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PREM 19/1655

Confidential Ring

visit of George Shultz to the UK.

USA

Meetings with the Foreign Secretary.

PART 1:

1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.5.82		4.6.85					
2.5.82		8.6.85					
10.5.82		13/6/85					
7.7.82		29/11/85					
30.11.82		9.12.85					
7.12.82		10.12.85					
17.12.82		12.12.85					
20.12.82							
24.1.83							
8.7.83							
2.12.83							
5.1.84							
11.1.84							
16.1.84							
18.1.84							
21.1.84							
22.11.84							
23.11.84							
5.12.85							

PREM 19/1655

PART ENDS

● PART 1 ends:-

PM to S SHULTZ 12.12.85

PART 2 begins:-

WASHINGTON TEL No 2757 14.12.87



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10 DOWNING STREET

THE PRIME MINISTER

12 December 1985

Dear George.

Thank you for your kind letter and for the magnificent book on Abraham Lincoln. I was delighted to have this: he is one of my heroes, and you may recall that I ended my speech to the Joint Meeting of Congress in February with a quotation from him.

I found our discussion as always very useful, and agree that we must keep in close touch, particularly in the run-up to the next meeting between the President and Mr. Gorbachev. I shall be letting the President have some views on this, and in particular on the handling of the Strategic Defence Initiative in discussions with the Soviet Union, in due course.

With best wishes,

Lawson

Margaret

The Honorable George P. Shultz

JA

010



THE SECRETARY OF STATE
WASHINGTON

December 11, 1985

Dear Margaret:

I greatly appreciated the opportunity to call on you during what I know was a very busy day in Parliament. Geoffrey and I had a chance to continue our discussions later, and I left London with the solid conviction that we see eye-to-eye on almost all of the busy international agenda ahead.

In particular, this week's meeting of the North Atlantic Council will be a key element in our preparations for resumed talks with the Soviets. Alliance solidarity and cohesion were vitally important to us at the Geneva summit, and we will need that support to build on the progress we have achieved. It goes without saying that we want to stay in the closest touch with Her Majesty's Government throughout.

Sincerely yours,

George P. Shultz

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London.

subject.
a master set.

SECRET



10 DOWNING STREET

From the Private Secretary

10 December 1985

PRIME MINISTER'S MEETING WITH SECRETARY SHULTZ

The Prime Minister had a meeting this morning with Secretary Shultz. Mr. Shultz was accompanied by Ambassador Price and Mrs. Ridgway. The Foreign Secretary was also present.

The Prime Minister hoped that preparations were already well in hand for the next meeting between President Reagan and Mr. Gorbachev. It would be essential to make substantial progress in the arms control negotiations and on other issues before that meeting. It would not be manageable simply to have a second getting-to-know-you session. Mr. Shultz said that President Reagan saw the next summit as a useful deadline for securing progress on the various issues under negotiation between the United States and the Soviet Union. He was particularly concerned to make progress across the board and not to let regional, bilateral or human rights issues stagnate. But there was of course no doubt that the arms control negotiations in Geneva were the centre-piece. In this respect Mr. McFarlane's departure was a major loss. Admiral Poindexter was a very knowledgeable and capable substitute but was no particular expert on arms control issues.

The Prime Minister asked how far the INF negotiations had really been decoupled from progress over START and the Strategic Defence Initiative. Secretary Weinberger had thought that it was by no means certain that the Soviet Union accepted such decoupling. Mr. Shultz said that the two issues were potentially separable. The obvious ploy for the Soviet Union was to negotiate a solution of INF which would be attractive to people in Europe and then at the last minute reinstate the link with the SDI. On the other hand this tactic had been heavily discounted in advance. Meanwhile the United States Administration would continue and step up efforts to convince people that it was right to go on doing research into the SDI. The Prime Minister's statements and the British Government's decision to participate in SDI research were helpful in this respect.

Mr. Shultz continued that the Administration had been giving further thought to how to take matters forward on the SDI. They noted that, at the Summit, Gorbachev had characterised the SDI as a programme to put weapons in space

SECRET

to strike targets on earth. The President had reflected on this and instructed that an attempt be made to design a Treaty which would prohibit offensive weapons in space while permitting defensive weapons. It remained to be seen whether it was possible to draw a firm line between two sorts of weapons. Following his own conversation with the Prime Minister in New York at the end of October, he had also formed up to the President on the question of "sharing" the SDI with the Soviet Union. The President had said that he was not wedded to sharing but was searching for a concept which would give the Soviet Union confidence in a managed transition to greater reliance on strategic defence. Mr. Shultz continued that this was one reason why he had been enthusiastic about the proposal at the Geneva summit for cooperation between the United States and the Soviet Union on fusion research. This would put in place a system to manage a complicated technical enterprise without compromising US technology and would provide useful experience. There was also more scope than Gorbachev had recognised for developing the open laboratories approach. The President hoped that the Prime Minister would give further thought to the handling of the SDI over the next few months. He had found her contributions and in particular the Camp David four points invaluable. The Prime Minister recalled that she had left the President in New York with a note setting out a line of argument to use with Gorbachev to explain how a transition to greater reliance on strategic defence might be handled.

Secretary Shultz said that another issue on which it would be helpful to have the United Kingdom's views on what should be said about British and French strategic deterrents in negotiations with the Soviet Union. The Soviet Union continued to try to draw them into the negotiations on INF. He would like to have an agreed form of words which the Americans could use, perhaps based on the Foreign Secretary's statement at the 1983 United Nations General Assembly. The Foreign Secretary recalled that the formula which he had used had referred both to the disparity in size between the British deterrent force and that of the Soviet Union and to the consideration of no change in the Soviet Union's defensive capability. It was agreed to let Mr. Shultz have a precise form of words to cover the United Kingdom position.

Middle East

The Prime Minister referred to the importance of steps by the United States to bring about some early movement on Arab/Israel. Mr. Shultz said that the basic problems of which Palestinians should be involved in a joint delegation and of the nature of the international framework for negotiations were no closer to solution. He had thought that a breakthrough was possible following his meeting with King Hussein in Aqaba last summer but the prospects of this had since faded. The only new factor was signs of interest from Syria in participating in negotiations. It was tragic that Congress had blocked the arms sale to Jordan.

SECRET

- 3 -

Mr. Shultz made clear that the information about the Administration's thinking on the handling of SDI with the Soviet Union was sensitive. I should be grateful if circulation of this letter could be restricted accordingly.

I am copying this letter to Richard Mottram (Ministry of Defence) and Michael Stark (Cabinet Office).

(C.D. Powell)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

SECRET

PRIME MINISTER

MEETING WITH MR SHULTZ

He comes at 1200 for half an hour, accompanied by Ambassador Price and Mrs. Ridgway (Assistant Secretary of State for European Affairs).

The subjects you will want to raise are:

Departure of McFarlane

- How will this affect foreign policy formation?

US/Soviet Summit

- When will next Summit be?
- What work is in hand to prepare it?
- How do we get started on separate INF talks?
- What will be said publicly by US Administration on continued observance of SALT II?
- What prospects of progress on Afghanistan?
- Any sign of movement (apart from case of Mrs. Bonner) on emigration?

Middle East

- Will this now come back near the top of the in-tray?
- When is Peres likely to break the coalition?
- How can we keep King Hussein's morale up?

Central America

- Are we right to detect new phase of pressure by the US on the Sandinistas?

Northern Ireland

- Grateful for helpful statements.

UK/US Supplementary Extradition Treaty

- How can we help get this through the Senate? (Anglo-Irish Agreement ought to be a factor in favour.)

C.D.P.

CHARLES POWELL

9 December 1985



(1) announce within a matter of days my intentions for early legislation having effect from the date of announcement, in terms of the draft attached;

(2) put in hand immediately the drafting of a new Bill.

I am of course ready to discuss this urgently if you wish.

I am copying this to the Lord President, the Lord Privy Seal, the Solicitor General, the Chief Whip, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Rmying.

pp K B

6 December 1985

(Approved in draft by the Secretary of State and signed in his absence.)

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

9 December 1985

Dear Charles,

Visit of Mr Shultz to London: 10 December

The Prime Minister has agreed to see the US Secretary of State, Mr George Shultz, from 1200 on 10 December. I enclose briefing on the follow-up to the Geneva and the Hillsborough Summits, and on the Middle East. As Mr (Admiral) Poindexter has just replaced Mr McFarlane as President Reagan's National Security Adviser the Prime Minister may also wish to ask Mr Shultz whether this will affect foreign policy formation in Washington.

Mr Shultz will go on from No 10 to address a luncheon meeting of The Pilgrims on 'Transatlantic Relations'. This will be followed by a meeting with the Foreign Secretary. In the evening Mr and Mrs (Obie) Shultz will host a small theatre supper for the Foreign Secretary and Lady Howe.

On 11 December Mr Shultz will go to Brussels for a meeting with the European Commission and for the 12/13 December meeting of the North Atlantic Council. He will then visit Bonn, West Berlin (where he will make another major speech), Budapest, Bucharest and Belgrade.

You will have seen Washington telno 3346 (copy enclosed) on Mr Shultz's current relaxed and confident mood.

*Yours ever,
Colin Budd*

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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PRIME MINISTER'S MEETING WITH MR SHULTZ : 10 DECEMBER

OUR OBJECTIVES

Summit and Geneva Negotiations

- (a) To review prospects for Geneva talks
- (b) To stress importance of US observance of SALT II on basis of President's 10 June decision, and restrictive interpretation of AMB Treaty

Middle East

- (c) To seek US assessment of Arab/Israel developments and urge active support for King Hussein

Northern Ireland

- (d) To thank Mr Shultz for US expressions of support for the Agreement and to inform him of the state of play regarding implementation

UK/US Supplementary Extradition Treaty

- (e) To seek Mr Shultz's views on how best to overcome opposition in the Senate Foreign Relations Committee (FRC).

OUR ARGUMENTS

Summit and Geneva Negotiations

- (a) Round 4 first opportunity to begin real negotiations. Recognise important differences remain
- (b) Some scope for progress on START apparent if Russians driven off unreasonable positions, eg on definition of strategic systems. Less optimistic on INF: must reject bogus Soviet claim that UK/French forces a 'stumbling block'. Their ultimate objective remains elimination of US INF in Europe



- (c) Gorbachev's speech to Supreme Soviet indicates reassertion of firm linkage between strategic offensive cuts and SDI. Gave President in New York in October some ideas of how progress could be made. Main objective: enhance stability and predictability
- (d) SDI: welcome President's commitment to conduct research on restrictive interpretation of ABM Treaty. US rationale for programme must be consistent
- (e) Continued US observance of SALT II and ABM Treaty vital. European publics would not understand rejection of existing obligations particularly after Summit
- (f) Collective Warsaw Pact endorsement of Summit. Hope that outcome will make it easier for East Europeans to pursue their relations with West. Your forthcoming visits should encourage.
- (g) (If raised) Gorbachev's remarks at Summit about Afghanistan likely to lead to greater flexibility?
- (h) (If raised) President handled human rights skilfully by taking tough line but stressing no US interest in claiming public credit for progress. What chance of progress; what time frame?

Middle East

- (i) Welcome briefing on latest US thinking, especially on international cover. Jordanian efforts remain only realistic basis for progress. Need for early action if opportunity of Peres' period in office not to be lost. As soon as 1986 dawns, all minds will be on the agreement to 'rotate' in October

Northern Ireland

- (j) Very grateful for statements of support for the Agreement by President Reagan and Speaker O'Neill



- (k) Reaction among the Unionist community in Northern Ireland has been rather worse than we expected. The Taoiseach and I reviewed the position in the margins of the European Council on 2/3 December and confirmed our determination that the Agreement should be implemented as planned
- (l) I recognise the strength of Unionist feeling about the Agreement but hope that its prompt implementation will show that the Agreement contains real benefits for them in terms of improved cross-border security and offers no threat to the status of Northern Ireland as part of the United Kingdom. I also hope that the SDLP may be persuaded to take up their seats in the Northern Ireland Assembly
- (m) In view of the President's generous offer of material support for Ireland we have begun discussions with the Irish Government on possible arrangements for administering any such funds. We hope to put specific proposals to the US Administration early in the New Year

UK/US Supplementary Extradition Treaty

- (n) Signature of the Anglo/Irish Agreement ought to have improved the prospects of securing the passage of the Treaty
- (o) The Irish Government's announced intention to sign the European Convention on Suppression of Terrorism - which also abolishes the political offence safeguard for serious crimes - should also help our case

TACTICAL ARGUMENTS

Middle East

- (a) Risk of radicals/Soviets/advocates of terror gaining upper hand

UK/US Supplementary Extradition Treaty

- (b) Recent events show that the US too is faced with the problem of



terrorists claiming their offence to be political and avoiding extradition (eg Beirut hi-jack)

THEIR OBJECTIVES

Summit and Geneva Negotiations

- (a) To cement Alliance unity ahead of round 4 at Geneva; listen to British views, particularly where they support State Department line in Washington inter-agency discussion

Middle East

- (b) Probably to argue ball in Hussein's court

Northern Ireland

- (c) To draw us out on our ideas for US financial assistance

UK/US Supplementary Extradition Treaty

- (d) Possibly to argue that we shall have to accept some amendments to the Treaty in order to secure its passage

OUR RESPONSE

Middle East

- (a) Arms sales postponement blow to credibility of Hussein's pro-Western approach. Strengthens need for active US support

UK/US Supplementary Extradition Treaty

- (b) We would prefer to hold out for the existing text; but would be prepared to consider possible amendments if necessary. This is something that officials will need to look at carefully

BACKGROUNDSummit and Geneva Negotiations

1. Summit and arms control prospects: Gorbachev's speech to the Supreme Soviet on 27 November repeated explicit linkage between a ban on SDI research (Star Wars was the main obstacle on road to agreement on arms control) and deep reductions in offensive weapons. He also claimed that UK/French forces represented a 'stumbling block' to progress on INF agreement.
2. Shevardnadze told Sir B Cartledge on 4 December that the Summit had been an important landmark and a start made in the right direction. The Soviet teams would not return to Geneva 'empty handed'. The European powers, particularly the nuclear states, should not be 'left on one side'. Shevardnadze questioned NATO's policy of continued INF deployments. 'That would not do'. He took up the suggestion of bilateral arms control talks at official level.
3. On 23 November, Mr McFarlane reported that Gorbachev had said he would think further about Afghanistan and human rights. Kornienko had been agitated by Gorbachev's statement that Soviet Union would like to withdraw from Afghanistan.
4. Compliance issues: Part I of US Department of Defence's report on possible US responses to Soviet violations of arms control agreements submitted to White House just before the Summit. Covered only Soviet record on Compliance. Part II on possible responses is still incomplete. DOD advocate programmatic responses.
5. US officials outside Pentagon maintain that no new decision on observing SALT II interim restraints is necessary: 31 December (the date on which SALT II Treaty would, if ratified, have expired) is not regarded as significant. They claim President decided on 10 June that US interim restraints should be maintained subject to comparable Soviet restraints and serious negotiations at Geneva. We understand Russians were told this at Geneva when they pressed for



formal 12 months extension of SALT II constraints. But further decisions will be needed on whether to abide by the constraints to allow the next Ohio class SSBN to begin sea trials in June 1986, and for ALCM-carrying B1 bombers to be deployed at about the same time. Such decisions may have to be reached as early as January/February.

Northern Ireland

6. President Reagan and Speaker O'Neill both issued warm statements of support for the Agreement immediately following signature on 15 November. The Congressional Friends of Ireland also spoke up in support of it.

7. Discussion took place with the Irish at official level on 20 November and 2 December about the text of a draft Agreement on an International Fund. Where agreement has been reached at official level both sides will seek Ministerial approval with a view to putting detailed proposals to the US Administration in January.

UK/US Supplementary Extradition Treaty

8. The Supplementary Treaty is intended to prevent fugitive terrorists from avoiding extradition by claiming that their offences were political. (Four terrorists have avoided extradition in this way.) It provides that certain serious offences (eg murder) should not be regarded as political. Its provisions are broadly modelled on those of the European Convention on the Suppression of Terrorism (ECST).

9. The Supplementary Treaty was signed 25 June 1985. It was sent to Senate for advice and consent and referred to Foreign Relations Committee (FRC). FRC hearings have taken place in front of hostile Irish Americans, some of whom have given evidence. Some Liberal Democrats have also expressed reservations about the Treaty. Most serious press comment has been favourable. Further hearings are expected after Christmas.



10. Assuming the FRC votes in favour of the Treaty, the next step is for it to be reported to the Senate floor, where a two-thirds majority will be necessary to secure approval (amendments, etc, require only simple majorities). The size of the majority in the FRC will be crucial in determining the Senate vote.

PRESS LINE

The Prime Minister and Mr Shultz had a wide-ranging discussion concentrating on East-West relations and arms control after the Geneva Summit. The Prime Minister reaffirmed her support for the US negotiating position in Geneva. They also reviewed developments in the Middle East, and reaffirmed support for the Jordanian initiatives. They agreed on the urgent need for further progress.

CONFIDENTIAL
FM UKMIS NEW YORK
TO IMMEDIATE FCO
TELNO 935
OF 242320Z OCTOBER 85

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ddl 257x
DRN 083/85

30 OCT 1985

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INFO ROUTINE ANKARA, ATHENS, BONN, BRUSSELS, UKDEL NATO, COPENHAGEN
INFO ROUTINE LISBON, LUXEMBOURG, MADRID, OSLO, OTTAWA, PARIS,
INFO ROUTINE PARIS, REYKJAVIK, ROME, THE HAGUE, VIENNA, WASHINGTON
INFO ROUTINE MOSCOW.

SEE 50

FOLLOWING FROM POWELL, PRIVATE SECRETARY TO THE PRIME MINISTER
PRESIDENT REAGAN'S MEETING WITH ALLIED LEADERS.

THE PRESIDENT'S MEETING WITH THE PRIME MINISTERS OF CANADA,
GERMANY, ITALY, JAPAN AND THE UNITED KINGDOM TO DISCUSS HIS
FORTHCOMING MEETING WITH MR GORBACHEV LASTED A LITTLE OVER
AN HOUR. NOT A GREAT DEAL OF SUBSTANCE WAS DISCUSSED.
THE MAIN THEME WAS ONE OF SOLIDARITY WITH AND SUPPORT FOR
THE PRESIDENT'S APPROACH. THIS WAS STRESSED VERY STRONGLY
BY THE PRIME MINISTER IN HER REMARKS TO THE PRESS AFTERWARDS.
THERE WAS GENERAL AGREEMENT THAT THE MOST SATISFACTORY RESULT
FROM THE MEETING IN GENEVA WOULD BE A SPECIFIC IMPETUS TO REACH
AGREEMENT IN THE ARMS CONTROL NEGOTIATIONS.

THE PRIME MINISTER SPOKE LAST. AS WELL AS STRESSING THE
UNITED KINGDOM'S SUPPORT FOR THE US, SHE SUGGESTED THAT THE US
ADMINISTRATION SHOULD ANALYSE THE SOVIET UNION'S APPROACH TO
THE SUMMIT VERY CAREFULLY. FOR THE SOVIET UNION, THE SDI
APPEARED TO THREATEN THE ONE AREA IN WHICH THEY HAD ACHIEVED
EQUALITY WITH THE UNITED STATES, THAT OF NUCLEAR WEAPONS. THE
UNITED STATES APPROACH SHOULD THEREFORE TAKE ACCOUNT OF THE
PSYCHOLOGICAL DIFFICULTIES WHICH THIS CREATED FOR THE SOVIET
UNION. IT WOULD BE NECESSARY TO FIND WAYS TO REASSURE THE
RUSSIANS THAT THE STRATEGIC BALANCE WOULD NOT TIP SHARPLY
AGAINST THEM. THIS MIGHT BE DONE IN A VARIETY OF WAYS: EFFORTS
TO CONVINCE THE SOVIET UNION OF THE UNITED STATES PEACEFUL
INTENTIONS: REAFFIRMATION OF THE ABM TREATY AND
CONSIDERATION OF POSSIBLE WAYS TO STRENGTHEN SOVIET CONFIDENCE
IN IT: AGREEMENT ON WHAT WOULD CONSTITUTE PERMISSIBLE
DEVELOPMENT OF STRATEGIC DEFENCE WITHIN SPECIFIC TIME LIMITS.

THE PRESIDENT OFFERED TO BRIEF ALLIES ON THE OUTCOME OF
THE SUMMIT IN BRUSSELS ON 21 NOVEMBER. THIS WAS ACCEPTED BY
ALL THOSE PRESENT.

CONFIDENTIAL

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A BRITISH DRAFT NOTE FOR USE WITH THE PRESS WAS AGREED AND IS IN MIFT THOUGH ALL PARTICIPANTS RESERVED THE RIGHT TO ADD PERSONAL COMMENTS. IN SPEAKING TO THE PRESS HERSELF THE PRIME MINISTER STRESSED ALLIED SOLIDARITY: THE SOVIET UNION WOULD NEVER SUCCEED IN SEPARATING EUROPE FROM THE UNITED STATES. SHE COMMENTED ON THE THOROUGHNESS WITH WHICH THE PRESIDENT WAS PREPARING FOR THE SUMMIT. AND SHE WELCOMED THE INDICATIONS IN THE PRESIDENT'S UN SPEECH THAT HE WAS CONSIDERING MAKING FURTHER PROPOSALS ON ARMS CONTROL IN ADVANCE OF THE SUMMIT. WHEN PRESSED FOR COMMENT ON THE PRESIDENT'S PROPOSALS FOR DISCUSSING REGIONAL PROBLEMS WITH THE SOVIET UNION, ALSO IN HIS U N SPEECH, THE PRIME MINISTER SAID THAT SHE DID NOT WANT TO RUSH INTO COMMENT ON SERIOUS PROPOSALS BEFORE THERE HAD BEEN A CHANCE TO EXAMINE THEM THOROUGHLY.

SEE MIFT.

THOMSON

Repetition to REYKJAVIK
referred to environmental decision,
repeated as requested to other posts.

US/SOVIET ARMS CONTROL TALKS
LIMITED
UND ACDD
DEFENCE D
SOVIET D
NEWS D
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PROTECTOR PLANNING STAFF
RES D
INFO D
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CCD

PS
PS/LADY YOUNG
PS/MR RIPKIND
PS/MR RENTON
PS/PUS
MR DEREK THOMAS
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MR DAUNT
MR DAVID THOMAS
MR BRAITHWAITE
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 INFO UKDEL NATO, UKREP BRUSSELS

MY TELNO 3315,
 SHULTZ'S VISIT TO EUROPE NEXT WEEK
 SUMMARY

1. I THINK YOU WILL FIND SHULTZ IN A RELAXED AND CONFIDENT MOOD WHEN HE VISITS EUROPE NEXT WEEK, SATISFIED THAT THE ALLIANCE IS IN PRETTY GOOD SHAPE AFTER THE GENEVA SUMMIT, AND THAT TRADE PROBLEMS BETWEEN THE COMMUNITY AND THE US MANAGEABLE.

DETAIL

2. SHULTZ, FLANKED BY AN ARRAY OF ASSISTANT SECRETARIES FROM THE STATE DEPARTMENT, WAS GUEST OF HONOUR AT THE EUROPEAN COMMUNITY AMBASSADORS TWICE YEARLY LUNCH ON 5 DECEMBER: OUR HOST WAS THE LUXEMBOURG AMBASSADOR.

3. SHULTZ WAS IN A RELAXED AND CONFIDENT MOOD AND THE LUNCHEON, COMPARED WITH SOME PAST OCCASIONS, PASSED IN A NON-COMBATIVE ATMOSPHERE..

4. ON ALLIANCE MATTERS, MY COLLEAGUES AND I CONGRATULATED SHULTZ ON THE IMPECCABLE WAY IN WHICH OUR FRIENDLY NEIGHBOURHOOD SUPERPOWER HAD CONSULTED THE ALLIANCE BEFORE THE GENEVA MEETING AND HAD DEBRIEFED THE ALLIANCE AFTERWARDS. WE ALSO EXPRESSED SATISFACTION ABOUT THE OUTCOME OF THE MEETING ITSELF. SHULTZ WAS SUITABLY GRATIFIED BUT EMPHASISED THAT THE CONSULTATIONS HAD BEEN VALUABLE ON THE SUBSTANCE TO THE UNITED STATES ITSELF AND THAT INPUT FROM THE ALLIES HAD MATERIALLY INFLUENCED THE UNITED STATES' POSITION AT GENEVA. HIS ANALYSIS OF THE SUMMIT PRODUCED NOTHING STARTLING OR NEW EXCEPT PERHAPS THE POINT THAT THE DECISION THAT THE PRESIDENT SHOULD SPEND SO MUCH OF HIS TIME IN ONE-ON-ONE MEETINGS WITH GORBACHEV WAS DELIBERATELY DESIGNED TO CONVEY THE MESSAGE TO GORBACHEV THAT THE PRESIDENT AND NO-ONE ELSE, WAS IN CHARGE IN WASHINGTON. WE DID NOT GET MUCH CONCRETE INFORMATION ABOUT PREPARATIONS FOR THE NEXT MEETING BETWEEN REAGAN AND GORBACHEV IN WASHINGTON, PROBABLY IN JUNE AND, OF COURSE, THERE IS BOUND TO BE SOME HIATUS AT THE WHITE HOUSE AS POINDEXTER TAKES OVER FROM MCFARLANE. BUT RIDGWAY INDICATED THAT SHE WAS ALREADY WRITING A PAPER ON THE NEXT STEPS. (THERE WILL BE A FURTHER MEETING BETWEEN SHULTZ AND SHEVARDNADZE BEFORE THE PRESIDENT MEETS GORBACHEV AGAIN.)

[So soon]

5. ON TRADE MATTERS, THERE WILL OF COURSE NEXT WEEK BE ONE OF THE NOW TRADITIONAL MEETINGS BETWEEN MEMBERS OF THE UNITED STATES' CABINET DEALING WITH TRADE MATTERS AND THE EUROPEAN COMMUNITY COMMISSIONERS IN BRUSSELS. SHULTZ WAS RELAXED ABOUT THE PROSPECTS FOR THE MEETING. HE POINTED OUT THAT THE VOLUME OF TRADE CONDUCTED ON AN ANNUAL BASIS BETWEEN MEMBERS OF THE EUROPEAN COMMUNITY AND THE US WAS IMMENSE AND MOST OF IT PASSED

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Without

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WITHOUT LET OR HINDRANCE. IT WAS THEREFORE HARDLY SURPRISING, GIVEN THIS IMMENSE VOLUME, AND GIVEN PROTECTIONIST SENTIMENTS IN THE US, THAT THERE SHOULD FROM TIME TO TIME BE ROWS IN SPECIFIC SECTORS. HE COULD ASSURE AMERICA'S EUROPEAN TRADING PARTNERS THAT THE PRESIDENT WAS A CONVINCED FREE TRADER: HE HAD DEMONSTRATED THAT ON HIS FOOTWEAR DECISION AND WE COULD REST ASSURED THAT HE WOULD VETO THE TEXTILE BILL IN ITS PRESENT FORM. WHERE WE HAD CONFLICTS OF INTEREST WE SHOULD WORK AT THEM TOGETHER QUIETLY AND NOT ALLOW THEM TO GET BLOWN UP OUT OF CONTEXT.

6. SHULTZ IS JUST BACK FROM THE OAS MEETING IN COLUMBIA, AND HAS A BUSY COUPLE OF WEEKS AHEAD OF HIM BEFORE THE CHRISTMAS BREAK. IN ADDITION TO HIS VISITS TO LONDON (FOR HIS SPEECH TO THE PILGRIMS AND HIS TALKS WITH YOURSELF AND THE PRIME MINISTER,) AND BRUSSELS (FOR THE NATO MINISTERIAL AND THE MEETING WITH THE EUROPEAN COMMISSION) HE WILL GO ON TO WHAT HE CALLS HIS QUOTE A VOYAGE UNQUOTE - VISITING BONN, BERLIN, BUDAPEST, BUCHAREST AND BELGRADE. HE IS GREATLY LOOKING FORWARD TO HIS MEETING WITH YOURSELF AND THE PM IN LONDON.

WRIGHT

LIMITED.

NAD

ACDD

DEF D.

NEWAD.

R.D.

SOUD.

EED.

ECD (E)

ERD.

F.D.

ESBD.

SAD.

PLANNING STAFF.

PS.

PS/LADY YOUNG

PS/PUS.

SIR W. HARRISON.

MR. DEREK THOMAS

MR. DAVID THOMAS.

MR. DAUNT.

PRIME MINISTER

VISITS BY SECRETARY SHULTZ AND SECRETARY WEINBERGER

1. George Shultz will be in London briefly on 10 December and has asked to see you. There is a space in the diary that morning following your meeting with the Sainsbury Group when we could fit him in for 45 minutes. Agree to see him?

2. I understand - though not from the Ministry of Defence! that Cap Weinberger will be here at the end of next week. No formal request to see you has been relayed but I understand he would like to do so. Agree to see him if we can find a space in the diary?

(C.D. Powell)

29 November 1985

BEM(54)



SLR

CCFCO

10 DOWNING STREET

THE PRIME MINISTER

11 June 1985

Dear George,

I was very pleased to see you on Friday and as always found our talk of the greatest interest and use. It was most kind of you to send me the bookends which are most handsome: thank you very much.

With best wishes.

Yours

Raymond

The Honorable George Shultz

ea

FILE
SECRET

SUBJECT
cc Master

SRW
13
bc PC



10 DOWNING STREET

From the Private Secretary

7 June 1985

Dear Len,

PRIME MINISTER'S MEETING WITH SECRETARY SHULTZ ON 7 JUNE

The Prime Minister saw Secretary Shultz this evening for one and a half hours. Secretary Shultz was accompanied by the United States Ambassador and by Mr. Burt.

MIDDLE EAST

The Prime Minister said that she had been grateful for President Reagan's message about his meeting with King Hussein (of which I enclose a copy). She had found the tone of the message rather optimistic. She had also found the King much encouraged by his visit. She then gave Secretary Shultz an account of her meetings with Mr. Shamir and with King Hussein. The Prime Minister said that King Hussein had pressed her to accept a visit to the UK by a Jordanian/PLO delegation in advance of Ambassador Murphy's meeting with a Jordanian/Palestinian delegation in Amman. She had told him that this would require careful thought. Those who took part would have to be ready publicly to accept UN Security Council Resolutions 242 and 338. They must also have publicly rejected terrorism. She was particularly concerned about the timing of any visit. It seemed to her a second step rather than a first; and taking it now might jeopardise the first step, Ambassador Murphy's meeting with a Jordanian/Palestinian delegation in Amman.

Secretary Shultz said that he thought that the Prime Minister was absolutely right. King Hussein had never mentioned this particular step during his discussions in Washington. His Foreign Minister had subsequently given a press interview alleging that there had been agreement on a whole series of meetings which would in fact be totally unacceptable to Israel and to the United States. One had to consider carefully the political realities. Before there could be a meeting between a Jordanian/Palestinian delegation and Israel, there would probably have to be an election in Israel. If the issue in that election was: who is prepared to meet the PLO and who not, the nays would have it. As far as Israeli opinion was concerned, the PLO was still deeply implicated in violence and terrorism; and indeed there was good evidence for this. If the issue was instead: who will make peace with King Hussein, it was quite possible that those advocating this step would win. It was

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JB.

important also to see the process not as one leading to US recognition of the PLO but as a series of steps towards direct negotiations with Israel.

Secretary Shultz continued that it was essential to move King Hussein away from his insistence on an international conference. We needed to think of other ways to provide an umbrella for direct negotiations between a Jordanian/Palestinian delegation and Israel. There would be widespread support for what the King was doing, both in Europe and elsewhere. The only question was how to provide a formal structure for that support. There were a number of ideas already in the air such as holding the opening session of negotiations on United Nations premises in Geneva. What King Hussein needed basically was risk assurance, something to convince him that he had the solid support of a large number of friends. The United States Administration, for its part, would do its best to get an arms package for Jordan through Congress although it would be a hard fight.

The Prime Minister said that the support which King Hussein was seeking from the United Kingdom was to receive the PLO. Secretary Shultz said that such a meeting would fuel Israeli fears that once the PLO had achieved legitimacy it would lose interest in direct negotiations. He accepted that the PLO would have to be involved eventually in peace negotiations. The Israeli imperative was that the PLO should not be present at the beginning of negotiations; King Hussein's imperative that the PLO should be there at the end. It should be possible to find a formula which would meet the needs of both. Secretary Shultz continued that, when he had seen King Hussein in Aqaba, he had persuaded him of the merits of setting up a working group below Ministerial level comprising two Israeli representatives, two Jordanian/Palestinian representatives and participants from Egypt and the United States. The group's purpose would be to develop the agenda and modalities for direct negotiations. There were attractions in it for both Jordan and Israel. Unfortunately, Zaid Rifa'i had argued the King out of it.

Secretary Shultz said that he was pleased to find that Britain and the United States agreed in rejecting King's Hussein's concept of an international conference. He thought there was also agreement that it was too soon to be thinking of direct meetings with the PLO. In his view, such an event might jeopardise both the proposed US meeting with a Jordanian/Palestinian delegation and the chances of Peres' re-election. The Prime Minister said that she would need to think through very carefully how to reply to King Hussein. She would send the President a message giving an account of her talk with the King and seeking his views.

SALT II

The Prime Minister said that she knew that President Reagan faced a difficult decision on whether to continue to observe SALT II constraints. Her strong and instinctive

view was that it was vital for the most important country in the world to be seen to adhere to treaties. She recognised the difficulties created for the President by Soviet breaches of SALT II, though there was some dispute as to how significant these were. She understood that one solution being considered was to mothball a Poseidon submarine rather than dismantle or destroy it altogether. Even this would risk setting off a chain reaction whereby the Soviet Union also failed to dismantle submarines or silos, though she could understand that the President might well come to the conclusion that this was the least he could do. But she came back to the point that it was best for the United States to retain the moral high ground and preserve the West's reputation for keeping the agreements which it signed. Secretary Shultz said that the United States took a serious view of Soviet breaches of its arms control agreements, in particular the development of the mobile SS25, the encryption of telemetry and the construction of the Krasnoyarsk Radar, which in the United States' view was a step towards an ABM system giving national coverage. He would report the Prime Minister's views but they would have even more effect were she to send a personal message to President Reagan. To influence his decision, it would have to be despatched the same evening. The Prime Minister undertook to do this.

EAST-WEST RELATIONS

The Prime Minister gave Secretary Shultz an account of her discussions with Premier Zhao Ziyang. The Premier had given the clear impression that, while trade between China and the Soviet Union would increase, there was no question of normalising relations.

Secretary Shultz said that he was impressed by the speed with which Mr. Gorbachev had moved to consolidate his position and place his own nominees in the Politburo. He thought that there had been a genuine change of generation in the Soviet leadership.

Secretary Shultz continued that the arms control discussions in Geneva had not so far been a serious negotiating process. They would continue not just at Geneva but whenever he and Gromyko met. Gromyko would be coming to the United Nations in September and had been offered a meeting with the President in Washington. It remained to be seen when and where a summit meeting would be held. It was by no means out of the question that it would take place by the end of the year. The Soviet side seemed to be more concerned about the where than the whether. The Soviet Union would undoubtedly mount a considerable propaganda effort before such a summit. The United States must have the coolness and willpower to brush off unsatisfactory proposals.

ECONOMIC QUESTIONS

Secretary Shultz said that the US economy was going through a soft period but was not stagnating. The money

supply figures were good. Interest rates were dropping, indeed the Treasury Bill Rate had gone below seven per cent. Markets were convinced that inflation would remain low. He remained concerned about the international debt problem. An evolution of attitudes was needed which maintained IMF conditions on austerity while insisting on measures which promoted growth. It might be argued that the two were not consistent but in fact they were. For instance Mexico could achieve much higher growth by reducing the extent of state ownership. The necessary remedies had been set out in various Economic Summit conclusions.

The Prime Minister and Secretary Shultz had a brief discussion of the prospects for the United Kingdom economy.

I am copying this letter to Richard Mottram in the Ministry of Defence and to Richard Hatfield in the Cabinet Office.

Yours sincerely
C. D. Powell

(C.D. POWELL)

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

EDP
7/6.

MEETING WITH MR. SHULTZ

The attached briefs are rather turgid. The main issues which I think you will want to raise are the following:

(i) SALT II Constraints

The President will decide this weekend how the United States should respond to what it perceives as Soviet breaches of SALT II. The line taken by European Foreign Ministers (including ours) in Lisbon is that the United States should stick to the letter of SALT II. At most it might increase funding for areas of United States defence spending which match areas where the Soviet Union is in breach of SALT II constraints. I doubt that this is realistic: there will be little support in Washington for a holier-than-thou attitude. The most realistic of the options seems to me the one where, as they deploy a new Trident submarine, the Americans mothball a Poseidon submarine. This would put them in breach of the strict letter of SALT II, but in practice could hardly be regarded as a breach so long as the Poseidon submarine stayed mothballed. But it would be sufficient to give a clear signal to the Soviet Union that they could not mess about with the United States and get away with it. One has to recognise, however, that even this will be only a temporary measure. The real test comes when the United States has to decide, probably in 1987, whether to deploy a new ICBM (the Midgetman).

(ii) The W79 Nuclear Artillery Shell

The more one looks at this the less advantage there seems to be in making a great fuss. So far as I can see, we think that deploying the shells is a good idea. And we expect our own short-range nuclear

weapons to be modernised with them in due course. It all depends on whether one thinks that the Americans are bound to get Alliance permission to deploy the shells in each country: or whether the permission of the country itself is enough. There may have been some misunderstanding on this, as a result of which MOD Ministers have got themselves into a false position. But it is not worth a great row. The best thing would probably be to get the Americans to agree that a collective decision confirming deployment of the W79 shells in West Germany should be taken as soon as possible.

(iii) Middle East

You will want to tell Shultz about your talks with Shamir and King Hussein, express pleasure at the President's determination to press ahead along the path outlined in his talks with King Hussein and urge the Americans to keep up the momentum.

(iv) South Africa

You will want to get his direct assessment of what the US Administration can do to block or delay Congressional pressure for economic restrictions/sanctions.

If there is time you may also want to raise the SDI, though I am not sure that there is a great deal new to say just at this stage; and EC/US trade issues.

C.D.P.

6 June 1985

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Foreign and Commonwealth Office

London SW1A 2AH

6 June 1985

For Charles,

Prime Minister's meeting with Mr Shultz: 7 June

I enclose a steering brief for the Prime Minister's meeting with Mr Shultz at 1845 tomorrow, 7 June. Mr Shultz will be accompanied only by the US Ambassador. We shall ensure that you see promptly the telegrams reporting the outcome of the North Atlantic Council meeting.

Annexed to the steering brief is a background note on compliance and SALT constraints. You will also have seen Lisbon telegrams 288 and 291 on the Foreign Secretary's various discussions with Mr Shultz on arms control in Lisbon yesterday. The White House has now announced that President Reagan will be considering the SALT II question this weekend and that he might take a decision on 10 June. The Foreign Secretary has made it clear to Mr Shultz that the Prime Minister would want to make her views on SALT constraints known to Mr Shultz tomorrow before any final decision was taken in Washington.

Mr Shultz is visiting London from 7-8 June to attend a US Heads of European Mission Conference. Before returning to Washington he will pay an informal visit to Bermuda on 8-9 June where he expects to call on the Governor and Prime Minister. A number of leading US arms control figures will also attend the US Heads of Mission Conference here, including Mr Kampelman and General Abrahamson. General Abrahamson will meet Mr Heseltine on 7 June.

The Foreign Secretary's lunch with Mr Shultz in Lisbon focused on aspects of SDI, Alliance handling of arms control, SALT II constraints, W 79 nuclear shells, Middle East, Southern Africa and, at Mr Shultz's request, an outline briefing on the progress of negotiations with the Irish Government. The enclosed brief reflects the outcome of this meeting where appropriate.

I am sending a copy of this letter and enclosures to Richard Hatfield in the Cabinet Office.

Yours ever,

(P F Ricketts)
Private Secretary

P F Ricketts

C D Powell Esq
10 Downing Street

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PRIME MINISTER'S MEETING WITH MR SHULTZ : 7 JUNE

OUR OBJECTIVES

Arms Control/Alliance

- (a) To caution against exceeding SALT constraints or damaging ABM Treaty;
- (b) To reaffirm HMG's approach to SDI as based on Camp David Four Points;
- (c) To emphasise need for full consultation and allied cohesion on SDI research, Geneva negotiations and nuclear modernisation.

East/West

- (d) To stress the need for Alliance to stick consistently with its present policies, and to minimize opportunities for Soviet wedge-driving.

Trade Issues

- (e) To persuade Shultz to bring home to Cabinet colleagues danger of intrinsically minor trade disputes escalating into major political problems;
- (f) To stress the need to preserve climate in which EC and US work together in preparation for new GATT round, eg by co-ordinating line on problem of Japanese trade surpluses;
- (g) Reiterate concern that adequate measures taken on Federal Budget deficit; re-emphasise international implications.

Southern Africa

- (h) To stiffen the Administration's opposition to sanctions;
- (i) To urge importance of progress on Namibia in advance of CHOGM.

Middle East

- (j) To brief Mr Shultz on meeting with King Hussein;
- (k) To convince US of need to do more to support the King;
- (l) To stress UK wish to work with US.

YOUR ARGUMENTSArms Control/Alliance

(a) SALT II constraints: Our joint objective must be to maintain of Alliance cohesion over Geneva. Need to minimise Soviet scope for wedge driving between European opinion and Governments, and latter and US.

In wider political and strategic terms, the decision now facing President Reagan could be watershed for arms control. Important not to undermine arms control process, unravel existing regime.

US strategic modernisation necessary. But are not qualitative improvements more important than numbers or retention of older systems? Not clear what would be gained from abandoning constraints in terms of US and Western security. And political penalties could be great.

Recognise concern within US Administration that Russians may be exploiting ambiguities in SALT II and ABM Treaty viz Krasnoyarsk. Foreign Secretary has raised this with Gromyko.

Dangers of answering one breach with another. Right response would be to strengthen Western position and public support for it, by an unimpeachable record on respecting arms control obligations and commitments. We should retain moral high ground.

At the very least, Administration's decision should be as close to strict US adherence to SALT II constraints as possible. Interested in option of increased funding of US programmes relevant to Soviet violations. A realistic approach? Attractive if seen as means of avoiding US violation.

"observe the present constraints"



(b) SDI: In longer term equal importance attached to maintenance of ABM Treaty regime. Hence earlier suggestions, which still favour, for high-level US-Soviet reaffirmation of commitment and clarification of ambiguities.

No change in UK basic position on SDI (as made clear in my letter of 21 March to President Reagan): Camp David Four Points remain sound basis for future policy.

[If time permits] (i) Superiority in nuclear age unattainable, balance agreed and sound objective.

(ii) Should not prejudge decisions about deployment. Welcome President Reagan's commitment in Strasbourg that these (if/when needed) should be discussed and negotiated with Allies/Russians.

(iii) Enhancement of deterrence key aim. For foreseeable future, will be synonymous with effective offensive capability.

(iv) Offensive force reductions first priority at Geneva. But logical interrelationship (as noted in January communique and earlier US statements) with space/defensive systems underlines need for strong and coherent Allied position on which we can all unite.

Meanwhile, US research essential counterbalance to Soviet efforts. Anxious for UK to enjoy full and fair share in this; will respond formally to Weinberger offer as soon as details clarified.

(c) Geneva: Alliance Consultation: Our aim is to give maximum backing to US and show Soviets that a wedge-driving approach will not work. Meanwhile we should consider among ourselves how best to get them to start talking seriously, and ideas to deploy when they do.



All these things hang together as central challenge of Alliance management - Geneva - compliance/restraints - SDI - modernisation (especially proposals in SACEUR's report on Alliance shorter range INF). Consistency and genuine consultation on whole range necessary vis a vis Russians and public opinion. If each is treated piecemeal, task will be very difficult. W79 a good example - decision is right; handling unhelpful. If support for further modernisation is to be created, must do better.

(d) East/West

Gorbachev seems strong leader. But focus on internal problems. Gromyko still manager of foreign policy? Certainly strong sense of continuity so far. Few signs of major initiatives. Emphasis on propaganda; Russians working hard to create cracks in Alliance; West must show consistency, patience, firm resolve. Council to maintain closest co-ordination in NATO.

(e) Trade Issues

Know that US Administration want to resist protectionist pressures. But confrontations with EC on major areas (steel, agriculture) will damage Western solidarity generally and jeopardise our ability to work together in preparing for new GATT round.

US Administration and industry see each problem as separate: but Europe sees US action as a whole - hence possibly disproportionate political effect and need to manage carefully.

(f) Can still achieve desired objective of early launch of new GATT round if we persuade all concerned they have an interest. We and Commission now lobbying key NIC/LDC GATT Contracting Parties. Understand US are too: useful for officials to exchange notes.

Must all sustain political pressures on Japanese to reduce trade surpluses. Recognise that US trading interests are distinct from EC's. But Japanese problems affect viability of open trading system: important part of new GATT round. EC and US need to co-ordinate approaches in multilateral fora (without 'ganging up').



(g) Welcome recent lowering US interest rates, but outlook still uncertain given large Federal Budget deficit and current account deficit. Dollar has weakened but still too high.

US growth so far this year slowed sharply, with still buoyant demand met largely by imports, strengthening protectionist pressures. Shultz view of prospects?

All issues - interest rates, dollar exchange rate, trade deficit - hinge on action on Federal deficit. Encouraged by Administration's determination for real reduction; must maintain.

Interested in plans to reform US tax system. Endorse objective of more efficient, less distorting system, but hope does not produce loss of revenue as Federal deficit first priority.

Despite general improvements in world economy, position of major debtors still fragile (Brazil, Argentina) and concern that new Peruvian Government may take radical line. Need for continued internal adjustment but also external results - again inextricably linked with US economic policies and performance.

(h) Southern Africa

Sanctions ineffective and against Western interests. Economic destabilisation only in Soviet interest.

(i) Cabinda serious set-back.

Early progress in US-Angola-SA negotiations on Namibia would restore credibility of Western approach, strengthen our hand in UN and CHOGM. Therefore very helpful if Crocker were active in run up to CHOGM.

(k) Middle East

King needs support. Wish to contribute to his efforts and help move peace process forward. Know US shares this objective.



