIRM TO YOU WHAT I SAID IN MY MESSAGE OF 18 FEBRUARY ABOUT THE FISHERIES QUESTION, THAT WE HOPE IT WILL BE POSSIBLE TO REACH AN AGREEMENT ON THIS AT THE NEXT MEETING OF THE COUNCIL ON 9-10 MARCH. WE, FOR OUR PART, WILL DO ALL WE CAN TO BRING THIS ABOUT.

I AM GLAD THAT A COMPROMISE HAS NOW BEEN REACHED ON ACCESS FOR NEW ZEALAND BUTTER. I ATTACH GREAT IMPORTANCE TO MAKING DECISIVE PROGRESS IN THE NEXT FEW WEEKS ON THE OTHER MAIN OUTSTANDING ISSUES OF COMMUNITY BUSINESS, AGRICULTURAL PRICES FOR 1981 AND FISHERIES. MY REPRESENTATIVE MR. MICHAEL FRANKLIN HAS EXPLAINED THESE VIEWS TO THE SECRETARY-GENERAL OF THE SGGI, M. PIERRE ACHARD. I AM NOT SUGGESTING THESE ISSUES BE LINKED. EACH MUST BE RESOLVED ON ITS MERITS. BUT I DO SEE REAL ADVANTAGE TO US ALL, AND TO THE COMMUNITY AS A WHOLE, IF THESE MATTERS CAN BE RESOLVED SPEEDILY AND WITHOUT UNDUE PUBLIC DISPUTE. SUCH DISPUTE WOULD BENEFIT NEITHER OF US IN THE LONG TERM.

YOURS SINCERELY

MARGARET THATCHER.

25 FEBRUARY 1981
BT

SENT AT 1052Z pm.

The National Archives

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DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

*From the Secretary of State*

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

Michael Alexander Esq
Private Secretary
10 Downing Street
London, SW1

24 February 1981

Dear Michael.

PROPOSED ACQUISITION BY ENSERCH CORPORATION OF DAVY INTERNATIONAL

I told you on the telephone that we had been advised that the bid by Enserch (a United States process plant company) for Davy International might be mentioned during the Prime Minister's visit to Washington. This hint had come from Warburgs, who are acting for Enserch.

I can hardly see this being a matter for discussion at Summit level, but it is possible that Enserch will have persuaded a member of the Administration or one of the businessmen who might meet the Prime Minister to raise the subject. Alternatively Lord Carrington or one of the officials accompanying the Prime Minister might be approached. Against this eventuality I enclose a short defensive brief.

I am sending copies of this letter and enclosure to Francis Richards (FCO), Ian Ellison (Industry), John Wiggins (Treasury) and David Wright (Cabinet Office).

Yours sincerely.

Stuart Hampson

S HAMPSON
Private Secretary

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

DEFENSIVE BRIEF

PROPOSED ACQUISITION BY ENSERCH CORPORATION OF DAVY INTERNATIONAL

## Essential Facts

1 Enserch Corporation (a Dallas-based process plant company) have bid for the total acquisition of Davy International, one of the major British process plant construction companies.

2 The bid has been considered by the Director General of Fair Trading (DGFT). His recommendation that the bid raises questions of public interest and should be referred to the Monopolies and Mergers Commission (MMC) is at present confidential but has been leaked in the Press.

3 The Secretary of State for Trade will shortly announce his decision on the DGFT's recommendation.

4 The reference of a bid to the MMC is a neutral act, implying no opposition to the acquisition.

5 The decision of Ministers in this case may be seen as having implications for the Government's attitude towards inward investment. This will have to be considered in the light of the MMC's findings.

6 The United States authorities have made representations that the bid should not be disallowed simply because Enserch is a United States bidder.

## Line to Take

No announcement has been made on whether this bid will be referred to the Monopolies and Mergers Commission. The Secretary of State for Trade will reach his decision after taking account of all the factors, including the representations made by the United States authorities and by Enserch.

Department of Trade
24 February 1981

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FM WASHINGTON 240205Z FEB 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 650 OF 23 FEBRUARY
INFO NIO LONDON NIO BELFAST BIS NEW YORK

PRIME MINISTER'S VISIT: IRISH DEMONSTRATIONS AT GEORGETOWN UNIVERSITY

1. TODAY'S QUOTE WASHINGTON STAR UNQUOTE CARRIES A LENGTHY ARTICLE ABOUT IRISH AMERICAN OPPOSITION TO THE AWARD OF AN HONORARY DEGREE TO THE PRIME MINISTER BY GEORGETOWN UNIVERSITY. THE ARTICLE MAKES CLEAR THAT FATHER SEAN MCMANUS OF THE IRISH NATIONAL CAUCUS IS HEAVILY INVOLVED IN ORGANISING THE DEMONSTRATION PLANNED FOR THE PM'S VISIT AND THAT HE HAS TRIED TO PERSUADE THE UNIVERSITY TO RESCIND THEIR INVITATION TO MRS THATCHER. THE ARTICLE QUOTES MCMANUS AS SAYING THAT THE INVITATION TO THE PRIME MINISTER WAS EXTENDED AT THE INSTIGATION OF THE BRITISH GOVERNMENT AND AS ACCUSING THE PRESIDENT OF GEORGETOWN OF BEING THE SERVANT OF HMG AND CONDONING BRITISH BEHAVIOUR IN NORTHERN IRELAND.

2. ONLY UNIVERSITY STUDENTS WILL BE PERMITTED TO DEMONSTRATE ON CAMPUS DURING MRS THATCHER'S VISIT AND THE UNIVERSITY DO NOT ENVISAGE A LARGE TURNOUT. OTHER DEMONSTRATORS EG FROM THE IRISH NATIONAL CAUCUS (INC) AND NORAID WILL BE KEPT AWAY FROM THE CAMPUS AND FROM THE PRIME MINISTER

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U.S./EL SALVADOR: MEDIA COVERAGE OF EUROPEAN ATTITUDES

1. THE U.S. PRESS HAS FOCUSSED CLOSELY ON WEST EUROPEAN ATTITUDES TOWARDS U.S. POLICY ON EL SALVADOR, IN PARTICULAR ON THEIR REACTIONS TO EAGLEBURGER'S VISIT LAST WEEK.

2. THE WASHINGTON STAR SPECULATES THAT DURING HER FORTHCOMING VISIT TO WASHINGTON, THE PRIME MINISTER WILL QUOTE VOICE HER GOVERMENT'S CAUTIOUS REACTION TO THE U.S. ADMINISTRATION'S EFFORTS TO ENLIST EUROPEAN SUPPORT ON EL SALVADOR. BRITAIN, WHICH OPPOSES SENDING ARMS TO EITHER SIDE, MAY COUNSEL THE ADMINISTRATION TO SEEK A DEMOCRATIC SOLUTION AND NOT TO RESORT TO THE MILITARY OPTION. MRS THATCHER IS EXPECTED TO WARN THAT THIS COURSE OF ACTION IS VITAL IF THE WEST IS TO REMAIN UNITED IN THE HANDLING OF EL SALVADOR UNQUOTE.

3. THE CHRISTIAN SCIENCE MONITOR ARGUES THAT IN MAKING EUROPEAN SUPPORT FOR U.S. POLICY ON EL SALVADOR ITS FIRST TEST OF EUROPEAN SOLIDARITY, THE ADMINISTRATION RUNS THE RISK OF LOSING SUPPORT FOR THE DEPLOYMENT OF NEW T N F WEAPONS IN EUROPE. THE NEWSPAPER MAINTAINS THAT EUROPEAN GOVERNMENTS, PARTICULARLY SOCIAL DEMOCRATIC ONES, DO NOT WANT TO FRITTER AWAY THEIR LIMITED POLITICAL INFLUENCE OVER THEIR OWN LEFT WINGS ON THE MARGINAL AND POTENTIALLY EXPLOSIVE ISSUE OF EL SALVADOR WHEN THEY NEED TO SAVE SUCH INFLUENCE FOR THE TASK OF GAINING SUPPORT FOR NEW T N F DEPLOYMENTS VITAL TO N A T O.

4. THE WALL STREET JOURNAL DESCRIBED THE EUROPEAN REACTION TO EAGLEBURGER'S VISIT AS RANGING FROM NON-COMMITTAL TO SCEPTICAL: THE F C O IS ALLEGED TO HAVE GIVEN HIM A SYMPATHETIC HEARING BUT TO HAVE REFUSED TO BE DRAWN INTO CONCURRING THAT EL SALVADOR'S GOVERNMENT DESERVED EUROPEAN BACKING.

5. THE NEW YORK TIMES CHARACTERIZES THE EUROPEAN RESPONSE AS ONE OF PROFOUND WARINESS.

6. U.S. OPPOSITION TO THE EUROPEAN COMMISSION'S PROPOSAL TO PROVIDE AID FOR EL SALVADOR IS REPORTED, AS IS M. THORN'S ASSERTION THAT THE COMMISSION WOULD MAINTAIN ITS HUMANITARIAN AID TO THE SALVADOREAN PEOPLE REGARDLESS OF THEIR POLITICAL PROSPECTS.

/7.

7. THE GENERALLY CRITICAL EDITORIALS ABOUT U.S. POLICY IN EL SALVADOR IN THE EUROPEAN MEDIA, PARTICULARLY THE LONDON TIMES AND ECONOMIST, ARE WIDELY QUOTED.

HENDERSON

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CABINET OFFICE. ASSESSMENTS STAFF

CONFIDENTIAL PERSONAL

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

*Permanent Under Secretary*

**Sir Kenneth Stowe KCB CVO**

1314/PUS/L/

23 February 1981

Prime Minister.

Clive Whitmore, Esq.,
No. 10 Downing Street,
LONDON SW1

24 ii

Dear Clive,

PRIME MINISTER'S VISIT TO THE UNITED STATES - NORTHERN IRELAND

The Secretary of State and I attended this last weekend a Ditchley Conference which brought together representatives from the United States and from Northern Ireland (including representatives of the Official Unionist Party and the Alliance Party but not the DUP) to discuss the international aspects of the Northern Ireland scene. You may find it helpful to have this note of some points specifically put privately by the American visitors. The principal US guests were Congressman Tom Foley (democrat), Senator Christopher Dodds (democrat), Mr. Kirk O'Donnell (Counsel to Mr. Tip O'Neill, Speaker of the House), Mr. Carey Parker (Counsel on Policy to Senator Kennedy), Dr. Kevin Cahill and Mr. Peter Quinn (associates of Governor Carey New York) and Mr. Tim Russert (Counsel to Senator Moynihan). As you will see, each of the so called "four horsemen" was represented. There were no Republicans.

The burden of their message was very simple. There will be a continuing interest in the United States in developments in Ireland - the US is a nation of emigrants and each national group, whether it be Greek or Irish, sustains a continuing interest in the affairs of its homeland. They all supported the Prime Minister's meeting with the Prime Minister of the Republic and were more hopeful of a peaceful development of Anglo/Irish and US/Irish affairs than they had been for some time. They affirmed that their position in countering PIRA supporters and condemning NORAID was immensely strengthened thereby.

Speaker O'Neill's Counsel said that he brought a personal message

from the Speaker with regard to the issue of arms to the RUC: they knew that (as Chief Constable Hermon confirmed during the weekend) there was no real operational problem here and strongly advised that it was in the interests of all those opposed to PIRA to bury the business as quietly as possible so as to avoid providing a pretext for Congressman Biaggi and others to mount a campaign in their support. This advice was supported by the others.

Speaker O'Neill's Counsel went on to say that they fully recognised that the Westminster/Dublin relationship must develop slowly over years, not months, and indeed hoped that that was the timescale as we saw it too. Again, his colleagues supported this.

There was strong support for the Government's position with regard to the hunger strike: indeed, Congressman Foley took on a US Roman Catholic priest who was in the party in brutal fashion by saying that as one with deep knowledge of US prisons, he would prefer to be in the H Blocks. Again there was support for this view.

The Prime Minister may like to know that the US visitors were immensely impressed by the Ulstermen whom they met, especially Mr. Harold McCusker and the Chief Constable: they themselves suggested that they should be inviting people like Mr. McCusker to talk to their Irish American groups in the United States.

The Ditchley Foundation served HMG well by this occasion, by bringing such an influential Irish-American group over to be exposed to Ulstermen who presented their position effectively, with concern for all members of their community and - most important of all - with a complete absence of bigotry. The impact made can be judged by the fact that, in the presence of the Minister from the Irish Embassy in London, Dr. Cahill and others made it clear that in their view the Republic was in an indefensible position over its failure to extradite terrorists to the North.

It was fortuitous that the meeting took place just before the Prime Minister's visit to the United States; it could turn out to be useful.

I am copying this to Robert Armstrong, Michael Palliser and Nico Henderson.

Yours ever,

Ken Stowe

(3)

**10 DOWNING STREET**

Prime Minister.

---

Mr Nassad has been trying - both through the Embassy through Mr Griffiths - for the last couple of weeks to get a meeting with you. The Department of Energy are against the idea: they believe Mr Nassad simply wants to lobby you in favour of his approach to the financing of the project - which is at variance with the Govt's. MOBIL's participation in the gas gathering line is not at risk.

In any case your programme is already very full. I attach a draft.

23/2/84

Graham Greene

Personal

Monday

23/2/81

My dear Ian

Because of the great importance of Mobil Oil's backing the Conservative campaign, I have again written privately to Mr. H. Forgive my going direct. I know you have done all you can, and for me I am very grateful. Whatever happens, will you please assure the Prime Minister

message — j'ai eu à regretter
qu'aucun de Mes MASSAGES de
Mobil - New York !

J'en suis désolé...

EDWIN GRIFFITHS

HOUSE OF COMMONS
LONDON SW1A 0AA

Personal

Monday.

23/2/81

Dear Margaret

I am sure your American trip is going to be a success. Just what we need, and you deserve it I may say so, after the Miners' week.

Having met Reagan several times when he was in California, I am sure you will like him. He is at his easiest with down people - eg RARO (of TRW), Justin Dart (of Rexall Drugs), Holmes Tuttle (used car dealer) are all in their mid-70's or more. He also likes to laugh, and has some - not all - of the relaxed qualities of Harold Macmillan.

I do hope that – New York you will meet – MASSED of Mobil Oil. He will – all being well – pick up nearly a quarter of the bill (with his banks) for the North Sea gas gathering line; but some of his people are getting cold feet. If you will give him 10 – 15 minutes, it will strengthen his primal resolve to make this great project a success — it is good time for you to turn on the tap before the next election. If it slips, the Labour party will be entitled to say that we failed to ~~~~ bring home on time the County's greatest asset.

Yours,

Edward.

2.

20th February, 1981

Thank you so much for your most helpful letter of 18th February, which I have handed to the Prime Minister.

She is most grateful to you for having taken the trouble to write as you did, and for the most informative enclosures to your letter.

IAN GOW

Geoffrey Pattie, Esq. M.P.
House of Commons

From: Michael Shersby, M.P.

CCIG

MR. ALEXANDER MoDBA

HOUSE OF COMMONS
LONDON SW1A 0AA
20th February, 1981.

Dear Prime Minister,

I wonder if you would be kind enough to consider the possibility of raising with President Reagan the possibility of further amendments to various measures imposed by the United States of America to protect domestic industry known as the "Buy American Act".

The reason I am writing to you about this matter is that I understand I.C.L. find difficulty in exporting British computer equipment of one kind and another to the United States because of the non-tariff barrier which is constituted by the so-called "Buy American Act".

I am enclosing a photostat copy of a question I put to John Biffen on Monday, 16th February. Also enclosed is a short note on the way in which the "Buy American Act" operates against British manufacturers and which has been prepared for me by I.C.L.

Finally, may I express the view that the new GATT Government Procurement Code which came into operation on the 1st January, 1981, under which the U.S. waived certain Buy American provisions for products covered by the Code, does not appear to apply to security equipment and I am advised by the House of Commons Library that security equipment covers computers. Consequently it would appear that the relaxation agreed by the Americans under the new GATT code does not help I.C.L.

If you are able to raise this matter during your forthcoming visit to the United States, I am sure it would be of immense benefit to British exporters who are anxious to penetrate the U.S. market.

Yours sincerely,

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister & First Lord of the Treasury,
10 Downing Street,
London S.W.1.

**Mr. Eyre:** I should like to associate myself with the hon. Gentleman's tribute to the staff of Greenwich district hospital and to join him in praising the gentleman to whom he referred. I believe that great credit was due to a waterman and a tug skipper who acted with initiative and skill in bad conditions in assisting the crew of the sunken vessel. The hon. Gentleman emphasised the importance of the inquiry, and I agree. When we have had the opportunity to consider the terms of the preliminary inquiry, we shall consider whether a formal investigation should take place.

## Southern Africa Development Co-ordination Conference

14. **Mr. Hooley** asked the Secretary of State for Trade what are the main exports from the United Kingdom to the countries comprising the Southern Africa Development Co-ordination Conference (SADCC); and what steps are being taken to increase trade with them.

**Mr. Parkinson:** Machinery and transport equipment account for more than half the value of our exports to the SADCC countries. Manufactured goods and chemical products are also important. All the British Overseas Trade Board's export services and the resources of our posts are available in support of our trade with these countries.

**Mr. Hooley:** Is the Minister aware that those countries between them comprise enormous natural, mineral and agricultural resources and are likely, over the next 10 or 15 years, to become immensely important markets for Britain both in terms of exports and imports? Would it not be a healthy trend as far as possible to move our trade away from South Africa and towards this area?

**Mr. Parkinson:** I agree with the first part of the hon. Gentleman's question. These are important markets. They account for £300 million worth of exports at the moment. I believe that the hon. Gentleman's thinking is wrong in the second part of his question. If, as he puts it, our trade was moved away from South Africa, a number of those countries would be adversely affected. What we wish to see is an expansion of our trade with both areas.

**Mr. Robert Taylor:** What percentage of our current trade with those countries is directly financed by our own aid programme?

**Mr. Parkinson:** If my hon. Friend cares to table a question on that subject, I shall give him the answer. I am afraid that I cannot give it off the top of my head.

## Trade Trends

15. **Mr. Deakins** asked the Secretary of State for Trade if he is satisfied with the trend since 1970 for the United Kingdom to have a greater share of its total trade with the European Economic Community and a lesser share with the rest of the world.

**Mr. Parkinson:** Such a trend has been evident for some 30 years. However, our membership of the Community, with a market of some 270 million people, has, not surprisingly, led to a quickening in this trend. We welcome an increase in our trade wherever it occurs.

**Mr. Deakins:** As the community consists of industrial countries, and the prospect for industrial countries in the foreseeable future in one of much slower growth than in the past, is not this trend to say the least a little unfortunate? Should not our exporters be devoting much more attention to the great potential markets in the rest of the world, particularly in the developing countries where the prospects fro long-term economic growth are much better than in the industrialised countries?

**Mr. Parkinson:** I do not think that this is an either-or situation. We are now naturally inside a market of 270 million people with no extemal tariffs against us. That is a good opportunity for us, operating within a very large home base, to build up our trade. But I see no signs that British industry is neglecting the rest of the world. Indeed, wherever I go in the world, I find British industry extremely active in seeking out business in new markets, and I encourage it in every way that I can.

**Mr. Stokes:** Is not one of the side effects of our increasing trade with the EEC that there is more European investment in this country? Is not that in itself a good thing?

**Mr. Parkinson:** My hon. Friend is correct.

**Mr. Cryer:** Is not the reality that we shifted power away from the United Kingdom Parliament, and that the EEC is lethargic about measures such as anti-dumping legislaion, so that implementation of anti-dumping legislation and the multi-fibre arrangement has now moved to the EEC and the Government cannot take independent action? Is not the textile and clothing industries lobby here today a measure of the anxiety about that because of the continued job loss taking place in those industries?

**Mr. Parkinson:** I know that the hon. Gentleman is extremely concerned about the state of the textile industry, as are the Government. But it does no good at all to identify the wrong causes of the industry's problems. I must tell the hon. Gentleman frankly that the MFA is administered here. We administer and monitor the quotas, and we ensure that they are enforced. Since we came to office we have strengthened the arrangement in a varity of ways. I therefore do not accept that our membership of the EEC is a source of the textile industry's problems. The MFA, as negotiated by the Government of whom the right hon. Member for Lanarkshire, North (Mr. Smith) was a member, is in place and is doing its job.

**Mr. Squire:** Does my hon. Friend accept that, as he has already been criticised by an anti-European for not exporting enough to the EEC and is now being criticised for exporting too much, the chances are that he has it about right?

**Mr. Parkinson:** Modesty forbids me from agreeing with my hon. Friend.

## ✱ United States of America "Buy American" Policy

17. **Mr. Shersby** asked the Secretary of State for Trade to what extent the various measures imposed by the United States of America to protect domestic industry known as the "Buy American Act" constitute an effective non-tariff barrier to British exports; and if he will make a statement.

**Mr. Biffen:** The effect of the Buy American Act 1933 on British exports is difficult to quantify because of the wide coverage of the Act. There have been numerous individual complaints from British firms, and successive Governments have made representations to the United States authorities on their behalf.

Under the GATT Government procurement code, which came into operation on 1 January 1981, the United States have waived "Buy American" provisions for products covered by the code.

**Mr. Shersby:** Is my right hon. Friend aware that many British firms, particularly our computer firms, are having difficulty in penetrating the United States market, due to the existence of this statutory code? Will he therefore ensure that when my right hon. Friend the Prime Minister meets President Reagan shortly this item will be on the agenda so that the curious situation which has persisted since the 1930s is reviewed and, one hopes, brought to an end?

**Mr. Biffen:** I cannot write the agenda, but I will certainly make sure that my hon. Friend's views are given wider coverage on this matter.

**Mr. Colvin:** Will my right hon. Friend confirm that the Buy American Act does not apply to the trade in defence hardware? Will he therefore use his influence to persuade the Americans that the two-way street of reciprocal sales and purchases of defence hardware between the United States and the United Kingdom becomes indeed a two-way street and does not remain very much a one-way street in favour of the United States as it is at present?

**Mr. Biffen:** I think that my hon. Friend makes a very pertinent observation.

### Union of Soviet Socialist Republics

18. **Mr. Neil Thorne** asked the Secretary of State for Trade if he is satisfied the United Kingdom trade with the Union of Soviet Socialist Republics does not include components produced by either forced or slave labour.

26. **Mr. Bendall** asked the Secretary of Trade what representations he has received about British products being undercut in price by imported Soviet goods made in part or in whole by forced prison labour.

**Mr. Parkinson:** One Member of the House has corresponded with me on this subject. The Government, and I have no doubt all Members of the House, would deplore the sale in this country of products manufactured in forced labour camps. My powers to prohibit imports are limited, but, where justified, anti-dumping action can and will be taken under established procedures, and my Department is ready to advise on those procedures.

**Mr. Thorne:** As my hon. Friend agrees with me that it is quite wrong for the West to benefit from the very unfortunate situation of the dissidents—largely Jews and other religious minority groups—in Soviet Russia, does he think that there is anything that the Government could do to lead either Europe or the rest of the world into some system of inspections whereby countries receiving goods from overseas have a right to ensure that the manufacture of those goods is not at the expense of native labour which is grossly underpaid?

**Mr. Parkinson:** My hon. Friend shares my distaste for trade in these items. I intend to discuss with my EEC colleagues, informally at first, the possibilities of taking action against this type of trade.

## Overseas Development

### Commonwealth Development Corporation

49. **Mr. Bowen Wells** asked the Lord Privy Seal whether he has yet received the report on the Commonwealth Development Corporation; and when he will make a statement.

**The Minister for Overseas Development (Mr. Neil Marten):** I have now received the report of the group of officials which, with representatives of the CDC, has been reviewing the work of the Commonwealth Development Corporation. I am considering the report. The Government's conclusions on it will be made known to the House as soon as possible.

**Mr. Wells:** Will my hon. Friend confirm article which appeared in *The Sunday Times* on the Commonwealth Development Corporation, which indicated that one of the causes of the report's delay was a foolish and footling argument about whether CDC borrowings in the City and, indeed, overseas—which do not affect this economy—are counted as part of the public sector borrowing requirement? If the CDC cannot borrow from that source because the Treasury's view is upheld, will my hon. Friend consider making additional commitments from the bilateral programme of the ODA?

**Mr. Marten:** I will not confirm the report which appeared in *The Sunday Times*. As to the second part of my hon. Friend's question, we shall consider anything. Many of these factors have already been raised by the chairman of the CDC, Lord Kindersley, but I am afraid that at this stage there is little that I can add to the answer which I have given. The same applies to the Adjournment debate tomorrow night, when I doubt whether I shall be able to say more than I have today.

**Mr. Hooley:** Is the Minister aware that the CDC has been outstandingly successful not only in development terms but also in commercial terms? Will he use all his influence to expand and not contract its activities?

**Mr. Marten:** I entirely agree with the first part of the hon. Gentleman's remarks. I shall certainly bear in mind the question of expanding the CDC's activities as best we can.

### Clean Water and Sanitation (Special United Nations Campaign)

50. **Mr. Welsh** asked the Lord Privy Seal what special contribution Her Majesty's Government have made towards the Special United Nations Campaign to bring clean water and sanitation to poor countries.

**Mr. Neil Marten:** No special contribution has been made, but we shall continue to finance from the aid programme a wide range of water and sanitation projects, and to provide training and advice.

**Mr. Welsh:** Is the Minister aware that Britain would not have achieved the greatness that it has had it not been for Chadwick's report last century on clean water and sanitation? However, in the Third world 10 million people and more are dying each year because of lack of clean water and sanitation, and the World Health Organisation points out that more than 80 per cent. of all known diseases in those countries are due to lack of clean water and

# SOME NOTES ON GATT AND BUY AMERICAN LEGISLATION

## 1. US Legislative Environment

Implementation of GATT in USA will be totally different to that elsewhere because the constitutional structure is so different. Here are some of the essential differences and an analogy as a means of focussing in on the question.

1.1 The President signed the GATT treaty but the President does not have legislative powers. The Senate controls foreign treaties but the House of Representatives controls money matters.

1.2 The US is a federal state, the UK is a unitary state, therefore the US States are outside GATT but the Scottish, Welsh and N. Irish Offices are in GATT.

1.3 Buy America Act (BAA) is not an act but a code which is embedded in the Statutory Regulations governing each and every Federal Agency. BAA will not be repealed like a single act and we in the UK do not have

a) Statutory Regulations for Depts, nor
b) The whole body of Federal Procurement Law which overlays these Regulations and provides employment to thousands of US lawyers.

1.4 Other laws and codes such as the Freedom of Information Act, Customs Law on origin of goods, Labor Surplus Area Programs, Congressional Review and the Requirement to Invite Public Comment mesh with Federal Procurement law to make a legislative mine-field for the would-be seller.

## 2. Analogy

The Analogy is that

a) EEC implementation of GATT invites foreigners to tender for fitting out the Officers Mess (Central Government Procurement).

b) EEC Second Supplies Directive also invites tenders in respect of the Sergeants Mess (Local Government and some nationalised industries) but who is a foreigner and who isn't is not clear.

c) US implementation of GATT invites those who survive the minefield (which deters US companies bigger than ICL) to fit out part of the Officers Mess, but only if

i) Congress is satisfied that the foreigner has opened up his markets
ii) The goods are not "indispensible for National Security"..... or otherwise excluded
iii) Services do not predominate and the threshold is exceeded
iv) No domestic US concern objects too much (to Congress)
and
v) The President has been asked by the US agency concerned to waive the BAA regulations in respect of that individual purchase or area of purchasing activity. (To be validated).

N.B.

In future years a legal search may be necessary to determine if any of the reports required by Congress have caused Countries or entities or Sectors or products to be excluded from "participating".

3. Main Provisions of BAA

3.1 A foreign material is defined as foreign if more than 50% of the "cost of all products used in such material" is foreign.

3.2 The foreign material must then be 6% or 12% cheaper than the lowest US domestic bid, and in Defense Contracts 50%.

3.3 The purchasing agency can still reject the foreign bid because of

a) National Security etc. - the USA defines this very widely.

b) Meeting its target of allocating some purchases to small businesses.

c) The need to direct work to labour shortage areas.

3.4 The differential will disappear under GATT rules and the Labor Shortage Criteria is weakened but 3.3 (b) (Small Business) continues

and there is a strong assertion that BAA continues as far as possible.

4. Other Comments

4.1 At a CBEMA Seminar, the speaker commented - "We have no worries about foreign penetration of US Federal Procurement ..... because it is a labyrinth that US companies often find impenetrable. The meeting dismissed the issue in 30 seconds (all our US competitors agreed with the statement).

4.2 At an International Chamber of Commerce Seminar on another GATT code (Customs Valuation) a discussion on US Procurement under GATT was held with two US lawyers. They confirmed 4.1 and looked forward to a dramatic increase in business. One was quite open in stating that all US legislation in this area was a protectionist and any Free Trade elements (like this subject) were sham.

4.3 Dr. Tony Burne (1st Secretary Commerce & Agriculture at the British Embassy) asked for the following message to be passed on to the CBI. "Unless British firms employ specialist lobbyists and lawyers they will not penetrate Federal procurement. CBI should consider setting up a joint office to do this in Washington".

From 41 U.S. Code -

## § 10a. American materials required for public use

Notwithstanding any other provision of law, and unless the head of the department or independent establishment concerned shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States, shall be acquired for public use. This section shall not apply with respect to articles, materials, or supplies for use outside the United States, or if articles, materials, or supplies of the class or kind to be used or the articles, materials, or supplies from which they are manufactured are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality. Mar. 3, 1933, c. 212, Title III, § 2, 47 Stat. 1520.

Library references: United States ⇨35; C.J.S. United States §§ 71, 72.

### Historical Note

**Delegation of Authority.** General delegation of authority, see note set out under section 630 of Title 5, Executive Departments and Government Officers and Employees.

**Exemption of Functions.** Functions authorized by Foreign Assistance Act of 1961, as amended, as exempt, see Ex.Ord. No.11222, May 12, 1965, 30 F.R. 6323, set out as a note under section 2380 of Title 22, Foreign Relations and Intercourse.

Treaties. Bilateral Treaties of Friendship, Commerce and Navigation contain provisions according to the nationals of each party fair and equitable treatment, as compared with nationals of any third party, with respect to: (a) the governmental purchase of supplies, (b) the awarding of concessions and other government contracts, and (c) the sale of any service sold by the Government or by any monopoly or agency granted exclusive or special privileges.

| Country | Date Signed | Entered into Force | Citation |
|---|---|---|---|
| China | Nov. 4, 1946 | Nov. 30, 1948 | 63 Stat. 1299 |
| Ethiopia | Sept. 7, 1951 | Oct. 8, 1953 | 4 UST 2134 |
| Germany (Fed.Rep.) | Oct. 29, 1954 | July 14, 1956 | TIAS 3593 |
| Greece | Aug. 3, 1951 | Oct. 12, 1954 | 5 UST 1829 |
| Ireland | Jan. 21, 1950 | Sept. 14, 1950 | 1 UST 785 |
| Israel | Aug. 23, 1951 | Apr. 3, 1954 | 5 UST 550 |
| Italy | Feb. 2, 1948 | July 26, 1949 | 63 Stat. 2255 |
| Japan | Apr. 2, 1953 | Oct. 30, 1953 | 4 UST 2063 |

**Cross References**

Low-rent housing projects, application of this section to, see section 1406(c) of Title 42, The Public Health and Welfare.

## § 10b. Contracts for public works; specification for use of American materials; blacklisting contractors violating requirements

(a) Every contract for the construction, alteration, or repair of any public building or public work in the United States growing out of an appropriation heretofore made or hereafter to be made shall contain a provision that in the performance of the work the contractor, subcontractors, material men, or suppliers, shall use only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States except as provided in section 10a of this title: *Provided, however,* That if the head of the department or independent establishment making the contract shall find that in respect to some particular articles, materials, or supplies it is impracticable to make such requirement or that it would unreasonably increase the cost, an exception shall be noted in the specifications as to that particular article, material, or supply, and a public record made of the findings which justified the exception.

(b) If the head of a department, bureau, agency, or independent establishment which has made any contract containing the provision required by subsection (a) of this section finds that in the performance of such contract there has been a failure to comply with such provisions, he shall make public his findings, including therein the name of the contractor obligated under such contract, and no other contract for the construction, alteration, or repair of any public building or public work in the United States or elsewhere shall be awarded to such contractor, subcontractors, material men, or sup-

# GATT AND THE UNITED STATES

## SOME IMPLICATIONS FOR THE EUROPEAN

## COMPUTER INDUSTRY

CONTENTS


1. INTRODUCTION
2. SUMMARY
3. THE UNITED STATES' APPROACH TO GATT
4. THE U.S. LEGISLATIVE ENVIRONMENT
5. NEED FOR SPECIALIST LEGAL AND LOBBYIST ACTIVITIES
6. THE SCOPE AND APPLICATION OF GATT IN THE UNITED STATES
7. THE PROPOSED METHOD OF OPERATION OF GATT IN THE UNITED STATES
8. THE UNITED STATES ATTITUDE TO CO-SIGNATORIES
9. CONCLUSIONS
10. RECOMMENDATIONS


APPENDICES


1. EXTRACTS FROM PRESIDENT CARTER'S STATEMENT OF ADMINISTRATIVE ACTION TO IMPLEMENT THE MTN'S
2. ENACTING LEGISLATION
3. EXTRACT FROM U.S. GOVERNMENT MANUAL DESCRIBING ROLE OF AUTOMATED DATA AND TELECOMMUNICATIONS SERVICE

1. INTRODUCTION

This paper examines the attitudes of the United States to GATT and the legislative environment in which GATT will operate in the U.S.

Some implications for the European Computer Industry are examined and recommendations made for Community action.

2. SUMMARY

The major points which emerge in relation to U.S. attitudes and legislation in connection with GATT are :-

* the U.S. stands to gain a great deal more from GATT than Europe - by U.S. estimates access to markets valued at $20 billion as opposed to foreign access to U.S. markets worth $12.5 billion.

* Presidential statements enacting legislation display an aggressive outward thrust and emphasise measures to assist U.S. firms to penetrate foreign markets.

* U.S. Federal Procurement Law, Statutory Regulations for Departments and a network of laws, reviews and exemptions combine to make a legislative minefield which constitutes an effective and costly non-tariff barrier to foreign sellers.

* In the EEC and Member states, on the other hand, the overwhelming impression so far is that the orientation towards GATT is inward-looking, and that the European computer markets will continue to be more open and subject to more penetration than the U.S. market.

* The U.S. approach appears to lay heavy emphasis on other signatories' markets being opened before GATT is operated for them, whilst procurement in the U.S., even under GATT, is still likely to be subject to other U.S. domestic progammes such as labour surplus area legislation.

* American computer firms have penetrated European markets and reached a heavily dominant position, despite procurement measures in various member states. In the U.S., American companies, aided by a massive government purchasing and Buy America preference, hold virtually 100% of the market. European penetration of Federal procurement however is virtually nil. GATT is therefore likely to aid American companies at the expense of Eropean companies who will be damaged by further erosion of their market.

* The single ADP purchaser for the U.S. Government (the Automated Data and Telecommunications Service) is excluded from GATT.

* U.S. sources, including lawyers, have no worries about foreign penetration of Federal Procurement and see the U.S. legislative environment as protective.

* For the European computer industry the EEC should ensure that U.S. Federal Procurement under GATT is truly open and that European companies are obtaining a fair share of the market before Europe's own markets are fully opened.

## 3. THE UNITED STATES APPROACH TO GATT

The U.S. approach to GATT is best exemplified by the following extracts from "President Carter's Statement of Administrative Action" to implement the agreement:-

### 3.1 Economic benefits to the United States

"The Government Procurement Agreement will open up new markets to United States exports estimated to exceed $20 billion. In return the United States will subject approximately 15% of it's purchases valued at $12.5 billion to open competition.."

"...it shoud be noted that the trading partners of the United States will be providing new export opportunities in areas where we are highly competitive. These areas include ,computers ,business machines, laboratory equipment..."

3.2 President Carter sets out a series of measures in relation to GATT with the object of assisting U.S. business to penetrate foreign markets:-

* to ensure the awareness of the U.S. business community of the provisions of the Agreement in general and of specific sales opportunities.

* "Assistance to U.S. firms wishing to enter bids and aggressive action by commercial officers of foreign posts in support of suppliers of U.S. products throughout the procurement process".

* measures for Presidential and other actions to establish reciprocity with other major industrial countries.

* measures to monitor Agreement implementation by other countries and their subsequent compliance.

In addition other U.S. sources are quoted as follows:-

"We have no worries about foreign penetration of U.S. Federal Procurement .....because it is a labyrinth which U.S. companies often find impenetrable."

"all U.S. legislation in this area is protectionist and any Free Trade elements are sham."

4. THE U.S. LEGISLATIVE ENVIRONMENT

The Buy America preference is the main area of U.S. law discriminating against products of foreign origin. Its key provision is that a foreign product must be 6% or 12% cheaper than the lowest U.S. bid, or 50% for Department of Defence purchases.

Buy America is a code expressed in the Statutory regulations governing every Federal Agency.

Current U.S. discrimination against foreign purchases will only be waived subject to a number of exclusions and only for purchases covered by the Agreement.

Other laws and codes such as the Freedom of Information Act, Customs Law on Origin of Goods, Labour Surplus Area Progamme, Congressional Review and the Requirement to invite Public Comment combime to make a legislative minefield for the foreign would-be seller. Even many U.S. companies have difficulty in comprehending and penetrating Federal Procurement, and compared with the UK the legislative and legal barriers are formidable.

5. NEED FOR SPECIALIST LEGAL AND LOBBYIST ACTIVITIES

The UK Embassy in Washington has advised UK business of the need for specialist legal and lobbyist assistance based in the U.S. in order to attempt penetration of U.S. Federal Procurement.

There are many areas of potential legal dispute, and many areas where special interest lobbyng is expected to operate. Overall the effect is the continuance of a formidable non-tariff barrier. In order to overcome this barrier the foreign seller will need to employ specialist legal and lobbyist resources at additional cost.

6. THE SCOPE AND APPLICATION OF GATT IN THE U.S.

All purchases by State and local governments, including purchases by State and local governments made with Federal funds are excluded from the Agreement. By comparison, in the UK for example, the Scottish, Welsh and, Northern Ireland, are not so excluded from the offices Agreement.

Other exclusions from the Agreement in the U.S. include all purchase under minority business set-aside programmes connected with labour surplus areas.