Need for early action: believe reception of joint Jordanian/Palestinian delegation composed of opponents of violence would be helpful.

TACTICAL ARGUMENTS

Arms Control

Continue to reflect on US arguments about deterrence based on defences, not threat of retaliation. But as I said in Parliament in another context on 3 June, see three ways to combat threat of violence: persuasion, prevention and punishment. History and common-sense suggests first two insufficient deterrent, threat of third essential addition.

Trade Issues

US appears to be pressing for confrontation on agriculture, with recent announcement of subsidised agricultural sales under export bonus scheme, targeted to traditional EC markets. All the more vital therefore to avoid confrontations elsewhere (eg for forcing the pace on renegotiations of Carbon Steel Arrangement).

Middle East

UK/Ten moves can help sustain momentum. Risk to Western interests if moderates fail (radicals, Soviets).

HIS OBJECTIVES

Arms Control/Alliance/East-West

(a) To explain US thinking on SALT constraints and explore UK views; to confirm UK support for SDI research; and to urge need for Allied consensus behind US position at Geneva.

Trade Issues

(b) To indicate US impatience with EC failure to reform CAP, scepticism of some Member States on new round (particularly inclusion of agriculture).



To put case for increased demand in European and Japanese economies.

Southern Africa

(d) To explain domestic political difficulties for Administration over sanctions; to seek reassurance of our continued opposition to sanctions.

(e) Ensure our continuing support for US-led negotiations on Namibia.

Middle East

(f) To stress need not to weaken position of Peres.

(g) To urge UK not to get ahead of US.

(h) To discourage support for International Conference.

YOUR RESPONSE

Arms Control/Alliance

(a) W79 (if Shultz claims consultation only necessary with allies directly concerned) expected Defence Ministers to have another opportunity to look at Montebello package as a whole, possibly this autumn. Our public posture formulated accordingly. Accept that specific agreement on elements of package should be with allies directly concerned. But in this case UK is. These shells will presumably be issued to UK forces in due course.

Agree vital Russians should not get misleading signals from US's European Allies. Need close consultations and co-ordination over policies and over public presentation.

Trade Issues

(b) US impatience understandable. But 1984 and 1985 price-fixing and budget discipline agreement serious beginning to CAP reform. US action against EC export markets only gives arguments to those who wish to resist genuine CAP reform or serious discussion of agriculture in new round. US could help CAP reform by stressing to FRG consequences for EC/US relations of their continuing to resist significant cut in cereals prices. Scepticism about new round in (and outside) EC reinforced by US protectionist actions.

As agreed in Bonn need for all to continue with disinflationary monetary policy; are taking steps to increase flexibility and reduce structural rigidities. Narrowing of growth differential between Europe and US.

Southern Africa

(d) Must stand firm together. US sanctions would leave UK exposed in UN. Can Administration resist disinvestment campaign?

US economic measures, even if delayed, would increase pressure for further measures in UN, CHOGM.

(e) Support US negotiations on Namibia. Progress vital. Your assessment?

Middle East

(f) Agree that we must take Peres' position into account, but this should not paralyse policy. Without movement on peace process Peres will not win a majority. Need also not to weaken Hussein and other Arab moderates.

(h) Agree risks in international conference; are looking at possible variations to meet Hussein's requirement for international cover.

BACKGROUND

1. The Prime Minister last met Mr Shultz in Bonn in May.

Arms Control

2. Background note on compliance and SALT constraints at Annex A.

East/West

3. During Craxi visit to Moscow (28-30 May) Gorbachev hinted at Soviet readiness for close political co-operation with Ten. Ten Political Directors agreed to treat with great caution.

EC/US Trade Disputes

4. Steel: US call for EC restraint on 17 'consultation' products not covered by 1982 export restraint. Arrangement (including semi-finished products, of concern to BSC's joint venture with Tuscaloosa Steel, Alabama involving US imports of 1,250,000 tonnes of semis over 5 years). Linking this to demands for early renegotiations of Arrangement (due to expire end 1985) and EC requests for admission of pipes and tubes (mainly French) in short supply in US. US now offering to admit short supply products in return for EC Agreement on early negotiations (to strict deadlines) in other areas. Satisfactory to UK provided that adequate safeguards on semis (which seems likely). But still US threat to impose unilateral restraints if EC does not agree to offer by end of week.
5. Agriculture: \$2 billion US Export Commodity bonus scheme announced on 15 May. Allows for export payment-in-kind (eg sales of poultry to be subsidised by gift of wheat from current stocks). Designed to secure additional US sales on world market. Targeted to markets identified as those taken over by competing nations trading 'unfairly'. EC prime target. First sale announced 4 June: up to 1 million tonnes of wheat to Algeria (traditional French market) - likely to be provocative to France.



6. Shultz known to be angry at agricultural export schemes (on which he was not consulted). Also unhappy at Department of Commerce's tough line on steel.

US/South Africa: Sanctions Legislation

7. In his bilateral meeting with the Secretary of State on 5 June, Mr Shultz implied that the President might be unwilling to veto limited sanctions adopted by Congress.

8. On 4 June the Senate Foreign Relations Committee passed a strengthened version of the Lugar/Dole/Mathias Bill by 16 to 1. The Bill would impose an immediate ban on:

- (a) bank loans to the South African Government
- (b) sale of computers to South Africa agencies involved in apartheid
- (c) the export to South Africa of nuclear goods and technology.

9. If after 18 months the President determined that 'significant progress' towards ending apartheid has not been made, stronger sanctions would be imposed. The Bill also includes mandatory application of the Sullivan Principles and a 15 million dollar scholarship fund for Black South Africans.

10. In the House of Representatives the Kennedy/Gray Bill was passed by 295 votes to 127 on 5 June. This would immediately prohibit, in addition to the measures in the Lugar/Dole/Mathia Bill:

- (a) all new investment and bank loans
- (b) the import of Krugerrands
- (c) the ^Pexport of all computers, software, and technology to South Africa. /

11. It is still not clear whether both Houses of Congress will be able to agree on a Bill and, if so, what its content will be.



Western Position on Sanctions/Disinvestment

12. Despite the possibility that some limited economic measures will be accepted by the Administration, the latter are clearly hoping for strong support from major Western partners in resisting international pressure for sanctions. But they must realise that the international situation is extremely difficult, and that Australia definitely, and New Zealand probably, would support sanctions; Canada's position is uncertain, and the Community divided. Conversely, we are looking to the US Administration to take a tough stand against domestic pressures in order to help stem the wider pressures which we and they face from the Third World.

Namibia

13. The critical problem is the absence of convincing results to justify present Western policies on Namibia. Cabinda has been a particularly serious setback. Dr Crocker believes the negotiations between South Africa, Angola and the US will continue despite recent events. Angolans have avoided breaking off negotiations, and Cabinda may enable the Americans to put more pressure on the South Africans for a positive response to their proposal. But early progress is unlikely and Dr Crocker is prepared for a lull in the negotiations.

Security Council Meeting on Namibia

14. Security Council meeting on Namibia, now formally requested by the Non-Aligned Movement, is due to start, 10 June.

Arab/Israel

15. When Sir G Howe saw Mr Shultz in Lisbon on 5 June, Mr Shultz said that he saw definite signs of movement: King Hussein's objective of negotiations in 1985 between a Jordanian/Palestinian delegation and Israel and his statement that he was speaking for the PLO who were ready to negotiate peace on the basis of UN SCR's 242 and 338. He was greatly encouraged and ready to engage more in the process provided that others would help to carry it forward. Of the remaining difficulties the choice of suitable Palestinians was soluble but the Americans were opposed to an International



Conference even though they acknowledged that Israeli insistence that Hussein should go to Israel for direct talks was ridiculous.

16. Sir G Howe said that we did not like the idea of a conference and were exploring whether King Hussein's needs for international cover could be met by other means. He explained that if King Hussein asked us to receive a joint delegation we thought it would be helpful to see them. We would handle the visit with utmost care and would only see people committed to repudiate violence. Mr Shultz did not demur but asked that the Prime Minister should discourage King Hussein from the idea of an International Conference.

PRESS LINE

Prime Minister was happy that Mr Shultz's visit to London provided a further opportunity for informal talks.

There was naturally some discussion of, and a very full measure of agreement on, arms control subjects. The Prime Minister took the opportunity to reaffirm her support for SDI research and for US efforts to achieve progress at the Geneva talks.

They agreed on the importance of both EC and US working to manage Trans-Atlantic trade relations so as not to allow disputes to damage prospects for a new GATT Round, which we wish to see launched as soon as possible.

Arab/Israel was discussed. The Prime Minister and Mr Shultz agreed on the need for action in support of moderate Arab initiatives.

They discussed the situation in Southern Africa including recent developments within South Africa and the negotiations for Namibian independence.

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[If raised: The Foreign Secretary was not able to see Mr Shultz on this occasion because of his absence overseas, but they had detailed discussions when in Lisbon for the North Atlantic Council meeting earlier in the week.]

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BACKGROUND NOTE: COMPLIANCE AND SALT CONSTRAINTS

1. The issues of compliance and SALT constraints are closely linked. The Administration believe the Soviet Union to have breached both the legal obligations of the ABM Treaty and the political obligations arising from the SALT I and SALT II agreements (respectively time expired and unratified). An annotated list of the US allegations is attached. If arms control agreements are to be either useful or credible, compliance with them is important. The Soviet Union has consistently exploited grey areas and ambiguities in such agreements. The Assessment of British experts (who have access to the intelligence on which US allegations are based but not to the US/Soviet negotiating record) is however that the US allegations are of variable credibility. The Soviet Union has continued to observe the main provisions of the agreements concerned.

2. The event to which the US attaches greatest significance is the construction by the Soviet Union of a large phased array radar at Krasnoyarsk. They allege that this is in breach of the ABM Treaty provision banning ballistic early warning radars save on the periphery of US and Soviet territory facing outwards. If the radar has an early warning role when commissioned (1987) it will be a breach. Despite Soviet denials, it is implausible that a facility of this size would have been erected with no early warning function. We have been more cautious than the US about asserting flatly now that the radar is a breach, but have agreed to a public line saying that it raises serious concerns. The Foreign Secretary spoke to Mr Gromyko in these terms in Vienna in May. Underlying the American position on Krasnoyarsk is the view held by some that, together with other programmes including development of the SA-X-10 and SAX 12 interceptors with improved capability against ICBM warheads, the Soviet Union

/could

could be putting itself in a position where it could develop a nationwide ground based ABM system rapidly if it so decided. The JIC has an assessment of the range of evidence on this issue in its work programme. Soviet capabilities in air and ballistic missile defences are developing all the time, but a clear-cut judgement on their intentions appears difficult.

3. The most serious US allegation in respect of SALT is that Soviet development of the SS-X-24 and SS-X-25 represents a breach of the limit restricting each side to one new ICBM. The Soviets allege that the SS-X-24 is their permitted new type and that the SS-X-25 represents a modification, within permitted limits, of the SS13. The arguments are technical and complex. Pending receipt of some promised additional material about the negotiating record, our experts do not regard the US evidence as conclusive. Similarly, whilst the Soviets are clearly seeking to make matters as difficult as possible for the Americans on the encryption of telemetry of missile test data, there are some doubts whether they can equivocally be said to be in breach of SALT language whose practical implications are very much open to interpretation.

4. The general thrust of the Administration's conclusions enjoys a good deal of bipartisan support in Washington. They are also at the heart of a much more controversial debate as to the direction which US policy should now take. This is centered on the future US attitude to the political commitment to continue to observe the agreed limits of SALT II. Decisions are needed shortly because the beginning of sea trials of the fifth Trident carrying Ohio class submarine (the Alaska), due in the autumn, would take the US over the agreed limit of 1200 mirrored ICBM's and SLBM's. In addition the SALT II Treaty, if ratified, would have expired at the end of 1985, facing the Administration with a need at least to review the desirability of continuing to observe its provisions. Those, led by

/Mr Perle,

Mr Perle, who believe that the SALT process was fatally flawed from the start, are arguing that the failure to fulfil the 1972 expectations that significant reductions would follow, subsequent Soviet modernisation programmes, and the Soviet compliance record, justify termination of the US commitment to observe SALT constraints. Others favour a 'tit for tat' approach under which the US would no longer be constrained in areas where the Soviets are considered to be non-compliant. Others again argue that US action should be limited to measures designed to permit the Alaska to be commissioned such as dry-docking but not dismantling or destroying a Poseidon submarine; they accept that this would still be a technical breach of the present US commitment to observe the SALT limits. There seems to be no constituency within the Administration (though there is outside) arguing that the US should maintain the moral high ground by continuing to observe the constraint in full, although the penalty on the US in strategic terms from doing so would be small in the foreseeable future. To dismantle a Poseidon carrying submarine and (later) bomb carrying B52's as Trident carrying submarines and ALCM carrying B52s are introduced would still represent qualitative improvement of US strategic forces. But the first really major decision required will be when the "Midgetman" (small single warhead ICBM) reaches the development stage thereby raising the issue of US compliance with the "single new type" limit. This point is however unlikely to be reached before 1987 at the earliest. The present debate is therefore an essentially political one as to whether and how far the arms control regime of the 1970s should be unwound.

5. The Alliance management aspects, and the implications for the Geneva process, are not a major concern to Mr Perle and those who think like him. Though they are careful not to say so in public,

/their

their priority is to correct what they see as a continuing process of growing Soviet strategic advantage at the expense if necessary of arms control. It is far from clear that the US would in fact be at an advantage if SALT constraints ceased to apply, not least because Congress would be unlikely to be more willing to fund additional US programmes. (The military advice of the Joint Chiefs of Staff is reported to be that complete renunciation would not be in US interests.) It is however clear that the creation of a climate in which serious negotiations could begin in Geneva would be made still more complicated. This in turn would have very serious implications for Alliance cohesion. A situation in which the US appeared to be turning its back on the arms control process would be undesirable in itself, would alarm public opinions, give the Soviet Union major opportunities to seek to divide Western publics from their governments and European governments from the US, and make it very difficult to provide Alliance support for the US position at Geneva.

6. European Allies have a brief opportunity, at and in the margins of the Lisbon North Atlantic Council, and in other bilateral contacts this week to seek to influence the President's decision on SALT compliance. He is expected to announce at least interim decisions to Congress on 10 June. Records of private discussions yesterday with Mr Shultz were reported in Lisbon tels nos 288 and 291 (copied to No 10). In these the Foreign Secretary urged him to keep at the very least as close as possible to observing the present limits; other European colleagues took the same line. Mr Shultz disclosed a further US option which may repay further discussion: to put more money into funding relevant US programmes in response to Soviet violations. If anti-SALT can be bought off in this way, this could be the best way out.

7. From a European and Alliance perspective continuing full observance would be the best outcome and should be the objective. There is however little chance that even strong European pressure could lead to this option being adopted. European views have

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perhaps a better chance of contributing to a decision to reject the radical options and go for something like putting a Poseidon submarine in dry dock rather than dismantling it, presenting this as an interim move designed to offer the Soviet Union an incentive to improve their own compliance record.

8. The implications of the Administration's view on Soviet ABM Treaty compliance may be slower to emerge, but could be similar in their significance. On the one hand proponents of the SDI Programme may use the Soviet record to justify testing or other activities which would put the US in breach. (It is however the Administration's present declared policy that the programme should be consistent with all US obligations.) On the other hand those like Mr Perle who have been opposed for many years to the ABM Treaty may, particularly if their view on SALT has in good measure prevailed, argue that erosion of the ABM Treaty on the Soviet side should be met by American counter-actions rather than by an attempt to halt the erosion of the Treaty.

9. The UK has a particular flank to watch in respect of the arguments about Krasnoyarsk. The proposed modernisation of the BMEWs radar at Fylingdales, on which a paper will be put to OD shortly, also raises question of ABM Treaty compliance. Although we are satisfied that it would be compliant, the Soviets are likely to contest this, particularly if the US keep up the pressure on them over Krasnoyarsk. It will be important to ensure that the Western arguments being used in the two situations are compatible, and that we feel able to give them our full support.

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TO IMMEDIATE F C O
TELEGRAM NUMBER 290 OF 5 JUNE

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FOLLOWING FROM PRIVATE SECRETARY.

SECRETARY OF STATES BILATERAL WITH SHULTZ: SOUTHERN AFRICA.

SUMMARY

1. SECRETARY OF STATE SUMMARISED RECENT TRENDS AND PROSPECTS FOR CHOGM. SHULTZ AGREED CABINDA WAS SEVERE SETBACK. U.S. WOULD KEEP TRYING ON NAMIBIA. CONGRESS MIGHT WELL VOTE SEVERE SANCTIONS AGAINST SOUTHERN AFRICA. NOT CLEAR HOW PRESIDENT WOULD HANDLE THIS. AGREED SANCTIONS INEFFECTIVE AND DAMAGING.

DETAIL

2. THE SECRETARY OF STATE OPENED UP THE DISCUSSION BY POINTING OUT THAT BRITAIN HAD A VERY CLOSE INTEREST IN DEVELOPMENTS IN SOUTHERN AFRICA, BOTH POLITICALLY AND ECONOMICALLY. AFRICAN ISSUES WERE ALSO LIKELY TO BE THE SUBJECT OF VERY GREAT ATTENTION AT CHOGM. ON NAMIBIA, WE HAD GIVEN CROCKER OUR FULL SUPPORT. WE BELIEVED THAT THIS WAS THE BEST HOPE FOR PROGRESS TOWARDS A NEGOTIATED SETTLEMENT. CABINDA HAD BEEN A GREAT SET-BACK. WE WERE ALSO CONCERNED OVER THE TIDE IN FAVOUR OF DISINVESTMENT IN THE UNITED STATES. AT CHOGM WE COULD NO LONGER COUNT ON SUPPORT FROM AUSTRALIA AND NEW ZEALAND, AND THE CANADIAN ATTITUDE WAS STILL UNCERTAIN. OUR OWN POSITION WAS THAT WE WERE COMPLETELY OPPOSED TO SANCTIONS. WE THOUGHT THEY WERE INEFFECTIVE AND DAMAGING.

3. SHULTZ SAID THAT CABINDA HAD BEEN A CONSIDERABLE SET-BACK. THE U.S. GOVERNMENT WAS TAKING ADVANTAGE OF THIS TO PRESS THE NEED FOR PROGRESS ON THE SOUTH AFRICAN GOVERNMENT. CROCKER WAS IN SOUTHERN AFRICA NOW. IT WAS TRUE THAT OVER THE PAST THREE YEARS SIGNIFICANT IDENTIFIABLE PROGRESS HAD BEEN MADE IN SOUTHERN AFRICA. BUT WITH SOUTH AFRICA ITSELF, MANAGING CHANGE HAD PROVED VERY DIFFICULT. HE THOUGHT CONGRESS WOULD PROBABLY VOTE FOR SEVERE SANCTIONS AGAINST SOUTH AFRICA. IT WAS NOT CLEAR HOW THE PRESIDENT WOULD HANDLE THIS. HE AGREED THAT SANCTIONS WERE NOT THE RIGHT ANSWER. BUT CONGRESS MIGHT PREVAIL. THE U.S. GOVERNMENT STILL BELIEVED THAT IT WOULD BE IRRESPONSIBLE AND DAMAGING FOR THE UNITED STATES NOT TO TAKE CLOSE INTEREST IN SOUTHERN AFRICA.

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4. THE SECRETARY OF STATE AGREED AND POINTED OUT THE DANGERS OF INCREASED SOVIET PENETRATION IN NAMIBIA IF A SETTLEMENT WAS LONG DELAYED. SHULTZ ADDED THAT IN CONGRESS EVEN SENATOR LUGA, ONE OF THE MOST SENSIBLE AND MODERATE MEN IN CONGRESS, WAS NOW PRESSING FOR SANCTIONS. THIS WAS AN INDICATION OF THE WAY IN WHICH THINKING IN THE U.S. MOVED.

BYATT

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SOUTHERN AFRICA

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MR J R J JOHNSON
CABINET OFFICE

ADDITIONAL DISTRIBUTION
SOUTHERN AFRICA

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TO IMMEDIATE F C O
TELEGRAM NUMBER 289 OF 5 JUNE.

FOLLOWING FOR PRIVATE OFFICE FROM PRIVATE SECRETARY

SECRETARY OF STATES BILATERAL WITH SHULTZ : NORTHERN IRELAND

1. SHULTZ ASKED THE SECRETARY OF STATE IF HE COULD SAY SOMETHING ABOUT THE PROGRESS OF NEGOTIATIONS WITH THE IRISH GOVERNMENT.

2. THE SECRETARY OF STATE SAID THAT THE E C HAD BEEN HELPFUL IN CREATING THE KIND OF FRAMEWORK IN WHICH WE AND THE IRISH GOVERNMENT COULD TALK MORE EASILY ABOUT DIFFICULT AND LONGSTANDING PROBLEMS. THE PRESENT NEGOTIATIONS WERE BEING CONDUCTED SERIOUSLY BY BOTH SIDES. THEY WERE NOT DIRECTED TOWARDS REACHING A DEFINITIVE SOLUTION OF THE IRISH PROBLEM, BUT WERE AIMED AT ACHIEVING FORWARD MOVEMENT TOWARDS A NEW STAGE IN THE RELATIONSHIP. SHULTZ WOULD UNDERSTAND IF HE DID NOT GO INTO DETAIL ABOUT THE NEGOTIATION, BUT HE COULD ASSURE HIM THAT BOTH SIDES WERE TRAVELLING HOPEFULLY. THE OUTCOME WAS STILL BY NO MEANS CERTAIN. WE WERE DEALING WITH PROBLEMS OF GREAT HISTORICAL IMPORTANCE AND SENSITIVITY.

3. THE SECRETARY OF STATE WENT ON TO SAY THAT THERE WAS A CONSCIOUSNESS IN THE NORTH AND THE SOUTH THAT WE FACED A COMMON ENEMY IN TERRORISM. THIS WAS HELPFUL. WE ALSO GREATLY APPRECIATED U.S. SUPPORT IN THIS ENDEAVOUR AND WERE PARTICULARLY GRATEFUL FOR THE ADMINISTRATIONS MOVES ON EXTRADITION. WE WONDERED WHETHER THERE WERE LIKELY TO BE ANY PROBLEMS IN HANDLING THE NEXT STAGE IN CONGRESS.

4. BURT SAID THAT HE DID NOT EXPECT ANY SERIOUS PROBLEM. THE IRISH LOBBY WAS NOT GETTING EXCITED. CONGRESS WAS CONTINUALLY PRESSING THE U.S. GOVERNMENT TO TAKE A MORE DIRECT ROLE IN THE IRISH NEGOTIATIONS. THE U.S. GOVERNMENT WAS QUITE DETERMINED NOT TO DO THIS. BURT OBSERVED THAT FITZGERALDS GOVERNMENT PRESENTED THE BEST OPPORTUNITY FOR YEARS FOR REASONABLE NEGOTIATIONS.

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5. THE SECRETARY OF STATE AGREED, -ADDING THAT FITZGERALD ALSO RECOGNISED THAT IN MRS THATCHER HE HAD A PRIME MINISTER WHO WOULD CARRY OUT FAITHFULLY ANY ENGAGEMENTS WE MIGHT UNDERTAKE. THIS WAS ALSO A VERY HELPFUL ELEMENT. WE APPRECIATED THE U.S. ATTITUDE ON THE GENERAL ISSUE, AND COULD NOT RULE OUT THE POSSIBILITY THAT AT SOME STAGE THE IRISH AND BRITISH GOVERNMENTS, IF AGREEMENTT WAS REACHED, MIGHT ALSO LOOK FOR AN ECONOMIC GESTURE IN THIS CONTEXT.

6. IF DAVID GOODALL AGREES, YOU MIGHT REPEAT THIS TELEGRAM TO WASHINGTON AND DUBLIN.

BYATT

LIMITED
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HEAD/NAD
PS
PS/PUS
MR GOODALL

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TELEGRAM NUMBER 288 OF 5 JUNE

FOLLOWING FOR PRIVATE OFFICE FROM PRIVATE SECRETARY.

SECRETARY OF STATES BILATERAL MEETING WITH SHULTZ:

TETE-A-TETE

SUMMARY

1. AT THE TETE-A-TETE MEETING WITH SHULTZ THIS MORNING, THE SECRETARY OF STATE COVERED THE APPROACH TO THE SDI SECTION IN THE NAC COMMUNIQUE: ALLIANCE HANDLING OF ARMS CONTROL: SALT II CONSTRAINTS: W79 NUCLEAR SHELLS.

NAC DETAIL

2. SHULTZ SAID HE THOUGHT THAT PEOPLE WERE EXPECTING THE UNITED STATES TO BE LOOKING FOR AN EXPLICIT EXPRESSION OF SUPPORT FOR THE SDI CONCEPT FROM THE NAC COMMUNIQUE. THE U.S. GOVERNMENT WAS NOT IN FACT LOOKING FOR THIS, SINCE THEY DID NOT KNOW HOW THE FRENCH WOULD WANT TO PLAY THIS. MUCH WOULD DEPEND ON THE LIMITS OF DUMAS MANDATE THE SECRETARY OF STATE SAID THAT WE HAD NO DIFFICULTIES WITH ANY OF THE VARIOUS DRAFTS WHICH HAD BEEN DISCUSSED. THE CRUCIAL THING WAS TO MAINTAIN ALLIANCE COHESION. WE WOULD BE AS HELPFUL AS WE COULD IN THE PROCESS.

ARMS CONTROL

3. THE SECRETARY OF STATE THEN MOVED ON TO DISCUSS ALLIANCE HANDLING OF ARMS CONTROL. HE THOUGHT IT ESSENTIAL THAT WE SHOULD WORK FOR A STRONG AND COHERENT ALLIED POSITION ON WHICH EVERYONE COULD UNITE. THE GENEVA NEGOTIATIONS WOULD BE A LONG HAUL. THROUGHOUT THIS PERIOD THERE WOULD BE A BARRAGE OF SOVIET PROPOGANDA TRYING TO DRIVE WEDGES BETWEEN THE ALLIES. ALL THE GOVERNMENTS IN THE ALLIANCE HAD A DIRECT INTEREST IN ENSURING THAT THE POSITION WHICH THEY PRESENTED TO THEIR OWN PUBLIC OPINIONS WAS EFFECTIVE. HE PAID TRIBUTE TO SHULTZS OWN STATEMENTS OF THE US POSITION IN HIS TESTIMONY TO CONGRESS AND IN HIS UCLA SPEECH. SHULTZ SAID THAT HE AGREED WITH ALL OF THIS.

4. THE SECRETARY OF STATE SAID THAT ON THE SUBSTANCE HE WAS PERFECTLY SURE THAT THE CAMP DAVID POSITION WAS THE RIGHT ONE FOR THE ALLIANCE. WE ENTIRELY AGREED ON THE NECESSITY AND LEGITIMACY OF U.S. RESEARCH INTO SDI IN THE LIGHT OF THE SOVIET RESEARCH PROGRAMME. IT WAS GENERALLY AGREED THAT THE AIM SHOULD BE TO ENHANCE AND NOT UNDERMINE DETERRENCE, THAT DEPLOYMENT WAS A MATTER FOR NEGOTIATION IN THE LIGHT OF TREATY OBLIGATIONS. IT WAS ESSENTIAL NOW TO ENSURE THAT CONSULTATION WITHIN THE ALLIANCE WAS ADEQUATE AND SUSTAINED. THE 60-DAY WEINBERGER DEADLINE HAD BEEN UNHELPFUL. SHULTZ SAID HE COULD NOT AGREE MORE. WEINBERGER HAD CONSULTED NOBODY IN WASHINGTON. THE SECRETARY OF STATE SAID THAT FROM THE ALLIANCE POINT OF VIEW WE NEEDED TO PRESENT THE SDI PROGRAMME NOT SO MUCH AS A NEW, ISOLATED INITIATIVE, BUT AS A LEGITIMATE RESPONSE

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TO SOVIET RESEARCH. IT WAS DAMAGING IF NATIONAL STATESMEN MADE STATEMENTS WHICH APPEARED TO WRITE OFF ARMS CONTROL AGREEMENTS. SHULTZ AGREED.

NUCLEAR ARTILLERY SHELLS

5. THE SECRETARY OF STATE WENT ON TO SAY THAT ONE PARTICULAR AREA WHERE CONSULTATIONS APPEARED TO HAVE BROKEN DOWN WAS OVER THE INTRODUCTION INTO EUROPE OF NEW U.S. NUCLEAR ARTILLERY SHELLS (W79). HE THOUGHT THAT THE PRIME MINISTER MIGHT WELL WANT TO SAY SOMETHING TO SHULTZ ABOUT THIS WHEN SHE SAW HIM ON FRIDAY.

6. SHULTZ SAID HE HAD BEEN SURPRISED BY OUR REACTION. AS HE UNDERSTOOD IT, THE NORMAL PROCEDURE WAS FOR THERE TO BE A COLLECTIVE AGREEMENT ON THE USEFULNESS OF THE INTRODUCTION OF SUCH EQUIPMENT, AND THEN FOR THE U.S. GOVERNMENT TO NEGOTIATE THE DETAILS BILATERALLY WITH GOVERNMENTS. AS FAR AS HE KNEW, THIS IS WHAT HAD TAKEN PLACE IN THE PRESENT CASE.

7. THE SECRETARY OF STATE SAID THAT WE AGREED ON THE USEFULNESS OF THE W79. BUT IT WAS FAR FROM CLEAR WHAT COLLECTIVE CONSULTATION ON ITS ACCEPTABILITY HAD REACHED THE STAGE WHERE IT WAS RIGHT TO GO ON TO NEGOTIATE WITH INDIVIDUAL GOVERNMENTS, AS THE U.S. HAD DONE WITH THE FRG. BUT IT WAS POSSIBLE THERE HAD BEEN SOME MISUNDERSTANDING. IT WAS A PITY THAT THIS HAD NOT BEEN MENTIONED BY WEINBERGER AT THE NPG MINISTERIAL MEETING OR AT THE DPC. WE HAD CERTAINLY BEEN TAKEN BY SURPRISE, AND MIGHT WELL FIND IT DIFFICULT TO RECONCILE WITH OUR PUBLIC POSITION.

SALT II CONSTRAINTS

8. SHULTZ ASKED THE SECRETARY OF STATE FOR HIS VIEWS ON THE PRESENT DECISIONS AWAITING THE PRESIDENT. THE SECRETARY OF STATE SAID WE ACCEPTED THAT STRATEGIC MODERNISATION WAS NECESSARY. WE RECOGNISED U.S. CONCERN THAT THE SOVIET UNION WAS EXPLOITING GREY AREAS IN THE SALT II TREATY. FOR EXAMPLE, THE RUSSIANS HAD A CASE TO ANSWER OVER KRASNOYARSK. BUT FROM THE ALLIANCE COHESION STANDPOINT, A DECISION WHICH APPEARED TO UNRAVEL EXISTING ARMS CONTROL COMMITMENTS. WE THEREFORE HOPED THAT THE PRESIDENTS DECISION WOULD BE TO REMAIN WITHIN EXISTING CONSTRAINTS.

9. SHULTZ SAID THAT A DECISION WAS NOT NEEDED IMMEDIATELY ON MIDGETMAN. THE QUESTION AROSE MORE IMMEDIATELY IN RELATION TO THE POSEIDON SUBMARINE WHERE STRICT COMPLIANCE WITH SALT II CONSTRAINTS WOULD MEAN BREAKING UP THE SUBMARINE. IN COMING TO A DECISION, ACCOUNT HAD TO BE TAKEN OF THOSE WHO EXPRESSED PUBLIC DISBELIEF IN THE WHOLE PROCESS OF ARMS CONTROL AND WOULD REGARD ANY SUCH MEASURES AS AN INADEQUATE RESPONSE TO SOVIET MOVES. THE SECRETARY OF STATE SAID THAT HE UNDERSTOOD THE DIFFICULTIES BUT STILL FELT THAT THE UNITED STATES OUGHT TO STICK CLOSE TO THE PROVISIONS OF THE SALT II TREATY

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10. ON MIDGETMAN, SHULTZ ASKED WHAT THE UNITED STATES SHOULD DO IN RESPONSE TO SOVIET SSX24 DEPLOYMENTS. THE SECRETARY OF STATE WONDERED WHETHER THE OPTION WAS OPEN TO COERCE SOVIET COMPLIANCE BY SAYING THAT THE UNITED STATES WOULD GO DOWN THIS ROAD UNLESS THE SOVIET UNION RECTIFIED ITS OWN POSITION. SINCE HE HAD BEEN ASKED, IN HIS VIEW THE U.S. GOVERNMENT SHOULD THINK VERY CAREFULLY BEFORE TAKING A DECISION THAT IT WOULD BE RIGHT TO PRODUCE AND DEPLOY MIDGETMAN.

11. THE SECRETARY OF STATE TOLD SHULTZ THAT THE PRIME MINISTER VERY MUCH HOPED THAT A DECISION ON SALT II CONSTRAINTS WOULD BE DEFERRED UNTIL AFTER SHE HAD HAD A CHANCE TO TALK TO SHULTZ. IN RESPONSE, SHULTZ SAID THAT THE PRESIDENT WAS LIKELY TO TAKE A DECISION AT THE WEEKEND. SHULTZ WOULD REPORT ON HIS DISCUSSION WITH THE PRIME MINISTER ON FRIDAY NIGHT SO THAT HER VIEWS SHOULD BE TAKEN INTO ACCOUNT BEFORE A DECISION WAS FINALISED.

12. GRATEFUL IF YOU WOULD ARRANGE LIMITED DISTRIBUTION AS APPROPRIATE. THE DISCUSSION ON SALT II CONSTRAINTS WAS TAKEN UP IN THE RESTRICTED MEETING, ON WHICH A SEPARATE TELEGRAM WILL BE SENT.

BYATT

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HEAD/SOVIET D
PS
PS/MR LUCE
PS/PUS
MR GOODALL
MR DEREK THOMAS
MR JENKINS

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From the Private Secretary

4 June 1985

VISIT OF MR SHULTZ

Thank you for your letter of 3 June about Mr Shultz's visit to London.

BF // The Prime Minister could see Secretary Shultz at 1845 on Friday 7 June. That is, I have to say, the only time on 7 or 8 June on which it would be possible for him to see her. The Prime Minister hopes that Secretary Shultz will come accompanied only by the US Ambassador. She would not propose to have anyone else present on our side except me.

I am sending copies of this letter to Rachel Lomax (H M Treasury), John Mogg (Department of Trade and Industry) and Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food).

C D POWELL

Len Appleyard, Esq.,
Foreign and Commonwealth Office

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CJT

cc/c ①



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1985

Prime Minister

You could see him on Friday evening, since you have to stay in London.

Agree?

CDP

3/6

Yes sir
P.S. I suggest you ask to see him with Charlie Price only - easier to be frank.
Dear Charles,

Visit of Mr Shultz

Mr George Shultz will be in London on 7 and 8 June to attend the US Heads of European Mission Conference. He has indicated that he would be glad to call on the Prime Minister if she wished to see him.

The Foreign Secretary is committed to visiting Gibraltar and Stresa after the Lisbon meeting and will not be able to see Mr Shultz while he is in London. He will, however, have a bilateral working lunch with Mr Shultz on 5 June before the Lisbon North Atlantic Council on 6/7 June.

The Foreign Secretary considers that a meeting between the Prime Minister and Mr Shultz later in the week would be useful in following up and reinforcing his own meeting, in the light of the outcome of the NATO meeting. The main topic for discussion would be East-West relations and arms control. We see particular value in discussion of continued observance of SALT constraints, on which we understand President Reagan is likely to decide future US policy very soon. (It would be useful in this respect if in conveying any invitation from the Prime Minister to Mr Shultz for a meeting we could express the hope that no decision on constraints would be taken by the President until after that meeting.) The meeting would also provide an opportunity for the Prime Minister to stress the vital importance that Western countries stand firm against economic sanctions against South Africa (whether comprehensive or selective), and to reinforce the Government's views on major trade issues against the prospects for the world economy. Mr Shultz would doubtless appreciate being briefed on King Hussein's visit to London (which ends on the morning of 7 June).

I should be grateful to know whether the Prime Minister would wish us to suggest a meeting, and, if so, for proposed times.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretaries of State for Defence and Trade and Industry, and Minister for Agriculture.

Yours ever,

Lee Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

7 December 1984

B G Cartledge Esq
Cabinet Office
Whitehall
London SW1

CDP
7/12.

Dear Bryan,

As requested in your letter of 27 November I enclose a copy of the arms control briefing prepared for Mr Shultz.

2. I am sending copies of this letter and enclosure to Nigel Nicholls, MOD; Charles Powell, No 10; Martin Morland and David Jago at the Cabinet Office.

gms
lvv
Jm

P J Weston

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VISIT OF US SECRETARY OF STATE : 11-12 DECEMBER 1984

ARMS CONTROL

POINTS TO MAKE

General

1. Welcome Shultz/State Department lead role in East/West relations and arms control. President Reagan's re-election historic opportunity to conclude and get ratified new agreements, and provide better basis for US/Soviet relations. "Reagan the peace-maker" in all our interests, including Moscow's.
2. Arms control answers political and strategic needs. But economic arguments equally strong, cannot have economies broken on wheel of endless arms cycle.
3. Agreements must observe certain principles: (i) balance ie equity and equality, not equal security or strict numerical parity; (ii) adequate verification, ie sufficient to deter violations. Verification can provide confidence in compliance but, more important, can improve chances of compliance. Should not be confused with punishment of violations.
4. In new process, Alliance cohesion/consultation essential. Solidarity has brought Soviet concessions, sticking together can bring more. Europe will need to feel involved if pressures from the political margins or Moscow for unilateral concessions are to be blocked. Public presentation also important, must avoid excessive expectations without making pessimism a self-fulfilling prophecy. Should not allow negative elements in Moscow to feed on their equivalents in West.

5. Recognize wish at Geneva to focus on key issues: offensive nuclear and defensive systems (BMD/ASATs). But CW not to be ignored: some changes in present US position required; could open up real prospect of agreement. Hope Russians agree post-Geneva to move swiftly from "talks about talks" to serious negotiations on main subjects.

6. Evident linkage between offensive/defensive (BMD/ASATs) forces. Constraints on latter should provide important Western leverage over Soviet Union to secure reductions in former. Conversely, limits on nuclear forces needed to allow BMD to be effective. Research on defensive systems should complement arms reduction efforts, not make them more difficult.

7. If Prime Minister visits US in February, proposed seminar on arms control could be valuable opportunity to review position and consider issues in detail.

OUTER SPACE

Anti-Satellite Systems (ASATs)

8. Recognise need to balance Soviet efforts in this field. But believe Western dependence on communications and surveillance satellites means that we stand to lose from the unconstrained development of ASAT systems. Welcome your readiness to consider constraints.

9. Understand you are now considering various options. We would see advantage in limiting low altitude ASATs to one Soviet and one US system, thus closing off further competition, and a ban on the testing/development of new systems including those at high altitude. Even if low level ban is not possible, would still favour a ban on high altitude ASATs, which would threaten key satellites on which West depends. Also scope for CBM's, complementary to, but not a substitute for measures of limitation.

BALLISTIC MISSILE DEFENCE (BMD)/STRATEGIC DEFENCE INITIATIVE (SDI)

10. Evidence of Soviet research on advanced defence systems. Agree only prudent for US to seek to match this research effort. But SDI raises far-reaching questions for Alliance. Expansion of programme would challenge fundamental aspects of security.

11. No real prospect of developing technology to point where nuclear weapons will be redundant. Best likely outcome is continued nuclear balance, at much higher cost in terms of weapons proliferation, strategic stability, Western cohesion and financial burdens - with an adverse effect on other programmes.

12. Believe some scope exists for arms control: early exploration of possibilities could lead to enhanced Western security by avoiding expensive spiral of technological capabilities, and by helping secure reductions in offensive forces.

NUCLEAR ARMS CONTROL

13. Recognise American thinking still at formative stage. What objectives/expectations at Geneva and beyond? Russians now referring to an effective merger of INF and strategic talks. How would this operate? Joint negotiator or separate heads on US side? Who in American team? Time-scale?

INF

14. Positions far apart when negotiations ended. Which approach most likely to succeed? Will aggregating INF and strategic figures help? Is "the walk in the woods" still a runner?

15. Russian aim undoubtedly to get a moratorium on NATO deployments, even though no longer a precondition. US and Alliance partners must firmly reject this. But will need to re-emphasise our willingness

to halt/reverse deployments if we get agreement. Cannot accept Soviet attempt to trade NATO INF with Soviet systems deployed forward (SS12/22 and SS23) in GDR and Czechoslovakia.

16. Important that INF should not hold back progress on strategic issues, even if more intractable. But indefinite delay would pose problems for solid Europeans eg FRG as well as weaker ones. Have already followed up your approaches to Belgians. Prime Minister spoke to Martens in Dublin. Sure that US will use care in public handling of SS20 deployments : vital for Dutch.

START

17. Which elements in Geneva positions offer basis for progress? Is build-down still main mechanism? What would warhead ceiling be if INF aggregated? Your view on "driving Soviets out to sea"? SLCMs: a major difficulty?

Alliance Consultations

18. Grateful for your message. Discussion in super restricted session at NAC will be helpful. Special Consultative Group (SCG) could be right body for subsequent briefings. Would not object if you wished to cover strategic aspects there as well. Nitze and Rowny had impressive record.

Third Country Systems (if raised)

19. Prime Minister discussed with President Reagan in September 1983 the British nuclear force in the context of arms control. Likely to be Russian pressure to include UK Polaris/Trident (and French systems) in new talks. You are aware of British position. We would be prepared to work with you - if situation required - to try to find ways of handling question of UK force size in context of overall deal which produced substantial cuts in US/Soviet forces.

French Attitudes

20. Mitterrand appears to share our general approach. Any indication of their attitude to new talks?

Flyindales BMEWS (if raised)

21. Looking at US proposals for upgrading as matter of urgency. Appreciate the importance the US attaches to the programme. In touch with State Department and DOD on ABM aspects. Public presentation (eg on possible BMD/ASAT angles) needs full consideration.

NON-PROLIFERATION TREATY (NPT)

22. Strongly endorse US commitment to non-proliferation and need to preserve NPT. Should we not seek to counter criticism of our attitude towards a comprehensive test ban (CTB) by pursuing a package of ideas on nuclear testing on the lines of that discussed by our people in the past? These would be aimed at improving our presentational position without impinging on essential security concerns, but should strengthen our ability to defend the NPT, given the linkage which others have established between the two issues.

CHEMICAL WEAPONS (CW)

23. CW remains politically sensitive. Recognise growing Soviet threat. Negotiated ban best answer: prospect of modernised US capability would underline benefits to Russians thus improving chances of agreement.

24. Share concern that verification of agreement should be adequate. Cannot risk revival of Soviet threat through covert production. Solution lies in achieving maximum deterrent effect in inspection provisions. Recent UK ideas (working from US draft treaty) designed to produce this. US draft already shown to be unacceptable even to close Allies. Strongly urge re-think of US

Article X proposals, to improve deterrent effect of potential challenge and prospects for agreement. Otherwise West risks being blamed for failure of negotiations.

MBFR

25. Little recent evidence of Eastern interest in making progress . but better East/West relations might change this. Alliance needs to keep sense of overall direction in conventional arms control. In past year we have spent more time negotiating with ourselves than with the East.

26. (If raised) Firmly believe MBFR treaty consistent with Western security must be based on prior agreement on size and shape of forces to be reduced before contractual obligations are incurred.

27. FRG refusal to allow completion of enhanced verification package which was quid pro quo for flexibility on data in West's April initiative highlights difficulties of verification-based approach to reaching agreement on data.

28. Would have liked West to complete April initiative this year but reluctantly conclude this not possible until Alliance has taken a considered view on new FRG concepts. Tabling a 'compromise' text without specific enhancements would be bad tactics and merely highlight Western disarray.

29. Necessary to look at Alliance posture on conventional arms control (CDE and MBFR) before Vienna CSCE review meeting in November 1986, but premature now.

CDE

30. Pleased that working group structure now agreed. Way open for real negotiations. West in good position to work for outcome

containing agreement on concrete measures and language reaffirming commitment to non use of force.

31. (If raised) Agree that Vienna follow-up meeting will need to consider balance in the CSCE process, but human rights issues best kept out of Stockholm in other than exceptional circumstances.

ARMS CONTROL AND DISARMAMENT DEPARTMENT

7 December 1984

VISIT BY US SECRETARY OF STATE: 11-12 DECEMBER 1984
ARMS CONTROL

Essential Facts

OUTER SPACE

1. Shultz/Gromyko talks to address outer space arms control. Present meeting valuable opportunity to probe US thinking on ASAT limitations and put forward our own views. President has hinted at a moratorium on the US test programme, provided talks are under way. Pentagon will be reluctant to concede this. Also useful to inject UK ideas on SDI/BMD, along lines suggested by Prime Minister to Shultz in Delhi. Composite paper on ASAT/BMD available for Prime Minister to pass to President, if desired.

2. President Reagan personally committed to SDI. Will need persuading that his aim of safer world can be better achieved by combination of radical controls on both offensive and defensive (ASATs/BMD) systems than by unconstrained development of latter with grave consequences for proliferation of former.

NUCLEAR ARMS CONTROL

3. Little information on US preparations for 7-8 January meeting. Neither US nor Russian negotiators announced. Nitze is Shultz's special adviser. Russians have been let off INF hook by procedural device. No hint of change in substance though appear to accept merger of INF/Strategic issues. Have not set preconditions but likely to press for INF moratorium and inclusion of British/French forces.

4. Combining INF and Strategic talks could have following effects/implications:

(a) could give impetus to the START/INF aspects; alternatively could compound the problems;

(b) increase scope for Soviets to drive wedges, decouple US from Europe;

(c) demands for inclusion of British/French forces. Effect on Trident;

(d) A merger, with common ceilings might offer scope for trade-offs eg. Russians might retain numerical superiority in ICBM warheads, and US keep current lead in ALCM. But problems for the US with Congress?

No clear consensus on merger in Washington yet. Official opinion mainly in favour.

INF

5. US seem determined to resist moratorium on INF deployments in advance of negotiated agreement.

6. A number of US negotiating options:

- (a) maintaining the position before suspension of talks;
- (b) pursuing a "walk in the woods" type solution;
- (c) US build-up/Soviet build-down; ie. US deploying to certain level of INF systems: Russians reducing to same level;
- (d) limiting INF to a percentage of strategic systems;
- (e) asymmetrical percentage cuts by both sides in INF stockpiles.