In addition, part of the U.S. General Services Administration, the Automated Data and Telecommunications Service (ADTS) is specifically excluded from the Agreement. The equivalent UK body, the Central Computer and Telecommunications Agency, is included in the Agreement.

The functions and activities of the ADTS are described as follows by the U.S. Government:-

> "In carrying out its mission as the single purchaser for the Government, ADTS seeks out and obtains the best buys; obtains the best leasing and/or purchase price arrangements; improves procurement practices; when possible utilises excess ADP equipment to fill procurement requests; and negotiates long term procurement actions to achieve cost reductions."

There is thus considerable concern about the room for manoeuvre as between ADTS and other Federal Agencies in terms of procurement purchasing in the ADP field, especially when the CCTA, the equivalent UK agency, is included in the Agreement.

7. THE PROPOSED METHOD OF OPERATION OF GATT IN THE U.S.

The GATT Agreement will be implemented by Presidential waiver of Buy America regulations. It will be necessary for a Government Agency to apply to the President for Buy America regulations to be waived either in the case of an individual purchase or an area of purchasing where GATT applies.

It appears likely that the Presidential waiver will only be granted under the following conditions :

* Congress is satisfied that a foreign country has opened up its markets - "Reciprocity".

* Goods are "not indispensable for National Security", or otherwise excluded.

* Services do not predominate in the contract and the threshold of $190,000 exceeded.

* The President has been asked by the U.S. Agency concerned to waive Buy America regulations.

Additional complexities arise because:

* The allocation of some purchases to small businesses is excluded.

* The need to direct work to labour surplus areas is strongly emphasised in President Carter's Statement of

Administrative Action.

8. THE UNITED STATES' ATTITUDE TO CO-SIGNATORIES

There is heavy emphasis on the actions the U.S. will take to ensure reciprocity from co-signatories, as indicated by the following passage from President Carter's Statement:-

> "The Administration will take all action necessary to make certain that other countries benefitting from open competion for United States procurement offer reciprocal competitive opportunities to United States products and suppliers of such products."

To lend emphasis to its requirements for reciprocity the United States is posting two staff to Brussels and two to London specifically to monitor the implementation of GATT in EEC Member States. Staff are also being sent to other major signatory countries for monitoring purposes.

Within the United States action will be taken to ensure that foreign suppliers conform strictly to Customs regulations regarding " country of origin ". These Customs regulations are backed by heavy legal sanctions

In the UK, U.S. companies have been pressing the UK government to anticipate the due date for the implementation of GATT rules on procurement, both in relation to specific contracts and generally.

In the United States however, ICL's experience is that the U.S. government is insisting on operating Buy America, and will continue to do so up to the deadline.

Overall the United States attitude appears to be one which requires co-signatories to open their markets to the U.S. first and to prove such openness before they will be permitted access to U.S. procurement.

9. CONCLUSIONS

* The U.S. Government by its own calculations clearly expects to gain more from GATT ( $20 bn ) than its co-signatories ( $12.5 bn ).

* The U.S. Government displays an agressive outward thrust in its attitude to penetration of its co-signatories' markets and is taking pratical steps to support aggressive marketing by its suppliers.

* The U.S. government is strongly determined to ensure that foreign markets are opened to U.S. products and supppliers before opening its own markets.

* U.S. Federal procurement is a labyrinth which is difficult to penetrate. The foreign would-be seller will require specialist legal and lobbyist advice. Even with the aid of such specialist resources U.S. sources are confident that foreign suppliers will have great difficulty.

INDUSTRIAL INNOVATION INITIATIVES
PRESIDENT JIMMY CARTER

Today I'm announcing a program and sending a message to Congress which will significantly enhance our Nation's industrial innovative capacity and thereby help to revitalize America's industrial base. This program is the result of a thorough, 18-month analysis, and it's been conducted by the Domestic Policy Staff, by representatives from the private sector of our economy, and also, in particular, by the Department of Commerce. It represents the most wide-ranging initiative ever made to spur initiative and innovation and to unleash America's creative genius.

Industrial innovation, or the development and commercialization of new products and new processes, is an essential, but increasingly overlooked factor in a strong and growing American economy. This will help to ensure economic vitality, improve productivity, international competitiveness, the creation of jobs, and a better quality of life for every American.

Our Nation's history, as you know, is filled with a rich tradition of industrial innovation. For over a century, America has been the world's leader in developing new products, new processes, new technologies, and also new ways of assuring wide distribution of new products and their beneficial use by humanity.

We are still the world's leader, but our products are meeting with growing competition from abroad. Many of the world's leading industrial countries are now attempting to develop competitive advantages through their own innovative capability and an increasing concentration of their efforts in this realm of economic life. This is a challenge which we can no longer afford to ignore. To respond to this challenge, we must initiate our own policies to foster the Nation's competitive

capability and entrepreneurial spirit in the decades ahead.

These actions will be detailed to you shortly, and they include the development, for the first time in our history, of a uniform Government patent policy. This will foster the widest possible use of the results of Government-supported research and, at the same time, will protect the interests of the Government and, therefore, the population of our country at large.

We'll also include the widest possible dissemination in this country of technical information, which is developed in Government laboratories, in universities and private industry through Government-sponsored research, in other industrialized nations, and also buried in our own patent files. The derivation and promulgation of this available information throughout the American economic system will be enhanced greatly by this new proposal.

More innovation will help the economic climate; a better economic climate will also help to encourage innovation.

Initiatives

Enhancing the Transfer of Information. Often, the information that underlies a technological advance is not known to companies capable of commercially developing that advance. I am therefore taking several actions to ease and encourage the flow of technical knowledge and information. These actions include establishing the Center for the Utilization of Federal Technology at the National Technical Information Service to improve the transfer of knowledge from Federal laboratories; and, through the State and Commerce Departments, increasing the availability of technical information developed in foreign countries.

Opening Federal Procurement to Innovations. The Federal government is the Nation's largest single purchaser of goods and services. Through its purchases, the Federal government can influence the rate at which innovative products enter the market.

For that reason, I am directing the Office of Federal Procurement Policy to introduce procurement policies and regulations that will remove barriers now inhibiting the government from purchasing innovative products. Special attention will be given to substituting performance for design specifications and, wherever feasible, selection will be on the basis of costs over the life of the item, rather than merely the initial purchase price.

MR. ALEXANDER

DSG

10 DOWNING STREET

THE PRIME MINISTER

19 February 1981

Dear Michael,

Thank you so much for your further letter of 17 February about U.S. visa requirements. I was very glad to have it.

Yours ever,

sgd Margaret

Michael Spicer, Esq., M.P.

BK

HS

19 February 1981

Letter from Mr. Greville Janner

You will wish to be aware of the enclosed exchange of correspondence between the Prime Minister and Mr. Greville Janner about her visit to Washington next week.

MICHAEL ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

10 DOWNING STREET

THE PRIME MINISTER

19 February 1981

Dear Greville,

Thank you for your letter of 16 February about my visit next week to Washington. It was good of you to write.

A discussion of the situation in the Middle East will certainly be high on the Agenda for my talks with President Reagan. I am sure our meeting will result in a close understanding as to how we can best concert our efforts in the search for a solution to the present difficulties.

Yours sincerely

Margaret

The Honourable Greville Janner, QC, MP

P. Pimm of BBC or Dep of British Jews rang to ask if your letter could be published. PM said "YES" CP 23/2

CONFIDENTIAL

USA

CF

Foreign and Commonwealth Office

London SW1A 2AH

Please check that LPS rec'd his copy of my letter of 17 Feb. WOK, Ls

19 February 1981

Note Spoke with FCO and issued another copy. JRP 19/2.

Dear Michael,

FIREARMS FOR THE RUC

Roy Harrington's letter of 13 February contained the Secretary of State for Northern Ireland's proposals for how the Prime Minister should deal with this issue during her forthcoming visit to Washington.

The Lord Privy Seal agrees with these proposals. If the Prime Minister also agrees, we will instruct the Embassy in Washington accordingly.

Yours sincerely,

Adam Wood

A K C Wood
Assistant Private Secretary
to the Lord Privy Seal

M O'D B Alexander Esq
10 Downing Street

CONFIDENTIAL

From: Geoffrey Pattie, M.P.

House of Commons,
LONDON, SW1A 0AA.

18th February 1981

Dear Ian,

Soon the PM will be off to Washington so that I thought it might be helpful if I provided a short background brief on some of the relevant equipment issues. This is enclosed, together with some press cuttings for further material.

I also enclose a short note on Tornado sales. I am going to Bonn on Thursday in order to press the case with my opposite number.

On the wider question of defence sales the Society of British Aerospace Companies (SBAC) have asked me to open their exhibition in Delhi on 17th March which I hope John Nott will let me do. As we have just learned today that a very high powered French delegation including Ministers

will be in Delhi the week before the British exhibition for the express purpose of discrediting our efforts! I wonder if we ~~have~~ ever act that way — I somehow doubt it.

I wonder if I could be allowed to pat myself on the back about Rapier? I enclose a copy of a British Aerospace press release from which you will see that the M.O.U. was signed last Friday. It was I who in October 79 in Washington made the offer of supplying RAF personnel at US expense in order to break the deadlock. The RAF were violently opposed to this because it was the Minister daring to have an idea of his own & Congress were not terribly keen either. The RAF were put in their place & Congress were lobbied when I returned last June & very people were telephoned at critical times. It is very nice to see it come home at £140 million for starters!

Yours ever

Jack

## The Harrier

The basic RAF Harrier, made by BAe at Kingston and known as the GR3, has been in squadron service with the RAF for some years. The Royal Navy has the Sea Harrier which has been sold also to Spain and India in small quantities.

The US Marine Corps bought about 170 Harriers of the GR3 type which they renamed the AV8-A.

## The Enhanced Harriers

Both the British and the Americans want to improve their existing Harriers. The British Aerospace project (which is still only in project definition) is called the GR5. The American project by McDonnell Douglas is called the AV8-B. Currently the AV8-B so called prototype is no more than a highly modified AV8-A but it has been flown and tested by RAF and BAe pilots.

## - and their requirements

The Marine Corps want improved range and payload because their operational concept sees the AV8-B shuttling back and forth from ships in support of beach assaults and acting as a form of 'bomb truck'.

The RAF want their Harrier for operations on the Central Front with the prime requirement being improved manoeuvrability to enable it to survive when it is attacked. This is the meaning of 'high turn rate'. The GR5 would be designed to meet this requirement. The AV8-B is having various modifications done to it at the present time in order to make it fit the bill for the RAF. Operationally the RAF could take the AV8-B without a problem.

## The industrial dimension

BAe will get 40% of the AV8-B airframe work and Rolls Royce 75% of the Pegasus engine work on any AV8-B order. The Marines are likely to want about 250 and the RAF wants 60, although the.../

the attached article talks of 225, that is my idea for replacing the Jaguar with Harriers and not with another non-VSTOL aircraft, all in all very nice work to keep the BAe and RR bank managers happy.

Although Dowty and Smiths would very probably be part of the AV8-B, Marconi Avionics would be a casualty of an AV8-B decision unless we insisted on an all British equipment fit for the RAF aircraft.

The Advanced (or Supersonic) VSTOL aircraft

In the 1990s, a very advanced VSTOL aircraft will be needed and the Americans seem ready to embark on such a programme. The essence of the programme would be advanced research on engine technology using the Pegasus engine and a technique called Plenum Chamber Burning. It is very important for Britain either to be partners in such a programme or to have an advanced programme of our own. Should the European Combat Aircraft collapse, as seems virtually certain, an advanced VSTOL project would be the only advanced programme in the UK aerospace industry.

Timing

It is important to take a decision soon but obviously we will wish to await a decision by the US Administration. I feel confident that they will go ahead with the Marines' order for AV8-B probably in April. The way would then be open for us to order the AV8-B if we wanted to.

The Psychology

The Unions want the RAF to order the GR5 and I have a lot of sympathy with them. I still think it is possible to order the GR5 for the RAF and also participate in the AV8-B programme industrially. We would also want to get the advanced programme going industrially. If we go totally the AV8-B route we will be accused of buying back our own idea from the US.../

US, so, in my view, we should try and link such a decision with the best possible deal for us which could be a joint advanced programme which was genuinely joint.

The options

1. That budget limitations prevent the RAF being able to afford any enhancement of the Harrier - in other words, we only order some more of the existing GR3. I hope this will not happen but it is a possibility.

2. The RAF buys the GR5 and the Marines go for the AV8-B. An advanced programme is launched which is more likely to be joint (and we do need their money) if we have opted for the AV8-B.

3. The RAF and the Marines buy the AV8-B and a joint advanced programme is launched.

Tactics for the Prime Minister

Obviously this is a good example of Anglo-American co-operation which should be welcomed but I would caution against being too enthusiastic in case the RAF's chronic current budgetary problems meant that the project had to be cancelled soon after the PM's return from Washington.

Rapier

Rapier is a surface to air guided missile system made by BAe Dynamics which has been in service with the RAF Regiment for airfield defence and the Army for area defence against aircraft flying at very low level up to 10,000 feet.

The Memorandum of Understanding relating to the purchase of Rapier for USAF bases in the UK was signed on 13 February 1981. The Americans buy 32 fire units plus missiles and the RAF Regiment provides the trained manpower, paid for by the US. The deal so far is worth £140 million.

The real significance is that a real breakthrough in relation to further export sales for Rapier has been achieved now that the USAF has bought the system.

PM's tactics

The PM can welcome Rapier as an excellent example of the two-way street in action.

JP 233

JP 233 is a runway denial weapon carried under Tornado and the American F1-11 and its task is to make craters in Russian airfields and also to drop anti personnel mines that delay runway repairs.

This is (or was) a joint UK/US project which began running into difficulties last summer with Congress. In the end in December 1980, after a period of trickle funding, Congress zeroed the project and we are now effectively on our own.

This is a complex advanced project but the Americans had no cause to behave in this way and there have been representations at Ministerial and diplomatic level. It is a good example of the need to devise a way in which Congress can be made party to an MOU because the USAF remains committed to the project and the outgoing administration was embarrassed by this.../

this situation.

PM's tactics

Frankly I think it would be a good card to play to get the Americans on the defensive and on to weak ground if, for no other reason, to soften them up for other suggestions.

Scorpion

Scorpion is a range of light armoured vehicles made by Alvis and ideal for use by the US Light Mobile force part of the Rapid Deployment Force. The Marine Corps are thinking about it but a Prime Ministerial push could open the door for an evaluation of the vehicles.

AMRAAM/ASRAAM

AMRAAM is the Advanced Medium Range Air to Air Missile
ASRAAM is the Advanced Short Range Air to Air Missile

AMRAAM is an American project and ASRAAM is a European (UK,F and FRG) project on the 'package' principle that each party buys the other's project when available. An interesting way forward but only mentioned here for information purposes.

Sting Ray

Bar room gossip has it that the American not nearly so advanced version Neartip has performed abysmally in recent tests. Sting Ray in contrast is bang on programme.

Tornado Sales

The Germans have been very difficult in agreeing to evaluations of Tornado by the Greeks - fellow NATO partners - let alone by the Saudis or the Jordanians. The Greeks got what they sought after I made strenuous representations to Bonn. The best way out of the difficulty could be to set up a small shell company in the UK called Tornado International and this would do the selling without soiling the virtue of the Germans.

Saudi Arabian sales

The opportunities are there but time is not on our side. The situation will not wait for a leisurely appraisal of our defence sales mechanism. We need co-ordination, concentration and above all dedication in order to win through.

# Britain Weighs U. S. AV-8B Buy

## Mrs. Thatcher is expected to discuss quantity buy for RAF in return for U. S. pledge to help fund new V/STOL fighter

By David A. Brown

**London**—British Prime Minister Margaret Thatcher is expected to discuss British purchase of up to 250 McDonnell Douglas AV-8Bs for the Royal Air Force in return for a U. S. commitment to partially fund the British portion of a supersonic V/STOL fighter development when she meets with President Reagan.

The joint program is being proposed by Rolls-Royce in Britain and McDonnell Douglas in the U. S. (AW&ST Sept. 1, 1980, p. 278; Jan. 12, p. 36), using as a demonstrator aircraft a modified British Aerospace AV-8A taken from U. S. Marine Corps inventory, and a modified Rolls-Royce Pegasus engine modified for plenum chamber burning.

Change in the British position will be that the RAF is likely to be in the market for a buy of about 225 aircraft, rather than the 60-80 Advanced Harrier-type aircraft that has been suggested previously.

Geoffrey Pattie, British undersecretary of defense for the RAF, last week said that an increased purchase of both the Panavia Tornado and the Advanced Harrier were being considered in the event that no agreement was reached with France and West Germany on the trilateral development of a new strike fighter to replace the RAF's aging Sepecat Jaguar force.

### Feasibility Reports

Pattie said that while talks are still going on with the two European nations, feasibility reports are still under study and "it is too soon to say when and what decisions will be reached." He named five alternatives to a collaborative solution:

- A new national development.
- An off-the-shelf foreign buy.
- Increase in the number of aircraft already on order from existing projects.
- Keeping the Jaguar fleet in service longer than planned.
- Doing nothing.

The last two options were unacceptable, he said. He personally is opposed to a foreign off-the-shelf buy. But if one were made, he would favor the McDonnell Douglas/Northrop F/A-18.

Pattie stressed that he was expressing his own opinion and that it was not yet government policy.

"While in the best of all possible worlds a purely national development would be preferable," the British minister said, "I fear that in the current economic climate it might well prove more costly in resources than we can reasonably afford.

"I am greatly attracted to the optimization of our existing research and development investment in modern and sophisticated airframes, and here I am referring to the Tornado and advanced versions of the Harrier V/STOL aircraft," he said.

"Tornado will form the single most important type in service with the RAF in the future," Pattie said, "and will provide considerable enhancement of our capability. Should the need arise, it would seem sensible to build upon that capability, lengthen production runs, increase commonality and simplify our supply and support systems by increased standardization on a single airframe, which we already share in common with two of our major European allies, to provide part of our [new aircraft] needs."

Pattie said Britain believes V/STOL aircraft have significant operational advantages in the central European military planning outlook and "accordingly, we have decided to continue with the Harrier in our frontline and are working to maintain its effectiveness until the end of the century. . . . Two options are under consideration to meet this requirement. One is the British Aerospace Harrier Mk. 5(K) and the other is the AV-8B being developed by McDonnell Douglas for the U. S. Marine Corps. There has been considerable debate on the merits of both options and I hope that a decision will be announced soon."

### Soviet Helicopters

**Washington**—Soviet Mil Mi-24 Hind E attack helicopters equipped with AT-6 spiral antitank missiles are replacing older Hind D versions.

The Hind E, with the new missiles, has a greater standoff range and a launch-and-leave capability, according to the Fiscal 1982 posture statement prepared by the organization of the Joint Chiefs of Staff. More than 100 Hind Es are based in the Warsaw Pact forward area, with others deployed in the Far East.

The Mil Mi-8 Hip 3, which may be the world's most heavily armed helicopter, also is deployed now. It has a machine gun, unguided rockets, bombs and guided antitank missiles.

More than 200 helicopters are reported to be operating in support of ground operations in Afghanistan, marking the Soviet Union's first combat experience with helicopters. There are about 5,200 helicopters in the Soviet inventory, a slight increase over last year.

Pattie said he preferred a "substantially reconfigured Royal Air Force front line, in which the existing Harrier, the Gr.3, is replaced one-for-one by the enhanced Harrier and the one-for-one replacement of Jaguars is made up of the 36 Tornado Gr.1 aircraft previously allocated to Saclant [NATO Supreme Commander Atlantic] and the rest are additional enhanced Harriers.

"This would mean a Harrier force more than double the present size and with this level of commitment it is essential the RAF requirements for substantially improved maneuverability, in terms of instantaneous turn rate, are met to the full," Pattie said.

Major British objection from within the RAF to the purchase of the AV-8B has centered on the slower turn rate of the AV-8B compared to that of the proposed Gr.5(K) (AW&ST Apr. 7, 1980, p. 48).

### High Turn Rate

British desire for a high turn rate stems from their belief that tactical aircraft in the Central European theater will have to be able to compete with the latest Warsaw Pact fighter aircraft in the event of a conflict and that because of inferior numbers, will not be able to count on NATO air-superiority fighters providing this assistance. "The hostile central front environment will demand not only this capability, but ECM and an improved air-to-air missile as well," Pattie said.

Pattie said he did not consider the enhanced Harrier as the ultimate answer to Britain's needs for a V/STOL aircraft. "I think it will be essential for this country to embark on an advanced V/STOL program almost certainly requiring a demonstrator program designed to check out the need for a supersonic V/STOL aircraft and how this might be achieved," he said.

To date, about 135 of the early versions of the Harrier have been delivered to the RAF. The Royal Navy has begun taking delivery of another 38 Harrier-type aircraft, with the bulk of this order being Sea Harrier fighters for use from aircraft carriers.

Pattie said that the Royal Navy "would have a requirement for such a supersonic aircraft certainly by the mid-90s."

Defense ministry officials last week said that the RAF would have no objections to the AV-8B, if the turn rate could be improved, and British industry officials have on several occasions indicated that the country would get as much or more industrial work from the AV-8B—which is 40% built by British Aerospace—as it would from the Harrier Gr.5(K). Rolls-Royce would build 75% of the engine for the AV-8B. □

# British Test Flying Modified AV-8B

London—Test flying is under way of a McDonnell Douglas AV-8B modified to meet turn rate requirements of the Royal Air Force. A team of British engineers and program officials was at St. Louis last week to study test results.

The aircraft now flying has leading edge wing root extensions (LERX) similar to those developed by British Aerospace Corp. for its proposed Harrier GR.5(K), so-called Big Wing Harrier. The British also have asked McDonnell Douglas to modify the flaps to smooth the airflow, but this has not yet been done.

The LERX provides higher pitch rates, which can be translated into instantaneous turn rates, but it also adds drag, which degrades sustained turn performance.

One of the British objections to the AV-8B has been its relatively low turn rate of about 13-14 deg. per sec. The RAF has said that it needs at least a 20 deg. per sec. turn rate for its new vertical takeoff aircraft (AW&ST Feb. 2, p. 14).

Test work at St. Louis also has shown that the LERX is slightly detrimental to longitudinal stability and degrades the aircraft's static margin.

The work has been funded by the British Defense Ministry. Although the British have not formally asked the U. S. Defense Dept. for tests other than those on the LERX, they have discussed with McDonnell Douglas the possibility of a redesigned flap that would be sealed so that the airflow over the wing would be less turbulent.

The Marine Corps plans to have a maneuvering flap on its AV-8Bs, but these are not on the YAV-8B test aircraft now flying. The British also want a maneuvering flap on the AV-8B if they should decide to purchase it, but it probably would be different from the Marine aircraft flap in both design and operation.

McDonnell Douglas officials said the LERX-equipped AV-8B appeared to be the perfect solution to the British requirement for an aircraft with a higher turn rate, and the advantages of the LERX design also should interest the Marines.

U. S. officials said the Marines had not yet seen enough flight test results to know if they wanted the system for their aircraft. Other concepts are being considered. "The British have not approached us formally on other than the leading edge root extensions, but they do have other aerodynamic innovations they're considering should they decide to buy the advanced Harrier," a Pentagon official said.

British Defense Minister John Nott last week said that a key to any British purchase of advanced military equipment from the U. S. was some effort by the Reagan Administration to equalize the balance of trade in military equipment between the two nations. At present, Britain buys about four times as much from the U. S. as the U. S. does from Britain. Nott's statements were not directed specifically at the AV-8B, but he said "there are probably a lot more systems we would want to buy from the U. S. if the two-way street can be equalized."

# Industry Proposes Supersonic V/STOL

By Clarence A. Robinson, Jr.

**Washington**—A joint supersonic vertical/short takeoff and landing (V/STOL) fighter development and flight demonstration program is being proposed by McDonnell Douglas and Rolls-Royce. The program could involve the U. S. Navy, Air Force, National Aeronautics and Space Administration and the United Kingdom's Royal Navy and Air Force.

The supersonic V/STOL program is viewed as the next logical step beyond the Marine Corps AV-8B Advanced Harrier. The proposed flight demonstration aircraft is known as the AV-8SX (supersonic experimental). It is based on using a modified Marine/British Aerospace AV-8A airframe and plenum chamber burning with the Rolls-Royce Pegasus 11 engine to increase overall engine thrust by 50%.

The four-to-five-year development and flight demonstration program would produce an aircraft capable of flight in the Mach 1.6 region and would cost $300-500 million. This figure includes engine development costs and flight rating tests of the powerplant.

Both the Defense Science Board and the Navy in its sea-based air master study indicated U. S. need for a V/STOL combat aircraft with a supersonic capability.

The British Ministry of Defense also is committed to the subsonic V/STOL capability for the Royal Navy and Air Force, and possible extension to supersonic capability is a topic of intense interest. Present testing on plenum chamber burning by Rolls-Royce has been funded by the Ministry of Defense.

The growing threat of the Soviet navy to U. S. merchant ships has forced the Navy to focus on effective, affordable means to protect merchant vessels. V/STOL aircraft are one way to combat the Soviet threat.

There is a strong likelihood that existing nuclear-powered aircraft carriers will be augmented by smaller air-capable ships operating a mixture of conventional and V/STOL aircraft. The Navy plans to bring the USS Oriskany back into the fleet and operate it with AV-8As flown by Marine pilots. USAF officers are concerned that bases used in Europe are already pretargeted and vulnerable to attack.

Studies have led USAF to consider STOL aircraft to insure against runway destruction and to allow dispersal to secondary airfields or sites. STOL aircraft would be operated in conjunction with the present inventory of McDonnell Douglas F-15s, General Dynamics F-16s and Fairchild A-10s.

By using the STOL capability, USAF could be airborne in approximately 1,200 ft. carrying a full load of ordnance. Mission capabilities of the Marine AV-8B coincide with the USAF/General Dynamics F-16 and include:

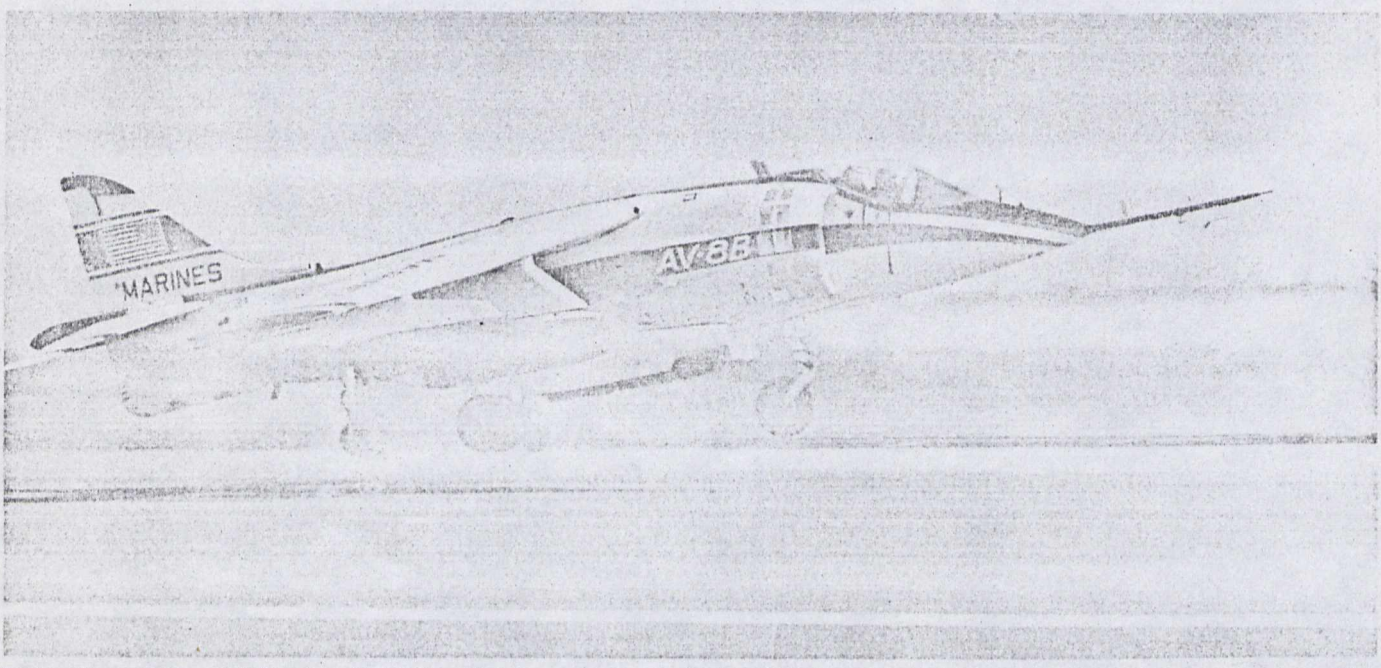
- **Close air support**—The V/STOL aircraft can take off in under 1,000 ft. with a gross weight of 28,236 lb., which includes 7,500 lb. of internal fuel, 12 Mk. 82 bombs at 6,840 lb. The combat radius is 161 naut. mi., and the aircraft can remain on station at 5,000 ft. for 60 min. and drop its stores.
- **Interdiction mission**—Carrying 7,500 lb. of internal fuel and 2,752 lb. in two external fuel tanks, the V/STOL aircraft can take off in a distance of 1,000 ft. armed with seven Mk. 82 bombs and fly a radius of 629 naut. mi. with 5 min. to drop stores.

The AV-8B Harrier also can be armed with air-to-air weapons on four missile stations, and it will carry a Gatling-type 25-mm. gun system.

The AV-8B Plus is being developed with an all-weather weapons system. The Hughes APG-65 radar used in the F-18 fighter is being considered for it. This would provide the capability to arm the aircraft with the radar-guided Sparrow or the advanced medium range air-to-air missile (AMRAAM), and the McDonnell Douglas Harpoon antiship missile.

The nose of the AV-8B will need enlargement to house the APG-65 radar antenna, or the antenna will need to be reduced in size. The Navy is studying the possibility of using synthetic aperture radar in order to avoid airframe modifications.

The Marines have approximately $5 million budgeted in Fiscal 1981 for devel-




Marine Corps/McDonnell Douglas AV-8B aircraft takes off armed with Mk. 82 bombs during the development flight test program. The vertical/short takeoff and landing aircraft has twice the payload/range capability of the AV-8A and can carry a weapons load of 9,000 lb. on seven weapons stations—conventional and guided bombs, air-to-air missiles, and a gun system.

opment of the APG-65 for use in the AV-8B Plus and for development of the Pegasus 11-35 engine. Marine officers said the Corps is not pressing for the AV-8B Plus development but that if the Navy takes advantage of the effort and procures the aircraft the Marine Corps might also opt for that version to permit a large procurement program.

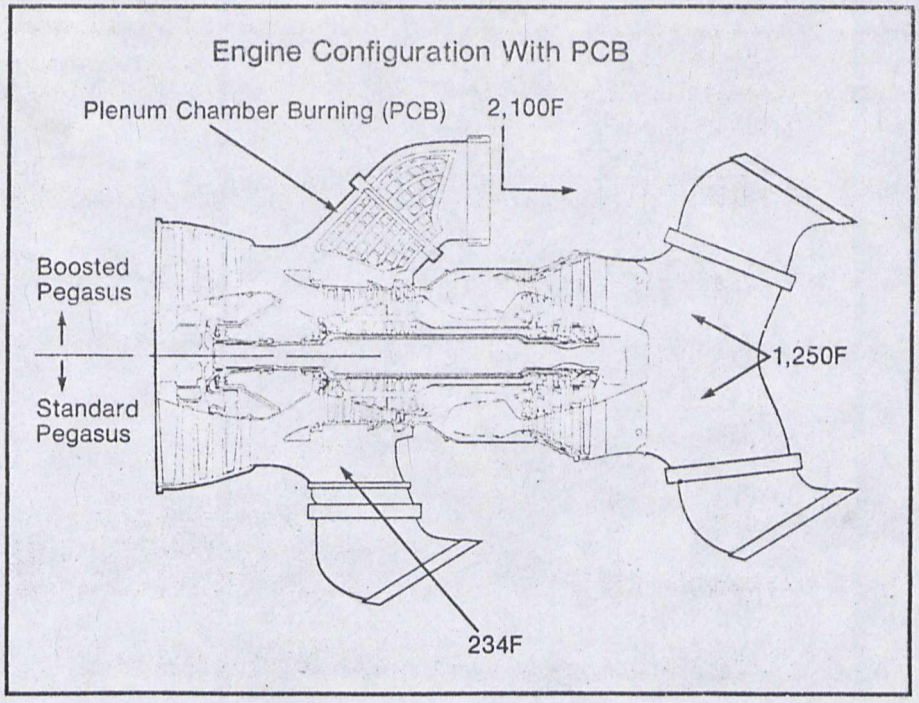
There already is an agreement that Pratt & Whitney Aircraft will manufacture up to 25% of the value of the engine parts ordered by the U. S. Rolls-Royce will make the remaining 75%, but this arrangement places a U. S. engine company in the development and production of the vectored thrust engines.

The range and payload of the AV-8B equals the capability of the F-16, according to Pentagon officials, with the F-16 requiring a 3,500-ft. takeoff roll while the AV-8B needs only 1,000 ft. "USAF is trying to get into a STOL aircraft program for a tactical fighter," one Defense Dept. official said. "And USAF requirements in Europe fit nicely with the capability of the AV-8B."

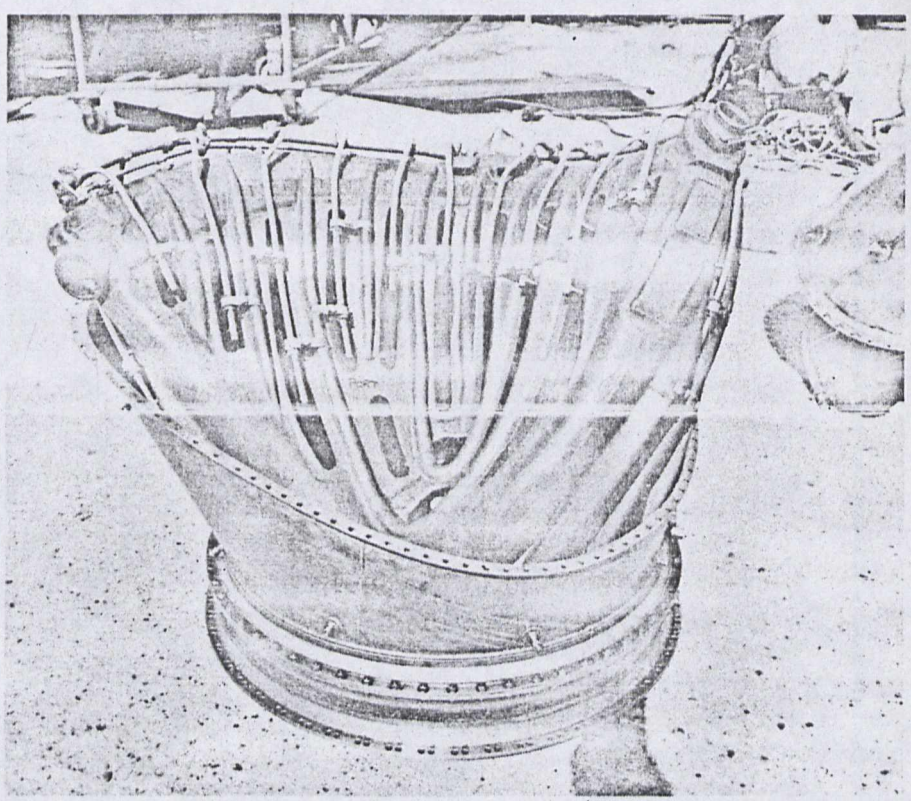
"The AV-8B can lift 2.33 times its empty weight in a maximum powered takeoff in STOL at 1,200 ft.," another Pentagon official explained. "The penalty for vertical lift is minimal with the Harrier; it's now down to less than 2% of the gross weight—the reaction control system and the nozzles."

An operational derivative of the supersonic demonstrator AV-8SX is envisioned, and growth potential in the plenum chamber burning technology is believed by the two aerospace companies to provide capability for a second-generation supersonic fighter in the Mach 2 category in the 1990s. The operational derivative of the AV-8SX would take advantage of the technology in the AV-8B for the Marines, the increased thrust in the Pegasus engine with plenum chamber burning, vectored thrust controls for aerial combat maneuvering and the avionics capability being developed for the Navy's AV-8B Plus program. It also would capitalize on the Pegasus 11-35 propulsion system work accomplished by Rolls-Royce for the AV-8B Plus.

The Pegasus 11F-35 engine is derived from the Pegasus 11-21 (F402-RR-402) engine used in the AV-8B. Modifications to the Pegasus 11-21 have been developed in a joint United Kingdom-U. S. product support program. They include a new fan, zero scarf front nozzles, turbine exhaust diffuser and a modified accessory gearbox.