Would want to assess implications of new proposals before reacting.

START

7. Central feature of US START proposals was significant reduction in ballistic missile warheads by "build-down" to 5000 on each side. Hoped to limit certain Soviet systems, eg. SS18 "heavy" ICBM, while preserving American margin in other categories eg. bombers/ALCM. One theory was to "drive the Soviets out to sea", a policy favoured by Pentagon to limit Soviet ICBM programme. Not clear whether Americans will adopt strategic nuclear delivery vehicles (SNDV) or warheads as counting unit. The Pentagon favour sticking with present START position. State Department favour "framework aggregates": combined limits on launchers and warheads. Other possible models will emerge. Inter-agency debate in Washington continues. No figures for limits on launchers and warheads agreed yet.

SOVIET ATTITUDE

8. Soviet objectives similar to US: to protect lead areas and limit American margins eg. ALCM and SLCM. Initial tactic may be to sit back and wait for American proposals. Kornienko said on 30 November that prospects at Geneva and beyond depend on US intentions/readiness to make substantive moves. Likely to link NATO INF and Soviet systems in E. Europe. Third country and forward-based systems will be high on their agenda.

Consultations

9. Shultz sent Alliance Foreign Ministers a message on 28 November reaffirming US commitment to effective consultations on arms control. Several Allies, including the FRG, stress need for effective mechanism. Main fear the American concentration on strategic issues could be at expense of INF. Important to get British concerns across.

Third Country Systems

10. Given that there may be pressure from the USSR (and perhaps some Allies) as new negotiations get underway to accept the principle that UK (and French) forces should be taken into account in some way, the Secretary of State might indicate willingness to consider with the US how best to handle the matter. The approach would be cautious and non-committal. But in the light of the President's view in 1983 that it would be necessary to make allowances for strategic systems of other countries if agreement reached on sizeable US/Soviet reductions, the US may respond well to a sign that UK is prepared to put thought into the question.

NON-PROLIFERATION TREATY (NPT)

11. Strong criticism of US/UK failure to progress towards a CTBT may damage prospects for 1985 NPT Review Conference though renewed bilateral talks will clearly lessen the importance of the CTB issue. President Reagan's recent reaffirmation of commitment to non-proliferation provides opportunity to propose US re-consideration of package of UK ideas on nuclear testing which would help to counter such criticism.

12. Such a package of measures, which we believe would not impose significant constraints on US or UK testing programmes, could comprise:

- (i) proposals for US and Soviet Union to exchange data on tests, as provided for by unratified Treaties, and for observers at tests as suggested by President Reagan at the UN in September;
- (ii) US agreement to ratify with the USSR the (bilateral) 1974 Threshold Test Ban Treaty and the 1976 Peaceful Nuclear Explosions Treaty; on the explicit understanding that
- (iii) the Russians would agree to enter negotiations on a (minor) decrease in the threshold, coupled with provisions for enhanced verification; and
- (iv) continued acceptance of more CD multilateral work, (but not negotiations) on testing problems, especially verification.

CHEMICAL WEAPONS (CW)

13. Prospect of modernised US capability provided enhanced leverage at Geneva negotiations. Administration to resume efforts to secure Congressional funding for modernisation, but prospects uncertain. Presidential Review Commission on CW policy to report by April 1985. Views of major Allies likely to be canvassed.
14. President Reagan concerned that under Treaty US troops should not be overwhelmed by clandestine Soviet weapons. US Article X proposal ("no refusals" challenge inspection) would not fully meet the President's concern, since, as US admit, Russians would refuse inspection when necessary, even if had signed agreement. Proposal however poses serious security problems for UK and other close Allies. So far unserious US response to UK alternative proposal. This would enhance prospect of those counter-measures which would be essential basis for Western response, and hence provide better deterrent against Soviet covert production in first place. Would also ease UK security problems, and be more negotiable.

MBFR

15. In April this year, under heavy US pressure, NATO varied its 1982 draft Treaty with an initiative which confined the need for prior data agreement to Combat and Combat Support forces. This was offset by the

requirement for Eastern agreement to enhanced verification provisions. The latter ("Attachment B") tabled only in outline. In over 6 months discussion Allies have failed to agree on the details, primarily because of FRG opposition. The UK has now suggested that further efforts to draft a text papering over differences are nugatory, and that efforts to complete Attachment B will have to be put aside for the time being. Despite prior US/FRG/UK consultations and apparent acceptance of UK suggestion, US have so far not endorsed it in Alliance.

16. The current round (27 September - 13 December) has seen no progress on substance but some small procedural improvements. An Eastern suggestion for joint drafting on a preamble has so far not borne fruit despite the West's expression of interest.

CDE

17. The current round of the Stockholm Conference (6 November - 14 December) has agreed on an agenda and timetable for 2 working groups. Although not an ideal structure, it opens the way for real negotiations and the possibility of a generally acceptable outcome to the first stage of the Conference. Whether a substantive outcome will in fact be achieved by the Vienna CSCE follow-up meeting in November 1986 depends largely on the overall state of East/West relations.

18. The US may be under domestic pressure to hold progress at the Stockholm Conference hostage to developments in the rest of the CSCE process, especially on human rights.

ARMS CONTROL AND DISARMAMENT DEPARTMENT

7 DECEMBER 1984

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU533

Secretary of State for Trade and Industry

5 December 1984

L V Appleyard Esq
Foreign & Commonwealth Office
Downing Street
London SW1

WBPM
CDP 5/12/84

Dear Len,

Thank you for copying to me your letter of 19 November to Charles Powell at NO 10.

We are content with the Foreign Secretary's proposed agenda for this meeting. In the context of the US economy and the dangers of protectionism, the Foreign Secretary might emphasise our disappointment and concern at the Administration's decision to reject the EC's proposed terms for a voluntary restraint arrangement on imports of steel pipes and tubes, and to proceed to unilateral action. The Community has had to reserve its GATT rights on this matter.

Sir Geoffrey Howe will no doubt welcome the President's decision that the grand jury anti-trust case against British Airways is to be terminated; and the recent conclusion of the bilateral understanding on export controls; but we feel that it would be as well if, in doing so, the Foreign Secretary were to remind Mr Shultz that it will require continuing efforts if problems arising from extra-territoriality are to be contained.

We also hope that the Foreign Secretary might find time for a brief exchange of views with Mr Shultz on developments on the multilateral trading front, and notably the prospects for a new GATT round.

We would, of course, like to be consulted on the preparation of briefing on these subjects.

I am copying this letter to Charles Powell (No 10), David Peretz (Treasury), Richard Hatfield (Cabinet Office), Richard Mottram (MOD) and Dinah Nicholls (D/Tp).

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

USA: Shultz April 82

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**Poor quality
text due to the
nature of the
material.**

**Image quality is
best available.**



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

ccp

From the Minister's
Private Office:

L V Appleyard Esq
Private Secretary to the
Secretary of State
Foreign and Commonwealth Office
Downing Street
London SW1

NBSM
CM

23 November 1984

Dear Sir,

You kindly copied your letter of 19 November to Charles Powell, about the Foreign Secretary's forthcoming meeting with Mr Shultz, to Ivor Llewelyn.

This is just to confirm that there are at the moment no agricultural, fisheries or food issues which we would wish the Foreign Secretary to raise with Mr Shultz.

I am copying this letter to Charles Powell (No 10), Richard Hatfield (Cabinet Office), David Peretz (the Treasury), Richard Mottram (MoD), Callum McCarthy (DTI) and Dinah Nicholls (DTp).

Yours ever,
David Harbourne
D W HARBOURNE
Assistant Private Secretary

USA April 82

visits by Shultz

24 NOV 1981



1981
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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

NBPM

GDP

22/11

22 November 1984

Len Appleyard Esq
Private Secretary to the
Secretary of State for Foreign & Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Len

Thank you for sending me a copy of your letter of 19 November to Charles Powell about the Foreign Secretary's meeting with Mr Shultz next month.

The Chancellor would be happy for the Foreign Secretary to discuss economic issues with Mr Shultz as he proposes, although it may be a trifle early to expect much new on the Administration's thinking. It would however be useful if you were to let us see the Foreign Secretary's briefing on the economic points.

I am copying this letter to Charles Powell (No 10), Richard Hatfield (Cabinet Office), Ivor Llewelyn (MAFF), Richard Mottram (MOD), Callum McCarthy (DTI) and Dinah Nicholls (DTp).

Yours ever

David

D L C PERETZ
Principal Private Secretary

USA: VISITS OF SCHULTZ

22 NOV 1984

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B.M.



10 DOWNING STREET

From the Private Secretary

21 November 1984

Thank you for your letter of 19 November about the Foreign Secretary's meeting with George Shultz in December.

The Prime Minister is content with the list of issues which the Foreign Secretary intends to raise with Mr. Shultz. She would also like to see Mr. Shultz herself. I should be grateful if you could let me know, in due course, which day he is likely to be here in the week ending 14 December.

I am copying this letter to David Peretz (HM Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Dinah Nichols (Department of Transport) and Richard Hatfield (Cabinet Office).

Len Appleyard, Esq., (C.D. Powell)
Foreign and Commonwealth Office

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10 DOWNING STREET

Prime Minister

Could you please
say whether you
would like to see
George Shultz while
he is here.

EDP

25/11

Yes please
ms

cc 16 (1)



Prime Minister
 His visit will be
 useful preparation for
 your own visit to Washington.
 Do you wish to
 see Mr. Shultz again?

Foreign and Commonwealth Office

London SW1A 2AH

19 November 1984

Dear Charles,

C&P 19 xi

Yes Mr

Mr Shultz has accepted the Foreign Secretary's invitation to visit Chevening for talks in the week ending 14 December. The original purpose of inviting him at this point was to discuss the Middle East and to take stock of Alliance issues in the context of the NATO Ministerial meeting in the middle of that week. In addition, of course, the visit will provide a useful opportunity to get an early private sense of the Administration's thinking - and to inject our own views - on a wider range of issues at the outset of their second term. This will be particularly helpful just before the Gorbachev visit takes place the following week.

It is good news that Mr Shultz has been reappointed Secretary of State. His steadiness on most issues and his experience over the last two difficult years will strengthen his position within the Administration. This will help them to take advantage of the real opportunities which now arise to make important moves particularly on East/West relations, where we believe they are disposed to do so, and also on the Middle East, where we are less sure of their intentions. But they will need to move quickly.

Though the election was a personal triumph for the President, the Republican party recouped in the House of Representatives only part of its losses in 1982 and the Administration will not be in the strong position it enjoyed with Congress from 1980 to 1982. By this time next year, Reagan's second honeymoon will almost certainly be over. By 1986 the mid-term elections will be looming and Congress could well be causing difficulties. In addition the economy may have started to turn down and before too long the 1988 Presidential election will start casting a shadow. So the Administration will need to take advantage of the opening now. Mr Shultz will be fully aware of that.

Against this background Sir Geoffrey's principal objectives for this meeting with Mr Shultz will be:

/(a)



- (a) to get a clear idea of the Administration's strategy on the main foreign policy issues;
- (b) to put our own views across but to show ourselves alive to US interests and constraints;
- (c) to register that, although we stand close on most major international questions, we cannot be taken for granted. And where we disagree with US policies, we shall say so in private and occasionally if necessary in public. On the issues in dispute between us, we shall continue to press the British case energetically;
- (d) to underline the importance of the United States not being nervous about current European efforts aimed at strengthening economic, political and defence cooperation, but on the contrary to encourage them.

More specifically, the Foreign Secretary will aim:

- (a) to discuss the prospects for opening up the dialogue with the Russians and the East Europeans, and the contribution which we expect to be able to make (e.g. Gorbachev and Gromyko visits);
- (b) to sketch out the approach which we believe arms control strategy should take, in preparation for the Prime Minister's talks later on with the President;
- (c) to discuss the way ahead over Arab/Israel, and particularly to urge Mr Shultz that more is needed than tackling the easier things (not that anything is easy in the Middle East) and that an active strategy for Arab/Israel that we can all support is a vital part of protecting the Western position and keeping out the Soviet Union;
- (d) to get Mr Shultz to expound US overall policy on Central America for promoting peaceful development and containing subversion; to underline that we continue to share their objectives but that there are limits to the extent to which we and other European Governments can be expected to endorse direct American intervention, if it came to that;
- (e) to go over our concerns about developments in the US economy, and to explore the implications (e.g. for interest rates and protectionist practices); and to try to engage Mr Shultz in the interests of getting early action to reduce the budget deficit;

If all this ground is covered, it will have been a useful meeting. But Sir Geoffrey Howe would be glad to know if there are other issues the Prime Minister would like him to raise

/in

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in advance of her own visit to Washington.

I am copying this letter to Richard Hatfield (Cabinet Office), David Peretz (HM Treasury), Ivor Llewelyn (MAFF), Richard Mottram (MOD), Callum McCarthy (DTI) and Dinah Nichols (Dept of Transport).

Yours ever,

Len Appleyard

(L V Appleyard)

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

18 January 1984

Type manuscript.

A. J. C. 15/1

Dear John,

President Reagan's Message to the Prime Minister:
US/Soviet Relations

I enclose a draft on which the Prime Minister may wish to draw in reply to President Reagan's letter to her of 14 January about his speech of 16 January on US/Soviet relations.

Amis over.
[Signature]

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

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DRAFT: minute/letter/teletype/letter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

The Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

President Reagan

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your letter of 14 January and the advance ^{copy} ~~preview~~ of your speech on US/Soviet relations which George Shultz ~~was able to give us~~ ^{gave me} on 15 January.

If I may say so, I thought you struck exactly the right note and at the right time. ~~[I welcomed it publicly in the House of Commons on 17 January.]~~ As we enter 1984, and against the background of ~~some~~ public disquiet at the Soviet interruption of the arms control talks in Geneva and Vienna, it was right and necessary to put on record your willingness to establish a constructive and realistic working relationship with the Soviet Union.

As you say, this is a long-term policy. We can not expect rapid changes. The Soviet system is too rigid for that as their initial public response ^{to your speech} has demonstrated. But I am sure that it is right to try: and that the best way is to engage the Soviet Union in a dialogue on a broad range of questions ^{and} bilateral, regional, economic, ^{political and} as well as ~~arms control~~ ^{arms control issues.} ~~Against this background it may be easier to make progress on~~

~~I attach great importance to guarding~~ ^{We have} against the risk of misunderstanding, ~~This is particularly necessary,~~

~~/given~~

Enclosures—flag(s).....

~~given the uncertain state of the leadership in Moscow. I~~
~~too have been stressing the need for communication in my~~
~~recent public statements. This is something we need to~~
~~maintain on a consistent basis. I look forward to hearing~~
~~how George Shultz gets on with Gromyko on 18 January. Geoffrey~~
~~Howe will be meeting Gromyko on 19 January. I will let you~~
~~have my impressions of my visit to Budapest from 2-4 February.~~

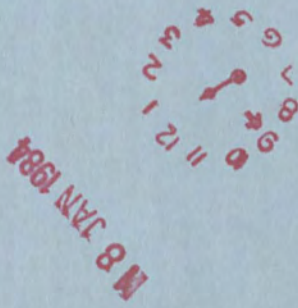
Finally, my views on the arms control ~~process~~ ^{problem} are very
 much in line with yours. I warmly welcome the confirmation
 of your aims ^{to reduce} ~~of reductions in nuclear arsenals,~~ ^{and to} ~~the creation~~
 of greater stability, ^{and to} ~~the establishment of confidence.~~
 As for the immediate future, ^{it} would obviously be wrong to
 make concessions just to get the Russians back to the negotiating
 table. But they clearly have problems of their own, both of
 substance and of presentation. Thanks to your own imaginative
 proposals, and to the unity we have been able to maintain within
 the Alliance, the initiative rests with the West. ~~I believe~~
~~that now~~ ^{we now} we have an opportunity to ~~think through our positions~~
~~further and to consider whether there are any new thoughts we~~
~~can develop, particularly on possible ways forward on nuclear~~
~~arms reductions. I welcome the fact that this process is~~
~~already getting under way in the various consultative groupings~~
~~within the Alliance.~~ ^{we can develop, find} ~~We must maintain the momentum. We must~~
~~not only convince our own peoples of our dedication to the~~
~~pursuit of real reductions, but~~ ^{am glad that} ~~seek that greater stability~~
~~of which you spoke.~~

~~I look forward to keeping in close touch on these~~
~~important questions. I am sure~~ ^{hope} ~~that your speech can~~ ^{will} ~~mark the~~
 beginning of a new phase of relations with the Soviet Union.
~~That depends on them more than us. But in the Alliance~~
~~I will~~

we can all seek to build on the lead you have taken
~~I hope that all of us can build on it with realism,,
patience and imagination.~~

I look forward to hearing the outcome of
George Shultz's meeting with Frank on 15 January.
Folke House will be meeting Frank on 19 January.
I shall let you have my impressions of my visit to
Huying for 2 to 4 February.

USA
Via St. Louis
Main 82



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THE SECRETARY OF STATE
WASHINGTON

January 16, 1984

mt

Dear Margaret:

Thanks so much for taking your time with me, especially on a Sunday. The President and I value your counsel greatly. The opportunity for a lengthy exchange with you and Sir Geoffrey was therefore most welcome.

I look forward to talking with you again soon.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "George P. Shultz".

George P. Shultz

The Right Honorable
Margaret Thatcher, M.P.,
Prime Minister,
London.

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10 DOWNING STREET

From the Private Secretary

16 January, 1984

VISIT OF MR. SHULTZ

I enclose a record of the conversation between the Prime Minister and Mr. Shultz at No. 10 Downing Street yesterday at which, as you know, the Foreign and Commonwealth Secretary was present.

There are references in the record to a recent document on the internal situation in the Soviet Union which the Prime Minister has received from the Reverend Michael Bordeaux of Keston College. This was received here on Friday. I shall let you have a copy separately and also, as the Prime Minister promised, let the US Embassy have a copy.

I also enclose a copy of a letter from President Reagan to the Prime Minister which Mr. Shultz handed over. The Prime Minister would like to reply, commenting on the President's speech today on East/West Relations. I should be grateful if you would let me have a suitable draft early this week.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office). I should be grateful if you and they would ensure that it is not circulated further except to those who need to know, for operational reasons, of the contents of the Prime Minister's discussion with Mr. Shultz.

AJ COLES

B. Fall, Esq.,
Foreign and Commonwealth Office

Solt

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE US SECRETARY OF STATE AT 1705 HOURS ON SUNDAY 15 JANUARY 1984 AT 10 DOWNING STREET

<u>Present:</u> Prime Minister	Mr. Shultz
Foreign and Commonwealth Secretary	US Ambassador
Sir Antony Acland	Mr. Burt
Mr. Coles	Admiral Howe

* * * * *

The Prime Minister enquired about the health of President Reagan, Vice President Bush and Mr. Weinberger. Mr. Shultz said that all were well and that they were preparing for the election campaign. The President would announce his intentions on 29 January. The presumption was that he would declare his intention to stand.

The President believed that the best way to get re-elected was to do the best possible job for his country. He had not wanted to be a declared candidate at the time when he gave the State of the Union message on 25 January.

In the Democratic camp, the financial and other support was going to Mr. Mondale. But he still had to face the first moment of truth at the ballot box.

The Prime Minister said that the Western world would benefit from continuity in the United States. She understood that President Reagan was to make an important speech on East/West relations on 16 January. Mr. Shultz said that President Reagan had asked him to hand the Prime Minister a copy. Although the speech would be delivered at 1000 US time tomorrow, if the Prime Minister had a major point to make he was sure that the President would be glad to hear of it. He had also brought for the Prime Minister a copy of the report of the Kissinger Commission on Central America.

/ The Prime Minister

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- 2 -

The Prime Minister said that her impression from summaries of the report was that it had been designed to command bipartisan support. The temptation, when one could not find a real answer for problems, was to throw money at them. Mr. Shultz said that he had told Dr. Kissinger that he now understood the latter's solution for Central America - it was to buy it. But the report was very constructive in that it had secured the assent of major figures from the Democratic Party who now recognised the importance of US policies in the area.

The Prime Minister recalled that on her first visit to the United States after the election of President Reagan she had had to spend more time in her television broadcasts on El Salvador than on any other subject. Its importance was not then appreciated. Mr. Shultz said that the Administration would have to work very hard to get the report through Congress. The proposal for aid of \$8 billion over five years for Central America was at first sight very striking. But given that the present level of aid was \$850 million a year, the increase was not all that large. There was considerable uncertainty as to what would happen in Guatemala. In El Salvador, provided the next elections were carried out successfully and the new Government took firmer action in the justice field, then the US would be on very sound ground to apply pressure in that country. The Prime Minister commented that El Salvador was indeed critical. She had been struck by Napoleon Duarte's comment to her some months ago that if democracy did not produce results next time, in the sense of progress in dealing with violence and guerilla activity, the people of El Salvador would lose all faith in it as a political system. Mr. Shultz said that he expected the turn-out in the Presidential elections in El Salvador to be smaller than on the last occasion, precisely because faith in democracy was on the wane. It was not certain that Duarte would win the election. D'Aubuisson was a strong figure. Some asked what the American attitude would be if he won. The reply had to be that if he won clearly in a fair election then he had to be supported in the hope that he would pursue a policy of reconciliation. In the same way, if Duarte won, he would have to seek the support of the right wing. The Prime Minister suggested that there would need to be sufficient observers to ensure that the election was fair. Mr. Shultz said that there was no doubt

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- 3 -

that there would be plenty of unofficial observers from the United States.

Taking up Mr. Shultz's reference to Guatemala the Prime Minister recalled that during her last visit to Washington she had informed President Reagan that we would leave the British troops in Belize until both he and the Prime Minister of Belize had fought their elections. But we then had to consider how best our contribution to the whole area of Central America and the Caribbean could be organised. Belize wanted British troops to stay and she had been told that Guatemala wanted them to stay for if our troops withdrew the Government of Guatemala would come under pressure to move into Belize which it did not want to do. Mr. Shultz said that occasionally he felt that something constructive was happening on the border dispute but he was not aware of any significant activity at present. The Prime Minister repeated that, following ^{the elections} /to which she had referred, we should wish to look, together with the United States, at the shape of our contribution to the whole area. Mr. Shultz replied that he understood that.

Sir Antony Acland asked whether the \$8 billion package of aid recommended for Central America by the Kissinger Commission included aid for Belize. Mr. Shultz said that he was not certain what the answer to this was. It was important not to lose sight of the Caribbean basin initiative which enabled some of the countries in the area to enter United States markets. His own approach was to try to create incentives for the peoples of the area to save and work. This was preferable to an approach based on aid. But the fact was that the infrastructure in Central America had been very badly mauled and help was needed to restore it. That was the concept of the Kissinger report.

The Foreign and Commonwealth Secretary said that there was a certain lethargy in the area. The Prime Minister of St. Lucia had said in New Delhi that the West Indians were sometimes criticised for living on a diet of rum, bananas and West Indian music. But that was the way they had chosen to live and they had expected to be able to continue to pursue this way of life peacefully. This was partly why events in Grenada had upset them. The

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/ Prime Minister

Prime Minister recalled that the Prime Minister of the Bahamas had made the perceptive remark at New Delhi that if small countries could not make adequate arrangements for their defence, this raised a question as to their right to be independent.

As the former imperial powers had withdrawn from their earlier areas of influence, so underlying conflicts had emerged. Examples were Palestine, India, Africa and the Gulf. The potential for conflict was considerable. This was one reason why we were now looking at the problem of small states e.g. in the Pacific. It was fortunate that we still retained islands of strategic importance such as Ascension and Diego Garcia. These must be retained. The Foreign and Commonwealth Secretary pointed out that all these small states were liable to be hijacked by small groups of people. That was the problem which we were studying.

The Prime Minister observed that if circumstances arose in which the Panama Canal and the Suez Canal were closed, the West would be dependent on the routes around the Cape of Good Hope and Cape Horn. This was one of the factors which had influenced our thinking on the Falkland Islands which had been of strategic importance on three occasions in our history. Following Grenada, we could no longer leave the fate of small islands to chance. We needed to consider what arrangements could be made for them with the participation, as appropriate, of Australia, Canada, Britain and the United States. It was in this context that we should need to consider the future of the British military presence in Belize.

Mr. Shultz said that the comment made by the Prime Minister of the Bahamas and quoted by the Prime Minister above was indeed striking. Sir Antony Acland pointed out that Mr. Pindling would be the host for the next CHOGM when the security of small states could be expected to be a prominent item of discussion.

Turning to the Middle East, the Prime Minister said that she was worried by the domestic political situation in the Lebanon. The Multi-National Force could not be withdrawn unless satisfactory alternative arrangements were made. For this would lead to the

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most terrible slaughter. She had been surprised by some of the comments made by US Senators, including Senator Percy though she noted that he claimed not to have been accurately reported. Mr. Shultz said that Senator Percy appeared never to be wholly accurately reported. Senator Tower and Warner, on their return from the Middle East, had stated that it was critical that the MNF should not pull out of the Lebanon. The pendulum of opinion was now beginning to swing in the United States. Mr. Mondale was being accused of endorsing the "cut and run option". The President had stood very firm throughout all this clamour.

The Prime Minister stated that, while the MNF should not withdraw prematurely, it could not stay indefinitely nor should its presence be used as an excuse for not making progress with reconciliation. The power of Syria in the present situation was very evident. The Foreign and Commonwealth Secretary had just had very interesting talks with President Assad. The Foreign and Commonwealth Secretary said that the main point which had emerged from these talks was Syria's ability to prevent the reconciliation process moving forward. They maintained that no progress could be made until the 17 May Agreement had been abrogated. Mr. Shultz said that he had told Sir Geoffrey Howe that there was a direct relationship between Syrian aggressiveness and the sense of commitment on the part of the MNF. The firmer we were, the readier the Syrians were to talk and make compromises. So it was most important that we should continue to display steadfastness. Assad was fond of claiming that the MNF was short of breath and could not stay long. The Foreign and Commonwealth Secretary agreed that the Syrians believed that they could wait until the MNF was forced to withdraw. That was why we had recently stated publicly that the MNF could not go, leaving a vacuum behind. But it was urgent to find a way forward. The Prime Minister said that a further tragedy involving the MNF could produce a new political situation in the country affected. We ourselves, through the patrolling and guarding activities of the British contingent, had quite a high profile in Beirut. Some might conclude that the best way of hastening the departure of the MNF was to attack the British contingent. We needed an understanding as to when we should make an approach to the United Nations. The UN Secretary General could

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not make a move without a request from the Lebanon. So perhaps we ought to bring pressure to bear on President Gemayel. Mr. Shultz stated that the question of whether the MNF could be deployed less vulnerably was being discussed in Washington. Mr. Weinberger was giving this matter much attention. The United States Marines were now more secure than at the time of the tragic bomb attack. The Foreign and Commonwealth Secretary commented that President Assad pointed to this as part of a process by which the MNF increasingly withdrew into bunkers. The Prime Minister said that the reasons for maintaining the MNF were very clear. But, as she had said, it was equally clear that a further attack could transform the situation. (this would be especially true as the United States election campaign got under way). Some action would then have to be taken. At present, she could think only of a rapid resort to the United Nations. She was aware of Soviet and Syrian opposition to a United Nations force but they might find it hard to veto a suitable Resolution. The Foreign and Commonwealth Secretary commented that it might be hard to secure a Lebanese request for a United Nations force; and in practice it was very difficult to define a UN role sufficiently close to the existing MNF role. But the Syrian attitude towards the 17 May Agreement remained the dominant obstacle. The Prime Minister asked what would bring about a change in the Syrian attitude - stick or carrot? The Foreign and Commonwealth Secretary replied that the only thing which the Syrians wanted and which we could give was MNF withdrawal; but for us that meant the insertion of a UN force. If there was to be any chance of achieving this, we would have to handle the Syrians carefully with respect to the 17 May Agreement.

Mr. Shultz said that he was sure that the Israelis did not wish to maintain a military presence, on the present scale, in the Lebanon.

/ The Prime Minister

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The Prime Minister said it was her impression that the Israelis would wish to stay in the area which dominated the road to Damascus but pull back elsewhere. Mr. Shultz observed that the most likely area for Israeli withdrawal was in that part of Southern Lebanon which adjoined the coast. But the Israelis would insist that the Lebanese armed forces demonstrated their capacity to maintain stability in the areas evacuated by the Israelis. The latter might also insist on the right to carry out patrols through these areas in order to check that stability was being maintained. Before the 17 May agreement was lightly cast aside, people should recall that the Lebanese had insisted during the negotiations that Israel should give up the right of patrolling; consequently, provision had been made for joint Lebanese/Israeli patrols under Lebanese direction. If the agreement was now abrogated, the Israelis would again insist on their right to patrol. There was more positive material in the 17 May agreement than met the eye. Although he took a certain satisfaction from that agreement, it could be changed if the parties wished this. But they would be wise to think carefully about changes - the agreement contained many hard won gains. It should also be noted that the Syrian attitude to the agreement fluctuated. Sometimes they wanted it abrogated, sometimes set aside. The Saudi Arabians objected not to the security provisions but to the normalisation arrangements - the latter, in their view, should not apply before the end of Israeli occupation. The Saudi objections could therefore be met by an understanding that the normalisation provisions would apply only after Israeli withdrawal.

The Prime Minister enquired whether the Lebanese armed forces were capable of keeping order in areas evacuated by the Israelis? Were the coastal areas not predominantly Shi'a? Mr. Shultz replied that the approach adopted when working out the 17 May agreement still made sense. This was that such areas should be policed by troops recruited from the local population. The Israelis had favoured this, partly because they thought that they could exercise influence on people who came from the border areas. But the device made sense in itself.

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Since the visit of the Israeli Prime Minister to Washington, Israel had been more constructive than people realised. Three examples. President Gemayel had told the Americans that his most urgent requirement was the lifting of the siege of Deir El Qamar; the Israelis had been approached and had made the necessary arrangements. Secondly, at American bidding they had undertaken not to interfere with the departure of Arafat from Tripoli. Thirdly, again in response to a request, the Israelis had allowed most if not all the relevant West Bankers to return to the reconvened Jordanian Parliament.

If stability could be restored in the Lebanon, then the UN could be asked to send in troops. But UN forces could not sensibly be asked to enter a situation of turmoil. The Prime Minister commented that she had turned Parliamentary opinion round once and would doubtless have to tackle the matter again next week. The MNF could not stay indefinitely and we should now consider the next steps. It was good that Arafat had left Tripoli and that the Israelis had shown helpfulness over the Jordanian Parliament. She was worried about the health of King Hussein who was more tense than he appeared. It was essential for him to make progress on the Palestinian problem. He had opened up one option by recalling the Parliament.

The Foreign and Commonwealth Secretary said it would be helpful if Arafat could bring about a regrouping of moderate Arab opinion. Agreeing, the Prime Minister observed that it would be easier for us if Arafat represented not the PLO but the Palestinian people.

Mr. Shultz said that Mr. Rumsfeld would be returning to Washington towards the end of next week. He wished to visit each of the MNF capitals en route and would also go to the United Nations.

The Prime Minister said that the situation in Cyprus was disturbing. Mr. Shultz commented that he hoped we would get it sorted out. The Prime Minister stated that much of the trouble

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was due to the way in which the Greek Cypriots had treated the Turks earlier. The Greeks were refusing to take part in tripartite consultations until UDI was reversed. Turkey was of much more importance to us than Greece strategically. President Kyprianou would be visiting London next week. The Foreign and Commonwealth Secretary said that the UN Secretary-General was more likely than anyone else to be a helpful influence in Cyprus. Mr. Shultz commented that he was worried about the Cyprus situation but also about its impact on US ability to maintain its substantial aid programme to Turkey. He asked whether the United Kingdom was able to station troops in Cyprus if it wished to (sic). The Prime Minister replied that we had major sovereign bases there

Passage deleted and retained under Section 3(4) (Wayland, 25 July 2014)

The Prime Minister said that we did not wish to be saddled with the role of moderator in the Cyprus problem. We had to remember the strategic implications and work patiently to keep Greece and Turkey with us. Sir Antony Acland observed that the Greeks and the Greek Cypriots would be well advised to make the best of the small gestures which Turkey had made. These were not enough but it was foolish not to build upon them. Kyprianou's recent proposals for a global arrangement seemed to be a recipe for stalemate.

Turning to East/West relations, the Prime Minister said that the Russian attitude had not changed substantially. The Soviet system was rigid. There was no possibility of fundamental political change. The Russians would not give way much in negotiation. Nor had they changed their overall objective. So we must be wary. She had just read a most interesting document supplied by the Reverend Michael Bordeaux which reported that much of the propaganda on Soviet television now stressed the dangers of war and fears of war - to such an extent that even some of the dissidents were now worried. The same report had said that internal oppression was becoming worse.

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But we had to take into account our own public opinion. It was a constant fear that through lack of contact some development would occur which could otherwise have been prevented. Hence the need for dialogue. This had to be realistic. Expectations should not be unduly aroused. But even a slight improvement in the present situation would be worthwhile. So we must find ways of talking regularly to the Soviet Union and not just at international conferences. The Foreign and Commonwealth Secretary would be inviting Gromyko to London or visiting him in Moscow - and she left it to Sir Geoffrey Howe to decide which. But the need for regular and wide-ranging contact was clear because things were getting worse, as illustrated by the report to which she had referred and which she would copy to the Americans.

Mr. Shultz said that President Reagan would incur a lot of criticism because of the speech he would be making on East/West relations on 17 January. But the President felt he must make this speech. With regard to the Soviet propaganda about war to which the Prime Minister had referred, the American impression was that this had backfired. The Soviet population and some Eastern European countries had been so alarmed that the Soviet Government had had to back-pedal. The Prime Minister's visit to Hungary would be very valuable. As to Gromyko, it would be better for the Foreign and Commonwealth Secretary to go to Moscow rather than hold his talks in London. In Moscow, he could see other Soviet leaders.

The Prime Minister said that she thought that the Soviet Government must be in some difficulty in presenting its policies internally. It had hijacked the word peace and had then walked out of the arms control negotiations. She felt that we needed a general understanding at the level of the Soviet leadership - this would recognise that each side had its own way of life and that it was in the interest of both to get together and talk. She did not believe that much could be done at present to change Soviet society. So far as internal affairs were concerned, technology was on the side of the oppressor. If the Russians thought that we aimed to change their political system, they would clamp down and refuse a dialogue. But having educated a

whole society they would in due course come to find that the system was being questioned - and not just by dissidents. Another objective should be to help the East European countries to stay as free as possible. We in the West were now able to promote a dialogue because we operated from strength.

Mr. Shultz said that the President felt that the West should make a determined effort to talk to the Soviet Union. His conditions for such a dialogue were that the West should be strong, should be realistic and should not shade the truth to please the Russians. In his speech he would be telling his Administration and his right-wing supporters, who would not like it, that this was his approach. He (Mr. Shultz) had personally briefed Dobrynin about the speech and given him an advance copy. So the Soviet reaction would be interesting - they would have had the chance to prepare it. The President had thought it right to make the speech prior to Mr. Shultz's meeting with Gromyko on 18 January. The speech would refer to Soviet non-compliance with arms agreements and point out to the Soviet Union the need for the West to feel that agreements would be kept. But the President would also say that the results of the non-compliance review were not an occasion for walking out of the arms talks.

The Prime Minister commented that we were more likely to make progress on arms control agreements if there was a broader dialogue between East and West. Mr. Shultz said that the President would be referring not just to arms control problems but to regional matters, to human rights and to the need for the Soviet Union to take some constructive action to prevent a repetition of the KAL disaster. He would emphasise the merits of constructive dialogue, peaceful deterrence and constructive competition. If success were achieved by this approach, it would be because the actual dialogue was conducted privately. This was difficult for the democracies but important for the Soviet Union. The Prime Minister said that she hoped that the Soviet response would be constructive. Even if only a little progress was made, she would judge this a considerable success.

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In conclusion, Mr. Shultz said that the President would value the Prime Minister's reactions to his speech, any suggestions she might have for following it up and her impressions of her visit to Hungary.

The discussion ended at 1850.

A. J. C.

16 January 1983



PM/84/11

PRIME MINISTERVisit of Mr Shultz: 15/16 January

1. I shall be seeing Secretary of State Shultz at lunch and during the afternoon of Sunday 15 January and will then come with him to your meeting at 5.00 p.m. The enclosed briefs set out the ground which I think it will be most useful to cover with him. But I see this mainly as a chance, which we have not had in recent months, to talk at leisure about the world and to get inside each other's minds.

2. I do not propose to tackle George Shultz about transatlantic relations as such - I think enough has probably been said on this subject recently. He will have in mind, as we have, the thought that in a year when we have the US Presidential elections and a fairly difficult collection of international problems to deal with, our relations are going to need extra careful management. The same thought may also lie behind Vice-President Bush's wish to come and see you on 9 February. FCO and other Ministers will also be seeing Mr Dam when he comes over for a Wilton Park Conference in March and you will of course be seeing President Reagan at the time of the June Summit. This adds up to a very satisfactory programme of Anglo-American contacts in the first half of 1984.

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3. I think we shall find that Shultz's main concerns will be East/West relations, including the various aspects of arms control, and the situation in the Middle East. You may wish to concentrate on these subjects when you see him, even though he and I will probably have touched on them at our own meeting beforehand. As you know, Shultz is on his way to the CDE, where he and I will both meet Gromyko. I see the meeting in London as an opportunity for a thorough look at the Soviet Union and at our policies towards it, including the question how best to work for a more constructive relationship at a time when Russia seems to be both sulking and (in your own expression) rudderless by reason of Andropov's illness.

4. On the Middle East I shall be able to speak about my visit to the region and the prospects for peace in Lebanon and between Israel and the Arab world. I think we should stress the importance of working to create conditions which would allow the MNF to be withdrawn soon, and discuss tactics for securing greater involvement by the UN. On Arab/Israel you may wish to reinforce the point in your letter to President Reagan before Christmas about the dangers for King Hussein of continuing deadlock in the peace process: my contacts in the region this week have only underlined this.

5. We shall also wish to emphasise the importance of keeping in very close touch over contingency planning against an escalation of the Iran/Iraq war, and draw attention to the dangers of US over-reaction to Iranian provocations.

6. I do not envisage spending much time on other current international political items, although Shultz himself may have points to raise, for example about the Kissinger report

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on Central America. I shall take the opportunity to touch briefly on certification of human rights in Argentina and possible arms supplies: the Americans know our views on the substance, and the best way of keeping them up to the mark on consultation may be by recording our appreciation of the efforts they made in handling the question of certification. I do not think I should go into any detail with Shultz on wqys in which we might be following up your exchange of messages with President Alfonsin: the Americans are well aware that sovereignty cannot be on the agenda, and that we envisage a practical, step-by-step approach (we shall be discussing this soon in OD). I hope that there will be no need for you to discuss the Falklands with Shultz. But if the course of his discussion with me suggests that this would be useful, I could raise the subject again in our joint meeting.

7. On economic matters, in addition to the more substantive international items, I would expect to take note of progress in the discussions now under way on the continuing problems which are primarily bilateral in impact such as extra-territoriality and unitary taxation. These also would probably not need to take up any time in your own meeting.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

13 January 1984

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TELEGRAM NUMBER 135 OF 13 JANUARY

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MIPT: YOUR MEETING WITH SHULTZ: MIDDLE EAST

1. OVER LEBANON THE ADMINISTRATION ARE WELL AWARE THAT THE DOMESTIC PRESSURES FOR WITHDRAWAL OF US LAND FORCES ARE LIKELY TO GROW STRONGLY IN AN ELECTION YEAR. BUT THEY ARE VERY CONCERNED THAT IF THE SYRIANS THINK THEY ARE NOW LOOKING FOR A WAY OUT, THIS WILL ONLY ENCOURAGE SYRIAN INTRANSIGENCE, RENDERING IT MORE DIFFICULT TO ACHIEVE CONDITIONS IN WHICH THE ROLE OF THE MNF COULD IN FACT BE TRANSFORMED. THEY HAVE FOUND OUT THE HARD WAY THE COMPLEXITIES, THE DIFFICULTIES OF MAKING PROGRESS, THE AWKWARDNESS OF THE PREDICAMENT IN WHICH WE FIND OURSELVES AND THE INCREASING RESTIVENESS OF THE EUROPEAN CONTRIBUTORS. BUT WHATEVER THE PRESSURES THE PRESIDENT, SHULTZ AND MCFARLANE ARE DETERMINED NOT SIMPLY TO CUT AND RUN. THEY CANNOT AFFORD TO CREATE THE IMPRESSION THAT 260 MARINES HAVE BEEN KILLED FOR NOTHING. THEY ARE CONCERNED THAT PRECIPITATE WITHDRAWAL OF THE MNF WOULD LEAD TO CHAOS AND THE TAKEOVER OF THE LEBANESE GOVERNMENT BY ELEMENTS HOSTILE TO WESTERN INTERESTS; AND WOULD PUT A FINAL NAIL IN THE COFFIN OF THE REPUTATION OF THE US IN THE REGION AS A RELIABLE ALLY. THEY CONTINUE TO GIVE A GREAT DEAL OF WEIGHT, THEREFORE, TO THE ADVICE FROM THE MODERATE ARABS, PARTICULARLY THE SAUDIS, THAT FOR THE PRESENT THE MNF MUST STAY. THEY HAVE BEEN WORKING HARD TO RALLY SUPPORT ON THE REPUBLICAN SIDE IN CONGRESS; BUT THE DEMOCRATS ARE INCREASINGLY OPPOSED TO CONTINUED U.S. INVOLVEMENT AND BELIEVE THAT IN THIS THEY HAVE FOUND AN ELECTION ISSUE THAT WILL HURT THE PRESIDENT.

~~HAVE FOUND AN ELECTION ISSUE THAT WILL HURT THE PRESIDENT.~~

2. THE ADMINISTRATION WOULD LIKE TO ENCOURAGE FURTHER ISRAELI WITHDRAWAL, PROVIDED THIS TIME IT TOOK PLACE IN CONDITIONS WHERE THE LEBANESE ARMY COULD FILL THE VACUUM. THEY DO NOT ACCEPT THE ARAB VIEW THAT IF THE ISRAELIS WITHDREW COMPLETELY, THE SYRIANS WOULD DO LIKEWISE. THEY HOLD THE SYRIANS PRIMARILY RESPONSIBLE FOR THE PRESENT IMPASSE. THEY UNDERSTAND THAT THERE WILL HAVE TO BE A DEAL WITH ASSAD IF THERE IS TO BE ANY PROGRESS. THE DIFFICULTY IS IN CUTTING SUCH A DEAL.

3. SHULTZ HAS A PERSONAL COMMITMENT TO THE 17 MAY AGREEMENT, SINCE HE NEGOTIATED IT. HE REGARDS IT AS VALID IN ITSELF AND, AS ONE OF THE FEW TANGIBLE AGREEMENTS TO HAVE BEEN REACHED SO FAR, NOT LIGHTLY TO BE SET ASIDE. THE AMERICANS, HOWEVER, PROBABLY WOULD ACQUIESCE IN SETTING IT ASIDE AS PART OF A PACKAGE. THEY WILL NOT BE PREPARED TO OFFER UP ITS ABRIGATION IN ADVANCE OF ANY OF THE OTHER ELEMENTS OF AN AGREEMENT. RUMSFELD'S OBJECTIVE WILL BE TO CONTINUE TO ENCOURAGE GEMAYEL AND THE LEBANESE OPPOSITION TO REACH AGREEMENT ON NEW SECURITY ARRANGEMENTS AND A MORE BROADLY-BASED GOVERNMENT. HE WILL BE TRYING TO PERSUADE THE SYRIANS TO DISCUSS MECHANISMS FOR WITHDRAWAL; AND HE WILL NEGOTIATE A FURTHER WITHDRAWAL OF THE ISRAELIS TOO IF HE CAN. THE US INTELLIGENCE COMMUNITY REMAIN SCEPTICAL OF GEMAYEL'S WILLINGNESS TO MAKE THE NECESSARY CONCESSIONS. BUT THE POLICY-MAKERS SEE JUMBLATT AND OTHERS, SO LONG AS THE SYRIANS ARE BEHIND THEM, AS MUCH MORE OF A PROBLEM IN THAT REGARD.

4. SHULTZ WOULD NOT ENDORSE IN QUITE THOSE TERMS THE VIEW THAT OUR FIRST PRIORITY SHOULD BE TO DEVISE ALTERNATIVE ARRANGEMENTS TO ENABLE THE MNF TO WITHDRAW. THE STATE DEPARTMENT AGREE THAT AN EXPANDED UNIFIL OR UN OBSERVERS COULD PLAY A USEFUL ROLE AT SOME STAGE. A GOOD MANY HERE WOULD WELCOME IT IF WE COULD FIND ANY WAY OF OVERCOMING SOVIET AND SYRIAN RESISTANCE TO AN EXPANDED UN ROLE. BUT THE AMERICANS DO NOT THEMSELVES WANT TO BE SEEN TO BE PRESSING TOO EAGERLY FOR THIS AT THIS POINT, AS THEY BELIEVE THIS WOULD ENCOURAGE THE SYRIANS TO THINK THAT THEY CAN AFFORD TO AVOID REAL NEGOTIATIONS IN THE EXPECTATION THAT THE MNF CAN BE EASED OUT ANYWAY.

5. THE AMERICANS HAVE BEEN TALKING TO THE RUSSIANS, AND SHULTZ WILL BE TALKING TO GROMYKO, ABOUT THE LEBANON AND THE MIDDLE EAST GENERALLY. THEY DO NOT FIND THESE DISCUSSIONS VERY PRODUCTIVE, THOUGH THE RUSSIANS HAVE CLAIMED TO HAVE BEEN URGING SOME RESTRAINT ON THE SYRIANS. THE AMERICANS CAN SEE NO ADVANTAGE IN A WIDER CONFERENCE, WHICH WOULD SIMPLY BE A PROPAGANDA FORUM AND WHICH THE ISRAELIS ANYWAY WOULD REFUSE TO ATTEND. THEY CAN SEE NO ADVANTAGE EITHER IN TRYING TO CUT THE SOVIET UNION INTO THE NEGOTIATING PROCESS. THEY BELIEVE THAT THE ONLY WAY OF OVERCOMING SOVIET RESISTANCE TO AN EXPANDED UN ROLE WILL BE THROUGH A DEAL WITH THE SYRIANS. THE DIFFICULTY REMAINS THAT OF PERSUADING THE SYRIANS TO AGREE TO ANYTHING THAT WOULD OFFER THE US AND OTHERS A REASONABLY ELEGANT WAY OUT, OR WHICH IT WOULD BE REASONABLE TO PRESSURE THE LEBANESE GOVERNMENT TO ACCEPT.