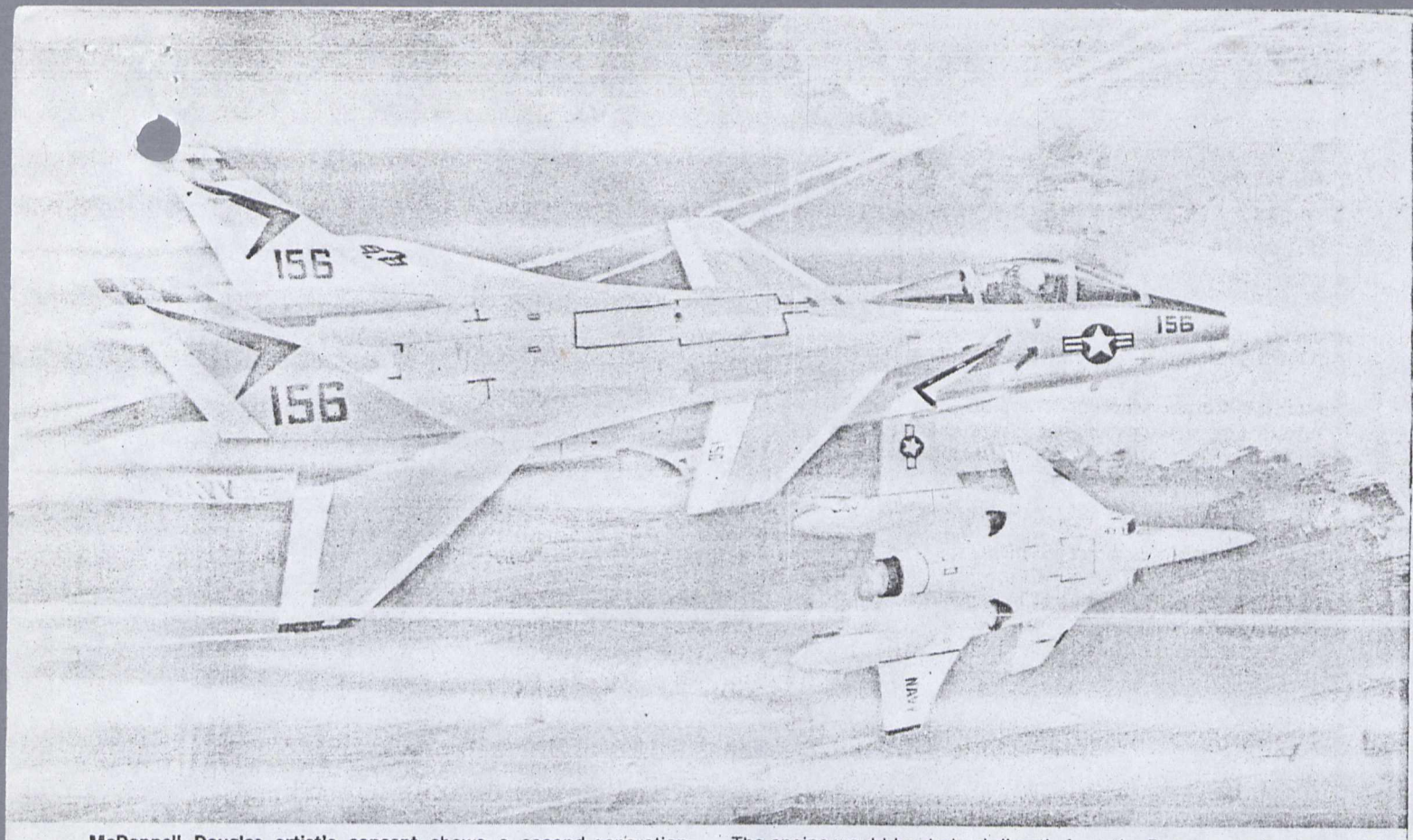

**Rolls-Royce Pegasus engine** (above) has the burner in the plenum chamber (top), used to augment thrust to achieve supersonic speed in a V/STOL aircraft. Fuel is burned in the duct that supplies air to the front or cold nozzles. The boost to the nozzles is approximately 100%, with an overall engine boost of 50%. Flame holder or colander (below) was designed by Rolls-Royce for the Pegasus engine used with a proposed supersonic V/STOL aircraft, based on the design of the Marine Corps/McDonnell Douglas AV-8B. The company has resumed tests with plenum chamber burning using the colander in the front nozzles of a Pegasus engine to augment and increase engine thrust by 50%. The colander fits in each side of the plenum chamber, which feeds the bypass air from the fan to the front nozzles.



The Pegasus 11F-35 engine with a rebladed low-pressure compressor providing about 4% increase in mass flow and increased pressure ratio has a thrust increase to 25,000 lb. This compares to a 21,500-lb. thrust rating for the Pegasus 11-21 engine.

The plenum chamber burning technology with either the Pegasus 11-21, the existing production engine, or the Pegasus 11F-35 would provide the basis for supersonic augmented-thrust powerplants, according to Rolls-Royce officials.

The increases in engine thrust required




**McDonnell Douglas artist's concept** shows a second-generation vertical/short takeoff and landing fighter aircraft capable of operating at Mach 2. The aircraft would be powered by a single Rolls-Royce engine using plenum chamber burning to augment thrust. The engine would be derived directly from the Pegasus engine now used in the AV-8A V/STOL aircraft. In this design the plenum chamber burning thrust augmentation system is in the front nozzles with a single thrust vectoring rear tailpipe and nozzle.

for a supersonic V/STOL fighter aircraft can be obtained by burning fuel in the engine's plenum chamber—the duct that supplies air to the front or cold nozzles. This technique of boosting thrust through the system in the fan exhaust plenum chamber permits augmentation at any position of the vectored nozzle, according to Rolls-Royce officials, and thus achieves thrust boost in V/STOL operations and in conventional flight.

Augmentation of the fan exhaust flow is favored over augmenting the core flow for a number of reasons. They include:

- Temperature rise and thrust boost is achieved with lower gas temperature, reducing the ground footprint.
- Thrust center with the nozzles vertical is kept forward; consequently the engine does not need to be installed too far forward in the airframe.
- Ample cooling air is readily available.
- Greater airflow is available for augmentation because, as the main engine combustor outlet temperature increases, the engine bypass ratio also tends to increase. This avoids the need to cool the core exhaust system.

Temperature of the air in the plenum chamber is normally around 100C (212F) at takeoff. Rolls-Royce officials said the potential boost to the front nozzle thrust at takeoff is in the region of 100%, which translates to an overall engine boost of 50%.

The equivalent boosts at supersonic speeds are considered significantly higher, progressively rising to over 100% at speeds in excess of Mach 1, they said.

Rolls-Royce is basing its engine development effort on providing a supersonic V/STOL demonstrator aircraft in the shortest possible time.

To do this, Rolls-Royce is designing a current production Pegasus 11 engine fitted with a droop and trail plenum chamber system and two convergent circular variable-area nozzles.

The company said the design of these front variable-area nozzles would be based on the nozzle now in quantity production for the RB. 199 engine powering the Panavia Tornado.

The standard rear nozzles of the current production Pegasus could be retained, but the engine front mountings and fuel control system will have to be revised, according to Rolls-Royce.

Because of strong support and encouragement to McDonnell Douglas and Rolls-Royce by USAF and Navy officials, the companies are working on a proposal. "There appears to be real interest in a supersonic aircraft with V/STOL capability, and some combination of U.S. and British participation is likely," one Pentagon official said. "The reaction to briefings by McDonnell Douglas to the Navy and Air Force has been favorable. Some combination of those organizations expressing interest is expected in a joint program. It may be that all of them are not needed."

As a result of the expressions of interest by the military, Rolls-Royce decided to resume full-scale plenum chamber burning tests. The first phase was conducted at Shoeburyness, England, using a Pegasus 2 engine (AW&ST Sept. 1, 1980, p. 278). The engine was fitted with fixed-area non-optimum nozzles, and each nozzle was outfitted with quartz windows to permit observation of the combustion inside the plenum chamber. The turbine exhaust was ducted into a straight tail pipe and nozzle.

"We used the early hardware and test nozzles to map fuel-air ratios at speeds, and sought to determine intake distortions using wire screens. We examined the weak extension limits, and the fuel-rich buzz limits at the other end," one company official said. "We also tested tolerances to water, using fire hoses with a 12% concentration. We went to a 20% concentration of water before the burner went out, but we were able to restart or cross-light using ignitors."

The water test, the official said, was to determine what would happen if the plenum chamber burner went out. "There was a reduction in thrust, but the test produced no asymmetry," the company official stressed.

The second phase of plenum chamber burning tests began last September in a test cell at Farnborough to evaluate the altitude, combustion and air-start performance. Airflows in these tests relate to the operation of the Pegasus 11 engine,

and some limited tests have been completed.

The next phase planned includes using a Harrier fuselage with the Pegasus 2 engine and plenum chamber burning. The test vehicle will be tethered from a gantry at various heights above the ground to test the full-scale nozzle effect of drooping the nozzle. The plenum chamber has an anhedral standard fundamental to the design known as a droop and trail. The nozzle is angled 45 deg. to reduce thrust losses and drag, according to company officials.

Rolls-Royce officials said that recent testing has shown that the extra power available in the plenum chamber burning technology can be used to improve aircraft performance in transonic acceleration, climb and maneuver as well as at supersonic speeds. "There is a better matching of engine performance to aircraft cruise requirements providing a lower specific fuel consumption. This equates to a significant reduction in fuel load for supersonic dash in combat conditions, or a longer combat time for a given load," one company official said.

Next phase in the development effort is the flight demonstration program. An AV-8A aircraft would be modified with a 6-ft. fuselage plug, and the inlet would be redesigned for supersonic speed. The AV-8A wing box would be retained, but the aft wing angle would be increased, service officials said.

The 21,500-lb. thrust in the Pegasus 11-21 production engine could be increased to 30,000-lb. thrust with plenum chamber burning. If the Pegasus 11-21E engine for the AV-8B is used, it would be redesignated the 11-21D. The plenum-chamber-burning colander would be redesigned to take advantage of ramjet engine technology. This would result in a cold air loss of less than 3% in the colander design, Rolls-Royce officials said.

With the proper intake design in the operational derivative, speeds of Mach 2 are believed possible. One way to move in this direction is to use the Pegasus 11-35 engine for the AV-8B Plus with its higher mass flow-fan. The non-augmented thrust can be increased from 25,000 lb. to an augmented thrust of 35,000 lb. on a standard day. One consideration being weighed by Rolls-Royce is redesign of the hot nozzles to make them easier to install,

## Spain Delays Combat Fighter Selection

**London**—Spanish defense officials are seeking to complete technical and production offset studies of proposals from contenders for Spain's anticipated buy of 144 new air combat fighters.

This would permit a military decision on which aircraft to buy to be made early this year. A final political decision, however, is expected to be delayed until the fall of 1981 or later in order to permit the nation to negotiate the most favorable deal for the new fighters.

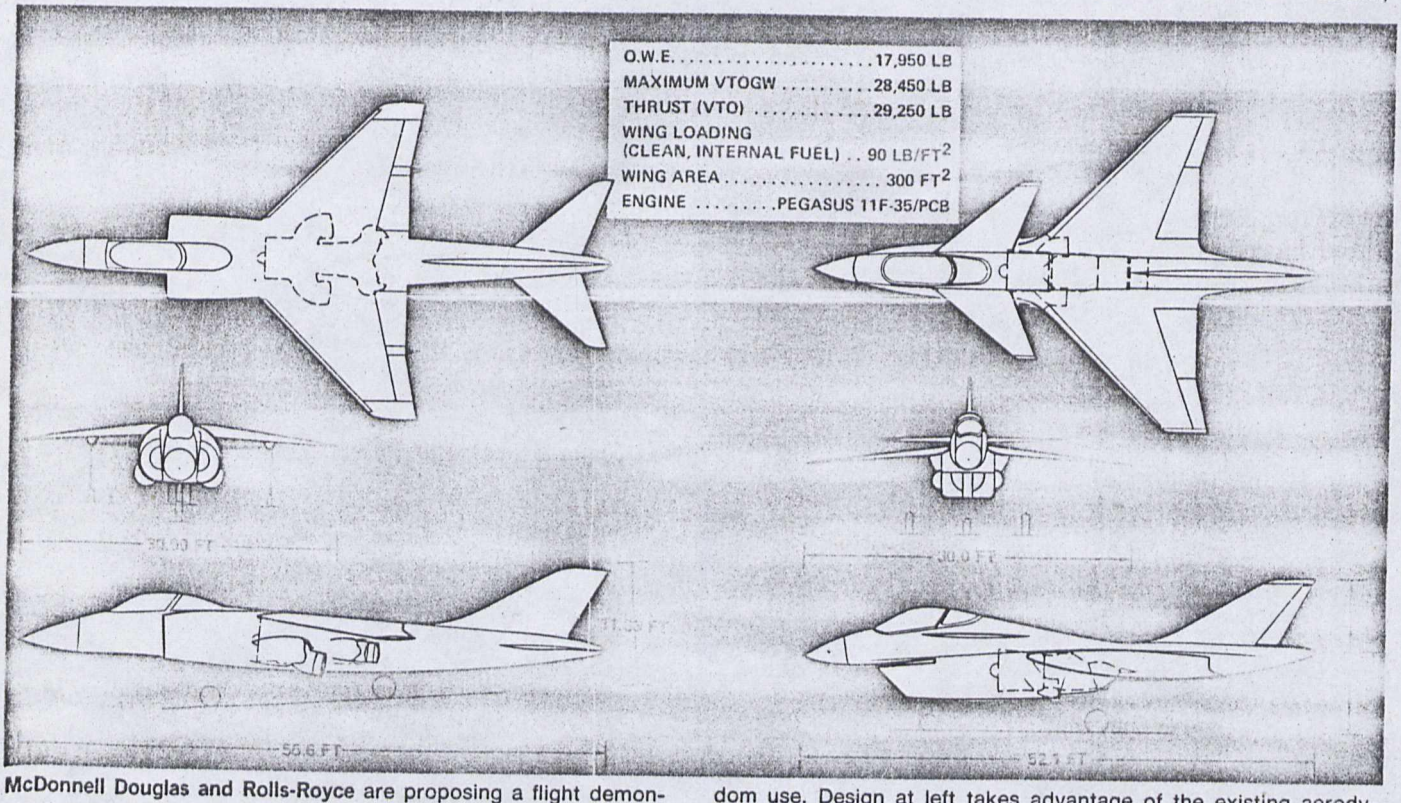
Finalists in the competition are the General Dynamics F-16 and the McDonnell Douglas F-18A, with the Northrop F-18L an outside possibility.

The Spanish want more information on the aircraft under consideration, particularly the F-18A. A logistics support evaluation team of the Spanish Defense Ministry was in the U. S. in November and visited both McDonnell Douglas and General Dynamics. The Spanish also want more talks on offset and coproduction possibilities.

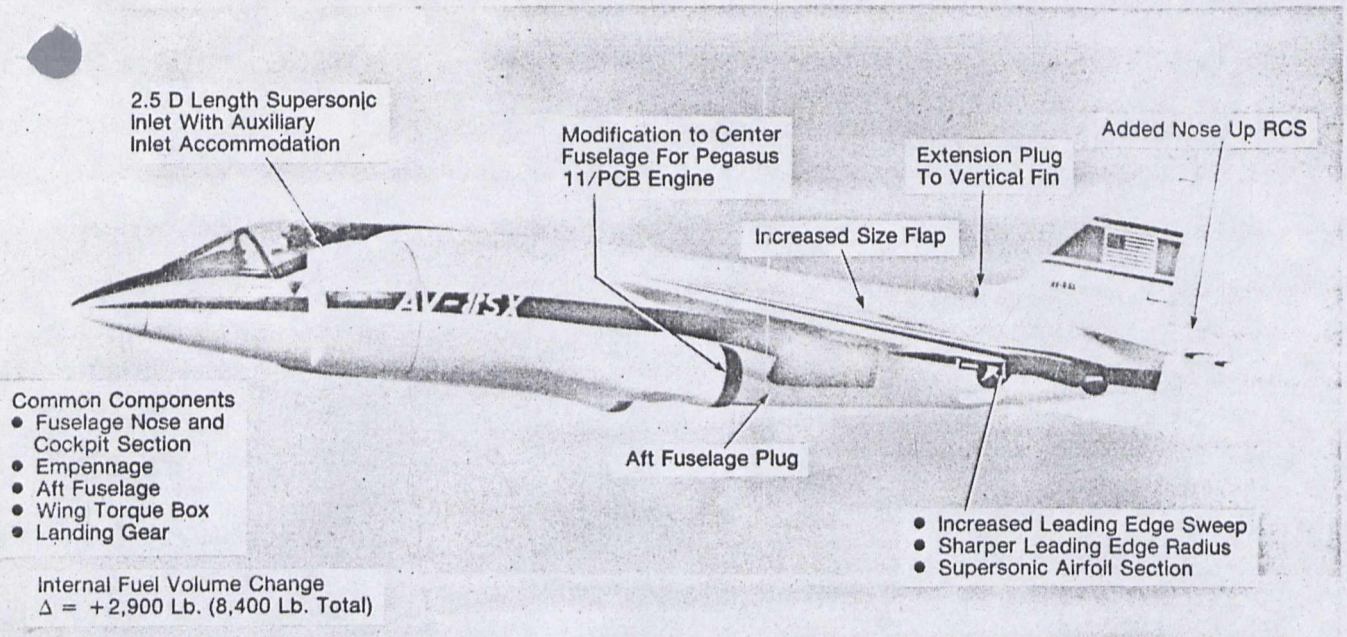
The Spanish-American Mutual Defense Treaty is due for renewal in 1981 and this could be an additional reason for a delay in the selection of the new aircraft.

The Spanish Parliament has been discussing the possibility of Spain's applying for membership in the North Atlantic Treaty Organization, with dates as late as 1983 being mentioned. Spanish representatives, however, met with those of NATO nations at the Madrid Conference on Human Rights, in effect coordinating the views of Spain with NATO member nations. The Spanish selection of a new fighter could be delayed until a decision is made on when to apply for NATO membership.

Another European neutral nation, Austria, also is expected to decide soon on a new fighter aircraft. Finalists in the Austrian competition are the Dassault-Breguet Mirage 50 and the General Dynamics F-16/J79, with a total order of 24 aircraft in prospect. A decision is expected in mid-1981.




**McDonnell Douglas and Rolls-Royce** are proposing a flight demonstration program using a modified AV-8A Harrier from the Marine Corps. Two operational derivative designs are being considered after the demonstration program for USAF, Navy or United Kingdom use. Design at left takes advantage of the existing aerodynamic design of the Harrier with modification. Design at right uses a close coupled canard to take full advantage of the thrust vector control inherent in the aircraft for aerial combat maneuvering.




**McDonnell Douglas and Rolls-Royce** plan to propose a development and flight test program for a supersonic Mach 1.6 V/STOL aircraft as a follow-on to the Marine Corps AV-8B Advanced Harrier. The flight demonstration vehicle would be a modified British Aerospace/Marine Corps AV-8A using a Pegasus 11 engine with plenum chamber burning in the front nozzles to augment thrust. The development and flight test program would take 4-5 years and cost $300-500 million. Note modifications to AV-8A airframe.

and possible use of an afterburner permitted by the nozzle redesign. This would boost the thrust to 40,000 lb., but it would require a new airframe design for operations in the 1989 era.

The first-generation supersonic V/STOL aircraft would be based on the modified AV-8A, with the second-generation Mach 2 aircraft to follow when required. Technological advances for vectored thrust engines already will permit an increase in thrust for the Pegasus 11 engine dry to 27,000 lb., company officials said. With plenum chamber burning it would be augmented to 40,000 lb., but this requires new core technology.

"One of the reasons for intense interest in a supersonic V/STOL aircraft," one Pentagon official said, "is demonstrated capability of the Marine's AV-8A using vectored thrust for aerial combat maneuvering."

Vectored thrust inherent in the Harrier nozzle design "substantially increases the rate of turn for a given wing loading. They [AV-8As] also have the most rapid deceleration of any aircraft, which can force an enemy to overshoot," he said.

Thrust vectoring permits surprise maneuvers that make it difficult for an opposing pilot to predict the flight path of the AV-8A or B model, and this is an important factor, the Defense Dept. official said. "This could force an enemy pilot to become defensive in his maneuvering."

The engine nozzle drive system for the AV-8B has been strengthened to expand the thrust vectoring speed/altitude envelope. This also improves combat maneuverability, while allowing the pilot to keep his head out of the cockpit during aerial combat.

The pilot vectors or varies the thrust both in magnitude and direction, rotating the nozzles by an actuating system using engine compressor air to generate mechanical power in an air motor. A system of shafts, bevel gears and chains transmits the drive to the nozzles. The nozzles can be rotated at over 90 deg./sec., and the system permits thrust vectoring under flight loads imposed at airspeeds over 450 kt.

Rolls-Royce began work on plenum chamber burning and successfully demonstrated the technology in the mid-1960s with several hundred hours of engine tests with plenum chamber augmentation to increase thrust. A scaled-up version of the Pegasus engine, known as the BS100, was used in the tests. The tests included a 25-hr. endurance run, engine operation behind an aircraft intake and 350 hr. of plenum chamber engine running.

At least two designs are under consideration as an operational derivative of the AV-8SX. One retains much of the aerodynamic shape of the AV-8A or B, and the other has a close-coupled canard, delta wing, and swept vertical stabilizer on a sting aft of the wing.

Statistics for both aircraft designs are the same and they include:

- Operational weight empty—17,950 lb.
- Maximum vertical takeoff weight—gross weight—28,450 lb.
- Thrust for vertical takeoff—29,250 lb.
- Wing loading (clean, internal fuel)—90 psf.
- Wing area—300 sq. ft.
- Engine—Pegasus 11F-35/PCB.

The bypass ratio on the Pegasus 11F-35 engine would be 1.20, and the airflow 464 lb./sec. The maximum PCB temperature would be 2,780F, with 33,430 lb. thrust on a standard day with zero nozzle splay.

On the Pegasus 11 engine installation in the Harrier, cold air from the front nozzles shields the air intake from the hot rear nozzle exhaust gas. In doing this, some cold front nozzle air enters the intake. With plenum chamber burning, this degree of recirculation from a hot front nozzle would result in a thrust loss greater than the plenum chamber burning thrust boost.

Rolls-Royce is continuing research and development to prevent hot gas ingestion. Through a model test program, the company has arrived at a solution of angling in the front nozzles 45-deg. so that the jets converge just above the ground. This kills the interjet hot gas fountain, reducing the inlet temperature rise and related thrust loss to acceptable levels.

Without the angled nozzles, the inlet temperature rise would be in excess of 250F. Tests with the angled-in nozzles have convinced Rolls-Royce that an inlet temperature rise of 30F can be maintained, which relates to a 3% thrust loss.

The company is studying ground temperature effects of the gas exhaust from plenum chamber burning and believes that the increase will be to a level of less than 200F. Peak temperature from the rear hot nozzles is now 440F.

The nozzles are turned down in Harrier operations now just before takeoff, and it takes less than 25 sec. from rotating the nozzles down to being airborne. With the nozzles in the Harrier now, the aircraft can operate from wooden flight decks.

With a supersonic V/STOL aircraft, a digital fuel control system would be used, and the thrust increase would be progressive. □

BRITISH AEROSPACE DYNAMICS GROUP

# NEWS RELEASE

February 17, 1981

Embargo: Not for publication or broadcast before 17.00 hours Tuesday February 17, 1981

## UNITED STATES AIR FORCE SELECTS RAPIER FOR UK AIR BASE DEFENCE

The United States Air Force has reached agreement with the British Government for the supply of British Aerospace Dynamics Group Rapier Blindfire missile systems for the low-level air defence of its United Kingdom bases and has authorised the start of work.

The value of this initial purchase is assessed at some £140 million. The Royal Air Force Regiment will man the systems and maintenance will be provided by British Aerospace Dynamics Group.

This major order follows a thorough and detailed evaluation by the USAF of the defence of their United Kingdom bases. The equipment will enter service over the next four years and will complement Royal Air Force and British Army Rapier units already operational in the NATO area.

Rapier is a cost effective ultra low-level air defence missile system. It is the world leader in its class. The supersonic directly hitting missile is highly lethal and the system can be used in either the optical mode or with the Marconi Blindfire radar tracker, to provide round the clock defence. Rapier's light weight and modular construction make it highly mobile and easily air portable by helicopters and standard transport aircraft. More than 3500 Rapier missiles have now been fired in training and practice, with a very high success rate.

cont'd ...

Rapier has achieved worldwide sales, including a large order recently placed by the Swiss Army. Sound basic design backed by planned development will ensure Rapier's continuing cost effectiveness and ability to defeat the increasing low-level threat in the foreseeable future.

Rapier has now been exported to eight countries for their low-level air defence and total sales now exceed £1,150 million.

For further information contact: BAeD 4/81

P Birtles
PR Manager
British Aerospace Dynamics Group
Stevenage Division
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Stevenage
Herts SG1 2DA

Tel: Stevenage 2422

MICHAEL SPICER, MP

CcIG

MODBA

HOUSE OF COMMONS
LONDON SW1A 0AA

17 February 1981

The Rt Hon Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London SW1

Dear Margaret

Thank you for your letter of 9 February.

I enclose copies of further correspondence I have had with the Congressional Chairman about the US visa requirement.

I hope this will be helpful.

Michael Spicer

CLEMENT J. ZABLOCKI, WIS., CHAIRMAN

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CHIEF OF STAFF

# Congress of the United States
## Committee on Foreign Affairs
### House of Representatives
### Washington, D.C. 20515

February 4, 1981

The Honorable Michael Spicer
House of Commons
London SWI OAA

Dear Mr. Spicer:

I have just received your letter of January 26 and regret that as of that date you still had not received my reply of January 8, a copy of which I enclose for reference.

I very much appreciate receiving the record of your remarks, together with those of the Under-Secretary of State for Foreign and Commonwealth Affairs, on the question of U.S. visa requirements. The case which has been presented in this report is, I believe, a well documented and persuasive one, and will be useful to the committee when this matter is debated by the new Congress.

I am bringing your correspondence to the attention of my colleague, Congressman Dante B. Fascell, Chairman of the Subcommittee on International Operations, which has been particularly instrumental in recommending changes in the current law. I know that the subcommittee will be interested in reviewing the points you have raised in the House of Commons debate.

With regard to your proposed travel plans, I anticipate that the Congress will be in recess during the period April 16 through 26, so that I probably will not be in town during the week of April 20. I would, however, be pleased to see you if you visit Washington later on in the year.

With best wishes, I remain

Sincerely yours,

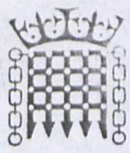
Chairman

CJZ:jcs

Enclosure

cc: The Honorable Dante B. Fascell
Chairman
Subcommittee on International Operations

MICHAEL SPICER, MP



HOUSE OF COMMONS
LONDON SW1A 0AA

17 February 1981

The Hon Clement J Zablocki,
Chairman,
Committee on Foreign Affairs,
House of Representatives,
Washington DC 20515, USA.

Thank you very much for your letter of 4 February. From this I was delighted to learn that the short debate we had in the House of Commons about US visa requirements may be helpful in assisting to change the law.

I am hopeful that the Prime Minister will be raising this matter when she sees the President later this month.

With best wishes,

Michael Spicer

CONFIDENTIAL

NC

cc: Trade NIO
LPS CO
LPO
MOD
HMT
FCO
HO
LCO

10 DOWNING STREET

*From the Private Secretary*

17 February 1981

Firearms for the RUC

The Prime Minister has seen your letter to me of 13 February about the supply of Ruger pistols to the RUC. Subject to the views of the Foreign and Commonwealth Secretary, she agrees that the Embassy in Washington should proceed as proposed in the penultimate paragraph of your letter.

I am sending copies of this letter to the Private Secretaries to the members of OD and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Roy Harrington, Esq.,
Northern Ireland Office.

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# The Board of Deputies of British Jews

WOBURN HOUSE, UPPER WOBURN PLACE, LONDON, WC1H 0EP.

Telegrams: DEPUTIES, LONDON, WC1. Telephone: 01-387 3952 or 388 7651


*FROM THE PRESIDENT*

16th February, 1981.

RT8

The Rt. Hon. The Prime Minister,
10 Downing Street,
S.W.1.

Dear Prime Minister -

The Board of Deputies and the Jewish community wish you a most successful visit to Washington D.C. - and we all hope that you will form a most useful and friendly working relationship with President Reagan. I have been asked to write to you to say how much we all hope that your discussions will promote the Camp David peace process. You know of our concern that there should be no encouragement to the PLO while it retains its covenant; its commitment to the destruction of the Jewish State; and its terrorist methods. And in wishing you good fortune on your journey, we look forward to the prospect of United Kingdom and United States co-operation in a Middle East stability based upon the Israel-Egypt accord.

With our best wishes to you,

Yours sincerely -


President: The Hon. Greville Janner, Q.C., M.P.
Vice-Presidents: Dr. Lionel Kopelowitz, J.P., Martin Savitt
Treasurer: Victor Lucas, F.S.V.A., F.C.I.Arb. Appeals Treasurer: Stuart Young, F.C.A.
Secretary General: Hayim Pinner

10 DOWNING STREET

Clive o/o.

I am afraid I discovered this in my pending tray this evening (Friday). The Harrier point is covered in the PM's briefing, but not the Hawk point.

I tried to contact you and Frank Cooper before the meeting with Weinberger, but you were both "on the road".

MoD (i.e. D.Omand) don't know about the Hawk proposal. So

I assume (and hope) it is not crucial. They say the MOH can take it up - if appropriate - when he visits Washington.

I hope no harm has been done. Could we have a word about how to handle the letter?

JL

27/2

# British Aerospace
PUBLIC LIMITED COMPANY

Brooklands Road
Weybridge
Surrey KT13 0SJ

Telephone: Weybridge (0932) 45522
Telegrams: Britair Weybridge
Telex: 27111

*From the Chairman,*
SIR AUSTIN PEARCE, CBE

CONFIDENTIAL

The Rt Hon Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, SW1.

16th February, 1981.

Dear Prime Minister

Reference our conversation of February 12th, I attach two briefing papers on projects now under consideration by the US Government which would be of great benefit not only to BAe, but also to Rolls-Royce and other sections of British industry.

The two programmes referred to are the Harrier/AV8B, a requirement for the U.S. Marine Corps, and under consideration by the Royal Air Force, and the VTX-TS competition for a U.S. Navy advanced trainer, for which the Hawk is a contender. In both programmes we would have the McDonnell Douglas (MDD) aerospace company as a partner.

I would emphasize that the Harrier/AV8B project is the urgent priority issue. The Hawk/VTX-TS programme is longer term and much less clear cut, but if an opportunity arises, an expression of interest in the outcome would be helpful.

In order that we can maintain an effective and low cost defence industrial base in the U.K. we need more volume production than the U.K. forces can afford or need. We need exports and in order to achieve major programmes, particularly with the U.S.A., we need the full support of HMG a fact which you recognised in your Farnborough speech and which we welcomed, and we hope our joint efforts will produce U.S. business.

The Trident decision has been under attack from a number of quarters including the aerospace industry because there is no offset work. Although not the same, the workload created by the above two sales opportunities could reduce the criticism of Trident.

In advance we appreciate your help whatever the outcome.

Yours sincerely,

Arthur

Attachment 1

BRITISH AEROSPACE PUBLIC COMPANY LIMITED
AIRCRAFT GROUP

## HARRIER/AV8B AIRCRAFT TO MEET ROYAL AIR FORCE AIR STAFF REQUIREMENT 409 AND THE UNITED STATES MARINE CORPS REQUIREMENT

1. The RAF requires an improved Harrier type aircraft from 1986 to enhance the existing fleet. Inititally some 60 aircraft will be required to support the UK commitment to NATO.

2. There are two contenders for this requirement - the McDonnell Douglas AV8B (developed from the British Aerospace Harrier Mk.3 with considerable assistance from BAe), and a wholly British Aerospace design, the Harrier Mk.5. A quantity of 350 AV8B aircraft is required for the United States Marine Corps - two prototypes have flown and full scale development is under way. The Harrier Mk.5 is at the design stage only, and the RAF have said that the AV8B, with minor changes only, would adequately meet their requirement.

3. The status of the AV8B programme in the US is that, although the development funding is satisfactory, there is as yet no commitment to production in Fiscal Year 1982 - this being one of the early decisions confronting the new administration. The indications suggest that the programme will continue. Undoubtedly, HMG will require assurances from the US Government of their commitment to the programme before agreeing to participate.

4. British industry has a considerable stake in the AV8B programme for the Marine Corps with approximately 50% share of the overall programme cost of $5,000 M. coming from British companies including Rolls-Royce, Dunlop and Dowty. The retention of the whole of this share could depend on the UK aircraft requirement being part of a joint programme, on which the US Government will carry a disproportionate financial burden in relation to the industrial benefit. Therefore BAe believes that the needs of the RAF and the long term interests of the UK aerospace industry could best be served by HMG and BAe joining in the AV8B programme, but the Mk.5 option should be retained until the necessary inter-governmental and inter-company agreements have been satisfactorily completed.



cont.....

5. This conclusion has taken account of:

5.1 possible reduction of the UK share of the USMC AV8B programme if we proceed unilaterally with a competitive aircraft - the Harrier Mk.5;

5.2 an estimated programme cost which is now in favour of the AV8B for the RAF;

5.3 within the lifetime of the programme the interest in the AV8B could extend to the US Navy and perhaps the US Air Force;

5.4 third country sales of a lower-unit-cost joint AV8B being more favourable to future BAe export business than the Mk.5 alone. BAe has negotiated an additional share of the work on the AV8B subject to it being selected by the RAF, and would set up a joint BAe - McDonnell Douglas marketing company for third country exports;

5.5 BAe desire to make progress on a future supersonic V/STOL programme which seems more likely to eventuate on a joint UK-US basis;

5.6 a further milestone in the objective of commonality in NATO defence equipment.

6. In the event that HMG also agree that the best policy to pursue is to negotiate a position on joint participation in the Harrier, based on the AV8B for the RAF, the AV8B Marine Corps requirement and exports, BAe recommends that the opportunity should be taken simultaneously to obtain from the US Government agreement in respect of:-

cont.....

6.1 all third country sales of AV8B to be placed via a BAe/MDD joint marketing company in which each company would have an equal shareholding;

6.2 the US Government not hindering or blocking the possible sale of Sea Harrier aircraft by HMG/BAe in the next few years before the AV8B could be available;

6.3 continuing V/STOL ventures on a collaborative basis, of the development of the Harrier/AV8B configuration and a possible advanced V/STOL demonstrator programme - all this being in return for Britain agreeing not to launch a competitive project - the Harrier Mk.5 - and fully supporting the AV8B by an RAF order and full collaboration between BAe, the originators of the Harrier concept, and McDonnell Douglas.

Attachment 2

BRITISH AEROSPACE PUBLIC LIMITED COMPANY

AIRCRAFT GROUP

## HAWK FOR US NAVY VTX-TS PROGRAMME

1. The U.S. Navy is seeking an advanced jet trainer aircraft and training system to cover the intermediate and advanced portion of its flying training syllabus, and to introduce a new total training system in 1989. However, there are grounds for believing the date may be brought forward.

2. BAe has signed an agreement with McDonnell Douglas (MDD) to jointly market the Hawk and a new MDD design. Both companies would share in whichever project was finally selected. In September 1980, six study contracts were awarded by the US Navy with a reporting date of March 1981. The six contractors are: Grumman/Beech, Northrop/Vought, Rockwell, Lockheed/Dassault (with the French Alpha Jet) and MDD/BAe.

3. The MDD/BAe arrangement is working well, and the Hawk proposal has received high marks from the US Navy in evaluations to date.

4. Awards for the next phase are expected to be given in November 1981. It is anticipated that there will be only two or three contracts. Both Douglas and BAe feel that there is an excellent chance that one or other of their proposals will secure one of these contracts. The earlier in-service date of, say, 1987 would favour the Hawk rather than a completely new design.

5. It is expected that the US Navy would require about 300 aircraft to be built between the mid-80's and the mid-90's. BAe plan to retain 50% of the airframe work content in UK, worth some $1,000M., should the Hawk be selected by the US Navy. Additionally,

this would also provide jobs at other UK aerospace equipment companies, particularly Rolls-Royce.

6. Undoubtedly the VTX-TS programme will proceed through the usual competitive process of elimination until the successful candidate is awarded a development contract. However, an expression of interest at the highest levels in the outcome would be helpful.

The arguments which we see favouring the early selection of the Hawk are:

(a) as a proven aircraft, in service successfully with the RAF, liked by the US Navy pilots who have flown it, and a low risk programme, the Hawk would certainly be available when required.

(b) for similar reasons, and also by avoiding the need for a major development programme, the programme cost would be lower and predictable.

(c) once again the use of the Hawk as a trainer for the US Navy brings a further element of commonality into the NSTO system.

(d) the Hawk is not part of the strategic US system and therefore industrial interdependence is not a serious consideration.

(e) the BAe agreement with MDD is with the Douglas Division in California.

(f) VTX-TS/Hawk would provide a useful offset in "Two-way street" trading in military acquisitions between the UK and the USA.

However, we should be most grateful if the Prime Minister could take the opportunity to generate some enthusiasm for the Hawk.

CONFIDENTIAL

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST
Telephone Belfast 63011

Michael Alexander Esq
10 Downing Street
LONDON
SW1

Prime Minister ①

13 February 1981

Agree, subject to views of Foreign & Commonwealth Secretary, the line is the final paragraph? Yes not Rt 13/2

Dear Richard,

FIREARMS FOR THE RUC

The Prime Minister will be meeting President Reagan shortly. You will remember that under his predecessor approval was withheld for the export of Ruger pistols to the RUC. Despite the American ban imposed in 1979, the RUC have continued to receive from their UK suppliers small numbers of Rugers, adding up so far to a total of 1,300 of the 3,000 on order (in addition to the 3,000 already supplied under an earlier export licence). We have taken care not to press the suppliers to tell us where they are getting the guns from, but at least some must be coming direct from the American manufacturers. We have avoided embarrassing the American authorities by raising this with them.

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

The last 3,000 guns have not yet been formally ordered, and there will now be no need to do so. We still need the 1,700 Rugers which are

CONFIDENTIAL

outstanding from the current order, but believe that these will be supplied in the same way as the last 1,300 guns. If there is any shortfall, the Chief Constable believes that the (British) Sterling Magnum revolver (only very recently made available to the RUC for testing) could be an adequate substitute. There is therefore no longer any operational need to press the Americans to grant formally export licences for weapons for the RUC.

There remains the political angle. There has been press speculation that President Reagan will be willing to grant export licences, and the Prime Minister may well be pressed on this issue on her return from Washington. For HMG the best position is for the Americans to lift the ban and for the Prime Minister to be able to say that this has happened. But there is good evidence that Speaker O'Neill remains as deeply opposed as ever, and the assessment of HM Ambassador in Washington is that despite the President's instinctive sympathy for our anti-terrorist effort, instence on our part in reopening the issue might well make it more difficult to gain wider understanding by the US public of our Northern Ireland policies. The point could, if the Prime Minister agrees, be explored further with the State Department before her visit; but if, as we expect, the Americans are reluctant to lift the ban the best approach then seems to be for the Prime Minister to raise the matter briefly and formally with the President with a view to being able to say on her return that she had discussed the subject with the President; that the Chief Constable has advised the Government that the RUC now has sufficient appropriate weapons to satisfy its principal requirements; and that President Reagan has been told this. If necessary it could be added that the Government sees the British-made Sterling Magnum revolver as a candidate for any further revolver supplies required by the RUC; that reflecting the improved security situation the operational requirement has reduced; and that since the ban was imposed the RUC have been able to purchase additional weapons from other sources.