6. THERE IS NO GREAT OPTIMISM HERE ABOUT THE PROSPECTS OF FINDING A SOLUTION; BUT IT DOES NOT COME EASILY TO THE AMERICAN MIND THAT

~~6. THERE IS NO GREAT OPTIMISM HERE ABOUT THE PROSPECTS OF FINDING A SOLUTION. BUT~~ IT DOES NOT COME EASILY TO THE AMERICAN MIND THAT SOME PROBLEMS ^{can} ONLY BE MANAGED, THEY CAN'T NECESSARILY BE SOLVED, LEAST OF ALL IN A WAY IN WHICH SOMEONE IS LEFT A CLEAR WINNER. THERE ARE DEEP WORRIES ABOUT THE POLITICAL REPERCUSSIONS IN THE U.S. IF THE PRESENT SITUATION SHOULD REMAIN SUBSTANTIALLY UNCHANGED FOR MUCH LONGER. THERE IS AN ELEMENT OF BLUFF IN THE MANNER IN WHICH THE AMERICANS ARE TRYING TO DEAL WITH THE SYRIANS. BUT IT REMAINS FUNDAMENTAL TO THEIR JUDGEMENT THAT THE SYRIANS MUST ENCOUNTER SOME RESISTANCE IF THERE IS TO BE ANY HOPE OF PERSUADING THEM, AS MCFARLANE HAS PUT IT, TO SETTLE FOR HALF A LOAF, RATHER THAN THE WHOLE LOAF (OR WHATEVER PART THEREOF DOES NOT REMAIN CONSUMED BY THE ISRAELIS). MOREOVER THEY ARE ON A KNIFE-EDGE OF RISK. IF US FORCES ARE ATTACKED OR US PLANES ARE FIRED ON, THE US WILL RETALIATE; AND THERE WOULD BE NO DOMESTIC SUPPORT HERE FOR THE PROPOSITION THAT THEY SHOULD NOT. AT THE SAME TIME THEY MUST AT ALL COSTS AVOID GETTING SUCKED FURTHER IN TO THE LEBANESE QUICKSAND. THEIR DILEMMA IS NO LESS REAL FOR BEING IRRATIONAL.

7. THE AMERICANS, HAVE NOT HELPED THEMSELVES, OR ANYONE ELSE, BY THE SONG AND DANCE MADE HERE ABOUT "STRATEGIC COOPERATION" WITH ISRAEL. THAT ALL HAD OBVIOUS DOMESTIC POLITICAL ATTRACTIONS COMING UP TO AN ELECTION YEAR AND WITH MONDALE TRYING TO OUT BID ALL OTHER CONTENDERS HERE IN HIS PROTESTATIONS OF SUPPORT FOR ISRAEL. BUT THE MOVE ITSELF AND THE U.S. FAILURE TO GET ANYTHING IN RETURN FOR IT INFURIATED AND DISMAYED HUSSEIN, MUBARAK AND THE SAUDIS, WITH NO REAL ADVANTAGE TO THE UNITED STATES. TYPICALLY, HOWEVER, THE MODERATE ARABS HAVE BEEN EXPRESSING THEIR DISMAY MORE VIGOROUSLY TO US THAN THEY HAVE DIRECT TO THE AMERICANS.

8. ON THE ARAB/ISRAEL DISPUTE, NOTHING HAS CHANGED. REAGAN WILL NOT PUT ANY PRESSURE ON THE ISRAELIS OVER THE OCCUPIED TERRITORIES UNLESS KING HUSSEIN IS READY TO NEGOTIATE WITH ISRAEL. THE STATE DEPARTMENT WELCOMED PUBLICLY THE MUBARAK/ARAFAT MEETING AS A STEP IN THE RIGHT DIRECTION. THE AMERICANS HAVE NO FAITH IN ARAFAT'S ABILITY TO TAKE THE HARD DECISIONS REQUIRED FROM THE PLO TO ENABLE NEGOTIATIONS TO BE ENGAGED ON THE WEST BANK. BUT THEY THINK THAT THE NEXT STEP MUST BE THE RESUMPTION OF HIS DIALOGUE WITH HUSSEIN. THEY WOULD NOT WELCOME THE REVIVAL OF THE FRANCO/EGYPTIAN INITIATIVE OR ANY OTHER EC INITIATIVE WHICH COULD LEAD ARAFAT TO THINK THAT HE HAS OTHER OPTIONS.

9. THE AMERICANS REMAIN CONCERNED ABOUT THE SITUATION IN THE GULF. THEY HOPE THAT THE WAR WILL NOT TAKE A TURN WHICH WOULD POSE SO SERIOUS A THREAT TO THE SECURITY OF THE GULF STATES THAT THEY WOULD REQUEST ACTIVE WESTERN MILITARY HELP. THE AMERICANS WOULD NOT INVOLVE THEMSELVES UNLESS THERE WAS A PRESSING REQUEST FROM THE ARABS. BUT THEY WOULD THEN REGARD IT AS ESSENTIAL TO THE PRESERVATION OF THE WESTERN POSITION TO RESPOND. THE WHITE HOUSE STAFF HAVE BEEN EXPRESSING SATISFACTION AT THE CONSULTATIONS WITH US ABOUT CONTINGENCIES IN THE GULF. IF THERE WERE ARAB REQUESTS FOR HELP, THE AMERICANS HOPE THAT WE WOULD ALSO RESPOND, GIVEN OUR TRADITIONAL POSITION AND INTERESTS IN THE AREA. THEY WILL CONTINUE TO CONSULT CLOSELY WITH US; BUT THAT CONSULTATION IS BASED ON THE SUPPOSITION

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TO IMMEDIATE F C O

TELEGRAM NUMBER 133 OF 13 JANUARY.

XI

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YOUR MEETING WITH SHULTZ.

1. RATHER THAN ATTEMPTING TO COVER THE WHOLE RANGE OF ISSUES, I THINK YOU MAY FIND IT MOST PROFITABLE TO CONCENTRATE ON PRIVATE DISCUSSION WITH SHULTZ ON THE TWO ISSUES WHICH ARE UPPERMOST IN HIS MIND, AND NO DOUBT ALSO IN OURS: NAMELY THE HANDLING OF THE RELATIONSHIP WITH THE SOVIET UNION AND THE MIDDLE EAST (ON WHICH PLEASE SEE MIPTS).

2. FIRST, HOWEVER, I SHOULD SAY THAT SHULTZ HAS BEEN SHOWING SOME SIGNS OF FRUSTRATION AND HAS AGAIN BEEN GETTING A LESS GOOD PRESS IN RECENT MONTHS. HE FINDS IT DIFFICULT TO OPERATE IN THE HIGHLY FRAGMENTED AND SOMEWHAT ANARCHIC DECISION MAKING PROCESSES HERE, WHERE ONE HAS TO TAKE ACCOUNT OF SO MANY CONFLICTING INTERESTS AND POINTS OF VIEW AND PRESSURES, WHETHER FROM THE DOMESTIC OR FOREIGN AFFAIRS ADVISERS AT THE WHITE HOUSE, THE PENTAGON, CONGRESS AND SO FORTH. THE DIFFICULTIES OF ACHIEVING A COHERENT POLICY ARE GREAT; AND SHULTZ DOES NOT LIKE INCOHERENCE. HE STILL HAS TO DEVOTE AN EXCESSIVE AMOUNT OF TIME TO FIGHTING OFF SUCH PROPOSITIONS AS, FOR INSTANCE, THAT THE UNITED STATES SHOULD RETALIATE IN SOME WAY FOR THE KILLING YESTERDAY OF A US HELICOPTER PILOT NEAR THE NICARAGUAN BORDER; OR MRS KIRKPATRICK'S IDEAS THAT THE UNITED STATES SHOULD BACK UNITA RATHER THAN GOING ON TRYING FOR A NAMIBIA SETTLEMENT.

3. MORE SERIOUSLY, SHULTZ REALISES THAT THE UNITED STATES TO SAY NOTHING OF THE OTHER MNF CONTRIBUTORS IS IN A DECIDEDLY AWKWARD PREDICAMENT IN THE LEBANON: THAT DOMESTIC PRESSURES MAY NOT ALLOW THE ADMINISTRATION MUCH TIME; AND THAT IT IS GOING TO BE VERY DIFFICULT TO FIND A WAY THROUGH. THE PRESS TEND TO FIND HIM SOMEWHAT WOODEN AND UNIMAGINATIVE, THOUGH WHAT THEY DISLIKE MOST IS HIS MASSIVE DISCRETION. HE IS NOT A MAN, LIKE KISSINGER, HIMSELF TO CHANGE EVENTS, TO GO BACK TO DAMASCUS AND WHEEL AND DEAL WITH ASSAD, AND AS YOU KNOW FROM YOUR OWN MEETINGS WITH HIM HIS

~~TO CHANGE EVENTS, TO GO BACK TO DAMASCUS AND WHEEL AND DEAL WITH, ASSAD. AND AS YOU KNOW FROM YOUR OWN MEETINGS WITH HIM HIS DISCRETION AT TIMES IS EVIDENT EVEN IN HIS PRIVATE DISCUSSIONS WITH TRUSTED ALLIES. MOREOVER, HE IS A HARD-LINER ALBEIT OF A PRAGMATIC BENT IN HIS OWN VIEW OF SOVIET BEHAVIOUR: AND HE WAS A HUNDRED PER CENT WITH THE PRESIDENT OVER THE INTERVENTION IN GRENADA.~~

4. BUT YOU ALREADY KNOW HIS SOBER QUALITIES, HIS STRENGTH OF CHARACTER AND THE GENERALLY BENEFICIAL AND STEADYING INFLUENCE HE EXERTS HERE. ALTHOUGH THERE ARE SOME DIFFERENCES OF VIEW, HE FINDS IT MUCH EASIER TO WORK WITH MCFARLANE THAN HE DID WITH CLARK. AND, WE ARE TOLD, HE HAS SUCCEEDED WHERE IT MATTERS MOST IN THE SYSTEM HERE I.E. IN ESTABLISHING A REALLY GOOD PRIVATE WORKING RELATIONSHIP WITH THE PRESIDENT. THIS DOES NOT MEAN THAT HE CAN GET THE PRESIDENT TO OVER-RULE OTHER COLLEAGUES: THAT IS NOT THE PRESIDENT'S WAY. BUT HE HAS GOT THE PRESIDENT'S CONFIDENCE IN A WAY HAIG NEVER HAD. YOUR TALKS WITH HIM ON SUNDAY WILL PROVIDE THE OPPORTUNITY TO PROBE HIS THINKING IN MORE DEPTH AND DETAIL THAN HAS BEEN POSSIBLE IN THE MEETINGS WITH OTHER EUROPEAN COLLEAGUES PRESENT. ON THE ISSUES, PLEASE SEE MIFTS.

5. FCO PLEASE PASS ALSO TO NO. 10 DOWNING STREET.

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CONFIDENTIAL

FM WASHINGTON 130320Z JANUARY, 1984

TO IMMEDIATE F C O

TELEGRAM NUMBER 134 OF 13 JANUARY.

MIPT: YOUR MEETING WITH SHULTZ: EAST/WEST RELATIONS

1. THE HANDLING OF THE RELATIONSHIP WITH THE SOVIET UNION WILL BE A MAJOR THEME OF YOUR AND THE PRIME MINISTER'S MEETINGS WITH SHULTZ.

2. THE PRESIDENT WILL BE MAKING A SPEECH ON MONDAY, THE PURPOSE OF WHICH IS TO PUT HIS PERSONAL IMPRIMATUR ON A MEASURED AND BALANCED ANALYSIS OF THE US/SOVIET UNION RELATIONSHIP. HE WILL DEAL WITH THE THREAT POSED BY THE SOVIET UNION TO WESTERN INTERESTS AND THE MEASURES WHICH HAVE TO BE TAKEN TO COUNTER THIS; BUT THE EMPHASIS WILL BE PLACED ALSO ON THE CONTINUING NEED FOR A MODUS VIVENDI WITH THE SOVIET UNION AND THE PURSUIT OF MEANINGFUL ARMS CONTROL AGREEMENTS. THE SPEECH IS STILL IN THE DRAFTING PROCESS. THE PRESIDENT WILL NOT BE MAKING SPECIFIC PROPOSALS AND THERE IS THEREFORE A DANGER OF THE EVENTUAL PRODUCT SOUNDING SOMEWHAT HOLLOW. IT WILL BE THE TONE THAT WILL BE IMPORTANT AND THE FACT THAT THE PRESIDENT WILL BE TRYING TO SEND A POSITIVE SIGNAL TO THE SOVIET LEADERSHIP.

3. THE PRESIDENT PERSONALLY HAS REJECTED ADVICE FROM THE RIGHT-WINGERS HERE TO PRESENT THE ADMINISTRATION'S CONCERNS ABOUT SOVIET COMPLIANCE WITH EXISTING ARMS CONTROL TREATIES IN A WAY WHICH WOULD TEND TO DISCREDIT THE ARMS CONTROL PROCESS ITSELF. THOSE ISSUES, AND PARTICULARLY THE FACT THAT THE SOVIET UNION IS PRODUCING A SECOND NEW ICBM (AS AGAINST THE ONE NEW TYPE ALLOWED IN THE SALT II TREATY) AND HAS CONSTRUCTED WHAT APPEARS TO BE AN EARLY-WARNING/BATTLE MANAGEMENT RADAR AT ABALAKOVO, THEREBY PLUGGING AN IMPORTANT GAP IN THE SOVIET DEFENSIVE SYSTEM, WILL BE TAKEN AS DEMONSTRATING THE NEED TO AIM FOR MORE TIGHTLY WORDED AND MORE EFFECTIVELY VERIFIABLE AGREEMENTS; BUT NOT AS INVALIDATING THE NEED TO PURSUE ARMS CONTROL.

4. THE PRESIDENT, THEREFORE, WILL BE ATTEMPTING TO CHANGE SOMEWHAT THE ATMOSPHERE, PUTTING THE FALL OUT FROM THE KOREAN AIRLINER

4. ~~THE PRESIDENT, THEREFORE, WILL BE ATTEMPTING TO CHANGE SOMEWHAT THE ATMOSPHERE, PUTTING THE FALL OUT FROM THE KOREAN AIRLINER INCIDENT (IN WHICH 70 US CITIZENS WERE KILLED) AND THE QUOTE EVIL EMPIRE UNQUOTE SPEECH BEHIND HIM. HE WILL BE DOING SO PARTLY BECAUSE OF SHULTZ'S ADVICE AND SOME EVOLUTION IN HIS OWN THINKING: PARTLY BECAUSE AMERICAN OFFICIALS NOW RECOGNISE THAT A MORE MEASURED STATEMENT FROM THE PRESIDENT HIMSELF WILL HELP TO STEM THE MOOD OF CRITICAL SCEPTICISM OF THIS ADMINISTRATION AMONG THE ALLIES: BUT ABOVE ALL BECAUSE THIS IS AN ELECTION YEAR AND HE JUDGES THAT SUCH AN APPROACH SHOULD APPEAL TO THE DOMESTIC AUDIENCE.~~

5. THE PRESIDENT IS UNDER NO GREAT DOMESTIC PRESSURE, HOWEVER, TO MAKE CONCESSIONS TO THE RUSSIANS. THE U.S. PUBLIC REMAINS CONCERNED ABOUT THE NUCLEAR ARMS RACE AND INTERRUPTION OF A HIGH-LEVEL US/SOVIET DIALOGUE. THESE ARE THEMES MONDALE, THE LIKELY DEMOCRATIC CONTENDER, WILL BE TRYING TO EXPLOIT. BUT IS IS QUITE WIDELY UNDERSTOOD THAT, GIVEN THE PRESENT STATE OF THE SOVIET LEADERSHIP, THE POSSIBILITIES FOR ANY BREAKTHROUGH IN US/SOVIET RELATIONS ARE REMOTE. THE WOODEN AND UNYIELDING SOVIET PERFORMANCE IN THE INF NEGOTIATIONS, DESPITE CONSIDERABLE EVOLUTION OF THE WESTERN POSITION, DEMONSTRATED THE DIFFICULTIES OF ACHIEVING ANY REAL FLEXIBILITY FROM MOSCOW AND A CONTINUING OBSESSION WITH THEIR ATTEMPTS TO WORK ON EUROPEAN OPINION RATHER THAN NEGOTIATING SERIOUSLY WITH ALLIED GOVERNMENTS. THE RESULT HAS BEEN A MAJOR SET BACK FOR THEM OVER WESTERN INF DEPLOYMENT. AND ALTHOUGH THE RUSSIANS HAVE BROKEN OFF THE INF TALKS AND SHOW NO SIGNS OF RETURNING TO THEM, AND HAVE SUSPENDED THE START AND MBFR NEGOTIATIONS, THE SHULTZ/GROMYKO MEETING AND THE OPENING OF THE CDE IN STOCKHOLM WILL DEMONSTRATE THAT THE RUSSIANS TOO HAVE LITTLE OPTION BUT TO CONTINUE THE DIALOGUE WITH THE WEST AND THE UNITED STATES IN PARTICULAR. THE AMERICANS, FOR THEIR PART, HAVE BEEN ENCOURAGED BY THE ALLIANCE'S ABILITY TO CONTAIN THE SOVIET REACTIONS TO INF DEPLOYMENT AND THE FACT THAT SOME AT LEAST OF THE EAST EUROPEAN ALLIES APPEAR TO HAVE BEEN URGING CAUTION ON THE RUSSIANS.

6. THE US ADMINISTRATION REALISES THAT FOLLOWING INF DEPLOYMENT, THE SOVIET/CUBAN SET BACK IN GRENADA AND THE GENERAL DEMEANOUR OF THE REAGAN ADMINISTRATION OVER THE LAST THREE YEARS, THE RUSSIANS ARE GOING TO DO NO FAVOURS WHATEVER TO HELP MR REAGAN GET RE-ELECTED. THE PROSPECTS FOR ANY MAJOR ARMS CONTROL AGREEMENT THIS YEAR OBVIOUSLY ARE POOR. SO, FOR DIFFERENT REASONS, ARE THE PROSPECTS OF A US/SOVIET SUMMIT. BUT IF THE SHULTZ/GROMYKO MEETING RESULTS IN THE RESUMPTION OF A SOMEWHAT MORE CONSTRUCTIVE DIALOGUE, IT COULD POSSIBLY LEAD ON TO A VISIT BY SHULTZ TO MOSCOW. WITH ONE EXCEPTION (ON WHICH I AM TELEGRAPHING SEPARATELY) I DO NOT BELIEVE SHULTZ WILL BE PUTTING ANY SUBSTANTIALLY NEW IDEAS TO GROMYKO IN STOCKHOLM; AND GROMYKO IS NOT NOTED FOR PRODUCING NEW IDEAS OF HIS OWN. YOU WILL BE AWARE, HOWEVER, OF THE US/SOVIET TALKS HERE ON THE UPGRADING OF THE HOTLINE; AND OF THE CONTINUANCE OF THE US/SOVIET DIALOGUE ON NON-PROLIFERATION. IF THERE IS A BIT OF A THAW, THIS COULD LEAD TO MODEST NEW CONSULAR AND CULTURAL AGREEMENTS WITH THE RUSSIANS. IN OTHER WORDS THE AMERICANS ARE TRYING TO GET BACK TO THE POSITION TOWARDS WHICH THEY WERE MOVING BEFORE THE SHOOTING DOWN OF THE KOREAN AIRLINER.

~~SHOOTING DOWN OF THE KOREAN AIRLINER~~

7. ALTHOUGH THE AMERICANS WILL CONTINUE PROBING THE SOVIET POSITION ON INF AND TRYING TO DRAW THEM BACK TO THE NEGOTIATING TABLE, ANY REAL PROGRESS IN ARMS CONTROL IS LIKELY TO HAVE TO BE LED BY START. THE ADMINISTRATION AT PRESENT ARE AGAINST A MERGER OF INF AND START, MAINLY BECAUSE THEY WILL NOT PUT THEMSELVES IN A POSITION IN WHICH THEY COULD BE PRESSED BY THE ALLIES TO MAKE CONCESSIONS TO THE RUSSIANS ON THEIR OWN STRATEGIC FORCES TO IMPROVE THE PROSPECTS FOR AGREEMENT ON INTERMEDIATE RANGE WEAPONS. THEY WILL ALSO ARGUE THAT A MERGED INF/START NEGOTIATION COULD RENDER IT MORE DIFFICULT TO EXCLUDE ALLIED SYSTEMS ENTIRELY. IT WOULD BE DIFFICULT TO OPPOSE A MERGER IF THE RUSSIANS PROPOSED ONE, THOUGH THERE IS AS YET NO SIGN OF THIS. SOME CATEGORIES OF INF, HOWEVER, SEEM LIKELY IN ANY EVENT TO END UP BEING DISCUSSED IN THE MARGINS OF START.

8. SHULTZ SHOWS IMPATIENCE WITH ANY SUGGESTION THAT THE US IS NOT TRYING HARD ENOUGH TO RE-DEVELOP THE RELATIONSHIP WITH THE SOVIET UNION: OR THAT THERE HAS BEEN NO DIALOGUE. HE HAS SEEN DOBRYNIN REGULARLY, THOUGH HE HAS NOT FOUND THOSE MEETINGS VERY PRODUCTIVE, PERHAPS IN PART BECAUSE SINCE BREZHNEV'S DECLINE GROMYKO HAS BEEN PLAYING AN EVEN GREATER ROLE IN THE FORMULATION OF SOVIET POLICY. THE AMERICANS CONTINUE, AS EAGLEBURGER PUTS IT, TO FIND THAT WHEN THEY DO TRAIL IDEAS IN FRONT OF THE RUSSIANS, THEY ARE NOT GETTING MUCH BACK DOWN THE WIRES. THEY UNDERSTAND THE REASONS FOR THIS IN TERMS OF THE SOVIET INTERNAL SITUATION AND THE PRESENT CLIMATE. BUT, AS THE PRESIDENT SAYS, IT TAKES TWO TO TANGO: AND GROMYKO IS NOT NOTED FOR HIS TANGOING ABILITY.

9. WHAT WE HAVE BEEN IMPRESSING ON THE ADMINISTRATION IS THE NEED TO GO ON TRYING: THE ADVANTAGES OF THEIR BEING SEEN TO BE CONTINUING HIGH LEVEL US/SOVIET DIALOGUE, EVEN IF THE INITIAL RESULTS ARE MEAGRE: AND THE POSSIBLE ADVANTAGES OF WIDENING CONTACTS WITH THE SOVIET LEADERS BEYOND THE CHANNELS CONTROLLED BY GROMYKO. WE HAVE ALSO SOUGHT TO ENCOURAGE DISCREETLY THE IDEA OF SOME POSSIBLE FURTHER EVOLUTION OF THE US POSITION IN START AS THE BEST WAY IN WHICH TO GIVE SOME REAL CONTENT TO THE RESUMED DIALOGUE.

10. ONE FINAL POINT, SHULTZ, AS YOU WILL KNOW, HAS STRONG PERSONAL FEELINGS ABOUT THE WAY IN WHICH DISSIDENTS ARE TREATED IN THE SOVIET UNION. HE WILL RAISE THE CASES OF SCHCHARANSKY AND SAKAHAROV AND OTHER LESS PROMINENT PERSONS WITH GROMYKO, THE MORE SO AS HE BELIEVES THAT THE AMERICANS WERE MISLED BY THE RUSSIANS IN THE CONCLUDING STAGES OF THE CSCE REVIEW CONFERENCE INTO BELIEVING THAT SOMETHING WOULD BE DONE ABOUT SCHCHARANSKY. THAT INDEED WAS PART OF THE BASIS ON WHICH THE PRESIDENT AGREED THAT THE US SHOULD MOVE FORWARD TO THE CDE.

11. FCO PLEASE PASS TO NO. 12 DOWNING ST.

WRIGHT

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FIVE 84

10 DOWNING STREET

From the Private Secretary

11 January, 1984

Dear Roger,

Visit of Mr. George Shultz

This is just to say that the Prime Minister would be grateful if the Foreign and Commonwealth Secretary and Sir Antony Acland were able to attend her talks with Mr. Shultz at 5.30 p.m. on Sunday, 15 January. I understood from you earlier that Mr. Shultz would be accompanied by Mr. Burt and the US Ambassador. Perhaps you would let me know if there is any change in this respect.

BS/1

Your ever

Rob Cole

R. B. Bone, Esq.,
Foreign and Commonwealth Office

PRIME MINISTER

Visit of Mr. Shultz

You have asked Mr. Shultz to call
at No. 10 for talks and a drink at
5.30 p.m. on Sunday, 15 January.

I understand that he would like
to be accompanied by Mr. Burt and the
American Ambassador. Would you be
content to have the Foreign and Common-
wealth Secretary and Sir Antony Acland
present?

Yes -

A.J.C.

ms.

6 January, 1984

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TO IMMEDIATE F C O
TELEGRAM NUMBER 3899 OF 30 DECEMBER
INFO BIS NEW YORK.

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IMMEDIATE

A.S.C. 3/1

MY TELNO. 3827: SHULTZ'S VISIT TO LONDON.

1. SHULTZ'S PLAN TO PASS THROUGH LONDON ON HIS WAY TO STOCKHOLM IS BEGINNING TO LEAK HERE SO, IF YOU HAVE NO OBJECTION, STATE DEPARTMENT WOULD LIKE TO MAKE A STATEMENT ALONG THE FOLLOWING LINES AT NOON WASHINGTON TIME ON TUESDAY 3 JANUARY:-
"THE SECRETARY WILL TRAVEL TO LONDON ON 15-16 JANUARY FOR CONSULTATIONS WITH HER MAJESTY'S GOVERNMENT EN ROUTE TO THE CONFERENCE ON DISARMAMENT IN EUROPE TO BE HELD IN STOCKHOLM".
2. STATE DEPARTMENT WILL NOT ELABORATE ON SUBJECTS FOR DISCUSSION IN LONDON ALTHOUGH THE MAJOR TOPICS WILL BE OBVIOUS. GRATEFUL TO KNOW TERMS IN WHICH YOU WILL BRIEF THE PRESS ABOUT SHULTZ'S VISIT.

WRIGHT

NNNN



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bcr

10 DOWNING STREET

From the Private Secretary

22 December 1983

Visit of Mr George Shultz

I have seen Washington telegram number 3827.

The Prime Minister has agreed to see Mr. Shultz on Sunday 15 January and we have set aside 1730 on that day.

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

For

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GRS 110

CONFIDENTIAL
FM WASHINGTON 211516Z DEC 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 3827 OF 21 DECEMBER

FOLLOWING FOR PS

Prime Minister.

We shall try to persuade
George Shultz to come on Sunday,
16 January - but if necessary would
you be prepared to see him on
Sunday, 15 January in the evening?

Yes
A.S.C. 22/12

1. I PUT THE SECRETARY OF STATE'S SUGGESTION THAT SHULTZ MIGHT
CALL IN ON LONDON FOR TALKS ON HIS WAY TO STOCKHOLM IN MID-JANUARY
TO EAGLEBURGER ON MY RETURN. BURT NOW TELLS ME THAT A RECOMMENDATION
HAS GONE TO SHULTZ SUGGESTING THAT HE TRAVEL TO LONDON ON SATURDAY,
14 JANUARY TO BE AVAILABLE FOR TALKS WITH THE SECRETARY OF STATE
AND THE PRIME MINISTER IF POSSIBLE ON SUNDAY 15 JANUARY. WHEN I
PULLED A FACE ABOUT THE DISTURBANCE OF THE WEEKEND AND SUGGESTED
THAT MONDAY THE 16TH MIGHT BE BETTER, BURT SAID THAT SHULTZ LIKES
TO GET TO HIS CONFERENCE DESTINATION 24 HOURS IN ADVANCE SO THAT
HE CAN PREPARE HIMSELF PROPERLY FOR THE WORK OF THE CONFERENCE.
PRICE WILL NO DOUBT BE IN TOUCH.

WRIGHT

NNNN

Caroline
Shultz has cancelled

ADK



A.A.C. 4/7.

I mentioned the attached to
the PM when she returned
on Sunday early evening.

Mal

With the compliments of 3/7

Resident Clerks Office

FOREIGN AND COMMONWEALTH OFFICE

LONDON, SW1A 2AH

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

July 3, 1983

Dear Sir Geoffrey:

Because of developments in the Middle East, the President has asked me to rearrange my plans and stop in several of the capitals in the region to consult with governments. I will then have to return directly to Washington, and unhappily that means I must miss the opportunity to meet with you. I would be grateful if you would also pass my regrets to the Prime Minister who had so kindly agreed to see me. I look forward to meeting with you the following week in Washington. I am glad this delay in our meeting will be brief.

Warm Regards,

George P. Shultz

The Rt. Hon. Sir Geoffrey Howe M.P.
Secretary of State for Foreign and
Commonwealth Affairs,
Foreign and Commonwealth Office,
London, S.W.1.

EMBASSY OF THE UNITED STATES OF AMERICA
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Dear Sir Geoffrey:

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Warm Regards,

George P. Shultz

The Rt. Hon. Sir Geoffrey Howe M.P.
Secretary of State for Foreign and
Commonwealth Affairs,
Foreign and Commonwealth Office,
London, S.W.1.

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10 DOWNING STREET

From the Private Secretary

24 January 1983

The Prime Minister read with interest Sir Oliver Wright's letter about Mr. George Shultz (your letter of 13 January refers).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

13 January 1983

mk

Time Minute

worth reading, if you
have time.

Gen Shultz

US: George Shultz

A.T.C. ^{18.}/₁

You may like to bring to the Prime
Minister's attention the enclosed copy of
an interesting and timely analysis of
George Shultz's influence, prepared by
Sir Oliver Wright.

Yours ever
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street



BRITISH EMBASSY,

WASHINGTON, D. C. 20008

TELEPHONE: (202) 462-1340

FROM THE AMBASSADOR

28 December 1982

Sir Antony Acland KCMG, KCVO
PUS
FCO

HMAD
For ha/ru/ly pa.

cc. Private Secretary
Ps/Mr Hunt
Sir J. Burhard
Sir J. Leahy
Mr Giffard
Mr Evans
HMAD
BRD Ps/PUS
BESD
TRD
Defence DepV.

Dear Antony,

*Mut 3/
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GEORGE SHULTZ: THE CALMING INFLUENCE

"If I could choose one American to whom I would entrust the nation's fate in a crisis, it would be George Shultz" (Dr Henry Kissinger).

1. In London the Secretary of State praised George Shultz for having made a "major mark on the world putting his own stamp on US foreign policy". You and he will have formed your own impressions of him, but it is I think worth considering why he is at present riding so high in US and international esteem, after so short a period in office. I attach for ease of reference a brief "C.V."

2. As the most experienced member of Mr Reagan's Cabinet, having held three senior positions under Nixon, Shultz brought to the State Department a wealth of public expertise. Economic and financial problems are for him as important and pressing as the traditional fare of diplomacy. After a distinguished career in government, business and academia, he is not driven to enhance his own glory. Unencumbered by ego problems or Kissinger-type dreams of solving the world's problems single-handed he is, as they say here, comfortable with his public and private life. Presidential Assistant Jim Baker has described him as a "good psychologist" - a rare tribute from the White House, and an important attribute in Washington where double-dealing runs a good second to horse dealing. He has earned the reputation of a good team-player. He shares the President's conservative attitudes in foreign and domestic policies. He recognises (as Haig never did) that Mr Reagan has a deep dislike of private tensions between his senior advisers, and an equal distaste for having to resolve these personally. He never ceases to insist that he is the instrument for the conduct of foreign policy decided by the White House, content to emphasise that "we are all working for the President; he is the boss". Granted that he does not face the sort of intellectual or personal opposition from the White House with which so many of his predecessors had to contend. Judge Clark is no Kissinger or Brzezinski! Shultz has managed to avoid the wranglings with White House staff which so reduced Haig's effectiveness. Indeed, it was the White House who encouraged the

/introduction



introduction of Shultz into domestic and international economic counsels, in which he has been playing an important part. Certainly he has restored primacy in the formulation and execution of foreign policy to the State Department: The decisions remain of course at the White House.

3. Shultz likes to describe himself as a "university man". A good listener, in addressing each problem his method has been to take the widest possible sounding of opinion, withholding his own views until he is ready to go away and make his mind up by himself. Adapting also what his staff describe as the labour lawyer (another previous incarnation) technique to diplomacy, Shultz hammers away at procedural issues if he thinks that for the moment progress on substance cannot be achieved. This we are told has been typical of his meetings so far with the Soviet Ambassador, Dobrynin, in which Shultz has talked at length about the procedures for the series of US-Soviet negotiations and other talks, without trying to tackle the problems of substance which for the moment look too difficult to be resolved. His purpose is to keep the dialogue alive, to explore small compromises, and to wait for other factors to give the relationship a firmer thrust forward. Shultz will continue to exercise great caution in his dealing with the Soviet Union, not only as the President's man, but by virtue of his own distrust of Soviet initiatives and propaganda ploys. He has strong views on the nature of the Soviet regime, remarking to me that the hour he spent with Mrs Shcharansky was his worst since becoming Secretary of State. No ideologue, however, his views on the Russians look steadier, sounder and above all more realistic than those of some others here. Gromyko, we are told by others present, seemed to find Shultz's quieter but rather implacable approach a good deal more disconcerting than the tirades to which he used to be subjected by Al Haig.

4. Calm and methodical by nature, Shultz can be quick to act, when he feels the time is right. The first problem which he really addressed his attention was, of course, the Middle East. Having consulted Kissinger and other outsiders (a favourite technique) as well as his own senior staff, he concluded that the Camp David process in the form in which it then stood was going nowhere; that the main elements needed to be put forward in a new way; and that this must be done by the President himself. Shultz warned the President that the proposed statement would produce sharp Israeli reactions and that, if he made it, he must be prepared for these, as well as some domestic resistance. The initiative was launched within eight weeks. The difficulties of following through are immense. There is an obvious danger that it may turn out to be another Rogers' plan, all right as a statement of intent, but impossible to implement. American efforts over the next few months are going to have to be devoted to getting the Israelis out of Lebanon; rather than getting them off the West Bank. The fact remains, however, that Shultz's initiative already has served to help bridge the gap between the US and European positions on the Middle East and to stabilise US relations with the moderate Arab



countries. The President is fully committed to the approach; and it was achieved with surprisingly little domestic resistance. Nonetheless Shultz has to operate ^{within} strict limits. While the US is the only power with the clout to influence a solution to the conflict, the Jewish lobby ensures that pressures on Israel are limited in scope. It is part of accepted wisdom here that opposition from the Jewish community means death to any electoral Candidate, Presidential or Congressional.

5. The same skill was shown in Shultz's approach to the next problem to which he applied his hand: the pipeline dispute. Shultz inherited decisions he certainly felt should never have been taken (he was on public record as having little faith in the efficacy of economic sanctions). While supporting the President's policy loyally, he was quick to sense that sections of the Administration and Congress (not to mention the media and US business) were beginning to understand the self-defeating nature of the measures which had been adopted. Rather than trying to take these head-on, he was able to change the angle of approach, progressively bringing the President round to his way of thinking (and isolating those opposed to it) and, with help from us and others, to produce a solution which got us and the United States off the hook. The harder-liners did not much like this outcome and have been predicting that the studies now to be engaged will produce few if any results. It is important to Shultz's credibility that we should do our best to belie them.

6. There is plenty of evidence of Shultz's influence in other matters. He went to Europe convinced that the most pressing international problem of all was to try to help the world find a way out of the recession, since the recession was at the heart of many of the most strident of current problems: trade protectionism, the threatened agricultural war, the inadequate defence performance of some of the weaker brethren in the Alliance. He believes that Foreign, Finance and Defence Ministers must take a closer interest in each other's affairs, since each area of responsibility overlaps with the others. Easier said than done; and he did not come back from Europe with a plan in his pocket. Although he had succeeded in defusing the row with the French over the pipeline and with the European Community over subsidised agricultural exports and in calming European fears over the two track INF decision. Not bad for a 13 day trip.

7. Shultz does not pretend to have any magic formulae, other than working away at such unglamorous but important tasks as increasing the resources of the IMF, and containing protectionist pressures here and elsewhere. But he has correctly identified the priorities and will worry away at the subject, convinced as he is that the thinning down of the world economy has now reached a point at which further doses of austerity may do the patient more harm than good. No advocate himself of expansion at any price, Shultz I think still found Ministers in London somewhat more addicted than he is at this point to absolute virtue. There are, I scarcely need add, divided views on that here too. In an area, meanwhile, which is more properly perhaps the concern of the Secretary of State, he has shown a determination



to prevent US/European economic differences getting out of control. The successful meeting he held with the Commission in Brussels, flanked by four other US Cabinet Ministers, was an important case in point. He has since, been doing his best to damp down the considerable frustration felt here at the outcome of the GATT Ministerial meeting.

8. Lest this begin to sound like too much of a panegyric, let me add that Shultz is not Superman, nor can he be expected to be. He will need to pay attention to his relations with Congress. Having won unanimous approval for his appointment in the Senate, Shultz has hardly been there since. Although he has wisely appointed a retiring Congressman, Derwinski, as Counsellor in the State Department I am not sure that he or anyone else could have spared us the messy outcome in the lame-duck session in Congress of some matters of importance to the Allies (though we did not do badly in terms of our own defence sales); but he has not yet succeeded in making much use of his authority on the Hill.

9. In the time so far available it is hardly surprising that Shultz has not been able as yet fully to devote his attention to some questions no less important than those I have described. After the Sturm und Drang diplomacy of Haig, the change to Shultz was welcome from almost all possible points of view. The area in which he does not have anything like Haig's expertise, however, is the arcane world of strategic arms reduction and INF. There is not the slightest doubt of his capacity to master those subjects and, with his European trip, he has been starting to do so. It is safe to bet that he will continue to feel himself more comfortable, and perhaps also on safer ground within the Administration, on subjects like the Middle East and international economic relations, on which his expertise is already formidable. But the real test of his tenure as Secretary is liable to come on his ability to help the Allies to work its way through the problems associated with INF deployment next year. That will depend on a display not only of steadiness (of which there will be plenty from Shultz) but also of imagination.

10. Nor should we forget that Shultz, with all his gifts, will be operating within certain well defined political parameters. This Administration will continue to take a tough line with the Soviet Union (which suits his own inclinations anyway). There will be many battles ahead over arms control. Nevertheless, what he has achieved so far is pretty remarkable. He has been getting such a good press one is bound to wonder where the banana skin is going to come from. But Shultz, I suspect, is a good deal less prone than most to banana skins.

11. Cy Vance, I am told, used to have a similarly reassuring quality. He too seemed almost invariably to be on the sensible side of any issue. He did not, however, prove an effective Secretary of State. Perhaps with Carter and Brzezinski, no-one could have been. Shultz already has proved himself more effective than any of his recent predecessors. I would expect him to continue to do so. Behind that



quiet exterior, you will, I think, have sensed his strength of character, the quality of his mind and the calm of his temperament. Above all, he has a quiet sense of humour and therefore judgement. Shultz, as he has told me clearly and as he demonstrated in London, attaches great importance to what he and the Administration persist in regarding as a special relationship with Britain. He regards us, at any rate under the present Government, as the most dependable of America's allies. He values our advice and pays attention to it. He was, as you know, taken aback by our reactions about the Falklands vote, because he felt he detected an element of stridency in them: and the last thing he is is strident. He will not be easy to shift from positions he believes to be right; and they will not always be ones which will suit us. I would conclude, however, by endorsing what Henry Kissinger said. A good man to have at one's side in a crisis; a very welcome steadying influence in this rather febrile capital; and a very knowledgeable and experienced figure in an Administration rather short on knowledge and experience. I only hope, for Shultz's and our sakes, that here in Washington, where ignorance is bliss, it will not be folly for Shultz to be wise.

With all good wishes for 1983 - yours and Steve's!

Oliver

Oliver Wright

cc HM Ambassadors
Paris, Bonn, UKMIS New York,
UKDEL NATO, Moscow,
UKREP Brussels.

GEORGE P SHULTZ: SECRETARY OF STATE

1920 Born New York City

1942 Graduated BA Economics, Princeton University

1942-44 US Marine Corps

1948-54 Faculty of Massachusetts Institute of
Technology

1949 PhD, Industrial Economics MIT

1955 Senior staff economist to the President's Council
of Economic Advisers

1956-57 MIT Faculty

1957-68 Professor of Industrial Relations, and later
Dean of the University of Chicago Business School

1969 Secretary of Labour under President Nixon

1970 Director of the Office of Management and Budget

1972 Secretary of the Treasury, and later Presidential
Assistant and Chairman of the Council on Economic
Policy

1974 Left government (with Nixon's resignation) to
become executive Vice President and later
President, of the Bechtel Group

1975-82 Part-time faculty member at Stamford University
Graduate School of Business, and a member of the
Board of Directors of General Motors, Dillon Reed
and Morgan Guaranty Trust International Council.

1980 Chairman of President Reagan's Economic Policy
Advisory Board.

1982 Secretary of State.

SUBJECT cc Mans

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10 DOWNING STREET

From the Private Secretary

20 December, 1982

Dear Brian,

Prime Minister's Tete-a-Tete
with Mr. George Shultz

Before the dinner which she gave for Mr. Shultz on 17 December, the Prime Minister had a tete-a-tete conversation with him which lasted for 75 minutes. No-one else was present. The Prime Minister gave the following summary of the discussion afterwards.

US Economic Policy

Mr. Shultz gave the impression that he was searching for a means of promoting non-inflationary growth. But he took the view that it was not necessary to adopt measures specially designed to reduce the US budget deficit because this would automatically fall as growth got underway. The Prime Minister was inclined to think that this was ex post facto rationalisation. The fact was that the US Administration was constrained by Congress which was not inclined to approve the only measures which could reduce the deficit. She had obtained the impression from Mr. Shultz that President Reagan was now giving thought to the problem and might make a speech urging people not to worry about the deficit because it would fall as the economy took off.

Results of Recent Congressional Elections

Mr. Shultz confirmed the view, which had been expressed to the Prime Minister by Sir Oliver Wright and others, that the change which had taken place in Congress was much greater than the figures suggested. This was due to the personalities of the new members of Congress. The upshot was that the Administration would have a more difficult time on the Hill than the electoral figures had indicated.

INF: Dual Key

The Prime Minister explained to Mr. Shultz the political problems which were beginning to arise in this country because there was no provision for dual physical control in the arrangements relating to the deployment of Cruise missiles. She

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expressed the view that there should be no difficulty in making special arrangements for the United Kingdom, as opposed to the rest of the Alliance, because we had particular experience of nuclear weapons. Shultz had noted her remarks without comment.

Falklands

Mrs. Thatcher explained to Mr. Shultz why it was not possible for Britain to envisage negotiations about the future of the Falklands. Resentment was caused when President Reagan and other members of the Administration urged such negotiations. She had emphasised the strategic value of the Falklands and argued that the Americans should regard British control of the Falklands as an asset. Mr. Shultz said little in reply, taking the line that there were many sovereignty disputes in Latin America and that it was traditional US policy to urge settlements of such disputes by negotiation.

Gibraltar

The Prime Minister explained our policy *

Hong Kong

Mrs. Thatcher discussed our relations with China and our attitude towards Hong Kong in some detail. *

* He had shown a full understanding of our position. With regard to his forthcoming visit to China, he said that he had agreed to go there on condition that he did not have to negotiate on Taiwan.

There had also been a brief discussion of the Middle East, with regard to which Mr. Shultz had expressed his enormous confidence in Mr. Habib, and on East/West relations.

I am copying this letter to Richard Mottram (Ministry of Defence) and John Kerr (Treasury). I should be grateful if all recipients could protect the contents carefully and copy this letter only to those who have an operational need to know about the discussion.

John Kerr

John Kerr

B. Fall, Esq.,
Foreign and Commonwealth Office

*Passages deleted and
retained under Section 3(4)
C. Wayland
25 July 2014*

file

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10 DOWNING STREET

From the Private Secretary

20 December 1982

Dear Roger,

VISIT OF MR. GEORGE SHULTZ

The Prime Minister gave a working dinner party for Mr. Shultz on Friday, 17 December.

I enclose a note of the conversation.

I am sending copies of this letter to John Kerr (H.M. Treasury), John Rhodes (Department of Trade), Robert Lawson (Ministry of Agriculture, Fisheries and Food), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Yours ever

John Major

Roger Bone, Esq.,
Foreign and Commonwealth Office

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THE SECRETARY OF STATE
WASHINGTON

②
Prime Minister

A.J.C.T. 6.

December 18, 1982

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Dear Madame Prime Minister:

Please accept my thanks for your gracious hospitality during my visit to London. It was helpful to meet with you and to benefit from your candor and sound counsel. It is reassuring that our countries continue to have a close and special relationship.

The dinner at 10 Downing Street was an occasion I shall recall with pleasure. Your warm welcome made us feel very much at home.

With best wishes for the holidays,

Sincerely yours,

George P. Shultz

The Right Honorable Margaret Thatcher, M.P.,
Prime Minister,
London.

THE SECRETARY OF STATE
WASHINGTON

6 JAN 1983



SUBJECT

cc: Mr. Pym

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NOTE OF A CONVERSATION BETWEEN THE PRIME MINISTER AND MR. GEORGE SHULTZ DURING DINNER AT 10 DOWNING STREET AT 2015 HOURS ON FRIDAY, 17 DECEMBER 1982

Present:

Prime Minister
Rt. Hon. Francis Pym
Sir Robert Armstrong
Sir Antony Acland
Sir Oliver Wright
Sir Kenneth Couzens
Mr. John Coles

The Hon. George Shultz
His Excellency the Ambassador of the
United States of America
Mr. Allen Wallis
Under Secretary of State
Mr. Richard Burt
Assistant Secretary of State for
European Affairs (designated)
The Hon. Edward J. Streator,
Minister, United States Embassy

US Economy

The Prime Minister asked whether recent indications of an upturn in the American economy were to be regarded as the commencement of real growth or a purely temporary phenomenon. Mr. Wallis said that he believed that we were now seeing the beginnings of real recovery but he had to add that that had been his opinion a year ago and he had been proved wrong. Mr. Shultz said that car sales were on an upward trend and sales of existing homes were also increasing. The rate of increase in money supply had been less than the rate of increase in prices for a long period. This would eventually create the conditions for growth.

GATT

The Prime Minister asked whether the United States was satisfied with the outcome of GATT. She explained that our two main problems in trade relations at present related to Japan and Spain. Mr. Wallis said that the recent GATT Conference was his first experience of that

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- 2 -

kind of meeting. There would have been no agreement at all if the Chairman had not established a small committee who had spent the last day and night hammering out texts. The discussions had resolved themselves into a dispute between the European Community and the rest of the world, not just on agricultural exports but on a range of matters. However, agriculture was the key issue. The Prime Minister commented that the European Community was, in the field of agriculture, a protectionist club. But every Western country, including the United States, protected its agriculture. Mr. Wallis said that one problem was that the Americans had had to negotiate with representatives of the Commission. They would have found it easier to deal with representatives of the United Kingdom, France and Germany.

EC/US discussions on agriculture

Mr. Shultz said that he had found the talks with the Commission quite a trial. Mr. Wallis said that the Commission had argued that it was the CAP which held the Community together. Mr. Shultz said that European subsidies were encouraging an increase in agricultural exports and upsetting other people's economies. There was a danger of a subsidy war, than which nothing could be more ridiculous. The Prime Minister commented that it was not the CAP as such that was wrong but the pricing system which produced surpluses. Mr. Shultz said that in his discussion with the Commission both sides had begun to list specific actions that could be taken which could assist in solving the problem. The two sides would meet again in January to try to agree on the way forward. The Prime Minister commented that it was vital to make progress before the annual EC price fixing which was due in March. Mr. Shultz pointed out that American farmers now felt that the world market was having to absorb a greater quantity of agricultural products than it would if EC subsidies did not exist. The net result was depressed prices. The Prime Minister said that another problem arose from the fact that, despite the existence of surpluses, the price of goods in surplus was raised each year.

Mr. Burt asked whether the social argument, which was commonly heard in Europe, was important. Namely that the CAP was necessary in order to keep people on the land. The Prime Minister said that she thought that this argument was of some significance in both France and Germany.

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/ Sir Kenneth Couzens

Sir Kenneth Couzens pointed out that the CAP was part of the basic bargain between France and Germany which had been made at the foundation of the Community. Mr. Shultz questioned whether the bargain involved high agricultural prices. Sir Antony Acland emphasised the political importance to France of the agricultural arrangements, given the proportion of the French population involved in agriculture. The Prime Minister observed that those who in Europe benefited from the CAP did not mind the illogicality of some of its operations.

Mr. Shultz warned that the proposition was gaining ground in the United States that if the EC insisted on subsidising production and taking over markets, the United States should compete on subsidies. And the Americans had the biggest purse with which to finance a subsidy war. The Prime Minister observed that this problem presented an opportunity of reforming the CAP price system. Mr. Shultz commented that this was the process which ought to begin in January.

Japan

The Prime Minister asked how the United States was approaching its trade problems with Japan. Mr. Shultz replied to the effect that the current American approach was to complain that Japan was keeping American goods out of its domestic market. But that was not the real problem. If Japan's market was completely open, a certain amount of citrus and beef would be sold by American exporters but not much else. The Prime Minister asked whether the United States had protective mechanisms in place, for example with regard to TV tubes. Mr. Wallis said that such arrangements existed only for Japanese cars. He believed that Japan was now very keenly aware of the pressure upon it to respond to Western demands.

The Prime Minister referred to American policy of persuading Japan to play a larger role in defence. She personally felt some concern about the prospect of Japan building up its defence potential. Mr. Shultz said that the Japanese at present spent less than 1% of their GNP on defence. The United States believed that the Japanese should do more in their part of the world, especially to protect the

/ maritime

maritime approaches. Mr. Burt added that Congress was beginning to make a link between Japan's protectionism and its failure to spend adequately on defence. The Prime Minister said that she feared that if Japan began to build up its defence industry it would then start to take export markets away from us. Sir Antony Acland expressed the view that Japan might indeed make considerable headway in this respect by the end of the century. Mr. Burt commented that if the Japanese came to doubt their security relationship with the United States, then nationalist feelings could develop. America believed that Japan must do more to defend its own homeland; the United States at present assigned a large number of troops to the area.

Sir Kenneth Couzens said it would be helpful to have American views on the recent Roderick proposals on Japan. We had also noted recent legislative proposals in Congress providing for a high domestic steel content in cars. Moves of this kind could well invite similar measures in Europe. Mr. Shultz commented that legislation of this kind had a lot of appeal to American public opinion. Similar legislation existed in many countries. The agreement between the United States and the EC on steel had been satisfactory but the problem it had solved was a transient one. What really mattered was steel imports from the newly industrialised countries.

Economic Summit

The Prime Minister said that it would be helpful to compare notes about the Williamsburg Summit. Mr. Wallis said that the various replies sent to President Reagan's letter on this matter had had much in common, that from Japan excepted which had said almost nothing. Most of the participants wanted an informal meeting which did not involve detailed negotiation. It was the American intention to aim at a brief, agreed statement at the end of the Summit rather than the traditional communiqué. If

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- 5 -

that aim received general assent, it would be wise to start telling the press now that there would be no communiqué. It appeared that a large number of journalists were intending to attend the Summit.

A recommendation would probably be sent to the President shortly asking him to address all Heads of Government again with the suggestion that they should instruct their Personal Representatives to make plain which topics they wished to see discussed at Williamsburg.

The Prime Minister commented that some items were fixed by tradition. There would of course be a major discussion of the international economic situation. East/West relations could not be avoided. Foreign Ministers would have to discuss specific subjects such as Poland, the Middle East and perhaps Afghanistan. And thus, inevitably, a communiqué began to build up. The Foreign and Commonwealth Secretary said that we should not lose sight of the fact that this was an Economic Summit. We ought to avoid unnecessary diversions from the main theme.

The Prime Minister said that it ought to be possible to limit the final statement to some 400 words. The participants should resist attempting to inject their own hobby-horses into the communiqué. Mr. Shultz commented that the need was for a sense of direction in whatever was said. In May, this perhaps might take the form of a reference to expansion in the world economy. The Prime Minister said that in that case we should avoid the implication that money would have to be printed to achieve the expansion.

Mr. Shultz said that the Americans would be looking for a statement on the East/West relationship, insofar as security was involved. President Reagan was interested in the idea and President Mitterrand was apparently content that something should be said on the matter.

Mr. Wallis said that the delicate question was the commitments which the assembled leaders would make. The Prime Minister said

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that these would have to be prepared in advance.

The Foreign and Commonwealth Secretary reiterated that in his view the important thing was to set some direction for the world economy. That was what public opinion wanted. There would be merit in the final statement focusing on that issue exclusively. Mr. Wallis pointed out that one effect of this could be to generate excessive expectations. Sir Anthony Acland expressed the view that it might be possible to de-couple what was said on the world economy from the statements on other matters. Perhaps the Foreign Ministers could meet just before the Summit and issue a communiqué on foreign affairs subjects.

Mr. Wallis said that M. Attali had suggested that there might be no Ministers accompanying Heads of Government. The delegations might be restricted in size to five people.

that,

Mr. Shultz said /in contemplating the contents of the Williamsburg communiqué, we should bear in mind that to the world at large the first half of 1983 meant a new leadership in the Soviet Union, German elections, INF deployment and the associated Geneva talks. It would be difficult to ignore these steps in a Summit meeting.

The Prime Minister said that, on past precedent, it would be difficult to agree on specific economic prescriptions. It might be possible to discuss the agreed mechanism for achieving growth. However, President Mitterrand would see difficulties in this. Mr. Shultz thought it might be possible to achieve agreement to the proposition that Western leaders sought a particular kind of growth, for example growth based on productive investment.

Mr. Wallis said that he hoped that some of the leaders, in response to the next letter from President Reagan, would suggest aid to developing countries as a topic. Under this heading, they could discuss the kind of aid that promoted growth. Mr. Shultz thought that there would be little identity of view between, on the one hand, President Mitterrand and Mr. Trudeau, and on the other, Mrs. Thatcher and President Reagan, on this matter. The Prime Minister said that her belief was that the best overseas aid was genuine

CONFIDENTIAL

- 7 -

infrastructure aid given through the World Bank. Mr. Shultz commented that the most important point was to get away from the idea of merely transferring wealth to the ldc's - but again President Mitterrand and Mr. Trudeau would probably not agree.

Mr. Shultz said that he believed that earlier Economic Summits had been useful both in stressing the need for productive investment and in calling for an open trading system. It might be useful to ask the Sherpas to write a paper before the Summit on economic trends. Indeed, it might be worthwhile to have a series of preparatory papers. Sir Robert Armstrong suggested that the Sherpas should not be asked to seek agreement on the text of such papers. Perhaps each country could be tasked to produce one. Various suggestions were made as to the subject matter which might be covered: for example, the way to growth and how to achieve security at lower levels of expenditure.

The Prime Minister pointed out that, simply because the Summit would take place in the United States, the economic and philosophical expectations of it would be high. The American Government needed, therefore, to consider what President Reagan desired to obtain from Williamsburg.

A. J. C.

20 December 1982

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USA

TRANSCRIPT OF A PRESS CONFERENCE GIVEN BY MR PYM AND
MR SHULTZ AT LANCASTER HOUSE. DECEMBER 17th, 1982

Opening Statement by Mr Pym

I have had the pleasure of welcoming Secretary Shultz in London. Any visit by a United States Secretary of State is important and always welcome to Britain. It is particularly so in this case because, in six months, Mr Shultz has made a major mark upon the world and I have met him many times and he has certainly put his stamp on United States Foreign Policy. We have had a very useful and interesting talk and I am very glad that he arranged his European visit in such a way that he concluded it here in London. We have discussed this morning East/West relations, including the change of leadership in the Soviet Union; the arms control talks, ~~and~~ the CSCE talks in Madrid and also the economic aspect. We have ~~also~~ talked about the NATO Alliance and defence issues and particularly the issues that face the Alliance in 1983. We also had a discussion on the world economy. This is of course primarily a matter for Western leaders and Finance Ministers. But, as Foreign Ministers, we are inevitably involved in many discussions on the world economy which bears on how we do our business. We exchanged our views about that and looked forward to the next economic summit in May. We also exchanged views on the situation in the Middle East, where of course the US is playing a leading role and we are giving every support to the beginning of the peace-making process based on the Reagan plan which we regard as an opportunity that is absolutely vital and must not be missed. We had a brief discussion about Namibia and also about Central America. They were certainly for me, and for us, extremely useful talks and I feel that we have advanced our understanding on many matters. We are always in very close touch. The US and Britain have always been like that. Mr Shultz and I have certainly always kept in very close touch and we are certainly going to do that in the future. Thank you for coming and thank you for taking part in these discussions.

Opening Statement by Mr Shultz

Thank you. As always when you have made a statement describing something, you leave little else for me. I think your description is accurate and comprehensive. I don't have anything to add to it except to say that I am very pleased to have a chance to be here and talk with you and this evening with Mrs Thatcher and your colleagues. It is a little bit like

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coming home to me because London is where I started out as Secretary of State-designate. This is where President Reagan gave me the news that my life was going to change so it is kind of fun to come back here and see London again in this perspective.

Questions

INF.

Q. Secretary Shultz. You said that you had discussed defence and NATO issues. Could I ask you about the issue of the Cruise and Pershing missiles which may be deployed in this country later on next year? Is your Government prepared to allow an element of joint control over the operation of those missiles and if not why not?

A. Mr Pym briefed me on the discussions that you have had here in this country on that issue. We agreed that the arrangements for joint decision-making that have been going on here for some 20 years and have covered US nuclear systems in the UK work well. The December 1979 decision was taken by the Alliance as a whole and so all INF issues continue to be discussed in the Alliance and we have discussed in the NATO Ministerial meeting and in bilateral discussions but nevertheless within the context of the Alliance all manner of issues. Of course Mr Pym and I will be in touch on this issue and a full range of issues and there are very many, particularly in this year 1983, and talk about them continuously. From all that I can hear and sense, the way in which this has been handled has worked well but I will leave it up to Mr Pym

Mr Pym Yes I would certainly agree with that. It has worked well for over 20 years now.

Q. Could I just follow that through? I think that there are demands being made in some quarters here and I think the Foreign Secretary himself said it would be highly desirable to have some kind of joint key arrangement or dual key arrangement, some actual decision that has to be taken by both Governments before those missiles could be fired.

A. Dual key is a kind of phrase that casts up an image. I don't think that image accurately describes any arrangements that have literally been in place in the past. But there have been a wide variety of arrangements and they vary by countries and I think that we have to look upon this as an Alliance matter and discuss it on that basis and not get into further detail about it right at this point.

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LEBANON

Q. Mr Shultz. The President has given an interview that has just been published that is being portrayed as bringing new, heavy pressure on Israel in connection with withdrawal from Lebanon. Can you amplify on that aspect of the reported interview and can you tell us, after your talks with Mr Pym whether the United States can do anything beyond what it is already doing to bring about the withdrawal of all foreign forces from Lebanon?

A. That is one of our objectives, to help bring about the withdrawal of all foreign forces from Lebanon. That is not the only objective. It is also our objective to help the Government of Lebanon develop itself and take control of its country and develop its own armed forces so that they can be effective throughout the country and reconstruct Lebanon both in terms of the relationships among the confessional groups and in the physical arrangements of Lebanon into the vibrant and thriving country that it once was. As far as the steps that we are taking in Lebanon are concerned, as you know Habib and Draper are back in the Middle East. They met with Prime Minister Begin yesterday, they are in Beirut today and I think that they are in the process of conducting this renewed effort on our part and I would leave any commentary or colouration of that to them.

Q. What about the President's interview and the way it is being portrayed as new and heavy pressure on Israel. Could you amplify on that Sir?

A. I think there is clearly pressure being felt by everybody to bring this result about. I had the privilege of talking again with the Foreign Minister of Lebanon and he certainly feels, as do others in Lebanon, that not only do we want to have this result but it is a matter of urgency to bring it about speedily so that on the one hand the foreign forces don't get unduly dug in and on the other ~~that~~ the emerging capacity of the Government of Lebanon to exert its authority can continue to be realised.

Q. Mr Shultz. To what extent do you recognise that in these talks about Lebanon the Israelis want them to be much more than just talks about withdrawal but to be real direct political negotiations leading to a new relationship between Lebanon and Israel?

A. We read and we listen, so we realise that there are broad objectives involved and there are also definite realities involved about the

importance of an atmosphere that allows these confessional groups to come together and for Lebanon to construct itself as a country. Of course beyond that you have to say ' what does it mean to have a new kind of relationship with a country until that country has been able to form itself and get some coherence and have a capacity for deciding what it wants to do?' I would say more generally that the objective of a peaceful situation between Israel and her neighbours is one that we of course are doing everything we can to help bring about. Not only with respect to Lebanon but with respect to all of her neighbours in the Middle East. Having peace with justice and reasonable conditions is the objective just as it is in the efforts that the United States and her allies are making in other parts of the world. That is what we are standing for-peace and justice.

PEACE MOVEMENT.

Q. Mr Shultz. Obviously in the weeks leading up to your coming here, peace movements have played an important part in your own country and in this country and Western Europe. How important a part did that kind of public disquiet about nuclear questions play at your talks today?

A. Everyone shares the hope that we can somehow construct a world that is at peace, that has an increasing element of justice in it and which allows people to live without an overhang of fear that is generated by awesome weapons. There is no difference of opinion about that; we all share that view. The question is what do you do about it? Unfortunately we are not the only people around the world who have awesome weapons. We are seeking to reduce the level of these weapons. We are seeking to restrict the manner of their use. We are seeking to solve problems regionally around the world - that is, arms control is not the only thing that you have to do, you have to remove the reasons why people would want armaments. Everywhere you turn, I think I am fairly stating it, the US is on the side of the solution, not on the side of the problem. That is our objective. We listen to people in our own country and elsewhere and it has been very useful for me in coming here and elsewhere in Europe and talking with not only my counterparts but many other people. I have gone out of my way to try and see people not in the government as well as people in government to get a feeling for how people view things. We understand the fears that people have but we also understand that when you are confronted with a strong aggressor the worst thing you can do is let your own defences decline and let fear lead you into appeasement. That is a key and I feel on this trip in discussions here and elsewhere without any exception a great

sense of reassurance in the depth of understanding, the subtleties of understanding and the sense of determination, unity and cohesion that I felt in our Alliance.

Q. Do you feel that the peace movements constitute a threat to United States policy, to NATO?

A. They represent a reminder of the strength of conviction behind what we all presumably want: namely the kind of peace that has justice and right in it.

LEBANON

Q. Mr Shultz. According to reports coming from Jerusalem the Israeli Defence Minister claimed yesterday to have achieved a major breakthrough in the talks with Lebanon. You met yesterday with the Lebanese Foreign Minister. Do you share this view?

A. We didn't have any information about that statement that Mr Sharon made and I do not have any comment about it except to say that any genuine breakthrough, however derived, that will bring about a withdrawal of all foreign forces from Lebanon and contribute to the reconstruction of Lebanon is something that we would welcome.

INF

Q. Mr Shultz. You have said that the arrangements of the last 20 years have worked well over control of nuclear weapons. Surely in the 1950s there was the joint US and British control over ~~four~~^{Thor} missiles in this country. Why are you not prepared to allow a return to that system? I am talking about the firing of them.

A. As I understand it there have been a variety of arrangements and what has happened is that bilaterally (and now of course we have to consider this as an Alliance matter as well as a bilateral matter) we keep confronting new situations. ~~and~~ I think the answer that I have given may be interpreted as meaning that somehow we have been able to work these problems out and the result has worked well in everybody's eyes. We feel that the arrangements that were made in 1979, those were mutually agreed and we are proceeding on that basis. We are constantly talking, not only about this but about a wide variety of other issues as we move along in this process.

Q. Mr Pym. What conditions would you ask the United States for joint control over the firing of these weapons?

A. The arrangements to which Mr Shultz has referred are in fact

joint decision-making. That has been the basis of our arrangement for the last 20 years and those are the arrangements to which Mr Shultz is referring. I have talked to him about the views that were expressed in the House of Commons and elsewhere and he is quite right that these are matters that have been decided by the Alliance and are considered in that context as well as bilaterally.

SOVIET UNION

Q. Mr Shultz. When you were nominated you were described as a highly-educated Soviet expert. Are you going to change policy towards the Soviet Union because they are expecting you to; and will relations between the United States and the Soviet Union be better than during the Nixon Administration?

A. The policy of the United States toward the Soviet Union, and I believe that broadly speaking it is the same policy that the North Atlantic Alliance has towards the Soviet Union, as I see it consists of four parts. First, that we must be realistic in our appraisal of what is taking place. The worst thing in the world you can do is allow wishful thinking to lead you into failure to realistically appraise what is taking place; so realism is the first point. The second point is that ~~in the face of~~ the build-up and the level of Soviet strength and the demonstrated willingness to use it, as for example in the invasion of Afghanistan, tell you that to be successful you must be strong. To defend your own values and to defend peace and liberty and freedom, you must be strong. Third, in the kind of world we live in with the awesomeness of the threats, particularly that have been mentioned here earlier, we are all aware of them, we must also be willing to be ready to solve problems and to work constructively for better relationships and for solutions to problems. ~~and~~ We are and we have negotiations taking place now as is well known in Geneva, Vienna and elsewhere. So we are ready to solve problems. And fourth that we do so in the belief that, if these problems can get on their way to solution and a more constructive relationship emerges, we can all have a better world with less fear and many other better attributes. With new leadership of the Soviet Union, we and I think our allies have all sought to underline the third point so that they wouldn't miss that it is there. But we should not allow ourselves because of our interest and desire for peace and freedom and for constructive dialogue to lose sight of the importance of being realistic and being strong. Those are the keys to peace and freedom.

EAST-WEST ECONOMIC RELATIONS

Q. At the end of your tour of Europe do you now reckon that you have a clear policy umbrella governing relations with the Soviet Union and its Allies, particularly on the economic front?

A. I think we have long had, and continue to have, a very good strategy umbrella, if you want to call it that, in the form of the NATO Alliance. It is strong, unified and has cohesion and I think a lot of reassurance on that point. We have been struggling together to find a better sense of strategy, a set of objectives on the security aspects of East/West trade and financial flows. ~~and~~ I do think now we have going or propose to go forward with ^a pretty unified view, a general unified view, the studies and the activities that we feel are the necessary ones to construct that strategy. We think that one of the great benefits of getting an overall strategy identified is that we will minimise the problems that may be caused by misunderstandings which often go under the label of lack of consultation. We all know that there is an immense amount of conversation. ~~There's~~ There's no lack of that and at least I feel what we need is some sort of overall set of objectives and strategy. ~~and~~ Then when we consult with each other we have some standards against which to talk. Our consultation can then be more purposeful and therefore more fruitful. I think we have got that identified now and will start in on constructing that study.

Q. Mr Shultz. If you have one overriding objective for 1983 what would that be?

A. If you want to speak about it in broad terms I think we are looking for peace with justice and prosperity. We haven't had any commentary here about the economic situation but I think we want to see the world economy expand and see progress in that sense. Those are our main objectives.

ISRAEL.

Q. Mr Shultz. Could you possibly be trying to help Prime Minister Begin with your recent attacks on Israel? ~~If not,~~ what is the public pressure in aid of?

A. I have made no attacks on Israel and I have made no comments designed to help or hinder or in any way be a part of the internal political flow of events and opinion in Israel. That is strictly for Israel to determine. I have not hesitated to say when I think that something is wrong or that something is right. Now when ~~it appeared to me that~~ the requiring of University professors to sign special oaths ^{or} otherwise be dismissed came to my attention, I said I thought that was wrong and I do

think it is wrong. I have also commented on the dismissal of Mayors from the West Bank. It also is the case, when moves were made to deny Israel credentials to the United Nations, that in the US (and I was pleased to speak for the President on this) we said that if the UN votes to do that we will withdraw - we support Israel. I think that we support Israel, the security of Israel, purposefulness, the idea and the ideal of Israel. I have been there and know many people there. But that doesn't mean that, no matter what Israel does or says, we are going to applaud her. We have to say if they do something we think isn't right. Maybe we are good enough friends to be able to say so.

INF

Q. Mr Pym. As a result of these talks this morning, has the situation in regard to control of the cruise missiles changed from what it was two nights ago when you were questioned about it in Parliament; and, if not, is it likely to change in the future as a result of these conversations?

A. No it hasn't changed. As Secretary Shultz said, we discussed this point and I told him the views that were expressed in our debate the day before yesterday. ~~and~~ The fact of the matter is that the decision we took in 1979 was taken by the Alliance and included these joint decision arrangements with the US that had existed before. We discussed that aspect but also many other aspects of INF and so there is no change in the situation.

Q. Is it likely to change?

A. There is no particular likelihood of any change. We exchanged views about it but the position remained as it was.

LEBANON

Q. Mr Shultz. If I understood correctly the read out of the meeting yesterday with the Lebanese Foreign Minister he expressed concern that continued Israeli presence in Lebanon in effect was leading to annexation of part of Lebanon. Do you share that concern? Is that a real possibility?

A. I didn't make that comment so I don't know where your read-out comes from. I only made a comment about the sense of urgency. But I do think that it must be a matter of concern, and I am not referring to the meeting I had with the Foreign Minister, that you have foreign troops in your country and they stay there longer and longer and they get embedded and they develop an infrastructure and so on. ~~and~~ ^{that is} So / one of the reasons why I think there is an urgency to getting the foreign

forces out - not just the Israeli forces, the Israeli forces are the most recent entrants. The PLO have been there for quite a long time, established a state within a state and was very disruptive of the ability of Lebanon to operate as a country. The Syrians have also been there a long time so its all foreign forces that we are seeking to get out of the country.

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER
IN HONOUR OF THE HON. GEORGE SHULTZ, SECRETARY OF STATE OF THE UNITED STATES
OF AMERICA ON FRIDAY, 17 DECEMBER 1982 AT 8.00 PM FOR 8.15 PM
INFORMAL

The Prime Minister

The Hon. George Shultz

His Excellency the Ambassador of the United States of America

B. Mr. Allen Wallis

Under Secretary of State

Mr. Richard Burt

Assistant Secretary of State
for European Affairs (designated)

The Hon. Edward J. Streator

Minister, United States Embassy

Rt. Hon. Francis Pym, MP

Sir Robert Armstrong

Sir Antony Acland

A. Sir Oliver Wright

Sir Kenneth Couzens

Mr. John Coles



Prime Minister,

For information, you are due
to have dinner with Schultz
tomorrow evening.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

J.P. Collins
16/12/82

PRIME MINISTER

As you know, I saw George Shultz tonight. The problem of the US deficit - the latest estimates for the year October 1982-83 suggest figures of \$180 - 195 billion, equivalent to 5 - 6 per cent of GDP - came up, and I mentioned our concern that a deficit of such a size could lead to a renewed rise in interest rates as private credit demand recovers in the United States. If, of course, the deficit were financed by printing money it would undermine progress in reducing inflation. Either development would have serious consequences both for the US and the world economy.

2. Tonight, as when I spoke to him in Washington in September, Shultz tended to ascribe the deficit largely to the recession and hence to see it as self-correcting. He sees little link between the deficit and interest rates, citing this year's experience when interest rates have fallen despite the rise in the deficit. It occurred to me that you might like some advice, before you see him, on how to handle this argument.

3. It is of course right to take some account of the effect of the recession on budget deficits, and we have done so to a modest extent ourselves. But this does not remove the need to put deficits on a firmly declining path in the medium-term. The Shultz view is too short-sighted.

4. The Administration's commitment to a very large increase in defence spending, the President's adherence to his tax cuts package, and the entrenched opposition to any cutback in the growing burden of entitlement programmes are all factors tending to increase the deficit irrespective of any recovery in the economy.



5. It is disturbing that OECD estimates that US policy measures have added the equivalent of 1 per cent of GDP to the deficit this year in addition to the increase due to the recession. It is also a source for concern that the deficit seems set to rise again steeply next year when the Administration claims the economy will be recovering strongly.

6. It is wrong in my view to read too much into this year's experience when the recession has reduced private credit demand so that interest rates have been able to fall despite the budget deficit. As the US economy recovers, so will private credit demand; and the competition between public and private sectors for funds could well drive up interest rates.

7. None of this will be news to you, but I hope that you won't let him get away with the cyclical argument.

8. Incidentally, he asked for my views on the reasons for the strength of the dollar. He seemed himself to place weight on the US as a source of refuge for funds at a time of uncertainty in the world economy. There may well be something in this, but the fact is that the dollar has already shown signs of weakening in the face of a prospective large external deficit next year. Feldstein - the Chairman of the Council of Economic Advisers - is reported this week as mentioning a \$75 billion trade deficit next year. Of course we would not mind the dollar falling a bit, but a precipitate fall, as a result of failure to control the deficit, would jeopardise all that we have been trying to do to create a more stable international monetary framework as the basis for resumed non-inflationary growth.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

G.H.

16 December 1982

Prime Minister

MR. COLES

A.S.C. 12/12

Dinner for Mr. George Shultz
Friday, 17 December

I attach the list of guests attending the dinner tomorrow evening together with a draft seating plan.

If you agree, the seating plan, please could it go into the Prime Minister's box.

Sue Goodchild
—

16 December 1982

Sir K. Couzens may arrive a little late for the talks at 7.00 p.m. as he will be travelling back from Brussels

DRAFT SEATING PLAN FOR DINNER ON FRIDAY, 17 DECEMBER 1982

Sir Kenneth Couzens

Sir Oliver Wright

Mr. Richard Burt

Mr. Allen Wallis

Rt. Hon. Francis Pym

PRIME MINISTER

THE HON. GEORGE SHULTZ

HE The Ambassador of the United
States of America

Sir Robert Armstrong

Sir Antony Acland

The Hon. Edward J. Streator

Mr. John Coles

ENTRANCE



Ref. A082/0565

PRIME MINISTER

Meeting with Mr George Shultz: 17 December 1982

You have agreed to give a small working dinner for the United States Secretary of State, Mr Shultz, on the evening of Friday 17 December. He is due to see the Chancellor of the Exchequer on the afternoon of 16 December and the Foreign and Commonwealth Secretary will be giving a private supper for him that evening. You have already received separately briefing on a range of subjects which Mr Shultz has said that he wishes to raise. The purpose of this minute is to suggest some points you might make to him on the international economic situation, which he has said he would particularly like to discuss with you. It reflects the conclusions of a discussion amongst the Permanent Secretaries of the Departments principally concerned.

2. You could say that we fully share Mr Shultz's concern about the world economic situation and the dangers it poses for world trade on the one hand and the stability of our financial system on the other; and you could ask him how he sees the problems and what his prescription is for managing them. In the subsequent discussion you could aim to make the following points:

a. The United States and the United Kingdom share a common approach to economic policy, based on the control of inflation through monetary discipline and creating a climate within which the economy can grow without a return to inflation. The international economies are highly interdependent: whilst we are resolved to play our part, an enormous responsibility is inevitably carried by the United States as the single largest Western economy.

b. Three causes of deep concern have become prominent of late. The first is the heavy indebtedness of some major



developing countries; the second is the risk of a slide into protectionism; and the third, which is at the root of the matter, is the fear that the resumption of world growth will be jeopardised by the rising United States budget deficit, which could both keep interest rates high and put the United States counter-inflation programme at risk.

c. The first of these factors poses a threat to the stability of the international financial system, and there is an evident risk that the measures taken to combat that threat could have adverse consequences for world trade and economic growth. Recent events - the very sharp downturn in imports by non-oil developing countries - suggest that these consequences are already with us. But it would be a mistake to react to this by setting up some form of international entitlement programme, with automatic welfare handouts for every country in trouble. The result would be to destroy all incentives towards prudent financial management by borrowers and lending institutions. Debt problems should continue to be handled sensitively on a case by case basis, with constructive use of IMF conditionality. We must ensure that the IMF is strong enough to meet the demands on it.

d. Many of the problems of the heavily indebted developing countries stem from the economic situation in the West. It is much harder for them to pay interest on their debts as long as the recession in industrialised countries reduces their opportunities to export; and high interest rates have in themselves been one of their main problems. The system will remain at risk until there is a general confidence that the United States budget deficit is on a downward path.

e. High interest rates are the link between the LDC debt problem, protectionism and the United States budget deficit. Interest rates and the whole system will remain at risk until there is general confidence that the United States budget deficit is on a downward path. But the figures for future deficits are constantly going up. Our fear is that a combination of a rising United States budget deficit and



an excessive weakening of the dollar as a result of a large external deficit could face the United States with a choice between letting inflation rip or again putting up interest rates.

f. It would be a tragedy if the United States were to go down the protectionist road, and if its major partners were to follow suit. The demands for protectionist measures against Japanese steel just made by Mr David Roderick, the Chairman of United States Steel, illustrate how strong the protectionist pressures are becoming. The recent GATT Ministerial Meeting attempted to wrestle with the problem. On a number of items which the GATT will now follow up - services and trade with the newly developed countries - we have common interests with the United States and we shall be ready to work with the United States Administration in pursuing these matters.

g. The size of the imbalance in Japanese trade also poses a threat for both of us. This would be significantly eased by an appreciation of the yen. The fact that the yen has improved recently has eased some of the pressures, but a fall in United States interest rates would be a key element in bringing about a further improvement. The United States and the European Community also have a common interest in curbing Japanese protectionism. The Community has now agreed to tackle this within the framework of Article XXIII of the GATT: it would greatly increase the prospects of success if the United States were to join the Community in this approach.

3. You will be receiving a more detailed brief on agriculture. On this, you will wish to welcome Mr Shultz's statement to the European Commission in Brussels that the United States does not want an export subsidy war. The agreement to hold official talks between the United States and the Community on areas of difficulty in agricultural trade is particularly welcome. We hope these talks will result in a mutually acceptable compromise. We share many of the United States' doubts about the Common Agricultural Policy (CAP); but the CAP could not be dismantled without



precipitating the break up of the Community. Most countries (including the United States) find it necessary to have some form of agricultural support regime; and the United Kingdom is seeking to secure changes in the CAP rather than to abolish it. A constructive use of American pressure might help to moderate further price increases within the CAP, but it would be in none of our interests to have a subsidy war.

4. A further question which it might be useful to raise in an exploratory way with Mr Shultz, if time permits, is technology transfer, on which I attach a separate note.

FLAG * -

5. Also attached by way of background are

FLAG "A"

a. a note by the Treasury containing up to date statistics on the United States economy;

FLAG "B"

b. a report from the Financial Times of 14th December of a helpful statement by Mr Martin Feldstein, Chief Economic Adviser to the Reagan Administration; and

FLAG "C"

c. a report from the Financial Times of 16th December of a call by Mr David Roderick, the Chairman of United States Steel, demanding far reaching protectionist measures against Japanese steel imports.

FLAG "D"

d. the conclusions of a report by an interdepartmental group of officials under Cabinet Office chairmanship on the international debt problem and its impact on trade. The main message is that a solution has to be considered within the context of overall economic strategy. Mr Shultz is believed to share this view.

6. Copies of this minute, with attachments, go to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

REA

ROBERT ARMSTRONG

16th December 1982



Technology Transfer

"Technology transfer" is shorthand for the acquisition by the Soviet Union (and other Warsaw Pact countries) of Western technology, by legal and illegal means. The Americans have become very concerned about the present scale and scope of the technology transfer which they believe is currently taking place: and it is one of the subjects the Allies have undertaken to examine in Mr Shultz's "Summary of Conclusions" which helped to resolve the pipeline dispute.

2. The Americans claim that technology transfer has helped to reduce the technological gap between the United States and the USSR from eight to two years over the past decade; and that it has contributed significantly to the need for higher defence expenditure by the West as a whole simply in order to maintain a lead. Mr Perle, Mr Weinberger's deputy, visited Europe in November to explain American concerns. He saw British industrialists and officials. At one stage, he stated that unless tighter controls were introduced by individual NATO countries, there would be a greatly reduced willingness on the part of the United States to share sensitive technology with its Allies: and there is some evidence (which is still being investigated) that British firms who collaborate with the United States in the manufacture of high technology products for export may already be experiencing difficulties on this score.

3. It would be appropriate to emphasise to Mr Shultz that the United Kingdom takes the issue of technology transfer very seriously, and will play its full part in tackling the problem, both in COCOM and elsewhere, in the context of the follow up to the Summary of Conclusions. This should provide an opening to explore how far the Weinberger/Perle campaign has the backing of the United States Administration as a whole (as distinct from being a hobbyhorse of the Department of Defense); and at the same



time to leave Mr Shultz in no doubt that any application of restrictive or discriminatory measures against British (or European) firms would be damaging for our relations, disruptive for the Alliance and counter-productive in terms of the studies now in hand in COCOM.

US ECONOMY

Recent developments

The economy has experienced a 'double-dip' recession since 1979. GDP which fell in 1980, recovered briefly early in 1981, but then fell steeply through last winter and the early part of this year. Output recovered slightly in the second quarter of this year but preliminary estimates suggest it was flat in the third. The fall in industrial production has been steeper than in GDP. It was still falling in October when it was 8½ per cent lower than a year ago.

	<u>1980</u>	<u>1981</u>	<u>1982 est</u>	<u>Q1</u>	<u>2</u>	<u>3</u>
GDP (per cent changes, annual rates)	-½	2	-2	-5	2	0

2. The recession has been accompanied by a sharp rise in unemployment, which now stands at a post-war peak of 10.4 per cent.

	<u>1980</u>	<u>1981</u>	<u>1982 October</u>
Unemployment rate (per cent)	7	7½	10.4

3. Inflation, however, has come down more rapidly than many commentators expected. The latest consumer price figures show a year-on-year rise of 5.1 per cent for October. This compares with a peak rate of 13½ per cent reached in 1980.

	<u>1980</u>	<u>1981</u>	<u>1982 October</u>
Consumer prices (per cent changes)	13½	10½	5.1

4. US interest rates have been highly volatile in the past two years and have been high in real terms, ie as measured against the increase in prices. The slowdown in the economy and the reduction in inflation, however, has led to a sharp decline in interest rates since the summer.

	<u>1980</u>	<u>1981</u>	<u>1982 Q1</u>	<u>2</u>	<u>3</u>	<u>Dec 6</u>
3-month CD interest rates	13	15¾	14¼	14	11½	8½

5. The high level of interest rates and the firm monetary policies followed by the US authorities have led to a sharp rise of about 30 per cent in the dollar's exchange rate over the past two years. This, together with generally higher US inflation, has contributed to a large loss of competitiveness. US unit labour costs relative to those overseas measured in dollar terms have increased by about 50 per cent in the past two years.

	<u>1980</u>	<u>1981</u>	<u>1982 Q1</u>	<u>2</u>	<u>3</u>	<u>Dec 15</u>
Dollar effective rate (1975 = 100)	93.7	105.1	111.7	115.7	121.2	120.9
Dollar/sterling rate	2.33	2.03	1.85	1.78	1.70	1.62

6. The reduction in US interest rates since the summer coupled with signs that the external current account may be moving into deficit (visible trade showed a \$13 billion deficit in the third quarter) has led to some weakening in the dollar in recent weeks. Its effective exchange rate has fallen 4 per cent in the past month to mid-December.

	<u>1980</u>	<u>1981</u>	<u>1982 Q1</u>	<u>2</u>	<u>3</u>
Visible trade balance \$b	-25	-28	-6	-5	-13
Current balance \$b	1½	4½	1	2	NA

Prospects

7. Hopes for recovery in the US economy have been constantly disappointed. The Administration's own projections have proved over-optimistic and have reduced its credibility. President Reagan's first Economic Report to Congress in early 1981 forecast that GDP would rise by about 4 per cent or more in each of the five years 1982-87. In his second Economic Report early this year, the Administration was still expecting 3 per cent growth in 1982 followed by 5 per cent in 1983 and about 4½ per cent a year thereafter.

8. In the event, GDP seems likely to show a $1\frac{1}{2}$ per cent fall in 1982. Senior Administration officials, however, are still optimistic about the prospects for recovery next year. The newly-appointed chairman of the Council of Economic Advisers, Martin Feldstein, has said he expects 3-4 per cent GDP growth. The Treasury Under-Secretary for Monetary Affairs, Beryl Sprinkel, has forecast $3\frac{1}{2}$ - $4\frac{1}{2}$ per cent growth. Many outside forecasters, however, are less optimistic. The OECD, for example, in its December Economic Outlook expects US growth to be only 2 - $2\frac{1}{2}$ per cent next year.

	<u>1981</u>	<u>1982</u>	<u>1983</u>
President's Economic Report 1981	1	4	5
President's Economic Report 1982	2	3	5
OECD Economic Outlook*	2	$-1\frac{1}{2}$	$2\frac{1}{2}$

* To be published 22 December.

9. Evidence for an early recovery is so far slim. Retail sales continued to fall in July, August and September despite the July tax cut. The leading indicators, however, have risen in six of the past seven months and housing starts rose in October.

Policies

10. The United States in common with other major industrial countries responded to the second steep rise in oil prices in 1979-80 with firm policies to contain the inflationary impact. In particular, heavy reliance was placed on monetary policy, with firm targets for the growth of the monetary aggregates. The rate of growth of M1 slowed down to an annual rate of less than 5 per cent in the first half of this year, compared to more than 8 per cent in 1978. Interpretation of the monetary aggregates, however, has been complicated by institutional changes, and on 16 November the Federal Reserve chairman, Paul Volker, announced that the Fed would be 'attaching much less weight than usual' to M1 over the period immediately ahead.

11. The progress in monetary policy in the past two years has not been matched by corresponding action on fiscal policy despite the Administration's commitment to reduce the budget deficit. Projections of the fiscal deficit have been successively revised upwards. The Administration's initial budget proposal for FY 1982 - introduced last year - was for a deficit of \$43 billion. The out-turn seems likely to be about \$110 billion.

12. The Administration similarly expected to be able to reduce the budget deficit for FY 1983 to about \$20 billion. This was revised up to \$92 billion earlier this year. The head of the Congressional Budget Office, Alice Rivlin, is reported to have suggested in September that it could be as high as \$155 billion. The Budget Director, David Stockman, was reported last month to have said that it could rise to \$180-195 billion.

<u>Budget projections (\$b)</u>		<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>
Administration	July 1981	43	23	28
"	Feb 1982	99	92	
"	Aug 1982	109	115	93
CBO (Rivlin)	Sept 1982	-	155	
OMB (Stockman)	Nov 1982	-	180-195	

13. The burgeoning budget deficit presents the Administration with its most acute problem if monetary growth is to be contained and if the pressure on interest rates both in the United States and internationally is to be eased. The Administration so far, however, has shown little signs of readiness to take firm enough measures either to cut public spending or raise taxes. Its commitment to substantial increases in defense spending, the entrenched opposition to cuts in social security programmes and the President's strong desire to adhere to his programme of income tax reductions all make it difficult to see how the deficit can be put on a firmly declining medium-term path.

14. The President will publish in January his budget proposals for FY 1984, which starts next September.

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U.S. trade deficit may be record \$75bn

BY ANATOLE KALETSKY IN WASHINGTON.

AN OVERVALUED dollar is likely to result in a record trade deficit of about \$75bn (£47bn) next year and lead to the U.S. economic recovery's being "lopsided," with export-oriented industries remaining in the doldrums, Mr Martin Feldstein, chief economic adviser to the Reagan Administration, said yesterday.

The causes of the huge trade deficit are to be sought in Washington, however "not in London or Tokyo," Mr Feldstein said. A better balance of trade could be restored only by changes in the U.S. government's fiscal policy, which would bring down the dollar exchange rate.

He warned that protectionist

measures against foreign competitors would not improve the overall U.S. trading position and might make the situation worse by pushing the dollar still higher.

Mr Feldstein's comments, in a speech to the National Press Club, appear to be the strongest expression to date of the Reagan administration's growing realisation that the sharp increase in the nation's trade deficit is a major reason why the expected economic recovery has failed to materialise this year.

Despite the administration's tax cuts, which have boosted demand, U.S. industrial production is still declining, largely

because of U.S. industry's inability to compete for both home and export markets.

Mr Feldstein, who is emerging as the administration's chief economic policymaker since his appointment as chairman of the Council of Economic Advisers in the autumn, pointed out that a merchandise trade deficit of \$75bn next year would be far greater than the cumulative trade surpluses enjoyed by the U.S. in the whole of the 35 years since World War II.

He did not give \$75bn as the Administration's official forecast for the 1983 trade deficit, which is due to be published early next year with the

1984 budget, but he repeatedly implied that he believed this figure to be about right. Other Administration officials in the past month have referred to figures of \$60bn and "up to" \$75bn when asked about the likely trade deficit in the coming year.

Mr Feldstein's attitude to the growth in the trade deficit, and to the strength of the dollar, which he repeatedly identified as its major cause, contrasts sharply with statements made earlier in the year by Mr Donald Regan, the Treasury Secretary. Mr Regan has tended to attribute the strength of the dollar to foreign confidence in U.S. economic management.

U.S. threat to Japan steelmakers

BY ANATOLE KALETSKY IN WASHINGTON

JAPANESE steelmakers have been threatened with a range of punitive quotas and levies against their exports to the U.S. The U.S. steel industry yesterday announced the move, in a series of trading petitions against the Japanese.

Mr David Roderick, U.S. Steel chairman, attacked the "predatory, discriminatory and illegal" trading practices of the Japanese and EEC steel industries. He accused Japan and the EEC of "flagrantly victimising" the U.S. steel industry by carving up the world steel market into "spheres of influence."

Their actions had violated the General Agreement on Tariffs and Trade (GATT), U.S. trade laws, and U.S. Japanese treaties, Mr Roderick claimed. He accused the Japanese Government of "artificially maintaining an undervalued yen" exchange rate. This, too, he alleged, was a violation of

The U.S. House of Representatives late last night passed a controversial trade Bill requiring imported cars to contain a high percentage of American-made parts. The Bill now goes to the Senate.

rules embodied in the GATT, the multinational accord governing world trade. The Japanese steel industry had acquired its dominant position in world markets through a "programme of government subsidisation and protectionism," he claimed.

Petitions detailing the charges will be made this morning, under Section 301 of the 1974 Trade Act, with Mr William Brock, the U.S. Trade Representative. The petitions will be filed by U.S. Steel, seven other major steel companies and the American Iron and Steel Institute, of which Mr Roderick is

chairman. Despite President Reagan's objections, the House voted 215 to 188 for a Bill which supporters said would send a message to Japan from recession-hit U.S. car workers even though it was unlikely to become law this year.

Four remedies are being demanded. They are:

- A reduction of 1.75m tonnes in Japanese steel exports to the U.S., "by way of compensation for past harm." (Japanese exports have been running at an annual rate of 5.6m tonnes in the first 10 months of this year.)

- Phasing out an alleged worldwide market-sharing agreement between Japan and the EEC, under which Japanese steelmakers allegedly limit their exports "west of Suez" while Japan sets prices and keeps the

Europeans out of "coastal markets in the Far East plus India and Pakistan." There are no quota limitations in other areas, including the Middle East, Eastern Europe and China, but Japan and Europe operate a price-fixing agreement for these regions, according to Mr Roderick.

- Enforcement of Japan's obligations to the U.S. under the Most-Favoured Nation trade laws. This would include the opening of Japanese markets to imports.

- A 25-per-cent import levy on all Japanese steel to reflect the "undervaluation" of the yen, which Mr Roderick said should stand between Y190 and Y200 to the dollar, compared with its current value of more than Y245.

Mr Brock will have 45 days to decide whether to initiate an investigation once the petitions are filed.

PART 3: CONSEQUENCES AND POLICY RESPONSES

Resume of Parts 1 and 2

103. Part 1 of the Report showed how the protracted failure of the world economy to recover from the 1979 oil shock has exposed the fragility of the external financial position of certain NODCs and Eastern European countries, and damaged the financial health of the corporate sector. The strains thus created, particularly for the banking system, have been serious but, to date, manageable.