If the Prime Minister and the Foreign and Commonwealth Secretary agree,

the FCO could instruct the Embassy in Washington:

(a) to explore now the prospects of the Americans lifting their ban; if the State Department indicate that the administration is unlikely to agree to this, then the Embassy should,

(b) put to them the proposition that the Prime Minister should raise the matter briefly with President Reagan, with a view to afterwards being able to answer questions at home on the above lines.

These developments will be reflected in the brief for the Prime Minister's visit to Washington.

I am sending copies of this letter to the private secretaries to members of OD, and to Sir Robert Armstrong.

Yours ever,

R A HARRINGTON
Private Secretary

USA

10 DOWNING STREET

*From the Private Secretary*

10 February, 1981.

BF 13.2.87

New York Speech: 28 February, 1981

Further to our telephone conversation a moment ago, I enclose the draft speech which I have prepared for the Prime Minister to deliver in New York on the occasion of her receiving the Donovan Medal. I would, as always, be more than grateful for your comments - however severe!

I should add that I am led to believe the occasion will have a distinctly patriotic flavour. There will be flags, bands, etc., and this accounts for the tone of the opening passage.

You kindly undertook to let me have at least your preliminary thoughts by Friday. I am aiming, as usual, to get something in the Prime Minister's weekend box.

M. O'D. B. ALEXANDER

Professor Hugh Thomas

MFJ 3/2

cfco

C.F.

10 DOWNING STREET

USA

THE PRIME MINISTER

4 February 1981

Dear Mr. Malkin,

I was greatly interested in your letter of 29 January about your involvement with the restoration of the Capitol. You have obviously shown great initiative and I hope you will be rewarded with the complete success you deserve. I will, of course, bear your letter in mind while I am in Washington and if a suitable opportunity to mention the matter arises, I will take it.

Yours sincerely,

(sgd) Margaret Thatcher

D.J. Malkin, Esq.

FK

10 DOWNING STREET

3 for PO

USA

*From the Private Secretary*

BF 18/2/81

SIR ROBERT ARMSTRONG

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

The Prime Minister has seen your minute to me of 3 February about the agenda for her talks with President Reagan. She has approved Annexes A and C to that minute.

The Prime Minister has also agreed on the need to brief President Giscard and Chancellor Schmidt in advance of her visit. She has not yet decided whether it would be better to telephone them, or to send a message, or both. No doubt George Walden, to whom I am sending a copy of this minute, will be submitting advice on this point in due course.

M. O'D. B. ALEXANDER

4 February 1981

CS

SECRET

Cabinet Office,
70 Whitehall,
London SW1

4th February, 1981

PS(81) 4

Dear Private Secretary,

Prime Minister's Visit to the United States: 25th-28th February 1981

This letter sets out the briefing arrangements for the Prime Minister's visit to the United States from 25th to 28th February.

The objectives for the visit, as approved by the Prime Minister, are at Annex A. The list of briefs to be prepared, with an indication of Departmental responsibility, is at Annex B. Instructions on format are at Annexes C and D. Those preparing briefs should note carefully the details on the format of briefs set out in Annex C, particularly (b) on the structure of briefs.

70 copies of each brief should be sent to the Cabinet Office as soon as they are ready, and should in any event arrive no later than 12.00 noon on Friday, 20th February. They should be addressed to Mrs. M. Wagner in Committee Section, who should be consulted (tel. no. 233 7628) about any technical points arising.

I am sending copies of this letter to the Private Secretaries to Sir Michael Palliser, Sir Douglas Wass, Sir Frank Cooper, Sir Kenneth Clucas, Sir Peter Carey, Sir Brian Cubbon, Sir Donald Maitland, Sir Peter Preston, Sir Kenneth Couzens, Sir Antony Duff and Mr. Robin Ibbs, and to Michael Alexander, No. 10.

Yours sincerely,

(Signed) D. J. WRIGHT

ANNEX A

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

UNITED KINGDOM OBJECTIVES

1. To demonstrate to the new President the fundamental importance we attach to our relations with the United States, in NATO, in United States-European Community co-operation, and bilaterally, and the value we see in consulting on and co-ordinating policy, in all three contexts.

2. To strengthen the President in his apparently favourable view of Britain in general, and of Mrs. Thatcher and her Government in particular.

3. To reinforce the stated inclination of the new President and his Secretary of State to consult closely and frequently with their NATO allies.

4. To impress upon President Reagan the importance and value of European political co-operation and the fact that it pulls in the same general direction as United States interests.

5. To discuss the need for co-ordinated policies in East-West relations, with particular reference to Afghanistan and South West Asia, the role of arms control and the future of detente.

6. To exchange views on policy towards Poland, including the Western response to a Soviet military intervention and the handling of the rescheduling of Polish debt.

7. To establish our position as a partner whose views on defence and arms control command the attention of the new Administration, to explain the British Government's own defence effort and its approach to defence equipment collaboration with the United States, and to convince President Reagan of the importance of a defence policy which secures a positive and cohesive response from European allies.

8. To elicit from the President some indication of the new Administration's views on the Middle East, to explain European objectives in the Middle East, and to persuade him of the need for the United States to take a fresh look at the Palestine question with a view to a co-ordinated allied approach to the problems of the area.

9. To obtain American undertakings (a) to oppose the extension of mandatory United Nations sanctions against South Africa, but (b) to continue to support the objective of internationally recognised independence for Namibia, based upon the United Nations plan.

10. To seek an indication of the new Administration's domestic economic policies and objectives and of their views of the prospects for international economic relations (including aid questions), particularly in advance of the forthcoming North/South Summit in Mexico and the Summit of industrialised countries in Ottawa.

11. To seek an agreed approach to international energy issues including the role of the IEA and to press hard for earlier deregulation of United States natural gas prices.

12. To ensure that the President is aware of Her Majesty's Government's continued belief in the rightness of our domestic economic policies and our confidence in their ultimate success; and to administer an antidote to recent criticism of those policies in the United States.

13. To give the President and his advisers an account of the realities of the Northern Ireland situation and Her Majesty's Government's policy there and of the efforts we and the Irish are making to develop the "unique relationship".

14. To ensure that the President and his advisers understand our objectives in Belize and to win their support for early independence for that country with some kind of international defence guarantees.

PROBABLE UNITED STATES OBJECTIVES

1. To demonstrate to us the sincerity of President Reagan's undertaking to consult with America's allies.

2. To show the American public that the conduct of United States foreign policy is in capable hands, and that their new President can perform effectively with, and is respected by, a foreign leader who is herself widely respected in the United States.

3. To demonstrate the essential solidarity of the Alliance, while persuading us to increase or at least maintain our contribution to Western defence and ensuring that we give our full support to the American defence posture in Europe and elsewhere.

4. To persuade us to put pressure on other allies to make a more effective contribution to the allied defence effort overall.

5. To ensure that Britain takes account of United States views on relations with the Soviet Union.

6. To exchange views on a co-ordinated Western response in the event of a Soviet invasion of Poland, including significant economic sanctions by the Europeans as well as the Americans.

7. To persuade Her Majesty's Government to modify or withdraw support for any European initiative on the Arab/Israel dispute if this appears incompatible with United States policy as it develops.

8. To ensure that Britain continues to make a permanent contribution to Caribbean security and, in so far as Britain has influence there, to persuade us to work for the re-establishment of stability in Central America.

ANNEX B

# LIST OF BRIEFS FOR THE PRIME MINISTER'S VISIT TO THE UNITED STATES 25th-28th February 1981

| PMVH(81) | Subject | Lead Department | In consultation with |
|---|---|---|---|
| 1. | Steering Brief | FCO | As appropriate |
| 2. | East/West Relations (including Poland, Afghanistan, arms control, detente) | FCO | Tsy, MOD, Trade |
| 3. | Defence Policy in the NATO area (including the NATO Review), the Gulf and South West Asia | MOD | FCO |
| 4. | United Kingdom Defence Programme, Equipment Co-operation and Sales | MOD | FCO, Tsy, Industry, Trade |
| 5. | Northern Ireland (including Arms for the RUC and Anglo-Irish relations) | NIO | FCO, MOD, Cabinet Office |
| 6. | Regional Questions | FCO | |
| | (i) Near East, especially Arab-Israel | | |
| | (ii) Southern Africa, Namibia and Zimbabwe | | Trade |
| | (iii) The Gulf and Iran-Iraq | | Defence |
| | (iv) China | | |
| | (v) Caribbean and Central America | | Defence |
| | (vi) Belize | | Defence |
| | (vii) Falkland Islands | | |
| 7. | Vietnamese Refugees | FCO | Home Office |
| 8. | United States Internal Political and Economic Scene | FCO | Treasury |
| 9. | Exchanges about United States and United Kingdom Economic Policies | Treasury | FCO |
| 10. | International Economic and Monetary Policy | Treasury | FCO |
| 11. | Prospects for Mexico and Ottawa Summits | FCO | Tsy, Energy, Trade, Cabinet Office |
| 12. | Energy (International and Bilateral issues) | Energy | Tsy, FCO, Trade |
| 13. | Shipping: Civil Actions against United Kingdom Shipping Companies | Trade | FCO |

| PMVH(81) | Subject | Lead Department | In consultation with |
|---|---|---|---|
| 14. | Counter-Terrorism | Home Office | FCO |
| 15. | Anglo-American Defence Co-operation | MOD | FCO, Cabinet Office |
| 16. | Anglo-United States Intelligence Co-operation | Cabinet Office | FCO, Tsy, Home Office, MOD |
| 17. | United Nations Matters (for use with United Nations Secretary General) | FCO | |

ANNEX C

## INSTRUCTIONS ABOUT FORMAT

All briefs should be laid out in the same way with a top page in accordance with the specimen layout at Annex D. Those preparing briefs should pay particular attention to ensuring that the following instructions are fully observed:

Content

(a) Briefs should be concise. Each brief should if possible be no more than four sides long.

(b) The main body of each brief should comprise two sections, a concise list of Points to Make, followed by a factual Background section which distinguishes clearly between information which can be freely used and information which should not be disclosed.

(c) Briefs should be complete and self-contained with all the information required on that particular subject. Briefs should not be divided into separate self-contained sub-sections.

Layout

(d) Briefs should be typed in double spacing, using both sides of the paper. Pages should be numbered at the foot of each page.

(e) As shown in the specimen at Annex D, the top page only of each brief should contain the following details: the symbol and number of the brief in the top left-hand corner (e.g. PMVH(81) 10) with the date of production below: a copy number in red at the top right-hand corner; the visit heading; the title of the brief (in capitals) and the name of the Department responsible.

(f) At the foot of the last page and on the left-hand side, briefs should bear the name of the originating Government Department and the date of origin.

Reproduction

(g) Briefs should be reproduced throughout on white paper, with each page bearing a security classification at top and bottom (as in Annex D). Care should be taken that the reproduction method employed results in clear readable copies.

(h) It is important that on arrival at the Cabinet Office, briefs should be complete in all detail - collated, stapled and copy numbered and ready for immediate circulation.

Updating

(i) If late developments require a brief to be amended or updated, an addendum should be prepared. It should be set out in the form described at (e) above, with the brief number (e.g. PMVH(81) 10 Addendum) and title to which it relates at the top of the front page. The Private Secretary to the Secretary of the Cabinet should be informed when an addendum is in preparation. Revised briefs and corrigenda should be similarly treated.

(j) Additions to the list of briefs in Annex B require the authorisation of the Private Secretary to the Secretary of the Cabinet.

/CLASSIFICATION/

ANNEX D

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVH(81) /Serial Number as specified in Annex B/ COPY NO. /in red/

/Date/

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

/Leave 1½" margin/

/SUBJECT/ /Insert subject in capitals/

Brief by /name of originating Department, eg Foreign and Commonwealth Office/

---

/At the foot of the last page:-/
/left-hand side/

/Originating Government Department, eg Foreign and Commonwealth Office or Department of Industry, not a subordinate section or division/

/Date of origin/

/CLASSIFICATION/

MFJ

3 February 1981

I enclose an exchange of correspondence between the Prime Minister and Mr. D.J. Malkin of H&R Johnson Tiles Limited. You may like to pass this on to Lord Bridges.

MODBA

F.J. Richards, Esq.
Foreign and Commonwealth Office.

SECRET

Prime Minister. 2 (1)

(1) Agree Annexes A + C ?

(2) Agree to messages and/or telephone calls with Herrs Schmidt + Genscher before your departure for Washington ? If so I will communicate texts + briefs.

Ref. A04180

MR ALEXANDER

3/2

Prime Minister's Visit to the United States:
25-28 February

The Prime Minister is to visit Washington and New York from 25 to 28 February, accompanied by Lord Carrington. During the visit, she will have substantive talks with President Reagan in Washington and will also see him at two dinner engagements. Among her other engagements she will probably meet the Secretaries of State and of Defence and members of Congress. In New York she will almost certainly see the UN Secretary General.

2. Mrs Thatcher has met President Reagan twice before, when she was Leader of the Opposition. Mr Reagan regards the policies of the British Government as being very much the kind of policies he will wish to pursue. His high regard for the Prime Minister is reflected in his wish that she should be the first Head of Government to be invited to Washington. It is of particular importance that she will be the first leader from among the European allies to visit President Reagan. The visit will provide a valuable opportunity to exploit the Prime Minister's high standing in the USA; while the policy of the new Administration is still at a formative stage the Prime Minister should in this way be able both to gain American understanding for our policies and in some measure to influence American policies in our direction.

3. There may be no formal agenda for the talks with President Reagan. Furthermore, on the President's side, the discussion is likely to be of a very general nature without much evidence of a wish to get involved in dealing with the details of problems. Nonetheless the major foreign policy issues for discussion suggest themselves. Both leaders will wish to discuss East/West relations; defence policy including Alliance aspects both in Europe and in the Gulf; the Middle East; Southern Africa; and international economic issues in preparation for the Mexico and Ottawa Summits. There may also be some discussion of Caribbean and Central American questions. The Prime Minister will wish to make sure that President Reagan is properly apprised of the British Government's views on Northern Ireland.



SECRET

4. The meeting will also represent an important opportunity for discussions on a wide range of economic issues. The Prime Minister could invite the President to explain his own domestic economic policies and objectives and then respond with an account of her own Government's policies. In so doing she should be able to make a point of correcting some recent American criticisms, particularly in the Press, of British economic policy. From a discussion of the two Governments' economic policies, it should be possible to move on to ask the President for his views on the Mexico and Ottawa summits. In discussing the latter, the Prime Minister will also be able to welcome the new Administration's decision to decontrol oil and gasoline prices, as being consistent with the free market principles to which both Governments are committed, and to encourage him to move to economic pricing over the whole field of energy and of oil-based feedstocks to industry. Because of the effect of subsidised United States energy supplies on our own industry, the Prime Minister is likely to be questioned in the House about her talks with the President on this issue on her return.

5. During the visit the Prime Minister should also have the chance to discuss with the President three sensitive areas of our relationship:

(a) Bilateral defence co-operation and the importance Her Majesty's Government attach to the Trident deal.

(b) United Kingdom/United States Intelligence exchanges. It will be important for the Prime Minister to reassure the President that in spite of marginal cuts in expenditure, to be achieved through increased efficiency, we attach great importance to the United Kingdom/United States intelligence partnership and that the overall level of our co-operative intelligence effort is to be maintained.

(c) Quadripartite Consultation. The Carter Administration was slow to appreciate the importance of such consultation. It would be helpful to ensure that President Reagan is aware of this from the outset.

The briefs on all these three subjects will be given a restricted distribution. I have in addition included a brief on Counter-Terrorism which will provide the Prime Minister with points to make to President Reagan (who is said to have a particular interest in these questions) if the subject came up in the course of conversation.

6. Since the Prime Minister's visit to Washington will be the first by a European leader following President Reagan's inauguration, there will be those elsewhere in Europe - particularly perhaps in France - who may be disposed to read into it (or profess to do so) an attempt on our part to establish a new exclusive United Kingdom/United States relationship which might run contrary to their interests. There are various ways of briefing President Giscard and Chancellor Schmidt in advance of the visit. It would have been valuable if the Prime Minister had been able to have a short meeting with the two of them. But that would be both impracticable as well as likely to provoke unwelcome Press attention. I therefore think that the best way might be for the Prime Minister to have a word with them on the telephone, if she is prepared to do this. These exchanges could, if that seemed useful, be preceded by the despatch of messages from her to other Heads of Government indicating the way in which she was approaching her first meeting with the new United States President.

7. I attach at Annexes A and B a suggested outline of British and probable American Objectives, and at Annex C a suggested list of possible briefs, the preparation of which will be co-ordinated by the Cabinet Office. The assessment of American Objectives is obviously tentative at this stage and will probably need to be revised nearer the time of the visit. We will ask for the briefs to reach you on 20th February.

RtA

Robert Armstrong

3rd February 1981

ANNEX A

## UNITED KINGDOM OBJECTIVES

1. To demonstrate to the new President the fundamental importance we attach to our relations with the United States, in NATO, in United States-European Community co-operation, and bilaterally, and the value we see in consulting on and co-ordinating policy, in all three contexts.

2. To strengthen the President in his apparently favourable view of Britain in general, and of Mrs. Thatcher and her Government in particular.

3. To reinforce the stated inclination of the new President and his Secretary of State to consult closely and frequently with their NATO allies.

4. To impress upon President Reagan the importance and value of European Political Co-operation and the fact that it pulls in the same general direction as United States interests.

5. To discuss the need for co-ordinated policies in East-West relations, with particular reference to Afghanistan and South-West Asia, the role of arms control and the future of detente.

6. To exchange views on policy towards Poland, including the Western response to a Soviet military intervention and the handling of the rescheduling of Polish debt.

7. To establish our position as a partner whose views on defence and arms control command the attention of the new Administration, to explain the British Government's own defence effort and its approach to defence equipment collaboration with the United States, and to convince President Reagan of the importance of a defence policy which secures a positive and cohesive response from European allies.

8. To elicit from the President some indication of the new Administration's views on the Middle East, to explain European objectives in the Middle East, and to persuade him of the need for the United States to take a fresh look at the Palestine question with a view to a co-ordinated allied approach to the problems of the area.

9. To obtain American undertakings (a) to oppose the extension of mandatory United Nations sanctions against South Africa, but (b) to continue to support the objective of internationally recognised independence for Namibia, based upon the United Nations plan.

10. To seek an indication of the new Administration's domestic economic policies and objectives and of their views of the prospects for international economic relations (including aid questions), particularly in advance of the forthcoming North/South Summit in Mexico and the Summit of industrialised countries in Ottawa.

11. To seek an agreed approach to international energy issues including the role of the IEA and to press hard for earlier de-regulation of United States natural gas prices.

12. To ensure that the President is aware of Her Majesty's Government's continued belief in the rightness of our domestic economic policies and our confidence in their ultimate success; and to administer an antidote to recent criticism of those policies in the United States.

13. To give the President and his adviser an account of the realities of the Northern Ireland situation and Her Majesty's Government's policy there and of the efforts we and the Irish are making to develop the 'unique relationship'.

14. To ensure that the President and his advisers understand our objectives in Belize and to win their support for early independence for that country with some kind of international defence guarantees.

ANNEX B

## PROBABLE UNITED STATES OBJECTIVES

1. To demonstrate to us the sincerity of President Reagan's undertaking to consult with America's allies.

2. To show the American public that the conduct of US foreign policy is in capable hands, and that their new President can perform effectively with, and is respected by, a foreign leader who is herself widely respected in the United States.