104. Part 2 considered possible developments over the next few years, in particular the central case based on the WEP forecast. It also examined ways in which the position might get worse before getting better and the situation which could develop under three scenarios. First, if the financial institutions became significantly more cautious about lending to NODCs and the CPE; second, if, as a result of this or for other reasons, an increasing number of them sought to reschedule their debts; and third, as a worst case, if one or more were led to repudiate debt i.e. outright default. Part 2 examined the implications of such scenarios for trade and economic activity generally, as well as for the financial system.

105. The likelihood of events evolving in one or other of the foregoing ways is hard if not impossible to predict. Furthermore, there are many reasons why the situation may turn out to be worse or better although the risks seem significantly greater downside than upside. Parts 1 and 2 of the report have not sought to predict the future but rather to show how, under deteriorating circumstances, the economic, trade and financial aspects interact. As noted in paragraph 20, it has concentrated on those countries of greatest concern which at present are situated in Latin America and Eastern Europe.

106. One point emerges from the analysis with some clarity. NODCs have already reacted to their particular debt crisis (or been driven so to react by their worsening financial circumstances) in part at least by cutting back their imports. In this respect, the process of adjustment has already started: it reflects reduced imports and a decline in deficits on current account associated with a reduction in the scale of further borrowings. In strictly banking and financial terms, therefore, adjustment in this way through reduced trading flows is a sensible, even inevitable, process.

107. But the key question is the extent to which this process could become self-defeating on account of its negative effects. It would be idle to assume that if the imports of the NODCs and the CPE are reduced sufficiently to improve their current account deficits that their problems thereby disappear. The consequential cut in living standards will of course vary from country to country, as will the nature and severity of any political consequences. But such financial medicine could seriously depress world economic activity if the cutbacks on exports from countries such as USA, Germany and Japan were on a large enough scale to damage confidence and abort economic recovery in those countries. This would then effect all industrial countries and could lead to further downward pressure towards a new equilibrium at lower levels of trade and activity. Such a scenario might be protracted and long drawn out, but as bad as a sudden crisis.

International Political Aspects

108. Financial strain and economic recession make for international political instability and tension.

109. Debt servicing requirements, and the implementation of the stringent domestic economic measures necessary to bring about recovery, can impose severe political pressures on debtor countries. Many of these already have fragile political structures and a limited capacity for rapid adjustment. High interest rates, sharply reduced export earnings and diminishing access to new credits compound their difficulties.

110. The strategic interests of the West are involved in many of the poorer LDCs, particularly in Africa, even if their individual debt problems do not threaten the stability of the international financial system. Latin America is a major area of concern for the West and for the United States in particular. So is Eastern Europe: a significant feature of East/West relations at present is the extent of the dependence of the Eastern European countries on access to Western finance which their current debt problems have revealed. The present international financial strains in so many countries have in fact served to heighten understanding of the interdependence of the economic and financial interests of individual countries. Problems in one country affect all

the others, in varying degrees. As countries increasingly come to understand that they sink or swim together, the compulsion to cooperate (rather than to confront, as has been the tendency in the North/South dialogue) may prove beneficial. But this healthy trend cannot be taken for granted. The present and growing frustration of the developing countries is causing mounting friction in North/South relations. We have just seen a polarisation in the negotiating positions of the industrialised and the developing countries at the GATT Ministerial meeting; and UNCTAD VI next June is likely to prove difficult.

111. The international effort to find solutions to the present problems will require concentrated multilateral and bilateral negotiation. Within the Western alliance, the attitudes of the major countries to specific debt settlement operations can differ sharply, and this can in itself induce strains within the Alliance.

Policy implications

112. What is needed, therefore, is the concerted use of policy instruments to permit the world economic system to recover its health but on a rising trend of economic and trade activity, political expectations and financial confidence.

113. The two developments which would do most to ease the situation generally would be United States recovery and a continuation of the trend towards lower world interest rates. While a counter-inflationary strategy on the part of the industrial countries remains the only sustainable basis for eventual economic recovery, this should be tempered by a sensitive interpretation of monetary conditions. Regard should also be had to the international effects of policies to lend support to domestic industries at a time when recession may mask the fact that these are in structural rather than cyclical difficulties. The importance of countries taking account of the international repercussions of their policies must be stressed. Attempts to steal a march by competitive devaluation (eg Sweden) or protectionism could quickly lead to a worsening of the international climate and interrupt or reverse the process of recovery. While the aberrant behaviour of a handful of less important countries could be accommodated, such moves by one or more of the major industrial countries could prove disastrous.

Institutional Arrangements

114. One obvious result of the present crisis is the intense strain which it has imposed on the present international arrangements for trade and payments. The recent GATT Ministerial meeting in Geneva demonstrated the precariousness of the open trading system, not its permanence or solidity. On the basis that it is usually better to improve existing institutions than to make new ones, the time does not seem right for grandiose new institutional initiatives; and it would equally be wrong to imagine that a complete solution to the crisis is to be found in major institutional changes. But adjustments and improvements of one kind or another will clearly form part of any strategy for recovery and the need is to ensure that the present institutions work as effectively as possible.

115. The IMF is likely to be central to a satisfactory relationship between trade and financing. There is already evidence that its involvement with problem countries makes possible the negotiation, not only of appropriate adjustment programmes but also of a package of financing by other official and private institutions. In order to strengthen this central role and to improve confidence in the international financial system, speedy agreement is needed on the size of the next quota increase and enlargement of the General Arrangements to Borrow (GAB), originally set up by the Group of Ten to provide supplementary finance for IMF drawings by their own number. This enlargement might be both by amount and by eligibility to enable non-GIO countries to participate as lenders or borrowers. The increase in the Fund's resources needs to be large enough not only to meet the collective needs of problem countries, but also to provide an incentive to individual members to make earlier approaches to the Fund. Difficult choices lie ahead in striking the right balance between financing and adequate adjustment, i.e. in the severity of IMF conditionality. This balance needs to avoid on the one hand a political climate in which there is a cumulative failure to implement the programmes or, on the other, a degree of laxity that fails to restore the creditworthiness of the problem countries.

Improved co-ordination between official and private lenders

116. Ad hoc institutional procedures are developing for improved co-ordination of emergency bridging finance to problem countries by official and private creditors as in the case of Mexico. These have included central bank credit arranged through the BIS and inter-government loans. Some of the larger international banks, with the encouragement of the IMF, are likely to agree shortly to make advance contributions to jumbo loans to Brazil and perhaps other countries, ahead of final agreement on the IMF programme. These procedures need to be put onto a sounder footing.

Aid during the convalescent period

117. One of the defects of the rescheduling system is that the debtor country has often been starved of new credits for a certain period before creditworthiness is re-established. Enlargement of the international financing institutions will contribute to a solution and bilateral economic assistance might also be considered. The objective would be to provide credit facilities during the period immediately following a debt rescheduling operation in order to maintain a flow of essential imports on terms which would not add to the existing debt problems. A pattern is recently emerging whereby private banks have recognised their responsibility to maintain some credit facilities as part of a joint official and commercial package. Adequate co-ordination between all the creditors is needed to design the package in a systematic way that dovetails with the IMF programme. This may emerge as an extension of procedures mentioned in the previous paragraph.

Rescheduling terms

118. While it remains vital that rescheduling of debt should not become an automatic or easy option, consideration might be given to promoting some changes in existing Paris Club conventions and procedures, with the aim of making rescheduling more effective as an instrument for restoring creditworthiness. Consideration might be given to -

- i. Extending the scope of the rescheduling. At present the Paris Club generally only looks about one year ahead which leaves in doubt whether or not a further rescheduling might be arranged. It may be sensible in this way to ensure compliance with the IMF programme by retaining some

leverage over the debtor who may not, anyway, be in a position to make long-term commitments. The commercial banks may also prefer not to be committed too far ahead. However, in suitable cases where it is clear that the debt structural problem will persist for some time, agreement in principle to reschedule 3 year debts, subject to some performance criteria, might be indicated at the outset. Yugoslavia is a possible case in point. Such an approach might also reduce the danger that a country might seriously consider default as an alternative option.

ii. Relaxing the present insistence that other creditors (eg private lenders) should also reschedule their debts. While no one would wish to encourage the thought that governments should bale out private lenders, the contributions of official and private lenders to solving a debt crisis need not necessarily be identical.

iii. Shortening the Paris Club procedures and examining whether pledges of principle to reschedule debt might be given in advance of formal Paris Club meetings in order to dispel uncertainty.

Action to reduce the risk of further debt crises

119. Improvements are desirable to reduce the risk in future of similar debt crises. These might include -

a. Better collection and circulation of data - BIS/OECD/IBRD efforts to improve coverage are making slow progress but there are big gaps in the data provided (especially on short term debt) and some "double counting" in the statistics now available. The creation by the commercial banks of an institution in Washington (sometimes called Ditchley II) to exchange information between themselves and to encourage a better flow from borrowers may help.

b. Wider consultation and exchange of information on potential debt commitments between the international agencies, the export credit agencies and the commercial banks would be mutually beneficial in forecasting potential debt problems. At present there is a reasonable

exchange between the international agencies and the official lenders. There is no formal systematic link-up with the private sector largely for reasons of confidentiality. One aim of Ditchley II is to provide a channel for informal exchanges, especially with the IMF and IBRD.

120. These improvements could not, however, be sufficiently refined to become a fail safe mechanism. Differences between the political systems and the economies of borrowing countries are too great to make useful the adoption of automatic debt indicators of potential crises or of automatic actions by creditors in response to them. But the combination of improvements already described should reduce the risk of sudden shifts in confidence which trigger the crises.

Trade issues

121. Among the issues at stake in the trading field are the following -

- a. What other ways are there of helping debtors to adjust, short of cutting back on trade? Should the IMF discourage debtor countries from using trade barriers to improve their external payments positions?
- b. Can the articulation between the various institutions (eg GATT, IMF etc) be improved through better co-ordination of activities?
- c. Should LDCs encourage foreign investment by relaxing their own constraints of foreign ownership? This might enable them to industrialise without heavy borrowing. This might also be made a condition of assistance or a requirement in future borrowing.
- d. A reduction in the cost of borrowing might be brought about by reversing the recent consensus moves to raise interest rates on export credit. But this seems undesirable for other reasons.

Trade and Payments one ball of wax

122. The one overriding conclusion which emerges from the Report is that the pressures on the international monetary and economic system are inter-related and inter-dependent. The policy measures to which Governments are increasingly tempted to resort to relieve the pressures on them must be seen as alternative ways of achieving the same ends. Whether a government decides to manipulate its currency, impose trade restrictions, reschedule or default on its debts will in the last resort depend on its judgement of what best suits its particular interests and whether and what net advantage it can hang on to in the face of retaliation by other governments. If the situation is not to unravel even further, the idea that any unilateral advantage can be secured in this way must be squashed and corresponding incentives created to observe the rules.

123. The beginning of wisdom therefore is that a strategy for recovery cannot be partial in scope but must treat the issues as one ball of wax and deal with them accordingly.

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FM PARIS 161641Z DEC 82
TO IMMEDIATE FCO

TELEGRAM NUMBER 1203 OF 16 DECEMBER 1982
INFO PRIORITY WASHINGTON, BONN, UKDEL NATO, ROME, BRUSSELS,
THE HAGUE, MADRID AND MOD (DS 17)

PARIS TELNO. 1198: SHULTZ'S VISIT TO PARIS.

1. ANDREANI'S BRIEFING TODAY COVERED TWO SUPPLEMENTARY POINTS:

(A) STRATEGIC AFFAIRS. SHULTZ HAD ASKED IF THE REMARKS ON INF ASCRIBED TO PRESIDENT MITTERRAND IN THE KRAFT ARTICLE MEANT THE FRENCH POSITION HAD CHANGED. MITTERRAND REASSURED HIM THAT IT HAD NOT. FRANCE, NOT BEING A PARTY TO THE US/USSR NEGOTIATIONS, HAD NEVER TAKEN A PRECISE POSITION ON THE SOLUTIONS SOUGHT THERE BUT HAD SAID THAT THERE SHOULD BE A REDUCTION TO THE 'LOWEST LEVEL POSSIBLE'. IN HIS CONVERSATION WITH KRAFT HE HAD ONLY MADE THE COMMON SENSE OBSERVATION THAT IN A NEGOTIATION THE SOLUTION WAS USUALLY FOUND SOMEWHERE BETWEEN THE POSITIONS ADOPTED BY THE PARTICIPANTS AT THE OUTSET: IN THIS CASE THE FRENCH CONTINUED TO HOPE THAT IT WOULD BE AS CLOSE TO THE ZERO OPTION AS POSSIBLE. SHULTZ HAD APPEARED SATISFIED WITH THIS EXPLANATION.

(B) TIMETABLE FOR DISCUSSION OF EAST/WEST ECONOMIC RELATIONS. SHULTZ HAD SUGGESTED THAT THE DISCUSSIONS IN THE VARIOUS BODIES SHOULD REACH CONCLUSIONS BEFORE MAY/JUNE, WHEN THE OECD AND NATO MINISTERIAL MEETINGS AND THE WILLIAMSBURG SUMMIT WERE DUE TO TAKE PLACE. MITTERRAND HAD NOT OBJECTED TO THIS SUGGESTION. ASKED SPECIFICALLY WHETHER THIS MEANT THAT MITTERRAND HAD ACCEPTED THE DATE OF 28-30 MAY FOR THE WILLIAMSBURG SUMMIT, ANDREANI SAID THAT MITTERRAND HAD TAKEN NOTE OF THE FACT THAT THIS WAS THE DATE THAT THE AMERICANS HAD FIXED FOR THE MEETING. ANDREANI IMPLIED, BUT WOULD NOT EXPLICITLY SAY, THAT THIS WAS THE SAME THING AS ACCEPTANCE.

FRETWELL

EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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TELEGRAM NUMBER 1198 OF 15 DECEMBER 1982
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MY TELNO 1196: SHULTZ'S VISIT TO PARIS

1. A SECOND, IMPROMPTU PRESS CONFERENCE, CONVENED BY SHULTZ AND CHEYSSON AFTER THEIR DINNER YESTERDAY EVENING AND THEREFORE NOT REFLECTED IN THIS MORNING'S FRENCH PRESS AND AGENCY REPORTS, GAVE A MORE POSITIVE IMPRESSION OF THE PROGRESS MADE ON EAST/WEST ECONOMIC RELATIONS. THE ELYSEE, HOWEVER, CONTINUE TO INSIST ON THE MORE RIGOROUS FACETS OF THE FRENCH POSITION AND THIS DUALITY MAY PERSIST IN BOTH SIDES' PRESENTATION OF THE RESULTS.

2. DESPITE THIS IT SEEMS THAT SHULTZ DID A VERY COMPETENT JOB IN REPAIRING BILATERAL RELATIONS AND ENABLING DISCUSSION TO MOVE FORWARD. IN PARTICULAR THE FRENCH SEEM TO HAVE AGREED THAT NATO DISCUSSION SHOULD BE WIDE ENOUGH TO COVER ECONOMIC ASPECTS OF EAST/WEST RELATIONS INSOFAR AS THEY CONCERN SECURITY, BUT NOT REPEAT NOT TO ACT AS COORDINATOR FOR RELEVANT DISCUSSION IN OECD AND COCOM. SHULTZ HIMSELF WAS CAREFUL TO DISCLAIM THE INTENTION OF SEEKING A "GLOBAL" FRAMEWORK.

DETAIL

3. THE EVENING PRESS CONFERENCE (FULL TRANSCRIPT BY BAG TO TRED FCO, WASHINGTON AND UKDEL NATO) FOCUSSED ALMOST EXCLUSIVELY ON EAST/WEST ECONOMIC RELATIONS. SHULTZ SAID BOTH SIDES WERE AGREED THAT THE FOLLOWING ACTIVITIES AND STUDIES SHOULD BE UNDERTAKEN:

- A) ON A STRENGTHENING OF COCOM:
- B) IN COCOM, ON OTHER TYPES OF HIGH TECHNOLOGY, INCLUDING POSSIBLY OIL AND GAS TECHNOLOGY, WHICH MIGHT HAVE A RELATIONSHIP TO SECURITY ISSUES BECAUSE OF THEIR STRATEGIC NATURE.
- C) IN OECD, A PURELY FACTUAL STUDY ON FINANCIAL AND TRADE FLOWS BETWEEN THE SOVIET BLOC AND THE WEST.
- D) IN OECD (WITH THE HELP OF THE IEA), ON ENERGY ALTERNATIVES IN EUROPE, FOR THE US AND FOR JAPAN.
- E) IN OECD, TO MAKE SURE THAT THE WEST WAS NOT PROVIDING THE SOVIET UNION WITH RESOURCES THAT STRENGTHENED ITS MILITARY CAPABILITY.

4. SHULTZ SAID IT WAS DESIRABLE THAT THERE SHOULD BE ADEQUATE CONSULTATION AND COOPERATION AMONG WESTERN COUNTRIES ABOUT THEIR OVERALL OBJECTIVES AND STRATEGIES IN EAST/WEST TRADE INSOFAR AS

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SECURITY CONCERNS WERE RELATED TO IT. HE SAID THAT MITTERRAND SEEMED TO FEEL THAT THE BEST PLACE TO CONDUCT THIS STUDY WAS NATO. IT WOULD BE NECESSARY TO FIND A WAY OF ASSOCIATING JAPAN AS WELL. SHULTZ SAID THAT HE WOULD PREFER NOT TO USE WORDS LIKE 'ORGANIC' OR 'GLOBAL' TO DESCRIBE THE PROPOSED CONSULTATION.

5. CHEYSSON CONFIRMED THAT IN THE FRENCH VIEW NATO WAS 'A PROPER PLACE TO CONSIDER AND COORDINATE ACTION FOR ANY MATTER INCLUDING ECONOMIC SUBJECTS INSOFAR AS THEY CONCERN SECURITY'. MATTERS FALLING OUTSIDE THE MAIN SECURITY CONCERNS WOULD HAVE TO BE DISCUSSED WHEN OCCASION AROSE AT SUMMIT OR MINISTERIAL LEVEL. JAPAN SHOULD TAKE ITS SHARE OF RESPONSIBILITY. QUESTIONED ON CREDITS, CHEYSSON SAID THERE HAD BEEN NO PROGRESS IN DISCUSSION SINCE VERSAILLES, BUT THE FLOW OF CREDITS TO THE EAST WAS ALREADY ON THE DECLINE.

6. THE AMERICAN EMBASSY HAS TOLD US THAT SHULTZ TELEPHONED THE WHITE HOUSE JUST BEFORE HIS DEPARTURE AND EXPRESSED SATISFACTION WITH THE VISIT. FOR THE AMERICANS THE COMPROMISE REACHED ON EAST/WEST ECONOMIC RELATIONS WAS REGARDED AS GENUINE PROGRESS. ALTHOUGH THE TOPIC OF HARMONISATION OF EXPORT CREDITS DID NOT FIGURE IN THE LIST OF STUDIES TO BE UNDERTAKEN, THIS WOULD FORM PART OF THE STUDY IN OECD OF RESOURCE TRANSFERS LIABLE TO STRENGTHEN THE SOVIET UNION'S MILITARY CAPABILITY. THIS REPRESENTED A CONCESSION TO THE FRENCH, WHO PREFERRED THAT FORUM BECAUSE OF THE REPRESENTATION OF NEUTRAL COUNTRIES AND THE CONSEQUENT INHIBITION UPON CONSIDERATION OF MILITARY FACTORS. THE EMBASSY SAID THEY WERE SURE THAT MITTERRAND HAD GIVEN HIS BLESSING TO THE LINE TAKEN BY CHEYSSON.

7. FRENCH OFFICIALS ALSO TELL US THAT THE VISIT WAS A HIGHLY SUCCESSFUL ONE. THEY SAID THAT SHULTZ ACHIEVED A GOOD UNDERSTANDING WITH MITTERRAND, THOUGH VEDRINE (ELYSEE) ADDED THAT SHULTZ WAS A VERY GOOD LISTENER. ACCORDING TO VEDRINE THE MAIN FRENCH AIM WAS TO IMPRESS ON THE AMERICANS THAT THEIR INSISTENCE ON FRANCE'S SOVEREIGN INDEPENDENCE OF DECISION-MAKING WAS ABSOLUTE BUT THAT THIS WAS ALSO IN THE AMERICAN INTEREST. THE FREELY-TAKEN FRENCH STANCE ON DEFENCE QUESTIONS WOULD NOT HAVE BEEN SO FIRMLY SUPPORTED BY FRENCH PUBLIC OPINION IF IT SEEMED TO STEM FROM SUBSERVIENCE TO US ECONOMIC POLICIES.

8. IN THE SAME CONTEXT VEDRINE INSISTED THAT THE FRENCH HAD NOT GONE BEYOND THEIR PREVIOUS AGREEMENT THAT EXISTING STUDIES SHOULD CONTINUE IN THE APPROPRIATE BODIES. QUESTIONED ABOUT CHEYSSON'S REPORTED FORMULA IN PARAGRAPH 5 ABOVE, VEDRINE SAID ANYONE COULD PLAY WITH WORDS. NO DOUBT DISCUSSION IN NATO WOULD RANGE A BIT WIDER THAN IN THE OTHER FORA BUT THERE COULD BE NO QUESTION OF ANY COORDINATING MECHANISM, GLOBAL STUDY OR EVEN PULLING TOGETHER OF THREADS FOR DECISION ('CHAPEAU').

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9. WE UNDERSTAND FROM THE QUAI THAT SHULTZ'S DISCUSSIONS OF OTHER INTERNATIONAL POLITICAL ISSUES COVERED NO NEW GROUND. HOWEVER ANDREANI IS TO GIVE A COMMUNITY BRIEFING TOMORROW AFTERNOON.

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EAST/WEST ECONOMIC ISSUES - SIBERIAN PIPELINE

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MR. COLES

Visit of the American Secretary of State
16th-19th December 1982

I attach the following Departmental briefs for the visit of Mr. Shultz on 16th to 19th December:

- Brief No.1 - East/West Economic Relations:
Follow-up to "Summary of Conclusions"
- Brief No.2 - Defence/Arms Control
- Brief No.3 - Middle East
- Brief No.4 - Agriculture
- Brief No.5 - Trade

2. Sir Robert Armstrong will submit tomorrow a brief on points that the Prime Minister might make to Mr. Shultz on the international economic situation which he has said he would particularly like to discuss.

A handwritten signature in blue ink, appearing to be 'R.P. Hatfield'.

R.P. Hatfield

15th December 1982

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VISIT OF THE AMERICAN SECRETARY OF STATE TO LONDON, 16-18 DECEMBER
EAST-WEST ECONOMIC RELATIONS: FOLLOW-UP TO 'SUMMARY OF CONCLUSIONS'

Points to Make

1. How do you see things going after your talks with our European colleagues, after last week's NATO meeting in Brussels, and after yesterday's and today's discussions here in London?
2. Understand that a framework for follow-up is gradually taking shape in OECD and elsewhere, and that France has at least agreed to all the studies. We shall of course participate fully. Like you, we want to press ahead, but we must be careful not only with the French, but also with the smaller Europeans whose cooperation is essential. Proper consultation of great importance.
3. What are your views on deadlines for completion of the studies? (If asked) We think aiming for the next Economic Summit is a sensible idea. We should aim to take stock then of work done and in hand, and review future prospects.

Essential Facts

Reference A: Text of Mr Shultz's letter of 4 December and our reply

Reference B: UKDEL OECD telno 83

Reference C: UKDEL NATO telno 476 and extract from 477

Reference D: Summary of Conclusions

1. Secretary Shultz on his European tour has had consultations in NATO at the NAC, with the EC Presidency and Commission, and with the Governments of West Germany, Belgium, the Netherlands, Italy, Spain and France. Where relevant, he has discussed follow-up work to the Washington talks, basing himself on the text of his letter of 4 December sent to the Summit Seven, plus Presidency and Commission (Reference A).

2. The German response to the Shultz letter was favourable and in line with our own. Neither the Presidency nor the Commission had detailed discussions of the letter with Shultz. France accepted, after discussion at dinner with our closest allies on Wednesday 8 December, that all studies listed in the Summary of Conclusions should go ahead (including the difficult subjects of non-COCOM technology and credit harmonisation) although the status of the Summary itself remained uncertain. But they vetoed any steering group, and this has been accepted.

3. NATO Foreign Ministers agreed this format on 9 December, despite restiveness by smaller nations at being left out of Washington process, and that the NATO Council would meet again to consider a monitoring rôle for NATO (proposed by Luxembourg and Norway, supported by the UK: Reference C).

4. At the FAC lunch on 13 December, it was agreed that Community

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follow-up should be on the basis of the Commission/Presidency draft paper on procedures, currently under discussion by Ambassadors at Coreper and due for circulation in the New Year.

5. The Americans may press us, as a Summit partner, to agree that all the follow-up work should be completed in time for the Williamsburg Summit, and be endorsed there, (prospective dates 28-30 May). The timetable would be very tight, but we should not dismiss the proposal out of hand, particularly since it was agreed at the NAC that Ministers might consider the conclusions to the OECD studies at the June NAC in Paris.

6. On the other hand, we should treat with caution requests or suggestions by the Americans that we help them get things moving in the OECD and elsewhere. On subjects within Community competence we would have to keep to an agreed Community position, while on other subjects it would be usual to conduct prior Community discussions, before committing ourselves to assisting the US. It would in any case not be in our interests to become once more the interlocutor of the Americans to the Europeans. But this should not prevent us from reminding the Americans of the need to tread softly and to avoid giving the impression of bouncing people into action in the multilateral fora where the studies will take place. This is particularly important if they are to get work moving in the OECD without giving offence either to the Secretariat or to the smaller and neutral nations (Reference B).

TRADE RELATIONS AND EXPORT DEPARTMENT.
FOREIGN AND COMMONWEALTH OFFICE
14 DECEMBER 1982

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FM FCO 061300Z DEC 82

TO PRIORITY WASHINGTON

TELEGRAM NUMBER 2123 OF 6 DECEMBER

INFO PARIS, BONN, ROME, COPENHAGEN UKDEL NATO, UKREP BRUSSELS
INFO SAVING UKDEL OECD, OTTAWA, TOKYO, MOSCOW.

EAST/WEST ECONOMIC RELATIONS

FOLLOWING IS TEXT OF MESSAGE TO ME FROM SHULTZ DATED 4 DECEMBER.
BEGINS

LOOKING AHEAD TO OUR MEETINGS IN EUROPE AND THE SESSION OF THE
NATO COUNCIL, I WANTED TO SHARE WITH YOU MY THOUGHTS ON TWO OF
THE KEY ISSUES BEFORE US: OUR CONSULTATIONS ON EAST-WEST
ECONOMIC RELATIONS AND THE TRANSITION IN THE SOVIET UNION TO
THE POST-BREZHNEV ERA.

ONE SUBJECT WHICH I WILL WANT TO DISCUSS BILATERALLY WITH YOU
DURING MY VISIT TO LONDON IS HOW WE SHOULD FOLLOW-UP TO THE
CONSENSUS ON EAST-WEST ECONOMIC RELATIONS CONTAINED IN THE
QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. AS YOU KNOW, THIS IS A
MATTER TO WHICH THE PRESIDENT ATTACHES GREAT IMPORTANCE, AND I
BELIEVE IT IS ESSENTIAL THAT WE AGREE AMONG OURSELVES ON HOW WE
SHOULD MOVE AHEAD IN THE VARIOUS AREAS ENUMERATED IN THE QUOTE
SUMMARY OF CONCLUSIONS UNQUOTE.

WHILE I DO NOT WISH TO GO INTO THEM IN DETAIL AT THIS TIME, I
THOUGHT IT WOULD BE USEFUL TO PREPARE FOR OUR MEETING IF I GAVE
YOU SOME IDEA OF HOW WE ENVISAGE THE FOLLOW-UP PROCESS DEVELOPING.
AS A GENERAL RULE, WE BELIEVE THE SEVEN-NATION GROUP, WITH THE
PARTICIPATION OF THE EC PRESIDENCY AND THE COMMISSION, WHICH
WORKED TOGETHER SO EFFECTIVELY, SHOULD CONTINUE TO BE USED IN
SOME WAY TO COORDINATE THE FOLLOW-UP PROCESS. AT THE SAME TIME,
WE RECOGNISE THE DESIRABILITY OF USING EXISTING INTERNATIONAL
ORGANISATIONS WHENEVER POSSIBLE, AND WE WOULD MINIMISE THE
ESTABLISHMENT OF ANY NEW INSTITUTIONS EITHER TO CONDUCT THE

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FOLLOW-UP WORK OR AS A RESULT OF THAT WORK.

IN THE FIELD OF ENERGY, WE PROPOSE THE CREATION OF AN AD HOC SUMMIT GROUP ON ENERGY TO CONDUCT THE ENERGY STUDY REFERRED TO IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. THIS GROUP WOULD BE EXPANDED TO INCLUDE OTHER DIRECTLY CONCERNED COUNTRIES. THE AD HOC GROUP WOULD COMMISSION THE OECD COMBINED ENERGY SECRETARIAT TO PREPARE THE ENERGY STUDY BASED ON TERMS OF REFERENCE AND GUIDANCE FROM THE GROUP. THE GROUP WOULD DRAW POLICY CONCLUSIONS BASED ON THE OECD/IEA ANALYSIS AND MEMBER COUNTRY CONTRIBUTIONS. WE WOULD HOPE THIS GROUP COULD BE CONVENED SOON, PERHAPS AS EARLY AS DECEMBER 15 IN PARIS, IN ORDER FOR THE GROUP TO COMPLETE ITS WORK BY EARLY MAY 1983.

ON CREDITS, WE SEEK TO BUILD ON POST-VERSAILLES PROGRESS IN THE OECD EXPORT CREDIT ARRANGEMENT AND OTHER OECD WORK TO HARMONISE EXPORT CREDIT POLICIES TOWARD THE USSR AND ENHANCING THE TRANSPARENCY OF WESTERN ECONOMIC RELATIONS WITH THE USSR AND EASTERN EUROPE. WE ALSO WISH TO ESTABLISH A FRAMEWORK WITHOUT FURTHER DELAY FOR PERIODIC EX POST REVIEW OF EAST-WEST ECONOMIC RELATIONS WHICH WOULD DRAW ON OECD DATA AND ANALYSES. A MONITORING GROUP CONSISTING OF SUMMIT SEVEN AND EC PARTICIPATION WOULD PROBABLY BE MOST EFFICIENT BUT WE ARE OPEN TO OTHER PROPOSALS. WE PROPOSE THAT A MEETING OF THIS GROUP BE HELD EARLY IN JANUARY TO DISCUSS PROCEDURES FOR THE REVIEW AND PROPOSALS FOR FURTHER WORK ON HARMONISATION OF EXPORT CREDIT POLICIES.

THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE REINFORCES THE AGREEMENT AT THE JANUARY, 1982 HIGH-LEVEL MEETING TO STRENGTHEN COCOM. WHAT WE NEED IS A STOCK-TAKING EXERCISE TO REVIEW WHERE WE STAND AND WHAT REMAINS TO BE DONE TO ACHIEVE OUR COMMON OBJECTIVE. FOR THIS PURPOSE, I PROPOSE THAT REPRESENTATIVES OF THE SEVEN MEET NEXT FEBRUARY, AT THE LEVEL OF UNDER SECRETARIES. WE SUGGEST THAT THE MEETING BE INFORMAL, AND THAT IT BE HELD WITHOUT PUBLICITY.

AT THE OPENING OF THE LIST REVIEW ON OCTOBER 4, THE US SUGGESTED THAT A SECOND HIGH-LEVEL MEETING OF ALL COCOM PARTICIPANTS BE HELD SOMETIME IN 1983. SUCH A MEETING MIGHT BE HELD IN JULY, FOLLOWING THE SECOND ROUND OF THE LIST REVIEW.

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BEFORE MAKING A FORMAL PROPOSAL IN COCOM ON THIS, WE WOULD LIKE TO DISCUSS OUR IDEAS WITH YOU IN FEBRUARY. IN ADDITION, WE PROPOSE THAT THE FEBRUARY MEETING REVIEW THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM IN GENERAL AND WHAT SHOULD BE DONE TO STRENGTHEN COCOM INSTITUTIONALLY.

ON OTHER HIGH TECHNOLOGY, WE BELIEVE THAT OUR FOLLOW-UP SHOULD BE CONDUCTED IN STAGES. WE WOULD LIKE TO MEET WITH THE SUMMIT SEVEN GROUP AT AN EARLY DATE TO DISCUSS THE OIL AND GAS SECTOR. WE WILL BE PREPARED TO EXCHANGE VIEWS WITH YOU ON THE REASONS WHY CONTROLS IN THIS SECTOR WOULD BE IN OUR MUTUAL SECURITY AND ENERGY INTEREST. WE ARE UNDERTAKING AN INTERNAL STUDY OF HOW OTHER TECHNOLOGIES CONTRIBUTE TO THE MILITARY OR STRATEGIC ADVANTAGE OF THE USSR. WE WOULD HOPE TO BE ABLE TO GIVE YOU AN INDICATION OF OUR THINKING AT A MEETING IN FEBRUARY, WHICH COULD BE HELD IN CONJUNCTION WITH THE MEETING WE WOULD LIKE TO HAVE ON COCOM MATTERS.

TO ENSURE THAT OUR ECONOMIC RELATIONS WITH THE SOVIET UNION ARE CONSISTENT WITH OUR STRATEGIC INTERESTS, WE SHOULD GO FORWARD WITH OUR AGREEMENT TO CONDUCT EXPEDITIOUSLY AN OVERALL STUDY ON EAST-WEST ECONOMIC RELATIONS. WE ENVISAGE THIS STUDY VERY MUCH ALONG LINES DEVELOPED IN THE QUOTE SUMMARY OF CONCLUSIONS UNQUOTE. I REMEMBER THAT WE ALL ATTACHED GREAT IMPORTANCE TO THIS EFFORT, AS IT WILL PROVIDE US WITH A COMMON ASSESSMENT OF EAST-WEST ECONOMIC RELATIONS AND THEREBY ENABLE US TO IMPLEMENT THE PRINCIPLES ON WHICH WE AGREED. IN OUR VIEW, A SPECIAL GROUP SHOULD BE FORMED TO CONDUCT THIS STUDY ON THE BASIS OF CONTRIBUTIONS FROM THE PARTICIPATING COUNTRIES. THIS GROUP COULD WELL CALL UPON THE OECD AND NATO FOR CONTRIBUTIONS IN THEIR RESPECTIVE AREAS OF EXPERTISE. A SECRETARIAT ROLE FOR ONE OF THESE INSTITUTIONS (OR THE TWO JOINTLY) IS ALSO A POSSIBILITY TO BE EXPLORED.

FINALLY, IT IS CLEAR TO US THAT SOME INFORMAL MECHANISM WILL BE NEEDED TO SUPERVISE THE FOLLOW-UP PROCESS AS A WHOLE. THE WASHINGTON AMBASSADORIAL GROUP HAS SERVED WELL IN THIS CAPACITY, BUT WE MAY WANT NOW TO CONSIDER OTHER POSSIBILITIES. I THINK YOU WILL AGREE THAT, AS FAR AS EAST-WEST ECONOMIC

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RELATIONS ARE CONCERNED, WHILE MUCH OF THE SUBSTANCE OF OUR CONSULTATIONS HAS CONCERNED MATTERS DEALT WITH IN OTHER BODIES, IT NEVERTHELESS IS IMPORTANT THAT NATO HAVE A SIGNIFICANT ROLE IN THE ON-GOING CONSULTATIVE PROCESS. ONE AREA WHERE THE RESOURCES OF THE ALLIANCE COULD BE PUT TO EXCELLENT USE, WITHOUT CONFLICTING WITH WORK DONE ELSEWHERE OR THE MISSIONS OF OTHER ORGANISATIONS, WOULD BE AN IN-DEPTH STUDY OF THE PROSPECTS FOR THE SOVIET ECONOMY, INCLUDING ITS ABILITY TO SUSTAIN PRESENT AND PROJECTED FUTURE LEVELS OF DEFENSE EFFORT. WE PLAN TO INTRODUCE PROPOSALS FOR THIS SPECIAL STUDY INTO THE COMMUNIQUE DRAFTING PROCESS AT NATO IN THE NEXT FEW DAYS.

ANOTHER THOUGHT I HAD ON WHICH I WOULD VALUE YOUR OPINION CONCERNS HOW THE ALLIANCE CAN MOST EFFECTIVELY DEAL WITH THE QUESTION OF THE SOVIET UNION'S POLICIES POST-BREZHNEV AND THEIR IMPLICATIONS FOR US. BREZHNEV'S DEPARTURE AND ANDROPOV'S EMERGENCE COULD WELL MEAN THAT DEVELOPMENTS IN MOSCOW, AND THEIR MEANING FOR THE WEST, WILL BE HIGHLY COMPLEX. I BELIEVE, THEREFORE, THAT A NATO STUDY ON LIKELY TRENDS IN SOVIET POLICIES, AND THEIR IMPLICATIONS FOR EAST-WEST RELATIONS, POST-BREZHNEV WOULD BE VERY TIMELY.

THIS IS AN IDEA WE MIGHT PROFITABLY DISCUSS. IF OUR EXCHANGE SUGGESTS THAT SUCH AN INITIATIVE HAS MERIT, WE MIGHT THEN INTRODUCE IT FOR MORE GENERAL DISCUSSION DURING THE SUPER-RESTRICTED SESSION OF THE NAC ON DECEMBER 9, WHICH WILL IN ANY CASE BE AN OCCASION FOR REVIEWING THE FULL SCOPE OF EAST-WEST RELATIONS IN THE POST-BREZHNEV ERA. IF THERE IS AGREEMENT THERE, THIS INITIATIVE TOO, COULD BE INCLUDED IN OUR COMMUNIQUE.

I LOOK FORWARD TO HEARING YOUR REACTION TO THESE IDEAS.

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FM FCO 071017Z DECEMBER 82
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 2130 OF 7 DECEMBER
INFO ROUTINE PARIS, BONN, ROME, COPENHAGEN, UKDEL NATO, LKREP
BRUSSELS
INFO SAVING UKDEL OECD, OTTAWA, TOKYO, MOSCOW
EAST/WEST ECONOMIC RELATIONS
MY TEL 2123

PLEASE PASS FOLLOWING REPLY TO SHULTZ. BEGINS.

THANK YOU VERY MUCH FOR YOUR MESSAGE OF 4 DECEMBER.

I WELCOME YOUR SUGGESTED APPROACH TO THE FOLLOW-UP WORK
OUTLINED IN THE SUMMARY OF CONCLUSIONS. YOU CAN RELY ON US TO
PLAY A FULL AND CONSTRUCTIVE PART. YOUR PROPOSALS ON FORA AND
THE TIMETABLE ARE PARTICULARLY USEFUL, AND AT FIRST SIGHT NONE
OF YOUR IDEAS SEEMS LIKELY TO CAUSE US DIFFICULTY. I LOOK
FORWARD TO TAKING THINGS FURTHER WHEN WE MEET IN BRUSSELS AND
LATER IN LONDON.

THERE ARE JUST TWO POINTS THAT I SHOULD LIKE TO MAKE AT
THIS STAGE.

FIRST, WE ARE STILL GETTING CRYPTIC BUT NEGATIVE NOISES
FROM THE FRENCH ABOUT THE STATUS OF THE SUMMARY OF CONCLUSIONS.
NO DOUBT YOU ARE IN TOUCH WITH THEM. CLEARLY SOME WAY MUST BE
FOUND PAST THIS ROADBLOCK SO THAT THE FOLLOW-UP WORK CAN GO
FORWARD AS YOU SUGGEST.

SECOND, THE SUMMARY OF CONCLUSIONS SPEAKS OF THE NEED FOR
THE WEST TO CONDUCT OUR ECONOMIC RELATIONS WITH THE SOVIET UNION
AND EASTERN EUROPE ON THE BASIS OF A GLOBAL AND COMPREHENSIVE
POLICY WHICH SERVES OUR COMMON SECURITY INTERESTS. I ATTACH A
LOT OF IMPORTANCE TO THIS POINT, AND SHALL WANT TO TAKE THE
OPPORTUNITY OF OUR MEETINGS THIS WEEK AND NEXT TO EXCHANGE VIEWS
ABOUT THE POLITICAL FRAMEWORK INTO WHICH THE ECONOMIC STUDIES
WILL NEED TO BE FITTED.

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W. B. ...

on 2¹³/12

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FM UKDEL OECD 101700Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NO 83 OF 10 DECEMBER 1982

INFO IMMEDIATE WASHINGTON PRIORITY UKDEL NATO, UKREP BRUSSELS,
PARIS, COPENHAGEN.

INFO SAVING OTTAWA, ROME, TOKYO, BONN, MOSCOW.

OECD: EAST-WEST ECONOMIC RELATIONS

1. THE FIRST VISIBLE U S ATTEMPT TO MOBILISE OECD ACTIVITY EMERGED WITHOUT WARNING ON 9 DECEMBER IN EXECUTIVE COMMITTEE DISCUSSION OF THE 1983 BUDGET. THE BUDGET COMMITTEE HAD RECOMMENDED TRIMMING THE SECRETARY GENERAL'S SEPTEMBER REQUEST FOR EXTRA STAFF FOR THE FINANCE, FISCAL AND ENTERPRISE AFFAIRS DIRECTORATE WHERE EXPORT CREDIT FINANCIAL FLOWS AND INDEBTEDNESS ARE AMONGST THE NUMEROUS THEMES OF WORK. THE U S AMBASSADOR, ADDRESSING THE SECRETARIAT REPRESENTATIVE, EXPRESSED STRONG DOUBT WHETHER EVEN THE STAFF INCREASES REQUESTED BY THE SECRETARY GENERAL WOULD BE SUFFICIENT TO CARRY OUT THE INTENSIVE EAST-WEST WORK IN THESE AREAS CALLED FOR IN RECENT STATEMENTS BY MINISTERS. THE AMBASSADOR ALSO INFERRED THAT A SIMILAR STATE OF AFFAIRS MIGHT BE FOUND WHEN THE EXECUTIVE COMMITTEE TURNED TO CONSIDERING THE STAFFING OF THE TRADE DIRECTORATE. THE SECRETARIAT'S PROVISIONAL RESPONSE IDENTIFYING RESOURCES CURRENTLY DEVOTED TO EAST-WEST WORK DID NOT SATISFY THE AMBASSADOR, WHO DEMANDED THAT THE SECRETARY GENERAL BE CONSULTED AND THAT THE COMMITTEE BE GIVEN A RESTATEMENT OF THE RESOURCES FOR WHICH PROVISION WOULD BE NEEDED IF A SUPPLEMENTARY APPROPRIATION WERE TO BE AVOIDED.
2. THESE EXCHANGES PROMPTED NO INTERVENTION BY ANY OTHER DELEGATION. AS IN MY OPINION THE TIMING, CONTENT AND MANNER RISKED MAKING EVIDENT ANY PRESENT LACK OF COHESION AMONGST THE SEVEN, AS WELL AS CONCENTRATING THE POSITION OF UNCERTAIN AS WELL AS OPPOSED COUNTRIES, I TOOK THE FIRST AVAILABLE OPPORTUNITY THIS MORNING TO CONSULT PRIVATELY WITH THE U S AMBASSADOR.
3. THE AMBASSADOR REVEALED THAT IN RECENT DAYS HE HAD DISCUSSED WITH THE SECRETARY GENERAL OBJECTIVES FOR WORK IN THE OECD AND THE RELATIONSHIP WITH GROUP OF SEVEN GROUPS WHICH WOULD BE SET UP. WITH SECRETARY SHULTZ'S VISIT HERE ON 15 DECEMBER IN MIND HE HAD BEEN CRITICAL OF THE LACK OF PREPARATION, WHICH HAD BEGUN ONLY ON 8 DECEMBER, AND HAD QUESTIONED WHETHER, APART FROM THE IAEA, THE STAFF RESOURCES REQUESTED IN THE 1983 BUDGET WERE ADEQUATE. KATZ SAID THAT VAN LENNEP HAD REACTED VIOLENTLY AGAINST G7 GROUPS AS FURTHER EVIDENCE OF INSTITUTIONALISATION OF ECONOMIC SUMMITS (THOUGH HE THOUGHT VAN LENNEP'S ATTITUDE MIGHT CHANGE IF HE WERE INVITED TO PARTICIPATE IN ANY GROUP CONCERNED WITH OECD WORK). KATZ READ TO ME PART OF A PERSONAL TELEGRAM TO SHULTZ REPORTING VAN LENNEP'S IRRITATION AND, AS I GATHERED, RECOMMENDING THAT U S PRESSURE BE MAINTAINED.
4. I ASCERTAINED THAT THE AMBASSADOR HAD MADE NO ATTEMPT TO FOREWARN, MUCH LESS CONSULT WITH, ANY OTHERS AMONG THE SEVEN HERE.

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SPECIFICALLY ASKED, HE SAID HE WAS MUCH ALIVE TO THE RISKS INHERENT IN BRINGING OUT INTO THE OPEN HERE PRESENTLY AVAILABLE SUPPORT FROM THE SEVEN. HE DID NOT THEREFORE EXPECT ME AND MY COLLEAGUES TO GO RUNNING WITH HIM DOWN A TUNNEL OF WHICH THE OTHER END WAS NOT IN SIGHT. I LEFT HIM IN NO DOUBT OF THE U K POLITICAL WILL TO ACCOMPANY THE U'S IN WELL CALCULATED PURSUIT OF OUR OBJECTIVES. WE AGREED TO REMAIN IN CONTACT.

5. THIS CONVERSATION WAS EXPLICITLY PRIVATE. OTHER REPRESENTATIVES OF THE SEVEN HAVE NOT YET VOLUNTEERED REACTIONS PUBLICLY OR PRIVATELY.

6. I THINK THIS MEANS THAT THE AMERICANS WISH TO RETAIN SOLE CONTROL OF THEIR INITIATIVE IN THE OECD, AT LEAST UNTIL SHULTZ'S VISIT ON 15 DECEMBER. THEY THEREFORE DO NOT EXPECT, AND MAY NOT EVEN WELCOME, SUPPORT, AT ANY RATE UNTIL THE OECD 1983 BUDGET HAS CLEARED THE EXECUTIVE COMMITTEE ON 13 OR 14 DECEMBER AND COMES TO THE BEGINNING OF THE DECISIVE PHASE IN THE OECD COUNCIL ON THE AFTERNOON ON 15 DECEMBER FOLLOWING THE SHULTZ/VAN LENNEP BREAKFAST THAT MORNING.

7. IN OECD BUDGETARY TERMS, HUNTING EVENTUALLY WITH THE AMERICANS FOR STAFF RESOURCES FOR TRADE AND POSSIBLY ALSO AGRICULTURE, COULD HAVE THE IMPLICATION OF GIVING THE US WHAT IT WANTS FOR ITS AGRICULTURAL TRADE OFFENSIVE IN THE OECD. I SHALL BE WATCHING THIS AND SHALL REPORT SEPARATELY.

FCO PLEASE PASS TO SAVING ADDRESSEES-

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DESKBY 100900Z DEC 82
FM USBA/NATO
TO IMMEDIATE FCO

TELEGRAM NUMBER 476 OF 9 DECEMBER

INFO IMMEDIATE WASHINGTON PRIORITY PARIS BONN MOSCOW ANKARA ATHENS
BRUSSELS COPENHAGEN THE HAGUE LISBON LUXEMBOURG OSLO OTTAWA
REYKJAVIK ROME MADRID UKDEL OECD

NORTH ATLANTIC COUNCIL MINISTERIAL MEETING, SUPER RESTRICTED
SESSION: EAST/WEST RELATIONS, (INCLUDING ECONOMIC RELATIONS)
1. THIS TOPIC TOGETHER WITH INF AND PUBLIC ATTITUDES, DOMINATED
THE DEBATE IN SUPER RESTRICTED SESSION TODAY. A FULL REPORT
IS IN MIFT. IN SUMMARY, IT WAS AGREED AT THE END OF THE MEETING
THAT ASPECTS OF ECONOMIC ISSUES THAT HAD THEIR CENTRE OF GRAVITY
IN SECURITY (SHULTZ'S WORDS) WERE A MATTER OF CONCERN TO THE
ALLIANCE. STUDIES ON SOME ISSUES WERE ALREADY IN TRAIN IN OTHER
BODIES, EG COCOM AND OECD. THESE SHOULD BE PURSUED WITH URGENCY,
GOVERNMENTS INSTRUCTING THEIR DELEGATIONS TO THOSE BODIES AS
APPROPRIATE. (IE TRANSFER OF TECHNOLOGY AND SIMILAR HIGH
TECHNOLOGY ISSUES IN COCOM, CREDIT, TRADE, FINANCIAL ISSUES
AND ENERGY IN OECD WITH THE IAEA PLAYING A PART IN THE LAST).
THERE WOULD BE ANOTHER MEETING OF THE COUNCIL (LEVEL TO BE
DETERMINED BUT PROBABLY AT PERMANENT REPRESENTATIVE LEVEL) TO
CONSIDER A MONITORING ROLE FOR NATO, AS PROPOSED BY LUXEMBOURG
AND SUPPORTED BY NORWAY AND BY YOU, WITH A VIEW TO AGREEING WHEN AND
HOW THE OUTCOME OF THESE STUDIES SHOULD BE CONSIDERED BY NATO
MINISTERS. M CHEYSSON WAS NOT PREPARED TO AGREE TO A DIRECTING
ROLE FOR NATO BUT SEEMED TO BE WILLING TO AGREE TO THE MINISTERIAL
COUNCIL CONSIDERING REPORTS PREPARED IN THESE OTHER BODIES AT
THE NEXT MINISTERIAL MEETING IN PARIS IN JUNE. MEANWHILE
CONSULTATIONS ON THESE ISSUES SHOULD NOT BE PURSUED IN OTHER
MORE RESTRICTED FORA.

2. GREECE, FRANCE, AND SOME OTHERS, EMPHASISED THAT THEY ACCEPTED
NO COMMITMENT TO BE BOUND BY THE FINDINGS OF ANY STUDIES.

GRAHAM

[REPETITION TO REYKJAVIK REFERRED FOR
DEPARTMENTAL DECISION, REPEATED AS
REQUESTED TO OTHER POSTS]

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FM UKDEL NATO 091935Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 477 OF 9 DECEMBER

INFO IMMEDIATE WASHINGTON PRIORITY MOSCOW PARIS BONN MODUK

INFO SAVING ANKARA ATHENS BRUSSELS COPENHAGEN THE HAGUE LISBON

LUXEMBOURG OSLO OTTAWA REYKJAVIK ROME MADRID UKDEL OECD

MIPT: NORTH ATLANTIC COUNCIL MINISTERIAL MEETING - SUPER RESTRICTED SESSION: EAST/WEST RELATIONS (INCLUDING ECONOMIC RELATIONS)

1. THE US SECRETARY OF STATE OPENED THE DEBATE. WITH A NEW LEADERSHIP IN THE SOVIET UNION WE NEEDED, HE SAID, TO ASSESS WHETHER ANY GENUINE CHANGE HAD TAKEN PLACE OR WAS LIKELY. AT THE MEETING BETWEEN THE US VICE PRESIDENT AND ANDROPOV THE LATTER HAD FOLLOWED AN IDENTICAL LINE TO GROMYKO'S IN NEW YORK WHEN BREZHNEV WAS STILL ALIVE, WITH THE EMPHASIS ON CONTINUITY. ANDROPOV HAD NOTED PRESIDENT REAGAN'S STATEMENT ABOUT A CONSTRUCTIVE RELATIONSHIP AND, IN REPLY TO THE PRESIDENT'S LETTER ABOUT CBMS ETC HAD ASSERTED THAT THE SOVIET UNION WAS READY FOR REDUCTIONS IN NUCLEAR ARMAMENTS AND TO CONSIDER CBM PROPOSALS, IN THE CONTEXT OF THE GENEVA TALKS. HOWEVER, THE REACTION TO THE MX DECISION HAD BEEN VIOLENT, AS WAS WELL KNOWN, SO THAT THE MESSAGE WAS MIXED. MR SHULTZ'S IMPRESSION WAS THAT ANDROPOV SEEMED TO HAVE TAKEN AUTHORITY PROMPTLY AND TO BE A CAPABLE AND DECISIVE PERSON. IT WAS TOO EARLY TO DECIDE WHETHER THIS MEANT THAT THINGS WOULD CONTINUE AS BEFORE, OR WHETHER THE SOVIET UNION WOULD BE MORE CONSTRUCTIVE OVER SUCH THINGS AS ARMS CONTROL AND EVEN THE TREATMENT OF THEIR OWN PEOPLE, OR WHETHER THEY MIGHT PROVE MORE AGGRESSIVE, OR EVEN A MIXTURE. WE MUST WAIT AND SEE. MEANWHILE WE MUST SHOW REALISM, STRENGTH OF WILL AND PURPOSE AND THE STRENGTH TO NEGOTIATE IF THAT PROVED GENUINELY POSSIBLE.
2. THE US SAW A NEED TO STUDY IN NATO SOVIET POLICIES AFTER THE CHANGE OF LEADERSHIP WITH A VIEW TO A REPORT TO MINISTERS AT THEIR MEETING NEXT JUNE. THIS STUDY SHOULD BE A COLLATION OF ALLIANCE VIEWS.
3. MR SHULTZ SAID THAT THERE WAS A CLEAR RELATIONSHIP BETWEEN TRADE AND FINANCE ON THE ONE HAND, AND SOVIET MILITARY STRENGTH ON THE OTHER. WORK WAS IN HAND IN SOME FORA, FOR EXAMPLE COCOM, AND HE WELCOMED THAT. IT WAS IMPORTANT TO STUDY THE IMPLICATIONS OF TRADE IN OTHERS NOT STRICTLY MILITARY TECHNOLOGY, SUCH AS THE OIL AND GAS INDUSTRIES. IT WOULD BE WELL TO HAVE SUCH ISSUES STUDIED IN COCOM. IN ANOTHER FORUM, OECD, AS A RESULT OF EARLY WORK THERE AND OF THE MEETING AT VERSAILLES WORK WAS IN HAND ON CREDIT. EVERYBODY WAS CONSCIOUS OF THE IMPORTANCE OF THAT THROUGH THE HIGH LEVELS OF DEBT OBTAINING IN MANY EAST EUROPEAN COUNTRIES. WITH QUOTE ENERGISING UNQUOTE FROM

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/THE NAC,

THE ALLIANCE, HE HOPED TO SEE PROGRESS IN THE AREA OF
VERSAILLES ALSO IT HAD BEEN AGREED THAT THERE SHOULD BE A
STUDY ON AN EX-POST BASIS OF TRADE AND FINANCE FLOWS TO THE
SOVIET UNION. WITH A PUSH FROM THE NAC THIS COULD BE DONE.
ANOTHER AREA FOR STUDY WAS ENERGY NEEDS AND ENERGY DEVELOPMENTS.
APPROPRIATE FORA EXISTED SUCH AS THE OECD AND THE IAEA. THEY
SHOULD BE PUSHED TO UNDERTAKE THIS WORK. FINALLY THERE
OUGHT TO BE SOME WAY TO LOOK AT THE WHOLE SUBJECT. FRANCE,
HE THOUGHT, HAD SUGGESTED EARLIER THAT IT WOULD BE GOOD IF
THE ALLIANCE UNDERTOOK A STUDY OF THE SOVIET ECONOMY IN AN
EFFORT TO EXAMINE ITS ABILITY TO SUPPORT THE SOVIET DEFENCE
EFFORT. THE US FAVOURED THAT. HE WAS READY
TO DISCUSS IT ROUND THE TABLE, TO SEE IF WE COULD
FIND A WAY OF IDENTIFYING WHAT IMPORTANCE SHOULD BE ATTACHED
TO SECURITY ASPECTS IN ALL THIS AND HOW WE COULD WORK IN
CONCERT AND NOT IN DISARRAY. HE STRESSED THAT BY PLACING EMPHASIS
ON ECONOMIC ASPECTS HE WAS IN NO WAY TALKING OF A TRADE WAR.

4. ANOTHER ASPECT OF THE ECONOMIC SITUATION WAS THE WORLD
RECESSION. ALTHOUGH NOT THE BUSINESS OF FOREIGN MINISTERS
THIS HAD ITS IMPACT ON DEFENCE CAPACITIES AND ON THE MORALE OF
OUR PEOPLES. IT WAS HIS VIEW, AND THE VIEW OF PRESIDENT REAGAN,
THAT WE NEEDED TO HAVE AS AN OBJECTIVE ECONOMIC EXPANSION AND
IF WE COULD WORK TOGETHER TOWARDS THAT SO MUCH
THE BETTER. AGAIN, ALTHOUGH IT WAS NOT THE BUSINESS OF
FOREIGN MINISTERS IT WAS IMPORTANT TO KEEP AN OPEN TRADING
SYSTEM WITHOUT WHICH ALL THE TREMENDOUS BENEFITS SINCE THE
WAR WOULD BE AT RISK.

5. CONCLUDING, MR SHULTZ SAID THAT THESE WERE THE THINGS
ON HIS MIND AND HE BELIEVED IT WAS IN THE SPIRIT OF THE
MEETING TO RAISE THEM. WE COULD TAKE HEART FROM DEVELOPMENTS
ROUND THE WORLD AND THE EXTENT TO WHICH FREE GOVERNMENTS
WERE EMERGING IN DIFFICULT SITUATIONS. THE ALLIANCE HAD
WORKED AND HELD TOGETHER DESPITE STRAINS AND RUMOURS OF CRISES.
THERE HAD BEEN NO WAR IN EUROPE. WE MUST BE DOING SOMETHING
RIGHT AND IT WAS WORTH PRESERVING. THE US CONTINUED TO BELIEVE
IN, AND SUPPORT, THE ALLIANCE WHICH WAS QUOTE RIGHT AT THE
GUTS OF THE SECURITY POSITION UNQUOTE.

6. GENSCHER, FOLLOWING, SAID THAT THERE WAS NO ADVANTAGE
IN TRYING TO FORECAST THE POLICIES OF THE KREMLIN BUT WE
SHOULD SEE HOW WE COULD INFLUENCE DEVELOPMENT THERE.
NOTHING IMPRESSED THE SOVIET UNION MORE THAN A FIRM
WESTERN POSITION. THE ALLIANCE SHOULD AGREE ON SUCH A
POSITION COUPLED WITH A READINESS TO DISCUSS ISSUES WITH THE
SOVIET UNION ON THAT BASIS WHAT HE CALLED THE POLICY OF
THE EXTENDED HAND. HE WELCOMED MR SHULTZ'S REFERENCES TO
ECONOMIC ISSUES: ONLY IF WE ACHIEVED ECONOMIC STABILITY COULD
WE ACHIEVE ALSO POLITICAL STABILITY AND MAINTAIN OUR DEFENCE
EFFORT AT THE NECESSARY LEVEL. AS A FOLLOW-UP TO LA SAPINIERE,
WE SHOULD UNDERTAKE THE NECESSARY STUDIES SO AS TO ARRIVE
AT A COMMON ECONOMIC POLICY, WHICH WAS ESSENTIAL IF WE WERE TO
AVOID DIFFERENCES IN THE ALLIANCE. THERE SHOULD BE NO ECONOMIC
WAR WITH THE EAST BUT POLICIES SHOULD BE BASED ON MUTUAL
BENEFIT.

2
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13. YOU AGREED THAT THE STATE OF OUR ECONOMIES AFFECTED THE WHOLE CLIMATE. YOU WERE ENCOURAGED BY MR SHULTZ'S REMARK ABOUT EXPANSION, BUT ANY UPTURN WOULD BE SLOW AND GRADUAL. WE NEEDED TO CLEAR OUR MINDS ABOUT HOW TO DEAL WITH THE WORLD ECONOMY. IT WAS RIGHT ALSO TO PAY ATTENTION TO THE SECURITY ASPECTS OF ECONOMIC RELATIONS WITH THE EAST. STUDIES WERE ALREADY IN HAND IN NATO, OECD AND ELSEWHERE. WE SHOULD PRESS ON WITH THESE, GIVING THEM HIGH PRIORITY AND SUPPORT, WITH EXTRA RESOURCES IF NECESSARY. JAPAN MUST BE INVOLVED.

14. M CHEYSSON, EXPRESSING PLEASURE AT THE WAY THE ALLIANCE WORKED THROUGH A RANGE OF FORMAL AND INFORMAL MEETINGS, AGREED THAT 1983 WOULD BE DIFFICULT. THE CAPACITY FOR ANALYSING THE POLICIES OF THE SOVIET UNION AND ITS SATELLITES HAD TO BE ENHANCED. THE DECISIONS ON POLAND WOULD NEED TO BE STUDIED. ANY ANALYSIS UNDER THE SECRETARY GENERAL'S AEGIS COULD ONLY BE WELCOMED. FRANCE WAS NOT DIRECTLY INVOLVED BUT THE SECOND PART OF THE TWO TRACK DECISION MUST BE IMPLEMENTED. HE HAD BEEN ENCOURAGED BY THE ASSURANCES OF DR GENSCHER AND OTHER OF THIS WHERE FRANCE FELT GREAT SOLIDARITY WITH THE REST OF THE ALLIANCE. FRANCE HAD TAKEN DECISIONS ON NEW EQUIPMENT IN THE NUCLEAR FIELD, FOR EXAMPLE THE M4 MISSILE, THE NEW GENERATION OF NUCLEAR BALLISTIC MISSILE SUBMARINES, EARLY WARNING, THE REPLACEMENT OF PLUTON BY HADES AND THE SX MISSILE IN SUPER HARDENED SURVIVABLE SILOS AT GREAT DEPTH. THEY WERE ENGAGED IN ASSURING CREDIBILITY AT A MINIMUM THRESHOLD WITH THE CERTAINTY THAT THEY COULD INFLICT DAMAGE, EVEN AS A SECOND STRIKE, IN DEFENCE OF THE INTERESTS, AND NOT JUST THE TERRITORY, OF FRANCE. IT WAS NECESSARY TO PRESENT THE DEFENCE POSTURE NOT AS AN EFFORT TO CONTAIN WAR, TO MAKE IT POSSIBLE, BUT TO MAKE IT UNTHINKABLE. WE MUST REAFFIRM WITH FIRM PUBLIC SUPPORT THAT THE ABSOLUTE WEAPON OF DETERRENCE, FOR PREVENTING WAR, WAS NUCLEAR. THOSE WHO ARGUED THAT NUCLEAR WEAPONS WERE NOT NECESSARY MIGHT BE RESPONSIBLE FOR WAR.

15. HUMAN RIGHTS, WERE IMPORTANT; THE UNITY OF THE ALLIANCE WAS BASED ON OUR COMMON UNDERSTANDING OF THEM. ECONOMICS WAS NOT A NATURAL SUBJECT FOR THE ALLIANCE BUT ECONOMIC RELATIONS COULD HAVE DIRECT INFLUENCE ON SECURITY. THEY MUST BE ANALYSED IN THE SAME WAY AS DEFENCE ISSUES. COCOM WAS THE NATURAL FORUM AND FRANCE WOULD SUPPORT THE CONTINUATION OF STUDIES THERE. ANALYSIS OF THE ECONOMIC POTENTIAL OF THE SOVIET UNION AND EAST EUROPE WAS UNDER WAY AND SHOULD BE COMPLETED SO THAT NECESSARY CONCLUSIONS COULD BE DRAWN. GOVERNMENTS NEEDED TO BE INFORMED OF WORK IN OECD ETC ON TECHNICAL ISSUES OF EAST/WEST TRADE, CREDIT ETC. THERE WAS A NEED FOR STUDIES OF ENERGY RESOURCES. FRANCE WOULD CONTRIBUTE FULLY AND HOPED FOR EARLY RESULTS. THE TREATY PROVIDED FOR COORDINATION BUT COCOM COULD DO THAT. COMMERCIAL QUESTIONS WERE MATTERS OF INDIVIDUAL SOVEREIGNTY UNLESS DIRECTLY RELEVANT TO THE SECURITY STRENGTH OF THE SOVIET UNION, THOUGH HE AGREED THERE WAS A NEED TO AVOID INCONSISTENCY BETWEEN ALLIES. NO FORUM WAS PERFECT, THE SEVEN, THE SIXTEEN (WITHOUT JAPAN) OR ANY OTHER. THERE NEED NOT BE TOO MUCH DIVERGENCE

5
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21. YOU STRESSED THAT THE BATTLE FOR HEARTS AND MINDS MUST BE NATIONAL RESPONSIBILITY, NOT A NATO CRUSADE, THOUGH NATIS MIGHT BE ABLE TO HELP. YOU THEN TOOK UP MME FLESCH'S PROPOSAL THAT NATO SHOULD MONITOR PROGRESS, SUBCONTRACTING WORK TO OTHER BODIES. THE SECRETARY GENERAL AGREED AND APPEARED TO BE PASSING ON, BUT MR SHULTZ INTERVENED. IN AN ATTEMPT TO SUM UP, HE SAID THAT IT SEEMED TO BE THE SENSE OF THE MEETING THAT ASPECTS OF ECONOMIC

ISSUES THAT HAD THEIR CENTRE OF GRAVITY IN SECURITY WERE A MATTER OF CONCERN TO THE ALLIANCE. VARIOUS ISSUES WERE HANDLED IN COCOM AND SIMILAR HIGH TECHNOLOGY ISSUES MIGHT BE DEALT WITH THERE TOO: CREDIT, TRADE AND FINANCIAL ISSUES MIGHT BE QUOTE ENERGISED UNQUOTE IN OECD. THE NATURAL HOME FOR THE ENERGY STUDY WAS ALSO IN OECD AND IN THE IAEA. HOWEVER, IT WAS IMPORTANT THAT NATO QUOTE SHOULD STAY AT THE HELM UNQUOTE, LUXEMBOURG'S POINT, WHILE QUOTE SUB-CONTRACTING UNQUOTE WORK TO OECD AS A WAY OF BRINGING IN JAPAN AND TAKING ADVANTAGE OF OECD'S EXPERTISE. M CHEYSSON REMARKED THAT MANY WERE GLAD THAT THESE STUDIES WERE GOING AHEAD IN OECD AND ELSEWHERE. FRANCE SAW NO POINT IN SETTING UP A SPECIAL ARRANGEMENT FOR NATO TO INTERVENE. GOVERNMENTS COULD INSTRUCT THEIR DELEGATIONS AT THE OECD TO GET ON WITH IT AND TO REPORT PERHAPS BY THE END OF THE SPRING SO THAT MINISTERS COULD CONSIDER THE FINDINGS AT THE MEETING OF THE NAC IN JUNE IN PARIS, THOUGH THOSE FINDINGS WOULD NOT COMMIT GOVERNMENTS. HE COULD NOT AGREE THAT ANY GUIDELINES SHOULD COME FROM NATO BECAUSE MANY STUDIES HAD ALREADY STARTED AND BECAUSE AN OUTSIDE BODY COULD NOT GIVE INSTRUCTIONS TO OTHER INSTITUTIONS.

22. HARAMBOPOULOS REPEATED THAT GREECE WOULD NOT BE BOUND BY THE OUTCOME OF THE STUDIES. MME FLESCH ASKED FOR CLARIFICATION.

AS SHE UNDERSTOOD IT:

- (A) GOVERNMENTS WOULD INSTRUCT THEIR DELEGATIONS TO THE OECD ETC;
 - (B) THERE WOULD BE ANOTHER MEETING TO CONSIDER HOW TO OVERSEE PROGRESS: AND
 - (C) MEANWHILE NO OTHER CONSULTATIONS SHOULD TAKE PLACE.
- THE SECRETARY GENERAL CONFIRMED THIS AND ADDED THAT THE MEETING IN (B) COULD BE AT WHATEVER LEVEL GOVERNMENTS CHOSE.

FCO PASS SAVING ANKARA ATHENS COPENHAGEN THE HAGUE LISBON
LUXEMBOURG OSLO OTTAWA REYKJAVIK ROME MADRID UKDEL OECD

(REPEATED AS REQUESTED)

GRAHAM

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7

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WASHINGTON DISCUSSIONS ON EAST/WEST ECONOMIC RELATIONS (PIPELINE)

SUMMARY OF CONCLUSIONS

During conversations in Washington between the Secretary of State of the United States of America and representatives of Canada, the Federal Republic of Germany, France, Italy, Japan and the United Kingdom on the subject of East/West relations, in which representatives of the EC participated, a certain number of conclusions have been reached on behalf of the governments represented. The summary of these follows.

1. They recognise the necessity of conducting their relations with the USSR and Eastern Europe on the basis of a global and comprehensive policy designed to serve their common fundamental security interests. They are particularly conscious of the need that action in the economic field be consistent with that global and comprehensive policy and thus be based on a common approach. They are resolved together to take the necessary steps to remove differences and to ensure that future decisions by their Governments on these issues are taken on the basis of an analysis of the East/West relationship as a whole, with due regard for their respective interests and in a spirit of mutual trust and confidence.

2. The following criteria should govern the economic dealings of their countries with the Soviet Union and Eastern European countries:-

- that they will not undertake trade arrangements, or take steps, which contribute to the military or strategic advantage and capabilities of the USSR,
- that it is not in their interest to subsidize the Soviet economy; trade should be conducted in a prudent manner without preferential treatment.
- that it is not their purpose to engage in economic warfare against the Soviet Union. To be consistent with our broad security interests, trade with the USSR must proceed, inter alia, on the basis of a strict balance of advantages.

It is agreed to examine thoroughly in the appropriate bodies how to apply these criteria, taking into account the various economic and political problems involved, with the view to agreeing on a common line of action in the spirit of paragraph one and the above criteria. They will pay due attention in the course of this work to the question of how best to tailor their economic relations with Eastern European countries to the specific situation of each of them, recognizing the different political and economic conditions that prevail in each of these Eastern European countries.

The overall analysis of economic relations with the USSR and the Eastern European countries will touch in particular on the following areas:-

- strategic goods and technology of military significance (COCOM);
- other high technology items;
- credit policy;

- energy;
- agricultural products.

In their analysis of other high technology items, it is agreed to examine immediately whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment to be jointly determined. This immediate examination of whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment will include technology and equipment with direct applications to the oil and gas sector.

In the field of energy, they will initiate a study of their projected energy requirements and dependence upon imports over the next decade and beyond and possible means of meeting these requirements, with particular attention being given to the European energy situation. The study will be conducted under the auspices of the OECD.

3. As an immediate decision and following decisions already made, they have further agreed on the following:-

(a) Building on the conclusions of the High Level Meeting, they will work together within the framework of the Coordinating Committee (COCOM) to protect their contemporary security interests: the list of strategic items will be evaluated and, if necessary, adjusted. This objective will be pursued at the COCOM Review now under way. They will take the necessary measures to strengthen the effectiveness and responsiveness of COCOM and to enhance their national mechanisms as necessary to enforce COCOM decisions.

(b) It was agreed at Versailles that the development of economic and financial relations with the Soviet Union and Eastern Europe would be subject to periodic ex-post review. The necessary procedures for this purpose will be established without delay. Having in mind the criteria in paragraph two above, they will work urgently further to harmonize export credit policies.

(c) They have informed each other that during the course of the study on energy requirements, they will not sign, or approve the signing by their companies of, new contracts with the Soviet Union for the purchase of natural gas.

16 November 1982
Foreign and Commonwealth Office

VISIT OF MR SHULTZ, 16-17 DECEMBER 1982
BRIEF ON DEFENCE/ARMS CONTROL

INF

Line to Take

1. 1983 a difficult year. Alliance solidarity at a premium. HMG resolute over cruise missile deployments, as well as serious negotiations in Geneva, but not complacent.
2. Need further discussion at technical level about dates of arrival of cruise missile equipment, with both US and FRG. Important to get timetable right before we go public.
3. Essential to keep in front in public debate on INF, and to keep the negotiations and Allied consultations highly visible to the public.
4. Soviet initiatives require careful handling - at times unconvincing simply to dismiss them out of hand. Should not be afraid to recognise, publicly, Soviet concessions if they are genuine. But we need to make it clear in public that the concessions which the Soviet Union seem to have in mind at the moment and any further concessions short of complete dismantling of SS20s (4s or 5s) would be insufficient to affect first INF deployments in December 1983.

VISIT OF MR SHULTZ, 16 - 17 DECEMBER 1982

BRIEF ON DEFENCE/ARMS CONTROL

INF

ESSENTIAL FACTS

The Pentagon are considering the practical possibilities of revising the timetable for the arrival of cruise missile equipment to take account of UK and FRG concerns and will discuss their conclusions with us in January.

2. The Americans were unnecessarily reluctant to concede that the recent tentative Soviet offer of reduction in SS20 numbers in Europe amounted to a concession. The juxtaposition of headlines about the US rejecting the Soviet offer, (which they did not in fact do but which was the impression they gave), and the women's protest at Greenham Common was damaging to HMG's position in the nuclear debate.

Defence Department
Foreign and Commonwealth Office
14 December 1982

VISIT OF THE AMERICAN SECRETARY OF STATE TO LONDON: 16-19 DECEMBER
MIDDLE EASTPoints to Make1. Peace Process

- Concerned at loss of momentum. Wrong to place onus for next move on King Hussein. He is doing well but is not strong enough to move alone (if he is prudent). So to wait for him is to give negative Arab elements a veto. Result: stalemate, seen by Arab side as Israeli success in blocking US initiative.
- Hussein/Arafat talks encouraging, but with PLO split Arafat cannot give Hussein clear mandate for Washington. Our ability to help temporarily reduced by fracas over Arab League visit: but efforts to repair damage now under way.
- US initiative handicapped by failure to endorse self-determination. US policy close to Europeans in all but name. We have stressed a state is not a realistic target. But self-determination a touchstone for Arabs; and the UK formula (choose but be realistic) breaks the link between self-determination and an independent state.

2. West Bank issues

- Settlements freeze a key issue. US must act if initiative is to survive. Delay till Begin visit to Washington (if this slips to February) could be too long. Is mood in congress shifting back towards Israel (aid decisions)?
- West Bank opinion a useful lever on PLO. Worth looking for gestures to increase their confidence. Possibilities: more US aid through private channels to West Bank (eg education, in view of recent problems). Gestures to Palestinian refugees in S Lebanon.

3. Lebanon

- Foreign Minister gave impressive account of dangers of lack of progress on withdrawal, US ideas for breaking deadlock? Looking again at possibility of symbolic and limited contribution to MNF.

Background

1. The Secretary of State last discussed the Middle East with Shultz at Brezhnev's funeral on 15 November.

2. Since then, momentum of the follow-up to Reagan initiative has slowed further. Habib and team are now back in Washington to discuss next steps. Fairbanks (Habib's deputy) briefed Mr Hurd privately on 2 December. US will not move to put serious pressure on Israel until Arabs show they are ready to negotiate. US are hoping King Hussein will come to Washington (21 December) with position agreed with PLO on Palestinian representation in negotiating team. This is over-optimistic at a time when PLO remains split (still no Palestine National Council meeting). To create conditions for progress, US must respond to continuing Israeli defiance. The Congressional decision to increase aid to Israel by \$125 m in FY1983 and to convert \$350m military loans into grant will further undermine Arab confidence.

3. Shultz told the Secretary of State in Moscow that the President was not prepared to withhold aid funds in response to Israeli rejection of a settlements freeze. But we have since had other indications (including Fairbanks to Mr Hurd) that State Department accept that the time may come when aid to Israel would have to be reduced to offset spending on settlements. The pace of settlement is increasing, highlighted by the recent announcement by settlement agency in Israel of plans to double number of settlers within next six months. The Americans have to be very careful in using economic weapon that they do not want to allow Begin to mobilise Israeli opinion against American interference. For this reason action on military sales is effectively ruled out. President Reagan probably wants one more go at Begin face to face before resorting to economic pressure. But latest reports suggest Begin's visit to Washington may slip into February.

4. Shultz recently met two West Bank mayors (Milhem and Qawasmeh) in a move which was interpreted in the press as an indirect dialogue with the PLO. West Bank opinion, which generally favours association with Jordan as quickest possible route to Israeli withdrawal, has an impact on the PLO leadership. Anything which the US can do to increase confidence among West Bankers will help to pull the PLO towards more sensible policies. Aid to educational establishments in the West Bank, and continuing help for Palestinian refugees in South Lebanon, are two obvious areas.

Lebanon

5. The Lebanese Foreign Minister is due back in London on 16 December for a meeting with Shultz. By then we may have agreement on a symbolic British contribution to the multinational force (90 men for 3 months?), along the lines discussed by the Prime Minister during Dr Salem's call on 10 December. Of others approached for a contribution, only the Belgians have so far responded favourably, subject to financing arrangements. The US and French have not yet decided whether and by how much their own MNF contingents will be increased. The Italians have offered an extra 1,100 men. The aim is to at least double the existing 4,200 force.

6. There will be no role for an expanded MNF until there is some movement on withdrawal of foreign forces. Habib made no progress during his recent visit to the area and the Americans appear to have no ideas for overcoming Israeli insistence that the negotiations be held alternately in Jerusalem and Beirut. This is clearly a delaying tactic by the Israeli government which is prepared to leave its forces (18,000) in Lebanon for several months if necessary to extract concessions, and is meanwhile happy to have US attention concentrated on Lebanon.

Near East and North Africa Department
Foreign and Commonwealth Office
14 December 1982

MEETINGS WITH MR SCHULTZ: 16-19 DECEMBER 1982

AGRICULTURE

Line to take

1. Glad that the discussions with the Commission were satisfactory from US point of view.

2. Sure that the right approach is to discuss particular issues. Global attacks on the CAP as a whole are counter-productive: they enable those Member States who resist change to claim that the US is trying to destroy a "cornerstone of the Community". And it is wrong to imply that the CAP is the sole cause of the problems currently facing US agriculture.

3. We have tried hard to curb EC farm surpluses, and under this Government CAP prices have risen far less than inflation, while farm incomes have dropped. But unrealistic to look for sudden or dramatic changes.

4. Must remember that Commission only make proposals. Important that US should also make its views clear to EC Member Governments, who take decisions.

5. Highly undesirable if the US and Community began to compete with each other in subsidising exports. No-one would benefit, except perhaps the Russians. Illusory to think confrontation of this sort would force a reform of the CAP. Therefore hope US will put all its efforts into securing a successful outcome of the talks now planned. We will do our best from the EC side.

Background

1. US farmers are currently facing low commodity prices in dollar terms, a sharp fall in real incomes and very high stocks of certain

commodities. There is strong pressure on the administration to take action. The difficulties spring from a number of causes, eg the strengthening of the dollar (which has tended to make US exports uncompetitive), high interest rates, high crop yields due to favourable weather, and lower grain purchases by the USSR (both in total and, particularly, from the US). However, farmers and the administration have, not without justification, strongly criticised the EC's increasing agricultural surpluses for depriving the US of part of its market.

2. Farm production is supported in the US but, for the commodities of which the US is a major exporter, the support levels are much lower than those provided under the CAP and the US does not employ direct export subsidies (see Annex for a comparison of the two systems). The US thus looks on the EC as an uncompetitive producer which is unfairly competing on the world market through massive export subsidies and taking away markets from US producers.

3. The steps previously taken by the US have been:

(1) They have brought several cases under the GATT against the EC, for using subsidies to secure an unfair share of world trade: but they have been disappointed at the lack of progress on these cases and the probability that the outcome will not clearly rule against the CAP.

(2) At last month's GATT Ministerial Meeting, they tried hard to secure a separate investigation into export subsidies: and they only reluctantly agreed to the outcome whereby all aspects of countries' agricultural policies, in so far as they affect trade, are to be studied.

(3) Both before and after the GATT meeting, they threatened to introduce their own export subsidies and/or to dispose of their accumulated stocks of dairy products on the world market. The motive was said to be simply to allow US exports to compete: but it was also implied that, by pushing down world prices, this would make the CAP so expensive as to force it to reform.

4. Part of Mr Schultz's meeting with the Commission last week was devoted to agriculture. The Commission defended the CAP on the usual grounds that it is a "cornerstone of the Community", maintained that the EC had a right to a fair share of world trade, but acknowledged that adjustments were needed to oblige farmers to take more account of market conditions. They urged the US to adopt a common approach to problems arising in world trade, rather than confrontation.

5. It was agreed that a US/EC working group should undertake a series of meetings, beginning in the first half of January and finishing by the end of March, to discuss particular issues. The US side, while disclaiming any intention to engage in a "trade war", did not undertake to refrain from changing their export policies while these talks proceeded.

AGRICULTURAL SUPPORT IN THE EC AND IN THE USA

The main differences between agricultural support under the EC's Common Agricultural Policy and under US arrangements are as follows:

1. Under the CAP, production is in most cases supported by keeping internal market prices at levels which are normally well above world prices, through intervention buying and variable levies on imports. In the US, for those commodities of which the US is a major exporter (eg grain, rice, cotton, oilseeds), internal market prices are in most cases identical with world prices. For a number of those commodities, US producers' returns are, when necessary, boosted to a target level through deficiency payments: however, these target levels are in all cases well below the corresponding CAP support levels.

2. In the case of two major commodities (milk and sugar) which the US does not normally export, support is provided through high internal market prices by the same mechanisms (import restrictions and intervention buying) as the CAP employs: and the levels at which these products are supported in the US are, at current exchange rates, higher than CAP support levels. In the case of milk, this has led to the US Government accumulating large surplus stocks of milk products, despite big use of free butter and cheese for domestic welfare programmes. Except for a single sale in 1981, however, none of these surplus stocks has yet been disposed of on the world market - in marked distinction from the policy followed under the CAP.

3. Almost all agricultural commodities are supported under the CAP. Many fewer are supported in the US: in particular there is no support at all for meat (except for some import restrictions) and very little for oilseeds.

4. Except in the case of sugar, there are no limits on the quantities of output for which support under the CAP is made available. In the US, support for the major arable crops is normally conditional upon the farmer restricting his output.

5. The CAP has generated large surpluses of milk products, cereals, sugar, beef and wine: and export subsidies are the mechanism normally employed for disposing of these surpluses onto the world market. In the US, there are no export subsidies as such. The US does make some exports on highly favourable terms (30 or 40 years credit at very low interest rates) under the so-called "Food for Peace" programme: but these sales now account for a relatively small proportion of total exports. Credit for all other exports was until recently available only at market rates of interest, but the US have just introduced a 20% subsidy on interest rates for certain selected deals.



MEETING WITH MR SHULTZ

TRADE

LINE TO TAKE

1 Outcome of the GATT Ministerial was satisfactory in difficult circumstances. Important now to cooperate in resisting protectionist pressures which will flourish in persistently difficult economic climate. Need to avoid trans-Atlantic confrontations. We should like to collaborate with you in the GATT work programmes on services and on the ^{place}~~peace~~ of the NICs in GATT.

2 Talks in Brussels seem to have gone well. Particularly welcome agreement to talks on agriculture and informal armistice on rhetoric. UK very much hopes differences can be resolved.

3 Japan remains a major trade problem, EC position is holding together well. Hope US will make common cause and join Article XXIII case. Concerted effort is best way to bring home to Japan the seriousness of the problem.

4 Very grateful for your personal contribution to lifting of pipeline sanctions. But we remain very concerned about general problem of extraterritoriality. Unless we can reach a common view on this, we risk further damaging disputes.

ESSENTIAL FACTS

The EC/US Ministerial meeting in Brussels on 10 December seems to have gone quite well. There is a clear understanding on both sides of the need to avoid confrontation.



The outcome of the GATT Ministerial meeting was generally acceptable, particularly given the circumstances in which it took place. It was agreed that studies of special interest to both the USA and the UK (on trade in services and on trade between developed and developing countries) should take place. However, the outcome has not satisfied some vociferous US lobbies, notably agriculture. Unless there is some progress in reaching an EC/US understanding on agriculture, a trade war remains a high risk.

At the Foreign Affairs Council on 13/14 December, the EC agreed to move to the second stage of its Article XXIII case against Japan. It would be very helpful if the US could be persuaded to join the EC's complaint. Concerted action seems to weigh with the Japanese, who have reacted uncomfortably to the EC's complaint under Article XXIII.

When the Secretary of State for Trade visited Washington in November, both Mr Baldrige and Mr Brock agreed with him that serious discussions were needed on the general question of extra-territoriality, and preparatory work is understood to be under way already in Washington on an inter agency basis. We have formally asked the US authorities to resume bilateral discussions which were interrupted by the pipeline affair. We shall also be watching very carefully the legislative process for the renewal of the US Export Administration Act (under which sanctions were introduced in the pipeline case) and will almost certainly wish to lobby for restrictive amendments to the Act which would make a repeat of the pipeline affair less likely.

Department of Trade

15 December 1982

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B/K **SECRET** file

Copied to
Defence PtG
Nuclear Secretariat
cc FCO
CO

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6



10 DOWNING STREET

From the Private Secretary

15 December 1982

Dear Richard,

INF Deployment

As I told you on the telephone today, the Prime Minister has just asked for a brief for her talks with Mr. George Shultz on Friday covering INF deployments and the INF negotiations.

We have talked separately about the Prime Minister's wish to look again at the dual key question and I note from Mr. Nott's minute of today to the Prime Minister that he will be offering further advice. In advance of further discussion of this question, the Prime Minister has asked for advice on whether she should raise this issue with Mr. Shultz and if so in what terms.

on
reference
Pt 6
Nuclear Secretariat

It would be helpful if your briefing on these matters could be agreed with the Foreign and Commonwealth Office.

RM
providing

I am copying this letter to Brian Fall (FCO) and Richard Hatfield (Cabinet Office).

Yours ever

John Gales

Richard Mottram, Esq.,
Ministry of Defence.

SECRET

USA

PRIME MINISTER

MR. SHULTZ

He is in some difficulty because he has to return to the United States rather earlier than he had planned. A number of US Ambassadors in Europe have been summoned to meet him in London and the only time he can fit them in is in the late afternoon of Friday.

The Americans have therefore asked whether he could come to No. 10 a bit later than we envisaged. This would mean your tête-a-tête beginning at 7 pm and the dinner beginning at 8.15 pm.

May we proceed on this basis?

Yes *ms*

A.S.C.

1) Caroline noted

2) St. Fredelied

I have informed the F./C.O. who will tell the American.

Dinner will be 8-00 to 8-15 p.m.

pl. amend invitation as necessary. *done*

15 December 1982

A.S.C. ^{15.}/₁₂



Sir Antony Acland KCMG KCVO
Permanent Under-Secretary of State

Foreign and Commonwealth Office

London SW1A 2AH

9 December 1982

Sir Robert Armstrong KCB CVO
CABINET OFFICE

AM 9/12

r-a-

My dear Robert,

VISIT OF THE AMERICAN SECRETARY OF STATE, 16- 19 DECEMBER

1. I am writing to confirm the arrangements for Mr Shultz's visit as they now stand.
2. Mr Shultz will be in London from 16 to 19 December, at the end of a European tour which takes in the North Atlantic Council, talks with the European Commission in Brussels and consultations with the Governments in Bonn, Brussels, Rome, The Hague, Paris and Madrid. The last two days of his stay in London will be taken up by a meeting of American Heads of Mission in Europe organised by the US Embassy. He plans to be accompanied by the Assistant Secretary for European Affairs in the State Department (Mr Richard Burt) and two other officials from the European Bureau.
3. Mr Shultz is due to see the Chancellor of the Exchequer on the afternoon of 16 December, and later the Foreign and Commonwealth Secretary will host a private supper for him. Official talks will be held at the FCO on the morning of 17 December and in the evening the Prime Minister has agreed to give Mr Shultz a small working dinner.
4. Mr Shultz's visit results from an American initiative. This will be his first time in England as Secretary of State and our first objective is clearly to make him welcome and to encourage him in the practice of close consultation with us. Our second general objective will be to put across HMG's views on the topics selected for discussion. Since the more important of these themes are likely to be discussed at or in the margins of the NATO Ministerial meeting from 8 to 10 December, it is not possible at this stage to be precise about our specific objectives on individual topics.

/5.



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2.

5. The Americans have proposed four topics for discussion:
- i) the international economic situation, including the outcome of the GATT negotiations and the general state of Western economies (which we have been told by Washington Mr Shultz will particularly wish to discuss during the dinner at No 10);
 - ii) the follow-up to the 'Summary of Conclusions' on East/West economic relations which accompanied the lifting of pipeline sanctions (on which Mr Shultz has now sent a message to Mr Pym);
 - iii) INF/START, particularly how the Alliance should handle the problems associated with the INF deployment;
 - iv) the Middle East.

As regards the first of the subjects, you will be holding a meeting early next week to discuss what should be said to Shultz. Perhaps that meeting could also decide who should prepare briefing for Ministers, and of what kind.

6. If you agree, the FCO will prepare suitable briefing on the other 3 subjects, together with any others which it may be decided to add, consulting other Departments as necessary.

7. Copies go to John Coles, Douglas Wass, Michael Franklin, Peter Carey and Frank Cooper.

Yours ever

Antony

Antony Acland

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BTC.

MRS. GOODCHILD

DINNER FOR MR. SHULTZ

Would you please invite:

Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Sir Robert Armstrong
Sir Antony Acland
Sir Oliver Wright
Me

Mr. Shultz
US Ambassador
Three other Americans of their choice
(FCO will be able to advise in due
course)

AJR

6 December 1982

PRIME MINISTER

DINNER FOR GEORGE SHULTZ

As you wished, I am arranging for Mr. Shultz to call on you for a tête-a-tête discussion for one hour before the dinner.

Can I suggest the following guest list for the working dinner:-

p.n.

Sir Geoffrey Howe

Foreign and Commonwealth Secretary

Mr. Shultz

Sir Anthony Acland ✶

+US Ambassador

Sir Oliver Wright ✶

two other members of Mr. Shultz's party

Private Secretary

Private Secretary

Sir R. Armstrong

[Handwritten signature]

A. J. C.

1 December 1982

[Handwritten mark]

PERSONAL AND
CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

30 November, 1982.

A.J. COLES

P.A.

Visit of Mr. Shultz

I have written separately to Roger Bone to inform him, with regard to his letter of 26 November, that the Prime Minister proposes to give a working supper for Mr. Shultz on Friday, 17 December.

As the Foreign and Commonwealth Secretary knows, Mrs. Thatcher would like to take the opportunity of Mr. Shultz's visit to have some discussion with him about US economic policy in the hope that he will convey to President Reagan the Prime Minister's preoccupations about this matter. Mrs. Thatcher believes (and I understand that Mr. Pym agrees) that this message is best conveyed in a tête-à-tête discussion. I should accordingly be grateful if you could invite Mr. Shultz to call on the Prime Minister at 6.15 on 17 December, with the explanation that Mrs. Thatcher would like a tête-à-tête discussion of economic policy before the working supper. We hope that Mr. Shultz will agree to come alone. (For your own information, we would prefer that no American officials are present.)

Since this matter is of some delicacy, I should be grateful if you and John Kerr, to whom I am copying this letter, could ensure that the fact and purpose of Mr. Shultz's private call on the Prime Minister is not made known beyond Private Offices.

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

PERSONAL AND CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

30 November, 1982.

Visit of the US Secretary of State to London

Thank you for your letter of 26 November.

The Prime Minister would like to give a small working supper for Mr. Shultz at 7.15 for 7.30 p.m. on 17 December. She would be pleased if the Foreign Secretary and Sir Anthony Acland could attend. We also propose to invite the US Ambassador.

The Prime Minister would like to use the working supper to discuss, in the main, foreign policy issues. I am writing to Brian Fall separately about another aspect of Mr. Shultz's visit.

I am sending copies of this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

R.H. Bone, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

GEORGE SHULTZ

Please see the FCO letter attached. ^{-26/11}

You are with British Aerospace for most of the day on 17 December, which is a Friday.

There will be a lot to discuss with Mr. Shultz: Soviet leadership, arms talks, Middle East, Latin America and, most important, U.S. economic policy.

May I suggest that you give a small working supper at 7.00 for 7.30 p.m. (attended by the Foreign Secretary, Sir Antony Acland, the U.S. Ambassador and a Private Secretary). Then at 9.15 p.m. or so (when I know Mr. Pym would like to leave for his weekend), you could have an entirely private talk with Mr. Shultz about U.S. economic policy. The best way of ensuring that the American Ambassador or some other American does not try to insert himself is for us to make it clear in advance that you want this to be private.

Agree that we may make arrangements on the above lines?

I would rather A.S.C.
 stand with a like-a-like 1 hr ch
 before change and then 2 cont.
not
 be joined by the others.
not

29 November 1982

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Foreign and Commonwealth Office

London SW1A 2AH

26 November, 1982

John Kerr

Visit of the US Secretary of State to London: 16-19 December 1982

As you know, the United States Secretary of State will be in London from 16-19 December when he hopes to see Mr Pym and the Prime Minister.