3. To demonstrate the essential solidarity of the Alliance, while persuading us to increase or at least maintain our contribution to Western defence and ensuring that we give our full support to the American defence posture in Europe and elsewhere.

4. To persuade us to put pressure on other allies to make a more effective contribution to the allied defence effort overall.

5. To ensure that Britain takes account of US views on relations with the Soviet Union.

6. To exchange views on a co-ordinated Western response in the event of a Soviet invasion of Poland, including significant economic sanctions by the Europeans as well as the Americans.

7. To persuade Her Majesty's Government to modify or withdraw support for any European initiative on the Arab/Israel dispute if this appears incompatible with US policy as it develops.

ANNEX B (cont)

8. To ensure that Britain continues to make a permanent contribution to Caribbean security and, in so far as Britain has influence there, to persuade us to work for the re-establishment of stability in Central America.

SECRET

ANNEX C

## LIST OF BRIEFS FOR THE PRIME MINISTER'S VISIT TO THE UNITED STATES 25th-28th February 1981

| | Subject | Lead Department | In consultation with |
|---|---|---|---|
| 1. | Steering Brief | FCO | As appropriate |
| 2. | East/West Relations (including Poland, Afghanistan, arms control, détente) | FCO | Tsy, MOD, Trade |
| 3. | Defence Policy in the NATO area (including the NATO Review), the Gulf and South West Asia | MOD | FCO |
| 4. | United Kingdom Defence Programme, Equipment Co-operation and Sales | MOD | FCO, Tsy, Industry, Trade |
| 5. | Northern Ireland (including Arms for the TUC and Anglo-Irish relations) | NIO | FCO, MOD, Cabinet Office |
| 6. | Regional Questions | FCO | |
| | (i) Near East, especially Arab-Israel | | |
| | (ii) Southern Africa, Namibia and Zimbabwe | | Trade |
| | (iii) The Gulf and Iran-Iraq | | Defence |
| | (iv) China | | |
| | (v) Caribbean and Central America | | Defence |
| | (vi) Belize | | Defence |
| | (vii) Falkland Islands | | |
| 7. | Vietnamese Refugees | FCO | Home Office |
| 8. | United States Internal Political and Economic Scene | FCO | Treasury |
| 9. | Exchanges about United States and United Kingdom Economic Policies | Treasury | FCO |
| 10. | International Economic and Monetary Policy | Treasury | FCO |
| 11. | Prospects for Mexico and Ottawa Summits | FCO | Tsy, Energy, Trade, Cabinet Office |
| 12. | Energy (International and Bilateral issues) | Energy | Tsy, FCO, Trade |
| 13. | Shipping: Civil Actions against United Kingdom Shipping Companies | Trade | FCO |



SECRET

| | Subject | Lead Department | In consultation with |
|---|---|---|---|
| 14. | Counter-Terrorism | Home Office | FCO |
| 15. | Anglo-American Defence Co-operation (Restricted Distribution) | MOD | FCO, Cabinet Office |
| 16. | Anglo-United States Intelligence Co-operation (Restricted Distribution) | Cabinet Office | FCO, Tsy, Home Office, MOD |
| 17. | Quadripartite Consultations (Restricted Distribution) | FCO | |
| 18. | United Nations matters (for use with United Nations Secretary General) | FCO | |

FROM: PATRICK WALL, MC., VRD., MP.

MR. ALEXANDER

HOUSE OF COMMONS
LONDON SW1A 0AA

2nd February 1981

The Prime Minister,
10 Downing Street,
London S.W.1.

Dear Prime Minister.

I hope the following notes on the situation in the United States of America, gained during a recent visit, might be of some use in view of your forthcoming meeting with President Reagan.

The North Atlantic Sub Committee on Defence Co-operation under my chairmanship, met members of the new Administration and the Armed Services Committees of both the House and the Senate last week. We also visited other parts of the USA which gave us a limited opportunity to gauge public opinion.

Political

It is generally recognised that the Reagan Administration has a clear mandate to increase defence spending at the same time as attempting to correct the imbalance in the economy. Both the Administration, Congress and public opinion are much more hawkish than they were a year ago. Nationalist feeling has been enhanced by the return of the hostages.

It looks as though Secretary of State Haig will emerge as the strong man of the Cabinet. Secretary of Defence Weinberger is a brilliant administrator but may leave policy largely to Haig. The new Secretary of the Navy, Mr. Lehman, is regarded as an outstanding professional.

/2 ...

The Administration will do its utmost not to repeat at least two of the mistakes made by the former Administration - the conflict between the Secretary of State and the National Security Adviser, and the clashes between the White House and Congress. It is believed that Mr. Haig and Mr. Richard Allen have an understanding as to their division of labour and will work well together. Republican control of the Senate will make life much easier for the White House. On certain issues, the Republicans, in alliance with the Southern Democrats, will also have a majority in the House. At present the Democrats appear leaderless and dispirited.

Policy on home affairs will be much as in the UK but without the drain caused by our nationalised industries. The Reagan Administration will, however, face much the same difficulties in controlling money supply, cutting taxes and spending more on defence.

Relations with NATO will have a high priority and one that is well understood by the new Secretary of State. Improved consultation and collaboration have been promised. However, differences do exist and the United States will insist that its Allies must fulfil their obligations over the + 3 per cent defence target, at least until it is replaced by another agreed yardstock.

They feel that all their Allies, except the UK and France, are not doing sufficient to assist in the defence of Persian Gulf oil which is more vital for Europe than for the US. Though recognising the effect of their support of Israel on the Arabs, this support is unlikely to be altered and disagreement with Europe will continue over the role of the PLO, which will not be recognised in any way until they recognise the existence of the State of Israel.

/3 ...

As far as foreign aid is concerned, this will now be used in the interests of the USA and priority will be given to defence aid. The Secretary of State has apparently already won the first battle over proposals to reduce drastically all aid.

Japan will be encouraged to co-operate in the defence of a larger sphere of the Pacific, rather than as at present concentrating on the home islands. It is thought that the nations of South East Asia will welcome this, provided it is achieved by a joint US-Japanese exercise.

Turkey, Egypt and Israel are regarded as the main buttress of the Middle East, though the effect of this on the Arab world does not seem to have been appreciated. The whole question is now being re-examined as a matter of urgency. The Administration were high in their praise of British assistance in the Indian Ocean and the stationing of our own ships in that area.

The new Administration's policy with regard to South Africa will be different from their predecessor's. They appear to be determined to stop further Soviet penetration of this area.

Military

The USA will increase its defence expenditure in real terms, to 5 per cent or more. It will insist that its Allies maintain the + 3 per cent agreement. If they fail to do this, the Administration will use the big stick and if this fails, latent American isolationism will grow rapidly.

The + 3 per cent target is recognised as being a rather arbitrary yardstick, and efforts will be made to find an agreement on a more satisfactory formula. However, until this agreement is reached, the + 3 per cent target will be maintained.

/4 ...

As a quid pro quo, the Allies should demand a fairer application of the two way street. This was put over strongly to both Armed Services Committees and elicited a sympathetic response. For example, the UK are purchasing Trident I at the cost of $1,500 million and the USA are only buying combat boats at £20 million, and Rapier (for use in the UK) at $90 million. Candidates for US/UK co-production and co-operation include the AV8B, said to be worth $2½ billion over ten years to the UK; ASRAAM; man portable anti tank weapons, terminal guided smart sub munitions for the MLRS III, JP233 (which has now been re-instated in the US budget), Copperhead, Naval training aircraft, and torpedo development based on UK Sting Ray guidance and US propulsion systems. Purchase of British Scorpion, light weight Sea Wolf, Sea Skua, support ships for the Rapid Deployment Force, and further purchases of Rapier should also be considered.

The Armed Services Committee of both Houses have undertaken to re-examine some of these projects and has already re-instated funds for the JP233 development. They appeared to be upset at the failure of suggestions for joint armoured personnel carrier development but had no answer to the present imbalance of the two way street. I was asked to submit a paper to the House Armed Services Committee on the future of co-operative torpedo development.

The Administration appreciated the importance that some European governments attach to continued arms control negotiations. These will be continued but from a position of strength. The SALT II Treaty is regarded as dead but it is likely that it will be held in the Senate until new negotiations can start, in about six months' time.

Conclusions

The attitude in the US is very different from that in Europe.

/5 ...

They are now prepared to take the lead against the USSR and to exert both diplomacy and arms control negotiations based on strength. Defence forces will be increased and Allies will be expected to assist. No excuses will be taken for any failure in this direction.

The President has an impressive Cabinet and has made major changes, down to the third level in most departments of State.

The present hawkish public opinion could change to a demand for a fortress America policy if it were considered that America's Allies were not pulling their full weight.

Differences of policy with Europe will continue over the politcal problems of the Middle East. It is, however, hoped that the Allies have co-ordinated their policy with regard to the action to be taken in event of the Soviet invasion of Poland, which is expected in March.

As far as the Third World is concerned, aid will be closely aligned to foreign policy and given only to friendly nations.

Co-operation and consultation with the Allies has been promised and it is hoped that this will eventually give rise to joint policy decisions, for actions both inside and outside the NATO area.

A fuller report is being prepared and will be sent to the Foreign Secretary and the Secretary of State for Defence.

Britain's largest ceramic tile manufacturers

**H&R Johnson Tiles Ltd**

Highgate Tile Works Tunstall
Stoke-on-Trent ST6 4JX
England

Telephone: 0782 85611
Telex: 36146 HRJSTK G
Telegrams: Enamel Tunstall Staffs

The Right Hon. Margaret Thatcher M.P.,
Prime Minister,
10 Downing Street,
LONDON W.1.

Your Ref:

Our Ref: DJM/BH/126/81

Date: 29th January, 1981.

Dear Prime Minister,

I believe that you will shortly be meeting President Reagan, and it might be of interest to you to know that in the 1850's Minton Tiles, a company to which we are one of the successors, manufactured all the encaustic floor tiles for the extensions to the Senate buildings at the Capitol in Washington. The choice of material we think was influenced by the use of encaustic tiles by Pugin in our own Palace of Westminster during the reconstruction after the 1835 fire.

In 1974 this company, who are one of the world's largest manufacturers of ceramic tiles, was asked to replace the ceramic floors in the Arts & Industries building at the Smithsonian Institute in Washington. We set about learning this lost art of encaustic tile manufacture. Such tiles had not been made in any quantity this century. By 1976 we had made the tiles and the floor was expertly laid by American Tile Fixers.

As a result of this, the Architect to the Capitol Building, Washington, Mr. George White, F.A.I.A., approached us to establish whether we could repair or replace sections of the Capitol Building floors. After four years of work by our team of young technicians, and a continuing dialogue between myself and Mr. White, including at least six visits to Washington, we have been advised that the contract for tiling - initially valued at £45,000 is about to be placed. This we are assured will lead to an on-going commitment to complete the repairs to the floors over the next five years, which could be worth well over £250,000.

On my last visit to Washington in December 1980, I was told that on the grounds of a cut back in public spending, funds for the tiling had been cut out of the budget by the appropriate Senate Committee last October. Mr. White is endeavouring to ensure that this does not happen again when the budget is reviewed in March of this year. I myself shall be in Washington on the 12th March, and on the 14th March will be addressing all the State Capitol Building Architects at their convention in Albany, New York State, on the manufacture and availability of encaustic floor tiles. Several State Capitol Buildings were tiled with British tile in the 19th century.

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We believe that we are the only company in the world who are capable of manufacturing such unique tiles. We are currently repairing certain floors in the Palace of Westminster. It is essential for us to have a continuity of orders so that our small specialist department can be kept viable.

This is obviously a politically delicate matter, but I felt it would be of interest to you to know that a British company still has the expertise to manufacture these tiles, and even in the present economic climate, the determination to succeed.

Our current overall wall and floor tile production, sales and profitability are reasonably satisfactory.

The British Embassy in Washington is being kept advised of our position at the Capitol Buildings through Lord Bridges.

We shall quite understand if you feel it unwise to mention the involvement of a British company in the Capitol Building.

Yours Sincerely,

David J. Malkin

David J. Malkin

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10 DOWNING STREET

*From the Private Secretary*

2 January 1981

see P.4.

Dear David,

Defence Estimates 1981/82

As you know, the Prime Minister held a meeting with your Secretary of State, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer on Wednesday afternoon to discuss the defence estimates for 1981/82. They had before them Mr. Pym's minute of 23 December and your two letters of 30 December.

The Prime Minister said that she was concerned about the unemployment consequences of some of the proposed spending cuts set out in annex B of Mr. Pym's minute. She was particularly concerned about the political implications of closing Deal and cancelling the Sea Eagle project both of which were in marginal constituencies. It also did not seem sensible to cancel projects which were nearing completion or on which a great deal of R and D work had already been done. In addition, she wondered whether the full budgetary consequences of particular spending decisions had been worked out. It seemed to her that all too often a reduction in the defence budget led to increased spending on social security and on other spending such as short time working compensation. In net terms, the effect of spending cuts on defence was likely to be much less than appeared at first sight. It would be far better if, before Ministers reached decisions on spending programmes, the Treasury could work out the full expenditure and PSBR implications of different options.

The Prime Minister went on to say that there was surely a case for allowing MOD to speed up their spending on equipment if this was to be offset by lower spending in later years; for by bringing spending forward this was likely to save on costs. But if the Treasury insisted on MOD finding further programme reductions in 1981/82 to offset the faster spend on equipment than had earlier been anticipated, she hoped that - as far as possible - projects could be deferred rather than cancelled. In addition, she thought that more money

/could be

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could be raised for the defence programme from property disposals. Your letter of 30 December on this subject had indicated that about £66m. could be raised from the sale of MOD land and buildings in 1981/82. But her impression was that the institutions would like to buy considerably more property than currently appeared available, and that the figure of £66m. could be increased. She suggested that the MOD disposal programme should be looked at again with the assistance of Mr. David Young. Finally, to the extent that programme reductions had to be met, she did not believe the presentational problems were quite as great as Mr. Pym suggested. She doubted whether it would be necessary to declare all of the reductions in specific terms to our NATO allies - other Governments, she felt sure, would not do so in similar circumstances; and in any case, the Government could take credit for the early completion of defence contracts.

Your Secretary of State said that the defence programme was under very great pressure. He was having to make specific programme reductions of £360m for 1981/82 because of faster than anticipated spending on equipment contracts and £200m. because of the Cabinet's November decisions on public expenditure as a whole. Nine-tenths of the defence programme was already firmly committed, so that his room for manoeuvre was very limited. The problem was made worse by rising real costs. It did not, in his view, make any sense for the Treasury to insist upon the full £360m. claw-back - since this would mean scrapping projects for which, in later years, sufficient money should be available; it would be much more reasonable if the claw-back could be spread over a period of years. If the Treasury were to insist upon additional reductions in 1981/82 to compensate for any cash overspend this year, then the whole position would become absolutely intolerable. More generally it was extremely difficult to plan on a sensible defence programme when it was subject to continued cuts: since the Government came into office, the programme had been cut five times. As regards the specific options put forward in annex B of his minute, he agreed that closing Deal and cancelling Sea Eagle would have serious political repercussions. But in terms of defence policy, item 2 of annex B - namely not forming the third Lightning Squadron or increasing establishments of existing squadrons - was much more serious. When there was a clear need to improve our air defences he was very loath to pursue this option; on the other hand, there was little alternative if savings - especially in the later years - of the magnitude required were to be achieved. The shipbuilding measures under item 5 would probably mean the closure of Cammell Laird, Scott Lithgow and Vosper's with up to 15,000 redundancies.

/The Chancellor

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The Chancellor of the Exchequer, responding to the general point about spending decisionsput forward by the Prime Minister, said that the net reduction in total Government spending would be less than the spending reductions in the defence programme. But it was an illusion to think that total spending would be lower if the defence reductions were not made. Total expenditure and the PSBR would certainly be higher in the absence of the MOD reductions. If the Prime Minister's line of argument were to be pursued, this would mean reopening the decisions on defence spending reached in recent months; and it would make it impossible to resist reopening decisions on other spending programmes. As regards the £360m. claw-back, he had to insist on this simply because - in its absence - the defence budget would be overspent by that amount; if this happened, it would add to the overall financing problem and the Government would lose all credibility on public expenditure. In his view, despite the further cuts in specific defence programmes which would now be needed, the defence programme as a whole would remain basically intact. One indication of this was the formidable list of projects contained in the last paragraph of your letter of 30 December which would continue unaffected. On the other hand, the difficulties which MOD seemed to have in fulfilling their commitments within the overall programme figures suggested to him that our defence strategy was not consistent with what we could afford; and the problem was likely to become worse as spending on Trident developed in the mid-1980s. In short, we were over-committed on defence, notwithstanding the increase in spending allowed for. But he also felt that MOD's approach to spending could be improved. In contrast to other Departments, there was a tendency to give priority to the achievement of their volume programme even at the expense of exceeding their cash limits. This, he understood, was because the discussion of priorities within MOD between the three services was conducted entirely in volume terms, and because the cash limit had never been satisfactorily broken down between individual programmes. There was also, in the Treasury's view, not enough flexibility built into defence programming, and staying within the spending ceilings would be easier if MOD's long term costings were prepared on a more conservative basis.

/The Foreign and Commonwealth

The Foreign and Commonwealth Secretary said that, from a foreign policy standpoint, he was more concerned about the proposals in Annex A of Mr. Pym's minute, than those in Annex B. Many of them would have to be declared to NATO, and the proposed reduction in fuel stocks would reduce the Services' ability to conduct training exercises. As regards the items in Annex B, he did not think it would be politically possible to disband 41 Commando Royal Marines; if Deal had to be closed, the possibility of moving them elsewhere should be considered. More generally, he agreed with the Chancellor that the defence programme was over-committed in relation to the budgetary constraints. In fact, the UK and NATO as a whole were spending more on defence than the Warsaw Pact countries; yet the overall effectiveness of our defence effort was inferior because it was spread so widely. It was necessary, in his view, for the Government to reconsider the pattern of defence spending, and it would also be highly desirable to persuade the new American Administration of the need for a review of NATO spending. The Prime Minister could put this to President Reagan when she visited the US in February.

Summing up, the Prime Minister said that the defence estimates for 1981/82 should be prepared - notwithstanding all the difficulties - on the basis of the spending decisions reached by Cabinet in November, and including whatever specific reductions were needed for the faster spending on existing contracts in 1981/82 than had earlier been anticipated. But further consideration should be given to the question of property disposals, and she would ask Mr. David Young to get in touch with Sir Frank Cooper to give assistance in this matter. On the items set out in Annex B of Mr. Pym's minute, she would like to be consulted again before final decisions were taken; and in putting forward his proposals, Mr. Pym should take into account the points made in discussion. She would also like to be consulted on the handling of all the cuts, including those in Annex A, which were to be made. Whatever final decisions were taken, they should not be made public - except in so far as it was absolutely essential to inform contractors - until the publication of the estimates and the defence White Paper in March. Finally, a re-assessment in conjunction with our allies of the pattern of defence spending would be highly desirable, and it would be for consideration over the next few weeks whether and how she should take this up with President Reagan when she visited Washington.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury), and David Wright (Cabinet Office).

Yours ever,

T. Lankester.

David Omand, Esq.,
Ministry of Defence.