Mr Pym plans to offer Mr Shultz some private entertainment, probably a theatre/supper party on the evening of 16 December and to hold official talks with him on the morning of 17 December. I should be grateful to know whether the Prime Minister would also be able to see him on the 17th.

The State Department have told our Embassy in Washington that Mr Shultz is likely to wish to talk to the Prime Minister about the international economic situation, including the GATT negotiations and the general state of Western economies. The talks with Mr Pym will probably also include the follow-up to the non-paper on East/West relations following the lifting of pipeline sanctions, as well as INF and START and the Middle East.

During his visit Mr Shultz will also be involved in a private meeting of US Ambassadors from American embassies in Europe. He will be staying with the American Ambassador.

I am copying this letter to John Kerr at the Treasury and to Richard Hatfield in Robert Armstrong's office.

Yours ever
Robert Bone

(R B Bone)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

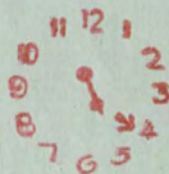
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London and Commonwealth Office

London SW 1A 2AH



26 NOV 1982



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FM WASHINGTON 072339Z JUL 82
TO PRIORITY FCO
TELEGRAM NUMBER 2370 OF 7 JULY

GEORGE SHULTZ.

1. I HAVE HAD A WORD WITH THE NEW SECRETARY OF STATE. HE SAYS THAT HE IS LYING LOW READING PAPERS AND NOT SEEING ANYBODY UNTIL HIS CONFIRMATION BY THE SENATE, THE HEARINGS FOR WHICH BEGIN ON 13 JULY.

2. HE KNOWS THAT HE WILL BE MEETING YOU AND OTHER COLLEAGUES TOWARDS THE END OF SEPTEMBER BUT VERY MUCH HOPES THERE WILL BE A CHANCE OF SEEING YOU BEFORE THEN. AT THE MOMENT HOWEVER HE CANNOT MAKE ANY PLANS TO SEE ANYONE.

3. I GATHER THAT CHEYSSON AND COLOMBO HAVE BOTH EXPRESSED A WISH TO SEE SHULTZ AND HAVE BEEN TOLD THAT NOTHING CAN BE FIXED UP FOR THE TIME BEING

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]
[COPIES SENT TO NO 10 DOWNING STREET]

LIMITED

NAD
WED
PS
PS/MR ONSLOW
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
SIR J BULLARD
MR URE
MR GOODISON

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SUBJECT

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✓ Master

no B
USA

10 DOWNING STREET

From the Private Secretary

10 May 1982

Dear Brian,

Meeting with Mr. George Shultz at Chequers on 9 May

The Prime Minister was grateful for the briefing provided under cover of Francis Richards' letter to John Coles of 7 May, for her meeting with Mr. George Shultz at Chequers at 1130 am on Sunday 9 May.

The Prime Minister's meeting with Mr. Shultz was *tete-a-tete*. After the meeting the Prime Minister told me that they had had a wide ranging discussion (which had clearly included UK/US relations over the Falklands). Mr. Shultz had said that what the President would say about the US deficit was that a balanced budget remained his objective, but that objective should not be reached through tax increases but rather through expenditure reductions. The Prime Minister had spoken of the need to press the Japanese hard on their trading responsibilities, and Mr. Shultz had not disagreed with this. Mr. Shultz had argued that discussion of the North/South problem would be inevitable, and the Prime Minister had responded by referring to the importance we attached to safeguarding the role of the specialised agencies. Finally, the Prime Minister told me that there had been some discussion of a likely French proposal for a greater stability and rigidity in the international monetary framework, but the Prime Minister's own view was that there were serious difficulties in any such proposal while economies were pursuing divergent rather than convergent policies.

The *tete-a-tete* ended at 1.00 pm and was followed by a lunch at which there was no discussion of the Versailles Economic Summit. After lunch the Chancellor of the Exchequer discussed the Summit with Mr. Shultz, in the presence of the US Ambassador and Mr. Timothy Deal from the US Embassy. Sir Douglas Wass, Mr. Michael Franklin, Professor Alan Walters and Lord Bridges were also present. I attach a record of that discussion, prepared by Lord Bridges.

I am copying this letter and attachment to Peter Jenkins (HM Treasury) and John Rhodes (Department of Trade).

Yours sincerely,

Michael Scholar

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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CONFIDENTIAL

NOTE FOR THE RECORD

After the Prime Minister's lunch for Mr George Shultz at Chequers on Sunday May 9, discussion of the Versailles Economic Summit continued with the Chancellor of the Exchequer. Ambassador Lewis and Mr Timothy Deal from the US Embassy were present, as were Sir Douglas Wass, Mr Michael Franklin, Professor Alan Walters, and Lord Bridges.

2. Sir Geoffrey Howe mentioned the possibility of some discussion of monetary questions at Versailles. He believed there was quite widespread anxiety about international monetary affairs at present, and a desire to see more stable arrangements if these could be found. He asked whether Mr Shultz thought there was a role for the Summit to make a contribution in this area. Mr Shultz recalled that the discussion at the first Summit at Rambouillet in 1975 had led to the Jamaica agreement on official intervention in unstable markets. It was not the case that the United States Government was unwilling to intervene in currency markets in any circumstances, and he was aware of the current talks about the ways in which intervention might take place. He did not know what attitude President Reagan might express at the meeting, but personally he thought that some "exchange of reflections" might be possible. That did not mean that the U.S. would favour intervention in the market contrary to the true value of currencies. The subject would be one of the points on which he would report to the President.

3. Mr Shultz said that the environment for world trade was also very important. International rules on trade were being eroded: a positive and forward-looking strategy was needed. The unwillingness of Japan to open her markets was "one of the big negatives". This could not be papered over and he would mention it to the President also. There were other difficult and negative points such as the world trade in steel. The U.S. Government believed that more could be done to promote freer trade in services, to create a better understanding about the conditions needed to increase investment, and to bring developing countries into the framework of international trading rules. The President hoped that the Summit would do more than make the traditional affirmation about the value of free trade.

4. Mr Franklin agreed that these were all important matters for Versailles. It was perhaps legitimate to issue a reminder about the virtues of the free market, given the national attitudes of some of those present (France for example). But he was not sure that the Seven should make statements which could be read as pre-empting the GATT Ministerial Meeting. He agreed it was important to have a clear understanding of GATT's future role, but (referring to a possible discussion with the LDCs) suggested that quiet bilateral talks might be a better approach than a resounding declaration. As to Japan, it would be right to emphasise Japan's responsibilities; that would help the rest of us to resist protectionism and pressure for "reciprocity". It would be desirable to discuss at Versailles the way in which the Japanese conducted their macro-economic policy, since Japan needed to take a fresh and major step on import policy.

/He

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He believed that Japan expected to come under pressure on these matters at Versailles and he saw advantage in fulfilment of the expectation. Mr Shultz agreed that we needed an impulse which would create the right atmosphere for the GATT Ministerial meeting just as a previous Summit had helped to get the Tokyo round moving. Mr Franklin recalled that the Seven had helped the developed world to get their act together, at a crucial stage in the negotiations during the Tokyo round, but he thought that the next Summit should not be too precise in describing the approach to the LDCs at this stage. Lord Bridges suggested there was a distinction between the role of the Seven at the Summit in forming coherent policies for the developed world (which was not in question) and the relationship with the developing countries. We did not want to make collaboration with the latter more difficult by what was said at Versailles. Sir Douglas Wass said it was also important to make full use of the OECD in promoting common policies among the developed countries.

5. Mr Shultz agreed that it was important to stop the movement for "reciprocity" in the US Congress. His references to the U.S. Trade Act of 1974 made clear that he was looking for undertakings at the Summit which would help to fend off protectionist pressures in Washington. He understood the difficulty about the handling of investment matters in the GATT, and (echoing the speech made two days before by Secretary Regan) thought that the World Bank might be a more suitable vehicle for that subject.

6. Mr Shultz supposed that Global Negotiations would also come up at the Summit. Sir Geoffrey Howe explained the British attitude, the importance we attached to safeguarding the role of the specialised agencies, and the doubt he felt about the concepts underlying the GNs. Lord Bridges said that, to judge by what had been said by France at the last preparatory meeting, President Mitterrand might intend to lay some considerable emphasis on this subject. The U.S. representatives at that meeting had explained the difficulties they had with the latest G77 text and seemed to be looking to their partners to suggest improvements, but the EC countries were not enthusiastic about that prospect, given the failure of attempts of the same kind during the British Presidency last year. Discussions had taken place in the Community and there would be further contact with the Americans about how we should proceed.

7. Mr Shultz asked where we stood on the talks about restricting credit to the Soviet Union. Lord Bridges referred to the meetings which had taken place with Mr Buckley. There was a general expectation that Western credits to the USSR would decline. At a recent meeting Mr Buckley had suggested a mechanism to control the amount, on a carefully worked out basis, but it seemed that a number of European countries would be reluctant to take part in a formal scheme, and did not favour making a commitment with a political flavour on this subject at Versailles. A less formal arrangement designed to reduce the proportion in each contract of western exports financed by official credit agencies was now being examined; it was also suggested that the balance should be paid by the Russians in cash. There were however likely to be difficulties with this idea,

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and he could not say whether it would be possible to work out an arrangement in time for the Summit - although there might perhaps be some reference to the matter at the meeting and in public afterwards. It was important that any arrangement made should subsequently be incorporated into the OECD consensus. Mr Franklin emphasised how important it was that any plan of this kind operated fairly between the different western exporting countries. Professor Walters pointed out that there was a danger of decisions on the supply of credit to the USSR being taken by state-owned banks (e.g. in France or Italy) on a non-commercial basis; but Mr Shultz thought that even when state-owned, such banks normally operated on commercial lines. He referred approvingly to the suggestion put forward by Frau Steeg.

8. There was a brief discussion about the financial problems of East European countries, the connection between our attitude to provision of credits for the USSR and to nations such as Romania, Yugoslavia and Hungary, and the possible domino effect of their difficulties on the international banking system. It was generally thought that no specific decisions were likely to be taken at Versailles on this subject, so far as could be foreseen. But Mr Shultz said it was legitimate to ask what the effect of recent worries about Eastern Europe and the USSR would be on decisions taken by commercial bankers in the future. He thought that many such banks had been pretty free-handed in the past, and that they would now be more cautious. He gave Argentina as another example: whatever happened in the Falklands crisis, he doubted whether Argentina would secure more loans at all easily, and feared Senor Aleman would be unlikely to survive.

9. Professor Walters pointed out that borrowing had been greatly encouraged in the 1970s by the negative interest rates then prevailing. That situation had been changed. We could now see that the present difficulties had been brought about by efforts to promote growth artificially by cheap credit. Positive interest rates would reduce credit demand, although there would have to be painful adjustments. He did not exclude one or more countries defaulting as part of that process; there were disadvantages for western creditor nations in such defaults because of their exposure to loss through official credit guarantees. Sir Douglas Wass said that we shared US anxieties about possible defaults, although he hoped that the disappearance of OPEC surplus would reduce the strains on the system. Mr Shultz concluded by saying that the discussion had highlighted the need to deal with the Soviet credit problem.

FOREIGN AND COMMONWEALTH OFFICE

10 May 1982

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copy filed on
Eas. No. 174
Versailles Econ Summit.



USA
5

10 DOWNING STREET

From the Private Secretary

7 May, 1982

Dear Sir,

I enclose a copy of a letter which the Prime Minister has just received from President Reagan. This contains some ideas about possible decisions to be taken at the Versailles and Bonn Summits and also states that on 9 May the President will be announcing a proposal to open START talks with the Soviet Union.

Some of the subject matter is relevant to the talks which the Prime Minister will be having with Mr George Schultz at Chequers this Sunday. I shall take it, unless I hear to the contrary, that the briefs which you are preparing adequately cover President Reagan's references to the Versailles Summit.

Perhaps you would let me know in due course whether you wish to advise that the Prime Minister should send a substantive reply to President Reagan's message.

I am copying this letter and its enclosure to John Kerr (HM Treasury), David Omand (Ministry of Defence) and John Rhodes (Department of Trade).

B.F.
Examined
on 10/5/82
B.F.

Yours ever
John Kerr

B Fall, Esq
Foreign and Commonwealth Office

SECRET

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1655</i> (one piece/item number)	Date and sign
Extract/Item details: <i>Folio 4</i> <i>message from US President</i> <i>to PM (T.103/82), 7/5/82 (rec'd)</i>	
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NUMBER NOT USED	

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1. MR LAVELLE
2. CHANCELLOR

FROM: A R H BOTTRILL

DATE: 7 MAY 1982

cc PS/Prime Minister
Sir D Wass
Sir K Couzens (o/r)
Mr Littler
Mr Garside

MS

MEETINGS WITH MR REGAN AND MR SHULTZ

This morning's Press contains reports of a new US Budget package which President Reagan has apparently agreed with Republican Senate leaders. There is no clear sign yet that the Democrats will accept the package, but it is relevant to the meetings that the Chancellor and the Prime Minister are to have this weekend with Mr Regan and Mr Shultz.

2. The package includes savings on social security pensions and welfare payments, increases in unspecified taxes, reductions in military spending plans and a freeze on most other public spending, including civil servants' pay. The details are not clear. The Democrats may be expected to oppose the social security cuts unless they are accompanied by the President abandoning his 1983 income tax cuts. Mr Reagan, however, does not yet appear ready to concede this.

3. The package is expected apparently to reduce next year's budget deficit to about £105 billion, still rather above the Administration's original projections in February. The deficit is then set to fall to £70 billion in FY1984 and £40 billion in FY1985. Our own position has been that even a budget deficit of £100 billion or so may be difficult to finance next year within the Fed's monetary targets without continued high interest rates, and that a convincing prospect of lower deficits in the medium-term is needed to restore confidence in financial markets.

4. The present package is welcome evidence of the Administration's desire for a compromise, but it is too early to say whether it will be acceptable politically or whether the details can be worked out to make it adequate economically.

A. Bottrill

A R H BOTTRILL



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MR COLES

cc: Sir R Armstrong

VISIT OF MR GEORGE SHULTZ

1. In connection with Mr Shultz's visit the Prime Minister might find it helpful to know the line that the American representatives have been taking at the preparatory meetings for the Versailles Summit.

General

2. It is clear that President Reagan intends to co-operate with President Mitterrand in trying to make the Summit a success. There will be a natural tendency to play up the points of agreement and play down the points of difference.

Technology and the world crisis

3. In this spirit the Americans have welcomed the French President's intention to submit a personal report on the theme of technology and the world crisis. Their representatives at the recent preparatory meeting at Rambouillet described this as a challenging subject for leaders to discuss at Versailles - but, like the United Kingdom, they stress the need to rely on market forces and point out that the private sector is way ahead of the public sector in international co-operation on technological subjects.

Economic and monetary policy

4. US Treasury officials are working on a possible initiative by President Reagan, namely that the Summit countries should initiate regular talks between senior government finance officials or central bankers to harmonize economic policies. Their aim is presumably to reduce the risk of a confrontation

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over US interest rates and fiscal policy. Finance officials of the Summit countries are meeting in Paris next Friday, 14 May, to attempt to reconcile this idea with some rather more ambitious French ideas intended to secure joint intervention to stabilize the exchange rates between the main currency blocs and to cut interest rates; and with a British suggestion that the five countries whose currencies make up the SDR basket should accept a special responsibility to ensure the stability and strength of their currencies by pursuing anti-inflationary policies.

Trade

5. American fears that direct attacks by the Community countries on the United States over steel and agriculture could turn the Summit into a Community/United States confrontation are certainly exaggerated. They will not want a confrontation with Japan either; but they are likely to take the opportunity to put pressure on Japan to correct the trading imbalance. This will suit us but may worry the Germans. They have shown signs of wanting the Summit to agree on specific objectives for the GATT Ministerial meeting in November; in particular a special deal with the newly industrialising countries (NICs). The other Summit countries believe that the agreed objective of reducing NIC protectionism in return for continued free access into industrial markets is better pursued by less public means.

North/South

6. Attempts to find an agreed basis on which to launch the global negotiations are frustrated in New York by US reluctance to respond to the draft resolution prepared by the G77. President Reagan may therefore come under pressure from the French, Italian, Canadian and Community Representatives to be more flexible. He is unlikely to respond with more than generalities - the US administration is not satisfied that the G77 text will give sufficient protection to the independence of the specialised agencies.

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Energy

7. The Americans agree with a French suggestion that this subject should be mentioned in the final declaration from Versailles but should not feature prominently in the discussions. They are keen to get recognition of the progress they have made in cutting energy consumption in the United States. They may push the question of energy security - eg increased oil stocks or the risks of relying on Soviet gas.

East/West

8. The Americans will respect President Mitterrand's firm desire to avoid giving undue prominence to any discussions at Versailles on East/West questions; but they will certainly press for some positive response to their proposal for reducing credit to the Soviet Union, and will hope to see this reflected in the declaration.

Terrorism

9. As previous summits have discussed terrorism, and as the problem is getting worse and not better, the Americans feel that there should be at least some discussion of this subject, perhaps confined to Foreign Ministers.

Youth exchanges

10. The Americans seem to have in mind a minor initiative on this theme financed with funds from the big US foundations. It may get a mention at Versailles.

D.H.

D J S HANCOCK

7 May 1982

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Foreign and Commonwealth Office

London SW1A 2AH

7 May 1982

Dear John,

Visit of Mr George Shultz, 9 May

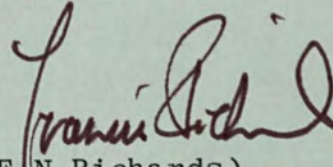
/ As promised in my letter of 4 May, I enclose briefing (original plus two copies) for the lunch which the Prime Minister proposes to give to Mr George Shultz at Chequers on 9 May. It consists of a Steering Brief and short briefs on: -

Macro-economic Problems
Trade
East/West Economic Relations
North/South
Energy
Impact of Technology
Political Questions

I also enclose a biographical note on Mr Shultz.

I am sending copies of this letter, together with copies of the briefing, to the Private Secretaries to the Chancellor of the Exchequer, Sir R Armstrong (Cabinet Office), Sir K Couzens (Treasury), Mr Franklin (Department of Trade, and Sir D Maitland (Department of Energy).

Yours ever,


(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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PRIME MINISTER'S LUNCH FOR MR GEORGE SHULTZ, 9 MAY

STEERING BRIEF

Introduction

1. Mr George Shultz is a close associate of President Reagan. He served under President Nixon as Secretary of Labour (1969-70), Director of the Office of Management and Budget (1970-72) and Secretary to the Treasury (1972-74). He is currently President of the Bechtel Corporation, the world's largest private civil engineering group. He was a strong candidate for the post of Secretary of State. A biographical note is attached at the end of this briefing.

2. Mr Shultz is on a private fact-finding mission at the request of President Reagan, and intends to visit all the participants in the Versailles Economic Summit.

Subjects for Discussion

3. According to the US Embassy, Mr Shultz will wish to discuss mainly economic issues, in preparation for the Versailles and NATO Summits in June. His objectives are to underscore the President's own interest in economic relations between the USA and other Summit countries and to hear the concerns of the other countries and report them back to the President. While he does not expect to discuss proposals for changes in US economic policies, he is prepared to explain the US position if called upon to do so.

4. The main Summit economic subjects of interest to the USA, on which briefing is attached, are:-

1. Macro-economic problems
2. Trade
3. East/West Economic Relations
4. North/South



5. Other Summit issues which Mr Shultz may wish to raise, on which briefing is also attached, are:-

5. Energy

6. Impact of Technology

7. Political Questions

6. According to the US Embassy, it is unlikely that Mr Shultz will wish to discuss non-economic Summit subjects, such as terrorism or youth exchanges.

Economic Relations Department

6 May 1982



PRIME MINISTER'S MEETING WITH MR G SHULTZ, 9 MAY

BRIEF NO 1

MACRO-ECONOMIC PROBLEMS

POINTS TO MAKE

1. UK has tried in its Macro-economic Assessment paper in preparation for the Summit to set out a balanced view of world economic developments, future prospects and policy choices for Summit economies.
2. Progress in reducing inflation has been encouraging in at least some countries, but output and employment have not recovered as strongly as foreseen at Ottawa.
3. Countries have had more success in curbing monetary growth than in reducing budget deficits which helps explain why real interest rates remain high, particularly in the US.
4. Lower inflation and improved productivity should help to encourage recovery of real output but unemployment is likely to continue to rise at least in the short-term in most countries.
5. Grounds for concern in present situation. Too rapid expansion could rekindle inflation and undo oil savings. But continued high interest rates could jeopardise recovery.
6. Combination of international interest rate differences and growing payments imbalances among major countries could worsen exchange rate and trade tensions and increase protectionist pressures.
7. Need to stick to broad strategy of prudent macro-economic policies to bring down inflation, but see advantages in altering mix of policies. Support US efforts to reduce inflation but concerned that fiscal deficit should be lowered so that reliance on high interest rates can be reduced. Important for US but also of vital concern to rest of world.



8. Need for countries to strike correct balance between external and domestic sectors. Countries where inflation progress is good and external balance improving should place more reliance on domestic demand (Japan, and to a lesser extent Germany).

9. Welcome consideration being given to possible Versailles agreement on closer international monetary co-operation between the Five. General agreement on counter-inflationary strategy could be reinforced by closer consultation over the implementation of agreed objectives, ^{giving a bonus} eg in terms of exchange rate stability and employment.

10. There could well be merit in linking any agreement to membership of the SDR basket and in IMF participation, not least because there are both short and longer-term problems for discussion.

ESSENTIAL FACTS

1. The UK was invited to provide a Macro-economic Assessment paper as part of the preparation for the Summit. This takes broadly the line spelt out in the above 'Points to Make'. It has been circulated to capitals and was discussed at the last Sherpas' meeting at Rambouillet.
2. The paper has in general been received favourably although the US has so far not been able to offer much reassurance on the budget deficit and Japan has refused obdurately to consider any policy adaptation. The French, Italians and EC Commission would place particular stress on the risks to employment, while the Germans would be more concerned about the risks of rekindling inflation. But the broad strategy of continued prudent policies consistent with a gradual recovery of output and a further slowdown in inflation, however, has been endorsed. US interest rates and budget policy are a key topic.
3. At the Sherpas' discussions on 25 April there was a first discussion of the possibility of some new initiative on the working of the international monetary system. Ideas are still at a formative stage but this agreement might involve acceptance by the five countries whose currencies make up the SDR basket that they had special responsibilities making it desirable for them to consult closely together to achieve greater convergence over the conduct of their economic policies within the framework of the IMF. Such agreement could lead the way to regular meetings perhaps involving the assistance of the IMF and regular reports to the wider IMF membership. The discussions are to continue at Helsinki and then again in Paris next week.



4. The French interest lies primarily in relation to the achievement of greater exchange rate stability against the background of the difficulties they see posed by high US interest rates and non-intervention in the exchange markets. At the other end of the spectrum the US believe that the clue to exchange rate stability is firmer agreement on long-term policies to reduce inflation and that attempts to co-ordinate interest rates or exchange rates, in disregard of underlying market forces, would be self-defeating-

5. The proposal - originating with the UK - to express joint objectives in terms of the special responsibilities of SDR currencies may help to reconcile two apparently divergent approaches, not least because it brings together short and long-term issues. In the longer-term it can be argued that the SDR members have an overriding duty to maintain the value of their currencies; but in the short-term they also have a duty to seek to prevent undue fluctuations between them. Other Summit countries (except so far the Japanese) have welcomed the possibility of such an agreement and clearly there would be a considerable bonus if there could be progress on detailed short-term policies to maximise the benefits in terms of economic recovery of such room for manoeuvre as exists in the implementation of agreed strategic objectives. However, it would be wrong to expect too much to emerge from these discussions and they may indeed not provide, in the end, more than some additional communiqué language.

Forecasts

6. The OECD Secretariat's latest forecasts show that output in the OECD area as a whole, after falling slightly in the current half year, will recover later this year and grow at an annual rate of around 3% next year. GDP in the US is shown as particularly depressed at present and the forecast recovery is more modest than



than foreseen by the US Administration. In Japan, domestic demand is again expected to lag behind overall GDP growth next year.

7. The forecast growth of output is seen as enough to lead to some recovery of employment next year but in view of the likely rise in the labour force unemployment may only level out at $8\frac{1}{2}$ -9% for the OECD as a whole, equivalent to about 31 million people.

8. Inflation, as measured by consumer prices, is expected to fall from about $8\frac{1}{2}$ % at an annual rate now for the OECD as a whole to $7\frac{1}{2}$ % by the end of the next year. Inflation in the US is put at about 6% with Japan and Germany at 3-4%.

9. The Secretariat expects the current balance for the total OECD area to return close to balance after a deficit of almost \$30 billion last year. The modest US surplus is forecast to disappear in 1983. Japan is forecast to show a surplus of about \$10 billion this year and \$20 billion in 1983. Germany, too, is expected to move into increasing surplus.

HM Treasury

6 May 1982



PRIME MINISTER'S MEETING WITH MR G SHULTZ, 9 MAY

BRIEF NO 2

TRADE ISSUES

POINTS TO MAKE

1. Trade will be a major issue at the Summit. Emphasis of resistance to growing protectionist trends is important. But the problem posed by Japan is sensitive. Hence our wish to see reference in the Communiqué to the need to correct structural imbalances.
2. In this context, trends in US are also causing anxiety. Congressional references to reciprocity are troubling. Hope President will be able to avoid this turning into a threat to the open trading system.
3. Would be counter-productive for Summit to try to over-sell GATT Ministerial Meeting in November, or for Versailles to endorse priorities everyone knows are distinctively US ones. Low key approach is preferable.
4. UK concerned about handling of US ideas for new tariff round with developing countries. Must be a long-term project, and launching idea at Summit would be dangerously premature. Careful ground work must come first.

ESSENTIAL FACTS

1. The paper on Trade Issues for the Versailles Summit is in the hands of the Japanese. It is in general satisfactory and balanced, apart from its (unsurprising) failure to refer to the problem of structural imbalances (ie the Japanese problem), and the need to correct them.
2. The US approach to the trade aspect of the Summit at this stage seems dangerously over-simplistic. They seem to be trying to use it directly to advance a number of their own distinctive objectives (work on services, investment issues and high-technology trade problems) in a manner which is likely to be damaging.
3. They are exerting repeated pressure to get the Summit to endorse proposals for both the agenda and the outcome of the GATT Ministerial Meeting in November. If this were allowed to happen it could only be viewed as 'fixing' by non-participants in; the Summit process and will be counter-productive.
4. Secondly, they are pressing for the idea of a new round of tariff negotiations with the developing countries to be floated at Versailles and pursued at the GATT Ministerial Meeting. The proposal seems considerably premature. At this stage, the US ideas should be considered without publicity by Western nations in the preparation for the Gatt Ministerial Meeting in November. Launching them prematurely at Versailles might well prejudice their chances of being accepted ultimately by developing countries and we hope the US can be dissuaded.
5. In relations to US trade policy we are worried by the strength of the American protectionist lobby. Not only has restrictive action been launched against steel imports, but new legislation is being widely canvassed developing scarcely concealed

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protectionist ideas under the general heading of 'reciprocity'. While it is argued that its purpose is essentially to warn the Japanese that the US is serious about dealing with its trade imbalance with Japan, a wider threat to the multilateral world trading system is obvious, and it would be helpful to pass back a message of concern to the President through so direct an intermediary as Mr Shultz.

Department of Trade

6 May 1982

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PRIME MINISTER'S MEETING WITH MR GEORGE (SHULTZ), 9 MAY
BRIEF NO 3
EAST/WEST ECONOMIC RELATIONS

POINTS TO MAKE

1. Appropriate officials should discuss subject during preparations for Versailles.
2. Know you are looking for agreement there on ways of limiting supply of official credits to Soviet Union. Agree West may in the past have lent too much. This has now been recognised. Commercial lenders are drawing in their horns. Prudential considerations will have strong effect on future lending.
3. My officials are studying your proposals urgently. Difficult to ensure burden-sharing and some participants may query need for mechanism.
4. In my messages to President Reagan of 29 January and 5 April I asked if anything could be done to release American components for our contracts caught by President Reagan's measures. Hope very much you can agree to this. Problem now very urgent for John Brown. Decision one way or the other by mid-June would be welcome.



PRIME MINISTER'S MEETING WITH MR GEORGE SHULTZ, 9 MAY
EAST/WEST ECONOMIC RELATIONS

ESSENTIAL FACTS

1. The Americans have prepared paper on East/West Economic Relations for Sherpas to discuss during preparations for Summit. Little preliminary discussion at Sherpas meeting on 23-25 April. There may be further discussion on 14 May.
2. The Americans are pressing Summit partners to agree on mechanisms to limit the volume of future flows of official and officially guaranteed credit to the Soviet Union, on grounds of financial prudence and political sense. They have prepared and circulated a paper on 'The Impact of Credit Restrictions on Soviet Trade and the Soviet Economy', and proposed mechanisms for limiting the volume of credit flows. The paper and the mechanisms will be discussed at meeting of Economic Directors in Paris on 14 May. No final view has been reached among the Whitehall Departments directly concerned on the US proposals. Other Summit countries (France, Japan) may well have difficulty with proposals, but detailed examination of proposals is only beginning now.
3. President Reagan's measures of 29 December, after declaration of Martial Law in Poland, banned the export and re-export to the Soviet Union of certain American components, including some, especially rotors, for European licensees of General Electric, with existing contracts to supply generators for West Siberian gas pipeline. John Brown, and FRG, French, Italian companies affected. Problem increasingly urgent. Americans have linked unblocking of components to progress on proposals to limit official credits to Soviet Union (para 2 above).
4. Message of 5 April to President Reagan:

*ing 'I also attach great importance to the subject raised in my message of 29 January - that of existing contracts between British companies and Soviet importers affected by the measures which you announced on 29 December. It is now more urgent, as the companies concerned will soon have to make decisions about their manufactur *programmes in relation to these contracts. The most important of the companies concerned, John Brown Engineering, has held decisions in suspense for three months, but time is now running short for them.'

Trade Relations and Export Department, 6 May 1982



PRIME MINISTER'S MEETING WITH MR G SHULTZ, 9 MAY

BRIEF NO 4

NORTH/SOUTH

POINTS TO MAKE

1. We are committed to launching Global Negotiations as soon as possible on a generally acceptable basis.
2. Bedjaoui text does not adequately protect Specialised Bodies
as it stands but reasonable basis for discussion.
3. Nobody in European Community inclined to outright rejection of Bedjaoui text; and strong pressures, in some quarters, to endorse it.
4. Global Negotiations without USA meaningless; and we have been able to argue against premature positions which might prejudice eventual consensus.

ESSENTIAL FACTS

1. On 31 March the G77 spokesman in New York, Ambassador Bedjaoui of Algeria, produced a new text for launching Global Negotiations. It does not go far enough in the protection it affords Specialised Bodies. But we and other EC partners consider that it is the best definitive G77 text so far, and reflects the influence of moderate elements such as India and Pakistan. The USA take a much more critical view.
2. The French, and the Commission have pressed strongly for endorsement of the Bedjaoui text. The Presidency have successfully resisted this with British, Danish and (hesitant) German support. The Americans asked us to delay a positive EC response. We have succeeded so far but President Reagan should be aware that he will be isolated in arguing for rejection of Bedjaoui text. The Americans say that they are working on an alternative text, which will not be ready for some weeks. This may be interpreted as simply further temporising.

Economic Relations Department

6 May 1982



PRIME MINISTER'S MEETING WITH MR G SHULTZ, 9 MAY

BRIEF NO 5

ENERGY

POINTS TO MAKE

1. Fall in oil demand has taken pressure off world oil prices.
2. Good prospect that market will remain easy at least until mid-1980s - challenge is to make most of this opportunity without recreating climate favourable to jumps in oil price in future.
3. No need for energy to feature prominently at Versailles - though we look for confirmation in the Communiqué that our common interest lies in continuing efforts to consolidate present position and avoid over-dependence on imported oil.

ESSENTIAL FACTS

1. World oil demand has fallen from a peak of 51.6 mbd (1979) to around 45-46 mbd (1982 estimate). OPEC share has fallen from around 30 mbd to only 18-19 mbd (even less in present quarter because of stock-draw). OPEC seems likely to maintain official marker price at \$34 per barrel, but only through substantial production cuts. US oil is currently priced around \$30 per barrel; BNOG marker price is \$31 per barrel. US and Canada benefit most from fall in oil prices - changes in currency values mean that fall in real cost of oil in Europe and Japan is very slight.
2. Increased efficiency in energy use, more use of fuels other than oil, increased production from non-OPEC countries and economic recession all contribute to decline in oil demand. We aim to continue with policies that are based on market forces but which encourage energy conservation and use of other fuels. Other Summit countries share this view.
3. Energy problems of least developed countries continue to be serious (their oil imports are mostly from OPEC and they have not benefitted from lower oil prices). These problems are best considered under North/South agenda item.

Department of Energy

6 May 1982

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Brief No 6

PRIME MINISTER'S MEETING WITH MR GEORGE SHULTZ: 9 MAY 1982

Impact of Technology

Points to Make

1. The theme of technology is a useful one to introduce into the Summit discussions.
2. The development of technologies should be primarily a response to the operation of markets. A general policy of promoting development through dirigiste methods risks waste and failure.
3. The prime need is to encourage adaptability, and get people to welcome change. Training and education are essential to this process.
4. The advanced countries have to move up market. They must rid themselves of fears that new developments in technology will mean increased unemployment. Such fears are irrational given the history of technical advance, which has always given rise to new forms of demand.

5. Government's rôle is to enable markets to work freely by creating the right environment for investment in new technology.

Essential Facts

6. The French President appears to have in mind to:

i. stress that the world is facing a new industrial revolution;

ii. say that as a result there are choices to be made by society eg more centralisation or more decentralisation, increasing or decreasing the North/South gap;

iii. identify action points eg international cooperation in technological developments, training the young.

7. These ideas carry with them a flavour of additional funds and new institutions. There is already a good deal of technological co-operation through international bodies, technical associations and the like. It is not clear that more is needed.

H M TREASURY
6 May 1982



PREPARATIONS FOR SUMMIT MEETINGS: VISIT BY MR GEORGE SHULTZ, 9 MAY 1982

BRIEF NO 7: POLITICAL QUESTIONS

Points to Make

1. Versailles Summit will deal primarily with economic issues, but some political discussion inevitable and desirable, both in its own right and so that Heads of State and Government be seen to address the issues of the day.
2. Discussion possible at greater leisure at Versailles than at Bonn, and includes Japan.
3. Discussion must be topical. Too soon to decide precisely what it should be. Political Representatives will have a preliminary discussion on 14 May.
4. But main emphasis must be East/West since:
 - (i) Versailles discussion of East/West economic relations must be seen against political background;
 - (ii) Useful to talk about East/West issues before next Haig/Gromyko meeting;
 - (iii) Recent events in Poland worrying, and discussion timely;
 - (iv) Must also make sure Afghanistan does not drop from view.
5. Other possible topics include the Falkland Islands, depending on events, and the Middle East, especially Arab/Israel after Sinai withdrawal.



6. [if raised by Mr Shultz] Considering carefully proposals for youth exchanges. Good idea in principle, but need to look at practicalities.

7. [if raised by Mr Shultz] Content for hijacking and terrorism to be discussed if others wish.



PREPARATIONS FOR SUMMIT MEETINGS: VISIT BY MR GEORGE SHULTZ 9 MAY 1982

BRIEF NO 7: POLITICAL QUESTIONS

Essential Facts

1. The French propose that political discussion at Versailles be limited to meals at which Heads of State or Government will be alone or (lunches on Saturday 5 or Sunday 6 June) accompanied by Foreign Ministers. Discussion will be topical and informal.
2. Foreign Ministers will discuss political matters alone at dinners on Friday 4 and Saturday 5 June, probably in a more structured discussion. It was agreed at the last Sherpas meeting that Foreign Ministers be asked to concentrate on 4 June on East/West relations (including the US proposals for limiting credit) and North/South issues.
3. There will be a preparatory meeting of political representatives (UK representative Sir A Acland or Mr Bullard) in Paris on 14 May, before the next Personal Representatives' meeting.
4. We are not aware of any differences of view between us and the Americans on the form or nature of political discussion at Versailles, though they may hanker after a more structured discussion than we or the French would like.
5. We understand that the next Haig/Gromyko meeting is likely to take place during the UNSSD meeting in New York starting on 7 June.
6. Youth exchanges. US have recently proposed that an expanded programme of Youth exchanges among the summit countries be announced at Versailles. Mr Wick, Director of the US International Communications Agency is in charge.



There will be a meeting to discuss the question in Paris next week.

7. Hijacking and terrorism. We should let others make the running. Hijacking a traditional feature of Economic Summits since 1978. US and Canada are keen that the expert group that has met in past years between Summits, should do so again this year, but French have been against this. US have recently suggested setting up a new 7 nation group on terrorism, which we are considering but have some doubts about.

Planning Staff

6 May 1982



BIOGRAPHICAL NOTE

GEORGE PRATT SHULTZ

President of Bechtel Corporation

Age 59

1946-57 Associate Professor of Industrial Relations at the Massachusetts Institute of Technology (MIT). He took leave of absence in 1955-56 to serve as senior staff economist for the Council of Economic Advisers

1955-57 Professor of Industrial Relations at the University of Chicago Graduate School of Business

1962-68 Was Dean of the School

1968-70 US Secretary of Labor

1970-72 Director of the Office of Management and Budget

1972-74 US Secretary of the Treasury
(succeeding John Connally)

In December 1972 his position as overall supremo on economic policy was formally recognised by the additional appointments of Presidential Assistant and Chairman of the newly-created Council on Economic Policy to co-ordinate all domestic and international economic policies.

April
1974 Resigned from Treasury. He was the last member of Nixon's cabinet to leave before Nixon's own resignation.

1974-75 Executive Vice President of the Bechtel Corporation
(the world's largest private civil engineering group)

1975 President of Bechtel

Shultz serves on Governor Reagan's Policy Council

Married with 5 children

Although Shultz presided over US economic policy during a time of great difficulties, characterised in particular by inflation and the energy crisis, a coherent thread of liberal market-oriented thinking governed his approach both domestically and internationally and proved in many respects highly successful.

PRIME MINISTER

Lunch for Mr. George Shultz
Sunday, 9 May at Chequers

Miss Thomas has suggested the following menu
for your lunch for Mr. Shultz on Sunday:

Pea Soup

Saddle of Lamb
Selection of Vegetables
Mint Sauce
Reducrrant Jelly

Damson Pie
Cream

Cheese

Coffee

Sue Goodchild

6 May 1982

PRIME MINISTER

Visit of Mr. George Shultz

You agreed earlier that, the Falklands situation permitting, you would see Mr. Shultz at Chequers on Sunday, 9 May.

You will recall that he is coming as President Reagan's personal emissary to discuss the Versailles Economic Summit. I understand that he would prefer the discussion to be tete-a-tete. But you may like to have a note-taker (probably Michael Scholar) with you.

You said that you would like to give Mr. Shultz lunch. I attach a draft guest list. *Have reduced numbers.*

Agree to see Mr. Shultz at 1145 on Sunday, 9 May at Chequers, followed by lunch? *Yes mb*

(The Americans clearly understand that if the Falklands situation so requires, the arrangements may have to be altered, though we have said that you will certainly do your best to fit in an hour's talk with Mr. Shultz in any event.)

A.S.C.

5 May 1982



PRIME MINISTER'S LUNCH FOR MR GEORGE SHULTZ, 9 MAY 1982

DRAFT GUEST LIST

Mr George Shultz

US Ambassador

? 1 or 2 Advisers accompanying Mr Shultz

The Prime Minister

✓ The Chancellor of the Exchequer

✓ Sir Robert Armstrong - Cabinet Office

~~Sir Antony Aeland - FCO~~

Lord Bridges

~~Mr Julian Bullard - FCO~~

J. Wans

✓ ~~Sir Kenneth Couzens~~ - HM Treasury

~~Sir Donald Maitland - Department of Energy~~

✓ Mr M D M Franklin - Department of Trade

✓ *Alan Walters*

✓ *Richard Scholar*

Sue Goodchild,



Foreign and Commonwealth Office

London SW1A 2AH

4 May 1982

Dear John,

Visit of Mr George Shultz

In response to your letter of 30 April, I attach a proposed Guest List for the lunch which the Prime Minister proposes to give to Mr George Shultz at Chequers on 9 May.

We have proposed a lunch of 10 to 12 people, depending on how many will accompany Mr Shultz himself. The list includes all those who would be directly involved with the Versailles Economic Summit and its preparation. The Foreign and Commonwealth Secretary unfortunately cannot be there, as he will be attending the informal meeting of Community Foreign Ministers. John Kerr will, no doubt, wish to comment on whether the Chancellor can attend.

As you point out, President Reagan's letter starts by referring to both Summits - the Economic Summit and the NATO Summit - in early June. But the rest of the letter is concerned with economic problems; and Mr Shultz's background and itinerary are directly relevant to the Versailles meeting. We therefore believe that he will not wish to discuss the defence aspects of the NATO Summit. If he wishes to raise politico/military matters - as well as political subjects taken at the Versailles Summit - Julian Bullard could handle those.

We will provide a brief for this meeting by 7 May.

I am copying this letter to the recipients of yours.

Yours ever,

F N Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1655</i> (one piece/item number)	Date and sign
Extract/Item details: <i>Folio 3</i> <hr/> <i>Message PM to US President (7.93/82)</i> <i>dated 4 May 1982</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
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file

10 DOWNING STREET

From the Private Secretary

30 April 1982

VISIT OF MR. GEORGE SHULTZ

The Prime Minister recently received a letter from the American Ambassador enclosing a message from President Reagan which requests Mrs. Thatcher to receive Mr. George Shultz on 9 May. I enclose a copy of President Reagan's message.

Although Mr. Louis's letter said that Mr. Shultz would be visiting "all the Economic Summit capitals" you will note that the President's message refers to "Summit meetings" in the plural.

The Prime Minister has agreed to see Mr. Shultz on Sunday, 9 May. In view of the shortage of time, I have told the American Embassy this and am confirming the arrangement in a letter to the US Ambassador. Over the weekend, the Prime Minister will be considering a short draft reply to President Reagan's message simply welcoming the prospect of a visit by Mr. Shultz.

We shall make precise arrangements for the visit nearer the time. The Prime Minister's present intention is to invite Mr. Shultz to lunch at Chequers on 9 May. She would be prepared to precede the lunch with talks. But clearly much will depend on the situation concerning the Falkland Islands next weekend. It may be that there will be last minute changes.

B/F
B/F
It would be helpful to have by close of play on Tuesday, 4 May, a draft guest list for a lunch of up to 18 people (though the Prime Minister may decide to give a rather smaller lunch) and any further advice you wish to offer on the arrangements for the visit. I should also be grateful for a brief by lunch time on Friday, 7 May.

I am copying this letter to John Kerr (H.M. Treasury) and also to David Wright (Sir Robert Armstrong has also heard from the American Ambassador about this visit).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



File No

10 DOWNING STREET

From the Private Secretary

30 April 1982

The Prime Minister has asked me to thank you for your letter of 27 April about the visit of Mr. George Shultz. Mrs. Thatcher would be delighted to receive Mr. Shultz on Sunday, 9 May. We shall be in touch with your staff about the precise arrangements a little nearer the time.

The Prime Minister will, of course, be replying to President Reagan's message on this subject but I thought that, in view of the imminence of the visit, you would like to hear before the weekend that Mr. Shultz will be welcome on 9 May.

A. J. COLES

His Excellency The Honourable John J. Louis Jr.

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1655</i> (one piece/item number)	Date and sign
Extract/Item details: <u><i>Folio 2</i></u> <i>Draft message PM to US President (T. 93/82) (annotated 20/4/82)</i>	
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Ref: A08267



MR. COLES

I sent you a minute earlier today about President Reagan's proposal that Mr. George Schultz should visit the other Heads of State or Government who would be at the Versailles Economic Summit.

2. The American Ambassador has now told me that it is unfortunately not possible to re-arrange Mr. Schultz's schedule so that he can be in London on Friday, 7th May. He will be arriving early in the afternoon on Saturday, 8th May and would be available to call on the Prime Minister at a time convenient to her either later in the afternoon on Saturday, 8th May or on Sunday, 9th May. The Ambassador regretted that Mr. Schultz's schedule was not more flexible and realise the difficulties which this request might pose. I agreed to put to you these revised timings.

Robert Armstrong

28th April 1982

Ref. A08258

MR. COLES

The American Ambassador rang me this morning to say that President Reagan had asked Mr. George Schultz to "make a swing" round the other Heads of State or Government who would be at the Versailles Economic Summit. His present plan was to reach this country late on Saturday 8th May, and he wondered whether it would be possible for him to see the Prime Minister on Sunday 9th May.

2. I said, unsighted, that I thought that the Prime Minister might prefer it if it were possible for Mr. Schultz to arrange his schedule so as to be in London on Friday 7th May. The Ambassador said he would see whether that was possible. I went on to say that I thought the Prime Minister would want to see Mr. Schultz, if he was coming round as the President's emissary, and I would not want to exclude the possibility of her seeing him on Sunday 9th May, if that was all he could manage.

3. I should be grateful for instructions.

RA

ROBERT ARMSTRONG

28th April, 1982

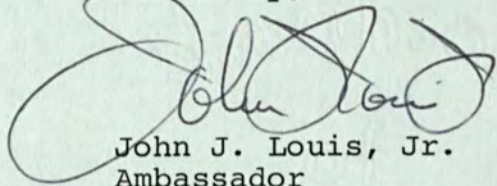
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EMBASSY OF THE
UNITED STATES OF AMERICA
LONDON
April 27, 1982

Dear Prime Minister:

I enclose a letter to you from President Reagan requesting you to receive George Shultz on May 9. Mr. Shultz is visiting all the Economic Summit capitals during the period May 5-14. In view of the short time between now and then, I would be very grateful for a response at your earliest convenience.

Sincerely,



John J. Louis, Jr.
Ambassador

Enclosure

SECRET

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1655</i> (one piece/item number)	Date and sign
Extract/Item details: <i>Folio 1b</i> <i>Message US President to PM</i> <i>(T.88/82)</i>	
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